

REGISTRATION OF PENSION PROGRAMS IN GEORGIA

Manana MCHEDLISHVILI

Caucasus International University, 0141, Georgia

manana.mchedlishvili@ciu.edu.ge

Naira TABATADZE

Caucasus International University, 0141, Georgia

n.tabatadze@agrui.edu.ge

Abstract:

The establishment of a proven pension system is on the agenda in our country, which is based on a cumulative scheme. For the successful implementation of the reforms, it is necessary to have a correct pension policy, to complete the pension legislative framework. It is necessary to regulate the rights and duties of employed people, principles of calculation of working days, work experience, income and expenses. For accounting and reporting of pension funds, we must use: International Accounting Standard 19 Employee Benefits and International accounting standard 26 Pension Plan Accounting and Reporting. Pension security programs may exist: defined contribution program and defined payment program. No matter how the financial statements are prepared, their users should be able to compare the pension liabilities with the assets of the pension plan.

Key words: *actuary, net assets, pension program, prescribed payments, rescribed contributions.*

JEL Classification: M41, M42, M48, M49.

I. INTRODUCTION

At present, the main goal of the state policy remains to reduce poverty and protect the well-being of the socially vulnerable population. The increase in the well-being of the population is related to the economic growth of the country. An effective social policy will distribute the results of economic growth among different categories of the population, which will contribute to providing the population with social guarantees and maintaining an acceptable standard of living. Social protection is the main feature of social policy, which involves alleviating the impact of poverty on socially vulnerable groups through the creation of a business environment conducive to economic growth and the implementation of specific programs focused on the poor.

The existing pension system in Georgia creates many problems for the financial stability and development prospects of Georgia. Based on this, the establishment of a proven pension system is on the agenda in our country, which is based on a cumulative scheme. For the successful implementation of the reforms, it is necessary to have a correct pension policy, to complete the pension legislative framework. It is necessary to regulate the rights and duties of employed people, principles of calculation of working days, work experience, income and expenses.

The effect of the development of the pension system in the financial system implies the emergence of a very large amount of long-term financial and investment resources, as the pension programs themselves are multi-year programs and accordingly the stability and liquidity of the financial system of Georgia will increase. Private business pension programs cannot be managed without financial information, which is processed and delivered by accounting.

II. RESEARCH METHODOLOGY

The most important thing for the financial control of the creation and use of pension funds is their correct accounting and reporting according to international accounting standards (BAS). For correct accounting of pension funds, we must use two standards: (Kvatashidze and Khorava, 2021, p.106)

1. BAS 19 Employee Benefits - which refers to the determination of pension costs in the financial statements of employers that have relevant programs.

2. BAS 26 Pension Program Accounting and Reporting - the scope of which refers to the reporting of pension provision programs.

Pension security programs may exist: a defined contribution program and a defined paid program. Accounting for defined contribution programs is simple, the liability for each period is determined by the amount of contributions that the enterprise is responsible for paying. Contributions that are subject to payment in the current period are recognized as an expense in the statement of profit and loss, and in the balance sheet they are recognized as either a liability or an asset (prepayment). In the balance sheet, the liability is shown at undiscounted value, and if the liability is due after 12 months, then it is shown at discounted value (at the market interest rate).

In a defined paid pension plan, the risk of incurring and meeting future obligations is transferred to the employer. The enterprise is obliged to provide the former and current employees with the agreed remuneration. Defined benefit pension schemes may be funded in whole or in part by an enterprise, or sometimes by contributions from employees, that exists legally separately from the reporting enterprise and from which the employees receive their pensions. The enterprise must make a decision on how to finance the program, evaluate its obligations and calculate the funds that must be transferred to the fund annually. The prescribed payments are collected in the pension fund, represent its assets and are subsequently issued as pensions. During the period from payment to disbursement, free funds are invested to generate income. Accounting for enterprise defined benefit programs is difficult because actuarial assumptions are required to estimate liabilities and costs.

When assessing the amount and frequency of annual payments, it is necessary to take into account interdependent indicators, such as:

- Number of years worked before retirement
- Life expectancy after retirement
- Possibility to increase the pension taking into account the inflation factor
- Amount of investment income of pension funds.

These calculations are beyond the scope of accounting, and therefore the management of the enterprise should involve a professional (certified) actuary in the assessment of the amount and frequency of pension payments. An actuary (lat. actuaries - describer, calculator) is a specialist in insurance mathematics, who uses applied mathematics, statistics and probability methods to assess insurance risks, life insurance, long-term insurance reserves, pension rates, pension contributions and payments, and other, i.e., actuarial calculations.

III. RESEARCH RESULTS

The socio-economic stability of the country is an indicator of the effectiveness of the pension policy. The changing demographic situation, increasing migration processes, lower birth rate, due to these and other reasons, it became necessary to switch to the accumulated pension system in Georgia from January 1, 2019.

(www.ssa.gov.ge)

The implemented pension reform is still a subject of interest for the society. As a result of our research, specific views regarding the existing pension system in Georgia were revealed. The questionnaire consisted of 10 questions, 135 respondents took part in the survey:

1. To the question, do you have information on the pension policy of any country (except Georgia)?

25.6% of the respondents have information on the pension policy of another country, 40.3% have no information, and 34.1% partially have information on the pension policy of this or that country.

2. Where do you mainly get information about changes in the pension system?

A fairly large number of citizens receive information through the media, the percentage equals 72.3%, 14.6% of citizens receive information as a result of the adopted legislation, and 13.1% receive information from acquaintances-friends, who are an informal source of information.

3. Is the pension policy in the country important for the country's economic growth and development?

68.5% of the citizens believe that the implementation of the pension policy in the country is important for the economic growth and development of the country, 18.5% consider it less important, and 13.1% have no answer.

4. Does the demographic situation have anything to do with the effectiveness of the pension policy?

For Georgia, whose demographic situation is changing and characterized by a pronounced tendency of the nation to age, the functioning of an effective pension system is one of the prerequisites for the country's development. of respondents believe that the demographic situation has a connection with the effectiveness of the pension policy, 17.2% do not have an answer, 28.1% find it difficult to answer.

5. In your opinion, does the current pension provide a dignified old age?

87.6% of the respondents believe that the current amount of pension cannot ensure a dignified old age.

6. Should the retirement age limit be lowered?

Respondents have certain opinions regarding the need to increase the amount of pension, as well as lowering the retirement age. 84.5% of respondents are in favor of lowering the retirement age limit.

7. Do you support the idea of equalizing the retirement age (between men and women)?

72.1% of respondents believe that pension should be equalized in terms of gender. 13.2% do not support the mentioned opinion, 13.2% find it difficult to answer.

8. Do you have information about the accumulated pension system?

The fact that 54.7% have information about the deferred pension system, which is the most important issue for every citizen, indicates the social activity of the mentioned group, but the fact that it concerns them directly should also be taken into account. 40.6% partially have information about the accumulated pension system.

9. Do you trust or not accumulate in the pension system?

More than half of the respondents, 54.7%, have no confidence in the pension system, only 38.3% has confidence in the announced accumulation pension system, and partially 7%. Based on the above, it can be concluded that the accumulative pension system raises doubts about the fact that the amount recorded as savings in the individual account by the participant during the working period will be returned to the participant after several decades.

10. Was Georgia ready to transition to the accumulated pension system?

The majority of respondents, 67.4 percent, believe that our country was not ready for the transition to the accumulated pension system. It should be taken into account that the employee pays 20% of his income in the form of income tax, in addition to the pension contribution of 2%, which represents a certain pressure on the employee. 28.7% believe that the pension system of Georgia should be reformed and switched to the accumulated pension system.

In order to estimate the discounted value of pension liabilities and the value of current services, BAS-19 requires: (www.saras.gov.ge)

- 1)Using the actuarial valuation method,
- 2)Allocating wages to service periods
- 3)Determination of actuarial assumptions.

In actuarial valuation, the enterprise must use the projected contingent unit method, which considers each period of service as an additional right to remuneration and evaluates each conditional unit separately at the end of the period in order to determine the final obligation. Under the projected contingent unit method, an entity must allocate compensation to the current period (to estimate current service cost) and to current and prior periods (to estimate the discounted value of defined benefit plan obligations). Actuarial assumptions are the best estimates of the variables calculated by the enterprise, which determine the final value of the subsequent remuneration of the labor activity.

Actuarial assumptions include demographic and financial assumptions.

Demographic assumptions are the following: mortality during and after labor activity, labor force turnover, indicators of work incapacity and early retirement, ratio of program participants and dependent recipients of assistance, indicators of demand for assistance provided by the medical program, and the financial assumptions include the discount rate, the level of future wages and salaries, in the case of medical assistance - future medical expenses, the expected rate of return of program assets, and others.

Accounting for payments made to cover pension liabilities involves the use of actuarial assumptions to estimate liabilities and costs, resulting in a surplus or deficit in the pension fund, called an actuarial gain or loss.

Actuarial gains or losses include: a) adjustments based on experience (results of differences between previous actuarial assumptions and the actual situation), and b) the results of changes in actuarial assumptions.

In order to determine the actuarial gain or loss of pension funds, it is necessary to know what the assets of the pension funds include and the fair value of these assets.

According to the rules for the creation of pension funds, its assets consist of assets placed in long-term funds and applicable insurance policies. Thus, only the contributions paid by the enterprise will be included in the assets. To evaluate the provision of pension funds with assets, we need to calculate the expected and actual return on assets.

The difference between the expected and actual return on plan assets generates an actuarial gain or loss, which, together with other actuarial gains and losses, contributes to the determination of the net amount of the defined benefit plan liability. In many countries, actuarial valuations are carried out at least every three years. If the actuarial valuations are not ready by the reporting date, the actuarial valuations of the nearest period are used as the base of the calculations and the valuation date is indicated.

Consider accounting for pension programs with accounting handling. (Sabauri 2022)

For example, how the recognition of the obligation of pension contributions is reflected in accounting:

- a) By including the asset in the cost price.

According to the pension program, the monthly pension contributions of the workers of the fruit processing workshop amount to 6000 GEL, and to the workers of the juice bottling workshop - 4000 GEL.

The mentioned operation is reflected by holding:

D - 1630 unfinished production - fruit processing workshop - 6000

D - 1630 unfinished production - juice bottling workshop - 4000

K - 4310 pension insurance contributions - 10,000

And

b) by contributing to expenses.

The enterprise makes contributions to the pension fund of the administration staff in the amount of 4% from the unified salary fund, and 5% from the salary of the employees. The accrued salary in the current month amounted to 80,000 GEL. Let's calculate the enterprise's liability for pension contributions for the administrative staff: $80,000 * 4\% = 3,200$ GEL, and $80,000 * 5\% = 4,000$ GEL to be deducted from the salary of the employees. Liability for pension contribution is equal to $3,200 + 4,000 = 7,200$ GEL.

These operations will be carried out:

D - 7414 Labor compensation expense - pension contributions - 3,200

D - 3130 payable salary - 4 000

K - 4310 pension insurance contributions - 7200

BAS 19 requires that the actuarial gain or loss should be recognized as income or expense when measuring liabilities, but the actuarial gain or loss should not exceed "Ten percent corridor". Over a period of time, actuarial gains and losses may overlap. The range of deviation from the best estimate or "corridor" is considered as a method of estimating the further obligations of the enterprise's labor activity. An entity can recognize an actuarial gain or loss that falls within this range.

Thus, the asset and liability recognized in the balance sheet for unrealized actuarial gains and losses may vary within 10%. Then, if it deviates more than 10%, the profit and loss should be recognized immediately, or they should be allocated over the average remaining working years of the employees. As we mentioned, the actuarial profit of the enterprise should not be less than 10% of the real value of the assets, and if it amounts to, for example, 7700 GEL;

It is reflected in the following accounting treatment:

D - 4310 pension insurance contributions 7 700

K - 8130 non-operating profit 7 700

The income from the assets is used to cover the obligation of pension payments. In the case that the income received from the investment plan of the pension fund turns out to be less than the obligation, then an actuarial loss arises. Let's consider an example: the amount of payments to the pension fund of the enterprise for the reporting period established by the program for the administration staff is 25,000 GEL. The income received from the investment plan of the pension fund turned out to be less by 5,000 GEL. In this case, an actuarial loss of 5,000 GEL will arise.

The enterprise must recognize a liability to the pension fund, which is reflected as follows:

D - 7410 Labor compensation expense - pension payments 20,000

D - 7413 labor compensation expense - actuarial loss 5,000

K - 4310 pension insurance contributions 25,000

IV. CONCLUSIONS

Thus, there are defined contribution and defined benefit pension schemes that may or may not have independent legal status. May or may not have a trustee who transfers contributions and from which pensions are paid. BAS 26 treats a pension plan as a reporting unit.

Financial statements should be prepared for the mentioned pension funds: Financial statements of a defined contribution program must include: The significant areas of activity for the reporting period, a description of the consequences of any changes related to the program, participants, terms and conditions.

1) Report on operations and investments of the reporting period.

2) Description of the investment policy.

The statement of the prescribed paid program should include: the statement, which will reflect: net assets available for the provision of assistance, actuarial discounted value of the agreed assistance, where there will be a distinction between guaranteed and non-guaranteed aid, the final surplus or deficit.

According to the requirements of BAS 26, the explanatory notes to the statement should show the main actuarial assumptions for the reporting date. Namely: discount rate, expected return on program assets, expected salary growth rates, expected inflation and others. Therefore, in whatever form the financial statements are prepared, their users must be able to compare the pension liabilities with the assets of the pension plan.

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