

IOPS COUNTRY PROFILE: TURKEY



DEMOGRAPHICS AND MACROECONOMICS

GDP per capita (USD)	10.807
Population (000s)	79,814
Labour force (000s)	31,131
Employment rate	88.3
Population over 65 (%)	8.3
Dependency ratio ¹	21.3

1. Ratio of over 65-year-olds / labour force.

Date of Data: 31.12.2016

Source: Turkish Statistical Institute.

TURKEY: COUNTRY PENSION DESIGN

STRUCTURE OF THE PENSION SYSTEM

Public pensions

- Public earning-related pension scheme with an income-tested safety net and a flat-rate supplementary pension

Private pensions: occupational (mandatory)

- Occupational pension scheme: Social Insurance Act 5510 provisional article 20 (VASA-G20)
- Occupational pension funds: DC, DB and book reserves (VASA)
- Pension Fund for Armed Forces (OYAK)

Private pensions: occupational (voluntary)

- Occupational pension plans for employer contributions: Individual Pension Act 4632; DC (IGES)
- Occupational pension plans for auto-enrollment: Individual Pension Act 4632, DC (OKS)
- Occupational pension funds: DC, DB and book reserves (VASA)
- Pension fund for primary school teachers (ILKSAN)

Private pensions: Personal (voluntary)

- Personal pension plans: Individual Pension Act 4632, DC (BES)

Source: OECD/IOPS Global Pension Statistic

TURKEY: THE PENSION SYSTEM'S KEY CHARACTERISTICS

PUBLIC PENSION

There are 19 million active insured members paying social security contributions, whereas 11 million pensioners receive public pension benefits as of December 2016. The regulatory framework for public old-age pension provision is laid down in the Social Insurance Act of 1964. With an amendment enacted in 2006, different social schemes (Social Security Institution, Social Insurance Institution for Tradesmen, Craftsmen and Other Self-Employed and Pension Fund for Civil Servants) are gathered under the single roof of the Social Security Institution. However, there is an exception for occupational pension schemes regulated by the Social Insurance Act 5510 provisional article 20 that will be explained under the occupational mandatory private pension section.

In 2008, a big reform was implemented by the law of the Social Security and General Health Insurance. The main feature of the reform, which came into force in October 2008, is a gradual increment 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.

OCCUPATIONAL MANDATORY

Occupational pension scheme: Social Insurance Act 5510 provisional article 20 (VASA-G20)

Employees of 17 companies in the financial services sector such as banks, insurance companies, reinsurance companies, the stock exchange and chambers of commerce are exempted from enrolling into the public scheme. Instead, these employees get their pension from a foundation under the responsibility of their company with an endower role in which the employers must fulfill any deficit that may arise. These foundations have set up their own defined benefit type occupational pension plans, which are commonly known as "first-pillar substitute funds".

According to the new legislation of 2008, these foundations have to be transferred to the Social Security Institution by the decision of Council of Ministers which has not yet been taken and therefore the transfer process is still waiting.

As of December 2016, 17 funds subject to transfer have 392.201 members including 140.174 actives, 85.920 passives and 166.107 dependents.

Turkish legislations do not recognize “pension fund” as a separate legal entity but this concept is used for pension mutual funds in Turkish literature. Therefore, different legal entities are used by pension providers. VASA is a coined word for the unclassified private pension providers under different legal status such as foundation (vakıf in Turkish), provident fund (sandık in Turkish), employee associations, corporations etc. and G20 refers to the provisional article 20.

Occupational pension funds: defined contribution, defined benefit and book reserves (VASA)

There are different legal entities such as foundations, provident funds, employee associations, and corporations which are providing pension services to their members. The plans can be voluntary or mandatory and individually established by the employees of a specific working place or business sector or established by the employer. For the plans with no employer contribution or responsibility involved, the pension liabilities are met by the plan itself.

Occupational pension funds are mostly established to provide a second retirement benefit in addition to the public pension scheme but lost their attractiveness after the enactment of the Individual Pension Act in 2001.

In 2007, the Treasury was granted the authority to supervise these funds in terms of actuarial soundness. Recent regulation allows these funds to transfer their assets into the individual pension system either entirely or partially with some immunity from tax obligations until the end of 2017. Twenty (20) of these funds used that option for a total amount of 2 billion Turkish Liras by the end of 2016.

In total, there are nearly 72 occupational pension funds that operate on a DB, DC and book reserve basis in which requirements for enrollment, retirement, contribution, benefits, fees and other rules vary depending on the fund. There are almost 266.000 members and 25 billion Turkish Liras asset value as of 2016.

Pension fund for Armed Forces (OYAK)

OYAK is the mandatory pension scheme for the Armed Forces established in 1961. OYAK which is a relevant institution of the Ministry of Defense, operates under a separate legislation and is excluded from the Treasury’s supervision. The plan which has both defined benefit and defined contribution elements, has 305.728 members and 25.3 billion Turkish Liras asset value as of 2016.

OCCUPATIONAL VOLUNTARY

Occupational pension plans for employer contributions (İGES)

According to the Individual Pension Act 4632, employers can contribute for the employees account and can decide on the vesting period which can be up to 7 years. These plans are operated under the individual pension system. (İGES is the abbreviation for employer-sponsored group pension contract in Turkish).

For employer-sponsored group pension plans, when employees leave employment, they can at any time withdraw their vested accumulation. The termination of employment by the employer

without any reasonable cause in accordance with the Employee Law, leaving of employment with a reasonable cause or disability, cancellation of the contract by the employers, the bankruptcy and composition of the employers interrupt the vesting period, and employees get the whole accumulations independent of the vesting period.

For the employee, the same conditions as the personal pension system apply in terms of coverage, contributions, benefits, fees and taxation. It is important to emphasize that there is no 25% state matching contribution for the contribution made by employers.

The contribution paid to the individual pension system by the employer on behalf of the employee may directly be regarded as an expense, and deducted from the corporate tax basis. However, the sum of contributions paid by both the employer and the amount of premiums paid by the employee to the personal insurances to be deducted in the determination of the taxable base is restricted to 15% of the monthly salary and the minimum wage annually.

Occupational pension plans for auto-enrollment (OKS)

A recent amendment to the Individual Pension Act 4632 which came into force at the beginning of 2017 obliges employers to make an agreement with a pension company and thus auto-enroll all the new and existing employees under the age of 45 into the individual pension system. These plans are operated under the individual pension system. (OKS refers to auto-enrollment system in Turkish).

A gradual coverage schedule is regulated for employers with respect to the number of employees within a workplace as shown below:

- 1.000 or more employees → auto-enrollment date: January 2017
- 250 – 999 employees and Central-Budget Public Institutes → auto-enrollment date: April 2017
- 100 – 250 employees → auto-enrollment date: July 2017
- 50 – 100 employees and rest of the Public Institutes → auto-enrollment date: January 2018
- 10 – 49 employees → auto-enrollment date: July 2018
- 5 – 10 employees → auto-enrollment date: January 2019

Employers have the right to retract for the first two months without any deduction and a guarantee of contribution preservation. For employees, the minimum contribution rate is set by law at a level of 3% of the gross salary.

In the auto-enrollment system, employees benefit from the 25% state matching contribution as in the personal pension system. In addition, there are two more incentives brought with the new regulation. The welcoming state matching contribution which is a lump sum amount of 1.000 Turkish Liras (for 2017) is given following the end of retract period. These two incentives are subject to the same vesting rules as the personal pension system. The last one is an additional 5% state matching contribution to the retirement saving, in case the retiree chooses the annuity option for retirement and does not withdraw from the annuity for at least 10 years.

Differently from the individual pension system, there is only one single cap of 0.85% as annual fund management fee for all types of funds being offered. Again, unlike the individual pension system, it is allowed to charge an additional annual fund management fee depending on fund performance relative to inflation up to 0.85%. Besides, entrance fees and administrative fees do not apply in the auto-enrollment system.

The rest of the conditions are the same as the personal pension system.

Occupational pension funds: defined contribution, defined benefit and book reserves (VASA) – same information as in the section above

There are different legal entities such as foundations, provident funds, employee associations, and corporations which are providing pension services to their members. These funds can be voluntary or mandatory and individually established by the employees of a specific working place or business sector or established by the employer. For the plans with no employer contribution or responsibility involved, the pension liabilities are met by the plan itself.

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In total, there are nearly 72 occupational pension funds that operate on a DB, DC and book reserve basis in which requirements for enrollment, retirement, contribution, benefits, fees and other rules vary depending on the funds. There are almost 266.000 members and 25 billion Turkish Liras asset value as of 2016.

Pension fund for primary school teachers (İLKSAN)

İLKSAN was mandatory and as of 2012, a voluntary pension scheme for primary school teachers established in 1943. İLKSAN which is a relevant institution of Ministry of National Education, operates under separate legislation and is excluded from the Treasury's supervision. The plan, which is defined benefit in design, has 255.539 members and 1.2 billion Turkish Liras asset value as of 2016.

PERSONAL VOLUNTARY

Coverage

Anyone who has the legal capacity may participate, and there is no **employment relationship requirement**. By the end of December 2016, **the system has 6.6 million participants which** accounted for 21.7% of the total workforce.

Contributions

Contribution levels for participants are laid down in the contract with the pension company. The participant may decide on the payment period as monthly, quarterly or annually.

By the end of 2016, the average monthly contribution was 233 Turkish Liras and the total asset under management was 53.4 billion Turkish Liras.

The government will match the contributions up to the annual gross minimum wage by an additional 25% state matching contribution. Each year the limits of state-matching contribution are increased in line with the minimum wage.

Participants are entitled to the 25% state matching contribution depending on the time he or she has been in the system as shown below:

Time passed in the system Vesting Ratio

- Time passed in the system is less than 3 years -> Vesting ratio: 0%
- Time passed in the system is between 3 – 6 years -> Vesting ratio: 15%
- Time passed in the system is between 6 – 10 years -> Vesting ratio: 35%
- Time passed in the system is between 10 – the retirement age of 56 -> Vesting ratio: 60%
- Fulfilling the Retirement Condition -> Vesting ratio: 100%
- Occurrence of death or disability at any time -> Vesting ratio: 100%

State matching contributions are followed under a separate pension mutual fund and in case of early withdrawals, the undeserved amount returns back to the State. By the end of 2016, the total asset under management was 7.4 billion Turkish Liras for this fund.

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

There are basically three types of fees in the system:

1. Entrance Fee: Participants may pay the pension company an entrance fee for the first contract. It is payable in installments within one year.
2. Administrative Fee: Administrative fee can be deducted from the contributions made or from the savings of the participant.

Additional Administrative Fees: Pension companies can also deduct 2 Turkish Liras from the pension account of the participant, if the contribution is not paid at the decided time for 3 consecutive months. In case of one year postponement of contributions, the pension company may charge an additional fee in order to compensate the cost of the account to the Pension Monitoring Center.

The total sum of entrance fees and administrative fees (except the additional fees) are subject to an annual cap of 8.5% of the monthly gross minimum wage and cannot be charged after 5 years. The pension company is allowed to charge the uncollected fees for the five year period in case of an early withdrawal or a transfer to another company within the first five years.

3. Fund Management Fee: It is deducted from the pension funds on a daily basis. Therefore, depending on pension funds, all the participants are indirectly subject to fee. The fund management fee depends on the type of the pension mutual fund and the maximum annual limits

of the total fund fees which include the fund management fee and all the other expenses that are necessary to be compensated from the fund are shown below for each fund type.

- Money Market Funds and Precious Metal -> 1.09%
- Bond and Bills, Index Funds -> 1.91%
- Stocks and Other Funds -> 2.28%

In the year 2016, the actual average fund management fee was 1.60%.

Taxation

All incomes of pension funds are exempt from corporate and income taxes.

The taxation rules are being applied when the participant leaves the system. The rules are explained below:

- After fulfilling the conditions to be eligible for retirement, the total return obtained in the system is exposed to 5% withholding tax.
- In the case of early withdrawal after 10 years, the total return obtained in the system is exposed to 10% withholding tax.
- In the case of early withdrawal before 10 years, the total return obtained in the system is exposed to 15% withholding tax.

MARKET INFORMATION

Occupational/personal voluntary

Occupational pension plans for employer contributions, occupational pension plans for auto-enrollment and personal pension plans are regulated under the Individual Pension Act 4632 and as a whole are called as the individual pension system.

Only licensed pension companies may offer individual pension products via licensed intermediaries. 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 on a commission basis.

In the personal voluntary plans, participants are free to choose any pension company and have the option to transfer the pension account to another company 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. If the participant doesn't make any choice he or she is directed to the "default pension mutual fund". The conditions are the same for occupational employer sponsored plans in which the employer may take some decisions.

In the occupational pension plans for auto-enrollment, employers decide about the pension company and employees may switch later on. For the first two months (retraction period), the employee must stay in the "beginning pension mutual fund". He or she can change this fund after 2 months but in case of inaction he or she is directed into the "default pension mutual fund" after one year.

Pension assets are safekept by the Settlement and Custody Bank (Takasbank). The Capital Markets Board regulates pension mutual funds, portfolio management companies and contracts

with these companies and the custodians in individual pension system. The system is monitored daily by the Pension Monitoring Center which is a subordinate institution of the Treasury.

REFERENCE INFORMATION

KEY LEGISLATION

2001: the Private Pension Savings and Investment System Act (No. 4632)

<http://www.egm.org.tr/?sid=21>

KEY REGULATORY AND SUPERVISORY AUTHORITIES

Undersecretariat of the Treasury: <http://www.treasury.gov.tr/en-US/MainPage>

Capital Markets Board: <http://www.cmb.gov.tr/index.aspx>

KEY OFFICIAL STATISTICAL REFERENCE AND SOURCES ON PRIVATE PENSIONS

Pension Monitoring Centre, *Annual Individual Pension System Progress Reports:*

<http://www.egm.org.tr/bes2015qrEng.htm>

Pension Monitoring Centre, *Weekly Individual Pension System Statistics:*

<http://www.egm.org.tr/?pid=351>

Settlement and Custody Bank, *Pension Mutual Fund Statistics:*

<https://www.takasbank.com.tr/tr/Sayfalar/Portfoylstatistikleri.aspx>

Capital Markets Board, *Pension Mutual Fund Statistics:*

<http://www.spk.gov.tr/apps/MutualFundsPortfolioValues/FundsInfosFP.aspx?ctype=E&submenuheader=0>

Capital Markets Board, *Consolidated Investment Fund Statistics:*

<http://www.spk.gov.tr/apps/MutualFundsPortfolioValues/SummaryInfosFP.aspx?submenuheader=0>

Source map: Central Intelligence Agency, The World Factbook, the United States