

Executive Summary

Today's Workers, Tomorrow's Retirees: Understanding the Pension Gender Gap in Israel

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In recent years there has been much public discussion about a variety of issues relating to pensions in Israel, including concern about the performance of pension funds and the implications of an aging population on the pension system. In Israel, pension income comes primarily from two sources: old-age allowances (provided by the National Insurance Institute to retirees and elderly living in poverty) and occupational pensions (mandatory since 2008). The differences between men and women for each of these pillars are expected to dictate the degree of future gaps in pension income.

Pension savings by gender

Data for 640,000 people who held a pension fund with Menorah Mivtachim (the largest new pension fund in Israel) in 2017 indicate that there is indeed a gender gap in private pension savings and this gap increases with age. The most significant gap was found among those ages 45-54: men in this age group have 28 percent higher occupational pension savings than women.

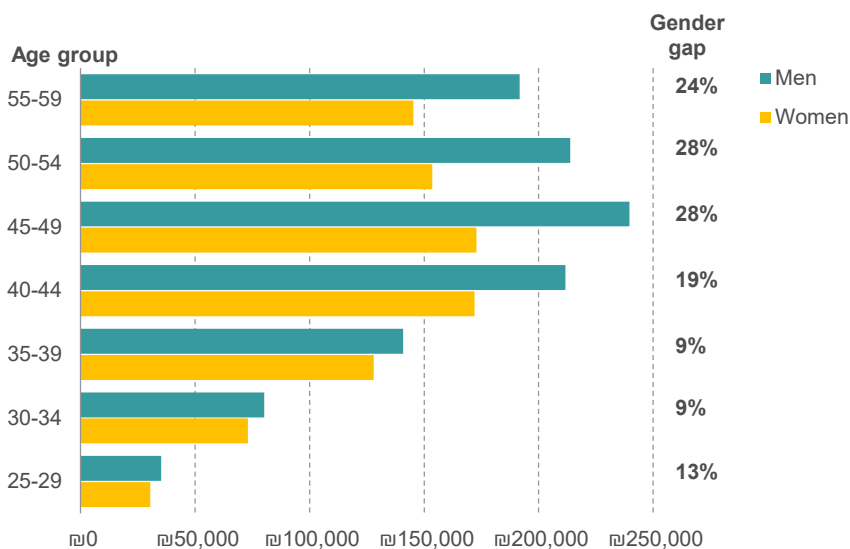
Among older age groups (44 and older), the average pension gender gaps are higher among Arab Israelis than the rest of the population, but for those ages 44 and under, the expected gaps are similar. This seems to reflect an intergenerational shift — younger Arab Israeli women are employed at higher rates and therefore their pension contributions are expected to be higher than those of the previous generation.

The private pension savings of Haredi women in the 25-34 age group is 26 percent higher than that of Haredi men, reflecting the higher employment rates of women in this population group.

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Figure 1. Average pension savings by gender (in NIS) and gender gap (in percent), 2017



Source: Liora Bowers and Hadas Fuchs, Taub Center | Data: Menorah Mivtachim, New Pension Funds

What affects the gender pension gap?

A comprehensive index that measures the expected future pension gender gaps in European countries provides a framework for comparing the situation in Israel to that in Europe.

Employment data: The employment rate of women in Israel is relatively high: about 66 percent among women of working age, and policies encourage women's employment – for example, women receive higher tax credits than men. Since private pension funds play a very important role in post-retirement income, the higher magnitude of employed women reduces gender disparities relative to the world.

However, other data widen the gap; the hourly wage gap between men and women in Israel falls in the middle of the OECD ranking (standing at about 19 percent as of 2016), and there is a relatively high gap (16 percent) between the number of weekly work hours for women (about 37 hours) and for men (about 44 hours).

Continuity of employment: Paid maternity leave in Israel (15 weeks) is considered an insured period for the purposes of calculating the accrual of pension entitlements, but if a woman chooses to extend into unpaid leave, as many do, this period is not insured. In Israel, the protection of pensions during periods of childcare is relatively limited compared to countries in the OECD, most of which have policies for reducing these gaps.

Retirement age: Israel is among the nine OECD countries that have retirement age gaps between men and women, and one of only three that are expected to maintain this gap through 2060. The conditional retirement age for men in Israel (67) is the highest in the OECD, while for women it is 62, though many women continue to work after this age. The difference in working years due to the gap in retirement age contributes greatly to reducing women's pension income relative to men's.

Government benefits: Benefits actually provide an advantage for women. While a man and a woman who paid NII contributions for at least 35 years and retire at the official retirement age will receive an identical monthly benefit from the NII, employees can opt to defer the benefit until the age of 70 (the absolute retirement age) and receive an additional 5 percent for every year of delay. Because of the gap in the conditional retirement age, a woman who chooses to retire at age 70 will receive 22 percent more than a man who does the same.

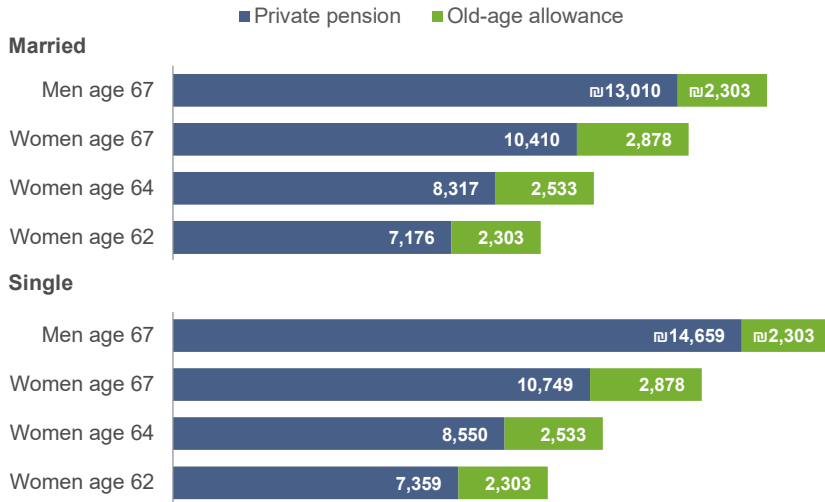
Pension payment coefficient: Israel is among only four OECD countries that take into account gender when calculating the monthly sum to be paid to each insured individual in the fund, a practice that is not legal in many other countries. Since the life expectancy of women is higher, pension companies divide the total savings into a higher number of payments — thus, unmarried women receive a lower sum each month than unmarried men. (It is important to note that, among married couples, the coefficient is also influenced by the calculation of survivor's pension benefits should one's spouse pass away. Due to the fact that a woman is more likely in practice to benefit from a survivor's pension than is her husband, the coefficients used for married men and women are fairly similar.)

The future pension gender gap

A simulation to estimate future pension gender gaps finds that, among married individuals who retire at the age of 67, a man will receive about NIS 2,000 more a month from a pension (occupational and old-age allowance)

than a woman: NIS 15,300 compared to NIS 13,300, on average. Among single individuals, the gender gap is even larger in favor of men: about NIS 3,000.

Figure 2. Monthly pension income for married men and women at various retirement ages



Source: Liora Bowers and Hadas Fuchs | Data: Menorah Mivtachim

The simulation also shows that retirement age has a significant impact on pensions: a woman who retires at age 62 will receive about NIS 3,800 less per month than one who retires at age 67, both because of lower total accrual in her pension fund and because she will not receive additional funds for postponing the old-age allowance.

In general, it seems that gender plays a more prominent role in retirement policies in Israel than in other OECD countries. A five-year retirement age gap, the pension payment coefficient, and the lack of pension accrual during breaks in employment for childcare are just a few examples of how gender shapes retirement policies in a uniquely profound way in Israel that has a large effect on pension gaps between men and women.