Annals of Social Sciences & Management Studies

ISSN: 2641-838X

Juniper Publishers
key to the Researchers

Perspective
Volume 7 Issue 4 - August 2022
DOI: 10.19080/ASM.2022.07.555718

Ann Soc Sci Manage Stud
Copyright © All rights are reserved by Elroi Hadad

A Note on Tax Incentives and The Pan-European Pension Product (PEPP): The Israeli Perspective

Elroi Hadad[1]* and Rami Yosef[2]

[1]*Shamoon College of Engineering (SCE), Beer Sheva, Israel*

[2]*Ben Gurion University of the Negev, Beer Sheva, Israel*

Submission: August 05, 2022; **Published:** August 23, 2022

***Corresponding author:** Elroi Hadad, Lecturer, Shamoon College of Engineering (SCE), Haim Nachman Bialik 54, Be'er Sheva, Israel

Abstract

Recently, the European Union (EU) has called for the development of a new pan-European Pension Product (PEPP), in order to increase long-term savings among EU member states. To promote the take-up of PEPP, The EU's commission recommended individual tax benefits at the national level. In this note, we show a linkage between individual tax benefits and the development of Israeli pension funds, as a result of changes in tax regulations by the Israeli government. Our results support the EU's recommendations for individual tax incentives and provide a useful guideline for policymakers.

Keywords: PEPP; Tax Incentives; Pension; Israel

Abbreviations: DC: Defined Contribution; DB: Defined Benefit; EU: European Union; EC: European Commission; IA: Impact Assessment; DW: Deposits to Withdraws; PEPP: Pan-European Pension Product

Introduction

The literature highlights the importance of pension savings in securing adequate retirement [1-3]. In this manner, pension systems in the many EU member states have changed significantly since 2000, as a result of changes in pension regulations that aim to foster pension savings. Most notably is the shift from a Defined Benefit (DB) pension scheme to a Defined Contribution (DC) pension scheme, and switching regulations of long-term investment [4,5].

However, the trend of the aging population in EU member states still possesses many demographic challenges; e.g., only 27 % of Europeans between 25 and 59 years old are enrolled in long-term savings products [6]. Moreover, recent OECD [7] data shows that the net replacement rates among EU member states vary across a large range, while many states have comparatively low replacement rates; e.g., Table 1 reports net replacement rates for men and women among selected EU member states, as shows that the average net replacement rate in the EU is less than 70% for both men and women, suggesting for inadequate future pension at retirement. Most notably, the lowest replacement rates are found in Ireland, Germany, and Great Britain, with respective net replacement rates of 37.9, 52.4, and 43.25 for men and women. To solve the pension gap in the EU, the European Commission (EC) promoted a new proposal for a PEPP, a voluntary personal pension scheme that offers EU citizens additional opportunities to save for retirement. The PEPP complements existing public pension systems and occupational pension schemes, and offers to channel more savings to long-term investments. Thus, PEPP may help to secure adequate replacement rates in the future and to help EU citizens to meet their retirement goals [8,9].

To increase the attractiveness of PEPP among EU citizens, PEPP offers more opportunities, advantages and benefits for long-term savers, including: (1) increased competition among PEPP providers; (2) the possibility to switch between PEPP providers; (3) the possibility to continue to save in the same PEPP product for mobile citizens across EU borders (on a pan-European basis); (4) full personalized advice of long-term savings, and before retirement in particular; (5) full transparency of fees and costs of PEPP providers; (5) opportunity to purchase PEPP product online (to attract the young pension savers) and more.

Table 1: Net replacement rates in selected EU member states by gender, 2020.

Country	Men	Women
Austria	88.5	88.5
Belgium	64.05	64.05
Cyprus	77.8	77.8
Czech Republic	62.75	62.75
EU Average	67.6	66.9
France	74	74
Germany	52.4	52.4
Great Britain	43.25	43.25
Hungary	89.15	82.9
Ireland	37.9	37.9
Italy	86.75	86.75
Netherlands	84.7	84.7
Slovakia	67.25	67.25
Slovenia	60.4	61.65
Spain	81.85	81.85
Sweden	54.8	54.8

Source: OECD pension data and authors calculations. https://data.oecd.org/pension/net-pension-replacement-rates.htm

Further, the EU commission also recommended EU members include tax reliefs, and encourages tax incentives for personal pension products[1]. More particular, the EC encourages member states to extend benefits of the tax advantages they grant to other national PPPs, irrespective if PEPPs fulfill the national criteria for tax relief. Furthermore, the commission staff Impact Assessment (IA) of the PEPP proposal states that the volumes of PPPs combined with PEPP could reach EUR 2.1 trillion by 2030, whereby PEPP would be granted tax incentives in all member states[2]. Furthermore, the IA suggests that if PEPP would receive the same tax treatment as existing PPPs in all member states, then the introduction of PEPP would contribute to 50% growth in the personal pension market within a decade.

The Israeli Perspective

In this manner, we acknowledge that tax incentives play an important role in the development of DC pension scheme savings. As an example, we note that historical tax regulation on Israeli pension funds has substantially increased the number of deposits from Israeli citizens, which substantially increased DC pension funds savings. More particular, the mandatory long-term savings reform in 2008, for instance, was supported by new tax regulations that equalized the tax benefits of DC pension funds to tax benefits of provident funds, which historically was superior.

To illustrate the effect of tax incentives on Israeli pension funds, Figure 1 shows the difference of funds' Deposits to Withdraws (DW) among long-term savers for the period of 2000 – 2017; the figure shows the difference in DW for provident funds and DC pension funds. Figure 1 depicts that during 2000 – 20007, before the mandatory long-term saving reform, the difference in DW for provident funds is positive and much higher than the difference of DC pension funds, indicating that during that period provident funds were much more attractive than DC pension funds among Israeli citizens.

On contrary, Figure 1 depicts the opposite trend for the period of 2008-2017, in which DC pension funds had a much higher difference in DW than provident funds, suggesting that DC pension funds were much more attractive during that period. More particular, provident funds DW difference is mostly negative, suggesting that the Israeli citizens have withdrawn more money than depositing money to provident funds, probably in favor of DC pension funds, after the tax regulation. This also highlights the importance of tax incentives for long-term savings, as acknowledged by the EU commission.

To complete the analysis, Figure 2 shows the total assets managed by provident funds and DC pension funds between 2001 – 2017, before and after the new tax regulation of the mandatory act of 2008. The figure depicts a sharp rise in total assets of DC pension funds, from NIS 64 billion to more than NIS 330 billion within a decade; however, the total assets managed by provident funds have increased about 27%, from NIS 188.5 billion to NIS 241.8 billion[3].

[1]The European commission recommendation on the tax treatment of personal pension products including the PEPP, https://ec.europa.eu/info/sites/default/files/170629-personal-pensions-recommendation_en.pdf.

[2]Commission staff working document impact assessment, https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52017SC0243&from=DA.

[3]In line with the results depicted in Figure 1, this result suggest that most of the increase in assets managed by provident funds are associated to positive investment returns.

How to cite this article: Elroi H, Rami Y. A Note on Tax Incentives and The Pan-European Pension Product (PEPP): The Israeli Perspective. Ann Soc Sci Manage Stud. 2022; 7(4): 555718. DOI: 10.19080/ASM.2022.07.555718

Concluding Remarks

The results obtained in Figures 1 & 2 suggest that tax incentives have motivated Israeli citizens to invest in DC pension funds, and have promoted the development of pension savings in the following years. Hence, the Israeli mandatory pension reform, and the new tax regulations in particular, are evident to promote pension savings and to increase the popularity of pension funds savings among the population. This implies that tax incentives play an important role in the development of long-term savings, and highlights the strong effect of tax incentives on the development of the pension system. In line with the EC's recommendations for tax incentives to support the coverage of PEPP among EU citizens, the Israeli case should suggest to policymakers about the strong need for tax incentives, and may be used as a useful guidance to promote the take-up of PEPP among EU member states.

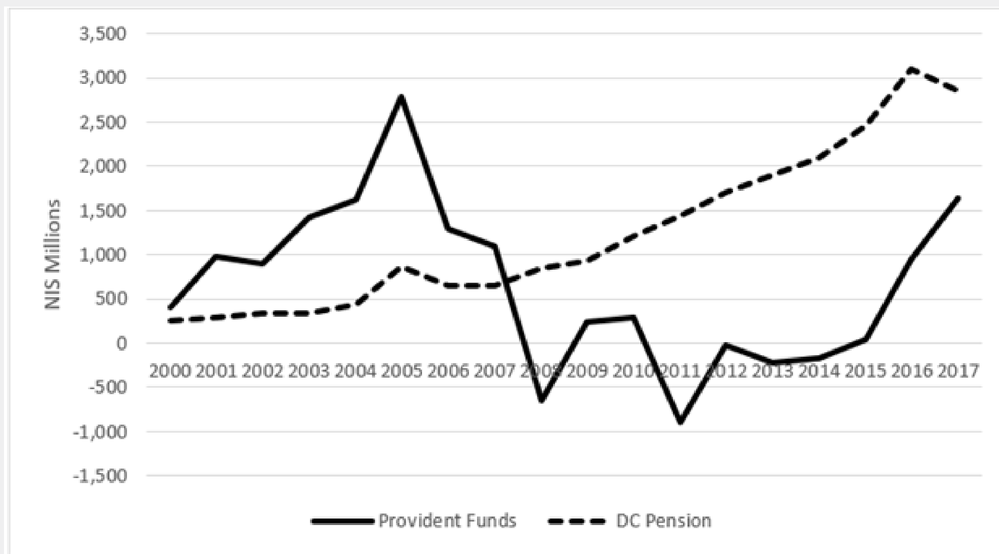

Figure 1: Difference of funds deposits to withdraws in Israeli provident funds and DC pension funds, 2000 – 2017.
Source: Bank of Israel and authors calculations.

https://www.boi.org.il/he/DataAndStatistics/Pages/MainPage.aspx?Level=3&Sid=50&SubjectType=2.

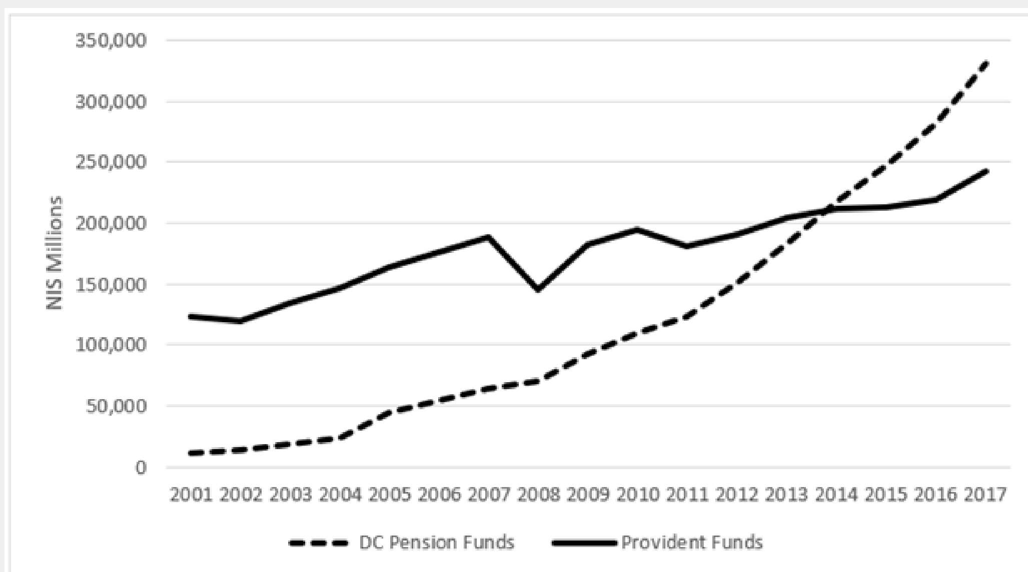

Figure 2: Total assets of Israeli provident funds and DC pension funds, 2001-2017.
Source: Bank of Israel and authors calculation.
https://www.boi.org.il/he/DataAndStatistics/Pages/MainPage.aspx?Level=3&Sid=50&SubjectType=2.

How to cite this article: Elroi H, Rami Y. A Note on Tax Incentives and The Pan-European Pension Product (PEPP): The Israeli Perspective. Ann Soc Sci Manage Stud. 2022; 7(4): 555718. DOI: 10.19080/ASM.2022.07.555718

References

1. Bodie Z, Crane DB (1999) The design and production of new retirement savings products. Journal of Portfolio Management 25(2): 77-82.
2. Bodie Z, Marcus AJ & Merton RC (1988) Defined benefit versus defined contribution pension plans: What are the real trade-offs? In Pensions in the US Economy. University of Chicago Press, pp. 139-162.
3. Broadbent J, Palumbo M & Woodman E (2006) The shift from defined benefit to defined contribution pension plans–implications for asset allocation and risk management. Reserve Bank of Australia, Board of Governors of the Federal Reserve System and Bank of Canada.
4. Clark GL & Hebb T (2004) Pension fund corporate engagement: the fifth stage of capitalism. Relations industrielles/industrial relations 59(1): 142-171.
5. Thomas A, Spataro L & Mathew N (2014) Pension funds and stock market volatility: An empirical analysis of OECD countries. Journal of Financial Stability 11: 92-103.
6. European Commission (2018) The 2018 Pension Adequacy Report. Vol. 1. Luxemburg: Publications Office of the European Union.
7. OECD (2020) Pension Markets in Focus 2020.
8. Cunha Rodrigues N (2019) The Pan-European Pension Product and the Capital Markets Union: A Way to Enhance and Complete the Economic and Monetary Union?. In The Future of Pension Plans in the EU Internal Market, Springer, Cham, pp. 179-191.
9. Schelkle W (2019) EU Pension policy and financialisation: purpose without power?. Journal of European Public Policy 26(4): 599-616.

This work is licensed under Creative Commons Attribution 4.0 License
DOI: 10.19080/ASM.2022.07.555718

Your next submission with Juniper Publishers will reach you the below assets

- Quality Editorial service
- Swift Peer Review
- Reprints availability
- E-prints Service
- Manuscript Podcast for convenient understanding
- Global attainment for your research
- Manuscript accessibility in different formats
  (Pdf, E-pub, Full Text, Audio)
- Unceasing customer service

Track the below URL for one-step submission
https://juniperpublishers.com/online-submission.php

 How to cite this article: Elroi H, Rami Y. A Note on Tax Incentives and The Pan-European Pension Product (PEPP): The Israeli Perspective. Ann Soc Sci Manage Stud. 2022; 7(4): 555718. DOI: 10.19080/ASM.2022.07.555718