Reforms and Challenges: The Turkish Pension Regime Revisited

Mehmet Fatih Aysan

ABSTRACT: The financial crisis of 2008 and the ongoing economic turmoil in Southern European countries pose significant challenges to many welfare regimes and their pension systems. This paper analyzes the Turkish pension system and pension reforms in relation to welfare regime discussions in the literature. Via the application of the hierarchical cluster analysis to the Organization for Economic Cooperation and Development data, this study shows that, supporting previous comparative studies, the Turkish pension regime can be characterized as a part of the Southern European welfare regime, and the 2006 pension reforms were implemented mainly to achieve a recalibration of the Turkish pension system. This paper asserts that although important improvements have been made toward achieving a sustainable and fair pension system, the Turkish pension system still has some structural problems with respect to intergenerational equity.

KEY WORDS: intergenerational equity, pension regime, reform, Turkey, welfare state.

Pension systems based on pay-as-you-go (PAYG) principles have been under scrutiny worldwide since the late 1980s. The global financial crisis of 2008 and the economic turmoil in Southern Europe made pension systems a subject of important financial and social debate in academic and political circles (Greve 2012; Kilinç et al. 2012; Ozkan-Gunay 2012). Nevertheless, newly industrializing countries and their responses to challenges regarding population aging and pension systems are generally neglected in the welfare state literature.

Among G20 and Organization for Economic Cooperation and Development (OECD) countries, Turkey, with its contradictory socioeconomic features, emerges as an unusual case. While Turkey achieved rapid economic growth in the 2000s with the momentum of its young population, it had one of the highest old-age expenditures, which necessitated the 2006 pension reforms. This study thus has three purposes and contributions. First, I examine the place of the Turkish pension regime within many welfare regimes using a cluster analysis. Second, while some studies have been focused on the general characteristics of the social policies in Turkey (see Buğra and Keyder 2006; Gal 2010; Yakut-Cakar 2007) and others on the economic impacts of the pension reforms (Elveren 2008b; Gökbayrak 2010), I scrutinize the Turkish pension system using the welfare regime approach. Third, I analyze how the Turkish pension system and its reforms affect intergenerational inequality.

I argue that the Turkish pension regime can be considered a part of the Southern European welfare regime with other Southern European countries, such as Greece, and Spain. Furthermore, contrary to previous research (Elveren 2008b; Gökbayrak 2010), an in-depth analysis of the 2006 pension reform shows the reform was implemented mainly to achieve the recalibration of the Turkish pension system. However, despite fundamental
reforms through the recalibration of the pension system, intergenerational inequalities pose a significant challenge to the welfare of the society.

Literature Review

The Turkish Welfare Regime in a Broader Perspective

The classification of welfare states occupies much of the welfare state research (Esping-Andersen 1990; Ferrera 1996; Scruggs and Allan 2006; Trifiletti 1999). According to these studies, OECD countries can be examined in four welfare regime clusters: the social democratic, the liberal, the Continental European, and the Southern European.\(^1\) To better understand the major characteristics of the Turkish welfare regime leading to its divergence from and convergence with other welfare regimes, the welfare regime clustering, as discussed below, can be fruitful.

In welfare regime groupings, some comparative studies analyze Turkey under the Southern European or Mediterranean welfare regime cluster (Aysan 2011; Buğra and Keyder 2006; Gal 2010; Gough 1996). The Turkish welfare regime has undergone substantial transformations with respect to the state, the family, the market, and nongovernmental organizations (NGOs). Changes in family structure and increases in the labor force participation of young and educated women have led the family to lose its dominant role in the traditional welfare distribution. In the meantime, globalization and localization trends have enhanced the role of the market and NGOs in the management of social risks. While the privatization process enhances the role of markets in the distribution of welfare, the European Union accession process stimulates the state to play an active role in welfare distribution. Contrary to some claims that the Turkish welfare state and social assistance system are residual (Buğra and Keyder 2006; Yakut-Cakar 2007), the Turkish state has a significant role in welfare distribution, particularly regarding elders.

The Southern European welfare regime can be seen as a distinctive type of welfare regime, with mixed features of citizenship-based Beveridgean universal national health services and occupation-based Bismarckian income transfers (Bonoli 1997; Ferrera 1996). The Continental and Southern European welfare regimes have the Bismarckian pension system, which aims to achieve income maintenance through both employees’ and employers’ contributions. Public pension systems in these countries, therefore, are organized on a PAYG basis and are funded by compulsory contributions to cover expenses of current pensioners (Natali and Rhodes 2004; Tepe and Vanhuysse 2009).

Pension income is provided by the state for those who have paid old-age pension premiums. Pension benefits are central instruments that help the state distribute welfare. The Turkish state plays a more active role in the welfare of elders relative to other cohorts. According to the OECD (2013), the share of public pension spending in total government expenditure was low in the Liberal and Social Democratic countries, whereas it was above the OECD average in the Southern and Continental European countries in 2009. In spite of its younger population, public pension spending as a share of total government expenditure in 2009 was relatively higher in Turkey at 14.2 percent, compared with 9.4 percent in Canada and 10.1 percent in Denmark (OECD 2013).

Since pensioners are exempted from income tax or health insurance premiums, and the defined benefit pension system is protected from economic fluctuations, retirees enjoy relatively higher incomes than younger workers in Turkey. For example, in 2011, the net pension replacement rate for a median income earner in Turkey was ninety-eight, one of the highest in the OECD region: The OECD average was seventy-two (OECD 2011,
Moreover, in 2005, about 41 percent of seniors in Turkey, mostly men, around sixty-five years old and over received pension income, while 22 percent of seniors received means-tested pension income (Brook and Whitehouse 2006, p. 19). The means-tested pension income is funded from the retirement fund under law no. 2022 for those seniors over sixty-five who have a low living standard and do not receive any other income. In 2011, approximately 800,000 citizens in Turkey received means-tested pension income (Sosyal Güvenlik Kurumu 2013).

The Turkish Pension Regime

Until the 2006 social security reform, there were three social security institutions based on employees’ occupations. These institutions present the hierarchical characteristic of the Turkish welfare regime. First, the Social Insurance Institution, Sosyal Sigortalar Kurumu in Turkish (henceforth SSK), was established in 1946 for blue-collar workers employed in the public sector as well as for all workers in the private sector. Second, the Retirement Fund (Emekli Sandığı in Turkish; henceforth ES) was established in 1949 only for white-collar employees working in state institutions. Finally, social security coverage was extended by the Social Security Institution of Craftsmen, Tradesmen, and Other Self-Employed People (Esnaf ve Sanatkarlar ve Diğer Bağımsız Çalışanlar Sosyal Sigortalar Kurumu; henceforth Bağ-Kur), which was established in 1971 for craftsmen, merchants, agricultural workers, and the remaining self-employed people. Unlike the SSK and ES, Bağ-Kur provided relatively low levels of old-age, disability, and health insurance benefits. The structural and economic differences among these three institutions show a fragmentary structure in the social security system, which also exists in the Continental and Southern European welfare regimes.

Table 1 shows the changes in the number of insured people (active insured, dependents of the insured, and pensioners) in three occupational social security institutions. While 36.3 percent of the insured population was covered by the ES and 63.7 percent of the insured population was covered by SSK in 1970, the percentages of the insured population were 15.5 percent by the ES, 59.1 percent by SSK, and 25.3 percent by Bağ-Kur in 2009. Even though members of all social security institutions had increased from around 9 million to 58 million by 2009, the increase was particularly significant for SSK and Bağ-Kur.

When the Turkish social security system was first established, the pension eligibility age for men and women was sixty, and the premium payment requirement based on a level of an individual’s income was twenty-five years. The Turkish pension system was changed eleven times between 1954 and 2006, mostly before elections in order to gain political support. Frequent changes in pension laws show how populism has affected the pension system. The last populist retirement law passed in 1992. The 1992 law replaced the minimum retirement age requirement by a minimum period of attachment to the social security system and effectively brought down the pension eligibility age to thirty-eight for women, considering they started to work at the age of eighteen. According to the OECD (2011), a woman who retires at the age of thirty-eight with a life expectancy of seventy-eight may enjoy an average retirement period of forty years. Therefore, due to the early retirement options, Turkey had the longest average period of pension eligibility among OECD countries (OECD 2011, p. 29). These populist policies in 1992 were promoted not only as a gift for employees who retired at a very young age but also as employment opportunities for unemployed youth. In 1990, the unemployment rate for men age fifteen
<table>
<thead>
<tr>
<th>Year</th>
<th>ES Total</th>
<th>ES Percent</th>
<th>SSK Total</th>
<th>SSK Percent</th>
<th>Bag-Kur Total</th>
<th>Bag-Kur Percent</th>
<th>Total insured</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>1970</td>
<td>3.3</td>
<td>36.3</td>
<td>5.8</td>
<td>63.7</td>
<td>0.0</td>
<td>0.0</td>
<td>9.1</td>
<td>100.0</td>
</tr>
<tr>
<td>1975</td>
<td>4.4</td>
<td>27.7</td>
<td>8.2</td>
<td>51.6</td>
<td>3.3</td>
<td>20.7</td>
<td>15.9</td>
<td>100.0</td>
</tr>
<tr>
<td>1980</td>
<td>5.4</td>
<td>26.2</td>
<td>10.7</td>
<td>51.9</td>
<td>4.5</td>
<td>21.9</td>
<td>20.6</td>
<td>100.0</td>
</tr>
<tr>
<td>1985</td>
<td>5.8</td>
<td>21.2</td>
<td>13.6</td>
<td>49.6</td>
<td>8.0</td>
<td>29.2</td>
<td>27.4</td>
<td>100.0</td>
</tr>
<tr>
<td>1990</td>
<td>6.4</td>
<td>17.2</td>
<td>19.5</td>
<td>52.4</td>
<td>11.3</td>
<td>30.4</td>
<td>37.2</td>
<td>100.0</td>
</tr>
<tr>
<td>1995</td>
<td>7.2</td>
<td>15.2</td>
<td>28.5</td>
<td>60.0</td>
<td>11.8</td>
<td>31.3</td>
<td>47.5</td>
<td>100.0</td>
</tr>
<tr>
<td>2000</td>
<td>7.4</td>
<td>16.9</td>
<td>22.7</td>
<td>51.8</td>
<td>13.7</td>
<td>24.8</td>
<td>43.8</td>
<td>100.0</td>
</tr>
<tr>
<td>2005</td>
<td>8.4</td>
<td>16.2</td>
<td>29.1</td>
<td>56.2</td>
<td>14.3</td>
<td>31.3</td>
<td>51.8</td>
<td>100.0</td>
</tr>
<tr>
<td>2009</td>
<td>9.0</td>
<td>15.5</td>
<td>34.3</td>
<td>59.1</td>
<td>14.7</td>
<td>25.3</td>
<td>58.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

to twenty-four was 16.6 percent; the unemployment rate for men age sixty to sixty-four was only 3.4 percent (TURKSTAT 2012).

Before examining the Turkish pension reforms in 2006, I provide an empirical classification of pension systems across OECD countries. The cluster analysis makes it possible to classify the degree to which pension regimes coincide and to determine whether countries can be placed in groups based on their pension features. To guide the cluster analysis, there are two arguments. First, even though OECD countries face similar demographic and economic challenges, different countries have developed varying pension and employment systems following their institutional paths (Aysan and Beaujot 2009; Esping-Andersen 1999; Pierson 2001; Tepe and Vanhuysse 2009). Second, Turkey is placed with Southern European countries with regard to its pension regime.

### Clustering Pension Regimes

#### Data and Variables

The present analysis focuses on the period 2009–2011, on which the OECD has provided the most recent comparable pension data. Two volumes of *Pensions at a Glance* (OECD 2009, 2011), in particular, provide a range of indicators for comparing pension systems in these countries. The most recent data on Turkey help analyze the impacts of the 2006 pension reform on the Turkish pension system. Nineteen OECD countries (Australia, Austria, Belgium, Canada, Denmark, France, Germany, Greece, Ireland, Italy, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, Turkey, the United Kingdom, and the United States) are selected to create a pension regime classification and to reveal the place of Turkey among these countries.3

The selection of variables represents the greatest challenge in creating pension clusters. First, correlation analysis is carried out to check whether potential cluster variables are highly correlated. Then a factor analysis is done to check whether important pension and labor market dimensions in theory are supported statistically. The overall analysis is based on eleven pension and labor market variables stemming from four important dimensions formed by factor loading scores of the pension characteristics of OECD countries: (1) pension wealth and pension income, (2) public social expenditure for the elderly, (3) labor force characteristics, and (4) inequalities within the pension system (for the full list of variables and factor-loading scores, see Table 2).

The first dimension, which is composed of pension wealth and pension income, shows the generosity of the pension regime. When the net replacement rate is high, the worker’s living standard after retirement does not change significantly. Pension wealth, however, is the lifetime value of pension benefits, which takes into account life expectancy, pension age, and indexation of pensions. The second dimension, public social expenditure for the elderly, reveals the generosity of the state in the management of social risk for the elders and the demographic characteristics of a society. The higher the proportion of senior people in a society, the stronger the pressure on the old-age public social expenditures is. The third dimension, labor force characteristics, shows the employment and retirement structure of a given society. Labor force participation rates in a country show the labor market opportunities for seniors and their contributions to the welfare of society. While early retirement options offer seniors the potential to manage their retirement years, the effective retirement age is an important indicator relating to age discrimination, employment characteristics, and social policies of a country. The fourth dimension, inequalities within the pension system, presents the equity of the pension system and labor market...
among different groups in terms of gender and generation. The share of unemployment for people ages twenty-five to twenty-nine in total unemployment is particularly important in understanding intergenerational inequalities.

A hierarchical cluster analysis is applied to identify pension regimes and examine different patterns of pension systems. A cluster analysis is one of the most popular means of constructing a typology in the welfare state literature (Aysan 2011; Castles and Obinger 2008; Gough 2001; Powell and Barrientos 2004; Saint-Arnaud and Bernard 2003). This method makes it possible to classify the degree to which pension regimes coincide and to determine whether countries can be placed in clusters based on their pension characteristics. The agglomerative linkage method, which is the most used among the hierarchical methods, constitutes clusters by grouping countries into bigger clusters until all countries are members of a single group. There are different criteria for deciding which cases should be combined at each stage. Following the usual procedure (Aysan 2011; Castles and Obinger 2008; Powell and Barrientos 2004), Ward’s method is used in forming the groups. To derive more information about the variables, and test the reliability of the hierarchical cluster analysis, a k-means clustering technique is used. The hierarchical cluster analysis will be performed to analyze similarities and differences among pension regimes, and then the Turkish pension reforms are discussed relative to welfare regime discussions.

The Cluster Analysis and Results

The hierarchical cluster analysis reveals that three broad pension regimes—Southern European, Continental European, social-liberal—can be derived from the data on nineteen OECD countries (see Table 3). Supporting previous studies (Aysan 2011; Ferrera 1996; Leibfried 1992; Saint-Arnaud and Bernard 2003), the Southern European countries Greece, Spain, and Turkey form a pension group distinct from other countries. Denmark

Table 2. Factor loadings for pension-regime variables

<table>
<thead>
<tr>
<th>Variables</th>
<th>Factors</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1</td>
</tr>
<tr>
<td>Pension wealth for men***</td>
<td>0.86</td>
</tr>
<tr>
<td>Net pension replacement rate (mean earner)***</td>
<td>0.92</td>
</tr>
<tr>
<td>Net pension replacement rate (low earner)***</td>
<td>0.96</td>
</tr>
<tr>
<td>Net pension replacement rate (high earner)***</td>
<td>0.87</td>
</tr>
<tr>
<td>Old-age expenditure in percent of GDP***</td>
<td>0.85</td>
</tr>
<tr>
<td>Government spending on old age**</td>
<td>0.94</td>
</tr>
<tr>
<td>Labor-force participation rate for men 65+</td>
<td></td>
</tr>
<tr>
<td>Effective retirement age for men*</td>
<td></td>
</tr>
<tr>
<td>Risk of relative poverty of men age &gt; 65</td>
<td>0.78</td>
</tr>
<tr>
<td>Gender gap in old-age poverty (65+)</td>
<td>0.56</td>
</tr>
<tr>
<td>Share of unemployment for men age 25–29</td>
<td>0.79</td>
</tr>
</tbody>
</table>

Notes: Analysis of variance $F$-test indicates significance level of the indicator in variations across welfare regimes. *** $p < 0.01$; ** $p < 0.05$; * $p < 0.1$. 
also joins this group. These countries have less developed welfare institutions, more emphasis on families in the management of social risks, relatively generous pension systems, and challenges regarding young people’s labor market integration. The findings show Turkey is placed along with Southern European countries with regard to its pension regime. However, according to the cluster analysis results, while Italy joins the Continental European group, Portugal merges with the social-liberal group. The Continental European countries (Austria, Belgium, France, and Germany) and Italy form the second pension cluster in the hierarchical cluster analysis. This group is also called the conservative welfare regime due to the hierarchical structure of welfare provisions (Esping-Andersen 1990, 1999). This cluster shows the main characteristics of the Bismarckian system, which has a relatively higher percentage of social expenditure financed through PAYG contributions based on employees’ occupations. The social-liberal cluster consists of social-democratic countries (Norway and Sweden) and liberal, English-speaking countries (Australia, Canada, Ireland, New Zealand, the United Kingdom, and the United States) plus Portugal and Switzerland. This group presents the Beveridgean system, which has a relatively lower percentage of social public expenditure financed through employees’ contributions. The cluster analysis findings support Hicks and Kenworthy’s (2003) study claiming liberal and social democratic welfare regimes form a single group—namely, progressive liberalism. This cluster is characterized by universal and homogenous benefits, active labor market policies, and gender egalitarian policies.

The cluster analysis shows that there have been significant variations across OECD countries in terms of their pension policies, and Turkey is placed along with Southern European countries. These variations and the Turkish pension regime can be methodically assessed through welfare regime types (Aysan 2011). The 2006 social security reform will be discussed relative to welfare regime literature.

### Table 3. Pension regimes across 19 OECD countries

<table>
<thead>
<tr>
<th>Southern European</th>
<th>Continental European</th>
<th>Social-liberal</th>
</tr>
</thead>
<tbody>
<tr>
<td>Greece</td>
<td>Austria</td>
<td>Australia</td>
</tr>
<tr>
<td>Spain</td>
<td>Belgium</td>
<td>Canada</td>
</tr>
<tr>
<td>Turkey</td>
<td>France</td>
<td>Ireland</td>
</tr>
<tr>
<td>Denmark</td>
<td>Germany</td>
<td>New Zealand</td>
</tr>
<tr>
<td></td>
<td>Italy</td>
<td>United Kingdom</td>
</tr>
<tr>
<td></td>
<td></td>
<td>United States</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Norway</td>
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<td></td>
<td></td>
<td>Sweden</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Switzerland</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Portugal</td>
</tr>
</tbody>
</table>

The Relationship Between the 2006 Reform and the Turkish Pension Regime

Contrary to some welfare regimes, which face social security challenges due to demographic factors that negatively affect PAYG pension systems, the problem of the Turkish social security stems from a combination of different factors. According to the World Bank (2006), about 50 percent of men age fifty-five and over living in cities in Turkey had pensions in 1994. The social security system began to produce a deficit in 1993, not due to the population’s aging but as the result of populist policies, irresponsible use of social security funds, and even corruption (Gümüş 2010; TUSIAD 2004). To compen-
sate for deficits at the social security institutions, the state has contributed to the social security system through budgetary transfers since 1993. During this period, the budgetary transfers to these institutions have significantly increased, and total budgetary transfers in 2013 are projected to reach TL 77 billion, representing about 4.9 percent of the gross domestic product (GDP) (Türkiye Ekonomi Politikalari Arastirma Vakfi 2013). Considering these indicators, it was apparent that the Turkish pension system was not sustainable and structural reforms were inevitable.

The role of international organizations in social security reforms must be examined in order to understand the recent pension reforms in Turkey. There have been various pension reforms proposed by the World Bank and the International Monetary Fund (IMF) in many OECD countries since the early 1990s. Palacios (1994) states that the economic growth of countries and the financial security of seniors would be better served if governments develop three pillars of old-age security: (1) a publicly managed mandatory pension system, (2) a privately managed mandatory savings system, and (3) defined-contribution voluntary savings. The World Bank and the IMF reform proposals were more than a policy recommendation regarding the stability of the Turkish economy, and the different governments that came into power in the past two decades signed four standby agreements with the IMF. The Turkish Industry and Business Association (TUSIAD), the strongest organization representing business interests, supports the World Bank pension reform claiming private pension systems will increase individual welfare as well as the performance of the financial markets (TUSIAD 2004). In addition to international financial institutions, the European Union has had a significant influence over social policies and the labor market in Turkey. According to Buğra and Keyder (2006), the EU accession process, which encourages social rights–based approaches in social policy, mitigates the influence of liberal agendas of international financial institutions. Contrary to the World Bank and the IMF, which emphasize the recommodification of pension systems, the European Union emphasizes cost containment and recalibration through the implementation of structural reforms such as sustainable economic growth, higher official retirement ages, strengthened work incentives, and fiscal consolidation (European Commission 2010, p. 11).

The 1999 pension reform in Turkey was the first significant reform that aimed to solve the problems of the social security system. This reform implemented a two-pillar pension system: The first pillar was managed by the social security institutions based on the PAYG system; the second pillar was based on private pension schemes (Elveren 2008a, p. 44). The 1999 reform increased the pension contribution period from 5,000 to 7,000 days and shortened the average benefit period by gradually raising the minimum retirement age to sixty for men and fifty-eight for women (OECD 2006). Despite the significant improvements of the 1999 reform in the pension system, the Turkish pension system was still inadequate in achieving a sustainable and modern social security system.

In 2006, a new social security reform was implemented. This reform aimed to provide wider coverage for basic health services, to reform the existing social security institutions, and to set up a new overarching institution under a single administrative body (Elveren 2008a). The 2006 reform consisted of three key components: (1) a single social security system to cover SSK, ES, and Bağ-Kur with equal social security rights; (2) a general health insurance system providing equal health coverage for every citizen by offering basic health services; (3) means-tested social assistance for all citizens coordinated by an overarching social assistance system. This reform was particularly crucial in the transformation of the corporatist and inegalitarian feature of the Turkish welfare regime by replacing the separate social security institutions with a new and overarching
institution—the Social Security Institution (Sosyal Güvenlik Kurumu). Through the new regulation, some of the privileges of civil servants, such as higher incomes and pension entitlements, were lowered, and a relatively more equal structure was formed. The 2006 reform increased the average pension contribution period from 7,000 to 9,000 days for both sexes. In addition to increasing the contribution period, the reform gradually increased the minimum official retirement age from fifty-eight to sixty-five for women and from sixty to sixty-five for men. However, the minimum retirement age will be sixty-five by 2036 and will gradually equalize at sixty-five for both sexes by 2048.

These three components of the pension reform can be analyzed through three reform dimensions—cost containment, recommodification, and recalibration—as proposed by Pierson (2001). I use Pierson’s concepts to explore the recent Turkish pension reform in more detail. As Pierson asserts, one of the assumptions of the welfare state studies is a simple dichotomy extending from the intact welfare state, on the one hand, to the dismantled welfare state, on the other (for detailed discussions, see Pierson, pp. 421–428). Nevertheless, there are different dynamics, such as political parties, unions, voters, public budget, and shaping pension reforms, that distinguish pension reforms across countries. The cost containment dimension aims to balance social security budgets and maintain the existing pension system. The recommodification dimension aims to reverse the dependence on the state through tightening eligibility or cutting benefits. Hence, while the former focuses on deficit reduction and cost management to maintain the existing pension system, the latter increases the individual’s dependence on the market for old-age social security. As discussed in more detail below, the recalibration dimension presents the removal of inefficient regulations.

The recalibration dimension has been more central to the pension reforms of the Southern European welfare states; cost containment and recommodification can be considered as moderate determinants in the recent pension reforms (Aysan and Beaujot 2009). A detailed analysis of the 2006 reform shows that although all of these three reform dimensions can be seen in the recent reform, the recalibration is the most important dimension of the Turkish social security reform. Examples of recalibration might include establishing a new social security institution, forming an overarching social assistance system, and increasing the official retirement age. Forming the Social Security Institution can serve as an example of the recalibration dimension. This new institution was established to improve the ability of the state to accurately monitor revenues and expenses, as well as to provide better services for its citizens (Brook and Whitehouse 2006, p. 7). Increasing the official retirement age due to increasing life expectancy can also be considered as a recalibration dimension of the pension reform. The recent pension reform also includes the cost containment and recommodification dimensions. While decreasing the accrual rate to reduce the increasing cost of pension transfers supports the cost containment dimension, the recommodification exists through the introduction of private pension schemes. However, it seems that these two dimensions are relatively less central to the Turkish pension reform. For example, the relatively smaller number of participants in private pension schemes demonstrates that the recommodification is not the main dimension of the pension reform (for the number of participants in private pension schemes, see Pension Monitoring Center 2013).

**Challenges Ahead: Intergenerational Inequalities in the Pension Regime**

Despite the 2006 pension reform, two important problems—gender and intergenerational inequalities—pose a threat to the welfare of society. After presenting the general
issues supporting gender inequalities, intergenerational inequalities are explored in more detail.

The main gender inequality problem, not only in the labor market but also in the pension regime, stems from “the divergent gender-based care giving and work patterns” (Estes 2005, p. 553). As highlighted above, social services such as child and elder care are provided by the family through unpaid domestic work of women in the Southern European welfare regime. According to Miranda (2011), while Turkish, Italian, and Portuguese women spend about four hours more per day on unpaid work than do men, the difference between genders is only around an hour per day in Denmark and Sweden (for detailed discussions on unpaid work and gender equity, see European Commission 2013).

Like other Southern European countries, Turkey has very limited social policies that provide income benefits for mothers who were out of the labor force due to their caring roles. Two important problems affect gender inequalities in the Turkish pension system. First, like other PAYG pension systems in the OECD, the social security system is based on premium contributions. The elderly receive old-age benefits only if they contributed to the system or are dependents of an insured, such as orphans or widows. The percentage of employed women who are registered with any social security institution shows gender imbalances in social security coverage in Turkey. While the percentage of the employed with social security coverage in 2011 was about 64 percent for men, it was only 45 percent for women (TURKSTAT 2012). Second, as in other Southern European countries, at all educational levels, women’s incomes in Turkey are relatively lower than those of men (OECD 2012). Lower incomes and career interruptions cause women to have a lower pension entitlement. According to Elveren’s (2008a) estimations, in cities, a woman who is a university graduate earns 57 percent of the income of a man who has the same education, while a woman who has a primary school education earns 46 percent of the income of a man who has the same education level. Hence, inadequate public support and structural problems lead to lower pension income returns for women and perpetuate gender income inequality in old age.

In addition to gender inequalities, intergenerational inequality poses a significant threat to the welfare of the society in terms of the pension system and the labor market in Turkey. Nevertheless, while this issue is an important theme in discussions of pension reforms (Myles 2002; Phillipson 2001), it is largely overlooked in Turkish pension reforms. Two major changes in the pension system—the rising retirement age and decreasing accrual rate—may be considered a threat to intergenerational equity and the younger generations’ welfare. While older generations benefited from relatively high pension income at relatively young ages without paying pension premiums for a long period, the younger generations must work more to be entitled to old-age benefits. Although these are significant concerns in relation to intergenerational equity, the real problem is in the difficulties in standard employment opportunities for the young. These challenges are the consequences of the transformation of the Turkish welfare regime.

The first important change affecting intergenerational equity is the increase in the minimum retirement age; younger generations will have to work longer than did the older generations. Both the 1999 and 2006 pension reforms raised the minimum age threshold for men from around forty-five to a benchmark between sixty and sixty-five. However, according to the 2006 reform, the minimum retirement age for men will not be set at the age of sixty-five until 2036. The second concern about the 2006 reform is the reduction of accrual rates. In defined benefit plans, pension benefits are calculated according to the accrual rate. The accrual rate is the rate at which pension benefits build for each year of coverage. Before the 2006 reform, the accrual rates were 3.5 percent per annum for the
first ten years, 2 percent per annum between the tenth and twenty-fifth years, then 1.5 percent per annum after the twenty-fifth year of social security coverage. For those who start to work after 2015, the accrual rate will be 2 percent per annum for every year. Put differently, people have to work more for the same pension after the reform.

Due to the long transition process, the pension system before the 2006 reform will continue to strongly affect the retirement age and pension benefits in the coming decades. In 2006, more than 75 percent of pensioners were younger than the benchmark of sixty-five years. This percentage will remain high in the next four decades, and many people will still be eligible for pensions in their early fifties in 2020 (Brook and Whitehouse 2006, p. 9). Therefore, as Brook and Whitehouse’s projections show, the 1980 birth cohort and younger will face the impact of the 2006 reform.

Even though the aforementioned factors are important in intergenerational equity, one of the major problems causing intergenerational inequity is the lack of well-paid standard jobs for the young. The surplus labor in the state-owned enterprises and the early retirement options were a method of welfare redistribution provided by populist governments in the period from the 1960s to the late 1990s. As pointed out before, populist policies that change official retirement ages are no longer a means of welfare distribution in Turkey. The Turkish state has already privatized the biggest state-owned enterprises, such as mining and telecommunication. Globalization and international competition frequently oblige private companies to recruit part-time unregistered workers (Rodrik 1997; Standing 1999). Until recently, it was common for people to officially retire from one of the social security institutions and then to continue to work unregistered in Turkey. This employment strategy was reasonable for both employers, who did not have to pay extra social security contributions on behalf of their elder employees, and employees, who had social security and received pension income. These retired employees did not have to pay either social security premiums or income tax. Nevertheless, cohorts who started to work after the 2006 reform will not be able to follow this strategy since they will have to work until sixty-five and pay a social security contribution for twenty-five years.

There is no doubt that in a more fragile labor market, it might be difficult for the younger generations to find well-paid and secure jobs for twenty-five years. The high unemployment rate for the twenty to twenty-four age range, which was 19 percent in Turkey in 2012, shows that the Turkish labor market has problems in generating employment opportunities for the young (OECD 2013). Even though intergenerational equity problems arising from pension reforms are not peculiar to the Turkish welfare regime (Aysan 2011; Lynch 2006), Turkey faces a double burden because of the budget deficits in its pension system despite its younger population. In the 2040s, when Turkey will have lost its demographic opportunity, the financial constraints on the pension system will be more intense (Hacettepe University Institute of Population Studies 2010; TUSIAD 1999). Despite the significant progress of the 2006 reform in achieving a sustainable and fair pension system, more needs to be done to encourage standard employment opportunities and to decrease intergenerational inequity.

Discussion and Conclusion

This article contributes by implementing a cluster analysis to address pension regime differences across OECD countries. The article contributes to the welfare regime and pension literature by emphasizing the place of Turkey in the Southern European welfare regime through the cluster analysis. While some have examined the general characteristics
of the social policies in Turkey (see Aybars and Tsarouhas 2010; Buğra and Keyder 2006; Gal 2010; Yakut-Cakar 2007), and some have focused on the economic impacts of the pension reforms (see Elveren 2008b; Gökbayrak 2010), I scrutinize the Turkish pension system using the welfare regime approach. Furthermore, I analyze how the Turkish pension system and its reforms affect intergenerational inequality.

The findings of the cluster analysis prove that pension regimes can be classified in three broad clusters: Southern European, Continental European, and social-liberal. As in previous studies (Aysan 2011; Buğra and Keyder 2006; Gough 1996), it is shown here that Turkey can be considered under the Southern European welfare regime, which is a distinct welfare regime with mixed features of citizenship-based Beveridgean universal national health services and occupation-based Bismarckian income transfers (Bonoli 1997; Ferrera 1996). The public pension systems in these countries, therefore, are organized on a PAYG basis and funded by compulsory contributions to cover the expense of current pensioners.

The outcome of the 2006 pension reform shows that the pension reform was implemented mainly to recalibrate the Turkish pension system along the lines of other Southern European welfare regimes. Increases in the minimum retirement age and payment premium requirements, the modernization of the pension system, and the unification of different social security institutions illustrate that recalibration is the most important target of this reform. The cost containment and recommodification dimensions, however, have relatively smaller impacts on the recent pension reform.

The welfare distribution of elders has become a significant social and political challenge for many welfare regimes. Demographic aging, the increasing cost of the elderly, and populist policies are the main problems that the state needs to consider in pension reforms. Despite important improvements in the Turkish pension regime toward achieving a sustainable and fair pension system, the Turkish pension regime still has some structural problems. The pension regime based on early retirement will continue to be an obstacle for the expansion of formal employment opportunities for young people. Due to high social security contributions in the formal sector, young retirees who have pension incomes and health-care benefits continue to work informally. However, the young have to find well-paid and secure jobs to guarantee their old-age income in a period that is marked by uncertainties and the state’s inability to ensure full employment.

Pension system and reform outcomes cannot be understood entirely in terms of financial and economic determinants. One needs to examine the social and political factors that led to the pension reforms. Both indigenous and exogenous dynamics, such as social expenditures due to the aging of the population, neoliberal globalization, financial crises in Europe, and instability in the Middle East, will require the state to collaborate with other welfare actors—the family, the market, and local actors. In the welfare regime approach, societies are grouped not only in terms of how their social policies are constructed through aforementioned welfare actors but also in terms of how different welfare regimes influence social institutions. Using the welfare regime approach helps in understanding the state-society relations throughout history as well as the contemporary changes in the social-policy literature. This approach, therefore, provides considerable opportunities for understanding the pension regime in Turkey as well as in other countries.

Notes

1. Further comparative research is needed, particularly on Eastern Europe, East Asia, and the Middle East, which have diverse historical and institutional characteristics affecting welfare dis-
2. The net replacement rate is the individual net pension entitlement divided by net preretirement earnings, taking account of personal income taxes and social security contributions paid by workers and pensioners (for details, see OECD 2011).  

3. These OECD countries have frequently been studied in the comparative welfare state research and have the most established pension systems. Since the main objective of this study is to group nineteen OECD countries according to their pension policies, the cluster analysis for women is not discussed. Cluster analysis results of these countries for women show that there are significant similarities between men and women in terms of welfare state groupings. The estimates for women can be obtained from the author upon request.

4. K-means clustering results are mainly in line with the findings obtained by hierarchical cluster analysis. Among nineteen countries, only four countries changed their locations compared to the hierarchical clustering model. K-means clustering results can be obtained from the author upon request.

References


