



Turkey Country Report

The Changing Face of Retirement

The Aegon Retirement Readiness Survey 2014

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Introduction

Key Findings

- **Retirement associations are mixed:** Turkish respondents are only marginally more like to associate retirement with positive terms such as 'leisure' (45%) and 'freedom' (32%) than negative terms such as 'ill health' (29%) and 'boredom' (19%).
- **Improvement is needed in retirement planning:** while 61% of workers have a retirement plan, for only 13% is it written down. More than a third (36%) does not have any plan at all.
- **Employers are a useful but underdeveloped resource:** Where retirement planning services are offered in the workplace they are found to be very helpful by employees. However one third of employees claim not to be offered any services.
- **A flexible transition to retirement will be the new norm:** More workers envision continuing to work in some capacity after reaching retirement age (38%), whether part time or on temporary contracts, than immediately transitioning into full retirement (35%). Another 16% anticipate continuing to work in the same way as they currently do.
- **Turkey ranks eleventh in retirement readiness:** Turkey scores 5.4 out of 10 on the Aegon Retirement Readiness Index and is placed eleventh in our global rankings. A 'low' score, this indicates that the typical Turkish worker is underprepared for retirement.

Recommendations

The results of this survey indicate while Turkish workers understand the importance of saving for the future that this awareness has not yet translated into action. A more favourable savings environment may be created by finalizing legal arrangements for both workplace pensions and endowment products as a complementary savings vehicles to the formal pensions system. Furthermore, "phased retirement" can provide an important step towards bridging gaps in retirement funding and should be supported by the employers.

The Survey

The findings used in this report are based on the responses in Turkey of a 15-country online survey, in which 16,000 adults aged 18 and over were surveyed. Fieldwork was conducted in January and February 2014. The 15-country survey report as well as other country reports, research and communication materials can be found at www.aegon.com/en/home/research. The range of issues covered in the research includes attitudes to retirement preparedness, which serve as the basis of the annual Aegon Retirement Readiness Index, as well as the role of the government and employers in providing retirement benefits.

In Turkey 900 employees and 100 fully retired people were surveyed to provide a contrast between the responses of current workers and those already in full retirement. All findings in this report are based on the Turkish survey results unless otherwise stated. The survey did not include the views of the self-employed, students, homemakers, and those not currently employed or unable to work as each of these groups faces specific challenges in planning for retirement which require specific public policy interventions. Instead, the objective in this survey is to provide a broader perspective based on the mainstream working and retired populations.

1. Retirement landscape in Turkey

The Turkish economy is young and prosperous. During the past decade the country has seen per capita income almost triple in nominal terms and annual GDP growth, after a soft landing in the financial crisis, is expected to continue near 4% until 2016. Pensions markets have benefitted from government reforms boosting savings. Last year's promise of a 25% match of individuals' contributions saw a surge of new participants in private pensions. In the first month of the program alone, 120,000 participants enrolled in private pension schemes – four times the number in the same time period a year earlier.

It is by no surprise that Turkey is referred to as “one of the most attractive consumer markets in Europe for financial services”.¹ However, an eschewed labour market characterized by a large informal sector presents a major obstacle to the adequacy of public pensions. Although a generous old-age pension system is in place, only formal workers are eligible to participate. With just under a third (30.6%) of all non-agricultural employees expected to be outside the formal labour force (and the majority (87.1%) of agricultural employees outside it), a large proportion of society is left vulnerable to poverty in old age. If Turkey is to utilize its economic potential to build a more robust pension market, an important challenge will be to ensure that this prosperity is distributed among all of society.

¹ <http://www.ipe.com/turkey-pensions-growth-ahead/52938.fullarticle>

2. Retirement aspirations and expectations

Expectations of the economy remain tepid despite the economic growth accelerating last year. After growing by 2.2% in 2012, last year Turkey saw annual GDP growth reach 4%² and is expected to maintain this level throughout 2014.³ However many respondents' views do not reflect these gains. Nearly half (47%) expect economic performance to worsen over the next 12 months while fewer than a quarter (23%) expect it to improve. Expectations of respondents' own financial situations present a more optimistic picture. While more than a third (36%) expect no change regarding their own finances, the proportion of those expecting it to improve is slightly larger (30%) than those expecting it to worsen (27%).

There are also broad concerns over the financial state of future retirees. Almost half (48%) believe that future retirees will be worse off than those currently in retirement. This may be linked to a negative economic outlook or disdain towards demographic shifts expected to put pressure on the pensions financing mechanism. The population of Turkey is still very young yet decreasing birth rates and gains in life expectancy have contributed to looming population greying. This year there are just under eight persons of working age for every one aged 65 or older. By mid-century this ratio is set to decrease to just under 2.7 workers for each person of retirement age. The capacity of society to fund this greater financial burden may result in fewer benefits being received by future retirees.

Chart 1: Expectations of respondents' own financial situations are more positive than for the economy

Q. Thinking ahead over the next 12 months, do you expect the economy in Turkey to...? (Base: All, n=1,000)
Q. And thinking ahead over the next 12 months, do you expect your own financial situation to...? (Base: All, n=1000)

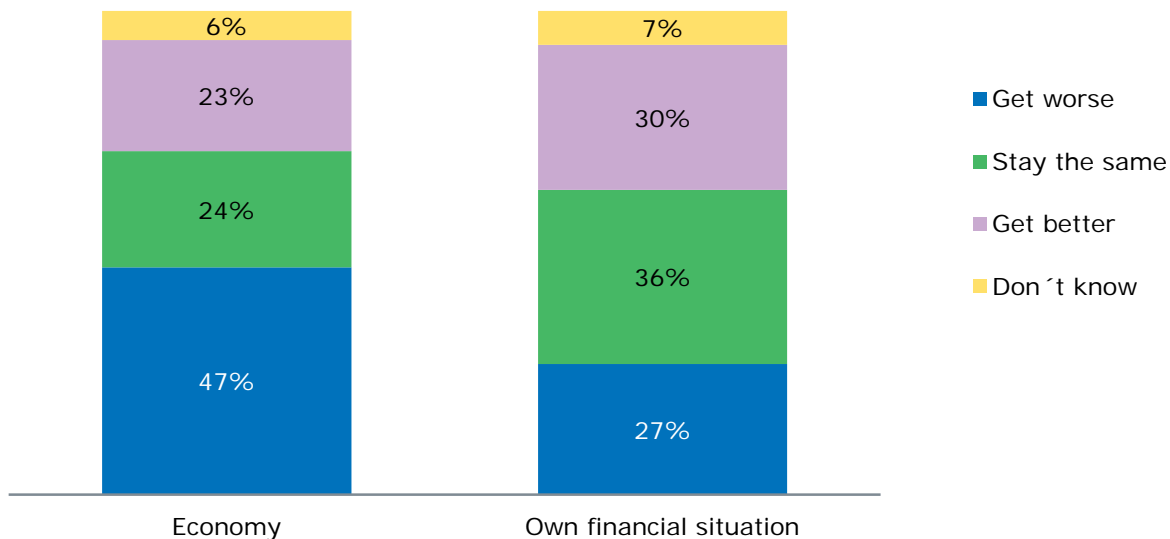
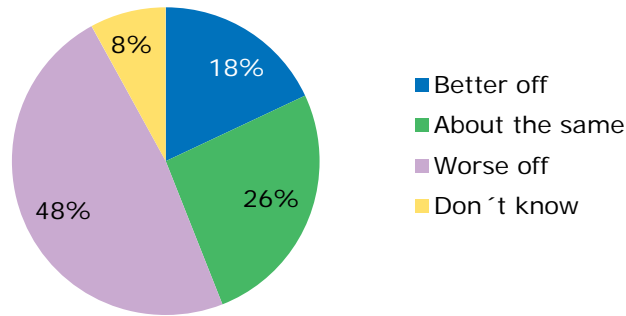


Chart 2: Future generations of retirees are expected to be worse off

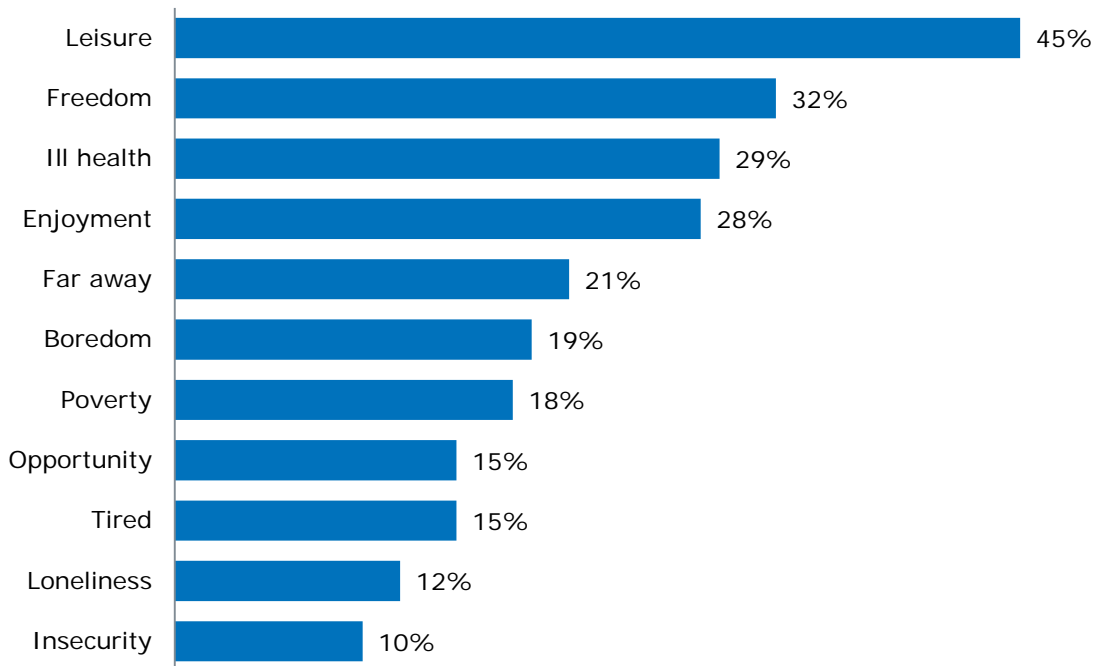
Q. Do you think that future generations of retirees will be better off or worse off than those currently in retirement? (Base: All, n=1000)



There are mixed attitudes towards life in retirement in Turkey. When asked to select words associated with retirement, nearly half of respondents (45%) choose 'leisure' and one-third (32%) 'freedom.' Retirement aspirations reflect these generally positive associations: three-fifths (60%) hope to travel in retirement and a similar number (62%) spend more time with family and friends, while slightly fewer aspire to pursue new hobbies (56%). Yet there are strong concerns over the negative elements of ageing and not being in work. Over a quarter (29%) associate retirement with ill health and two-fifths with 'boredom' (19%) and 'poverty' (18%).

Chart 3: Retirement associations are mixed

Q. Which, if any, of the following words do you most associate with retirement? (Base: All, n=1000)



² <http://www.invest.gov.tr/en-US/infocenter/news/Pages/020414-turkey-2013-gdp-growth-4-pct.aspx>
³ <http://www.businessweek.com/news/2014-04-03/turkey-s-basci-sees-2014-gdp-growth-close-to-4-percent-ash-says>

3. Planning for retirement

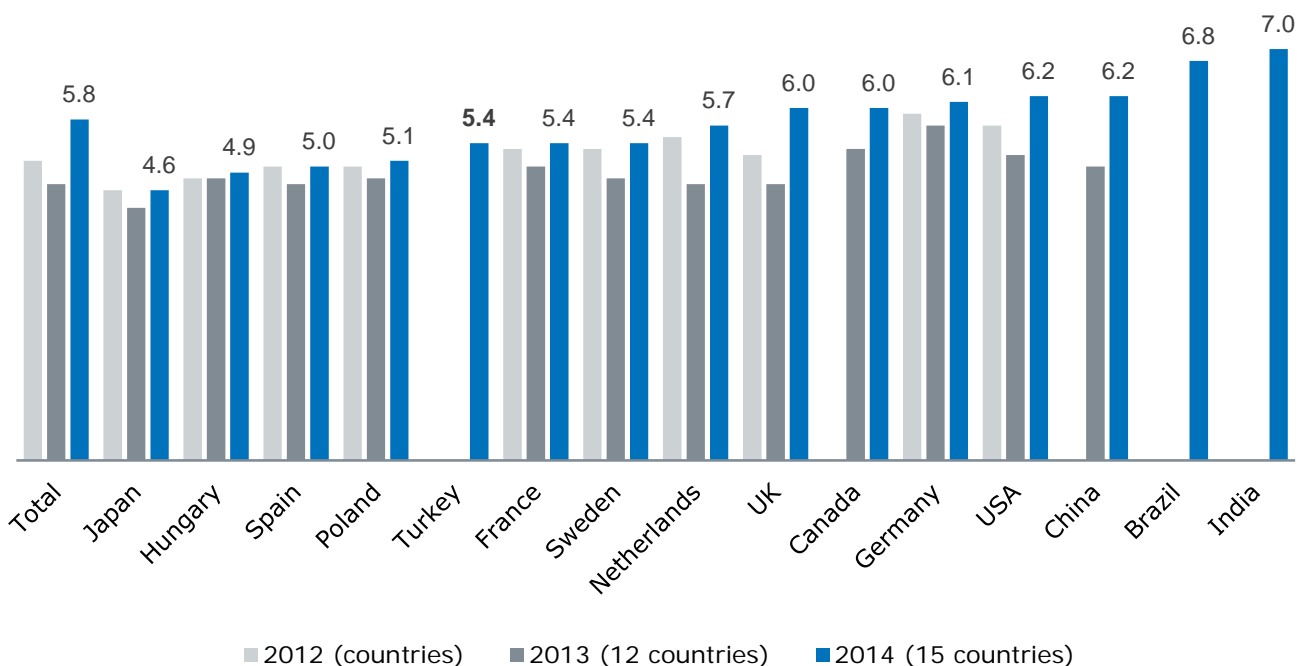
To better assess how well employees view their level of retirement preparedness, we developed the Aegon Retirement Readiness Index (ARRI). The ARRI incorporates three broadly attitudinal and three broadly behavioral questions covering personal responsibility, financial awareness, financial capability/ understanding, retirement planning, financial preparedness, and income replacement. As well as these questions, a dependent variable question is asked which is concerned with approaches to saving, for which five broad saver types have been identified: habitual, occasional, past, aspiring, and non-savers.

In order to create the index the six attitudinal and behavioral question responses are correlated with the dependent variable to obtain a measure of influence (known as an 'R' value). The mean scores of the six questions are computed and each mean score is multiplied by its 'R' value. The results are summed and then divided by the sum of all correlations to arrive at the ARRI score.

We are able to rate employees' financial readiness for retirement on a scale of zero to ten. A low score is anything lower than 6, a medium score is one between 6 and 7.99 and a high score is 8 or higher. There has been universal improvement in the index scores year-on-year. However, retirement readiness scores remain low.

With a score of 5.4 out of 10, Turkey is placed 11th out of 15 countries surveyed. India and Brazil, countries also added this year, lead the global rankings. Turkey's performance is relatively low by international standards yet still scores higher than Poland, Spain, Hungary and Japan. The country scores below average on all index questions. Strengths are found in sentiments of understanding and preparation. Almost three-fifths (57%) feel they are somewhat or very able to understand financial matters when it comes to planning for retirement, just slightly below the global figure of 61%. Likewise two-fifths (40%) feel their retirement plans are somewhat to very well developed, on a par with the global figure (41%).

Chart 4 : Turkey ranks 11th in retirement readiness in 2014



There is a need to improve on retirement planning levels in Turkey. When working respondents were asked whether they felt on course to achieve the income they will need in retirement, over one third (35%) claim that they do not know while only one fifth (19%) claim to be fully on course. The number of workers who say that they always ensure they are saving for retirement is just 26% – one of the lowest proportions in the survey (only Poland is lower). As these findings are included in the index calculation, they directly impact Turkey's readiness score.

A similar trend is also found in areas not included in the index. For example, only 13% of workers have a retirement plan that is written while over a third (36%) claim to have no plan at all. Three fifths (61%) of employees are not confident that they will retire with a lifestyle that they consider financially comfortable. And two-thirds (66%) of current Turkish retirees do not feel financially comfortable - the highest proportion of the 15 countries surveyed.

Chart 5: Over one-third of workers do not have a retirement plan

Q: Which of the following best describes your retirement planning strategy? (Base: Not fully retired, n=900)

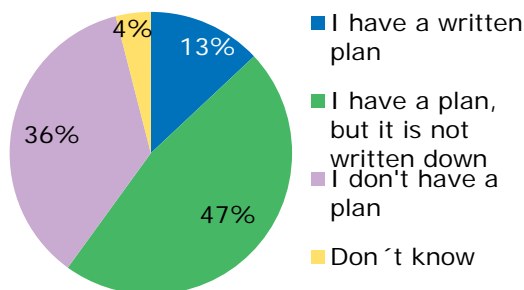
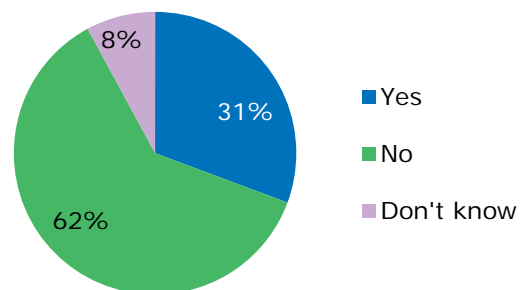


Chart 6: The majority of workers do not have a retirement back-up plan in the event that they are unable to continue working before their planned retirement age

Q: In the event that you are unable to continue working before you reach your planned retirement age, do you have a 'back-up plan' to provide you with an income? (Base: Not fully retired, n=900)



4. Making saving easy

Many Turkish workers (64%) say that a lack of money is an obstacle to saving for retirement. This is on a par with other developing countries such as Brazil and India where 67% and 65%, respectively claim their ability to save is impacted by a lack of money. Almost half (48%) of workers in Turkey claim that a pay rise would encourage them to save more for retirement. Other incentives include a more certain economic environment (43%), tax breaks on long term savings (28%) and better retirement plan matching from employers (25%).

Chart 7: Most workers feel that money is an obstacle to saving

Q. Thinking of your own current circumstances, would you say that a lack of money to invest is an obstacle to you saving for retirement? (Base: Not fully retired, n=900)

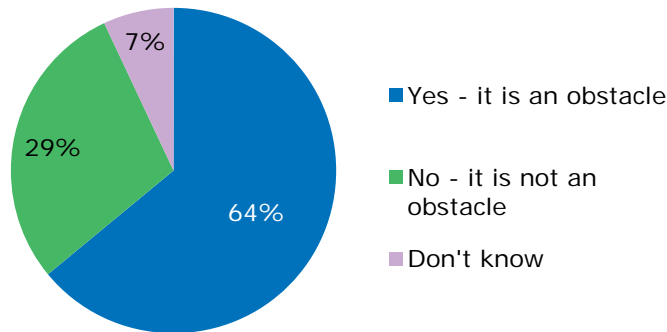
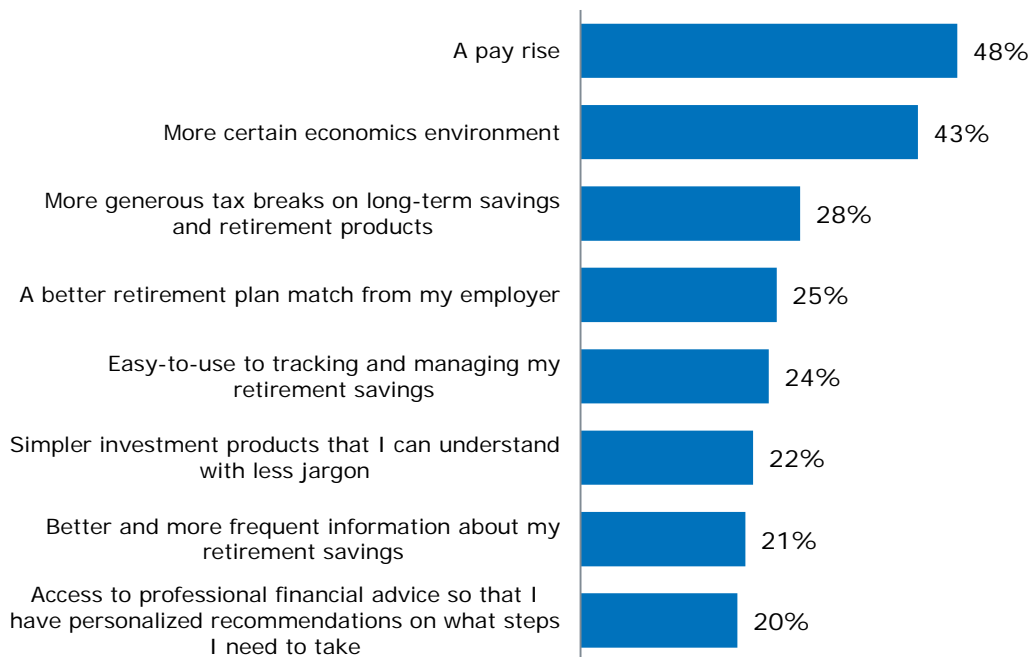


Chart 8: A pay rise, more certain economic environment and tax breaks would encourage retirement saving

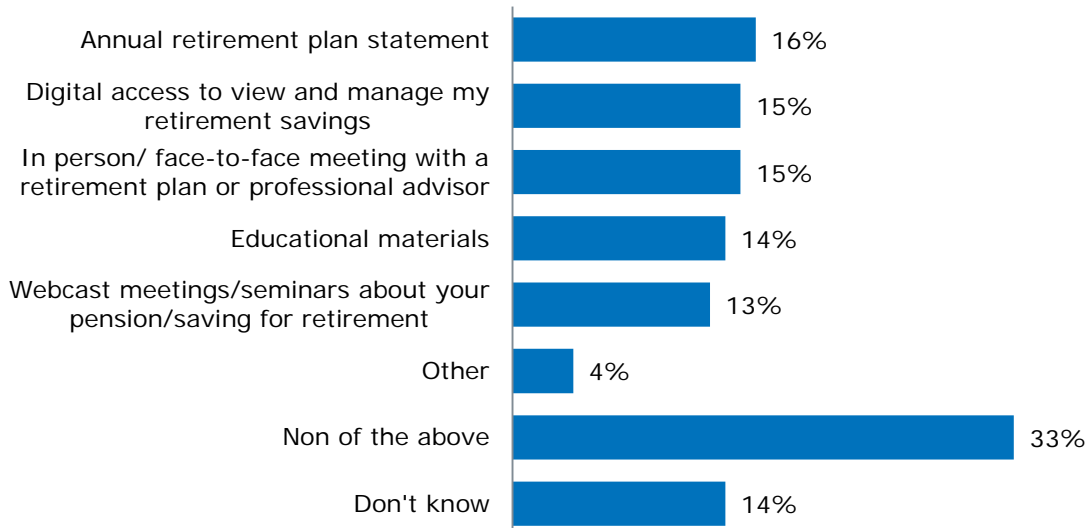
Q. Which, if any, of the following would encourage you to save for retirement? (Base: Not fully retired, n=900)



Incentivising people to save for retirement will involve a strong role for both government and employers. Yet most employees in Turkey feel that their employer could be doing more. When asked whether their employer offers specific retirement planning services, one third (33%) claim not to be offered any, and a further 14% do not know of any. The most commonly offered service is an annual retirement plan statement (16%) followed by digital access to view and manage retirement savings, and in person/ face-to-face meetings with a retirement plan or professional adviser (15% each). However, where employers do offer retirement services they are found to be very helpful. Half (50%) of employees offered annual retirement plan statements and a similar number offered webcast meetings or seminars about saving for retirement (48%) find them to be very or extremely helpful.

Chart 9: One-third of employees claim their current employer does not offer any retirement preparation services

Q. Thinking of your current employer which, if any, of the following services does your employer (or their retirement plan administrator) offer ...? (Base: Not fully retired, n=900)



It has been 11 years since the introduction of the privately managed Individual Pension System. After years of slow progress towards expanding the private pension market, the government has encouraged private savings by offering a 25% match of individuals' contributions. In other words, if an individual were to contribute €100 per month, the Government would pay an additional €25 for his or her retirement plan. The move is expected to have important implications for the development of the private pensions market. In the first month of the program alone, 120,000 new participants enrolled in private pension schemes – four times the number who enrolled during the same time period a year earlier.

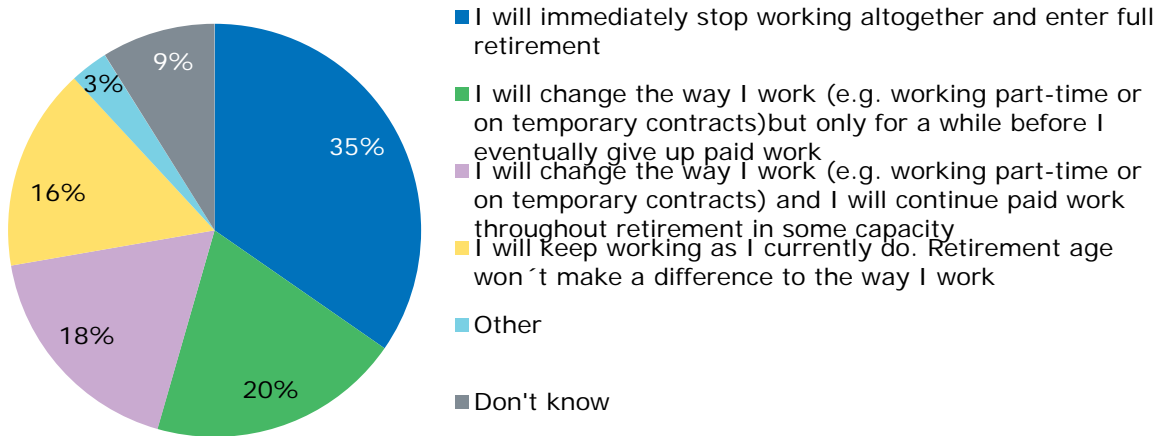
There is thought to be a sentiment among employers and employees in Turkey that occupational retirement plans are thought of as fringe benefits. The underdeveloped state of second tier pensions would certainly suggest this is true: the latest OECD figures (2011) show that occupational pension schemes cover only 0.2% of the working age population. However survey results indicate that workplace pensions are in fact important to employees. When asked how important access to a workplace would be when choosing their next job, 66% of employees say that it is very or extremely important. This would suggest that employers might benefit from using workplace pensions to attract or retain employees.

5. A flexible transition to retirement

Most workers do not expect to enter into full retirement immediately. Continuing to work in some capacity, whether part-time or on temporary contracts, is likely for almost two-fifths (38%) of people not already fully or semi-retired. However, over one third (35%) expect to transition immediately into full retirement, slightly above the global average of 32%. Despite this trend towards phased retirement, many employers do not yet provide comprehensive retirement options suitable for easing down work in later life. Only one-fifth (20%) of workers claim that their employer allows them to move from full-time to part-time working and a similar number (21%) of employers allow workers to continue beyond the usual retirement age. Over one quarter (29%) of employees claim not be offered any options and a further 11% are not aware of any such services.

Chart 10: Only one-third of those not yet fully or semi-retired expect to retire immediately

Q. Looking ahead, how do you envisage your transition to retirement? (Base: Not fully/semi-retired, n=869)



For many, working into their 60s and maintaining the same occupation will not be an option. Those, for example, whose careers require physical labour may need to change positions or industries to accommodate working in later life. In order to ensure a successful transfer, retraining and re-skilling is an important step. However, we again see a provision gap in supporting these services. When respondents were asked whether their employer offers retraining or re-skilling services, only 12% claim to have this option.

It is not surprising that workers feel more could be done to help them plan for retirement. Over half (56%) of employees feel that their employer does not provide them with enough information and support to help with retirement planning. Unfortunately this does not appear to be increasing. Almost half (47%) of the workers surveyed claim their employer does 'about the same' as three years ago and one in nine (11%) have seen their employers doing less.

Chart 11: One-fifth of employers offer workers the option to move from full to part time working

Q. Which, if any, of the following services does your employer offer to help employees phase into retirement? (Base: Not fully retired, n=900)

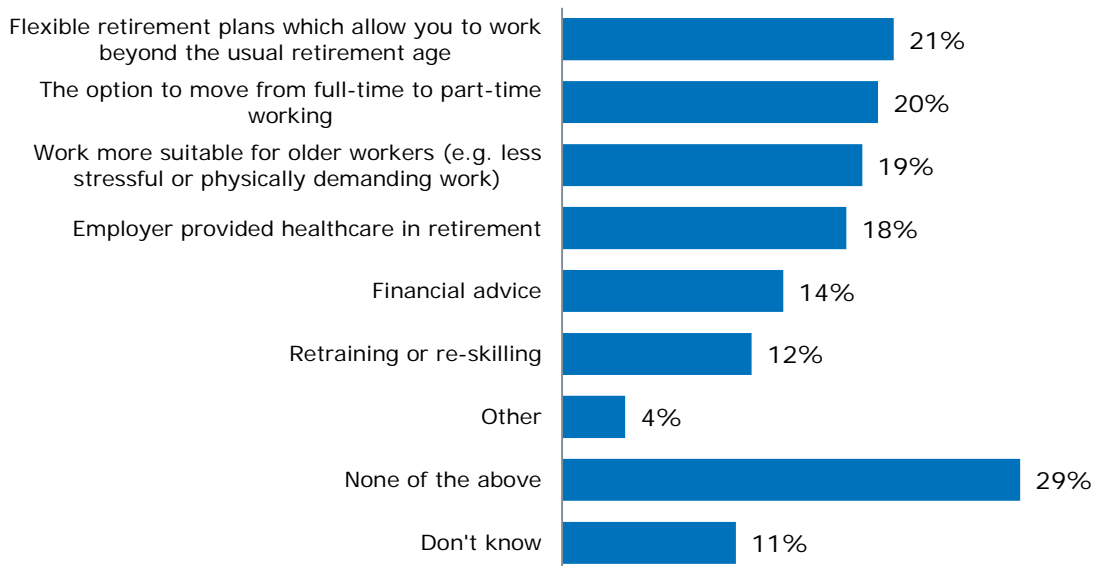
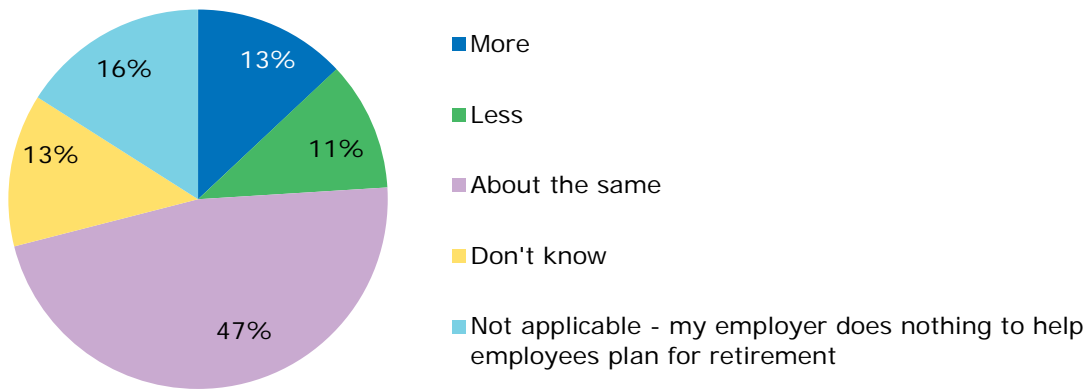


Chart 12: Retirement services offered by employers have not increased over the past three years

Q. Overall, compared with 3 years ago does your employer do more, less, or about the same to help its employees plan for their retirement? (Base: not fully retired, n=900)



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