

## 10. Unemployment Insurance

### A. General

Unemployment insurance is designed to guarantee workers an income when unemployed and to help them avoid a drastic drop in their standard of living. Like any insurance system, unemployment insurance comprises an essential safety net and is meant to help the unemployed maximize their earning potential by looking for employment compatible with their skills. Following the strict legislation introduced in 2002-2003 in the unemployment program, unemployment benefits and grants are paid contingent on the following conditions:

An **unemployment benefit** is paid to an unemployed person who worked prior to becoming unemployed for a period of time (qualifying period) determined in the law – 12 months' work out of the 18 months prior to unemployment<sup>1</sup>. Eligibility for unemployment benefit is granted immediately to a person who has been dismissed from work and has demonstrated willingness to accept alternative work by reporting to the labor exchange. Employment suggested to unemployed persons aged over 35 must be *suitable employment*, in terms of profession, salary and distance from home. For other unemployed persons, any employment offered to them by the labor exchange must be *suitable employment* in terms of profession and salary.

An unemployment benefit is paid for a maximum period of 50-175 days, in accordance with the age of the unemployed person and his marital status<sup>2</sup>. Unemployed persons with at least 12 years' schooling who participate in vocational training are entitled to unemployment benefits for the maximum period applicable to all unemployed persons. An unemployed person with less than 12 years' schooling who participates in vocational training is entitled to benefit for a maximum period of 138 days (even if his entitlement without vocational training is 50-100 days).

The unemployment benefit is calculated in accordance with the unemployed person's salary<sup>3</sup> prior to unemployment, up to a ceiling, as follows: for the first five months of payment of unemployment

1 For daily workers, the qualifying period is 300 days' work out of the 540 days prior to unemployment.

2 The maximum period of take-up is calculated as following:

- 50 days: for an applicant aged 25 or less, with less than 3 dependants.
- 67 days: for an applicant aged over 25, but no more than 28, with less than 3 dependants.
- 70 days: for a discharged soldier (in accordance with the definition above).
- 100 days: for an applicant aged over 28, but no more than 35, with less than 3 dependants.
- 138 days: for an applicant aged no more than 35 with less than 3 dependants, or an applicant aged over 35, but no more than 45, with less than 3 dependants.
- 175 days: for an applicant aged over 35, but no more than 45, with less than 3 dependants, or an applicant aged over 45.

3

Proportion of the unemployed person's salary	Up to 28 years old	Over 28 years old
Proportion of the salary, up to half the average wage	60%	80%
Proportion of the salary, over half and up to $\frac{3}{4}$ of the average wage	40%	50%
Proportion of the salary, over $\frac{3}{4}$ and to the full average wage	35%	45%
Proportion of the salary equal to the average wage and up to the maximum guaranteed wage	25%	30%

benefit – up to the average wage, and from the sixth month onwards, up to two-thirds the average wage. The unemployment benefit paid to an unemployed person attending vocational training is 70% of the benefit for which he would be eligible had he/she not been in vocational training.

**Unemployment benefit for discharged soldier:** Up to June 2007 discharged soldiers were exempt from the qualifying period and were eligible for unemployment benefits for the first year after their discharge from the army. As of this date, discharged soldiers require a qualifying period of 6 months' work in the first year after being discharged in order to be eligible for benefit, which is at the rate of 80% of the minimum wage for a maximum period of 70 days.

**A grant for a discharged soldier:** a soldier who worked in *preferred/required work* (as defined in the National Insurance Law) during the first two years after being discharged is entitled to a grant of NIS 7.578 (based on 2007 prices). A soldier who has fully taken up his entitlement to unemployment benefit is not eligible for a grant.

## B. Changes in legislation in 2007

After the very severe changes introduced in the Unemployment Insurance Law 2002-2003, the law was amended again in 2007, as follows:

- In March 2007, the maximum period for payment of unemployment benefit for unemployed persons aged 25-28 was reduced from 100 days to 67 days.
- In March 2007 too, the rate of unemployment benefit paid to persons aged up to 28 was reduced by about 25%.
- As of July 2007 discharged soldiers are eligible for unemployment benefit only if they have accumulated a qualifying period of 6 months in the year following their discharge from compulsory military service. (Previously, they had been exempt from a qualifying period, as mentioned above.)

## C. Figures and patterns

In 2003 the level of unemployed persons reached a record high of 10.7%, and in 2004 the pattern was reversed and this level began to decline, falling to 6.7% by the last quarter of 2007.

The drop in the unemployment level has entailed an upturn in employment: around 84,000 people joined the workforce in 2007, comprising an increase of 108,000 in the number of employed persons, while the number of non-employed persons dropped by about 24,000.

The number of persons receiving unemployment benefit has declined by the same level, so that the proportion of these persons out of total non-employed persons is unchanged: about 24%.

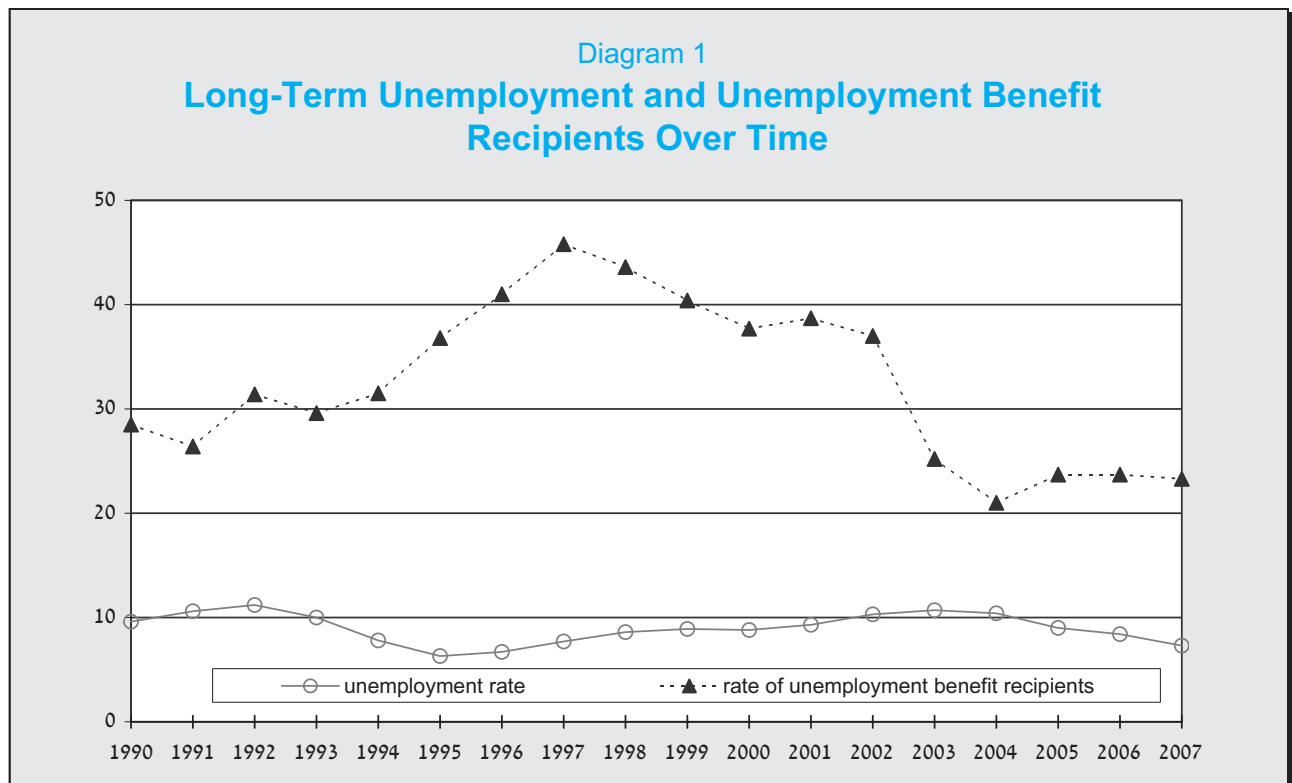
Table 1 shows the number of recipients of unemployment benefits and their share of the total number of non-employed persons.

**Table 1**  
**Non-employed Persons and Recipients of Unemployment Benefits**  
**(monthly average), 2000-2007**

Year	Non-employed		Thereof: unemployment benefit recipients			
	Absolute numbers	Percentage of workforce	Total		Job seekers*	
			Absolute numbers	% of non-employed	Absolute numbers	% of non-employed
2000	213,800	8.8	92,596	43.3	80,650	37.7
2001	233,900	9.4	104,707	44.8	90,623	38.7
2002	262,400	10.3	97,000	37.0	83,130	31.7
2003	279,700	10.7	70,450	25.2	65,683	23.5
2004	277,700	10.4	58,350	21.0	57,572	20.7
2005	246,400	9.0	58,830	23.9	58,176	23.6
2006	236,100	8.4	55,941	23.7	55,294	23.4
2007	211,800	7.3	49,817	23.5	49,348	23.3

\* Not including unemployed persons participating in vocational training.

Diagram 1 indicates the trends in unemployment benefit recipients out of the total number of non-employed persons from the early 1990's as well as unemployment rates.



#### D. Discharged soldiers who received unemployment benefits

Unemployment benefit recipients are generally divided into two main groups: discharged soldiers and unemployment benefit recipients who were previously employed. Discharged soldiers are further divided into two groups according to different periods –prior to July 2007, and after that date – since prior to July 2007 they were exempt from a qualifying period in the first year following their discharge, and were subject to an employment test only.

The legislative changes in 2002-2003 which made conditions for eligibility to unemployment benefit stricter did not apply to discharged soldiers. Thus, their employment situation before 2006 reflected the fluctuations in the overall employment situation in the country, as well as changes in the rules of eligibility for a grant for *preferred work*.

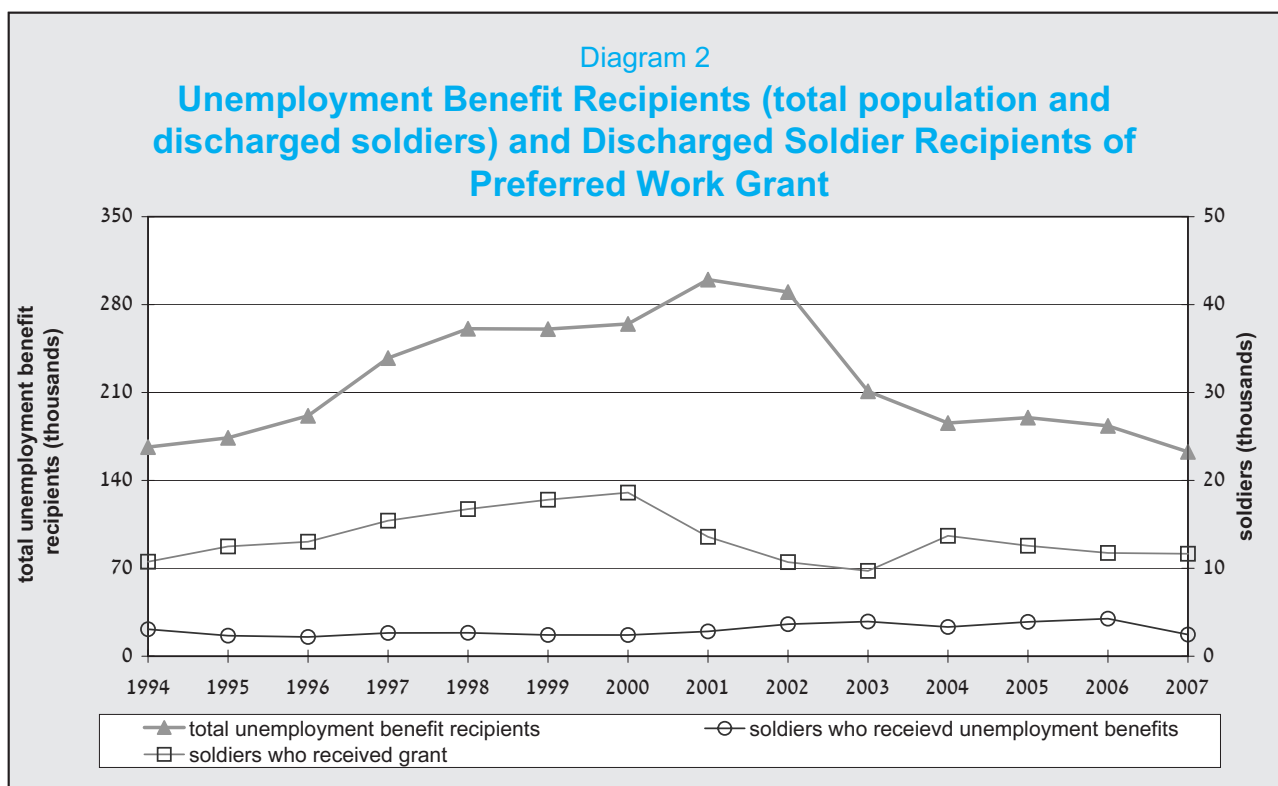
The difficulties in the job market in 2002-2003, together with the removal of the industrial sector from the list of *preferred work* in July 2001 (although the sector was restored to the list in December 2002, with a reduction of 20% in the grant), explain the significant increase in the number of discharged soldiers who received unemployment benefit in these years. This number peaked at an average of 7,000 a month in 2003, as indicated in Table 2, as compared with an average of 4,000-5,000 in 1995-2000. This pattern changed in 2004, and the number of discharged soldiers who received unemployment benefits dropped by about 20%, to an average of about 5,500 a month. This drop is mainly attributable to the fact that security work was added to the list of *preferred work* between 2003 and 2004, although the improvement in employment and the reduction in the number of migrant workers also contributed to the decline. Security workers at educational institutions and on public transport were eligible for a grant for limited periods only (from September 2003 to March 2004 for educational institutions, and from October 2003 to June 2004 for public transport), and this may explain, at least partially, the renewed increase in the number of discharged soldiers who received unemployment benefits in 2005 and 2006: despite the more marked improvement in the employment level in these years, this number rose by about 18% in 2005 and by another 2% in 2006 and in the first half of 2007.

As a result of the legislative changes in July 2007, the number of discharged soldiers eligible for unemployment benefit fell from about 6,000 in the first half of the year to under 800 in December. Their share out of the total number of unemployment benefit recipients dropped from around 12% in the first half of the year to less than 2% by the end of the year (Table 2).

Table 2  
**Unemployment Benefit Recipients Who Were Unemployed in 2007,  
 by Unemployment Month**

Employment month	Total		Thereof: discharged soldiers	
	Absolute numbers	Percentages	Absolute numbers	Percentages
1-6	51,768	100.0	5,624	12.2
7	51,423	100.0	4,123	8.0
8	51,634	100.0	2,976	5.8
9	47,902	100.0	2,090	4.4
10	46,772	100.0	1,558	3.3
11	44,913	100.0	1,029	2.3
12	44,259	100.0	759	1.7

Diagram 2 clearly indicates the reverse relationship between the change in the number of discharged soldiers who received unemployment benefit and the change in the number of discharged soldiers who received a grant. In 2007, this was due to the sharp drop in the number of discharged soldiers who received unemployment benefit as a result of a change in legislation which will probably do away with discharged soldiers' eligibility for unemployment benefit. The box in this chapter shows the results of a survey of soldiers who received a grant, young people who were not eligible for the grant and a comparison between them.



## E. Unemployment benefit recipients who were previously employed

There was a drop, albeit moderate, in the number of unemployment benefit recipients who were previously part of the work force, due to the overall decline in the unemployment level (as opposed to the drop in the number of unemployed discharged soldiers, resulting also from the change in legislation, as stated above).

There was a monthly average of about 50,000 people who received unemployment benefits in 2007 (a drop of about 11% compared with 2006), of whom about 46,000 (a drop of about 7%) had previously been part of the workforce, and about 4,000 (a drop of around 42%) were discharged soldiers (Table 3).

Table 3  
Unemployment Benefit Recipients, by Year of Unemployment, 2000-2007

Year	Total		Unemployment benefit recipients who were employed			Discharged soldiers		
	Numbers	Rate of change compared with previous year	Total (absolute numbers)	Percentage of all recipients	Rate change compared with previous year	Total	Percentage of all recipients	Rate change compared with previous year
<b>Total</b>								
2000	264,598	1.6	247,726	93.6	1.8	16,872	6.4	-1.6
2001	299,896	13.3	280,120	93.4	13.1	19,776	6.6	17.2
2002	277,418	-7.5	252,093	90.9	-10.0	25,325	9.1	28.1
2003	210,957	-24.0	183,350	86.9	-27.3	27,607	13.1	9.0
2004	186,246	-11.7	161,940	86.9	-11.7	24,306	13.1	-12.0
2005	189,812	1.9	160,658	84.6	-0.8	29,154	15.4	19.9
2006	183,439	-3.4	153,538	83.7	-4.4	29,901	16.3	2.6
2007	162,759	-11.3	145,506	89.4	-5.2	17,253	10.6	-42.3
<b>Monthly average</b>								
2000	92,596	-3.6	88,109	95.2	-3.6	4,187	4.8	-2.8
2001	104,707	13.1	99,703	95.2	13.2	5,004	4.8	11.5
2002	97,000	-7.4	90,700	93.5	-9.0	6,300	6.5	25.9
2003	70,450	-27.4	63,450	90.1	-30.2	7,000	9.9	13.3
2004	58,350	-17.2	52,852	90.6	-16.7	5,498	9.4	-21.5
2005	58,830	0.8	52,334	89.0	-1.0	6,496	11.0	18.2
2006	55,941	-4.9	49,294	88.1	-5.8	6,647	11.9	2.3
2007	49,817	-11.0	45,936	92.2	-6.8	3,881	7.8	-41.6

Table 4  
**Unemployment Benefit Recipients who were Previously Employed, by Type of Unemployed Person and Type of Labor Exchange (percentages), 2000-2007**

Year	Total	Job seekers	Participants in vocational training	Job seekers		
				Total	With college education	Without college education
2000	100.0	87.1	12.9	100.0	17.7	82.3
2001	100.0	86.7	13.3	100.0	20.7	79.3
2002	100.0	85.7	14.3	100.0	21.8	78.2
2003	100.0	93.3	6.7	100.0	23.4	75.6
2004	100.0	98.7	1.3	100.0	24.8	75.2
2005	100.0	98.9	1.1	100.0	24.9	75.1
2006	100.0	98.8	1.2	100.0	26.1	73.9
2007	100.0	99.1	0.9	100.0	26.8	73.2

The figures in Table 4 indicates the steady increase in the number of college-educated persons among unemployment benefit recipients who had been previously employed (27%) and the negligible number of unemployed persons who attended vocational training courses – less than 1%. The amendments making the conditions for eligibility to unemployment benefit stricter, particularly during vocational training, to all intents and purposes put an end to such training for recipients of unemployment benefits.

#### F. Duration of unemployment benefit payments

Unemployment benefit is paid for up to 70 days to a discharged soldier within the first year after his discharge<sup>4</sup>, and for 50 days, 67 days, 100 days, 138 days or 175 days – to other unemployed persons, based on their age and number of dependants<sup>5</sup>. Exercising entitlement to unemployment benefit is limited to a period of one year from the first day of unemployment.<sup>6</sup>

The figures in Table 5 indicate that, similar to the case in 2006, the duration of unemployment benefit payment became shorter in 2007 for all unemployed persons – including job seekers and those participating in vocational training. The duration of payment for those seeking work decreased from 109 days in 2002 to 107 days in 2004 and down to 95 days in 2007. For unemployed persons in vocational training, payment periods declined from 239 days in 2002 to 114 days in 2004 and down to 106 days in 2007. These figures indicate that the legislation which made the rules of eligibility for unemployment benefit during vocational training tougher led to the

4 To receive a grant for preferred work, a discharged soldier may submit a claim within two years of his discharge.

5 See footnote 2 in this chapter.

6 Up to January 2003 this limitation did not apply to unemployed persons who participated in vocational training courses.

almost complete closure of the gap in the duration of benefit payment in favor of those participating in vocational training. The table also shows that a further reduction in the duration of payment of unemployment benefits was noted among unemployment benefit recipients who worked just prior to their becoming unemployed. There were no changes among discharged soldiers.

The reduction in the duration of payment of unemployment benefits may also be attributed to the continued improvement in the overall employment situation in the country.

Table 6

**Recipients of Unemployment Benefits Seeking Work who Completed their Entitlement in 2006 and 2007, by Number of Days for which they Received Unemployment Benefits (as a Percentage of Maximum Period of Entitlement) and by Maximum Period of Entitlement**

Period of entitlement	Number of payment days as percentage of maximum period of entitlement					Average number of days as % of maximum period of entitlement
	Up to 25	25-50	51-75	76-100	100	
<b>2006</b>						
<b>Total</b>	<b>8.7</b>	<b>11.2</b>	<b>12.2</b>	<b>23.2</b>	<b>44.7</b>	<b>79.4</b>
50 days	4.7	8.7	9.4	21.6	55.7	90.9
70 days	10.4	12.3	13.6	21.8	41.9	75.8
100 days	8.4	13.1	15.7	28.1	34.7	76.8
138 days	9.8	12.6	11.4	22.2	44.1	78.3
175 days	8.3	9.2	9.8	21.0	51.8	81.6
<b>2007</b>						
<b>Total</b>	<b>8.6</b>	<b>12.2</b>	<b>12.5</b>	<b>22.9</b>	<b>42.8</b>	<b>77.8</b>
50 days	5.4	8.7	9.7	23.3	52.9	89.6
70 days	11.7	12.6	13.6	21.6	40.5	74.3
100 days	9.3	14.0	15.6	28.3	32.8	75.5
138 days	10.5	13.9	12.4	21.5	41.7	76.4
175 days	9.2	10.6	10.0	20.0	50.2	79.7

Table 6 shows the degree of take-up of the payment period under the law. The degree of take-up on the part of those eligible for 175 days payment and for 50 days payment is greater than that for the other groups, reflecting the distress of adults who stand little chance of finding jobs and of that of the young people who do not manage to find jobs in the brief period during which they receive unemployment benefits. It should be noted that in 2007, there was a drop in the average number of days as a percentage of the maximum period – for all unemployed groups. The number of unemployment benefit recipients who took up 75% or more of the maximum period dropped most noticeably.



## G. Rate of unemployment benefit and scope of payments

As aforesaid, unemployment benefit in Israel is calculated according to a progressive formula that ensures that the replacement level (the level of unemployment benefit out of the salary earned prior to unemployment) decreases, similarly to the case in other social insurance programs. This formula incorporates two considerations: the insurance consideration – insurance against unemployment, whereby compensation granted for maintaining the standard of living of the unemployed persons and their families does not fully counterbalance the salary prior to unemployment; and the income distribution consideration – providing greater compensation to low-wage earners than to high-wage earners.

Table 7  
**Unemployment Benefit Recipients who were Previously Employed, by Daily Unemployment Benefit Relative to the Average Daily Wage (%), 2000-2007**

Year	Total	Daily unemployment benefit relative to average daily wage						Average unemployment benefit as percentage of the average wage
		Up to 1/4 the average wage	1/4-1/3 the average wage	1/3-1/2 the average wage	1/2 -2/3 the average wage	From 2/3 up to the full average wage	Over the average wage	
2000	100.0	6.2	8.0	48.8	29.8	7.2	-	46.5
2001	100.0	5.0	5.8	44.8	32.9	11.5	-	50.2
2002	100.0	4.9	6.6	43.4	33.1	12.0	-	50.4
2003	100.0	5.2	6.6	39.0	33.7	15.6	-	52.0
2004	100.0	6.3	6.1	38.6	32.5	16.5	-	50.6
2005	100.0	6.5	7.2	43.1	30.1	13.1	-	49.3
2006	100.0	6.5	8.3	44.2	28.5	12.5	-	48.7
2007	100.0	7.6	10.6	43.7	25.6	12.5	-	46.9

The figures in Table 7 show that the drop in the level of average unemployment benefits relative to the average wage continued in 2007. This decrease began in 2004, after a continuous rise in the previous four years. The percentage of unemployed persons who received unemployment benefits to a value of **more** than half the average wage fell from 49% in 2004, to 43% in 2005 and again to about 38% in 2007, while the percentage of unemployed persons who received benefits of less than half the average wage rose from around 50% in 2004 to 60% in 2007. A decrease of about 25% in unemployment benefits received by young people (up to age 28), resulting from a change in the law applying to persons receiving unemployment benefit recipients for the first time in March 2007, contributed slightly to the decrease in the average unemployment benefit.

Table 8  
**Unemployment Benefit Payments (NIS million), 2000-2005**

Year	Current prices (NIS thousands)	2006 prices	Real increase
2000	2,953	3,206	-0.3
2001	3,503	3,763	17.4
2002	3,524	3,572	-5.1
2003	2,410	2,502	-29.9
2004	2,100	2,172	-12.9
2005	1,993	2,035	-6.3
2006	1,957	1,957	-3.8
2007	1,757	1,748	-10.7

The total expenditure on unemployment benefit payments continued to decrease in 2007, by a real rate of about 11%. In this year payments totaled less than NIS 1.8 billion (compared with NIS 3.8 billion in 2001 – in 2006 prices). The drop in payments in 2007 is principally attributable to the decrease in the number of unemployment benefit recipients.

In 2007 the total expenditure on unemployment benefit payments accounted for 3.8% of the total expenditure on national insurance benefits, compared with 4.4% in 2006, 5.8% in 2005 and 7.9% in 2001.

## Box 15

### Soldiers Discharged from Compulsory Military Service Who Received a Grant for Working in Industry

In June 1998 an amendment to the Unemployment Insurance Law came into effect, under which a discharged soldier who worked in *preferred work* – work defined as vital to the economy – for six months within the two years since his discharge, is eligible for a special grant. One of the sectors in the *preferred work* category is the industry sector.

Throughout the years changes were introduced to the list of *preferred works*. At present, a discharged soldier who works in industry is eligible for a reduced grant at the rate of 80% the full grant.

This Box shall discuss differences in work conditions in the industry sector between young people who received a grant and those who did not.. The examination, based on an NII administrative data file and wage files of the Income Tax Authority, showed that the rate of young people who worked in industry out of the total number of young people who worked, was twice as high among those who received a grant.

Table 1  
**Number of Work Months of Young People in Their First Job, 1999-2004**

Year	Received a grant	Did not receive a grant
1999	14.2	8.6
2000	12.9	8.2
2001	11.6	8.2
2002	10.7	7.8
2003	10.2	6.3
2004	8.8	4.7

Table 1 indicates that young people who received a grant persevered longer in their workplace than did other young people. Differences in duration of employment at the first job were also found when we examined the number of working months in all workplaces in which employment was uninterrupted (see Table 2).

Table 2  
**Number of Uninterrupted Work Months of Young People**

Year	Received a grant	Did not receive a grant
1999	20.6	14.3
2000	19.2	13.3
2001	17.8	12.7
2002	15.5	11.4
2003	13.9	8.7
2004	11.1	6.3

Table 3 indicates that the wage of young people who received a grant is higher than that of those who didn't, though it is still close to minimum wage – perhaps because full-time employment is a requisite for grant eligibility.

Table 3  
**Median Wage of Young People (NIS), 1999-2004**

Year	Received a grant	Did not receive a grant
1999	3,302	2,565
2000	3,467	2,730
2001	3,571	2,892
2002	3,495	2,790
2003	3,744	2,569
2004	3,817	2,655

In principle, one may state that the grant for *preferred work* attained its goal to encourage immediate and long-term integration of young people in work vital to the Israeli economy.