IOPS Country Profiles – TURKEY, December 2009

TURKEY

DEMOGRAPHICS AND MACROECONOMICS

<table>
<thead>
<tr>
<th>Metric</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nominal GDP (EUR bn)</td>
<td>950</td>
</tr>
<tr>
<td>GDP per capita (USD)</td>
<td>10,270</td>
</tr>
<tr>
<td>Population (000s)</td>
<td>70,586</td>
</tr>
<tr>
<td>Labour force (000s)</td>
<td>23,805</td>
</tr>
<tr>
<td>Employment rate</td>
<td>91.2</td>
</tr>
<tr>
<td>Population over 65 (%)</td>
<td>7.0</td>
</tr>
<tr>
<td>Dependency ratio¹</td>
<td>21.6</td>
</tr>
</tbody>
</table>

Data from 2008 or latest available year.
1. Ratio of over 65-year-olds the labour force.
   Source: OECD, various sources.

COUNTRY PENSION DESIGN

STRUCTURE OF THE PENSION SYSTEM

Public pensions
- Turkey has an earnings-related public pension scheme with an income-tested safety net and a flat-rate supplementary pension

Private pensions: occupational (mandatory)
- Mandatory occupational pension plans for financial sector institutions (first-pillar substitute funds): defined benefit
- Mandatory occupational pension plans for the Armed Forces (Oyak) and the employees of the state-owned coal mining enterprise (TTK): defined benefit and define contribution

Private pensions: occupational (voluntary)
- Occupational pension plans: defined benefit, defined contribution or hybrid

Private pensions: personal (voluntary)
- Personal pension plans: defined contribution
- Collective (group) pension plans: defined contribution

Source: OECD Global Pension Statistic.
### Pension Funds Data Overview

#### Assets

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Investments (National currency millions)</th>
<th>Total Investments, as a % of GDP</th>
<th>Of which Assets overseas, as a % of Total Investment:</th>
<th>By Financing Vehicle (as a % of Total Investments)</th>
<th>By Pension Plan Type</th>
<th>Structure of Assets (as a % of Total Investments)</th>
<th>Contributions and Benefits</th>
<th>Membership (in thousands of persons)</th>
<th>Number of Pension Funds/Plans</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001</td>
<td>ND</td>
<td>ND</td>
<td>ND</td>
<td>Pension Funds</td>
<td>Occupational assets</td>
<td>Cash and Deposits</td>
<td>Total Contributions, as a % of GDP</td>
<td>Total membership</td>
<td>Total number of funds</td>
</tr>
<tr>
<td>2002</td>
<td>ND</td>
<td>ND</td>
<td>ND</td>
<td>Book Reserves</td>
<td>% of DB assets</td>
<td>Fixed Income</td>
<td>Employer Contributions, as a % of Total Contributions</td>
<td>% of Active membership</td>
<td>Total number of plans</td>
</tr>
<tr>
<td>2003</td>
<td>ND</td>
<td>ND</td>
<td>ND</td>
<td>Pension Insurance Contracts</td>
<td>% of DC (protected and unprotected) assets</td>
<td>Of which: Bills and Bonds issued by the public and private sector</td>
<td>Employee Contributions, as a % of Total Contributions</td>
<td>% of Active membership</td>
<td></td>
</tr>
<tr>
<td>2004</td>
<td>ND</td>
<td>ND</td>
<td>ND</td>
<td>Other Financing Vehicle</td>
<td>% of Personal assets</td>
<td>Of which: Loans</td>
<td>Total Benefits, as a % of GDP</td>
<td>% of Active membership</td>
<td></td>
</tr>
<tr>
<td>2005</td>
<td>ND</td>
<td>ND</td>
<td>ND</td>
<td>ND</td>
<td>ND</td>
<td>Shares</td>
<td>% of benefits paid as a Lump sum</td>
<td>% of Active membership</td>
<td></td>
</tr>
<tr>
<td>2006</td>
<td>ND</td>
<td>ND</td>
<td>ND</td>
<td>ND</td>
<td>ND</td>
<td>Land and Buildings</td>
<td>% of benefits paid as a Pension</td>
<td>% of Active membership</td>
<td></td>
</tr>
<tr>
<td>2007</td>
<td>ND</td>
<td>ND</td>
<td>ND</td>
<td>ND</td>
<td>ND</td>
<td>Other Investments</td>
<td></td>
<td>% of Active membership</td>
<td></td>
</tr>
<tr>
<td>2008</td>
<td>ND</td>
<td>ND</td>
<td>ND</td>
<td>ND</td>
<td>ND</td>
<td></td>
<td></td>
<td>% of Active membership</td>
<td></td>
</tr>
</tbody>
</table>

**Note:** The occupational pension data include the consolidated data of Oyak and Amele Birligi.

Asset overseas data, structure of assets and contributions refer only to personal pension plans.

1. Membership figures reflect 'membership' rather than 'people'. Therefore a person may be a member of more than one types of plan at any one time, particularly if the person has a number of employments in the year.

ND = data not available
NA = data not applicable

Source: OECD, Global Pension Statistics

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TURKEY: THE PENSION SYSTEM’S KEY CHARACTERISTICS

PUBLIC PENSION

Some 15.3 million people currently pay social security contributions, while there are some 8.7 million receiving public pension benefits as of December 2008. The regulatory framework for public old-age pension provision (including disability and survivor pensions) is laid down in the Social Insurance Act of 1964, which was amended in 1999. With the last amendments in 2006, different social security institutions (Social Security Institution, Social Insurance Institution for Tradesmen, Craftsmen and Other Self-Employed and Pension Fund for Civil Servants) are united. The Social Security and General Health Insurance Law has brought other changes in 2008. The main feature of the latest reform, which came into force on October 1 2008, is a gradual increase of the retirement age. From 2036 to 2048, the retirement age will be increased from the current 58 years for women and 60 years for men to 65 years for both genders. The number of contribution days required for a full pension will also increase -- from the current 7,000 to 7,200 for new entrants.

Contributions for covered persons amount to 14% of monthly earnings. Employers pay 18.5% of their monthly payroll. Minimum and maximum monthly earnings limits apply for contribution and benefit purposes, both for covered persons and employers.

For the period after October 1, 2008, benefits are calculated on the basis of 2% of the insured’s average annual earnings for each 360-day period. For the period before October 1, 2008 special conditions apply to the calculation of benefits. Deferred pension benefits are calculated in the same way as old-age pension benefits. The periodic pension benefit index mechanism is an annual adjustment based on a combination of the CPI and GDP figures announced in December every year. If the insured person does not qualify for an old-age pension, he is paid a lump sum equal to total employee and employer contributions. The Ministry of Labour and Social Security supervises the public pension system, while the Social Insurance Institution administers it.

First-pillar substitute funds

The Social Insurance Act (Law No.506) excluded institutions in the financial services sector such as banks, insurance companies, reinsurance companies, the stock exchange and chambers of commerce from the mandatory social security system. These institutions have set up their own defined benefit (DB) type occupational pension plans, which are commonly known as “first-pillar substitute funds”.

According to the new legislation of 2008, these funds have to be transferred to the Social Security Institution (SSI). It is estimated that it would take a long time to organize the records at the funds, and consequently the transfer would be completed by the year 2013 with the 2-year extension allowed by law to the Council of Ministers. 17 funds subject to transfer had 95 thousand 341 insured as of the end of the year 2007. The funds pay 79 thousand 388 pensions. When dependants are taken into account, 310 thousand 850 individuals benefit from the funds.

OCCUPATIONAL MANDATORY

The first pillar substitute funds as mentioned above are mandatory occupational plans.
Moreover, there are two separate mandatory occupational schemes namely Oyak for the armed forces and Amele Birliği for the employees of the state-owned coal mining enterprise TTK. These schemes operate under separate legislation and combine defined benefit and defined contribution (DC) elements. They covered around 210,702 active participants and had assets under management of around TL 5.7 billion (USD 4.4 billion) at the end of 2007.

**OCCUPATIONAL VOLUNTARY**

Occupational plans are established on a voluntary basis by employers either in the form of book reserve or provident funds. There are some 250 (estimated) voluntary occupational pension funds. They operate as DB or DC schemes or combinations of both. Treasury has recently been granted the authority to supervise these plans in terms of actuarial soundness. The new regulation in 2008 allows these funds with pension commitments to transfer their assets into the individual pension system either entirely or partially with some immunity from tax obligations.

**PERSONAL VOLUNTARY**

**Coverage**

Anyone who has the legal capacity may participate, and there are no employment relationship requirements. By the end of December 2008 participants accounted for about 7.3% of the total workforce.

**Contributions**

Contribution levels for participants are laid down in the contract with the pension company. Employers may make voluntary contributions to group pension contracts but are not required to do so. Approximately 21% (end of 2008) of total pension contracts in the personal private pension system are group contracts. The new regulation on vesting that came into force in 2008 is expected to lead to an increase in this figure in the coming years.

At the end of 2008, the average monthly contribution was TL 114.

**Benefits**

Members are entitled to retirement benefits when they reach the age of 56 and have been saving under the scheme for at least 10 years.

Benefits can take the form of a lump sum, programmed withdrawal or an annuity.

**Fees**

Savers may pay the pension company an entrance fee up to half of the gross monthly minimum wage for each pension account, an annual management fee of up to 3.65% and a contribution fee up to 8%. Employer-sponsored plans are liable to lower management fees. Other than the max limits, fees are unregulated but dropping due to the intense competition in the pension market. By the end of 2008, the average contribution fee was 4.1% and average annual fund management fee about 2.26%.

**Taxation**

Participants may deduct contributions from their income tax base up to a ceiling of 10% of their gross monthly income. Total deductions in a year may not exceed the threshold of the gross annual minimum wage level. The total amount of employee and employer contributions is similarly capped. Employer contributions to individual pension system on behalf of his employee are deductible as business expenses from the corporate tax base up to a ceiling of 10% of the employee’s monthly gross salary or up to the annual minimum wage level. Investment returns and capital gains are tax-exempt. As for benefits, where a
participant withdraws benefits and has contributed to the system for less than 10 years, they are taxed at a rate of 15%. Where the participant has contributed at least 10 years, but is under 56, benefits are taxed at a rate of 10%. If the participant has contributed at least 10 years and is 56 or older, benefits are taxed at 3.75%. Annuity payments are exempt from income tax.

**MARKET INFORMATION**

Only licensed pension companies may offer individual pension products. Funds are invested through pension mutual funds that serve as investment vehicles. Mutual funds are managed by portfolio management companies, not by the pension companies, which are paid commission.

There were some 1.7 million participants by the end of December 2008. There are currently 12 pension companies with 120 pension mutual funds. At 2008 year-end the total portfolio value of pension mutual funds amounted to approximately TL 6.4 billion (USD 4.2 billion).

Individual participants may choose the pension company they wish and are entitled to change companies once a year. They also choose the funds that suit them and may switch between those offered by the same company up to six times a year. A pension company’s provision must include at least three funds with different portfolios for each.

**REFORM PROCESS**

The new legislation of 2008 states that the first-pillar substitute funds must be transferred into the social security system. In June 2007, an amendment to law No. 4632 on the individual pension system was adopted. The amendments include:

- A legal framework for the establishment of voluntary occupation pension plans under the individual pension system and introduction of a maximum vesting period,
- Granting participants in the voluntary occupational pension plans (foundations/provident funds) the right to tax-free transfer of assets to the individual pension system,
- The removal of key quantitative portfolio limits on private pension investments such as the 30% floor on government bonds/bills and the 15% ceiling on foreign securities,
- The introduction of actuarial supervision by the Treasury for voluntary occupational pension plans.

New amendments to the regulation on the personal pension system came into force in August 2008. The amendments include:

- Introduction of a one-month grace period at the participation stage,
- Introduction of standard information disclosure forms during participation, transfer to another company or complete withdrawal stages,
- Introduction of rules for the application of vesting period,
- Redefinition of contract types (individual, group and noncontributory group contracts)
KEY LEGISLATION
2001: the Private Pension Savings and Investment System Act (No. 4632), amended in 2007, lays down the terms and provisions of the personal private pension system.

KEY REGULATORY AND SUPERVISORY AUTHORITIES
Undersecretariat of the Treasury: regulates and supervises the overall individual pension system.
www.treasury.gov.tr/.

The Capital Markets Board: regulates and supervises the pension investment funds, ensures fair trading in the capital markets, and protects investors.

The Pension Monitoring Centre: plays a supporting role for the Treasury by collecting daily data, monitoring company practices and making information available.
http://www.egm.org.tr/?pid=358

1 The exchange rate $/TL, used for currency conversions in this profile, was taken as 1.52.

SELECTED KEY STATISTICAL REFERENCE
Pension Fund Assets as a % GDP 2008

IOPS Country Profiles – TURKEY, December 2009
Pension contributions as a % GDP, 2008

- Finland: 11.4
- Australia: 9.7
- Switzerland: 8.5
- Iceland: 8.3
- Denmark: 6.8
- Estonia: 5.4
- Netherlands: 4.0
- Liechtenstein: 3.9
- Chile: 3.5
- Hon-Kong: 3.0
- Canada: 2.2
- Israel: 2.1
- Belgium: 1.7
- Poland: 1.7
- Portugal: 1.6
- New Zealand: 1.6
- Hungary: 1.4
- Peru: 1.3
- Nigeria: 1.2
- Mexico: 1.2
- Bulgaria: 1.1
- Thailand: 1.0
- Korea: 0.9
- Czech Republic: 0.8
- Spain: 0.8
- Slovenia: 0.7
- Italy: 0.7
- Macedonia: 0.6
- Turkey: 0.6
- Norway: 0.6
- Austria: 0.4
- Germany: 0.3
- Egypt: 0.3
- Luxembourg: 0.2
- Romania: 0.2
- Ukraine: 0.1
- Albania: 0.0
- Greece: 0.0
- Pakistan: 0.0

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Pension Benefits as a % GDP, 2008

- Finland: 9.5%
- Switzerland: 5.3%
- Denmark: 4.6%
- Liechtenstein: 4.0%
- Australia: 3.9%
- Iceland: 3.8%
- Netherlands: 3.6%
- Belgium: 2.6%
- Canada: 2.4%
- Chile: 1.9%
- Israel: 1.7%
- Portugal: 1.4%
- New Zealand: 1.4%
- Korea: 0.8%
- Thailand: 0.6%
- Spain: 0.6%
- Czech Republic: 0.3%
- Egypt: 0.3%
- Italy: 0.3%
- Mexico: 0.2%
- Hungary: 0.2%
- Austria: 0.2%
- Bulgaria: 0.2%
- Nigeria: 0.2%
- Germany: 0.1%
- Peru: 0.1%
- Norway: 0.1%
- Turkey: 0.1%
- Luxembourg: 0.0%
- Slovenia: 0.0%
- Ukraine: 0.0%
- Greece: 0.0%
- Macedonia: 0.0%
- Pakistan: 0.0%