

# **Pension Reform Process in Europe: Achievements and Challenges Turkish Experience**

**GLOBAL FORUM ON PRIVATE PENSIONS**

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**BERLIN GERMANY**

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# TURKISH PENSION SYSTEM-OVERVIEW

## PENSION SYSTEMS

### 1st Pillar

#### Social Security

Social Security  
Institution

Provident Funds

MoLabor

Social Security

### 2nd Pillar

#### Mandatory

OYAK

Amele Birliği

ILKSAN

Oyak: Self-Reg.

Amele Birliği: MoLSS

ILKSAN: MoEdu.

#### Voluntary

Provident Funds

Foundations

Directorate Gen. for  
Foundations

Treasury

### 3rd Pillar

#### Pers. Pens. Sys.

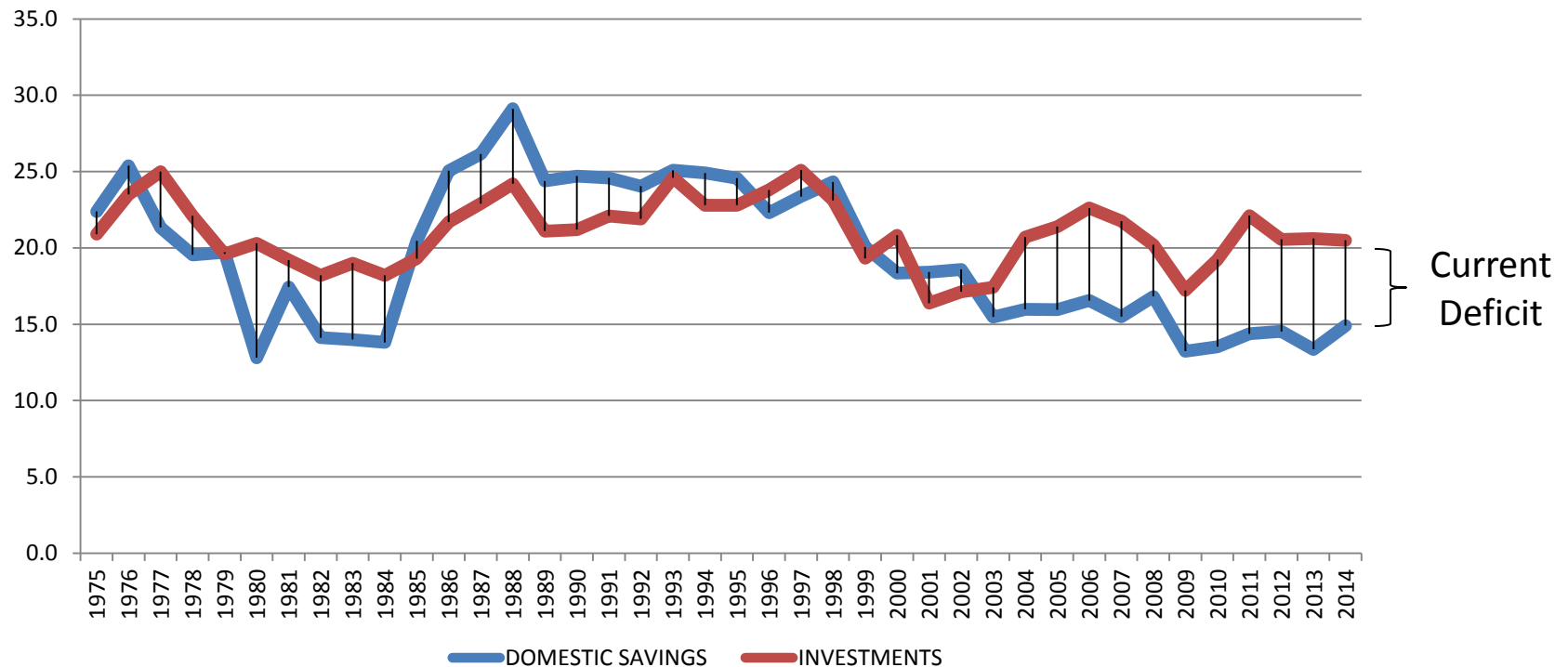
Pension Co.

Treasury

Capital Markets  
Board

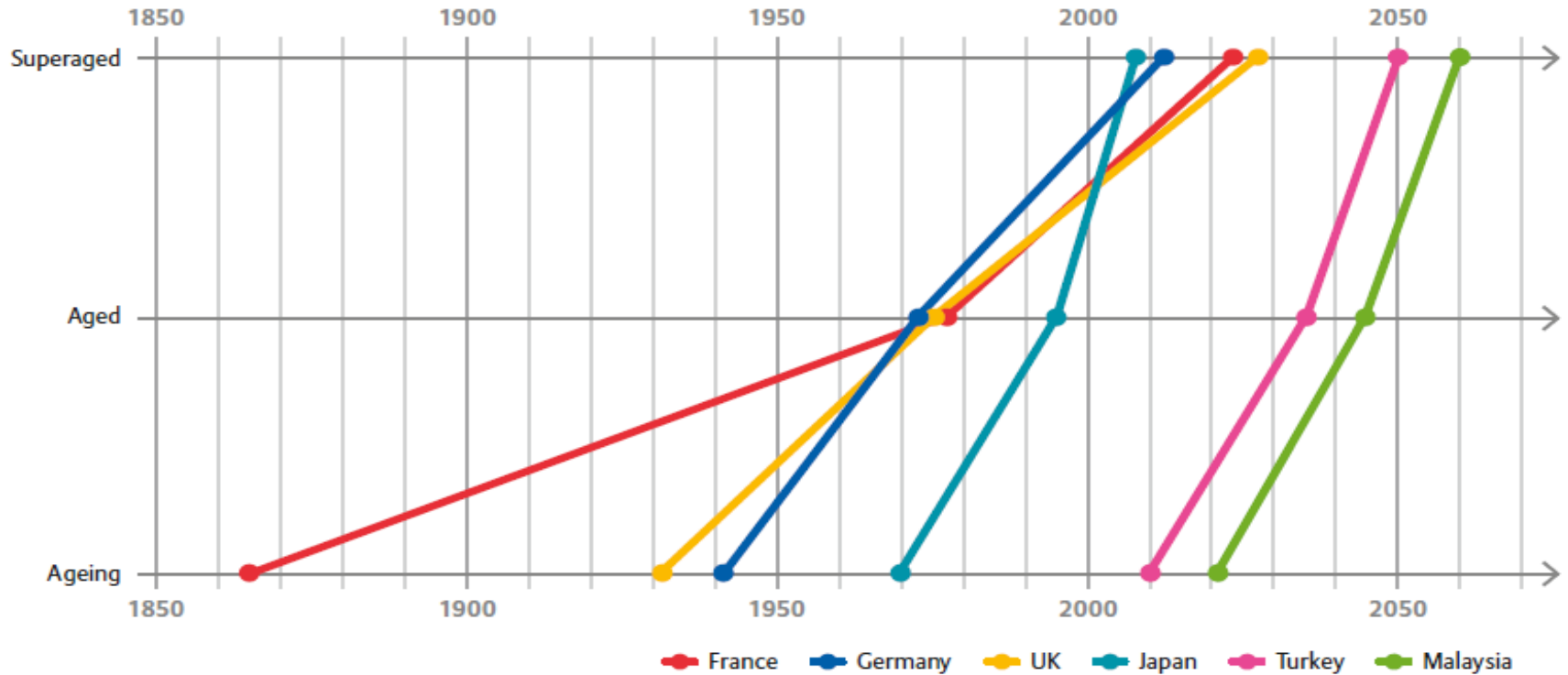
# NEED FOR REFORM

THE SHARES OF TOTAL DOMESTIC SAVINGS AND GROSS FIXED INVESTMENTS AS A PERCENTAGE OF GDP  
(1975-2014)



👉 Lack of domestic savings

# NEED FOR REFORM



👉 **Aging Population**

# ACTIONS TAKEN&ACHIEVEMENTS:

## 2013 STATE MATCHING CONTRIBUTION REFORM

### 2003-2013: Tax Incentives:

#### EET

- Low rate of incentive utilization: utilized by only 35% of members
- Not so visible: low level of appreciation by the members
- Because of low rate of incentive utilization: TET for 65% of members

### 2013+: State Matching Contribution:

#### 25% of the Member Contribution

- Equity among participants: all the members may utilize
- Visible: high level of appreciation by the members
- Easy to understand when compared to tax deduction

## WHAT HAVE BEEN ACHIEVED

	2003-2012	2013- Sept. 2015
# of Members	3.1 million	5.8 million
Total AuM	20.3 billion TL	44.5 billion TL

# FURTHER WORK: WORK REGARDING AUTO-ENROLLMENT

**2014:**

## **Auto-Enrollment Pilot project**

- Very low rate of opt-out: less than %0,5
- 7 employers with a total of 604 employees participated
- Sample size small, but at least positive signals for AE

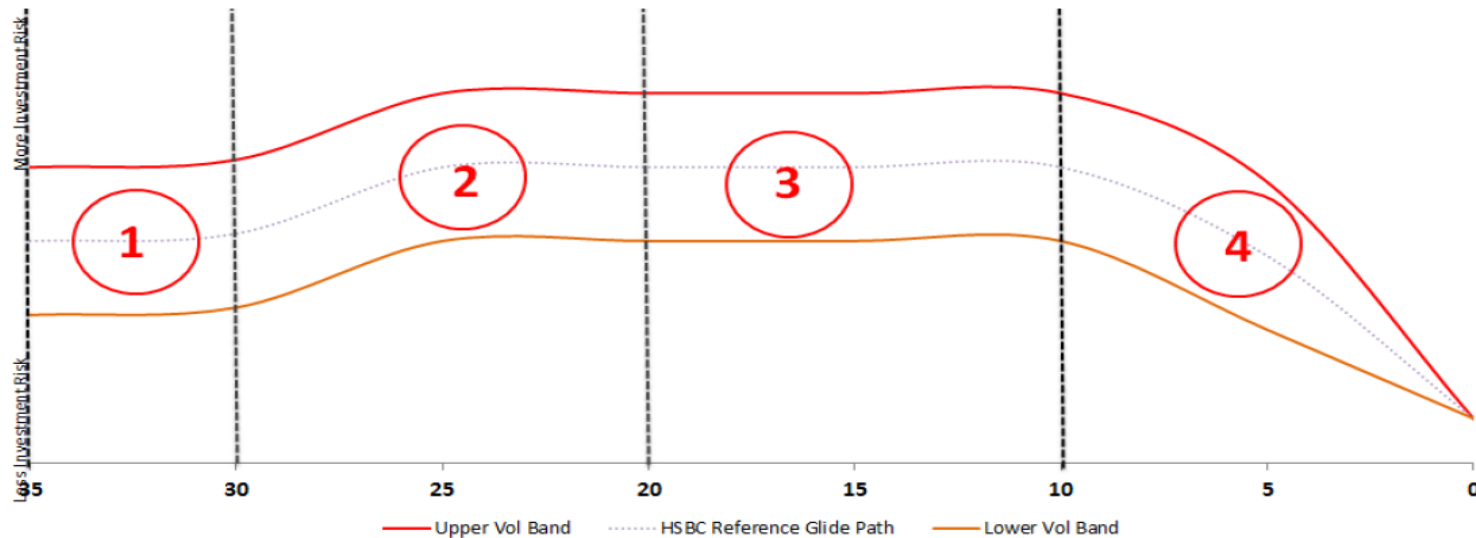
**2014:**

## **FIRST Project with the World Bank**

- Draft design for main components

# WORK REGARDING AUTO-ENROLLMENT

## Age Based Multi Asset Funds



### Foundation Phase (1) (30+ years to retirement)

- Investment Objective: Moderate capital growth. Primary aim is to preserve capital in real terms.
- Target Volatility: 7% (5-9% range)
- Risk level of fund is adjusted depending on valuation and general macroeconomic conditions.

### Growth Phase (2-3) (10-20 years to retirement)

- Investment Objective: Capital growth. Primary aim is to achieve at least 3% excess return over inflation.
- Target Volatility: 10% (8-12% range)
- Increased level of diversification to avoid extreme drawdowns during financial shocks.

### Income Phase (4) (less than 10 years to retirement)

- Investment Objective: Income in target currency. Portfolio moves through cash like instruments but capital is still aimed to be preserved in real terms.
- Target Volatility: 4% (3-6% range)
- Probability of drawdown is minimized during income phase.