# Universal Social Protection

## Universal old-age pensions in

# Georgia

**Universal old age pensions in Georgia**

In 2006, the Georgian Parliament introduced the Law on State Pensions (2005); the law resulted in the elimination of the contributory pension system and the implementation of a flat-rate basic pension which had three[1] components, namely old age, disability, and survivor pension. The most notable characteristic of the law was the universal nature of the old age pension. The establishment of the universal, non-contributory flat-rate pension was primarily driven by the need to reduce Georgia's substantial poverty rates.

**Main lessons learned**

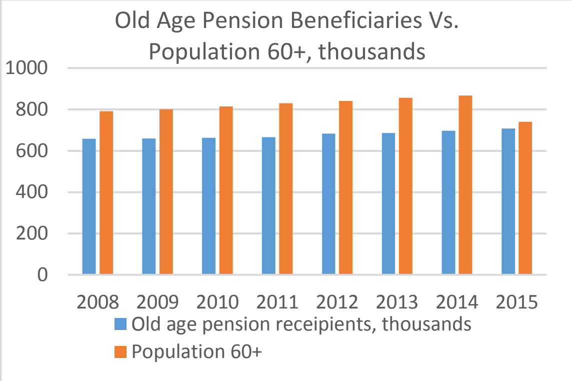
- Since its inception, the universal old age pension has had a strong impact on reducing poverty rates among the elderly and is likely to remain a powerful mechanism for old age poverty prevention going forward.
- Ensuring pension coverage to all elderly is possible even in the context of high labor market informality and limited fiscal space, however, projected ageing of the population may require subsequent design adjustments to the universal social pension to preserve its fiscal and social sustainability for future generations.

## 1. What does the pension system look like?

**Overall structure:** The old age pension scheme in Georgia is a noncontributory pension scheme which provides a flat rate benefit to all elderly. The only eligibility condition is age – currently set to 65 and 60 for men and women respectively.

**Coverage:** Provided the liberal eligibility criteria, the universal pension system provides virtually complete coverage of the elderly population. In 2015, 95 percent of the population above age 60 was in receipt of a universal pension, making it the largest redistributive social protection program in the country in terms of both coverage and spending.

*Figure 1: Persons receiving pension package (old age), thousands*




Source: Georgia National Statistics Office

**Benefits:** The universal old age pension program provides a flat rate benefit to all citizens above retirement age. The benefit amount has no relation to employment or wages earned during the active life. In 2015, the flat-rate benefit amounted to 160 GEL (about 67$). The primary objective of the system is to prevent poverty in old age. The current replacement rate is a modest 18% of average wage. The total cost of the pension system (including survivor and disability assistance) amounted 5.2% of GDP and 16.2% of government revenues in 2015. Between 2005 and 2015, the flat-rate pension has been increased more than ten-fold[2]. Government projections show that demographic aging, among other factors, will result in increased pension spending over the coming decades.

*Table 1: Old Age Pension Amounts and Replacement Rates*

| | 2012 | 2013 | 2014 |
|---|---|---|---|
| Average salary of employees (GEL) | 713 | 773 | 818 |
| Subsistence minimum of average consumer (GEL) | 132 | 137 | 141 |
| Old age pension (GEL) | 110 | 150 | 150 |

[1] Under reforms implemented in 2012, disability and survivor pensions have been separated into different social assistance programs.

[2] The old age pension is adjusted, typically annually, on an ad-hoc basis.

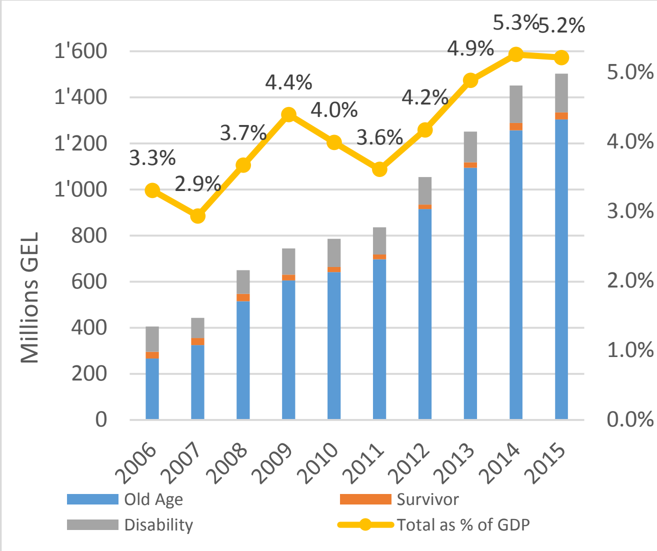
| | | | |
|---|---|---|---|
| Old age pension including long-service bonus (GEL) | 120.9 | - | - |
| Replacement rate[3] in relation to old age pension (percentage) | 15.4 | 19.4 | 18.3 |
| Old age pension as a percent of GDP per capita | 19.3 | 25.3 | 23.0 |
| Replacement rate in relation to old age pension including long-service bonus (percentage) | 17.0 | - | - |

*Source: Reform of the Universal Pension Benefit and Introduction of a Supplementary Pension Scheme, March 2016, Ministry of Economy and Sustainable Development of Georgia; Staff Calculations*

The social pension, being a flat-rate benefit, provides higher income replacement for lower income groups. For those retiring at the end of 2014 while earning 50% of the average wage the universal old-age pension provided a replacement rate of approximately 37%. The level of replacement rate declines to 18% for someone retiring at the average wage and further drops to as low as 10% for a person earning twice the average wage. Thus, the universal pension is a means of redistributing income from wealthier segments of society (who pay greater nominal amount of tax) to the more vulnerable segments of society in old age.

**Financing:** The universal pension system in Georgia relies on general revenues. Although the current financing mechanism has considerable advantages – such as eliminating the need to record and collect pension contributions and calculate pensions based on individual wage histories – the financing mechanism is not immune to the risks posed by demographic ageing. Georgia is facing an ageing population, characterized by declining birth rates and longer life expectancy. In addition, the country has also experienced outmigration, further worsening the demographic outlook. Policy makers will have to ensure adequate pensions levels are preserved for all elderly Georgians in face of a swelling elderly population and a shirking tax base.

*Figure 2: Social Expenditures for All Categories of Pensions (2006-2015)*




*Source: Reform of the Universal Pension Benefit and Introduction of a Supplementary Pension Scheme, March 2016, Ministry of Economy and Sustainable Development of Georgia*

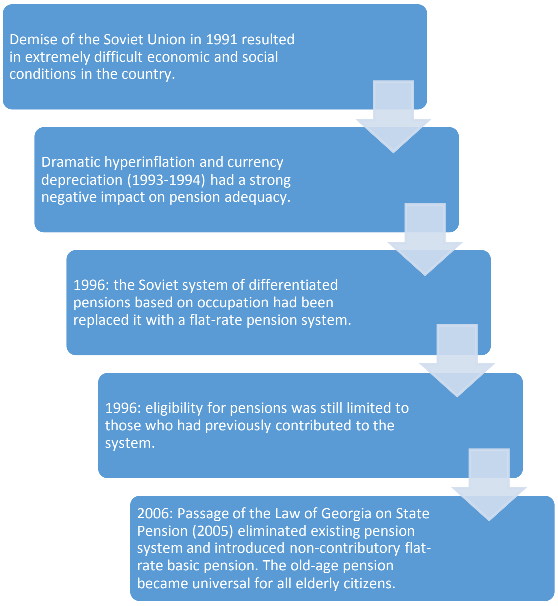
**Legal aspects and institutional arrangements for delivery:** The governing legislation for the universal old age pension is the Law on State Pensions (No. 2442 of 23 December 2005). The responsibility for allocating the state pension is under the Georgia Social Services Agency, which is located under the Ministry of Labor, Health and Social Affairs.

## 2. How was this major breakthrough achieved?

The collapse of the centrally planned economic system in Georgia in the early 1990s was devastating for public pension system finances. Prior to the demise of the Soviet Union, the pension system provided differentiated pensions financed on a pay-as-you-go basis. Old age pension eligibility criteria included a minimum of 20 and 25 years of service for women and men

[3] Replacement rate is the relevant pension amount expressed as a percentage of the average salary.

respectively. During the soviet era of near full formal employment rates, the pension system achieved nearly universal coverage level, providing pensions between 60% and 100% of average wage in the late 1980s. Shortly after the transition, increases in unemployment and informal sector work led to a shrinking contribution base and a decline in available resources for pension expenditures. On the benefit side, demographic ageing and early retirement – often used a method to cope with high rates of unemployment among the older population – resulted in an increase in the number of pensioners. As a result, the existing financing mechanism for the pension system was no longer viable. Shrinking contribution revenues and swelling pension expenditures prompted policy makers to explore alternative measures for old age income provision.




Reforms starting in 2004 ushered in major changes regarding the financing of state social programs, including pensions. Until 2004 state pensions were financed by the State United Social Insurance Fund (SUSIF) based on social contributions from employers and employees; from 2004 social programs became financed from the general budget revenues. Since SUSIF lost one of its key functions - administering and collecting individual social contributions - the structure was reorganized into two new structures: i) State Agency of Employment and Social Assistance and ii) Health and Social Programs Agency: by the end of 2010 these were merged to become the Social Service Agency (SSA).

### 3. What are the main developmental results and impact on people's lives?

The universal old age pension in Georgia serves as an important poverty prevention mechanism among the elderly. Poverty analysis conducted by the World Bank shows that an old age pension of 100 GEL reduced poverty rates by 15 percentage points across the country. The impact of the old age pension is even more pronounced in rural areas. World Bank estimates from 2010 suggested that a 20 GEL pension increase in 2010 from 80 to 100 GEL caused poverty rates to decline by 2.8%. The flat-rate pension has the highest impact on poverty rates among older cohorts of pensioners. The social pension reduced poverty rates from 37% to 10% among the age group of 75-85 according to a UNICEF study. The universal old age pension is likely to remain a powerful mechanism for old age poverty prevention going forward.

*Figure 3: Poverty Rate in Georgia with and without Old-age Pensions (in percent of overall population)*

| | With GEL 100 pension benefit | Without GEL 100 pension benefit |
|---|---|---|
| Overall poverty headcount | 22.9 | 38.1 |
| Urban | 17.7 | 29.5 |
| Rural | 28.2 | 46.9 |

*Source: Reform of the Universal Pension Benefit and Introduction of a Supplementary Pension Scheme, March 2016, Ministry of Economy and Sustainable Development of Georgia*

### 4. What's next?

The universal old age pension is adjusted on ad-hoc basis which could expose retirees to the risks of benefit erosion overtime. Policy makers are currently reviewing reform options which include the potential introduction of an automatic indexation mechanism which would preserve or improve the purchasing power of the universal old age pension.

*This Universal Social Protection brief was produced by Miglena Abels of the World Bank. It was reviewed by Isabel Ortiz and Loveleen De of the ILO; and by Robert Palacios of the World Bank.*

**References**

UNICEF and University of York (2014) The Well-Being of Children and their Families in Georgia: Georgia Welfare Monitoring Survey Third Stage. UNICEF Georgia

Georgian Pension Reform: Reform of the Universal Pension Benefit and Introduction of a Supplementary Pension Scheme. Pension Reform Unit, Ministry of Economy and Sustainable Development of Georgia.

Schwarz, Anita M., Omar S. Arias. 2014. The Inverting Pyramid: Pension Systems Facing Demographic Challenges in Europe and Central Asia.