
Chapter 1
Social Policy and Developments
in National Insurance

Introduction

This chapter opens with a survey of the economic crisis that began to affect Israel's social situation at the end of 2008, and presents the policies required in order to mitigate the social damage caused by the crisis (Section 1). Later on, a brief summary is given of some of the position papers written by the Research and Planning Administration on various issues on the social policy agenda during the year under survey (Section 2). The other sections of this chapter (3-6) present findings on the activities of the National Insurance Institute during 2008 in the fields of collection and benefits: the volume and level of benefit payments, the number of benefit recipients and the sources of financing the benefits.

1. The macro-economic policy necessary during the global economic crisis

The end of 2008 apparently marked the end of half a decade of the significantly high growth which had characterized the Israeli economy. In the nature of things, there is usually a gap in up-to-date information concerning official statistics on the economic and social situation in Israel. Unlike during other crises, when it wasn't completely clear whether the economy had entered a recession or a slow-down, as regards the current crisis, there is without doubt a sense of certainty regarding its severity. The only uncertainty that does exist concerns the ending of the crisis, since the end is still not in sight. Therefore, businesses want to prepare themselves more quickly than in the past to lay off employees in order to reduce losses. This explains, at least partially, the rapid rise in the unemployment rate in the United States, for example, and it appears that this is also a reasonable assumption in relation to the Israeli economy. In other words, it is highly probable that the unemployment rate will increase faster than it did at the onset of previous crises. At the same time, it is reasonable to assume that the uncertainty regarding the end of the crisis will delay the re-recruitment of employees at a later stage. This means that unemployment will increase at a faster rate than the rate at which it will decrease.

A. The economy's starting point

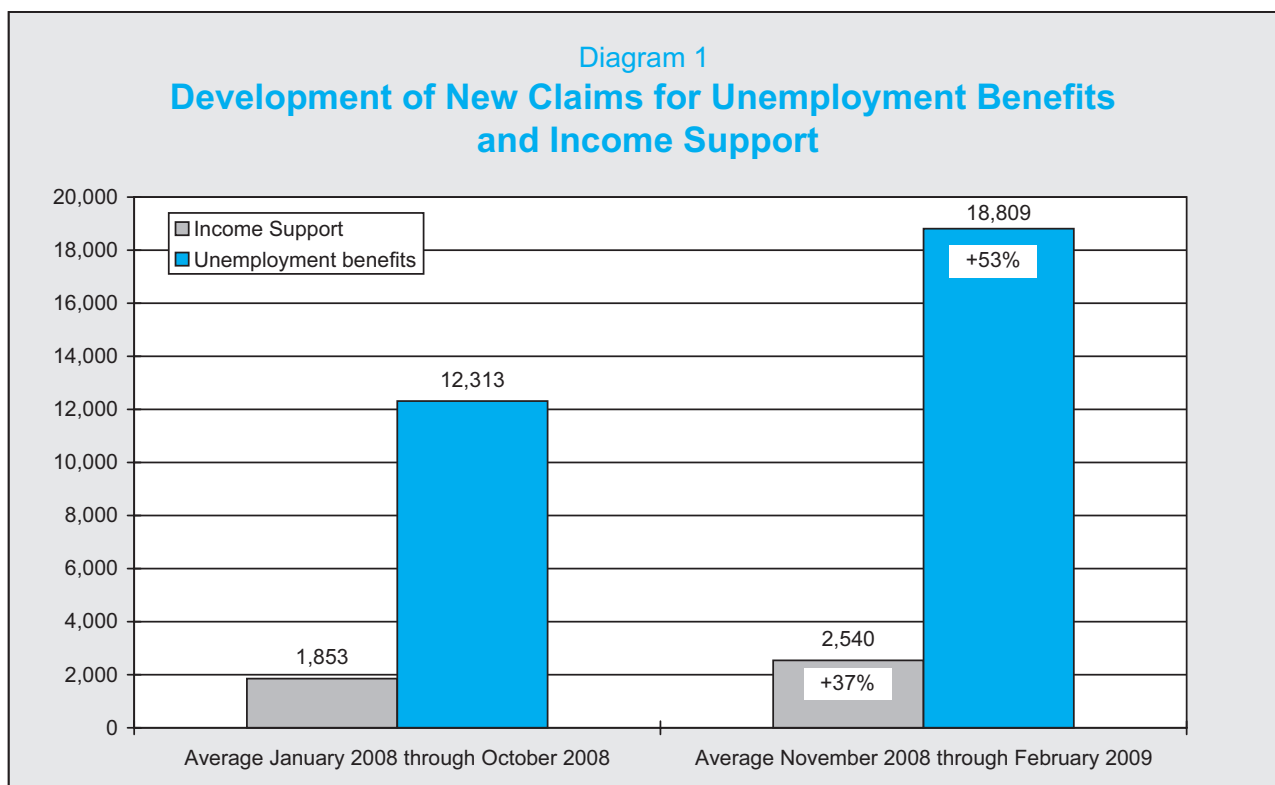
The Israeli economy experienced high rates of unemployment during the last decade. During 2003, the unemployment rate rose to more than 11%, and between 2001 and 2005, it hovered around the 10% mark. At the same time, the Unemployment Insurance Law has undergone many modifications since 2002, which have changed it for the worse to the point that, today, the law's contents are no longer consistent with its original objectives. The harsh amendments to unemployment insurance included extending the qualification period, reducing the days of entitlement to benefit, and reducing the level of payments for young people under age 28. As a result of these many drastic amendments, the percentage of unemployed persons who receive unemployment benefits dropped over the years by some 50%: it was 45% in 2001, and dropped to a low point of some 25% in recent years. Among young and vulnerable unemployed persons,

mainly daily workers, very few succeeded in accumulating the requisite qualification period, so that the drop in the rate of those receiving unemployment benefit was actually even steeper.

Already at the onset of the crisis, the National Insurance Institute's Research and Planning Administration submitted a proposal for differentiating between cyclical and structural unemployment. According to this proposal, when unemployment derives from a cyclical problem, the unemployment insurance will be more generous as the rate of unemployment increases, since the greater and more widespread the adverse affect on demand, the harder it is to find employment. Therefore, unemployment benefits as a safeguard of a minimum standard of living are especially important during periods of recession. On the other hand, when the economy is undergoing structural changes, vocational training becomes more important for integration into the structural change. It was on the basis of this logic that the Research and Planning Administration proposed easing the conditions of entitlement, in order to increase the take-up of unemployment insurance during periods of cyclical unemployment. The proposal includes another improvement: out of concern for the financial stability of unemployment insurance, coupled with consideration of the state of the economy, it was proposed to increase the collection rate for unemployment insurance when the economy is booming. A change in this direction is critical in order to ensure the insurance character of the branch and its financial strength in the long run.

After negotiations with the Treasury and the authorities involved, it appears that, in the final analysis, a "temporary order" will come into effect, within the framework of which certain dispensations will be given when the unemployment rate goes up to 7.5%. (For additional details, see section 2 below and Chapter 4, section 10 – Unemployment Insurance.) For example, the qualification period for unemployment benefits will be reduced – from 12 of the last 18 months today, to 9 of the last 18 months. An unemployed person who has accumulated such a qualification period will be entitled to unemployment benefits, although only for half of the maximum period prescribed by law. This temporary order is applied only with regard to unemployed persons over age 25. The cost of the plan that was implemented is less than NIS 100 million, compared with the Research and Planning Administration's proposal, which would have cost some NIS 600 million, assuming that the unemployment rate will increase to 8%. The number of additional unemployed persons who will be entitled to unemployment benefits following the change is assessed at some 2,500 per month.

It appears that a sharp change occurred at the end of 2008 in the public's need for a social safety net. The monthly statistics on new claims for unemployment benefits and for income support for working-age families are quite a sensitive indicator of the change in the trend among the unemployed. Diagram 1 indeed indicates a sharp increase in claims since November 2008, compared with the average of the preceding months in 2008, when there was a steady decrease in claims, following the continuous growth that had characterized recent years.



The deterioration in the employment situation, which is indicated, at this stage, by the sharp increase in the number of claims in recent months, is particularly severe in light of the increase in the incidence of poverty in recent years (in spite of the modest achievement of a slight decrease between 2005-2007¹), and in light of the sharp deterioration that is expected in the standard of living in the course of 2009. According to a Bank of Israel forecast, a decrease in the gross domestic product per capita is expected, after it had risen continuously for about half a decade (Diagram 2). Concurrently, the increased poverty indicates a lack of success in sharing the economic growth achievements with many: after the striking change in poverty dimensions resulting from the policy of cutting back subsistence benefits in 2002-2004, the years of growth and prosperity did not succeed in rectifying this deterioration.² It should be noted that the severity of poverty, which attributes greater weight to families the poorer they are, also increased during the years when poverty remained stable or even slightly decreased. This phenomenon derives, inter alia, from the fact that it is more difficult to extricate the abject poor from poverty – one of the most important challenges of an ethical society.³

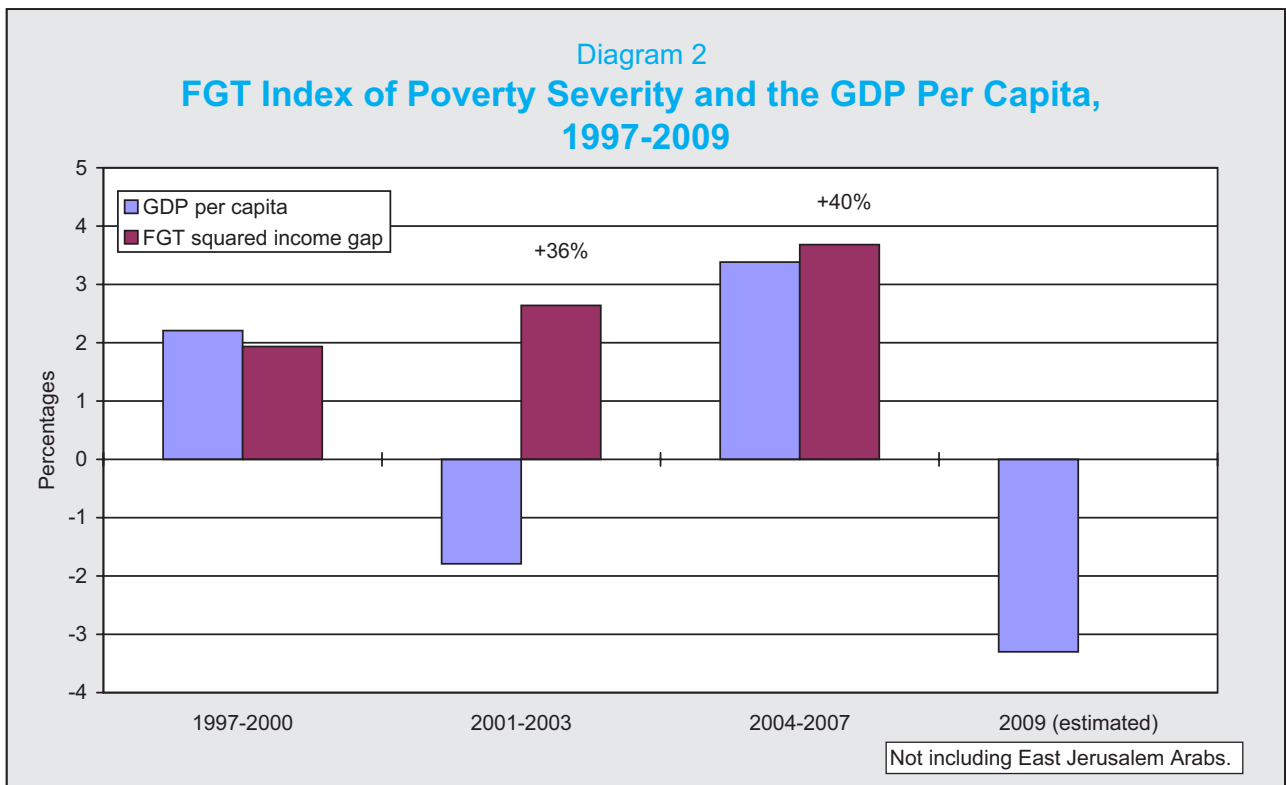
Israeli society was therefore forced to contend with the growing crisis from the starting point of a high rate of poverty. The policies worked mainly in favor of families that were less poor, while leaving weaker families trapped in the cycle of poverty. As can be understood from Chapter 2 of

1 See details in Chapter 2, Section 2.

2 For an explanation of the FGT Index, see Chapter 2 (Footnote 3 in Box 2), and the 2007 Survey, Footnote 5 on page 27.

3 So asserted, for example, one of the leading philosophers of ethics of the 20th century: John Rawls (1971), *A Theory of Justice*; Harvard University Press.

this Survey, the poverty situation in Israel is severe even compared with international figures, and not only in relation to the general statistics, but also among the elderly and children specifically. One can conclude that Israeli society is not well prepared for the anticipated exacerbation of the economic and social situation. Therefore, it is essential to be well prepared, in order to make immediate improvements in the social safety net, which is especially critical in the areas of unemployment benefit and income support for people of working age. As stated, a certain improvement has occurred in the area of unemployment (see also Chapter 4, section 3, which addresses unemployment insurance); however, according to the assessment of the Research and Planning Administration, the changes that have been made are insufficient to restore the coverage to the levels that prevailed prior to 2002/3. In the area of income support, no attempt has been made to date to mend the safety net. These holes in the safety net adversely affect the strength of society, especially when seen against the background of a social situation that wasn't normal even before the crisis started.



B. The preferred macro-economic policy

The preceding section discussed the issue of strengthening the safety net, but there is another important question: are policy-makers capable of mitigating or averting the adverse impact on employment and the subsequent need for a social safety net? The debate among the various economic schools regarding the degree to which economic policy is capable of regulating demand without prejudicing supply in the longer run has been concerning economists for at least eight decades, since John Maynard Keynes challenged the classic approach to comprehending

economic reality. When considering the ability to bring about rapid results, the discussion focuses mainly on two tools for handling the aggregate demand – the monetary policy and the budgetary policy (also known as the fiscal policy). Even if disagreements are not resolved, many will agree that, under the current situation, when the central banks' interest rate approaches zero, the main tool in times of a real crisis of the present type becomes, first and foremost, the budgetary tool, since the monetary tool is restricted at such time, due to the problem known as the "liquidity trap."⁴

The economists of the International Monetary Fund have also reached this conclusion, notwithstanding the prudent and conservative approach towards macro-economic policy which has characterized the Fund since its establishment in 1944.⁵ Following are the Monetary Fund's conclusions regarding the criteria that the set of fiscal measures should meet:

- It must be carried out immediately, in light of the urgent need for action.
- It must be wide scale, because the collapse of the aggregate demand is pervasive.
- It must be implemented for a period that is not too short, since the authors consider that the recession will not end quickly.
- It is crucial that the set of measures be diverse, because there is insufficient information about the efficacy of each measure, and it must be contingent upon additional measures, because there is great concern that the intensity of this crisis is similar to that of the "Great Depression" of the early 1920s.
- It must be shared by as many countries as possible, because in the age of globalization, reciprocal effects are important considerations.
- It must be viable, in order to prevent a loss of control over the public debt and over the financial markets.

Researchers at the International Monetary Fund were asked another important question: in the budgetary policy, what is the advisable ratio between increasing the government's expenditure and cutting taxes? They recommend that the ratio should be selected according to the consideration of achieving a maximum employment multiplier; that is to say, choosing the ratio that has the greatest influence on creating jobs and safeguarding them. This issue is particularly pertinent to the ongoing public debate in Israel in recent years, because, since the early 1990s, the government has been consistently and persistently espousing a reduction in the weight of public debt, the budget deficit, the public expenditure and taxation on the GDP. Moreover, a few years ago, the government

4 The accepted policy of central banks during periods of economic recession is reduction of the central bank interest. This operation of reducing the sources of financing encourages investment demand and consumption, and thus motivates demand. When the nominal interest nears zero, the central bank reaches the limit of its ability to reduce its sources of financing. For additional details, see: Paul Krugman, *Thinking about the Liquidity Trap*; <http://web.mit.edu/krugman/www/trioshrt.html>.

5 See the article by Spilimbergo Antonio, S. Symansky, O., Blanchard & C. Cottarelli (2008). *Fiscal Policy for the Crisis*, December 29, International Monetary Fund, 1-38.

began a tax reform, whose main objective was to reduce direct taxation, a policy that, by its nature, benefits the more affluent strata at the expense of the weaker strata of society. Coupled with the damage to the social safety net, these steps certainly constitute a significant reason for the severe repercussions on inequality and poverty in Israel.

The researchers' conclusions overturn the principles that were rooted for many years in the typical policies of many western countries, including Israel of the 1990s:

- Instead of the government reducing its expenditure, it should be obliged to increase it.
- Increasing expenditure should be preferred to cutting taxes, since then, the multiplier⁶ has greater influence.
- Cutting expenses for the purpose of reducing the government's deficit should be avoided, as an initial measure. The express recommendation is to operate in a clear departure from such deficit rules.
- It is worthwhile to proceed with expenditure and implement investment plans that had been postponed due to the shortage of financing. The recommendation is to implement plans that have a positive long-range impact.
- Be wary of tax-cutting policies, since their contribution to increasing consumption is likely to be very low during this period of economic uncertainty, when consumers mainly tend to increase their savings.
- Reducing VAT is less effective than increasing expenditure, since it is likely that it will only be partially passed on to consumers.
- Automatic stabilizers,⁷ such as raising unemployment benefits, are of particular importance.
- It is recommended to expand public works that are effective in the long run, such as, for example, ecological ("green") investments.
- A particularly interesting proposal of the International Monetary Fund is **insurance from the government in respect of a deep recession**: a business or household will be able to purchase insurance against a deep recession; payment of the premium will buy purchasers a benefit depending upon the insurance contributions that they paid. This is similar in nature to unemployment insurance and constitutes a strong automatic stabilizer. In order for the insurance to be credible, the government should budget it.

Some of the measures planned in Israel according to previous decisions substantially contradict the recommendations of the International Monetary Fund. The government has also not created

6 The intention is to influence the policy on the GDP and on employment beyond the **initial** effect of increased demand.

7 An automatic stabilizer is an expense (income) that automatically increases (decreases) with the economic slowdown or recession (and vice versa during an economic boom).

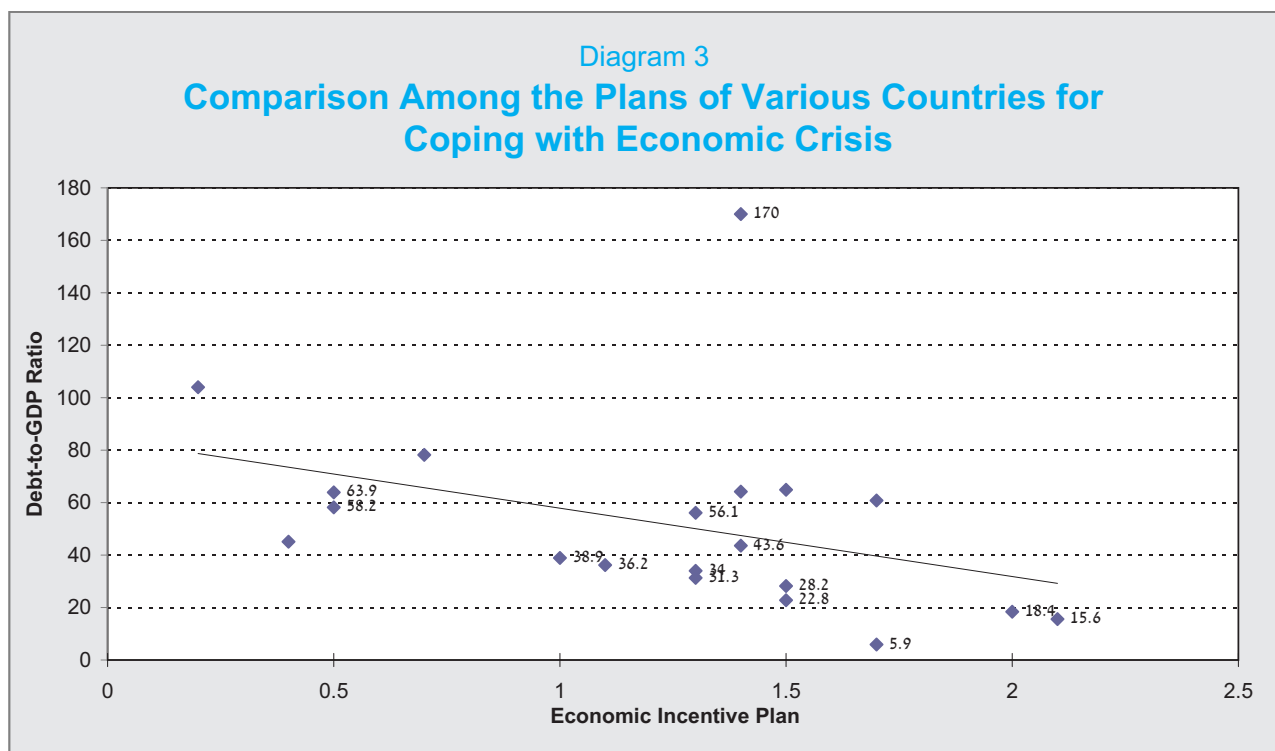
budgetary tools of sufficiently significant scope as other countries have done, for example, the United States, Great Britain and Germany, which have allocated substantial budgets for reducing damage caused by the economic crisis. However, the Bank of Israel has proposed in its new policy recommendations to the government, dated May 2009, that it would be advisable to deviate temporarily (it is unclear for how long) from the previous target of an annual increase in government expenditure of 1.7%, using an expenditure package of some NIS 4.4 billion in 2009. In this way, the annual rate of government expenditure (the governmental civil consumption) would increase by 3.5%, instead of being limited to 1.7% as in recent years. The Bank of Israel, therefore, is proposing a temporary and controlled waiver of the deficit target for one year. This is a certain achievement compared with the basic scenario whereby government consumption would only increase by 1.4%.⁸

Compared with the mobilization in other countries, the expanded Israeli plan of the Bank of Israel is quite modest. The NIS 4.4 billion package constitutes about 0.6%, in terms of the gross domestic product of 2008, compared with the corresponding but more expansive plans in other countries. Thus, for example, in Germany, an encouragement plan of some 2% of the GDP has been discussed, while the United States has gone further – there, the plan is on a far larger scale (some 10%).

It is indeed possible to differentiate between the real and the financial components of the plans. This differentiation has significance for Israel, because, according to the existing assessments, the need for the financial component does not have to include rehabilitation of the financial system, as in other economies. Diagram 3 compares the various real plans.⁹

8 See *Israel and the Global Crisis: Policy Recommendations to the Government*, March 2009, Bank of Israel, 1-62.

9 Source: data processed by the National Insurance Institute's Research Administration, based on data from the Bank of Israel, www.bankisrael.gov.il.



It can be seen that the real plan that the Bank of Israel is proposing is realistic in terms of its scale in relation to the public debt (percentages of GDP). Nonetheless, the question remains: are there budgetary sources for the plan of more significant volume than those proposed by the Bank of Israel, without jeopardizing financial stability, as indicated in the debt-to-GDP ratio? The answer is found in Chapter 4 of the 2007 Annual Report of the State Revenue Administration,¹⁰ which states that the forecast tax benefits for 2009 are likely to reach some NIS 39 billion. According to the cautious assessment of the survey authors, some NIS 5 to 10 billion of these sources could potentially be diverted to other needs. The report also indicates another option for increasing the expense budget from the budget sources, and that is postponing the tax reform for 2009 and 2010 (such a proposal is also consistent with the recommendations of the International Monetary Fund, as described in the aforesaid report), which would save some NIS 19 billion at 2005 prices.¹¹ At 2008 prices, this sum is assessed at some NIS 20.5 billion. The two sums together total some 3.5% to 4.3% of the GDP. If we assume that a portion of the tax reform for 2009 has already been implemented, and that only a portion of the reform can be postponed, the volume of sources is still impressive. Therefore, the government's expenditure can be significantly increased beyond what was planned, while curbing the decline in revenue in the next two years (due to the postponement of the tax reform). Thus, it will be possible to implement a plan offering a more significant increase in expenditure in the short term and, concurrently, to curb the volume of the government deficit and

¹⁰ See pages 63–86.

¹¹ See *Committee Report on the Multiyear Tax Plan*, June 2005; *State Revenue Administration Report*, 2005, page 583.

safeguard the financial strength of the economy. The employment multiplier of such a plan is significantly higher than that of the tax-cutting multiplier.¹²

In this context, it is important to reiterate that the natural safety net that must be available to the public in order to partly alleviate the damage deriving from the economic crisis is unemployment insurance; as stated above, the National Insurance Institute is proposing to make substantial modifications in unemployment insurance, in order to increase its ability to handle the present crisis.¹³ The alternative proposal of the Ministry of Finance is extremely parsimonious, apparently due to the government's view that it will in this way increase the financial stability of the economy during this sensitive time. Yet it is important to understand that the opposite phenomenon could occur: the failure to institute adequate measures to counteract the effects that are stifling economic activity is likely to jeopardize not only the public welfare, but also economic stability in light of a deep recession.

2. Status, proposals for changes in the social security system and in social policy in 2008: position papers of the Research and Planning Administration

This year, for the first time, a summary is being presented of the position papers written by the Research and Planning Administration in the previous year. Some of these position papers, which address various socio-economic issues, were written in order to provide a real-time response to changes that occurred in the economic and social situation, or as a response to draft legislation and government initiatives. In this way, position papers were written that addressed: 1) the wave of price increases in food and fuel products that occurred in Israel and internationally during part of 2008; 2) improvements and changes in unemployment insurance in light of the economic crisis that developed at the end of 2008; and 3) the effectiveness of a VAT reduction in improving the welfare of families in general, and of weak families in particular.

Other working papers were written with a comprehensive view of the welfare situation in Israel, of the status of the National Insurance Institute and of social needs in a changing world. Today, we are witnesses to changes, some far-reaching, in various spheres of life, including changes in the world of labor, in the family, in the field of health, and more. All of these have a significant impact on social welfare and social security. New employment patterns have been created and have spread throughout the world of labor in some of the western countries, including in Israel, while organized labor's influence has diminished; many workers are employed by manpower companies, are working on an hourly basis or in partial shifts. In the sphere of the family, the influence of the

12 We emphasize here that cutting taxes is also likely to influence an increase in the demand, but it is customary to think that, in any situation, the employment multiplier of increasing expenditure is larger than a tax-cutting multiplier, all the more so during a recession, when the public tends to behave prudently and save their increased income due to the tax cut.

13 See Chapter 4 – Unemployment insurance, and the position paper on unemployment insurance of November 2008, on the National Insurance Institute's website, <http://www.btl.gov.il>, under the "Publications" tab.

traditional nuclear family has waned, while other types of families have gained a greater importance: single-parent families, single parenting, same-gender couples, and more. Technological and other improvements in the field of health have led to an increase in the number of multiple births and in the number of premature babies, to a decrease in the duration of post-natal hospitalization and in infant mortality rates, to aging of the population and to an improved quality of life for the elderly.

The increase in life expectancy, which added an average of about 20 years by the second half of the 20th century, added another generation to the cycle of human life – "the Third Age."¹⁴ The increase in life expectancy has additional implications, including an increase in the percentage of senior citizens in the population, an increase in the percentage of people aged 80+ among the elderly population, and an extension of the post-retirement period of life. All of these have repercussions for the social security system, inter alia, in terms of entitlement to benefits, the length of time that benefits are paid, and the financial ability to pay benefits over a more protracted period. Naturally, these changing times create a built-in need to rethink those components of the social security system that are now in place, to examine their compatibility with the current situation, and to attempt to adjust those components of the current system that no longer meet the new needs.

We briefly review below some of the proposals, initiatives and responses raised by the Research and Planning Administration of the NII last year, according to the principal fields.¹⁵

A. Work and pension

1. **Unemployment** – in light of the worsening economic situation and the recession in the Israeli economy, the Research and Planning Administration has proposed a plan for revising unemployment insurance, in order to provide a response to the rapidly increasing number of employees who are being forced out of the labor market due to the extreme economic crisis that is reverberating throughout the world at this time.

The legislative amendments that were introduced mainly in 2002-2003 led to a weaker connection between the unemployed and those covered in unemployment insurance, in that only a small percentage of unemployed persons are eligible for unemployment benefits. (The situation today is that **only about one quarter of the unemployed** succeeds in receiving unemployment benefits, compared with about half of the unemployed prior to 2002.) Furthermore, the current unemployment insurance covers almost exclusively those workers who are not temporary, and who meet the eligibility criteria that were made more stringent during those years (2002-2003), while, in recent years, the phenomenon of employing

14 See R. Ben Israel (2006), *Social Security*, volume 3, Open University Publishing.

15 For details of some of the position papers, see the National Insurance Institute website: <http://www.btl.gov.il>, under the "Publications" tab.

temporary workers and workers paid per day has been proliferating in the Israeli labor market at an accelerated pace.

The need to reduce the present high level of parsimony in unemployment insurance in Israel, coupled with the current global economic crisis which is threatening to cause a sharp increase in unemployment rates, presents an opportunity to introduce improvements in unemployment insurance. In light of the above, the following recommendations have been proposed:

Within the framework of strengthening the role of unemployment insurance as a safety net for scenarios of massive failure in the overall employment situation, it is proposed to create an inverse link between the business turnover, and the labor market and unemployment insurance. During times of extreme crisis, it is crucial that unemployment insurance be stronger than normal, so that it will be capable of curbing deterioration of the welfare of the unemployed at a time when the objective chances of finding a job are particularly slim. When the employment situation stabilizes to dimensions of frictional (long-term) unemployment, unemployment insurance should revert to its previous smaller dimensions ("exit policy"). The linking of benefits to developments in business turnover was intended exactly for this purpose.

Nonetheless, the level of openhandedness of unemployment insurance – as described above – is so low that this insurance needs a permanent improvement today, not just in times of crisis. The Research and Planning Administration's plan proposes automatically adjusting the eligibility criteria concurrent with the changes in unemployment rates and the level of growth in the economy, while the qualification period must be shortened, regardless of the business turnover. The improvement expected from these measures should increase the rate by which the unemployed are covered by unemployment insurance, from about 25% today to about 50%, as in the past.

It is further proposed that the percentage of cyclical unemployment be changed, by examining the change in the monthly trend relative to the average of the preceding quarter.¹⁶ With a drop in the percentage of cyclical unemployment, the eligibility criteria would again be reduced to the lower prescribed level. The Research and Planning Administration believes that the basic conditions must be improved compared with the situation in 2008. This stipulation will be defined in legislation and will be implemented automatically.

The proposal also includes an increase in the insurance contribution rate, with this being implemented only after the economy recovers from the recession. The financial stability of unemployment insurance is thus guaranteed to improve, while taking the state of the economy into consideration. This proposal will be implemented only when the growth process resumes. These changes are essential, in order to ensure the insurance character of the branch and its financial strength in the long run. The cost of the proposal for an unemployment rate of 6% is some NIS 450 million. Each additional percentage point in the unemployment rate will increase the cost by some NIS 75 million.

16 This, even though other proposals are currently being examined.

- 2. Employing Israeli workers in long-term care** – The proposals were intended to reduce the number of those of working age who are entitled to income support, while maintaining the quality of care of the population needing long-term care. To achieve this aim, people who may be suitable for this type of work should be encouraged to enter the long-term care market as full-time caregivers, despite their poor education and limited skills, since this market is expected to grow rapidly in coming years. It is important to create job opportunities for workers of this type, since they account for a significant percentage of the Israeli population compared with other economies in the west, and their numbers are expected to grow rapidly.

Increasing the competitive capacity of Israeli workers with few skills constitutes a central tool for reducing poverty among working-age persons and **for helping them leave the income support system and enter the labor market.** The high percentage of non-Israeli workers and the particularly low cost of employing them, which derives, for the most part, from violations of the labor laws by employers of foreign workers, have pushed many poorly educated Israelis out of the work force since 1993 and have increased their poverty. This is the rationale that should constitute the foundation of the guiding policy towards foreign workers.

In order to encourage the employment of Israelis in long-term care in the home, **it is advisable to give a long-term care benefit to needy entitled people who cannot afford to finance a long-term caregiver.** Increasing the awareness of employers of foreign workers of their obligations and of their employees' rights, and tightening enforcement of the labor laws will make it more expensive to hire a foreign worker, and, in any case, would almost fully equate the labor cost between foreign and Israeli workers. Thus, Israeli workers would receive a fair chance at employment in the field of long-term care.

However, from the perspective of those needing long-term assistance in the home, this strategy would create a situation where it would become more expensive to employ an Israeli worker as a long-term caregiver. This situation is liable to cause many elderly people, who need long-term care and assistance every day, and who, until now, were helped by cheap foreign labor in their homes, to find it difficult to pay for the same scope of assistance. On the other hand, they won't be able to afford institutional solutions, which are also very expensive.¹⁷ Thus, a quite extensive population of the elderly and the disabled will be left without essential long-term care service. It is proposed to resolve this problem by providing long-term care benefits to eligible persons who could not otherwise afford a long-term caregiver.

It is also proposed to give an **incentive to Israeli workers who are willing to care for an elderly person in the home** nearly around the clock, or in shifts. The grant will be larger at the outset, in order to encourage the necessary structural change, and will gradually be reduced as Israelis enter this market.

17 Today, discounts at long-term care institutions are given to particularly weak groups.

3. Mandatory pension¹⁸

Israel is counted among a small group of western countries, like Holland and Ireland, which guarantees every resident only a basic layer of pension upon reaching old age, within the scope of the national social insurance. In Israel, the pension is paid universally to every insured person, and without a means test at the determining age. For elderly people with little or no income, an income supplement is paid, up to the sum defined by law as the minimum for subsistence. In Israel, at the second level in the pension system, a pension from work is paid to every retiree who has accumulated rights to a pension during his working life. At the third level, which is voluntary (and negligible), a pension or income from capital is paid to every person who saves for retirement on an individual basis. Data from the Central Bureau of Statistics' Income Survey shows that only about one third of the elderly in Israel receive a pension from work. Among certain groups of the elderly, the percentage receiving such a pension is very low (Arabs, women, new immigrants, etc.). Furthermore, data from the Central Bureau of Statistics Social Survey for 2007 shows that about 36% of working-age employees are not covered by any pension arrangement.

The second level, a pension from work, plays a central role in ensuring an adequate standard of living to retirees in Israel, although the expected result from implementing a compulsory pension agreement, which was started in 2008, will fully mature only in about another 45 years. In the meantime, the accumulated pension of retirees who joined this arrangement at an advanced age will be small. Those joining the elderly population will be composed basically of two groups. The first group consists of elderly people who had worked and were insured under a pension arrangement, including a compulsory pension arrangement, and who are entitled to a pension from work, in addition to the old-age pension, and including elderly people who had worked for short and interrupted periods and who were not insured under a compulsory pension arrangement or other pension arrangement.

The second group consists of elderly people who never worked and who are entitled to an old-age pension only, for the most part, with an income supplement. With the hoped-for increase in the percentage of employment (according to the government target), the relative weight of the elderly being supported by national insurance will decrease, and in this way, the volume of income supplement payments will also decrease. Until the compulsory pension arrangement fully matures, some of the elderly in the first group, who joined this arrangement at an advanced age, will benefit from a small pension in addition to the old-age pension with income supplement, and it is important that the policy-makers take this group into consideration. An analysis of the expected income of low-wage workers from the old-age pension and from a pension from work reveals the following insights:

- In relation to workers who are 36 years old or over today and are earning the minimum wage, the expected pension under a compulsory pension arrangement will not prejudice

18 See **2007 Annual Survey**, Box 9.

their entitlement to the full old-age pension with income supplement, and they will continue to receive their pension, similarly to the previous situation before the arrangement.

- In relation to a representative family, comprised of a couple with a single wage earner earning the minimum wage, the expected income from the two levels when the arrangement fully matures will double, compared with the previous situation before the arrangement. It will total some 80% of the average wage today, compared with about 47.5% of the average wage before the arrangement.
- During the interim period (until the arrangement reaches full maturity), the financial situation of retirees who work for the minimum wage will improve to a certain extent; they will have an incentive to work and save towards a pension; however, their financial situation will improve much more significantly when the pension arrangement fully matures.

The situation of the older generation during the interim period, which is also known as the "desert generation," is inferior, as stated, compared with the situation of the younger generations, who will benefit from a full pension. In terms of the principle of horizontal justice, the desert generation will be at a disadvantage in two ways: firstly, in comparison with young people in their level of accumulated pension, and secondly, many of them will be at a disadvantage because they are earning a low wage (along with some of the young people), and will not be able to enjoy the benefit of an income tax credit on the pension allocation, compared with those earning above the tax threshold, who are able to take advantage of this benefit.

In order to rectify the second disadvantage, the benefit of an income tax credit on the pension allocation should be expanded to include low-wage workers.

As for the first disadvantage, we should encourage the "desert generation" to increase their allocation for compulsory pension during the interim period (in inter-generational terms – for example, workers who are aged 45 or over today, compared with younger workers) to more than 5%, by the government depositing, for example, a sum similar to the sum deposited by the individual in his or her pension fund. True, this proposal would cause a drop, at the present time, in the worker's current disposable income, which is already low, but it would improve the level of accumulated pension to a certain extent. It is proposed to encourage the increase of the allocation to compulsory pension differentially, according to age; the increase would be more significant the older the worker is. Thus, for example, the cost of increasing the allocation up to 8% **for employees aged 45 and over**, who are earning a minimum wage today **is estimated at some NIS 80 million** per annum, while the cost of granting a 35% income tax credit to these employees on the allocation to pension savings is estimated at some **NIS 100 million**.

B. Family allowances

1. **Single-parent families** – As in the rest of the western world, in recent decades the phenomenon of living in single-parent families has been increasing in Israel, due both to the increasing divorce rate and to the significant increase in the birthrate by unmarried women, who choose to have a child without a regular partner. Since the earning capacity in a single-parent family is limited to a single wage earner, for the most part their economic situation is more difficult, and their percentage among poor families is far higher than their percentage of the entire population. Thus, the poverty rate among single-parent families stands at some 30%, compared with about 25% among traditional families, despite the fact that 80% of the poor single-parent families are working families. Moreover, in most single-parent families, the head of the household is a woman; this puts the family's livelihood at an even lower level, due to the gap between men's and women's wages. These are the reasons why the social policy-makers in Israel and worldwide are focusing their attention on this group and on finding solutions for its particular situation.

The Research and Planning Administration has proposed improving the situation of single-parent families by encouraging employment, mainly through NII benefits, such as increasing the disregard of employment in the means test for whoever is receiving a benefit for income support or maintenance; by equating the conditions of single-parent families whose head of household is a divorcee or single woman to those of a widow who receives a survivors' benefit; by providing vocational rehabilitation for single-parent mothers (similarly to the rehabilitation for widows); by separating the maintenance payments from the income support benefits, so that, for women earning up to the average wage, the maintenance payments will be added in their entirety to her earnings, a measure that will encourage single-parent mothers to join the labor market. It was also proposed to strengthen the earning capacity of single-parent mothers by increasing negative income tax.

Some of these proposals entail a sometimes far-reaching change in perception, but, nonetheless, they also contain an answer to the desire and the need to improve the situation of single-parent families and their children, both during this period (by extricating them from the cycle of poverty in which they have become entangled, due to difficult or unforeseen circumstances), and as a long-term investment, derived from the belief that children growing up in poverty and deprivation will have a hard time extricating themselves from this situation later, when they reach adulthood.

2. **Child allowances** – Poverty among children has reached such dimensions that it requires policies that will relieve the economic situation of their families. It is imperative that the assistance to poor children today be effective also in extricating them from the permanent cycle of poverty. Handling this problem solely via the current children's allowance is expensive. Therefore, the children's situation should also be improved also by increasing the earning capacity of wage earners in large families and of their children as future wage earners.

A proposal has been drafted that includes a component of an **empowerment grant** to children, similar to the existing model in England, where a program is being run today that

helps young people to leave the cycle of poverty when they become adults, by way of a split grant, a portion of which is received for the newborn child and a portion of which is received when the child reaches the age of 7. This grant is given to the entire population; however, a larger grant is given to the needy population.

According to this proposal, the government will deposit a lump-sum grant for every child born in a poor family – for example, the sum of NIS 3,500. This grant will be deposited with preferred interest (such as, 2.5% above the intergovernmental interest rate) for 21 years, at which time it will be available to the adult for the needs specified above. It is also feasible to consider an option of splitting the grant into two stages, similar to the English model. According to our calculations, this grant, together with the income from compound interest, will total some NIS 11,000, at 2008 prices, after 21 years.¹⁹

- 3. Maternity benefits** – It was proposed to re-examine the payment of the hospitalization grant through the National Insurance Institute. The payment to hospitals for hospitalization of women giving birth was one of the first payments that the National Insurance Institute made, in 1954. At that time, when the National Insurance Law came into effect, two benefits were paid within the scope of maternity insurance, one of which was the birth grant.²⁰ The birth grant included financing for the purchase of initial equipment for the newborn and financing for hospitalization of the mother and newborn.²¹ The receipt of the grant was conditional upon the mother giving birth in a hospital.

The legislation enacted, as stated, at the beginning of the 1950s, was introduced in the newly created State of Israel, against a background of massive immigration, a relatively high birth rate accompanied by an increase in the mortality rate for infants,²² and a lack of medical insurance for the entire population. The objectives of the legislation at that time were to encourage women to deliver in hospitals, as a means for promoting the health of the mother and the newborn and for reducing their mortality rates, as well as to lay an important cornerstone for the welfare state and to reduce social gaps. Prior to the enactment of the Maternity Insurance Law, hospitalization for women giving birth had been arranged through medical insurance that the Sick Funds (now called the Health Funds) and other public funds provided.

Since the enactment of the National Health Insurance Law in 1995, all residents of Israel are insured and are entitled to receive medical care, according to what is defined in the Basket of Health. Therefore, it is proposed to delegate the responsibility for the hospitalization of women giving birth, newborns and premature babies to the health system, with financing from the

19 It is possible to shorten the payment period by combining the sinking fund method with the pay-as-you-go method.

20 The second benefit that was paid was a maternity allowance.

21 In 1986, the birth grant payable to the mother for the purchase of equipment for the newborn was separated from the hospitalization grant payable to the hospital where the delivery took place.

22 Data published in the Kanav Committee Report show that the infant mortality rate increased from 29.2 per 1000 live births in 1947 to 35.2 in 1948 and to 51.9 in 1949. For the sake of comparison, the infant mortality rate in Israel in 2007 was 4.6 per 1000 births.

Health Tax. It is possible that, in special cases, such as deliveries that take place abroad, or women who give birth in Israel but have no medical insurance, the hospitalization will continue to be financed under the responsibility of the National Insurance Institute. Transfer of responsibility for the hospitalization of mothers giving birth from the National Insurance Institute to the health system will completely change the financial position of the Maternity branch and will enable the allocation and development of resources for a welfare policy for working women.

Alternatively, if the National Insurance Institute continues to pay a hospitalization grant, all its components as well as its updating method should be re-examined. Major changes have occurred in recent decades in the Israeli economy, in the standard of medicine and in consumer habits. For example, the components of the basket for determining the consumer price index vary from time to time, according to changes in consumption by the population in Israel, but the components of the formula for calculating the hospitalization grant, in which many changes have also occurred, have not been re-examined. It appears that the number of days of hospitalization have decreased over the years; the special costs for maternity wards (which today are expressed in the coefficient in the formula for calculating the grant) are already included in the high price per day of hospitalization. Thus, the method for updating the grant should also be considered; this depends, almost exclusively, on the updating of the price per day of hospitalization, over which the National Insurance Institute has no influence. The Ministries of Health and Finance are the authorities that determine the rate of the update, while the National Insurance Institute is required to provide the financing for it without any possibility of input or control.

4. **Survivors' benefit** – Proposals have been presented to improve widowers' terms of eligibility for survivors' benefits, and to equate the terms to those of widows. According to the National Insurance Law, a widower is any man who was the spouse of an insured woman who died, whether he has a child still living with him, or not, but whose income from all sources does not exceed 57% of the average wage (some NIS 4,000 per month in 2008). On the other hand, a widow is entitled to a survivors' benefit without any means test, even if she has no children living with her.

The guiding principles used when formulating these proposals are as follows:

- A widow's rights are based on her spouse working and paying insurance contributions, which constitute the basis for her survivors' benefit. As opposed to this, today, the woman's employment does not confer a similar right on her spouse. Thus, the woman's contribution to accumulating rights through her employment is discriminated against. The outcome therefore, is that improving the situation of widowers will not be at the expense of prejudicing widows' rights.
- The rules of the survivors' benefits will be revised, while avoiding the creation of broad effects on other benefits, by adopting the rules that are applied to old-age pensions.

Following are the proposals:

- a. The means test will be cancelled for all widowers. This change will lead to full equation of the widowers' terms of eligibility with those of widows.
- b. Partial improvement by canceling the means test only for elderly widowers.
- c. Partial improvement by making allowances in the means test through these measures: increasing the income threshold from 57% to 100% of the average wage; instituting a proportionate survivors' benefit as is practiced with the old-age pension at the conditional age; and eliminating the components of income from the pension and from the old-age pension from the income that is taken into account in the survivors' benefit.

Alongside this, there is the option of improving the widowers' terms of eligibility **while prejudicing the widows' terms of eligibility**. This would involve, of course, reducing the benefits to widows by using to means test to reduce the percentage of eligible widows. **This solution, as stated, is definitely not recommended.**

C. Financial strength

1. **Financial strength of the old-age and survivors' branch** – The issue of increasing the old-age pension has implications on the financial strength of the National Insurance Institute and on social value, such as reducing poverty among the elderly. These implications have been examined in selected scenarios in a preliminary manner, and the findings are based on a complete set of assumptions that is described in detail in the position paper. The analysis shows that continuation of the present situation is liable to create a high and ongoing current deficit in the old-age and survivors' branch in less than ten years, when financing the deficit through the use of the branch assets would involve reducing these assets and reducing the interest receipts on them gradually until they are reduced to zero in about another 30 years from today. If the basic rate of the old-age pension is increased to 19%, regardless of the method of updating the pension, a high current deficit would be created immediately, and the total elimination of the branch assets would occur earlier: about 10 to 15 years from today. Even leaving the pension rate without change, while switching to updating it according to the average wage, would involve a high and persistent current deficit in the branch, which is expected to begin in about another four years. According to this scenario, the result of elimination of the branch assets would be felt in about another 15 years from today. Nonetheless, the analysis shows that increasing the rate of the basic pension to 19% would involve the social benefit of an expected sharp reduction in the incidence of poverty among elderly families (from about 24% to about 10%). The assessment of cost versus benefit depends, of course, on priorities. In any event, in light of the discouraging picture of the financial strength of the old-age and survivors' branch, appropriate solutions are necessary, while examining the financial strength of the National Insurance Institute in its entirety, when the majority of its branches are already in deficit today, even after taking into account the income from interest on the assets of these branches. In light of the demographic and other

changes expected in the future, such as the aging of the population and a decline in fertility, it appears necessary to give renewed and ongoing consideration to methods of contending with the developments in the National Insurance Institute's financial strength.

- 2. Financial strength of the disability branch** – Up until the mid-1990s, the Disability branch operated without a deficit; i.e., receipts were higher than payments. Since 1990, the ratio between payments and receipts has steadily diminished. In 2000, collection of insurance contributions constituted some 70% of the payments. In 2008, the current deficit is expected to reach some NIS 3.3 billion, which is some 40% of the payments. In 1997, transfers from the Children branch to the Disability branch were made for the first time, in order to increase the balances in this branch and to maintain the necessary years of coverage. Since then, three more transfers have been made (in 1999, 2007 and 2008), at an aggregate total of NIS 21.5 billion at current prices.

The position paper presents calculations concerning financial strength. Two scenarios were designed, which are differentiated by the basic assumptions of future receipts²³ (the rates of change in wages and in employees) and of payments (number of recipients of the disability pension). A comprehensive analysis was not performed in this position paper to explain the increase in the percentage of the disabled among the working-age population. In the first scenario, the percentage of recipients of disability pension relative to the population remained at the 2006 level, and the receipts are high. In the second scenario, the percentage of disability pension recipients relative to the population continues to increase, and receipts are low.

According to the first alternative, the current deficit in this branch will reach some NIS 3.65 billion in 2010, and will then steadily decrease, so that by 2030, it will drop to about NIS 1.69 billion. The cumulative deficit will reach some NIS 90 billion by 2030; an addition of about one percentage point for collection in favor of the Disability branch as of 2010 would cover the current deficit in the branch and would accrue surpluses in subsequent years.

According to the second alternative, the current deficit in the branch will reach some NIS 4.07 billion in 2010, and some NIS 8.23 billion by 2030. The cumulative deficit will reach some NIS 178 billion by 2030, double that in the first scenario: in order to cover the current deficit in the branch, a collection increment in favor of the Disability branch will be necessary, ranging between about 1.2 percentage points and about 1.4 percentage points between the years 2010 and 2025.

23 In light of the continually growing economic crisis, it will be necessary to adjust and adapt the calculations.

D. Socio-economic policy

1. Price rises and a mechanism for compensating benefit recipients

The rises in the prices of fuel and food have a harsher short-term impact on the weak populations, since the ratio of these products, along with other basic products in their consumption basket, is higher than their ratio in the consumption basket of stronger populations. However, past experience has showed that the price indices for different population groups (quintiles, deciles) are similar over time, while there may be differences between them for short periods. And indeed, during the first four months of 2008, the general consumer price index rose by 1.6%, compared with an increase of 1.9% in the lower quintile's "basket" index, while, last year (April 2008 compared with April 2007), the indices rose by 4.7% and 5.6%, respectively.

The position paper proposes that in order to provide relief to the weak population to help in coping with the price increases, an interim update should be performed, so that, when there is a cumulative increase of 2% in the general index by mid-year since the last update, the benefits will be updated at this rate, and the balance will be added at the scheduled time for the update (January of each year). In the case where the interim update exceeds the annual update, the benefits will not be reduced, but rather an adjustment will be made in subsequent annual updates. Alternatively, a scheduled update could be instituted twice a year instead of once a year, regardless of the rates of change in the index.

2. The effectiveness of reducing value-added tax

In the position paper addressing the efficacy of reducing the VAT on the welfare of families, it was stated that, since the VAT, as a general rule, is a regressive tax by its very nature, reducing it would have a progressive influence on the tax system. Nonetheless, from the perspective of Israeli society as a whole, reduction of the VAT on food products, for example, without a parallel adjustment of direct taxation, might lead to a loss of tax revenue, which is liable to lead to measures that, in the final analysis, would adversely affect equality in the distribution of income in the economy.

The document analyzes the advantages and disadvantages of differentiation in the VAT rate. In Israel, the VAT rate is usually uniform for all products and services, whereas in some European countries there is differentiation. Increased use of differentiation weakens one of the prominent advantages of indirect taxation – the efficiency of collection. Nonetheless, differentiation is very much justified when its purpose is to encourage a change in the allocation of the resources of the **majority** of the public, in favor of a particular pattern of consumption. When the objective of differentiation is to cut down expenditure on a basic product for the weak population, there is indeed an impact, but the focus of this tool is weak compared with other existing tools, such as direct taxes or transfer payments. These are infinitely preferable to the differential VAT method. Furthermore, excessive use of differential VAT is liable to lead, in the final analysis, to increased pressure to cut back on social

expenditure, due to the decline in tax revenue – an outcome that is certainly the opposite of the initial intention.

A simulation that was performed in relation to elimination of VAT on food products and apartment maintenance (water, electricity and home heating fuel) shows that such a measure would cause the government an annual loss of tax revenue of NIS 11 billion. The analysis shows that the additional income (or the decrease in expenses) of the bottom quintile would come to about 7% of the quintile's total family income, compared with a far lower percentage of the upper quintile's income (about 2%). The explanation for this lies in the high percentage of expenditure on food (as part of the expenditure or income) by the bottom quintile, not in the absolute size of the expenditure. According to this scenario, the bottom quintile would only benefit from a tenth of the government expenditure (or decline in state revenue) as a result of this measure, while the upper quintile would benefit from more than one third of the benefit inherent in the decline in state revenue. However, in another simulation, when the benefit (reduction of VAT) was focused solely on controlled products (as of the current date), we find that the cost is substantially lower (less than half) and the result is more progressive in its nature.

To summarize this section, the selected position papers presented above describe the efforts of the Research and Planning Administration to supply policy requirements in real time, while taking into account the overview of the entire system and the long-range view. It should be noted that the production of position papers has been part of the routine work of the Research and Planning Administration for many years; however, as of this year, the level of transparency will be augmented and the contents will be disclosed to the general public.

3. Scope of payments

The National Insurance Institute's payments of benefits, in cash and in kind – both contributory and non-contributory benefits – totaled NIS 49.9 billion in 2008, compared with NIS 47.1 billion in 2007. These sums also include other payments that the Institute makes, mainly to government ministries, for expenses for developing services in the community. Also included are the administrative and operating expenses of the national insurance system, including all its diverse fields (totaling some NIS 1.2 billion). The real increase in the Institute's total payments reached 1.2%, which derives mainly from an increase in the number of recipients of the benefits. In terms of the benefits-to-GDP ratio, the benefits remained almost without change (Table 1). The benefits-to-GDP ratio, which reached a record of 8.7% in 2001–2002, has steadily declined, to 6.8% in 2007 and in 2008. A similar trend, of a gradual decline in terms of the GDP, also characterizes collection by the Institute, mainly as a result of a decrease in the collection rates from employers in a gradual process that began in 2005. In 2008, as in the preceding year, the collection rate of National Insurance contributions was some 3.9% – half of the benefits-to-GDP ratio.

The data in Table 2 shows the main trends in benefit payments by branches. The increase of 1.2% in benefit payments is explained by increases in all benefit branches, except for Income Support and Children. A particularly high increase, of 10%, occurred in the payments to the Maternity branch, following a legislative amendment in May 2007, according to which, the maternity allowance is paid for seven or 14 weeks of the mother's work (instead of six or 12 previously), but it is also due to the increase in the number of recipients. As a result, this branch increased its share in the volume of payments from 7.7% in 2007 to 8.3% in 2008. Quite a large increase was also recorded in the Reserve Service branch (5.8%). Similar increases in the average in all benefits were recorded in the Old-age and Survivors (1.3%) and Disability (1.6%) branches. For the first time since 2005, benefit payments to the Disability branch increased at a moderate rate, after the increase in this branch had reached an average of 6% in 2005 through 2007. In the "Long-Term Care and other" branches, the payments increased by 2%, mainly due to an increase in the number of recipients of long-term care benefit. The payments to the unemployment branch remained without change in real terms, even though the number of recipients of unemployment benefit declined in 2008. This finding is explained by the fact that the people who were unemployed in 2008 had a higher wage level than those unemployed in previous years. It should be noted that the more stringent terms laid down in the economic benefit plan of 2002-2003 regarding eligibility for unemployment benefits, and in particular the extension of the qualification period, adversely affected all groups of unemployed, but particularly the weaker links in the labor market, who earn a lower wage: young people, the less well-educated, and those living in areas suffering from high unemployment rates.²⁴

There were declines in the volumes of benefit payments, as stated, in the income support branch (5.3%), and in the children's branch (1.5%). The decline in payments to the income support branch is explained by the positive developments in the labor market, which continued throughout 2008 as well (even though there was a change in the trend during the second half of 2008), and by the implementation of the "Prospects of Employment" plan and its expansion to additional regions in Israel. The decline in payments to the children's branch indicates the continued process of reducing the payments for child allowances, which began in 2002, whereby a uniform allowance – lower than the previous one – is gradually being paid for "new" children (born after June 2003), who are at least the third child in the family. An estimate that was carried out shows that the process of replacing the "veteran" children with "new" children will be completed by 2012, when most of the children will be considered "new" children. The effect of the exit of "veteran" children and the entry of "new" children into the system is a gradual reduction in the payments for child allowances.

24 See Box 5.9.a. in the "Unemployment" chapter in the National Insurance Institute's 2005 Annual Survey.

Table 1
**Benefit Payments and Collection from Public (excluding administrative expenses)
 as Percentage of GDP, 1980-2008**

Year	Benefit payments		Total collection	
	Total	Contributory benefits	Total*	National insurance contributions**
1980	6.09	4.98	6.77	5.15
1985	7.14	5.51	6.57	4.45
1990	8.36	7.04	7.21	5.28
1995	7.23	5.66	7.54	4.21
2000	7.72	6.14	6.05	4.11
2001	8.72	6.85	6.41	4.35
2002	8.74	6.78	6.42	4.36
2003	8.18	6.46	6.27	4.25
2004	7.41	5.93	6.09	4.08
2005	7.08	5.68	6.05	4.06
2006	6.98	5.62	5.90	3.94
2007	6.84	5.55	5.90	3.90
2008	6.82	5.57	5.92	3.89

* Including collection for the Health Funds.

** Including indemnification of the Treasury in respect of a reduction in the national insurance contributions from employers.

In total, the payments of contributory benefits pursuant to the National Insurance Law increased by 2% in 2008 in real terms. The payments of non-contributory benefits – which are payable by virtue of state laws or by virtue of agreements with the Treasury that are fully financed by the state Treasury (such as income support, mobility, maintenance, old-age and survivors, to people who are not insured (mainly new immigrants), and reserve service benefits) – declined at a rate of 0.8%. In 2008, the non-contributory benefits, including administrative expenses, totaled NIS 9 billion, which is some 18% of all benefit payments.

Table 2 also presents the segmentation of the total benefit payments by branches. As in 2007, the Old-age and Survivors' branch, the largest in size, constitutes 37.4% of the total benefits paid in 2008. The Disability branch, the second largest branch, also retained its share of the total payments, and reached 19.2% of the payments in 2008. The Children branch, which reduced its share by nearly 50% compared with 1995, continued to reduce its share, from 10.7% in 2007 to 10.4% in 2008. Two thirds of all benefit payments in 2008 are concentrated in the three largest branches – Old-age and Survivors, General Disability and Children.

The Maternity branch increased its share by 0.6 percentage points in 2008 and cumulatively by 1.5 percentage points in 2007 and 2008 – due to the aforesaid legislative amendment of mid-2007, which reached full implementation in 2008.

Like the Children branch, the Income Support branch also continued to reduce its share of the total payments in 2008, and declined from 5.4% in 2007 to 5.0% in 2008. At its peak in 2002, its share

had been 8% of the total payments. In the Unemployment branch, the decline in the branch's share was halted at 3.8% in 2008 – compared with its rate in 2000 and in 2002, which was more than twice as high, 7.6%. This steep fall is attributed mainly to the more stringent terms of eligibility for unemployment benefits, mainly in 2002 – 2003, and also is due to the positive changes in the labor market in subsequent years and up until the year under survey. The rest of the benefit branches remained more or less at the same level as in 2007, in terms of their share of the total payments.

Table 2
Payments of National Insurance Benefits (including administrative expenses), 1995-2008

Year	Total payments*	Old-age and survivors**	General disability	Work injury, and border and hostile casualties	Maternity	Children	Unemployment	Reserve service*	Income support***	Long-term care and other
1995	21,188	7,675	2,254	1,487	1,206	4,287	1,280	1,053	1,149	798
2000	39,706	13,670	5,128	2,569	2,423	7,000	3,023	1,039	2,957	1,897
2004	42,759	16,032	7,355	3,145	2,727	4,887	2,166	708	3,003	2,735
2005	43,305	16,457	7,792	3,192	2,857	4,548	2,044	713	2,859	2,842
2006	45,760	17,376	8,392	3,306	3,103	5,038	2,013	860	2,730	2,941
2007	47,089	17,615	9,034	3,332	3,605	5,038	1,812	760	2,543	3,350
2008	49,920	18,655	9,599	3,506	4,146	5,188	1,896	841	2,518	3,572
Real annual increase (percentages)										
1995	10.1	8.6	16.1	14.6	20.8	4.5	16.2	2.9	13.7	13.5
2000	8.1	8.4	14.8	11.4	10.8	1.5	-0.9	-7.4	18.1	18.2
2004	-4.2	2.2	0.8	-0.3	0.2	-20.3	-12.3	-38.1	-9.5	1.2
2005	-0.1	1.3	4.6	0.2	3.4	-8.1	-6.9	-0.6	-6.0	2.5
2006	3.5	3.4	5.5	1.4	6.4	8.5	-3.6	18.1	-6.5	1.4
2007	2.4	0.8	7.1	0.2	15.6	-0.5	-10.5	-12.1	-7.3	13.3
2008	1.4	1.3	1.6	0.6	10.0	-1.5	0.0	5.8	-5.3	2.0
Distribution by sector (percentages)										
1995	100.0	36.2	10.6	7.0	5.7	20.2	6.0	5.0	5.4	3.8
2000	100.0	34.4	12.9	6.5	6.1	17.6	7.6	2.6	7.4	4.8
2004	100.0	37.5	17.2	7.4	6.4	11.4	5.1	1.7	7.0	6.4
2005	100.0	38.0	18.0	7.4	6.6	10.5	4.7	1.6	6.6	6.6
2006	100.0	38.0	18.3	7.2	6.8	11.0	4.4	1.9	6.0	6.4
2007	100.0	37.4	19.2	7.1	7.7	10.7	3.8	1.6	5.4	7.1
2008	100.0	37.4	11.2	7.0	8.3	10.4	3.8	1.7	5.0	7.2

* The data for 1995 do not include the sums transferred to the Ministry of Defense as a repayment of a debt in respect of the savings in the number of days of reserve duty.

** Including payments for income support.

*** For the working-age population.

4. Benefit levels

Following the change in the method of adjusting benefits in the Economic Recovery Law of June 2003, the sections defining the calculation of the sum of the benefits were amended, as well as the method for updating them according to the average wage; since January 2006, the calculation has been performed according to the *basic amount*.²⁵ This sum is adjusted in January of each year according to the increase that occurred in the consumer price index between the November index that preceded the month of the update, and the November index for the preceding year.

Accordingly, in January 2008, the benefits were updated at the rate of increase in the consumer price index during the period from November 2006 through November 2007, at a rate of 2.8%. During that period, the average wage, which was previously used for updating the benefits, increased at a lower rate – 1.7%. However, cumulatively, from 2002 to 2008, the average wage increased at a rate of about 10% – compared with an increase of 5.6% in prices. The cumulative loss to recipients of the benefits in both years totaled about 4.5%, which, in budgetary terms, is some NIS 2 billion. Even though in the past two years (2008 and 2009), the benefits have been updated at the rate of the rise in prices, which was higher than the rate of the rise in wages²⁶, past experience shows that the trend of erosion of the benefits relative to wages will persist, since the **real** wage (i.e., after the rise in prices is deducted) is increasing at an average rate of approximately 2% per annum.

The data in Table 3 shows that in 2008 the basic old-age pension for an individual declined slightly, at a rate of 0.3%, after four years of a real consecutive increase, while the old-age pension for a couple declined at double that rate. The old-age pension, which includes an income supplement for an individual, decreased by a higher rate, of about one percent. The guaranteed income for a widow with two children also declined by a similar rate. On the other hand, the various types of old-age pensions and survivors' benefits, as a percentage of the average wage, remained at the same level as in 2007.

The data in Table 4 shows that in 2008 the guaranteed minimum income for the working-age population increased at varying rates of about 2%, according to the various family compositions. Also as a percentage of the average wage in the economy, the benefit increased by one half of one percent and more, and thus returned, more or less, to its level in 2005. This increase comes after the temporary 4% cut in the benefit (which began in July 2002 and was extended, beyond the original planning, until the end of 2007) was returned to the recipients of the benefit in January 2008. The deep erosion of the benefit guaranteed to the working-age population occurred between 2002 and 2005. A simple calculation shows that the guaranteed minimum income for a single parent with two children, for example, decreased by a real rate of 22% between 2002 and 2008.

25 The *basic amount* is the sum according to which most of the benefits have been calculated since January 2006. This amount is updated on the first of January of each year by the rate of the rise in the consumer price index that applied in the preceding year. The basic amount has different rates for the purpose of updating the various benefits. In 2008, the basic amount for most benefits was NIS 7,443.

26 In January 2009 also, the benefits were updated by a rate higher than the increase in wages: the prices for the determining period increased by 4.5% – compared with an increase of 3.5% in wages during that same period.

Table 3
Old-age and Survivors' Pension and Minimum Income Guaranteed to Elderly and Survivors (at fixed prices and percentage of average wage in economy*), monthly average, 1975-2007

Year	Basic old-age and survivors' pension				Guaranteed minimum income (including child allowances)			
	Elderly individual		Widow/er with two children		Elderly individual		Widow/er with two children	
	2008 prices (NIS)	% of average wage	2008 prices (NIS)	% of average wage	2008 prices (NIS)	% of average wage	2008 prices (NIS)	% of average wage
1975	669	14.9	1,113	24.8	1,146	25.5	2,228	49.6
1980	737	17.1	1,429	33.1	1,294	30.0	2,621	60.9
1985	831	15.2	1,612	29.5	1,658	30.5	3,182	58.3
1990	1,047	15.9	2,027	30.7	1,645	24.9	3,025	45.9
1995	1,061	15.5	2,055	30.1	1,774	26.0	3,921	57.3
2000	1,184	15.0	2,293	29.0	1,979	25.0	4,353	55.0
2001	1,284	15.7	2,487	30.5	2,147	26.3	4,705	57.7
2002	1,193	15.6	2,358	30.8	2,035	26.5	4,420	56.4
2003	1,158	15.6	2,337	31.5	2,018	27.2	4,366	58.7
2004	1,163	15.2	2,347	30.6	2,026	26.4	4,334	56.7
2005	1,179	15.2	2,337	30.2	2,143	27.6	4,480	57.8
2006	1,202	15.3	2,346	29.9	2,244	28.6	4,698	59.6
2007	1,212	15.1	2,350	29.5	2,281	28.6	4,741	59.4
2008	1,208	15.2	2,336	29.5	2,259	28.5	4,689	59.2
2008**	1,263	15.9			2,377	30.0		

* As measured by the Central Bureau of Statistics

** Age 80 and over

The average disability pension was eroded by 1.9% in 2007 and 2008, while, as a percentage of the average wage for a salaried position, it decreased from 31.4% of the average wage to 31.0%. Since 2003, this pension was eroded in terms of a percentage of the average wage, by about 2 percentage points. Similar trends also characterized the benefits deriving from the general disability pension: the benefit for a disabled child declined in real terms by 1.7%, and the average attendance allowance declined by 1.3% between 2007 and 2008, after it was eroded in the previous year in terms of a percentage of the average wage, by about one half of one percentage point. On the other hand, the average mobility allowance increased by 2.8% in real terms, compared with 2007.

The average long-term care benefit granted to the elderly (the sum of which is translated into hours of care) increased in real terms in 2008 by some 4.2% compared with 2007, after an increase at a similar rate between 2006 and 2007. This increase indicates the impact of the rise in the average rate per hour of care, and the changes in the composition of the recipients of the long-term care benefit.

Table 5 shows the amount of the child allowance payable to the various family compositions at 2008 prices, and as a percentage of the average wage. The allowance relative to the average wage usually remained at the same level as in 2007. The nature of the persistent cutback in the child allowances since 2001, within the scope of the plan to equate the allowance to every child, led to differential cumulative rates of change for various family compositions: while the child allowance for families with two children was eroded at a rate of about 23% between 2001 and 2008, the allowance for families with four and five children was eroded at a rate of 48% and 55% (respectively) during the same period.

Table 4
**Guaranteed Minimum Income for Working-age Population
(Fixed prices and percentage of the average wage in economy*) Monthly Average, 1990-2008**

Year	Individual			Single parent with two children (including child allowances)			Couple with two children (including child allowances)			
	Regular rate		Increased rate	2008 prices (NIS)		% of average wage	2008 prices (NIS)		% of average wage	
	2008 prices (NIS)	% of average wage	2008 prices (NIS)	% of average wage	2008 prices (NIS)	% of average wage	2008 prices (NIS)	% of average wage		
1990	1,316	20.0	1,645	24.9	3,333	50.5	3,033	46.0	3,528	53.5
1995	1,326	19.4	1,658	24.3	3,674	53.9	3,180	46.6	3,677	53.8
2000	1,479	18.7	1,849	23.4	4,072	51.2	3,506	44.0	4,059	51.0
2001	1,605	19.7	2,007	24.6	4,411	54.1	3,765	46.2	4,366	53.6
2002	1,492	19.5	1,865	24.3	4,066	53.4	3,465	45.5	4,065	53.4
2003***	1,448	19.5	1,705	22.9	3,471	42.5	2,998	40.3	3,455	46.6
2003****	1,810	24.4	1,810	24.4	3,938	53.0	3,833	52.4	3,899	52.4
2004***	1,454	19.0	1,637	21.3	3,101	40.5	2,701	35.3	3,101	40.5
2004****	1,818	23.7	1,818	23.7	3,904	51.0	3,864	50.5	3,821	50.5
2005***	1,435	18.5	1,615	20.8	3,057	39.4	2,662	34.3	3,057	39.4
2005****	1,794	23.1	1,794	23.1	3,849	49.6	3,810	49.1	3,810	49.1
2006***	1,443	18.4	1,624	20.7	3,126	39.7	2,730	34.7	3,126	39.7
2006****	1,804	23.0	1,804	22.9	3,952	50.2	3,884	49.3	3,884	49.3
2007***	1,436	18.0	1,616	20.3	3,109	39.0	2,715	34.0	3,110	39.0
2007****	1,795	22.5	1,795	22.5	3,931	49.3	3,863	48.4	3,863	48.4
2008***	1,470	18.6	1,655	20.9	3,171	40.0	2,767	34.9	3,171	40.0
2008****	1,838	23.2	1,838	23.2	4,012	50.7	3,943	49.8	3,943	49.8

* As measured by the Central Bureau of Statistics.

** Data for 1985 and 1990 relates to a widow with two children who was entitled to an income support benefit.

*** Per adult in the family under the age of 55.

**** At least one of the members of the family is over 55.

In branches paying wage-replacing benefits, a real increase was observed in benefit levels: the average injury allowance per day for employees and for the self-employed increased by 4.4% and 13.4%, respectively. The increase for employees mainly reflects the cancellation of the temporary 4% cutback instituted from 2002 to 2007. The increase in the injury allowance for the self-employed reflects, apart from this change, an increase in their income and a structured component of fluctuation that is due to the low numbers of recipients. The average maternity allowance per day increased at a real rate of 4.5%, due to a change in the composition of the recipients (an increase in the earnings rate above the average wage), while the birth grant increased at a real rate of about 2%. In 2008, the average unemployment benefit per day increased by some 5% in real terms, because the recipients of unemployment benefits in 2008 earned higher wages relative to the average wage, compared with recipients during the preceding year.

Table 5
Allowance Point and Child Allowances* (fixed prices and percentage of average wage in economy, monthly average), 1990-2008

Year	Value of allowance point		Allowance for two children**		Allowance for four children		Allowance for five children	
	2008 prices (NIS)	% of average wage	2008 prices (NIS)	% of average wage	2008 prices (NIS)	% of average wage	2008 prices (NIS)	% of average wage
1990	200	2.9	96	1.5	1,563	23.4	2,217	33.2
1995	195	2.8	390	5.8	1,570	23.4	2,233	33.4
2000	199	2.5	399	5.0	1,605	20.2	2,283	28.7
2001	197	2.4	394	4.8	1,589	19.5	2,576	31.6
2002	188	2.4	332	4.3	1,331	17.3	2,158	28.1
2003	186	2.5	314	4.2	1,160	15.6	1,853	24.9
2004	187	2.4	265	3.5	906	11.8	1,428	18.7
2005	185	2.4	258	3.3	812	10.5	1,242	16.0
2006***	156	2.0	311	4.0	844	10.7	1,190	15.1
2007****	155	1.9	310	3.8	840	10.5	1,184	14.8
2008	152	1.9	304	3.8	823	10.4	1,110	14.6

* Up until 1995, including the discharged soldier's benefit.

** The level of the allowance in 1985 and in 1990 relates to a family (with up to three children) that had not been entitled to the first-child allowance, and, as of October 1990, was also not entitled to the second-child allowance. In March 1993, the universal payment of child allowances was resumed.

*** As of 2006, the child allowances are calculated according to the basic amount, which, in January 2006, was NIS 148.

**** In January 2007, the basic amount was not updated, and therefore the child allowances according to their current value remained without change.

5. Benefit recipients

In 2008, the number of recipients of old-age pension increased by about 2%, while the number of recipients of survivors' pension alone declined by 0.3%. Overall, the number of recipients of old-

age pensions and survivors' pensions increased by 0.9%; this is the largest branch of all of the national insurance branches in size. The National Insurance Institute paid benefits to 735,800 elderly and survivors on average per month (Table 6). In the Children branch, the number of families receiving child allowances increased by 1.4%, after a similar rise in 2007, as a result of the natural increase in the population. In 2008, child allowances were paid to about 2.4 million children, living in 995,000 families.

In the second largest branch in size, General Disability, an increase of 4% in the number of recipients was recorded. This upward trend, which has characterized this branch for many years, is continuing also in relation to the benefits deriving from the general disability pension: the number of recipients of attendance allowance increased by 7.3%, while the number of recipients of mobility allowance increased by 5.9%. The number of recipients of benefit for disabled child increased by 6.3%.

Fairly large increases were also recorded in the Maternity branch and in the Work Injury branch – branches that are influenced mainly by the trend of expanding employment. In the Maternity branch, the number of recipients of maternity allowance skyrocketed by 8.8%, while the number of recipients of birth grant increased by some 3%. In the Work Injury branch, the number of recipients of injury allowance also increased by some 3%, while the number of recipients of permanent disability pension increased by some 5%. In the Long-term Care branch, which grants in-kind benefits (hours of care) to elderly persons impaired in their daily functioning, there was an increase of about 5% in the number of benefit recipients.

The downtrend in the number of recipients of unemployment benefits is continuing, and in 2008, their numbers continued to decline, by 3.6% – after a sharp drop of 11% in 2007. The decrease in the number of recipients of unemployment benefits from 2001 until today totaled 55%. This decrease is partially explained by the positive changes in employment during the last three years, and partially it derives from the stringent amendments enacted in the law in 2002 and 2003, mainly an extension of the qualification period for receiving unemployment benefits.

Table 6
Number of Benefit Recipients in Main Insurance Branches (monthly average), 1990-2008

Year	Old-age and survivors	General disability			Work injured		Maternity		Children Families receiving child allowances**	Unemployment benefits	Income support (for working-age population)**	Long-term care	
		General disability pension	Attendance allowance	Allowance for disabled child	Mobility allowance	Injury allowance	Permanent disability allowance	Birth grant*					Maternity allowance
		Number of recipients (thousands)											
1990	442.6	73.5	6.5	5.8	11.4	56.7	11.8	103.6	43.7	532.5	50.6	30.8	25.0
1995	553.9	94.0	10.2	10.3	13.2	84.9	14.6	113.1	55.2	814.7	61.5	74.8	59.0
2001	677.0	142.4	18.9	16.4	19.3	69.1	20.8	127.1	71.2	928.2	104.7	141.8	105.4
2003	709.2	157.3	21.7	18.4	22.3	61.5	23.0	136.4	73.9	939.1	70.5	155.2	113.0
2004	722.3	162.4	22.7	19.5	23.5	65.8	24.0	141.2	77.5	945.6	58.4	144.7	113.4
2005	719.9	170.9	24.0	21.0	24.9	63.9	25.2	142.9	77.0	956.3	58.8	139.9	115.0
2006	727.5	178.3	25.6	22.2	26.1	64.3	26.4	143.6	82.7	968.3	56.0	130.3	120.4
2007	728.9	187.5	27.4	23.8	27.3	67.6	27.8	147.2	86.0	980.6	49.8	120.2	125.6
2008	735.8	195.0	29.4	25.3	28.9	69.7	29.2	152.0	93.6	994.8	48.0	112.0	131.5
		Annual increase (percentage)											
1986-1990	2.6	3.4	7.2	7.7	1.5	-0.1	3.6	0.5	0.5	-0.5	20.9	8.6	17.4
1991-1995	4.6	5.0	9.4	12.2	3.0	8.4	4.4	1.8	4.8	8.9	4.0	19.4	18.7
1996-2000	3.5	7.6	10.2	8.2	4.9	-2.1	6.3	3.1	5.0	2.3	8.5	11.4	10.2
2001	3.0	5.2	13.9	7.2	14.9	-9.3	5.1	-3.6	0.8	1.7	13.1	10.6	10.1
2003	2.4	4.5	5.3	5.1	6.7	-12.1	5.5	6.1	3.5	0.4	-27.4	2.6	0.7
2004	1.8	3.2	4.6	6.0	5.4	7.0	4.3	3.5	4.9	0.7	-17.2	-6.2	0.4
2005	-0.3	5.2	5.9	7.2	5.9	-2.9	5.0	-	-0.6	1.1	0.7	-3.3	1.4
2006	1.1	4.3	6.7	6.0	4.7	0.6	4.8	0.5	7.3	1.3	-4.9	-6.9	4.7
2007	0.2	5.2	6.9	7.2	4.7	5.2	5.1	2.5	4.1	1.3	-10.9	-7.7	4.3
2008	0.9	4.0	7.3	6.3	5.9	3.1	5.0	3.3	8.8	1.4	-3.6	-6.8	4.7

* The number of different recipients during the year.

** The data for 1985 and 1990 include those families whose allowances for the first and second child were reimbursed through the employers. In 1993, the allowances again became being universal.

*** When calculating the data for 2004 and thereafter, a benefit that was split between a number of recipients was allocated to only one recipient. The number of recipients for 2004, when all recipients of a split benefit were taken into account in the calculation, was 145,600 thousand on average per month.

A sharp drop of 6.8% was also recorded in the number of recipients of income support benefit. This decrease is an additional link in a series of decreases that began in 2004, which totaled some 28% between 2004 and 2008. The sharp drop is a result of three main factors: the positive changes in the fields of employment and unemployment, the stringent amendments to the law in 2003, and the implementation of the law pertaining to integrating recipients of benefits into the work force.

6. Collection of insurance contributions from public and sources of financing benefits

The National Insurance Institute's benefit payments are financed from four sources: collection of national insurance contributions (direct collection from the public and indemnification by the Treasury in respect of reductions in the national insurance contributions from employers and from the self-employed), the government's participation in financing the contributory benefits, government financing of non-contributory benefits, and receipts from interest on investments of the monetary balances, mainly in government bonds. In addition to collecting national insurance contributions, the Institute collects the health insurance contributions and transfers them to the Health Funds.

In August 2005, the first stage in the process was activated, whereby the national insurance contributions imposed on employers were reduced. This process is gradual and will continue until 2009, at which time, the insurance contributions from the employer will be reduced at a rate of 1.5 percentage points. Concurrently, two insurance contribution rates were instituted – reduced and regular – in place of the uniform rate, at all levels of income for which insurance contributions must be made. This measure is part of a more comprehensive policy, which began in the 1980s, to reduce employers' labor costs. It should be noted that the National Insurance Institute voiced its opposition to this measure: reducing receipts from collection from the public increases the national insurance system's dependence on the Treasury budgets, and is also liable to indirectly cause a further reduction in expenditure on benefits.

At the beginning of 2006, another reform was implemented relating to the field of Institute collection, according to which the reduced rate of the insurance contributions imposed on **the employee** was decreased from 1.4% of his earnings to 0.4%. The regular rate was increased from 5.58% to 7%; and the bracket for the reduced rate was increased from 50% of the average wage to 60%. These changes were made in a zero budget.

Like the policy with regard to benefits, between 2002 and 2005, the average wage was not adjusted by law, and therefore, the brackets for insurance contributions and the minimum income liable for the payment of insurance contributions for the various categories of insured persons were also not adjusted. The freeze on the average wage continued until the end of 2005, and, since 2006, the ceiling has been adjusted only at the rate of the rise in the index. On the other hand, the reduced rate bracket and the minimum income liable for the payment of insurance contributions for the various categories of insured persons will continue to be adjusted according to the changes in the average wage even after 2006. The change in the method for updating the ceiling will lead,

over time, to relieving the burden on those with very high wages, and they will receive preferential treatment compared with those paying insurance contributions at the minimum level (such as the unemployed and students). On the other hand, the continued linkage of the reduced rate bracket to the average wage will prevent the imposition of a heavy burden of insurance contributions on those with low wages.

A. Collection of insurance contributions from public

The National Insurance Institute's receipts from the collection of national and health insurance contributions totaled NIS 42.4 billion in 2008: NIS 25.87 billion for the National Insurance branches and NIS 14.57 billion for the health system. Added to the collection from the public is NIS 1.95 billion that the state Treasury transferred as indemnification for the reduction of the national insurance contributions from employers and the self-employed (pursuant to section 32.C of the law).

Table 7 shows that, in 2008, direct collection from the public increased by 2.0% in real terms: collection of national insurance contributions increased by 1.1% and collection of health insurance contributions increased by 3.6%. These increases derive mainly from the positive economic developments in the areas of employment and wages. It should be noted that the estimates that were made show that the direct collection from the public in 2008 would have risen at a higher rate, about 7% in real terms, were it not for the legislated amendment pertaining to the reduction of the national insurance contribution rates for employers, which were enacted in 2005 and 2006, and which will continue to have a gradual effect until 2009. These amendments did not affect the collection of health insurance contributions.

The downtrend that characterized the volume of collection in terms of the ratio of the GDP was halted in 2008, after collection decreased in terms of the GDP from 6.0% in 2003 to 5.6% in 2007. As a ratio of the GDP, the volume of collection of national and health insurance contributions are the same as the rates in 2007. The percentage of collection from the public out of total direct taxes gradually climbed from 40.2% in 2003 to 49.3% in 2008, as a result of the tax reduction within the framework of the income tax reform implemented in 2003.

The changes in collection rates differ between employees and non-employees. While collection from employees increased at a moderate rate of one half of one percent in 2008 (similar to the rise in real wages), the corresponding collection rate from the non-employed increased by some 10%, after rises at similar rates in the two years preceding 2008. Cumulatively since 2005, real collection from employees increased by some 5%, compared with a corresponding increase of about 30% in collection from the self-employed. These differences derived from the plan for reducing insurance contributions from employers between 2005 and 2009, whereby, had the plan not been implemented, the collection from employees would have risen at higher rates too; this also explains the higher collection from non-employees in recent years.

Table 7
Collection for National and Health Insurance Systems, 2003-2008

	2003	2004	2005	2006	2007	2008
	Current prices (NIS million)					
Total receipts from insurance contributions	33,660	34,331	36,137	37,792	39,740	42,394
Total collection from public	32,275	32,971	34,597	36,112	37,910	40,444
For National Insurance branches	21,424	21,661	22,759	23,554	24,454	25,869
For the health system	10,851	11,310	11,838	12,558	13,456	14,575
Total indemnification from the Treasury	1,385	1,360	1,540	1,680	1,830	1,950
	Indicators for development of collection from public					
A. Percentage of real change						
Total collection from public	2.2	2.6	3.6	2.2	4.4	2.0
For National Insurance branches	3.8	1.5	3.7	1.4	3.3	1.1
For the health system	-1.0	4.6	3.3	4.0	6.6	3.6
B. As a percentage of GDP						
Total collection from public	6.0	5.8	5.8	5.7	5.6	5.6
For National Insurance branches	4.0	3.8	3.8	3.7	3.6	3.6
For health system	2.0	2.0	2.0	2.0	2.0	2.0
C. As percentage of direct taxes on individuals						
Total collection from public	40.2	41.9	42.2	44.0	46.2	49.3
For National Insurance branches	26.7	27.5	27.8	28.7	29.8	31.5
For health system	13.5	14.4	14.4	15.3	16.4	17.8
D. As percentage of direct taxes						
Total collection from public	32.5	32.0	31.4	28.8	28.6	31.1
For National Insurance branches	21.6	21.0	20.7	18.8	18.5	19.9
For health system	10.9	11.0	10.7	10.0	10.1	11.2

B. The sources for financing benefits

Table 8 shows that the National Insurance Institute's total receipts for financing the National Insurance branches totaled NIS 58.7 billion in 2008 at current prices. This is a real increase of 2.1%, compared with the preceding year. Contrary to the previous three years, the source is not in the Treasury financing component, which declined in 2008 in real terms by about one percent, after a cumulative increase of some 10% during the three years prior to 2008, but rather, originated in collection and in receipts of interest, which increased by 1.4% and by 5% respectively.

Table 8
Sources of Financing National Insurance Branches, 1995-2008

Year	Total receipts	Collection of national insurance contributions*	Government participation**	Government financing of benefits	Interest receipts
NIS million, current prices					
1995	23,581	12,171	4,222	4,650	2,504
2000	41,207	20,751	8,336	8,148	3,907
2004	47,513	23,021	10,996	8,548	4,617
2005	49,705	24,299	11,700	8,616	4,850
2006	52,344	25,234	12,600	8,982	5,290
2007	54,974	26,284	13,888	9,459	5,600
2008	58,678	27,819	14,928	9,245	6,150
Real annual increase (percentages)					
2000	7.6	9.8	1.6	10.8	3.6
2004	-0.6	1.3	2.2	-8.9	4.1
2005	3.2	4.2	5.0	-0.5	3.7
2006	3.1	1.7	5.5	2.1	6.8
2007	4.5	3.6	9.6	4.7	5.3
2008	2.1	1.4	2.8	-6.5	5.0
Distribution (percentages)					
1995	100.0	51.6	17.9	19.7	10.6
2000	100.0	50.4	20.2	19.8	9.5
2004	100.0	48.5	23.1	18.0	9.7
2005	100.0	48.9	23.5	17.3	9.8
2006	100.0	48.2	24.1	17.2	10.1
2007	100.0	47.8	25.3	17.2	10.2
2008	100.0	47.4	25.5	15.8	10.5

* Including indemnification from the Treasury.

** Pursuant to section 32(a) of the Law.

Since 2005, receipts have risen by some 10%, an increase indicating a rise in all financing components due to the real rise in wages and to legislated amendments that increased government participation in NII activities. However, the components of the government's participation increased during that period at a higher than average rate – some 14%. The cumulative increase in participation indicates the increased share in collection resulting from its obligation to indemnify the National Insurance Institute for lost revenue due to the reduction in national insurance contributions

from employers pursuant to section 32 of the Law.²⁷ The trends therefore indicate the National Insurance Institute's increasing dependence on government financing of benefits, which means that its independence is being eroded.

C. Surpluses/deficits and capital reserves

Disregarding the income from interest on the Institute's investments, the budgetary surplus in 2008 amounted to about NIS 2.4 billion, compared with NIS 2.3 billion in the preceding year (Table 9). The Institute's budget changed from a current deficit to a current surplus in 2004, and the surplus has grown from year to year since then. The moderate increase in collection from the public as a result of the continued growth in 2008 was balanced by the decrease in Treasury participation and by the adjustment of benefits in 2008. The Children branch – which has been characterized throughout the years by a large current surplus, and which is, in effect, the main contributor to the current surplus – recorded an additional increase of about NIS 1 billion.

An examination of the remainder of the components of the current surplus shows that, between 2007 and 2008, the deficit increased in all other branches, which had been operating at a deficit in any case. An increase in the current deficit of the Maternity branch was recorded, of close to 30%, stemming from the legislation that increased the number of weeks for which the maternity allowance is paid. Another substantial increase in those two years was recorded in the Old-age, Survivors and Long-term Care branches. In the Unemployment branch, whose deficit has been entirely financed from funds from the Children branch since 1999, remained at the same level of deficit, as was the case in the General Disability and Work Injury branches.

The inclusion of the income from interest from past surpluses shows an improvement in the financial situation of NII branches: the surplus including interest increased from about NIS 7.9 billion in 2007 to NIS 8.6 billion in 2008. However, apart from the Old-age and Survivors branch, all branches remained at a deficit even after inclusion of interest on investments. The elimination of the current deficit in the Institute's budget, and the change to a current surplus since 2004 indicates, of course, the reduction of the deficit in the State budget.

In 2008, the Institute's Finance Committee approved a transfer of sums from the balance of the assets of the Children branch to the Maternity and Long-term Care branches, which were operating at a deficit, and to two other branches operating at a deficit (General Disability and Work Injury), in a manner guaranteeing their continued functioning.

27 The National Insurance Institute reached an agreement with the Treasury that the Treasury's allocations pursuant to section 32 of the law would not be prejudiced due to the reduction in insurance contributions; accordingly, adjustments prescribed by the law were made.

Table 9
Surpluses/Deficits in National Insurance Institute Branches
(NIS million, current prices), 2001, 2006-2008

Insurance branch	Surplus/deficit, excluding interest on investments				Surplus/deficit including interest on investments			
	2001	2006	2007	2008	2001	2006	2007	2008
Total	-3,420	1,293	2,285	2,430	657	6,583	7,885	8,580
Old age and survivors	-633	-762	-366	-499	1,019	1,389	1,844	1,871
General disability	-1,762	-2,890	-2,927	-2,985	-912	-2,455	-2,507	-2,445
Work injury	-1,193	-1,213	-1,104	-1,128	-821	-1,013	-914	-888
Maternity	-852	-1,019	-1,239	-1,637	-674	-1,044	-1,229	-1,587
Children	5,338	10,333	11,161	-12,056	5,890	12,748	13,791	14,776
Unemployment	-3,090	-1,543	-1,312	-1,320	-3,090	-1,573	-1,342	-1,320
Long-term care	-1,410	-1,730	-2,000	-2,170	-1,049	-1,695	-1,970	-2,070
Other	182	117	73	114	294	227	213	264