

1. Introduction

The National Insurance Institute is responsible for the collection of national insurance contributions aimed at financing benefits under the National Insurance Law, as well as for the collection of health insurance contributions aimed at financing the health system. National and health insurance contributions are collected from employees (through their employers), from the self-employed, from other non-employee insured persons and from persons who do not work – in different rates applying to income liable for insurance contributions. Moreover, since 1986 the government compensates the NII for loss of collection receipts stemming from reductions in insurance contributions for employers and the self-employed. This compensation, referred to as *Treasury indemnification*, represents a portion of the Institute's receipts from national insurance contributions¹.

Like preceding years, in 2007 as well collection from the public was influenced by fluctuations stemming from developments in the economy, in the average wage in the economy and in the number of employed persons, as well as by the legislative process that began in 2005 and that shall continue until 2009 – particularly the tax reform of 2005. Under this reform, there was a gradual reduction in insurance contributions for employers. In parallel, two insurance contribution rates were introduced for employers in 2006 – reduced and regular – in place of the previous uniform rate for all levels of income liable for insurance contributions, in a manner similar to the rate structure for the portion of the employee and of the non-employee worker. Before the law was amended, employers had paid 5.93% of the worker's income up to the ceiling of income liable for insurance contributions, while after the amendment, they paid (through January to December 2007) 4.14% at the reduced rate (up to 60% of the *average wage*²) and 5.68% at the regular rate. The tax reform also affected the collection system, by the following measures: the reduced rate of insurance contributions imposed on the worker was decreased from 1.4% of income to 0.4%, the regular rate was increased from 5.58% to 7%, and the bracket of the reduced rate was increased from 50% of the *average wage* to 60% thereof. These changes were made with a zero budget, i.e. without change in the scope of the Institute's receipts. Increase of the reduced rate bracket also applies to the employer's portion, in order to avoid a loss in collection. An itemization of the changes for 2005-2009 is featured below (Tables 2 and 3).

The cumulative result of the Economic Arrangement Law-2005 and the 2006 reform is that the rate of reduced and regular insurance contributions imposed on employers shall be 3.45% and 5.43% respectively, in 2009. Compared to the situation that preceded August 2005, this is a reduction of 1.5 percentage points in the average rate of insurance contributions for the employer (4.43% as compared to 5.93%). This policy shall culminate in a collection loss reaching, in 2009, NIS 3.5 billion in 2007 prices, and under law, the National Insurance Institute shall **not** be indemnified by the Treasury for this loss. Nevertheless, the rates of government participation, anchored in clause

1 The rate of insurance contributions which is imposed on the government instead of the employers appears in the insurance rates' table, yet it is also anchored in clause 32 to the law, which refers to total government participation in financing the insurance branches.

2 The term *average wage*, when used by itself, refers to the average wage according to the National Insurance Law. It is calculated according to a method determined in this law on January 1st of every year, and afterwards each time that a compensation is paid to employed workers for price rises.

32 to the law, were increased in such a way that the *Treasury indemnification* for financing benefits under the law shall not be reduced as a result of loss in collection of contributions from employers.

Table 1 shows collection from the public in 2006 and 2007 and the influence of the legislative amendments on its scope. In 2007 NII receipts from collection of national and health insurance contribution totaled NIS 39.7 billion: 37.9 billion collected directly from the public and 1.8 billion transferred by the State Treasury under clause 32 C to the law, which indemnifies the Institute for reduction in national insurance contributions for employers and the self-employed. In this year, direct collection from the public increased by 4.4% in real terms, as compared to a 2.2% increase in 2006. Were it not for the amendments of 2005 and 2006, the direct collection from the public would have increased by an estimated 6.9% in real terms.

Collection of national insurance contributions from the public increased by 3.3% in 2007 (as compared to 1.4% in 2006), while collection of health insurance contributions increased by 6.6% (as compared to 4.0% in 2006). The portion of health insurance contributions' collection out of total collection from the public increased from 34.8% in 2006 to 35.5% in 2007, as a result of the ongoing reduction of national insurance rates for employers that began in July 2005 and that shall continue until 2009 – a process that shall reduce the share of national insurance contributions from the public and necessarily augment the share of health insurance contributions. The extent of collection from the public by means of the National Insurance Institute in the GDP did not change in 2007 and remained 5.7%. The portion of collection from the public out of total direct taxes³ collected from individuals registered an increase: from 44.0% in 2006 to 46.2% in 2007.

Table 1
**Collection from the Public in 2006-2007
and Estimate of the Influence of Amendments**

	2006			2007			Rates of change in 2007 compared to 2006			
	Without amendments	With amendments	Actual	Without amendments	With amendments	Actual	Nominal		Real	
							Without amendments	Actual	Without amendments	Actual
Total	37,512	-1,400	36,112	40,310	-2,400	37,910	7.5	5.0	6.9	4.4
National insurance	24,954	-1,400	23,554	26,854	-2,400	24,454	7.6	3.8	7.1	3.3
Health insurance	12,558	-	12,558	13,456	-	13,456	7.2	7.2	6.6	6.6

3 Direct taxes collected from individuals include income tax (from employees, self-employed, and company executives) and national and health insurance contributions. The total of all direct taxes includes, in addition to taxes collected from individuals, also companies' tax.

2. Collection of national insurance contributions

A. Rates of national insurance contributions

There were two rates of insurance contributions in 1995 – a reduced rate and a regular rate – for all categories of insured persons. The reduced rate is imposed on the income liable for national insurance contributions which does not exceed 60% of the *average wage* beginning in January 2006 (The average wage as defined under the National Insurance Law – NIS 7,663 per month in 2007). The regular rate applies to the remaining income, up to a ceiling, of the portion of the employee and of the employer, and in respect of the self-employed, without distinguishing his/her share as a worker from that of his/her share as an employer. As is shown in Table 2, the reduced rate applies to all insured persons – employees and non-employees – and beginning in August 2005 it was expanded to include employers as well.

Table 2
National and Health Insurance Contribution Rates,
by Category of Insured, 2006-2007

Category of insured	National insurance contributions				Health insurance contributions	
	Regular rate		Reduced rate		Regular rate	Reduced rate
	2006	2007	2006	2007		
For employees – total	13.37	13.37	6.07	5.23	5.0	3.1
Thereof: Workers	7.00	7.00	0.40	0.40	5.0	3.1
Employers	5.68	5.68	4.98	4.14	-	-
Government	0.69	0.69	0.69	0.69	-	-
For self-employed – total	11.84	11.84	7.33	7.33	5.0	3.1
Thereof: Workers	11.23	11.23	6.72	6.72	5.0	3.1
Government	0.61	0.61	0.61	0.61	-	-
Non-employee and non-self-employed insured persons	11.05	11.05	4.61	4.61	5.0	5.0

Table 2 shows the rates of national insurance contributions for the different categories, and Table 3 features the rates of expected insurance contributions from employers in 2008-2009, following the reduction in these contributions in July 2005.

Table 3
National Insurance Contribution Rates for Employers, 2008-2009*

Year	Reduced rate		Regular rate	
	2005	2006	2005	2006
2008	3.63	3.85	5.43	5.43
2009	3.19	3.45	5.43	5.43

* The rates relate to the legislative situation in January 2006 in comparison to that of 2005.

Table 4 shows data on the number of insured persons liable for national insurance contributions by category of insured persons. In 2007, 2.54 million insured employees paid national insurance contributions. In the same year the number of insured employees grew by 4.5%. It should be noted that this group does not include workers from the Palestinian Authority, migrant workers or Israelis with special characteristics, such as kibbutz members, recipients of early pensions, housekeepers, vocational trainees and Ministry of Defense employees⁴.

With regard to the non-employee insured persons, it is conventional to distinguish between two groups: those who pay insurance contributions on the basis of their income (55.0% of all the non-employee insured persons) and those who do not have income and who pay insurance contributions on the basis of the minimum wage (45.0%). The first group includes chiefly the self-employed (97.4%), though it also includes a small number of insured persons who do not work as employees or as self-employed, but have another income liable for national insurance contributions (such as income derived from dividends), or persons who have an income but do not meet the definition of the self-employed worker.

4 The annex to this chapter features information in brief regarding these populations.

Box 6

Sources of Growth in Population Covered in Health Insurance in 2007

By the end of 2007, 7,251,628 persons were insured in the various sick funds in Israel. This number constitutes a growth of about 1.7%, or of approximately 118,000 people. The rate of growth was not uniform among the sick funds: the Meuhedet and Maccabi funds grew at a rate higher than did the other funds, and in the Leumit fund there was even a decrease of about 0.7% in the number of its members in 2007.

The sources of this growth in the number of insured people and the changes in their distribution among the sick funds are many and diverse:

- Natural changes: births and deaths;
- The migration balance: new immigrants, returning residents and Israeli residents living abroad;
- Transitions among the sick funds: people who leave one fund and join another;
- Other changes: soldiers and prisoners (for over a year), who are not insured under national health insurance.

The respective influence of the above factors changed slightly since the National Health Insurance Law came into effect. In the 1990's, immigration to Israel accounted for most of the annual growth in the number of insured persons, while since the early 2000's, when immigration from the FSU decreased sharply, natural increase became the main source of growth for most sick funds.

In 2007, the predominant share of the growth in the number of insured persons (94%) is attributed to natural increase. In this year 110,000 additional persons (constituting about 16 per 1,000 persons), stemming from natural increase, were registered in the sick funds. However, due to the varied weight of births and deaths among the funds, there were variations also in natural changes. In the Clalit sick fund for example, the rate of natural growth is lower than in the population as a whole (about 12 per 1,000 persons), while in the Meuhedet fund, natural growth is about 25 per 1,000 persons.

Sources of Growth in the Population Covered in Health Insurance, by Sick Fund, 2007

Sick fund	Insured in beginning of year	Natural growth	Transitions among sick funds (net)	Immigration and other movements	Insured in end of year	% of annual growth
Total	7,133,829	110,683	0	7,116	7,251,628	1.7%
Clalit	3,823,798	46,183	-17,931	4,159	3,856,209	0.8%
Leumit	691,207	11,608	-30,216	14,086	686,685	-0.7%
Maccabi	1,723,407	30,738	3,924	3,504	1,761,573	2.2%
Meuhedet	895,417	22,154	44,223	-14,633	947,161	5.8%

Conversely, only a minor portion of the growth registered in 2007 (6%) can be explained by immigration. In 2007, only about 14,000 new immigrants registered in a sick fund – the lowest number of immigrants to join the sick funds since 1995.

The distribution of members among the sick funds is affected also by their transitions. Since the early 2000's, about 1%-1.5% of members moved to another sick fund each year. In 2007, the net transitions (those who join a sick fund minus those who leave it) contributed to a significant increase in the number of members of the Meuhedet sick fund, and to a certain extent, of Maccabi as well, while the Clalit and Leumit sick funds lost members due to transitions.

Table 4

Employers by Size and Insured Persons Liable for National Insurance Contributions, by Category of Insured, 2006-2007

Category of insured	2006	2007	Percentage of change
Insured employees*			
Total (in thousands)	2,430	2,540	4.5
Employers**			
Total	210,496	220,651	4.8
Employ 1-5 workers	154,848	161,841	4.5
Employ 6-20 workers	38,949	40,920	5.1
Employ 21-99 workers	13,297	14,295	7.5
Employ 100-499	2,853	3,036	6.4
Employ 500+ workers	549	559	1.8
Non-employee insured persons**			
Liable for national insurance contributions – total	614,292	625,048	1.8
Liable out of their income – total	332,550	344,064	3.5
From work (self-employed)	323,365	334,964	3.6
Not from work	9,185	9,100	-0.9
Pay national insurance contributions at a minimum rate – total***	281,742	280,984	-0.3
Not a worker and not a self-employed (15% minimum)	170,651	175,247	2.7
Pupils and students (5% minimum)	53,019	45,506	-14.2
Yeshiva students (5% minimum)	58,072	60,231	3.7

* The number of insured employees who are reported by employers (on form 102) is a monthly average.

** The data refer to year's end.

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

The second group – of insured persons who pay insurance contributions at a minimum rate – is divided into the unemployed who have no income liable for insurance contributions (62%) and pupils and students (38%). The data indicate a 1% decline in the number of insured persons who paid minimum insurance contributions in 2007: the number of those who do not work as employees or as self-employed rose by 2.7%, the number of students declined steadily by 14% – probably due to their finding employment – while the number of yeshiva students increased by an average of 4%.

Table 4 shows also data on the number of employers who pay insurance contributions for their workers and their breakdown by number of workers. The number of employers increased by 5% in 2007, the rate of increase being more notable among the larger employers (those with 21-99 workers).

B. Scope of receipts from national insurance contributions

Table 5 features the amounts of national insurance contributions collected in 2004-2007. In 2007, national insurance contributions' receipts totaled NIS 26.3 billion: NIS 24.5 billion collected from the public and NIS 1.8 billion transferred by the Treasury as indemnification for the reduction in national insurance contributions of employers and the self-employed. During that year, NII receipts grew at a real rate of 3.6%, in keeping with the trend that began in 2004 and the positive trends that characterized the labor market in the following years. Collection from the public increased in 2007 by 3.3% in real terms. Were it not for the amendments of 2005 and 2006, the direct collection of insurance contributions from the public would have increased by an estimated 7.1% in real terms. Furthermore, the amounts transferred by the Treasury as indemnification increased, in real terms, at the high rate of 8.4% – beyond the rate at which collection grew. This is due to the increase in government participation as a result of reducing employers' contributions under the 2005 tax reform, which determined that Treasury appropriations shall not be affected. The portion of direct collection from the public in 2007 reached 93.0% out of total insurance contribution receipts (as compared to 93.3% in 2006 and 93.7% in 2005) (See Table 7 in Chapter 1).

Table 5
**Collection of National Insurance Contributions for the Insurance Branches,
 by Category of Insured, Current Prices (NIS million), 2004-2007**

Category of insured	2004	2005	2006	2007	Percentage of change in real terms			
					2004	2005	2006	2007
Total collection	23,021	24,299	25,234	26,284	1.3	4.2	1.7	3.6
Employees and employers	21,266	22,406	23,113	23,944	1.6	4.0	1.0	3.1
Non-employees	1,755	1,893	2,121	2,340	1.9	6.4	9.7	9.8
Total collection from the public	21,661	22,759	23,554	24,454	1.5	3.7	1.4	3.3
Employees and employers	19,989	20,962	21,541	22,234	1.8	3.5	0.6	2.7
Non-employees	1,672	1,797	2,013	2,220	-1.3	6.1	9.7	9.7
Total Treasury indemnification	1,360	1,540	1,680	1,830	-1.4	11.7	6.8	8.4
For employers	1,277	1,444	1,572	1,710	-0.6	11.6	6.6	8.2
For non-employees	83	96	108	120	-12.3	14.1	10.2	10.5

In 2007 direct collection from employees increased by 2.7% in real terms, as compared to 0.6% in 2006. This moderate increase stems from the continuous reduction in employers' contributions that began in July 2005. The direct collection from employees and their employers was naturally influenced by the steady recuperation of the labor market: the *average wage per employee post* in December 2006-November 2007, for which insurance contributions are collected in 2007, increased by 2.4% (as compared to 4.0% in 2006). The number of employed persons grew in 2007 by 4.5% (as compared to 4.0% in 2006), and employee posts went up by 4.2% (as compared to 4.1% in 2006).

Direct collection from non-employees grew in 2007 by 9.7% in real terms, in addition to the real growth at a rate of 9.7% in 2006. National insurance contribution receipts from employees (including the portion of the employee, the employer, and the Treasury) out of total receipts went down slightly (from 92.2% to 91.1% in 2007) due to the reduction in insurance contributions for employers on the one hand, and the growth that influenced the increase in the incomes of the self-employed on the other. Collection from non-employees for the national insurance branches is chiefly made up of collection from the self-employed (95%). In 2007, collection from the self-employed – based on 2005 assessments that were adjusted only at times of price-hikes – went up, in real terms, by 11.0%. Collection from non-employees who pay national insurance contributions on a minimum basis – and who constitute 5% of total collection for insurance branches from non-employees – went up, in real terms, by 2.4%. Examination of the payment regime of the self-employed, the unemployed, and the non-self-employed workers shows the difference among them: while the percentage of collection from the self-employed out of their collection potential, including the outstanding debt, is 92% in 2007, that of the insured at the minimum rate is only 45%.

3. Collection for the health system

a. Health insurance contributions

The National Health Insurance Law came into effect in January 1995. The law anchors the right of all Israeli residents to health insurance and prescribes a defined basket of health services uniform for all, with the responsibility for financing its cost imposed on the state. The law specifies the sources of financing the basket, the method by which the cost of the basket shall be updated and the formula for allocation of resources among the various sick funds. Residents of Israel may choose one of the sick funds recognized by the Ministry of Health, and the sick funds must accept every resident without any restriction, stipulation or payment.

The National Insurance Institute collects the health insurance contributions, which are one of the chief sources of financing the health services basket, and distributes them among the sick funds. The NII also maintains a file of all persons insured under health insurance. This file, routinely updated, provides information on membership in the various sick funds.

Under the law, every Israeli resident, even if he not working, must pay health insurance contributions – except several groups who are exempt from payment. Health insurance contributions from employees and non-employees are collected in the same way as are national insurance contributions, while insurance contributions from NII benefit recipients (who do not have additional income) are collected at source from their benefit.

There are two rates of health insurance contributions: a reduced rate of 3.1% on the portion of income that does not exceed 60% of the *average wage*, and a regular rate of 5.0% on the balance of income (that exceeds 60% of the *average wage*) up to a ceiling of income liable for insurance contributions, that stands at 5 times the *basic amount*⁵.

Those who do not work and those who receive NII benefits are, in most cases, entitled to special rates in accordance with their financial situation. Table 6 specifies the amounts of insurance contributions that are deducted from the benefits, by type of benefit, as follows:

- Health insurance contributions for recipients of wage-replacing benefits (such as maternity allowance, injury allowance, reservists' benefit and unemployment benefit) are deducted from the benefit at the same rates as from income from work.
- Health insurance contributions for working-age benefit recipients who do not work are deducted from the benefit at the minimum amount prescribed under law.

5 The amount on which basis most benefits are calculated since January 2006. This amount is updated on January 1st each year, at the rate of the Consumer Price Index increase in the preceding year. The *basic amount* has three different rates for the purpose of updating the various benefits. For most benefits, the *basic amount* in 2007 was NIS 7,240; for child allowances it was NIS 152, and for old-age and survivor's pensions, as well as for calculation of maximum income for purposes of collection of insurance contributions, it was NIS 7,352.

- Health insurance contributions for recipients of old-age or survivors' pension without income supplement are deducted from the pension at set amounts for an individual and for a couple.
- Health insurance contributions for recipients of old-age or survivors' pension with income supplement are deducted from their pension at the minimum amount for all family compositions.
- Health insurance contributions for working-age benefit recipients who have income from work are deducted from the work income only, not from the benefit.

Since the Health Insurance Law came into effect, the minimum amounts are updated at the same rate by which benefits are updated. Following the Economic Arrangements Law-2002, which restored the *average wage* to its December 2001 level, the minimum amounts returned to their 2001 level and remained frozen at this level until the end of 2005. Since January 2006, the amounts of benefits are updated in accordance with the rise of the price index of the preceding year (that is, the index of the last November as compared to November of the preceding year), and the minimum amounts are therefore also updated by the same rate. Following the decrease of the Consumer Price Index between November 2005 and November 2006, the minimum health insurance contributions remained unchanged – NIS 86 per month from January 2006 until December 2007. Persons who are not employees nor self-employed and who do not receive a benefit pay minimum insurance contributions. Some groups are exempt from payment of health insurance contributions; for example, *housewives*, new immigrants during the first six months since their arrival in Israel, workers under age 18, insured persons under age 21 who do not work and who thereafter join the army, detainees, and prisoners who were sentenced to more than 12 months' imprisonment and who receive health services from the Prison Authority.

Table 6
Health Insurance Contribution Rates, by Benefit Category, 2007

Benefit category	Monthly health insurance contributions
Wage-replacing benefits	3.1% of benefit up to average wage; 5% of balance of benefit that is over 60% of average wage, up to ceiling
Maternity allowance	
Injury allowance	
Unemployment benefit	
Reservists' benefits	
Accident allowance	
Old-age and survivors	
With income supplement	NIS 86
Without income supplement:	
For individual	NIS 161
For couple	NIS 233
Other benefits	
Income supplement	NIS 86
Alimony	
Work-related disability and dependents	
Survivors of working age	

b. Health insurance contribution receipts and their distribution among sick funds

Until the beginning of 1997 the National Insurance Institute collected parallel tax and health insurance contributions for the health system. With the passing of the Economic Arrangements Law-1997, the collection of parallel tax was cancelled and the financing of the health services basket out of State budget was increased accordingly. Table 7 shows the amounts of health insurance contributions collected by the Institute from employees, non-employees and benefit recipients. In 2007 the Institute collected NIS 13.5 billion in health insurance contributions. This represents an increase of 6.6% in real terms, following a 4.0% increase in 2006. Similarly to the case with national insurance contributions, the collection of health insurance contributions was influenced by the recuperation of the economy that began in 2004 and grew stronger during 2005-2007. In 2007, 80.4% of all health insurance contributions were collected from employees, 9.6% from non-employees and 10.0% from persons who receive benefits from the NII. Health insurance contributions collected from the non-employees are divided as follows: 78% from the self-employed and 22% from insured persons who do not work and who are not self-employed, who pay insurance contributions at a minimum rate.

Table 7
Collection of Health Insurance Contributions (NIS million), 2004-2007

Year	Total	Employees	Non-employees	Benefit recipients	Rate of change in real terms
2004	11,310	8,899	1,077	1,334	4.6
2005	11,838	9,437	1,080	1,321	3.3
2006	12,558	10,021	1,185	1,352	4.0
2007	13,456	10,820	1,288	1,348	6.6

Table 8 shows the amounts of health insurance contributions collected from NII benefit recipients. In 2006 NIS 1,348 million were deducted from benefits: a decrease of 0.8% in real terms, in comparison to the preceding year. Of particular note is the decrease in health insurance contributions deducted from unemployment benefits (-20%) and from income supplement (-9%). 72% of health insurance contributions deducted from benefits were paid by recipients of old age and survivors' pensions (including recipients of pension with income supplement). It should be noted that health insurance contributions are deducted from the benefit only if the benefit recipient does not have income from work, or has another income exempt from insurance contributions. Married women who work only in their household (*housewives*) are also exempt from health insurance contributions, even if they receive a NII benefit – unless it is a wage-replacing benefit – in their own right.

Table 8
Health Insurance Contributions from Benefits, by Benefit Category (NIS million), 2006 and 2007

Benefit	2006	2007	Annual growth in real terms (%)
Total	1,352	1,348	-0.8
Old age and survivors	979	975	-0.9
Work-related disability	26	27	3.3
Disability	129	135	4.1
Income supplement	86	79	-8.6
Reserve service	1	1	-0.5
Maternity allowance	53	63	18.3
Unemployment	46	37	-20.0
Injury allowance	11	11	-0.5
Alimony	8	8	-0.5
Bankruptcy	2	3	49.3

The National Health Insurance Law prescribes that monies destined for financing the health basket are to be transferred to the sick funds directly by the National Insurance Institute. The principle of distributing the monies is based on the *capitation formula* which takes into account mainly the number of insured persons in each of the funds while weighing the age of each insured person.

Table 9 illustrates that the capitation method works for the benefit of the Clalit sick fund, since the latter is characterized by older members. Thus, for example, about 75% of the very old insured (85 and over) are insured with the Clalit sick fund. At the end of 2007, the portion of persons insured with the Clalit sick fund was about 53% of all insured persons, but the portion of the fund in health insurance monies was about 58%. On the other hand, this method reduces the amounts transferred to Maccabi and Meuhedet sick funds, whose members are younger. It should be noted that a change in the allocation formula was introduced in July 2005 and two new age groups were added (up to age 1 and over age 85) that reflect the consumption of health services at these ages. This change slightly improved the portion of the Clalit sick fund in the allocation of monies. Beginning in August 1, 2006, capitation rates are calculated each month instead of once every three months as previously. The monthly *capitation formula* allows narrowing the gap between the number of insured persons at the beginning of each quarter and the number of persons who are insured in fact in each of the quarter's three months.

Table 9
**Insured Persons and Key for Distributing Health Monies, by Fund (percentages),
December 2006 and December 2007**

Sick fund	December 2006		December 2007	
	Total number of insured persons	Distribution key	Total number of insured persons	Distribution key
Total	100.0	100.0	100.0	100.0
Clalit	53.60	58.27	53.18	57.81
Leumit	9.69	8.96	9.47	8.82
Meuhedet	12.55	10.75	13.06	11.13
Maccabi	24.16	22.02	24.29	22.24

The financing sources for health services under the National Health Insurance Law are as follows:

- Health insurance contributions collected by the National Insurance Institute;
- Direct receipts by the sick funds for health services rendered against payment (e.g. medicine, visit to the doctor, and so forth);
- The Ministry of Health budget for the provision of health services;
- Additional amounts from the State's budget aimed at supplementing the various expenses for health until the cost of the health services basket is covered.

Based on an estimate for 2007, the cost of the health basket grew by about NIS 900 million, reaching about NIS 24.9 billion (Table 10). In real terms, this represents a 3.1% increase as compared to the preceding year. In 2007, the portion of the State in funding the basket (41.2%) dropped to its lowest level since the National Health Insurance Law came into effect. On the other hand, the portion of health insurance contribution receipts grew by about 53.4% in 2007. It should be noted that before 2007 it was determined that the receipts of the sick funds from the self-participation of their members shall be 5.4% of the basket's cost.

Table 10
Cost and Sources of the Health Services Basket, 2004-2007

Source	2004	2005	2006	2007*
Cost (NIS million)	22,008	22,768	24,041	24,929
Sources (percentages)				
Total	100.0	100.0	100.0	100.0
Health insurance contributions	50.4	51.7	51.5	53.4
State budget	44.2	42.9	43.1	41.2
Self-revenue	5.4	5.4	5.4	5.4

* Estimation.

The adjusted cost of the health basket per person enables examination of how the age of the insured person influences expenses of the sick funds (Table 11). The cost of the basket per person is calculated for the basket's sources which are distributed among the sick funds in accordance with the capitation formula and does not include amounts not thus distributed, such as expenses for severe illnesses, administrative expenses, and appropriation to the Health Council and to Magen David Adom. In 2007, the standardized cost of the health basket per person was NIS 3,104 as compared to NIS 3,062 in 2006 – a 1% increase in real terms. The cost of the basket reflects the relative expenses among the age groups: the cost of the younger age groups is smaller than that of the older age groups. Thus for example, in 2007 the cost of the basket for the older population (age 85 or over) is 4.1 times higher than the average cost for all persons insured with the sick funds, and 10.15 times higher than the cost of the basket in the 15-24 age group.

Table 11
Standardized Cost of Health Basket per Person, by Age Group (NIS annually), 2006-2007

Age group	2006	2007*
Total	3,062	3,104
Up to 1	4,745	4,811
1-4	2,939	2,980
5-14	1,439	1,459
15-24	1,225	1,242
25-34	1,745	1,769
35-44	2,082	2,111
45-54	3,276	3,321
55-64	5,174	5,246
65-74	8,756	8,876
75-84	10,899	11,050
85+	12,430	12,602

* Estimation.

D. Allocating burden of paying national and health insurance contributions

In the majority of cases, the national insurance system, as an insurance system, conditions eligibility for benefit on payment of insurance contributions. In the wake of this concept, every insured person, regardless of his state of employment, has to pay insurance contributions. The parameters of the national insurance contributions' function, as specified in the beginning of the chapter – minimum and maximum for an income liable for national insurance contributions and the rates of insurance contributions for the various insured persons – characterize most of the social insurance systems in the West. It is not in dispute that determining lower and upper limits for income liable for national insurance contributions constitutes a regressive element of the collection system. The 1995 reform in the Institute's collection mechanism – expanding the base of income liable for national insurance contributions and introducing a reduced rate on an income portion that does not exceed half the average wage – as well as increasing the income ceiling in January 2000 – aimed to moderate the regressive nature of distributing the burden of national insurance contribution payments on individual insured persons. The decision to entrust the collection of health insurance contributions since 1995 to the National Insurance Institute, alongside the concept that every resident is an insured person, and that the majority of insured persons are liable for payment of health insurance contributions, led policymakers to assimilate the elements of the national insurance contributions' function into the function of health insurance contributions as well.

Table 12
Employees: Income (average per working month) and Payment of Insurance Contributions, by Decile, 2005

Decile	Average income per month of work	Payment of insurance contributions					
		NIS			Percentage of income		
		Total	National insurance	Health insurance	Total	National insurance	Health insurance
1	733	33	10	23	4.5	1.4	3.1
2	1,784	80	25	55	4.5	1.4	3.1
3	2,704	122	38	84	4.5	1.4	3.1
4	3,463	155	48	107	4.5	1.4	3.1
5	4,210	232	89	143	5.5	2.1	3.4
6	5,129	327	140	187	6.3	2.7	3.6
7	6,347	454	209	245	7.2	3.3	3.9
8	8,217	648	313	335	7.9	3.8	4.1
9	11,692	1,009	507	502	8.6	4.3	4.3
10	25,504	2,311	1,146	1,165	9.1	4.5	4.6
Average	6,978	520	244	276	7.5	3.5	4.0

Table 12 shows data on income liable for insurance contributions (on average per month of work), national insurance contributions (the worker's portion only) and health insurance contributions on average per decile in the population of employees. Employees are rated according to income liable

for insurance contributions (on average per month of work) and each decile incorporates 10% of the individual employees.⁶ The most recent available data refer to 2005 and indicate that each of the first four deciles pays national insurance contributions at a rate of 1.4% of its income, with the rate steadily scaling to 4.5% in the top decile. A similar picture also stems from the rates of health insurance by decile, but the lowest rate in the first four deciles is 3.1%.

Table 13 features the rates of insurance contributions by decile among the self-employed in 2005. The burden of national insurance contributions is notable in the first and second deciles as a result of there being a minimum for payment of insurance contributions (25% of the *average wage*) that makes the regressive nature of the system prominent at lower income levels. The rate of national insurance contributions paid by the self-employed (as both workers and employers) is 6.7% in the third decile, gradually rising to 9.4% in the tenth decile. The influence of the maximum income liable for national insurance contributions (in July 2003) is more notable among the self-employed, since a larger part of their income is higher than the said income. The same picture stems from an analysis of the variation in health insurance contributions of the various deciles. It should be noted that unlike that of employees, income of the self-employed in each decile is specified in terms of an annual average per month (rather than per month of work), since collection from them is based on the annual income which they report. Thus the income of employees in Table 12 cannot be compared to the income of the self-employed in Table 13.

The data in Tables 12 and 13 pertain to the legal status in 2005, i.e., take into account the rate of insurance contributions of the same year and the maximum income liable for national and health insurance contributions (up to 5 times the *average wage*). The steps taken as part of the 2006 tax reform – specifically, reduction of the reduced rate for workers from 1.4% to 0.4%, increase of the regular rate from 5.58% to 7.0% and increase of the reduced rate bracket from 50% of the *average wage* to 60% thereof) – shall be reflected in the burden of insurance contributions calculated on the basis of wage and income data for 2006 and thereafter.

6 In April 1999 an amendment was passed whereby the minimum income for calculating insurance contributions for employees was compared to the minimum wage, taking into account the part-time nature of the position. In calculating the insurance contributions we assumed complete compliance on part of employers in respect of minimum wage, and that wages that are reported at a level lower than the minimum wage stems from the part-time nature of the position. Diversion in the average rate of insurance contributions from income in the lower deciles is relatively negligible.

Table 13
The Self-employed: Income (monthly averages) and Payment of Insurance Contributions, by Decile, 2005

Decile	Average income per month of work	Payment of insurance contributions					
		NIS			Percentage of income		
		Total	National insurance	Health insurance	Total	National insurance	Health insurance
1	566	171	117	54	30.2	20.7	9.5
2	1,249	171	117	54	13.7	9.4	4.3
3	1,766	173	119	55	9.8	6.7	3.1
4	2,399	236	161	74	9.8	6.7	3.1
5	3,272	321	220	101	9.8	6.7	3.1
6	4,215	455	312	143	10.8	7.4	3.4
7	5,466	648	445	203	11.8	8.1	3.7
8	7,408	947	651	296	12.8	8.8	4.0
9	10,927	1,490	1,025	465	13.6	9.4	4.2
10	26,662	3,597	2,477	1,120	13.6	9.4	4.2
Average	6,393	791	543	248	12.4	8.5	3.9

Annex: Special populations defined as employees

The data presented in this chapter on the number of employees refer to the number of employees reported by the employer on form 102. The population of employees as defined in the National Insurance Institute include additional groups, as follows:

Kibbutz members: defined under the law as employees of the kibbutz (as an employer), which has the obligation and responsibility to register them as employees and to pay insurance contributions for them. Kibbutz members are insured in all national insurance branches, except for the unemployment branch. In 2007, about 54,000 members were reported per month on average (aged 18 and over) and the national insurance contributions paid for them totaled about NIS 9 million per month on average.

Household workers: The status of those employed in household work and their rights are identical to those of the other employees, though the insurance contributions paid for them were prescribed in different rates. At the end of 2007, about 159,000 employers were reported to have workers employed in household work, of whom insurance contributions were collected to an amount of about NIS 60 million.

Workers from the territories and from the Palestinian Authority: Workers from the territories and from the Palestinian Authority employed by Israelis are liable for payment of insurance contributions to three branches: Work Injury, Maternity and Bankruptcy. Insurance contributions for them are collected by the Payments Department of the Employment Service. In 2007 about 16,000 workers were reported per month on average, and the amount of insurance contributions paid for them was about NIS 290,000 per month. The average monthly wage per worker on the basis of which national insurance contributions were paid was about NIS 3,100.

Migrant workers: non-Israeli residents who are employed by Israeli employers. Like workers from the autonomy territories, migrant workers are insured in the Maternity, Work Injury, and Bankruptcy branches and the rates of insurance contributions that apply to them are anchored in a special regulation. In 2007 there were about 71,000 migrant workers employed in Israel per month on average, their average wage per month was about NIS 4,200, and the insurance contributions they were debited with were NIS 2.5 million per month on average.

Workers who retire before reaching retirement age: These workers are liable for payment of national and health insurance contributions in respect of their early retirement. In 2007, about 38,000 retirees per month on average paid insurance contributions and the amount collected for them totaled about NIS 40 million per month.

Vocational training: This group includes insured persons in vocational training within the scope of the Ministry of Industry, Trade, and Labor (both unemployed and workers) or in places approved in the NII regulations. National insurance contributions are imposed on the employer and on persons in vocational training for two branches only: Work Injury and Maternity. In most cases, the Ministry of Industry, Trade, and Labor is the employer, unless the person in vocational training was sent to study on behalf of his employer. The number of insured persons in vocational training (who paid insurance contributions) reached 25,000 per month on average in 2007, and the insurance contributions paid for them totaled NIS 1 million per month.