

**AN ANALYSIS OF FINANCE PROBLEMS OF
SOCIAL INSURANCE INSTITUTION IN TURKEY**

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ABSTRACT

Social security systems in many countries need restructuring. Financial crises the main reasons of this situation. The main causes of the financial crisis of the Social Insurance Institution in Turkey have decreasing effects on th expenses revenues . This study analyze the finance problems of the Social Insurance Institution.

Anahtar Kelimeler: Social Insurance, Finance, Social Security System

1. Introduction

Social Insurance Institution is the basis of Turkey's social security system. The basic legislation governing this area is the Social Insurance Law number 506 enacted on July 17, 1964. The scope of this law expanded continuously since the day of enactment resulting in an increase of duties and responsibilities of the Social Insurance Institution. Indeed the institution gives financial support and/or provides health care to prisoners and their dependents facing such risks as work injuries, occupational health, ordinary health problems, maternity, disability, old age, death and unemployment. The institution is charged with the duty of and has the authority to establish health care facilities and to sign contracts in order to fulfil these responsibilities. Thus, the mentioned duties and responsibilities of the institution show the amount of its financial needs.

Social Insurance Institution's major source of finance is wage deductions and employers' shares. Certain portions of these premiums are paid to pensioners and their dependents that need it as social insurance benefit. Thus, the agency serves as an income redistribution mechanism. On the other hand, significant portions of these premiums are invested in bonds and stocks. Therefore, it plays a part in the realisation of monetary transfers and is considered as an important actor in capital markets. In order for the agency to

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perform the duties and use the authority bestowed upon it by Law no. 506, it needs to command healthy sources of revenue and must be able to manage these funds effectively. However, it is faced with a number of difficulties in meeting both of these functions. These will be outlined below.

2. Crises In Social Security Systems

Latest years of the 20th Century which is called as the information era brought a deep transformation in social security area. This transformation started in 1980s and it obliged re-organisation of the social security systems.

The basic crisis in social security systems all around the world are increase in the old population, increase in lifetime, change in the family structure, changes in the productive power market, social exclusion and radical change in nature of unemployment by becoming a structural problem (Arici, 1999: 379; Brocas/Zaidman, 2001: 269). The old population of the world causes an imbalance in the active/passive security equilibrium as a result of the retirement salaries which increase the expenditures, constricts the labour supply, increases the health expenditures. Besides, the change in the family structure brings diversity of family types and especially the youths, immigrants, increase of unemployment in unqualified workers and old population increase the cost of social security systems on the one hand, and decrease in the active social security contributors on the other hand.

The basic aim of re-organisation in the social security systems is to establish a better system that will be able to meet the demands of the changing social structure with no doubt. Nevertheless, social security systems fail even to meet the minimum requirements of the social security norms in most of the developing countries; thus re-organisation process of the social security system in those countries will be more problematic. However social security systems of the mentioned countries, including Turkey, need and search for reformation (Alper, 1999: 22). For the first time in our country at the beginning of the 1990s, Social Insurance Institution could not pay social security salaries and it continued to survive only with the financial aid of the State (Şakar, Ekim 1998: 67). Social Insurance Institution is experiencing a financial problem due to the fact that it could not provide financial sources to itself and at the same time it failed to manage and use its own resources in an effective way. We will focus on these reasons in detail below.

3. Problems in the Collection and Utilization of the Financial Resources of Social Insurance Institution

3.1. Problem of Collecting Social Insurance Premiums

Premiums are the major source of finance of Social Insurance Institution. These comprises, insurance premiums for work injuries, occupational sickness and ordinary sickness, maternity, disability, old age, death, unemployment and social security support premiums. Employers are obliged to deposit to the agency's account deductions from employees wages and their shares (Law no.506, article 80/1). However in practise it is observed that employers frequently fail to meet this obligation in full and on time. Those who make the payments in full and promptly are less than those who do not. Social Insurance Institution does have the right to demand these sums plus a penalty payment and interest from the employer. Thus the first penalty for the employer in case of lacking the obligation of accrued premium payment on time is the penalty. But the amendment in number 506 Law article 80 by the law number 3203 at 1985 the interest of the penalty abolished.

Nevertheless, country's high rate of inflation and interest rates on bank loans encourage employers to postpone their payments. In order to prevent the misuse of premiums as low interest loans, Article 80 of Law no.506 was amended by Law no. 2422 on 6.3.1981. The latter stipulates 10% penalty for the first month after the due date and 3% for the following months. Article 80 was further amended by Law no. 6183 which required imposition of penalties as applied in "Procedures for the Collection of Public Debts Law" on premiums not paid by the due date.

Article 51 of Law no.6183 authorises the Council of Ministers to determine the amounts of late payment penalties. The Council has determined this rate to be 12% per month as of March 8,1994 (see Regulation on the Procedures and Principles for the Exercise of Authority by Social Insurance Institution as stipulated in Law no, 6183; Official Gazette August 17, 1994/22024) and to be 15% per month as of 1.2.1996. This ratio had been increased to 15% per month starting from 1.2.1996 and lastly decreased to 12% per month by the decision of Council of Ministers no.98/11131 dated 3.7.1998 (Tuncay, Ocak 2000: 104).

Despite all these attempts to prevent losses, the uncollected accrued premiums of Social Insurance Institution are still at a very high level. The uncollected accrued premiums in 1997 were 104.109.000.000 TL (Tuncay,

Ocak 2000: 104). The premium collection rate in 1999 was 85%. The same year, the uncollected accrued premiums of Social Insurance Institution from the governmental and private sectors was 320.721.000.000 TL by June and an amount of 418.312.000.000 TL by October was calculated as the penalty arising from the main accrued premium; thus the total amount of uncollected accrued premiums of the Social Insurance Institution was 739.033.000.000 TL (Sosyal Güvenlik Özel İhtisas Komisyonu Raporu, 2001: 82-83).

To secure the collection of accumulated debts, from time to time, the government compromised and refrained from strictly enforcing the above-mentioned penalties. In fact, Decision of Council of Ministers no. 277 was enacted (Official Gazette, May 22, 1987/19467) which stipulated a two-year moratorium on the penalties for premiums paid within one year of the issuance of this Decision of Council of Ministers; due to the fact that it obliged the payment of the accrued premiums and penalties within 1 year (that is up to 1988) starting from 1986.

Decision of Council of Ministers no. 277 was nullified by Law no. 3642 of May 9, 1990. The attachment of provisional article 78 to Law no. 506 by Law no. 3786 on 5.3.1992, provided the abolishment of all interest and penalties on accrued premiums up to the date of payment in case of it is paid till the deadline which is 15.4.1992.

Finally, the debts of accrued premiums, penalties and financial punishments had been partially abolished due to certain conditions. We have to mention that, premium collection rates stay at very low levels because of those kinds of actions concerning the abolishment of penalty of unpaid accrued premiums.

Various kinds of obligations existed in Social Insurance Act number 506 related to loss of tax base and premium (Can, Kasım 2000-Şubat 2001:40; Sosyal Güvenlik Özel İhtisas Komisyonu Raporu, 2001: 83; Aldemir, Ocak-Mart 2001:28). Indeed Law no.4447 realised important obligations regarding the presentation of unrecorded employment by enforcing the employer to register the employee and the company he/she will be employed at, before starting to work; the employees that are currently working to register themselves; and the submission of related documents of the employees that worked less than 30 days.

3.2. The Problem of the State's Failure to Take Direct Responsibility in Financing Social Insurance Institution

In addition to employers' and employees' payments, contributions from the general budget is among the sources of finance of Social Insurance Institution (Law no. 4792, article 19). In Turkey, the state participates only indirectly in the financing of the social security system.

The practice observed up to this date enables us to classify these indirect contributions as: a) Immunity from taxes; b) Exemption from duties and fines for documents issued by the institution; and c) exemption from taxes of real estate incomes as well as interest revenues on deposits and loans (Law no. 4792, article 24).

In all countries of the European Union, the state contributes to the financing of the social security system. In Denmark, for example, this contribution reached as high as 77.52% of 1988. On the other hand, in Turkey, employers' and employees' contributions are higher than the comparable proportions in European Union countries. For instance, while the employers' and employees' contributions in Denmark are 11.36% and 4.38%, respectively, the comparable figures in Turkey are 58.21% and 41.79% (Bu konuda bilgi için bkz., Sosyal Güvenlik Özel İhtisas Komisyonu Raporu, 2001: 6 vd.).

As a rule, with direct financing by the state, the wealthier segments of the population will contribute to the expenses of the institution and will result in a broader distribution of the national income (Tunçomağ, 1987:102). However, in Turkey, the proportion of indirect taxes in total tax revenues is rather high and commercial and industrial investments are not taxed at a satisfactory level under these circumstances, it is doubtful that the financing of the social security system by the state will serve as a mechanism for the distribution of wealth to broader masses.

In Turkey, the state meets the social security expenses of citizens who are not covered by the system largely through income taxes deducted from wages and salaries. The first thing that needs to be done here is decreasing the tax burden of wage earners and shifting it to the wealthier groups. Secondly, the proportion of indirect taxes should be reduced and tax collection should be made efficient.

Starting from 1994, there is an obligatory contribution of the treasury to the institution due to the fact that the institution was on the edge of imbalance of income and expense. That contribution was 1.105.000.000.000 TL at 1999 (Sosyal Güvenlik Özel İhtisas Komisyonu Raporu, 2001: 73, 81).

State's contribution to the financing of the institution should be a normal contribution rather than being an attempt of closing a gap. And the elements of such kinds of contribution should be encouraging the employment while deterring the employment of the unrecorded employees. For the first time in history, the state is contributing to a branch of social insurance by paying premiums which is the "unemployment insurance" by Article 49/1 of Law number 4447.

3.3. The Problem of the Rational Use of Social Insurance Funds

Social Insurance Institution accumulates funds in order to meet its obligations and expenses. To obtain maximum benefit, these funds should be managed according to the principles of trust, liquidity, stability and productivity.

These funds, which have reached significant amounts over the years, are a potential financial resource for the Turkish economy. Consequently, the public sector takes a close interest in the funds accumulated by the Social Insurance Institution. Although Social Insurance Institution is a financially and administratively autonomous institution according to Law no. 4792, the government has an effective role in the management of these funds. In fact, article 20 of this Law delineates areas of investment for these funds such as public banks, government bonds, real estate, etc. Social Insurance Institution incurs great losses as a result of having to invest in low interest Eximbank bonds (Orhaner, 1990/1:21, footnote 6).

Between 1993 and 1998 the institution's investments starting from the most profitable one were; National Banks, State Bonds, Treasury Bonds and Real Estates. The funding revenues of the institution were 5% of total revenues in 1993 whereas it decreased to 3% in 1998 (Sosyal Güvenlik Özel İhtisas Komisyonu Raporu, 2001: 79-80).

A portion of the total funds is used for direct transfers. Indeed, according to article 1 of Law number 7332, Social Insurance Institution must transfer 5/1000 th of its total premium revenues to the Government Employment Institution (Türkiye İş Kurumu). In addition, such transfers,

however little, are made to civil defence services and National Productivity Institute (Tunçomağ, 1997: 114). Inefficient management of funds coupled with these transfer payments with no return has brought Social Insurance Institution to the edge of bankruptcy.

3.4. Deficit of Actuarial Balance

The fine balance between the “passive contributors” that are paid monthly and the “active contributors” that pay premiums monthly changed in favour of the passives through the years; and in 1994 that balance decreased lower than a rate of 2/1 however it was at a rate of 6,3/1 in 1975. Presently it is around a rate of 2/1. The ideal ratio of the actuary balance is 6/1 and in the European Union it decreased to 4/1. Thus it is obviously seen that the institution is in a serious crisis (Tuncay, Ocak 2000: 139-140).

The imbalance of actuarial balance of Social Insurance Institution depends on three factors. Those are; early retirement, the amended additional obligations of the employers, and to employ an employee contrary to the legal obligations arising from the imperative rules of Labour and Social Security Laws (Kılıçdaroğlu, 1998: 77-78). In reality the legal rules that enables to become a passive contributor easily and the lack in increasing the number of active contributors caused to shift the balance against the institution (Sosyal Güvenlik Özel İhtisas Komisyonu Raporu, 2001: 48).

3.5. The Problem of Technical Balance Sheet

Technical balance sheets give a detailed picture of the positive and negative aspects of the financial structures of social insurance institutions. Benefits and incomes of pensioners are insured persons are dependent upon prevailing economic conditions. Technical balance sheets make possible necessary adjustments in benefits and payments while at the same time illuminating the future for the administration (Bağ-Kur 6. Genel Kurul Çalışma Raporu, 1983: 93).

Article 139 of Law no. 506 obligates Social Insurance Institution to prepare a technical balance sheet every five years or sooner if deemed necessary and present this as a report to the Ministry of Labor and Social Security. Thus, financial structures of various branches; the level of pensions and the level of pensions and other payments within the context of changing living conditions will be evaluated and reported to the Ministry. However, on the other hand, rapidly changing living conditions and financial situation of the institution, turn

this task -i.e. preparation and presentation of technical balance sheets to the Ministry on time- into a significant problem.

4. Conclusion

The Social Insurance Institution is supplying social security to 6.355.639 people as active contributor, 3.148.826 people as passive contributor and 21469.875 people as families of them and in total to 30.974.340 people by the year 1999 (Sosyal Sigortalar Kurumu İstatistik Yıllığı 2000, 2001: 5). Therefore, it occupies a key role in Turkey's economy particularly due to the premiums collected and funds accumulated. Nevertheless, in recent years, it has been experiencing serious financial problems.

In that context certain causes of the financial crisis of the Social Insurance Institution are decreasing the incomes and certain causes are increasing the expenses. Major developments resulted income decrease are; the low ratio of the active/passive security rate, the low income level that is the tax base for the security premium and the unsatisfactory incomes. Major developments resulted expense increase are; early retirement, an increase in payment period in salaries, health securities due to the increase in the human life, the lack in applying penalties and/or applying exemption mechanism to the uncollected accrued premiums, and the weak relation between the premiums and salaries.

Some solutions can be proposed for these problems. Both article 60 of the Constitution which stipulates that the state is responsible for social welfare and article 19/F of Law no.4792 require the direct participation of the state in financing social security. In addition, premium levels should be reduced regarding the levels applied in the European Union. The collection of accrued premium of the institution which is 739.000.000.000 TL by October 1999 (Sosyal Güvenlik Özel İhtisas Komisyonu Raporu, 2001: 83) have to be immediately realised and an effective control mechanism have to be established in order to prevent the accumulation of debts arising from the accrued premiums.

Funds of the institution should no longer be invested in low return instruments whose yield is under the rate of inflation. A balance should be obtained between private and public sectors in managing the funds. Finally, technical balance sheets should be taken seriously and experts in this field should undertake actuarial calculations. In this way, a healthy financial structure

should be maintained while avoiding impoverishment of the insured and their dependents.

ÖZET

Çoğu ülkede sosyal güvenlik sistemleri yeniden yapılanma ihtiyacı ile karşı karşıyadır. Finansal krizler bu durumun başlıca nedenleridir. Türkiye’de Sosyal Sigortalar Kurumunun finansal krize girmesinin nedenlerinden bir bölümü gelirleri azaltıcı, bir bölümü ise giderleri artırıcı etki yaratmaktadır. Makale, Sosyal Sigortalar Kurumunun finansman sorunlarını analiz etmektedir.

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