

What Lay People Know about Pensions? Could it be Fixed with Financial Education?

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Much has been written about financial literacy. The perspective usually taken is that knowledge lies on a simple continuum, going from ignorance to full knowledge. In reality, knowledge is often misguided, and misconceptions are responsible for many maladaptive decisions. In this talk, we present some findings from a large questionnaire administered to a nationally representative sample, and devoted to lay understanding of the Israeli pension system. Advanced analysis of the findings lay bare some fundamental misunderstandings, and in particular a view of pension savings as some kind of savings account, as opposed to one that recognizes that savings are deposited in actively managed investment funds. The different conceptions affect such essential behaviors as following returns on investment, negotiating with the funds and consider switching funds. We further illustrate the importance of misconceptions with the case of severance pay, show that they are often misunderstood and suggest ways to remedy the situation.