Comparative Analysis of Individual Retirement System Returns with Some Different Investment Vehicles in Turkey

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Abstract

Individual retirement system is not the alternative to Social Security System. Individual retirement system which has the nature of supplementary of state social security system depends on the desire of the contributor and also voluntary contribution principle. The aim of our study is to compare the average nominal returns of some different investment vehicles, i.e. Individual Retirement Systems return, Deposit Interests Gross), BIST 100 Index return, USD, EURO and GOLD (Bullion) returns realized in Turkey for 10 years during the period of 2004 and 2013. When the returns of BES are compared with the nominal returns of some different investment vehicles in Turkey, such as Deposit Interests (Gross), BIST 100 Index, USD, EURO, GOLD (Bullion) in Turkey for 10 years during the period of 2004 and 2013, it is seen that the first is BIST 100 Index, the second is GOLD (Bullion), the third is Deposit Interests (Gross), the fourth is Individual Retirement System, the fifth is EURO and the sixth is USD.

Keywords: Individual Retirement, Investment Vehicles, State Contribution

1. Introduction

Although Turkey has a young populated structure and it is seen that it doesn’t have a reason of demographic source, such as the rise of life expectancy and aging of population as in the developed countries when the social security system has been evaluated in Turkey, social security system is being supported by the individual retirement plans because long term actuarial imbalances and institutional insufficiencies can prevent social security system from being a sustainable system.

Individual Retirement System which has a complementary nature for Public Social Security System was established and run into force as of 27th October 2003 upon the act of ‘Individual Retirement Savings and Investment System Law” accepted on 28th March 2001, no.4632. Individual retirement applications in Turkey and the world was mentioned and individual retirement system (BES) applications in Turkey was compared with some different investment vehicles. Individual
retirement system data published by Retirement Observatory Center (EGM) was used for statistical evaluation upon the significance of the subject. When the returns of Individual Retirement System (BES) was compared with some different investment vehicles returns during 10 years period between 2004 and 2013, upon the idea that BES returns would stay under the returns of some investment vehicles, it has been seen that BES returns stayed under the nominal returns of BIST 100 Index, Gold (Bullion), except Euro and USD from the beginning of 2013, together with the positive effect of tax incentive model as the contribution of state 25%, it is supposed that the returns of BES will come close to the return of Gold (Bullion) and stay over the returns of Deposit Insurance. Various sources such as relative publications on the internet and some academical studies have been searched and the data gained through literature research has been interpreted by relating to each other.

2. Individual Retirement System in Turkey

Individual Retirement System (BES) is the retirement system established as a complementary one for the present state social security systems in order for them to be able to protect individuals’ life standards in their retirement ages and to comfort them. It is a retirement system depending on voluntary contribution; directed to provide additional income for the contributors for their retirement age; regulated and controlled by state Treasury Undersecretariat (HM), Capital Markets Board (SPK) and Retirement Supervision Centre (EGM) and run by the private retirement companies.

The advantages that individual retirement system provides for the contributors:

- Contributors gain additional earning with the benefit of state contribution,
- Contributors’ savings are managed by special staff,
- Individual retirement system is transparent,
- Accounts in the system are held with Takasbank (Exchange Bank) and can be followed by the contributors daily,
- It is a safe system,
- The contributors can suggest their payment periods and change plan and funds distribution,
- The Contributors can make interim payments or take a break for payments.

2.1 The Concept and Definition of Individual Retirement System

Individual Retirement System is a system that is the complementary of state and social security system established for the individuals’ savings to be directed to investments in order to gain additional returns for individuals’ retirement periods, to rise their wealth levels and to create long term sources for the economy and to increase employment for economical development and based on the voluntary contribution and determined contribution. (Inneci, 2013, p:105-120).

Individual retirement system is a private retirement system providing additional returns for the individuals’ retirement periods by protecting their life standards through long term investments by their savings that individuals saved during active work life periods (Topalhan, 2010).

2.2 The Aim and Scope of Individual Retirement System

A lot of sectors exist in an economy and they include different concepts. One of the most used concepts used recently in the economy is Individual Retirement System (BES) (short for Individual Retirement System). The most basic function of BES is that it is an investment and savings vehicle. The main aim of the investment is to make profit, thus investors can make profits through BES. The
investors contributing BES can have the chance to be retired by depositing to BES (http://www.bireyselemeklilik.com.tr/bireysel-emekliligin-tanimi/ 25.02.2016).

The users of BES can get annuity during their retirement periods as in the standard retirement system. They can also get their total sum during the retirement period (Rubin, p: 237-238). There are several sanctions in the BES as in the other economical practices. The limit of 18 years-old exists in most of this kind of economical programmes. This obligation exists in BES as well. In addition, since a user of BES can be retired, he/she must pay his/her contributions in due time and fully. Users contributing to the system for 10 (ten) years can qualify for pension. Retirement age from the system is 56. All these definitions constitute the whole of BES (http://www.bireyselemeklilik.com.tr/bireysel-emekliligin-tanimi/ 25.02.2016).

2.3 The History of Individual Retirement System in Turkey

The draft for ‘Individual Retirement savings and Investments System Law’ was presented by the Council of Ministers to Turkish Grand National Assembly on 16th May 2000 for establishing a system based on funds of individual retirement accounts (Retirement Supervision Centre, “The History of Individual Retirement System”, http://www.egm.org.tr/?sid=70 29.09.2016).

The said draft was prepared by the Ministry of Labour and Social Security in 1999 as a result of the studies of ‘Individual Retirement Committee’. The committee included the representative from the Ministry of Labour and Social Security, Finance Ministry, Social Security institutions, Treasury Department, Capital Markets Board and various sectors. Also, Turkish Insurance and Reassurance Associations, Insurance Examination Committee, Portfolio Management companies, the directors of the foundations having social security aim, investment companies and related specialists studying on this subject were invited and their contributions were provided. Opinions of press institutions, universities and unions were requested as written and evaluated at the committee studies (Retirement Supervision Centre , “The History of Individual Retirement System”, http://www.egm.org.tr/?sid=70 29.09.2016).


The said law was put into force on 7th October 2001, after 6 months of publication. The aims of this system is the increase of wealth levels of individuals as second pension, the creation of new labour and employment possibilities by providing sources for infrastructure and long-term investments, the decrease of the state social security load, the increase in the long term funds at financial markets, the contribution for fighting inflation and stable growth. (Retirement Supervision Centre, “The History of Individual Retirement System”, http://www.egm.org.tr/?sid=70 29.09.2016).

In order to arrange tax incentives for the BES system, the draft Law about the amendments in Tax Laws was sent to the TGNA Directorate. The said draft was enacted on the 28th Jun 2001 and published in the official Gazzette on the 10th July 2001 with no.24458. (http://www.resmigazete.gov.tr/eskiler/2001/07/20010710.htm 29.09.2016).

Individual Retirement companies activated on the 27th October 2003, in accordance with the managerial and legal framework for applying the system effectively (Retirement Supervision Centre, “The History of Individual Retirement System”, http://www.egm.org.tr/?sid=70.29.09.2016). Because the necessary studies could be finished in 2003 for applying effectively and so the retirement companies started to activate in the same year (Salantur,2015, p:68). The number of the BES companies was 11 as of the end of 2003.

Some mergers and title amendments were realized and also new BES companies started to activate within the years. The number of the BES companies became 13 in 2010, 14 in 2011 and 17 in 2012 (Salantur,2015, p:68). The number was the same as 17 in 2013 (Retirement Supervision Centre, “Basic Indicators of BES on company basis dated 31.12.2016 http://web2.egm.org.tr/webegm2/chart/besgosterge/wg_sirketview_tablolu.asp?rap
2.4 State Contribution

Tax incentive in the BES system was applied as tax advantage. The application of tax advantage which was applied as discount from tax base was ended on 31st December 2012. (Retirement Supervision Centre, “State Contribution”, http://www.egm.org.tr/?pid=771 10.03.2016).

As of 1st Jan. 2013, state contribution was started to be applied. All the contributors paying to the BES companies as individual or group contracts can benefit from state contribution. The state contribution is 25 %, on the condition that yearly total sum can not exceed the yearly minimum salary sum. That is, the sum of state contribution of a contributor cannot exceed 25% of the total minimum salary sum of the said year. The calculation of the limit is made on the contributors base. Every Turkish citizen over 18 years can benefit from the state contribution although he/she is a tax-payer or not. (Retirement Supervision Centre, “State Contribution”, http://www.egm.org.tr/?pid=771 10.03.2016).

In order to benefit from the state contribution, there is no process which must be completed by the contributor. The payment of the state contribution is made automatically according to the contributions’ sums paid and there is no need for declaration or information statement. The calculation of the state contribution is made by The Retirement Supervision Center (EGM) according to the data presented by the companies. The sum of the state contribution is transferred to the state contribution account under the contracting company by EGM, upon the payment of Treasury Undersecretariat. The sum and return of the state contribution can be followed from the contribution account. It was defined as ‘the state contribution fund ‘and it is invested in the funds determined by the Treasury Undersecretariat. If the savings are transferred to another company, the total sums in the state contribution account are transferred together with the savings as well. In cases of retirement, death or disability, state contribution and its returns are deserved totally. The sum of the state contribution is transferred to the contributors’ retirement plan within 3 months after the payment.(Retirement Supervision Centre, “State Contribution”, http://www.egm.org.tr/?pid=771 10.03.2016).

Total sum of the state contribution and its return can be followed from the state contribution account. It is invested in the funds defined as the state contribution fund by the relative company and the limits of which are determined by Treasury. In case of the transfer of the savings to another company, all the total sums in the state contribution account are transferred to the new company together with the returns. If there is some state contribution untransferred to the account, it is transferred to the new company within 2 days. State contribution and its returns are totally deserved in case of retirement, death and/or disability. In case of death, total sum in the state contribution account is paid to the beneficiary or beneficiary determined by the contributor. If any beneficiary is not determined, it is paid to the legal dependants. As per the progress applications, the below rates are paid to the contributor as in the following chart according to the period in the system after 01st Jan.2013 partially or totally.(Retirement Supervision Centre, “State Contribution”, http://www.egm.org.tr/?pid=771 10.03.2016).
Table 1: Progress Rates for the State Contribution (%) and its Period in the System after 01st Jan.2013

<table>
<thead>
<tr>
<th>Period in the System After 1st Jan.2013</th>
<th>Rate of Progress</th>
</tr>
</thead>
<tbody>
<tr>
<td>From 3 years to 6 years</td>
<td>15%</td>
</tr>
<tr>
<td>From 6 years to 10 years</td>
<td>35%</td>
</tr>
<tr>
<td>From 10 years to more</td>
<td>60%</td>
</tr>
<tr>
<td>Retirement, Death, Disability</td>
<td>100%</td>
</tr>
</tbody>
</table>


When the contributors surrender the contract, the state contribution sum that he/she has deserved because of the contributions he/she paid before is transferred to the account specified by the contributor until the end of the working day. If the contributor does not leave the system until 01st Jan.2016, he/she will gain additional time in addition to the deserving period on the condition that he/she was in the system before 01st Jan.2013. The additional time will be determined as follows. (Retirement Supervision Centre, “State Contribution”, http://www.egm.org.tr/?pid=771 10.03.2016).

Table 2: Additional Time (%) and Period in the System Before 01st Jan.2013

<table>
<thead>
<tr>
<th>Period in the System Before 01st Jan.2013</th>
<th>Additional Time</th>
</tr>
</thead>
<tbody>
<tr>
<td>More than 3 years, Less than 6 years and 6 years</td>
<td>1 year</td>
</tr>
<tr>
<td>More than 6 years, Less than 10 years and 10 years</td>
<td>2 years</td>
</tr>
<tr>
<td>More than 10 years</td>
<td>3 years</td>
</tr>
</tbody>
</table>


Example: Let’s assume that a contributor has deserved retirement in February 2016 (he/she was in the system for 10 years and he/she is 56), after 01st Jan.2016. When we calculate his/her state contribution to be deserved upon his/her surrender, his/her deserving ratio is 15% since he/she spent 3 years to 6 years in the system after 01st Jan.2013; somehow, as the period spent in the system before 01st Jan.2013 was 9 years in this example and plus 2 years should be added to the deserving period for 10 years spent in the system, total additional time becomes 5 years. So, the ratio for state contribution to be deserved, i.e., 3 years to 6, will be 15%. Stoppage at source according to the ratios stated in the chart is deducted over the return deserved during the payment of state contribution. The total sums and returns in the state contribution account cannot be seized, put in pledge or included in the bankruptcy assets. (Retirement Supervision Centre, “State Contribution”, http://www.egm.org.tr/?pid=771 10.03.2016).
Table 3: Surrenders from the Individual Retirement System and Stoppage Ratios (%) over the Returns of State Contribution Deserved

<table>
<thead>
<tr>
<th>Surrenders from the System</th>
<th>Stoppage Ratio Over the Returns of the State Contribution Deserved</th>
</tr>
</thead>
<tbody>
<tr>
<td>Those paying contribution less than 10 years and surrendering</td>
<td>15 %</td>
</tr>
<tr>
<td>Those paying contribution for 10 years but surrendering before retirement</td>
<td>10 %</td>
</tr>
<tr>
<td>Those surrendering because of death, retirement and disability</td>
<td>5 %</td>
</tr>
</tbody>
</table>

Source: 'Retirement Supervision Center', 'State Contribution', http://www.egm.org.tr/?pid=771 (received on 10th March 2016)

In the above chart no:3, stoppage at source to be collected over the state contribution deserved in case of surrender is indicated. Since the system was established for the purpose of establishing long term sources, the more the contributor stays in the system, the less the stoppage at source will be. That is, he/she who surrenders late will be more advantageous. (Retirement Supervision Centre, “State Contribution”, http://www.egm.org.tr/?pid=771 10.03.2016).

3. Individual Retirement Applications in the World and Comparative Evaluations

The systems in the world depends on the basis of evaluating the contributions deposited regularly to the individual accounts of the employees upon the contract conditions by an effective fund management until retirement time. The funds established according to the plan are defined as the vehicles enabling the same life standard by using these savings during the retirees’ elderliness and retirement periods (Heidarpour, 2014, p:96).

Individual retirement system is applied on the basis of ‘Funding Model’. The purpose here is to reach a good saving in the long term while the employees are working actively and evaluate these savings reliably and profitably until the retirement ages of the employees. The applications of the system can be different from one country to another. When it is a complimentary system to the social security in some countries, it can be an alternative in some others. The entrance to the system can be discretionary in some countries but compulsory in some others. For ex: some countries adopting compulsory entrance are: Hungary, Chile, Argentina, Mexico, Colombia and Poland. The OECD countries usually adopt discretionary entrance. These countries are UK, US, Canada, Holland, France, Greece, Switzerland, Italy, Japan and South Korea (Heidarpour, 2014, p:96).

It is seen that the applications of Individual Retirement system in the developed countries have started as the requests of the individuals or employees. Another point that should be mentioned is that retirements funds are different in the developed and developing countries in terms of being compulsory or discretionary. The system is usually supported by the state as compulsory initiative in the developing countries. Nowadays, social security reform is the main agenda of many developed and developing countries. Reforms can be different from country to country. Upon aging of the population in the industrialized countries, active-passive balances of the social security systems have started to impair and this situation has become one of the most significant reason for the reform. However, the reason of the reform in developing countries is to give the individuals more qualified and better social security services (Heidarpour, 2014, p:96-97).

Although BES system was established in the last quarter of 2003, it indicated a significant development. But, when compared with OECD member countries, it did not develop as desired because majority of the population is under social security system and BES system did not develop as in the other countries. Bonds and equities are the most important assets in OECD area. When the
portfolios of retirement funds in OECD countries are investigated, it is seen that bonds and equities with high returns have more shares. The reason why equities have priority for investment is that the level of the risk declines and funds can reach high level of return in the long run. The share of equities in the retirement funds is 38.2% in US, 13% in Switzerland, 24.6% in Canada. The highest share is in Hong Kong as 57.4% (Heidarpour, 2014, p:96-97).

Long-term bonds have been cared to be chosen in the countries where fixed income securities have high returns. In 2010, the distribution of the securities was 13.56% as equity and 21.62% as bonds. In 2014, these ratios changed as 13% equities and 19.9% bonds. All kinds of economical and political uncertainty can affect funds’ performance. Cash and deposits are the other common instruments and the highest investment rate is in Korea as 57.8%. Securities have the most important share in many countries. Real estates include assets such as lands and buildings. The highest share of real estates is in Switzerland as 9.7%. When the other investment are evaluated, this group includes derivatives and credit derivatives. This kind of investment is seen in Korea as 34.7% mostly. Banking sector pays an important role for collecting and distributing the funds in both developing and developed countries. As the developedness level increases, it is seen that capital markets institutions and alternative financial instruments have had seriousness. In terms of this perspective, BES is expected to have an important share within national income (Heidarpour, 2014, p:99-100).

There are some obstacles in front of the system in Turkey. These are; low level of national income per person, existence of compulsory social security system, the lack of trust in the system because of the financial crisis the country experienced before. These elements are also the weakness of the system. High amounts of capital accumulation will have been provided in future when the contributions are paid regularly and the funds grow. As the funds grow, markets will deepen. As in the developed countries, investors in Turkey will realize long-term choices, hold financial assets with variable returns such as equities and so they will have provided great contributions for the development of capital markets (Heidarpour, 2014, p:100-101).

In spite of the uncertainties in the world economy and fluctuations in the financial markets, retirement funds in all OECD countries have gained positive returns and real returns were realized as 4.5% in 16 OECD countries in 2013. The rate of real return indicates important variability among the markets. The basic average of real return in OECD countries is 4.7% yearly (local currency and after investment management fees are deducted). Strong performances in equity markets provided contribution to average investment returns in many countries in the same year (Retirement Supervision Centre, “Individual Retirement System Development Report 2014” http://www.egm.org.tr/?pid=360, 30.03.2016).

Bills, bonds and equities are the assets in the funds with countries out of OECD invest as OECD countries do. Bills and bonds consist of 50% of the portfolios of the funds in 14 countries out of OECD in 2013. Because of the product diversity and good returns, the funds in Costa Rika invested all assets in the bills and bonds. Equities are dominant in the portfolios of the funds in Namibia, Kosova and Hong Kong and their total investment is over 50%. (Retirement Supervision Centre, “Individual Retirement System Development Report 2013” http://www.egm.org.tr/?pid=360, 30.03.2016).

Retirement funds in Turkey grew up 29% at the of 2013 according to the previous year. Its total value was 26.186.322.638 TL as of the end of 2013 and the number of the funds reached 230 with publicly fundsde (Retirement Supervision Centre, “Individual Retirement System Development Report 2013” http://www.egm.org.tr/?pid=360, 30.03.2016).
4. Data of BES in Turkey and Statistical Indicators


Retirement companies started their activities on 27th Oct. 2003. (Retirement Supervision Centre, “The History of Individual Retirement System”, http://www.egm.org.tr/?sid=70 03.10.2016). While investigating the development of BES system in 2004, it will be more true to evaluate the system as the first year as the system was started 27th Oct. 2003. The number of the contributors was 314,257 at the end of 2004. Since the target number of contributors was 287,500, success for 9 % over the expected contributors was gained (Retirement Supervision Centre, “Individual Retirement System Development Report 2004”, http://www.egm.org.tr/bes2004gr1.asp Page:31, 03.10.2016).

Graph 1: The Rates of the Effective Contracts % According To the Distribution Channels at the End of 2004

The above graph indicates the rates of the contracts amounting to 334,557 that are in effect at the end of 2004 according to Distribution Channel. All the contracts realized until 31st Dec. 2004 were investigated as active or terminated. Of the contracts amounting to 353,736 realized, 95 % of them were in effect and studies were realized on the effective 334,557 contracts (Retirement Supervision Centre”, “Individual Retirement System Development Report 2004, http://www.egm.org.tr/bes2004gr1.asp, Page:55, 03.10.2016).

Graph 2: The Rates of Distribution of the Effective Contracts According To the Number Of Contracts the Contributors Held


The above graph indicates that the number of the contributors having only one contract is 293,586, i.e., 93.42%; the number of contributors having two contracts is 15,892, i.e., 5.06%; and the number of contributors having 3 or more contracts is 4,779, i.e., 1.52%.

According to the statistics of EGM Development Report 2013, the number of the contracts reached 4,687,675 at the end of 2013. The sales of these contract was realized as 3,007,701 contracts (i.e., 64.2 %) through direct sales; 911,220 contracts (i.e., 19.4 %) by the banks; 449,551 contracts (i.e., 9.6 %) through the agents; 250,878 contracts (i.e., 5.4 %) through institutional sales and 68,365 contracts (i.e., 1.5%) through the other channels, that is, through call centers and brokers. (Retirement Supervision Centre, “Individual Retirement System Development Report 2004”, Page:65, http://www.egm.org.tr/bes2004gr1.asp (21.12.2016).

The number of the contributors reached 4,153,055 at the end of 2013. From 2004 to 2013, during 10 years period, the number of contributors increased by 1221,54% and contracts increased 1,301.15% (Retirement Supervision Centre, “Individual Retirement System Development Report 2013”, http://www.egm.org.tr/bes2013gr.asp, Page:45, 03.10.2016).

According to the Percentage Distribution Report published in the Development Report for Individual Retirement 2013 which shows the number of the contributors as 4,153,055. 80,5% of these contributors have only one contract, 14,6 % of them have two (2) contracts and 4,8 % of them have three (3) or more contracts. (Retirement Supervision Centre, “Individual Retirement System Development Report 2013”, http://www.egm.org.tr/bes2013gr.asp, Page:25, 03.10.2016).

4.2 Evaluation of the Total Sums of Contributions, Total Sums of State Contributions and Total Sums of the Funds Invested During 10 Years Period Between 31st Dec.2004 and 31st Dec.2013

Table 4: Total Sums of the Contributions, Total Sums of the Contributors, Total Sums of the State Contributions and Funds Invested During 10Years Period between 31st Dec.2004 and 31st Dec.2013

| Total Contribution Sum (TL) | BES Data at the end of 2004 | 288,325,706 |
| Contributions' Total Sum (TL) | 296,503,523 |
| Total State Contribution (TL) | 0 |
| Funds Invested (TL) | 276,287,104 |
| | BES Data at the end of 2013 | 21,921,860.114 |
| | 25,145,718.418 |
| | 1,151,765.932 |
| | 21,455,900.238 |


The above chart indicates that any big changes were not observed on total funds because there wasn’t any state contribution until 01st January 2013. Upon encouragement of the state contribution, its total sum reached 1,151,765.932 TL at the end of 2013. It can be said that tax incentive model made a clear and positive additive to the system (Retirement Supervision Centre, ‘Basic Indicators of Individual Retirement, http://web2.egm.org.tr/webegm2/chart/besgosterge/wg_sirketview_tablolu.asp?raportar1=25.11.2016&raporlar2=25.11.2016&sirketlist=100&raportip=10&yayin=W (09.12.2016).
4.3 Evaluation of the Number of Contributors, Amount of Contracts, Total Sums of State Contributions and Size of Funds

Table 5: Total Sums of Contributors, Amount of Contracts and Size of Funds between 31st Dec.2013 and 25th Nov.2016

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount of Contributors</th>
<th>Amount of Contracts</th>
<th>Total Sums of State Contribution</th>
<th>Total Sums of Contributors</th>
</tr>
</thead>
<tbody>
<tr>
<td>End of 2014</td>
<td>5.092.871</td>
<td>5.807.319</td>
<td>3.049.076.239</td>
<td>34.793.077.808</td>
</tr>
<tr>
<td>End of 2015</td>
<td>6.038.432</td>
<td>7.040.375</td>
<td>5.020.000.071</td>
<td>42.979.056.589</td>
</tr>
<tr>
<td>End of 2016</td>
<td>6.554.252</td>
<td>7.697.857</td>
<td>6.961.142.850</td>
<td>51.741.918.325</td>
</tr>
</tbody>
</table>

Source: 'EGM', 'Basic Indicators of Individual Retirement', 'Total Sum of Basic Indicators of Individual Retirement on the Basis of Companies'.

The above chart indicates that when the state contribution has been included in the system, an important increase in the size of funds occurred. When the data of the last four years is investigated, it is seen that total sums of the contributors' funds from the end of 2013 to the end of 2014 increases by 38.36%. The increase from the end of 2014 to the end of 2015 is 23.52% and from the end of 2015 to 25th Nov.2016 is 20.38% (Retirement Supervision Centre, “BES Basic Indicators on Company Basis”, http://web2.egm.org.tr/webegm2/chart/besgosterge/wg_sirketview_tablolu.asp?raportip=10 09.12.2016).


When the years in which individual retirements returns were low in the above graph are investigated, the factors that caused the returns to fall down have been tried to be analyzed. Turkish economy had hard times in 2006 because of the fluctuations in the global markets and the war in the Middle East although 2005 was a good year. Inflation increased because of the rise of foreign exchange rates, interest rates and booms in the prices of oil and energy in May and June in 2006 (Retirement Supervision Centre, “Individual Retirement System Development Report2006”, http://www.egm.org.tr/bes2006gr.asp Page:14, 11.12.2016). That global economic crisis of 2008 affected developed countries negatively, set off its affects in Turkish economy in real sector, slowed internal and external demand down, minimized agriculture sector, caused stagnation in the manufacturing and constructive industries caused economy to grow under expectations. Uncertainty in the global markets, volatility in exchange rates, high increases in the energy prices such as electricity and natural gas restricted positive impacts partially (Retirement Supervision Centre, “Individual Retirement System Development Report 2008, http://www.egm.org.tr/bes2008gr.asp Page:11, 11.12.2016).


2013 became the year when new legal regulations about individual retirement system (BES) began to be applied. Contributors and new ones can benefit from state contribution of 25 % to be applied from the beginning of 2013 and this benefit became a turning point for the growth of BES
funds. Thanks to this benefit, 1 million new contributors entered the system and average contribution premium contributors paid increased by nearly 30% in 2013 (Retirement Supervision Centre, “Individual Retirement System Development Report 2013”, http://www.egm.org.tr/bes2013gr.asp Page:7, 11.12.2016). BES reached funds size over 25 billion TL and 4.2 million contributors as of the end of 2013. While it was increasing retirement savings in one hand, it provided development for our economy and capital markets on the other hand. 2013 also became an important year because contributors reaching 56 year-old who entered BES ten years before retirement rights, besides the reforms realized. The number of these contributors was 7,577 at the end of 2013. So, the system enabled first annuants to have pensions (Retirement Supervision Centre, “Individual Retirement System Development Report 2013”, http://www.egm.org.tr/bes2013gr.asp Page:7, 11.12.2016).

When the average returns of retirement funds during 10 years period between 2004 and 2013 was 12,853% compared, the returns of 2006, 2008, 2010, 2011 and 2013 stayed under the average. The reason why for this can be said to be the global economical crisis in those years, higher unenployment, uncertainty in the markets, increases in the exchange and interest rates and oil and energy prices, increase in inflation and war in the Middle-East (Retirement Supervision Centre, Individual Retirement System Development Report 2011, http://www.egm.org.tr/bes2011gr/bes2011gr_tr.pdf Page:10, 11.12.2016).

It is seen in the bottom graphics that BIST 100 Index is the investment vehicle which provided the highest return by 23,675% compared with BES returns, Deposit Interest (Gross), USD, Euro and Gold (Bullion) nominal returns for 10 years period between 2004 and 2013. The second investment vehicle is Gold (Bullion) that provided the highest return by 17,088%. The third is Deposit interest (Gross) by a return rate of 14,386%. BES return rate is 12,853% and fourth. Then, EURO is by 8,182% return and USD is by 4,992% return respectively. State contribution funds have been excluded when calculating the returns of BES (‘Retirement Supervision Centre’, Individual Retirement System Development Report 2004, 2005, 2006, 2007, 2008, 2009, 2010, 2011, 2012, 2013, http://www.egm.org.tr/?pid=360, 16.12.2016).

Graph 4: Comparison of BES Returns with Some Different Investment Returns (Between 2004 and 2013 Years End) (%)

<table>
<thead>
<tr>
<th>Investment Vehicle</th>
<th>Average Return for 10 Years (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>BES</td>
<td>12.853%</td>
</tr>
<tr>
<td>DEPOSIT INTEREST (Gross)</td>
<td>14.386%</td>
</tr>
<tr>
<td>BIST 100 INDEX</td>
<td>23.675%</td>
</tr>
<tr>
<td>USD</td>
<td>4.992%</td>
</tr>
<tr>
<td>EURO</td>
<td>8.182%</td>
</tr>
<tr>
<td>GOLD (Bullion)</td>
<td>17.088%</td>
</tr>
</tbody>
</table>


5. Summary and Concluding Remarks
State contribution system was started to be applied in order to increase the size of funds and to encourage contribution from 01st Jan.2013. When the investment vehicles are investigated, the increase in the size of funds was 38,36 % in the first year with the applications of state contribution for 25 % and the increase in the state contribution funds was realized as 130,57 % and TL 6.961.142.850 from end of 2014 upto 25th Nov.2016. The size of funds of the contributors amounting to 25.145.718.418 reached to TL 51.741.918.325 by an increase of 105,76 % upon positive affect of state contribution.

The sums invested reached TL.42.705.959.239 according to the data dated 25th Nov.2016. The increases realized every year showed us that the purpose of state contribution system was met. Savings invested became a good source supporting production, employment and stable economical growth. Numerical data about some different investment vehicles was studied in this study for 10 years period between 2004 and 2013. When the returns of BES were compared with Deposit Interest (Gross), BIST 100 Index, USD, Euro, Gold (Bullion) nominal returns for the period of 10 years’ averages, it is seen that BIST 100 Index provided the highest yield by 23,675 %. The second is Gold (Bullion) by 17,088 % and the third is Deposit Interest (Gross) by 14,386 %.

The return of BES was realized as 12,853 % and fourth. Then, the returns of EURO and USD were realized as 8,182 % and 4,992 % respectively. When calculating the returns of BES, state contribution funds were excluded. In addition to the returns of BES, all contributors can benefit from the state contribution for 25 % and the other investment vehicles do not have this opportunity.

The return of BES can be said to come closer to the return of Gold (Bullion) and increase over Deposit Interest (Gross) upon positive affects of state contribution for 25 %.

BES is suggested to the investors who will invest for 10 years period in the longterm because of the positive affect of state contribution for 25 % which no other investment vehicle has.

References