Compulsory pension insurance investment policy in Georgia

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Abstract. An important factor of economic development in Georgia is the reform of mandatory pension insurance and its successful investment policy, which started in the country five years ago and is being successfully implemented to this day. Many countries were not able to implement the said reform voluntarily, and Georgia is no exception. The reform has already been able to maximize the number of participants in the pension scheme, create a significant pension assets and multi-billion dollar base of investment capital, and have yielded practical results, which are reflected in the number of beneficiaries, disbursed funds and investment returns. The investment policy reform of the mandatory pension system has a great social impact and is characterized by high public interest. But the challenge is that the implemented large-scale reform requires further deep analysis and the development of mechanisms for sustainable development, which is manifested by the risk management of pension insurance assets, investment policies and obtaining high returns on the pension assets of the participants of investment activities through diversified and financially safe, transparent and reliable investments, Considering the investment and liquidity objectives of the pension system and the reputational requirements for adherence to investment principles.

Keywords: Compulsory pension insurance investment policy pension system Pension reform pension risk
Introduction

Financial sustainability of the society at retirement age is an important task of any country and is a stable basis for social development. Mandatory pension insurance and its investment policy and investment activity can be considered as the best means of financial income at retirement age. It can be said that the pension insurance reform was carried out properly and efficiently in Georgia, the existing and expected risks were identified and managed. The question arises as to how purposefully and effectively the investment policy of the accumulated financial resources is carried out, what are the investment and liquidity goals of the pension system, and what prospects are planned for the subsequent stages of its development and regulation.

For years, the need to change the pension system was discussed in Georgia. Despite the fact that the insurance companies operating in the insurance market of Georgia actively offered private pension insurance products to the public, a large part of the public distrusted this issue, which was caused by the low insurance and investment culture of the public. In five years, Georgia was able to develop and implement the concept of pension reform, establish the appropriate legal framework, cover a wide range of governmental and non-governmental organizations, society, and adhere to the principle of public dialogue, which was achieved.

With the participation of the French Development Agency (AFD) and the French International Technical Cooperation Agency "Expertise France". This was the first large-scale project of the French Development Agency and "Expertise France" in the direction of social protection in Georgia and a large-scale French investment in Georgia.

Methodology

The work includes the implementation of the pension insurance system and investment policy and investment activity reform in Georgia, its relevance to the improvement of the economic and social condition of the society and sustainable economic development of the country.

The paper analyzes the asset and risk management and
investment policy of mandatory pension insurance in Georgia.

The paper uses quantitative and qualitative approaches and is based on statistical materials, data received from governmental and international organizations. Motivation and actions of governmental and non-governmental agencies regarding existing challenges. Verbal interviews with representatives of strategic partners and international organizations were used. The conclusion is based on the analysis of existing and received data on the current situation and international experience.

**Review and discussion**

The main goal of mandatory pension insurance investment activities in Georgia is to obtain high returns on the pension assets of persons participating in the pension scheme through financially safe and diversified investments, following transparent and reliable investment principles and taking into account operational requirements. In accordance with the legislation, the following strategic goals were identified: investment goal and liquidity goal.

The investment objective, in turn, implies the planning of investments with the expected confidence level of 95% of the investment horizon by obtaining real outputs. The "Principle of Safe Investment" applies to the investment portfolio management process. The purpose of liquidity, on the other hand, implies the planning of the investment process, the necessary liquidity during expected strong fluctuations in the market and the fulfillment of cash flow obligations.

The Pension Agency, the Investment Board and the Investment Service, which is staffed with world-class professionals, continue to successfully work on the issues of expanding the investment mandate defined by the legislation, which means adding asset classes allowed for investment and increasing the existing limits. It should be noted here that in 2023 the agency successfully obtained the ISO 27001 standard compliance certificate, and also won the "Best Information Security Management" nomination at GITI-2023.

The reform of the mandatory pension insurance system and a successful investment policy became an important
prerequisite for the high level of fulfillment of the existing directives within the framework of the Association Agreement with the European Union, which created another great basis for Georgia's EU candidate membership.

The level of savings in Georgia is characterized by growth dynamics and is important for the development of the financial market. Pension reform plays an important role for the existence of long-term investments.

The dynamics of the mandatory accumulative pension system fund volume over the years looks like this:

![Graph showing the change in pension fund volume (million GEL) from 2019 to 2023.]

**Cart 1**
Change in pension fund volume (million GEL) 2019-2023

Total pension assets reached 4.3 billion GEL as of December 20, 2023, the number of registered participants was 1,476,780, of which 1,297,661 are active scheme participants, and in 2023, 118,044 participants joined the scheme. In 2023, 3,535 people benefited from the pension, as a result, the number of pension recipients almost doubled to 6,929. The total amount of pension issued is 20,811,344 GEL, and the total amount of pension issued only in 2023 was 13,264,294 GEL. Currently, 107,644 companies are registered in the accumulated pension scheme, according to the data of 2023, the number of organizations joining the scheme has increased by 12,650.

It should be noted that according to the data of the last 3 years, the Pension Agency of Georgia is the leader among the countries of the region and OECD and occupies the first place. According to the accumulated data of the last 3 years, the total nominal assets of the pension agency amounted
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to 33%.

From August 2023, a change was made in the mandatory pension system, which was reflected in the differentiation of deposit portfolios according to yield and risk. Since the same period, the Georgian Pension Agency manages three different portfolios, depending on the yield and risk:

- conservative (less risky);
- balanced (medium risk);
- Dynamic (high risk).

It is worth noting that the population involved in the mandatory pension scheme can choose in which portfolio they want to place their savings and under what conditions. In accordance with the investment policy approved by the Pension Agency, at the first stage of the cumulative pension scheme, the funds of the participants were placed only in a conservative (low-risk) investment portfolio. In accordance with the amendments to the law, from January 3, 2024, the assets of those participants who have not yet chosen their preferred investment portfolio will be automatically redistributed only to a conservative, i.e. low-risk investment portfolio, and they will have the opportunity to choose their preferred portfolio. Participants will be able to make another choice once in 12 months.

As of today, according to the distribution of the investment instruments of the mentioned portfolios, it looks like this:

![Cart 2: Conservative investment portfolio structure](source: Pension Agency of Georgia)
80% of Georgia's pension assets, about 4,119 billion GEL, are invested in national, bank deposits and treasury bonds, and 20%, or 823.8 million GEL, are invested in the portfolio of global shares. The pension agency owns a portfolio of stocks through exchange-traded funds, and the agency's stock portfolio is diversified. 45% of it is invested in North America, 18% in Europe, and 24% in developed Asian countries. The year 2023 turned out to be quite positive for the stock market, and accordingly, according to investment structures, the dynamic portfolio is leading among the portfolios, in which the share of shares is the highest. Mandatory pension fund funds are invested in reliable financial instruments and investment activities are carried out by world-class highly qualified specialists. Risk control is monitored by relevant
structures, taking into account the approved investment risk policy.

French experts evaluate the pension reform positively. The assessment of the executive director of the French National Reserve Fund, Oliver Rousseau, speaks of this: «Pension reform is long-term. The public should understand how important this reform is for investment, infrastructure and capital market development in the country. On the other hand, the pension agency should ensure the process of constant communication with the population».

The advantage of cumulative pension insurance and the importance of the reform itself are also positively assessed by the NATO and EU Center's representation in Georgia and support for future cooperation.

Accumulative pension system has become the subject of intense discussion and discussion, from the non-governmental sector, as well as from the political opposition and, in general, from specialists in the field. Opponents believe, based on certain studies, that the new pension model is indeed accompanied by a number of challenges. According to them, these challenges can be:

- The existing pension rate creates a very high budgetary pressure on the public finance sector;
- A number of questions arise regarding the level of inflation and the purchasing power of the accumulated funds after certain years;
- The mandatory nature of the proposed reform creates financial pressure on private businesses;
- The new pension system still cannot provide "dignified and happy old age insurance", because the population will not be able to create high pension savings due to low incomes;
- Today's socio-economic environment does not provide a basis for the success of the reform of the pension system, and the expectations that exist regarding the development of the capital market are exaggerated.

A certain part of the society also critically assesses the pension reform and calls it an uncertain financial risk in time, and most of the society finds it difficult to answer this question. Because they prefer to refrain from excessive obligations, in the conditions of today's already scarce
financial resources. It is important to conduct a large-scale information campaign in order to make the benefits of the said reform much more understandable and easy for the population to improve their social and economic situation in the long term, which is quite difficult to achieve.

**Conclusion**

The reform of the mandatory pension insurance system and a successful investment policy became an important prerequisite for the high level of fulfillment of the existing directives within the framework of the Association Agreement with the European Union, which created another great basis for Georgia's EU candidate membership.

Mandatory pension insurance is a large-scale reform that requires deep analysis, consideration of possible consequences, complex understanding of threats and development of effective mechanisms to prevent these threats. The reform of the pension system has high social significance and is characterized by high public and political interest.

Regardless of the differences of opinion and criticism, the accumulated pension system has no alternative, and its investment policy is an important factor for the perfect development of BIS. It is known that many sub-districts could not implement the said reform voluntarily. The reform has already managed to maximize the number of participants in the pension scheme, to create a multi-billion dollar base of significant pension assets and investment capital, which was successfully implemented and is still being implemented today, which is reflected in the stability of investment activity and statistical indicators of the last period. Practical results are expressed in the number of users, disbursed funds and income from investment.

In the long term, the reform ensures financial stability of people at retirement age and insurance of a happy old age, the investment capital base is an important factor for the development of the capital market in Georgia and contributes to the significant acceleration of the economic growth of Georgia and the development of the financial market. Due to socio-economic goals and high public interest, the successful investment policy of the pension system is of great importance for Georgia and its economic and financial sustainability and stability.
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References: