

PENSION FUND OVERSIGHT TO BE REDUCED



The Parliament adopted the changes presented by the government, which involve modifications to the management rules of the Pension Agency.

The members of the Governing Board of the Pension Fund will be appointed and dismissed by the Prime Minister, while the role of Parliament will be significantly diminished. This weakens the independence of the Pension Agency and the possibility of its oversight, which is an important guarantee for the effective management of the funds mobilized in the Pension Fund.

LAW, INITIATOR

law: ["On Making Amendments to the Law of Georgia on Funded Pension" and other relevant normative acts](#)

Initiator: *Government of Georgia*

THE ESSENCE OF THE LAW

[According to the explanatory note](#), the development of the draft law is largely due to the need to improve the management system of the Pension Agency.

The draft law proposes the establishment of a new Governing Board within the Pension Fund, which will supersede the existing Supervisory Board and Investment Board. Currently, the members of the Investment Board are elected by Parliament. However, the proposed amendments would see the professional members of the Board appointed and dismissed by the Prime Minister.

Furthermore, the Pension Fund Directorate will be constituted as an executive body. The members of the Pension Fund Directorate will be appointed and dismissed by the Governing Board. In addition, the amendments permit the outsourcing of any activity of the Pension Fund, provided that the consent of the National Bank is obtained.

| 1. ESTABLISHMENT OF THE GOVERNING BOARD AND ITS FUNCTIONS                                                                                                                                                             |                                                                                                                                                                                                                                                                   |
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| PREVIOUS VERSION OF THE LAW                                                                                                                                                                                           | AMENDMENT                                                                                                                                                                                                                                                         |
| The Pension Agency is governed by two bodies: <ul style="list-style-type: none"><li>• Supervisory Board</li><li>• Investment Board</li></ul>                                                                          | The two current boards will be replaced by a new <b>Governing Board</b>                                                                                                                                                                                           |
| <b>The Supervisory Board</b> shall supervise the activities of the Pension Agency, except for investment activities.<br><br><b>The Investment Board</b> shall determine and implement the Agency’s investment policy. | The Governing Board shall: <ul style="list-style-type: none"><li>• Manage the funded pension scheme and perform investment and administrative/operational functions.</li><li>• Have “special functions”: investment, risk and internal audit functions.</li></ul> |

| 2. STRUCTURE OF THE GOVERNING BOARD                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
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| <b>The Supervisory Board</b> shall be composed of four members: <ul style="list-style-type: none"><li>• Minister of Finance</li><li>• Minister of Economy and Sustainable Development</li><li>• Minister of Internally Displaced Persons from the Occupied Territories, Labor, Health and Social Affairs</li><li>• Chairperson of the Investment Board</li></ul> <b>The Investment Board</b> is composed of five members elected by Parliament for a term of five years <b>by a majority of the total number of MPs.</b> | <p>The Governing Board of the Pension Fund shall consist of not less than nine and not more than 15 members. In the case of nine members, one member shall be appointed by the Government and in the case of more than nine members, two members shall be appointed by the Government.</p> <p>A government appointee shall not be a public or political official.</p> <ul style="list-style-type: none"><li>• <b>Professional</b> members of the Governing Board are selected by the Selection Commission<sup>1</sup> and submitted to the Prime Minister for approval. The term of office for a professional member of the Governing Board is five years.</li></ul> <p>A professional member of the Governing Board <b>shall be dismissed or suspended by decision of the Prime Minister</b>, on appeal by the National Bank, on the following grounds:</p> <p>a) The court’s guilty verdict entered into legal force against him/her.</p> <p>b) The court recognized him/her as missing or declared him/her dead.</p> <p>c) He/she was recognized by the court decision as a recipient of support in accordance with the legislation of Georgia or another state, and the court decision does not determine otherwise.</p> <p>d) He/she has resigned or died.</p> <p>e) He/she has violated the requirements established by law or has improperly performed the rights and duties assigned to him/her. In this case, the dismissal of a member of the Governing Board must be substantiated.</p> <p>f) <b>He/she has failed to attend three consecutive meetings of the Governing Board without a valid excuse as provided by the Pension Fund Regulations.</b></p> |

| 3. INCREASED INVESTMENT LIMITS IN OTHER TYPES OF ASSETS                                                                                                                                                                                         |                                                                                                                                       |
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| PREVIOUS VERSION OF THE LAW                                                                                                                                                                                                                     | AMENDMENT                                                                                                                             |
| Investment portfolios are divided into three categories: low-risk, medium-risk and high-risk.                                                                                                                                                   | In the low-risk investment portfolio, it is also possible to invest in other assets - with a limit of <b>15%</b> (instead of 0%).     |
| In the low-risk investment portfolio, pension assets may be invested in bank deposits, securities of state and international financial institutions, shares of companies traded on stock exchanges.                                             | In the medium-risk investment portfolio, it will be possible to invest in other assets - with a limit of <b>20%</b> (instead of 15%). |
| In the medium-risk and high-risk investment portfolios, investments may also be made in other assets, but the investment limit for the medium-risk investment portfolio is <b>15%</b> and for the high-risk investment portfolio - <b>20%</b> . | In the high-risk investment portfolio, it will be possible to invest in other assets - with a limit of <b>25%</b> (instead of 20%).   |

| 4. EXECUTIVE DIRECTORS                                                                                                             |                                                                                                                                                                                                                                                                                                                                                                                                      |
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| PREVIOUS VERSION OF THE LAW                                                                                                        | AMENDMENT                                                                                                                                                                                                                                                                                                                                                                                            |
| The Supervisory Board shall have one director.                                                                                     | The Governing Board, in agreement with the National Bank, appoints and dismisses the Executive Directors of the Pension Fund.                                                                                                                                                                                                                                                                        |
| The Supervisory Board shall select through a competition and appoint to office, and may dismiss, a director of the Pension Agency. | The <b>Executive Directors</b> of the Pension Fund represent <b>the executive body of the Pension Fund</b> , consisting of the <ul style="list-style-type: none"><li>• Director General</li><li>• Chief Investment Officer</li><li>• Chief Risk Officer and</li><li>• Head of Internal Audit.</li></ul> The Governing Board is empowered to appoint Executive Directors for other areas as required. |

| 5. OUTSOURCING SERVICES     |                                                                                                                                    |
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| PREVIOUS VERSION OF THE LAW | AMENDMENT                                                                                                                          |
| Does not envisage.          | Provides for the possibility of <b>outsourcing</b> any activity of the Pension Fund, subject to the approval of the National Bank. |

ASSESSMENT

The sustainability of the pension system is a guarantee of the country’s economic stability and development. Currently, GEL 5 billion is mobilized in the Pension Fund, which provides pensions for more than one million citizens of Georgia. The proposed amendments pose a significant risk to the system’s stability and independence. In a parliamentary republic, the participation of the Parliament in the appointment process is of significant importance. Therefore, the proposed change to the current system of management of the Pension Agency should be regarded as a step backwards, particularly in relation to the appointment and dismissal of the members of the Board by the Prime Minister. This change would result in a weakening of the independence and transparency of the Pension Agency.

With regard to the modification of limits for investment in other types of assets, there is an increased probability that investments will be made in various government projects with political implications, rather than in a manner that serves the interests of pension system participants. This is particularly the case given that the appointment of members of the Governing Board is now an exclusive prerogative of the Prime Minister.

1 The Selection Commission consists of eight members. The members of the Selection Commission are: Minister of Finance, Minister of Economy and Sustainable Development, Minister of IDPs from Occupied Territories, Labor, Health and Social Affairs, three members of the Parliament, two independent members.