The Future of Retirement

It's time to prepare

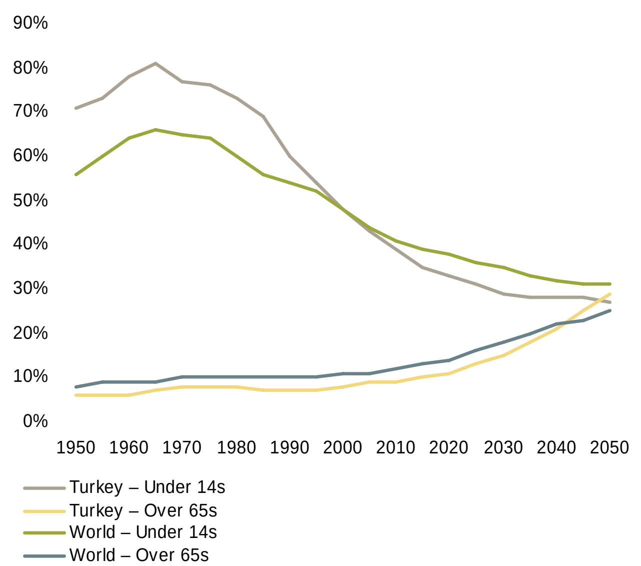
Fact Sheet
Turkey

The fifth annual **HSBC Future of Retirement** report builds on the previous year's reports in exploring the current attitudes and behaviour towards retirement. Whilst for many people in Turkey retirement is viewed as a new age of opportunity, the issue that needs to be addressed is how families envisage funding and supporting their retirement years. The report explores how people in Turkey are responding to the new responsibility of being increasingly accountable for their pension provision. The report also identifies the current 'preparedness gap' – the feeling shared by the vast majority of Turkish people that they are currently doing too little to actively prepare for a comfortable retirement.

Demographic Trends in Turkey

Turkey – like most countries in the world – is facing the challenge of an ageing population. As can be seen from the chart below, in **2050** the number of dependent adults in Turkey will surpass the number of dependent children for the first time. This crossover arrives much later when compared with mature economies giving Turkey more 'time to plan', often referred to as a 'demographic dividend'.

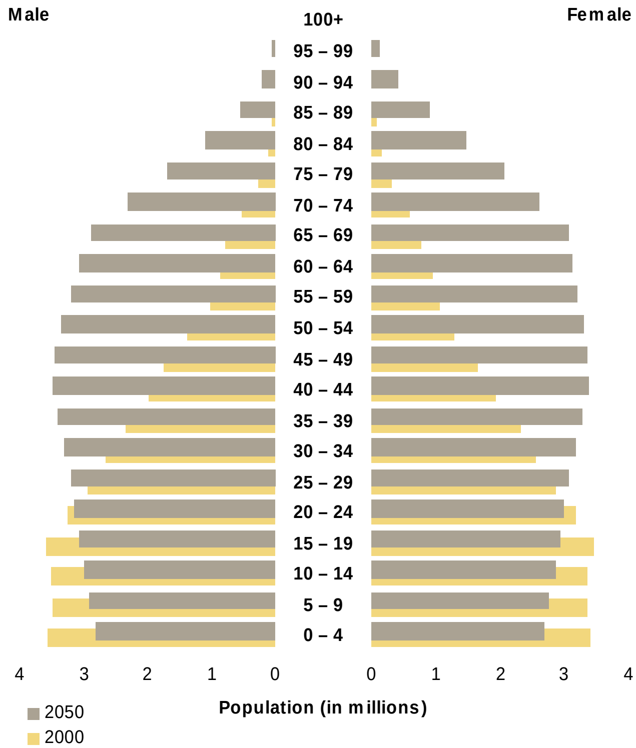
Figure 1 – The ageing Turkish population



Source: UN World Population Prospects: The 2008 Revision, Population Database

In Turkey's population pyramid, it is clear that in the year 2000 (the yellow section of the chart) the bulging section of the population was aged between **0-15 years**, however, as we fast forward to 2050 (the grey section of the chart) this bulge swells to **age 40** and beyond. This signals a future in which the elderly population will be far greater than today, posing many questions for governments and individuals as to how to fund retirement.

Figure 2 – The changing demographic profile of Turkey



Source: U.S. Census Bureau, Population Division

The Pension Pillars

In looking at the future of retirement, the World Bank has established a model with three pillars of pension provision: each pillar has a differing level of importance within a country, but together these pillars encompass a country's total pension provision. In Turkey, a reliance on social provision (Pillar 1) has made the state the main provider. However, here too the government has sought to develop personal provision (Pillar 3). The findings reveal that Turkey's survey respondents have embraced the need to save. Only the Asian countries (Singapore, Korea, and

HSBC Insurance

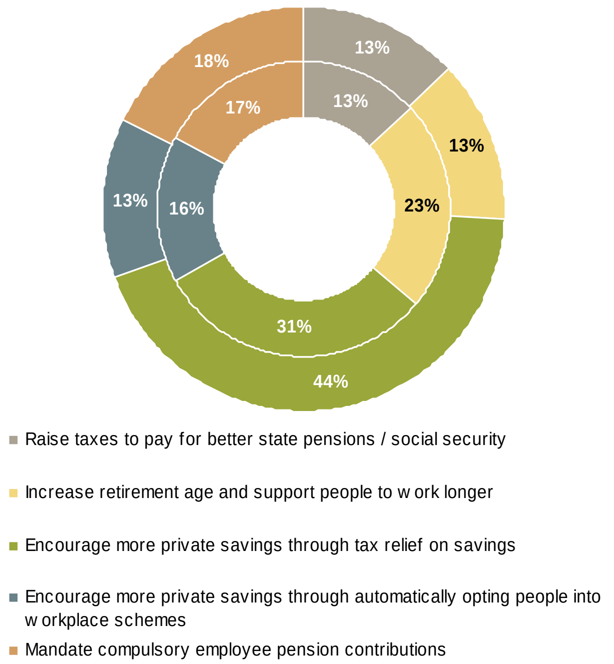
Hong Kong, Japan) cite retirement as a more persuasive motive to save (**22%** of Turkish people, which is in line with our global figure of **23%**).

The Pillars	Pillar 1: the state	Pillar 2: occupational	Pillar 3: the individual
Turkey	Still largely reliant on social security which provides benefits at 60 for men and 58 for women. Problems with funding deficit though committed to social provision. Further reforms likely.	Some mandatory elements – OYAK, TTK – which combine elements of DB and DC. Voluntary elements also combine DB/DC arrangements to provide 'top up' on social security.	Seeking to develop personal provision on a voluntary basis with tax relief.

Meeting the Demographic Challenge: The Path to Pensions Reform

Respondents in Turkey see the voluntary approach as the most popular way to help people fund their retirement; over **two-fifths (44%)** of those surveyed favoured encouragement to save through further tax relief on savings – higher than either France or the UK. Only North America enjoyed greater support for tax relief. This preference may reflect the fact that Turkish people have already come to accept a reduced role for the state in future, with the individual taking increasing responsibility for their retirement income and the government's role becoming more of an enabler. Only 13% of respondents in Turkey remain wedded to a focus on state pension provision.

Figure 3 – What the government should do in supporting and financing an ageing population (Turkey's results are the external ring; global results are the internal ring)



The Conditions for Realising Successful Retirement Planning

In spite of the traditional reliance on social welfare, Turkish people still display a major 'preparedness gap', in line with all the countries in the 2009 survey. The general shift towards personalised 'money purchase' pension provision increases the uncertainty around retirement outcomes. Given this uncertainty – made all the greater as a result of the current economic climate – only **11%** of people in Turkey currently feel very well prepared for retirement. The findings reveal an alarming **89%** of people do not know what their retirement income will look like. Over half of people in Turkey (53%) felt either 'fairly' or 'very' unprepared for retirement.

Figure 4 – Levels of preparation

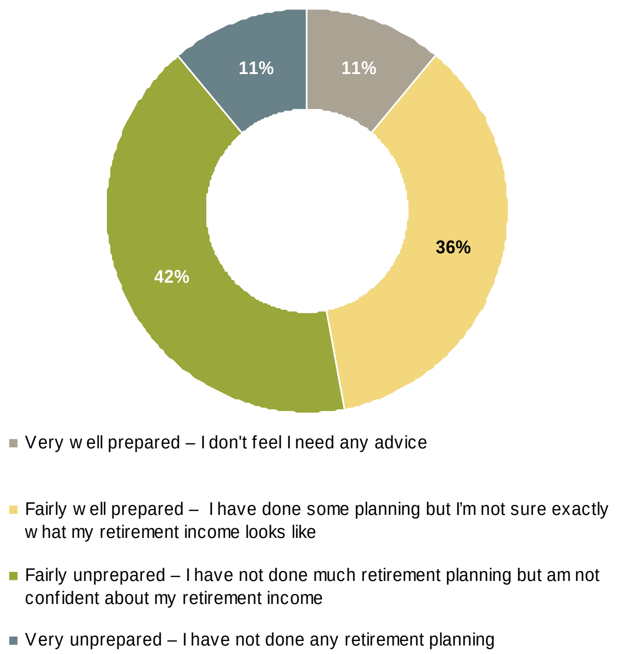


Figure 5 – Understanding of finances

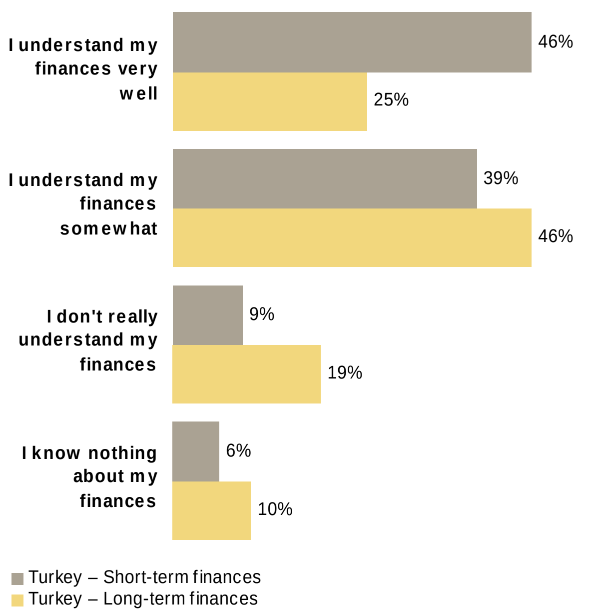
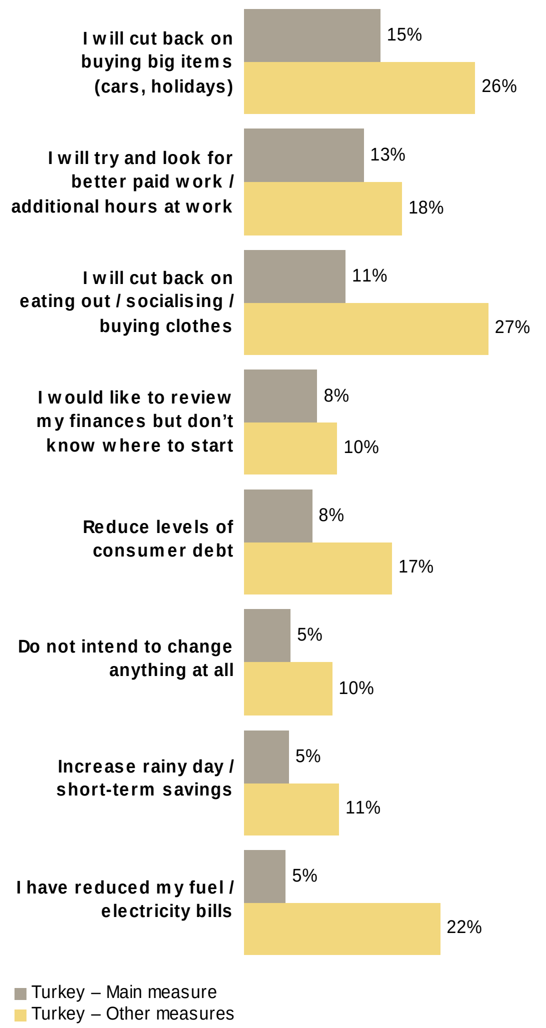


Figure 6 – Coping methods to survive the economic downturn



The feeling of being unprepared may also be driven in part by people's lack of understanding about their long-term finances. Whilst **46%** of survey respondents understood their short-term finances very well, only **25**% are as confident about their long-term finances.

The Preparedness Gap

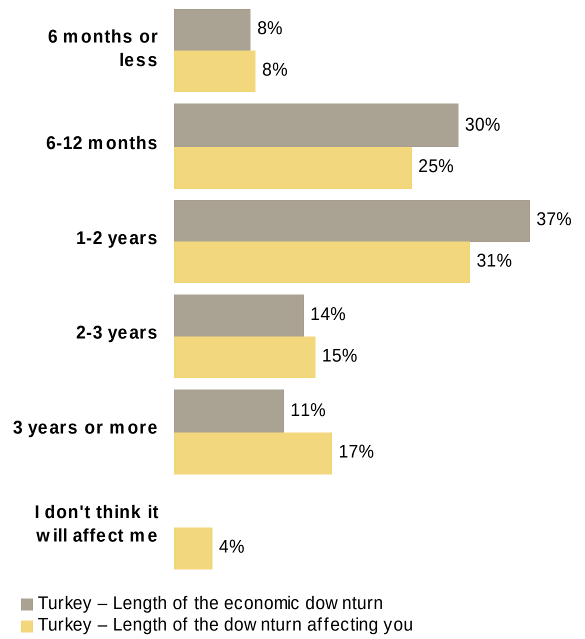
These low levels of understanding of personal finances in Turkey may mean that the 'preparedness gap' is linked to a lack of access to both financial advice and guidance. **43%** of the people surveyed had never accessed any general financial education, whilst **54%** of people have never accessed any form of professional financial advice. Given the responsibilities people now face in planning for their retirement, this lack of financial education and guidance could become a major impediment. The need to develop personal finance education programmes is paramount in order to help people better understand their finances and plan adequately for their retirement.

The Economic Downturn

Over the last 18 months the economic downturn has had a significant impact on people's finances as well as their attitudes. The International Monetary Fund (IMF) expects Turkey to remain in recession throughout 2009, and resume GDP growth of 3.5% in 2010. Many Turkish respondents agreed with this view. However, people in Turkey – in line with other emerging economies – are generally more optimistic. **38%** of people expect the downturn to last less than 12 months; globally this falls to just **29%**.

The current economic downturn is forcing households in Turkey to develop survival strategies to cope. It is clear that people are attempting to create a 'buffer' of savings by reducing expenditure on both large and small purchases, whilst also paying down debt. Debt was seen as an obstacle to saving by 17**%** of respondents in Turkey (in line with the global figure of 18%). The findings also reveal that 1-in-8 people in Turkey have either reduced or stopped saving into a pension. A further 9**%** say they would like to seek financial advice to help them make sense of the choices facing them.

Figure 7 – The length of the downturn



Concluding Remarks

Like all countries, Turkey is faced with an ageing society. In line with many emerging economies its society is still relatively young and will benefit from the demographic dividend – the window of opportunity afforded to societies which will first see a major population shift from youth dependency into working adulthood. This gives Turkey the time to prepare before the bulk of its population subsequently moves into retirement. In order to make the most of this opportunity, Turkey still faces the challenge of widening access to financial advice and education in order to enable families to become better placed to understand their longer term finances and plan accordingly. The research results also reveal that while Turkish people have been relatively enthusiastic about saving for retirement, there have been negative impacts on pension savings rates during the current economic downturn possibly as a result of the perceived need to reduce debts.