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## **Honorable Mention**

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By Editorial Staff    *Fri, Jan 25, 2019*

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*In Georgia (Europe), auto-enrollment faces legal challenge; Investors start to sweat over global warming: MSCI.*

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### **In Georgia, auto-enrollment faces legal challenge**

The defined contribution pension situation in Georgia is less than peachy. That's Georgia, the gorgeously rugged crossroads of Europe and Central Asia; not Georgia, the southern US state that eternally occupies Ray Charles' mind.

In July 2018, the Georgia parliament passed a law requiring employers and employees to each contribute 2% of pre-tax pay to an investment fund. The government added 2% for those earning less than \$9,040 per year and 1% for those earning \$9,040 and \$22,500.

Following the path of other European countries, the ruling Georgia Dream government wanted to supplement the nation's \$75-a-month universal old-age pension, which was financed from the state budget, with a mandatory, auto-enrolled worksite defined contribution plan with investments in supervised pension funds.

The new system is mandatory for all employees up to age 40 as of August 2018, and voluntary for those older than 60 (men) and 55 (women). Those in between can opt out within five months, but no earlier than three months. Participation is voluntary for the self-employed—more than half of Georgia's workforce—who pay in 4% of their earnings.

#### Early challenge

But only weeks after the new pension law took affect at the start of 2019, it has been challenged in court. The Georgian Democracy Initiative (GDI), a human rights organization, claims it violates Articles 11 (Right to Equality) and 19 (Right to Property) of the Georgian Constitution, according to a report at IPE.com.

GDI argued that the system's mandatory nature interfered with citizens' property rights. It also challenged the 2% employer levy, which, unlike the employee portion, would not be returned in any way to the contributor. The campaign group also asked the court to rule whether the contributions qualified as a new tax. Under Georgia's constitution new taxes must be first approved by a referendum.

The new law provides for three types of investment portfolio (high, average and low risk)

with participants choosing their own portfolios or defaulting to one of the three depending on their age. Investment limits in both equities and foreign-currency denominated assets range from 20% for low-risk portfolios to 60% for high-risk ones. Prohibited investments include derivatives (except for hedging purposes) and real estate.

External bodies such as the International Monetary Fund have long supported the new system, including the establishment of the Pensions Agency, as a means of stimulating domestic savings and the local currency capital markets.

### Dollarization

Georgia's new system also aims to boost local capital markets and keep money in the country. The auto-enrolment law established a separate legal entity, the Pensions Agency, whose functions include administering the system and providing investment services. Participants can use either the agency or an approved financial company to manage all or part of their pension assets.

Dollarization in the economy, while on the decline, is still high, accounting for significant shares of loans and deposits. In other words, Georgians are exchanging their lari for dollars, a hard currency with universal acceptance, stable value and myriad investment opportunities.

As credit rating agency Moody's stated last July: "The accumulation of pension assets will complement Georgian authorities' efforts to tackle the issue of high dollarization in the economy and support a plan to develop domestic capital markets by introducing a demand element for long-term lari [local currency] assets."

### **Investors start to sweat over global warming: MSCI**

The business and financial implications of global warming are beginning to register on investors, some of whom now incorporate climate considerations into their portfolios, according to a new report from index and analytics provider MSCI.

While investors still hope "some combination of technology and policy forces will limit emissions going forward, such that we can avoid the worst outcomes of climate change," the risk of this not happening is "working its way into investor thinking in 2019," the report said.

Investors in less liquid assets, like coastal property, whose valuations are routinely linked to

longer time-frames, tend to be most concerned. Real estate, according to MSCI, was “a prime example of an asset class that will inevitably be impacted by climate in the next decade.”

If global emissions peak before 2030 and emissions fall back to today’s levels by 2030, the problem can be managed, MSCI said. If not, the atmosphere’s temperature will have risen by 1.5°C by 2040, the limit above which coastlines would be inundated and drought intensified, triggering poverty and mass migration, according to the Intergovernmental Panel on Climate Change.

This report originated at IPE.com.

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