Obligatory Private Pensions and Saving

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Abstract:

As part of a reform process that continues as of 1990s, Turkish social security system has expanded to include a private pension system. Continuing with the process, turning the structure that includes saving through private institutions into an obligatory one is now being debated. However, there is a possibility that the obligatory saving mechanism may crowd out voluntary savings. Should this crowding out effect be large, it is possible that the net impact on national saving may be in the direction of reducing national savings. Therefore the impact of obligatory savings on national savings must be empirically analyzed as an input to the policy making process. This study analyses the impact of obligatory saving on the national saving in Turkey by taking the SIF (Saving Incentives Fund, Tasarrufu Teşvik Fonu) of the 1988-2003 era as an obligatory saving experiment. Saving rate is used as the independent variable with a continuous value in the [0, 1] range; its lagged value, real income and a dummy representing the implementation of the SIF are used as independent variables. The analysis covers the 1960-2017 period and reveals that obligatory saving indeed crowds out private saving.

Keywords: Obligatory saving; Private pensions; Crowding out of savings

JEL Codes: H55; J26; J32