

AUTO – ENROLMENT REFORM IN TURKEY

February 23rd, 2018

Dublin

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TURKISH PRIVATE PENSION SYSTEM GENERAL VIEW

Basic Characteristics

- ☐ Fully funded defined contribution system introduced in 2003
- ☐ Individual accounts
- ☐ Personal pension plans
- ☐ Voluntary participation (since 2003) / auto-enrollment (since 2017) for employees
- ☐ Complementary to 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

State Matching Contribution Reform*

- ❑ In 2013, state matching contribution was introduced to the personal pension system.
- ❑ Starting from 01.01.2013, 25% of the member contribution is paid as state matching contribution.
- ❑ Participants gradually deserve to the 25% state matching contribution depending on the time passed in the system.
- ❑ By the end of 2018/1, assets under management reached to **69 billion TL** while it was **20.3 billion TL** back in 2012/12.
- ❑ By the end of 2018/1, number of members reached to **6.9 million people** while it was **3.1 million** back in 2012/12.

**Statistics do not cover auto-enrolment data*

Member Rights

- ☐ 'Opt – out' right for 60 days
- ☐ Altering contribution amount and period
- ☐ Transferring the accumulation to another pension provider
- ☐ Contribution holiday with a regulated fee
- ☐ Altering asset allocation 6 times per year
- ☐ Altering plan choice 4 times per year
- ☐ 'Withdraw' option anytime
- ☐ Retirement condition: 10 years in system with minimum age requirement of 56

AUTO – ENROLMENT REFORM

Basic Characteristics

- ❑ Auto-enrollment system came into force by 01.01.2017.
- ❑ Employers –with more than 5 employees– are required to enroll their employees –below age 45– into a pension plan.
- ❑ 3% of the gross salary is assigned as the minimum contribution rate by law. This ratio can be increased upon employee's request only.
- ❑ For the two-month 'opt-out period', 'seeding fund' is the default fund and it is mandatory. After this period, employees are able to change their asset allocation. Inert ones continue for 10 more months, before they change to 'default fund' automatically.
- ❑ Interest-free funds are mandatory to offer.
- ❑ Fund management fee: 85 BPS (over net asset value)
- ❑ Member rights are similar to voluntary pillar.
- ❑ Re-enrolment is required every 2 years.

Enrolment Calendar

- Employers are gradually involving into the system based on the number of employees.

Enrollment Date*	Criteria
January 2017	1.000+ employees
April 2017	250-1.000 Public Institutions with central budget
July 2017	100-250 employees
January 2018	50-100 employees Public institutions with independent budget Local government units
July 2018	10-50 employees
January 2019	5-10 employees

- By the end of 2018/1, assets under management is **1.99 billion TL** and the number of employees is **3.5 million**.

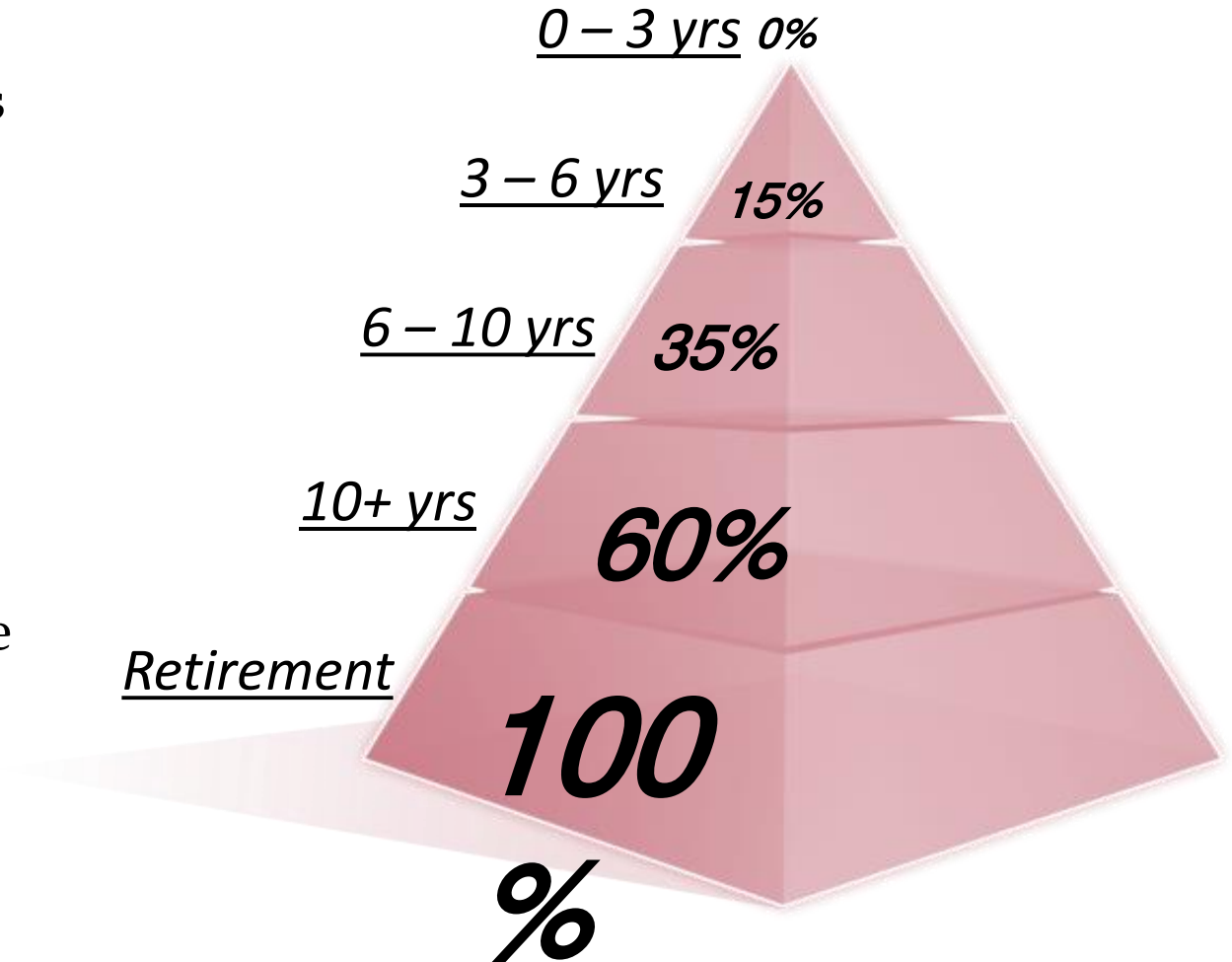
* Self-employed are not within auto-enrolment scope

Incentives

- ❑ Seeding state matching contribution: **1,000 TL** for members who did not leave the system during the opt-out period
- ❑ Members benefit from the **25%** state matching contribution as well.
- ❑ Members choosing **annuity** as the retirement product will be rewarded with an additional **5%** (calculated over accumulation) state matching contribution.

State Matching Contributions

- ❑ 25% of the member contribution is paid as state match contribution up to the limit (25% of the annual minimum wage).
- ❑ Entitlement ratio is decided upon the time passed in the system.



Challenges

System-independent factors

- ☐ Time limitation
- ☐ Income levels of members
- ☐ Previous experience of society regarding savings
- ☐ Culture and beliefs
- ☐ Failing in planning retirement period

System-related factors

- ☐ 3% contribution rate
- ☐ Miscommunication regarding 2-month opt-out period
- ☐ Members who already have another contract in 3rd pillar
- ☐ Employer's pressure to opt-out/withdraw

Actions

- ❑ Seminars and meetings with employers, employees, and pension providers
- ❑ Public service ads
- ❑ Official guidelines for employers, FAQs for related parties
- ❑ Online complaint management system provided by Pension Monitoring Center
- ❑ Clear and understandable fund options, default asset allocation for opt-out period, default funds, and risk profile surveys
- ❑ Periodic information requirements (quarterly, semiannually, annually)
- ❑ Surveys to get the bottom of opt-out/withdraw reasons, to increase communication and continuance

Survey Results

Reason to opt-out/withdraw	Proportion (%)
'My expenses are high, I have other expenses/I have debt'	71
'I need the money I will pay in auto-enrollment plan/Low income'	56
'I do not want to lock-in my savings for that long'	35
'I have other investments'	30
'I do not recognize the system as a profitable investment/Low return rates'	19
'Because of the fees'	16
'Investment strategies are inconsistent with beliefs (including interest-free funds)'	2

Survey Results – cont'd

Reason to opt-out/withdraw (system-dependent)	Proportion (%)
'State matching contribution is low and requires too long to get entitled'	45
'Opt-out period is too short to evaluate'	14
'Compulsory framework regarding entrance'	12
'Continuance requirement for retirement is too long'	8
'Pension provider is selected only by employer and cannot be changed by the employee'	8
'Inadequate number of choices regarding investment options'	2
<i>Other</i>	<i>11</i>

Survey Results – cont'd

Members who opted-out/withdrew would have stayed if	Proportion (%)
'Retirement age is dropped / entitlement requirements are more flexible.'	51
'State match contribution is higher.'	28
'Employer contribution is introduced.'	26
'In case of a raise by employer.'	25
'Contribution rate is lower.'	24
'Partial withdraw becomes possible.'	20
'Members are allowed to choose & change the pension providers.'	16
'Opt-out period is extended(6 months or so).'	11
'Contribution holidays are allowed to be more flexible.'	6

Priorities and Planned Revisions

- ❑ Opt-out period extension (up to 6 months) to enhance communication
- ❑ More flexible contribution holiday process
- ❑ Enrolment upon employee's request without waiting for re-enrolment dates
- ❑ Enrolment upon employer's request before the dates set in enrolment calendar
- ❑ Revision of official guidelines with use of a more clear and understandable language
- ❑ Any vital change regarding core characteristics of the system is planned to be postponed until the enrolment completes.

THANK YOU

for further information

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