

CHAPTER 3

Collection of Insurance Contributions

1. Introduction

The National Insurance Institute is responsible for collecting national insurance contributions in order to fund the benefits paid under the National Insurance Law, and for collecting health insurance contributions to fund the health system. National and health insurance contributions are collected from both working (self-employed and salaried) and non-working residents of the country, at various rates based on income from which insurance contributions are deductible. In addition, since 1986, the government has compensated the National Insurance Institute for the loss of collected revenues due to the reduction in insurance contributions for employers and the self-employed. This compensation is called *Treasury indemnification*, and it forms part of the Institute's revenues from national insurance contributions¹.

In 2009, as in previous years, collection from the public was affected by fluctuations due to economic developments in the economy as a whole, by the average wage, by the number of employed individuals (details below) and also by the legislative process – that commenced in 2005 with the tax reform of that year and that continued to the end of 2009 – that included the gradual reduction of insurance contributions from employers. In 2006, two rates of contributions – reduced and regular – were introduced for employers instead of the flat rate at all levels of income from which insurance contributions are deductible, similar to the rate structure for salaried and non-salaried workers. Before the National Insurance Law was changed, the employer paid 5.93% of the employee's salary, up to a ceiling of income from which the contributions are deductible. Following the amendment, for the period January-December 2009, employers paid 3.45% at the reduced rate (up to 60% of the average wage) and 5.43% at the regular rate. The tax reform also affected collection of national insurance contributions: the reduced rate for insurance contributions paid by employees was reduced from 1.4% of income to 0.4%; the regular rate was increased from 5.58% to 7%; and the reduced rate bracket was increased from 50% of the average wage to 60%. These changes were made with a zero budget; that is, with no change to the overall size of the Institute's revenues. The increase in the reduced rate bracket also applies to the employer's share, to avoid a loss in collection of contributions.

The combined result of the Economy Arrangements Law-2005 and of the reform introduced in 2006 is that the reduced and regular rates of insurance contributions paid by employers in 2009 are 3.45% and 5.43% respectively. Compared with the situation before August 2005, this is a reduction of 1.5 percentage points in the average rate for the employer (4.43% compared with 5.93%). The cumulative loss of revenues from the start of this process (2005) to the end of 2009 amounts to over NIS 12 billion. In accordance with the legislation, the National Insurance Institute will

¹ The rate of insurance contributions that is imposed on the government instead of on employers appears in the table of payment rates, but is also based on Section 32 of the National Insurance Law, which deals with all government participation in funding the various branches of national insurance.

not be compensated by the Finance Ministry for this loss. However, the rates of government participation, based on Section 32 of the Law, have been increased, so that the Finance Ministry allocation for funding benefits under the Law will not be reduced as a result of the loss of revenue from insurance contributions collected from employers.

Legislation of the Economic Efficiency Law for 2009-2010 was completed in July 2010 and contained two changes that had an impact on collection as of August 2009: (1) an increase in the reduced rate of contributions from employers from 3.45% to 3.85% (and in fact, a return to the situation of 2008); (2) doubling of the ceiling for the payment of national and health insurance, from five to 10 times the basic amount. A condensed picture of the changes and their impact on 2008-2009 is presented below (Tables 1 and 2). The goals of these two moves was supposedly to increase the collection of national insurance payments, but in actual fact, the additional collection and allocations under Section 32 were passed on to the Finance Ministry in toto, while the Ministry's participation in collection for the Children branch was reduced from 210% to 207.5% (and to 169% in 2010 and 208% in 2011).

Table 1

Collection from the Public and the Estimated Impact of Legislative Changes on Revenues (NIS million), 2008-2009

| | 2008 | | | 2009 | | | Percentage of change 2009 compared with 2008 | | | |
|--------------------|-------------------------|--------------------|---------------|-------------------------|--------------------|---------------|--|------------|------------------|-------------|
| | Less legislative change | Legislative change | Actual | Less legislative change | Legislative change | Actual | Nominal | | Real | |
| | | | | | | | Less legislation | Actual | Less legislation | Actual |
| Total | 43,822 | -3,370 | 40,452 | 44,695 | -3,467* | 41,228 | 2.0 | 1.9 | -1.3 | -1.4 |
| National Insurance | 29,247 | -3,370 | 25,877 | 29,773 | -3,540 | 26,233 | 1.8 | 1.4 | -1.5 | -1.9 |
| Health Insurance | 14,575 | | 14,575 | 14,922 | 73** | 14,995 | 2.4 | 2.9 | -0.9 | -0.4 |

* 8 months reduction of insurance contributions from employer and increased collection from raised ceiling.

** Additional collection from doubling the ceiling.

Table 1 shows collection from the public in 2008 and 2009, and the effect of changes in legislation on the amounts collected. In 2009, National Insurance Institute revenues from collection of national and health insurance contributions amounted to NIS 41.2 billion. NIS 40.4 billion were collected directly from the public, and NIS 2 billion were transferred by the Finance Ministry, pursuant to Section 32(c) of the NI Law, which compensates the NII for the reduction in national insurance contributions by employers and self-employed individuals. In that year, direct collection from the

public dropped by about 1.4% in real terms, compared with a growth of 2% in 2008. This decline can be attributed mainly to the global economic crisis, which did not skip over Israel and which resulted in a real decrease of 2.2% in the volume of wages. Without the change in the legislation implemented since 2005, direct collection from the public in 2009 would have dropped by an estimated 1.3% in real terms.

National Insurance contributions collected from the public in 2009 declined by 1.9% (compared with 1.2% in 2008), and health insurance contributions dropped by 0.4% (compared with an increase of 3.6% in 2008). Health insurance payments as a proportion of total collection from the public increased from 36.0% in 2008 to 36.4% in 2009, due to the continuing process of reducing national insurance contributions from employers as described above – a process that reduces the share of national insurance contributions from the public and consequently increases the share of health insurance payments. The rate of collection from the public in relation to the GDP dropped in 2009 to 5.4%. The percentage of revenues from the public as a total of all direct taxes² collected from individuals increased from 49.3% in 2008 to 50.3% in 2009, as a result of the decline in income tax from individuals at the nominal rate of 9.2% and an increase of 1.2% in national insurance collection.

2. Collection of national insurance contributions

A. Rates of national insurance contributions

In 1995, two rates of insurance contribution were instituted – reduced and regular – for all types of insured individuals. Starting in 2006, the reduced rate has been applied to that part of the income from which national insurance contributions are deductible, which is not over 60% of the *average wage*³. The regular rate applied to the remaining income up to a ceiling – on the salaried employee's share, on the employer's share, and also on the self-employed, without distinction between their share as an employee or as an employer. As Table 2 shows, the reduced rate applied to all insured individuals – salaried and non-salaried – and, from August 2005, it has been extended also to employers.

Table 2

Rates of National and Health Insurance Contributions by Type of Insured (percentages), 2008-2009

| | National insurance payments | Health insurance payments |
|--|-----------------------------|---------------------------|
|--|-----------------------------|---------------------------|

² Direct taxes collected from individuals include income tax (from salaried employees, the self-employed, and company directors), national insurance and health insurance. Total direct taxes include, in addition to taxes collected from individuals, company tax.

³ The average wage as defined in the National Insurance Law was NIS 7,928 per month in 2009.

| Type of insured | Regular rate | | Reduced rate | | Regular rate | Reduced rate |
|---|--------------|--------------|--------------|-------------|--------------|--------------|
| | 2008 | 2009 | 2008* | 2009** | | |
| Salaried – Total | 13.10 | 13.10 | 4.92 | 4.52 | 5.0 | 3.1 |
| Thereof: | 7.00 | 7.00 | 0.40 | 0.40 | 5.0 | 3.1 |
| Employee's share | 5.43 | 5.43 | 3.85 | 3.45 | - | - |
| Government's share | 0.67 | 0.67 | 0.67 | 0.67 | - | - |
| Self-employed – Total | 11.82 | 11.82 | 7.31 | 7.33 | 5.0 | 3.1 |
| Employee's share | 11.23 | 11.23 | 6.72 | 6.72 | 5.0 | 3.1 |
| Government's share | 0.59 | 0.59 | 0.59 | 0.61 | - | - |
| Insured who is not working and not self-employed | 7.00 | 11.05 | 4.61 | 4.61 | 5.0 | 5.0 |

* Collection for 2008 and as of September 2009.

** Collection for January-August 2009 only.

Table 2 shows the rates of the various types of insurance contributions and Table 3, the rates of contributions anticipated from employers for 2008-2009 as a result of the reduction in these contributions as of July 2005.

Table 3

Rates of National Insurance Contributions from Employers (percentages), 2008-2009*

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

* The rates shown are for the status of legislation from January 2006 compared to legislation in force in 2005.

Table 4 shows the number of insured individuals who are required to make insurance contributions, by type of insured. In 2009, about 2.82 million salaried insured individuals paid national insurance contributions. That year, the number of salaried insureds increased by about 0.2%. It should be noted that this group does not include workers from the Palestinian Authority, foreign workers, or insured Israeli residents with unique characteristics, such as kibbutz members, early retirees, domestic workers, persons in vocational training, and employees of the Ministry of Defense⁴.

⁴ Section 5 of this chapter gives brief information on these population groups.

Box 4

Rates of insurance contributions for salaried employees in Israel and in the OECD countries

The OECD, which Israel joined recently, constitutes an appropriate context for comparing the policy for financing Israel's social security structure with that of other developed countries.¹ The comparison is instructive with regard to the financing sources as well as the degree of progress within the social security system.

1. In most OECD countries, the social security system is financed by insurance contributions collected for employees (with the exception of Australia and New Zealand, where the insurance branches are financed by the government budget).
2. In certain countries, such as Germany, France and Japan, there are several insurance contribution rate brackets based on the level of the employee's salary. Reduced rates of contributions apply to low income levels which are usually defined according to a percentage of the average wage. In certain countries, there are several levels of reduced rates. In 2008, the average rates for OECD countries were 26.4% for the lower rate and 32% for the higher rate, while the rate in Israel was approximately 7.4% for lower incomes and 17.4% for higher incomes.
3. In all OECD countries, including Israel, the burden of insurance contributions is divided between the employee and his employer. In most countries, the employer's portion is larger than that of the employee: in OECD countries, the average (higher) rate for an employee is 11.5% compared with an average of 20.4% for the employer. The opposite is more common in Israel: the (higher) rate applies to the employee (12%), a higher rate than that applied to the employer (5.4%). It should be pointed out that the reduced rate which applies to an employee in Israel (3.5%) reduces the burden of insurance contributions on those earning low wages.
4. In some OECD countries, a percentage of the salary must be deducted for a personal pension fund. These payments are not included in the insurance contributions transferred to the public system. Countries which deduct a considerable sum for pension plans are: Holland (21%), Australia (9%), Poland (7%) Hungary (10%) and Denmark (a fixed sum). According to the Mandatory Pension Law in force in Israel, the deduction rate is gradually increasing from 2.5% in 2008 to reach 15% in 2013. In most countries, these deductions are evenly divided between the employee and the employer.

¹ The data regarding the OECD countries were taken from Taxing Wages 2007-2008, 2009, OECD.

5. About 13 OECD countries have a ceiling for insurance contribution payments. In those countries, the average level of the ceiling is approximately twice the average wage. The ceiling may vary according to insurance branch and between employee and employer. The ceiling for payment of insurance contributions in Israel is notably high, a situation which points to over-progressiveness in Israel's social security system.
6. In most OECD countries, the government is involved in the financing of the various benefits by different methods. The nature of the financing is, for the most part, based upon need: financing provided for all of the expenditures, or state participation as a percentage of the salary for which contributions are owed, such as in Israel. The OECD countries which are similar to Israel in providing relative compensation for wages are Japan, Luxembourg, Mexico, Switzerland and Turkey. In Israel, the State Treasury participates in the Old-age and Survivors, Disability and Children branches (a percentage of the revenues of the branch) as well as in the Long-term Care and Maternity branches.

Rate of Insurance Contributions (total, employee's share and employer's share) in Israel and in OECD Countries, 2008

| Country | Total insurance contributions | | Employee's share | | Employer's share | |
|---------------------|-------------------------------|--------------|------------------|--------------|------------------|--------------|
| | Reduced | Regular | Reduced | Regular | Reduced | Regular |
| Israel | 7.35 | 17.43 | 3.50 | 12.00 | 3.85 | 5.43 |
| Australia | - | - | - | - | - | - |
| Austria | 25.60 | 46.96 | 18.10 | 18.10 | 7.50 | 28.86 |
| Belgium | 47.66 | 47.66 | 13.10 | 13.10 | 34.56 | 34.56 |
| Canada | 14.32 | 14.32 | 6.75 | 6.75 | 7.57 | 7.57 |
| Czech Republic | 47.50 | 47.50 | 12.50 | 12.50 | 35.00 | 35.00 |
| Denmark | 11.60 | 11.60 | 11.00 | 11.00 | 0.60 | 0.60 |
| Finland | 31.00 | 31.00 | 7.00 | 7.00 | 24.00 | 24.00 |
| France | 26.32 | 54.65 | 0.85 | 13.60 | 25.47 | 41.05 |
| Germany | 25.90 | 41.90 | 12.90 | 20.50 | 13.00 | 21.40 |
| Greece | 44.06 | 44.06 | 16.00 | 16.00 | 28.06 | 28.06 |
| Hungary | 49.00 | 49.00 | 17.00 | 17.00 | 32.00 | 32.00 |
| Iceland | 5.99 | 5.99 | 0.20 | 0.20 | 5.79 | 5.79 |
| Ireland | 10.50 | 14.75 | 2.00 | 4.00 | 8.50 | 10.75 |
| Italy | 41.57 | 42.57 | 9.49 | 10.49 | 32.08 | 32.08 |
| Japan | 1.50 | 25.10 | 0.60 | 12.20 | 0.90 | 12.90 |
| Korea | 17.38 | 17.38 | 7.59 | 7.59 | 9.79 | 9.79 |
| Luxembourg | 28.47 | 28.47 | 14.45 | 14.45 | 14.02 | 14.02 |
| Mexico | 7.87 | 9.55 | 1.25 | 2.60 | 6.62 | 6.95 |
| Holland | 16.51 | 46.06 | 5.20 | 31.70 | 11.31 | 14.36 |
| New Zealand | - | - | - | - | - | - |
| Norway | 20.60 | 20.60 | 7.80 | 7.80 | 12.80 | 12.80 |
| Poland | 32.18 | 32.18 | 13.75 | 13.75 | 18.43 | 18.43 |
| Portugal | 34.75 | 34.75 | 11.00 | 11.00 | 23.75 | 23.75 |
| Slovakia | 48.60 | 48.60 | 13.40 | 13.40 | 35.20 | 35.20 |
| Spain | 37.00 | 37.00 | 6.40 | 6.40 | 30.60 | 30.60 |
| Sweden | 39.42 | 39.42 | 7.00 | 7.00 | 32.42 | 32.42 |
| Switzerland | 22.10 | 22.10 | 11.05 | 11.05 | 11.05 | 11.05 |
| Turkey | 36.50 | 36.50 | 15.00 | 15.00 | 21.50 | 21.50 |
| Britain | 13.80 | 23.80 | 1.00 | 11.00 | 12.80 | 12.80 |
| United States | 2.90 | 21.50 | 1.45 | 7.65 | 1.45 | 13.85 |
| OECD average | 26.45 | 31.96 | 8.71 | 11.53 | 17.74 | 20.43 |

Table 4

Employers (by size of employer) and Insured Individuals Required to Pay National Insurance Contributions, by Type of Insured, 2008 and 2009

| Type of insured | 2008 | 2009 | % of change |
|---|------------------|------------------|-------------|
| Insured salaried employees | | | |
| Total | 2,815,000 | 2,820,000 | 0.2 |
| Employers** | | | |
| Total | 226,765 | 225,686 | -0.5 |
| with 1-5 employees | 166,817 | 165,464 | -0.8 |
| with 6-20 employees | 41,800 | 42,464 | 0.8 |
| with 21-99 employees | 14,509 | 14,536 | 0.2 |
| with 100-499 employees | 3,047 | 2,968 | -2.6 |
| with 500+ employees | 592 | 590 | -0.3 |
| Non-salaried insured** | | | |
| Total | 662,182 | 691,485 | 4.4 |
| Liable to pay from their income – total | 379,329 | 453,028 | 11.5 |
| From work (self-employed) | 346,272 | 356,423 | 2.9 |
| Not from work | 33,057 | 66,605 | 19.5 |
| Pay minimum insurance contribution – total*** | 282,853 | 268,457 | -5.1 |
| Not working and not self-employed (minimum 15%) | 181,096 | 162,449 | -10.3 |
| Pupils and students (minimum 5%) | 36,942 | 42,254 | 14.4 |
| Yeshiva student (minimum 5%) | 64,815 | 63,754 | -1.6 |

* The number of salaried insured individuals reported by the employers (Form 102). The figure is the monthly average.

** The data refers to the year's end.

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

In the case of non-salaried insured individuals, we generally distinguish between two groups: those who pay insurance contributions based on their income (61.2% of all non-salaried insured individuals), and those who have no income and pay national insurance according to the minimum wage (38.8%). The first group consists mainly of the self-employed (84.3%), but following changes in the Economic Arrangements Law for 2008, insured individuals with passive income (dividends and income from capital) at a rate that is more than 25% of the average wage, whether or not they have income as employees or as self-employed, must pay contributions at the rate of an insured individual who does not work and is not self-employed. This amendment, introduced at the end of 2008, added about 34,000 insured individuals to this group (an increase of 101.5%).

The second group, of insured individuals who pay the minimum level of contribution, is divided between those who are not working and have no income from which insurance payments are deductible (about 60%), and pupils and students (40%). The

figures show a decline of 0.5% in the number of insured who paid the minimum contribution in 2009; the proportion of these who were not working as salaried employees or self-employed dropped by 10.3%. The proportion of students rose by 14.4%, apparently due to the economic crisis and the lack of available jobs. The number of yeshiva students declined by 1.6% on average.

Table 4 also shows data on the number of employers who pay national insurance for their employees, and the breakdown by number of employees. In 2009, the number of employers decreased by 0.5%; however, there was a slight increase among the medium-size employers (with 20-100 employees).

B. Scope of revenues from national insurance contributions

Table 5 shows the amounts collected for national insurance in the years 2006-2009. In 2009, revenues from national insurance contributions totaled some NIS 28.2 billion. About NIS 26.2 billion were collected from the public, and about NIS 2.0 billion were transferred by the Finance Ministry, as compensation for the reduction in payments by employers and the self-employed. That year, the NII's revenues from national insurance contributions decreased by 1.8% in real terms. Collection from the public in 2009 decreased by 1.9% in real terms. On the other hand, the amounts transferred by the Ministry of Finance as indemnification for the reduction in payments by employers and the self-employed increased by 15.5% in real terms. The increase in the transferred amounts over and beyond the rate by which collection increased derives from the increase in government participation, due to the reduction in employer contributions under the tax reform legislated in March 2005, according to which Treasury allocations would not be affected, even though there was a reduction of 0.02% in the Economic Arrangements Law of 2008. In 2009, direct collection from the public accounted for 92.9% of all national insurance revenue, similar to the previous year.

Table 5

Collection of National Insurance Contributions from Various Sectors, by Type of Insured, current prices (NIS million), 2006-2009

| Type of insured | 2006 | 2007 | 2008 | 2009 | Percentage of real change | | | |
|---|---------------|---------------|---------------|---------------|---------------------------|------------|------------|-------------|
| | | | | | 2006 | 2007 | 2008 | 2009 |
| Total collection | 25,234 | 26,284 | 27,827 | 28,229 | 1.7 | 3.6 | 1.2 | -1.8 |
| Salaried and employers | 23,113 | 23,944 | 25,132 | 25,351 | 1.0 | 3.1 | 0.4 | -2.4 |
| Non-salaried | 2,121 | 2,340 | 2,695 | 2,878 | 9.7 | 9.8 | 10.1 | 3.4 |
| Collection from the public – Total | 23,554 | 24,454 | 25,877 | 26,233 | 1.4 | 3.3 | 1.2 | -1.9 |
| Salaried and employers | 21,541 | 22,234 | 23,319 | 23,519 | 0.6 | 2.7 | 0.3 | -2.4 |
| Non-salaried | 2,013 | 2,220 | 2,558 | 2,714 | 9.7 | 9.7 | 10.2 | 2.7 |
| Total government indemnification | 1,680 | 1,830 | 1,950 | 1,996 | 6.8 | 8.4 | 1.9 | -0.9 |
| For employers | 1,572 | 1,710 | 1,812 | 1,832 | 6.6 | 8.2 | 1.3 | -2.2 |
| For non-salaried | 108 | 120 | 138 | 164 | 10.2 | 10.5 | 9.6 | 15.5 |

In 2009, direct collection from salaried workers dropped by 2.4% in real terms, compared with an increase of 0.4% in 2008. Direct collection from salaried workers and their employers was affected by changes in the labor market; average pay for a full-time salaried worker from December 2008 to November 2009 – for which insurance contributions were collected in 2009 – increased by a nominal 0.4% (compared with a 4.4% increase in 2008). The number of employed individuals increased by 0.4% in 2009 (compared with a 3.5% increase in 2008), and salaried positions dropped by 0.4% (compared with an increase of 3.5% in 2008). The reduction in the employers' contribution was mitigated by the increase in collection.

In 2009, direct collection from non-salaried insured persons increased in real terms by 2.7%, in addition to the real increase of 10.2% in 2008. National insurance revenues from salaried workers (including the share of the employee, the employer and the Treasury), as a part of all revenues, declined slightly (from 90.3% to 89.8% in 2008), because of the reduction in insurance contributions from employers, on the one hand, and the increase in income of the self-employed, on the other hand. Collection from non-salaried individuals for the various branches of national insurance consists mainly of collection from the self-employed (about 94%). In 2009, collection from the self-employed – based on tax assessments from 2007 that were updated by price rises only – increased by 11.2% in real terms. Collection from non-salaried insured individuals who pay minimum contributions, which accounts for 5% of all funds collected for insurance branches from the non-salaried, decreased by 5.4% in real terms. Examination of the payment ethics of the self-employed as well as of those who are not working and are not self-employed, emphasizes the

difference between them; while collection from the self-employed as a proportion of their potential for collection, including the balance of debt, was about 92.8% in 2008, among those insured at minimum level, this rate amounted to only about 45.6%.

3. Collection for the health system

A. Health insurance contributions

The National Health Insurance Law came into force in January 1995. The Law ensures the right of every resident of Israel to health insurance and defines a uniform basket of health services for all, where the responsibility for funding rests with the government. The Law specifies the sources of funding for the basket, the method of updating its cost, and the formula for allocating resources between the health funds. Israeli residents are entitled to choose one of the health funds recognized by the Ministry of Health, and the health fund must accept any resident, without any limitations, conditions or payment whatsoever.

Health fund payments, one of the main sources of funding for the basket of health services, are collected by the National Insurance Institute and divided among the health funds. For this purpose, the NII keeps a file of everyone who is covered by health insurance, which is regularly updated and provides information on membership of the health funds.

According to the law, every resident of Israel must pay health insurance contributions, even if he does not work, apart from a few exempt groups. The health insurance contributions from salaried and non-salaried insured are collected in the same way as are the national insurance contributions, while those collected from NII benefit recipients (who have no additional income) are deducted at source from the benefit.

Employees are charged for health insurance contributions at two levels: a reduced rate of 3.1% on that part of their income that is no more than 60% of the average wage, and a regular rate of 5.0% on the balance of their income above 60% of the average wage, up to the ceiling of income subject to insurance contributions, which is 5 times the *basic amount* (10 times as of August 1, 2009). Here too, updates are based on price rises.

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

- Health insurance contributions for recipients of wage-replacing benefits (such as maternity payments, hostile action injury benefit, reserve duty compensation and unemployment pay) are deducted from the benefit at the same rate as from income from work.

- Health insurance contributions for working-age benefit recipients who do not work are deducted from their benefit at the minimum amount specified in the Law.
- Health insurance contributions for recipients of old-age and survivors' pensions who do not receive income supplement are deducted from the pension at the amounts stipulated for individuals and couples as applicable.
- Health insurance contributions for recipients of old-age and survivors' pensions who receive income supplement are deducted from their pension at the minimum rate, whatever the family composition.
- Health insurance contributions for working-age recipients of benefits who have income from work are applied only to their income from work, and not to the benefit.

Since January 2006, the amounts of benefits are updated according to the rate of increase in the consumer price index in the previous year (that is, the index for the previous November compared with the November before that), and therefore the minimum amounts are also updated by this rate. Anyone who is not salaried or self-employed and who does not receive any benefit pays the minimum health insurance contribution (NIS 92 per month as of January 2008). Many groups are exempt from payment of health insurance contributions, such as housewives, soldiers in compulsory army service, new immigrants in the first six months following their arrival in Israel, workers under the age of 18, insured individuals under the age of 21 who are not working and who then enlist in the army, and detainees and prisoners who have been sentenced to more than 12 months in prison and receive health services from the Prison Service.

Table 6

Amount of Health Insurance Payments by Type of Benefit, 2009

| Type of benefit | Monthly health benefit payments |
|---|--|
| Wage-replacing benefits Maternity allowance Injury allowance Unemployment benefit Army reserve service benefit Accident payment Bankruptcy and corporate liquidation | 3.1% of the benefit up to 60% of the average wage; 5% of the balance of the benefit that exceeds 60% of the average wage until the ceiling set |
| Old-age and survivors With income supplement Without income supplement <ul style="list-style-type: none"> For individual For couple | NIS 92 NIS 173 NIS 251 |
| Other benefits Income support Alimony General disability Work-related disability, with children Survivors of working age | NIS 92 |

B. Health insurance revenues and their distribution among the health funds

Until the beginning of 1997, the National Insurance Institute collected the parallel tax and health insurance contributions for the health system. When the Economic Arrangements Law-1997 was approved, collection of the parallel tax was abolished, and funding for the basket of health services from the state budget was increased accordingly. Table 7 shows the amounts of health insurance contributions collected by the NII from salaried and non-salaried individuals and benefit recipients. In 2009, the NII collected some NIS 15.0 billion for health insurance. This is a decline of 0.3% in real terms, following the increase of 3.6% in 2008. In 2009, 79.9% of total revenues for health insurance were collected from salaried employees; about 10.2% from non-salaried individuals and about 9.9% from recipients of NII benefits. Health insurance payments collected from the non-salaried are broken down as follows: 70% from the self-employed and 30% from insured who are not employed and are not self-employed, and who pay the minimum level of health insurance contributions.

Table 7

Collection of Health Insurance Payment (NIS million), 2006-2009

| Year | Total | Salaried employees | Non-salaried employees | Recipients of benefits | Rate of real change |
|------|--------|--------------------|------------------------|------------------------|---------------------|
| 2006 | 12,558 | 10,021 | 1,185 | 1,352 | 4.0 |
| 2007 | 13,456 | 10,820 | 1,288 | 1,348 | 6.6 |
| 2008 | 14,574 | 11,755 | 1,426 | 1,394 | 3.6 |
| 2009 | 14,995 | 11,975 | 1,528 | 1,492 | -0.4 |

Table 8 shows the health insurance contributions collected from recipients of NII benefits. In 2009, a total of NIS 1,492 million was deducted from benefits for health insurance, and in real terms this represents an increase of 3.6% compared with the previous year. Particularly noticeable is the increase in health insurance contributions deducted from unemployment benefit payments. About 70% of the health insurance contributions deducted from benefits were paid by recipients of old-age and survivors' pensions (including those who receive the pension with income supplement). It should be noted that health insurance contributions are deducted from benefits only on condition that the benefit recipient has no income from work, or that his only other income is exempt from insurance contributions. Married women who work only in their homes (housewives) are also exempt from payment of health insurance contributions, even if they receive a benefit in their own right from the NII, on condition that this benefit is not a wage-replacing benefit.

Table 8

Health Insurance Payments from Benefits, by Type of Benefit (NIS million), 2008 & 2009

| Benefit | 2008 | 2009 | Real annual change (%) |
|-------------------------------|--------------|--------------|------------------------|
| Total | 1,394 | 1,492 | 3.6 |
| Old-age and survivors | 1,001 | 1,042 | 0.8 |
| Work disability | 28 | 31 | 7.2 |
| Disability | 141 | 152 | 4.4 |
| Income support | 74 | 78 | 2.0 |
| Army reserve duty | 1 | 1 | -3.2 |
| Maternity allowance | 81 | 89 | 6.4 |
| Unemployment | 38 | 67 | 70.7 |
| Hostile action injury benefit | 10 | 10 | -3.2 |
| Alimony | 8 | 6 | -27.4 |
| Bankruptcy | 3 | 3 | -3.2 |

The National Health Insurance Law states that the money to fund the basket of health is transferred to the health funds directly by the National Insurance Institute. The principle for dividing this money is based on the "capitation formula", which mainly takes into account the number of insured persons in each health fund, weighted by the age of each insured individual. Table 9 shows that the capitation method works in favor of the Clalit Health Fund, because its members tend to be older. For example, about 73% of the very old insured individuals (aged 85 plus) are insured in the Clalit Health Fund. At the end of 2009, the Clalit Health Fund covered 52% of all insured individuals, but its share of the health insurance moneys was about 57%. On the other hand, this method reduces the amounts transferred to Maccabi and Meuchedet Health Funds, whose members are generally younger. It should be noted that in July 2005, a change was made to the formula for allocation to the various health funds, and two new age groups were added (up to 1 year and over 85 years), which reflects the consumption of health services by those age groups. This change has slightly improved the share of Clalit Health Fund in the distribution of the funds. Since August 1, 2006, the capitation rates are calculated each month, instead of once every three months, as was the case previously. The monthly capitation makes it possible to reduce the gap between the number of insured individuals at the beginning of each quarter, and the actual number of insured in each of the three months of that quarter.

Table 9

**Breakdown of Number of Insured and Key to Distribution of Health Insurance
Revenues by Health Fund
December 2008 and December 2009**

| Health fund | December 2008 | | December 2009 | |
|--------------|---------------|------------------|---------------|------------------|
| | Total insured | Distribution key | Total insured | Distribution key |
| Total | 100.0 | 100.0 | 100.0 | 100.0 |
| Clalit | 53.07 | 57.30 | 52.47 | 56.87 |
| Leumit | 9.36 | 8.71 | 9.23 | 8.61 |
| Meuchedet | 13.27 | 11.40 | 13.53 | 11.63 |
| Maccabi | 24.30 | 22.59 | 24.77 | 22.89 |

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

- Health insurance payments, collected by the NII;
- Direct receipts collected by the health funds for health services provided for a fee (such as medicines, visits to doctor, etc.);

- Other amounts from the State budget intended to supplement the various health expenses, up to covering the cost of the basket of health services.

The estimate for 2009 is that the cost of the health basket increased by about NIS 1.7 billion in nominal terms, reaching about NIS 28.2 billion (Table 10) in real terms, an increase of 2.8% compared with the previous year.

In 2009, the State's share of funding for the basket (40.7%) rose to its 2007 level, compared to the share paid from the health insurance contribution revenues, which dropped to approximately 52.8% that year. It should be noted that the Economic Arrangements Law for 2008 states that the revenues of the health funds from direct payments by their members will be 6.45% of the cost of the basket (instead of 5.4% until 2007). This amendment explains the reduction of about 1% in the State's participation as of 2008.

Table 10

Cost and Sources of Health Services Basket, 2006-2009

| Source | 2006 | 2007 | 2008 | 2009 |
|---------------------------|--------|--------|--------|--------|
| Cost (NIS million) | 24,041 | 24,946 | 26,583 | 28,242 |
| Sources (%) | | | | |
| Total | 100.0 | 100.0 | 100.0 | 100.0 |
| Health insurance payments | 51.5 | 53.4 | 54.8 | 52.8 |
| State budget | 43.1 | 41.2 | 38.8 | 40.7 |
| Own income | 5.4 | 5.4 | 6.4 | 6.4 |

The adjusted cost of the health basket per head allows an examination of the impact of the insured's age on the health fund's costs (Table 11). The cost per head of the basket is calculated for the basket's sources divided between the health funds according to the capitation formula, and does not include amounts that are not distributed according to capitation, such as expenses for serious illnesses, administration costs, allocations to the Health Council and Magen David Adom (MDA) ("Red Shield of David" in Hebrew). In 2009, the weighted cost per head of the basket of health was NIS 3,344, compared with NIS 3,207 in 2008 – a real increase of about 1%. The basket's cost reflects the relative costs for different age groups: the cost of "younger" age groups is lower than that for the older groups. For example, in 2009, the cost of the health basket for the oldest group (aged 85 plus) was 4.1 times higher than the average cost for all insured, and 10.2 times the cost of the basket for the 15-24 age group.

Table 11

Adjusted Cost per Head of Health Basket, by Age Group (NIS per annum), 2008-2009

| Age group | 2008 | 2009* |
|----------------------------------|--------------|--------------|
| Total per standard person | 3,207 | 3,344 |
| Up to one year | 4,971 | 5,183 |
| 1-4 years | 3,079 | 3,210 |
| 5-14 | 1,507 | 1,571 |
| 15-24 | 1,283 | 1,337 |
| 25-34 | 1,828 | 1,906 |
| 35-44 | 2,181 | 2,274 |
| 45-54 | 3,432 | 3,578 |
| 55-64 | 5,420 | 5,651 |
| 65-74 | 9,173 | 9,563 |
| 75-84 | 11,418 | 11,903 |
| 85+ | 13,021 | 13,575 |

* Estimate.

4. Sharing burden of payment of national and health insurance contributions

The national insurance system, like any insurance system, in most cases makes eligibility for benefits conditional on payment of fees (contributions). Accordingly, every insured person, irrespective of his employment status, must pay national insurance contributions. The parameters of the national insurance payments indicated at the beginning of this chapter – minimum and maximum for income subject to national insurance contributions and the rates of contributions for various types of insured individuals – are typical of most social security systems in western countries.

There is no disagreement on the fact that setting a floor and ceiling for income subject to national insurance contributions is a regressive element in the collection system. The reform introduced in the NII collection system in 1995 – broadening the income base from which national insurance contributions are deductible, and introducing a reduced rate for the part of income that is no greater than half the average wage – and raising the income ceiling in January 2000 – were intended to mitigate the regressive nature of the distribution of the burden of national insurance payments imposed on insured individuals. The decision to make the National Insurance Institute responsible for collection of health insurance contributions from 1995, alongside the perception that every resident is insured and that the majority of the insured must pay contributions, led policy makers to apply the elements of the function of national insurance contributions to that of health insurance contributions.

Table 12

Salaried Employees: Income (average per month of work) and Burden of Insurance Payments by Deciles, 2007

| Decile | Average income per month of work | Insurance contribution payments | | | | | |
|---------|----------------------------------|---------------------------------|-------|------------------|----------------------|-----|------------------|
| | | NIS | | | percentage of income | | |
| | | Total | NII | Health insurance | Total | NII | Health insurance |
| 1 | 861 | 30 | 3 | 27 | 3.5 | 0.4 | 3.1 |
| 2 | 2,050 | 72 | 8 | 64 | 3.5 | 0.4 | 3.1 |
| 3 | 3,066 | 107 | 12 | 95 | 3.5 | 0.4 | 3.1 |
| 4 | 3,865 | 135 | 15 | 120 | 3.5 | 0.4 | 3.1 |
| 5 | 4,662 | 175 | 28 | 147 | 3.8 | 0.6 | 3.2 |
| 6 | 5,666 | 296 | 98 | 197 | 5.2 | 1.7 | 3.5 |
| 7 | 7,019 | 458 | 193 | 265 | 6.5 | 2.7 | 3.8 |
| 8 | 9,101 | 708 | 339 | 369 | 7.8 | 3.7 | 4.1 |
| 9 | 12,981 | 1,173 | 610 | 563 | 9.0 | 4.7 | 4.3 |
| 10 | 24,496 | 2,555 | 1,416 | 1,139 | 10.4 | 5.8 | 4.6 |
| Average | 7,377 | 501 | 218 | 283 | 6.8 | 3.0 | 3.8 |

The latest figures available to us are for 2007. The data in Tables 12 and 13 refer to the legal situation in 2007; that is, taking into account the rate of insurance payments for that year and the maximum income subject to national and health insurance contributions (up to 5 times the *basic amount*). The steps taken in the framework of the tax reform of 2006 (such as lowering the reduced rate applying to workers from 1.4% to 0.4%, increasing the regular rate from 5.58% to 7.0% and increasing the reduced rate bracket from 50% of the average wage to 60%) are reflected also in the rate of insurance payments calculated on the basis of salary and income data of 2007.

Table 12 presents data on income subject to insurance contributions (average per month of work), national insurance contributions (the employee's share only) and health insurance contributions, as the average per decile of the salaried population. Salaried employees are graded by income subject to insurance contributions (average per month of work), so that each decile covers 10% of the salaried individuals⁵. The data shows that each of the five first deciles pays national insurance contributions at the rate of 0.4% of income, and the rate gradually increases,

⁵ In April 1999, an Amendment to the Law was passed, by which the minimum income for calculating insurance contributions for salaried employees was put on a par with the minimum wage in the economy, taking part-time jobs into account. When calculating the insurance contribution, we have assumed full compliance by employers with the minimum pay regulations, and that any reported pay that is below the minimum wage is for part-time work. The bias in the average rate of insurance contributions as a portion of income in the lower deciles is negligible.

reaching 5.8% in the top decile. A similar picture arises from the rates of health insurance contributions by deciles, but the lowest rate in the five first deciles is 3.1%.

Table 13 shows the rates of insurance contributions by decile among the self-employed in 2007. It should be pointed out that the burden of national insurance contributions is striking in the first and second deciles, due to the existence of a minimum payment (2.5% of the average wage), which highlights the regressive nature of the system at low income levels. The rate of national insurance contributions paid by the self-employed (whether as workers or employers) is 6.7% in the third decile, and rises gradually to 10.4% in the tenth decile. The effect of the maximum income subject to national insurance contributions is more striking among the self-employed, because a larger part of their income is higher than this maximum. A similar picture emerges from an analysis of the changes in the rates of health insurance contributions in the various deciles.

It should be noted that, unlike the case of the salaried workers, the income of the self-employed in each decile is given in terms of monthly average for the year (and not per month of work), because collection from them is based on their annual reported income. This is the reason why the income of the salaried workers in Table 12 cannot be compared with the income of the self-employed in Table 13.

Table 13

Self-employed: Income (average per month of work) and National Insurance Burden, by Decile, 2007

| Decile | Average income per month of work | Insurance contribution payments | | | | | |
|---------|----------------------------------|---------------------------------|-------|------------------|-------------|------|------------------|
| | | NIS | | | % of income | | |
| | | Total | NII | Health insurance | Total | NII | Health insurance |
| 1 | 607 | 185 | 127 | 58 | 30.5 | 20.9 | 9.6 |
| 2 | 1,439 | 185 | 127 | 58 | 12.9 | 8.8 | 4.1 |
| 3 | 2,007 | 197 | 135 | 62 | 9.8 | 6.7 | 3.1 |
| 4 | 2,841 | 279 | 191 | 88 | 9.8 | 6.7 | 3.1 |
| 5 | 3,775 | 371 | 254 | 117 | 9.8 | 6.7 | 3.1 |
| 6 | 4,840 | 495 | 339 | 156 | 10.2 | 7.0 | 3.2 |
| 7 | 6,348 | 737 | 506 | 231 | 11.6 | 8.0 | 3.6 |
| 8 | 8,557 | 1,092 | 750 | 342 | 12.8 | 8.8 | 4.0 |
| 9 | 12,600 | 1,741 | 1,196 | 544 | 13.8 | 9.5 | 4.3 |
| 10 | 30,301 | 4,582 | 3,152 | 1,429 | 15.1 | 10.4 | 4.7 |
| Average | 7,332 | 895 | 614 | 281 | 12.2 | 8.4 | 3.8 |

5. Special populations defined as salaried workers

The data on salaried workers given in this chapter refer to the number of salaried workers reported by employers on form 102. The salaried population as defined by the NII includes other groups.

The main groups included in this population are the following:

Kibbutz members: Kibbutz members are defined in the Law as salaried employees of the kibbutz (the employer), which has the duty and responsibility to register them as salaried employees and to pay their national insurance contributions. Kibbutz members are insured for all branches of national insurance except for the Unemployment branch. In 2009, an average of about 50,000 kibbutz members (aged 18 and over) were reported on each month and the national insurance contributions paid for them amounted to about NIS 9 million per month on average.

Domestic workers: The status and rights of people employed in private households are the same as those of other salaried workers, although the contributions paid for them are set at different rates. At the end of 2009, about 175,000 employers reported people employed in their homes, and about NIS 80 million were collected from them as national insurance contributions.

Workers from the territories and from the Palestinian Authority: Workers from the territories and the Palestinian Authority employed by Israeli employers owe national insurance contributions for three insurance branches: Work Accidents, Maternity and Bankruptcy. National insurance contributions for them are collected by the Payments Section of the Employment Service. In 2009, an average of about 20,000 such workers were reported on each month, and the national insurance contributions paid for them amounted to about NIS 380,000 per month. The average monthly wage per worker, as the basis for payment of national insurance contributions, was about NIS 3,520.

Foreign workers: This group includes workers who are not Israeli residents and who are employed by Israeli employers. As in the case of workers from the territories and the Palestinian Authority, foreign workers are insured in the Maternity, Work Accidents and Bankruptcy branches, and the rate of contributions applying to them is based on special regulations. In 2009, an average of about 85,000 foreign workers were employed in Israel each month. Their average monthly wage was about NIS 4,800 and their national insurance contributions amounted to a monthly average of NIS 2.9 million.

Workers who took early retirement: These workers are charged national insurance and health insurance contributions on their early pension. In 2009, an average of about 60,000 pensioners paid contributions each month, amounting to about NIS 57 million per month.

Vocational training: This group includes people (both working and not working) who are undergoing vocational training arranged by the Ministry of Industry, Trade and

Employment or in places approved for this purpose by the National Insurance Regulations. The national insurance contributions imposed on the employer and the trainee are for two branches only: Work Accidents and Maternity. In most cases the Ministry of Industry, Trade & Labor is the employer, unless the trainee is sent for training by his employer. The number of insured who were undergoing vocational training (and who paid national insurance) was about 35,000 on average per month in 2009, and the contributions paid for them amounted to about NIS 1 million per month.