

# The Turkish Private Pension System: An OECD Perspective

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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

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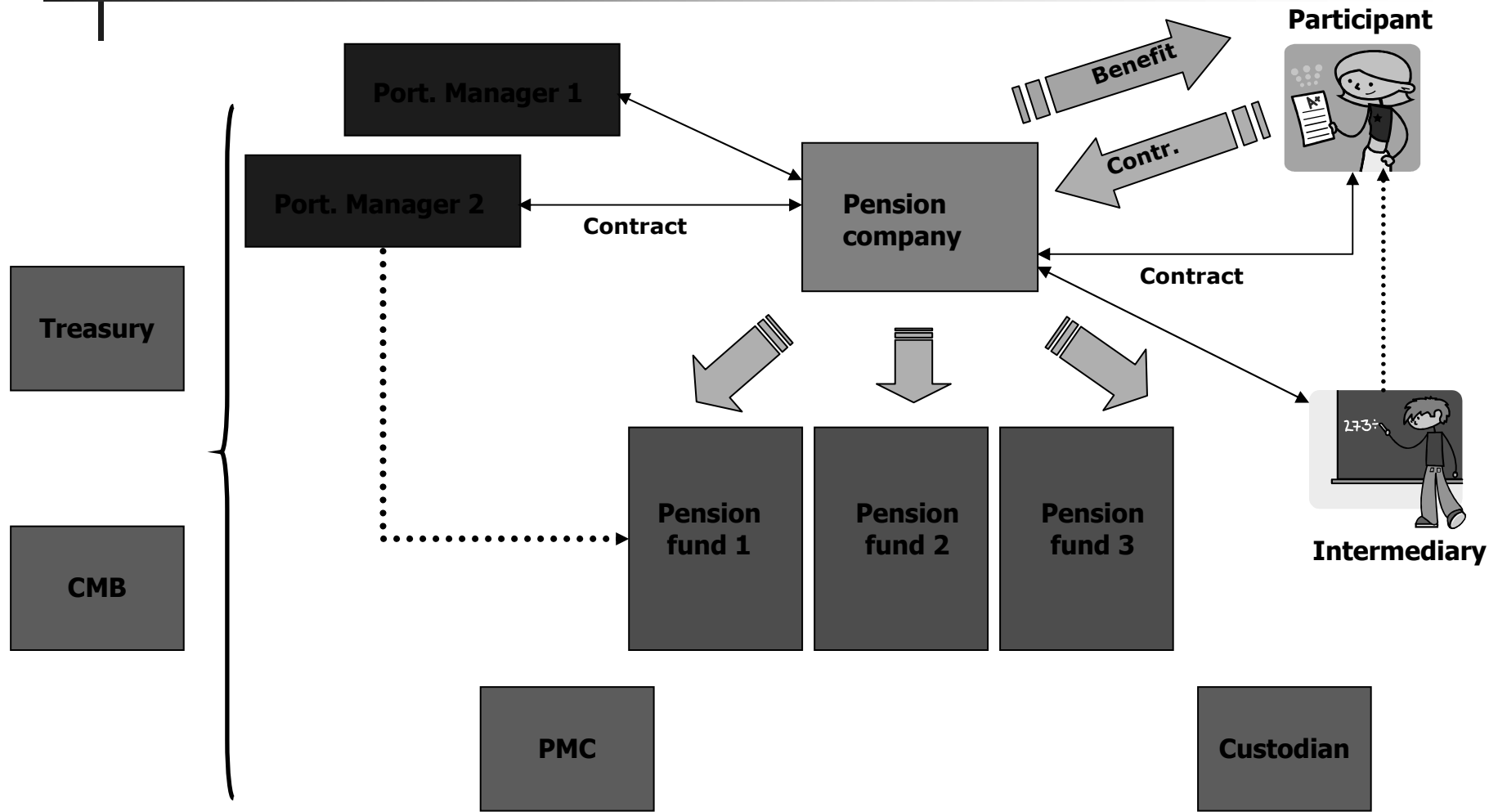
## I. Approved guidelines

- 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

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- 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

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- 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

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- 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. 24% government securities; no SIP;  
corporate governance constraints**



## Rights of members and beneficiaries

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- 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

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- 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

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[www.oecd.org/daf/pensions](http://www.oecd.org/daf/pensions)