

Chapter 6

Individual Factors Affecting the Participation of Turkish People in the New Individual Pension System

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ABSTRACT

In Turkey, the first step of the individual pension system was based on volunteerism, but the voluntary system resulted in limited participation. Thus, the second step of the system has started to be implemented mandatorily since 2017, and participants were allowed to opt-out the system within two months. More than half of participants in the system preferred to leave the system. Therefore, this study aims to examine individual factors affecting their decision of staying in this system. A survey study was conducted with 374 people selected using the random sampling method. As a result of the study, a positive relationship was found only between the dependent variable and gender, but a significant relationship was determined only between the dependent variable and education level. Based on the results of this study, it is suggested that if the system will need to be improved, the low-performing fund management of the new individual pension system should be re-audited, and the confidence in the system should be increased in this way.

INTRODUCTION

People are exposed to many risks throughout their life and this situation has led people to pursue ways to protect themselves against risks. For this reason, they tend to avoid these risks by saving money when they earn income. However, social problems can arise if the saving rate is low. In this case, one of the ways to protect people from risks is social security. According to article 22 of the Universal Declaration of Human Rights (UDHR) everyone being a member of society has the social security right. Moreover, article 25 emphasizes that everyone has the right to a standard of living adequate for their health, well-

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being and family. It is also underlined in this article that food, clothing, housing, medical care, necessary social services, and the right of security in the event of unemployment, sickness, disability, widowhood, old age or other lack of livelihood in circumstances beyond everyone's control are the rights granted to everyone in society.

Social security for the purpose of increasing social welfare provides people with an assurance against occupational risks, physiological risks, and socio-economic risks that individuals may encounter throughout their life. These risks include occupational accidents, occupational diseases, illness, maternity, invalidity, old age, death, unemployment, etc. However, the rapid aging of the population, deterioration of the birth rate, increasing unemployment and economic instability cause social security problems in countries. Therefore, it is not expected that social security systems around the world will be able to maintain the same standard of living for individuals during their pension (Antolin et.al., 2012, p.29). This situation forces countries to revise their social security systems and individual pension systems are generally seen as the solution to the problems in the social security system.

Pension systems have a significance for economic, social and political perspectives for countries. The practices of countries' pension system vary from each other. It can be seen that the triple system has been applied generally. The first part constitutes the compulsory social security system, whereas the second part constitutes the occupational pension system and the last part constitutes the individual pension system. Recently, countries have been using the second and third part to support social security systems. In particular, the individual pension system is used as a complement to the social security system. The purpose of the individual pension system is to enable participants to continue their working life standard during their pension. Moreover, the pension system offers the opportunity for individuals to invest their current savings in financial assets and earn income during their pension period. In addition, it offers a wide range of different options for participating in the assessment of savings. In this way, both social goals can be realized and a fund accumulation is created for the economy.

While the individual pension system is mandatory in developed countries and it is voluntary in developing countries. In Turkey, as a developing country, the first application of the individual pension system was based on volunteerism. Voluntary participation in the system had resulted in limited participation for the country with a very low income level. This situation limited the achievement of the social and economic goals that form the basis of the system. The individual pension savings and investment system law in Turkey was accepted on 28 March 2001 within the scope of social security reform and enforced on 7 October 2001. In addition to the social security system, the individual pension system began to be implemented on the basis of volunteerism on October 27, 2003. However, to implement mandatory enforcement of the system as a result of changing social and economic conditions, the gradual transition to the individual pension system with automatic enrollment was accepted in 2017. Employees of 45 years old and under were included in the scope of the new individual pension system, which has become mandatory to increase the savings of the individual. Moreover, automatic enrollment is mandatory, and participants are allowed to opt-out decision the system within 2 months. It is aimed that 14 million people save money with this system. 3% contribution will be automatically deducted from employee earnings, and the government contribution will be 25% of the employee payment. Collected funds are managed by professional managers to secure the pension period.

The importance of the individual pension system is increasing because of the high population density of young people in Turkey. The introduction of automatic enrollment for the development of the individual pension system is an important step, but allowing individuals to leave the system has limited the system development. More than half of the participants in the system have preferred to leave the

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