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INFORMATION ON EQUALITY AND SOCIAL JUSTICE IN ISRAEL
מידע על שוויון וצדק חברתי בישראל
مركز «أدفا» – معلومات حول المساواة والعدالة الاجتماعية في إسرائيل

Pension Funds Opened in 1995 (and Privatized in 2004) Getting Richer at Workers' Expense

Press Release, December 14, 2009

Government regulators are currently considering the recommendations of the Hodek Commission calling for increased regulation of pension fund investments. While this is a needed step, the same regulators ignore the fact that the biggest loss suffered by members of the new pension funds occurs even before their money reaches the capital market – due to the fact that the government permits the insurance companies that purchased the funds to charge exorbitant management fees.

A document just published by the Adva Center, *The New Pension Funds: Increased Revenues from Fees and Bigger Profits – at the Expense of M*embers, written by Agbaria et al, reveals that in 2008, revenues from management fees amounted to NIS 604 million – almost double those revenues in 2005. Of this amount, NIS 105 million was recorded as profit. In other words, an average of approximately 25 agorot on every shekel went right into the pockets of the pension fund managers.

Management fees ensure revenues for the insurance companies, even in periods of crisis, as they are based on a set percentage (up to 6%) of the monthly pension fund deposits and of the accumulated balance (up to 0.5%).

A person unfamiliar with pension accounting may be under the impression that 0.5% of the accumulated balance is a negligible amount. However, actuarial calculations show that, over the years, 0.5% of the accumulated balance amounts, on average, to between 11.6% and 12.7% of a monthly pension deposit. If we add this to the maximum fee on the monthly deposit, we arrive at close to 20% in management fees.

To the above fees one needs to add yet another fee, that paid to external managers for investments made abroad. In the past, this fee was paid out of the revenues obtained from the first two fees; however, since 2005, external management fees have been charged to pension fund members. For their part, pension fund members are not even aware of this fee, as it does not appear in the periodic reports they receive from their funds. In 2005, the two largest pension funds, Mivtahim Ha-Hadashah and Makefet Ishit, collected a total of NIS 11.2 miilion from fund members in external fees. Two years later, in 2008, this sum had increased fourfold – to NIS 41.5 million.

Regulation of pension fund investments is important; however, just as important is the need to reduce management fees, which skim off nearly 20 agorot out of every shekel deposited into pension funds.

The full report, in Hebrew, is on the Adva Center website:
http://www.adva.org/default.asp?pageid=1001&itmid=565

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