



# 6

## Social Security System

The strength of a social security system in a country is a key measure of the importance placed on the quality of lives of its citizens whether shown by affordable healthcare provision, social transfers to disadvantaged groups, unemployment and disability benefits or pensions. Affordable healthcare, whether it is directly provided by the state or subsidized, is probably the single most important dimension of social security. Post-retirement benefits in the form of pensions or lump-sum payments are also key indicators for the quality of a labour market in a society. In some countries, both of these are provided by private sector, but still in many countries around the world, these services are provided by the state.

Social security system in northern Cyprus is progressive, at least in principle. All who are employed are required to register with the Social Insurance Office and all those who are registered and their dependents are subsequently eligible for free healthcare at state hospitals. In cases where an individual has an illness that cannot be treated in northern Cyprus, the state could send them to Turkey (or in some cases to the UK) and pay for the medical expenses. There are also other smaller benefits such as financial assistance to all those who are getting married, a 'milk subsidy' to mother for every child born and maternity pay, pre- and

post-delivery. My main focus here, however, is on state pensions provided by this office.

The social security system in northern Cyprus has had an interesting development. The administrators of the breakaway state were in urgent need of establishing key institutions for social and economic development of Turkish Cypriots. The first step was providing employment at state institutions with favourable working conditions as we have discussed in the previous chapter. The social security benefits were the second area that could have given the illusion of strong independent state to the citizens, and the policymakers were very quick in realizing this opportunity. As a 'reward' for fighting in the bi-communal conflict and defending the 'national cause', early retirement options and several years of non-earned contributions were extended to the masses. The state also crippled its own social security by not paying their own financial dues to these institutions. Furthermore, successive governments modified laws that allowed themselves to meddle in the administration of these institutions and engage in nepotism. The 'left' parties and unions did not object to the modifications in social security because the changes usually benefited the workers, but they also did not question the financial sustainability of the system. When Turkey finally forced the governments to change the system in the mid-2000s, the unions became very vocal and protested against the loss of worker benefits, whilst still ignoring the overall picture.

Retirement pensions have a distinctive history in northern Cyprus. Before 2008 there was a separate pension fund for civil servants (although they had the option to join the regular Insurance Fund if desired). The so-called Retirement Fund provided both a regular pension and a lump-sum gratuity to its contributors. Non-civil service employees had a different fund, the Provident Fund, to which they contributed while working in order to receive a lump-sum payment at the time of their retirement. These two funds had completely different structures where the former was fully controlled (and funded) by the state, whilst the latter was semi-independent and was not supposed to receive any funding from the central budget. The Provident Fund has been financially well managed and has even been extending loans to the social security office and the state budget. Of course, given the incompetent practices of the previous governments, such loans

could be considered as bad loans and unlikely to be paid back in which case this Fund could also be in serious financial trouble.

The flexible retirement rules and generous pension benefits of the Retirement Fund have proven to be financially unstable and a huge burden for the state which led to its integration with the general social security scheme in 2008. For example, immediately after the 1974 division, the veterans of war and their families were immediately granted pensions (although there were no contributions from these people nor anyone else). Although there were proposals in the government programmes and development plans to merge these into a single system since the establishment of TRNC, the joint system was only finally formed in 2008, with the ‘political push’ of Turkey. The large number of government pensioners as well as missing contributions from private sector employees has resulted in a broken system.

This chapter will show the historical development of both types of pension systems and assess their significance to the development of northern Cyprus. Over the years the governments had modified the relevant laws to serve their own purposes without considering any financial impact for future generations. The unions, being representatives of the public sector employees, did not object to these very much as they hugely favoured their own interests. The result has been a failed social security and financial burden on future taxpayers.

## **Social Insurance for Non-civil Service Employees: The Self-Employed and Probationary Civil Servants**

One of the priorities of the breakaway state in 1975 was to establish social insurance for Turkish Cypriots. The Cyprus Turkish Social Insurance Law (*Kıbrıs Türk Sosyal Sigortalar Yasası*, 16/1976) was passed on 4 May 1976. The law covered all the public service workers, private sector workers, self-employed and employers (Article 4). According to this law, insurance coverage starts as soon as one began employment, and it was the employer’s responsibility to notify the related office about the start and end dates

of employment. The insurance covers the beneficiaries for workplace accidents, illness, unemployment, maternity pay, veteran and old age. In case of death, the immediate family of the beneficiary were to receive the payments. Civil servants had the option to opt out of this scheme for old-age payments since they had a separate Fund (discussed below) where they could receive pensions, but other types of insurance for civil servants are also covered by this Fund.<sup>1</sup> The contributions were collected into the Social Insurance Fund (SIF).

The premiums for different types of coverage were determined by the Council of Ministers. For example, the most recent premiums for workplace accidents and occupation-related health issues are covered completely by the employer, but other general health coverage are divided equally between the employee, employer and the state (6% of gross wages). Then the premiums for veteran, death and old-age pension payments are 16% of gross wages with 6%, 7% and 3% contributed by, respectively, the three above-listed. There are other premium requirements for maternity and unemployment premiums. These different premiums have created cumbersome calculations, and it is unclear whether the premiums had been collected correctly over the years.

Section 14 of the related law discusses the formation and responsibilities of the SIF. The wages and salaries of the Social Insurance Office,<sup>2</sup> whose allocated posts at the time of establishment were 225, were paid directly from this Fund,<sup>3</sup> and personnel were subject to the regulations under Public Servants Law. The Fund's annual budget should be submitted to the Council of Ministers, and the Court of Accounts was supposed to audit the Fund and publish auditing reports in the Official Gazette. In other words, the regulations lay a good foundation for accountability and transparency for the management of this Fund. The Fund operated on the basis of capitalization where contributions are made by the employer, employee and the state, and is managed by a seven-person board of directors with representatives from the state (four), workers (two) and the employers (one). The state representatives were appointed by the Council of Ministers, which once again shows the lack of independence of this Fund from government.

The historic number of pensioners from, as well as contributors to, the Fund for selected years is shown in Table 9. The pensions of the

beneficiaries are paid by the current contributors; therefore the ratio of contributors to beneficiaries is an important indicator for the financial sustainability of this Fund. Although there is no simple rule for a sustainable contributor/beneficiary ratio, a generally acceptable ratio is 3:1. From the table we can see that during the early years, this ratio was satisfied, but after the middle of the 1990s, this ratio decreased to 2.5 and below.

There are 20 different levels of pension payments from this Fund. Table 10 reports the lowest, medium and the highest pension amounts for different years as well as the legal minimum wages. Those who receive the lowest pension levels have been receiving less than the minimum wages until 1993 when the minimum limit was exceeded but only for two years, when it dropped below the minimum wage again in 1995 and did not come back up until 1999. Since 2000 (with the exception of 2007) the minimum pension payments from this Fund have been slightly above (at most 9.1%) the minimum wages. The highest payments on the other hand have always been above the minimum wage levels. In the 1980s, the difference has been as much as twice the minimum wages. However, the gap has widened enormously as much as four to five times the minimum wages. As of 2009, the maximum pension payment from this Fund was seven times as much as the minimum wages.

Instead of comparing minimum wages to the pension payments, we can also look at the difference between the various pension levels. Different levels are decided according to years of service and rank of the public servant at the time of retirement. The ratio of the lowest to the highest limits also shows a widening gap. In the early 1990s, the ratio was around 3 to 3.5, but after the mid-1990s, the ratio increased to 5 and in 2009 it was 7. So, those who were receiving at the high end of the pension system have been awarded greatly compared to those at the lower end. The data for the number of pensioners at each level is not available.

There has been an even bigger problem for the Fund. The gap between the upper limit of pensioners and the minimum wage has increased towards the end of the 1990s. In other words, not only were there fewer contributors per beneficiary but also the pensioner from this Fund (beneficiaries) started receiving higher pensions, whereas the contributors were working for worse (lower wages) conditions. Finally, given how

there were many unregistered employees in the private sector or the contributions of the registered were under-reported (wages were usually reported at the minimum wage level), the full revenue potential of the Fund could hardly be realized. These crude facts are simply a recipe for a financial disaster.

Part of the benefit of social security can be found in the payment of health expenses at state hospitals. Naturally this scheme also covers the dependents of the contributors. After 2004, with the economic boom triggered by the Annan Plan, there was a significant increase in the number of contributors which was simply due to the increase in the number of employees coming from Turkey during the boom and the amnesty extended to them in 2005. But another agreement signed between TRNC and Turkey allowed the families of these registered individuals to come and live in TRNC. Since the boom mainly affected the construction sector, the families of the workers in this industry benefited the most. And the immigrant workers in this sector were mainly of low education and had large families (i.e., often more than five dependents). This resulted in a significant increase in the number of patients to state hospitals which not only increased the burden on hospital staff but also increased the cost of healthcare that was expected to be paid by the SSF.

One of the strange aspects of this system was its coverage for those who were employed before the system was established. Some of the Turkish Cypriots were working for the Republic of Cyprus before 1963, and some even before that under British colonial rule. Thus, they had made their social security contribution to the relevant systems under those authorities. When the new office was established, KTFD decided to count all the years of contributions of the individuals since 21 December 1963 (the start date of the ethnic conflict according to the Turkish leaders) in the new system. The expectation was that these individuals would probably not be able to receive their pension ever from the Republic of Cyprus as they now lived in another state. As of 2005, there were still 402 individuals who were receiving pensions from the SSF who never contributed to it and 7262 (32.3%) people who had some of their premiums paid to the Republic of Cyprus fund. Although this is a very humane idea, its financial rationality is questionable. All those people who had zero contributions in the new system as of 1977 now suddenly had

10–15 years of contributions from previous times transferred and now were able to receive pension at the establishment of the Fund when there was actually no money reserves to begin with. Furthermore, there were some individuals who received pensions from both the Republic of Cyprus and TRNC. In other words, some individuals have abused this rule and applied to both social security schemes over the years.

One of the modifications of this law in 1985 addressed this issue. Thus, if the pensioner started receiving any pension from the Republic of Cyprus which was higher than the pension received from TRNC system, the latter pension would be stopped immediately. However, if the amount received from the Republic of Cyprus is smaller than the TRNC pension (which should be verified through deposits at TRNC Central Bank), then that amount would just be added to the TRNC accounts. This change in the law was deeply suspicious. It was highly likely that the pension from the south would be less than that given in the north and, even if not, then it was possible to show at the central bank that the amount transferred was less even by one cent. Then the pensioner could actually cheat the system under its own legal control.

Another change in the same year regarded the ‘veteran status-old age-death’ (Malullük-yaşlılık-ölüm, MYO) pension amount calculations (Article 61). The original law required ‘70% of the average of the highest of 7 of the last 10 years’ annual income used in premium calculations’ to be used as the basis for pension calculations. The modifications made it more complicated: ‘the ratio of the contributor’s income to the highest income scale for the last 7 years is calculated, and the average of the highest 4 of these ratios are then multiplied by 750 and then multiplied by 70%’ to decide the pension income. The subcommittee in charge of drafting the changes in Social Security Law consisted of Dr. Ali Atun, Numan Ali Levent, Huseyin Curcioglu, Alpay Durduran, Orhan Kahya, Ahmet Ötüken and Naci Talat Usar. Most of the changes were accepted unanimously at the committee, but some (mentioned below) were opposed by Durduran, Ötüken and Usar. The parliament discussed this law on 23 May 1985.

Another financial obstacle for social security came from the very same entity supposed to protect it the most. The state was supposed to contribute 3% of the wages to this Fund. As of 1995, the government’s total

### Box 6.1 Parliament Discussions on Modifications to Social Security Law

Let's look at the discussions that revolved around modifications on Article 61. Original article required that the pensions could be received after contributing for 25 years (20 years for women) and having completed 60 years of age.<sup>4</sup> The new proposed modification reduced the age requirement to 55 years. Durduran objected to this whereby he requested that the age requirement should completely be eliminated (just have 25 years of contributions), and thus he and his party would vote 'indecisive' (*cekimser*) on this article (TRNC Parliament Proceedings, 23 May 1985, p. 16). Of the same change, Usar also said that his party did not approve it, requesting no age limit, but since the age limit was reduced from 60 to 55, it was an 'improvement'; thus they would approve this change (ibid., pp. 16–17). So, someone who starts working at the age of 18 (right after high school) could potentially 'retire' at the age of 43 and start receiving pension if the age regulation was not applied. Keeping in mind that the life expectancy for males at the time was 70, that would mean around 30 years of pension for the individuals.

The next set of arguments started on the discussion of modifications for Article 83, paragraph 4, that regulates the premium percentages for the MYO payments. Original article required 9% contribution distributed equally between the employee, employer and the state. The new proposal would change the total to 11% for 1985, 13% for 1986 and 15% for after 1 January 1987. The rate was not to be changed for the earlier periods. The opposition (Usar and Durduran) had no objections to the increase in rates for employer and the state but opposed to increase in employee contribution rates. Mehmet Bayram (the Minister of Labour and social security) defended the increases on the basis that the other changes in this law have brought increased benefits to the contributors which needed to be compensated by higher earnings for the Fund. Upon this explanation, the discussions revolved around the state's financial responsibilities regarding the social security (that, according to the opposition, the state should pick up any increase in the financial burden of the Fund, and that the state should find alternate means of increasing the Fund's revenues and not rely only on premiums) and how the past governments have failed in the past.

Further minor points on that day could give the readers a better picture of the parliament proceedings. When Lutfi Ozter summarized the social security receipts and pension payments of the Fund since 1977, Mehmet Bayram and Taşkent Atasayan objected to him by yelling out 'Don't be ridiculous', but Ozter insisted that these numbers had been provided by the government to the subcommittee. Ozter also claimed that the government had used this extra money for their own supporters and basically let it erode against inflation. After these allegations, the UBP MPs had started



yelling to Ozter from their seats upon which the president of the assembly had asked for a recess; upon return the proposed modification was accepted by 21 votes against 18. This kind of exchange was typical of how lawmakers debated and scrutinized the contents of parliamentary bills. All the pro-worker improvements were accepted unanimously, but no one objected to its financial sustainability. This has been the general behaviour in the north. How can anyone object to the fact that workers can retire at an earlier age? But did anyone actually calculate the number of people who would be eligible and the corresponding burden on the Fund and hence the active contributors? Parliamentary records show no such concern, with clientelistic behaviour displayed over and over again.

contribution to this Fund (without interest) should have been 730,274,358,217 TL, but not having paid any money until that time, the state instead gave real estate in exchange for some of this debt (*mah-suplasma*) which was only worth 61,819,952,705 TL leaving substantial amount of unpaid accumulated debt.<sup>5</sup> The accumulation of state's social insurance debt between 1977 and 1995 is shown in Table 11. Although we don't have access to information after this date, it is publicly known that the state hasn't paid its contribution to this Fund (although annual budgets include items for this purpose) and instead transferred some arbitrary amount at the end of each year to the fund. By 2004, the accumulated debt was expected to have been 102,268 billion TL (about \$76 million).<sup>6</sup> But this Fund was supposed to be managed independently; thus the administrators of this Fund should have taken the matters to the court, but instead they did nothing because they were also appointed by the governments who were the perpetrators of this scheme.

The operation of the social security office has been a key item of discussion for many years. The opposition parties would blame the governments for taking it to bankruptcy and the governments would blame the existing regulations and the existing system for its unsustainability upon which always include 'wishes' in their programmes to improve the social security system. Insofar as the three major parties have alternated power since 1975 and nothing has been done to fix the system, they themselves (UBP, CTP and DP) are responsible for the system as it emerged to the present. In 2010 social security was merged under a single structure, under pressure to do so from Turkey, but it is questionable whether the

change in the system will help save the social security whilst political mismanagement continues unabated. However, before examining the merged system, the pension system that was designed separately for the civil servants needs to be described.

## **Pension System for Civil Servants: The Retirement Fund (*Emekli Sandığı*)**

The Fund is managed by a board that includes four state representatives and one trade union representative.<sup>7</sup> An SPO document claims that ‘the lack of organized work by this committee to this date (2005) could be problematic’.<sup>8</sup> The retirement pensions were regulated by a law from the British period. Turkish Cypriots struck out this law and drafted their own in 1977. The Retirement Law (*Emeklilik Yasası*, 26/1977) covers only civil servants. At first there were no age criteria for eligibility of pension receipt. Instead there was just ‘number of work years’ regardless of when those years were completed. For those who were appointed before 2 April 1985, a minimum of 10 years was required, and for those after this date (but before 1 July 1987), a minimum of 15 years. The years served in the military (multiplied by two) during the bi-communal conflict (1963–1976) were also counted as part of the time-serve requirement. Thus, someone who was in the military for three years (which was very common during that time) and then started working in the civil service before 1985 could retire after working for four years. This in fact has resulted in many young retirees who would draw pension from the central government for a very long time.

The 1982 changes for this law are also interesting (26/1982). For example, the original Article 3, paragraph 4, included only those civil servants who were approved by Public Services Commission, but the new changes would add those who ‘have worked at Bekir Pasa Water Works (Bekir Pasa su isleri)’, which is obviously added to target a small group of individuals.<sup>9</sup> The original article covering the military personnel who served under Turkish Cypriot Army required adding three months for each year of service, but the new modifications required doubling of the years served (between 1963 and 1976) and not requiring any proof of discharge (*terhis belgesi*). Article 6 which outlined the conditions for those

who were only eligible for retirement lump-sum bonus was also modified. The original article required those whose total service years at public sector were less than ten years would receive only a lump-sum payment. But the modifications changed this to exclude the time served in the military as part of the ten years for the eligibility, but then include it in the calculation of the retirement salary. And the changes continue to favour the workers, but it looks like the modifications were made to favour the past and not the future.

There was some objection to the increase in premium payments from 2.5% to 5%. Erdal Süreç (TKP) believed that 'social security should be paid by the state to its workers gratuitous'.<sup>10</sup> Thus, they were against any kind of premium payment. On behalf of CTP, Ergün Vehbi explained that these modifications were only intended to benefit some forgotten group of people but does not cover all eligible equally, and thus CTP would vote against these unless the entire law changes simultaneously with the Social Security Law. The new modifications gave certain rights to some of the veterans (*mucabid*) who had served before 1974, but did not include the military personnel after this date which Vehbi declared as unacceptable. For example, the modification required time served by the *mucabid* commanders who were discharged before 1 April 1977 to be included in the retirement calculations, but CTP proposed that this article be extended to all *mucabids* not only the commanders upon which the subcommittee required further time to discuss these suggestions, and the meeting was postponed to 28 June. The final version of this article would not include all the *mucabids* but only the commanders. As always the opposition's views were not enough, and the modifications were accepted by majority of votes, but of course this was not the end of changes to this law.

The 1982 modifications were also criticized by the labour unions.<sup>11</sup> KTAMS criticized the changes on the basis that the premium payments were increased from 2.25% to 5% without increasing the pensions or lump-sum payments at the time of retirement. Türk-Sen sent a letter to President Denктаş and asked him not to approve the modifications because their proposal to include 'the time served by 100 civil servants who were working at the foreign bases' in the new law was not accepted although other workers with similar conditions were included.

The regulation regarding the payment of pensions of the civil servant retirees was changed in July 1987. Before that, the entire pension would be paid through the central budget. For those who started working after July 1987, the new law (39/1987) required the establishment of a Retirement Fund that would collect deductions from paychecks that will be used to pay the pensioners later. For males who started working before July 1987, 0% (5.5% if married) from their net salaries, and for those who started working after this date, 4% (8% if married) of their gross salaries were to be deducted to be deposited into this fund. In other words, single civil servants who started working before July 1987 contributed nothing to this fund. Furthermore, those who started working in civil services after July 1987 would be required to work for at least 25 years and be at least 55 years old in order to be eligible for the pension. In other words, for the years 1977–1987, the Fund offered early retirement possibility and required little in contributions.

It is no wonder then that Turkish Cypriots have preferred working in the civil services. The early entrants to this sector (1975–1987) have benefited greatly. Some would argue that those individuals have experienced long years of conflict/war; thus they deserved to be rewarded. This kind of reasoning has dictated the clientelistic policies in the post-1974 era. By the time the state had realized the financial instability of these benefits, the rent opportunities (rentierism) were so high that they were not willing to trade the possibility of getting elected to financial sustainability of social security. After all, short-term solutions were available by securing finances from the ‘motherland’. Attempts to fix the system have increased over the last decade with pressure from the only financial donor, Turkey, but the unfairness it has caused over the years and the clientelistic tradition it created will always be remembered.

## **Provident Fund (*İhtiyat Sandığı*)**

On top of the pensions received from the Social Insurance Fund, the non-civil service employees were also entitled to a lump-sum payment at the time of retirement through another fund called Provident Fund. The law regarding the management of this fund was first enacted in 1977. But

it was completely abandoned and replaced by a new law (*İhtiyat Sandığı Yasası*, 34/1993) in 1993, accepted in the parliament on 25 June 1993 by a majority vote. The aim in the original law was listed as ‘to protect the social benefits of all those who are employed in TRNC but are not covered by any other retirement benefits’. In 2007 they modified the list to only include employees, employers and self-employed and specified retirement benefits as a ‘lump-sum bonus’. And finally, in 2009, they excluded non-citizens from being eligible.<sup>12</sup> The payments were to be made from a Fund that receives employee and employer contributions plus earnings from other activities. The law also made it unlawful for those eligible not to willingly join the Fund without proper reason.

All TRNC residents who are working for pay and are not covered by another retirement fund, all those foreigners who are working and have permanent residence status and the working foreigners who are exempt from work permit are required to be covered by this Fund. The self-employed and employers can also be included in the Fund upon written request. Those who were retired or were already receiving a pension from Social Insurance Fund were not covered. However, if they continue to be employed after retiring, they can also be included in this Fund. Given that there were many young retirees at the end of the 1990s that continued to work (self-employed mostly), they also joined this Fund. The contribution is 4% of employee’s gross wages (premium) that is matched by the employer (deposit), and it is the employer’s responsibility to directly pay in these amounts every month. The self-employed and employees can deposit between 4% and 8% of their own wages. The total premiums and deposits received by this Fund are shown on Table 12 along with the payments made. The fund did quite well in the sense that they received more money than they paid out, at least until the end of the twentieth century. However, the data for 2001 shows the opposite to be the case, and we do not have access to the data for the remaining period to comment any further. This is another example of the pattern of the lack of state accountability where the access to data is limited.

The employee can recover the accumulated amounts when employment is terminated, subject to certain conditions. If the employment is terminated within two years of the start date, the employee can receive all the premiums with interest but not the deposits. Those who complete

three years will receive premiums and 30% of the deposits, and the percentage increases by 10% for each year afterwards where all the premiums and deposits (with interest) can be obtained after having worked for ten years. If the employment terminates early due to illness, getting married, maternity, becoming full-time student, entering military service or not being able to find a job within six months after termination, the employee is eligible for full benefits. The beneficiaries are also allowed for advance withdrawal up to half of the total accumulated amounts. In case of death, all the accumulated value is paid to the next of kin.

The board that manages this fund consists of nine members all of whom are appointed by the Council of Ministers upon recommendation of various sources for the duration of two years. However, the council can dismiss any member as they wish without any reason before the term is complete. The recommendations for candidates for appointment come from the Minister of Labour (two persons), Minister of Finance, SPO, the employer trade union with the most members (two persons) and the employee Federation of Trade Union with the most members (two persons) and the second most members (one person). The board is mainly in charge of the management of the Fund and the office. However, the Minister of Labour's approval is an essential requirement before the decisions of the board can be finalized (Article 12, paragraph 5). The decisions regarding the management of capital in this Fund have to be approved by the Council of Ministers, and the Fund can be audited by State's Court of Accounts. Article 42 clearly states that 'the money in the Fund (Providence Fund) can only be used to make payments to those who are eligible for retirement benefits'. But before that under Article 4-3, the Fund's (Provident Fund) activities are defined more extensively such as buying/partnering with other enterprises, buying bonds and treasury bills, and operating in the insurance sector. But it does not say anything about loaning money to other enterprises which past governments had continuously done.

Although this office is supposed to act independently from the government, the employees are also considered civil servants. They are subject to all the regulations of Public Servants Law, but also have some extra privileges. For example, employees have their own retirement fund called Providence Fund Retirement Fund which only covers the employees of

this office.<sup>13</sup> The capital accumulated for the former Fund are kept at Vakıflar Bank. Table 9 also shows the number of contributors and beneficiaries to and from this Fund for available years. The contributor to beneficiary ratio has decreased over the years as the number of early retirees has increased and the number of active contributors in the later years has decreased. Table 12 shows the total payments made to and from this fund over the years.

Table 12 also shows the budget for the Fund for selected years. At the beginning the Fund had most of the money as demand deposits at local banks. However, after the 1990s, the amount of loans given from the Fund increased and now makes up almost 70% of all the wealth. Most of this money are loans to the SEEs under state guarantee (*devlet kefalet senedi*), but given how the state is currently bankrupt, it is unlikely that most of that money will be returned. As of the end of 1995, out of 911 billion TL credit given to various entities, 62% was for the Ministry of Finance, 18% to the Consolidated Fund and another 18% for the Social Housing Fund. The state exchanged the Mimoza Hotel for the money they owed for government contributions to the Social Insurance Fund, and the Fund then sold this hotel to Provident Fund for GB£926,000 on 20 March 1995. But these developments were criticized by the Court of Accounts and state prosecutor, and the president (Rauf Denktaş) wondered if it was possible to cancel this sale.<sup>14</sup> In fact, the Fund sold this hotel to Gossip Ltd. on 26 September 1995 for GB£1,260,000, but the sale could not be completed because the Attorney General's Office found that the Fund was legally not allowed to engage in sale of real estate. Subsequently, in 2000, the law (18/2000) regulating this Fund was modified to allow such sales, but the amount owed by the purchaser at this time was not paid and the Fund took the matters to the court.<sup>15</sup>

The fund also bought Sunzest Trading Ltd. on 13 July 1995 for 288 billion TL. Sunzest Ltd. was a subsidiary of the Polly Peck company that went bankrupt in 1991. This company specialized in citrus fruit packaging and producing concentrated juice. Ömer Kalyoncu (CTP) said that the government purchased this company because 'Cypruvex's capacity was not enough' and 'the company [Sunzest] had unpaid tax debt to the state and unpaid social security contributions of the workers'.<sup>16</sup> But the

state then wanted to sell the company at the end of 1995. The CTP-DP government saw this as a good move since ‘workers received their unpaid earnings and the company operated during 1994–95 which also allowed workers to receive income during this period’. And they also tried to sell the company at higher than purchase price. If the state purchased this thinking it was a good investment, then why did they want to sell it within six months of purchase? If this company could be used by Cypfruvex, then why didn’t they transfer/sell it to this company? The Fund was managed as a financial intermediary of the governments. Whenever the state wanted to borrow money to bail out the SEEs or Social Insurance Fund, they borrowed money from the Provident Fund. But the state has never paid back these loans.

## **Single Social Security System (SSS) (After 2007)**

The idea of a ‘single social security system’ for all types of employment had been floating around since the establishment of TRNC. The second FYDP had included this idea, but it wasn’t until 1994 that this was listed in a government programme (DP-CTP). Of course, no action was taken for a long time, and it was finally in 2007 that the law was finally enacted. The parliamentary subcommittee met five times in seven days and brought the bill for approval of the general assembly on 9 July 2007.<sup>17</sup> The bill was approved unanimously. However, the opposition parties were not present in the assembly on that day. UBP and DP had been boycotting the assembly, and their representatives were also not present at the subcommittee meetings. The subcommittee claimed that they have also taken the views of the members of three Federation of Unions (DEV-IS, HUR-IS, Türk-Sen) at the meetings. However, many other unions opposed this bill and demonstrated against it heavily. Thus, either the subcommittee did not take the unions’ views into consideration or that the members who attended the meetings did not really represent the views of the larger group of workers. By not participating at the general assembly on that day, the opposition parties did not present their views



regarding this piece of legislation and basically avoided any future clash with the public.

The government at the time (CTP-ORP<sup>18</sup>) was very enthusiastic about this bill, and they declared themselves as the ‘savior of the social security’ on that day. At the same time, they were attacking the labour unions for their opposition to this bill. Some of the unions prepared leaflets to inform the public regarding the contents of this bill. The prime minister (Ferdi Sabit Soyer, CTP) blamed these unions for preparing such leaflets containing information that is ‘below the intellectual knowledge level of the unionism and political activism of Turkish Cypriots’ and claimed that their requests were ‘irrational’.<sup>19</sup> The rest of the CTP members also attacked the union members for discord and deceptiveness as well as ‘not being leftist’.

There were several changes in the new law. Disability/old age/death (MYO) categories are now separated, and rules pertaining to each of them are detailed individually. The old-age pension eligibility age increased to 60 years conditional on at least 9000 days of premium payments (Article 53-1). In case the individuals had less than 9000 days (but more than 5400 days) of premium payments, they could receive discounted pensions after 63 years of age. The pension of the retiree is calculated by multiplying ‘average monthly earnings’ with ‘monthly replacement rate’. The average monthly earning of a pensioner is calculated by average of all the years of service (except the first and the last year). The calculation of the latter ratio is non-linear. The ratio for each of 360 days of the first 5400 days is 2.5%, and for each of the remainder 360 days the ratio is 2%. Any duration less than 360 days is prorated. So, for someone who worked for 9000 days, this ratio is equal to 57.5%. There are other special rules in this calculation, but overall the new pension system increased the eligibility age as well as decreased the base salary. Of course, this new law would only affect individuals who registered and started paying premiums after January 2008. The lump-sum bonus for the civil servants that was paid through the Retirement Fund became unavailable for those who started working after 1 January 2008. The new law required 10% (equally by the employer and the employee) contribution of gross wages to the Provident Fund for everybody which made a significant loss of retirement bonus payments for the civil servants.<sup>20</sup>

A properly designed social security system is essential in any country to ensure the well-being of its citizens. Although under different economic ideologies, the details of such a system will be different, a state without one is bound to receive a lot of opposition from its labour force. Northern Cyprus did have a good social security system at the beginning, at least on the paper. Consistent with other clientelistic practices of the governments, civil servants had more benefits under their own social security system compared to private sector counterparts. That wouldn't have been such a bad thing if the state had done its duty and actually contributed the necessary amounts to the related Funds. As if that wasn't enough, the state had also used the money in these funds to cover up other affairs (financial assistance to some state-owned enterprises). The policymakers have been aware of the fragility of the social security and made promises in their government programmes to fix it, but their political motives did not allow that. As long as Turkey was sending money to cover up the deficit in the budget, there was no immediate need for making changes and risking loss of political power. Finally, there was little pressure from the public since civil servants and private sector employers (who were the majority of voters) were themselves venal beneficiaries of this system.

Since local politicians and the citizens would not act against the corrupt system on their own account, they had to have some kind of external incentive in order to change the fragile social security system. Such an 'incentive' came from Turkey after 2005 when they insisted that the social insurance system had to be merged into a single system. One reason for this pressure was AKP government who was not happy with the funds being wasted by the local governments in northern Cyprus. Another aspect of this insistence was that after 2000, more and more Turkish citizens began to live and work in northern Cyprus permanently who were now eligible for the benefits of social security system which made Turkey to be more interested in the sustainability of the system. Obviously, since the change was requested by Turkey, it created a lot of public opposition especially from labour unions, but the local political parties were keen to blame this on Turkey and once again pleaded not guilty of their past crimes on abusing the system. Past governments have used the Social Insurance Fund and Provident Fund as their local bank and used the accumulated money to extend credit to other semi-state-controlled enter-

prises that was another area of exploitation by the policymakers. Time will show if the combined social security system is going to improve financial conditions and how much burden will fall on the current contributors, but in my mind the previous generations have benefited greatly but undeservedly from this system.

## Notes

1. The civil servants who are on probationary status (for two years) are also required to contribute to this Fund. Once they become full-time (permanent), then their contributions will be continued at the Retirement Fund. All other types of employees and self-employed contribute to Social Insurance Fund.
2. Law 58/1989 regulates the workings of Social Insurance Office that was established in 1989.
3. Until 1981 the employees of the Fund were getting paid from the central budget.
4. The age limit was 55 for those who have been working in mining industry or other jobs that required working underground.
5. TRNC Ministry of Labour and Social Security Bulletin (1995), No. 3, p. 12.
6. TRNC Ministry of Labour and Social Security, Activities Report, 2004, p. 22.
7. The representatives from the state are one representative from Ministry of Finance, State Planning Organization, Treasury and Accounting Office and Personnel Office. The trade union representative should be from the union that has the most members working in the public sector.
8. SPO (2005), p. 203.
9. Actually, Ergün Vehbi (CTP) claims that there are only two people working at this place (owned by Evkaf), and one of them already is eligible for retirement benefits, but the other one is not. Thus this clause is added just for one person (TFSC Parliament Proceedings (25 June 1982), p. 58).
10. KTFD Parliament Proceedings, 25 June 1982, p. 53.
11. Bozkurt Newspaper, 30 June 1982, “Emeklilik Yasasının Degistirilmesi Sert Tepkilerle Karsilandi” [Modifications to the Retirement Law have received strong opposition].

12. There are still 5% employee contributions required by the law, but no premium is deducted from the foreign workers. The contributions from these deposits are accumulated in 'Incentive Premium Fund' used to promote domestic labour employment. Foreigners who are exempt from this article (who still contribute 5% and are eligible to receive payments) are university lecturers, pilots and plane technicians, and civil servants.
13. TRNC Ministry of Labour (1996), p. 18.
14. TRNC Ministry of Labour and Social Security, Report of the Minister (Ömer Kalyoncu) at the Parliament regarding 1996 Budget of the Ministry on 31 January 1996.
15. TRNC Ministry of Labour, Settlement and Social Security, 2000 Activities Report and Targets, 19 December 2000, p. 29.
16. Ibid., p. 32.
17. TRNC Parliament Proceedings (9 July 2007), p. 3378.
18. ORP refers to Özgürlük ve Reform Partisi (Freedom and Reform Party) that was established by a group of people who left UBP. This party participated in the coalition government after 2006 elections, but in 2010 the party was dissolved and its members went back to UBP.
19. TRNC Parliament Proceedings (9 July 2007), p. 3413.
20. <http://www.kktckamusen.org/site/sayfa.aspx?pkkey=44>.

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