



State Comptroller and Ombudsman
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Ministry of Finance

Follow Up Audit State Pension Agreements

Abstract



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Background

In October 2016, the State Comptroller published a report on "State pension agreements". The report dealt with a variety of issues related to the pension system in the State of Israel. Given the great importance of the issue, the State Comptroller's Office conducted a spot check on the correction of deficiencies in three significant areas that emerged in the report: the increases approved by the Chief of Staff in regard to pension rates for IDF retirees; payment of a 'bridge' pension to IDF retirees and registration of the relevant financial obligations in the state's balance of accounts; and not raising the retirement age for women.

Key figures

NIS **7.8** billion

IDF Retirement Budget in 2018

NIS **1.1** billion

The payment made in 2018 according to the Ministry of Finance to all IDF retirees due to pension increases granted by the Chief of Staff

9.53%

The average rate of increase in pension rates granted by the Chief of Staff to IDF retirees in 2018; the average rate in 2017 was 8.89%. The rate is expected to decline in 2019 due to the retrenchment of the retirement age from the IDF.

NIS **24** million

The annual cost attributed to pension increases granted by the Chief of Staff to IDF retirees in 2017, according to the IDF. According to the Ministry of Finance, the amount is NIS 38 billion

46

The average retirement age from the IDF in 2018

NIS **18,966**

The average pension payment to officers who retired from the IDF in 2018. According to the Ministry of Finance, the amount is NIS 19,844


NIS **12,000**

Average 'bridge' pension payment paid monthly to officers retiring from the IDF in 2025, according to an agreement from November 2015 (at 2015 prices)







62



The retirement age of women according to the law; in OECD countries, the average retirement age of women entering the labor market today is approximately 65.8

Audit Actions

 The follow-up audit examined: the pension increases approved by the Chief of Staff for IDF retirees ; payment of a 'bridge' pension to IDF retirees and registration of the relevant financial obligations in the State's balance of accounts; and not raising the retirement age for women. In addition, as part of the audit, the audited bodies' reports given to the Prime Minister's Office and the State Comptroller's Office were examined with regard to the actions taken to rectify the deficiencies specified in their case in the previous report. The review was carried out at the Ministry of Finance, the Ministry of Justice, the Ministry of Defense and the IDF.

The Situation Reflected in the Audit Findings





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-  **The issue of the regulation of the Chief of Staff pension increases has not been resolved, and no regulations regarding the 'bridge' pension have been enacted** - The dispute that has been going on for years regarding the Chief of Staff increases, between the IDF and the Ministry of Finance, has not been resolved and regulations have not yet been enacted regarding the 'bridge' pension for IDF retirees.
 -  **Rate of Chief of Staff Increases** - From 2015 to 2018, the average of the Chief of Staff increases for retirees increased by about 0.73%. However, this is a statistic that does not reflect a steady situation, but is influenced by the widespread dismissal of older professional soldiers, which was made as part of the process for implementing the new professional soldier model and the IDF's age regression, and the amount of the increase is expected to decrease in 2019.
 -  **New Rules for the Chief of Staff Increases** - The new rules, which include setting the maximum incremental rate to 10% (instead of the maximum rate of 19%) will apply to those who began permanent service after 1.4.17. According to IDF reports, in the coming years, IDF officers and older NCO's should be released, and according to the rules that apply to them the increases they are qualified for will be higher. The change in the increases appears likely to be reflected only towards 2030, after the retirement of these servants.
 -  **Transparency and Transmission of Information** - The IDF continues to present as the annual cost of the Chief of Staff increases only payments for those who retired that year (approximately NIS 24 million in 2017), while the actual annual expenditure for the Chief of Staff increases in the IDF includes the payments of the increases of retirees from previous years, totaling NIS 1.1 billion. At the same time, the Accountant General has not yet completed the transfer of relevant information regarding the method of calculating the actuarial cost to the IDF. Although the IDF and the Ministry of Finance established a joint team to examine the transparency and transfer of information and data between the bodies, the transfer of information between them is still partial.
 -  **Enacting regulations concerning 'bridge' pensions** - The Ministry of Finance and the Ministry of Defense have not yet enacted regulations regarding 'bridge' pensions, even though more than two years have passed since the date set by law for their enactment.

-  **Advance payments as part of the 'bridge' pension** - According to a document promulgated by the Legal Advisory Branch of the Ministry of Justice, the IDF sets the level of monetary advances for retirees and continues to pay them (as an advance on account of the 'bridge' pension) without coordination with the Ministry of Finance. Continued payment of advances turns a temporary situation into a long-term one and creates uncertainty for the retirees.
-  **Raising the retirement age for women** - In accordance with the law, and since the Minister of Finance did not make his recommendations before the Finance Committee, the retirement age for women was set to 62. In June 2019, the Ministry of Finance promulgated a draft law stating that women's retirement age would gradually rise to 65 and then be adjusted to life expectancy. Failure to raise the retirement age for women affects, inter alia, the actuarial balance of the old pension funds in the agreement.



Chief of Staff Pension Increases - IDF has taken steps to address the audit findings that emerged in the previous report. Among other things, it established new rules regarding the increases made by the Chief of Staff. These rules set new criteria that limit the maximum rate of increase to retirees up to 10% (compared to the 19% rate that was customary until then). In addition, the IDF also reported that the head of the Manpower Directorate individually confirms each increase.

Main Audit Recommendations

-  Given the significant impact of the Chief of Staff's pension increases and the 'bridge' pensions on the extent of pension payments in the security budget, the State budget and the Government's actuarial liability, the State Comptroller's Office recommends that the IDF and the Ministry of Finance work collaboratively to reach a substantial consensus in regard to the economic aspects of these issues. If this does not help, the matter must be brought before the Prime Minister, the Minister of Finance and the Minister of Defense in order for them to decide on the issue in the discussions on the State budget and the IDF's multi-year budget. In view of the continuation of the issue so far, it is expected that if a future decision or decision of the State Attorney is required in this matter, it will be adopted without delay.
-  The Ministry of Defense, the Ministry of Finance and the Attorney General of Israel must complete the discussions for the purpose of implementing regulations on 'bridge' pensions and make a decision on the payment of advances to retirees, so that, with the establishment of the new government, this will be brought before the Ministers to settle the matter.
-  The Ministry of Finance, the Ministry of Defense and the IDF must act to transmit mutual information and complete data regarding the retirement of IDF retirees.
-  The State Comptroller's Office recommends that the Ministry of Finance examine ways to advance the issue of the retirement age for women, with the Government's expected establishment, and to complete its policy formulation. This is due to the widespread implications of the issue, and especially with regard to the actions required due to the deficit of the old pension funds included in the agreement.

Summary

Pension savings are intended to be a major source of income after retirement. It is undisputed that IDF retirees, who for years worked for the security of the State, are entitled to a fair and proper pension. It is important that the many years of disagreement between the IDF and the Ministry of Finance on these issues, as well as the regulation of data transparency, come to their resolution as soon as possible. The continuous rise in life expectancy requires an examination of the proper model for raising women's retirement age, with an eye as well to practice in other countries.

The main findings of the follow up audit

State pension arrangements - The main follow-up Audit findings					
Audit chapter	The deficiency in the audit report	The degree of deficiency correction as emerged from the follow-up audit			
		Not corrected	Slightly corrected	Mostly corrected	Fully corrected
Increases by Chief of General Staff	The absence of a clear Chief of General Staff procedure	→			
	Unsettled dispute between the IDF and the Ministry of Finance on the Chief of General Staff's powers	→			
	Presentation of the financial costs of the increases in a manner that does not provide the true, full picture	→			
Bridge pension	Implementation of the principles agreement between the Ministry of Defense and the IDF and the Ministry of Finance in the law	→			
	Failure to enact the bridge pension regulations	→			
Retirement age	Failure to promote the increase in retirement age of women	→			