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POLICIES THAT INCREASE SAVINGS: PRIVATE PENSION SYSTEM IMPLEMENTATION IN TURKEY

Abstract:

In recent years domestic savings rate has shown a marked decline in Turkey. Such falls are effective in the growth of savings-investment gap and so the emergence of large current account deficit. In this context, changes are made in the private pension system in order to increase household savings. The new system aims to increase the savings and sawing owners. Many developing countries, with their reforms in the social security field, put into practice the private pension system in addition to the compulsory public pension system.
The purpose of this is to deal the development of the private pension system in Turkey and its contribution to savings. In this direct, firstly, the development of the private pension system in the world is being addressed and later mentioned about development in Turkey. Finally, information is given about impact to savings.

Keywords:

Private Pension System, Savings, Banking, Turkey

JEL Classification: E21, D10

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INTRODUCTION

Domestic saving rate is one of the main variables in general balance of economy. Saving tendency in a country becomes determinative about at what rate investment will be made in the country of interest; at what rate foreign saving will be used; and, hence, at what direction current account balance will vary. Especially for a developing country, domestic saving rate has an importance in terms of capital accumulation and sustainability of growth. In addition, because of development of wealth accumulation in the country of interest, also in terms of that individuals make maximum their wealth throughout their lives and keeps their life standards, saving rate has an important function.

In Turkey, domestic saving rate exhibiting a remarkable fall in the recent years fell below the domestic saving rates of the countries having the similar economic indicators. In 1990s, while this rate was 23.4%, it began to gradually decease in 2000s, and actualized at the level of 13.9% in 2010 and 12% in 2012.

The aim of this study is to evaluate the possible effects of the revision made in individual pension system in Turkey on the domestic savings. In this direction, in the framework of the existing individual pension system (IPS) in Turkey and new IPS, begun to be implemented from the early 2013, comparative accumulation scenarios in respect with the periods were made. The aim of this analysis is to present whether or not the current IPS and IPS that will be implemented are encouraging in including the participants in the system and that IPS will be more advantageous for which income groups and to discuss the critical parameters that are possible to effect the performance of the system.

Table 1: Savings-Investment Balance in Turkey

	1991-1995	1996-2000	2001-2005	2006-2010	2011-2014
Public Savings	-0.15	-2.03	-2.89	1.8	3.3
Public Investments	4.35	4.84	4.02	4.04	4.52
Public (Savings-investment) gap	-4.49	-6.87	-6.91	-2.24	-1.22
Private Savings	23.27	24.91	19.97	13.34	10.9
Private Investments	15.07	18.26	14.53	16.2	16.4
Private (Savings-investment) gap	5.20	6.65	5.44	-2.86	-5.5

Source: Ministry of Development, Economic and Social Indicators 1950-2014, 2015

In the period of 1991-2014, in total of domestic savings, with the effect of the regression in private sector, while, in general,, a fall is observed, total investments showed an increase tendency in the growth periods of economy and regression in contraction periods of economy. When the saving - investment differences of the public differences are examined, it is seen that the use of foreign saving that significantly rises in the recent period arises from the fact that private sector has saving deficit (Yükseler, 2013:5).

Closing a deficit of interest significant requires the increase of private savings In this framework, some attempts were made in the direction of increasing household saving rate. The leading one among these is individual pension system.

Social security systems, whose main aims are protecting the individuals and providing minimum subsistence level with them,, fully became dysfunctional in time due to crises and political and social factors, experienced in countries, entered a restructuring process. In this process, several legal arrangements were made in many countries and, in addition to social security institutes sustained by government, individual pension systems were developed and individual pension companies were established, which are in active in these systems

Individual pension providers that are existing in the world for long times and contribute to the rise of the developedness levels of countries came into action with a legal arrangement carried out in 2001. Together with that individual pension providers come into action, in 2003, within the companies of interest , individual pension investment funds were formed.

In Turkey, pension system has large deficits and supporting the existing pension system, carried out by public sector, with the private pension arrangements and, thus, reducing the charge on the budget emerged as an important option of policy. On the other hand, the reforms made in private pension system has importance in terms of macroeconomic stability stopping the fall in domestic saving rate beginning to form a risk in respect with macroeconomic stability.

1. Individual Pension Investment Funds

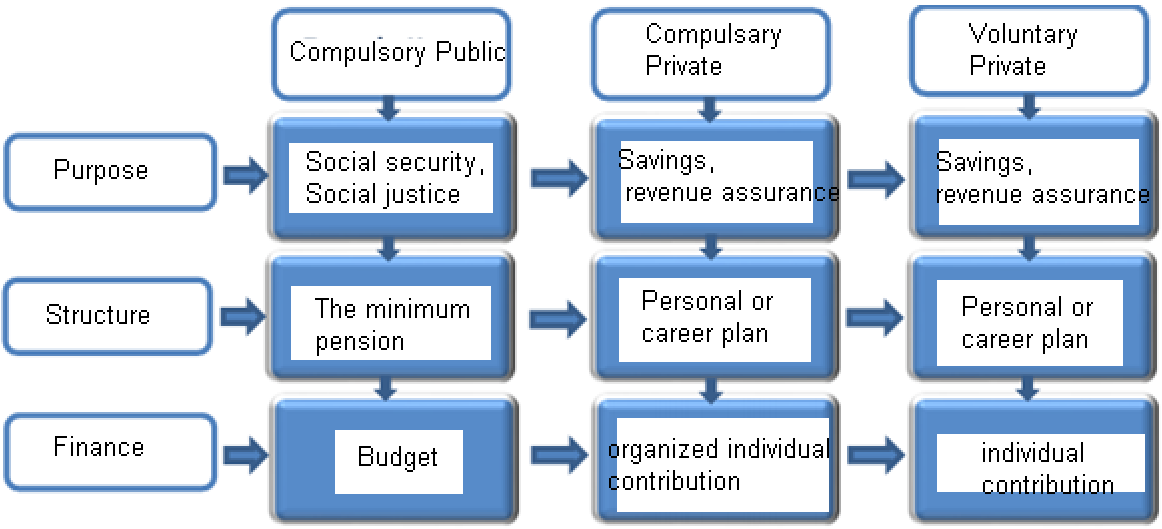
Together with increasingly aging of world population, while the number of those being retired in the future increases, as a result of decrease in birth rate, due to the reasons such as the decrease of young population to finance the existing retired people and not being able to effectively evaluate the contribution margin collected or premiums, social security systems offered by government lost its functionality and countries were obliged to go towards the new searches in the way of improving their social security systems. Because of this kind of concerns, as a result of social security reforms applied, it is seen that social security systems of three steps constitute in the world (Korkmaz et al.2007:63).

1st Step: Distribution based pension system, which is managed by government, which provides a certain amount of retirement income, in which participation is obligatory, and which has an aim to provide a minimum income to every individual as a requirement of being state.

2nd Step: A pension system was defined, which is mostly workplace based, and in which the income in retirement is certain, obligatorily or voluntarily.

3rdStep: There is a pension system regulating the voluntary savings of individuals toward retirement. Individual Pension Systems is generally the last step, which targets on guaranteeing the continuation of life standards in retirement period at its level in active working life, which provides an extra retirement income, and in which participation is generally voluntary.

Figure 1: Function of the Pension System



Source: World Bank, 1994

Social security systems, provided by government, are the systems, in which participation is obligatory, and the premiums collected from employees is simultaneously used to finance the retired people according to the base of redistribution of income. Obligatory private pension system are the employer based pension systems, which is based on evaluating the contributions, collected from the employers and employees, depending on the certain bases, in the funds formed in favor of employees (Soylu, 2004:4). Individual pension systems are premium based systems, established to increase the savings of participants toward retirement and to provide an extra income during retirement, and managed by private companies (Ulusoy, 2013:202).

Private retirement funds based on private pension systems, collecting certain part of accumulations of employees under the name of “contribution margin” throughout the periods they work, is a private kind of financial agency providing an income in the period they do not work. These agencies that are basically social security –aimed obtain fund in “long termed” and “ large amounts” from the contribution margins they collect from participants collect. On the other hand, allocating these funds to the economic units that need for them in economy and other financial agents, they fulfill an important function of financial agencies. Pension funds, due to the fact that they constitute an effective alternative in obtaining long termed funds, needed in economy, are especially supported by the tax advantages and it is tried them to become widespread (Oktayer and Oktayer, 2007:58).

2. Individual Pension System in the World

Pension investment funds is seen as the second large institutional investor in the world, following insurance companies. Especially beginning from the early 1980s, in many developing countries, making reforms in the area of social security, in order to support the existing social security system that remains inadequate in face of the problem of population aging with this country, private pension systems were begun to be formed and important great strides were made in this issue over the last years (Soylu, 2004:4).

In the last quarter century, pension arrangements gained prevalence all over the world. The developed countries, in addition to the existing public pension system, made some reforms in such a way that they will encourage private accumulations. In most of these countries, private pension plans date back to old times. For example, in United Kingdom, private pension arrangements had existed from the early 18th century and, in the last 30 years, comprehensive reforms were made in the system of interest. United Kingdom can be shown as a good example for the countries encouraging voluntary private pension arrangements via tax discounting. Similarly, in US, although the origin of individual pension arrangements dates back to 1975, the arrangements of interest could not be successful due to 1830 Great Economic Depression. Individual pension system basically has begun to develop after Second World War in 1850s and continued its development in the later years (Munnell and Sunden, 2001).Individual Retirement Arrangements (IRAs) government encourages in US have also become widespread. In Canada, tax support has been provided to vocational private pension, beginning from 1917 and, also beginning from 1957, voluntary based private retirement arrangements have been implemented. On the other hand, in the countries such as Australia, Japan, and Sweden, support provided for private retirement arrangements is quite new (Özel and Yalçın, 2013:5).

Retirement funds are organized in the framework of a large variety of legal arrangements in the world in the form of different organizations. In some countries, while these funds come to our face in the manner formed by employers within then, just as in our country, also in other countries, they are presented under roof of a separate financial institute. Another point, at which foreign applications differentiate in country base, is the place of private pension systems in social security systems. Especially, in the countries such as Germany, where pension systems provided by government has a sound structure, private pension funds are generally implemented and have a small share in total of pension accumulations. However, in some countries, private pension funds are viewed as the backbone of social security systems and, just as in Latin American Countries, some examples, where there are obligatory applications, are met (Soylu, 2004:5)

Individual pension system, especially US, in most of developed countries, has been successfully applied and, then, also the countries such as Chili, Peru, and Mexico, adapting this system to their own structures, have developed the different models (Zor, 2008:15). The main factor playing role in the development of private pension programs are the incentives provided in taxing the contributions made to the program, gains the pension funds obtain, and payments made in the retirement period.

While entering or not entering individual pension system is left to the preference of employees, in some countries, it has been kept obligatory. In some countries, the obligations of individual pension programs are kept by the agencies of employers, while in some countries, they can be undertaken by a group of employers or union. Again, in some countries, besides collective programs being in active on the basis of the employer, industry, or country, the companies, granted authorization, of insurance and fund management can also give service on the individual basis (Korkmaz et al..2007:64).

Today, especially in the developed countries, a large part of savings consist of individual pensions investment funds and these funds meet long termed resources the country economies need. In this direction, the size of individual pension fund has increased and, in most countries, got ahead of GDP (Gross Domestic Product).

Table 2: Total Investment of Pension Funds in OECD Countries 2003-2013 (%)

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
OECD countries											
Australia	67.1	69.8	78.1	87.5	106.1	93.1	82.5	89.5	92.7	91.4	103.3
Austria	4.2	4.4	4.8	4.9	4.8	4.4	5.1	5.3	4.9	5.3	5.8
Belgium	3.9	4.0	4.4	4.2	4.4	3.3	4.1	3.7	4.2	4.6	5.2
Canada	50.3	52.5	56.7	61.6	61.0	50.1	58.7	63.1	62.2	65.6	71.3
Chile	56.0	56.0	55.6	57.5	61.0	49.8	62.0	62.6	58.0	59.8	62.2
Czech Republic	3.0	3.4	4.0	4.4	4.6	5.0	5.7	6.1	6.5	7.1	7.7
Denmark	28.5	30.8	33.8	32.6	32.4	47.0	43.1	49.3	49.6	50.0	42.8
Estonia	0.8	1.8	2.7	3.6	4.4	4.5	6.8	7.5	7.0	8.5	9.6
Finland (1)	54.0	61.9	68.6	71.9	70.6	60.7	77.2	82.8	44.2	47.1	50.8
France	..	..	0.0	0.0	0.1	0.1	0.2	0.2	0.2	0.3	0.4
Germany (2)	3.7	3.8	4.1	4.2	4.6	4.8	5.3	5.4	5.7	6.3	6.2
Greece	..	..	..	..	0.0	0.0	0.0	0.0	0.0	0.0	0.1
Hungary (3)	5.3	6.9	8.5	9.8	11.1	9.7	13.3	15.0	3.8	4.0	4.1
Iceland	98.3	106.4	119.6	129.6	131.0	112.9	119.2	124.2	128.8	140.9	148.7
Ireland	39.4	41.5	47.8	49.4	45.7	35.2	44.5	47.8	44.5	49.1	55.8
Israel	24.8	25.1	30.2	29.9	31.1	40.1	44.0	45.9	46.5	48.7	50.4
Italy	2.4	2.5	2.8	3.0	3.2	3.4	4.1	4.6	4.9	5.6	6.1
Japan	27.5	24.9	27.1	26.2	25.6	23.1	26.7	25.3	25.2	26.4	29.3
Korea	1.5	1.6	1.7	2.8	2.8	3.0	3.5	4.0	4.5	5.4	6.5
Luxembourg (4)	..	0.3	1.1	1.0	1.0	1.0	2.4	2.0	2.0	2.1	2.1
Mexico (5)	5.2	5.5	8.8	10.0	9.9	10.0	11.7	12.6	12.8	14.1	14.8
Netherlands	101.2	108.1	120.7	124.4	135.1	112.7	118.6	129.5	136.2	155.4	166.3
New Zealand	11.7	11.8	11.5	12.5	11.6	10.5	11.9	14.3	15.8	16.8	19.1
Norway	6.5	6.5	6.7	6.7	7.0	6.0	7.4	7.6	7.3	7.6	8.3
Poland	5.3	6.8	8.7	11.1	12.0	10.9	13.5	15.7	15.0	17.2	18.6
Portugal (6)	11.3	10.2	12.3	13.2	13.2	11.8	13.0	11.4	7.7	8.8	9.1
Slovak Republic (7)	0.0	..	0.5	2.4	3.7	4.7	6.3	7.4	8.4	9.6	10.0
Slovenia	0.5	0.9	1.3	1.6	1.8	1.9	2.6	3.1	3.3	3.7	4.0
Spain	6.2	6.6	7.2	7.5	8.2	7.2	8.1	8.0	8.0	8.4	9.0
Sweden	7.4	7.3	9.0	9.1	8.5	7.3	8.2	9.5	9.2	10.5	9.5
Switzerland	99.9	104.0	113.3	114.8	112.0	94.8	108.0	108.5	106.9	113.7	119.0
Turkey	..	0.4	0.7	0.7	1.2	1.5	2.3	2.4	4.1	3.8	4.9
United Kingdom	62.7	66.0	76.0	80.6	76.5	63.5	79.3	86.8	94.0	102.9	100.7
United States	71.7	73.4	74.5	77.1	78.0	59.5	70.0	74.6	71.7	74.3	83.0

Source: OECD, Global Pension Statistics, 2014

When Table 1 is examined, in the period of 2003-2013, it is seen that the investments of individual pension investment funds in the countries such as Switzerland, Island, and Netherland sometimes reach their GDPs and sometimes exceed them. However, for the period under consideration, it attracts attention that investment sums of individual pension investment funds of Australia, United Kingdom, and US approach to GDP, while in Canada, Chili, and Finland, more than half of their GDPs consist of individual pension investment funds. Pension investment funds of the other countries forms considerably less percent of their GDPs.

Table 3: Total Investment of Pension Funds in OECD Countries in 2014 (%)

Country	Total investment			% change (in national currency) since Dec 2013	Change in pp. of GDP since Dec 2013
	millions of national currency	millions of USD	% of GDP		
Australia	1,789,800	1,685,992	113.1	13.8	9.6
Austria	19,011	23,081	5.8	9.4	0.4
Belgium	20,308	24,656	5.0	11.1	0.4
Canada	1,461,819	1,304,264	74.7	9.1	3.9
Chile	100,479,815	165,432	68.3	17.7	6.0
Czech Republic	339,204	14,855	8.0	14.0	0.7
Denmark	932,586	152,348	48.6	17.4	6.5
Estonia	2,204	2,676	11.3	24.5	1.8
Finland	92,738	112,593	45.5	6.2	2.2
France	10,300	12,505	0.5	19.8	0.1
Germany (e)	193,034	234,363	6.6	12.2	0.5
Hungary	1,306,716	5,043	4.1	10.0	0.1
Iceland	2,916,817	22,985	146.3	9.8	5.1
Ireland (e)	108,723	132,000	58.6	18.8	6.3
Israel	597,144	153,547	54.9	12.4	4.2
Italy	106,200	128,937	6.6	10.8	0.6
Korea	108,593,027	98,784	7.3	26.2	1.0
Japan	147,360,700	1,221,491	30.2	5.1	1.3
Luxembourg	1,493	1,813	3.2	55.7	1.1
Mexico	2,373,381	161,257	13.9	15.7	1.2
Netherlands	1,055,934	1,282,009	161.1	5.4	5.2
Norway	274,442	36,937	8.7	10.3	0.6
Poland	150,200	42,826	8.7	-50.2	-9.4
Portugal	17,141	20,811	9.9	13.1	1.0
Slovak Republic	7,870	9,555	10.5	9.3	0.7
Slovenia	1,575	1,912	4.2	11.2	0.3
Spain	100,150	121,592	9.5	8.3	0.7
Sweden	156,676	20,251	4.0	10.6	0.3
Switzerland (e)	814,029	823,000	125.6	13.0	12.3
Turkey	34,645	14,927	2.0	38.2	0.4
United Kingdom	1,720,509	2,685,370	96.0	0.8	-3.6
United States	14,733,958	14,733,958	84.6	5.7	1.5
Other OECD (e)		40,644	19.6	14.2	1.0
OECD (e)		25,492,416	86.0	6.6	2.2

Source: OECD, Global Pension Statistics, 2015

In all the OECD countries except Poland, pension funds' assets grew between the end of 2013 and the end of 2014. The largest increases are found in Estonia, Korea, Luxembourg and Turkey where pension funds' assets rose by more than 20%, compared to their levels in December 2013. On the contrary, in Poland, pension fund assets decreased by more than 50%, probably due to the reversal of the mandatory funded pension system that led to a transfer of domestic sovereign bonds held by open pension funds into the social security system. The five biggest countries in the OECD area in terms of pension funds' assets were the United States, the United Kingdom, Australia, Canada and the Netherlands, altogether totalling USD 21.7 trillion or more than 85% of OECD pension funds' assets (OECD,2015).

Individual pension investment funds make investments on a variety of investment instruments such as stocks, obligation, deposits, real estate, credit, and investment funds. Pension funds in the OECD invested on average in 2014 23.8% of their portfolio in equities, 51.3% in bills and bonds, and 9.6% in cash and deposits. The total allocation in these traditional asset classes was therefore 84.7%. Pension funds in non-OECD countries tend to favour traditional asset classes slightly more than in OECD countries, as they invested 27.3% of their portfolio in equities, 51.9% in bills and bonds and 10.3% in cash and deposits on average (89.6% in total) (OECD,2015).

3. Individual Pension Investment Funds in Turkey

In Turkey, individual pension system (IPS), considering as a part of reform made by the law numbered 4447 in 1990 and complementary of public social security system, was arranged by "the individual pension saving and investment systemlaw", dated of October 7, 2001 and numbered 4632. According to this law, "*individual pension system, as a complementary of public social security system, is a system based on voluntary participation and formed according to the basis of determined contribution, in order to increase employment by creating long termed resource to the economy; and enable to make contribution to the economic investment by directing the savings of individuals to investment and raising their wealth levels, providing an extra income in retirement period".*

In Turkey, IPS was formed by examining its applications in Europe and US and drawing the successful and practical aspects of both system in the application. In reaching of the developed country economy of today high wealth level, system has undertaken an important function ((İşseveroğlu and Hatunoğlu, 2012:156)

In contrast to the many other developing countries, there is no obligatory private pension system and, in 2003, voluntary private pension system based on the incentive of tax discounting has been implemented. However, the participation in the system of interest is low and fund accumulation is in limited amount. Common public pension system and private pension system that is not adequately developed negatively affect saving tendency of household, development of capital markets, and thus, process of capital accumulation (Özel and Yalçın, 2013:12-13).

Throughout the time stayed in the system, accumulations are followed in individual pension account and kept in the system of settlement and custody bank and, every kind of information regarding individual pension account is regularly communicated to the participant. This information includes the sums of contribution deposited into account, details of pension investment funds in account, and value of accumulations. One of the strengths of the system, in contrast to the principle of uniqueness in social insurances, is that individuals can open a pension account more than one, if they desire. In case that participant has a pension contract more than one, for him/her to deserve from all contracts, it is enough that he/she obtains this right from at least one of them. His/her deserving retirement from the other contracts, together with making a demand regarding to using of retirement right, depends on his/her reporting that he/she will utilize this right to the company, also combining accounts from the other contracts, from which he/she wants to be retired (İşseveroğlu and Hatunoğlu, 2012:157).

It is possible to summarize the main features individual pension system in our country holds as follows TCMB, 2011)::

- System runs voluntariness- based and is open to the participation of every sector.
- The funds accumulated in the system are valued in pension investment funds, formed in the framework of the legislation of Capital Market Board (CMB)by pension companies, which are established in the supervision of under secretariat for the treasury and which are active.
- With the obligation to establish at least 3 pension investment funds, to which pension companies subject and which have the different composition of risk and return, it is enabled individuals to be able to make investment preferences that are compatible with their own expectations of risk and return.
- It is possible to value the investments in investment instruments such as public and private borrowing instruments, deposit, participation accounts, repo and reverse repo agreements, partnership interests, derivative instrument transactions, warrants, precious mines, renting certificates, and share of investment fund.
- Participants can alternate pension fund they purchase and pension companies. Participants, who have the right to alternate fund distribution for 6 times in a year, returning the shares of fund they have to the fund, when they desire, can invest on the share of another fund. For alternating the company, it is necessary for the participants to stay in the existing companies for minimum two years. However, the contract of participant is already transferred to another company, this time falls to 1 year.
- The assets of pension investment fund, apart from the property of pension company, are kept in a keeping agency that is deemed suitable by CMB
- Supervision of individual pension system is performed by Under secretariat of Treasury, CMB, and independent supervision agencies and its oversight by Pension Oversight Center and Settlement and Custody Bank
- For deserving retirement from individual pension system, it is necessary to stay in the system for minimum ten years, pay for contribution margin for ten years, and turn 56 years old
- Participation in the system is also encouraged via tax advantages provided by government.

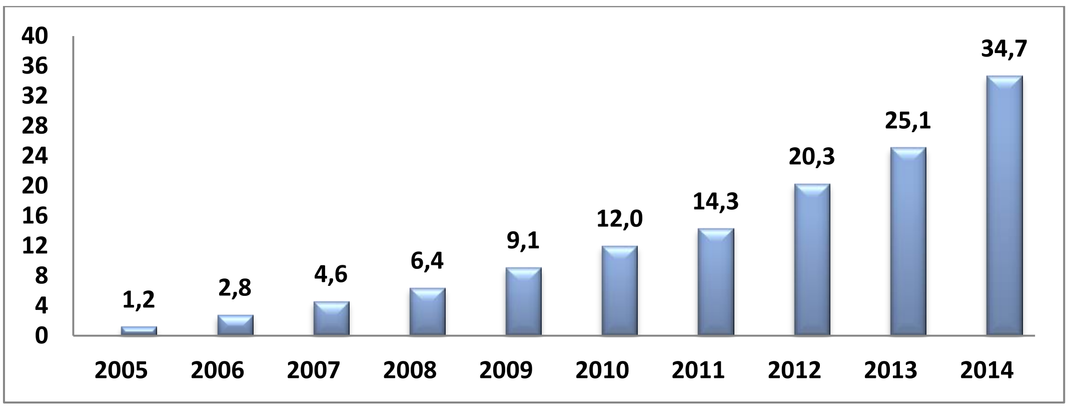
4. The Main Indicators Regarding the Development of Individual Pension System in Turkey

When compared to the samples in the world, individual pension system that is quite new application for Turkey has officially started on the date of October 27, 2003 with the sale of the first pension contracts. Although it is a quite new application for Turkey, individual pension system has highly progressed since its beginning.

The year 2013 became a year, when new legal arrangements in the quality of reform, realized in 2012,regarding individual pension system, were implemented. The most important one of the legal arrangements made in 2012 became to pass from the incentive system, based on discounting the contribution margins paid in the system from tax assessment, to the incentive system, called government contribution, in which government directly makes contribution to the accounts of participants. According to this, a government contribution in the rate of 25% of contribution margin, paid by the participants from the beginning of the year 2013, will be directly paid to the accounts of participants. In a system leaving astern 10 year, the incentive of 25% government contribution form an turning point in terms of growing pension funds. Thanks to this incentive, in 2013, net one million people entered the system and this number means two fold increase compared to the previous year. In addition, average contribution margin those newly entering system paid showed an increase at the level of approx.. 30% (EGM,2014).

Participant, who is turned 18 years old and who has capability to use his/her civil rights, on condition that he/she has been in system for at least 10 years, beginning from date position entered to the system and pays for contribution margin, after turning 56 years old, deserves retirement.

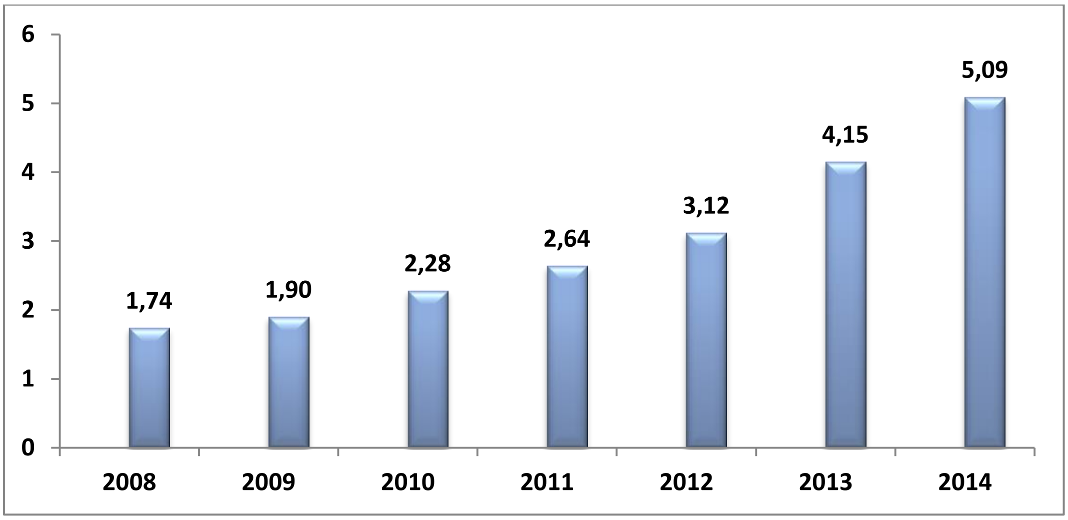
Table 4: Individual Pension System Funds 2005-2014



Source: Emeklilik Gözetim Merkezi (EGM), Individual Pension System Progress Reports

In respect with the end of the year 2014, [accumulation], increasing in the rate of approx..38%, approached to TL 35 billion. In this period, the rate of government contribution, exceeding TL 3 billion, showed an increase in the rate of 162% compared to the previous year. In addition, there are 19 pension companies recorded in the system

Table 5: The Number of Participants 2008-2014 (Milion)

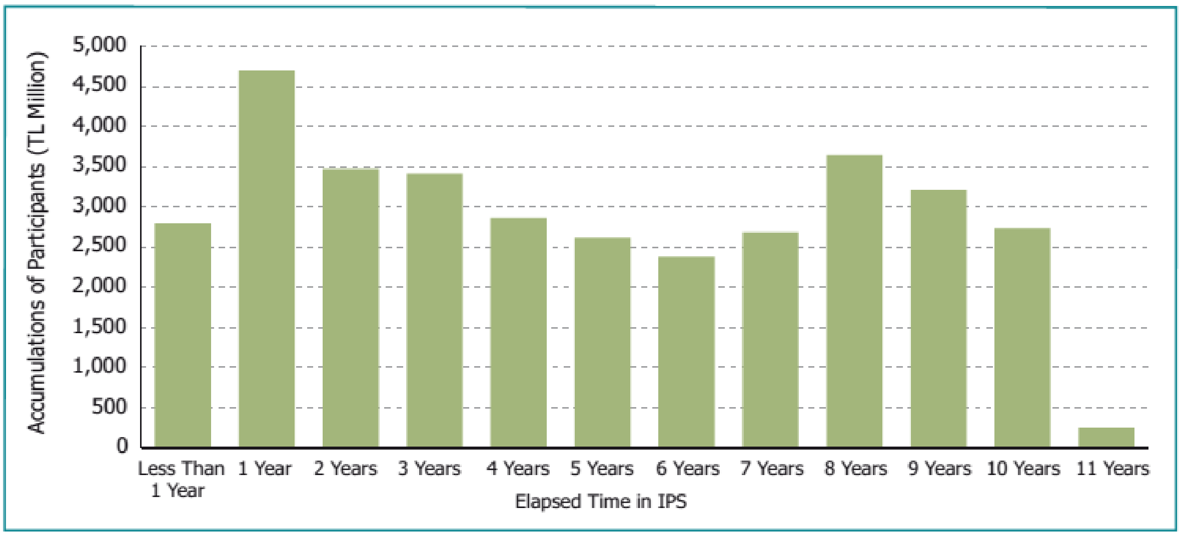


Source: Emeklilik Gözetim Merkezi (EGM), Individual Pension System Progress Reports

As can also be seen from the table, there is an increase in the number of participant in the years. Especially application of government contribution, initiated in 2013, significantly increased the number of participant. The number of participant, growing in 2014 by 23% compared to 2013, exceeded approx.. 5 million. In this direction while participants increase the number of retirement savings, on the one hand, on the other hand, they make contribution to the development of our economy and capital markets.

Besides the reform made and high growth the system catches, in 2013, from those entered system, the number of participants, who turned 56 years old, and received their accumulations, deserving retirement, has become 7,577 people: From now on, the system beginning to give their own retired people is seen to provide a return at the considerable level.

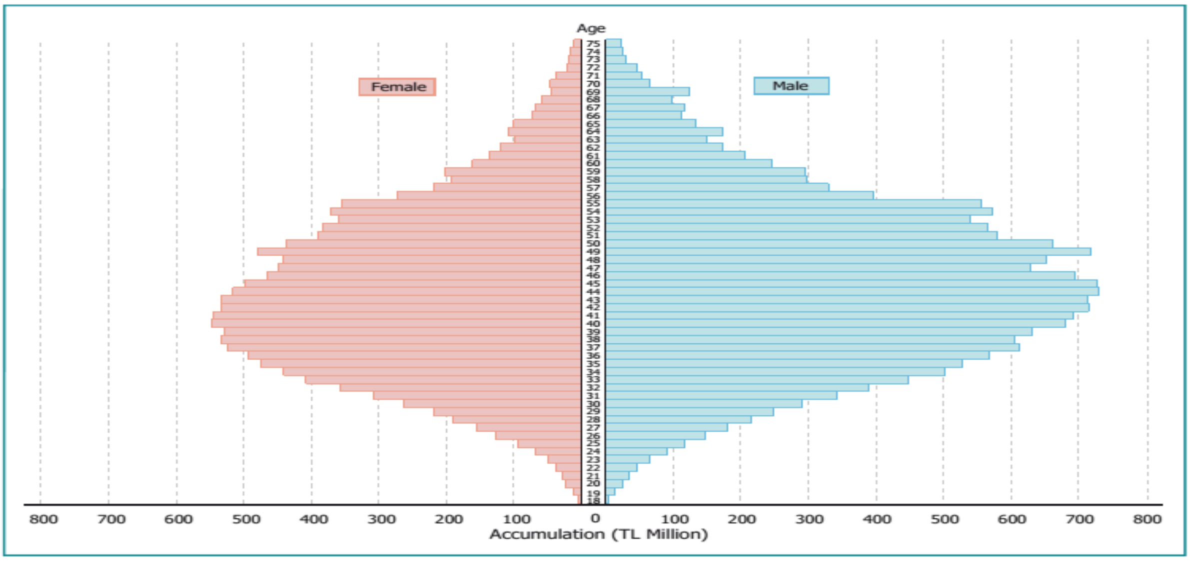
Table 6: According to Completed Year in System Total Accumulations of Contracts (TL)



Source: Emeklilik Gözetim Merkezi (EGM), Individual Pension System Progress Report 2014

With the respect of the end of the year 2014, the size of a total of pension investment fund of TL 34,793,077,808 was examined in the detail of the year, when contracts are completed in the system. As can also be seen from the table, this size of those placing in individual pension system for 1 year approached to 5 million (EGM,2015:16).

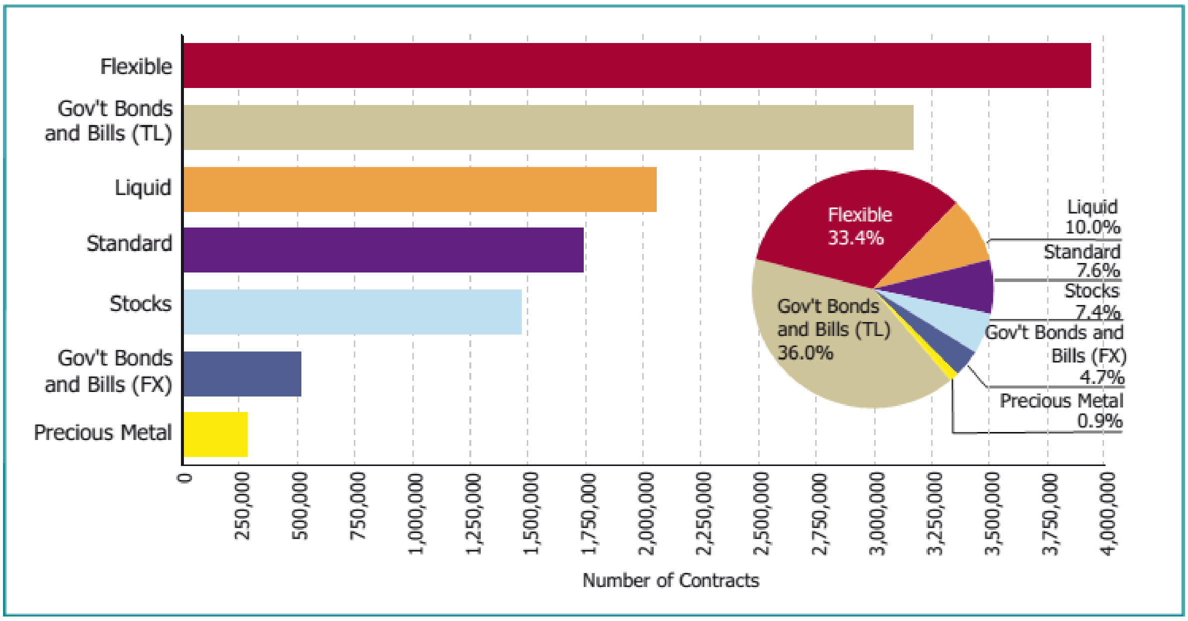
Table 7 :Accumulations of Participants According to Gender and Ages



Source: Emeklilik Gözetim Merkezi (EGM), Individual Pension System Progress Report 2014

Distribution of participants' accumulations as of 2014 year-end, according to their "Gender" and "Ages". Average age of population within IPS is 38.4 and weighted average age is 44.9 according to the total amount of accumulations owned by participants. 57% of the total amount of accumulations owned by male participants and 43% by females (EGM, 2015:18).

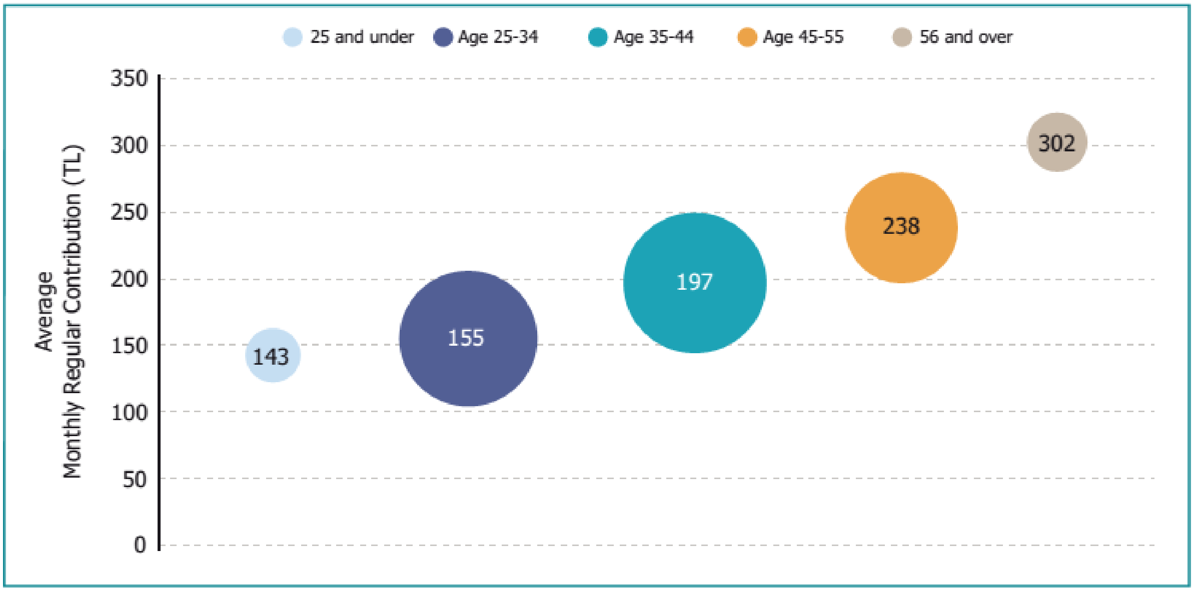
Table 8: Participants' Fund Preferences per Fund Group



Source: Emeklilik Gözetim Merkezi (EGM), Individual Pension System Progress Report 2014

Pension mutual funds of total accumulations as of 2014 year-end are shown based on the fund groups. On average, 2.26 fund types were bought per contract. As of year-end flexible fund group has 22% stocks, 45% gov't bonds and bills and 3% reverse repo in its portfolio (EGM, 2015:19).

Table 9: Participants' Average Monthly Regular Contribution Planned to be Paid according to Age Groups



Source: Emeklilik Gözetim Merkezi (EGM), Individual Pension System Progress Report 2014

As of 2014 year-end, the average monthly regular contributions planning to be paid for contracts in force are analyzed in terms of "Participants' Age Groups". While the average monthly regular contributions planning to be paid for contracts in force as of

2014 year-end is TL 195, the monthly average of regular contributions paid for the contracts that have regular contribution payment in 2014 is TL 204 (EGM, 2015:21).

5. Strengths and Weaknesses of Individual Pension System

Individual pension system has covered an important distance from October 2003, when it has been begun to be applied, to now. In respect with February 2016, the number of participant has reached 6.09 million, fund sum TL 43.79 billion, and the sum of government contribution TL 5.22 billion. We can summarize the strengths and weaknesses of the system as follows.(EGM,2015 and TCMB,2011):

- The main incentive element in IPS was in the form of tax discounting Those participating in IPS obtained a right of discounting in a certain rate from the tax they would pay and, hence, an increase occurred in their net salaries. But, with this application, only 35% of the people in IPS utilize this system. The remaining 65% do not utilize it at all. With the system of government contribution margin, formed beginning from 2013, from now on, everybody entering IPS, whether or not they are taxpayers, can utilize this. Contribution margin will be deserved in stage in such a way that one will encourage to stay in a system for long time. 15% of government margin will be deserved in 3rd year, 35% in 6th year, 60% in 10th year, and 100% in retirement.
- Forming severance pay fund for employees and evaluating this fund in IPS, fund size in the system can increase and the income figures of companies taking place in the system will rise.
- Thanks to individual pension system, while that long termed newfunds are introduced to capital markets and that regular fund inflow is provided make contribution to the fall of interest rates, they increase the borrowing ability of the public and private sector.
- While savings directed to investments enable the production and employment to increase, they become an important resource supporting a stable economic growth. In addition, with decrease of consumption, while saving volume that increases helps to keep inflation under control, just as in our country, mostly keeping funds in domestic money reinforces the trust to national monetary unit.
- Due to lack of insurance culture in the country, the size of individual pension system in Turkey is at a low level like 1%. In the country, that income per capita is low, that there is an obligatory security, and that there exists a trust depression toward the system as a consequence of financial crises experienced in the county are viewed as an barrier in front of development of the system.
- The fact that there is no guarantee for minimum return, that it is necessary to stay in the system for long years, and that the risk of low retirement income the savings accumulating in pension program and fluctuations in financial

markets will create is completely charged on the individuals not only prevents from entering the system but also can lead to leave the system.

Conclusion

In Turkey, obligatory pension system, arranged by the government, toward providing social justice, and providing a minimum guarantee of income, is applied. In 2003, individual pension system was implemented.

Individual pension systems have been developed as complementary of social security system provided by the government. In this system, individuals pay for the gains they save to use in their retirement period to the pension companies as contribution margin in the framework of retirement arrangement and the funds within pension company in this way are valued by professional agencies, investing on the various funds. The funds paid by participants are kept in individual pension investment funds until the period of retirement and, thanks to this, inflow of the funds of interest is provided to economy and financial market in long term. Thus, the need of resource for the public and private sector and financial markets can be eliminated; savings the country have are increased; capital markets develop; and, as a result of all of these, the developedness degree of the country increases.

In our country, although individual pension investment funds are new, they showed an important development in the short time and total asset value of funds and the numbers of funds increased. Beginning from 2004, individual pension investment funds that are in active are expected to provide large contributions to both financial markets and economy in the long term. Especially, with the government contribution implemented in 2013, significant increases were experienced in the size of fund.

For attracting the savings to funds, negativity, to which tax incentives to be used will lead, will be in terms of income distribution. The classes, whose saving ability is high, protecting the part of their incomes within limits from the tax thanks to these incentives, will be able to forwardly transfer them and, in this way, they will have obtained important advantages in such a way that they will increase their incomes much more against the people, who are obliged to participate in fund with lower premiums or who do not participate in. However, as the funds develop, with the macroeconomic benefits they will provide, they will able to make contribute to forming an economic environment, which are able to help to the government in eliminating injustices in income distribution.

However, for increasing trust to the system and being able to effectively sustain growth, the continuation of common efforts of the public as well as private pension companies, portfolio management companies, and the other stakeholders has a great importance.

As said in Middle Termed program regarding the period of 2013-2015, for a macroeconomic framework, in which current deficit is reduced, and growth rate is increased, increasing the savings and competitive power of economy has a great importance. When regarding from this point of view, individual pension system, also with the contribution of new arrangements made and changing incentive structure, undertakes an important role in increasing long termed domestic savings and catching a strong economic growth.

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