

## **The Effects of Severance Pay Fund Management Systems on Countries' Economies and Financial Markets : A Case Study of Turkey**

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Policy makers argue that current systems of severance pay around the world constitute hidden cost for employers, decrease the job mobility and flexibility of workers and cause a liquidity problem about who will make the payment once the firms bankrupt. Severance Pay Fund schemes are emerging programs that countries prefer to overcome with these issues. The international experience shows that there are two major severance pay fund management systems. The fund may be controlled and managed by a public authority in a single account or by private companies in personal accounts.

After the implementation of such programs in Italy and Austrian severance pay fund reform of 2002, Turkey, as a developing country, is discussing a new draft of Severance Pay Fund Law. The aim of this paper is to analyze and compare the possible results of different management systems of severance pay fund on the economy and financial market of Turkey. Unemployment Insurance Fund in Turkey is an example of publicly managed fund system and is referred in the draft bill. The Individual Pension System, on the other hand, constitutes an example of privately managed fund system. The necessary data is, therefore, collected from Social Security Institute's, Unemployment Insurance Fund's and Individual Pension System's statistical data. The potential income and expenditure of such funds under different management types are calculated. The contributions of the Fund on the interest rates, investments, employment, GDP, etc. are analyzed.

The results shows that privately managed individual accounts system will be more efficient. We believe that findings of this paper will contribute to the literature and construction of severance pay fund system in Turkey and in other developing countries.

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