Pension in Israel and the Era of Privatization

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This article proposes a broad review of pensions in Israel, as the subject has developed in recent years in all its historical, economic, institutional, political, legal, and psychological aspects. My goal is to illuminate these aspects and forge a coherent story.

Pensions are probably the broadest social program. Pensions are organized in two tiers: the universal old-age pension that insures every resident of the State of Israel, and the occupational pension that insures working people only. The old-age pension, which is the first tier, constitutes about 35 percent of the total expenditures of the Israeli National Insurance Institute, which are measured in billions of NIS. The contributions to a pension fund, which is the second tier, constitute almost one-fifth of salary in Israel, and the average employee's accumulation is in excess of NIS 1 million at the time of retirement. The total assets of pension funds, insurance companies and other "institutional" entities are already in excess of a trillion – 1,000 billion – NIS.

Most of the public do not understand the issue of their pensions, because of its complexity. This has been proven in various studies, including studies with my partners at the Center for Pensions, Insurance and Economic Psychology at Ben-Gurion University of the Negev.

My purpose in this article is to clarify the subject of pensions for all readers, including non-professional economists. On the personal level, since 2003 the occupational pension of employees requires them to have pension knowledge to make the right decisions, because the new pensions are based on personal accounts as the result of the last pension reforms. Occupational pension has become even more important since 2008, when it became mandatory for all employees, to which the self-employed were added in 2017. On the public level, pensions are an important component of the social system, and understanding it is crucial for educated political decision making on the national level.

This article shows how the structure of pension funds fits with the ideology that has dominated Israel's economic-political establishment in recent years, namely the free market worldview, according to which the consumer is the sovereign and he or she will decide what is best for them. Unfortunately, the consumer lacks the understanding that will allow them to make the right decisions. This knowledge gap has important consequences wherever the consumer needs to make decisions, personal or public.

The article also deals with the first tier of social security. It shows that there is no basis for panic about the actuarial deficit of the National Insurance Institute, which will only materialize in a few decades, but it is very important to address the problems now in order not to lose public confidence in this system. The Israeli