

**Chapter 1** | Social Policy and Trends in  
National Insurance

## 1. Introduction

The issue of the minimum income necessary for a decent living raises fundamental questions: what is that minimum and how should it be determined

The issue of the minimum income necessary for a decent living raises fundamental questions: what is that minimum and how should it be determined? Is it the responsibility of the government to provide the full minimum, and if not, what is the proper amount of cover that the public sector should provide to families in economic distress through various benefits and discounts?

Assistance can be provided in a variety of ways. The principal tool is the system of subsistence benefits plus universal benefits from the National Insurance Institute, while another tool is the provision of benefits through discounts granted by local governments, the Electric Corporation, the Ministry of Health, the water companies, public transport, universities and so on. The fact that these benefits are provided by a number of different bodies makes it difficult to collect information about them and to analyze their contribution to families in economic distress. It is important to emphasize that current assessments show that the share of this assistance is smaller than is generally believed, but in any event it is very important to estimate it. This issue arose about ten years ago following the deep cuts in the benefits system at that time, which led to a lawsuit to the Supreme Court. The verdict, discussed below, was given in December 2005.

In order to examine how far the assistance provided for the needy by the government and other central institutions actually covers the full minimum necessary for a decent living, it is first necessary to define some concepts. A **decent living** is a subjective concept difficult to quantify, while assistance is something concrete and easier to measure. However, the component of assistance through discounts on various expenses is harder to quantify than are benefits, partly because of the scarce information available regarding these discounts, and partly because of the differences between population groups and their access to benefits, for reasons of geography and economic status. The main organization with the ability to improve the situation regarding information is the Central Bureau of Statistics (CBS), but the statistics available to the CBS in this field are insufficient to provide an answer regarding state benefits to the population as a whole, including the lower deciles<sup>1</sup>. In this chapter we shall try to formulate a reliable infrastructure on which to base the discussion of the minimum required for a decent living, and coverage of that minimum by the two elements of assistance described above.

The meaning given to the concept of **the minimum for a decent living** is the absence of poverty. The basic assumption is that anyone living above the **poverty line** can live decently. Since there are many ways to define poverty, the lines dividing poverty and non-poverty each express a particular choice. In Section 2 of this chapter we look at some measures of poverty that have been studied in Israel and that reflect different approaches

1 The most suitable tool for assessing these benefits is the survey of household expenses from the CBS, which has already begun the work of collecting data regarding benefits.

to such measurement, and clarify the link between measuring the minimum for decent living and the supports provided. For example, the addition of quasi-monetary benefits (such as discounts on local taxes) to income requires the calculation of a poverty line that takes such benefits into account.

Assistance from the State and its institutions includes subsistence benefits – income support, income supplement, disability pension and maintenance (alimony) payments – for those who entitled to them under the National Insurance Institute rules. This assistance also includes universal benefits – child allowances<sup>2</sup> and old age and survivors' pensions.

Subsistence benefits for people of working age are designed to encourage recipients to find work, by defining an amount of income from work that is not included in the calculation of eligibility for income support. This sum is called the **disregard** or income that is disregarded in any test of income. Working is also encouraged by making the offset rate for every earned shekel above the disregard less than 100%, so that income from work is increased by the gap between 100% and the offset rate (about 30%-40%). In this chapter, the degree to which the minimum income provided by the State meets the need for decent living is examined with the assumption that there is no income from work.

The other sections of this chapter, Sections 3-6, present a summary of the developments in the benefits and collection systems of the National Insurance Institute in the year under review, in terms of the scope of payments, recipients, levels of support, and more.

## 2. What is the Minimum Required for a Decent Living?

In the approach presented here, the concept of the minimum required for a decent living is derived from the standard of living. The definition of this ratio is similar to the question regarding the nature of poverty. The most striking advantages and disadvantages of the alternatives presented are summarized, to assist in the selection of the most suitable option for determining government policy in this matter.

**Gross domestic product per head:** One of the commonest measures of standard of living is GDP per head. This measure is becoming less accepted as an indicator of standard of living, since it ignores important aspects such as non-monetary income generated outside the market mechanism, like unpaid housework. For example, housewives raise and educate children, clean the home, care for elderly or disabled family members, etc. This is comprehensive and varied work that would cost a great deal to purchase on the labor market. Nevertheless, it is not included in the calculation of domestic product as

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2 In the Economy Arrangements Law for 2013-2014 the government decided to introduce a means test so that people earning a high salary (over NIS 67,000 in 2013) would not be eligible for child allowances. This change is not yet expressed in the calculations presented here.

Assistance from the State and its institutions includes subsistence benefits – income support, income supplement, disability pension and maintenance (alimony) payments for those entitled – and universal benefits – child allowances and old age and survivors' pensions

part of the product per head. This concept also ignores aspects of quality of life that are affected in the process of creating the product. Just like manufacturers, the national accounting also disregards such external influences (externalities), for better or worse<sup>3</sup>. Another central difficulty in choosing the GDP to express standard of living is that apart from current consumption (private and public), it also includes capital investments whose economic yields will affect the future lives of families that do not yet exist, as well as of existing families.

**Equivalence scale:** Another difficulty is that GDP per head does not correctly express the standard of living of families, since family size differs from family to family and also changes over time – while family welfare does not generally change in linear fashion according to these differences and changes. It is generally assumed that the additional income required for a family to remain at the same standard of living, for example after the addition of a new member, declines with family size, though not necessarily linearly and continuously. This is largely due to the existence of fixed costs, where the average cost per head falls as new members join the household. Therefore the professional literature has defined the concept of the **standard individual** or the **equivalence scale**<sup>4</sup>.

**Consumption per standard individual:** A family's standard of living can be measured according to consumption per standard individual. This approach has to decide about the inclusion of parts of public consumption in the index, since they directly or indirectly affect the standard of living, but it ignores another important aspect of standard of living: savings. Savings improve the standard of living from the start, because they improve the family's ability to maintain its usual standard during periods of unexpected fluctuations in income, and consequently reduce the risk of a sudden drop in income, leading to greater economic security and feelings of wellbeing.

**Net monetary income per standard individual:** This definition focuses on a central resource that enables families to achieve a certain standard of living – income available for consumption and savings. This includes income from work, pensions, capital investments, support (NI benefits, help with rent, etc.) after deduction of taxes and payments for national and health insurance. The available monetary income per standard individual in the **middle family**, that is, the median family or individual<sup>5</sup>, in the

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- 3 Recently there have been attempts to define standard of living more fully, to give a better expression of quality of life; see the report of the committee known as Stiglitz, Sen and Fitoussi (2009), produced with the encouragement of the OECD.
  - 4 Family costs do not necessarily increase linearly as family size increases, largely due to the existence of fixed costs, where the average cost per head falls as new members join the household. This relates to the definition of the standard individual or the equivalence scale
  - 5 Median income is the income of a household for which half of all families have a higher or lower income per standard individual than this family. In the OECD, unlike the definition in Israel, the median income is calculated according to the median individual and not the median family.

opinion of many reflects the general standard of living<sup>6</sup>. In order to find the **minimum decent income**, i.e. the poverty line, **half** the median income per standard individual is the accepted option in many countries and international organizations, particularly the OECD. The USA, the UN and the World Bank use a more eclectic approach and also include the **absolute** minimal income, such as estimates (from 1959) of the minimal food expenditure ratio (USA), or a fixed daily amount, such as one dollar, two dollars, etc. (particularly with reference to developing countries). The European Union also refers to different percentages of the average income (mainly 40%, 50% and 60%) for assessing the minimal standard of living for a family or individual. For our purposes, the most widely accepted measure for assessing the minimum required for a decent living in Israel is the one used in the OECD – half the median monetary income.

**Income from all sources per standard individual:** This calculation can be improved in two ways: by adding the value of benefits or income in kind, or by deducting from income not only direct taxes and mandatory payments but also the costs of going out to work<sup>7</sup>. The most important benefit in kind in terms of value is the cost of rent saved when a family lives in its own home, after taking into account loans and mortgages on the home<sup>8</sup>. Other forms of income in kind are employer benefits, a long-term care benefit from the National Insurance Institute, State subsidiaries for education and transport, discounts on local taxes, water bills etc. Each shekel of income in kind is naturally dependent on actually using the specific product or service, and therefore it is worth less than the equivalent monetary income, which does not involve pre-dictated usage. Income from all sources equals the total amount of monetary income and income in kind less direct taxes and mandatory insurance payments. Table 1 clarifies the importance of income in kind, particularly for the lower deciles. Its **relative** scope declines in the higher deciles, although income in kind in the fifth decile, which includes the median, is still about 42% higher than around the poverty line (income in the second decile)<sup>9</sup>. Therefore,

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- 6 However, there are those who prefer average monetary income over the median. Unlike median income, average income is affected by extreme values.
- 7 The cost of going out to work has two components – transportation to and from the workplace, and the cost of childcare for couples or single mothers with young children. If the State pays part of this cost – for example, as determined by the Trachtenberg Committee regarding kindergarten for 3-5 year olds – this support should be set against the cost or added as a benefit. Gottlieb & Manor, 2005 and Gottlieb & Fruman, 2012, suggest also deducting from income essential health costs that are not included in the poverty line, since this expense, in the same way as tax payments, can be defined as obligatory and the money used is not available to finance a reasonable standard of living.
- 8 Living in one's own home: housing as part of the minimum for a decent living raises a complex issue. We must distinguish between families that own a residential apartment in which they live, and families that do not own an apartment. At present, a home owner living in his own apartment is in a better economic position in terms of the means test for a subsistence benefit, since the apartment is not considered as long as he lives in it. In other words, he is not credited with the income of essentially letting the apartment to himself. This subject will be developed in a separate publication.
- 9  $(5310-3432)/(2971-1648) = 1.42$ .

median income increases significantly, so adding income in kind also significantly raises the poverty line with this definition. We also note that the average income in kind of the top decile is about 5 times higher than that of the lowest decile.

It is possible to base the criterion for the minimal standard of living on both these measures, needs and means

**Combination of consumption and income:** Unlike measures discussed so far, the measures of a minimal decent standard of living presented below are not based on one measure only (consumption or income). It is possible to base the criterion for the minimal standard of living on **both these measures**, or in other words, **needs and means**. The part relating to needs provides information about the nature of poverty, or **what is poverty**, while the means part provides information on the question of **who is poor**. All the definitions that take into account **the basic cost** of a family's consumption in order to find the minimum necessary for a decent living include a definition of a particular basic expenditure, and therefore answer the question of **what is poverty**. In the second stage they conduct a kind of "means test" for each family by setting the family income against its basic needs. The two measures can be calculated using only monetary expenditure and income, or including non-monetary expenditure and income. Below are two measures that meet these criteria and are differentiated in certain ways that will be specified.

- **The NRC approach:** This approach was developed by a professional committee of the US Congress – the National Research Council of the National Academy of Science. The calculation for Israel was made by Sabag-Endeweld and others<sup>10</sup> (2004) in two versions, one that includes the benefit in kind of owning one's own home and the other than excludes this benefit. This method is presented at length in Chapter 2 Section 6 of this report and also in the article itself.

**Table 1**  
**Extent of Income in Kind Relative to Monetary Income (NIS), 2011**

Decile	Available monetary income per standard individual	Available income from all sources (MBM/NRC) per standard individual	Gap (%)
Total	4,801	7,192	50
Lowest	965	2,040	111
2	1,648	2,971	80
3	2,179	3,654	68
35th percentile	2,593	4,230	63
4	2,740	4,383	60
5	3,432	5,310	55
6	4,173	6,235	49
7	4,960	7,408	49
8	5,970	8,776	47
9	7,490	10,838	45
Highest	13,208	18,628	41

Families were ranked by available income per standard individual; each decile includes 10% of the population.

10 The article was published in the NII's series of Working Papers.

**Table 2**  
**Breakdown of Poverty Line into Food, Clothing and Housing,**  
**as per the NRC (NIS), 2011**

Family composition	Food	Clothing	Housing	Other	2011 threshold expenditure
Single, no children	1,076	267	753	633	2,729
Single + 1 child	1,560	387	1,092	918	3,957
Couple, no children	1,748	434	1,223	1,028	4,434
Couple + 1 child	2,157	536	1,509	1,269	5,470
Couple + 2 children	2,534	629	1,773	1,491	6,428
Couple + 3 children	2,889	718	2,022	1,700	7,328
Couple + 4 children	3,226	801	2,258	1,898	8,183
Couple + 5 children	3,549	881	2,483	2,088	9,001
Single + 2 children	1,986	493	1,390	1,168	5,037

Source: Central Bureau of Statistics, processing by the Research & Planning Administration of expenditure survey, 2011.

- **The MBM/NRC approach:** This approach (Gottlieb & Manor, 2005; Gottlieb & Fruman, 2012)<sup>11</sup>, which combines the US NRC approach (with some changes) and the Canadian MBM approach, has three main features: the expenditure on food is derived from expert calculations of nutrition; the expenditure on self-owned housing and the credited income derived from this are included on the expenditure side and the income side of the index; unusual health expenditure is subtracted from available income. This method is presented in detail in Chapter 3, Section 6 of this Report and in the working papers.

The NRC and the NRC/MBM approaches use a special weighting table that considers the expenditure of adults and of children differently.

**The FES approach:** This approach was developed by Martin Ravallion in the World Bank and implemented in Israel by Endeweld, Gottlieb and Fruman (in an unpublished article), and also found expression in an article by Gottlieb & Fruman (2011). It tries to overcome the arbitrary nature of the assumption of average expenditure according to the 30-35 percentiles for the purpose of determining the poverty line or the minimum for a decent living, since it is hard to give a rational explanation of why the line should be placed at half of median income or the average of the 30-35 percentiles of the expenditure on the basic basket. The FES approach quantifies the minimum expenditure apart from food by analyzing two situations:

- Assume that a family's available income is exactly sufficient to pay for the basic food basket. It is reasonable to assume that this family will not spend all its income on food products, but will save some money for non-food items that it

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11 The article was published in the NII's series of research studies.

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**Table 3**  
**Threshold Expenditure according to NRC/MBM, by Total Expenditure**

Family composition		Food	Housing	Clothing	Health	Education, transport, personal items	Poverty line
Single, no children	NIS	620	1,446	134	236	480	2,916
	%	21.3	49.6	4.6	8.1	16.4	100.0
Single + 1 child	NIS	1,262	2,096	195	342	695	4,590
	%	27.5	45.7	4.2	7.4	15.1	100.0
Single + 2 children	NIS	1,825	2,668	248	435	885	6,062
	%	30.1	44.0	4.1	7.2	14.6	100.0
Couple, no children	NIS	1,253	2,348	218	383	779	4,982
	%	25.2	47.1	4.4	7.7	15.6	100.0
Couple + 1 child	NIS	1,679	2,897	269	473	961	6,279
	%	26.7	46.1	4.3	7.5	15.3	100.0
Couple + 2 children	NIS	2,298	3,405	317	555	1,129	7,704
	%	29.8	44.2	4.1	7.2	14.7	100.0
Couple + 3 children	NIS	2,903	3,882	361	633	1,288	9,066
	%	32.0	42.8	4.0	7.0	14.2	100.0
Couple + 4 children	NIS	3,515	4,334	403	707	1,438	10,397
	%	33.8	41.7	3.9	6.8	13.8	100.0
Couple + 5 children	NIS	4,157	4,768	443	778	1,582	11,727
	%	35.4	40.7	3.8	6.6	13.5	100.0

deems particularly essential. Such a family must relinquish some basic food expenditure to pay for these other items. The extent of its relinquishment reflects the importance of the non-food expenditure and therefore quantifies the size of essential expenditure on non-food items.

- Since consumption of non-food items according to the foregoing could be fairly serious, it is reasonable to suppose that the size of non-food expenditure will not be sufficient to satisfy all essential needs in this area. Therefore Ravallion asks another question: how much does a family spend on non-food items when we know that it spends the whole amount required to purchase the normative food basket.

The suitable basket of non-food items is therefore the amount that weights the response to both these situations.

According to Table 4, the FES poverty line is considerably higher than the NRC line in the case of large families. For families with 2-3 people, the FES line is lower. This result is particularly interesting in view of the fact that the FES approach does not use a weightings table, since the normative food expenditure is determined by the family composition in terms of age and gender, and the basic non-food expenditure is determined by the ratio between total expenditure and normative expenditure on food.

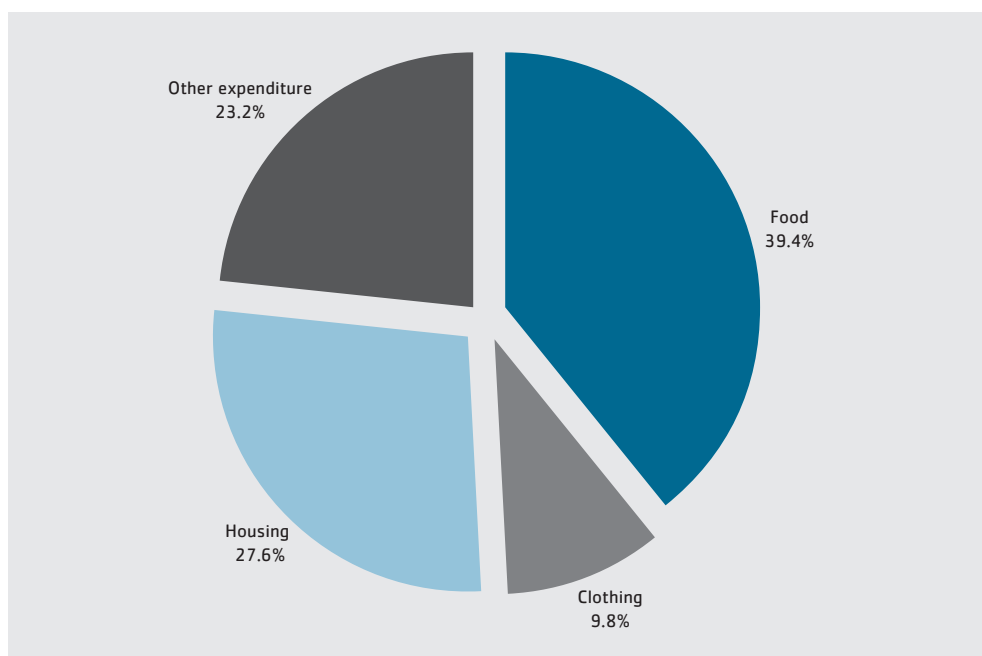
**Multi-dimensional approaches to the minimum for decent living:** Criticism of the approaches presented above for measuring standard of living was expressed by

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Amartya Sen (1985). His suggestion was to focus on realizing the individual's abilities, including the right to freedom and equality, at legal and material levels. The empirical implementation of this concept for measuring the accepted minimal standard of living

**Graph 1**  
Threshold Expenses by Products, As Per the NRC Approach,  
Monetary Version, 2011\*



\* Valid for all family compositions

**Table 4**  
Minimum Decent Standard of Living by Various Poverty Lines,  
for Different Family Compositions (NIS)

Composition of family	Total monetary income or expenditure, 2011 figures			Thereof:				Percentages:			
				Food		Non-Food		Food		Non-Food	
	Official poverty line	NRC	FES	NRC	FES	NRC	FES	NRC	FES	NRC	FES
Single, no children	2,501	2,729	1,844	1,076	657	1,653	1,186	36	39	61	64
Single + 1 child	4,001	3,957	3,681	1,560	1,312	2,397	2,368	36	39	61	64
Single + 2 children	5,301	5,037	5,572	1,986	1,987	3,051	3,585	36	39	61	64
Couple, no children	4,001	4,434	3,723	1,748	1,327	2,686	2,395	36	39	61	64
Couple + 1 child	5,301	5,470	5,017	2,157	1,789	3,313	3,228	36	39	61	64
Couple + 2 children	6,401	6,428	6,789	2,534	2,421	3,894	4,368	36	39	61	64
Couple + 3 children	7,502	7,328	8,646	2,889	3,083	4,439	5,563	36	39	61	64
Couple + 4 children	8,502	8,183	10,594	3,226	3,777	4,957	6,816	36	39	61	64
Couple + 5 children	9,502	9,001	12,341	3,549	4,401	5,452	7,941	36	39	61	64

has not yet crystallized into a system of easily quantifiable measurement and is still the subject of research (Kakwani & Silber, 2010).

**To sum up**, the main advantages and disadvantages of the various approaches are as follows: the striking advantage of the official approach based on monetary income is its simplicity and accessibility of the variable for poverty calculations and for international comparisons. Its disadvantage is the arbitrary use of half the median income. The sources of the NRC and the NRC/MBM approaches are fairly similar, and their advantage is that they stress the **composition** of the basic basket of expenses, such as housing, food and clothing. However, the basic basket is defined fairly arbitrarily, so that, for example, there are no solid arguments for the use of the average expenditure of the 30-35 percentiles. On the other hand, the FES approach has two striking advantages: there is no need for a weighting table (that is, a definition of a **standard individual**) and there is no need to consider the composition of the basic basket beyond the division between food and non-food, thus avoiding the tiring discussion as to whether this or that item of non-food consumption is part of the basic expenditure or not – a question that involves value-based issues which are by their nature subjective. So this approach respects the preferences of each family as to the composition of its non-food expenditure. The calculation of the basic basket is based on the principles for calculating expenditure on a suitable basket of food, which is in turn based on medical knowledge and therefore objective, and on an analysis of the ratio between the family's total expenditure and the normative expenditure on food<sup>12</sup>. Compared to the arbitrary nature of other measures surveyed, the FES index is perceived as less arbitrary. The food component is based on medical research, and expenditure on non-food items is derived from two very logical reference points: the limited and extended minimal baskets are each determined as a result of revealed preference of households at the point where they have to decide between consumption of non-food items and food items. Drawing the poverty line over the revealed household preferences makes any arbitrary decision by the researcher superfluous.

Graph 2 illustrates the differences between the various approaches. If we regard the large complete right hand circle as all the indicators that use income from all sources (that is, including income in kind), then the smaller whole circle within it represents indicators based on monetary income. The larger left hand circle reflects variables relating to family expenditure from all sources (that is, including expenses in kind), and the smaller left hand circle expresses monetary expenditure only. The intersection between the two larger circles expresses the minimum required with information about income and expenditure – both including components in kind. Therefore these indicators of poverty are richer in information than others. The intersection of the two smaller circles also shows

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 12 For further details, see Ravallion (1994), Appendix 1. A Hebrew summary can be found in Gottlieb & Fruman (2011), p. 12-14.

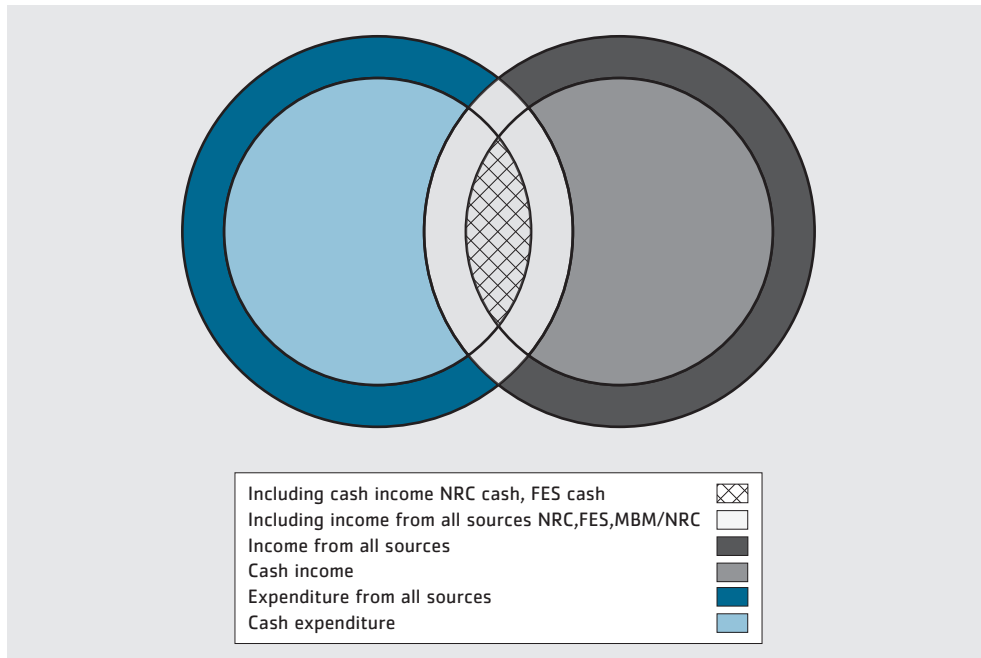
information from both worlds – expenditure and income – but only monetary. The graph depicts different sources for calculating poverty indicators: monetary and non-monetary income and expenses.

### 3. Cover of the Minimum Required for Decent Living Through State Benefits and Support

The State provides subsistence benefits and assistance by means of various discounts. In order to be able to examine the scope of State support with reference to the minimum required for decent living, it is important for the support to meet the definition of this minimum. For example, if the minimum includes only monetary income – like the official definition of poverty in which the measurement does not explicitly refer to expenditure – then we must refer only to monetary benefits and pensions: subsistence allowances, universal pensions (child allowances, old-age pensions) and monetary support (such as rent support). However, if the minimum is calculated according to family expenditure on basic consumption, the support counted must include, in addition to payments, also benefits in kind, such as reductions on local taxes, medicines and public transport, provided by the State and its institutions. In this case, the supports must be compared to the minimum for decent living that includes these components.

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Graph 2  
Different Approaches to Assessing the Minimum Required for Decent Living



Formal reference to the issue of the required minimum can be found in High Court verdicts 366/03 and 888/03, which adopted a fairly limited definition. Paragraph 15 states:

“Human dignity includes... protection of the minimum for human existence... a person living on the streets, without housing, is a person whose human dignity is compromised; a person who is starving, is a person whose human dignity is compromised; a person who has no access to elementary medical treatment, is a person whose human dignity is compromised; a person who is forced to live in degrading material circumstances, is a person whose human dignity is compromised.”

From this quote it is possible to understand that a family is considered as having a housing solution even if the housing conditions are inhuman. Nor is there a demand for suitable nutrition to enable daily function, providing that the family is not “starving”. According to the Court verdict, it is sufficient for the family to have access to basic medical treatment only, and for its material circumstances not to be “degrading”. The words chosen by the Court stress the minimalist approach as a guideline. This is a strict approach when compared to definitions of poverty accepted in the West and described above. Paragraph 16 of the verdict slightly expands the definition of the minimum for decent living, although it is still restricted in terms of the basic expenses that it omits, such as expenditure on education, culture and transport. As for the outlay on food, the ruling focuses on the food required to maintain physical existence rather than daily function.

The following statement from the ruling leaves us with a sense that the State perceives its role in assuring the minimum for a decent living in a fairly restricted manner:

**“... A person’s right to dignity is also the right to conduct his normal life as a human being, without being overcome by economic distress that causes him unbearable deprivation.”**

According to this description, the State is not required to assist an individual living in conditions of considerable deprivation, unless such deprivation is “unbearable”.

This ruling describes housing as a central component of the minimum for decent living. Therefore, we need to check whether the family in distress owns its own house, or has received a discount on local taxes. On the other hand, if the minimum is defined using the official poverty line, which includes as stated only monetary income, non-monetary income such as income in-kind from owning one’s home is not included. In this case, expenditure such as the cost of local taxes is not to be included since the minimum is measured only by monetary income. If we want to consider non-monetary income, it must be expressed both in the minimum required and in the test of meeting that minimum. If we wish to consider expenditure, we must choose a definition of the minimum that takes account of benefits when assessing income, because the minimum for decent living (the official poverty line) does not include these components. The Supreme Court in this ruling refers to many benefits and services provided by the State:

“A range of means, both national and local, in primary and secondary legislation, in direct grants, in exemptions and subsidies, in general arrangements and individual plans. Among those listed by the Respondents, in addition to income support, assistance from the Ministry of Housing a financing private housing, public housing services provided by government housing companies, children’s allowances, national health insurance, free education, assistance provided by the welfare departments of local government, reductions in local taxes, subsidies for childcare, legal aid, assistance from those doing national service, government support for welfare projects, localized help for families in distress and for new immigrants”.

This approach is consistent with the Supreme Court’s determination that the minimum required for decent living affects various dimensions of life, such as housing, food and clothing.

#### Infrastructure of data for determining the minimum for decent living and assessing the extent of assistance

The ruling presented above indicates that the Court lacked a sufficient infrastructure of data to examine the issue of the minimum required for decent living in the cases brought before it. The Court decided that the burden of proof lay with the petitioners (“the families in distress”) and not with the respondents<sup>13</sup> (“the State”), notwithstanding the fact that the task of planning support strategy should rest with the State. It is possible to suppose that if the respondents had shown data regarding associated benefits and income in kind, the Court would have agreed to consider this information. The ability to produce statistical data on populations in distress lies with government bodies such as the Central Bureau of Statistics and the National Insurance Institute.

In paragraph 22 of the ruling, the Court mentions the lack of an information infrastructure regarding the various benefits. In February 2008, a team led by the CBS prepared a report about developing additional indices of poverty, stressing the importance of adding relevant information about government supports and about adding additional poverty lines<sup>14</sup>.

Further to the efforts of the two committees for developing additional indices of poverty, the NII’s Research and Planning Administration this year set itself the goal of improving the infrastructure of information about covering the minimum for a decent living by means of subsistence payments, universal pensions and benefits. The harder it is for people in financial distress to exercise these rights, the more the actual level of cover falls short of the plan. Therefore it is important not only for the Government to have

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13 See para. 22 of the Ruling.

14 Report of the Team on Developing Additional Indices of Poverty (2008). During 2012 a continuation committee of the aforementioned company worked on preparing a report on the principles for including of benefits in kind given by the Government in the survey of expenditure.

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an aid plan, but also for it to be accessible to those in need. The lower the chances for a family with housing problems to exercise the right to receive help, the greater the gap between the minimum required and the actual level of assistance. Thus under-utilization of assistance is an integral part of assessing the effectiveness of the support system. One of the central factors in under-utilization is bureaucratic, relating to the stigma and even the humiliation of completing forms and going through the whole process.

#### 4. The Rate of Cover of the Minimum for a Decent Living According to Various Definitions of the Poverty Line

The model of the official poverty line as an index of the minimum for a decent living proposes comparing half the net monetary income of the median family to the amount of subsistence allowances and universal benefit paid by the National Insurance Institute. The relevant benefits are income supplement, child allowance, family increment or old-age and survivors' pension – each according to the characteristics of the family being examined. To these amounts are added rental assistance, since it is received as a monetary income in every way.

Therefore, according to this approach the rate of cover of the minimum for a decent living is determined by the following ratio:

$$\frac{\text{The relevant benefits + rental assistance}}{\text{Half the median net monetary income}}$$

The information about assistance with rent is also taken from the expenditure survey and at this stage has not been verified against administrative data from the Ministry of Housing<sup>15</sup>. As Table 5 indicates, in this approach there is a considerable gap between the minimum required and the monetary assistance given by the State to large families<sup>16</sup>. The largest gap to the detriment of benefit recipients is found in families headed by someone aged under 55 with numerous children. The larger the number of children, the smaller the rate of cover. Table 5 shows data only up to the fifth child, at which point cover reaches a low of 43%. According to the FES approach, the shortage is even more severe: the rate of cover is only 33% in families with 5 children, compared to a rate of 114% in the case of a single adult between the age of 55 and retirement (Table 6 and Graph 3). This means that there is a striking lack of balance among coverage rates according to family composition, where the higher rates are certainly reasonable and necessary, but the difficulty lies with the lower rates. After all, obviously in every society

there is a striking lack of balance among coverage rates according to family composition, where the higher rates are certainly reasonable and necessary, but the difficulty lies with the lower rates

15 However, according to initial checks the proportion of people benefiting from help from the Ministry of Housing is fairly small.

16 Although the cuts proposed in the 2013 Economy Arrangements Law are not part of this year's report, since they were not yet implemented at the time of writing, it is clear that they will significantly reduce the rate of cover of families with 2-4 children, while the allowance for families with 5 or more children will be even lower than before the cuts.

**Table 5**  
**Income Support and Relevant Universal Benefits Relative to the Minimum Necessary for a Decent living**  
**According to the Official Poverty Line, 2002 and 2011**

Family composition	2002			2011			Initial estimate of other benefits	Official family poverty line	% cover by family benefits of poverty line	% cover by family benefits of official poverty line, inc. other benefits*
	Total	Family poverty line	Child benefit	Family benefit as % of poverty line	Total benefits	Child allowance				
Individual up to age 55	1,368	1,714	-	80	2,032	0	1,632	2,501	65	70
Individual from 55 to retirement age	1,710	1,714	-	100	2,040	0	400	2,501	82	70
Individual from retirement age to 80	1,866	1,714	-	109	2,723	0	400	2,501	109	94
Individual aged over 80	1,866	1,714	-	109	2,846	0	400	2,501	114	98
Individual to age 55 + child	2,891	2,743	152	105	3,302	169	2,733	4,001	73	75
Individual from 55 to retirement age + child	2,549	2,743	152	93	3,459	169	2,890	4,001	76	79
Individual to 55 + 2 children	3,727	3,634	305	103	3,989	407	3,182	5,301	68	70
Two adults to age 55	2,052	2,743	-	75	2,643	-	2,243	4,001	56	60
Two adults from 55 to retirement age	2,565	2,743	-	94	3,459	0	3,059	4,001	76	79
Two adults from retirement age to 80	2,800	2,743	-	102	4,441	0	4,041	4,001	101	101
Two adults aged 80+	2,800	2,743	-	102	4,616	0	4,216	4,001	105	105
Two adults to age 55 + 1 child	2,614	3,634	152	72	3,016	169	2,447	5,301	49	53
Two adults from 55 to retirement age + 1 child	3,127	3,634	152	86	4,118	169	3,549	5,301	70	72
Two adults to 55 + 2 children	3,177	4,389	305	72	3,540	407	2,733	6,401	49	52
Two adults to 55 + 3 children	3,480	5,143	607	68	3,910	659	2,851	7,502	47	49
Two adults to 55 + 4 children	4,093	5,829	1,221	70	4,280	911	2,969	8,502	46	48
Two adults to 55 + 5 children	4,851	6,515	1,979	74	4,449	1,080	2,969	9,502	43	45

\* Not including health benefits.

Table 6

Rate of Cover Provided by Income Support and Child Allowance as Percentage of Poverty Line:  
Official, NRC Monetary, FES Monetary, by Various Family Compositions, 2002 and 2011

Family composition	2002					2011					2011 coverage minus 2002		
	Total	Benefits		Official index	FES monetary	Total	Benefits		Official index	FES monetary	NRC monetary	Official index	FES monetary index
		Old age and income support	Child allowance	Family benefit as % of poverty line	Old age and income support		Child allowance	Family benefit as % of poverty line	Family benefit as % of poverty line				
Individual to age 55	1,368	1,368	-	80	94	1,632	1,632	-	65	81	60	-15	-13
Individual from 55 to retirement age	1,710	1,710	-	100	135	2,040	2,040	-	82	114	75	-18	-22
Single parent to age 55 + 1 child	2,891	2,739	152	105	108	2,902	2,733	169	73	79	58	-33	-29
Single parent from 55 to retirement age + 1 child	2,549	2,397	152	93		3,059	2,890	169	76		61	-16	-
Individual + child to age 55	2,036	1,884	152	74	76	2,616	2,447	169	65	71	52	-9	-5
Individual from 55 to retirement age + 1 child	2,891	2,739	152	195		3,467	3,298	169	87		69	-19	-
Single parent to age 55 + 2 children	3,727	3,423	305	103	101	3,589	3,182	407	68	64		-35	-37
Single parent from 55 to retirement age + 2 children	3,111	2,807	305	86		3,787	3,380	407	71			-14	-
Individual to age 55 + 2 children	2,599	2,294	305	71	70	3,140	2,733	407	59	56		-2	-14
Individual from 55 to retirement age + 2 children	3,723	3,423	305	103		4,521	4,114	407	85			-17	-
Two adults up to age 55	2,052	2,052	-	75	72	2,243	2,243	-	56	56	51	-19	-15
Two adults from 55 to retirement age	2,565	2,565	-	94	99	3,059	3,059	-	76	85	69	-17	-15
Two adults to age 55 + 1 child	2,614	2,462	152	72	71	2,616	2,447	169	49	53	48	-23	-18
Two adults from 55 to retirement age + 1 child	3,127	2,975	152	86		3,718	3,549	169	70		68	-16	-
Two adults to age 55 + 2 children	3,177	2,873	305	72	65	3,140	2,733	407	49	46	49	-23	-19
Two adults from 55 to retirement age + 2 children	3,690	3,385	305	84		4,445	4,036	407	69		69	-15	-
Two adults up to age 55 + 3 children	3,480	2,873	607	68	56	3,510	2,733	659	49	41	48	-21	-15
Two adults from 55 to retirement age + 3 children	3,993	3,385	607	78		4,815	4,038	659	64		66	-13	-
Two adults to age 55 + 4 children	4,093	2,873	1,221	70	54	3,880	2,733	911	46	37	47	-25	-18
Two adults from 55 to retirement age + 4 children	4,606	3,385	1,221	79		5,185	4,038	911	61		63	-18	-
Two adults to age 55 + 5 children	4,851	2,873	1,979	74	56	4,049	2,733	1,080	43	33	45	-32	-24
Two adults from 55 to retirement age + 5 children	5,364	3,385	1,979	82		5,354	4,038	1,080	56		59	-26	-



there are certain groups who are unable to take care of themselves, even after efforts to integrate them into the labor market. This means that these families, and particularly their children, are condemned to a life of poverty, in many cases severe poverty. It is also difficult to argue that this will motivate the adults in the family to find work, since if they have no chance of being accepted for work, this is not a realistic solution for escaping economic distress. It also seems likely that this situation will be perpetuated in the next generation, since economic distress affects the parents' ability to build human capital and therefore reduces the children's ability to develop their own future earning skills.

It is not possible in this chapter to provide an exhaustive discussion of the Court's determination, that not only pensions and allowances should be considered but also additional benefits, including monetary benefits, because such a discussion must be based on a detailed database of benefits, but our exploratory discussions with an expert in the Jerusalem Municipality who is familiar the scope of such benefits, raised the following points:

Until 1993 the local council determined discounts on local taxes, but in 1993 this authority passed to the Minister of the Interior. In fact, the Ministers tended to approve maximum discounts for recipients of NII subsistence benefits, IDF wounded, bereaved families and the elderly. These rules were fairly similar among the larger local authorities<sup>17</sup>. A calculation based on data obtained from the Jerusalem Collection Department showed that the average discount on local taxes was about NIS 2,600 per annum in 2012, that is, slightly more than NIS 200 per month. The discount was given to those who met the means test, old age pensioners and the disabled (recipients of income support are not automatically entitled to a discount if they are aged under 50).

It appears that the take-up rate was still far below 100%, and the total benefit, including also discounts on electricity and water bills, is no more than an average of about NIS 400 per family. In other words, benefits add about 2% to the rate of cover when taken into account<sup>18</sup>.

Graph 3 shows that these conclusions are fairly stable, and do not change significantly with the choice of a particular approach to defining the minimum for a decent living. The difference between the rates of cover according to family composition is similar in all three approaches. The differences are slightly bigger using the FES approach, and are slightly less using the NRC approach. The rates of cover according to the official approach are somewhere between the other two and therefore are the nearest to the average rates of cover.

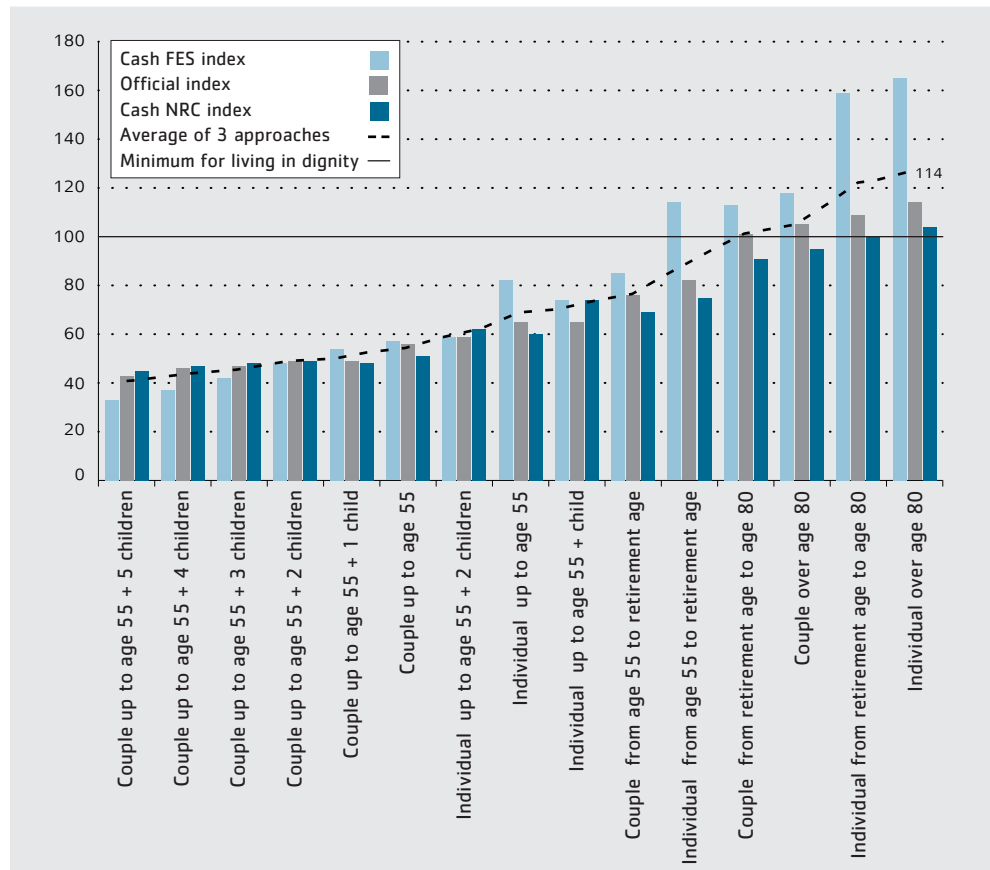
It appears that the take-up rate was still far below 100%; benefits add about 2% to the rate of cover when taken into account

17 This information was obtained from a discussion between staff of the NII Research & Planning Administration and a senior official with many years of experience in this field in Jerusalem Municipality.

18 Later there will be an attempt to calculate more precise rates of cover once better quality data on this subject have been collected.

Graph 3

Rates of Cover of the Minimum for a Decent Living (%) by Family Composition, Based on Various Measures of Poverty (not including rent support), 2011



According to all the approaches shown here, the amounts of benefits should be increased, with the emphasis on large families where the head of the household is aged under 55, since the gap between government aid and the proper minimum in this group reaches 30% to 60%, depending on the family size, without referring to the even worse situation of families with more than 7 members (Graph 1).

Payments of benefits in money and in kind by the National Insurance Institute amounted to NIS 66.85 billion in 2012, compared to NIS 62.66 billion in 2011 – a real growth of 4.9%

## 5. Extent of Payments

Payments of benefits in money and in kind by the National Insurance Institute – whether or not based on collection from the public – amounted to NIS 66.85 billion in 2012, compared to NIS 62.66 billion in 2011. These amounts include other payments by the NII, mainly to government ministries, for the costs of developing services in the community, as well as administrative and operating costs of the range of areas comprising the National Insurance system (at total of NIS 1.3 billion). The real growth in NII

**Table 7**  
**Payments of Benefits and Collection from the Public**  
**(without administrative costs) as a percentage of GDP, 1980-2012**

Year	Payments of benefits		Collection	
	Total	From collection	Total*	NI 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	7.03	5.90	5.88	3.87
2012	7.06	5.97	5.68	3.72

\* Including collection for the Sick Funds.

\*\* Includes compensation from the Treasury for the reduction in employers' NI contributions.

payments reached 4.9% and is due to several factors: growth of 2%-9% in the number of recipients of all types of benefit, except for income support, and real growth deriving from the regular update of benefits: in January 2012 benefits were updated by 2.6% according to the rise in the index between November 2010 and November 2011 – higher than the average rate of increase in the index in 2012 which amounted to 1.7% (in other words, this year benefits increased by a real rate of about 0.8%); the increase of 3% in the number of people employed in the labor force, and the real growth of 1% in wages; and from changes in legislation.

In terms of percentages of the GDP, a more moderate increase was recorded, of 0.03% (Table 7). In the last four years, benefits have amounted to about 7% of the GDP, after reaching a record 8.7% in 2001-2002. In 2002, collection as a percentage of the GDP was more than half this percentage, and reached 3.72% after recording a drop of 0.15% compared to 2011.

Overall, in 2012 payments of contributory benefits under the National Insurance Law rose by 5.8% in real terms. Payments of benefits not based on collection – paid by virtue of State laws or agreements with the Treasury and fully financed by the Ministry of Finance, such as income support, mobility allowance, maintenance payments, old age and survivors' pensions for the non-insured (mainly new immigrants) and reserve duty payments – rose at a more moderate rate, of 0.8%. In 2012, these non-collection

In terms of percentages of the GDP, a more moderate increase was recorded, of 0.03%

payments, including administrative costs, amounted to NIS 10.5 billion, representing 15.7% of all benefit payments.

Old-age and survivors' pension payments rose by 3.6% in 2012, after an increase of 3.3% in 2011 and greater increases in 2009 and 2010

The figures in Table 8 show the main trends in benefit payments by insurance branch. Old-age and survivors' pension payments rose by 3.6% in 2012<sup>19</sup>, after an increase of 3.3% in 2011 and greater increases in 2009 and 2010. In 2008-2011 old age and survivors' pension payments were increased, mainly due to legislative changes in this branch: in April 2008, the basic pensions were increased from 16.2% to 16.5% of the basic amount<sup>20</sup>, while pensioners aged 80 and over received a special increment equal to 1% of it. In August 2009, pursuant to the Economic Efficiency Law, old age and survivors' pensions were again increased, from 16.5% to 17%, and in January 2010 to 17.35%, as part of a process at the end of which, in January 2011, the basic pension was raised to 17.7% of the basic amount. It should be noted that the gradual and continuing growth in old age pensions from 16.2% to 17.7% of the basic amount was accompanied by a process of increasing income support according to age. The effect of this legislation was fully achieved in 2011, and therefore the increase in payments of benefits is explained by the rise in the number of recipients, combined with the real growth of the benefits, due to their update at a rate higher than the increase in the average price index in 2012 (2.6% compared to 1.7%; see Section 6 below).

Payments of child allowances rose by 3.2% from 2011 to 2012

Payments of child allowances rose by 3.2% from 2011 to 2012, due partly to the graduated increase in child allowances that began in July 2009, under the Economic Efficiency 2010-2011 Law. In this framework, the allowance for the second, third and fourth children in the family gradually increased, reaching the full increment of NIS 100 for each of these children in 2012. It should be noted that as part of the agreement, the increments were only nominal, and the allowance was not updated in line with changes in prices in this period, so in real terms the increase was eroded. The rise in child allowance payments was offset partially by the removal of "older" children (born before 2003) from the system, and their replacement with "new" children, for whom a uniform benefit is paid which is lower than that for "older" ones (a process that began in 2002).

Unemployment payments rose sharply by 11% in 2012, mainly due to the large rise in the number of recipients

Unemployment payments rose sharply by 11% in 2012 (following a drop of about 4% in the previous year), mainly due to the large rise in the number of recipients, as well as the increase in the wages of recipients. Payments for long-term care also rose sharply by 9.5% in 2012, mainly due to the increase in the number of people eligible for the benefit

19 There may be some difference in the rates of change of payments shown in this chapter compared to those shown in the chapters surveying the various payments, since the data on which the calculation in this chapter are based include administrative costs and may also include additional small components.

20 The basic amount is the amount by which most benefits have been calculated since 2006. The amount is updated on January 1 each year by the rate of the increase in the Consumer Price Index during the previous year. There are different tariffs of the basic amount for the purpose of updating various benefits. In 2012, the basic amount for most benefits was NIS 8,370.

**Table 8**  
**NI Benefit Payments (including administrative costs), 1995-2012**

Year	Total	Old age & survivors**	General disability	Work & hostile action injuries	Maternity	Children	Unemploy-ment	Reserve duty	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
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
2012	66,850	24,804	12,534	4,601	5,779	7,319	2,914	1,148	2,635	5,116
					<b>Real annual growth</b>					
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
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
2012	4.9	3.6	5.7	5.7	6.1	3.2	11.0	5.7	-1.0	9.5
					<b>Breakdown by insurance branch (percentages)</b>					
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
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
2012	100.0	37.1	18.7	6.9	8.6	10.9	4.4	1.7	3.9	7.7

\* The figures for 1995 do not include amounts transferred to the Ministry of Defense as debt repayment for the saving in the number of reserve duty days.

in general, and those eligible for the higher rate of benefit in particular. The gradual increase in the number of employers of Israeli workers who receive a weekly increment of hours (worth up to NIS 800 per month at the highest level) also contributed to the increase in total payments of this benefit. Thus, the number of eligible employers at the lowest level rose by about 3%, compared to a steep rise of about 16% at the highest level among employers of Israelis.

The increase of about 6% in maternity payments is mainly explained by the rise in the number of births. Payments for birth allowance and hospitalization grant each grew by about 7%. The rise in the birth allowance represents a continuation of the increase in the number of women eligible for the benefit and the rise in the average payment in recent years, in view of the increase in women's employment and their wages over the years. The increase in the hospitalization grant is mainly explained by the real growth in the size of the grant, by 4.5% in 2012.

The only benefit for which a decrease in payments was recorded in 2012, at the rate of one percent, was income support for people of working age, mainly due to the drop in the number of recipients, reflecting among other things, the ongoing expansion of the labor market in this year. Removal of the stipulation that ownership or regular use of a vehicle (that does not meet the terms of the law) denies the right to a benefit following a High Court decision on this subject in March 2012, should work towards increasing the number of recipients, but the change was introduced at the end of 2012, and awareness of the change is expected to increase gradually over time.

Table 8 also shows that the Old-age and Survivors' branch, the largest insurance branch, accounted for 37.1% of all benefits paid in 2012. Compared to the previous year, its share fell by 9.5%, in view of the higher increases in other pension payments. The General Disability branch accounted for 18.7% of all payments in 2012, similar to its share in the previous year. Children, the third largest branch, fell slightly from 11.1% in 2011 to 10.9% in 2012, while the Maternity branch remained almost stable at 8.6% of total benefit payments in 2012. Unemployment benefits rose from 4.1% to 4.4% from 2011 to 2012 as a result of the high increase in the number of recipients that year, while the Income Support branch continued the downward trend of previous years, reaching 3.9% of payments, about half its share in 2002, when it accounted for about 8% of all payments.

## 6. Level of Benefits

In January 2012 benefits were updated in line with the increase in the Consumer Price Index from November 2010 to November 2011, at a rate of 2.6%. This rate updated the basic amount<sup>21</sup>, which has been the basis for updating most benefits since 2006, pursuant

.....  
21 See Note 18 of this chapter.

The only benefit for which a decrease of about one percent in payments was recorded, at the rate of one percent, was income support for people of working age, mainly due to the drop in the number of recipients

In January 2012 benefits were updated at a rate of 2.6%

**Table 9**  
**Guaranteed Minimum Income for Working-age Population**  
**(fixed prices and percentage of average wage\*), monthly average, 2000-2012**

Year	Single individual				Single parent + 2 children (including child allowance)		Couple + 2 children (including child allowance)			
	Regular rate		Increased rate		2012 prices (NIS)	% of average wage	Regular rate		Increased rate	
	2012 prices (NIS)	% of average wage	2012 prices (NIS)	% of average wage			2012 prices (NIS)	% of average wage	2012 prices (NIS)	% of average wage
<b>The oldest person in the family is under the age of 55</b>										
2000	1,651	18.7	2,065	23.4	4,557	51.6	3,913	44.3	4,533	51.3
2005	1,602	18.5	1,802	20.8	3,412	39.4	2,972	34.4	3,412	39.4
2006	1,611	18.4	1,813	20.7	3,489	39.8	3,047	34.8	3,489	39.8
2007	1,603	18.0	1,804	20.3	3,471	39.0	3,031	34.0	3,471	39.0
2008	1,641	18.6	1,846	20.9	3,540	40.0	3,089	34.9	3,540	40.0
2009	1,661	19.3	1,868	21.7	3,581	41.6	3,125	36.3	3,581	41.6
2010	1,678	19.3	1,888	21.8	3,635	41.9	3,174	36.6	3,635	41.9
2011	1,660	19.1	1,867	21.4	3,650	41.9	3,193	36.7	3,650	41.9
2012	1,674	19.0	1,883	21.3	3,694	41.8	3,234	36.6	3,694	41.8
<b>At least one member of the family is aged 55 or older</b>										
2000	2,065	23.4	2,065	23.4	4,557	51.6	4,533	51.3	4,533	51.3
2005	2,003	23.1	2,003	23.1	4,297	49.7	4,253	49.2	4,253	49.2
2006	2,014	23.0	2,014	23.0	4,412	50.3	4,335	49.5	4,335	49.5
2007	2,004	22.5	2,004	22.5	4,389	49.3	4,313	48.4	4,313	48.4
2008	2,052	23.2	2,052	23.2	4,479	50.6	4,402	49.8	4,402	49.8
2009	2,076	24.1	2,076	24.1	4,531	52.6	4,453	51.7	4,453	51.7
2010	2,098	24.2	2,098	24.2	4,595	53.0	4,517	52.1	4,517	52.1
2011	2,075	23.8	2,075	23.8	4,598	52.8	4,521	51.9	4,521	51.9
2012	2,093	23.7	2,093	23.7	4,651	52.7	4,573	51.8	4,573	51.8

\* As measured by the Central Bureau of Statistics.

to the Economic Recovery Plan Law of June 2003. Until then, benefits were updated according to rises in the average wage. In the year under review, the average wage rose more or less at the same rate – 2.7% – so that in 2012 recipients of benefits neither gained nor lost as a result of the changeover to updates based on the CPI. However, cumulatively from 2002 to 2012 the average wage rose about 20% in nominal terms – about 2% less than the increase in the CPI during the same period. A continuation of this trend, that is, reduction of the return on work in real terms, as happened in this last decade, would in effect cancel out the expected erosion of benefits due to the change to updating according to the CPI rather than changes in wages.

Old-age pensions in 2012 were higher, following a process that ended in 2011 with the completion of the rise in the basic pension for a single person according to the plan outlined in the Economic Efficiency Law for 2009, reaching 17.7% of the basic amount

Old-age pensions in 2012 were higher, following a process that ended in 2011

**Table 10**  
**Old Age and Survivors' Pensions and Minimum Guaranteed Income**  
**for Elderly and Survivors (fixed prices and percentage of the average**  
**wage\*), monthly average, 1975-2012**

Year/ age	Basic old-age and survivors' pension				Minimum guaranteed income (including child allowance)			
	Single old person		Widow/er + 2 children		Single old person		Widow/er + 2 children	
	2012 prices (NIS)	% of average wage	2012 prices (NIS)	% of average wage	2012 prices (NIS)	% of average wage	2012 prices (NIS)	% of average wage
1975	691	14.9	1,150	24.8				
1980	762	17.1	1,477	33.1				
1985	859	15.2	665	29.5				
1990	1,082	15.9	2,094	30.7				
1995	1,095	15.5	2,123	30.1				
2000	1,322	15.0	2,560	29.0	2,209	25.0	4,860	56.5
2005	1,315	15.2	2,610	30.2	2,392	27.6	5,000	58.5
2006	1,341	15.3	2,619	29.9	2,506	28.6	5,244	60.5
2007	1,353	15.2	2,624	29.5	2,547	28.6	5,293	60.1
2008	1,348	15.2	2,608	29.5	2,522	28.5	5,234	59.6
2008 80+	1,431	16.2	2,690	30.4	2,654	30.0		
2009, up to 70	1,387	16.1	2,680	31.1	2,581	30.0	5,343	62.3
70-79	1,387	16.1	2,680	31.1	2,614	30.3		
80+	1,470	17.1	2,763	32.1	2,770	32.1		
2010, up to 70	1,456	16.8	2,816	32.4	2,685	30.9	5,523	64.0
2011, up to 70	1,469	16.9	2,846	32.7	2,690	30.9	5,601	64.3
70-79	1,469	16.9	2,846	32.7	2,769	31.8		
80+	1,552	17.8	2,929	33.6	2,895	33.2		
2012, up to 70	1,481	16.8	2,871	32.5	2,714	30.7	5,639	64.1
70-79	1,481	16.8	2,871	32.5	2,794	31.6		
80+	1,565	17.7			2,920	33.1		

\* As measured by the Central Bureau of Statistics.

for single pensioners up to the age of 80 (a 2% rise). Under the same plan, the pension for those aged over 80 was also increased, thus maintaining the 1% difference in favor of the older pensioners compared to those aged under 80, and the pensions for other family compositions, including old age and survivors' pensions including income support, were also increased accordingly.

Pensions as a percentage of the average wage as shown in Table 11 are lower than as a percentage of the basic amount, since the absolute value of the basic amount is lower than that of the average wage. Thus, for example, the pension for a single person in 2012 amounted to 16.8% of the average wage (compared to 17.7% of the basic amount). However, in view of the increase in the pension rates stated in terms of the basic amount



(from 16.0% to 17.7% over the years), pension rates as a percentage of the average wage increased above the rates that were specified in the law before the changeover to the basic amount. (For example, the single pension, which is 16% of the basic amount, is equal to 16.8% of the average wage.)

The minimum guaranteed income for the working-age population generally remained at the same level as in 2011 (Table 9). The benefit for a single mother up to age 55 with two children, for example, was 41.8% of the average wage in 2012 (compared to 41.9% in 2011). However, 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 under 55 was 19% of the average wage, compared to a higher rate of 23.7% for those aged 55 and over – even higher than the rate in 2000 (23.4% of the average wage).

The average long-term care benefit paid to the elderly (which is translated into care hours) rose in real terms by 1.9% in 2012 compared to 2011. The average disability pension decreased in real terms from 31.7% of the average wage for a salaried employee in 2011 to 31.5% of the average wage in 2012, as part of the ongoing erosion partly due to the addition of the wage-earning disabled. The average attendance allowance remained at the 2011 level in real terms, while the benefit for disabled children rose by 3.4% in real terms, reaching 27.4% of the average in 2012, compared to 26.5% in the

The minimum guaranteed income for the working-age population generally remained at the same level as in 2011

**Table 11**  
**Pension Points and Child Allowances (fixed prices and percentage of the average monthly wage), monthly average, 1990-2011**

Year	Value of pension point		Benefit for two children		Benefit for four children		Benefit for five children	
	2012 prices (NIS)	% of average wage	2012 prices (NIS)	% of average wage	2012 prices (NIS)	% of average wage	2012 prices (NIS)	% of average wage
1990	226	3.2	452	6.3	1,745	24.4	2,476	34.7
1995	218	2.9	436	5.8	1,752	23.0	2,493	32.7
2000	223	2.5	444	5.0	1,791	20.3	2,549	28.8
2005	143	1.7	288	3.3	906	10.5	1,386	16.0
2006	174	2.0	348	4.0	943	10.8	1,328	15.2
2007	173	1.9	346	3.9	938	10.5	1,322	14.8
2008	170	1.9	340	3.8	918	10.4	1,295	14.6
2009	172	2.0	344	4.0	1,014	11.8	1,395	16.2
2010 - "old"	174	2.0	363	4.2	1,114	12.8	1,499	17.3
"new"	174	2.0	363	4.2	876	10.1	1,048	12.1
2011 - "old"	172	2.0	414	4.8	1,156	13.3	1,538	17.7
"new"	172	2.0	414	4.8	927	10.6	1,098	12.6
2012 - "old"	173	2.0	430	4.9	1,170	13.3	1,529	17.6
"new"	173	2.0	430	4.9	944	10.7	1,117	12.7

previous year. The average monthly mobility allowance also went up, by 1.8% in 2012, reaching 23.1% of the average wage.

The value of a child allowance point remained at 2% of the average wage for the fourth consecutive year

The value of a child allowance point remained at 2% of the average wage for the fourth consecutive year (Table 11). The table shows that the rate of increase in the child allowance varies between different types of families, as well as between “old” children and “new” children (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 2% between 2011 and 2012 – on top of the higher increase of about 14% between 2010 and 2011. On the other hand, for a family of four “newer” children, the increase was more moderate (0.9%) from 2011 to 2012, after a rise of about 6% the previous year. It should be noted that in spite of the improvement in family benefits in recent years, child allowances are still lower than they were before the economic plan of 2002–2003. For example, a family with four (“new”) children receives an amount equal to 10.7% of the average wage, compared to almost double: 19.5% of the average wage in 2001. These gaps are even larger for families with five children.

In the branches of wage-replacement benefits the trends were upward ones. In the Work Injury branch, the average daily injury allowance for both salaried employees and the self-employed rose for the first time after several years of decreases in real terms, by 2.4% and 2.8% respectively compared to 2011. The average daily maternity allowance also increased, by 1.6% compared to 2011, although it remained at the same percentage of the average wage, while the hospitalization grant rose by 4.5%, and the supplement for a preterm infant rose by about 7%. The average unemployment benefit increased by 1.8%, and thus in 2012 reached the level of 52.1% of the average wage (compared to 51.2% the previous year). The daily unemployment benefit was about NIS 183 on average – a real increase of 2.8% compared to 2011.

## 7. Recipients of Benefits

The number of recipients of old age and survivors’ pensions rose by 2.9% and are 802,500 old people and survivors each month

The number of recipients of old age and survivors’ pensions rose by 2.9% in 2012. The NII paid benefits to an average of 802,500 old people and survivors each month (Table 12). This rate reflects an increase of 4.3% in the number of recipients of old age pensions under the law, which was offset by a decrease of 0.54% in the number of new immigrants receiving the pension and a decrease of 0.8% in recipients of survivors’ pensions, leaving a rise of 3.4%. In the Children branch, the number of families receiving child allowances rose by 1.8% for the third consecutive year, as a result of natural population growth. In 2012 child allowances were paid for about 2.5 million children living in over a million families.

Between 2011 and 2012 the number of recipients of unemployment benefit increased sharply by 7.7%

Between 2011 and 2012 the number of recipients of unemployment benefit increased sharply by 7.7%, notwithstanding the slight decrease in unemployment rates in the same period. However, in 2012 the number of people employed rose by about 3%, a figure



that can explain some of the increase in recipients of the benefit. This rise came after a drop of about half a percent in the number of recipients of unemployment benefit in 2011, when the level of unemployment was similar to that of 2012. Before that, in 2003–2009 the number of recipients fell consistently, due to a combination of the overall economic situation and changes in terms of eligibility. Following the economic crisis and the increase in unemployment rates at the end of 2008, at the beginning of 2009 emergency legislation was introduced with aim of helping the unemployed who were not eligible for unemployment benefit under the National Insurance Law, by paying them a special benefit. As a result, there was a temporary increase in the number of recipients of more than 50%. This steep rise was partly offset by a drop of 21% in the number of recipients in 2010, when this temporary order expired.

In the second largest branch, General Disability, a rise of 2.2% over the previous year was recorded – the lowest rate of increase in the past decade

In the second largest branch, General Disability, a rise of 2.2% over the previous year was recorded – the lowest rate of increase in the past decade. Since the 1990s the average number of recipients has grown each year at rates of 3%–8%. Regarding benefits deriving from the general disability pension, growth has continued at a similar pace to previous years. The number of recipients of attendance allowance rose by 7.4% (compared to 6.4% in 2011); the number of recipients of mobility allowance rose by 3.3%, and the number of recipients of benefit for disabled child rose sharply by 8.8%, largely following the expansion of the conditions of entitlement to the benefit.

In the Work Injury branch, which is generally affected by overall rates of employment (that rose in 2012), the number of recipients increased by 3.2%, and the number of recipients of a permanent disability pension in this branch increased by 5.3% – similar to the annual rate in each year of the past decade. The number of recipients of both main benefits of the Maternity branch – maternity grant and maternity allowance – rose by 3.5% and 6.0%, respectively. In the long-term care branch the number of recipients increased by 4.9%.

In 2012 the downward trend in the number of recipients of income support continued – falling by a further 1.4% after consecutive decreases in their number in nearly every year since 2003. Cumulatively, the number of working-age recipients of income support of declined by about a quarter since the start of the last decade. In 2010 the program for integrating benefit recipients into work (the Mehalev – Wisconsin program, later called Lights to Employment) was discontinued, but the number of families receiving income support, which is also affected by rates of employment and unemployment in the economy as a whole, continued to fall after the program closed.

## 8. Collection of Insurance Contributions from the Public and Sources of Funding Benefits

Payments of benefits from the National Insurance Institute are funded from four sources: collection of insurance contributions (directly from the public and indemnification from

the government in respect of the reduction in national insurance contributions from employers and the self-employed); government participation in funding contributory benefits; government participation in funding non-contributor benefits; and interest received on the investment of monetary surpluses, mainly in government bonds. In addition to national insurance contributions, the NII also collects health insurance payments and transfers them to the sick funds.

The Economy Arrangements Law for 2011–2012 introduced a number of amendments: (1) the ceiling for national and health insurance payments was raised to 9 times the basic amount, from 1.1.2011; (2) In 2012 the ceiling was supposed to rise to 8 times the basic amount, but in the wake of the Trachtenberg Law, passed following the social protests, the ceiling for payments returned to 5 times the basic amount from 1.1.2012; (3) The regular (full) rates of insurance contributions from employers were increased by 0.47% (from 5.43% to 5.9%), from 1.4.2011. These steps increased the amounts collected by the NII but not the share of the State Treasury, and therefore participation in the Children branch was 200.5% from 1.4.2011 (204.5% in 2012).

In August 2012 the Deficit Reduction Law was passed, which gradually increased the regular (full) rates of insurance contributions from employers from 2013 onwards, and from 1.6.2012 restored the Treasury's participation in collection for the Children branch to 210% – the rate that prevailed in 2009. Before that, the Economic Efficiency Law for 2009–2010 raised the reduced rate of employer contributions from 3.45% to 3.85% (which effectively restored the situation prevailing in 2008) by the end of February 2011, and also doubled the ceiling for national and health insurance from 5 times the basic amount to 10 times by the end of 2010, without a comparable rise in the ceiling of the basis for calculating wage-replacement benefits. These two moves did not increase the total NII collection as expected, since the additional amounts collected and the additional allocations pursuant to Section 32 were transferred in their entirety to the Treasury, through the reduction of Finance Ministry participation in collection for the Children branch (from 210% to 207.5% in 2009, to 169% in 2010, and to 208% in 2011).

### a. Collection of insurance contributions from the public

The NII's receipts from the collection of national and health insurance contributions rose in real terms by 1.6% in 2012 (compared to 3.7% in 2011). Receipts from both sources rose by 1.2% and 2.3% respectively. The drop in the rate of growth of collection for both types of insurance contributions was mainly due to the lowering of the ceiling back to 5 times the basic amount in 2012. In 2012 total receipts from collection amounted to NIS 52.8 billion: NIS 32.2 billion for national insurance and NIS 18.1 billion for the health system (Table 13). The amounts collected from the public were augmented by some NIS 2.4 billion from the Treasury, as indemnification for the reduction in NII contributions by employers and the self-employed (according to Section 32c1 of the law).

Payments of benefits from the National Insurance Institute are funded from four sources: collection of insurance contributions, government participation in funding contributory benefits; government participation in funding non-contributor benefits; and interest received on the investment of monetary surpluses

The NII's receipts from the collection of national and health insurance contributions rose in real terms by 1.6% in 2012. Receipts from both sources rose by 1.2% and 2.3% respectively

**Table 13**  
**Collection for National and Health Insurance**  
**(current prices, NIS million), 2008-2012**

	2008	2009	2010	2011	2012
<b>Total receipts of insurance contributions</b>	42,402	43,224	47,626	51,150	52,763
<b>Total collection from the public</b>	40,452	41,228	45,392	48,719	50,324
For branches of national insurance	25,877	26,233	29,102	31,305	32,206
For the health system	14,575	14,995	16,290	17,414	18,118
Indemnification from the Treasury	1,950	1,996	2,234	2,431	2,439
<b>Indicators of development of collection from the public</b>					
<b>Real percentage change</b>					
<b>Total collection from the public</b>	2.0	-1.4	7.2	3.7	1.6
For branches of national insurance	1.2	-1.9	8.0	4.0	1.2
For the health system	3.6	-0.4	5.8	3.3	2.3
<b>As a percentage of GDP</b>					
<b>Total collection from the public</b>	5.6	5.4	5.6	5.6	5.4
For branches of national insurance	3.6	3.4	3.6	3.6	3.5
For the health system	2.0	2.0	2.0	2.0	1.9
<b>As a percentage of direct individual taxes</b>					
<b>Total collection from the public</b>	42.3	45.2	47.8	48.0	49.6
For branches of national insurance	27.1	29.8	30.7	30.9	31.7
For the health system	15.2	16.4	17.1	17.1	17.9
<b>As a percentage of direct taxes</b>					
<b>Total collection from the public</b>	32.4	35.4	35.7	35.3	35.2
For branches of national insurance	20.7	22.5	22.9	22.7	22.5
For the health system	11.7	12.9	12.8	12.6	12.7

Collection from the public fell slightly as a percentage of GDP in comparison to the previous year, and amounted to 5.4% in 2012, compared to 5.6% in 2011

Collection from the public fell slightly as a percentage of GDP in comparison to the previous year, and amounted to 5.4% in 2012, compared to 5.6% in 2011. In each of the years shown in the table, collection as a percentage of GDP ranged between these two values. This is lower than the rate prevailing at the beginning of the decade: in 2003 collection from the public amounted to 6.3% of GDP. Money for the health service in terms of GDP fell slightly, from 2.0% in each of the years prior to 2012 to 1.9% in the year under review. The share of collection from the public of all direct taxes for individuals continued to rise gradually, from 42.3% in 2008 to 49.6% in 2012. This trend has continued since 2003 as a combined result of tax reductions in the framework of the income tax reform implemented from that year onwards, and changes in legislation to increase collection for National Insurance (raising the ceiling and the rate of contributions from employers).

Direct collection from employees grew by 1.3% in real terms

Changes in the rate of growth of collection are different for contributions paid from salaried employees (that is, from employers) and those paid from non-employees. In 2012 direct collection from employees grew by 1.3% in real terms, compared to a growth

of 4.7% in 2011. Direct collection from employees and their employers was affected by both the reviewed changes in legislation and by changes in the labor market: the average wage for an employee rose in nominal terms by 2.7% in 2012 (compared to a rise of 4.1% in 2011). The number of posts rose by 2.6% in 2012 (compared to a rise of 3.6% in 2011).

**Table 14**  
**Sources of Funding for National Insurance Branches, 1995–2012**

Year	Total receipts*	Collection of NI contributions**	Government participation***	Government funding of benefits	Interest receipts
<b>NIS Million, Current Prices</b>					
1995	23,581	12,171	4,222	4,650	2,504
2000	41,207	20,751	8,336	8,148	3,907
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
2012	71,397.9	34,569	18,206	10,454	7,693
<b>Real Annual Growth (percentages)</b>					
2000	7.6	9.8	1.6	10.8	3.6
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
2012	1.8	0.7	3.4	0.7	3.6
<b>Distribution (percentages)</b>					
1995	100.0	51.6	17.9	19.7	10.6
2000	100.0	50.4	20.2	19.8	9.5
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
2012	100.0	48.4	25.5	14.6	10.8

\* Including third party compensation.

\*\* Including Treasury indemnification.

\*\*\* Pursuant to Section 32(a) of the Law.

By contrast, direct collection from non-salaried insured fell by 0.4% in real terms in 2012, compared to a drop of 1.1% in 2011. In all, collection for National Insurance in 2012 accounted for about 35% of the total collection of direct taxes in Israel, of which 63% were for national insurance and 37% for health insurance.

### b. Sources of funding benefits

Table 14 shows that total receipts of the NII to fund the various national insurance branches rose by 1.8% in real terms in 2012, totalling NIS 71.4 billion in current prices. Participation by the government under Section 32 of the Law increased by 3.4% in 2012. Interest payments, which account for about a tenth of total NII receipts, also rose at a similar rate (3.6%). The two other elements in the table – collection from the public (including Treasury indemnification) and Government funding of benefits by the Treasury – each increased at the rate of 0.7%.

Since 2002, receipts have increased by about 20% in real terms

In the last decade, since 2002, receipts have increased by about 20% in real terms, mainly because collection of national insurance contributions increased at a slightly higher rate. Government participation and interest receipts rose at almost double this rate, while the government share of funding for benefits decreased by about 20%, so that the cumulative increase from combining all elements of government participation was more moderate than the increase in collection from the public (and of course than that of interest receipts). This trend led to some increase in the share of NI contributions out of total receipts, from 47.5% in 2002 to 48.4% in 2012. However, an examination of a longer period shows that the share of receipts from the public decreased from a high rate of half total receipts in 1995 and at the start of the decade, to a lower rate. This is an indication of erosion in the independence of the National Insurance Institute.

## 9. Surpluses/ Deficits and Capital Reserves

Disregarding the income from interest on investments, the NII's budgetary deficit rose from about NIS 1 billion in 2011 to about NIS 3 billion in 2012, thus returning to its 2010 level. The last year when there was a budgetary surplus was 2008. The increase in the deficit in 2012 was due to the increased deficit in all the deficit-based branches, which is the majority, particularly Old-age and Survivors, General Disability and Long-term Care, and the drop in the surplus of the Children branch.

Table 15 shows that including interest receipts on past surpluses improves the financial situation of the NI branches; the deficit becomes a surplus of NIS 4.5 billion, compared to NIS 6.3 billion in the previous year. However, all the branches that are in deficit without including interest on investments remain so even when the interest is included.

Disregarding the income from interest on investments, the NII's budgetary deficit rose from about NIS 1 billion in 2011 to about NIS 3 billion in 2012, thus returning to its 2010 level



**Table 15**  
**Surpluses/ Deficits in National Insurance Institute Branches**  
**over Investments (NIS million, current prices), 2008-2012**

Insurance branch	Without interest					Including interest				
	2008	2009	2010	2011	2012	2008	2009	2010	2011	2012
<b>Total</b>	<b>2,454</b>	<b>-1,253.5</b>	<b>-3006.1</b>	<b>-994.2</b>	<b>-3,145</b>	<b>8,604</b>	<b>5,412</b>	<b>3,999</b>	<b>6,310</b>	<b>4,548</b>
Old age & survivors	-406	-1,571.4	-1,365.4	-2004.8	-2,862	1,964	941	1,243	692	-107
General disability	-2,934	-3,294.3	-3,445.4	-3,606.4	-4,168	-2,394	-2,846.4	-3,118.5	-3,407	-4,096
Work-related injury	-1,142	-1,568	-1,460.7	-1,252.2	-1,341	-902	-1,364.2	-1,304.4	-1,140	-1,266
Maternity	-1,608	-2,006.7	-2,181.7	-2,226	-2,579	-1,558	-2,023.5	-2,296.7	-2,226.3	-2,613
Children	11,960	11,970	10,075	12,641	13,076	14,660	15,315	14,059	16,752	17,738
Unemployment	-1,357	-2,468.5	-1,944	-1,881.7	-2,188	-1,356	-2,468.5	-1,981.9	-1,881.7	-2,188
Long-term care	-2,164	-2,382.3	-2,719.5	-2,786.2	-3,182	-2,064	-2,373.8	-2,813.3	-2,786.2	-3,228
Other	107	68	37	123	99	257	233	212	307	307

