PRIVATE PENSION SYSTEM IN TURKEY
Chronology of Private Pension System

• Law submitted to Parliament in March 2000
• Approved by Parliament in April 7, 2001
• Came into force in October 7, 2001, after six months of publication date
• Most by-laws completed in 2002
• First pension contract signed in October 27, 2003
Basic Aims of Introducing Private Pensions

• Timely utilization of favorable demographic characteristics, since the composition of population is expected to change in the next 20 years
• Scissor effect: The increase in life expectancy together with decreasing birth rate
• Providing additional income
• Reducing the state’s social security burden on pensions
• Accumulating funds for sustainable economic growth
• Deepening capital markets by increased number of institutional investors
Basic Characteristics of Private Pensions in Turkey

- A fully funded defined contribution pension system
- Individual accounts
- Voluntary participation
- Tax incentives
- Complementary to the state social security system
- Pension companies may optionally have a license in life insurance business
- Contributions invested in “pension mutual funds”
- Assets are managed by portfolio management companies
- Intermediaries must be qualified (by an exam)
Pension Companies

- New financial institutions specialized in pension business
- Initial paid-up capital with minimum ~$7 mio (and additional ~$7 mio must be paid within 3 years)
- 51% of the shares owned by the institutions operating in financial sector
- Have requirements to be met in providing efficient IT infrastructure
- Strong financial structure to recover initial capital strain
- Have an option to carry out a life and an individual accident insurance operations
- Licensed by the Undersecretariat of Treasury
- No discrimination against foreign companies
Pension Mutual Funds

• Not a separate legal entity
• Collective investment instruments issued especially for participants of private pension systems provided by pension companies
• Open-ended funds
• At least three options each having a different risk composition
• Legally separated from assets of pension company
• Assets of funds kept by Custodian Bank
• Quantitative restrictions for investment instruments vested in each fund
• At the beginning limited investment options when allocating contributions
  – Minimum of 30% invested in funds composed of government securities
  – Maximum of 15% invested in foreign asset dominated funds
• No rate of return guaranteed
Portfolio Management Companies

- Regulated and supervised by the Capital Market Board
- Manage individual and institutional funds
- Contract with pension companies
- Responsible for active fund management of pension mutual funds in accordance with pension company’s fund management policies
- Pension company has the right to make contracts with different portfolio management companies for different funds
- Dynamic and competitive markets
Individual Pension Intermediaries

- Licensing requirement for promotion, marketing and selling of pension products
- No regulation for commissions
- Certain qualifications for intermediary license
- Eligibility conditions set forth in regulation
- Bachelors degree or associate degree in insurance and/or banking
- Success in e-BEAS (e-intermediaries exam)
- Continuous education (BESES)
- Accurate and reliable information to participants
- Knowledgeable on financial literacy
- Efforts against fraud and mis-selling
Individual Accounts

- Separate accounts for each participant
- All contributions are accumulated and invested on behalf of individuals
- Pension plans (for individuals or groups)
- Prior approval by the Treasury Office
- Group pension plans
- Not related to employment contracts
- With or without employers contributions
- Currently no vesting for employers’ contributions (planning to introduce)
- Employers’ contribution into separate accounts
- More than one account in the same or other pension companies is allowed
- Consolidation of accounts at retirement depending upon individual’s choice
- Entrance fee for new accounts
Individual Rights and Choices -1

- Any person capable to use civil rights (aged 18 or above) has the right to participate
- Voluntary contribution by individuals
- Participation on voluntarily basis
- Defining contribution based on the income level
- Minimum amounts for contributions stated in each pension plan
- Normal retirement
  - 56 years of Age
  - Minimum 10 years of coverage period
- Transfers from foundations is available until December 31, 2015
Individual Rights and Choices - 2

• Right to change the allocation of contributions between funds stated in pension plans up to 6 times a year
• Compulsory analysis of risk-return profile of participants
• Switching between pension plans of the same company up to 4 times a year
• Switching between pension companies
• Competition leads to high quality service and higher returns
Individual Rights and Choices -3

- Amount of regular contributions can be altered
- Availability of additional lump-sum payments
- Waiving contributions
- Additional small charges after 12 months
- Early withdrawals
- At the age of 56
- Lump sum
- Annuity
- Continue to contribute
- Detailed regulation for the contents of the information and documents submitted to participants
- Easy access to accounts
Types of Supervision

- Operational conformance
  - Undersecretariat of Treasury (via Pension Monitoring Center)
  - Insurance Supervision Board
- Fund management and restrictions
  - Capital Markets Board
  - Independent fund audit (once a year)
- Safekeeping of assets
  - Custodian bank
- Taxation and bookkeeping
  - Revenue Administration
  - Independent tax audit (quarterly)
- Internal auditing
  - A post required by Law. These people report directly to the GM and look into every aspect of the risks.
Types of Supervision

Operational conformance/inadequacy

• A. Hard conformance:
  – Are daily operations in conformance with the pension plans and with the regulation (deductions, investment restrictions, operational time deadlines are met etc.)
  – If fail to comply with, there are penalties as stated in the Law

• B. Soft conformance
  – Are customer complaints handled properly?
  – Are the services offered at the call center and/or on the web site satisfactory?
  – Are transfers between companies encouraged by upper management (through commissions)? They shouldn’t!
Fees and Charges

• Entrance fees (no entrance fee for transfers from foundations)
• For new individual accounts
• Up to monthly gross minimum wage (~ $425)
• Payable in installments within one year
• Postponed for 5-10 years subject to withdrawals
• Administration charges
• Up to 2% of each contribution
• Fund management charges
• Daily basis
• As percentage of total assets in funds
• Up to 0.01% per day (0.05% for accounts transferred from foundations)
Fees and Charges cont.

- Fees and charges disclosed in contracts, proposal forms of the pension plans
- Fund accumulation is very sensitive to charges
- Importance of scale economies
- Due to competition: rapid fall in all fees & charges
  - No entrance fee for group pension plans/foundation transfers
  - Entrance fee as quarter of cap or less in some pension plans for individual participants
  - Mostly nil or postponed to reduce withdrawals or switching to other companies for 3 years
  - Mostly 0-2% depending on amount of monthly contributions
  - No charge on initial or additional lump sum payments
  - Fund management fee
    - 1-2 per 100,000 for transfers from foundations
    - 3-6 per 100,000 for group pension plans
    - 4-10 per 100,000 for individual pension plans
Transparency

- Best advice during the commencement of plans
- Regulation for contents of booklets, documents and information provided with contracts
- Qualified intermediaries
- Disclosure of fees and charges
- Monitored advertisements
- Easy access to individual accounts
- Availability of daily/weekly information on fund returns, participants, total funds
- Internet access
- Call center
- Web sites of supervisory bodies
- Pension monitoring center
- ISE Settlement and Custodian Bank
Tax Incentives

• Contribution Stage
  – Will benefit from state subsidy at the rate of 25% of the contributions up to annual minimum wage (regardless of employment status, for Turkish Citizens only)
  – Employers’ contributions are tax deductible up to 15% of gross income with a cap of annual minimum wage (currently approx. $6,200 pa or $517pm)

• Investment stage
  – No tax on fund returns excluding instrument based withholding taxes

• Benefits payment at retirement
  – Returns subject to 5% withholding tax

• Early withdrawals; 15% of returns before 10 years of contribution, and 10% if not eligible for retirement after 10 years of contribution
## Basic Indicators (Oct. 09, 2015)

<table>
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<tr>
<th>Category</th>
<th>Value</th>
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<tbody>
<tr>
<td>Pension Companies</td>
<td>19</td>
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<tr>
<td>Pension Plans</td>
<td>~1000</td>
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<tr>
<td>Pension Mutual Funds</td>
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<td>Pension Intermediaries</td>
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<td>Participants</td>
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<td>Pension Contracts</td>
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<td>Accumulated Funds</td>
<td>~ $15.5 Bn</td>
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