



Beneficiaries' Reasons to Leave the Automatic Enrollment Individual Pension System in Turkey: A Case Study in Aksaray University

Türkiye'de Hak Sahiplerinin Otomatik Katılımlı Bireysel Emeklilik Sisteminden Ayrılma Sebepleri: Aksaray Üniversitesi Vaka Çalışması

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KEYWORDS

*Individual Pension Systems,
Consumer Behavior,
Consumer Risk.*

ABSTRACT

This study aims to provide insights on the reasons why beneficiaries of automatic enrollment individual pension system (IPS) decided to not involve in the system with an interpretivist philosophy. Even though IPS regulations are known to be valid and reliable methods for protecting both the beneficiaries' welfare in their retirement period, and the whole macro-economic environment, more than half of the beneficiaries opted to leave or stay out of it. With using a snowball sampling technique and face to face interviews, six consumer risk factors, defined by Garner, are evaluated for each interviewee. Interviewees are active academic members of Aksaray University, Faculty of Economics and Administrative Sciences. Insights gained from the interviews suggest that perceived performance risk and perceived financial risk were the main factors for beneficiaries to leave the automatic enrollment IPS.

ANAHTAR KELİMELEER

*Bireysel Emeklilik
Sistemleri,
Tüketici Davranışları,
Tüketici Riskleri.*

ÖZET

Bu çalışmada yorumcu felsefe kullanılarak hak sahiplerinin otomatik katılımlı bireysel emeklilik sigortası (BES) sisteminden ayrılma sebepleri hakkında bilgiler edinmek amaçlanmıştır. Her ne kadar BES düzenlemeleri hem hak sahiplerinin emeklilik yıllarında refah seviyelerini hem de bütünüyle makro ekonomik çevreyi korumak için kullanışlı yöntemler olarak bilinse de hak sahiplerinin yarıdan fazlası katılmamayı veya terk etmeyi tercih etmişlerdir. Kartopu örneklem ve yüz yüze derinlemesine mülakat tekniği kullanılarak Garner tarafından ortaya konmuş olan altı algılanan tüketici risk faktörü her bir katılımcı için tek tek incelenmiştir. Katılımcılar Aksaray Üniversitesi İktisadi ve İdari Bilimler akademik personeli içinden seçilmiştir. Mülakatlardan edinilen bilgilere göre algılanan finansal risk ve algılanan performans risk faktörleri hak sahiplerinin BES sistemini terk etmelerindeki temel faktörler olarak öne çıkmıştır.

Individual Pension Systems, (IPS) are rightfully considered to be an integral part of a country's social security system. However, the effects of IPS implementations reach far beyond that. An individual's age of retirement and their expected life time can have significant impacts on national economy. For instance, when an individual is retired at the age of 60 and lives up to his or her 80's, it means that he or she will have to depend on a retirement system for at least 20 years without being a part of the national labor force. Consequently, such individuals' welfare and life standards have to be protected by the social security system in order to avoid any potential social crisis. In other words, there is a risk of more and more individuals' income might have to be supplied by a workforce representing a smaller percentage of the total population in near future.

Having a closer look at the numbers, one can claim that the current retirement policies and social and economic facts are showing early signs of a social crisis for coming decades unless adequate preventive actions are not taken by the governing bodies. According to current regulations embodied by article 5510, age of retirement in Turkey is 58 for female and 60 for male individuals (Resmi Gazete, 2006) but with complimentary regulations in article 5434, age of retirement may vary between 52 and 67 (Resmi Gazete, 1949). Similarly, OECD country report for Turkey also states that the legal age of retirement in Turkey is 58 for female and 60 for male individuals (OECD, 2017).

Also the report mentions that “The pension age is gradually rising to 65 for men from 2036 to 2044 and to 65 for women from 2036 to 2044”.

The charts below are exhibited to provide a better understanding of the current situation in Turkey:

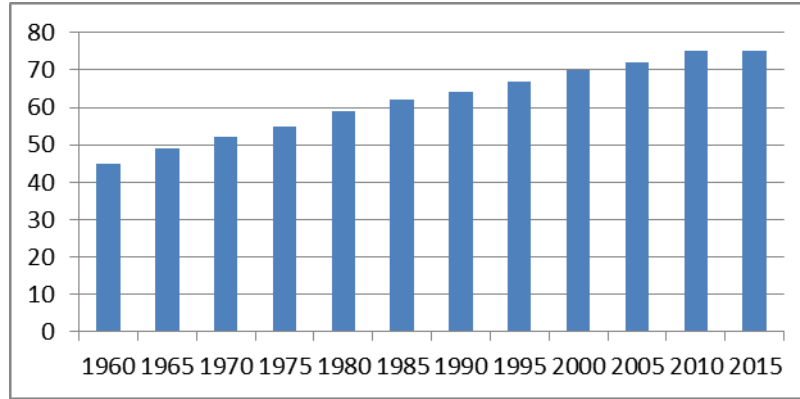


Chart 1: Life Expectancy at Birth, total (years)

Source: <https://data.worldbank.org/indicator/SP.DYN.LE00.IN?locations=TR>

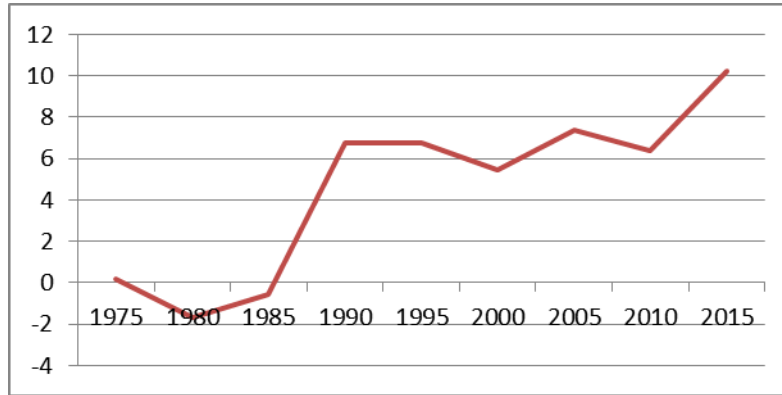


Chart 2: Adjusted Savings: gross savings (% of GNI)

Source: <https://data.worldbank.org/indicator/NY.ADJ.ICTR.GN.ZS?locations=TR>

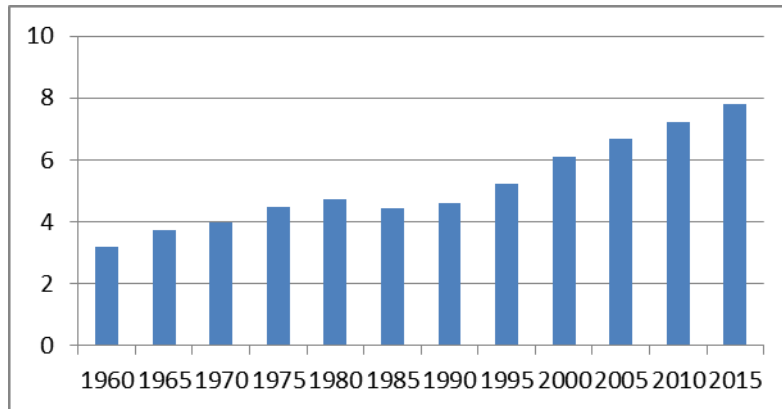


Chart 3: Population ages 65 and above (% of Total)

Source: <https://data.worldbank.org/indicator/SP.POP.65UP.TO.ZS?locations=TR>

The charts are generated by using the data provided by worldbank.org website and they offer significant insights when put together. The first chart shows that the life expectancy is rising in Turkey. It was around 55 back in 1975 and has risen to 75 in 2015. Similarly, the senior citizens' percentage in total population has risen from 4,4% in 1975 to 7,8% in 2015. Furthermore, despite gross savings percentage has

reached the historical highest point for Turkey: 10% of gross national income, the same figures for OECD average is more than twice that rate (22%).

The first insight that can be deduced from the charts may be shown as that there are an increasing number of people who are older than the legal retirement age, and also they are living longer. Which means that more and more people are depending on their retirement funds and the portion of retired people is not going to cease rising under normal conditions. Despite the number of retired people is rising, gross savings as the portion of the GNI is not rising fast enough to compensate the gap between the required level of savings to support the retiree and the increasing number of them. According to Insurance Association of Turkey (IAT), 3,3 person(s) in workforce were sharing the responsibility of supporting a retiree's income in 1980 and the same figure is expected to be 1,6 person(s) in 2020. (Türkiye Sigorta Birliği).

Consequently, social security implementations carry more importance for maintaining the social peace and welfare for coming years. IPS, one of the measures taken in order to sustain economic stability of senior citizens, is the focal point of this study. IPS, in Turkey, was legalized and regulated in 2003 and it aims to "increase the retired individuals' welfare by providing an additional income in their retirement period" and it is stated to be based on voluntariness. (Sermaye Piyasası Kurulu)

In 2013, a 25% government aid for IPS was introduced to help increasing the system's popularity and automatic enrollment program for employees younger than the age of 45 was launched in 2017 (Türkiye Sigorta Birliği)

Moreover, given that the individual does not use his or her right of withdrawal (in first two months of enrollment), an additional TL 1000 is added to their balances for each beneficiary, by the government. In other words, when a beneficiary is enrolled in the system, he or she can start saving by as low as 3% of their monthly income plus 25% government aid, plus TL1000 if the right of withdrawal is not used. Despite the deal offered looks quite inviting, Mehmet ŞİMŞEK, deputy prime minister at the time revealed that more than half of the enrolled beneficiaries have left the system as of 13/06/2017, slightly more than half a year after the program was announced (Vatan Gazetesi, 2017).

Because the leave percentage is such a high number in a very important economic opportunity, this study aims to provide insights from consumer behavior perspective for reasons why beneficiaries opted to leave automatic enrollment IPS system.

Research Question for this study is designed as: what are the consumer risk factors that led the beneficiaries to leave automatic enrollment IPS in 2017.

Literature Review

For the purpose of ease of following the evolution of individual pension system, a separate literature review part is introduced in the study.

Because the nature of the research question requires in-depth knowledge in two different subjects, literature review is divided in two parts. The first part aims to provide a summary of relevant studies on private pension systems in Turkey and in general. The latter part of the literature review aims to identify the main perceived risk in consumer behavior field.

Private Pension Systems

One of the pivotal papers published for IPS can be shown as Bodie's (1989) work. The paper aims to answer questions like why employers provide pension plans and why it is mandatory in general, why most plans are integrated with social policy, and what the notable risks are (Bodie, 1989). Bodie concluded that employer sponsored pension plans (an early form of IPS) should be considered as retirement income insurances. This study can be shown as one of the first papers that suggest private pension plans are slowly evolving into IPS form. In 1997, . . . Sass examined the private pensions' role in the capitalist economic systems in the first hundred years after their first emergence. It is concluded that, besides they are a good way to have additional income for employees in their retirement years, they also helped employers to build a better relationship with their employees by creating a more loyal and stable workforce (Sass, 1997). On the other hand, some forms of IPS were being questioned by scholars like Sinn (2000). Sinn argued that some pension system implementations like PAYGO (a funded pension system) were creating a "zero-sum game" for the coming generations because of the presence of a demographic crisis he mentions (Sinn, 2000).

Holzmann and Stiglitz's (2001) and Jin's (2004) papers can be shown as examples to the world-wide interest shown on the subject. Holzmann and Stiglitz aims to examine global issues on pension reforms (Holzmann & Stiglitz, 2001), whereas Jin mooted that China's Pension Reform was in the interests of the society as a whole (Jin, 2004). As the idea of IPS gained ground in practice and academic literature alike, authors like Martin and Whitehouse provided papers that summarize the experiences of countries that reformed their pension systems (Martin & Whitehouse, 2008).

Also, there are notable studies in Turkish literature on private pension systems and apparently, scholars' interest on the subject is only intensifying as the years come. Ergenekon's (1998) can be shown as one of the earlier studies on private pension systems. His study examines the Chile case and offers insights on how they can be improved (Ergenekon, 1998). Ergenekon's deductions match with this study's assumptions as the author suggests that the private pensions have as a safety net when national economies face with economic shock waves. Also, Ergenekon (1998) suggests that private pensions have a positive effect on macro-economic growth. Apak and Taşçıyan (2010),

besides summarizing the state of IPS in Turkey, provided very significant information on Turkish IPS markets: enrollment age of majority beneficiaries were between 25-34 and 35-44 in the years they studied (Apak & Taşçıyan, 2010). In other words; their study showed that, in terms of consumer behavior, consumption age of the product is generally 45, which is the limit age of automatic enrollment IPS in Turkey. Sezgin and Yıldırım's study in 2015, aimed to find out how effective IPS was in Turkey, and they found out that IPS was a useful complimentary tool for Turkish social security system too (Sezgin & Yıldırım, 2015). Peker's paper in 2016 had a research question quite similar with this study and his findings match with this paper's arguments shown under "Findings and Insights" section. Peker argued that automatic enrollment IPS was useful for both the economy and beneficiaries but the system itself was fundamentally problematic. Peker concluded that costs and deductions should have been pulled down or else the system would not exist without a governmental aid in long term (Peker, 2016). Similarly, Altun (2017) argued that because consumers' rationality is limited and they cared for "today" more than "tomorrow", according to behavioral theory, automatic enrollment IPS in Turkey would not be as successful as expected unless the system is simplified and punitive measures are installed (Altun, 2017). Another paper similar to this study is published by Gülay, Işık, and Öztürk in 2017. Researchers wanted to find out the specifics of beneficiaries who left the system and who did not. They found out that gender and income were two variables related with the leave action whereas having another individual pension plan did not have any effect (Gülay, Işık, & Öztürk, 2017).

Consumers' Risk Perception

One of the first and most agreed upon definition of risk in marketing can be quoted as "the nature and amount of risk perceived by a consumer in contemplating a particular purchase action" (Cox & Rich, 1964). Although scholars such as Cunningham (1967), Roselius (1971), and, Peter and Ryan (1976) have contributed to understand the nature of consumer risk concept in marketing, Garner's (1986) six-dimension consumer risk model for service markets appear to be widely agreed upon in consumer behavior field.

The six identified risks are:

- **Social Risk:** The risks that the service purchaser might face by disapproval of his or her social environment because of the service provider he or she selects.
- **Financial Risk:** The risks that the service purchaser might face if the benefits obtained from the service falls short of compensating the economic investment made or falls short of its competitors' benefits for the same amount of economic investment.
- **Physical Risk:** The risks that the service purchaser might face if the purchased service threatens the consumers' or his close environment's health or physical welfare.
- **Performance Risk:** The risks that the service purchaser might face if the purchased service does not meet with the minimum expectations of the purchaser or falls short in terms of performance comparing to its substitutes
- **Time Risk:** The risks that the service purchaser might face if the purchased service does not perform as expected in desired time period or takes too much time to obtain the service
- **Psychological Risk:** The risks that the service purchaser might face if the purchased service, in any way, has a negative effect on consumer's peace of mind, or self-perception

This study is focused on the six types of risks described above and assumes their definitions are accurate and applicable for the research question at hand.

Methodology

Because the research question: "what are the perceived risk factors of consumers when leaving the automatic enrollment IPS?", this study has its focus on the sociological phenomenon resulting the consumers' behavior. This indicates that the research question points to a qualitative paradigm. In other words, this study aims to explore the "minds" of consumers who opted out of the IPS after enrolled automatically.

Thus, this study did not rely on numbers or facts, but mainly concentrated on how the subjects feel and see the reason behind their decisions; which is a subjective term and arguably requires deeper investigation that surveys fail to provide. Again, perceived risk is a very subjective matter; a positivist approach would likely fail to have a strong grasp on the intended research question.

Therefore, the selected research philosophy for this study is interpretivist since the subjects' responses are expected to be subjective and personal. Because of the phenomenon explored in this study, research approach is decided to be inductive. Most of the answers should be valid for other individuals who belong in the same social and demographic category of the subjects involved in this study. In other words, this study is a philosophically interpretivist, exploratory research with inductive approach, which aims to explore the phenomenon with individuals and generalize it to the relevant part of the society. For this purpose, in-depth interview technique is more adept and suitable to work with qualitative data and an interpretivist approach.

Because the research question is related with personal income and investments, also automatic enrolled IPS is known to be a tool for governments to aid social security policies, leaving the system can be perceived as an "unacceptable" or a "selfish" behavior. Consequently,

some of the people who fit in the description might not want to be contacted about the research question. Given the circumstances, snowball sampling is used for selecting the sample for face to face in-depth interviews.

Five individuals in total have agreed to participate in the study. Each one of the interviewees was interviewed individually. However, none of them accepted the interviews to be voice recorded. First, interviewees are asked to state their main reason for leaving the system and their responses are controlled to find out if the responses fit with any of six dimensions of perceived risks described earlier. If so, interviews continued with open ended questions to find out if there are more factors that affected the interviewees' decisions. If the interviewee did not mention about a reason that fits within the definitions of the six dimensions of consumer risk, interviewees are asked open ended questions to have a better understanding if the reason behind their actions show similarities with any of the six dimensions defined. All interviewees are civil servants working at Aksaray University, Faculty of Economics and Administrative Sciences, and are younger than the age of 45. Faculty of Economics and Administrative sciences is chosen because since its employees have post graduate degrees in related topics and they study relevant topics as their jobs, logically they should have been the best informed people available in the society.

Findings and Insights

The table below represents the results of the interviews. Under each interviewee, the perceived risk that caused or contributed to their decision to leave the automatic enrollment IPS is marked:

Table 1: Risks and Interviewees Matrix

Risk/Interviewee	#1	#2	#3	#4	#5
Social Risk		X			
Financial Risk	X	X	X	X	X
Physical Risk					
Performance Risk	X	X	X	X	X
Time Risk				X	X
Psychological Risk	X		X		X

As it can be seen from the table provided with the responses of the interviewees, a perceived performance risk and financial risks affected all of the interviewees' decisions. The results show that interviewees have doubts over the performance of the IPS contracts offered versus the performance of other options at hand. For example, interviewee #2 said "at the time I was enrolled in the system, another investment tool (a foreign currency that interviewee does not permit to be published) had more potential". Other interviewees also support this opinion. Inspecting the risk factors with the research question at hand, because the questioned system offers a financial benefit in long term, its performance is essentially measured by its financial return. Thus, financial risk and performance risk can be deemed as synonyms for one another for this study.

Besides financial/performance risks, the most frequently mentioned perceived risk was the psychological risk dimension. Two of the interviewees (#1 and #3) have stated that they had "enough to worry about" in terms of their financial states and did not want to have another investment they do not exactly know when and how they could leave. On the other hand, interviewee #5 said that "There were rumors about the future of the IPS contract provider. Even though I wasn't really bothered with the rumors, I did not want to commit to such a long-term investment with a provider I did not choose. Also, I did not want to spend time comparing their offer with other IPS providers'." This response shows that the respondent was subject to the time risk too. Despite the fact that IPS contracts are government guaranteed and safe in that sense, respondent was worried if the bank goes bankrupt, he or she would not be able to withdraw his or her money and did not want to keep that idea in his or her mind for such a long time.

Another curious response was given by interviewee #2. Besides financial/performance risks, interviewee #2 has referred to a perceived social risk too. According to interviewee #2, his or her close environment shunned over the system and found it useless in long term. In his or her words, "when everybody around you thinks it (automatic enrollment IPS) is a bad choice, you start questioning your stance even if you initially want to stay in the system".

One response that is linked with perceived financial risk dimension but does not fully fit in the definition of it, was "I also simply could not afford it. I was in debt because of the credits I've already taken. I still am. So, I could not spare an additional 3% of my monthly income before paying my debts" by interviewee #1.

Summing up the responses by the interviewees,

- The chief perceived risk that resulted interviewees to leave the automatic enrollment IPS appears to be that they did not find it financially attractive enough despite a TL 1000 governmental incentive plus a 25% government contribution. This perceived risk can be reduced with extra incentives, if attainable, or with better communication with prospect beneficiaries by providing proofs that it has a decent long-term return for their later years in comparison with other long-term investment tools.
- Some of the respondents mentioned that they simply did not prefer the ISP provider and did not want to spend time to seek a better deal from a more favorable provider. In order to address both psychological and time risks perceived by the interviewees, automatic enrollment system can be re-adjusted so that employers can offer their employees a group of different deals they can choose from.

- The perceived social risk mentioned by the interviewee #2 can also be solved by using public diplomacy to persuade the general public that IPS is necessary and/or a prestigious choice for individuals and for public in general.
- Interviewee #1 stated that he or she could not afford to spare an additional 3% of his or her income. This can perhaps be solved by reducing the minimum enrollment share, or for some cases, "join now, pay later" solutions might potentially solve the liquidity problem for prospect beneficiaries such as interviewee #1.

Keeping in mind that the interviewees have degrees on either economic or social studies, if they are affected by perceived risks as consumers, the same, if not more, can be logically assumed for the rest of the society.

Limitations and Further Research

It is important to keep in mind that this study is conducted with five individuals who have left the system in two months after it was launched. Also, the research involved scholars from one university only. Both restrictions have potential to fail to represent the whole population even though the interviewees are legally experts of the social sciences. This paper is the first step to a larger research, which is planned to include more interviewees from different public institutions. The study can and will be expanded with the contributions from different studies done in other public institutions in order to improve the validity and reliability of the research.

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