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CHOOSING TODAY FOR TOMORROW: THE INSURANCE AGENT'S INFLUENCE OVER THE CHOICE OF PENSION SAVINGS TRACK[1]

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Abstract

Choosing a retirement plan is one of the most important economic decisions people make in their lifetime. Under Israel's pension marketing policy, a pension plan is generally chosen at a meeting with an insurance agent, who may be subject to a conflict of interests. In this study, 263 participants were asked to choose a savings plan after meeting with an insurance agent who provided information about two different plans and then proceeded to recommend one of them. The study examined whether the tendency to choose a particular plan is related to the insurance agent's recommendation, to the fair disclosure statement provided by the agent and the decision maker's degree of financial literacy. It was found that the agent's recommendation had a decisive effect which was not offset by fair disclosure. Furthermore, it was found that the agent's influence was moderated by a high degree of financial literacy when managers' insurance was recommended. Yet, the agent's recommendation remained significant, as expressed in the intention to choose a different plan from the one chosen by a control group that did not meet with the agent. The results of the study indicate that the insurance agent exerts considerable influence, and they confirm that transparency and knowledge do not counterbalance the insurance agent's strong influence over the recipients of the advice. This influence may be abused when the interests of the agent and the consumer are not aligned.

A. FOREWORD

In today's world, people are required to make economic decisions that have long-term repercussions, even if they are not equipped with the necessary knowledge and ability. A

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[1] For a more penetrating view of the topics emerging from this study, see also Carmel, Carmel, Leiser and Spivak (in press).

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large number of economic reforms, including pension fund reform, have made lay people responsible for choosing their own pension plans. Lay people are now responsible for making educated decisions while the regulator must provide them with the background material for making such decisions, and also protect them against fraud and conflicts of interests. One of the most widely used tools in this process is the fair disclosure obligation that requires experts and advisers to disclose the reward they receive from the sale of such plans, with the purpose of avoiding conflicts of interests (Cain, Loewenstein and Moore, 2005). Another tool designed to help make financial decisions is to provide the general public with financial information, in the belief that more knowledge will make it easier to cope with such situations (Williams, 2007).

In Israel, the process of choosing a pension fund frequently involves meeting with an insurance agent who markets pension funds in return for a commission. To prevent insurance agents from taking unfair advantage of their position and prejudicing savers, the agents must disclose their conflicts of interests to their clients. Choosing a pension plan is a complex, difficult decision that leads to strong reliance on "experts". Findings indicate that advisors have an advantage over their clients in such complex situations and are relatively easily able to persuade customers to accept their advice by highlighting the relative advantages of the products they wish to promote (Chakraborty and Harbaugh, 2010). In an effort to balance the asymmetric relationships between advisors and decision makers, the regulator has obligated agents to provide fair disclosure, although numerous findings indicate that this disclosure is ineffective. Most customers have little understanding or neglect to read the disclosure (Stark and Choplin, 2010), and even when the disclosure is taken into account, it fails to eliminate the advisor's influence (Cain, Loewenstein and Moore, 2011).

To assist lay people in making better financial decisions, the Ministry of Finance invests resources in making knowledge accessible to the public and improving their financial literacy (Ministry of Finance - Department of International Affairs, 2010). Financial literacy has many advantages, but there are also doubts about the degree to which greater financial literacy compensates for inbuilt biases in the economic decision-making process (Dahan, Kogut and Shalem, 2009). With regard to pension funds in Israel, the question is whether improved access to information and a higher degree of financial literacy might help decision makers, when confronted by agents who have a conflict of interest, to make a decision that serves their own interests when the agent's recommendation is different.

The main purpose of this study is to examine the extent to which recommendations made by insurance agents influence decision makers. The study also examines the way in which fair disclosure and financial literacy influence consumers making a decision about the choice of pension savings, which for many people may be the most important financial decision of their lives (Dahan et al., 2009).

The format of this paper is as follows: the next section provides the theoretical background to the study and outlines the relevant literature on disclosure and financial literacy. Section C details the research method and research tools. Section D presents the results and Section E is a summary of the key findings, discussion and conclusions.

B. THEORETICAL BACKGROUND

B.1 The problem of fair disclosure

Insurance agents who meet customers to sell them pension plans are among the most critical factors that influence the choice of a pension plan. The law permits insurance agents to market pension plans and to earn a commission based on the sale of such plans. This may place the agents in a position of conflict of interest between the good of the customer they are advising and their own personal interest. Extensive research literature shows that this conflict of interests frequently produces two common results—either the advisors knowingly lie, or they change their point of view so that they themselves believe the advice given to the customer, even if this is not the best advice, thus proffering advice that serves their own interest. (Moore, Tetlock, Tanlu and Bazerman, 2006; Tanlu and Bazerman, 2010). The regulatory authorities therefore obligate experts to inform their customers of any conflict of interests.

The regulator's attempt to compensate for the conflict of interests by establishing disclosure requirements does not necessarily help the customer make the most sensible decision. There is considerable evidence indicating that the use of disclosure is an inefficient method of solving this problem, with some arguing that it leads to less optimal decision making (Li and Madarasz, 2008). A study conducted by Cain, et al. (2011), divided subjects into advisors and customers, with the latter asked to estimate the value of homes that were up for sale, and who were then compensated according to the accuracy of their estimates. Half the advisors in the experiment had a conflict of interests and earned a commission according to the amount of the estimate, while some of them provided disclosure and others did not. It was found that advisors with conflicts of interests, who provided disclosure, gave their customers the worst advice in the hope of making a profit at the customer's expense. One possible explanation for this behavior is that the disclosure might create an absurd situation in which the advisor feels a moral right to offer poor advice given that he has "cautioned" the customer, and he therefore has no problem concealing part of the truth (Cain, et al. 2005).

In terms of the recipient of advice, the expectation that the customer knows how to relate to the expert's advice is frequently found to be a misconception. Overall, it was found that most customers do not read the disclosure at all (Stark and Choplin, 2010) and that even if they do consider it, their decision-making process is deficient. For example, in many cases it was found that decision makers have poor judgment even when they know that the person facing them has a conflict of interests, and that individuals are influenced by advice even when they are aware that the purpose of this advice is deceptive (Camerer, Loewenstein and Weber, 1989). A study by Cain, et al. (2011), found that disclosure was ineffective, and that participants demonstrated similar choice patters irrespective of whether or not they received disclosure. Sah, Loewenstein and Cain (2011), contend that disclosure gives rise to two contradictory forces: there is a lack of trust in the agent, yet at the same time there is a desire to reward the agent for his honesty. The authors argue that this tension could lead to paradoxical behavior, such as a greater tendency to follow the advisor's advice as a result of the disclosure. In contrast, Lacko and Pappalardo (2004) showed that mistrust and suspicion toward the agent could cause consumers behave in a manner that is contrary to the advice they received even when such conduct is at their own expense. These studies show that a fair disclosure statement does not improve, and may even harm, the decision made by the consumer.

B.2 Financial literacy

Recent economic and social developments have raised the importance of education towards financial awareness. The ability to manage one's financial affairs, including economic knowledge and access to information and advisors, has in recent years become the goal of many policymakers, earning the name "financial literacy" (OECD, 2010; Williams, 2007; Ministry of Finance—Department for International Affairs, 2010). According to the OECD, people who are financially literate manage their money successfully, invest wisely in the stock market, pay less in management fees and are better equipped to handle their debts. Nevertheless, the most important findings on this subject address the relationship between financial literacy and pension savings. Whereas in the past, pension savings plans in many countries were inflexible and the monthly benefit was based on the number of work years, salary and the period of saving, today it is often the savers who determine the amount of provision for savings and the plan in which they deposit their money. Their decisions therefore strongly impact the amount of post-retirement benefit they will receive (Lusardi and Mitchell, 2010).

Numerous studies point to the relationship between financial literacy and saving for retirement. For example, it was found that people who are financially literate think more about retirement, have better retirement plans, are aware of what takes place in their savings and consult with experts about saving instead of relying on the recommendations of their friends and family (Lusardi and Mitchell, 2006). It was also found that workers who have attended seminars about pensions are less likely to choose the default product offered to them, and more likely to choose a plan that meets their needs (Clark, Morrill and Allen, 2010). Nevertheless, a broader study of American subjects conducted by Lusardi and Mitchell (2007) revealed a low level of both basic and sophisticated financial literacy. Questionnaires developed by researchers to measure financial literacy examine the respondent's level of knowledge on several key factors of considerable importance, including: the value of the money over time, inflation, interest rate, bonds, etc., and separate basic financial knowledge from sophisticated knowledge which requires a certain level of mathematical ability, familiarity with economic terminology and the ability to perform mental calculations. These findings are consistent with studies of financial literacy that were conducted using a variety of questionnaires as well as in other countries and indicate a low level of financial literacy among the population (see also: Lusardi and Mitchell, 2006). These findings have ramifications for pension savings, and arguably the fact that only one in three Americans has any sort of retirement plan is due to the low level of financial literacy (Lusardi and Mitchell, 2011).

Theoretically, educating towards financial literacy should provide a positive solution to the problem of financial decision making, but this solution is only partial. There is no shortage of financially literate people who do not save or who hold unsuitable retirement plans (Yakoboski and Dickemper, 1997; Lusardi and Mitchell, 2006), and there is considerable evidence that irrational and psychological factors as well as heuristic tendencies strongly influence decisions about pension savings. A study conducted by Dahan et al. (2009) among economists employed by the Ministry of Finance, including 38 employees in the Capital Market, Insurance and Savings Division who are considered experts on the subject of pension savings, found that most of them tend to rely on bias and a rule of thumb when choosing savings plans and to make irrational choices. Thus, for example, compared with other financial decisions (such as the purchase of a home, car or domestic appliance) the Finance Ministry economists hardly search for relevant information about their pension decision, despite the fact that they stated that the pension decision is much more important than buying a car or an electrical appliance. Regarding the amount of time invested in making the decision, it was also found that there is no significant difference between the time devoted to choosing a savings instrument and the time devoted to choosing a large electrical appliance. The number of alternatives examined by the Ministry of Finance economists likewise deviated from the rational model. Contrary to the results of a preliminary survey of Ministry of Finance economists which showed that on average, five alternatives should be examined when deciding on a pension plan, 37 percent of all the respondents replied that they examined only one option (a significantly higher rate than the percentage of participants who examined only one option in each of the other three decisions). Furthermore, in comparison with the other financial decisions, the average number of options examined when deciding on a pension plan was the lowest. These findings show that even experts who have the relevant knowledge and who we would expect to make the correct decision behave irrationally when it comes to pension decisions.

The Ministry of Finance has made considerable efforts in recent years to assist consumers by making the information about key pension fund parameters more accessible. The Commissioner of the Capital Market and Insurance Division instructed pension funds to send clear reports to policyholders with a standard format about rates of management fees and yields. The Ministry of Finance also launched a detailed website that provides comparative information about the different funds. Nevertheless, one of the most surprising findings of a study by Dahan, et al. (2009) showed that not only did Ministry of Finance economists scarcely search for information about pension funds, but that almost 40 percent of the study participants reported that they did not even have basic information about the fund they had chosen for themselves (management fee rates and yields attained by the fund). The difficulty that even people who are financially literate have in making correct financial decisions, together with the findings about in-built biases in the disclosure process, raise concern that the process of choosing a pension plan in Israel may be subject to bias and hinder a large number of consumers, at the same time intensifying the power and influence of the insurance agent.

C. THE CURRENT STUDY

As noted, there is evidence that disclosure does not counterbalance asymmetry in relationships between advisors who are in a conflict of interests and decision making customers. The purpose of this paper is to examine whether and to what extent customers are influenced by their insurance agents' recommendations, and whether there is any connection between the disclosure provided by the agent and the decision maker's level of financial knowledge and the degree of influence by the agent. Based on the theoretical background, we assume that the agent's recommendation will have an important effect and that the participants will demonstrate a tendency to make their choice based on this recommendation. We will also examine whether disclosure and financial literacy moderate the agent's influence over the customer's choice.

To examine the influence of the degree of financial literacy, the insurance agent's recommendation and disclosure, a research method was devised comprising three categorical variables: degree of financial literacy (financially literate/illiterate), the insurance agent's recommendation (in favor of managers' insurance / in favor of a pension fund / control), and fair disclosure (with/without disclosure). The dependent variable used was the tendency to choose a pension fund or managers' insurance and the degree of choice based on the insurance agent's recommendation.

C.1 Participants

263 students from Ben-Gurion University participated in the study. There were 146 students from the departments of psychology, social work and education who participated in the experiment in return for course credit and 117 participants who received a cash payment for their participation: NIS 30 in the experiment and NIS 20 for participation in the control group. The students invited to participate in the experiment for payment were second-year or more advanced students from the economics, management or business management departments and two financially literate participants from other disciplines (one who completed a degree in economics the previous year and a student from the faculty of engineering with a background in the capital market). This helped us ensure that the experiment would include participants with extensive financial knowledge.

C.2 The research procedure

The participants entered the room and following a brief explanation about the nature and duration of the experiment, filled out a computerized questionnaire on financial literacy. After completing the questionnaire, the participants were asked to read some information sheets about pension funds and managers' insurance. The participants then watched a video clip in which an insurance agent explained the different plans and ended with a recommendation about which plan to choose. Half the participants received disclosure outlining the agent's conflict of interests and half did not receive the disclosure. The participants then answered several questions online which measured the dependent variable. After the test, the participants received a written explanation about the test they had performed and they received payment consistent with the conditions of their participation. A detailed explanation about each of these tools appears in the chapter on the research tools.

C.3 The research tools

1. Financial literacy questionnaire: Financial literary was measured using a questionnaire on financial literacy that was developed specifically for this study. The questions were based on the financial literacy questionnaire devised by Lusardi and Mitchell (2007) as well as on the work of Chen and Volpe (1998), who examined financial literacy among students in the US, and their work formed the basis for the present questionnaire which was adapted to the Israeli participants. Some of the questions examined basic knowledge and others examined more advanced knowledge. The questionnaire addressed topics such as inflation, interest, the capital market, investments from a time perspective, and long-term savings. The questions that were translated and adapted to the Israeli participants were distributed online as a pilot test. Replies were received from 202 participants and were then analyzed. Based on the results, six questions were chosen for measurement, in which correct replies were received from about 50 percent. This ensured that the measurement questions would reflect the variance between the different respondents without the effect of an upper or lower limit for participants with considerable or limited financial knowledge. After receiving the results, one question was removed from the questionnaire after being considered unreliable, so that the allocation to levels of financial literacy was made on the basis of five questions. The participants were divided into two levels of financial literacy (high and low) based on the median of the respondents which was 3 correct replies.

2. Information sheets about the different tracks: After filling out the financial literacy questionnaire, participants received a written explanation about two possible pension saving tracks (pension fund and managers' insurance). The explanation outlined the advantages and disadvantages of each product, emphasizing the advantages of managers' insurance as a contract which cannot be changed that maintains a fixed conversion factor, and the advantage of a pension fund in the form of low management fees and a guaranteed government-subsidized yield on 30 percent of the savings (see Appendix 1). Participants were also shown a table presenting the amount of monthly savings accrual in each track which detailed the allocation to insurance, savings and provision for commission, as well as a table detailing the monthly savings accrual over a two-year period (for each of the tracks), so that they could follow the differences in the amounts of provision and the cumulative effect of these differences (see Appendix 2).

3. The agent's recommendation: The participants watched a video clip in which the insurance agent explained the different savings tracks. During the 7-minute clip, the agent explained the advantages and disadvantages of both financial instruments. The agent concluded with an unequivocal recommendation for a particular plan for each participant. At this point, the agent recommended managers' insurance for some of the participants, emphasizing its advantages such as the conversion factor, while the recommendation to other participants was a pension fund, emphasizing the guaranteed rate of government-subsidized interest in these plans. To test the quality of the manipulation, at the end of the experiment participants were asked whether the insurance agent had displayed any preference for a particular plan. Participants in the control group did not watch the clip and made their choice based only on the information sheets. The purpose of the control group was to examine the natural tendency of people who did not meet with an insurance agent when making a choice.

4. Disclosure: Several methods were used to provide disclosure to the participants allocated to this condition. The video clip opens with an announcement that the agent receives a commission on the products he sells (see Appendix 3). After the agent's comments, the participants received two disclosure forms—the first was the same as the one they received before the clip and the second stated that "In accordance with Ministry of Finance regulations, I wish to inform you that my share of the proposed plan may amount to: (1) NIS 300 per year; (2) NIS 840 per year, depending on the plan that you decide to purchase." Participants who were allocated to the condition without disclosure did not see this slide or the forms.

C.4 Measuring the dependent variable

To test the dependent variable, participants were asked to rate three questions on a scale of 1 to 6: (1) "If you were making the choice now, what would you be inclined to choose?" 1- Managers' insurance, 6- Pension fund. (2) "Are you sure that the plan you have chosen is the best plan for you?" 1 - Completely unsure, 6 - completely sure. (3) If you were to consult with a professional, to what extent do you think you would change your opinion? 1 - Not at all; 6 - Definitely possible. The purpose of the first question is to examine the participant's inclination and it forms the dependent variable called "choice". The purpose of the last two questions is to examine the extent to which the participant is sure of his choice.

We also created an additional dependent variable called: "degree of consistency with the agent's recommendation" by recoding the participants' choice on the scale where 6 reflects a choice that corresponds fully with the agent's advice and 1 reflects a choice that does not correspond with the agent's advice. For example: the consistency score for a participant who was recommended managers' insurance and chose 1 in the question "what would you choose" would be 6 given that his/her choice was fully consistent with the agent's recommendation. We used this variable to test whether the participant's willingness to accept the agent's advice was dependent on the plan recommended by the agent.

D. RESULTS

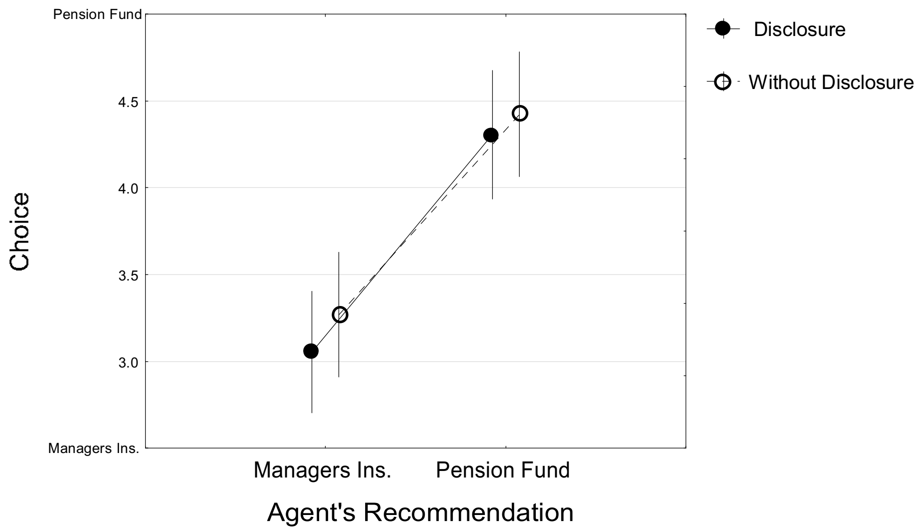
The average choice by all participants was 3.8 with a standard deviation of 1.39. On a scale of 1-6, this is very close to equilibrium. In response to the question "what did the agent recommend?" which was designed to test the impact of the manipulation, 98 percent of the participants who received a recommendation for managers' insurance answered correctly. In contrast, only 84 percent of the participants who received a recommendation for a pension fund answered this question correctly, while 9 percent of the subjects thought that the agent actually preferred managers' insurance and the rest replied that the agent had no preference for either plan. All the participants who incorrectly believed that the agent preferred managers' insurance when he actually recommended a pension fund were in the group that participated for credit, namely students in the social sciences, studying psychology, social work, education, etc.

D.1. The agent's recommendation and effect of fair disclosure statement

To test the assumption that participants would base their choice on the agent's recommendation, we tested the average choice among participants who watched the insurance agent's explanations. As noted above, the choices were on a scale ranging from 1 (managers' insurance) to 6 (pension fund), and the following averages were obtained: for participants who were recommended managers' insurance—M=3.15, Sd=1.36; for participants who were recommended a pension fund—M=4.36, Sd=1.24. The influence of the agent's recommendation (pension / managers' insurance) is significant, $F(1,204)=43.499$, $p<0.0001$, $\eta p2=0.17$, although no effect was found for disclosure, $F(1,206)=1.0220$, $p=0.31324$, and there was no significant difference in the average choice between participants who received disclosure and those who did not (M=3.64, Sd=1.46 and M=3.84, Sd=1.4, respectively). Likewise, no interaction was found between disclosure and the agent's recommendation ($F(1,204)=0.071$, $p=0.789$). Participants who received a recommendation for the pension fund option displayed a tendency to choose the pension fund irrespective of whether or not disclosure was provided (M=4.31, Sd=1.29 and M=4.42, Sd=1.21, respectively), while participants who received a recommendation for managers' insurance chose the other option (M=3.04, Sd=1.36, and M= 3.26, Sd=1.37, respectively). Figure 1 shows the effect of the agent's recommendation.

Figure 1

Choice of plan as dependent on disclosure among participants who were recommended the pension option and among those who received a recommendation for managers' insurance[2]

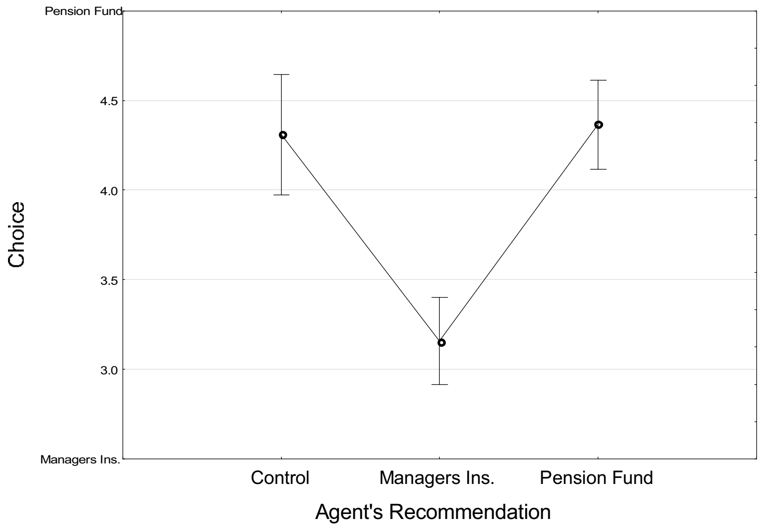


[2] This diagram and the following ones illustrate the participants' average choice. The section around the point on the drawing is a 95 percent confidence interval of the average.

To test the insurance agent's influence over the participants, we compared the control group (M=4.31, Sd=1.10) with the two experiment groups and we found a significant difference between them ($F(2,260)=27.763$, $P<0.0001$, $\eta p2=0.17$) (see Figure 2). A Scheffé follow-up analysis showed that the choice of the group that was recommended managers' insurance differs significantly from the choice of the two other groups ($P<0.0001$), whereas there is no difference between the choices made by the control group participants and those who received the pension fund recommendation ($P=0.96$). The implication is that the basic inclination of a person who is exposed to the information presented to the participants is to choose the pension fund, although the insurance agent's recommendation for managers' insurance could cause such a person to change his/her choice.

Figure 2

Choice of the pension plan as dependent on the insurance agent's recommendation



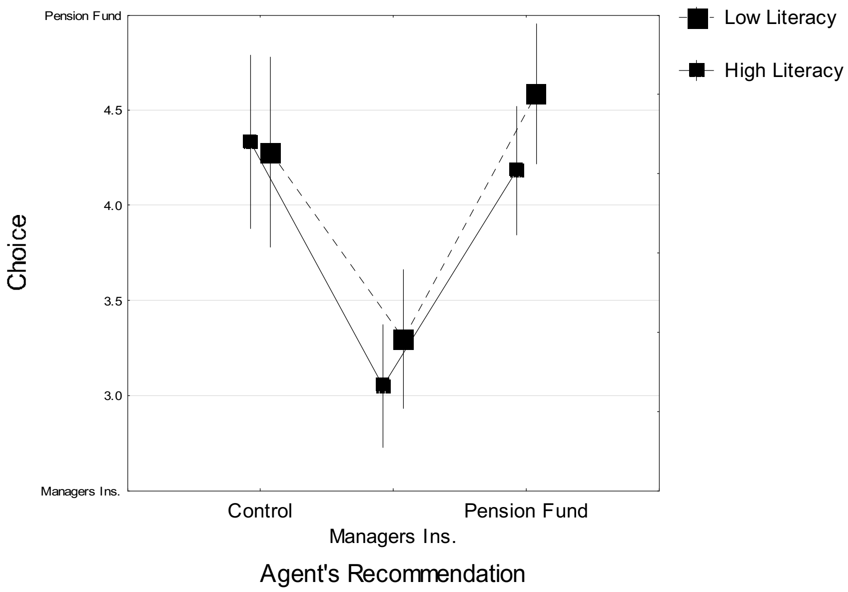
In conclusion, the agent's recommendation was found to influence the choice irrespective of whether or not the agent disclosed his conflict of interests. The agent's recommendation also has an effect when the agent recommends a product that contradicts the person's natural inclination, as emerges from the control group. These results reinforce the assumption that the insurance agent has a critical influence over the choice. This pattern is also present when the agent's conflicts of interests are disclosed.

D.2. Financial literacy

To examine the relation between the level of financial literacy and choice, as well as the relation with the scope of the effect of disclosure, we divided the subjects into two levels of financial literacy, based on the median replies of those who participated in the questionnaire on financial literacy. An examination of the choice based on literacy level among participants who were exposed to the insurance agent shows that people who are more financially literate are more likely to choose a pension fund than those who are not financially literate (M=3.94, Sd=1.36, compared with M=3.61, Sd=1.48). This difference is marginally significant, $F(1,206)=2.963$, $p=0.08$. There is no interaction between the level of financial literacy and the agent's recommendation, $F(1,257)=0.576$, $p=0.562$, and it would appear that the insurance agent's recommendation has a similar effect irrespective of different levels of financial literacy - see Figure 3. There is no interaction between the variables - agent's recommendation, level of literacy and disclosure, $F(1,200)=0.57304$, $p=0.449$, and the agent's recommendation is the only significant factor in the participant's choice.

Figure 3

Choice of the pension plan as dependent on level of financial literacy and the insurance agent's recommendation

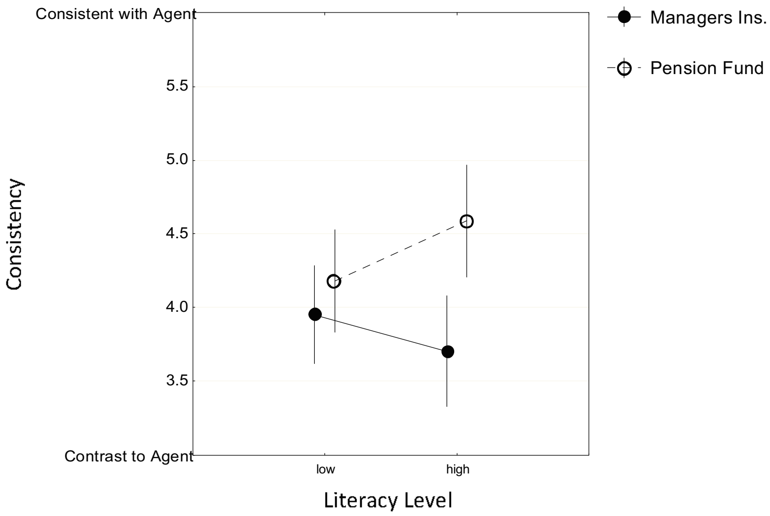


D.3 Consistency with the agent's recommendation

The names and nature of the plans—managers' insurance and pension fund—might influence the choice of a pension savings plan. To examine whether the type of plan recommended by the insurance agent influences the participants, we used the dependent variable "degree of consistency with the insurance agent" to test the discrepancy between the subject's choice and the agent's recommendation (6 - choice corresponds with the agent's recommendation; 1 - choice contradicts the agent's recommendation). A comparison based on this dependent variable reveals an interesting finding: financially illiterate participants accepted the agent's advice irrespective of whether the agent recommended a pension fund or managers' insurance. In contrast, among financially literate participants, consistency with the agent's recommendation varied according to the type of plan recommended—these participants followed the agent's recommendation when a pension fund was recommended, but rejected his advice when he recommended managers' insurance. This choice pattern was found to be approaching significance $F(1,204)=3.210$, $p=0.07466$.

Figure 4

Consistency with the agent's recommendation for both plans by level of literacy



The finding that financially literate participants do not automatically follow the agent's recommendation might encourage those who believe that education toward financial literacy could compensate for the problem of a conflict of interests. To test this, we conducted a follow-up analysis and examined the effect of the agent's recommendation on financially literate participants only. A Scheffé follow-up analysis conducted among financially literate participants showed that the choice made by the group that received a recommendation for managers' insurance differs significantly from the choice of the two other groups ($p<0.0005$), whereas there is no difference between the choice of the participants in the control group and those who were recommended the pension fund ($p=0.5$). The implication is that financially literate participants are influenced by the insurance agent's advice and tend to choose managers' insurance unlike the participants in the control group who did not receive any recommendation. Nevertheless, it appears that they are less influenced by the agent's advice than the financially illiterate participants.

E. DISCUSSION

The purpose of this study was to examine whether recommendations made by insurance agents influence the choice of a pension fund, and to gain a better understanding of the factors that affect the extent to which people are influenced by insurance agents. Based on existing literature, we assumed that we would find that the agent's recommendation does influence customers and that participants would tend to choose a plan recommended by the agent, and that this effect holds strong even when disclosure is provided. Furthermore, we examined the connection between financial literacy and the choice of pension plan. By comparing two groups of participants who received different recommendations from the insurance agent, we demonstrated the shortcomings of the present situation in which consumers are advised by pension marketers who may be subject to a conflict of interests. Our assumption that the agent's recommendation was the key factor influencing the choice made by participants was confirmed throughout the experiment, and the tendency to follow the agent's advice is reinforced when we look at the choice made by the control group that was not exposed to an agent. Whereas the control group displayed a clear tendency to choose the pension fund option, participants who received a recommendation for managers' insurance were inclined to follow the agent's recommendation and it appears that the agent's recommendation is particularly important when the recommendation does not coincide with the participant's initial inclination. Considering the numerous findings indicating that a person with a conflict of interests will frequently provide biased advice (Moore, Tetlock, Tanlu and Bazerman, 2006, Moore, Tanlu and Bazerman, 2010, Cain, Loewenstein and Moore, 2005), Israel's current pension marketing policy, which places agents who have a conflict of interests in a key position of influence when pension decisions are made, is clearly a significant failing vis-à-vis the savers.

The hope expressed by regulators in Israel and other countries that fair disclosure would reduce the agent's influence does not pass the test of reality. Disclosure was found to be totally ineffective, and the participants did not attribute any importance to it. This may be due to the fact that despite the disclosure, participants were unable to comprehend the agent's web of interests or which plan better rewards the agent. This confusion reflects the real world, where customers lack understanding of how the agents they meet are rewarded. Nevertheless, a study conducted by Carmel, Carmel, Leiser and Spivak (in press) found that even when participants are aware of the fee earned by the insurance agent, they are still inclined to accept his recommendation, disregarding his profit from the recommended plan.

Importantly, it should be noted that unlike the real world where the disclosure provided is generally extremely weak and consists of a vague sentence indicating that the agent has an interest in some of the instruments, in this experiment we used strong disclosure—we emphasized the agent's gains and the fact that the agent receives various commissions depending on the customer's choice. During the experiment, participants were asked to read the disclosure carefully in the hope that this would help us overcome the problem that most people fail to pay attention to or do not understand the disclosure (Stark and Choplin, 2010). The fact that despite this the disclosure still had no real effect emphasizes the problems of conflicts of interest, since this is clearly not just an issue of inattention by the participants.

A review of the role played by financial literacy showed that overall, even the financially literate are influenced by insurance agents. Whereas the control group that was not exposed to the insurance agent displayed a clear tendency to choose the pension fund, financially literate participants who received the recommendation for managers' insurance were more likely to choose this plan. Nevertheless, the level of financial literacy had a moderating effect on the insurance agent's influence, as found when testing the dependent variable "consistency with the agent's recommendation".

The findings about the ineffectiveness of disclosure and the minimal effect of the level of financial literacy are cause for concern, particularly in view of the study's strong, consistent finding regarding the considerable influence exerted by the insurance agent. Choosing a pension savings plan is a complex, difficult process, and as Dahan, Kogut and Shalem (2009) found in their study, even Ministry of Finance economists, who can certainly be considered financially literate, were found to suffer from biased thinking and to pay insufficient attention when asked to choose a pension savings plan. The findings in our study point to the inadequacy of the accepted approach, which gives greater weight to disclosure and clearly fails to resolve the problem of the insurance agents' conflicts of interests. This fact points to the need to reexamine the widespread use and accepted belief in the efficacy of disclosure in countering the conflict of interests. We can assume that the principles that were found to be correct in this paper also apply to decisions made by individuals in other areas of financial activity.

In conclusion, we wish to note that the participants in this study were not rewarded for their choice, rather they were asked to make a hypothetical choice. This is generally accepted practice in psychology experiments, although its advantages and disadvantages are subject to considerable discussion. Whereas some would argue that a hypothetical choice does not reflect the conduct of people in the real world (Ding, Grewal and Liechty, 2005), others argue that it is the use of financial reward which does not reflect the real world, given that it leads to more thought and to making more rational decisions than is the case in the real world (Kuhberger, Schulte-Mecklenbeck and Perner, 2002). In this context, and in view of the importance of pension-related decisions, we believe that there is room for a study to examine the decision-making process by consumers in the real world, in the hope that they display more cautious conduct than was found in this study.

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Appendices

Appendix 1

A. Pros and Cons of the Pension Fund

PROS

Members of the Pension Fund are eligible for government subsidy: a guaranteed return, slightly higher than market return on 30% of saving assets.

Management fees are relatively low.

Not conditioned upon medical examination.

CONS

Member suffering from an illness prior to joining the Fund, must wait 5 years before becoming eligible for retirement pension, disability pension or death benefit paid to survivors.

Pension Fund functions in accordance with statutes of association, subject to possible changes.

You can only choose one investment portfolio from a limited number of possibilities to invest your savings in a Pension Fund.

B. Pros and Cons of Managers' Insurance

PROS

Managers' Insurance is a contract between you and the insurer which cannot be changed.

You can adjust the Managers' Insurance elements to your preferences: you can choose an investment portfolio for the saving element, as well as the monthly sum assigned for saving for pension and the monthly sum assigned for life insurance and disability insurance.

Note: The more money you devote to insurance, the less money will accumulate in your savings and your pension at retirement age will be smaller.

The Conversion factor used to determine your pension, paid after retirement, is predetermined, and does not rise over time as it does in the Pension Fund plan. Lower conversion factors mean a higher pension.

CONS

Managers' Insurance requires a preliminary medical examination to estimate the medical condition.

Management fees are comparatively high.

The owner of Managers' Insurance is not eligible for government subsidy

Appendix 2
Product Comparison
Tabular comparison of the two products. Last column not shown under non-disclosure conditions.

Plan	**Total Contribution**	**Life and Disability Insurance**	**Saving**	**Management Fee**	**Agent's Commission (out of fee)**
Managers' Insurance	875	201	560	114	70
Pension Fund	875	115	708	53	26

To illustrate, assume you earn NIS 5,000 a month.

<table>
<tr><td rowspan="2">Insured Salary</td><td colspan="3">Employer's Contribution</td><td>Employee Contribution</td><td rowspan="2">Total Contribution for Retirement Saving</td></tr>
<tr><td>For Benefits</td><td>For Compensation</td><td>Total</td><td>For Benefits</td></tr>
<tr><td>5,000</td><td>300</td><td>300</td><td>600</td><td>275</td><td>875</td></tr>
</table>

Here is a typical breakdown of contributions in each of the plans:

Plan	Total Contribution	Contribution for Life and Disability Insurance	Contribution for Saving	Management Fee	Agent's Commission (out of fee)
Managers' Insurance	875	201	560	114	70
Pension Fund	875	115	708	53	26

Following the expected evolution of savings accumulation in each of the plans:

	Managers' Insurance					Pension Fund				
Month	Agent Commission (accumulated)	Total Accumulated Saving	Contribution for Saving	Management Fee	Contribution for Life and Disability Insurance	Agent Commission (accumulated)	Total Accumulated Saving	Contribution for Saving	Management Fee	Contribution for Life and Disability Insurance
1	70	562	560	114	201	26	710	708	53	115
2	140	1,126	560	114	201	53	1,423	708	53	115
3	210	1,691	560	114	201	79	2,138	708	53	115
4	280	2,259	560	114	201	105	2,855	708	53	115
5	350	2,828	560	114	201	131	3,575	708	53	115
6	420	3,399	560	114	201	158	4,298	708	53	115
7	490	3,973	560	114	201	184	5,023	708	53	115
8	560	4,548	560	114	201	210	5,751	708	53	115
9	630	5,125	560	114	201	236	6,481	708	53	115
10	700	5,704	560	114	201	263	7,214	708	53	115
11	770	6,285	560	114	201	289	7,949	708	53	115
12	840	6,799	560	114	201	315	8,644	708	53	115
13	910	7,383	560	114	201	341	9,385	708	53	115
14	980	7,970	560	114	201	368	10,128	708	53	115
15	1,050	8,558	560	114	201	394	10,874	708	53	115
16	1,120	9,149	560	114	201	420	11,622	708	53	115
17	1,190	9,741	560	114	201	446	12,373	708	53	115
18	1,260	10,335	560	114	201	473	13,127	708	53	115
19	1,330	10,932	560	114	201	499	13,883	708	53	115
20	1,400	11,530	560	114	201	525	14,642	708	53	115
21	1,470	12,130	560	114	201	551	15,404	708	53	115
22	1,540	12,732	560	114	201	578	16,168	708	53	115
23	1,610	13,337	560	114	201	604	16,936	708	53	115
24	1,680	13,804	560	114	201	630	17,617	708	53	115

Appendix 3
Fair Disclosure Statement:

STATE OF ISRAEL MINISTRY OF FINANCE

Fair Disclosure Statement

For your information,

Insurance agent Mr. Shlomo Cohen, who appears in the following clip, is a certified pension agent, who markets the following financial products:

- Pension Fund *"Responsibility"*
- Executive insurance *"New Horizon"*
- Executive insurance: *"Ideal Insurance"*
- Pension fund: *"Peace of Mind"*
- Executive insurance: *"Safe Future"*

By law, your insurance agent is required to inform you that he markets those products for a profit, in keeping with the product you will choose.