

**T.C.  
ISTANBUL KULTUR UNIVERSITY  
INSTITUTE OF GRADUATE STUDIES**

**A COMPARATIVE STUDY OF PENSION SYSTEMS ITALY AND TURKEY**

**Masters of Applied Science Thesis**

**Esat Nuri TÜRKMEN**

**2200007007**

**Department: Business Management**

**Programme: Business Administration**

**Supervisor: Prof Dr. Emine Müge ÇETİNER**

**JUNE 2024**

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**JUNE 2024**

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## **ABSTRACT**

This paper lays out a way to design pension systems, focusing on these main roles: helping folks plan their finances over their lives, protecting against personal uncertainties, and spreading economic risks across generations. Financial planning means managing your spending and saving throughout your life, tailored to your specific situation. Protecting against uncertainties involves pooling risks within the same generation to deal with gaps in current insurance markets. Pensions are crucial worldwide because they provide more than financial security; they offer dignity and stability as we age. For young people, pensions are a promise of future security, building a foundation through their work. For adults, pensions offer reassurance in life's uncertainties, guaranteeing a steady income after years of effort. They handle many responsibilities, knowing that today's contributions ensure their future. For the elderly, pensions fulfill a lifelong promise, letting them live their later years with dignity and peace, free from poverty. Pensions greatly impact every stage of life. They let young folks dream without fearing old-age poverty, give adults the confidence to invest in their lives and families, and provide the elderly with a safety net that maintains their independence. Pensions are vital, supporting the stability and well-being of individuals and societies, reminding us that today's efforts secure a dignified and stable future. Turkey and Italy are significant players in the global economy and population trends, making their pension systems crucial topics for study. Looking at and comparing the pension systems in these countries gives valuable insights into how different nations handle the challenges of aging populations and economic stress. Researching the pension systems in Turkey and Italy is important, contributing to the wider conversation on global economic stability and social welfare.

The study consists of seven sections following the introduction. The first section provides a historical overview for both countries, while the second section examines the structure of the pension systems. The third section focuses on the financial sustainability of the pension systems. The fourth section discusses the eligibility criteria and expected benefits of the pension systems in both countries. The fifth section covers the demographic characteristics of the countries. The sixth section explores the reforms made to the pension systems and future expectations. The seventh section analyzes the similarities and differences between the countries' pension systems. The study concludes with a results section and references.

***Key words: Pension System, Turkey, Italy, Economic Reforms, Financial Sustainability***

## ÖZET

Bu çalışma, gerek İtalya gerekse Türkiye karşılaştırmaları ile , emeklilik sistemlerinin tasarlanma yollarını belirleyerek, her iki ülke açısından sistemlerin derinlemesine incelenmesini hedeflemektedir. Bilindiği üzere emeklilik sistemlerinin temelinde, bireylerin yaşamları boyunca mali planlama yapmalarına yardımcı olmak, kişisel belirsizliklere karşı koruma sağlamak ve ekonomik riskleri kuşaklar arasında yaymak yatmaktadır Mali planlama, yaşam boyunca harcamaları ve birikimleri, özel durumlara yönelik yönetmeyi içerir. Belirsizliklere karşı koruma ise mevcut sigorta piyasalarındaki boşlukları kapatmak amaçlı olarak riskleri en aza indirmeyi kapsar. Emeklilik sistemleri dünya genelinde finansal güvenlikten çok daha fazlasını sağlayarak, sistem yatırımcılarına yaşlandıkça itibar ve istikrar sunmaktadır. Genç kuşaklar için emeklilik, gelecekteki güvenliklerinin teminatı olarak kabul edilir. Yetişkinler açısından da emeklilik, hayatın belirsizlikleri karşısında durmak için, yıllarca süren çabaların ardından, çalışılmaz duruma gelindiğinde düzenli bir gelir sağlama olanağıdır. Sistem yatırımcıları bugün yaptıkları birikimlerin, geleceklerini güvence altına aldığını bilerek sorumluluk alırlar. Bu şekilde yaşlılık yıllarını yoksulluktan uzak bir şekilde itibar ve huzur içinde geçirmek hedeflenir. Emeklilik sistemi ile, genç insanların yaşlılık yoksulluğundan korkmadan hayal kurmaları, yetişkin insanların hayatlarına ve ailelerine yatırım yapma güveni, yaşlıların ise bağımsızlıklarını sürdüren bir güvenlik ağı elde edilmiş olur. Emeklilik sistemleri, bireylerin ve toplumların istikrarını ve refahını destekleyerek, bugünün çabalarının, itibar ve istikrar dolu bir geleceği güvence altına aldığıın sigortasıdır. Bu çalışmada Türkiye ve İtalya, küresel ekonomi ve nüfus trendlerinde önemli oyuncular oldukları için, her iki ülkenin de emeklilik sistemlerinin derinlemesine incelenmesi amaçlanmıştır. Söz konusu ülkelerin emeklilik sistemleri hakkında temel bilgiler vererek karşılaştırmalar yapmak, gitgide yaşanan nüfus ve ekonomik stresle nasıl başa çıktıkları hakkında araştırmalar ile literatüre katkı yapmak istenmiştir.

Çalışma giriş bölümünün ardından yedi bölümden oluşmaktadır. İlk bölümde her iki ülke için de tarihsel bakış ele alınmış, ikinci bölüm emeklilik sistemlerinin yapısı, ardından gelen üçüncü bölümde ise emeklilik sistemlerinin finansal sürdürülebilirliği incelenmiştir. Dördüncü bölümde, her iki ülke için emeklilik sistemlerinin uygunluk kriterleri ve elde edilmesi beklenen faydalar, beşinci bölümde ülkelerin demografik özellikleri, altıncı bölümde sistemle ilgili yapılan reformlar ve geleceğe yönelik beklentilerin yanısıra yedinci bölümde ülkelerin benzeşen yönleri ve farklılaşan yönleri araştırılmıştır. Çalışmamız sonuç bölümü ve referanslar ile tamamlanmıştır.

***Anahtar Kelimeler: Emeklilik Sistemi, Türkiye, İtalya, Ekonomik Reformlar, Finansal Sürdürülebilirlik***

## INTRODUCTION

Many countries have made big changes to their pension systems, often following advice from the World Bank. Chile was the first to do this in 1981, starting a trend towards new pension systems. In the 1990s and over the last 20 years, about twenty countries in Latin America, Europe, and Asia also adopted similar systems. These changes usually included the following key points:

- Switching from Defined-Benefit to Defined-Contribution Plans: Countries moved from plans where retirees get a fixed amount to plans where the payout depends on contributions and investment performance.
- Shifting from PAYG to Funded Systems: There was a shift from systems where current workers' payments go to current retirees to systems where individuals save and invest their own money for retirement.
- Creating Different Pillars: Pension systems were divided into parts. The public pillar provided basic support to prevent poverty, while the private pillar encouraged personal savings and investments for retirement.

Each country's reform was a bit different, especially in the size and nature of the public pillar and who could manage the private pillar's accounts. Despite these differences, the overall goal was to create more sustainable pension systems. It is still early to see the full results of these reforms, but Chile's experience has been positive. Chile's new system has seen good investment returns, reduced evasion, increased savings, and grown financial markets while still helping the poorest people. From the experiences of these countries over the past two decades, and more quickly in the last ten years, we have learned that pension system reform is possible. However, the exact changes vary depending on each country's unique situation, like their pension debt, the strength of trade unions, and their economic policies. Pension systems help people save money for retirement, ensuring they

have an income when they stop working. Around the world, these systems are facing challenges due to longer life expectancies and fewer births. This means more retirees need support, but there are fewer workers contributing to the system. To tackle this, many countries are making changes. One common solution is to raise the retirement age, so people work longer and pay into the system for more years. This helps balance out the time they will spend in retirement. Another strategy is encouraging people to save more on their own. In addition to traditional pensions, personal savings can provide extra financial security. Employers and employees are also being asked to contribute more to pension funds, strengthening the financial base of these systems. Flexible pension plans are becoming more popular to include all kinds of workers, like freelancers and gig workers. This ensures everyone has the chance to save for retirement. Governments are also trying to make it more appealing for older workers to stay in their jobs. If they work longer, they keep contributing to the pension system and delay drawing benefits, which helps ease financial pressures. In the past, pension systems were built when demographics were different. Now, the world has changed, and the future of pension systems globally is uncertain. More retirees and fewer workers make it harder to keep these systems stable.

Pension systems globally are adjusting to cope with more retirees and fewer workers. These reforms are crucial to make sure retirees have a secure and dignified life without overburdening the younger generation. Comparing different countries' pension systems can reveal effective strategies and help improve systems worldwide. However, the future remains uncertain, and sustaining these systems will be a significant challenge.

In the world of 2024, pension systems are facing significant challenges due to demographic shifts and changes in workforce patterns. With people living longer and birth rates declining, the ratio of retirees to working-age individuals is increasing. This situation is putting a strain on pension systems, as there are fewer younger workers to support a growing number of retirees. To address these issues, countries are exploring various strategies to adapt their pension schemes to better suit an aging population.

One approach being considered is to extend the working age, allowing individuals to retire later in life. This adjustment aims to align retirement ages more closely with increased life

expectancies, ensuring that individuals contribute to the pension system for a longer period while also reducing the time they spend in retirement drawing benefits. Additionally, there's a push for people to save more privately for their retirement, complementing the traditional pension with personal savings to create a larger financial cushion for their later years. Reforms are also encouraging both employees and employers to contribute more to pension funds. This effort is designed to bolster the financial foundation of pension systems, ensuring they have the resources needed to support current and future retirees. Moreover, pension plans are becoming more flexible to accommodate diverse work arrangements, including gig and freelance work, making it easier for all types of workers to save for retirement. Countries are implementing policies to make it more attractive for older workers to remain in the workforce. By working longer, these individuals continue to contribute to the pension system and delay drawing benefits, which helps alleviate some of the financial pressures on pensions.

In summary, the challenges faced by pension systems in 2024 are a result of longer life expectancies and lower birth rates, leading to a larger elderly population supported by a smaller workforce. Countries, including Italy, are taking steps to reform their pension systems, making them more sustainable and adaptable to current and future demographic trends. These reforms are essential to ensure that retirees can enjoy a secure and dignified retirement without placing an undue burden on younger generations.

A pension system is like a long-term savings plan for when you get older and stop working. Think of it as a special piggy bank. When you work, a part of what you earn goes into this piggy bank. Sometimes, your employer and even the government add to it. This isn't just any piggy bank though; the money in it grows over time, like planting a seed that grows into a tree. When you retire, you start using this money. It's like getting a regular paycheck, but it's from all the savings you built up during your working years. This system is important because it ensures people have a steady income when they aren't working anymore. Pension systems started because many older people had no income after they stopped working. Imagine getting to a point in life when you want to rest and enjoy, but you can't because you have no money. Pension systems were set up to stop this

from happening. They make sure older people can live with dignity, have enough money to take care of themselves, and don't have to rely too much on others. One main reason for pension systems is to stop poverty among the elderly. Without these systems, many older people would be very poor. By giving them a steady income, pension systems help keep them out of poverty. Pension systems also help the economy. When older people have a steady income, they keep buying things and using services, which is good for the economy. A pension system is a really important safety net. It's about getting ready for the later part of life by saving up when you can. When the time comes to stop working, this system makes sure that life can still be enjoyable, secure, and with dignity.

Pension systems are important because they give financial support to people after they stop working. As people get older and can't work anymore, they need a steady income to pay for their daily needs. Without pensions, many retirees could face serious money problems, leading to more poverty and inequality. Pensions also help keep the economy stable. When older people have money to spend, they buy goods and services, helping businesses make money and keeping the economy active. Knowing they will have money in the future also makes people save and invest more during their working years, which is good for the economy. If pension systems fail, it can have bad results. Many older people might not be able to afford things they need, like food, housing, and healthcare. This could make governments spend more on social help, which can strain public budgets and lead to higher taxes or cuts in other services. A breakdown of pension systems would also hurt the economy. With less money to spend, retirees would buy fewer goods and services, slowing down economic growth. If workers don't trust that they will have enough money for retirement, they might save less, reducing economic activity. Every country needs good pension systems to ensure that people can retire with dignity and financial security. These systems help keep society stable and the economy healthy. Governments must work to create and maintain strong pension systems to protect their citizens and economies.

Security for senior citizens is a big deal in any society, and pension systems are at the heart of making sure older folks have the money they need after they stop working. Imagine working all your life and then getting to a point where you can't work anymore

because you're older or maybe not in the best health. This time is called retirement, and it's supposed to be a relaxing and enjoyable phase of life. But if there's no money coming in, it can turn into a time of worry and uncertainty. That's why pensions are so important. Pensions are like a safety net. When people are working, they, or their employer, or sometimes even the government, put a little bit of money aside. Then, when people retire, this money comes back to them regularly, giving them an income when they aren't working anymore. It's a simple idea: you save a bit of what you earn today so you can have it when you're older and not earning anymore. Without a pension, a lot of older people would have a really hard time. They might struggle to afford basic stuff like their house, food, healthcare, and paying the bills. In some cases, not having a pension could even mean becoming poor or having to rely a lot on family or government help. Having a pension isn't just about being comfortable; it's about being able to live with dignity when you're older. Pensions are also important for the whole economy. When older people have a steady income, they keep buying things and using services. This spending helps keep the economy active and healthy. It's like when one person spends money, it helps other people make money, and it all goes around in a circle. In places where there are a lot of older people, pensions become even more important. As people live longer lives, they spend more time in retirement. This means they need a good plan to make sure they have enough money for all those years. Pensions help with this by making sure older folks have a steady income for as long as they need it. But it's really important that pension systems are set up right and kept going properly. They need to be able to handle changes, like more people getting old or the economy going up and down. Keeping pensions working right is key to making sure they can keep helping older people in the future. Pensions are more than just a way to save money. They show that a society cares about its older people. Pensions give more than just money; they give peace of mind and a sense of safety to older folks, letting them enjoy their later years with independence and respect. As more people get older and things keep changing, making sure pensions are there for them is super important. Getting poverty under control for elderly people is a big challenge, and pensions play a huge role in this. Pensions are really important because they help older folks have enough money to live on when they're no longer working. Think about it: when people get older, they often stop working. This means they don't have a regular paycheck

coming in anymore. But bills don't stop just because you retire. There's still rent or mortgage to pay, food to buy, and other costs like healthcare, which can be a lot for older people. Without a regular income, it can be really tough for elderly folks to make ends meet. That's where pensions come in. Pensions work like a monthly paycheck for retired people. They get this money because they paid into a pension fund when they were working, or sometimes the government helps out. This money helps them buy what they need and pay their bills. It's not about living in luxury; it's about having enough to live with dignity and not having to worry about how to afford the basics. Without pensions, a lot of older people might end up poor. They might have to depend on their families a lot, or they might not get the care they need. That's not good for them, and it's not good for society, either. When elderly people have enough money to live on, they can take better care of themselves. They can also contribute to the economy by buying things they need and want. Pensions are also about fairness. People work hard all their lives, and when they get older, they deserve to relax and not have to worry about money all the time. Pensions make sure that people who spent years working can enjoy their older years without financial stress. But setting up good pension systems isn't always easy. The money for pensions has to come from somewhere, like workers' paychecks, company funds, or government money. And as people live longer, they need money for more years than before. So, it's important to have pension systems that are well planned and have enough money to last. Adapting to demographic changes is a big thing nowadays, especially because people are living longer and having fewer kids. This means there are more old people around than ever before. With this shift, it's important to think about how pension systems can support these older folks. Since people are living longer, they need money to last them for more years of retirement. This isn't just about having enough to eat and a place to live; it's also about being able to pay for things like medicine and doctors, which become more important as people get older. On the other hand, with fewer kids being born, there are fewer younger people working and paying into pension systems. This can make it hard to keep pension funds strong and ready to support all the older people who need them. So, it's super important to figure out how to keep pension systems going strong in these changing times. It's all about making sure that as people get older and stop working, they still have a steady income. This helps them live comfortably and with

dignity during their golden years, without worrying too much about money. Pension systems are vital for ensuring financial stability for individuals after they retire from working. As people age and stop earning a regular income, they need a consistent source of funds to support their daily expenses. Without these systems, many retirees could encounter severe financial difficulties, increasing poverty and inequality. In addition to meeting individual needs, pension systems also play a key role in sustaining economic stability. When retirees receive steady income, they continue to spend on goods and services, helping businesses stay profitable and keeping the economy vibrant. The presence of pension systems also motivates people to save and invest, enhancing overall economic activity. If pension systems were to fail, the consequences could be severe for both individuals and the economy. A collapse would mean many older adults might struggle to afford essentials like food, housing, and healthcare. This could force governments to increase social assistance, putting a strain on public finances and possibly leading to higher taxes or reduced funding for other services.

Moreover, a breakdown in pension systems would reduce retirees' spending power, lowering demand for goods and services, and slowing economic growth. Every country must establish and maintain effective pension systems to ensure individuals can retire with financial security and dignity. By supporting the elderly, these systems help uphold social and economic stability. Governments must prioritize developing and sustaining robust pension systems to protect their citizens and economies.

## **1. TURKEY AND ITALY: INTRODUCTION AND HISTORICAL DEVELOPMENT**

Considering the growing importance of private pension funds in several countries, one of the most interesting research topics in the area of pension insurance is the capability of private sector pension funds to generate satisfactory retirement benefits for members in the long run. Hence, it is useful to perform a comparative analysis of the retirement

benefits generated by public pension systems and private sector pension funds (Bovenberg, 2011).

Turkey and Italy both have rich histories and distinct cultural backgrounds, which significantly influence their pension systems. The evolution of pension systems in these countries reflects their unique socio-economic landscapes. Historically, both nations have transitioned from traditional family-based support systems to more formalized state and occupational pension schemes. This shift was driven by industrialization, urbanization, and changes in family structures. In Italy, the pension system has deep roots in the country's post-war reconstruction era, emphasizing social solidarity. Turkey's pension development, on the other hand, has been influenced by its rapid economic growth and modernization efforts in the 20th century. Both countries have faced challenges in ensuring the sustainability and adequacy of their pension systems amid demographic changes. The aging population in Italy and the youthful demographic in Turkey present distinct challenges and opportunities. Reforms in both countries aim to balance financial sustainability with adequate retirement income. These efforts are crucial in addressing the economic and social needs of their respective populations.

### **1.1 Historical Background Of The Turkish Pension System**

Turkey's pension system has a different history and set of challenges. The modern Turkish pension system started later than Italy's, with big reforms beginning in the early 2000s. Turkey faced similar demographic pressures, like an aging population and lower birth rates, which strained the traditional pension system.

Turkey's pension reforms aimed to create a more balanced and sustainable system. The country moved from mainly a pay-as-you-go system, where current workers' contributions were used to pay current retirees, to a system that includes funded parts. This shift was designed to reduce the immediate financial burden on the government and create a more stable funding base for future retirees. One key reform in Turkey was the introduction of the Individual Pension System (IPS) in 2001. The IPS is a private, voluntary pension

system that lets individuals save for their retirement with contributions from both employees and employers, as well as state incentives. This system runs alongside the public pension system, providing extra retirement income and encouraging a culture of saving. Turkey also made changes to its public pension system to increase sustainability. This included raising the retirement age and adjusting the formula for calculating benefits to be more closely tied to contributions. These measures help ensure that the pension system can meet the needs of retirees without overwhelming the public budget.

Turkey did not inherit a sophisticated social security system from the Ottoman Empire. The evolution of social security systems necessitates a certain level of industrialization, the emergence of a labor class, and the establishment of collective bargaining processes. The lack of these elements in the Ottoman era hindered the creation of a comprehensive social security system. In 1921, the Ereğli Coal Miners' Union was founded under Law No. 151 on the Rights of Ereğli Coal Miners. This organization was the first legally established social security institution in Turkey with mandatory membership. In the early years of the Republic, several initiatives aimed at protecting the national economy and developing the private sector were undertaken. However, the Turkish bourgeoisie at that time lacked the necessary equipment and skills to foster economic development, making these initiatives insufficient. In the 1930s, influenced by the global economic crisis, the state adopted an import-substitution economic model to promote industrialization. This period marked the beginning of Turkish industrial expansion, with the state playing a crucial role in establishing new public enterprises and supporting the private sector, facilitated by external borrowing and cheap labor from rural areas. During the first half of the twentieth century, social insurance funds for military and civilian state personnel were established piecemeal by various institutions, while social security regulations for workers remained limited to coal miners in the Ereğli district. The Social Insurance Institution (SSK) was a social security entity under the Ministry of Labor and Social Security. With the enactment of Law No. 5510 on Social Insurance and General Health Insurance on May 16, 2006, the institution was transferred to the Social Security Institution of the Republic of Turkey under the same ministry. The Social Security Institution (SGK) was created as a state entity by Law No. 5502, enacted on May 16, 2006, merging the Social Insurance

Institution, Bağ-Kur, and the Pension Fund. The institution comprises three main bodies: the general assembly, the board of directors, and the presidency. The primary objective of SGK is to implement a modern social security system based on social insurance principles that is effective, fair, easily accessible, actuarially sound, and financially sustainable. SGK operates as an affiliated body of the Ministry of Labor and Social Security. SGK's responsibilities include implementing social security policies aligned with national development strategies and annual implementation programs and conducting studies to enhance these policies. Additionally, it is tasked with informing individuals and entities about their rights and obligations, facilitating the use of their rights and the fulfillment of their obligations, monitoring international developments in social security, cooperating with the European Union and international organizations, conducting necessary studies for social security agreements with foreign countries, and implementing duly enacted international agreements. One of the most comprehensive public social security expenditure reforms in Turkey was the initiation of the "65-year pension" scheme under Law No. 2022, which began on July 10, 1976. This scheme provided a pension to needy, powerless, and lonely Turkish citizens aged 65 and older without requiring any contributions. Law No. 2022 is considered a notable example of social security. The Social Insurance Institution for Tradesmen and Craftsmen and Other Self-Employed (Bağ-Kur) was established with Law No. 1479 on September 2, 1971. The insurance provisions of the law took effect on October 1, 1972, and health insurance benefits began to be provided to those insured under this law starting January 1, 1986. The Law on Muhtar's Allowances and Social Security dated September 10, 1977, and Law No. 2108 ensured that village and neighborhood headmen were mandatorily insured under Bağ-Kur. Law No. 2229, dated May 4, 1979, granted voluntary insurance under Bağ-Kur to Turkish citizens not covered by any social security institution, including housewives. These insured persons were subject to the same rights and obligations as compulsory insured persons. In 1983, significant regulations were enacted to ensure the social security of those working in the agricultural sector with the introduction of Law No. 2925 on Social Insurance for Agricultural Workers and Law No. 2926 on Social Insurance for Self-Employed in Agriculture. By the 2000s, due to financial and structural problems in the Turkish social security system, various reforms were implemented to address these issues. Law No. 5502

on the Establishment, Organization, Duties, and Powers of the Social Security Institution was enacted on May 16, 2006, to regulate the procedures and principles related to the establishment, organization, duties, and powers of SGK. Similarly, Law No. 5510 on Social Insurance and General Health Insurance was enacted on May 31, 2006, to provide social insurance and general health insurance coverage. It defines the beneficiaries and the rights to be provided, the conditions for accessing these rights, and the financing and coverage methods. This law also regulated the procedures and principles related to the functioning of social insurance and general health insurance. Laws No. 5502 and 5510 were implemented as part of the social security reform. Under this reform, SSK, Bağ-Kur, and the Pension Fund, which provided services according to different norms and standards, were merged under a single entity known as the "Social Security Reform." SGK continues its operations with the participation of all its personnel, putting forth individual and institutional energy to provide better services to citizens. To ensure that citizens receive easy, fast, and quality services, the e-government application was introduced. It was deemed necessary to carry out social security reform to establish norm unity and create a sustainable social security system. Therefore, the Social Security Institution, which brings together the Social Insurance Institution, the Pension Fund of the Republic of Turkey, and Bağ-Kur under one roof, was established with Law No. 5502, published in the Official Newspaper dated May 20, 2006, and numbered 26173. This reform aimed to establish a single retirement and health insurance system where insurance rights and obligations were equalized and financially sustainable. Later, with Presidential Decree No. 4 published in the Official Gazette dated July 15, 2018, and numbered 30479, the duties, powers, responsibilities, and organizational structure of the institution were redefined. The reform also aimed to create a general health insurance system that provides equal, easily accessible, and quality health services to the entire population. Thus, Law No. 5510 on Social Insurance and General Health Insurance was enacted on May 31, 2006, and was expected to come into force on January 1, 2007. However, due to reasons such as the annulment of some articles of Law No. 5510 by the Constitutional Court and the issuance of legislation amending the law, the effective date was first postponed to July 1, 2007, then to January 1, 2008, and finally, Law No. 5510 came into force on October 1, 2008, with all its provisions. Law No. 5510 ensured norm and standard unity in many

aspects of social insurance and was implemented. One of the most significant reforms in the 2020s was the introduction of the retirement system known as EYT (Early Retirement Plan), which allowed citizens to retire under specific conditions and rules. This reform addressed a significant demand from the working population. As its name suggests, SGK (Social Security Institution) is an essential component of the social state concept. The reforms carried out in these processes have ensured that the social security system attains a modern, fair, and sustainable structure.

**Introduction of the Individual Pension System (IPS) in 2001:** In 2001, Turkey launched the Individual Pension System (IPS), shifting towards private retirement savings. This system encouraged individuals to contribute voluntarily to their retirement funds, with some employers also making contributions. The goal was to foster a culture of saving for the future and reduce reliance on the state pension system.

**Automatic Enrollment in 2017:** In 2017, Turkey began automatically enrolling employees into the Individual Pension System when they started a new job. Employees were included in the system unless they opted out. This move greatly increased the number of people saving for retirement and helped instill the habit of saving from a young age.

**Reform of the Social Security Institution (SGK) in 2006:** In 2006, Turkey overhauled its social security system by consolidating several separate social security agencies into one entity, known as the Social Security Institution (SGK). This reform aimed to streamline the system, making it more efficient, transparent, and easier to manage. The goal was to enhance the delivery of pension benefits and other social services.

**Raising the Retirement Age:** Turkey has been progressively raising the retirement age for both men and women. This change aligns with a global trend to address the issues of an aging population. By increasing the retirement age, the government aims to ensure the pension system's financial sustainability and continue providing benefits to future retirees.

- **Shift to Private Savings Plans:** One of the modern changes in Turkey's pension system is the move towards private savings plans. This began with the introduction of the Individual Pension System (IPS) in 2001. People are encouraged to put aside money for their retirement voluntarily, and sometimes their employers also contribute. This change aims to help people save more for their future and reduce the pressure on the government pension system.
- **Automatic Enrollment for Employees:** In 2017, Turkey started automatically signing up new employees for the Individual Pension System. When people start a new job, they are automatically enrolled to save for retirement unless they choose not to. This step has helped many more people start saving for their old age and has encouraged a saving habit from the start of their careers.
- **Unified Social Security System:** Another significant change happened in 2006 when Turkey combined several different social security organizations into one main body called the Social Security Institution (SGK). This reform aimed to make the system more straightforward, transparent, and efficient. By having one organization in charge, the government hoped to improve the way pension benefits and other social services are managed and delivered.
- **Increasing the Retirement Age:** Turkey has been gradually raising the retirement age for both men and women. This is in response to the growing number of older people and the need to keep the pension system financially healthy. By asking people to work a little longer before they retire, the government hopes to make sure that the pension system can support everyone in the future.
- **Facing Demographic and Financial Challenges:** Despite these changes, Turkey's pension system still faces challenges. The aging population means more people are retiring, putting a strain on the system. Additionally, economic factors can affect the sustainability of pensions. The government continues to look for

ways to address these issues, such as encouraging more private savings and finding new ways to fund pensions.

Turkey's pension system has a long history with many important changes to make it better. Over the years, it has evolved to help the growing number of older people and to deal with financial issues. Originally, the pension system in Turkey was mostly run by the government. The money for pensions came from taxes and the contributions of workers, which were used to pay retirees. However, as more people started living longer, this system faced a lot of pressure. In 2001, Turkey introduced the Individual Pension System (IPS). This was a big change towards private savings for retirement. With IPS, people could save money for their own retirement, and sometimes their employers would add money too. This aimed to reduce the burden on the state and encourage people to save more for their future. In 2006, Turkey made another important change by combining several different social security organizations into one, called the Social Security Institution (SGK). Before this, different groups managed different parts of social security, which was confusing and inefficient. By having one organization, the system became more straightforward and easier to manage. In 2017, Turkey started automatically enrolling new employees into the IPS. This meant that when people got a new job, they were signed up to save for retirement unless they chose to opt out. This change helped more people start saving for their future from the beginning of their careers. Another key change has been gradually raising the retirement age. This means people have to work a bit longer before they can retire. This change is meant to help keep the pension system financially healthy as more people live longer lives. Even with these changes, Turkey's pension system still faces challenges. The growing number of retirees and changes in the economy put a strain on the system. The government is always looking for new ways to encourage private savings and make sure there is enough money to pay pensions.

In short, Turkey's pension system has seen many important reforms over the years. These changes aim to make the system more efficient and sustainable, helping to support people now and in the future

## 1.2 Historical Background Of The Italian Pension System

The history of Italy's pension system is long and has seen many changes. Here's a look at how it developed:

At first, pensions in Italy were mainly provided by the government. The money for these pensions came from taxes and worker contributions. This system was set up to give people money to live on after they retired.

As time went on, more people lived longer, and the pension system started to have problems. There were more retirees needing pensions, but not enough workers to pay for them. This created a lot of stress on the system. To fix these problems, Italy made several changes. One big change was the introduction of private pension plans. These plans allow people to save their own money for retirement, separate from the government system. This helped reduce the pressure on the public pension system. Another important change happened in the 1990s. Italy started to change how pensions were calculated. Instead of being based on the last salary a person earned, pensions were now based on the average earnings over a person's entire career. This new method aimed to make the system fairer and more sustainable. Italy also changed the retirement age. The government gradually raised the age at which people could start receiving their pensions. This was done to help keep the pension system financially stable as people lived longer lives. Even with these changes, Italy's pension system still faces challenges. The aging population and economic issues make it hard to ensure that everyone gets the pension they need. The government continues to look for ways to improve the system and make it more sustainable for the future.

In summary, Italy's pension system has a long history and has gone through many changes to adapt to new challenges. These reforms aim to make sure that the system can continue to support retirees while being fair and financially sound.

Italy has made several significant changes to improve its pension system, particularly in response to financial pressures and demographic shifts. The two most pivotal reforms in

recent decades are the Amato Reform in 1992 and the Dini Reform in 1995. These reforms were designed to address escalating pension costs and ensure a more equitable and sustainable system for the future.

### **The Amato Reform (1992)**

The Amato Reform, introduced in 1992, marked the beginning of a comprehensive restructuring of Italy's pension system. One of the key elements of this reform was the increase in retirement ages. Previously, workers could retire relatively early, which placed a significant financial burden on the pension system. By raising the retirement age, the reform aimed to reduce the number of years individuals would receive pensions, thus decreasing overall pension expenditures.

Another crucial aspect of the Amato Reform was the change in how pensions were calculated. Before the reform, pensions were often based on the salaries earned in the last few years of employment, a method that favored those with rapidly increasing salaries towards the end of their careers. This system was seen as unfair and financially unsustainable. The Amato Reform extended the period of salary history considered for pension calculations, incorporating more years of earnings into the formula. This change aimed to create a fairer and more balanced system, reflecting a worker's entire career rather than just the peak years. The reform also introduced measures to curb pension spending in the short term. This included increasing the minimum number of years required for pension eligibility and adjusting the indexation of pension benefits. These immediate steps were necessary to stabilize the pension system financially and prevent further escalation of costs.

### **The Dini Reform (1995)**

Building on the groundwork laid by the Amato Reform, the Dini Reform of 1995 brought more profound and structural changes to Italy's pension system. The centerpiece of this reform was the introduction of the contributory system. Under this new system,

the amount of pension a person would receive was directly linked to the total contributions made throughout their working life. This approach was a significant shift from the previous defined-benefit system, where pensions were based on final or highest earnings.

The contributory system aimed to promote fairness and sustainability. By tying pension benefits to lifetime contributions, the reform ensured that individuals who contributed more to the pension system over their careers would receive higher benefits. This method also helped align the pension system more closely with individual economic contributions, thereby promoting a sense of fairness and equity. Another important feature of the Dini Reform was the introduction of flexibility in retirement age. Workers could choose to retire between the ages of 57 and 65, with the pension amount adjusted accordingly. This flexibility encouraged people to work longer if they wished, thereby contributing more to the system and potentially receiving higher pensions. It also provided incentives for those who wanted to retire later by offering bonuses for delaying retirement until after the age of 65. The Dini Reform also aimed to harmonize the various pension regimes existing within Italy, reducing the disparities between different sectors, such as public and private employees. This harmonization was crucial in creating a more unified and fair pension system across the board.

Italy's pension system has undergone significant transformations to address financial sustainability and demographic shifts. These changes have aimed at creating a more equitable and financially viable system. However, despite these efforts, the challenges posed by an aging population and economic fluctuations continue to demand attention and adaptation. In recent decades, Italy has implemented major reforms to its pension system to tackle rising costs and ensure long-term sustainability. Key reforms in the early 1990s and mid-1990s introduced substantial changes. These reforms increased the retirement age, adjusted the calculation methods for pensions, and introduced a contributory system where pensions are based on lifetime contributions. One of the primary motivations for these reforms was to control the growing financial burden on the pension system. By raising the retirement age, the period during which individuals receive pensions was reduced, thus lowering the overall expenditure. Additionally, shifting to a contributory system linked the pension benefits more closely to the amount of contributions made

throughout a worker's career. This shift aimed to create a fairer system where the benefits received were proportionate to the contributions made, promoting both fairness and financial responsibility. The introduction of flexible retirement ages allowed workers to choose when to retire within a specified range, with the pension amount adjusted accordingly. This flexibility encouraged longer workforce participation, which in turn increased the contributions to the pension system and helped mitigate the financial strain caused by early retirements. Despite these structural changes, Italy continues to face significant challenges in its pension system. The most pressing issue is the country's demographic profile. Italy has one of the highest proportions of elderly citizens in Europe, leading to a high old-age dependency ratio. This means that there are fewer active workers to support a growing number of retirees, placing immense pressure on the pension system. This demographic challenge is compounded by economic factors. Economic downturns can lead to higher unemployment rates and lower wages, which reduce the overall contributions to the pension system. Additionally, periods of economic instability can lead to increased government borrowing and budget deficits, further straining public finances and the pension system. Another challenge is ensuring adequate pension benefits while maintaining financial sustainability. The shift to a contributory system has helped align benefits with contributions, but it also means that individuals with irregular work histories or lower lifetime earnings may receive insufficient pensions. This issue raises concerns about income adequacy and poverty among the elderly, requiring ongoing policy adjustments to balance financial sustainability with social equity. To address these ongoing challenges, Italy needs to continue adapting its pension system. Policymakers must consider further adjustments, such as gradually increasing the retirement age in line with life expectancy, enhancing incentives for later retirement, and exploring ways to increase labor market participation among older workers. Additionally, Italy could benefit from measures aimed at improving economic conditions and labor market stability. Policies that promote job creation, wage growth, and economic resilience can help boost contributions to the pension system. Strengthening the link between contributions and benefits, while also providing safety nets for low-income retirees, can help balance equity and sustainability. Reforms in other areas, such as healthcare and social services, can also play a role in supporting the pension system. Improved healthcare can lead to longer and

healthier working lives, reducing the pressure on pension systems. Comprehensive social services can provide support for elderly citizens, ensuring that those with inadequate pensions still have access to necessary resources and support.

Italy's pension system has made significant strides through major reforms aimed at financial sustainability and fairness. However, the challenges posed by an aging population and economic fluctuations require ongoing adaptation and vigilance. By continuing to adjust policies and explore new strategies, Italy can work towards a pension system that effectively supports its aging population while maintaining financial health and social equity. The journey towards a fully sustainable and equitable pension system is complex and ongoing, necessitating a balanced approach that considers both current and future needs.

Italy's pension system has developed over many years, shaped by various significant changes to address social and economic issues. Initially, the system included different plans for private employees, public sector workers, and self-employed individuals. Over time, it became clear that there was a need to standardize and sustain the system, leading to major reforms in the 1990s that changed how pensions work in Italy.

At first, Italy's pension system was quite fragmented. There were separate rules and benefits for private sector employees, public sector workers, and self-employed people. Each group had its own regulations and contribution requirements, which led to unequal pension benefits and made the system inefficient to manage.

One major challenge was the increasing cost of pensions. This was due to demographic changes, like people living longer and having fewer children. With more retirees and fewer workers, the financial pressure on the system grew. Additionally, pensions were often calculated based on the highest-earning years of a worker's career. This method benefited those with rapidly increasing salaries towards the end of their careers but was not fair to everyone and was financially unsustainable.

In the early 1990s, Italy introduced significant reforms to address these challenges. The Amato Reform in 1992 was the first major step. This reform raised the retirement age and changed how pensions were calculated. Instead of basing pensions on the last few years of salary, the reform considered a longer period of a worker's earnings, which made the system fairer and more reflective of a worker's entire career. The reform also increased the minimum number of years required to qualify for a pension, aiming to ensure that people contributed more before they could receive benefits. Building on this, the Dini Reform in 1995 introduced a contributory system. This meant that the amount of pension a person received was directly linked to the total contributions they made throughout their working life. This shift aimed to create a fairer system where the benefits were proportional to the contributions, promoting both fairness and sustainability. The Dini Reform also allowed for flexible retirement ages. Workers could choose to retire between the ages of 57 and 65, with the amount of their pension adjusted based on when they chose to retire. This flexibility encouraged people to work longer, which helped reduce financial strain on the pension system. Additionally, the reform sought to harmonize the different pension schemes, reducing disparities between private and public sector workers.

### **Impact and Ongoing Challenges**

These reforms were crucial in addressing immediate financial crises and laying the foundation for a more sustainable pension system. Increasing retirement ages and linking pensions to lifetime contributions helped to control rising costs and promote fairness.

However, challenges remain. Italy's aging population continues to put pressure on the pension system. With more retirees and fewer workers, the financial burden is growing. Economic fluctuations also pose challenges, as periods of high unemployment or low wage growth can reduce the contributions to the pension system.

To address these ongoing challenges, Italy must continue to adapt its pension policies. Possible further reforms could include raising the retirement age in line with increasing life expectancy, providing incentives for delayed retirement, and finding ways to increase labor market participation among older workers. Additionally, improving economic

conditions and labor market stability can help boost contributions and ensure the long-term sustainability of the pension system.

Italy's pension system has a long history marked by significant reforms aimed at addressing financial and demographic challenges. The major reforms of the 1990s, particularly the Amato and Dini reforms, were essential in creating a more standardized and sustainable system. By increasing retirement ages, changing calculation methods, and introducing a contributory system, these reforms tackled immediate financial crises and set the stage for long-term stability. However, the journey is ongoing. Italy must continue to adapt and refine its pension policies to ensure they meet the needs of future generations while maintaining financial health and equity.

### **1.3 Comparing Turkey And Italy Pension Systems: Introduction And Historical Development**

Pension systems are important for providing financial support to people after they retire. Both Turkey and Italy have created pension systems to help their aging populations, but their systems have developed in different ways due to various historical, economic, and social reasons. This article gives an overview of how the pension systems in Turkey and Italy have developed, highlighting their unique paths and shared challenges. A country's pension system reflects its economic growth, changes in population, and social policies. Even though Turkey and Italy are close geographically, their pension systems have evolved differently. Both countries aim to provide enough income for their citizens during retirement, but they have taken different approaches to achieve this goal.

#### **Historical Development of Italy's Pension System**

Italy's pension system has a long history, with many changes made to address financial and population challenges. At first, the system had different plans for private employees, public workers, and self-employed people. This setup led to unequal benefits and made administration difficult. A major change came with the Amato Reform in 1992. This reform aimed to handle the rising costs of pensions due to an aging population and

generous benefits. The Amato Reform raised the retirement age and changed how pensions were calculated, making the system fairer and more sustainable. Following this, the Dini Reform of 1995 introduced a system where pensions were based on the total contributions made over a worker's career. This change aimed to create a fairer system and ensure long-term financial stability. The Dini Reform also allowed flexible retirement ages and tried to make the different pension plans for private and public workers more similar. Despite these reforms, Italy still faces challenges due to its aging population and economic ups and downs. Continuous adjustments are needed to keep the system fair and sustainable.

### **Historical Development of Turkey's Pension System**

Turkey's pension system has also gone through significant changes over the years, influenced by its unique demographic and economic situation. Historically, Turkey's pension system was divided, with different plans for civil servants, private sector employees, and self-employed individuals. This division led to unequal benefits and administrative inefficiencies. In the early 2000s, Turkey made major reforms to address these issues. The most important was the Social Security Reform of 2006. This reform aimed to combine the different pension plans into one system, improve financial sustainability, and make benefits fairer. Key changes included raising the retirement age, adjusting pension calculations to reflect lifetime contributions, and integrating health insurance with social security. The 2006 reform also aimed to increase the coverage of the pension system, especially among informal sector workers who had been left out of formal pension plans. This effort aimed to provide broader social protection and reduce poverty among the elderly. Despite these reforms, Turkey's pension system faces ongoing challenges. The country has a younger population compared to Italy, but it is aging quickly. Additionally, economic instability and high levels of informal employment continue to pose risks to the sustainability and adequacy of the pension system.

### **Common Challenges and Future Directions**

Both Turkey and Italy face common challenges in their pension systems, mainly due to changes in population and economic pressures. As people live longer and have fewer children, there are more retirees and fewer workers, putting financial pressure on pension systems. Economic fluctuations, such as high unemployment or low wage growth, can also reduce contributions and affect the sustainability of pension funds. To address these challenges, both countries need to keep adapting their pension policies. Possible measures include raising retirement ages in line with life expectancy, providing incentives for delayed retirement, and increasing job opportunities for older workers. Additionally, improving economic conditions and reducing informal employment can help boost contributions and ensure the long-term sustainability of pension systems. In conclusion, while Turkey and Italy have developed their pension systems in response to different historical and economic contexts, they share common goals of providing financial security for retirees and ensuring the sustainability of their pension systems. Ongoing reforms and adaptations will be crucial in meeting these goals and addressing the challenges posed by demographic and economic changes.

## **2. TURKEY AND ITALY: STRUCTURE OF PENSION SYSTEMS**

Pension systems are vital for providing financial support after retirement. Turkey and Italy have developed different pension systems due to their unique historical and economic backgrounds. Here's a brief overview of how these systems are structured and the types of pensions in Turkey.

### **2.1. Types Of Pensions In Turkey (Public, Occupational, Private)**

#### **Pension System Structure in Turkey**

Turkey's pension system aims to provide financial security for retirees and includes:

- **State Pensions:** Managed by the Social Security Institution (SSI), funded by contributions from employees and employers, covering various worker categories, and operating on a pay-as-you-go basis.

- **Employer Pensions:** Offered by employers as part of employee benefits, growing in popularity, and established through agreements between employers and employees.
- **Individual Pensions:** Known as the Individual Pension System (BES), introduced in the early 2000s, managed by private companies, offering investment options and tax incentives to encourage participation.

### 2.1.1. Current Structure And Administration In Turkey

Turkey's pension system aims to provide financial stability for its citizens during their retirement years. Over time, the system has grown and now includes several main parts, each designed to serve different groups. Here's an easy-to-understand overview of how Turkey's pension system is structured and managed today.

#### State Pensions

The backbone of Turkey's pension system is the state pension, overseen by the Social Security Institution (SSI). The SSI is responsible for collecting contributions and distributing pension benefits. The state pension system covers several types of workers, including:

- **Private Sector Employees:** These workers and their employers both contribute a portion of the employee's salary to the state pension system. This helps ensure that they receive income during their retirement.
- **Public Sector Employees:** Similar to private sector workers, public sector employees contribute to the state pension system along with their employers. This contribution supports their future retirement benefits.
- **Self-Employed Workers:** Self-employed individuals must also pay into the state pension system. Their regular contributions ensure they receive retirement

benefits. The state pension operates on a pay-as-you-go basis, meaning the contributions from current workers are used to pay the pensions of current retirees.

- **Employer Pensions:** Besides state pensions, some employers in Turkey offer additional pension plans as part of their employee benefits. While not as common as in some other countries, these employer pensions are becoming more widespread. These pensions are set up through agreements between employers and employees and provide extra financial security on top of the state pension.
- **Individual Pensions:** The Individual Pension System (BES) is a voluntary plan that started in the early 2000s. It allows people to save extra money for retirement, in addition to the state and employer pensions. Private pension companies manage these plans and offer various investment choices. Participants can choose how their money is invested based on their personal preferences and retirement goals. To encourage saving, the government offers tax benefits to those who participate in the BES. These tax incentives make it attractive for people to save more for their retirement.
- **Administration and Regulation:** Several organizations and regulatory bodies manage Turkey's pension system. The SSI is the main agency responsible for state pensions, handling contribution collection, fund management, and benefit distribution. Private pension companies manage the Individual Pension System (BES), and they are regulated by the Pension Monitoring Center (PMC) and the Capital Markets Board (CMB). These regulatory bodies ensure that private pension companies follow the rules and protect participants' interests.
- **Challenges and Future Directions:** Turkey's pension system faces a few key challenges, such as expanding coverage and ensuring long-term sustainability. One major issue is the informal sector, where many workers are not part of the pension system. Efforts are ongoing to increase participation and ensure that more workers are covered. Another challenge is maintaining the financial health of the pension system as the population ages. This requires ongoing reforms and adjustments to balance the needs of retirees with the resources available.

Turkey's pension system provides financial support to retirees through a combination of state, employer, and individual pensions. Managed by various agencies and regulatory bodies, the system aims to ensure that citizens have enough income during retirement. Despite challenges, efforts continue to improve and adapt the system to meet the needs of a changing population.

## 2.2. Types Of Pensions In Italy (Public, Occupational, Private)

Italy's pension system is one of the most established in the world. It includes:

- **State Pensions:** The main source of income for retirees, funded by contributions from workers and employers, operating on a pay-as-you-go basis.
- **Employer Pensions:** Additional pensions provided by employers through agreements, designed to supplement state pensions.
- **Individual Pensions:** Voluntary pension plans that individuals can set up themselves to save extra money for retirement, often with tax incentives.

### 2.2.1. Current Structure And Administration In Italy

Italy's pension system has several key parts as mentioned below (Lee K. , 2024).

- **Public Pension System:** This is the main part of Italy's pension system. It works by using money from current workers to pay for the pensions of current retirees. This is called a pay-as-you-go system.
- **Defined Contribution System:** Recently, Italy changed its system to a defined contribution system. This means the pension money you get when you retire is based on how much you and your employer have paid into your pension over your working life.

- **Notional Defined Contributions (NDC):** In this system, your pension contributions are tracked in a personal account, but the money isn't actually invested. Instead, it grows based on how the economy is doing, like average wage growth.
- **Retirement Age:** The age at which people can retire in Italy is gradually getting higher. This helps manage the number of people getting pensions compared to those working. Some people can retire earlier if they meet specific conditions.
- **Supplementary Pension Funds:** Besides the public pension, Italy also has private pension plans and employer-sponsored plans. These help people save more money for their retirement.
- **Contribution Rates:** Both workers and employers pay into the pension system. The rates are set by law and can be changed to keep the system financially healthy.
- **Pension Calculation:** The amount of pension you get depends on how much you have paid into the system during your working years, adjusted by the economy's growth.
- **Administrative Bodies:** Public organizations manage the pension system. They collect contributions, keep track of accounts, calculate pensions, and make payments to retirees.

Italy's pension system uses current workers' money to pay retirees. It has switched to a system where your pension is based on how much you and your employer have contributed. The retirement age is increasing, and there are options for extra private pensions. Both workers and employers contribute to the system, and public organizations manage everything.

### 3. TURKEY AND ITALY: FUNDING AND FINANCIAL SUSTAINABILITY

Both Turkey and Italy face significant challenges in maintaining the funding and financial sustainability of their pension systems. While their approaches and structures differ, the underlying issues are similar: aging populations, economic fluctuations, and the need to ensure that pension promises are met without overwhelming public finances (Bayar, 2013).

Turkey's pension system is a mix of public, occupational, and private schemes. The public system, managed by the Social Security Institution (SGK), is primarily funded through contributions from employers, employees, and the government. However, demographic changes and economic pressures have strained this system. To enhance sustainability, Turkey has been encouraging private pension savings through the Individual Pension System (BES), which offers tax advantages and government contributions to boost participation. Italy's pension system, managed mainly by the National Institute of Social Security (INPS), is predominantly a pay-as-you-go system where current workers' contributions fund retirees' pensions. Recent reforms have aimed to make the system more sustainable by raising the retirement age, adjusting pension calculation methods, and promoting private pension savings. These measures are designed to balance the financial burden on the state while ensuring that retirees receive adequate support. Both countries grapple with aging populations, which increase the ratio of retirees to active workers, putting pressure on pension funds. Economic volatility also affects contribution levels and the ability of governments to fund pensions. Both nations are trying to address these issues through reforms that encourage longer working lives and greater personal savings.

#### 3.1 Analysis Of Funding Methods In Turkey

- **Public Pension System:** Turkey's main pension system uses money from current workers to pay for current retirees. This is called a pay-as-you-go system.

- **Private Pension Plans:** Turkey also has private pension plans where workers and their employers put money into individual pension funds. These funds grow through investments and provide extra income when people retire.

### 3.1.1. Challenges In Financial Sustainability In Turkey

- **Aging Population:** Turkey's population is getting older. There are more retirees and fewer young workers. This makes it harder to keep the pay-as-you-go system working well.
- **Economic Growth:** If the economy grows slowly, there will be less money to fund pensions.
- **Contribution Rates:** It's a challenge to set the right amount of money that workers and employers need to pay into the pension system.

### 3.2 Analysis Of Funding Methods In Italy

- **Public Pension System:** Italy's main system also uses money from current workers to pay for current retirees, like Turkey's system.
- **Defined Contribution System:** Recently, Italy has moved to a system where the pension money you get depends on how much you and your employer have paid in over your working life.
- **Private Pension Funds:** Italy encourages saving more money for retirement through private and employer-sponsored pension plans.

### 3.2.1. Challenges In Financial Sustainability In Italy

- **Aging Population:** Italy has many older people and not enough young workers, making it hard to keep the pay-as-you-go system sustainable.
- **Low Birth Rates:** Few young people are entering the workforce, so there are fewer people to pay into the pension system.
- **Economic Growth:** Slow economic growth means less money available for pensions.
- **Political Risks:** Changes in government policies can affect how much money retirees receive and create uncertainty.

In conclusion, the pension systems of Turkey and Italy are undergoing significant reforms to address the challenges of funding and financial sustainability. Turkey's efforts include promoting the Individual Pension System to reduce reliance on the public system, while Italy has focused on raising the retirement age and adjusting pension calculations to ensure long-term viability. Despite these efforts, both countries must continue to adapt to changing demographics and economic conditions. Encouraging private savings and ensuring that both public and private pension systems are robust and resilient will be crucial. Future reforms may need to further address the balance between providing adequate retirement income and maintaining financial health. Ultimately, the goal for both Turkey and Italy is to create a pension system that is fair, sustainable, and capable of providing security for future generations. This requires ongoing adjustments, careful planning, and a commitment to both social equity and financial responsibility. By learning from each other's experiences and continuously innovating, Turkey and Italy can work towards achieving these objectives.

## 4. TURKEY AND ITALY: ELIGIBILITY AND BENEFITS OF THE SYSTEM

Turkey and Italy have established pension systems that cater to their aging populations. Both countries set eligibility criteria primarily based on age and contribution periods. The types of benefits offered include regular pensions upon reaching retirement age, disability pensions, and family pensions for dependents of deceased insured individuals. These systems aim to provide financial security and stability to retirees, ensuring they can live their later years with dignity. (Luković, 2019)

Understanding the specifics of these systems helps in appreciating how each country addresses the challenges of an aging population and economic pressures.

### 4.1. Eligibility Criteria For Pension Benefits In Turkey

In Turkey, the eligibility criteria for pension benefits include the following:

- **Age Requirement:** The standard retirement age varies but generally starts from 58 for women and 60 for men, depending on the date of entry into the workforce and contributions made.
- **Contribution Period:** A minimum number of years of contributions are required. For instance, individuals must have at least 7,200 days (approximately 20 years) of contributions to be eligible for a pension.
- **Retirement Types:** There are different types of retirement including early retirement, disability retirement, and standard retirement based on contribution period and age.

#### 4.1.1. Types Of Benefits Offered In Turkey

- **Old Age Pension:** This is the regular pension received upon reaching the retirement age and having fulfilled the required contribution period.

- **Disability Pension:** Offered to individuals who are unable to work due to a permanent disability. The eligibility depends on the degree of disability and the number of contribution days.
- **Family Pension:** Given to the family members (spouse, children, and sometimes parents) of a deceased insured person who met the minimum contribution requirements.

## 4.2. Eligibility Criteria For Pension Benefits In Italy

In Italy, the eligibility criteria for pension benefits are structured as mentioned below (Bryant, 2002)

- **Age Requirement:** The retirement age is progressively increasing and is currently set around 67 years for both men and women, depending on life expectancy adjustments.
- **Contribution Period:** Individuals must have contributed for a certain number of years. The minimum is generally set around 20 years of contributions.
- **Types of Retirement:** Similar to Turkey, Italy offers standard, early, and disability retirements. Early retirement may be available for those who have made substantial contributions over their working life, typically requiring around 42 years for men and 41 years for women.

### 4.2.1. Types Of Benefits Offered In Italy

- **Old Age Pension:** Available upon reaching the official retirement age and meeting the contribution requirements.
- **Anticipated Pension (Early Retirement):** Available for individuals who have contributed for a long period, allowing them to retire before the official retirement age.

- **Disability Pension:** Granted to individuals who have a permanent disability that significantly reduces their ability to work.
- **Family Pension:** Paid to the dependents of a deceased insured individual, with eligibility depending on the insured person's contribution history and the relationship of the dependents.

## 5. TURKEY AND ITALY: DEMOGRAPHIC CHALLENGE

### 5.1 Impact Of An Aging Population In Turkey

One of the biggest global issues today is the aging population of countries. At the start of the 20th century, those over 65 made up a small portion of the world's population, but this changed in the latter half of the century. This shift has different impacts and challenges for developed and developing countries. For instance, Turkey has a lower proportion of elderly people compared to European countries. However, a significant problem is the rapid increase in the elderly population in Turkey, which is faster than in European countries. After Indonesia, Turkey is the second-fastest aging country in the world. It is predicted that Turkey will reach the elderly population ratio that European countries achieved in 50-60 years within just 15-20 years. According to data from the Turkish Statistical Institute (TUIK), Turkey was the 67th oldest country in the world in 2023. The lack of adequate infrastructure and regulations to support the elderly population in Turkey is causing increasingly negative effects. In many developing countries like Turkey, the aging population significantly impacts society, the economy, and public policies. The effects of an aging population on the social security system are profound. This is why Turkey reformed its social security system in 2008. The increasing burden on the pension system due to the aging population has accelerated the need for social security reforms. Measures such as raising the retirement age, increasing the duration of workdays, and raising the contributions of the insured have been implemented to improve the pension system. Pension systems usually rely on the contributions of the working population. With more retirees and fewer workers, financial pressure on pension funds increases, threatening future pension benefits and social security advantages. According to TUIK

data, the population over 65 is projected to increase faster than the working-age population, which will disrupt the balance of the pension system. Reforms made in 1999 and 2008 indicate that the social security and pension systems will need further restructuring in the future. Besides this, the increasing number of retirees in Turkey has led to the implementation of new taxes to finance pensions. The elderly are among the groups with the lowest participation in economic activities. Aging directly affects labor supply and demand, employment, and unemployment. It also changes the structure of product demand and market processes, forcing changes in labor markets. The rise in the elderly population affects public spending distribution. For instance, there is a greater need for healthcare and care services. The elderly population negatively impacts productivity. If older individuals continue to work, it can hinder young people from entering the labor market. In Turkey, especially in large cities, many elderly people continue working due to economic reasons, leading to an aging workforce. Additionally, increased migration in aging societies can negatively impact the employment of young people. Over the past 20 years, Turkey has seen significant emigration of young people due to the aging workforce and economic factors.

### **5.1.1. Future Demographic Challenges In Turkey**

Turkey's demographic structure is rapidly changing due to socio-economic transformations. At the founding of the Republic, the population was just under 14 million, but it is now approaching 90 million. Until the early 1950s, two-thirds of Turkey's population lived in rural areas. Over time, this reversed, with over four-fifths now living in urban areas. Birth rates, which were 6-7 children per woman until the 1960s, dropped to 2.1 by 2020. The average life expectancy, which was 55 years at the beginning of the Republic, has increased to 81 years for women and 76 years for men. The future demographic challenges in Turkey are shaped by several factors, including birth rates, aging population, migration, and economic conditions. The total fertility rate, which indicates the average number of children a woman will have during her reproductive years, was 2.38 children in 2001 and 1.62 children in 2022. This indicates that the fertility rate is below the population replacement level of 2.1. Globally, individuals aged 65 and over

are generally considered the 'elderly population.' The decline in birth rates and increased life expectancy at birth and old age in both developed and developing countries are causing the elderly population and their share of the total population to rise. In Turkey, the elderly population increased from 628,041 in 1935 to 7,550,727 in 2019. The proportion of elderly people in the total population increased 23-fold from 1935 to 2023. Projections indicate that the elderly population will continue to rise, with the elderly population ratio expected to be 12.9% in 2030, 16.3% in 2040, 22.6% in 2060, and 25.6% in 2080. Economic problems affecting Turkey's demographic structure include unemployment, income inequality, high inflation, low economic growth, and the sustainability of the social security system. High unemployment significantly impacts the employment of young people, affecting birth rates and delaying family formation decisions. Unemployment also leads to social unrest and migration, contributing to demographic imbalances. Income inequality deepens social and economic disparities, creating significant gaps in living standards among different groups. This impacts birth rates and family structures. High inflation and economic stagnation reduce consumer confidence and restrict spending, increasing unemployment and economic uncertainties, and lowering birth rates. For countries with aging populations like Turkey, the sustainability of social security systems is a major concern. An increasing elderly population not only pressures pension financing but also raises the demand for social services like healthcare. This could increase public spending and threaten economic stability. Internal and external migration significantly impacts Turkey's demographic structure. Since the civil war in Syria began in 2014, Turkey has hosted over 5 million Syrian refugees. Additionally, since the pandemic, there has been continued migration from third-world countries. The impact of refugees on the national economy, especially in health, education, and housing, is noticeable. Since 2014, Turkey has spent over 70 billion dollars due to this issue. The economic crises caused by the pandemic and external migration have led to significant tax increases. Economic problems (high inflation, currency crises, etc.) and the refugee issue have led to a significant migration of young people from Turkey to Europe over the past decade. High-income levels and demographic changes are the main drivers of this migration. Uncontrolled urbanization is another factor that affects Turkey's demographic structure in various ways and sometimes threatens it.

Urbanization often leads to population shifts from rural areas to cities, causing a rapid increase in urban populations while rural populations decrease. This imbalanced population distribution negatively impacts agriculture and livestock, two crucial sectors in Turkey. Cities often offer more attractive job opportunities for young people, leading to the migration of young people from rural areas to cities. This results in an aging rural population and a concentrated young population in urban areas. Rapid urbanization increases the demand for infrastructure and basic services in cities, such as transportation, water supply, sanitation, healthcare, and education. Rapid urbanization shows that the infrastructure and services are not sufficient to meet this growing demand, causing problems that negatively impact the quality of life and well-being. Urbanization leads to social and cultural changes, with traditional lifestyles being replaced by modern ones, impacting social and family structures and leading to the loss of some traditional values. Despite more economic opportunities in big cities, economic inequalities are increasing among those migrating from rural areas to cities. Therefore, rapid and uncontrolled urbanization is one of the factors threatening Turkey's demographic structure. Managing these impacts and achieving positive outcomes requires developing balanced urbanization policies and rural development strategies. The major global issue today is the increasing number of older people in many countries. In the early 1900s, people over 65 made up a small part of the world's population. By the later part of the century, this number increased significantly. This shift brings different results and challenges for rich and poor countries. For example, Turkey has fewer elderly people compared to Europe. But the main issue is that Turkey's elderly population is increasing faster than Europe's. After Indonesia, Turkey is the world's second-fastest aging country. Predictions indicate that Turkey will reach the same percentage of elderly people in 15-20 years that took European countries 50-60 years to achieve. According to the Turkish Statistical Institute (TUIK), in 2023, Turkey was the 67th oldest country in the world. The lack of proper measures and structures to support the elderly in Turkey is causing growing negative effects. In developing countries like Turkey, an aging population significantly impacts society, the economy, and public policies. An aging population greatly affects social security systems. Because of this, Turkey reformed its social security system in 2008. The increasing load on the pension system from the aging population has sped up the need for changes. Adjustments were

made to improve the retirement system, such as raising the retirement age, extending work durations, and increasing the contributions from insured individuals. TUIK data shows that the population over 65 is expected to grow faster than the working-age population, which may upset the balance of the pension system. Changes made in 1999 and 2008 suggest that Turkey's social security and pension systems will need more restructuring in the future. Older people have the lowest participation in economic activities. Aging affects labor supply and demand, job rates, and unemployment, while also changing how consumers demand products and affecting market processes, forcing changes in labor markets. An aging population lowers workforce productivity. Also, if older people keep working, it can make it harder for younger people to find jobs. In Turkey, many elderly people, especially in big cities, keep working because they need the money, leading to an older workforce. In aging societies, increased migration can negatively impact young people's job opportunities. Over the past 20 years, Turkey has seen significant migration of young people because of the increasing number of elderly in the workforce and economic factors. Looking forward, the trend of an aging population presents many challenges for future generations. As the number of older people rises, the pressure on healthcare systems and social services will grow. Governments will need to invest more in healthcare facilities to meet the rising demand for medical care among older adults. This will include hiring more healthcare workers specializing in elderly care, increasing funding for long-term care centers, and developing community support programs to help elderly people live on their own for as long as possible. The economic impacts of an aging population are also significant. With more people retiring, there will be fewer people working to support economic growth and sustain public pension systems. This demographic change will need policy adjustments to keep pension funds sustainable. Possible measures include encouraging more older adults to keep working, promoting lifelong learning and retraining programs to keep older workers employable, and adjusting immigration policies to attract younger workers from other countries. Additionally, attitudes towards aging and elderly people will need to change. There should be more focus on the value and contributions of older adults to society. This includes recognizing the experience and knowledge that older individuals bring to the workforce and creating more opportunities for them to stay engaged in their communities through

volunteer work and other social activities. Fighting ageism and ensuring that older adults are treated with dignity and respect will be crucial in building an inclusive society that supports all age groups. The use of technology in helping the aging population is another important area for future development. Technological advancements like telemedicine, smart home devices, and wearable health monitors can greatly improve the quality of life for elderly people. These technologies can provide remote healthcare services, improve home safety, and help older adults manage their health better. Governments and private sectors should invest in developing and implementing these technologies to meet the needs of an aging population. Moreover, the future workforce will need to adapt to the changing demographic landscape. This means addressing the challenges posed by an aging workforce and leveraging the potential opportunities. For instance, the growing demand for healthcare and eldercare services can create new job opportunities and stimulate economic growth. Schools and training programs should focus on teaching people the skills needed to succeed in these emerging fields. The aging population brings both challenges and opportunities for societies worldwide. For countries like Turkey, addressing the rapid increase in the elderly population will require comprehensive policy changes, investments in healthcare and social services, and a shift in attitudes towards aging. By planning and implementing strategies to support an aging population, nations can ensure that everyone, no matter their age, can live fulfilling and dignified lives.

## **5.2. Impact Of An Aging Population In Italy**

One of the biggest issues worldwide is the aging population. At the start of the 20th century, people aged 65 and older made up a small part of the global population. However, in the second half of the 20th century, this number began to rise. This aging trend creates different challenges and results for developed and developing countries. Compared to European countries, the percentage of elderly people in Italy isn't the highest (Cristea, 2020). However, the main concern is the fast growth rate of the elderly population. Italy is experiencing one of the fastest increases in the elderly population in the world. While European countries took 50-60 years to reach high elderly population rates, Italy is expected to reach similar levels in just 15-20 years. As of 2023, Italy is one of the countries

with a rapidly aging population. The social security system in Italy is heavily impacted by the aging population. To address this, reforms were made to the social security system in 2008. The increasing number of retirees is putting more pressure on the pension system, leading to faster reform processes. To provide better benefits, changes have been made, such as increasing the retirement age and the number of years workers must contribute to the pension system. Generally, pension systems rely on contributions from the working population. When there are more retirees and fewer workers, the financial pressure on pension funds increases, threatening future pension payments and social security benefits. According to data, the population aged 65 and over is expected to grow faster than the working population. (Turner, 2006) This situation will disrupt the balance of the pension system. Reforms made in 1999 and 2008 suggest that the social security and pension system will need further restructuring in the coming years. Additionally, the increase in the number of retirees has led to the introduction of more taxes to finance pensions. The elderly are among the least likely groups to participate in economic activities. Aging affects labor supply and demand, employment, and unemployment. It also changes market dynamics by influencing product demand and business processes. The rising elderly population impacts public spending distribution, increasing the need for healthcare and support services. An aging population has negative effects on productivity. If the elderly continue working, it can make it harder for young people to enter the job market. In Italy, many elderly people continue to work due to economic factors, leading to an aging workforce. Furthermore, increased migration in aging societies can negatively affect the employment of the younger population. Over the last 20 years, Italy has experienced significant migration due to an aging workforce and economic factors.

In summary, the aging population in Italy poses significant challenges to the social security and pension systems. Continued reforms and adjustments will be necessary to ensure financial stability and support for future retirees (COVIP Supplementary Pension Funds , 2023).

### 5.2.1. Future Demographic Challenges In Italy

- **Aging Population:** Italy's population is aging, meaning that the proportion of elderly people is increasing while the proportion of young people is decreasing. This creates a higher dependency ratio, with fewer workers supporting more retirees.
- **Lower Birth Rates:** The birth rate in Italy has been declining, leading to a smaller working-age population in the future. This trend exacerbates the dependency ratio problem, making it harder for the pay-as-you-go pension system to remain sustainable, as fewer workers will be available to pay for the pensions of an increasing number of retirees.
- **Financial Sustainability:** The pay-as-you-go pension system relies on the contributions of the current working population to pay for the current retirees. With a decreasing workforce and an increasing number of retirees, the financial sustainability of this system is at risk. This could lead to either reduced pension benefits or increased contributions from the working population, both of which can be challenging.
- **Economic Growth:** The growth rate of the economy also plays a crucial role. If economic growth is slow, it further stresses the pension system because the wages of the working population grow slowly, limiting the amount of contributions that can be made to support the retirees.
- **Political Risks:** Changes in political decisions and policies can also affect the pension system. Future governments might alter pension rules, affecting the stability and predictability of pension benefits. This creates uncertainty for both current and future retirees.

- **Capital Market Returns:** For systems that rely on capitalization, the returns from capital markets are crucial. If the returns are lower than expected, the pension funds might not grow enough to support future retirees adequately. This risk is particularly significant in times of economic instability.

Italy's future demographic challenges for its pension system include an aging population, declining birth rates, financial sustainability concerns, slow economic growth, political risks, and uncertainties in capital market returns. Addressing these issues will require careful planning and possibly significant reforms to ensure that the pension system remains viable and can provide for future generations.

## **6. TURKEY AND ITALY: RECENT REFORMS AND FUTURE DIRECTIONS**

Both Turkey and Italy have been dealing with the challenges of an aging population. This has led them to make important changes to their pension systems to ensure they remain sustainable in the future (Amaglobeli, 2019).

### **Recent Reforms in Turkey**

Turkey has made several reforms to address the increasing number of retirees. In 1999 and again in 2008, the government made changes to the pension system. These changes included increasing the retirement age and the number of years people need to work before they can retire. This was done to help balance the pension funds and make sure there is enough money to pay future pensions. Recently, Turkey also introduced new rules to allow people who have worked enough years but haven't reached the retirement age to retire early. Additionally, the country is encouraging private savings for retirement through the Individual Pension System (BES), offering more incentives for people to save.

## **Future Directions for Turkey**

Looking ahead, Turkey will need to continue adjusting its pension system to deal with the growing number of elderly people. This may include further increasing the retirement age, finding new ways to encourage private savings, and ensuring that the pension system is fair and sustainable. The government is also looking at ways to improve social security coverage and make it easier for different groups, such as small business owners and seasonal workers, to contribute to the pension system.

## **Recent Reforms in Italy**

Italy has also made significant changes to its pension system due to its aging population. In the past, Italy's pension system was mostly pay-as-you-go, meaning current workers' contributions were used to pay current retirees (Bonasia, 2003). However, with fewer workers and more retirees, this system faced financial pressure. Italy has gradually increased the retirement age and changed how pensions are calculated, basing them on average earnings over a person's career rather than their final salary. These changes aim to make the system more sustainable and fair.

## **Future Directions for Italy**

Italy will need to continue making adjustments to its pension system. This might include further raising the retirement age, encouraging private retirement savings, and finding new ways to support an aging population. The government is also exploring ways to balance the pension system and ensure that it can continue to provide for future retirees. Improving economic conditions and creating more job opportunities for young people will also be important to ensure that there are enough workers to support the pension system (Aben, 2011).

Lastly, both Turkey and Italy have been proactive in reforming their pension systems to handle the challenges of an aging population. Moving forward, both countries will need to keep making adjustments to ensure their pension systems remain fair, sustainable, and capable of supporting future generations.

### **6.1. Recent Changes In The Pension System In Turkey**

Generally, for a person to retire under the old-age insurance branch, they must meet the conditions of "insurance period," "number of premium days," and "age" together, with some exceptions. In the early years, those covered by the Pension Fund, SSK, and Bağ-Kur needed to meet a certain number of premium days, insurance period, and service years and meet a certain age requirement to retire. This age requirement was generally 60 for women and 65 for men. However, significant changes were made to the pension system through subsequent legal arrangements, allowing those who met the required number of premium days, insurance period, and service years to retire without an age requirement. After the most recent changes, women can retire at 58 and men at 60. After the 2023 presidential election in Turkey, a promise was made to grant retirement rights to those who fulfilled the number of premium days but did not meet the age requirement (early retirement). A decision published on March 3, 2023, allowed 1,632,000 citizens to retire early. Besides the state pension system, Turkey passed an 18-article new economic package for the state Individual Pension System (BES), published in the official gazette. The 18-article new economic package includes significant changes related to the individual pension system (BES). These changes offer advantages such as partial withdrawal rights, assignment rights, a 30% state contribution instead of 25%, the right for citizens over 45 to join the automatic participation system, and annual state contributions for participants who make lump-sum payments. These changes have been approved by the General Assembly of the Grand National Assembly of Turkey and aim to encourage existing participants to remain in the system and attract new participants. The most important change in Turkey's individual pension system is increasing the state contribution rate from 25% to 30%. More clearly, with the enactment of the law, both existing participants and those who will join the system later will be entitled to receive a

state contribution of 30 TL for every 100 TL they deposit after the effective date. Under the current practice, participants who meet the specified duration and age conditions can receive the total amount and the income generated from the contributions, while those who exit the system earlier receive reduced rates. This new arrangement is highly incentivizing as it encourages existing participants to contribute more to the system and attracts new participants, potentially leading to a significant increase in the number of participants and fund size. This change strongly emphasizes the state's continued support for the system, which includes interest-free funds labeled "participation." Participants receive state contributions for payments made up to the annual total of the gross minimum wage. For 2022, the annual total of the gross minimum wage was 60,048 TL, and no state contribution was available for contributions above this amount. With the new regulation, participants will now receive state contributions for the portion of their contributions exceeding the annual gross minimum wage in subsequent years. Therefore, under the old regulation, a participant who invested 100,000 TL in the system would not receive any state contribution for about 40,000 TL of this amount. With the new regulation, participants will be eligible to receive state contributions for the excess portion of their contributions in future years. This way, participants can benefit from professional fund management services by investing a lump sum in BES and receive state contributions spread over the years. Participants no longer need to divide and defer their savings over the years to maximize state contributions, making lump-sum payments to the system more attractive. This practice is implemented with the effective date of the law.

Under the old regulation, employees over 45 who were not included in the automatic participation system (OKS) could not join the system even voluntarily. Due to high demand from employees, this restriction has been lifted, allowing employees over 45 to join OKS if they wish. This way, all employees can benefit from OKS's advantages without any age

restrictions. Given the increased awareness of retirement as the retirement period approaches and the desire of employees over 45 to maintain their standard of living during retirement, this change is expected to significantly increase the number of participants in

the system in the coming years. The practice of allowing employees over 45 to join OKS is implemented with the enactment of the relevant law article.

### **6.1.1. Future Direction And Potential Reforms In Turkey**

Following the EYT (Early Retirement Plan) law in Turkey, a second reform is expected. The 2024-2028 development plan includes steps to reform the social security system. To enhance retirement welfare, it is planned to support the social security system with complementary pension and healthcare systems. The scope of the social security system will be expanded, and the contribution base will be strengthened. It is planned to facilitate system entry. To achieve this, new applications will be developed for different professions and income groups, and the practice of easy employer application will be expanded. The monthly contribution plan system will encourage individuals to remain employed longer without imposing a financial burden. To ensure the financial sustainability of the system, studies will be conducted on automatic adjustment mechanisms aligned with the expected increase in life expectancy at birth when determining retirement criteria. Special social insurance programs will be created for low-income groups such as tradespeople, artisans, farmers, and seasonal workers. The social security system will be adapted to changing labor market conditions and new generation flexible working models. The legal infrastructure will be strengthened to align the social security system with new working models that emerge outside traditional workplaces due to digitalization. The alignment of social security practices with flexible working models, especially part-time work, will be enhanced. Another reform on the agenda concerns small businesses. A significant regulation is planned for small tradespeople. The Bağ-Kur premium requirement will be reduced from 9,000 daily premiums to 7,200 days, allowing tradespeople to retire five years earlier. Another reform within the "Family Protection Package" aims to provide social security to housewives who cannot work or do not have enough premiums for retirement. In this system, the state will cover part of the premium payments for women. At the end of the premium payments, housewives will gain the right to retire and have social security. The state will cover one-third of the voluntary premium payments made by housewives. For 2024, the monthly payment is 6,400.64 TL, the state support is

2,133.55 TL per month, and the annual state support is 25,602.56 TL. Once the premiums are paid, housewives will gain the right to retire when the conditions are met. In this case, 5,400 days will be sufficient under BAĞ-KUR. However, women who have worked and have premiums will retire more comfortably. Women and especially mothers will also benefit from additional premium day support and age reduction similar to wear and tear. An application similar to additional Service Time will be implemented for housewives and mothers. Mothers and housewives will gain additional premium days for each year they pay premiums. For example, a mother who pays premiums for four years will be considered to have paid for five years. The additional premium day support will reduce the retirement age condition, allowing mothers to retire younger by paying fewer premiums. Before September 8, 1999, the BAĞ-KUR retirement conditions were 7,200 days for women and 9,000 days for men. In the following period, the requirement was set at 9,000 days for both women and men. With the new regulation, the 9,000-day premium payment requirement will be reduced by 1,800 days (five years) to 7,200 days. This will align the condition with the 7,200-day requirement for SSK members after 2008. The regulation will initially apply to small tradespeople registered with chambers of tradesmen who are taxed under a simple procedure. This will apply the 7,200-day premium requirement for small tradespeople and artisans such as hairdressers, tailors, grocers, and barbers. During the legislative process, the scope of this regulation may be expanded. If this happens, all BAĞ-KUR members will benefit. When the regulation is implemented, approximately one million small tradespeople who have met the age requirement but have not yet completed 9,000 days of premiums will retire immediately if they have 7,200 days. Similarly, small tradespeople within the scope of EYT will gain the right to retire if they have completed 7,200 days without considering the age requirement. This will grant small tradespeople the right to retire five years earlier, freeing them from the obligation to pay premiums for an additional five years and allowing them to start receiving pensions earlier. One of the latest reform packages concerns civil servants. Preparations are underway for a regulation to grant a 3,600 additional indicator to all civil servants at the first degree. With this regulation, civil servants who reach the first degree will automatically receive a 3,600 additional indicator. This regulation, which will be submitted to the Parliament after consultations with civil servant confederations, will

benefit all public officials at the first degree who were excluded from the previous law, including supervisors, technicians, data preparation and control operators, and other first-degree public officials. The regulation will increase both retirement bonuses and pensions for civil servants (Republic of Turkey, Ministry of Family and Social Services, 2021).

## 6.2. Recent Changes In The Pension System In Italy

Italy has recently made some significant changes to its pension system to address financial sustainability and demographic challenges (Affairs, 2012)

- **Transition to Defined Contribution:** Italy has shifted towards a defined contribution system, where the benefits depend on the amount contributed and the notional interest rate, rather than being a fixed percentage of the final salary. This change helps make the system more sustainable by directly linking pensions to contributions made during the working years.
- **Increasing Retirement Age:** Reforms have been made to gradually increase the retirement age. This aims to reduce the financial pressure on the pension system by having individuals work longer and contribute more before they start receiving benefits.
- **Adjusting Benefits:** The pension benefits are now more closely linked to life expectancy. This means that as people live longer, the amount they receive may be adjusted to ensure the system can continue to support everyone.

### 6.2.1. Future Direction And Potential Reforms In Italy

Looking ahead, Italy may need to consider several potential reforms to further strengthen its pension system:

- **Further Increasing Retirement Age:** To cope with the aging population, Italy might continue to raise the retirement age. This would ensure that people

contribute to the system for a longer period, thereby reducing the time they draw benefits (Zaidi, 2010).

- **Encouraging Private Savings:** Italy could introduce measures to encourage more private savings for retirement. This might include tax incentives for private pension plans or employer-sponsored retirement savings programs.
- **Diversifying Investments:** To mitigate the risk associated with low returns in the capital markets, Italy could encourage pension funds to diversify their investments. This could include investing in international markets or a wider range of assets to improve overall returns.
- **Adjusting Contribution Rates:** Another potential reform could be adjusting the contribution rates for both employees and employers. Increasing the rates slightly could help bolster the pension funds, making the system more robust against demographic shifts.
- **Flexible Pension Plans:** Introducing more flexible pension plans that allow for partial retirement or phased retirement could help. This would enable older workers to gradually reduce their working hours while still contributing to the pension system and drawing a portion of their benefits.

Italy has recently reformed its pension system by moving towards defined contributions, increasing the retirement age, and linking benefits to life expectancy. Future reforms may include further increasing the retirement age, encouraging private savings, diversifying investments, adjusting contribution rates, and introducing flexible pension plans. These measures aim to ensure the pension system remains sustainable and capable of supporting the aging population

## **7. OVERVIEW OF TURKEY AND ITALY**

### **7.1. Similarities Between Turkish And Italian Pension Systems**

The pension systems of Turkey and Italy fall under the Southern European Welfare Regime Pension System, which also includes Spain and Greece. The social security systems in both countries are structured in a multi-layered and fragmented manner based on income. In both systems, Bismarck-type public pension schemes play a significant role. Both Turkey and Italy finance these services through a pay-as-you-go (PAYG) method using defined benefit formulas. A minimum contribution period is required in the earnings-based public pension system. The states contribute to these systems at certain rates. Both Turkish and Italian pension systems are based on mandatory participation. Workers must join these systems and can retire when they reach a certain age or service period. In both countries, employees have the option to manage their retirements through different contribution levels or pension plans by choosing early or delayed retirement. Although the retirement age and the required service period for retirement are standardized, these conditions may change from time to time. Both countries' pension systems aim to provide a stable income for retirees and ensure financial security in old age. They have similar challenges, such as dealing with an aging population and ensuring the financial sustainability of the pension funds. Both Turkey and Italy have made reforms to their pension systems in recent years to address these issues. These reforms include measures like increasing the retirement age and adjusting the contribution rates to keep the systems sustainable.

Additionally, both countries have supplementary pension schemes that allow individuals to save more for their retirement. These schemes are designed to complement the public pension system and provide extra financial security for retirees. Both systems also emphasize the importance of employer and employee contributions to maintain the financial health of the pension funds.

Furthermore, Turkey and Italy both face economic pressures that impact their pension systems. Economic downturns can affect the contributions to the pension funds and the ability of the government to support the system. As a result, both countries continually seek ways to balance the needs of retirees with the financial realities of their economies.

Overall, the pension systems in Turkey and Italy share many similarities in their structure, goals, and challenges. Both countries strive to provide financial security for their aging populations while adapting to changing economic conditions and demographic trends.

## **7.2. Key Differences And Their Implications**

While Turkey and Italy have some similarities in their pension systems, they also have important differences.

### **1. System Structure**

- **Turkey:** Turkey's pension system includes public pensions, private pensions, and individual savings plans. Employees and employers must contribute to the public pension system.
- **Italy:** Italy relies more on state-funded pensions with less emphasis on private pension schemes.

### **2. Retirement Age**

- **Turkey:** The retirement age is currently 58 for women and 60 for men, with plans to increase it gradually.
- **Italy:** The retirement age is 67 for both men and women, which is one of the highest in Europe.

### 3. Calculating Pension Benefits

- **Turkey:** Pensions are based on the average earnings over a worker's entire career, considering all contributions.
- **Italy:** Pensions are calculated using the average salary from the last few working years and the total number of years worked, often resulting in higher pensions for those with higher end-of-career salaries.

### 4. Funding Methods

- **Turkey:** The system is funded by current workers' contributions, which pay for current retirees. Private pension schemes also support the public pension system.
- **Italy:** Italy also uses current workers' contributions to pay for retirees but is shifting towards a system where pensions are based more on individual contributions over their working life.

### 5. Reforms and Changes

- **Turkey:** Turkey has made many reforms, like raising the retirement age and promoting private pensions to handle an aging population and economic challenges.
- **Italy:** Italy has also reformed its system, focusing on raising the retirement age and changing how benefits are calculated. These reforms often face political resistance.

## Implications of These Differences

1. **Economic Stability:** The way pensions are funded and calculated affects economic stability. Turkey's use of private pensions adds flexibility but requires

strong financial markets. Italy's reliance on public pensions puts more pressure on government finances, needing constant reforms to stay sustainable.

2. **Retirement Security:** Italy's method of calculating pensions based on the last few years of salary can provide a more secure retirement for those with high salaries towards the end of their careers. Turkey's method, based on average earnings, might lead to lower pensions for those with inconsistent incomes.
3. **Adaptation to Aging Populations:** Italy's higher retirement age helps manage the financial impact of an aging population, while Turkey's ongoing adjustments reflect a need to balance demographic changes with economic realities.
4. **Political and Social Impact:** Implementing pension reforms can be politically challenging in both countries. Italy faces resistance to raising the retirement age, while Turkey's frequent reforms show the need to address emerging issues continuously.

Understanding these differences helps us see how each country manages its pension system and what the broader implications are for their economies and societies (Holzmann, 2013).

## CONCLUSION

The significance of retirement systems in Italy and Turkey will grow increasingly vital in the forthcoming years. Both nations confront the issue of aging populations, rendering traditional retirement systems less effective. Our world is in constant transformation, with demographic and geographic shifts occurring rapidly. Unlike 30 or 50 years ago, today's world is highly interconnected and fast-moving, presenting unique and complex challenges. The COVID-19 pandemic in 2020 revealed the fragilities in our systems and underscored the necessity for robust solutions. It demonstrated that even well-intentioned reforms to boost contributions and provide incentives might not achieve the desired impact. Traditional methods of maintaining retirement system sustainability are insufficient in a world that changes unpredictably.

Italy and Turkey share numerous similarities, from their societal frameworks to their economic landscapes. These commonalities mean that solutions effective in one country could be beneficial to the other. However, this also means that both nations face analogous challenges, necessitating substantial investment and targeted efforts to secure their retirement systems' futures. Demographic trends in both countries are shifting significantly. With people living longer and birth rates declining, the ratio of working-age individuals to retirees is decreasing. This demographic transition places immense pressure on retirement systems designed for a different era. The economic and social environments have evolved, and retirement systems must adapt to meet these new circumstances.

Geopolitical factors add further complexity. Globalization, economic interdependence, and regional instability can all affect national economies and their retirement systems. Economic downturns can lead to higher unemployment, decreasing the number of contributors to retirement funds and increasing the system's burden. The interconnected nature of today's world means that events in one area can have widespread effects, complicating the management of retirement systems.

The future of retirement systems in Italy and Turkey demands creative and forward-thinking policies. Simple adjustments like raising the retirement age or modifying contribution rates may not suffice. A comprehensive strategy is required—one that encompasses economic growth, job creation, and the inclusion of private retirement schemes. Promoting private savings and investments can offer additional security and lessen dependence on state-funded retirements. Enhancing financial literacy and creating incentives for personal retirement savings are crucial. Both countries need to foster a culture where individuals are conscious of their financial futures and take proactive steps to secure them. This involves policy changes, educational initiatives, and supportive measures that make retirement savings more accessible and appealing. Technological advancements present new opportunities. Incorporating digital solutions can streamline the administration of retirement systems, making them more efficient and transparent. Data analytics can aid in better forecasting and managing funds, ensuring effective resource utilization. Additionally, digital platforms can offer contributors real-time information about their savings, empowering them to make informed decisions. The future of retirement systems in Italy and Turkey stands at a critical juncture. Traditional models are under significant strain, and the evolving global landscape adds to the complexity of the challenges ahead. However, by learning from each other and implementing innovative, comprehensive strategies, both countries can construct resilient retirement systems capable of enduring future uncertainties. This requires a commitment to continuous improvement, adaptability, and a willingness to invest in the welfare of future generations.

In summary, securing a stable and prosperous future for retirees in Italy and Turkey demands a collective effort. The challenges are formidable, but so are the opportunities. By embracing change, fostering innovation, and investing in our shared future, we can develop retirement systems that are robust, sustainable, and capable of supporting an aging population. The road ahead is challenging, but with determination and strategic action, a brighter future for retirees in both Italy and Turkey is within reach.

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