ACAR&ERGÖNEN

Turkey Introduces New Private Pension System

August 25, 2016 | First published on www.mondaq.com

AUTHORS

Duygu Acar Yücesoy

Ömer Faruk Çıkın

With an effort to improve the welfare of the employees in Turkey, the Turkish Parliament approved the Law amending the Law on Individual Pension Savings and Investment System on August 10, 2016 and it is published on the Official Gazette on August 25, 2016. Accordingly, all Turkish employees working under wage and whose age are under forty five will automatically be included in a private pension plan by their employer as from January 1, 2017.

According to the new pension system, the employer must prepare a pension contract and choose a pension company that is approved by the Undersecretariat of Treasury. Participant employees' contribution to the pension plan will be 3% of his earnings subject to premium. The contribution will be deducted from the employee's salary and paid by the employer on behalf of the employee. This contribution can be doubled, decreased to 1% or determined as a fixed amount with the decision of Council of Ministers. Employee, may also, request from the employer to deduct a higher amount from his earnings than it is determined under the pension contract.

Employer must transfer the deducted amount to the pension company on the first business day following the employee's salary pay date. If the employer does not transfer the necessary amount on the due date, it will be liable for the losses of the employee.

Participant employee has the right to withdraw from the pension plan within 2 months as from the date when the employer notifies the employee of its involvement in the pension plan. If the employee withdraws from the pension plan, the contributions will be returned to the employee within 10 days together with investment income, if any.

Employees will receive a state subsidy to their pension accounts at the rate of 25% of their paid contributions. Additionally, if the employee does not withdraw from the pension plan within the first 2 months, it will receive TRY 1,000 to the pension account as another state subsidy for a single time. If the employee retires with at least 10 years of savings in the pension account and prefers to be paid within the scope of an annuity contract, the employee will then receive 5% of his accumulated savings as state subsidy. Participant employee will gain the right to retire at the age of fifty six if the employee has been involved in the pension for at least 10 years. If the participant employee leaves the pension plan before the retirement, the employer will receive only a portion of the state subsidies in its pension account. Accordingly, if the employer leaves the pension plan before 3 years, it will not receive any state subsidy.

If the work place of the employee changes, the employee may transfer the existing pension contract to the new work place with its accumulated savings and gained retirement time basis provided that the new work place has a pension plan. However, if the new work place does not have pension plan, upon the request of the employee, it may continue to pay contribution within the scope of the pension contract of the previous work place.

The companies that will be subject to the new private pension system are not determined yet and it will be determined by the Council of Ministers. It is expected that only the companies employing more than a certain number of employees will be subject to the new pension system.

Pension companies will be responsible for the collection of employee's contribution. If the employer breaches any of its obligations under this new system, it will be subject to a fine of TRY 100 for every breach.

It is undoubtful that the new private pension system will serve to the benefit of the employees. However, it may still be subject to criticism and subsequently further amendments after its entry into force on January 1, 2017.

This article aims to endow the reader with a general outline about its subject matter. Each individual case should be evaluated according to its circumstances.