

Karnit Flug: Raising the retirement age for women in Israel

Main points of remarks by Dr Karnit Flug, Governor of the Bank of Israel, at the conference on raising the retirement age for women, Jerusalem, 1 July 2015.

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I would like to briefly address a number of facts and trends that outline the situation concerning the retirement age in Israel in general, and for women in particular. I will then present a series of recommendations and conclusions that I believe should be discussed, ideally in advance.

Expected demographic trends:

As we know, life expectancy is increasing. If we look at the past 40 years, the life expectancy of women who have reached age 65 increased from 80 years to 86 years, and for men it increased from 79 years to 84 years. This fact, together with the fact that the retirement age increased by only 2 years, means that men are expected to live an average of 17 years after retirement, and women are expected to live an average of 24 years after retirement. This raises the question of whether during employment, workers – and particularly women – save enough to ensure them a proper income after retirement.

Another way to look at the demographic change is to examine what is happening to the relationship between the working-age population and the retirement-age population. We can see that the trend in Israel is similar to the trend in other countries, although with somewhat of a lag. As of today, there are five working-age people in Israel for every person above age 65. In 2050, that ratio is expected to narrow to 3:1. This change obviously has serious consequences for the labor market, the dependency ratio, and as a direct result, the actuarial state of National Insurance and the old pension funds.

An international comparison of retirement arrangements shows that in Israel, the retirement age for women is relatively low, and even after it rises to 64, as it is supposed to do in 2017, it will still be significantly lower than in most European countries, some of which are also in the midst of gradually raising it, and all of which except for Switzerland have set out that the retirement ages for men and women will become equal in the future. Like in Israel, these countries also have wage gaps between men and women. The retirement age for men in Israel rose to 67, and is similar to the retirement age among European countries that have already raised the retirement age to the upper benchmark. The large gap between men and women in Israel is prominent, and it raises a question regarding women's ability to save sufficiently for retirement. The longer a decision to raise the retirement age for women further is delayed, the more necessary it will be later on to do so more rapidly, and with greater problems.

The effect of the trends on the replacement ratio:

In view of the trends I have so far presented, a most interesting question arises: What will happen to the level of pension payments at retirement? The variable that we customarily look at in this context is the replacement rate – what will the retiree's income be, compared to his pre-retirement wage? A simulation of the net replacement rates, including defined contribution pensions and old-age pensions, provides an illustration of income at NIS 7500 a month. If we look at women who retire at age 62, whose pension savings generate an average real yield of 4 percent per year, and who save 17.5 percent of their salaries, the replacement rate will be 71 percent. In contrast, another retiree with a deduction rate of 19.5 percent with the same yield, will have a replacement rate of 76 percent. If we look at a retiree at age 67 with a deduction of 19.5 percent, the replacement rate will be about 100 percent, which ensures the maintenance of the same lifestyle after retirement. Another possibility for

reaching the same lifestyle upon retirement is to increase the monthly deduction so that women who retire at age 62 and want to reach the same replacement rate as those who retire at 67 need to increase their monthly deductions by about 8 percent.

How did the increase in the retirement age in 2004 affect employment and wages?

Increasing the retirement age for women from 60 to 62 increased employment and the wage path for women aged 60–61 and led, immediately after the change, to an increase of about 4.3 percentage points in the employment of salaried women aged 60–61. This is the effect immediately after the change. In the Bank of Israel Annual Report for 2013, we showed that the extended effect is even larger. The absolute majority of women (more than 80 percent) continued to work after the retirement age was raised, and there was no increase found in the unemployment rate among older women following the increase in the retirement age. In the long term, it is likely that as the retirement age rises, employment rates among older women will also increase. It is important to note that the official retirement age (age of eligibility) contributes to designing labor market norms in that it works as a signal to both workers and employers, and affects the actual retirement age, thereby contributing to their preparations for continued employment. As we can see from Labor Force Survey data, there has been a dramatic change in the labor market, which is reflected in a doubling of the rate of working women aged 60–64 from 25 percent in 2004 to 49 percent in 2013.

Increasing the retirement age requires complementary policy tools in the labor market

In order to make the process of raising the retirement age for women successful, complementary policy tools must be used in the labor market, such as:

- Extending the period of unemployment benefits for older workers.
- Incentives for employing older women.
- Enforcing labor laws, particularly the prohibition against discrimination based on age.
- Allocating resources for professional training while focusing on more demanding professions.

In summation, increasing the retirement age is expected to significantly increase the employment rate of older women, and the retirement age should be increased in order to ensure sufficient pension savings and income upon retirement. This should be accompanied by complementary measures such as encouraging the employment of older women, for example through programs such as “Experience Required”, which was launched by the Ministry of Seniors Affairs this morning. There are obviously cases where older people have difficulty finding work, but the data show that the unemployment rate or those who despair of finding a job did not increase as a result of raising the retirement age. In view of all this, ***the more we promote raising the retirement age, it will be possible to do so more gradually, which will allow employers and workers to adjust and prepare for the change ahead of time***, and to ensure proper employment until retirement and proper pensions for afterwards.