Long Term Savings in Israel

Capital Markets, Insurance and Savings Division, Israel, 2007

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INTRODUCTION

The income of an Israeli resident who has reached retirement age is comprised of two main layers. The first layer is the old age pension, paid by the National Insurance Institute, and the second layer is the pension savings accumulated in the various available pension products.

The pension savings market in Israel underwent a fundamental transformation at the beginning of 2008 with the Knesset's approval of the 3rd Amendment of the Control of Financial Services (provident funds) Law- 2008 (hereinafter the 3rd Amendment).

Before the approval of the 3rd Amendment, there was a clear distinction between the three existing pension savings devices in Israel – pension funds, provident funds and life insurance programs – both in the tax benefits granted by each, and also in the manner of payment to the client. An employed member of a Comprehensive Pension Fund was entitled to a tax credit of 35% of his deposits during the year (up to a designated maximum). In comparison, an employed member in a provident fund or life insurance program was only entitled to a 25% tax credit. Similarly, a pension fund paid the client his savings by way of a monthly pension, whereas in a capital provident fund or life insurance program, the client could withdraw the money as a lump sum. It was therefore the case, that when choosing a pension savings product, the client was obliged to make a decision regarding the manner of the final payment of the funds many years later or at retirement, without full knowledge of his future financial needs. Additionally, the choice of pension savings product was influenced by the desire to maximize tax benefits at the expense of the individual's true pension and insurance requirements.

The 3rd Amendment formulated new conditions: the objective of the three pension savings devices was unified – the receipt of a pension after retirement age, the tax benefits for each of the products were made identical, and they became distinguishable from each other by the different insurance coverage that they offered. In this new situation, the choice of pension savings product is simpler because of the lack of tax considerations. Additionally, the choice of withdrawing the funds as a lump sum or a pension is now made at the time of retirement, when the individual can make an informed decision regarding his retirement needs. This simplification is of added value in the already complex field of pension savings.

Receiving a monthly pension guarantees the individual a fixed monthly income for his entire life and thereby provides him with financial stability at retirement. Conversely, an individual receiving his pension savings as a lump sum may use the funds for other purposes and thereby endanger his ability to support himself at retirement age.

In order to complete the picture, it should be mentioned, that as a result of the legislation of the Control of Financial Service Regulations (provident funds)(transfer of funds between provident funds) – 2008 (hereinafter – the Mobility Regulations), it is possible to transfer savings between all the provident funds providing a monthly pension. An individual may therefore, either at the time of retirement or at any previous stage, transfer his accumulated savings from one pension product to another, and in essence only have to choose at retirement which product and with which company he is interesting in receiving his pension.

The 3rd Amendment and the mobility regulations are additional steps aimed at ensuring a free and transparent pension savings market for all. The unifying of the tax regulations for all the pension devices, the possibility given to the client to transfer between all the pension products, and the option given to him to choose only a short period before arriving at retirement age the preferred method of receiving his pension savings, will all make it easier for the saving public in Israel to save wisely.

In this chapter we will survey the structure of the pension savings market in Israel and present information and trends in this market in 2007.

2. INDUSTRY STRUCTURE

2.1 The Pension Savings Entities active in the Market

At the end of 2007 there were 43 active pension funds, 473 provident funds of various types and 13 insurance companies offering life insurance, operative in Israel.

TABLE 1-1
The Number of Pension Savings Entities by Fund Category

	2000	**2004**	**2006**	**2007**
Pension Funds	38	49	42	43
Old Pension Funds	18	10	10	10
Pension Funds under Special Management		8	8	8
New Comprehensive Pension Funds	17	20	13	13
New General Pension Funds	3	10	10	11
Consolidated Pension Payment Provident Funds[1]	0	1	1	1
Provident Funds	273	439	446	473
Remuneration Provident Funds	148	215	215	226
Study/Education Funds	66	111	120	131
Central/Consolidated Severance Funds	48	88	93	99
Others	11	25	18	17
Companies operative in Life Insurance	**16**	**14**	**13**	**13**

Source: Capital Markets, Insurance and Savings Division.

The pension funds are divided in to two main categories: Old Pension Funds and New Pension Funds. Since 1995 the Old Pension Funds are closed to new members and are also divided into two categories: Old balanced Pension Funds – there were 10 such funds at the end of 2007 – and Old Pension Funds under special management – there are 8 such funds. The New Pension Funds were established by virtue of a government decision on March 29, 1995. This decision decreed that from January 1, 1995 all those requesting to join a pension fund will be members of a New Pension Fund, in existence since the same date. The New Pension Funds are also split in to two categories: Comprehensive Pension Funds and General Pension Funds. In the past there were 20 New Comprehensive Pension Funds but as a result of mergers the number now stands at 13.[2]

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[1] The Consolidated Pension Payment Provident Fund for Electric Company Employees.

[5] The Consolidated Pension Payment Provident Fund is displayed in the pension fund category because the monies are paid as a monthly payment and not as a lump sum as in a provident fund. The data for this fund appears only in table 1-1. As the fund is only for Electric Company employees, we have chosen not to include it in the other tables that display trends in the pension savings market.

At the end of 2007 there were 11 General Pension Funds in the market. General Pension Funds are not permitted to invest capital in special guaranteed-yield government bonds, whereas Comprehensive Pension Funds may invest a certain proportion of their money in such bonds guaranteeing an annual yield of 4.86%. Deposits to a New Comprehensive Pension Fund are limited to a cap is equal to 20.5% of the value of double the economy's average salary (approximately 3000 shekels a month). Those interested in depositing more than this amount may do so in a New General Pension Fund which does not invest in guaranteed-yield bonds. A New Comprehensive Pension Fund also provides insurance coverage while a general pension fund might not offer such coverage.

The total number of provident funds at the end of 2007 stood at 473. 226 of these funds are remuneration and personal severance pay funds whose aim is long-term savings and 131 are education funds. Apart from these, there are an additional 17 funds for other purposes such as sick pay, vacation pay etc; however, these do not usually comprise a significant portion of pension savings. An additional category of provident fund is a Consolidated Severance Pay Fund which enables employers to save for their employees' severance pay. It should be noted that the 3rd Amendment determines that from 2008 no further authorization will be given for the Consolidated Severance Pay Funds and therefore no increase in their number is expected.

At the end of 2006 there were 13 companies active in the life insurance industry in Israel. During 2007, the Migdal and Hamagen companies merged and the Shirbit Company began operating in this field (even though they had received a license for doing so in 2006). There was therefore no change during 2007 in the number of companies active in this field.

The policies in the life insurance sector are split in to two categories: policies including a savings component and policies without such a component (pure risk). Nine of the 13 companies active in the life insurance sector manage policies with and without the savings component and two companies (A.I.G and Shirbit) offer life insurance without a savings component.[3] The policies that include a savings component are divided between fixed-yield policies (these policies have not been offered since 1992) and profit-participating policies in which the yield paid to the investor is dependent on the profits gained by the insurance companies on their investments in the capital market. In reality, 8 of the 9 companies managing policies with a savings component still manage fixed-yield policies (only Bituach Yashir Company which was established after 1992 does not have such policies).

The pension savings market has witnessed many changes during recent years. The Pension Fund Settlement led to the transfer of ownership of the funds from the Histatdrut workers union and their sale to private companies (insurance companies and private investment companies). Additionally, the Capital Market Division is active in creating unified operating procedures in the pension savings market and in implementing them equally for all the various entities involved. Under the market structure, many "players" own all three devices as they are complementary to each other. For example, the insurance companies own both a company managing a pension fund and a company managing a provident fund and are thereby able to offer their clients a range of pension savings products.

[3] In addition, the Dikla and Clal Health Insurance Companies posses a license in the life insurance sector but are active only in the health and/or daycare areas; the Farmers Insurance Company possesses a license in the life insurance sector but is not active and is not displayed in table D-1.

2.2 Key Data on the Pension Savings Market in Israel

Diagram 1-1 presents the distribution of assets in the pension savings market in 2007. This diagram includes all the pension funds (New, Old, General and the Consolidated Pension Payment Provident Fund for the Electric Company employees) and the entire life insurance portfolio (profit-participating and guaranteed-yield).

Table 1-2 displays the assets, deposits and withdrawals in the various savings entities. As the Old Pension Funds are closed to new members and guaranteed-yield life insurance policies have not been on offer since 1992, we have chosen to display separately the data for the New Pension Funds and the profit-participating life insurance portfolio.

Diagram 1-1: The Distribution of Pension Savings Assets by Pension Savings Entities in 2007 (in %).

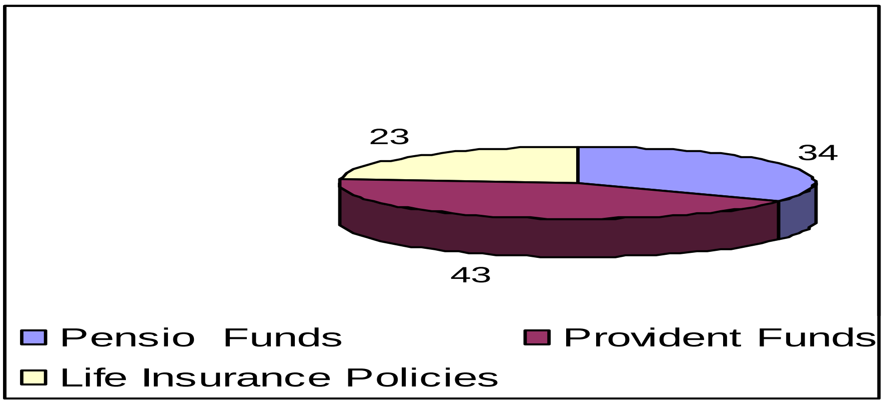


Table 1-2: Key Data on the Pension Savings Market in Israel (in millions of shekels).

	End of Year Assets			Deposits			Withdrawals		
	2006	2007	% change	2006	2007	% change	2006	2007	% change
Pension Funds	201499	222980	10.7%	12124	12721	4.9%	10283	11726	14.0%
Deposits	37897	46754	23.4%	6162	7425	20.5%	769	1032	34.2%
Withdrawals	255656	276420	8.1%	19491	20782	6.6%	17242	18200	5.6%
Life Insurance	135346	150050	10.9%	16249	17433	7.3%	5244	5451	3.9%
Proportion in profit-participating portfolio	85577	98803	15.5%	11033	12102	9.7%	3235	3433	6.1%
Total	**592501**	**649449**	**9.6%**	**47865**	**90936**	**6.4%**	**32769**	**35377**	**8.0%**

Source: Capital Markets, Insurance and Savings Division.

From the information in table 1-2 it can be seen that during 2007 there was an increase of 9.6% in the total pension savings market's assets and that at the end of 2007 the sum pension savings assets totaled approximately 649 billion shekels.

During 2007 there was an increase 6.4% in the deposits made to pension savings of and an increase of 8% in the withdrawals of funds from these savings. It can be seen, that during 2007 there was a positive accumulation (deposits less withdrawals) of approximately 15 billion shekels in all the pension savings entities. The remaining increase in assets during 2007 was caused by the yield on the assets.

Pension Funds

During 2007 there was an increase of 10.7% in the total assets of the pension funds, and at the end of 2007 these assets stood at approximately 223 billion shekels.

During 2007 there was an increase of 23.4% in the total assets managed by the New Pension Funds, and at the end of 2007 these assets stood at approximately 46.8 billion shekels.

Between the years 2006-2007 there was an increase of 4.9% in the rate of deposits to pension funds. This growth in deposits stems mainly from deposits to the New Pension Funds as the number of their members is steadily increasing. In contrast, the Old Pension Funds have been closed to new membership since 1995 and therefore do not show any noticeable increase in deposits (see Table 1-12 below).

During 2007 there was an increase of 20.5% in the rate of deposits to the New Pension Funds, similar to the increase in 2006. The relatively high growth in these funds is mainly a result of the fact that after only 12 years of operation, the scope of the funds' assets is still relatively small and therefore the deposits by each year's new members, magnify the total deposits by a substantial rate. The yield attained by the pension funds is also a factor in the increase of total assets.

The withdrawals from the pension funds at the end of 2007 totaled 11.7 billion shekels, reflecting an increase of 14% compared to 2006. More than 90% of the withdrawals were from the Old Pension Funds as the these funds are characterized by a higher age of its members in comparison with the members of the New Pension Funds, and therefore a higher rate of members receiving pension payments.

The amounts withdrawn from the New Pension Funds in 2006 and in 2007, including both monthly pension payments and other lump-sum payments, were relatively low and in 2007 stood at merely 2.2% of the total assets in these funds. This is largely due to the fact that the New Pension Funds are characterized by a relatively younger membership, this in turn leading to a still low number of members receiving monthly pensions – less than 1% of the total number of active members.[4]

[4] See Table 1-19 below.

Provident Funds

During 2007, the provident funds managed approximately 276 billion shekels. In this year, there was an increase of 6.6% in the rate of deposits to, and an increase of 5.6% in the rate of withdrawals from these funds.
During 2007 there was a positive accumulation of approximately 2.5 billion shekels in the provident funds and their total assets expanded by 21 billion shekels as a result of the yield obtained on their investments.

Life Insurance

During 2007 there was an increase of 10.9% in the total assets of the life insurance portfolios[5] and at the end of the year the total was approximately 150 billion shekels. The majority of this increase was from the growth in the profit-participating portfolio which comprises the bulk of the entire portfolio, both in the extent of total assets and in the scope of deposits.

The rate of deposits to the total life insurance portfolio increased by 7.3% in 2007 and totaled 17.4 billion shekels. There was also a growth of 3.9% in the rate of withdrawals from life insurance programs and these totaled approximately 5.4 billion shekels compared to 5.2 billion shekels in 2006.

The profit-participating portfolio of life insurance programs increased in value by 15.5% in 2007 and at the end of the year amounted to approximately 98.8 billion shekels. This product is characterized by a high level of deposits and therefore shows a high rate of growth in total assets. During 2007 the total deposits in the profit-participating programs continued to constitute more than three times the total withdrawals.

2.3 Distribution of Assets between the Pension Savings Entities.

The tables below present the assets of the managing companies in the pension savings market. The assets in the three pension savings products represent the accumulated capital according to the category of savings.
In the pension funds, the total assets reflects the total monies intended for meeting its pension commitments towards its insured members, as accumulated since its inception, and including insurance obligations in the event of loss of work fitness or death. Tables 1-3 and 1-4 present the total assets of each pension fund, their market share proportionate to the total assets of funds in their category (Old or New funds) and the rate of change in their total assets compared with the previous year.
For the provident funds, the total assets reflect the capital accumulated to the credit of its members and comprises purely capital savings. Tables 1-5 and 1-6 present the distribution of assets between the provident funds between the years 2005-2007 by category of controlling corporation and by the type of fund, and the rates of changes between these years.

In the life insurance policies, the total assets reflect the savings accumulated in favor of the insured clients. These assets include premium payments towards coverage for loss of work

[5] These figures include premiums for daycare insurance, disability insurance and death (risk) insurance that are part of the life insurance sector and are not classified as pension savings.

fitness, day-care coverage and death risk coverage. Table 1-7 and 1-8 present the asset distribution - in the overall portfolio (profit-participating and guaranteed-yield) and separately in the profit-participating portfolio – between the insurance companies for the years 2006-2007, and also the rate of change between the years.

In all three fields, the assets act as an indication of size which in turn enables a study of each entity's share in its field.

Pension Funds

Asset Distribution in Old Pension Funds

Table 1-3 presents the net asset distribution in the Old Pension Funds for the years 2005-2007. At the end of 2007 the Old Pension Funds managed approximately 160 billion shekels (this amount includes the government aid given to the funds until the end of 2007, but does not include such future assistance). The Old Pension Funds' assets comprise the majority of assets in the pension fund market. These funds began operating during the 1940's and because they were, until the beginning of 1995, the market's only available pension funds, they accrued a large sum of assets over the years. Despite the fact that they were closed to new members from January 1995, there has still been a monthly growth in the assets of most of these funds. This has occurred since although there is a positive difference between the payments made by the old funds to their members compared to their income from these members, a factor depleting the net assets - the yield attained by the funds on their assets - has been greater than the aforementioned depletion.

Table 1-3: The Asset Distribution of Old Pension Funds 2005-2007 (in millions of shekels and percentages)

Name of Fund	2005		2006		2007		Rates of Change	
	Assets	% of market	Assets	% of market	Assets	% of market	2005-2006	2006-2007
Mivtachim	79999	55.0%	82862	55.3%	88166	55.2%	3.6%	6.4%
Makefet	25961	17.9%	26506	17.7%	27942	17.5%	2.1%	5.4%
K.G.M	16847	11.6%	16906	11.3%	17990	11.3%	0.4%	6.4%
Gilad	4820	3.3%	5057	3.4%	5406	3.4%	4.9%	6.9%
H.O.L	3988	2.7%	4475	3.0%	4974	3.1%	12.2%	11.2%
Atudot	3028	2.1%	3338	2.2%	3769	2.4%	10.3%	12.9%
Jewish Agency	2773	1.9%	2828	1.9%	3091	1.9%	2.0%	9.3%
Egged	1970	1.4%	1834	1.2%	1830	1.1%	-6.9%	-0.2%
Dan	1401	1.0%	1398	0.9%	1409	0.9%	-0.3%	0.8%
Hadassah	1287	0.9%	1315	0.9%	1380	0.9%	2.2%	4.9%
Yozma	863	0.6%	914	0.6%	993	0.6%	6.0%	8.5%
Nativ	699	0.5%	411	0.3%	603	0.4%	-41.2%	46.6%
Magen	553	0.4%	543	0.4%	560	0.4%	-1.8%	3.0%
Amit	430	0.3%	506	0.3%	547	0.3%	17.8%	7.9%
Atidit	352	0.2%	380	0.3%	427	0.3%	8.1%	12.2%
Lawyers	211	0.1%	237	0.2%	268	0.2%	24.8%	12.0%
Farmers	152	0.1%	168	0.1%	172	0.1%	10.7%	1.9%
Construction	19	0.0%	115	0.1%	98	0.1%	519.6%	-15.2%
Total	**145352**	**100%**	**149795**	**100%**	**159623**	**100%**	**3.1%**	**6.6%**

Source: Capital Markets, Insurance and Savings Division.

Because the Old Pension Funds have been closed to new membership since 1995, there have been no significant changes in each fund's share of the market and no such changes are expected.

During 2006 the Nativ and Farmers Funds deteriorated to a state of insolvency and thus joined the Construction Fund which has been in this situation since 1998. The assets of these funds as shown in the above Table are products of government aid given to them as part of the Pension Fund Settlement in 2003, and have therefore exhibited relatively sharp changes over recent years.

Asset Distribution in New Pension Funds

Table 1-4 illustrates the net asset distribution in the New Pension Funds for the years 2005-2007. At the end of 2007, the sum assets of the New Pension Funds totaled approximately 47 billion shekels, reflecting an increase during the year of approximately 23.4%.[6] The pension funds whose assets grew by more than 23.4% increased their market share while those funds whose assets increased by less than 23.4% saw their market share decline.

It can be observed from the Table[7] that the assets of the New Mivtachim and Gilad Rivchit Funds increased by 16.5% and 19.5% respectively and therefore their market share decreased during 2007. The New Mivtachim Fund's market share dropped 5% between the years 2006-2007. In comparison, the total assets in the Makefet Ishit, Meitavit Atudot and Harel Funds increased by rates of 29%, 29.4% and 29.8% respectively in 2007, thereby increasing their share of the market. The Phoenix Fund expanded by more than 50% during 2007, largely due to their relatively small asset portfolio.

During 2007, the Gilad Pension Fund was bought by the Harel insurance company that already owned the Harel Pension Fund. Together, these two funds control approximately 10% of the assets in the New Pension Fund market.

[6] The data shown in Table 1-4 taken from the annual and monthly financial statements from 2006-2007 differ from those shown in the 2004 and 2005 reports. This stems from the Division's new presentation orders in 2006 which obligate the funds to show only the monies deposited until the date of the balance sheet even though there may funds from December's salary that have not yet been deposited. The data for funds that merged in Table 1-4 are the original and therefore differ from those shown in Tables 1-2 and 1-9.

[7] The percentage change in merged funds is the total assets in the merged funds.

Table 1-4: The Asset Distribution of New Pension Funds 2005-2007 (millions of shekels and percentages).

Fund	2005		2006		2007		Rates of Change	
	Assets	% of market	Assets	% of market	Assets	% of market	2005-2006	2006-2007
New Mivtachim	14467	47.1%	17202	45.4%	20049	42.9%	18.9%	16.5%
Makefet Ishit	4633	15.1%	9183	24.2%	11843	25.3%	26.7%	29.0%
Meitavit Atudot	2606	8.5%	5591	14.8%	7233	15.5%	26.9%	29.4%
Harel (formerly Adi	638	2.1%	2290	6.0%	2971	6.4%	39.3%	29.8%
Gilad Rivchit	1161	3.8%	1386	3.7%	1656	3.5%	19.4%	19.5%
Phoenix (formerly Amit)	650	2.1%	851	2.2%	1306	2.8%	30.9%	53.5%
Yovelim	423	1.4%	494	1.3%	551	1.2%	16.9%	11.6%
Manof	168	0.5%	184	0.5%	208	0.4%	9.8%	12.5%
Magen Zahav	114	0.4%	176	0.5%	276	0.6%	55.1%	56.6%
Excellence Nassua	118	0.4%	131	0.3%	161	0.3%	11.6%	22.3%
Helman Aldobi	0	0.0%	18	0.0%	52	0.1%	142.3%	181.2%
Meitav	-	-	4	0.0%	21	0.0%	-	477.4%
Ayalon Pisga	251	0.8%	387	1.0%	427	0.9%	15.3%	10.4%
New Atudot	1800	5.9%	Merged with Meitavit		Merged with Meitavit		Merged with Meitavit	
Teutza	1343	4.4%	Merged with Makefet		Merged with Makefet		Merged with Makefet	
Netivot	814	2.6%	Merged with Harel		Merged with Harel		Merged with Harel	
Tenufa	725	2.4%	Merged with Makefet		Merged with Makefet		Merged with Makefet	
New Yozma	549	1.8%	Merged with Makefet		Merged with Makefet		Merged with Makefet	
Atidit Ishit	142	0.6%	Merged with Harel		Merged with Harel		Merged with Harel	
Shiluv	85	0.3%	Merged with Pisga		Merged with Pisga		Merged with Pisga	
TOTAL	**30744**	**100%**	**37897**	**100%**	**46754**	**100%**	**23.3%**	**23.4%**

Source: Capital Markets, Insurance and Savings Division

Provident Funds

Asset Distribution of Provident Funds (by to managing entity).

Table 1-5 represents the asset distribution of the provident funds according to the managing entity. Between the years 2005-2007, the market witnessed a trend of growth in the proportion of provident fund assets that were managed by private corporations and insurance companies and a corresponding decline in the assets managed by banking corporations. This continuing decline in the assets managed by the banking corporations is a result of the provisions of the Bachar Reform that obligated them to sell the provident funds under their control. It is expected that the coming years will see a reduction in the scope of the holdings in provident funds by the banking corporations according to the schedule determined by law. During 2007 there were numerous transactions conducted that reduced the balance of assets held by the banking corporations, and correspondingly resulted in a significant increase in the balance held by the private corporations and insurance companies. The prominent transactions in 2007 were the sale of the Bank Leumi and Discount Bank Kahal Education Funds to the Migdal Insurance Company, and the sale of a part of Bank Hapoalim's provident funds to Prisma Investment House.

Table 1-5: The Asset Distribution of Provident Funds (by to controlling entity) 2005-2007 (millions of shekels and percentages).

Category of controlling entity	2005		2006		2007		Rates of Change	
	Assets	% of market	Assets	% of market	Assets	% of market	2005-2006	2006-2007
Banking Corporations	159944	67.4%	143873	56.3%	46051	16.7%	-10.0%	-68.0%
Insurance Consortiums	3511	1.5%	22930	9.0%	77910	28.2%	553.1%	239.8%
Private entities	18228	7.7%	30831	12.1%	99220	33.7%	69.1%	202.4%
Pension Funds	795	0.3%	574	0.2%	452	0.2%	-27.8%	-21.3%
Factory and others	53159	22.4%	56314	22.04%	57732	20.9%	5.9%	2.5%
Under authorised management	1649	0.7%	1134	0.4%	1055	0.4%	-31.2%	-7.0%
TOTAL	**237286**	**100.0%**	**255656**	**100.0%**	**276420**	**100.0%**	**7.7%**	**8.1%**

Source: Capital Markets, Insurance and Savings Division

Asset Distribution in Provident Funds (according to fund category)

Table 1-6 presents the asset distribution of the provident funds according to the category of fund. The rates of change increase of the total provident funds' assets between 2005-2006 and 2006-2007 were 7.7% and 8.1% respectively. All categories of funds except Education Funds showed a lower increase in total assets during these years than the rates of change in the total provident funds' assets, and therefore their market share declined during this period, whereas the Education Funds' market share increased.

The Personal Remuneration Fund category of provident funds control approximately 60% of the total provident fund assets and Education Funds manage approximately 33%.

It can be expected that legislative changes will have a marked influence on the asset distribution of the provident funds in coming years.

Table 1-6: The Asset Distribution of Provident Funds (according to fund category) 2005-2007 (millions of shekels and percentages).

Category/type of fund	2005		2006		2007		Rates of Change	
	Assets	% of market	Assets	% of market	Assets	% of market	2005-2006	2006-2007
Personal Remuneration funds	145451	61.3%	154859	60.6%	164293	59.4%	6.5%	6.1%
Education funds	71960	30.3%	79900	31.3%	89734	32.5%	11.0%	12.3%
Central/Consolidated Severance pay funds	18901	8.0%	19897	7.8%	21325	7.7%	5.3%	7.2%
Others	974	0.4%	1000	0.4%	1068	0.4%	2.7%	6.8%
TOTAL	**237286**	**100.0%**	**255656**	**100.0%**	**276420**	**100.0%**	**7.7%**	**8.1%**

Source: Capital Markets, Insurance and Savings Division

Asset Distribution in Life Insurance Programs

Tables 1-7 and 1-8 present the distribution of assets in the various life insurance companies in the years 2005-2007. Table D-7 presents the asset distribution of the total portfolio. As the guaranteed-yield life insurance policies have not been marketed since 1992, Table 1-8 displays separately the asset distribution of the profit-participating portfolio.

Tables 1-7 and 1-8 illustrate the high centralization in the life insurance industry: the 5 largest companies control 96% of the total life insurance net assets.

The total portfolio data in Table 1-7 shows that the rates of increase in total assets between 2005-2006 and 2006-2007 were 10.8% and 10.9% respectively. The rates of change in the Migdal Insurance Company's assets were higher than the changes in the industry's total portfolio and therefore their market share increased during this period. Generally, however, there was no discernable change in the companies' market shares.

Table 1-7: The Asset Distribution of Total Portfolio (Guaranteed+Profit-Participating) of Insurance Companies 2005-2007 (millions of shekels and percentages).

Company	2005		2006		2007		Rates of Change	
	Assets	% of market	Assets	% of market	Assets	% of market	2005-2006	2006-2007
Migdal	37197	30.5%	40752	30.1%	52665	35.1%	9.6%	-
Hamagen	6378	5.2%	7056	5.2%	Merged with Migdal		10.6%	-
Migdal Consortium	43575	35.7%	47808	35.3%	52665	35.1%	9.7%	10.2%
Clal	25048	20.5%	30781	22.7%	34216	22.8%	22.9%	11.2%
Clal Health (Aryeh)	2795	2.3%	923	0.7%	1083	0.7%	-67.0%	17.4%
Clal Consortium	27843	22.8%	31703	23.4%	35299	23.5%	13.9%	11.3%
Phoenix	12494	10.2%	21472	15.9%	23793	15.9%	-	-
Hadar	6842	5.6%	Merged with Phoenix		Merged with Phoenix		-	-
Phoenix Consortium	19337	15.8%	21472	15.9%	23793	15.9%	11.0%	10.8%
Harel	16272	13.3%	17916	13.2%	19950	13.3%	10.1%	11.4%
Menorah	10428	8.5%	11796	8.7%	13194	8.8%	13.1%	11.9%
Hachsharat Hayishuv	1606	1.3%	1744	1.3%	1876	1.2%	8.6%	7.5%
Ayalon	1106	0.9%	1255	0.9%	1447	1.0%	13.5%	15.4%
Eliahu	1042	0.9%	1121	0.8%	1190	0.8%	7.5%	6.2%
Dikla	790	0.6%	297	0.2%	358	0.2%	-62.3%	20.5%
Bituach Yashir	150	0.1%	224	0.2%	267	0.2%	49.4%	19.3%
AIG	0	0.0%	10	0.0%	11	0.0%	-	10.0%
TOTAL	**122148**	**100.0%**	**135345**	**100.0%**	**150050**	**100.0%**	**10.8%**	**10.9%**

Source: Capital Markets, Insurance and Savings Division

The rate of change in the assets of the profit-participating portfolio for the period between 2006-2007 stood at 15.5%, compared with 15.7% between 2005-2006. As in the data relating to the total portfolio, the table shows a decline in Migdal's market share and an increase in that of the Phoenix and Menorah companies during 2005-2007.

Table 1-8: The Asset Distribution of the Profit-Participating Portfolio of Insurance Companies 2005-2007 (millions of shekels and percentages).

Company	2005		2006		2007		Rates of Change	
	Assets	% of market	Assets	% of market	Assets	% of market	2005-2006	2006-2007
Migdal	21455	29.0%	24438	28.6%	34158	34.6%	13.9%	14.0%
Hamagen	4867	6.6%	5527	6.5%	Merged with Migdal		13.6%	-
Migdal Consortium	26322	35.6%	29965	35.0%	34158	34.6%	13.8%	14.0%
Clal	15231	20.6%	19419	22.7%	22605	22.9%	14.2%	16.4%
Clal Health (Aryeh)	1772	2.4%	297	0.3%	246	0.2%	-98.4%	-17.2%
Clal Consortium	17003	23.0%	19716	23.0%	22851	23.1%	16.0%	15.9%
Phoenix	6674	9.0%	14190	16.6%	16477	16.7%	19.1%	16.1%
Hadar	5242	7.1%	Merged with Phoenix		Merged with Phoenix		-	-
Phoenix Consortium	11915	16.1%	14190	16.6%	16477	16.7%	19.1%	16.1%
Harel	9304	12.6%	10609	12.4%	12422	12.6%	14.0%	17.1%
Menorah	6937	9.4%	8210	9.6%	9557	9.7%	18.4%	16.4%
Hachsharat Hayishuv	971	1.3%	1115	1.3%	1227	1.2%	14.8%	10.0%
Ayalon	876	1.2%	995	1.2%	1151	1.2%	13.6%	15.6%
Eliahu	520	0.7%	623	0.7%	734	0.7%	19.8%	17.9%
Bituach Yashir	101	0.1%	154	0.2%	226	0.2%	52.7%	46.5%
TOTAL	**73949**	**100.0%**	**85577**	**100.0%**	**98803**	**100.0%**	**15.7%**	**15.5%**

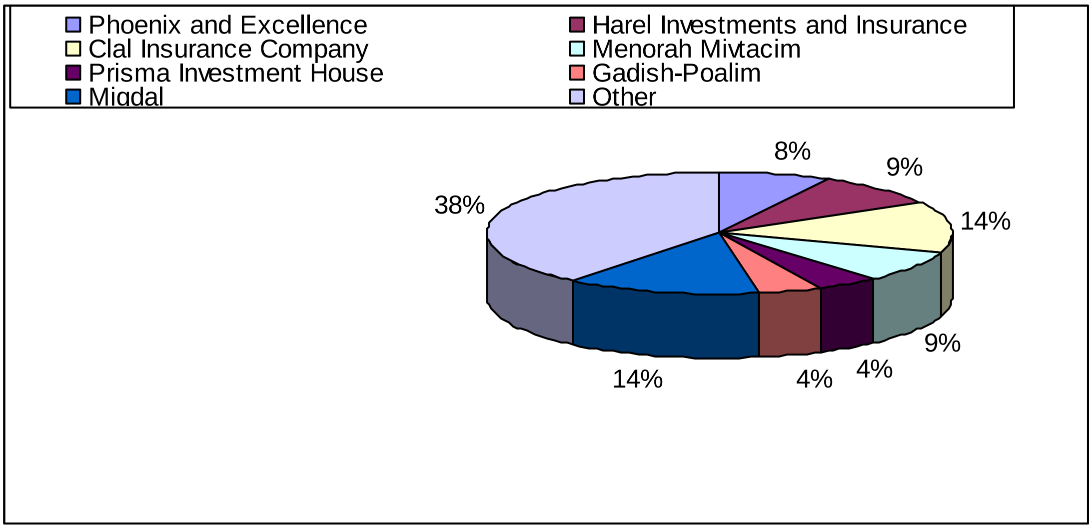
Source: Capital Markets, Insurance and Savings Division

2.4 Distribution of Assets in the Pension Savings Market according to Controlling Entity.

Diagram 1-2 presents the distribution of pension savings assets between the market's large entities. The diagram does not include the Old Pension Funds and the Consolidated Pension Paying Provident Fund for the Electric Company employees. The diagram presents the scope of assets in each of the three savings devices managed by the 7 largest entities. In this context, it must be remembered that the law does not permit a single corporation to control more than 15% of the pension savings market.

The overall picture of all three products is markedly different from the impression gained when examining each sector individually.

Diagram D-2: The Distribution of Pension Savings Assets by to Controlling Entity – December 2007 (millions of shekels).



3. OPERATIONAL FEATURES

3.1 Cash flow in the Pension Savings Entities.

The Tables below display the total monies deposited to the pension savings entities during the recent years and the funds withdrawal from them, and thereby reflect the overall cash flow of these entities.

The monies received by the pension savings entities, stem mainly from deposits made by and for the insured members of each entity and the funds paid out are mainly a result of pension payments to the eligible members such as old-age pension payments, disability allowance payments and lump sum payments.

In addition to deposits and payments, the pension savings entities also have their own income and expenses. The income results mainly from yields obtained on invested assets and the expenses are generally comprised of management fees and occasionally from premium payments to secondary insurers.

The Table below shows the trends in the pension savings market during the last two years, and especially the growth in this market. In order to study the market trends, we have chosen to examine the data for the New Pension Funds in the pension sector and the data on the profit-participating portfolio in the life insurance sector. Additionally, in the provident fund sector, the data for funds for other purposes is not displayed.

The market growth is expressed mainly by the continuing increase in the total assets. Between the years 2006-2007, the assets in the pension savings industry expanded by 11.4% and totaled 421 billion shekels at the end of 2007, compared with 378 billion shekels at the end of 2006. Despite this increase in the pension savings assets, their share of the total public financial assets has remained almost unchanged and stands at 20.5% of the total public assets at the conclusion of 2007.

The total deposited to the pension savings products during 2007 was 40.3 billion shekels, compared to 36.6 billion shekels in 2006. The extent of deposits to provident funds in proportion to the total deposits in 2007 was 51.5% compared to 53% in 2006. In contrast, the scope of deposits in the pension fund sector increased from a rate of 16.8% of total deposits in 2006 to a rate of 18.4% in 2007. The rate of deposits in the life insurance sector as a proportion of the total deposits has remained unchanged over the years and stands at 30%.

The pension savings entities' income from yields and other factors increased again in 2007 after a relative decline in 2006. As can be observed in the table below, 2007 witnessed a growth of 17.9% in this income and totaled 30.9 billion shekels. It should be noted that this increase is consistent with the existing trends in the capital market over recent years (for the data on yields see Table 1-15 below).

Table 1-9: The Changes in Assets of Pension Savings Entities 2006-2007 (millions of shekels).

Type of Savings	**New Deposits**		**Yield and oth income**		**Transfers***		**Monthly and lump sum payme**		**Management Fees and other expenses**			
	2006	**2007**	**2006**	**2007**	**2006**	**2007**	**2006**	**2007**	**2006**	**2007**	**2006**	**2007**
New Pension Funds	6162	7425	2216	3116	192	1027	769	1032	436	651	37897	46754
Remuneration Provident Fun	6392	6446	10992	11670	7387	1205	7004	7402	977	1280	154859	164293
Education Funds	11653	12722	5307	6878	4501	7672	8602	9258	417	508	79900	89734
Consolidated Severance Pay	1393	1566	1314	1484	1115	4027	1600	1488	111	124	19897	21325
Provident Funds	19438	20734	17613	20032	13003	2375	17206	18148	1505	1922	254656	275352
Life Insurance	11033	12102	6395	7782	-	-	3235	3433	1324	1257	85577	98803
TOTAL	36633	40261	26224	30930	13195	2478	21210	22613	3265	3830	378130	420909

Source: Savings entities' reports and Capital Markets, Insurance and Savings Division[8]

The figures for 2006 in the "Yield and other income" clause have been corrected from those in the Commissioner's report from 2006.

- Funds of the same type/category of product transferred between different entities.

The total capital transferred between the different entities also continued to increase in 2007, and totaled 24.8 billion shekels compared to 13.2 billion shekels in 2006. This serves as an indication of the heightened competition between the pension savings entities and to the consumers' increased awareness of the importance of pension savings. The majority of the growth in the rate of transfers in 2007 was in the provident fund sector.

[8] Provident Funds – do not include Provident Funds for other purposes and therefore this Table differs from Tables 1-2 and 1-13.

The difference in the volume of transfers between provident funds and that of transfers between pension funds results from the fact that the Portability Regulations regarding provident funds have been in existence for longer. During the coming years, it is expected that the overall scope of transfers will grow, especially in anticipation of the new mobility regulations, due to be effected in October 2008, which will enable transfers between all types of entities in the pension savings market. This scope of transfers may serve as a benchmark in evaluating the level of competition, and the increasing volume of transfers in the pension fund sector points to a heightened level of competition.

A further benchmark of competition in the pension fund sector is the level of management fees that the client is charged by the managing company. The maximum fees that the managing company is allowed to charge are 6% of deposits made to the fund and 0.5% of the accrued balance. In the past, the funds would charge the maximum – mainly due to the market's lack of competition. The choice of pension fund was the employer's and not the employee's, and pension conditions were determined by collective agreements between the employer and a specific pension fund. This led to the obvious situation of lack of incentive for the managing company to reduce the management fees collected from the client - the level of fees not serving as an attraction for one fund or other. In recent years, due to legislative changes and the structural changes undertaken in the New Pension Fund market, and after the controlling interest in the funds passed from the Histadrut to the insurance companies, the competition level rose and, with it, benefits in the management fees charged by the managing company.

There are two common types of benefits in management fees in the pension fund market. One method is a reduction in the rate of fees charged, thereby leading to an increase in the amounts allocated to savings. The other method is to designate a prescribed proportion of the management fees collected for an alternate benefit (such as purchasing complementary insurance coverage). Occasionally, both types of benefits are combined. The number of insured clients that received at least one benefit with a prescribed proportion of management fees paid rose to approximately 114 thousand in 2007 – an increase of approximately 21% in comparison to 2006, which saw the corresponding figure stand at approximately 94 thousand. Table D-10 presents the distribution of active insured members according to the rate of management fees they were charged.

Table 1-10: The Distribution of Active Insured Members in New Pension Funds according to Benefits in Management Fees – December 2006 and December 2007

	Paying full management fees		**Receiving some Benefit**		**Receiving Significant Benefit***		**Paying 2% of deposits + 0.25% of balance**	
	2006	2007	2006	2007	2006	2007	2006	2007
% of members	50.8%	45.5%	20.9%	22.8%	7.7%	13.4%	20.5%	18.4%

Source: Pension Funds reports and Capital Markets, Insurance and Savings Division

- Reduction of at least 30% from maximum management fees

It can be observed from Table 1-10 that there has been an increase in the proportion of active members that receive a reduction on the management fees they pay. The rate of active members that received a benefit increased to 54.4% in 2007 from a corresponding rate of 49.2% in 2006. This increase comes as a result of the increased competition in the pension fund market and a heightened awareness regarding the clients' ability to request and receive a reduction in the fees they pay. There was also a parallel decline in the proportion of clients paying the maximum level of management fees.

There are differing rates of benefits in the management fees charged by the new pension funds. The most common case is that where the client pays only a 2% fee of his deposits and only 0.25% of his accrued balance (a discount of 60%). There was a slight decline in the number of clients that received this benefit in 2007 and their level stood at 18.4% compared to 20.5% in 2006. The proportion of active members that received from other levels of benefits in their management fees rose between 2006 and 2007.

Among the non-active members (members with an accrued balance who are no longer depositing to the fund) there are almost no benefits in the management fees paid, and in 2007, similar to 2006, the vast majority of them paid the maximum level of fees (0.5% of the accrued balance).

Capital Receipts of the New Pension Funds

The capital receipts of the New Pension Funds stems from two main factors: members' deposits to the fund and monies transferred between funds**.** Table 1-11 below displays the capital receipts of the New Pension Funds in 2006-2007 and the relative share of each fund in proportion to the total capital received by all the funds.

Table 1-11: The New Pension Funds' Capital Receipts 2006-2007 (millions of shekels and percentage).

Fund	2006				2007			
	Capital Receipts			Total market Share	Capital Receipts			Total Market Share
	Deposits	Net Transfers	Total		Deposits	Net transfers	Total	
New Mivtachim	2462	-91	2371	38.5%	2748	-313	2435	32.8%
Makefet Ishit	1652	21	1673	27.1%	2070	25	2095	28.2%
Meitavit Atudot	1006	16	1022	16.6%	1259	85	1344	18.1%
Harel (formerly Adi)	424	68	492	8.0%	548	143	691	9.3%
Phoenix (formerly Amit)	211	3	214	3.5%	314	95	410	5.5%
Gilad Rivchit	198	-5	193	3.1%	223	-37	186	2.5%
Yovelim	47	0	47	0.8%	51	1	51	0.7%
Magen Zahav	64	-2	62	1.0%	92	0	92	1.2%
Manof	17	-1	16	0.3%	20	-1	19	0.3%
Excellence Nassuah	15	-5	11	0.2%	21	8	29	0.4%
Helman Aldobi	6	4	11	0.2%	11	23	34	0.5%
Meitav	2	2	4	-0.1%	8	10	17	0.2%
Pisgah	57	-8	49	0.8%	58	-43	16	0.2%
TOTAL	**6162**	**2**	**6164**	**100.0%**	**7425**	**-6**	**7419**	**100.0%**

Source: Capital Markets, Insurance and Savings Division.

The transfers displayed in the above table are calculated as net capital transferred.[9] In other words, the amount displayed is the capital transferred to the fund from other new pension funds less the amounts that the fund transferred to other new pension funds. Net transfers may significantly influence the fund's total capital receipts in cases when large sums are transferred to or from the fund. The above table shows that the total capital receipts in the New Mivtachim pension fund continued to rise in 2007 and amounted to approximately 2435 million shekels while the total deposits to the fund were approximately 2748 million shekels. This difference occurred because the net transfers for the New Mivtachim fund in 2007 remained negative, similar to the trend from 2006. The continuous decline in net transfers contributes to the downward slide in their market share in proportion to the capital receipts of the total new pension funds market. In contrast, the Makefet Ishit, Meitavit Atudot and Harel Pension Funds continued the trend of increasing their market share of capital receipts. This increase results from the growth in deposits to these funds and also in the positive balance in their net transfers. It can also be observed that that the market share of capital receipts of each fund is different to their market share according to assets (Table 1-4). For example, in 2007 New Mivtachim's market share of capital receipts was approximately 33% while its market share of total assets was approximately 43%. There is, however, a certain correlation between the market share of capital receipts and the market share of total assets.

Capital Receipts of the Old Pension Funds

The capital receipts of the Old Pension Funds stem largely from the active members' deposits to the funds and from government aid granted to these funds. There are no transfers between the Old Pension Funds as the result of the provisions of the legislative settlement for these funds.

Table 1-12 displays only the capital receipts of the Old Pension Funds that result from their members' deposits. The deposits to the Old Pension Funds increased by approximately 3% in 2007 and amounted to approximately 4.8 billion shekels, compared to approximately 4.6 billion shekels in 2006.

The deposits to the Old Pension Funds are not expected to increase significantly as the funds are closed to new membership since January 1995.

[9] The total net transfers should cancel each other out and equal 0 but in reality there are negligible differences in the reported figures.

Table 1-12: Deposits to the New Pension Funds 2006-2007 (millions of shekels and percentage).

Fund	2006		2007	
	Deposits	**Market Share**	**Deposits**	**Market Share**
Mivtachim	2115.8	45.61%	2139.7	44.89%
K.G.M	659.1	14.21%	836.6	17.55%
Makefet	789.2	17.01%	705.4	14.88%
Construction	105.7	2.28%	24.3	0.51%
Nativ	10.5	0.23%	206.7	4.34%
H.O.L	291.9	6.29%	249.6	5.24%
Atudot	43.6	0.94%	238.0	4.99%
Farmers	216.2	4.66%	33.6	0.71%
Gilad	202.3	4.36%	103.1	2.16%
Egged	15.2	0.33%	48.1	1.01%
Hadassah	52.7	1.14%	49.1	1.03%
Amit	29.8	0.64%	24.1	0.51%
Dan	21.9	.047%	14.3	0.30%
Jewish Agency	5.5	0.12%	15.8	0.33%
Yozma	21.6	0.46%	28.6	0.60%
Atidit	18.2	0.39%	23.5	0.49%
Lawyers	23.2	0.50%	20.0	0.42%
Magen	16.2	0.35%	6.4	0.13%
TOTAL	**4638.6**	**100.0%**	**4766.9**	**100.0%**

Source: Capital Markets, Insurance and Savings Division.

Provident Funds' Capital Receipts

Deposits to Provident Funds (by fund category)

Table 1-13 displays the distribution of deposits to the provident funds according to fund category. During 2007 there was no change in the ongoing deposits to the remuneration funds after a sharp decline in 2006. In the Consolidated Severance Pay Funds there was a slight increase in deposits. It should be noted that the 3rd amendment to the Provident Funds Law determines that after 2011 these funds will be closed to new deposits. The deposits to Education Funds grew by approximately 9% and comprise over 60% of all deposits in the provident fund sector.

Table 1-13: Deposits to Provident Funds (by fund category) 2006-2007 (millions of shekels and percentage).

	2006		2007	
Fund Category	**Deposits**	**Market Share**	**Deposits**	**Market Share**
Remuneration	6392	32.8%	6446	31.0%
Consolidated Severance pay	1393	7.1%	1566	7.5%
Education Funds	11653	59.8%	12722	61.2%
Others	52	0.3%	48	0.2%
TOTAL	**19490**	**100.0%**	**20782**	**100.0%**

Source: Capital Markets, Insurance and Savings Division.

Insurance Companies' Capital Receipts

The insurance companies' capital receipts include three main components:

1. Risk – Sum of coverage in event of death and loss of work fitness.
2. Savings – Sum accrued by client for retirement.
3. Management Fee from Deposits component – Sum or Percentage collected from deposits to policy.

The allocation of capital receipts between the various components differs from company to company and according to the specific program. Over time, the longer a policy exists, the lower the extent of the insurance company's costs (especially the commissions paid to agents), and the higher the income from management fees on accrued assets as the balance of savings increases.

Since 2003 there has been a moderate increase in the deposits to life insurance programs. Table 1-14 shows that deposits in 2007 totaled 17.4 billion shekels, exceeding the 16.2 billion shekels in 2006.
The insurance companies' capital receipts increased by 7.3% between 2006-2007.

Since 2002, there has been an increase in deposits to life insurance programs, continuing the opposite trend to that prevalent until then (refer to Commissioner's report of 2004). This reversal can be explained by the general market recovery from recession. The recession had been characterized by large-scale suspension and redemption of policies, however in 2007 all companies showed an increase in deposits compared to 2006 (with the exception of Hachshrat Hayishuv which registered a slight decrease).

In the life insurance sector, in similarity to that of the pension funds, a company's market share was not necessarily identical to its share of the total deposits.

Table 1-14: Insurance Companies' Capital Receipts in Total Portfolio (Participating+Guaranteed) 2006-2007 (millions of shekels and percentages).

	2006		**2007**		**% Change 2006-2007**
Company	**Deposits**	**Market Share**	**Deposits**	**Market Share**	
Migdal	4224	26%	5321.5	30.5%	8.2%
Hamagen	695.6	4.3%	Merged with Migdal		-
Clal	3671	22.6%	3850.1	22.1%	4.9%
Phoenix	2534.7	15.6%	2692.9	15.4%	6.2%
Harel	2467.5	15.2%	2709.6	15.5%	9.8%
Menorah	1492	9.2%	1592.1	9.1%	6.7%
Dikla	254.9	1.6%	267.5	1.5%	4.9%
Hachsharat Hayishuv	245	1.5%	244.2	1.4%	-0.3%
Ayalon	223.4	1.4%	248.4	1.4%	11.2%
Eliyahu	198.7	1.2%	225.4	1.3%	13.5%
Bituach Yashir	115.4	0.7%	129.7	0.7%	12.4%
Clal Health	101	0.6%	113.8	0.7%	12.7%
AIG	26	0.2%	38	0.2%	45.9%
Shirbit	0	0%	0.2	0%	-
TOTAL	**16249**	**100.0%**	**17433**	**100.0%**	**7.3%**

Source: Capital Markets, Insurance and Savings Division

3.2 Yields of Pension Savings Entities

The yields presented in this section are based on the aggregate yields reported and not necessarily the actual yields credited to each individual client. The individual yield is influenced by additional parameters such as the time and size of each deposit.

The yields obtained by the pension savings entities in 2007 were largely similar to the average of the preceding six years. The average aggregate yield of all the corporations in 2007 was 9.04% compared to 7.65% in 2006. The yields obtained by the pension savings entities are consistent with those obtained by the majority of financial instruments in the Israeli capital market. This trend can be demonstrated through three of the main indices: TA-100, TA-25 and the General Bond Index. The TA-25 Index rose by 31.65% compared to 12.49% in 2006; The TA-100 Index rose by 25.77% compared to 12% in 2006; and the General Bond Index rose by 4.07% in 2007 compared to 4.6% the previous year.

Table 1-15 below shows a significant disparity between the yield of the General Share Index and the yields of the pension savings entities. This disparity is strikingly shown by analysis of the yields of the remuneration funds and the personal severance pay funds. Such analysis shows large variance between the funds. Only a third of the funds obtained a yield better than or equal to the average, whereas the remainder of the funds obtained either a less than average or even negative yield.

Table 1-15: Nominal Net Yields of Pension Savings Entities 2001-2007 (percentages)

Savings Instrument	2001	2002	2003	2004	2005	2006	2007	Average 2001-2007
Pension Funds New Funds	8.75	8.35	7.60	7.08	10.88	6.68	9.02	8.38
Total Provident Funds	8.10	-0.60	16.40	9.00	13.00	7.49	8.61	8.75
Education Funds	0.08	-0.10	15.40	8.80	12.30	7.37	8.49	7.34
Remuneration and Personal Severance Pay Funds	7.90	-0.70	16.80	9.20	13.30	7.59	8.68	8.85
Consolidated Severance Pay Funds	8.20	-0.80	16.40	8.70	12.30	7.23	8.55	8.54
Profit Participating Life Insurance Policies	6.67	-6.63	21.03	8.63	14.92	8.79	9.49	8.69
Average (Aggregate)	7.84	0.37	15.01	8.24	12.93	7.65	9.04	8.64
General Share Index	-6.60	-19.90	55.50	17.60	32.83	5.80	24.47	13.28
General Bond Index	13.20	0.10	13.60	5.30	5.90	4.60	4.07	6.58

Source: Monetary Department of Bank of Israel, Pension Savings Entities reports and Capital Markets, Insurance and Savings Division.

New Pension Funds

The pension funds are a corporate investor operating on a long-term basis, and as such, their investment yields should be judged according to long-term criteria and not by short-term results.

A pension fund's yield is comprised of two factors. The first is financial yield resulting from the fund's capital investments, and the second is the actuarial surplus or deficit caused by actual deviations from the original demographic presumptions.[10] Table 1-16 presents only the financial yield.

During the last 6 years, the weighted average (weighted according to the scope of assets managed in each fund) of the New Pension Funds amounted to 8.33%.

[10] See further explanation below under “Actuarial surplus/deficit in Pension Funds”.

Table 1-16: Nominal Aggregate Yields of the New Pension Funds 2001-2007 (percentages)

Fund	2001	2002	2003	2004	2005	2006	2007	Average 2001-2007
Makefet Ishit*	8.52	8.42	9.33	6.40	11.99	7.38	10.83	8.98
Phoenix (formerly Amit)	8.42	9.19	6.54	6.82	10.48	7.56	10.78	8.54
Harel (formerly Adi)*	8.97	7.38	8.75	7.67	12.04	7.63	9.75	8.88
Magen Zahav	9.45	8.24	6.87	8.08	11.61	3.35	9.66	8.18
Manof	7.08	9.60	6.28	6.49	9.56	6.29	9.37	7.81
Meitavit Atudot	10.29	8.82	7.02	6.89	10.95	6.44	9.30	8.53
Meitav Pension	n/a	n/a	n/a	n/a	n/a	8.77	9.26	9.02
Gilad Rivchit	9.54	8.85	5.72	6.40	8.53	4.87	8.82	7.53
Helman Aldobi	n/a	n/a	n/a	n/a	15.02	12.32	8.78	12.04
Ayalon Pisga*	8.04	7.76	6.35	6.69	8.92	5.65	8.63	7.43
New Mivtachim	8.45	7.95	7.67	7.48	10.66	6.51	7.80	8.07
Excellence Nassua Pension	8.54	8.69	7.20	7.15	11.14	8.88	6.35	8.28
Yovelim	8.91	8.80	10.44	7.04	12.04	7.14	4.24	8.37
Tenufa	-	7.51	8.52	8.53	12.45	Merged with Makefet		9.25
Netivot	6.71	8.47	6.47	7.30	12.02	Merged with Makefet		8.19
New Yozma	8.43	8.94	7.46	8.16	11.28	Merged with Makefet		8.85
New Atudot	8.12	9.80	4.61	6.58	10.65	Merged with Meitavit		7.95
Teutza	10.77	7.93	7.08	5.60	9.98	Merged with Makefet		8.27
New Atidit	7.52	10.26	6.26	6.62	9.28	Merged with Harel		7.99
Shiluv	8.43	8.08	6.03	7.10	7.08	Merged with Pisga		7.34
Average (Aggregate)	**8.60**	**8.59**	**7.14**	**7.06**	**10.83**	**7.14**	**8.74**	**8.29**
Weighted Average	**8.75**	**8.35**	**7.60**	**7.08**	**10.88**	**6.68**	**9.02**	**8.33**

* The data for 2001-2005 is for yields obtained by the fund before the merger.

Source: Pension-Net, Website of Capital Markets, Insurance and Savings Division

Yields of Insurance Companies.

Since 1992, the money comprising the savings component in life insurance policies, is invested in the financial market, and is therefore influenced by the compilation of the asset portfolio and the yield obtained on it (Fund "Y" and other investment routes/tracks). It is important to distinguish between Aggregate (or Gross) Yield – this is also influenced by investment strategy and its performance over the relevant period – and Net Yield. This is the yield credited to the client according to the terms of the policy he holds, after subtracting management fees paid.

The yields presented in this section of the report are based on the reported aggregate yields and not necessarily on the yields actually credited to each client. The individual yield is influenced by additional parameters such as the time and size of each deposit.

Table 1-17: Nominal Aggregate Yields of Profit Participating Portfolio of Insurance Companies 2001-2007 (percentages).

Company	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**Average 2001-2007**
Migdal	7.1	-7.2	20.5	8.2	14.9	8.4	11.5	8.8
Hamagen	7.1	-7.2	20.3	8.7	15.6	8.7	Merged With Migdal	-
Ayalon	6.7	-5.3	16.0	7.7	15.3	7.5	10.0	8.0
Clal	6.7	-7.0	21.9	8.0	14.9	8.5	9.4	8.6
Aryeh	6.7	-7.0	22.1	8.2	14.7	Merged with Clal		-
Harel*	-	-	22.9	9.7	14.9	9.5	8.2	9.1
Hachsharat Hayishuv	7.1	-1.6	11.7	7.0	13.0	6.4	8.2	7.3
Phoenix	5.4	-5.3	20.5	9.0	15.0	9.7	8.0	8.6
Hadar	7.3	-7.4	20.4	8.6	14.1	Merged with Phoenix		-
Menorah	8.2	-5.5	22.8	10.2	15.2	8.7	6.9	9.2
Eliyahu	6.7	-0.8	10.0	6.8	12.6	7.9	6.0	7.0
Average	**6.9**	**-5.6**	**19.0**	**8.4**	**14.6**	**8.4**	**8.5**	**8.3**
Weighted Average	**6.7**	**-6.6**	**21.0**	**8.6**	**14.9**	**8.8**	**9.5**	**8.7**

Source: Capital Markets, Insurance and Savings Division

* The average for 2001-2007 includes the yields of Sahar Zion for 2001-2002.

Examination of the profit participating-portfolio in 2007, shows that half the companies achieved a higher yield in comparison with 2006, thereby continuing the positive trend that began in 2003. The positive yields in 2007 can be attributed both to the gains in the share market and to a rise in the Government shekel bond indices, especially in the first half of the year.

The average weighted yield in 2007 was high and stood at an average of 9.5%.

Actuarial Surplus/Deficit in the New Pension Funds.

The existing pension savings instruments in Israel (pension funds, provident funds and life insurance programs) enable a client to manage his retirement capital, whether the final payment is made as a lump sum or as a monthly pension for the rest of his life. One of the distinguishing features between the products is the scope of the insurance component that can be purchased. Some of the provident funds do contain a life insurance and work fitness insurance component; however this is done in a group policy through an insurance company. In other words, the insurance is not issued by the provident fund itself, which only manages the savings element. In life insurance programs, the insured client may add to the existing life insurance, policies for loss of work fitness, and the insurance is managed by the insurance company. In New Pension Funds, the insurance coverage is built in to the savings component and managed by the pension funds themselves.

	Retirement Savings	Work Fitness	Life Insurance	Type of Insurance
Provident Fund	v	X	X	X
Insurance Program	v	Possible	possible	Insurance Company's Risk
New Pension Fund	v	V	v	Mutual

The insurance coverage in the life insurance policies differs from the insurance coverage in the pension funds by the body responsible for payment in the occurrence of the insured event. In insurance policies, this liability falls entirely on the insurance company, who collects premiums for the insurance, and with the occurrence of the insured incident, also bears full liability for payment of the insurance reparation. A pension fund however, operates in accordance with the system of "mutual insurance", by which each insured client pays premiums tailored specifically for his insurance risk, and the total premiums paid by all the insured clients are utilized for the reparations payments. If a premium surplus above payments is accumulated, it is divided up between all the insured clients. In the event of a deficit, a reduction in the accrued balance of all members is made in order to meet the shortfall.

Actuarial surpluses or deficits in a pension fund can occur if the number of death and disability cases of the insured members does not correspond to the demographic premises according to which the fund values the cost of the disability and successor insurance and to the formula by which it calculates the old-age pensions. For example, if the number of disabled members in reality is higher than the number that was expected according to the actuarial calculations, an actuarial deficit may result, in turn leading to a decline in the level of pension accrued.

In keeping with the directives of the Commissioner of the Capital Market, a pension fund must present an actuarial balance sheet for each period of its financial reports. Similar to an accounting balance sheet, the fund's assets and obligations are presented. The obligations side of the actuarial balance sheet is based on the fund's obligations towards the insured members and pensioners, and is mainly calculated according to assumptions regarding capitalization interest rates and the life expectancy of the members, pensioners and their heirs.

If the assets value more than the obligations, the fund accrues an actuarial surplus; if the opposite is the case an actuarial deficit is the result. Actuarial balancing is meant to equate the value of assets to the total obligations by the reduction or increasing of these obligations.

The process of actuarial balancing takes place by means of the distribution of either the accrued actuarial surplus or deficit. As such, an actuarial surplus is treated as a positive yield and, in fact, increases the yield gains achieved by the fund, while an actuarial deficit is registered as negative yield and offsets the yield gained by the fund.

The company managing a pension fund may play a significant role in determining the level of the actuarial surplus or deficit. As the body responsible for the risk management, the managing company is also responsible for the underwriting procedures for new members, for the procedures concerning medical scrutiny in cases of claims for disability pensions and for the policies in examining qualification periods for death or disability pension eligibility.

Actuarial surpluses or deficits may vary from one fund to another not only because of contrasting management policies or methods but also as a result of different membership characteristics. For example, the older the average age of a fund’s members, the higher the expected number of disability pensions. Similarly, the earlier a fund started operations, the higher the expected number of members receiving dependants and disability pensions. An actuarial surplus may serve both as an indication of a high quality management and of the particular characteristics of the fund's membership (age, profession etc).

The table below details the levels of actuarial surplus and deficit of the new pension funds between 2005-2007.

Table 1-18: Actuarial Surplus or Deficit in the New Pension Funds 2005-2007 (percentages).

Fund	Rate of Actuarial Surplus or Actuarial Deficit 2005	Rate of Actuarial Surplus or Actuarial Deficit 2006	Rate of Actuarial Surplus or Actuarial Deficit 2007
Magen Zahav	1.51%	1.04%	2.32%
Helman Aldobi	0.60%	0.75%	1.71%
Harel Pension	0.68%	1.01%	1.22%
Phoenix Comprehensive Pension	1.05%	0.39%	0.64%
Excellence Nassua Pension	0.60%	1.07%	0..62%
Meitavit Atudot	0.75%	1.99%	0.60%
New Mivtachim	1.07%	1.04%	0.58%
Gilad Rivchit	0.57%	0.25%	0.49%
Manof	0.05%	0.22%	0.47%
Makefet Ishit	1.13%	1.02%	0.42%
Ayalon Pisga	n/a	0.61%	0.34%
Meitav Comprehensive Pension	n/a	0.17%	0.29%
Yovelim	0.73%	2.28%	-0.48%
New Yozma	1.73%	Merged with Makefet	
Netivot	1.17%	Merged with Harel	
Atidit	n/a	Merged with Harel	
Atudot	0.65%	Merged with Meitavit-Atudot	
Tenufa	0.46%	Merged with Makefet	
Teutza	0.22%	Merged with Makefet	

Source: Capital Markets, Insurance and Savings Division

3.3 Survivability Data – Pension Savings Entities

Pension savings are by definition long term. One of the fundamental characteristics of such savings is the large number of clients who leave the program during the savings period. In the pension funds this is expressed in the number of inactive members, and in life insurance programs in the number of suspended and cancelled policies.

The tables presenting the information regarding the pension funds display both the number of active members and the number receiving a pension.

Number of Pension Fund Members

The pension funds' members can be split into three categories: active members regularly depositing to the fund; members no longer depositing (inactive members); and members receiving a pension of any type (old age pension, dependant or disability).

Tables 1-19 and 1-20 show that approximately 960 thousand people, comprising approximately 33% of the civilian work force, are active members in a pension fund. In addition, approximately 232 thousand are receiving a monthly pension from a pension fund.

It is also possible to see that even though the new pension funds have only been in operation for a relatively short time, they comprise the majority of the market in terms of active members as opposed to the old funds – the number of active members in the new funds is more than three times higher than in the old funds. The number of members receiving a monthly pension from the new funds is however still negligible in comparison to the old funds.

New Pension Funds

Table D-19 below shows that the new pension funds have a total of approximately 1.33 million members and that only approximately 55% of them are active members. The remainder was designated as inactive members.[11]

The number of active members in the new pension funds rose in 2007 by approximately 11% while the number of inactive members rose by approximately 10.9%. The number of new pension fund members receiving monthly pensions is very low and comprises less than 0.5% of the total membership.

The continuing increase in the total number of New Pension Fund members and especially the active members stems mainly from the closure of the Old Funds to new members. Thus, with new workers joining the workforce every year, the membership of the New Funds is constantly on the increase.

During 2007 the number of active members in the New Pension Funds increased by approximately 90 thousand, compared to an increase of 45.8 thousand the previous year.

[11] An individual can be an active member in one fund and an inactive member in another. Therefore the total members is not necessarily a true indication of the actual total members.

Table 1-19: The Number of New Pension Fund Members 2006-2007.

Fund	2006				2007				Change In Active Members 2006-2007
	Active	**Inactive**	**Receiving Pensions**	**Total**	**Active**	**Inactive**	**Receiving Pensions**	**Total**	
New Mivtachim	241793	264523	2794	509110	270110	268605	3247	542101	6.5%
Makefet Ishit	180542	110292	1284	300110	200429	124624	1255	326308	8.7%
Meitavit Atudot	105268	72500	590	178358	121864	76541	717	199122	11.6%
Harel (formerly Adi)	51212	26356	170	77738	63419	33419	309	97147	25.0%
Phoenix (formerly Amit)	24329	10786	77	35282	33219	15970	130	49319	39.8%
Gilad Rivchit	19661	17048	146	36855	19347	21537	176	41060	11.4%
Magen Zahav	7878	2870	8	10756	10828	6154	8	16990	58.0%
Yovelim	4491	5703	46	10240	4090	5244	83	9417	-8.0%
Manof	2076	10230	22	12328	2637	17464	38	20139	63.4%
Excellence Nassua Pension	n/a	n/a	14	18854	2867	15689	13	18569	-1.5%
Helman Aldobi	547	59	0	606	970	59	0	1127	86.0%
Ayalon Pisga	6497	4860	39	11396	6013	5927	38	11978	5.1%
Meitav	300	2	0	302	1010	71	0	1081	257.9%
New Atudot	Merged with Meitavit				Merged with Meitavit				
Tenufa	Merged with Meitavit				Merged with Meitavit				
Teutza	Merged with Makefet				Merged with Makefet				
Netivot	Merged with Harel				Merged with Harel				
New Yozma	Merged with Makefet				Merged with Makefet				
Atidit Ishit	Merged with Harel				Merged with Harel				
Shiluv	Merged with Pisga				Merged with Pisga				
TOTAL	**644594**	**533319**	**5190**	**1201943**	**736942**	**591304**	**6014**	**1334358**	**11.0%**

Source: Capital Markets, Insurance and Savings Division

Old Pension Funds

Table 1-20 shows that the Old Pension Funds have approximately 224 thousand active members, approximately 767 thousand inactive members and approximately 226 thousand members receiving pensions. The number of inactive members is markedly high in relation to the number of active members, although it is possible for one member to be registered as an inactive member in more than 1 fund. This is because when changing place of employment, he would be registered as a member of whichever fund had an agreement with his new employer, and if necessary, would cease being an active member of his previous fund. He thus accumulated pension rights in more than one fund.

As the Old Pension Funds have been closed to new members since the beginning of 1995, we have witnessed a decline in the total number of members in these funds. This trend is expected to continue until the ultimate closure of the Old Pension Funds.

Table 1-20: The Number of Old Pension Fund Members 2006-2007.

Fund	2006				2007			
	Active	Inactive	Receiving Pensions	Total	Active	Inactive	Receiving Pensions	Total
Mivtachim	10397	311441	101948	513786	97053	307927	101969	506949
Makefet	30488	44610	28575	103673	28360	43883	28888	101131
K.G.M	37725	88750	38807	165282	35468	92211	37786	165465
Gilad	5340	9083	3089	17512	5021	9366	2743	17130
Jewish Agency	538	n/a	3058	3596	511	0	3045	3556
H.O.L	17365	18577	3030	38972	17217	19023	2503	38743
Egged	1844	258	4267	6369	1738	338	4214	6290
Atudot	16571	8471	1675	26717	16287	8021	2113	26421
Netiv	7221	15049	13041	35311	6842	15092	12856	34790
Dan	n/a	n/a	n/a	n/a	641	186	1906	2733
Hadassah	2467	3326	1801	7594	2442	3136	1822	7400
Yozma	3140	5137	450	8727	3067	4304	517	7888
Farmers	2450	165351	9340	177141	2454	164961	8452	175867
Magen	576	107	1471	2154	725	67	1441	2233
Amit	1118	983	76	2177	1032	1929	0	2961
Atidit	2249	2617	136	5002	1798	2890	168	4856
Construction	1716	96092	15680	113488	1547	93590	14969	110106
Lawyers	2218	n/a	443	2661	2161	6	436	2603
TOTAL	**233423**	**769852**	**226887**	**1230162**	**224364**	**766930**	**225828**	**1217122**

Source: Capital Markets, Insurance and Savings Division

Life Insurance policies – Suspension and Cancellation

Suspended Policy – A policy, the payment toward which has been suspended, but the monies have not been redeemed**.** Therefore the company continues to invest the savings capital, to accumulate yield and to charge management fees.

Cancelled Policy – A policy that has been redeemed (the monies withdrawn) premature to maturity.

Table 1-21: The Proportions of Cancelled, Suspended and Active Policies of the Total policies issued 1997-2007 (in percentages).

Policy Issued	Average of Cancelled Policies at 31.12.2007	Average of Suspended Policies at 31.12.2007	Average of Valid Policies at 31.12.2007
1997	55.3%	17.4%	27.3%
1998	52.3%	17.4%	30.3%
1999	50.4%	18.9%	30.7%
2000	46.7%	20.5%	32.8%
2001	43.4%	20.8%	35.8%
2002	39.7%	20.3%	40.0%
2003	33.7%	17.8%	48.5%
2004	30.3%	15.9%	53.8%
2005	25.8%	14.9%	59.3%
2006	18.5%	10.8%	70.6%
2007	10.7%	4.8%	84.6%

Source: Insurance Companies' Data and Capital Markets, Insurance and Savings Division

Table 1-21 presents the rates of policies suspended or cancelled by the end of 2007 out of the total policies issued between the years 1997-2007. It can be observed that the earlier a policy was issued, the lower the chance of its survival in 2007. For example, approximately 55% of the policies issued in 1997 had been cancelled by the end of 2007, approximately 17% had been suspended and only 27% were still valid. In contrast, of the policies issued in 2005, approximately 26% had been cancelled by the end of 2007, approximately 15% suspended and approximately 59% were still valid. From the raw data in Table 1-21 it can be concluded that there is no relation between a company's market share and the rate of its redeemed and suspended policies.