UPDATE

The regulations enacting the amendment law to mandate individual pension coverage for Turkish workers are slowly crystallizing, and the 18 pension providers active in the Turkish market are quickly building defined contribution pension products that will be structurally compliant with the auto-enrollment requirements. Private businesses with five or more employees are required to contract with an approved pension provider in order to automatically enroll all eligible employees in a pension plan funded with employee contributions of 3.0 percent of salary eligible for social security contributions (see previously announced details below).

Announced 2 January 2017, the Regulation on the Procedures and Principles of Automatic Enrollment of Employees Into the Pension Scheme of Their Employers provides additional detail on the deadlines applicable to public and private sector employers.

All private sector employers that employ five (5) or more employees will be subject to the automatic enrollment requirement at the following staging dates according to company size.

- 1 January 2017 for workplaces with 1,000 or more employees.
- 1 April 2017 for workplaces with 250 to 999 employees
- 1 July 2017 for workplaces with 100 to 249 employees
- 1 January 2018 for workplaces with 50 to 99 employees
- 1 July 2018 for workplaces with 10 to 49 employees
- 1 January 2019 for workplaces with 5 to 9 employees

In determining the size of a workplace, all employees working for the same entity should be considered collectively. New employees should be automatically enrolled on the date of their employment.

The penalty for noncompliance is currently set at TRY100 per violation, plus liability for any financial losses suffered by the employee for failure to make timely enrollment and transfer of contributions to the plan.
Turkey amended the Private Pension Savings and Investment System Law, no. 4632 on 25 August 2016 in order to expand and bolster the occupational savings of Turkish workers. The new law, which came into force 1 January 2017, requires the automatic enrollment of Turkish employees under the age of 45 at a minimum contribution rate, but it does not require employer contributions. Employees are permitted to opt-out of the company plan, but there are government subsidies to create an incentive to remain a plan participant. Regulations implementing the new law have not yet been published despite the 1 January 2017 effective date.

**Key Features of the New Pension Law**

- Automatic enrollment in an employer-sponsored plan for every Turkish employee (or blue card holder) under the age of 45.
- Employee contributions currently are set at 3.0 percent of salary up to the social security ceiling (TRY10,705.50 per month from July 2016).
- Employees can voluntarily request a higher level of contribution be made through payroll deduction.
- Employees can opt-out or withdraw from the plan within 60 days of being notified of their enrollment and receive a refund of any contributions and gains.
- Employer contributions are not required but can be made.
- The government will contribute 25 percent of the employee’s ongoing contribution and a one-time bonus of TRY1,000 for Turkish citizens and blue card holders who do not opt-out within the first two months, subject to specific vesting provisions. The government will also add an additional bonus equal to 5.0 percent of funds converted to an annuity upon retirement. (Update: State subsidies vest fully at retirement, death or disability; withdrawal from the scheme prior to one of these events will result in partial vesting of between 15 percent and 60 percent depending on duration of participation in the scheme.)
- In the event of a change of employment, the employee’s accrued savings should transfer to their new employer’s plan; if none exists, the employee can either continue to contribute to the previous employer’s plan or terminate participation in the plan.

**Regulations and Administration**

Regulations regarding administration of these new requirements are not yet available, but the law currently requires that employee contributions be transferred to the pension provider no later than one day following the day the employee’s salary is paid. Employers will be responsible for any failure to make appropriate deductions and any delay in transferring contributions to the pension provider.

The Council of Ministers is authorized to modify the statutory employee contribution rate, with the lowest permitted rate being 1.0 percent and the highest being 6.0 percent of pay up to the applicable social security ceiling. A different fixed contribution limit is also possible.
Retirement Benefits

Private pension benefits are available at age 56 with ten years’ participation. At retirement, employees may choose to receive a lump-sum or a scheduled drawdown or purchase an annuity certain or life annuity. If plan benefits are taken as an annuity (of at least ten years), the government will contribute an additional bonus equal to 5 percent of the account balance. Plan participants who take lump-sum benefits at or after age 56 with ten years’ participation in the system pay a 5 percent withholding tax. Early withdrawals taken by those who have not yet reached age 56 but have ten years’ participation are subject to a 10 percent withholding tax, and withdrawals taken by those who have neither reached age 56 nor participated in the system for ten years are subject to a 15 percent withholding tax.

Private Pension Landscape

The private pension system, including company-sponsored group pension contracts, is structured as defined contribution individual retirement accounts with member-directed investment options. There are currently 19 private pension providers in Turkey. The Private Pension Savings and Investment Law permits anyone age 18 or older to open a private pension account, independent of employment status, and Turkish citizens and blue card holders receive a 25 percent contribution bonus from the government to a maximum bonus equal to the annual minimum wage. Consequently, some employees may already have private personal pension contracts. Approximately one-quarter of Turkish companies offer a pension plan, and membership is normally open to all employees regardless of age or citizenship status. Employers may wish to auto-enroll all employees, rather than restricting auto-enrollment to those employees who fall under the scope of the amended pension law. Employers also typically provide a matching contribution, which averages 3.0% in line with typical employee contributions, but may range anywhere from 1.0% to 10.0% according to industry and business needs.

Next Steps

The Treasury has not yet produced implementing regulations for the amended pension law, which currently provides only a general framework for the new auto-enrollment requirement. Regulations are needed to clarify the auto-enrollment procedure, whether implementation will be phased in by employer size or by category of employee, whether employers will be required to establish a group arrangement or able to contribute to existing individual private pension accounts, among other things.

For further information or assistance, please contact your Lockton Global Benefits consultant.

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