

Chapter 4

Collection: Activities and Trends

1. General

The National Insurance Institute is responsible for collecting contributions to fund the benefits payable pursuant to the National Insurance Law, as well as health insurance contributions pursuant to the Health Insurance Law, which are intended to fund the health system. National and health insurance contributions are collected from working (salaried employees and self-employed persons) and non-working residents of the State, at varying rates applicable to the income subject to insurance contributions. Furthermore, since 1986, the Finance Ministry has been compensating the National Insurance Institute for the loss of collection proceeds resulting from the reduction in insurance contributions of employers and self-employed persons. This compensation is called **Treasury indemnification** and it constitutes a component of the NII's proceeds from national insurance contributions¹.

As in previous years, in 2014 collection from the public was affected by fluctuations in economic developments in the country, plus changes in the average wage, the number of employed persons, and legislation.

2. Legislative Changes

In 2005, a gradual reduction of employer insurance contributions began. Concurrently, two rates of insurance contributions were instituted for employers, reduced and regular, replacing the uniform rate for all income levels subject to insurance contributions, similar to the rate structure for salaried and non-salaried employees. Prior to the revision of the law, the employer had been paying 5.93% of the employee's income up to the maximum income subject to insurance contributions. Following application of the amendment, during the period of January-August 2009, the employer paid 3.45% at the reduced rate (up to 60% of the average wage) and 5.43% at the regular rate.

At the beginning of 2006, the following steps were also taken: the reduced rate of employee insurance contributions was decreased from 1.4% of income to 0.4%, the regular rate was increased from 5.58% to 7%, and the reduced rate bracket was increased from 50% of the average wage to 60% thereof. These revisions were made with a zero budget, i.e. with no change in the total revenues of the NII. The increase in the reduced rate bracket also applies to the employer's share, so as to avoid loss of collection.

In July 2009, the enactment of the Economic Efficiency Law of 2009–2010 was completed and it comprised two revisions that affected collection from September 2009

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 1 The rate of insurance contributions imposed on the Government instead of the employers is shown in Table 10 of the Act (Rates of Insurance Contributions) and stipulated in Section 32 therein, which deals in general with Government participation in funding branches of insurance.

to March 2011: the reduced rate of the employer's insurance contributions was raised from 3.45% to 3.85% (thus returning to the situation prevailing in 2008) until 31.3.2011 and the ceiling for payment of national and health insurance contributions was doubled until 31.12.2010: from 5 times the basic amount to 10 times the basic amount.

These two steps should have increased the total collection of national insurance contributions, but in fact the additional collection and the additional allocations under Section 32 were transferred in their entirety to the Finance Ministry, since the Finance Ministry's participation in collection for the Children branch was simultaneously reduced from 210% to 207.5% in 2009, to 169% in 2010 and to 208% in 2011.

Under the Economy Arrangements Law of 2011- 2012, three further amendments were introduced: (a) The ceiling for payment of national and health insurance contributions was raised to 9 times the basic amount (from 1.1.2011). (b) In 2012 the ceiling should have been raised to 8 times the basic amount, but following the Trajtenberg Law, which was enacted in the wake of the social protests, it was decreased and reverted to 5 times the basic amount (from 1.1.2012). (c) Regular employer insurance contributions were raised by 0.47% – from 5.43% to 5.9% (from 1.4.2011). These steps increased the collection of the NII, but not the share of the State Treasury and therefore its participation in the Children branch was 200.5% from 1.4.2011 (204.5% in 2012). In August 2012, the Deficit Reduction Law was enacted, which gradually increased the regular employer insurance contributions as of 2013 by 0.6 percentage points and it was applied to the insurance branches for which the employer is liable and where there is no Finance Ministry participation, therefore its participation in collection for the Children branch reverted to 210%.

In 2014 the regular rate of the employer's contribution was supposed to increase by 0.5%, but on 1.1.14, the rates for 2014 were raised by 0.25%, and the increase to 7.5% was postponed to 2016 and not to 2015 as was originally planned.

Table 1
Collection from the Public and Estimated Effect of Legislative Changes
on the Proceeds (NIS million), 2013-2014

	2013			2014			Percent change 2014 vs 2013			
	Net of legislative change	Legislative change	Actual	Net of legislative change	Legislative change*	Actual	Nominal		Real	
							Net of legislative change	Actual	Net of legislative change	Actual
Total	53,420	0	53,420	55,746	400	56,146	4.4	5.1	3.9	4.6
National insurance	34,498	0	34,498	35,956	400	36,356	4.2	5.4	3.7	4.9
Health insurance	18,922	0	18,922	19,790	0	19,790	4.6	4.6	4.1	4.1

* In 2014 relative to 2013 there was an increase of 0.25 percentage points to the regular rate for the employer, after the rise in this rate of 0.6 percentage points in 2013. Therefore the rate of change between 2013 and 2014 was expressed by an addition of 0.25% for 11 months.

3. Collection of National Insurance Contributions

a. Volume of Collection

In 2013, the employer's insurance contributions were raised, as prescribed by the Trajtenberg committee established in the wake of the social protests of 2011. The committee decided on a three stage increase. The first stage – an increase of 0.6% (from 5.9% to 6.5%) was carried out in 2013. The next two stages were split into three parts: an increase of 0.25% in 2014, 0.5% in 2015 and 0.25% in 2016.

In 2014, the NII's proceeds from collecting national and health insurance contributions amounted to NIS 58.7 billion: 56.1 billion were collected directly from the public and 2.6 billion were transferred by the State Treasury in accordance with Section 32C1 of the law, which indemnifies the NII for the reduction in national insurance contributions for employers and for self-employed persons (Table 1). This year, as in 2013, direct collection from the public, without the Finance Ministry indemnification net of legislative changes, increased by 3.9% in real terms.

In 2014, the collection of national insurance contributions from the public increased by 4.9% (compared to an increase of 5.7% in 2013), and collection of health contributions grew by 4.1% (compared to 2.8% in 2013). Health insurance contributions as a proportion of the total insurance collection from the public decreased slightly, to 35.2% in 2014 compared to 35.4% in 2013. The decrease in the rate of growth of health insurance collection from employers stems primarily from the increased rate of the employer's insurance contributions, with the result that health insurance contributions comprise a lower proportion of total insurance contributions from the public. The ratio of the rate of collection from the public to GDP in 2014 was 5.2%² – showing a growth trend relative to the last two years. The proceeds of collection proceeds from the public as a percentage of the total direct taxes³ collected from individuals decreased³, from 48.1% in 2012 to 47.9% in 2013 and to 47% in 2014, as a result of the increase in income tax collection.

b. National Insurance Contribution Rates

In 1995, two national insurance contribution rates were prescribed – reduced and regular – for all categories of insured persons. As of January 2006, the reduced rate was imposed on the part of the income subject to national insurance contributions that does not exceed 60% of the average wage according to the law⁴, and the regular – on the balance

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2 Table 13 in Chapter 1.

3 Direct taxes collected from individuals include income tax (from wage earners, the self employed and company directors), national insurance contributions and health insurance. The total of all direct taxes, in addition to taxes collected from individuals, also includes corporation tax (State Revenues Administration, Annual Reports)

4 The average wage as defined under the National Insurance Law – NIS 9,089 per month in 2014, and the basis for reduced rates was 50% of the average wage until the end of 2005.

Table 2
Rates of National Insurance and Health Insurance Contributions
by Category of Insured (Percentages), 2013 and 2014

Category of insured	National Insurance				Health Insurance	
	Regular rate		Reduced rate		Regular rate	Reduced rate
	2013	2014	2013	2014		
Salaried – Total	13.10	13.35	4.52	4.92	5.0	3.1
Of which: Worker	7.00	7.00	0.40	0.40	5.0	3.1
Employer	6.50	6.75	3.45	3.45	-	-
Government	0.67	0.67	0.67	0.67	-	-
Self-employed – Total	11.82	11.82	7.31	7.31	5.0	3.1
Of which: Worker	11.23	11.23	6.72	6.72	5.0	3.1
Government	0.59	0.59	0.59	0.59	-	-
Not working, not self-employed	7.00	7.00	4.61	4.61	5.0	5.0

of income up to the ceiling: of salaried employees, of employers and of the self-employed (without differentiating between their share as employee or employer). The reduced rate is applicable to all insured persons – employees and non-employees – and as of August 2005, it has also been extended to employers (Table 2).

c. Categories of Insured

In 2014, there were approximately 3.2 million salaried positions for which national insurance contributions were paid – an estimated increase of 3.1% (Table 3). This group does not include workers from the Palestinian Authority, foreign workers and the Israeli insured with special characteristics, such as kibbutz members, early pension recipients, domestic employees, anyone undergoing vocational training and Defense Ministry employees⁵.

Within the insured population other than salaried employees, it is customary to differentiate between two groups: individuals paying insurance contributions based on their income (60%) and individuals who have no income and thus pay insurance contributions based on the minimum income (40%). The first group consists mainly of self-employed persons (90.7%), but pursuant to legislative changes in 2008, also insured persons with passive income (dividends and capital income) higher than 25% of the average wage, whether or not they have income as an employee or as a self-employed person, are liable for insurance contributions (9.3% of people in this group).

The second group of non-salaried insured persons consists of those who pay the minimum level of insurance contributions, and is divided between those who do not work and have no income subject to insurance contributions (approximately 61.9%) and

5 Section 6 in this Chapter gives some information about these groups.

Table 3
Employers (by Size of Employer) and Insureds Subject to National Insurance Contributions, by Category of Insured, 2013 and 2014

Category of insured	2013	2014	Percent change
Insureds who are salaried employees*			
Total:	3,100,000	3,195,000	3.1
Employers**			
Total	242,291	248,931	2.7
With 1-5 employees	175,070	179,769	2.7
With 6-20 employees	46,913	50,079	6.7
With 21-99 employees	16,309	14,959	-8.3
With 100-499 employees	3,345	3,453	3.2
With 500+ employees	654	671	2.6
Non-salaried insureds**			
Total	749,452	740,248	-1.2
With liable income - total	431,015	444,081	3.0
From work (self employed)	391,709	402,889	2.9
Not from work	39,306	41,192	4.8
Paying minimum level contributions – total***	318,437	296,167	-7.0
Not employed and not self-employed (minimum 15%)	209,528	183,463	-12.4
Pupil and student (minimum 5%)	44,471	51,075	14.9
Yeshiva student (minimum 5%)	64,438	61,629	-4.4

* Number of employee insureds reported by the employers (on Form 102) – monthly average.

** The data refer to the year end.

*** The income base is a percentage of the average wage.

pupils and students (38.1%). In 2014, the number of insureds who paid the minimum level of insurance contributions decreased by 7.0% and the number of those who are neither salaried employees nor self-employed fell by 12.4%. The reason for the decrease is the change in National Insurance procedures: that status of an insured who is not salaried and not self employed, and who starts work with a small employer (up to nine employees), who reports his employees' pay each month, changes immediately to salaried. The number of students rose by 14.9% in 2014 and the number of yeshiva students decreased by 4.4%, apparently because they entered the job market.

The number of employers paying insurance contributions for their employees rose by approximately 2.7% in 2014 (Table 3).

d. Volume of Collection by Category of Insured

In 2014 receipts from national insurance contributions amounted to NIS 38.9 billion: NIS 36.3 billion from the public and NIS 2.6 billion transferred from the Finance Ministry as compensation for the reduction in National Insurance contributions for

Table 4
National Insurance Contributions Collected,
by Category of Insured (current prices, NIS millions), 2010-2014

Category of Insured	Absolute numbers					Percent real change				
	2010	2011	2012	2013	2014	2010	2011	2012	2013	2014
Total collection	31,335	33,735	34,569	36,969	38,930	7.4	4.2	0.8	5.3	4.8
Salaried & employers	28,211	30,527	31,327	33,540	35,310	7.7	4.7	0.9	5.5	4.8
Non-salaried	3,124	3,208	3,242	3,429	3,620	5.1	-0.6	-0.6	4.2	5.1
Collection from the public – total	29,101	31,305	32,144	34,498	36,356	7.4	4.1	1.0	5.7	4.9
Salaried & employers	26,139	28,268	29,067	31,252	32,920	7.6	4.7	1.1	5.9	4.8
Non-salaried	2,962	3,037	3,077	3,246	3,436	5.6	-0.8	-0.4	3.9	5.4
Finance Ministry indemnification – total	2,234	2,431	2,425	2,471	2,574	8.3	5.3	-1.9	0.4	3.7
For employers	2,072	2,260	2,260	2,288	2,390	9.5	5.5	-1.7	-0.3	4.0
For non-salaried	162	171	165	183	184	-4.5	2.2	-5.1	9.2	0.1

employers and the self employed (Table 4). That year the NII's proceeds from national insurance contributions increased by 4.8% in real terms and collection from the public increased by 4.9% in real terms. The amounts that the Finance Ministry transferred as indemnification for the reduction in national insurance contributions of employers and self-employed persons rose in real terms by 0.4%. Direct collection from the public in 2013 increased slightly compared to previous years and amounted to 93.4% of all insurance contribution proceeds due to the increase in regular contribution rates from employers.

In 2014, direct collection from salaried employees increased by 4.8% in real terms, compared to 5.9% in 2013. Direct collection from salaried employees and their employers was affected both by the legislative changes already reviewed and by changes in the job market: the average wage for a salaried position rose by 2.0% in nominal terms in 2014 (compared to 3.0% in 2013). The number of jobs rose by 2.2% in 2014 (compared to 1.5% in 2013). For the last two years, the proceeds of national insurance contributions for salaried employees (including the share of the employee, the employer and the Finance Ministry) have accounted for 90.7% of all proceeds.

In 2014, direct collection from non-salaried insured persons increased by 5.4% in real terms compared to 2013, and in 2013 by 3.9% compared to 2012. Collection from the non-salaried for NII branches primarily consists of collection from the self-employed (about 92.8%). In 2014, collection from self-employed persons – which was based on the 2012 assessments that were updated by price increases only – increased by 5.0% in real terms. Collection from the non-salaried, who pay national insurance contributions based on the minimum, which constitutes about 4.3% of all NII collection for the insurance branches from non-employees, increased by 2.6% in real terms. An examination of the

payment ethics of self-employed persons and of those who do not work and are not self-employed highlights the difference between them: while collection from self-employed persons represented about 97.3% of their collection potential in 2014, including the outstanding balance, for insured persons at the minimum level this proportion was only 54.6%. However, we must note that there is a slow improvement in payment ethics: in 2010, the proportions were 95.9% and 49.1% respectively.

Participation of the Finance Ministry in National Insurance Collection in the Last Decade

We can distinguish four phases in the Finance Ministry's participation in collection (pursuant to Section 32a) in the last decade (Table 1):

- 2005-2009: reduction in the rate of employers' contributions, while maintaining the participation in collection by branch at the 2004 level, so that the allocation to the NII grew.
- 2009-2011: doubling of the ceiling for contributions from 5 times to 10 times the basic amount, with an increase in the reduced rate of employers' contributions. These steps were intended to improve the NII's proceeds, but at the same time

Finance Ministry Participation in Collection (percent) and Amounts Collected, and Treasury Participation (NIS millions), 2004-2015.

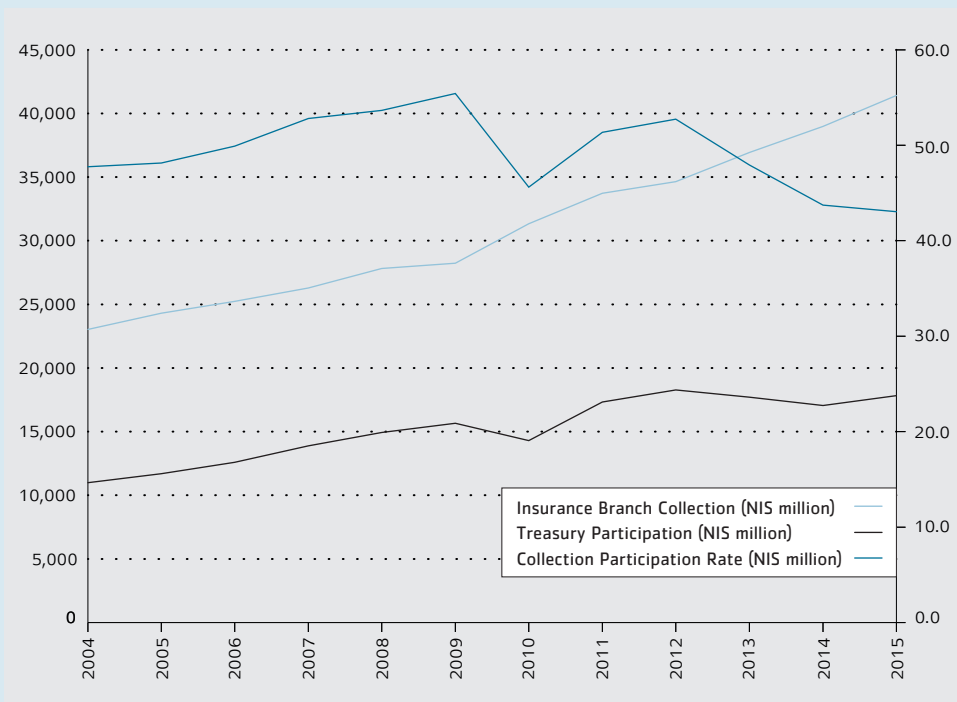


Table 1
Finance Ministry Participation in National Insurance (Section 32a)
by Branch (percent of proceeds)

	Total	Old Age & Survivors	Long term nursing	General disability	Children	Maternity
2004	47.7	6.5	2.5	2.0	36.7	0.0
2005	48.1	6.6	2.3	2.0	37.2	0.0
2006	49.9	6.9	2.4	2.1	38.5	0.0
2007	52.8	7.3	2.5	2.1	40.3	0.6
2008	53.7	7.4	2.5	2.2	41.0	0.6
2009	55.4	7.6	2.7	2.2	42.3	0.6
2010	45.6	8.2	2.5	2.5	31.9	0.5
2011	51.4	7.5	2.6	2.2	38.5	0.6
2012	52.7	7.5	2.7	2.2	39.7	0.6
2013	47.9	7.4	2.8	2.1	34.9	0.7
2014	43.7	7.3	2.5	2.1	31.1	0.7
2015	43.0	7.2	2.5	2.0	30.6	0.7

a decision was made to absorb the extra collection and the participation of the Treasury by reducing the Government's rate of participation in the Children branch.

- 2011-2013: raising the ceiling for contributions from 5 times to 9 times the basic amount – increased the NII proceeds, together with a reduction in the rate of participation in the Children branch so that the allocation would not increase due to raising the ceiling. The rate of normal contributions for employers was increased for branches in which there is no participation, and therefore there was no need to change the value of participation in collection for the Children branch due to this change.
- 2013-2014 onwards: reduction in child allowances, directing the savings to the Finance Ministry by reducing its rate of participation in collection for the Children branch from 210% to 170.3%.

The overall rate of Finance Ministry participation in collection up to 2009 reached a record high of 55.4% of NII proceeds, including indemnification (Figure 1). Since then the rate has fluctuated and from 2012 there has been a continuing decrease, with an expected low of about 43% in 2015.

Details of Laws

- **The Economic Arrangements Act 2005** – rates of National Insurance contributions payable by employers were gradually reduced by 1.5% (from 5.93% to 4.43%) in five stages, in order to increase the reciprocal contributions set aside for older funds.

At the same time, between 2005 and 2009, the Finance Ministry participation rose gradually from 15% to 17.1% in the Old Age branch, from 160% to 210% in the Children branch, and from 12% to 13% in the Disability branch – in order to maintain participation at the pre-reduction level.

- **The Reduction in the Tax Burden Act 2006** – the reduced rate of National Insurance contributions was lowered from 1.4% to 0.4% and the basis of the reduced rates was raised from 50% of the average wage according to the law to 60% of it, with adjustments to the regular rates, and all with a budget of zero.
- **The Economic Arrangements Act for 2009-2010** – the ceiling for payment of insurance contributions was doubled from 5 to 10 times the basic amount, and 0.4% was added to the reduced rate for employers, from 3.45% to 3.85%. At the same time, Finance Ministry participation in the Children branch was reduced to 207%, 171% and 208% in the years 2009, 2010 and 2011 respectively.
- **The Economic Arrangements Act for 2011 and 2012** – from 1.5.2011 the regular rates of insurance contributions for employers were raised from 5.43% to 5.90%, but not in branches of insurance where there is participation from the Finance Ministry. The Ministry's participation in the Children branch, instead of returning to 210%, fell in 2011 to 200.5% because of the increase in the ceiling to 9 times the basic amount, and in 2012 to 204.5%, due to the decision to raise the ceiling to 8 times the basic amount. In fact, the decision to raise the ceiling to 8 times the basic amount was not implemented, due to a decision of the Trajtenberg Committee, which reinstated the ceiling of 5 times the basic amount. The rate of participation

Table 2
Finance Ministry Participation in National Insurance (Section 32a)
by Branch (NIS millions, current prices)

	Total	Old Age & Survivors	Long term nursing	General disability	Children	Maternity
2004	10,989	1,508	577	457	8,447	
2005	11,700	1,607	575	481	9,037	
2006	12,592	1,740	600	526	9,726	
2007	13,879	1,911	660	564	10,592	152
2008	14,927	2,054	701	607	11,405	160
2009	15,647	2,160	753	630	11,937	167
2010	14,291	2,555	783	791	9,995	168
2011	17,321	2,521	872	737	13,000	191
2012	18,271	2,625	940	756	13,743	207
2013	17,700	2,724	1,023	778	12,912	262
2014	17,046	2,835	990	825	12,126	270
2015	17,821	2,966	1,027	846	12,686	296

did not return to 210% at the start of the year, as it was supposed to, but only from June 2010.

- **The Economic Arrangements Act for 2013 and 2014** – the participation rate in 2013 and 2014 fell to 166% and 170.3% respectively, because the Finance Ministry was interested in the money from cuts to child allowances in those years.

Table 3
Finance Ministry Allocation According to Collection
in the Children Insurance Branch (percent)

Year	Allocation rate
2004	160.00
2005	171.30
2006	177.44
2007	190.60
2008	201.50
2009	208.53
2010	172.21
2011	206.08
2012	207.25
2013	195.33
2014	169.94
2015	170.30

4. Collection for the Health System

a. Health Insurance Contributions

In January 1995, the National Health Insurance Law came into force, which establishes the right of every Israeli resident to health insurance and prescribes a defined and uniform basket of health services for all, with the responsibility for funding its cost being imposed on the State. The Law specifies the sources for funding the basket, the method whereby the cost of the basket will be updated and the formula for allocating the resources among the sick funds. An Israeli resident may choose any one of the sick funds recognized by the Ministry of Health and the funds must accept every resident without any restriction, stipulation or payment whatsoever.

The health insurance contributions, which are one of the primary sources for funding the basket of health services, are collected by the National Insurance Institute and divided among the sick funds. For this purpose, the NII keeps a file of everyone covered by health insurance, which is regularly updated and provides information on the membership of the various sick funds.

In accordance with the Law, every Israeli resident is liable for payment of health

insurance contributions, even if he does not work, excluding a few groups that are exempt from payment. The health insurance contributions from salaried employees and non-salaried insured persons are collected in the same way as are national insurance contributions, whereas the insurance contributions from recipients of National Insurance Institute benefits (who have no other income) are deducted at source from the benefit.

Health insurance contributions are payable by workers at two levels: a reduced rate of 3.1% on the part of the income that does not exceed 60% of the average wage and a regular rate of 5.0% on the balance of the income exceeding 60% of the average wage and up to the maximum income, subject to insurance contributions, which is 5 times the basic amount. The update is at the rate of price increases.

Those who do not work and those who receive NII benefits are entitled in most cases to special rates depending on their income level. Table 5 specifies the amounts of insurance contributions deducted from the benefits by benefit category, as follows:

The health insurance contributions of wage-replacing benefit recipients (such as maternity benefits, injury benefits, reserve service benefits and unemployment benefits) are deducted from the allowance at the rates in force for work income.

The health insurance contributions of working-age benefit recipients who do not work are deducted from their benefits at the minimum rate prescribed by law.

The health insurance contributions of old-age and survivors' pension recipients with no income supplement are deducted from the pensions by the amounts prescribed for an individual or a couple, as applicable.

The health insurance contributions of old-age and survivors' pension recipients with income supplement are deducted from their pensions by the minimum amount, for all sizes of family.

The health insurance contributions of working-age benefit recipients who have income from work are imposed on their work income only, and not on their benefits.

Since January 2006, benefit amounts have been updated according to the rate of increase in the consumer price index in the previous year (the index of the last November compared to the previous November) and therefore the minimum amounts are also updated by this rate. A person who is neither a salaried employee nor a self-employed person and who does not receive a benefit pays minimum insurance contributions (NIS 103 per month as of January 2014). Certain groups are exempt from payment of health insurance contributions: housewives, new immigrants during the first six months following their immigration to Israel; employees younger than 18; students younger than 21 who do not work and who are subsequently are inducted into the military (exempt

Table 5
Level of Health Insurance Contributions by Benefit Category, 2013

Type of benefit	Monthly health insurance contribution
Wage-replacing benefits	
Maternity allowance	} 3.1% of the benefit up to 60% of the average wage; 5% of the remaining benefit that exceeds 60% of the average wage and up to the ceiling
Injury allowance	
Unemployment benefits	
Reserve service benefits	
Accident allowance	
Bankruptcy and corporate liquidation	
Old Age and Survivors	
With income supplement	NIS 103
With no income supplement:	
For an individual	NIS 196
For a couple	NIS 283
Other benefits	
Income supplement	} NIS 103
Maintenance	
General disability	
Work-related disability, with dependents	
Working-age survivors	

from payment for 12 months); and detainees and prisoners who have been sentenced to more than 12 months' imprisonment and who receive health services from the Israel Prison Service.

b. Health Insurance Contribution Proceeds and Their Distribution Among the Sick Funds

Until the beginning of 1997, the National Insurance Institute collected the parallel tax and the health insurance contributions for the health system. Upon approval of the Economic Arrangements Law of 1997, the parallel tax collection was abolished altogether and funding of the basket of health services from the State budget was increased accordingly. In 2014, the NII collected approximately NIS 19.8 billion in health insurance contributions – an increase of 4.1% in real terms, compared to an increase of 2.8% in 2013 (Table 6). 81% of the total was collected from salaried employees, from non-employees – approximately 9.7%, and from NII benefit recipients – about 9.3%. Health insurance contributions from non-salaried insured persons were collected in the following proportion: 79% from the self-employed and 21% from insureds who do not work and are not self-employed, who pay the minimum level of insurance contributions.

Table 6
Health Insurance Contributions Collected
by Category of Insured (NIS million), 2010-2014

Year	Total	Salaried employees	Non salaried	Benefit recipients	Rate of change	
					Nominal	Real
2010	16,290	13,067	1,660	1,563	8.6	5.8
2011	17,414	14,105	1,692	1,617	6.9	3.3
2012	18,132	14,665	1,750	1,717	4.0	2.3
2013	18,922	15,324	1,831	1,767	4.4	2.8
2014	19,791	16,036	1,926	1,829	4.6	4.1

Table 7
Health Insurance Contributions from Benefit Recipients
by Category (NIS millions, 2014 prices), 2013 and 2014

Type of benefit	2013	2014	Real annual growth (percent)
Total	1,775.4	1,829.0	3.0
Old age and survivors	1,265.4	1,332.5	5.3
Work-related disability	40.5	9.7*	-76.1
Disability	160.5	174.3	8.6
Income supplement	81.8	80.3	-1.8
Reserve duty supplement	0.3	0.8	162.4
Maternity allowance	121.2	127.1	4.9
Unemployment benefit	67.4	69.6	3.2
Injury allowance	13.4	13.8	3.4
Maintenance	7.1	7.3	2.7
Bankruptcy	4.4	5.3	20.5
Other	13.5	8.3	-38.5

*The insurance contributions deducted from work decreased following a one-off action.

In 2014, health insurance contributions amounting to NIS 1,829 million were deducted from benefits – a real increase of 3% compared with 2013 (Table 7). The increase in the amount deducted from reserve duty benefits and unemployment benefits is particularly striking. About 73% of the health insurance contributions deducted from benefits were paid by recipients of old-age and survivors' pensions (including pension recipients with income supplement). It should be noted that the health insurance contributions are deducted from the benefit only if the benefit recipient has no work income or has other income that is exempt from payment of insurance contributions. Married women who work only in their own homes (housewives) are exempt from payment of health insurance contributions, even if they receive a benefit in their own right from the National Insurance Institute, provided that it is not a wage-replacing benefit.

The National Health Insurance Law stipulates that the monies designated for funding the health basket are to be transferred directly to the sick funds by the National Insurance Institute. The principle governing the distribution of the monies is based on the capitation formula, which takes into account primarily the number of insured persons in each of the funds, weighting by the age of each insured. As of the 1st of November 2010, two new variables were added to the capitation formula: the gender of the insured and the remoteness of his place of residence from population centers. The capitation formula is designed to adjust the composition of the various groups covered by the sick funds to the expenses of the funds.

The capitation method works in favor of Clalit Health Services, which is characterized by a high percentage of older members and of members living in communities that are remote from central Israel (Table 8). Thus, for instance, approximately 71% of the very elderly (aged 85 or older) and 69% of the residents of outlying areas are insured by this sick fund. In January 2014, individuals insured by Clalit comprised about 52% of all insured, but Clalit's share of health insurance monies was about 56%. On the other hand, this method reduces the amounts transferred to the Maccabi and Meuhedet sick funds, whose members are younger. From 2005–2014, Clalit Health Service's share in the distribution of health insurance monies declined from 59% to 56%.

It should be noted that as of August 1, 2006, the capitation rates are calculated every month instead of once every three months as was customary until then. The monthly calculation makes it possible to reduce the disparity between the number of insureds

Table 8
Number of Insureds and Key to Distribution of Health Insurance Monies, by Sick Fund (percentages), January 2005–January 2014

Year	Total	Sick Fund			
		Clalit	Leumit	Meuhedet	Maccabi
Total Insured					
1/2005	100.0	54.4	9.8	11.7	24.0
1/2010	100.0	52.4	9.2	13.5	24.8
1/2011	100.0	52.3	9.2	13.6	24.9
1/2012	100.0	52.3	9.1	13.6	25.0
1/2013	100.0	52.3	9.1	13.6	25.0
1/2014	100.0	52.4	8.9	13.7	25.0
Key to Distribution					
1/2005	100.0	58.970	9.105	10.085	21.839
1/2010	100.0	56.822	8.607	11.647	22.924
1/2011	100.0	56.691	8.560	11.590	23.159
1/2012	100.0	56.451	8.517	11.627	23.405
1/2013	100.0	56.167	8.497	11.745	23.591
1/2014	100.0	55.969	8.402	11.839	23.790

at the beginning of each quarter and the actual number of insureds in each of the three months of the quarter.

Under the National Health Insurance Law, the health services are funded from several sources:

Health insurance contributions, which are collected by the National Insurance Institute;

Amounts transferred by the Road Accident Victims Compensation Fund (Karnit) to the National Insurance Institute (since 2010);

The direct proceeds of the sick funds for health services that they provide for a fee (such as, medications and doctor visits);

Additional amounts from the State budget intended to supplement various health expenses to cover the cost of the basket of health services.

According to the estimate for 2014, the cost of the health basket for which the sick funds are responsible increased by about NIS 2.023 billion in nominal terms and reached NIS 38.6 billion - an increase of about 3.8% in real terms compared to 2012 (Table 9). In 2014, the State's share in the funding of the basket rose to about 41.2% compared to the proportion of the health insurance contributions, which declined to 52.4%. It should be noted that the Economic Arrangements Law of 2008 stipulated that the proceeds of the sick funds from the deductibles paid by their insureds would be 6.45% of the cost of the basket (instead of 5.4% until 2007). This amendment explains the reduction in the State's participation by 1% since 2008.

The standardized per capita cost of the health basket makes it possible to study the effect of the insured's age on sick fund expenses (Table 10). The per capita cost of the basket is calculated in relation to the sources of the basket that are distributed among the sick funds according to the capitation formula and excludes amounts not distributed in accordance therewith, such as expenses for serious illnesses, administrative expenses and

Table 9
Cost of Health Services Basket under the Responsibility
of the Sick Funds, by Source, 2010-2014

Source	2010	2011	2012	2013	2014*
Cost – NIS millions	30,333	32,668	34,678	36,555	38,578
Percentages	100.00	100.00	100.00	100.00	100.00
Total	100.00	100.00	100.00	100.00	100.00
Health insurance contributions**	54.3	54.3	53.3	52.9	52.4
State budget	39.3	39.3	40.3	40.7	41.2
Independent income	6.4	6.4	6.4	6.4	6.4

* Ministry of Health estimate (February 2015).

** Includes amounts transferred to the NII by the Road Accident Victims Compensation Fund (since 2010). In 2014, the sum of NIS 447 million was transferred.

Table 10
Per Capita Cost of the Health Basket,
by Age Group (NIS per year, 2014 prices), 2013 and 2014

Age group	2013	2014*
Standardized per capita total	3,998	4,101
Up to 1 year	6,607	6,777
1-4	3,417	3,505
5-14	1,606	1,647
15-24	1,610	1,651
25-34	2,311	2,370
35-44	2,733	2,802
45-54	4,290	4,400
55-64	6,993	7,172
65-74	11,480	11,775
75-84	14,846	15,235
85 and older	15,138	15,522

* Estimate

allocations to the Health Council and to Magen David Adom. In 2014, the weighted per capita cost of the basket was NIS 4,101, compared to NIS 3,998 in 2013 – an increase of approximately 2.6% in real terms. The cost of the basket reflects the relative expenses for different age groups: except for children up to the age of 4, the cost of the younger age groups is usually lower than that of the older age groups. So for instance, in 2014 the cost of the basket for the elderly (aged 85 or older) was 3.8 times higher than the average cost for everyone insured by the sick funds, and 9.4 times higher than the cost for the 15-24 age group.

5. Distribution of the Burden of Payment of National Insurance Contributions and Health Insurance Contributions

The national insurance system, like any insurance system, makes the entitlement to benefits conditional, in most cases, on the payment of insurance contributions. According to this principle, every insured, irrespective of his employment status, is liable for payment of insurance contributions. The parameters of the function of national insurance contributions, mentioned at the beginning of the chapter – a minimum and maximum for the income subject to national insurance contributions and the insurance contribution rates of the various insureds – is characteristic of most social insurance systems in western countries. It is indisputable that the setting of a floor and ceiling for income subject to national insurance contributions constitutes a regressive element of the collection system. The reform introduced in the NII collection system in 2006 – which

Table 11
Salaried Employees: Income (average per month of work)
and Burden of Insurance Contributions, by Decile, 2012

Decile	Average income per month of work	Payment of insurance contributions					
		Absolute numbers (NIS)			Percentage of income		
		Total	National insurance	Health insurance	Total	National insurance	Health insurance
1	999	35	4	31	3.5	0.4	3.1
2	2,345	82	9	73	3.5	0.4	3.1
3	3,521	123	14	109	3.5	0.4	3.1
4	4,474	157	18	139	3.5	0.4	3.1
5	5,442	214	40	174	3.9	0.7	3.2
6	6,659	360	125	235	5.4	1.9	3.5
7	8,286	555	239	316	6.7	2.9	3.8
8	10,769	853	413	440	7.9	3.8	4.1
9	15,305	1,397	730	667	9.1	4.8	4.4
10	28,726	3,017	1,681	1,337	10.5	5.9	4.7
Average	8,653	599	264	334	7.0	3.1	3.9

broadened the income base subject to national insurance contributions and instituted a reduced rate for that part of the income that does not exceed 60% of the average wage – was designed to moderate the regressive distribution of the burden of payments of national insurance contributions imposed on the insured individuals. The decision to delegate the collection of health insurance contributions to the National Insurance Institute as of 1995, when taken with the principle that every resident is insured and the majority of insured persons is liable for payment of health insurance contributions, have led policymakers to adopt elements of the function of national insurance contributions also with respect to the function of health insurance contributions.

The most current income data available to us refers to 2012. The data in Tables 11 and 12 refer to the statutory status in 2012, i.e. to the insurance contribution rate for that year and to the maximum income subject to national insurance contributions and to health insurance contributions (up to 5 times the basic amount). The steps taken within the framework of the tax reform introduced in 2006 (such as the reduction in the reduced rate for employees from 1.4% to 0.4%, the increase in the regular rate from 5.58% to 7.0% and the increase in the reduced rate bracket from 50% of the average wage to 60% thereof) are also reflected in the insurance contribution rate that is calculated on the basis of the wage and income data for 2012.

Table 11 presents data on the income (average per month of work), national insurance contributions (the share of the employee only) and health insurance contributions, on average per decile of the salaried population. The salaried employees are ranked according to income subject to insurance contributions (average per month of work) and each decile

is comprised of 10% of the employed individuals⁶. Individuals in each of the first four deciles pay national insurance contributions at a rate of 0.4% of their income and the rate rises gradually to 5.9% in the top decile. A similar picture arises from health insurance contribution rates by deciles, but the lowest rate among the first five deciles is 3.1%, equivalent to the reduced rate.

Table 12 presents the insurance contribution rates by deciles of the self-employed population for 2012⁷. The burden of national insurance contributions in the first and second deciles is striking, since the current minimum insurance contribution payment (25% of the average wage) underscores the regressive nature of the system at the lower income levels. The rate of national insurance contributions paid by the self-employed (as both employees and employers) is 6.7% in the third decile and it rises gradually to 9.8% in the tenth decile.

It should be noted that unlike salaried employees, the income of the self-employed in each decile is indicated in terms of monthly average per year (and not per month of work), since the collection from them is based on their reported annual income. For this reason, the income of salaried employees shown in Table 11, cannot be compared to the income of self-employed persons shown in Table 12.

6. Special Populations Defined as Salaried Employees

The data presented in the body of the chapter on the number of salaried employees pertains to the number of employees reported by the employer on Form 102. The salaried employee population, as defined by the National Insurance Institute, includes groups with unique characteristics and they are specified below.

Members of kibbutzim: Members of kibbutzim (communal settlements) and moshavim (cooperative settlements) are defined under the law as salaried employees of the cooperative society (as an employer), which has the duty and the responsibility to register them as salaried employees and to pay insurance contributions on their behalf. Members of kibbutzim or moshavim are insured under all the NII branches, except for the Unemployment branch. In 2014, an average of 40 thousand members was reported per month (aged 18 or older) and the insurance contributions paid on their behalf amounted to approximately NIS 100 million for the year.

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6 In April 1999, a legislative amendment was adopted, whereby the minimum income for calculating insurance contributions of salaried employees was equated to the minimum wage in the economy, taking part-time jobs into account. When calculating the insurance contributions we assumed full compliance by employers with the Minimum Wage Law and that any reported wages that are less than the minimum wage level are due to part-time jobs. The deviation in the average rate of insurance contributions from income in the lower deciles is negligible.

7 The last year for which there is complete administrative data on income of salaried employees and self-employed persons.

Table 12
Self-Employed Persons: Income (monthly average per year)
and Burden of Insurance Contributions, by Decile, 2012

Decile	Average monthly income per year	Payment of insurance contributions					
		Absolute numbers (NIS)			Percentage of income		
		Total	National insurance	Health insurance	Total	National insurance	Health insurance
1	660	212	145	67	32.1	21.9	10.1
2	1,776	212	145	67	11.9	8.2	3.8
3	2,362	232	159	73	9.8	6.7	3.1
4	3,355	329	225	104	9.8	6.7	3.1
5	4,389	431	295	136	9.8	6.7	3.1
6	5,618	580	398	183	10.3	7.1	3.3
7	7,408	871	599	272	11.8	8.1	3.7
8	9,995	1,291	889	402	12.9	8.9	4.0
9	14,543	2,029	1,400	629	14.0	9.6	4.3
10	34,988	4,939	3,413	1,526	14.1	9.8	4.4
Average	8,671	1,076	740	335	12.4	8.5	3.9

Domestic employees: The status and rights of people employed in private households are the same as those of all other salaried employees, although the insurance contributions paid on their behalf are set at different rates. At the end of 2014, there were about 206,000 active employers with domestic employees and insurance contributions of about NIS 94 million were collected from them that year.

Employees from the Palestinian Authority: Workers from the territories and from the Palestinian Authority who are employed by Israeli employers are liable for payment of insurance contributions to three branches: Work Injury, Maternity and Bankruptcy. The insurance contributions for them are collected by the Payments Section of the Employment Service. In 2014, an average of approximately 38.4 thousand such employees was reported per month and the amount of insurance contributions paid on their behalf was about NIS 8.8 million for the year. The average monthly wage per employee, on the basis of which the national insurance contributions were paid, was approximately NIS 3,863.

Foreign workers: This group consists of people who are not Israeli residents and who are employed by Israeli employers. As in the case of employees from the Palestinian Authority, foreign employees are insured under the Maternity, Work Injury and Bankruptcy branches and the insurance contribution rates applicable to them are established by a special regulation. In 2014, an average of approximately 100,000 foreign employees were employed per month; their average monthly wage was about NIS 7,900 and their insurance contributions amounted to NIS 78 million for the year.

Employees who retired prior to reaching retirement age: These employees are liable for the payment of national and health insurance contributions on their early pension. In 2014, an average of approximately 52,000 pensioners paid insurance contributions each month and their insurance contributions amounted to approximately NIS 380 million for the year.

Insureds undergoing vocational training: This group includes insureds (both non-working and working) who are undergoing vocational training within the framework of the Ministry of Economy or at locations approved for this purpose under the National Insurance Regulations. The national insurance contributions are imposed on the employer and on the person undergoing vocational training for two branches only: Work Injury and Maternity. In most cases, the Ministry of Economy is the employer, unless the trainee has been sent to study on behalf of his employer. The number of insureds who were undergoing vocational training (and who paid insurance contributions) reached an average of approximately 40,000 per month in 2014 and the insurance contributions paid for them amounted to NIS 9 million for the year. This is because employers cease collecting the “not working and not self-employed” insurance contributions from the employees in vocational training and transfers to the NII only the “employee” share of the insured. The insured pays his “not working” share directly to the NII separately.