Chapter 1 Social Policy and Trends in National Insurance

1. Introduction[1]

Social policy in 2011 was set in the shadow of the social protests that erupted with great force during that summer, and spread rapidly from Rothschild Boulevard in Tel Aviv throughout the length and breadth of the country, emerging in large cities and small towns alike. Despite the ongoing social distress that exists in Israel, which has been described year after year in the National Insurance Institute's poverty reports, not only those living in poverty were protesting, but mainly people from the socioeconomic stratum generally referred to as the middle class.

The wave of protests in Israel was part of a larger phenomenon that emerged suddenly in many parts of the world, including the United States, England, Italy, Greece, Spain and Chile. In all these demonstrations more social justice was demanded, though the demands took on a different character in different places. To fully understand the major factors that led to the outburst of the social protest, the perspective of time is needed. However, one can already point to certain factors that distorted income distribution in such a way that the benefits of economic growth were not distributed equally.[2]

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In recent years there has been increasing evidence that the world's capital markets are subject to systemic risks that endanger large swaths of the population by undermining their pension and employment security. This risk is sometimes so significant that it is perceived as all-encompassing. As opposed to a specific risk against which a person can insure himself to mitigate the damage, a systemic risk raises concerns of a total systemic collapse, as witnessed during the crisis of 2008/9 and afterward, as the EU's monetary union faced the threat of collapse. During the 2008 crisis, the governments of many important countries were very afraid that a meltdown similar to the crash of the late 1920s could develop.

Given these grave concerns, the International Monetary Fund (IMF) issued a recommendation to implement an expansionary fiscal policy on a global scale.[3] This need stemmed from the feeling among decision-makers that the international financial system was at the brink of a systemic risk crisis. The panic was so great that world economic leaders were prepared to accept the financial credibility problems that fiscal expansion would later create, in order to remove the immediate risk of recession and collapse.

And indeed, the worst was averted, but as expected, this policy led to large budget deficits that undermined the financial reputations of major economies such as France, Italy and Ireland, which were obligated to impose fiscal restraint. Thus the economic

1 Parts of this chapter (Sections 1-3) are based on a document from the Research and Planning Administration which was written in August 2011: A Plan for Strengthening the Middle Class and Reducing Poverty and Inequality (Hebrew). It can be found at http://www.btl.gov.il/Publications/more_publications/Documents/hizuk.pdf.

2 See the OECD document at http://www.oecd.org/dataoecd/40/12/49499779.pdf which is the summary of a more comprehensive paper on the OECD website entitled: Divided we stand: Why inequality keeps rising, 390-1, 2011.

3 See: Spilimbergo, A., Symansky S., Blanchard O., and Cottarelli, C., (2008) Fiscal Policy for the Crisis, IMF Staff Position Note, December 29th, 1-38.

problems were exacerbated and the burden of public debt in many countries grew. But the demand for fiscal restraint at a time of rising unemployment in countries like Spain, Italy, Ireland and France hurt public confidence in their countries' policies. The public felt that it was being called on to pay twice for the mistakes of others, first through the economic and employment insecurity that the crisis had caused and again through government belt-tightening. People began to feel alienated from the financial system, which they perceived as grossly unfair.

Examples of other financial crises include the 1996-97crisis in Southeast Asia and the crisis that began with Russia's insolvency in 1998, the influence of which was felt in Israel as well. This phenomenon was dubbed "financial contagion," comparing it to the spread of a contagious disease. Within a short time the American hedge-fund crisis (requiring the bailout of LTCM) erupted.

During all these crises there were financial entities took moral hazards, meaning huge, disproportional risks that ignored the consequences of possible failure, primarily out of an assumption that there would be someone to bail them out if they failed, while the profits, if there were any, would remain in their hands.[4] That is how the global financial crisis of 2008/9 developed from an ostensibly localized mortgage crisis into a worldwide calamity that expressed itself in sharp rises in unemployment in many countries, particularly those where it was already high. It is no surprise that the first country that experienced the outbreak of social protests was Spain, which has a high unemployment rate. The macro-economic belt-tightening manifested itself in most cases in cuts in welfare systems.[5]

Another reason for the weakening of employment security for young adults was the accelerated pace of privatizing government companies, which generally led to a worsening of workers' employment conditions, particularly those of women, younger workers, those with less education and those in sectors exposed to competition from migrant workers. That the social protest spread so quickly from country to country is evidence of another new type of contagion: social contagion.

The social protest first focused on the high costs of housing, food and energy, but at some point spread to education, health care and child care for working mothers, as well as wages and employment

In Israel the social protest first focused on the high costs of housing, food and energy, but at some point spread to education, health care and child care for working mothers, as well as wages and employment. As the protest consolidated the public debate deepened and included experts in all these issues and researchers from various disciplines[6].

The government's response to the protest was rather quick and decisive as compared to its usual response to social issues. It immediately established a committee headed by

4 See Djankov S., La Porta, R., Lopez-de-Silanes, F. and Shleifer, A. (2005). The Law and Economics of Self-Dealing, NBER, WP 11883, December, 1-67

5 See Alesina, Alberto and Roberto Perotti, 1997, "Fiscal Adjustments In OECD Countries: Composition And Macroeconomic Effects," International Monetary Fund Staff Papers, 1997, 210-248.

6 See http://j14.org.il/spivak

Prof. Manuel Trajtenberg, which held open hearings and issued a lengthy report. At the same time, committees of experts were set up by the protesters. The panels of both sides offered proposals for improving social welfare issues in Israel, each as it understood them.

Both frameworks, however, lacked a defined, consistent and accepted objective that would enable the government, which naturally operates under budgetary pressures, to choose those proposals that would advance this objective in the most effective manner.

In the next section, Section 2, the causes of the social protest are discussed in detail and a consistent outline of goals and tools is proposed, using an index that measures the effectiveness of each tool, enabling the ranking of different policy plans by means of a uniform measure. Afterward several proposals are presented, examining how effectively they can achieve the goal.

Sections 3 through 8 summarize developments in the NII's benefit and collection systems during the year surveyed. The box in this chapter presents findings from a study on intra-generational mobility and Israeli wage inequality during 1990-2005. From this box we see that during this period there was a process of diminishing wage mobility, which may have also contributed somewhat to the outbreak of the social protest.

2. Causes of the Social Protest and Creating Criteria and Rankings for Policy Tools to Address It

Given that the social protest was dominated by young adults, we will examine the cost of living as expressed in how expenses are apportioned among the different income levels by age group.

A. Housing and education expenditure

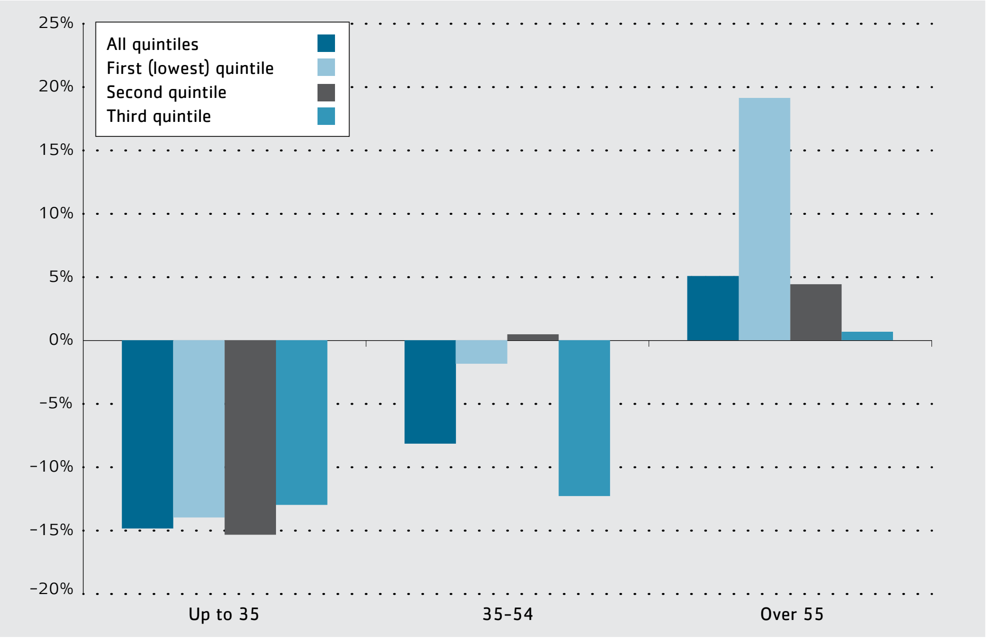
One of the central issues that led to the erecting of tents all over the country was the housing problem. This problem is reflected in the sharp decrease in apartment ownership in every quintile, but particularly in the first quintile.

From the graph it emerges that the rate of apartment ownership dropped drastically in the last decade among people under 35, and not just among the lowest quintiles. This means that the chance of young adults or even relatively mature families to own their own apartments has decreased. Again, this phenomenon exists among all families, and particularly among the lower quintiles.

The rate of apartment ownership dropped drastically in the last decade among people under 35, and not just among the lowest quintiles

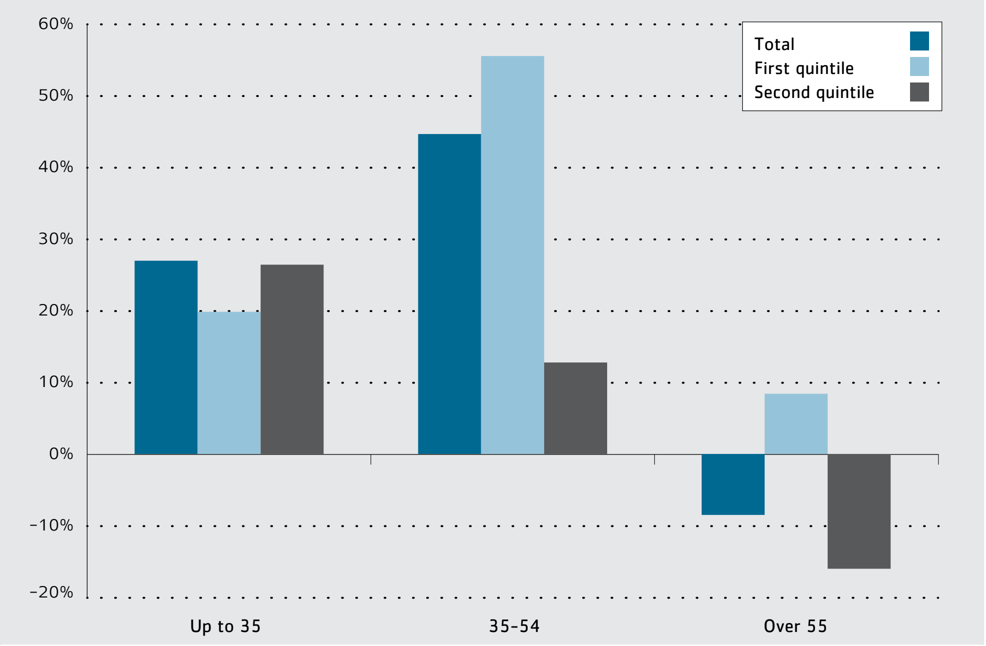
The situation of families forced to rent an apartment has deteriorated over time as well, as the share of housing expenses of young and growing families increased. Graph 2 shows that among those belonging to the young age groups who rent an apartment, the outlay for rent as a share of family income went up, particularly among the two lower deciles.

Graph 1
Change in Rate of Home Ownership by Age Group, 1999 vs. 2010[7]



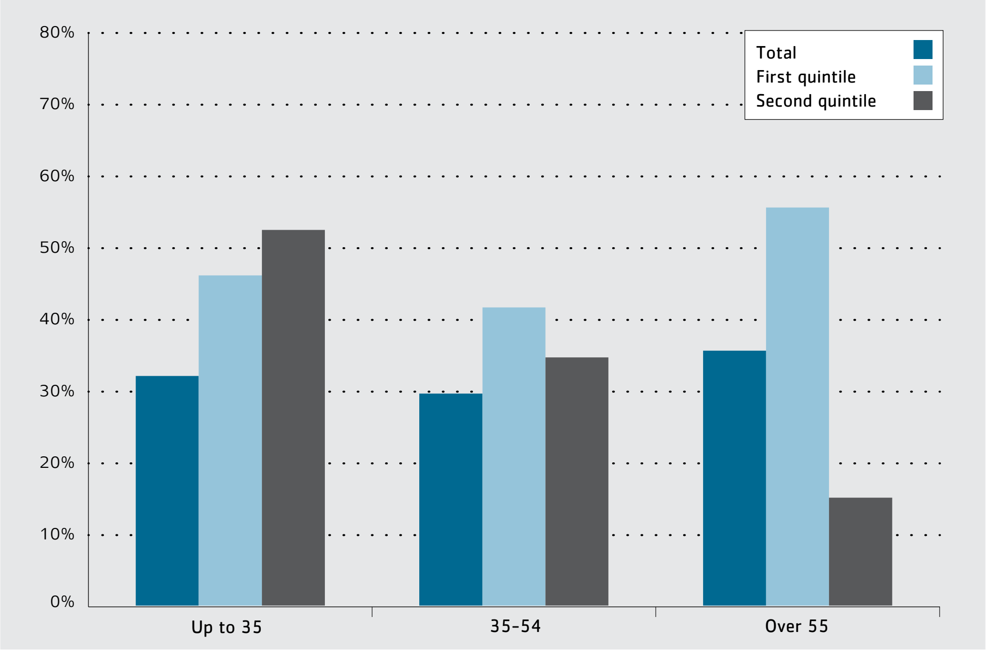
* The source for all the graphs unless otherwise indicated: Calculations by the Research and Planning Administration for Income Surveys at the Central Bureau of Statistics, 1999 and 2010.

Graph 2
The Change in Rent Expense by Age Group, 2010 vs. 1999



7 Including Jerusalem Arabs.

Graph 3
The Change in Education Expenses by Age Group, 2010 vs. 1999-2001



Graph 3 captures the significant increase in outlays for education relative to net family income. Among young families the increase is especially noticeable in the lower two quintiles.

Outlays for education increased significantly relative to net family income

To finance the increase in education and housing expenses that have far exceeded the rise in incomes, young people over the past 10 years have had to reduce other expenses; that is probably part of the reason that the relative outlays for food, fruits and vegetables, health care, home maintenance and transportation and communications decreased during the same period.

B. Taxation policy and benefits over the past decade

Contrary to the common assumption that reducing income taxes leads to an increase in general welfare, one of the main causes of the worsening of the situation of the middle class has been government taxation policies, which primarily helped the wealthier strata and increased the gaps in income from work.

Government taxation policies primarily helped the wealthier strata and increased the gaps in income from work

Several years ago the government decided on a plan to reduce direct marginal taxation (**reducing progressivity**) in two stages: The first stage was planned for the years 2003-2008 and the second for 2009-2016.[8] Benefits, on the other hand, (particularly in 2002-

8 One of the Trajtenberg Committee's recommendations was to stop the final stage of direct tax reductions (from 2012-2016). The fate of this recommendation was not clear when this report was being compiled. The last budget, meanwhile, included an expansion of the negative income tax program, which benefits low income workers, from a pilot to a country-wide plan.

2004) were substantially reduced (particularly child allowances, income support and unemployment benefits) and these changes also had a regressive effect (to the detriment of those with low incomes).

National and health insurance contributions were portrayed as taxes like any taxes, making the total system of mandatory payments look very progressive, even though there is a substantial difference between mandatory insurance payments, for which one receives clearly defined social and health services in return, and taxes, which finance general government activities. Thus the government, during the first decade of the 21st century, cut benefits and the marginal tax rates, which resulted in a marked increase in net income inequality.[9]

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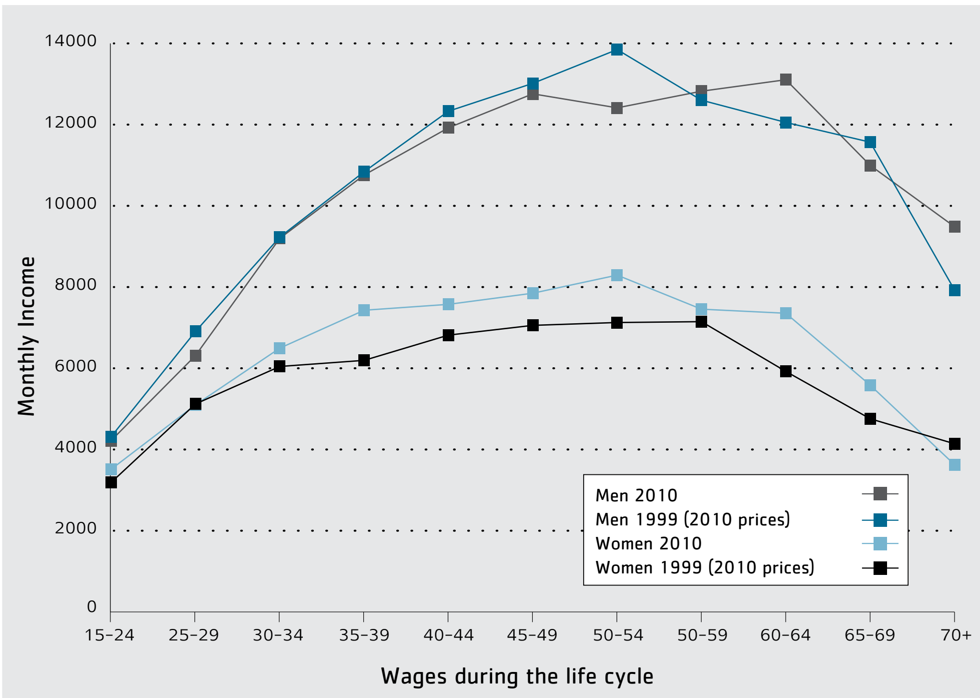
The income tax reform benefited primarily those with high incomes. The chance of benefiting from the reform thus increased with age, given the tendency of income during one's lifetime to rise with age (up to a point). At the same time, the changes in the welfare system hurt the middle-income and lower-income families. It is therefore not surprising that young people suffered, since the blow to welfare was aimed primarily at young adults

Graph 4
Wages During the Life Cycle – Men and Women, 2010 vs. 1999 (2010 prices)

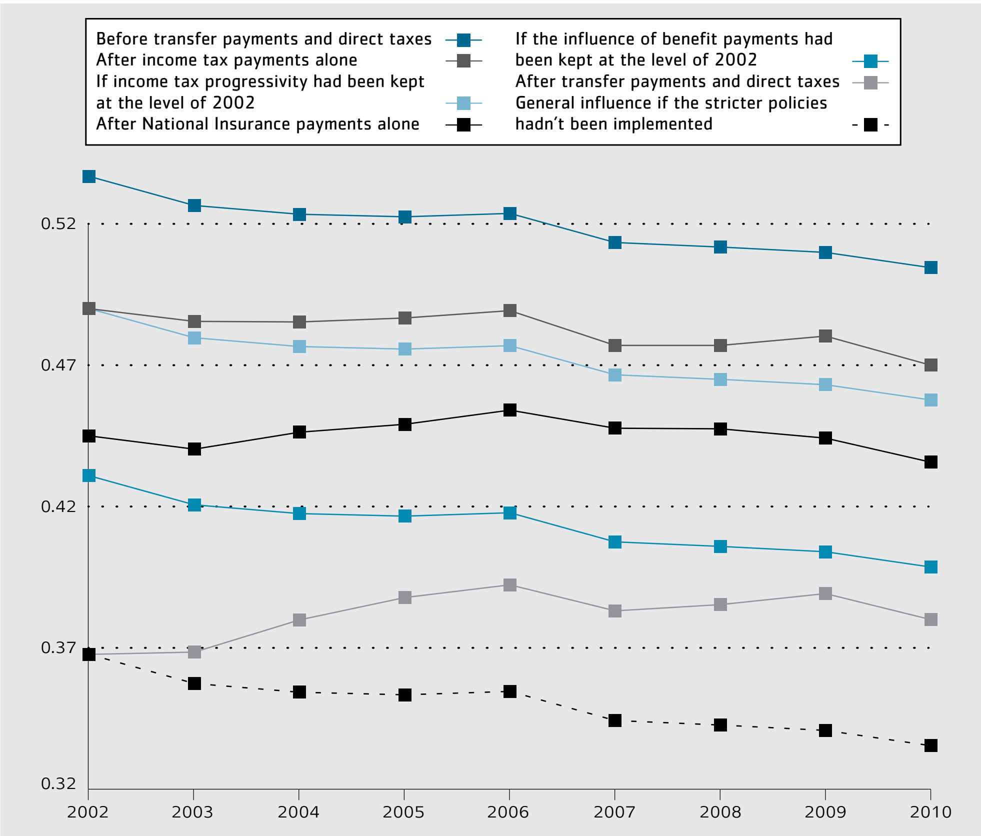


9 If this calculation had included the VAT rate, which influences inequality via consumption, the influence would have been even stronger. Although the VAT rate in Israel is lower than in many OECD countries, the average rate is higher in Israel than in other OECD countries because it is imposed on a broader base.

and others of working age. This was felt in many areas, such as tougher conditions for receiving unemployment or income support; erasing an income tax credit point and reducing the progressivity of marginal income tax, which, as noted, benefit primarily those with high incomes – more characteristic of people in their later working years (Graph 4). These processes expressed increased inequality, as revealed in the ongoing deterioration of the Gini index and income distribution by age group (Graphs 5 and 6).

Graph 4 shows that the income of those belonging to the older age groups usually peaked over the past decade, with a shift in this peak among men to later ages. From the graph one can also see that the wage gap between men and women narrowed slightly in most age groups over the past decade, though the drop at later ages is sharper among women than among men.[10]

Graph 5
The Influence of Taxation and Benefits on Inequality (as per the Gini Index)



10 A possible reason for this is the improvement in women's education in recent years, such that part of the income drop by age among the older women is explained by improvements in human capital that would manifest itself more strongly in the younger age groups.

Graph 5 shows that the primary blow was borne by social benefits, and that a significant additional reason for the increased inequality was the reform in direct taxes. It is therefore clear that the government policies over the past decade offset the recent welcome reduction of inequality in economic income from work. In other words, instead of strengthening the trend of reducing inequality being generated by market forces, the government contributed to the widening of economic gaps in families' disposable income.

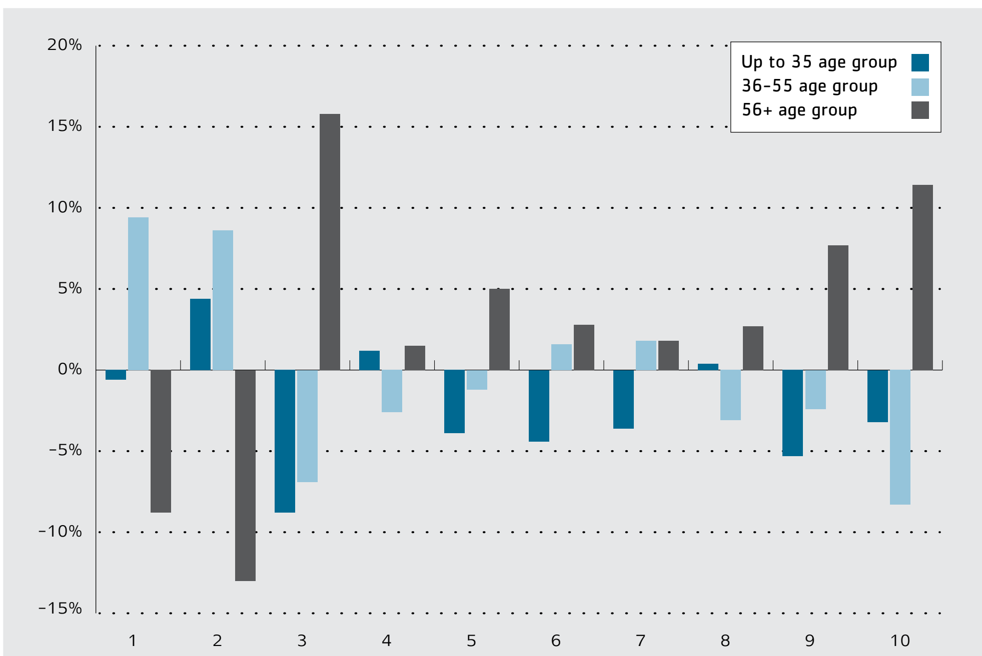
The chances of benefiting from higher income due to the tax reforms increased with age

It emerges, therefore, that the chances of benefiting from higher income due to the tax reforms increased with age. An indication of this can be found in the distribution of age groups by income decile. Graph 6 shows that over the past decade, the young and middle-aged groups were pushed down to the lowest quintile at the expense of those who were older (56+), whose representation in the third decile increased accordingly. In deciles 4-8 there were minor changes, all in favor of the older groups, and the greatest changes in that direction occurred in the top quintile. One can conclude that all of the changes that influenced income distribution over the past decade, including changes to taxation and benefits policies, worked strongly against the young and intermediate age groups and to the benefit of the older age groups.

The inequality of income distribution was intensified through government benefit and taxation policies: During the first half of the 2000s the primary cause was the more stringent conditions for receiving benefits if one was of working age, and during the

Graph 6

Changes in the Distribution of Age Groups by Income Decile,1999 vs. 2010



second half, it was the improvement in old-age pensions that relatively strengthened the older population group.

Goals, tools and measures that monitor policy

The demand of the protesters – particularly the younger ones but to a lesser extent the intermediate age group as well – to improve their economic situation, is reinforced by the deterioration of their economic circumstances relative to the other age groups over the past decade. With that, both sides – the government and the protesters, their advisers notwithstanding – did not effectively address these considerations with the many plans that were presented to the public.

Ranking the different plans is important because it enables one to choose those plans that will best achieve their goals. Therefore, it is important for the government to decide on and announce a specific goal. The simple goal suggested below is derived directly from the above analysis: **correcting the ongoing deterioration in the inequality of net income per standard person**.

This objective reflects a desire to return to the previous situation in terms of socioeconomic gaps, and encompasses all strata, not just a certain group (such as the middle class or the poor), since the Gini Index of inequality takes all families of all ages into account, without discriminating against any population group or using any demographic considerations.

The present analysis subjects the different available tools to a cost-effectiveness test – determining which tool can best achieve the objective of reducing inequality using the resources available. Thus, different action plans can be ranked rationally and fairly, based on a transparent objective acceptable to all.

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C. Is the target nominal income or income from all sources?

The Gini Index is defined by nominal income, not only because it is difficult to obtain full and reliable information about income from all sources, but also because nominal income offers the person receiving it more flexibility than in-kind income or income conditioned on the consumption of a specific service or product. To calculate the changes in disposable income that are derived from the different plans, the change of in-kind expenses or the transferring private expenses to public budgets were translated into changes in nominal income.[11]

The income derived from the funding of the educational system via the state budget (in this case, the education budget) does not influence the net nominal income after

11 From time to time calculations have been made of the changes resulting from policies using a broader definition of income. The Research and Planning Administration is working on broadening the definition of income for previous years. There is a paper on this topic: Government Funding of Health and Education Services and Income Distribution 2001-2005, (Endeweld, 2005). No. 88 in the series of NII publications (Hebrew) at http://www.btl.gov.il/Publications/research/.

taxes and compulsory payments, but the income saved by parents who no longer have to make payments to schools can be diverted to other consumption or to savings (on the assumption, of course, that educational services are not cut) as a type of nominal income. This is because nominal income is influenced only by changes in economic income, direct taxes, other compulsory payments (national and health insurance contributions) or cash benefits, and not by changes to in-kind benefits, public services, VAT (value added tax), etc.

In order to evaluate different budget tools one needs to define what income is relevant to calculating the target (the Gini Index before and after implementing the policy). In other words, in order to consider turning a specific payment, currently financed by families, into an outlay to be financed via the state budget, one needs to calculate the money equivalent of the move. One can thereby estimate the contribution of a specific change toward increasing disposable income for other consumption or savings as a result of supplying the service from the state budget rather than as a private expense as before the change.[12]

The proposed method enables one to compare the effectiveness of numerous and varied tools in reducing inequality, such as rolling back the privatization processes of expenses that were once budgetary but are now private (such as payments of parents to schools), or changes to VAT versus changes to income tax.

The plan presented here will require significant budgets, along with the use of tools that will directly influence the net nominal income, such as changes to benefits policies; budget changes of the magnitude being suggested here have not been implemented for many years in Israel, perhaps not since the social security infrastructure was established in the early years of the state. One important contribution made by the social justice protests in the summer of 2011 is that major and principled social policy moves are once again on the public agenda.

Our aim, as already noted, is to assist in preparing a rational framework for defining objectives, tools and the expected socioeconomic influences, which can be measured once the policy changes are finally chosen. To enable a rational choice among the alternatives, the proposed plan is modular. The large scope of the proposals demands a multiyear framework and clear interim goals, so that the government and the public can discern how well the chosen measures are working. The broader the program, the more important it is to deploy it over a longer period, while closely monitoring the implementation of each stage.

To convince the public that the government is serious, it is important that the first stage of the plan be substantial and broad enough to be felt, and constitute a significant

12 A more exact calculation calculates the inequality index using this definition before changing government policy. For simplicity's sake we are using the Gini Index of net nominal income as the starting point.

chunk of the overall plan. It is preferable that this first stage contain a critical mass of several of the plan's components, even if their full implementation is liable to be spread out over an extended period of time.

Concretely, we suggest measuring the effectiveness of any plan by using the budgetary cost of reducing the inequality index (in its broader definition) by 1% (column 1 in Table 1). The overall influence (in percentages) on inequality is calculated by dividing the full budgetary change by the budgetary cost needed to reduce inequality by 1% (column 3 in Table 1).

Preserving the budget framework over time will assure the feasibility of the plan chosen, particularly if it is an ambitious plan that may to take a long time to fully implement. The higher the budgetary increase needed to implement the plan, the more it will have to be financed by additional taxes or by reducing tax benefits. Of course, one can finance budget increases in certain areas by a parallel reduction in other budget clauses, but this type of financing generally cannot be sustained over time.

D. Proposed policies, ranked by their potential to reduce inequality

The plans to be examined here relate to a variety of areas: taxation policies, reversing the process of privatizing education and health expenses to the relevant public budgets, increasing rent subsidies, improving the income support benefit for those of working age and increasing enforcement of labor laws.

1. Taxation policies

Returning progressivity to taxation policy is presented as rolling back the marginal tax rates to what they had been in 2004. The intention here is to present the latent potential of restoring progressivity to the direct tax system. The proposal demonstrates the degree to which a policy of restoring progressivity could be a powerful social policy tool due to the double impact it would have: it improves the Gini Index of inequality and also generates funds to implement public policy in recommended areas such as education, health care and housing. Such policies can be carried out only by increasing taxes, reducing tax benefits (see below) or changing priorities in government spending.

The results relating to taxation policies are displayed in Table 1. After the examination of several options of plans to increase progressivity, Table 1 presents the result of a plan to restore the marginal tax rates to what they were in 2004 – a plan that makes substantial social changes, because in order to operate a broad plan within budgetary limitations, it is crucial to increase one's funding sources, first and foremost due to the principle that a strategic social plan cannot be based on deficit spending; but rather must preserve budgetary balance over time. This is an important advantage of this plan over those based on surtaxes or "a tax on the rich," taxes that in all likelihood would not be included in the budget base and thus would constitute a temporary funding source at best. Changing the tax brackets, on the other hand, alters an integral part of the regular tax system.

As is shown below, a plan of this type is expected to substantially reduce income inequality and in standard of living among Israeli families. The following suggestions are ranked according to their effectiveness in reducing inequality, with the first being the most effective. The ranking does not include all the proposals made in the above-mentioned policy paper on strengthening the middle class – such as imposing an inheritance tax, or changes in the makeup or scope of tax benefits, even though these would increase the potential for even more anti-inequality initiatives, due to the difficulty in measuring their influence given the lack of some relevant data[13].

Social policies involving reducing tax benefits to strong populations and using the freed-up resources to reduce gaps[14]

Another important aspect of taxation policy that is invisible to the public eye and thus is missing from the debates about the state budget is that of tax benefits, which totaled the enormous sum of NIS 38.4 billion in 2011, or 18% of total state revenue

Another important aspect of taxation policy that is invisible to the public eye and thus is missing from the debates about the state budget is that of tax benefits. From the State Revenue Administration report for 2009-2010[15] one can learn that these benefits totaled the enormous sum of NIS 38.4 billion in 2011, which is 18% of total state revenue and 4.4% of the GDP. These benefits are derived mainly from gaps in tax rates. For example, benefits are generated for those who have income from capital as a result of a decision that the tax rate on such income be lower than the rate on income from work. In other words, the benefit stems from an administrative decision that the tax on the yields from financial or physical capital, such as interest or dividends, will be lower than the tax on income from human capital. That the government has set lower tax rates on financial capital is a benefit primarily the top income decile, particularly the top hundredth or thousandth.

Tax benefit policies are thus generally very regressive, increasing economic gaps. A look at Graph 7 shows that most of the tax benefits in Israel are "non-social" and various governments have used, and continue to use, this tool in a way that strengthens inequality in society.

Other benefits, such as those conferred by the Encouragement of Capital Investments Law or the tax benefits accrued through provident funds, seem to increase income inequality in a sharp and uncontrolled fashion. These two benefits constitute some 43% of the value of benefits in 2011

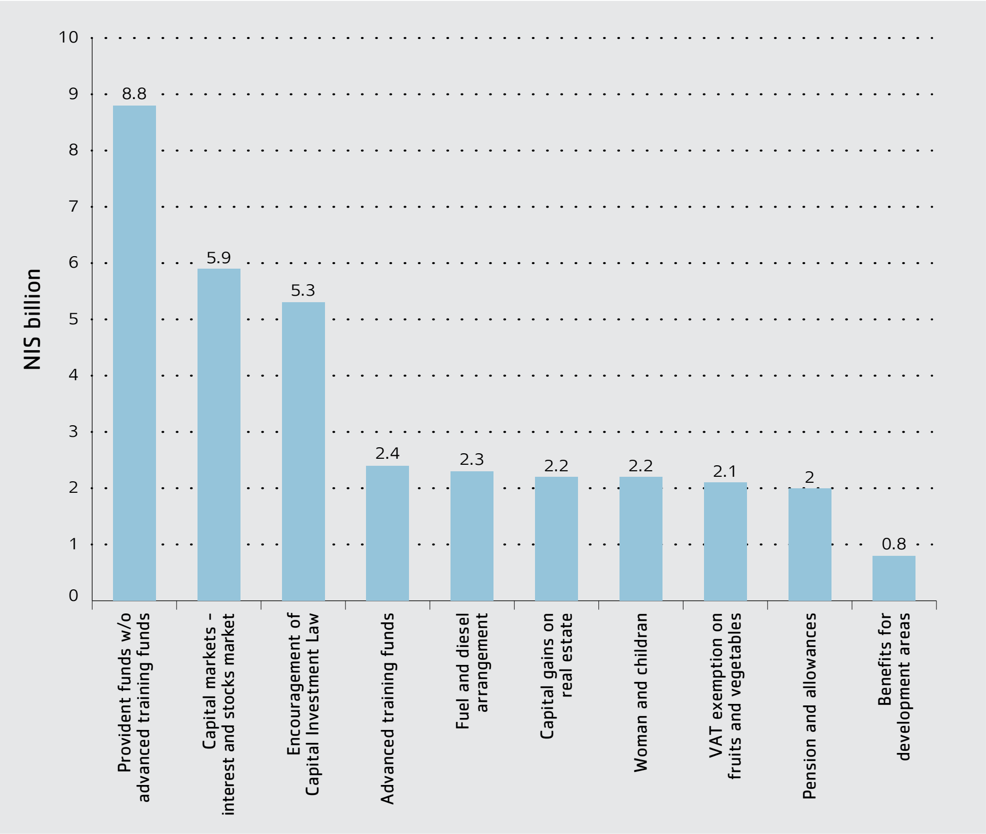
A small number of benefits do act to reduce inequality -- the tax credit points for working mothers, which are allotted per number of children, for example. But other benefits, such as those conferred by the Encouragement of Capital Investments Law or the tax benefits accrued through provident funds, seem to increase income inequality in a

13 As with the suggestion to increase progressivity, such proposals would have the double impact of reducing inequality and providing more resources to implement new spending policies. That is why such steps are particularly attractive in terms of social influence.

14 The section on tax benefits is primarily based on Chapter 4 of the State Revenue Administration report for 2011-2012.

15 See the State Revenue Administration report, 2009-2010, Chapter 4, "Forecast for Tax Benefits for the Years 2011-2012".

Graph 7
Various Tax Benefits (NIS billion)



sharp and uncontrolled fashion.[16] It's important to note that these two benefits constitute some 43% of the value of benefits in 2011, and that most of the benefits distributed under the Encouragement of Capital Investments Law go to a very few recipients.[17]

Graph 7 below is based on the State Revenue Administration's publication.[18]

As noted, it is difficult to measure the influence of the changes in Table 1 over time because of the meager information available to the public or even to the government during discussions of the state budget.

16 As noted above, there is no reliable data about this, but from information that is periodically reported in the media the bulk of this budget is distributed to those companies that are the strongest economically. One could of course argue that there is no connection between the grants given under the Capital Investment Encouragement Law and personal income distribution. However, it's reasonable to assume that the influence of this division is similar to the distribution of dividends. Thus one can estimate their influence.

17 Because there is no transparency regarding the beneficiaries under the Encouragement of Capital Investments Law, this comment is based on unconfirmed, personally obtained information.

18 See note 16 above.

2. Improved information about tax benefits

There is definitely potential for improving the available information, since the raw data exists in the relevant departments of the Finance Ministry (see Graph 7 above). This sum has dropped since 2002 by about a third (some 2.2% of GDP) due to the income tax reform that reduced the gap between income tax rates (on work) and income tax rates on financial capital. An increase in the taxes on capital also reduced the inequality that stems from tax benefits. By contrast, the reduction of benefits to children of disabled parents ("incompetent"), to those temporarily disabled, and to families in which one of the parents is not employed, work in the opposite direction.

In 2012 these tax benefits are expected to increase to NIS 39.6 billion (according to the State Revenue Administration) and to remain steady relative to the GDP. The importance of this from a policy perspective is clear: Theoretically, it would be possible to increase the supply of public services or alternatively reduce tax rates on a scale equal to the total value of the benefits.

There is a very broad base for expanding social spending by reducing tax benefits as a whole or some of them. The fact that the value of these benefits is not generally presented during state budget debates and is not analyzed by professionals to determine their influence leads to tax benefit policies remaining concealed from the public

To sum up, there is a very broad base for expanding social spending by reducing tax benefits as a whole or some of them. The fact that the value of these benefits is not generally presented during state budget debates and is not analyzed by professionals to determine their influence (by deciles, for example), leads to tax benefit policies remaining concealed from the public.

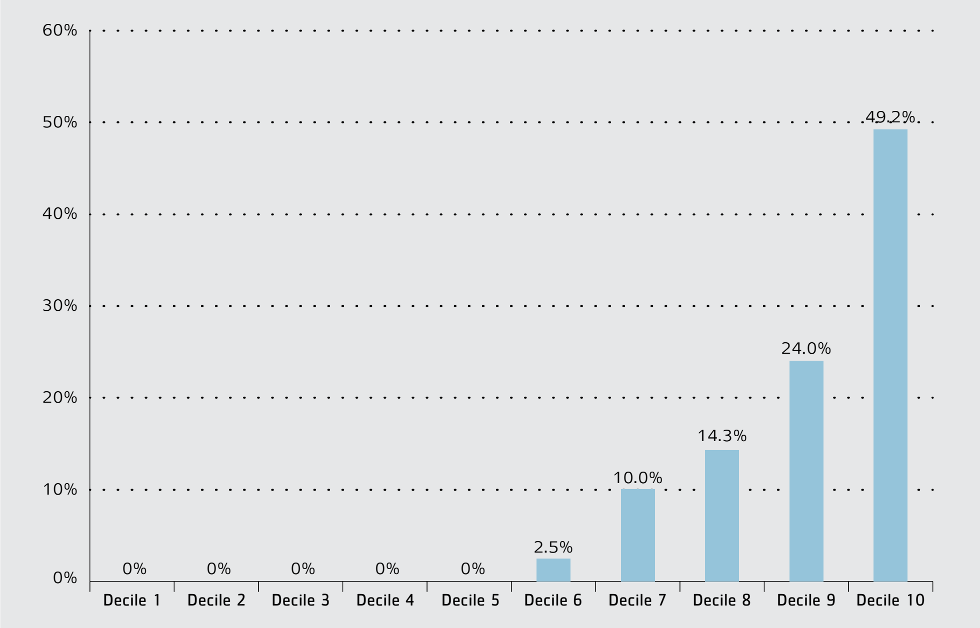
In many countries there is a legal requirement to report on tax benefits and the influence of their distribution.[19] For example, the U.S. Congress in 1974 passed a bill requiring a report on tax benefits in the federal budget. While in Israel there is a requirement since 1986 to attach a chapter on tax benefits to the state budget, there is no requirement that the Knesset ratify those benefits each time the budget outlays are approved, something that would spark debate over this budget tool in particular. For such a debate to be meaningful, it would be important for the also a report on the influence of the distribution of each benefit alone, and of all the benefits together. In the event that exact reporting would be difficult, the Finance Ministry, the entity that has all the data, should be expected to provide reasonable estimates of each benefit's influence. Given the fact that most of the benefits are focused on the upper decile it is important that the report detail how these benefits are distributed to the 10 top hundredths.

A similar recommendation appears in the State Revenue Administration's report for 2009/10, to the effect that there should be increased control over tax benefits and that each benefit should have an expiration date, so that each will expire after a certain length of time – unless the legislator debates it anew and decides to extend it. Since at issue are benefits that are the privilege of wealthy, strong pressure groups, one can assume there will be intense pressure to block such a measure.

19 See Page 67 in the report cited in Note 15.

Graph 8

The Influence of Provident Fund Benefits on Net Income by Decile



Graph 8 points to the great inequality inherent in the tax benefits on the capital market, which, as noted above, constitutes some NIS 4.4 billion of tax revenue that the state is giving up. According to the Finance Ministry, about half the benefits go to the highest decile and nearly three-quarters to the two highest deciles. Below the sixth decile there is essentially no distribution of benefits in the area of capital markets. The conclusion is that the tax benefits on provident funds (not including advanced training funds) markedly increase income inequality.

3. A proposal for a more equitable division of capital market tax benefits

During various discussions of this issue, the NII has proposed a very simple plan under which the tax revenues that would be generated by reducing of cancelling this benefit would be redirected, via the NII, to residents in accordance with the work effort made by all those who worked in Israel. This plan is feasible, since the NII has information on the work history of every individual in Israel, and could thus pay an occupational pension (funded by the cancelled tax benefits) to everyone who works, in accordance with his work effort. Thus it would be possible to distribute the benefits more equitably, taking into account the work effort of the entire public during their working life.[20] As a result,

20 See a specific proposal in Appendix 3 (Seniority increment to employees who reached retirement age instead of tax benefits for contributing to pension funds) in the position paper A Plan for Strengthening the Middle Class and Reducing Poverty and Inequality. http://www.btl.gov.il/Publications/more_publications/Pages/hizuk.aspx.

even people who because of their low income never get any tax benefits would receive this benefit.

E. Ranking the plans

The plans relate to several major areas: taxation; returning private education and health care expenses to the relevant budget; rent subsidies; improving subsistence benefits and improving enforcement of labor laws

The plans detailed below relate to several major areas: taxation (restoring the progressivity in taxation and reducing VAT on food products); returning private education and health care expenses to the relevant budget; rent subsidies; improving subsistence benefits (income support to those of working age) and improved enforcement of labor laws.[21]

Table 1
Comparing Proposals by Their Effectiveness on Reducing Inequality via the State Budget

Plans ranked by their influence on economic gaps		Budgetary cost of bringing the Gini Index down 1%	Budgetary cost	Influence in percentages on the Gini Index (the broader definition of income change)
1	Returning tax rates to their level in 2004	-4,478	-13,258	3.0
2	Enforcing the minimum wage	37	33	0.9
3	Increasing income support for working-age people by 30%	1,350	675	0.5
4	Free education – elementary school only	1,681	1,397	0.8
5	Free education – afternoon programs only	1,713	912	0.5
6	Free education – kindergartens only	1,820	2,940	1.6
7	Rental assistance up to median income (NIS 800/month)	1,828	1,865	1.0
8	Free education – until school age (inclusive)	1,841	4,793	2.6
9	Rental assistance up to median income (NIS 600/month)	1,844	1,411	0.8
10	Free education – high school only	1,888	438	0.2
11	Free education – day care only	1,909	1,854	1.0
11	Refunds on supplementary health insurance by the capitation method	3,291	3,195	1.0
12	Differential VAT (7.5% on food products)	4,329	4,329	1.0
13	Refunding education expenses	5,658	7,540	1.3
14	VAT – general reduction in VAT	7,201	1,008	0.1
15	Refunding expenses of the health basket	7,988	3,195	0.4

21 This measure is meant to be implemented following the negotiations that took place during the strike by contract workers.

Reducing tax exemptions, though a desirable and progressive process, is difficult to quantify given the lack of information about their influence on the income of different population groups. Therefore, it's important to lay the groundwork for effectively managing tax benefits by clearly demanding more information about these benefits and in particular, information about their distribution by deciles, if not by even smaller segments.

Adopting the suggestions that appear in the table would bring about a substantial reduction in inequality in both income and the standard of living. As explained about, there is a need for a broader definition of income in order to present the full improvement in income distribution, since one cannot expect that policy changes would be expressed immediately and fully in the official inequality and poverty indices, which are calculated solely according to nominal incomes.

As noted above, to express the different influences in the inequality and poverty indices, in this chapter we broadened the definition of the official poverty index and included in it, in addition to nominal income, in-kind income that would be the result of transferring what are now payments from families' private budgets to the state budget (see the above examples in the realms of education and health care). The significance of this is that the government must decide to add, in addition to the existing poverty and inequality indices, new indices of the type calculated in this document.[22]

Intra-Generational Mobility and Wage Inequality in Israel, 1990-2005

This box presents some of the main findings of a study that examined the level of wage mobility among employees in Israel and how it has changed during three periods of time – 1990-1995, 1995-2000 and 2000-2005[1]. The data source was the administrative data of the tax authorities, which includes all the information about employee wages in Israel.

The level of wage mobility is examined by using a variety of measures: correlation coefficients, transition matrix indices and indices that estimate income mobility in terms of wage inequality. Despite the use of different indices that are not always comparable, the findings were uniform and consistent: the level of income mobility among employees in Israel decreased in the 15 years surveyed. The drop occurred in two directions, upward and downward. The drop in upward mobility among employees at

1 From the study by M. Endeweld (2012), due to be published shortly as part of a series of research studies by the NII.

22 It should be noted that in recent months, a committee chaired by the Central Bureau of Statistics, which included representatives from the NII, Welfare and Social Services Ministry, the Finance Ministry and the Bank of Israel, convened and formulated conclusions regarding these issues. The conclusions had not yet been published when this report was being prepared.

Bartholomew (BI) and Shorrocks (SI) Indices for Measuring Mobility by Transition Matrices, Totals and Men and Women During the Three Periods of the Study

	Total		Men		Women	
Research period	**SI**	**BI**	**SI**	**BI**	**SI**	**BI**
1990-1995	0.547	0.547	0.578	0.594	0.582	0.607
1995-2000	0.506	0.506	0.540	0.555	0.525	0.528
2000-2005	0.471	0.469	0.507	0.514	0.481	0.485
Percentage change in level of wage mobility during the third period compared to the first						
2005-2000 1995-1990	-13.9	-14.3	-12.4	-13.4	-17.4	-20.1

the bottom of the wage ladder portends an uptrend in the level of permanent poverty in Israel, a topic difficult to check empirically because follow-up surveys with families are lacking.

The table below collates the mobility indices in accordance with two indices accepted in the research literature on income mobility: Bartholomew and Shorrocks. These two indices show that the level of wage mobility has diminished during the three periods, from 0.55 in the first period (1990-1995) to 0.47 in the third period (2000-2005). In examining the differences between men and women, it emerges that the drop in wage mobility was greater for women than for men.

Comparing genders shows, as noted, that wage mobility levels are lower for women than for men and that the drop gets steeper over time. When comparing economic status (income levels), it emerges that among the employed population as well as among women, the wage mobility is quite low within the highest and lowest quintiles and higher in the intermediate quintiles, while for men, the higher they are on the income ladder the greater their chances of remaining in that ranking.

It was found that downward mobility among women decreased during the periods researched, apparently due to their increased abilities, participation and stability in the labor market. However, the chances of women extracting themselves from lower salary levels are considerably fewer than those of men, indicating the likelihood of greater permanent poverty among them.

It should be noted that measuring mobility in terms of inequality shows that the increase in income inequality corresponds to the drop in wage mobility. Thus, no support was found for the theory that structural and institutional changes that generally correlate with increased wage inequality (such as reduced regulation or less unionizing) leads to a parallel increase in wage mobility. Another conclusion is that the upward deviation that arises from the measurement of annual income inequality shrank over the period.

A partial explanation for these findings is the marked decrease in immigration to Israel by people with the considerable human capital that contributes to wage mobility, combined with the increase in foreign workers who are not only themselves entrenched at the bottom of the income ladder but who also indirectly influence the availability of opportunities for low-skilled workers in the labor market.

3. The Volume of Payments

The NII's payments of contributory and non-contributory benefits, in cash and in kind, totaled NIS 62.7 billion in 2011, compared with NIS 59.1 billion in 2010. These sums also include other payments that the NII pays, mainly to government ministries, for expenses relating to the development of services in communities, as well as for administrative and operating expenses of the national insurance system's entire spectrum of activities (totaling approximately NIS 1.3 billion). The real increase in the NII's total volume of payments reached 2.4%, which stemmed primarily from the increase in the number of benefit recipients and a real increase in some of the benefits following Economic Efficiency Law (Legislated Amendments for Implementing the Economic Plan for 2009-2010) and various agreements pursuant to the law. This increase was partially offset

The NII's payments of contributory and non-contributory benefits, in cash and in kind, totaled NIS 62.7 billion in 2011, compared with NIS 59.1 billion in 2010

Table 2
Benefit Payments and Collection from the Public (excluding administrative expenses) as a Percentage of the GDP, 1980-2011

	Benefit payments		Collection	
Year	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	7.65	6.09	6.00	4.08
2001	8.63	6.78	6.34	4.30
2002	8.65	6.71	6.35	4.32
2003	8.12	6.41	6.23	4.22
2004	7.35	5.88	6.04	4.05
2005	7.02	5.63	6.00	4.03
2006	6.87	5.53	5.80	3.87
2007	6.67	5.42	5.76	3.81
2008	6.73	5.49	5.84	3.83
2009	7.06	5.80	5.63	3.67
2010	7.12	5.92	5.85	3.85
2011	7.05	5.92	5.90	3.88

* Including collection for the sick funds.

** Including indemnification from the Finance Ministry for the reduction in employers' national insurance contributions.

by the difference between the rate at which the benefits were updated (2.3%) and the rise in the Consumer Price Index that year (3.45%)

The ratio of benefits to GDP, which had peaked in 2001-2002 by 8.7%, steadily decreased until it reached 6.7% in 2008. In the two subsequent years it rose to 7.12% in 2010, and then dropped to 7.05% of the GDP in 2011

With that, in terms of percentages of the GDP, the benefits decreased by 0.07 percentage points (Table 2). The ratio of benefits to GDP, which had peaked in 2001-2002 at the rate of 8.7%, steadily decreased until it reached 6.7% in 2008. In the two subsequent years it rose to 7.12% in 2010, and then dropped to 7.05% of the GDP in 2011. In terms of the GDP, the collection rate for national insurance branches rose a bit, from 3.85% in 2010 to 3.88% in 2011, inter alia as a result of the mild real increase in wages. All told, the contributory benefits under the National Insurance Law went up 3.1% in real terms. Payments for non-contributory benefits paid under other laws or under agreements with the Finance Ministry and fully funded by the Finance Ministry, such as income support, mobility allowances, maintenance payments, old-age and survivor benefits for the non-insured (primarily new immigrants) dropped by 2%. In 2011 the non-contributory benefits, including administrative costs, came to NIS 10 billion, which is 16% of all benefit payments.

The data in Table 3 present the main trends in benefit payments by branches of insurance. The old-age and survivors' benefits went up 3.3% in 2011. In recent years, there have been a number of revisions that have increased these payments: In April 2008 the basic old-age and survivors' benefits were increased from 16.2% to 16.5% of the basic amount[23], while those aged 80 and older received a special increment of 1 percentage point of the basic amount. In August 2009, under the Economic Efficiency Law, the old-age and survivors' pensions were raised again, from 16.5% of the basic amount to 17%, and in January 2010 to 17.35%, as part of a process that concluded in January 2011, when the basic pension was raised to 17.7% of the basic amount.

Payments of old-age and survivors pensions increased by 3.3% between 2010 and 2011 and payments of child allowances rose by 7.4%

The gradual increase in the old-age pensions from 16.2% to 17.7% of the basic amount was accompanied by a parallel process in which income supplements were raised in accordance with the age of those eligible. An increase of 3.3% in these payments between 2010 and 2011 is explained primarily by the 2% increase (to the basic pension) between 2010 and 2011 combined with the increase in the number of old-age and survivors pension recipients.

Payments of child allowances rose by 7.4% between 2010 and 2011. This increase stems, inter alia, from the gradual increase in child allowances that began in July 2009 following the enactment of the Economic Efficiency Law. Under this law, the allowance for the second, third and fourth child in families was gradually increased, so that, in 2012, an additional NIS 100 is being paid for every child in the above birth order.

23 "The basic amount" is the amount that has been used to calculate most benefits since January 2006. This amount is updated annually on January 1 at the rate of the rise in the consumer price index that applied in the previous year. The basic amount has various tariffs for the purpose of updating the various benefits: in 2011, the basic amount for most benefits was NIS 8,158.

Table 3
Payments of National Insurance Benefits (including administrative expenses), 1995, 2000, 2005-2011

Year	Total payments	Old-age and survivors**	General disability	Work injury, victims of hostile action	Maternity	Children	Unemployment	Reserve service	Income support***	Long-term care & other
					NIS million (current prices)					
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
2005	43,305	16,457	7,792	3,192	2,857	4,548	2,044	713	2,859	2,842
2006	45,760	17376	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
2009	55,394	20,180	10,295	3,811	4,604	5,650	3,089	1,169	2,613	3,984
2010	59,137	22,023	11,130	3,986	5,033	6,279	2,606	1,028	2,659	4,394
2011	62,666	23,531	11,664	4,281	5,357	6,974	2,582	1,068	2,617	4,592
					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
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
2009	7.4	4.7	3.8	5.2	7.5	5.4	57.7	34.5	0.4	7.9
2010	4.0	6.3	5.3	1.9	6.5	8.2	-17.8	-14.4	-0.9	7.4
2011	2.4	3.3	1.3	3.8	2.9	7.4	-4.2	0.4	-4.9	1.0
					Distribution by insurance branch (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
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	19.2	7.0	8.3	10.4	3.8	1.7	5.0	7.2
2009	100.0	36.4	18.6	6.9	8.3	10.2	5.6	2.1	4.7	7.2
2010	100.0	37.2	18.8	6.7	8.5	10.6	4.4	1.7	4.5	7.4
2011	100.0	37.6	18.6	6.8	8.5	11.1	4.1	1.7	4.2	7.3

* The data for 1995 do not include the sums transferred to the Defense Ministry to repay a debt for savings in the number of reserve service days.
** Including payments for income supplements.
*** For the working-age population.

It should be noted that, within the scope of the agreement, the increments are purely nominal, and the allowance was not being updated in response to price changes during this period, so that this increase is expected to be eroded in real terms. Moreover, the increase in child allowance payments is being offset, in part, due to "older" children (born prior to 2003) leaving the system and being replaced by new children, for whom a uniform allowance is being paid that is lower than that paid to the older children – a process that began in 2002 as a measure aimed at reducing child allowance payments.

The 2.9% increase in maternity insurance payments is explained by a continuing increase in the number of those eligible for a maternity allowance, and an increase in the average maternity allowance payment, due to the increase in women's employment rates and in wages over time.

These increases were partially offset by decreases in the benefits paid to unemployed persons of working age: The decrease of 4.9% and 4.2% in the Income Support and Unemployment branches, respectively, is explained primarily by the drop in the average unemployment rate, from 6.6% in 2010 to 5.6% in 2011, the result of the economy's quick recovery from the global economic crisis.

The Old Age and Survivors branch, the largest in size, pays 37.6% of all the benefits paid in 2011, and compared to the previous year, 2010, this share increased by 0.4 percentage points after increasing at double that rate the previous year

Table 3 also shows that the Old Age and Survivors branch, the largest in size, pays 37.6% of all the benefits paid in 2011, and compared to the previous year, 2010, this share increased by 0.4 percentage points after increasing at double that rate the previous year. This development is the result of legislative changes that, as noted above, increased the rate of the benefit in relation to the basic amount.

The share of Disability branch payments dropped slightly, from 18.8% of all payments in 2010 to 18.6% in 2011, thus returning to the level of 2009.

The Children branch, which is the third largest, increased its share from 10.6% in 2010 to 11.1% in 2001, while the Maternity branch maintains its share from the previous year, constituting 8.5% of total benefit payments for 2011.

The share of the Unemployment branch continued to decrease, from 5.6% of the total payments in 2009 to 4.4% in 2010 and 4.1% in 2011. Continuing the trend of recent years, the Income Support branch's share dropped to 4.2% of the total payments, nearly half its share in 2002, when it constituted 8% of all payments. The drop in the ratios of these two branches is an expression of the ongoing erosion of payments made to people of working age compared to those made to the elderly.

4. Benefit Levels

In January 2011, the benefits were updated in accordance with the 2.3% rise in the Consumer Price Index from November 2009 to November 2010. This rate updated the "basic amount,"[24] which has been the basis for updating most of the benefits since January

24 See footnote 23 of this chapter.

2006, pursuant to the Economic Recovery Plan Law of June 2003. During that period, the average wage, which had been the basis for updating the benefits in the past, rose by 3.6%, thus during the year surveyed benefit recipients lost out as a result of updating the benefits by the change in prices rather than by the change in wages.

In January 2011, the benefits were updated in accordance with the 2.3% rise in the CPI from November 2009 to November 2010. This rate updated the basic amount, the basis for updating most benefits since January 2006. During that period, the average wage, the basis for updating benefits in the past, rose by 3.6%; thus in the year surveyed benefit recipients lost out as a result of updating the benefits by price changes rather than wage changes

With that, on a cumulative basis, from 2002 to 2011 the average wage rose at the rate of approximately 17%, a rate two percentage points **lower** than the rise in the CPI during that same period. Thus, there has been a reversal of the trend that had prevailed previously – that over a lengthy period the average wage rises at a rate that exceeds the rise in prices. If this trend continues, and the returns received for work continues to drop relative to prices as occurred in the past decade, the erosion of the benefits due to updates according to the CPI rather than by updating them as per wages will disappear.

In 2011, the basic old-age pension for an individual completed its rise in accordance with the plan set down in the Economic Efficiency Law in 2009, and it rose from 17.35% of the basic amount in 2010 to 17.7% for single elderly persons up to age 80 (a rise of 2%). The pension for those who are at least 80 years old was also raised slightly, such that the gap of 1% of the basic amount between these elderly and those under 80 was preserved. The pensions for other types of families, including the old-age and survivors' pensions that include income supplements, were also raised accordingly.

Since the basic amount is linked to price rises it rose at a lower rate than did the average wage in 2011 (2.3% as opposed to 3.8%, respectively), the rates of the pension as a percentage of the average wage as shown in Table 3 are lower than their percentage of the basic amount. Thus, for example, the basic pension for an individual as a percentage of the average wage reached 16.9% in 2011, compared to 17.7% of the basic amount. The average long-term care benefit to the elderly (whose amount is translated into hours of care), dropped in real terms in 2011 by 0.6% compared to 2010.

The minimum guaranteed income for the working-age population generally went down slightly or remained at the same level as in 2010.

The minimum guaranteed income for the working-age population went down slightly or remained at the same level as in 2010

The level of old-age and survivors' pensions in their varied configurations are shown in Table 5. The benefit for a single parent up to age 55 with two children, for example, was 42% of the average wage for both years. That is still much lower than its level in 2000, on the eve of the deep cuts in income support benefits under the 2002-2003 economic plan, when the benefit was 51.6% of the average wage. The benefit for an individual aged 55 went down somewhat, from 24.2% of the average wage in 2010 to 23.9% of it in 2011, half a percentage point higher than its percentage of the average wage in 2000.

The average disability pension decreased in real terms from 32.2% of the average wage for an employee in 2010 to 31.7% of the average wage in 2011. The average attendance allowance and benefit for disabled child also dropped a bit between the two years: The attendance allowance dropped from 28.2% to 27.9% of the average wage and the benefit for disabled child went from 26.8% to 26.5% of the average wage. On the other hand, the

The average disability pension decreased from 32.2% of the average wage for an employee in 2010 to 31.7% in 2011

Table 4
Guaranteed Minimum Income for the Working Age Population (fixed prices and its percentage of the average wage*), Average per Month, 2000-2011

	Individual				Single parent with 2 children (including child allowance)		Couple with 2 children (including child allowance)			
	Regular rate		Enlarged rate				Regular rate		Enlarged rate	
Year	2011 prices (NIS)	% of average wage	2011 prices (NIS)	% of average wage	2011 prices (NIS)	% of average wage	2011 prices (NIS)	% of average wage	2011 prices (NIS)	% of average wage
2000**	1,623	18.7	2,030	23.4	4,481	51.6	3,848	44.3	4,457	51.3
2000***	2,030	23.4	2,030	23.4	4,481	51.6	4,457	51.3	4,457	51.3
2005**	1,575	18.5	1,772	20.8	3,354	39.4	2,921	34.4	3,354	39.4
2005***	1,969	23.1	1,969	23.1	4,224	47.1	4,181	49.2	4,181	49.2
2006**	1,584	18.4	1,783	20.7	3,431	39.8	2,996	34.8	3,431	39.8
2006***	1,980	23.0	1,980	23.0	4,338	50.3	4,263	49.5	4,263	49.5
2007**	1,576	18.0	1,774	20.3	3,413	39.0	2,980	34.0	3,413	39.0
2007***	1,970	22.5	1,970	22.5	4,316	49.3	4,241	48.4	4,241	48.4
2008**	1,613	18.6	1,815	20.9	3,481	40.0	3,037	34.9	3,481	40.0
2008***	2,017	23.2	2,017	23.2	4,404	50.6	4,328	49.8	4,328	49.8
2009**	1,633	19.3	1,837	21.7	3,521	41.6	3,073	36.3	3,521	41.6
2009***	2,041	24.1	2,041	24.1	4,455	52.6	4,378	51.7	4,378	51.7
2010**	1,650	19.3	1,856	21.8	3,574	41.9	3,121	36.6	3,574	41.9
2010***	2,063	24.2	2,063	24.2	4,518	53.0	4,441	52.1	4,441	52.1
2011**	1,632	19.1	1,836	21.5	3,589	42.0	3,140	36.7	3,589	42.0
2011***	2,040	23.9	2,040	23.9	4,521	52.9	4,445	52.0	4,445	52.0

* As measured by the Central Bureau of Statistics
** When no family member has reached age 55
*** When at least one family member is over 55

Table 5
Old-Age and Survivors' Pensions and the Guaranteed Minimum Income for the Elderly and Survivors (fixed prices and as a percentage of the average wage*), Average Per Month, 2000, and 2005-2011

Year	Basic old-age and survivors' pensions				Guaranteed minimum income (including child allowances)			
	Single elderly person		Widow/er with 2 children		Single elderly person		Widow/er with 2 children	
	2011 prices (NIS)	% of average wage	2011 prices (NIS)	% of average wage	2011 prices (NIS)	% of average wage	2011 prices (NIS)	% of average wage
2000	1,300	15.0	2,517	29.0	2,172	25.0	4,779	55.0
2005	1,293	15.2	2,566	30.2	2,352	27.6	4,916	57.8
2006	1,319	15.3	2,575	29.9	2,464	28.6	5,156	59.8
2007	1,331	15.2	2,580	29.5	2,504	28.6	5,204	59.4
2008	1,325	15.2	2,564	29.5	2,480	28.5	5,152	59.2
2008 80+	1,407	16.2		30.4	2,609	30.0		
2009 up to 70	1,364	16.1	2,635	31.1	2,537	30.0	5,250	62.0
2009 70-79	1,364	16.1		31.1	2,570	30.3		
2009 80+	1,446	17.1		32.1	2,723	32.1		
2010 up to 70	1,432	16.8	2,768	32.4	2,640	30.9	5,430	63.6
2010 70-79	1,432	16.8		32.4	2,709	31.8		
2010 80+	1,514	17.7		33.4	2,834	33.2		
2011 up to 70	1,444	16.9	2,798	32.7	2,645	30.9	5,484	64.1
2011 70-79	1,444	16.9		32.7	2,723	31.8		
2011 80+	1,526	17.8		33.7	2,846	33.3		

* As measured by the Central Bureau of Statistics

average monthly mobility allowance went up a bit in real terms from 2010 to 2011: from 22.2% to 22.7% of the average wage.

The value of a child allowance point, which went up as a percentage of the average wage between 2099 and 2010, from 1.9% of the average wage to 2% of it, remained at that level during 2011 (Table 6). The table shows that the rate of increase in the child allowance changes between different types of families, as well as between older children and those born after June 2003.

Thus, for example, for a family receiving a child allowance for two children, whether they are older or "newer," the allowance went up in real terms by about 14% between 2010 and 2011, while it went up 6% for families with four "new" children. It should be noted that despite the improvement in the level of child allowances in recent years, they are still low compared to their level before the economic plan of 2002-2003. Thus, for example, in a family of four older children, the allowance has gone down 34% in real terms compared to 2001.

Table 6
Allowance Points and Child Allowances (fixed prices and as a percentage of the average wage) Monthly Average, 1990-2011

Year	Value of an allowance point		Allowance for two children		Allowance for four children		Allowance for five children	
	2011 prices	% of average wage	2011 prices	% of average wage	2011 prices	% of average wage	2011 prices	% of average wage
1990	222	3.2	444	6.3	1,716	24.4	2,434	34.7
1995	214	2.9	429	5.8	1,723	23.0	2,451	32.7
2000	219	2.5	437	5.0	1,761	20.3	2,506	28.8
2001	216	2.4	433	4.8	1,744	19.5	2,827	31.6
2002	182	2.2	365	4.3	1,460	17.2	2,367	27.9
2003	173	2.1	345	4.2	1,274	15.6	2,034	24.9
2004	146	1.7	291	3.5	994	11.8	1,568	18.6
2005	141	1.7	283	3.3	891	10.5	1,363	16.0
2006	171	2.0	342	4.0	927	10.8	1,306	15.2
2007	170	1.9	340	3.9	922	10.5	1,300	14.8
2008	167	1.9	334	3.8	903	10.4	1,273	14.6
2009	169	2.0	338	4.0	997	11.8	1,372	16.2
2010 older children	171	2.0	357	4.2	1,095	12.8	1,474	17.3
2010 "new" children	171	2.0	357	4.2	861	10.1	1,030	12.1
2011 older children	169	2.0	407	4.8	1,137	13.3	1,512	17.7
2011 "new" children	169	2.0	407	4.8	911	10.6	1,080	12.6

The average injury allowance per day for employees and for the self-employed decreased by 1.7% and 7.8%, respectively, compared with 2010. The average unemployment benefit per day remained more or less at its 2010 level

In those branches paying wage-replacement benefits the trends were mixed. In the Work Injury insurance branch, the average injury allowance per day for employees and for the self-employed decreased by 1.7% and 7.8%, respectively, compared with 2010. This decrease is also expressed in the level of benefit as a percentage of the average wage, and is part of a downtrend that began in 2008 and has continued through the year surveyed. The average maternity allowance per day also dropped by 2.2% compared to 2010.

On the other hand, the average unemployment benefit per day remained more or less at the level of 2010, reaching NIS 175 per day, on average. In terms of average wage, the average unemployment benefit per day went up slightly, from 51% of the average wage in 2010 to 51.2% of it in 2011.

5. Benefit Recipients

In 2011, the number of recipients of old-age and survivors' pensions rose by 2.8%. This represents an even higher increase in the Old-Age insurance branch and a moderate drop

Table 7
Number of Recipients of Benefits in the Main Insurance Branches (average per month), 1990-2011

Year	Old-age and survivors****	General Disability: General disability pension	General Disability: Attendance allowance	General Disability: Disabled child allowance	General Disability: Mobility allowance	Work injury: Injury allowance*	Work injury: Permanent disability pension	Maternity: Birth grant*	Maternity: Childbirth allowance	Child: Families receiving child allowances**	Unemployment	Income support (for people of working age) ***	Long-term care
Number of recipients (thousand)													
1990	442.6	73.5	6.5	5.8	11.4	56.7	11.8	107.7	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	113.4	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	127.2	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
2005	719.9	170.9	24.0	21.0	24.9	63.9	25.2	148.4	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	150.6	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	151.6	86.0	980.6	49.8	120.2	125.4
2008	735.8	195.0	29.4	25.3	28.9	69.7	29.2	152.0	93.6	994.8	48.0	111.8	131.1
2009	746.9	200.1	31.2	26.5	30.4	65.8	30.9	156.4	97.7	1,012.0	73.0	111.8	136.6
2010	758.5	207.2	33.1	27.9	31.6	67.6	32.3	166.7	103.3	1,030.1	57.7	109.4	141.4
2011	780.1	213.0	35.2	29.5	33.0	67.6	33.9	163.4	105.7	1048.7	57.4	105.3	145.6
Annual increase (percentages)													
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
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
2009	1.5	2.6	6.1	4.7	5.2	-5.6	5.8	3.7	4.4	1.7	52.1	0.0	4.2
2010	1.5	3.5	6.1	5.3	3.9	2.8	4.5	6.6	5.7	1.8	-21.0	-2.1	3.5
2011	2.8	2.8	6.4	5.7	4.3	0.0	5.0	-1.8	2.3	1.8	-0.5	-3.7	3.0

* The number of different recipients during the year.

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

*** When calculating the figure for 2004 and thereafter, the benefit that was split among a few recipients was attributed to only one recipient. The number of recipients for 2004, the calculation of which included all recipients of the split allowance, was 145.6 thousand on average per month.

**** From 2010 the number of recipients of old-age and survivors' benefits who were getting benefits split between old-age and survivors benefits, are being counted as one unit.

In 2011, the number of recipients of old-age and survivors' pensions rose by 2.8%

in the Survivors' insurance branch. The NII paid pensions to 780,100 elderly persons and survivors on average per month (Table 3). In the Children insurance branch, the number of families receiving child allowances rose by 1.8%, as a result of natural population growth. In 2011, child allowances were paid to approximately 2.5 million children who live in more than one million families.

In 2011, child allowances were paid to 2.5 million children who live in over one million families

Between 2010 and 2011 the number of unemployment benefit recipients went down by half a percent. This drop reflects in part the drop in the average unemployment rate between the two years by 1%. From 2003-2009 the number of unemployment recipients dropped consistently, the combined result of the economic situation and changes in eligibility requirements. Following the global economic crisis and the rise in unemployment that began at the end of 2008, an emergency order was passed in early 2009 that aimed to assist unemployed persons not eligible for unemployment benefits under the National Insurance Law by paying them special benefits. As a result, there was a significant, albeit temporary, uptrend in the number of people added to the unemployment rolls: the number of recipients went up more than 50%. This sharp increase was partially offset in 2010, when the number of recipients plunged by 21%, as the emergency order played itself out.

Between 2010 and 2011 the number of unemployment benefit recipients went down by half a percent

The second largest insurance branch, the General Disability branch, recorded a 2.8% rise over last year, a rate lower than the average rise in pension recipients over the past two decades; from beginning of the 1990s, the average annual number of recipients has risen at rates of between 3% and 8%.

The second largest insurance branch, the General Disability branch, recorded a 2.8% rise over last year, lower than the average rise in pension recipients over the past two decades

Regarding benefits deriving from the general disability pension, the increases have continued at rates similar to those in recent years: the number of recipients of an attendance allowance rose by 6.4%, the number of recipients of a mobility allowance rose by 5.7%, and the number of recipients of a disabled child benefit rose at the rate of 4.3%.

In the Work Injury insurance branch, which is generally affected by employment rates, the number of benefit recipients recorded little change. On the other hand, the number of recipients of a permanent disability pension from this branch rose by 5%.

In both benefits of the Maternity insurance branch, birth grants and maternity allowance, the number of recipients remained almost unchanged, while the Long-Term Care insurance branch recorded a rise of 3%.

During 2011, the downtrend in the number of recipients of income support continued, with the number going down by 3.7% relative to 2010, after a decline of 2.1% in 2010 compared to 2009

During 2011, the downtrend in the number of recipients of income support continued, with the number going down by 3.7% relative to 2010, which comes on top of a decline of 2.1% in 2010 compared to 2009, a year in which the number of recipients stabilized after high rates of decrease during the four years before that. On a cumulative basis, the number of income support recipients of working age has declined by about a quarter during the past decade. It should be noted that in April 2010, the Lights to Employment program, aimed at integrating benefit recipients into the workforce, was discontinued, yet the number of families receiving income support, which is influenced by the employment and unemployment rates in the economy, is continuing to drop.

6. Collection of Insurance Contributions from the Public and the Sources for Funding Benefits

The NII's payments of benefits are funded from four sources: the collection of national insurance contributions (direct collection from the public and indemnification from the Finance Ministry in respect of the reduction in national insurance contributions imposed on employers and the self-employed), the government's participation in the funding of the contributory benefits, the government's funding of non-contributory benefits, and receipts from interest on the investment of monetary balances, primarily in government bonds. In addition to the collection of national insurance contributions, the NII collects the health insurance contributions and transfers them to the sick funds.

In the Economic Efficiency Law for 2009-2010 there were two changes that influenced collection from September 2009 until March 2011: the raising of the reduced rate of insurance contributions by the employer from 3.45% to 3.85% (returning to the rate that had prevailed in 2008) until the end of February 2001, and the doubling of the ceiling for NII contributions from five times to 10 times the basic amount until the end of 2010, with no corresponding increase in the basic ceiling for calculating wage-replacing benefits.

Although these two moves were aimed at increasing the total collection of national insurance contributions, this is not what actually happened, because the additional collections and allocations pursuant to Section 32 were transferred in their entirety to the Finance Ministry by the reduced Finance Ministry participation in collecting for the Children branch, from 210% to 207.5% in 2009, to 169% in 2010, and to 208% in 2011.

Two more amendments were made in the Economic Arrangements Law for 2011-2012: (1) the ceiling for the payment of national insurance and health insurance contributions was raised to 9 times the basic amount from the start of 2011 (and to 8 times the basic amount starting January 1, 2012). This change slightly increased collection, but the Finance Ministry's portion did not rise in parallel, and thus its participation in the Children branch was 200.5% from April 1, 2011 (and 204.5% in 2012). (2) the regular insurance collection paid by employers was raised by 0.47 of a percentage point (from 5.43% to 5.9%), as of April 1, 2011. This change, in effect for only 9 of the 12 months of 2011, increased the NII's collection by half a billion shekels.

The amendments to the Economic Arrangements Law for 2011-2012 increased the NII's collection by half a billion shekels

A. Collection of Insurance Contributions from the Public

The NII's receipts from the collection of national and health insurance contributions went up by 3.7% in 2011 and totaled NIS 51.1 billion: NIS 31.2 billion for the national insurance branches and NIS 17.4 billion for the health system (Table 8). The receipts for the NII insurance branches and the health system went up in real terms by 3.9% and 3.3%, respectively. Added to the collection from the public are approximately NIS 2.4 billion that the Finance Ministry transferred to the NII as indemnification for the reduced national insurance contributions imposed on employers and the self-employed (under Section 32.C of the National Insurance Law).

Collection as a share of the GDP remained at the same level as the previous year – 5.6% of GDP. In each of the years from 2007 to 2011 except for one year, 2009, collection as a percentage of GDP was at the identical rate of 5.6%. It should be noted that in 2003 collection from the public reached 6.3% of GDP.

Table 8
Collection for the National Insurance and Health Systems, 2007-2011

	2007	2008	2009	2010	2011
	Current prices (NIS million)				
Total receipts of insurance contributions	**39,740**	**42,402**	**43,224**	**47,626**	**51,139**
Total collection from the public	**37,910**	**40,452**	**41,228**	**45,392**	**48,708**
For national insurance branches	24,454	25,877	26,233	29,102	31,294
For the health system	13,456	14,575	14,995	16,290	17,414
Finance Ministry indemnification	1,830	1,950	1,996	2,234	2,431
	Indicators of the development of collection from the public				
Percentage of change in real terms					
Total collection from the public	**4.4**	**2.0**	**-1.4**	**7.2**	**3.7**
For national insurance branches	3.3	1.2	-1.9	8.0	3.9
For the health system	6.6	3.6	-0.4	5.8	3.3
As a percentage of the GDP					
Total collection from the public	**5.6**	**5.6**	**5.4**	**5.6**	**5.6**
For national insurance branches	3.6	3.6	3.4	3.6	3.6
For the health system	2.0	2.0	2.0	2.0	2.0
As a percentage of the direct taxes for individuals					
Total collection from the public	**40.5**	**43.0**	**45.8**	**47.3**	**47.6**
For national insurance branches	26.1	27.5	29.1	30.4	30.6
For the health system	14.4	15.5	16.7	17.0	17.0
As a percentage of direct taxes					
Total collection from the public	**28.7**	**32.5**	**35.4**	**35.9**	**35.8**
For national insurance branches	18.5	20.8	22.5	23.0	23.0
For the health system	10.2	11.7	12.9	12.9	12.8

Collections for the health system in terms of GDP also remained steady at about 2% of GDP from 2007 through the year surveyed. The ratio of collection from the public to total direct taxes has continued to rise gradually, from 40.2% in 2003 to 47.6% in 2011, as a result of the tax reductions implemented since 2003 as part of the income tax reform on the one hand, and the legislative amendments that increased collections for national insurance (raising the ceiling and the insurance contribution rate imposed on employers) on the other.

The changes in the rates of increase in collections differ between employees (that is, from both employees and employers) and non-employees. Collection on behalf of employees increased by 4.7% in 2001 (after going up by 7.7% the previous year), while the rate of collections from the self-employed went down 1%, after going up 5.1% the previous year. These increases are influenced by the positive changes in the areas of employment and wages, as well as by legislative amendments that were in effect, as noted above, in 2011, and that worked to increase collection from the public. More effective collection from the self-employed also contributed to the rise in the volume of collection in recent years.

B. Sources for Funding the Benefits

Table 9 shows that the NII's total receipts for funding the insurance branches in 2011 went up by 4.5% in real terms, reaching NIS 69 billion in current prices. The primary source of the increase in receipts was the increase in national insurance contributions, which constitute half of the total receipts, and which went up by 4.2% in real terms, as well as government funding under Section 32(a) of the law[25], which went up sharply by 11.4% in 2011 due to the increased participation by the Finance Ministry in the Children branch. This increase partially offset the drop of 1.7% in government funding for benefits through the Finance Ministry. Over the past five years since 2006, receipts have risen by approximately 14% in real terms, primarily due to the increase in receipts from the collection of national insurance contributions by some 16%. The cumulative increase in the government's participation has been somewhat more moderate, around 10%. This trend has led to a slight increase in the share of national insurance contributions to total receipts, from 47.8% in 2006 to 48.9% in 2011, but in comparison to the start of the last decade their percentage has dropped from 50.4%, and from 51.6% in 1995. This increasing reliance on government funding of benefits is an indication of the eroding independence of the NII. Receipts from interest, which make up a very small part of the receipts, rose in real terms during the same period by 20%.

The NII's total receipts for funding the insurance branches in 2011 went up by 4.5% in real terms, reaching NIS 69 billion in current prices

25 The NII reached an agreement with the Finance Ministry that its allocations under Section 32 of the NI Law would not be reduced by the reduction in insurance contributions and accordingly, the necessary adjustments were made to the law.

Table 9
Sources of Funding of the National Insurance Branches,1995-2011

Year	Total receipts*	Collection of national insurance contributions**	Government participation***	Government funding of benefits	Interest receipts
	At current prices (NIS million)				
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	8,906	5,600
2008	58,525	27,827	14,938	9,245	6,150
2009	60,934	28,229	15,657	9,939	6,666
2010	63,821	31,289	15,014	10,032	7,000
2011	68,976	33,736	17,304	10,203	7,304
	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	-1.4	5.3
2008	1.8	1.2	2.8	-0.7	5.0
2009	0.8	-1.8	1.5	4.1	4.9
2010	2.0	7.9	-6.6	-1.7	2.3
2011	4.5	4.2	11.4	-1.7	0.9
	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	16.2	10.2
2008	100.0	47.5	25.5	15.8	10.5
2009	100.0	46.3	25.7	16.3	10.9
2010	100.0	49.0	23.5	15.7	11.0
2011	100.0	48.9	25.1	14.8	10.6

* Including third-party compensation.
** Including Finance Ministry indemnification.
*** Under section 32 (a) of the NI Law..

If the income from interest on the NII's investments is disregarded, the budgetary deficit of the NII decreased from NIS 3 billion in 2010 to about NIS 1 billion in 2011

C. Surpluses/Deficits and Capital Reserves

If the income from interest on the NII's investments is disregarded, the budgetary deficit of the NII decreased from NIS 3 billion in 2010 to about NIS 1 billion in 2011. This

Table 10
Surpluses/Deficits in the NII's Insurance Branches (current prices, NIS million), 2008-2011

Insurance branch	Surplus/deficit, excluding interest on investments				Surplus/deficit, including interest on investments			
	2008	2009	2010	2011	2008	2009	2010	2011
Total	2,454	-1,253.5	-3,006.1	-994.2	8,604	5,412	3,999	6,310
Old-age and survivors	-406	- 1,571.4	-1,365.4	-2004.8	1,964	941	1,243	692
General disability	-2,934	- 3,294.3	-3,445.4	-3,606.4	-2,394	-2846.4	-3,118.5	-3,407
Work injury	-1,142	- 1,568	-1,460.7	-1,252.2	-902	-1,364.2	-1,304.4	-1,140
Maternity	-1,608	- 2006.7	-2,181.7	-2,226	-1,558	-2,023.5	-2,296.7	-2,226.3
Children	11,960	11,970	10,075	12,641	14,660	15,315	14,059	16,752
Unemployment	-1,357	-2468.5	-1944	-1,881.7	-1,356	-2,468.5	-1,981.9	-1,881.7
Long-term care	-2,164	-2,382.3	-2,719.5	-2,786.2	-2,064	-2,373.8	-2,813.3	-2,786.2
Other	107	68	37	123	257	233	212	307

drop comes after an increase of two consecutive years that showed a trend of reversal from surplus to deficit. Contributing to this trend was primarily the growth in the Children branch's surplus by about NIS 2.5 billion, and the mild decrease in the deficits of branches paying wage-replacing benefits, including Unemployment and Work Injury. By contrast, the deficit in the Old Age and Survivors branch went up by NIS 600 million and in the Disability branch by NIS 150 million.

Including the interest on past surpluses improves the financial status of the NII branches: the deficit turns into a surplus of NIS 6.3 billion, compared to a surplus of NIS 4 billion in the previous year

Table 10 shows that including the interest on past surpluses improves the financial status of the NII branches: the deficit turns into a surplus of NIS 6.3 billion, compared to a surplus of NIS 4 billion in the previous year. However, with the exception of the Old Age and Survivors branch, all branches that were in deficit without including interest on investments remained so even after the interest was included.