

The Turkish Private Pension System: An OECD Perspective

OECD/IOPS Global Forum on Private Pensions
Istanbul, 7-8 November 2006

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Private/funded pension systems in Turkey

- *Substitute funds*: occupational DB plans “contracted-out” from social security (banks, insurance)
- *Complementary funds*: occupational DB-DC plans complementary to social security (mainly public sector: armed forces – Oyak – and mining company)
- *Individual funds*: voluntary DC funds established in 2002

Different regulations, different supervisors for each system

The OECD's guidelines for the regulation of private pension systems

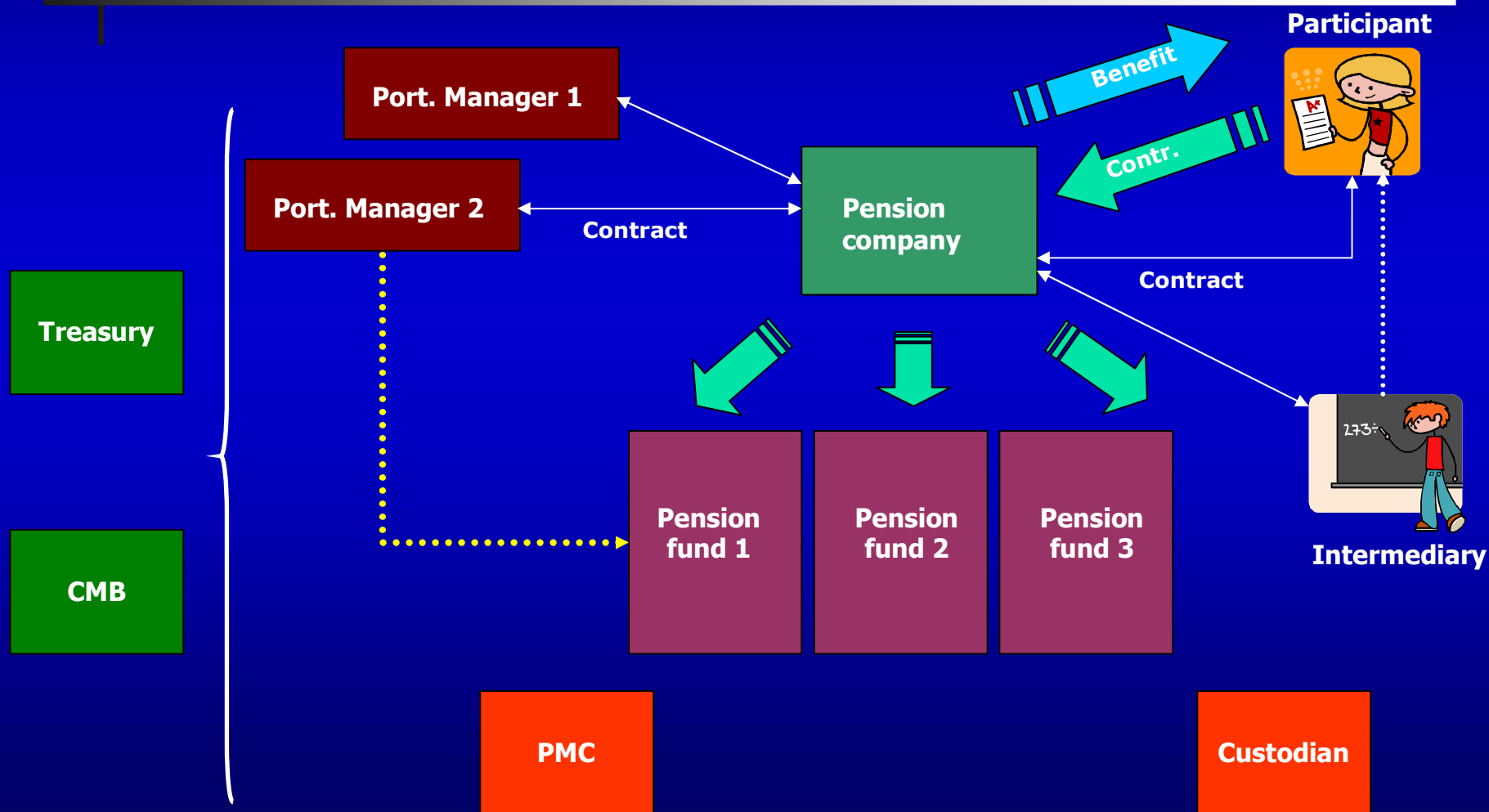
I. Approved guidelines

- Guidelines on pension fund governance
- Guidelines for the protection of the rights of members and beneficiaries
- Guidelines on pension fund asset management
- Guidelines on funding and benefit security (approval in process)

II. Guidelines in discussion

- Guidelines on licensing and registration

Applying OECD guidelines to the Turkish individual pension system



Funding and benefit security

- Legal separation of pension mutual fund from pension company
- Pension company can also provide annuities and other life insurance products
- Other guidelines not applicable as DC

Question of benefit security needs to be addressed for DC schemes

Pension fund governance

- Clear responsibilities for governing bodies
- Strict “fit-and-proper” criteria for fund committee and company board of directors
- Internal control systems, internal auditor
- Independent actuarial if provide annuities
- Annual audit by CMB, annual ind. audit
- Independent custodian (Takasbank)

Fiduciary responsibilities; Ownership links company and portfolio manager

Pension fund investment

- Principles of diversification of risks, liquidity, and yield
- No mixing of different funds
- Only instruments in regulated exchanges
- Valuation at market value
- Quantitative limits

20% in related parties; 15% foreign securities; min. 30% government securities; no SIP; corporate governance constraints

Rights of members and beneficiaries

- Immediate vesting, one year portability
- Intermediaries in charge of advising members over company and fund choice
- Company also assesses risk preferences
- Pension plan guide before enrolment
- Annual account statement, detailed disclosure
- Limits on fees
- Financial education initiatives

**Is there a need for capital protected investments?
Provision and regulation of annuities.**

Other design issues for debate

- Official retirement age at 56
- Full lump-sum option at retirement
- All types of charges allowed, flat charges permitted
- Min one-year frequency of switching between companies; 4 fund changes a year
- Coverage distribution by income and gender
- Replacement rate from social security system

Further information on OECD work on private pensions

www.oecd.org/daf/pensions