

Lay perceptions about the pension system in Israel

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This study is based on the analysis of a questionnaire administered to a nationally representative sample (N=504) of the adult Israeli population.

The Israel system includes two tiers – a state run system which covers everyone with a bare minimum, and a private system. Salaried employees and self-employed persons are legally required to have private pension funds to which they and their employers must contribute (DC system). Upon retirement, the accumulated sum is annuitized and provides the pension.

We ran a detailed questionnaire concerning the components of the retirement system, including taxation, the possibility to withdraw funds, whether the system is private, whether it matters which fund the money is saved to, and also on how well they monitor the sums accumulating in their fund, whether they understand the periodical reports and how confident they feel about the whole issue.

Examples of inaccurate knowledge include ignorance about disability insurance and inheritance provisions in case of death about who handles the savings, and exposition to the stock market.

Most savers don't understand the yearly report they receive, and many don't even open it. The public report they understand very little, feel guilty about it, and would be interested in receiving professional advice. A large majority is happy that the government made retirement savings mandatory.

In analyzing the rich data obtained, we strove to go beyond tallying the answers to each question in different segments of the population, and to identify general conceptions about the pension system that underlie their answers and attitudes.

We did identify three such general conceptions about retirement savings that structure the public's understanding.

1. *The contract model* - Workers believe in an implicit contract with the government that ensures a guaranteed lifetime adequate pension upon retirement, at a level related to past earnings according to some formula. The pension is given out by the government in return for a lifetime of work. This also means that the government guarantees the income and will covers shortfalls as needed. People holding that view see little point in checking their savings or in selecting advisedly where it is handled.
2. *The safe deposit box account* – Savers view their retirement fund as no different from a private savings account in the bank, one affected only by the activity of the saver, who is therefore the only one to bear responsibility. Economic upheavals are thought to be irrelevant to their personal situation.

3. *The investment account model* – Savings accrue in an investment account handled by a financial body on behalf of the saver (which is the actual situation for most savers in Israel, a Direct Contribution model). The fund's performance is critical for obtaining a high pension.

This model obtained most support, but there are large disparities between sub-populations, with Educational level and SES making a large a systematic difference in the direction expected.

The model held had significant predictive power regarding the way the respondent handle their retirement savings.