

## **Chapter 1**

# Social Policy and Trends in National Insurance



## General

In recent years, the Research and Planning Administration of the National Insurance Institute of Israel (NII) has been investing considerable efforts in improving the demographic and economic – employment data entered into the financial and social sustainability model of the social security system established by the Administration, with the aim of helping to prepare the NII actuarial report. Within this framework, a demographic model and an employment model were developed by the Administration. The demographic model, which is described in Part 1 of this chapter and in Box 1, presents a long-term forecast of population development<sup>1</sup>. Part 2 of the chapter describes the employment model, which presents a forecast for employment development in Israel over the next 50 years, as derived from the demographic forecast. The employment forecast is important since it is used to forecast the level of receipts of the NII over time. The employment picture combined with the NII payment forecast, as published previously, enables a better assessment of the financial sustainability of the National Insurance Institute<sup>2</sup> (see Box 2).

In recent years, the National Insurance Institute of Israel has been investing considerable efforts into the financial and social sustainability model of the social security system

## 1. Population Development in Israel from 2010 to 2060

### A. Introduction

Demography and the forecast for its future development constitute a major factor in the project to examine the financial and social sustainability of the NII. The project, which has been developed by the Research and Planning Administration in recent years, is designed to enable an examination of different assumptions pertaining to various demographic processes and their social and economic effects – among them issues of birth rate development of different population groups, their employment development, etc. For this purpose, the demographic model is broken down by age (by single year), gender and population group for the next 25 to 100 years.

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In the demographic project, projections (forecasts) were made for the Israeli population, divided into ten groups: five for the Arab population (Muslims in the south; in East Jerusalem; Muslims in the other regions; Christians, Druze and Circassians) and five for the Jewish population (ultra-Orthodox Jews; non-ultra-Orthodox religious Jews; traditional religious; traditional but not religious and secular Jews). Different scenarios

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1 The demographic project was carried out with Dr. Eliyahu Ben Moshe. The long-term population projections were prepared by him for the National Insurance Institute. The projections are forecasts that are contingent on many assumptions, so that they cease constituting forecasts in the ordinary sense of the word, i.e. of an attempt to provide a probable assessment of a future occurrence. They are also not technical extrapolations of existing trends, but they include many “as-if” simulations, which are evaluated by the population team of the Research and Planning Administration and of Dr. Ben Moshe as interesting scenarios in the context of long-term social security planning.

2 See the interim conclusion of the model and its results in Chapter 1 of the Annual Survey of 2010.

were prepared for each group for several decades forward. The scenarios differ in the future fertility patterns of the groups and in the rate of convergence of the birth rates – starting with the assumption that the birth gaps will remain similar to the currently existing gaps<sup>3</sup> and ending with convergence of these birth rates with those of groups with currently low birth rates and with the assumption that the birth gaps will narrow but not disappear (the middle scenario). Therefore, numerous scenarios were created, from which we chose representative scenarios. Since the trends of changes in mortality are also uncertain, we also chose alternatives for them.

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The predictability of the demographic forecasts for the next 30 years is more probable than for the more distant decades. In forecasting the next 30 years, the demographic history of the different groups has great significance. The longer-term assumptions have a more speculative nature and they aim to present possible alternatives even if their probability is lower. These situations may occur and the forecasts are intended to illustrate the range of possibilities of size, structure and composition of the population in the future. Accordingly, the demographic project of the Research and Planning Administration provides a repository of many future population forecasts.

## B. Population Forecasts

Population forecasts are affected by assumptions pertaining to birth rate, mortality and migration development. This survey deals with three population groups with respect to which we need to make assumptions with regard to these three variables: non-Orthodox Jews, ultra-Orthodox Jews<sup>4</sup> and Arabs, for 2010-2060.

**Table 1**  
**Average Expected Number of Births per Woman,**  
**by Population Group (under “the Middle Scenario”), 2010-2060**

| Year | Total | Jews           |              |       | Arabs |
|------|-------|----------------|--------------|-------|-------|
|      |       | Ultra-Orthodox | Non-Orthodox | Total |       |
| 2010 | 3.0   | 6.4            | 2.5          | 2.9   | 3.3   |
| 2040 | 3.1   | 5.4            | 2.4          | 3.1   | 3.1   |
| 2060 | 3.0   | 4.7            | 2.2          | 3.1   | 2.8   |

3 This scenario is evaluated by us as unlikely, but it has been brought as a point of reference.

4 The affiliation with the ultra-Orthodox population is assessed according to an algorithm developed by the Research and Planning Administration based on administrative data analysis of the academic institutions of Jewish boys and girls and using family ties. Several validations were conducted for the model – vis-à-vis CBS surveys and vis-à-vis the Food Security Survey of the Research and Planning Administration. Details of the definition can be found in the position paper: Gottlieb D. and Toledano E. (2014). Employment and Wages in Israel of Select Populations, Administrative Data from 2001 to 2011, pg. 3 [http://www.btl.gov.il/Publications/more\\_publications/Pages/tasuka0410-8364.aspx](http://www.btl.gov.il/Publications/more_publications/Pages/tasuka0410-8364.aspx).

## 1. Fertility

The scenario presented here assumes a moderate decline in the fertility rates of all the population groups and it is established on the basis of an examination of the fertility levels that the different population groups had during the last decades. There is a fairly broad consensus among the experts<sup>5</sup> that the fertility rates are expected to decline in the future, while the present scenario reflects relatively modest changes.

During the years 2010-2060, the middle scenario (Table 1) assumes a fertility reduction of 1.7 children among the ultra-Orthodox population (from total fertility<sup>6</sup> of 6.4 in 2010 to 4.7, 50 years later) and of 1.2 children in the religious population (from 4.3 to 3.1). In the other Jewish groups with lower fertility levels the reduction of total fertility is smaller (total non-Orthodox Jews from 2.5 to 2.2). A fairly rapid reduction is expected to occur among the Muslim Arabs: the decline among the Bedouins is also relatively rapid – of 1.7 children (from 5.5 to 3.8) – and with the other groups in the Arab population the forecast is for a decline of a 0.7 child in the next 50 years. Also in this case there is a more moderate decline in the total fertility of the groups with low fertility (total Arabs from 3.3 to 2.8).

Although the fertility declines in all the groups, the fertility of the general population is expected to remain at its level as in 2010 – approximately 3 births on average per woman – as a result of the effect of the population composition, inasmuch as the proportion of the populations with higher than average fertility rates rises over the years.

High fertility rates have positive effects in terms of the stability of a social security system. If the working-age public is well integrated in the labor market, this situation indicates a high funding potential of the social security system when the children reach working age. For instance, the financial sustainability of European countries is adversely affected, inter alia, by the birth rates having shrunk to the extent that they are forced to open their doors to workers from other countries, despite the xenophobia in some of the countries. Therefore, the financial problem that may arise in Israel does not stem from the high birth rate among some of the population groups, but rather from the participation rate in the workforce still being quite low and from the wage of a substantial part of the salaried employees being low, particularly among the groups with high birth rates. Simultaneously increasing the employment rate and the wage level would improve the long-term funding situation of the social security and thereby also the social and financial sustainability situation.

## 2. Mortality and migration

**Mortality** – For each one of the two main groups – Jews and Arabs – three alternative mortality assumptions were calculated using a stochastic model: (1) minimum, (2)

5 An expert survey conducted by the Central Bureau of Statistics.

6 The total fertility is defined as a weighted average of the fertility rates of the reproductive age women population.

The scenario presented here assumes a moderate decline in the fertility rates of all the population groups

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maximum and (3) midpoint. The life expectancy of both groups and among both genders is expected to continue rising in the coming years and also the gaps in the mortality rates between the genders and between the groups is expected to decline gradually. According to these assumptions, the life expectancy at birth increases by approximately 2.5 months per year (Table 2).

**Migration** – It was assumed in the forecasts that the Israel migration balance rate of the Jewish population, including its five groups, would decrease from 3 out of a thousand to 0 in 2040. The migration balance of the Arab population was assumed to be approximately 0 throughout the period.

**Table 2**  
Expected Life Expectancy at Birth (under “the Middle Scenario”),  
Women and Men, Select Years

| Year   | Women |        | Men  |        |
|--|-------|--------|------|--------|
|  | Arab  | Jewish | Arab | Jewish |
| 2010   | 81.0  | 83.9   | 76.5 | 80.3   |
| 2020   | 83.4  | 86.0   | 79.1 | 82.5   |
| 2030   | 85.5  | 87.9   | 81.4 | 84.6   |
| 2040   | 87.4  | 89.5   | 83.5 | 86.5   |
| 2050   | 89.1  | 91.0   | 85.5 | 88.2   |
| 2060   | 90.7  | 92.3   | 87.3 | 89.8   |
| Average annual increase in life expectancy     | 0.2%  | 0.2%   | 0.3% | 0.2%   |
| Growth in terms of life expectancy in 50 years | 9.7   | 8.4    | 10.8 | 9.5    |

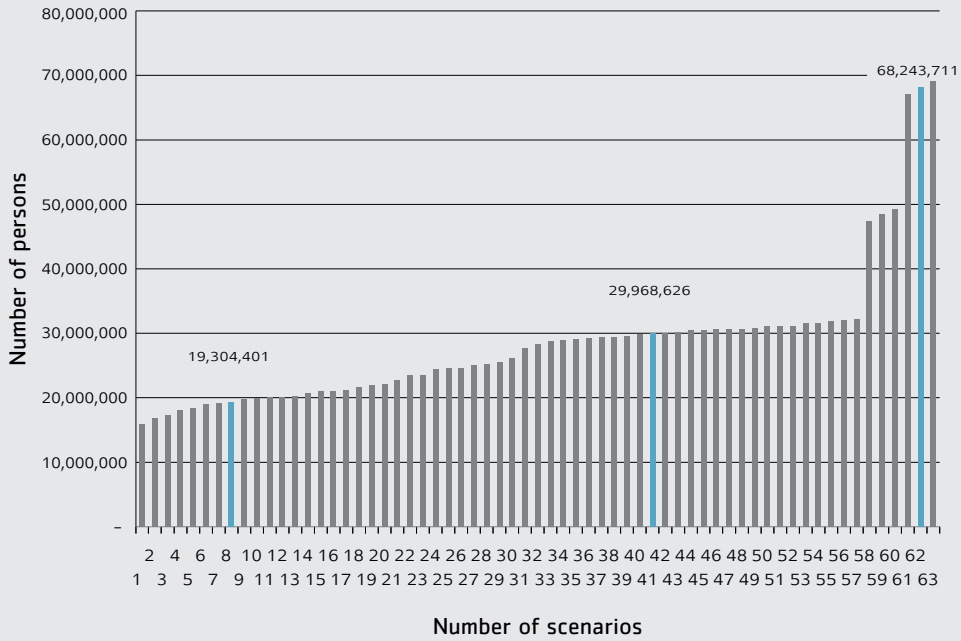
### Box 1

#### Population Forecasts for 2010 - 2110

The demographic forecast project of the Research and Planning Administration of the National Insurance Institute of Israel (NII) is designed to provide a population data infrastructure in order to examine the financial strength of the National Insurance Institute. Most of the project’s products are population estimates by gender, age and population groups – not necessarily specific demographic findings.

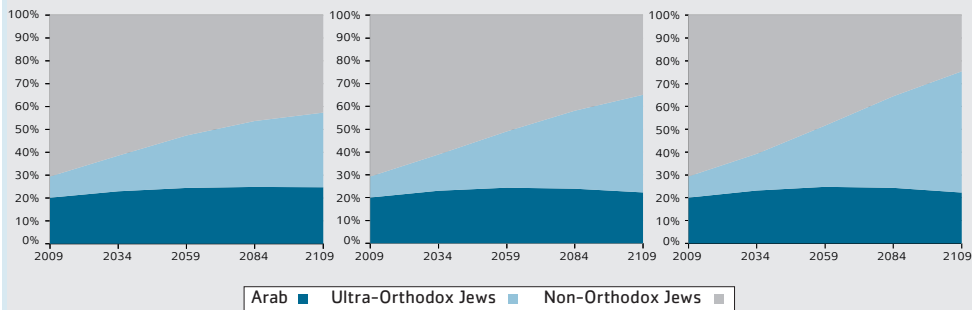
There are 63 different scenarios underlying the model of Israel population forecasts for the next hundred years (2010–2110), which create a very wide array of population compositions. The way in which the forecasts were calculated enables one to assume a different mortality and fertility assumption for each one of the ten population groups, to combine them and to present further forecasts.

**Graph 1**  
**Population Forecast for 2110, Total Population – Different Scenarios\***



\* The blue scenarios are the high, medium and low, as described in the box below.

**Graph 2**  
**Population Composition by Principal Population Group and Scenario**



The highest estimate assumes that the fertility rates will remain as they were in 2010 and the mortality rates will be very low, meaning the life expectancy will be high. The low scenario, by contrast, assumes a sharp decline in the fertility of each of the population groups and relatively high mortality rates. The Israeli population will reach

approximately 30 million residents according to the middle scenario presented in the center of Graph 1. Financial strength using the model is usually examined according to this scenario.

Graph 2 presents the expected population composition over the calculated period, divided according to population sector: Arabs, ultra-Orthodox Jews and non-Orthodox Jews. The most notable trend is the sharp rise in the proportion of the ultra-Orthodox group at the expense of the non-Orthodox Jewish group. The proportion of the Arab population rises slightly.

### 3. Population groups

In 2060, the Israeli population is expected to grow to approximately 16.9 million people and to reach 2.2 times its size in 2010 – an average annual growth of approximately 1.6%

In 2060, the Israeli population is expected to grow to approximately 16.9 million people and to reach 2.2 times its size in 2010 – an average annual growth of approximately 1.6%. According to the forecast assumptions, all the population groups will lessen their rate of growth in the coming 50 years. The ultra-Orthodox population, which constituted approximately 10% of the general population in 2010 will grow, according to the forecast, at an average rate of 3.6% per year and will constitute approximately 25% in 2060. The Arab population will increase its proportionate share and in 2060 is expected to constitute approximately 25% of the population of the State of Israel. Under this scenario, the growth rate of the three population groups diminishes over the years, while the growth rate of the non-Orthodox population is the lowest among the groups throughout the surveyed period and of the ultra-Orthodox Jews it is the highest (Tables 3 and 4).

**Table 3**  
**Composition of the Population and the Expected Changes Therein,**  
**by Nationality and Religious Group (under "the Middle Scenario"),**  
**2010-2060**

| Population group    | 2010                    | 2020      | 2030       | 2040       | 2050       | 2060       |
|---------------------|-------------------------|-----------|------------|------------|------------|------------|
|                     | <b>Absolute numbers</b> |           |            |            |            |            |
| Total population    | 7,734,760               | 9,244,570 | 10,878,610 | 12,677,450 | 14,691,187 | 16,860,476 |
|                     | <b>Percentages</b>      |           |            |            |            |            |
| Non-Orthodox Jews   | 70.4                    | 67.1      | 62.8       | 58.5       | 54.4       | 50.3       |
| Ultra-Orthodox Jews | 9.4                     | 11.4      | 14.6       | 17.9       | 21.5       | 25.3       |
| Arabs               | 20.2                    | 21.2      | 22.6       | 23.5       | 24.1       | 24.5       |



**Table 4**  
**Average Annual Growth Rates of the Population Groups**  
**over Time (percentages), 2010-2060**

| Population group        | 2010-2020 | 2020-2030 | 2030-2040 | 2040-2050 | 2050-2060 | 2010-2060 |
|-------------------------|-----------|-----------|-----------|-----------|-----------|-----------|
| Total population        | 1.80      | 1.64      | 1.54      | 1.49      | 1.39      | 1.57      |
| Non-ultra Orthodox Jews | 1.30      | 0.98      | 0.83      | 0.74      | 0.59      | 0.89      |
| Ultra-Orthodox Jews     | 4.14      | 3.91      | 3.63      | 3.35      | 3.02      | 3.61      |
| Arabs                   | 2.29      | 2.28      | 1.96      | 1.72      | 1.55      | 1.96      |

#### 4. Age composition

Graphs 1A- H present the population age pyramids for 2010 and a forecast for 2060 for the general population and by group. Assuming a decline in fertility, the proportion of children in the general population will decline from a rate of approximately 33% in 2010 (about 2,539 thousand children) to approximately 31% in 2060 (about 5,172 thousand children). Among Arabs the proportion of children will decline from a rate of approximately 44% to 31% during the same period.

The older population (aged 68 or older) is expected to grow to 14.4% of the general population in 2060, compared to 8.3% in 2010. In 2010, some 640 thousand older adults lived in Israel and in 2060 2,430 thousand persons aged 68 or older are expected. The proportionate part of the older adults among the ultra-Orthodox population will continue to be low: approximately 5% of the ultra-Orthodox population is expected to be aged 68 or older in 2060.

The graphs indicate a balanced pyramid of the general population in the long-term, judging by its structure – a wide base of children, narrowing gradually to a relatively narrow rate of the elderly population. One of the important components of social and financial strength is therefore to strive toward a high employment rate and wage level combination for the general population. In light of cultural and other differences, there are significant gaps in employment rates and in wage levels between the different population groups.

In light of these gaps, these pyramids should also be looked at by cultural groups and by birth rate habits and labor market integration, since as is well known the gaps between them in these areas are significant. Accordingly, an important aim of socio-economic policy is to reduce economic gaps also from the aspect of socio-economic and financial sustainability and first and foremost, the wage gaps, which constitute an important basis

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for family income and for social security receipts. The wage level is determined by several factors, such as employee productivity and the degree of fairness in the labor market (one of the components of which is compliance with minimum wage). A further indicator of unfairness in the labor market is the degree of crowding around the minimum wage of professionals, inasmuch as the minimum wage is intended to be a floor for non-professional workers. Professional workers should earn a higher wage inasmuch as their job productivity is higher. This is also one of the reasons that the unemployment rate does not respond to increases in the minimum wage. The issue of employment and wage by population group is examined in section 2 of this chapter.

### 5. The working-age population and dependency ratio measures

Other important measures associated with the age structure are the annual growth of the working ages (in absolute terms and in percentages) and dependency ratios, which are measures of the possible impact of the age structure on the burden imposed on the working-age population. The burden can be measured also relative to the number of employed persons: the higher the employment rates, the smaller the burden.

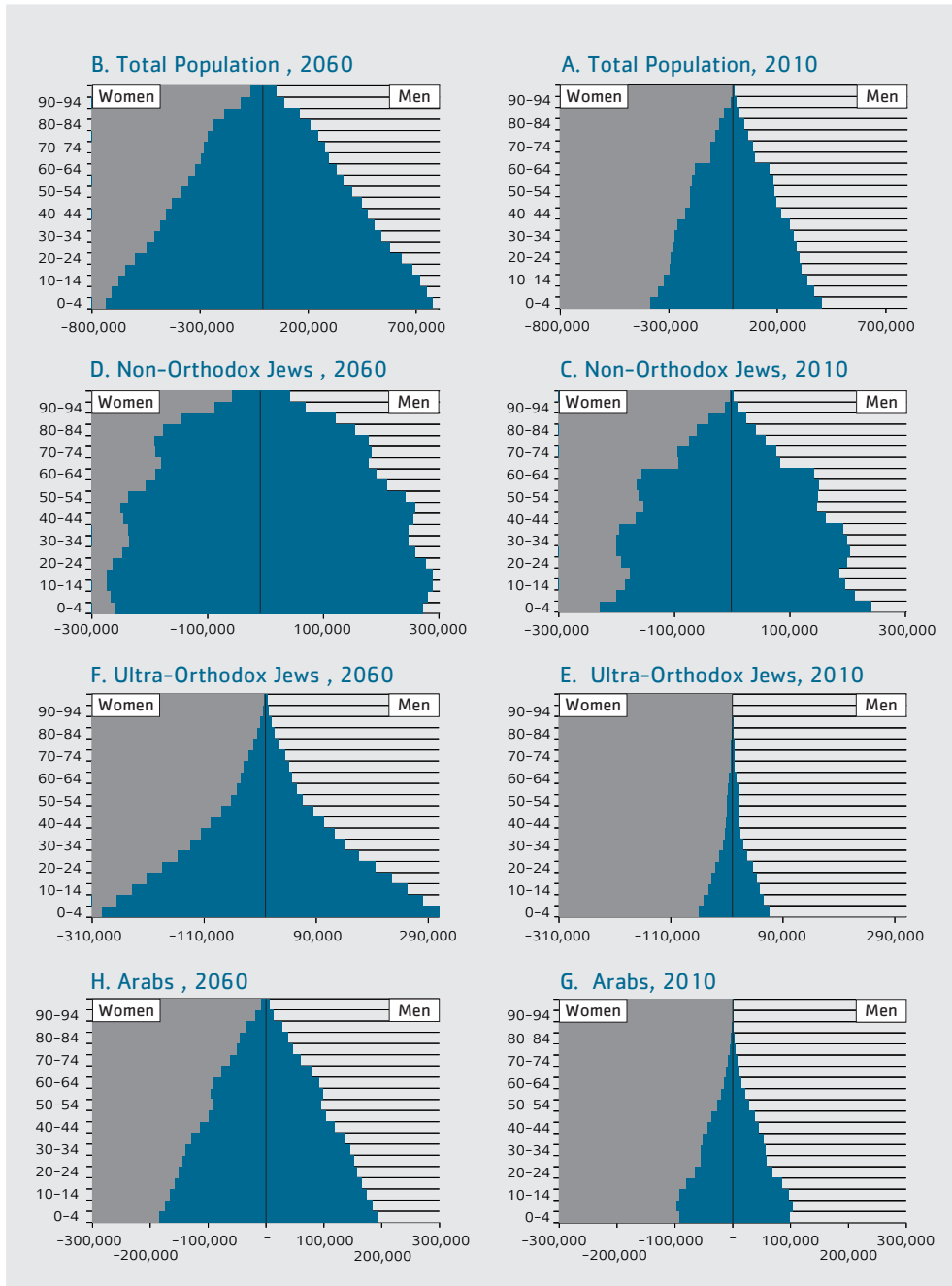
Table 5 presents the expected population data by gender and population groups. The ultra-Orthodox population constituted approximately 7% of those aged 18-67 in 2010 and is expected to be 23% in 2060, whereas the non-Orthodox Jews, who constituted 75%, are expected to lower their proportion to only 51% during the same period. In terms of the financial strength in the context of old age it is necessary to look at the

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**Table 5**  
**The Working age Population (18-67), by Population Group**  
**(under “the Middle Scenario”), 2010-2060**

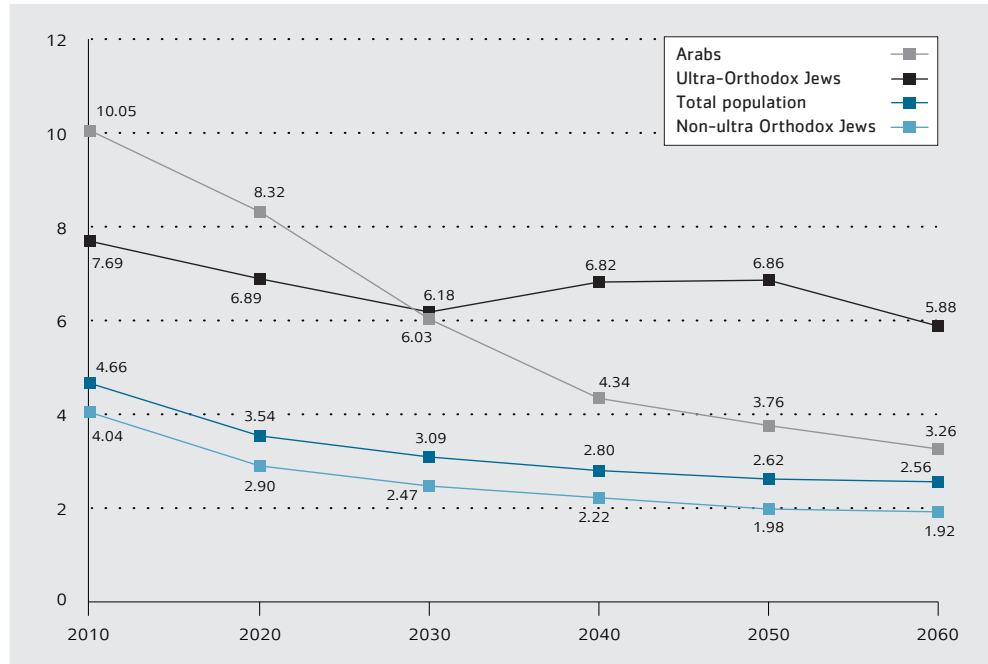
| Population group        | 2010             | 2020             | 2030             | 2040             | 2050             | 2060             |
|-------------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| <b>Total</b>            | <b>4,558,000</b> | <b>5,257,430</b> | <b>6,076,090</b> | <b>7,040,880</b> | <b>8,022,659</b> | <b>9,260,723</b> |
| Non-ultra Orthodox Jews | 3,398,890        | 3,636,950        | 3,972,600        | 4,305,550        | 4,469,793        | 4,745,072        |
| Ultra-Orthodox Jews     | 325,550          | 486,820          | 700,940          | 1,048,600        | 1,521,643        | 2,136,443        |
| Arabs                   | 833,550          | 1,133,660        | 1,402,550        | 1,686,740        | 2,031,223        | 2,379,208        |
| <b>Men</b>              | <b>2,255,340</b> | <b>2,618,090</b> | <b>3,047,710</b> | <b>3,551,890</b> | <b>4,067,938</b> | <b>4,709,528</b> |
| Non-ultra Orthodox Jews | 1,666,880        | 1,794,910        | 1,980,030        | 2,161,430        | 2,259,143        | 2,409,075        |
| Ultra-Orthodox Jews     | 168,260          | 249,410          | 356,580          | 533,960          | 775,467          | 1,088,406        |
| Arabs                   | 420,210          | 573,770          | 711,090          | 856,510          | 1,033,328        | 1,212,047        |
| <b>Women</b>            | <b>2,302,660</b> | <b>2,639,340</b> | <b>3,028,390</b> | <b>3,488,990</b> | <b>3,954,721</b> | <b>4,551,195</b> |
| Non-ultra Orthodox Jews | 1,732,020        | 1,842,040        | 1,992,570        | 2,144,120        | 2,210,650        | 2,335,997        |
| Ultra-Orthodox Jews     | 157,300          | 237,410          | 344,360          | 514,640          | 746,176          | 1,048,037        |
| Arabs                   | 413,350          | 559,890          | 691,460          | 830,230          | 997,895          | 1,167,161        |

**Graph 1**  
**Age and Gender Composition of the Population in Israel by Population Group, 2010-2060**



ratio of working age to old age, inasmuch as a high birth rate increases the working age population in due course.

**Graph 2**  
**Ratio of the Working-age Population (25 to 64) to the Population Aged 65+,**  
**2010-2060**



\* The age group ratio is usually presented according to the ages in the graph. However, it is reasonable to assume that the increasing life expectancy and the development of the demographic ratio result in an extension of the working age period, whereas the lower limit of old age is rising, so that the ratio decreases less than in the graph.

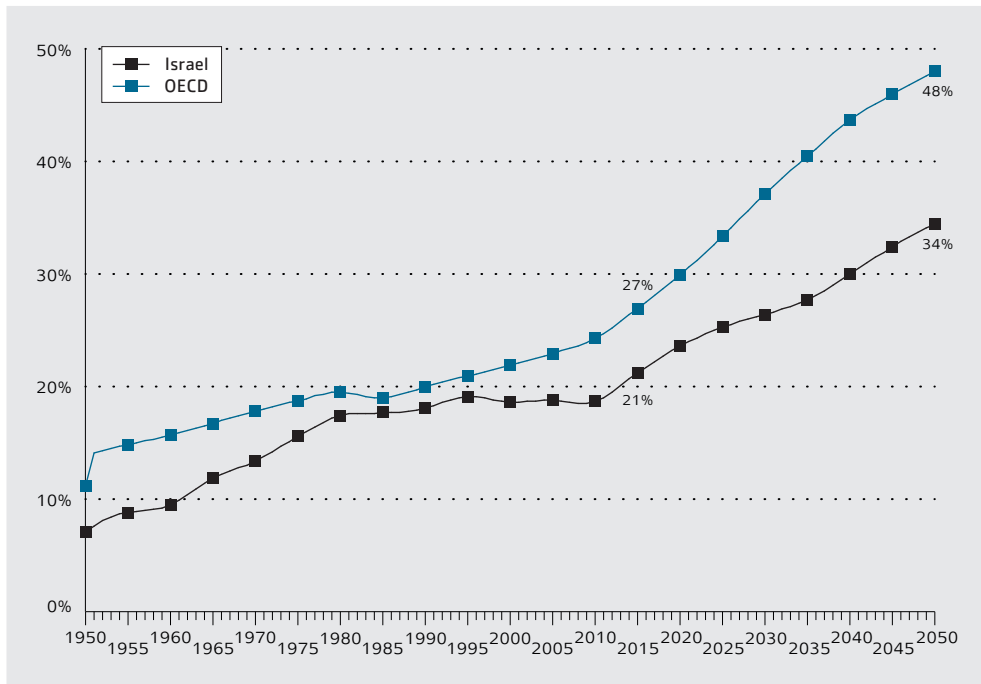
While the birth rate increases the dependency ratio, over the middle to long-term it improves it, inasmuch as the children grow and constitute an addition to the work force

While the birth rate increases the dependency ratio (Graph 4), over the middle to long-term it improves it, inasmuch as the children grow and constitute an addition to the work force. By contrast, the aging of the population only increases the dependency ratio over time (Graph 2). If we look at the potential, then families with many children and few elderly (the ultra-Orthodox Jew society and the Arab society) indicate a higher strength potential than does the non-Orthodox population – this assuming, of course, that they make up the gap in the employment rates within a short time.

It is customary in the OECD countries to present the dependency ratio as the rate of people in old age relative to the working-age population. Such a ratio with a forecast pertaining to Israel compared to the forecast prepared by the OECD is presented in Graph 3 below.

The data for the 34 OECD countries and for Israel were taken from an OECD report where they are defined by inverse ratio, i.e. the working-age population (aged 20 - 64) divided by the elderly population (65+). Therefore, the numbers here were calculated as the ratio of 1 divided by the numbers in the OECD report. It would have been advisable to compare the graph up to 2060, but the OECD estimates do not yet include such data.

Graph 3  
The Population Aged 65+ as a Percentage of the Population Aged 20-64,  
Israel and OECD Countries, 1950-2050



Source: Pensions at a Glance – Retirement Income Systems, OECD and G-20 Countries.

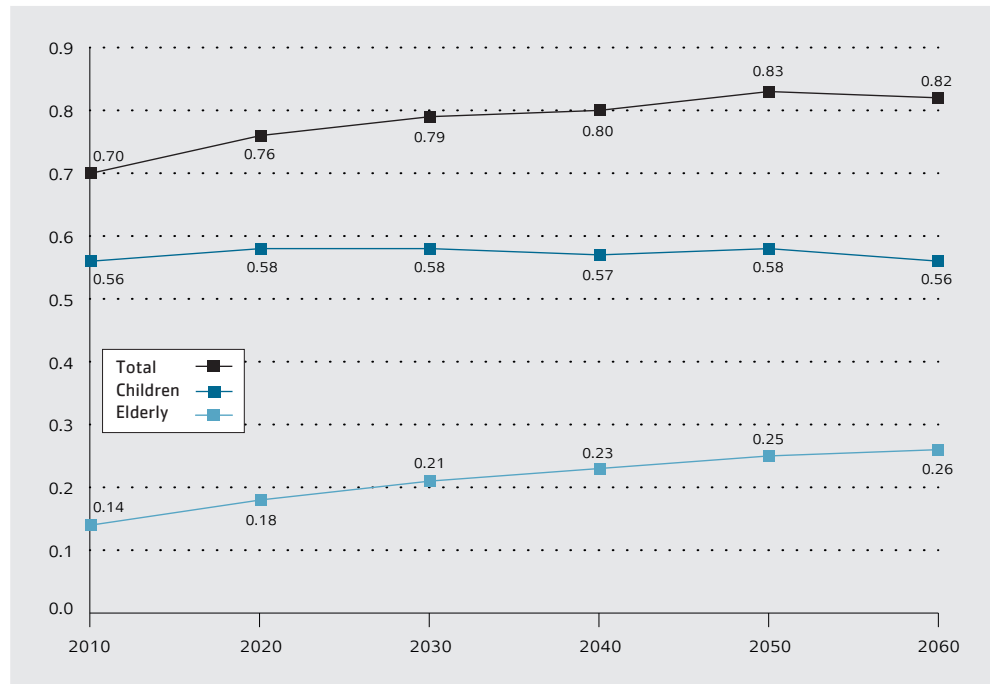
The calculations in Graph 3 indicate an advantage to the Israeli market over that of the OECD, which diminished from the 50s until the end of the 70s of the previous century. From the 80s until the mid-90s the Israeli market developed at a rate similar to that of the OECD and since then a growing advantage has again accrued to Israel. This advantage is expected to continue to grow even further in the coming 40 years according to OECD estimates. Naturally, this advantage largely depends on continued growth in the employment rate in Israel compared to the OECD and on rehabilitation of the wage level – two processes that would contribute to increasing the receipts of national insurance contributions. Such a development, of the continued positive trend in the employment rates accompanied by increased wages of newcomers, is not self-evident, judging by the wage development of the newcomers to the labor market in the last decade.

The dependency ratio, which includes the elderly and children as dependent on the working-age population, is presented in Graph 4. This ratio is expected to rise until 2050 and subsequently to level off. While in 2010 the ratio of the dependents (children and the elderly) to the working age population was 70 dependents per every 100 working age persons, in 2050 this ratio is expected to rise to 83 dependents. Most of the dependency stems from the growing elderly population, inasmuch as the rate of children is expected

The calculations in Graph 3 indicate an advantage to the Israeli market over that of the OECD which is expected to continue to grow even further in the coming 40 years

The dependency ratio is expected to rise until 2050 and subsequently to level off

**Graph 4**  
**Dependency Ratio: Children and Elderly Relative to the Working-age Population (18-67), 2010-2060**



to rise slightly until 2020 and then to stabilize at a high level until about 2050 and subsequently to begin to decline, while the number of elderly dependents is expected to double. From a long-range perspective it is more correct to include only the elderly in the dependency ratio, inasmuch as children have the potential of becoming a point of strength in terms of financial strength if resources are invested in them wisely.

## 6. Summary

Several major trends can be identified, which arise from the initial population structure and its two key components – the age structure and the age composition of the different population groups:

- The growth in the population will continue in the coming 50 years, despite the expected decline in the fertility rates.
- A steep upward trend in the rate of the elderly in the population is expected, particularly among non-ultra Orthodox Jews and Arabs.
- A decline in the percentage of the working age population and a rise in the burden on the potential workers is expected, although less than in OECD countries. The burden will also be affected by the degree of growth in the actual employment rate and by the degree of success in improving the wage level, particularly of the newcomers.

A decline in the percentage of the working age population and a rise in the burden on the potential workers is expected

## 2. Employment and Wage Development: 2001–2012 and Future Forecast<sup>7</sup>

### A. General

The population in Israel is varied in many respects: culture, ethnic origin, religion, devoutness, nationality, cultural heritage and demographic and regional structure. This heterogeneity greatly affects the functioning of the different groups in the labor market, as reflected in their employment rates and wage distribution.

The description of labor market behavior is based on a combination of individual identified administrative files over time that have accumulated at the NII in its capacity as a payer of benefits and as a collector of national insurance contributions as well as of the health insurance contributions that are distributed to the sick funds. The source of the files is the NII and government ministries related to the NII, such as the wage file of the Tax Authority and the demographic data file from the Ministry of the Interior. An important advantage of this database over other information on the labor market lies in the ability to investigate different aspects of the labor market situation over time, also within very small groups, since the database encompasses the entire population in Israel.

The analysis allows identification at the individual level, naturally while strictly maintaining privacy protection, and focuses on employment rates and wages of select groups – non-ultra-Orthodox Jews, ultra-Orthodox Jews, Ethiopian Jews and Arabs – by gender, age group, geographical region and economic sector<sup>8</sup>.

An employed person is defined as someone who has received wages in a given year as a salaried employee or as a self-employed person. The employment rate is calculated as the ratio of the number of employed persons to the number of residents in the reference group. The research population encompasses all residents of Israel aged 20–67. The employment indices describe the employment rate where 2001 constitutes a base (100=), in order to emphasize the dynamic as reflected by the cumulative growth rate of the employment compared to the base year.

The following analysis explores the development of both the employment rate and the wage distribution, so that it sheds light on the degree of influence of the steep growth in the employment rate that occurred in recent years on the standard of living. The analysis further reinforces the finding whereby joining the labor market per se does not guarantee

The analysis further reinforces the finding whereby joining the labor market per se does not guarantee a rise in the relative standard of living

7 The 2012 data was received near the completion of the preparation of the work on the Annual Survey, since the wage files of the Tax Authority are received with a delay of about 18 – 20 months. Consequently, Box 2 refers to the employment data up to 2011. The wage developments were taken from the 2012 files.

8 The weight of the individual is calculated relative to the number of months he worked in said year, so that the weight of a person who worked a full year is 1 and if for example he worked half a year – his weight is half. The weight therefore affects our calculation of the employment rate. The employment rate is calculated as the ratio of this number to the number of working age residents in the reference group.

a rise in the relative standard of living<sup>9</sup>. The explanation for this probably lies in a simple economic truth: as the supply of low-skilled workers grows in the labor market, their wage level may decline due to the growth in the supply of these kinds of services, while concurrently there is no growth (and in certain periods there is even a decline) in the demand for work services on the part of employers (Graph 5).

It should be noted that there is no simple way to identify ultra-Orthodox Jews in the files, inasmuch as Orthodoxy is essentially a subjective feeling of cultural – religious affiliation. In order to overcome this deficiency in the analysis of the behavior of this group in the labor market, an algorithm has been developed in recent years by the Research and Planning Administration from the administrative data of the NII in an attempt to identify those affiliated with this group according to various characteristics (for instance – one of the family members being a graduate of a yeshiva or an ultra-Orthodox seminary for girls)<sup>10</sup>.

The results pertaining to employment and wage are presented below. The data is presented separately, notwithstanding the connection between the two. The connecting link is the interaction between the demand for work by employers and the work supply of workers and job seekers.

## B. Employment Rates

A major goal of the government in recent years has been increasing the employment rate in Israel, primarily among groups that traditionally have a relatively low employment rate<sup>11</sup>.

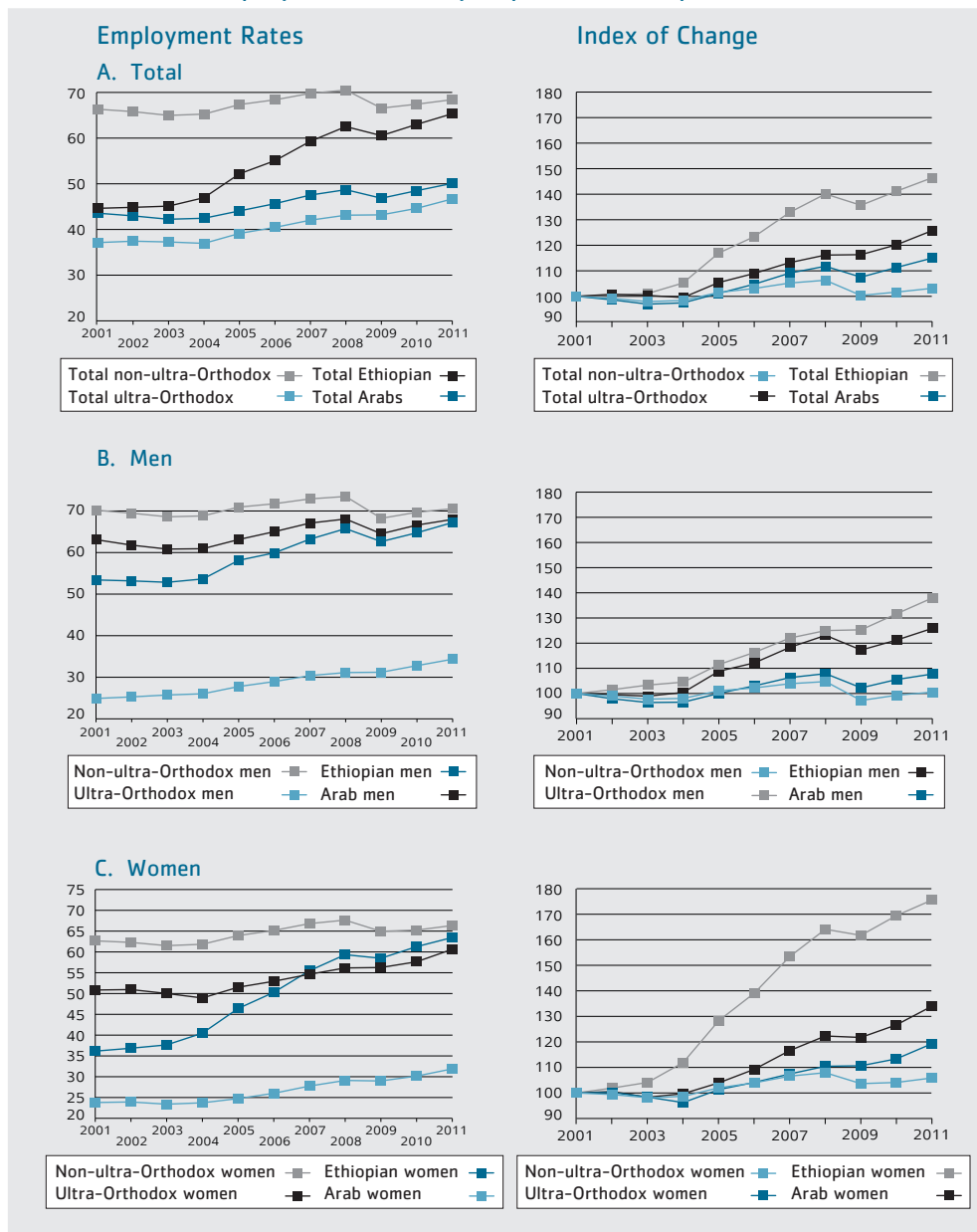
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- 9 Such indication already exists in the surveys on the dimensions of poverty and social gaps of recent years, where the information there is based on surveys and it is therefore more general in terms of the reference to specific population groups. See in particular: The National Insurance Institute – Dimensions of Poverty and Social Gaps Survey 2014. Graphs pgs. 48 – 50. [http://www.btl.gov.il/Publications/oni\\_report/Documents/DohOni2012.pdf](http://www.btl.gov.il/Publications/oni_report/Documents/DohOni2012.pdf).
- 10 Yeshiva students and seminary girls are identified through unique payment of national insurance contributions. Furthermore, the Research and Planning Administration conducted surveys in 2011 and 2012 on food security, which also included devoutness-related questions (“Would you describe yourself as being affiliated with the ultra-Orthodox community? The national religious? Traditional religious? Traditional but not religious?”). The algorithm data of identifying an ultra-Orthodox person was corroborated with this subjective information and the results were reasonable. Most of the errors were in identifying an ultra-Orthodox Jew versus a national religious Jew, and the data was deficient when involving the Hassidic ultra-Orthodox movement, since the rate of those learning in a Yeshiva as a principal occupation is lower among them. Another upward bias of the estimated population volume could arise in relation to families of the penitents, inasmuch as they may be counted as ultra-Orthodox families. A potential bias in the opposite direction (presumably smaller, inasmuch as the ultra-Orthodox population is smaller than the non-Orthodox population) involves families of those leaving the fold. Insofar as the probabilities of strengthening devoutness are higher than the opposite development, so the bias will be toward underestimation.
- 11 See: (2007). Socio-Economic Agenda, Israel 2008 – 2010. National Economic Council. Prime Minister’s Office. <http://www.tevet4u.org.il/files/wordocs/agenda-%2008-10.pdf>, there a goal was set for increasing the employment rate for those aged 25 – 64 to 71% by the end of 2010, compared to a rate of approximately 68% at the time the Agenda Report was written. In view of the definition changes by CBS due to the desire to create harmonization with international definitions (ILO and OECD), certain changes may be necessary in the Agenda goals. Given the changes in the definition of the term “employment” in the CBS Manpower Survey, the historical comparison is more complicated, since the CBS has been defining, inter alia, also the regular soldiers as employed persons since 2012. The definition in this document does not include regular soldiers; therefore it is currently perhaps the only retroactive sequence that could be compared to many years retroactively.



Graphs 5A–C indicate significant growth in the employment rates of the ultra-Orthodox and Arab population, at least in the last 12 years. Of all the groups the Ethiopian Jews are the most notable: not only has the employment rate among them accelerated, but they more or less narrowed the large gap that existed in the early 2000s between their own employment rates and those of the non-ultra-Orthodox – the group

Graphs 5A–C indicate significant growth in the employment rates of the ultra-Orthodox and Arab population, at least in the last 12 years

**Graph 5**  
Indices of Change in the Employment Rate  
and Employment Rates by Population Group and Gender



with the highest employment rates in Israel<sup>12</sup>. The employment rate of ultra-Orthodox women is also approaching that of the non-ultra Orthodox women. Among Arab women there is still a significant gap in employment rates. However, the growth rate of convergence of the employment rates among Arab women has accelerated since 2004 and even more so in 2010 and 2011. Arab men have continued approaching the fairly high employment rates of non-ultra-Orthodox men in recent years. The employment rates of ultra-Orthodox men are still far from those of the other population groups, but they have been growing steadily since 2001 and at the fastest rate among the three groups and in 2010 - 2011 a particularly rapid acceleration can be observed.

The surge in the employment rates is notable between 2003 and 2004, a year during which an approximately two-year process of detriment to the social security system reached its peak, particularly in the level of child allowances and income support benefits<sup>13</sup>. Moreover, the period of payment of unemployment benefits was shortened and the volume of payments to young people was reduced. In 2004 the economy also began emerging from the deep recession in which it had been seeped since the beginning of 2001, so that the employment gaps also probably narrowed in consequence of the increase in the demand for workers.

Among men a significant convergence to higher employment rates can be observed

Among men a significant convergence to higher employment rates can be observed. Thus, for instance, since 2007 the employment rate of young Arab (up to the age of 35) has already passed the employment rate of non-ultra-Orthodox young Jews. For ultra-Orthodox Jews the growth rate is particularly high among those aged 35-50. Also among ultra-Orthodox Jews up to the age of 35 the growth rate of the employment rates is high and it has risen since the beginning of the 2000s by more than 25%. Also among the older ultra-Orthodox Jews (aged 50 or older) the employment rate has grown faster than among the Arabs and the non-Orthodox Jews.

Among women, the fastest growth rate of all three age groups is among Arab women

Among women, the fastest growth rate of all three age groups is among Arab women. The acceleration mainly began as of 2004, apparently in the wake of the extensive cuts in benefits, particularly in the child allowances. The growth rate was particularly great among older Arab women, but also among the middle aged (35 – 50). They have a rapid rate of joining the job market. Among the young women the growth halted during the recession year (2009), but resumed immediately thereafter.

The rate of growth of the employment rates increases with the number of children in the family, among both men and women

The rate of growth of the employment rates increases with the number of children in the family, among both men and women. Among men the phenomenon exists mainly among ultra-Orthodox Jews and Arabs. Rapid growth of entry into the job market has begun among young ultra-Orthodox Jews even where there are no children in the family.

12 As explained above, the non-ultra-Orthodox group is a diverse group that incorporates not only non-religious families, but also national religious, traditional and other such families.

13 Reduction of the disregard (the work income that is not exempt from the means test in the determination of the benefit level).

A certain turnover is evident between ultra-Orthodox men and ultra-Orthodox women with the increase in the number of children.

Regionally, the gaps in the rates of entry into the job market are less prominent. However, the acceleration is greatest among ultra-Orthodox Jews and Arabs in the south. The accelerated convergence of the employment rates develops in accordance with the objectives of the government, i.e. the fastest entry is among ultra-Orthodox Jews and Arabs. This result is indeed influenced, inter alia, by the initially low employment rates among both these populations, but this is not the only reason: the convergence per se is not inevitable but reflects a change of behavior of these groups in recent years. The data shows that the change has been going on for at least six years.

### C. Wage Development

The surveyed period (2001-2012) is divided in Graphs 6 A-F into two sub-periods: the cutbacks and the recession in 2001-2004 – Graphs A-B and the subsequent growth (which was infringed by the short recession at the end of 2008 until mid-2009) – Graphs C-D. An analysis of the aggregate period was made in Graphs E-F.

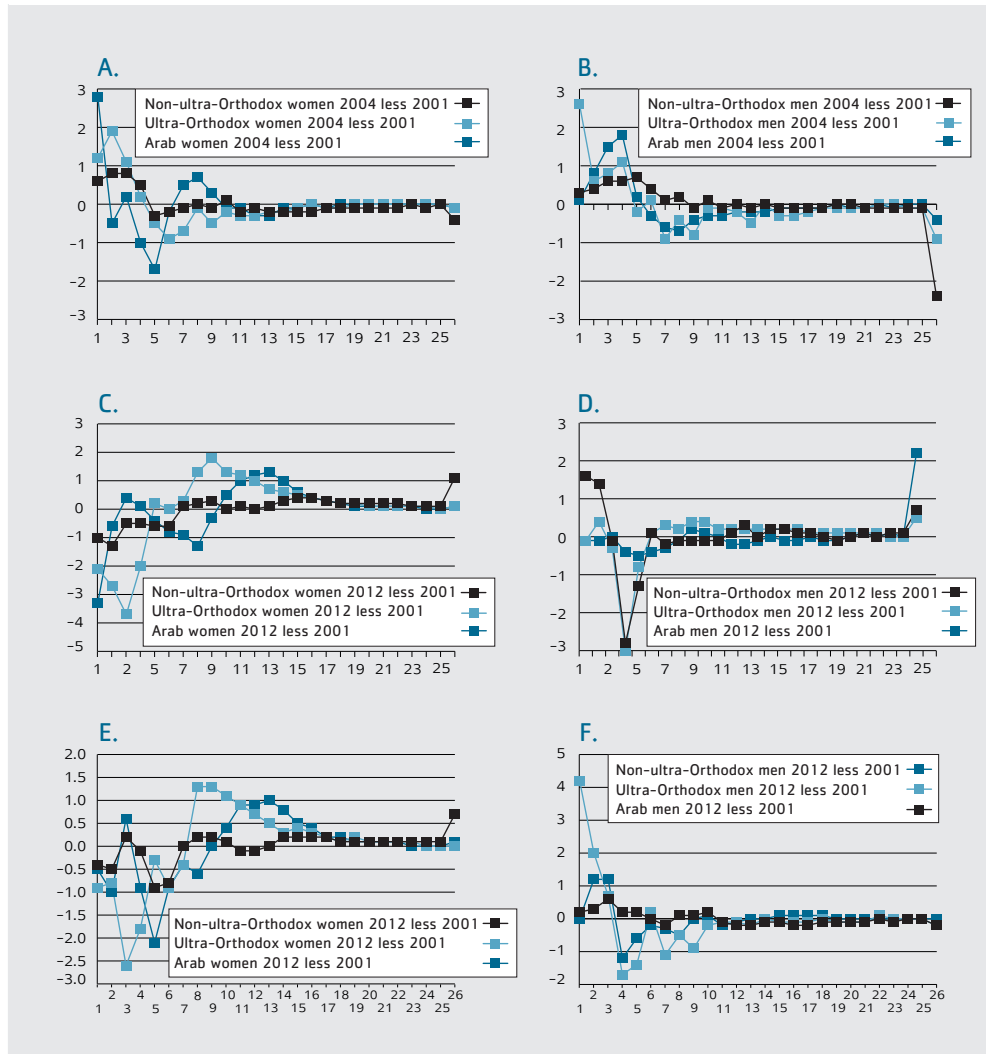
During the first period, there was a deterioration within the three population groups – particularly among men, and to a lesser extent also among women, since among the Arab women there was a certain improvement in the monthly wage of NIS 6,000 - 9,000. Also notable in the first period is the major deterioration in the high wage bracket (more than NIS 25,000 per month) of all the groups.

During the second period there was a significant improvement in women earning low wages and it is particularly notable among ultra-Orthodox women and Arab women. However, the economic growth passed over the ultra-Orthodox men, whose situation deteriorated during this period as well. Among Arab and non-ultra-Orthodox men the result is less clear. At the upper end of the distribution, the situation of the high wage earners again improved similar to the deterioration of the first period.

If we look at the aggregate period (2012 compared to 2001), we see an obvious improvement among women, particularly ultra-Orthodox women and Arab women, and a deterioration among men – particularly ultra-Orthodox men and less Arab men and still less non-Orthodox men. The distributions themselves in each one of the three years – 2001, 2004 and 2012 – are presented in Graphs 7 A-F and they emphasize the mode value (distribution peak) differences between the groups. The distributions also emphasize the overall fixation that characterized the gross wage distributions over the surveyed years, since we see that there was almost no movement in them in real terms.

Table 6 examines the gross wage distributions of the different years by the mode wage level and by the cumulative distribution up to a certain wage level – NIS 10,000. According to this cumulative rate, insofar as the mode wage is lower and the cumulative rate of the class is higher, so the gross wage distribution is less equitable.

**Graph 6**  
**Change in the Wage Distributions by Population Group and Gender**  
**(2012 prices)\*, 2001, 2004 and 2012**



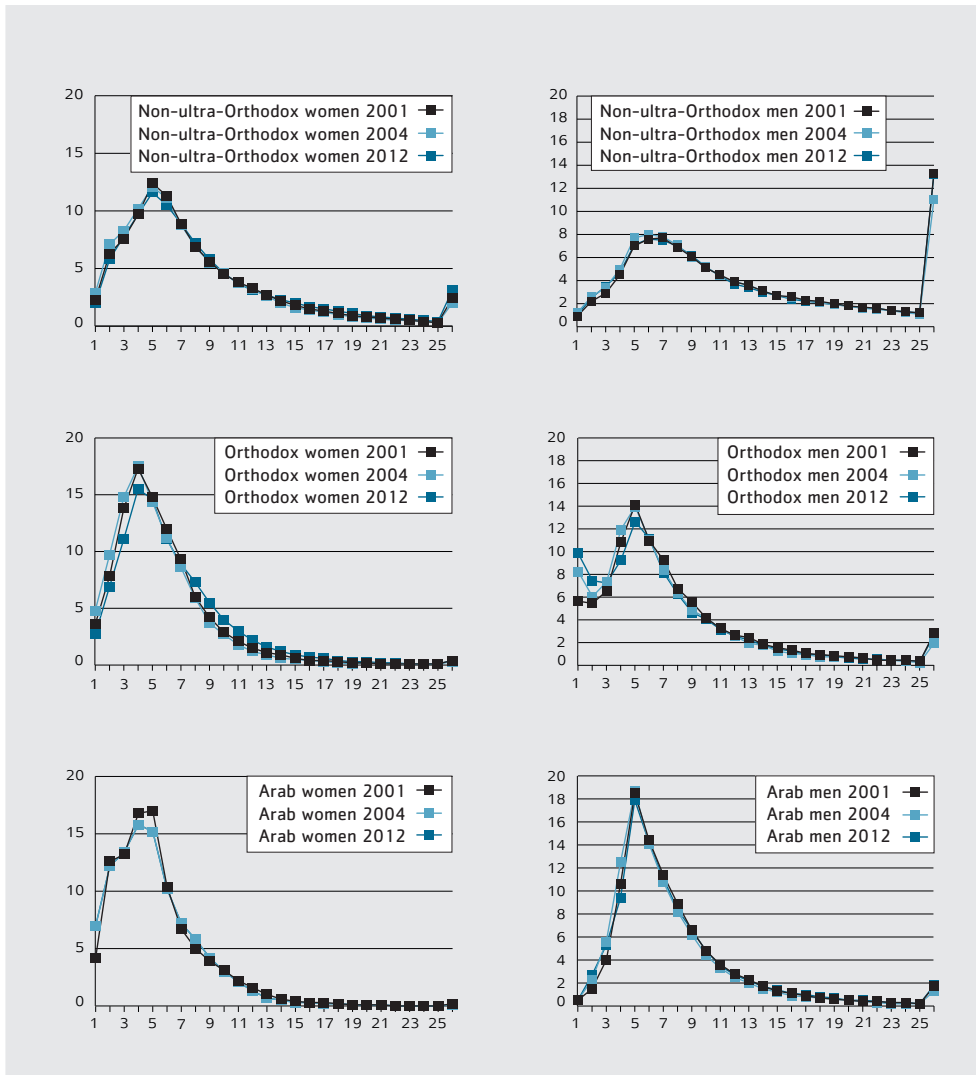
\* The horizontal axis – monthly wage in NIS thousands, 2012 prices; the vertical axis – percentage change of the employee population at a given wage level.

the wage distribution of Arab women is at the bottom of the scale and of ultra-ultra-Orthodox women it is slightly higher

Using this method of observation, the distribution of non-ultra-Orthodox men is improved in comparison to that of non-Orthodox women and both of them are preferable to the wage distributions of ultra-Orthodox and Arab men, but it is difficult to rank them. However, it can be determined that the wage distribution of Arab women is at the bottom of the scale and of ultra-ultra-Orthodox women it is slightly higher.

Another option is to examine the ratio of the average wage to the median wage: the closer the average wage and the median wage are to each other, the more symmetrical the

Graph 7  
Wage Distributions by Population Group and Gender, 2001, 2004 and 2012\*



\* The horizontal axis – gross wage in NIS thousands; the vertical axis – rate of wage earners at a given wage.

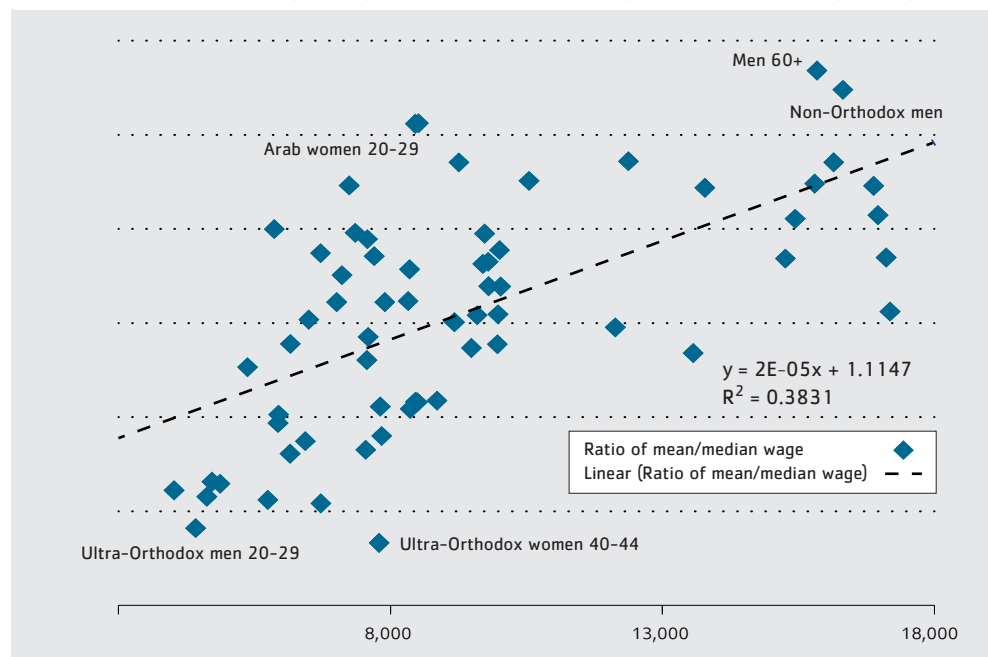
distribution. If the distribution is generally not symmetrical but skewed as in Graphs 7 A - F, then the closer the ratio (average wage divided by median wage) is to 1 this indicates a less equitable distribution. And indeed when calculating the ratio of the different distributions, the graphs show that the increase in the average wage is accompanied by a growing ratio. Meaning, the distribution is skewed toward the mode and the median being far from the average wage – a reflection of the inequality of the distribution. In the graph of the wage distribution of young ultra-Orthodox men, the ratio of the average

the distribution is skewed toward the mode and the median being far from the average wage – a reflection of the inequality of the distribution

**Table 6**  
**The Upper Segment of the Wage Distribution**  
**by Population Group and Gender, 2012**

| Population group and gender | The mode wage (NIS per month) | Cumulate rate of wage earners Up to NIS 10,000 | Cumulative rate of wage earners NIS 11,000 or higher | Total wage distribution |
|-----------------------------|-------------------------------|--|--|-------------------------|
| Non-ultra Orthodox Jews     |                               |  |  |                         |
| Men                         | 6,000                         | 52.3   | 47.7   | 100.0                   |
| Women                       | 5,000                         | 73.7   | 26.3   | 100.0                   |
| Ultra-Orthodox Jews         |                               |  |  |                         |
| Men                         | 4,000                         | 80.2   | 19.8   | 100.0                   |
| Women                       | 4,000                         | 87.6   | 12.4   | 100.00                  |
| Arabs                       |                               |  |  |                         |
| Men                         | 5,000                         | 80.9   | 19.1   | 100.0                   |
| Women                       | 4,000                         | 87.4   | 12.6   | 100.0                   |

**Graph 8**  
**Ratio of the Average wage to the Median Wage and the Average wage\***



\* Based on Tables 6 and 7.

wage to the median wage is close to 1 and this is also the case in the wage distribution of young Arab women. By contrast, the distribution of non-ultra Orthodox men aged 60 or older – a population with a high rate of affluent employees – is at the upper end of the scatter graph (Graph 8).

**Table 7**  
**Mean and Median Wage by Population Group, 2012**

| Population group        | Men           |              | Women        |              |
|-------------------------|---------------|--------------|--------------|--------------|
|                         | Average wage  | Median       | Average wage | Median       |
| <b>Total</b>            | <b>12,309</b> | <b>8,362</b> | <b>7,886</b> | <b>5,965</b> |
| Non-ultra-Orthodox Jews | 13,702        | 9,488        | 8,321        | 6,291        |
| Ultra-Orthodox Jews     | 6,974         | 5,277        | 5,937        | 4,938        |
| Arabs                   | 7,567         | 6,003        | 5,364        | 4,284        |

#### D. Analysis of Trends in Government Policy

The government policy in the last decade was to motivate groups with low employment rates toward employment through benefit cuts, even if this involved a detriment to the guaranteed minimum for adequate sustenance of persons who are unable to earn a living and this during a period of two recessions. This policy operated primarily through disincentives to those who do not go out to work and less by positive encouragement. Such positive encouragement was instituted later, primarily through the work grant and the wage subsidy via the Employment Track. The result was indeed an impressive growth in the employment rates. The question is asked of whether this policy also succeeded in producing adequate subsistence. An indication of this is obtained from an analysis of income distributions by population group in Graph 7, which constitutes an empirical expression of Graph 5. The detriment to the wage distribution is measured for each group through the change in the rate of those earning a certain wage (change in the real wage distribution) during the surveyed periods.

An analysis of the wage situation indicates that joining the job market is a necessary but insufficient condition to improving one's social situation. The surge in the employment rates occurs between 2003 and 2004, years during which an approximately two-year process of extensive detriment to the social security system was completed, particularly in child allowances and in income support benefits, as well as in disregard<sup>14</sup>. Those same arrangements laws also shortened the duration of the period of payment of unemployment benefits, particularly for young people. Since employment should ultimately provide subsistence for a person and his family, the discussion and the examination should not only focus on the development of the employment rate, but also on why such a significant momentum in employment over more than a decade did not result in working families being able to earn a decent living.

In this area the policy has been less successful and it requires substantial revisions so that not only the employment continues growing but also the wage level, particularly of the newcomers, since many of them indeed increase their wages but are also forced to

.....

14 Reduction of the disregard (the work income that is not exempt from the means test in the determination of the benefit level).

An analysis of the wage situation indicates that joining the job market is a necessary but insufficient condition to improving one's social situation

relinquish a benefit, or that it becomes smaller according to the statutory rate of offset pursuant to the wage growth. Insofar as the wage growth is smaller than the benefit cut, the new workers do not benefit financially from the transition to employment and the increased employment. The tools for addressing this issue are varied, from setting and enforcing the minimum wage to a work grant (negative income tax).

The resulting conclusion is that we should not suffice with setting employment goals, but rather set also goals in the area of wage improvement

The resulting conclusion is that we should not suffice with setting employment goals, but rather set also goals in the area of wage improvement, particularly at the bottom of the wage scale, that are no less clear than the employment goals. It is also necessary to address the common phenomenon of the great many professional employees earning minimum wages and even less, despite their proven professional abilities. This issue pertains to a certain shortcoming of minimum wage laws, which usually are enacted in countries where to begin with there is a problem of unfairness in a substantial part of the labor market. From the outset, the governing minimum wage law was designed to protect the employees at the bottom of the wage scale i.e. disadvantaged and non-professional or low-skilled employees. However, it seems that the law has come with an undesirable phenomenon of employee concentration at the bottom of the wage sale and sometimes under the minimum wage even though they are professional, efficient and have high output<sup>15</sup>.

## E. Future Forecasts

In this section we will attempt to establish logical assumptions for the future employment rates of the population groups by gender according to the convergence rate in recent years, with the aim of creating a reasonable forecast for the expected national insurance contributions and estimating the expected actuarial account.

### The rate of change in employment

In order to take into account the dynamic of recent years in the development of employment rates, it has been decided to assume in the present exercise that the rate of change of the employment rates shall be determined according to the unique rate of change of each one of the population groups (by gender and age group) in the decade ending in 2011. Graph 9 below summarizes the rates of change in this decade in each one of the groups and indicates that the convergence rate of the employment rates of ultra-Orthodox Jews and Arabs in recent years was faster than that of the non-ultra-Orthodox Jews – men and women.

.....  
 15 See Graph 7 B, whereby approximately one third of the workers earn minimum wage or less even though they have a professional occupation. Endeweld M., Gottlieb D. and Heller O. (2013). Updated Findings on Non-compliance with the Minimum Wage Law and an International Perspective. National Insurance Institute. [http://www.btl.gov.il/Publications/more\\_publications/Documents/TziyutScharMinimum.pdf](http://www.btl.gov.il/Publications/more_publications/Documents/TziyutScharMinimum.pdf).



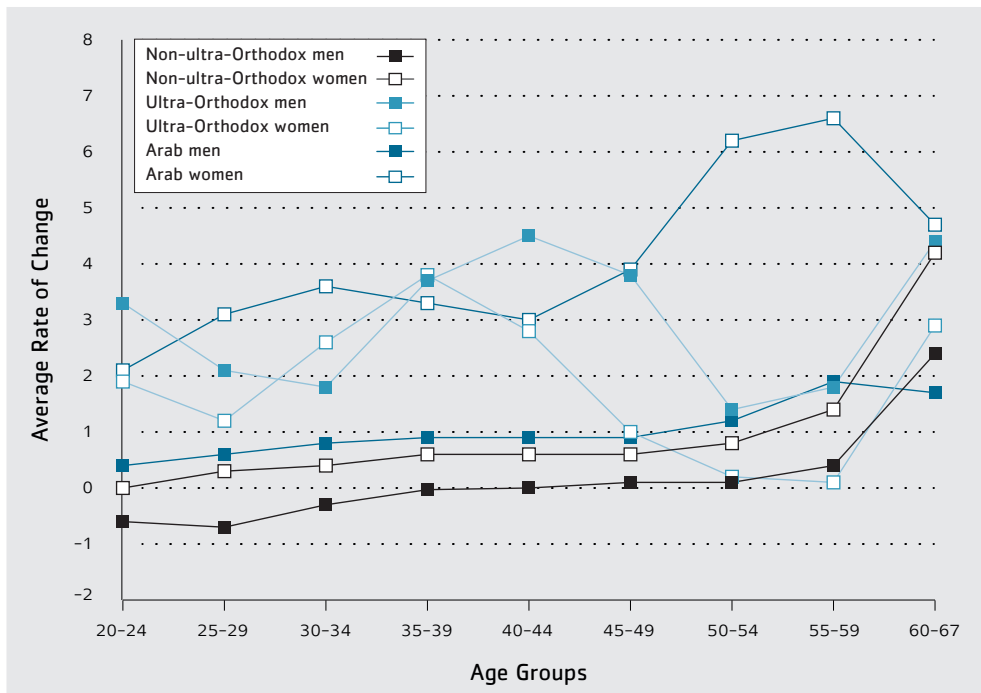
Among non-ultra-Orthodox men and women, the average change in the employment rates over the decade, ending in 2011, was insignificant. Among men there is a notable decline (or no change – among young men (aged 20- 39). Among women there is a moderate rise in the employment rate within those age groups. It is reasonable to assume that the delay stems primarily from the need for a longer period of studies than in the past in order to be prepared for the labor market.

Another interesting phenomenon is the accelerated growth in the employment rates among those aged 50 or older within these groups, this probably due to the increase in the life expectancy on the one hand and the aforesaid delay in entering the labor market on the other hand.

Another interesting phenomenon is the accelerated growth in the employment rates among those aged 50 or older

Legislative changes increasing the retirement age may also contribute to this. It is reasonable to assume that both phenomena are also related to the fact that the coverage of the standard of living in old age compared to the standard of living in working age has deteriorated, in light of both the transition to a cumulative pension and the fact of those aged 50 or older being a “desert generation” in terms of mandatory pension law, since many of them did not manage to accumulate many years of mandatory pension rights, if at all.

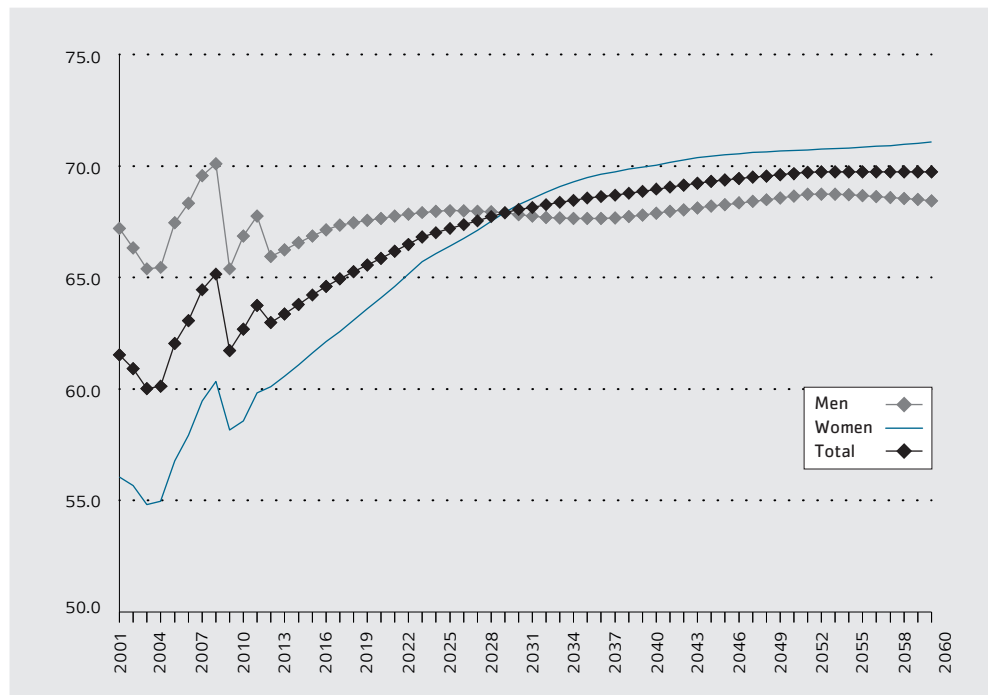
**Graph 9**  
**The Convergence Rate Assumption according to the Average Rate of Change of the Employment Rates, by Population Group, Gender and Age Group, 2001-2011**



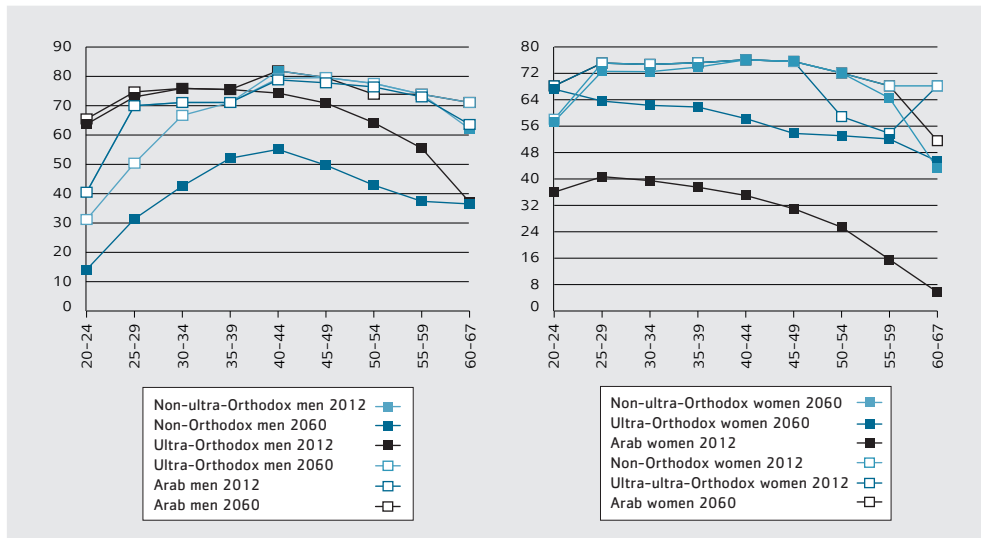
Another assumption was necessary so as not to confront “impossible” employment rates (such as greater than 100% or smaller than 0%). For this purpose we set limits: the assumptions were established using a uniform method for all the groups, by gender and age group. We halted the convergence process when one of the following conditions was present: (1) the unique employment rate reached the high level of 2001 - 2011 in the group most integrated into the labor market – the corresponding non-Orthodox group. The limit therefore included the higher value of the relevant age group / gender. (2) The average employment rate of the relevant population group / gender was determined for all age groups, so as to allow a population group with significant growth in the employment rates within certain age groups – to grow. Among the non-Orthodox Jews, for instance, the employment rate in the lower age groups is in regression. If a certain population group in the same age group / gender has growth in the employment rate in recent years, then the minimum set by the non-ultra- Orthodox group will not constitute an effective limit for the growing group.

Moreover, in order to address the significant increase that is already occurring today within the high age group for instance (60-67) we have allowed values to grow also in the non-ultra- Orthodox group up to the average employment rate of all the ages within the same gender. Since the employment rates of men and women aged 60-67 are below

**Graph 10**  
**Convergence Rate of the Employment Rates, by Population Group,**  
**Age and Gender, 2001- 2060**



**Graph 11**  
**Employment Rates by Population Group, Gender and Age Group,**  
**Forecasts for 2012 and 2060**



average, the assumption allows certain growth also among this group. Since some of the average annual growth rates are high, the relevant limit is reached over a different number of years by each one of the groups. Combing the assumptions allows the difference in the existing dynamic between the different groups in the labor market in the last decade to be taken into account<sup>16</sup>.

Some of the results obtained according to these assumptions are presented in Graph 10 and in Graphs 11 A-B below.

**Development of real wages**

According to the above discussion, in the last decade there were no substantial changes in the real wages of all the groups and in any degree of involvement in the labor market and education profile (which differs greatly among the groups). Therefore, we assumed at this stage that the real wages of population groups by gender and age would remain constant. Of course, changing the weights of the different groups in and of itself creates changes in the average wage.

The process of convergence to high employment rates has great importance in terms of stabilizing and strengthening social security. In order to emphasize the social component

The process of convergence to high employment rates has great importance in terms of stabilizing and strengthening social security

16 We would note that the significance of the dynamic is that in the young ages a continuation of the decline in the employments rates of the non-ultra-Orthodox population is probably expected and according to the same logic this may also affect the other groups. However, we have allowed the other groups to aspire to higher values if there was such a phenomenon during the base period or if the average of all the age groups within the same population group was higher than that dictated by the non-ultra-Orthodox reference group.

of the NII, NII coverage is determined according to residency status and not according to labor market status, since whoever does not participate in the work force is insured in any event and is liable for minimum insurance contributions<sup>17</sup>. Naturally, the more integrated the insured are in the labor market, the higher the insurance contributions paid by them. In light of these considerations, the government policy of increasing the employment rate is an important element not only for the subsistence of the family but also for the prosperity of the social security system.

## Box 2

### The Results of Applying The Financial Strength Model Using “The Middle Scenario” and Alternatives of the Employment Rates

This box presents the results of applying the financial strength model using the employment assumptions and the middle scenario (Box 1) that are presented in the chapter.

The strength calculation consists of three main models: the demographic model, the economic model and the incidence of contributory benefits model. The economic model calculates the expected receipts, the incidence of benefits model calculates the expected payments and both of them are calculated according to population developments as forecasted by the demographic model.

The Research and Planning Administration’s model is designed to assist in preparing the actuarial report and as such it produces independent estimates. Naturally, the results may differ from those of the official actuarial report.

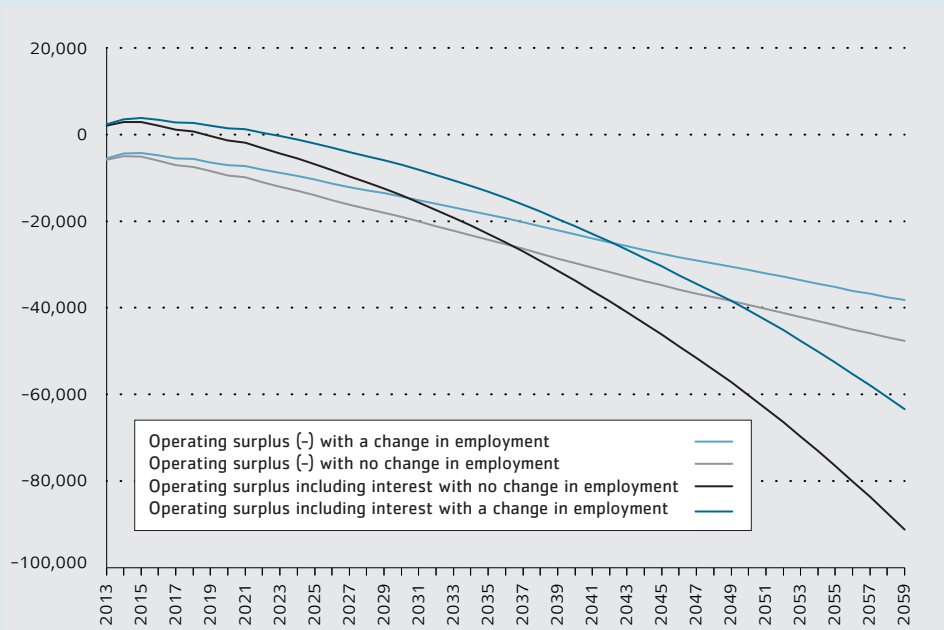
The results are obtained from applying the model using the basic scenario under the following assumptions:

- The middle scenario of the population forecasts (Box 1) is used.
- The current legal situation will continue throughout the forecast period.
- The prices are constant at the 2013 level.
- The average interest paid on government bonds will decrease gradually up to a real interest of 3.5 in 2060.
- The real wage of population groups by gender and age group is expected to grow by about a quarter percent, in addition to the wage increase inherent in the age composition changes according to the population forecast, inasmuch as the wage increases over the life cycle until it peaks and towards the end it decreases slightly.
- The employment rates will rise as described in the chapter.

.....

17 Exceptions include housewives, who despite being residents are insured only by virtue of their husbands and they have fewer rights. If the housewife status is repealed, they will belong to the group of insureds who pay minimum insurance contributions and they will have equal rights to all, which would eliminate this discrimination. One of the arguments against including them in this group is their significant poverty rate and therefore this requires a major overhaul of the problem with further steps.

**Graph 1**  
**The Current Deficit with or without Interest, 2013-2060**



The model allows to calculate the total surplus of receipts expected from the development of payments and receipts, the reserve development (the asset balance) and the ratio between it and the annual volume of payments (the number of years that the reserve allows to cover the payments – “years of coverage”). The model also enables the establishment of alternative policy scenarios with the scenario presented in this box comparing between an increase in the employment rates with a situation where the employment rates remain at the level of the current year.

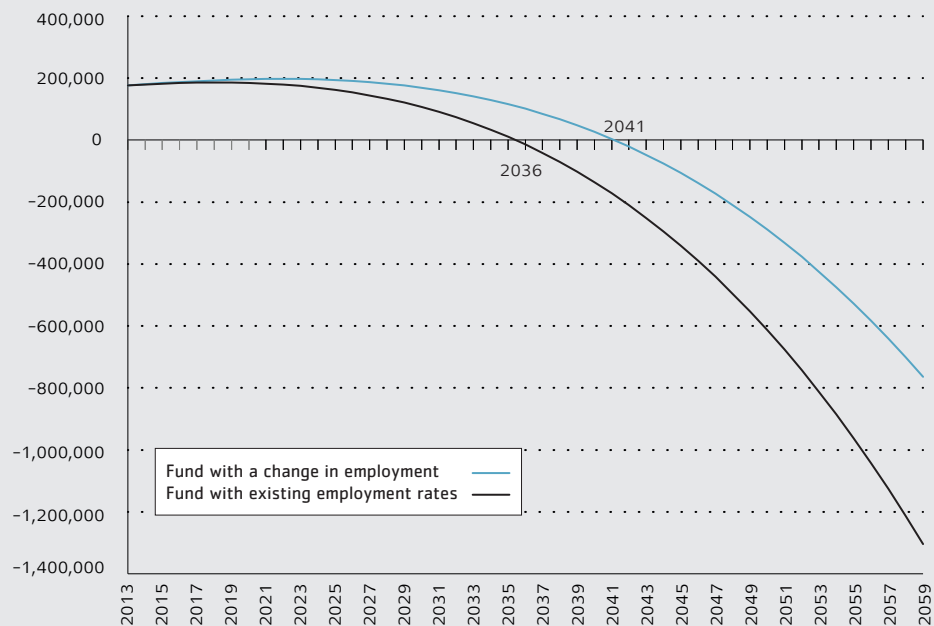
Since 2010, the operating receipts (excluding interest) have been lower than the NII payments, since the benefits were paid in part from the interest accrued in favor of the NII due to the surplus fund investment (the asset balance or “the reserve”) in said year. According to the forecast, the total surplus (the operating deficit together with the interest receipts) will reset around 2022 and subsequently become a deficit – this assuming that the employment rates as indicated by the discussion in this chapter will be in effect. Under a static assumption, whereby the employment rates will remain at the level that they reached in the current period, the total surplus will reset already in 2019. In other words, if the trends of the last decade of rapid growth in the employment rates of populations characterized by low employment rates continue, the financial strength of the NII will improve within 3 to 6 years, according to the selected strength index: the surplus (including interest) will reset three years later (in 2022 instead of 2019, Graph 1).

In the future, the payments are expected to grow at a faster rate than the receipts and therefore in the coming years as well the fund will reconcile the widening gap between receipts and payments. This situation slows the growth rate of the fund. The fund will begin diminishing and assuming that preventative steps are not taken, it will be depleted in around 2041. As can be seen in Graph 2, with no improvement in the employment rates the fund will already be depleted in around 2036. It can be seen that as the forecast years progress, expenditures grow, mainly due to the expected growth of the population and of pension payments to the older population.

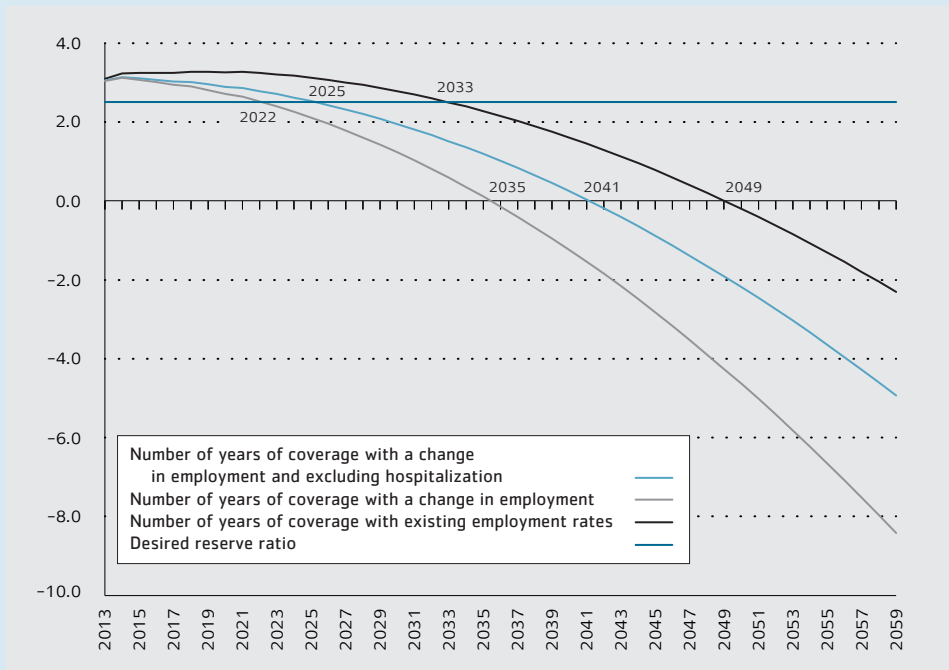
The reserve ratio is the ratio of the fund balance to the total payments. It constitutes a more qualitative index of the strength situation of the NII

The reserve ratio is the ratio of the fund balance to the total payments. It constitutes a more qualitative index of the strength situation of the NII, since it combines between both indices presented above. Its importance is reflected in the question of whether to include hospitalization expenses in the NII payments. Currently, these expenses are included in the payments, although they are not closely related to social security, but rather to the basic health insurance and therefore they should not adversely affect the financial strength of the NII as is the case in the present situation. According to the existing reserve, the ratio improves if we remove this component from the payments. An example of this are the hospitalization expenses paid to hospitals, which currently constitute approximately NIS 2.5 billion and that may increase to approximately NIS

**Graph 2**  
**Forecast of the Fund Balance with or without a Change in Employment**



**Graph 3**  
**Expected Reserve Ratio with or without a Change in Employment – Versus the Desired Ratio**



4.4 billion in 2060. A change in employment and transfer of the hospitalization expenses to the appropriate budget – the health budget – would change the reserve ratio and bring it to the “optimal” level of 2.5 years of coverage after eight years (in 2033 instead of 2025) and the depletion of the reserve would also be delayed by another eight years – in 2049 instead of 2041.

A change in employment and transfer of the hospitalization expenses to the appropriate budget – the health budget – would change the reserve ratio and bring it to the “optimal” level

**Box 3**  
**The NII Asset Balance from the Perspective of the Government Accounts<sup>1</sup>**

**1. General**

The primary activity of the NII – paying benefits under the National Insurance Law and collecting insurance contributions from insureds to fund the payments together with the NII appropriations – has generated, since its establishment, budget surpluses that have been invested in a surplus fund (the asset balance). This fund consists of non-negotiable interest bearing bonds of the government of Israel. As a result of

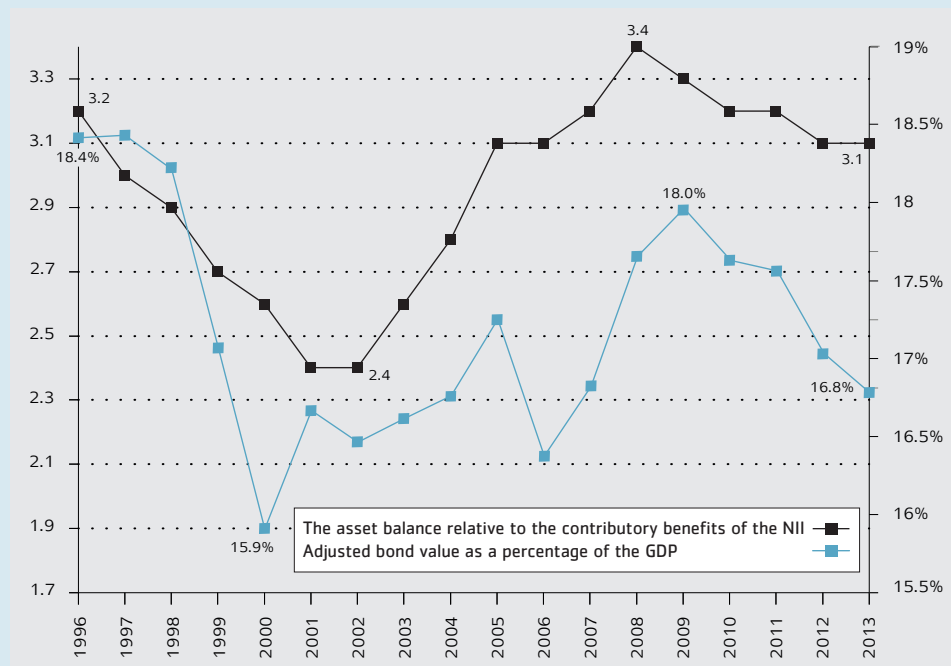
The primary activity of the NII has generated, since its establishment, budget surpluses

<sup>1</sup> Thanks to Eitan Stein, the assistant accountant of the National Insurance Institute of Israel, for his helpful comments.

these deposits, at the end of 2013, assets of the insureds accumulated in the sum of approximately NIS 177 billion<sup>2</sup>. These balances then constituted approximately 17.6% of the GDP (Table 1, Graph 1). An accepted indicator for estimating the volume of the asset balance is the ratio of the balance to the volume of the total contributory benefits per year. According to this index, the balance is sufficient in 2013 to pay the benefits for 3.1 years.<sup>3</sup>

This box discusses the proposals of the committee to examine the financial strength pertaining to the future of the government debt service to the NII,<sup>4</sup> and particularly the recommendation of the committee. For this purpose, we will illustrate for the first time in financial terms the significance of the various alternatives to the State budget and its deficit to the NII budget.

**Graph 1**  
**Ratio of the Asset Balance (Bonds Only) to the GDP and to the Benefits,**  
**1996-2013**



2. A more comprehensive financial stability exercise would calculate the number of years of national insurance (social security) required to finance the contributory benefits to be paid out according to certain demographic forecasts and according to the present law. Under the scenario described in this chapter, the actuarial deficit, if not taken care of, will lead to an unstable social security system.
3. See the committee report: [https://www.btl.gov.il/Publications/more\\_publications/Documents/Finance.pdf](https://www.btl.gov.il/Publications/more_publications/Documents/Finance.pdf).
4. See the actuarial report: <http://www.btl.gov.il/Publications/aktuarial/Documents/2010Triennial%20Report.pdf>.



A re-examination of the alternatives shows that it is possible to correct the manner of recording of the asset balance, while preserving the amortization schedule of the current bonds and taking into account the State budget deficit.

The asset balance is designed to function as a safety net for the social security system. It is necessary to the insureds similar to the necessity of a financial asset to a family: for situations when a current deficit accrues, i.e. the current payments are higher than the current NII receipts. As yet such a situation has not arisen in any year since the founding of the NII, inter alia, because of the supplemental receipts of the NII due to the interest receipts from the asset balance in the sum of approximately NIS 8 billion per year. However, according to estimates in the actuarial report, it is expected that failure to adequately and timely address the actuarial deficit will increasingly jeopardize the existence of the social security system in the coming decades<sup>5</sup> (Box 2). Meanwhile, the asset balance gives the NII a safety net and breathing space for the government and the Knesset in order to prepare an intelligent plan to resolve the financial strength problem in a socially just and financially effective manner.

#### Interrelationship between the NII budget and the State budget

There are several levels to the relationship between the NII budget and the State budget: (1) the current payments of the State Treasury as support to social security; (2) the debt repayments of the State to the NII (principal and interest) on the asset balance; (3) debt renewal (from the standpoint of the government), which is effectively a re-deposit of the principal repayments from the standpoint of the NII; (4) new deposits (debt augmentation from the standpoint of the government) of the current NII budget in the asset balance deriving from an NII budget surplus, including financing revenues; (5) payments deriving from the NII being an intermediary of the government in the implementation of its social policy (collecting health insurance contributions, paying benefits funded by the State budget, etc.). The various layers are therefore partly related to borrower / creditor and State relations (the generations of the insured public, as represented by the NII), to the State's ongoing support of social security and to the implementation and funding of the NII's work as an intermediary of the government.

It is important to clarify the significance of these interrelationships in the age of attempting to improve the financial strength in light of the long-term demographic changes, while a key goal of all the parties is to maintain the social sustainability of this important process.

The recording of the State support under NII budget funding (Section 32 of the National Insurance Law, which constitutes approximately 50% of item 27 of the State

5 See actuarial report: <http://www.btl.gov.il/Publications/aktuaria/Documents/2010Triennial%20Report.pdf>.

The asset balance is designed to function as a safety net for the social security system. It is necessary to the insureds similar to the necessity of a financial asset to a family

budget) is not a particular problem. Payment of the interest by the State as a borrower of the NII (the creditor, which holds the bonds of the State) constitutes a slightly more complicated issue. Under market conditions, some of the interest payments could have been received by any other entity in which the NII would have decided to invest its budget surpluses. However, the subsidized part effectively constitutes additional State support of social security. This part is currently recorded under interest receipts and it would have been preferable in terms of transparency to record it separately as support, which is effectively a function of the government interest level in the market, of the social security system.

### Recording the interrelationship in the State and NII budgets

The State invariably used to record Its debt repayment to the NII as an expense in calculating the deficit relevant to the Deficit Reduction Law calculation in the framework of its macro-economic policy (item 6 of Table 1 below).

Unlike the government, the NII does not record the inflows of receiving the principal repayments and of their re-deposit in the State Treasury in the budget, but only as balance sheet transactions (item 6, Table 2). Thereby, the NII acts according to generally accepted accounting principles.

The gap in the recording method of these capital transactions did not constitute a problem in terms of managing the government deficit in all the years, since concurrently the government automatically recorded the re-deposit by the NII back under State receipts. However, in light of the demographic changes and the concern over the financial and social sustainability of social security, the recording method of the State has been exposed as a macro-management problem, inasmuch as the re-deposit of

In light of the demographic changes and the concern over the financial and social sustainability of social security, the recording method should be changed

**Table 1**  
**NII Items in the State Budget (NIS thousand), 2014<sup>6</sup>**

| Payments to NII |   |            | Receipts from NII |   |            |
|-----------------|---|------------|-------------------|---|------------|
| 1               | Interest payments – item 45                         | 7,750,000  |                   |   |            |
| 2               | Transfers to NII – item 27                          | 30,818,000 | 6                 | Repayment of principal, including linkage – item 84 | 10,859,000 |
| 6               | Repayment of principal, including linkage – item 84 | 10,859,000 | 7                 | Budget surplus                                      | 3,860,000  |
|                 |   |            |                   | Re-investment (Research Administration estimate)    | 14,719,000 |
|                 | 49,427,000  |            |                   |   |            |
|                 | Net effect (payments less receipts)                 | 34,708,000 |                   |   |            |

**Table 2**  
**Budget of the National Insurance Institute (NIS thousand), 2014<sup>6</sup>**

| Payments to the State |  | Receipts from the State |                                     |            |
|-----------------------|--|-------------------------|-------------------------------------|------------|
|                       |  | 1                       | Interest receipts                   | 7,750,000  |
|                       |  | 2                       | Transfers to NII – item 27          | 30,818,000 |
|                       |  |                         |                                     | 38,568,000 |
|                       |  |                         | Net effect (receipts less payments) | 38,568,000 |

**Balance Sheet of the National Insurance Institute (NIS thousand), 2014<sup>6</sup>**

| Assets         |   | Liabilities |  |
|----------------|---|-------------|--|
| 6              | Bond acquisition (repayments of principal, including linkage – item 84)                 | 10,859,000  |  |
| 6              | Repayment – principal, including linkage – item 84 (according to amortization schedule) | -10,859,000 |  |
| 7 <sup>7</sup> | Bond acquisition – budget surplus   | 3,860,000   |  |
|                | Net balance sheet effect  | 3,860,000   |  |

the present principal repayments (item 6 in Tables 1, 2) is no longer fully guaranteed over time and this is also the case with regard to the re-deposit of the current budget surpluses of the NII (item 7 in the aforementioned tables<sup>7</sup>).

These deposits by the State will diminish in the future insofar as a solution is delayed for the actuarial problem of social security, which depends on weighty decisions being made in several areas. Naturally, this is connected with the implementation of legislative changes, some of which, as is well known, involve intricate socio-political processes. This intricacy of preparing the plan to improve the sustainability of the NII amply highlights the great importance that the asset balance carries for the generations of insureds.

The support of the NII is identical in both balance sheets (item 2 in the tables). With regard to the interest receipts, we estimated the support component incorporated in the interest subsidy, inasmuch as this component is appropriate to include in the State's support of social security, while the interest receipts under market conditions

6 The figures in the tables are adjusted for recording in the updated NII budget of 2014. The figures in the State budget may differ slightly, but the gaps should be negligible (aside from the reinvestment estimate).

7 The amount appearing in item 7 of Table 2 differs from the surplus that is usually presented in the budget of the NII and the government. The difference is explained by our attempt to take into account the fact that part of the interest payment by the State to the NII should have appeared as support of social security as with the support item (Section 32 of the National Insurance Law). See below.

are receipts of the NII due to asset accumulation over years. They would have been received by the NII had the NII elected to invest them in other financial instruments, in Israel or abroad, as is done in various countries in the world.

## 2. Recommendations of the Committee to Examine the Financial Sustainability of the NII Pertaining to the Asset Balance<sup>8</sup>

The bonds that the government owes to the general public are recorded under the public debt of the State (see Note 14 – Internal Loan, Financial Statements of the Government of Israel, the Accountant General). By contrast, the bonds held by the NII are indeed recorded on the government's balance sheets, but they are not included in the public debts published, for instance, by the Bank of Israel<sup>9</sup>. This treatment of the government debt to the NII is problematic from the perspective of the role of the NII as a representative of the generations of insureds. Inherent in this expression is the fact that the NII, as an independent statutory institute, must theoretically see itself as entrusted with maintaining and strengthening social security not only of the currently living insured, but also of those that are currently children or those who have not yet been born. The asset balance maintained by the NII from previously accumulated budget surpluses is therefore a deposit by the NII for these purposes and hence the importance of the term generations of insureds.

The expression of the cash flows between the NII and the government in the State budget has formed over the years, so that currently there is an inadequate separation in the government budget books between the current government deposits in the NII and the reciprocal deposits on account of the asset balance. Moreover, if in the past the State took care to invest the asset balances of the NII in “constructive investments”, as ordered under Section 34 of the Consolidated Version of the National Insurance Law, for many years the NII deposits have been used for ongoing funding of government expenses, contrary to the legislative intent.

Adherence to the law is intended to guarantee the preservation of the asset value in times of stress and to enable the government to fund the subsidy inherent in the return on the earmarked non-negotiable bonds of the NII. The more “constructive” the investments, the easier this task, i.e. made in essential infrastructures, which naturally have an especially high economic and social return. This was also the reason why using the NII surpluses to invest in the infrastructures of the young state was approved at the outset. The economic logic behind this was manifold, inasmuch as

3 See the committee report: [https://www.btl.gov.il/Publications/more\\_publications/Documents/Finance.pdf](https://www.btl.gov.il/Publications/more_publications/Documents/Finance.pdf).

4 The disregarding of this debt to the NII is based on the argument that the NII is part of the government and therefore the debt in the government books should be offset by the corresponding asset on the NII balance sheet.

Adherence to the law is intended to guarantee the preservation of the asset value in times of stress and to enable the government to fund the subsidy inherent in the return on the earmarked non-negotiable bonds of the NII

these investments helped the high growth. The economic growth is what allows the State to collect taxes, which in part later find their way to supporting social security.

So long as the government is committed to repaying the principal to the NII as required by the amortization schedule of the debt, the problem is the erroneous recording. However, this confidence in the debt repayment was violated with publication of the report of the Committee to Examine the Financial Strength of the NII (pg. 127 of the report of the Financial Strength Committee):

**Due to the below specified shortcomings of the alternatives for maintaining the existing bonds, the committee recommends to replace the bonds with an increment to the Treasury participation. As explained above, increasing transfers of the State budget in order to balance the principal is a more effective way to utilize assets of the present principal to fund payment of the benefits and maintain stabilization of the system.**

The committee recommended to replace the amortization schedule, i.e. the debt service (repayment of principal and interest), which constitutes a strong commitment of the borrower, inasmuch as non-payment is interpreted in the capital markets as difficulty in meeting the liabilities of the State with all the implications for the financial reputation of the State as a borrower. This measure would have been interpreted as insolvency of the government, inasmuch as it asks the creditor to reach a debt settlement with it that is more convenient for it as a debtor. The fact that the committee was aware of this risk is expressed in a footnote (97), where the committee rejects such interpretation of its proposal:

**It should be noted in this context that the very payment of the bonds, under the present layout, does not create difficulty for the State budget and there is no doubt with respect to the ability of the State to meet the bond payments. The reasons for the committee recommendations with regard to the principal stem from the recognition that the present principal is not effective as a source of funding for paying the benefits or as a measure to maintain stability of the system and therefore assuming growth in the gap between the payments and the receipts of the system, pressure is expected to be created to narrow it and to reduce the use of the principal repayments for paying benefits”.**

Underlying the words of the committee **the present principal is not effective as a source of funding for paying the benefits or as a measure to maintain stability of the system** is the fact that the government did not maintain the principal, but used it for miscellaneous projects and not necessarily for “constructive investments”. We will illustrate in financial terms the significance of the various alternatives discussed by the committee for the State budget and its deficit and for the NII budget.

Underlying the words of the committee is the fact that the government did not maintain the principal, but used it for miscellaneous projects and not necessarily for “constructive investments”

The committee recommends replacing the State commitment to the amortization schedule with a different commitment which is also listed in the National Insurance Law – Section 32 of **the State budget appropriations to the NII**. The committee apparently contends that there is no cause for concern inasmuch as it will entrench the future budget supplement in Section 32. However, anyone who is familiar with how Section 32 of the arrangements laws has progressed over the years understands that the distinction of a commitment under a debt amortization schedule entails a much stronger commitment than that of compliance with Section 32. Section 32 is the section with the most changes and it is sometimes more similar to a covert budgetary reserve of the Treasury than to a stable funding clause of the social security system. There has been almost no arrangements law where it has not been sought to change this section, usually unilaterally dictated by the Treasury and usually to the detriment of the commitment to the insureds, without allowing the NII to oppose the change<sup>10</sup>. By contrast, a debt amortization schedule cannot be changed other than by rescheduling, which is perceived as a serious breach of the debt repayment obligation<sup>11</sup>.

The alternatives in the committee report for addressing the debt service payment and the recording thereof in the State budget and in the deficit

The committee discussed four alternatives, rejecting each one of them on different grounds, and finally proposing a fifth alternative that it recommends (the alternatives are presented in Table 3). In this section, we will present the alternatives and the point of view of the asset owner – the generations of insureds – which in our opinion is not sufficiently reflected in the committee report. We will illustrate the financial significance of the different alternatives using the updated data of the NII 2014 budget. At this stage, the results describe the significance for the State and the NII budgets for 2014 only.

These alternatives have long-term implications for the government and NII budgets. Despite the great importance of these implications, they are not detailed

.....

10 The Research and Planning Administration of the NII has prepared a detailed list for the committee of all the changes made in the last 15 years to the insurance contributions and the benefits and where Section 32 constitutes a kind of balance between the receipts side and the payments side. This list indicates that usually the changes on the receipts side adversely affected the financial strength (mainly these were reductions in the insurance contributions of the employers while on the benefit payment side these were infringements of the rights of the insureds, primarily during the years 2002 to 2004. These changes were harmful to the insureds and beneficial to the financial strength after, as stated, the latter had been adversely affected on the receipts side.

11 In order to clarify the concept, the following comparison can be used: a young couple took a loan at the bank and used it to finance a trip. On returning from the trip the couple contacted the bank and informed it that the principal is not effective (that it no longer exists since it was used to finance the trip) and therefore it requests to replace the amortization schedule of the debt and promises to pay the bank by regular transfers even more than is required to settle the debt. It is reasonable to assume that the bank would not be enthusiastic about such unilateral rescheduling of the debt repayment, even if the couple promises to pay more than is required under the amortization schedule.

here, inasmuch as in order to discuss them it would be necessary to apply the financial strength model, which will be done in the future and will be presented separately. However, this box allows a basic discussion of the issue of the relationship between the State budget and the NII budget and it exposes the basic issues of the effect already in the current year.

### 3. Summary and Recommendations

The committee discussed Alternatives “A” to “D” and recommended an alternative that is here referred to as Alternative “E”. We will clarify here the shortcomings of Alternative “E” in terms of the insureds of the NII and we will present an additional alternative that was not considered by the committee, which attempts to maintain the needs of the government and prevent upheaval in its accounts while honoring the debt to the insureds.

The aim of the committee was to correct the distortions in the recording of the government’s activity vis-à-vis the NII in the State budget deficit. The main distortion stems from the State recording the capital transactions vis-à-vis the NII (the repayment of the principal to the NII and its re-deposit by the NII in the government and the investment of the current surplus of the NII in the State budget) in the current State budget. This practice is contrary to the directive under the law, whereby the government must invest the balances in constructive investments (in a development budget) and report to the NII administration regularly on the investment of the balances in constructive paths. This practice is also contrary to the generally accepted accounting principles, whereby capital transactions (principal repayment and asset deposits) should not be recorded in the current budget of the government.

This practice has created a distortion for many years. Throughout the years there has been a budget surplus in the NII so that the principal repayments of the government were offset by the deposits of these repayments. In the absence of a policy that will succeed in maintaining social security at a reasonable level while resolving the actuarial problem<sup>12</sup> (the aging population), growth in the benefit payments will gradually reduce the surplus in the NII budget.

In light of this demographic development, the distortion in the government accounts has been exposed gradually, since as the years pass and the problem of the social and financial sustainability of the NII is not addressed, the current surplus in the NII budget will continue diminishing until it turns into a deficit, so that sooner or later this will increase the government deficit.

Alternative “C” is inconsistent, inasmuch as it arbitrarily differentiates between deposits (a capital transaction) and principal repayment (which is also a capital transaction).

.....

12 See Note 3.

we will present an additional alternative that was not considered by the committee, which attempts to maintain the needs of the government and prevent upheaval in its accounts while honoring the debt to the insureds



Alternative “D”, in addition to also being inconsistent, similar to Alternative “C”, adversely affects the social security receipts, inasmuch as it includes a reduction of the State Treasury appropriation in the amount of the NII surpluses (Section 32 of the National Insurance Law). It therefore constitutes a kind of partial debt violation by unilateral write-off of part of the interest receipts to the asset owners (the insureds).

Adopting the recommendation of the committee to eliminate the amortization schedule (Alternative “E”) means a full breach of the debtor (the State) toward the asset owner (the insureds). Clearly it is not advisable for the asset owner to agree to a lesser promise (a promise to increase the appropriations of Section 32 over the next 40 years) than the existing one (the amortization schedule). It is enough to look at the many legislative changes undergone by the payments and the receipts – and therefore also by Section 32 – in order to get an impression of the intolerable ease with which Section 32 changes in multifarious ways notwithstanding the existence of such promise<sup>13</sup>.

Eliminating the principal, in the first year of the elimination, means recording a non-recurring expense on the balance sheet of the National Insurance Institute in the value of all the bonds at fair value, which represents the discounted value of the bonds: NIS 216 billion<sup>14</sup>. Furthermore, the actuarial deficit of the NII in the sum of NIS 465 billion will appear on its financial statements without being counteracted by the protection of the asset principal.

**The proposed solution:** Alternative “B”, which sides with the generally accepted accounting principles, is correct in terms of accounting, but it is difficult to implement all at once, inasmuch as it will immediately increase the government deficit by approximately NIS 4 billion. One option is to adapt the Deficit Reduction Law, on an ad hoc basis, to this recording change. The committee justifiably rejects this option, since it may upset the good financial reputation of the Israeli economy in the eyes of foreign investors and international rating companies. Therefore, a more intelligent solution needs to be sought. Transferring the hospitalization grant from the NII budget to the health budget is a recommended step (also by the committee), but it does not solve the government’s problem, inasmuch as it would need to increase receipts or cut expenses in order to find long-term funding for the hospitalization grant payments to the hospitals. The solution must therefore be found in the gradual and integrated improvement of the social and financial sustainability of the NII, while improving the recording of the NII payments and the receipts in the government accounts in an acceptable manner. In other words, the expedient solution is Alternative “B”, which needs to be carried out gradually and concurrently with improvement of the sustainability of the NII.

13 We should mention that changes in benefit payments do not automatically lead to changes in Section 32, inasmuch as it is mainly a function of insurance contribution receipts. Therefore, in order for benefit changes to be expressed in corresponding changes in Treasury appropriation, legislation is required.

14 The bond value is measured by a definition of adjusted value (see pg. 8, 2013 financial balance sheet, and Note 9). An alternative definition of fair value expresses the discounted value.

Transferring the hospitalization grant from the NII budget to the health budget is a recommended step, but it does not solve the government’s problem

the expedient solution is Alternative “B”, which needs to be carried out gradually and concurrently with improvement of the strength of the NII



**Table 3**  
**State Budget (NIS thousand), 2013**

| Description     | NII related income Item 081 | NII related expenses – Items 45, 84 and 27 of the State budget | Effect of the NII items (net) on the State budget (increased deficit) | Change in the State budget (increased deficit) compared to the status quo | Change in the NII budget (increased deficit) compared to the status quo | Notes  |
|-----------------|-----------------------------|--|---|---|---|--|
| Alternative "A" | 14,719,000                  | 49,427,000   | 34,708,000  | 0   | 0   | Continuation of the status quo. This means that the deficit in the State budget would remain at the present level. Over the years it is expected to increase in light of the expected decrease in the re-investment of the principal repayments (due to the expected reduction in the budget surplus of the NII).  |
| Alternative "B" | 0                           | 38,568,000   | 38,568,000  | 3,860,000   | 0   | This alternative henceforth theoretically ensures the generation of a new asset balance for the NII in a separate fund. It immediately increases the effect of the NII on the government deficit and also in the medium term, inasmuch as the expected increase in the benefits (due to the demographic developments, etc.) would require the NII to demand to receive resources from the asset balance of the NII beyond principal repayment. |
| Alternative "C" | 0                           | 49,427,000   | 49,427,000  | 14,719,000  | 0   | This alternative henceforth theoretically ensures the generation of a new asset balance. It increases the effect of the NII on the government budget immediately and with great intensity. This effect will worsen in the medium term, inasmuch as the expected increase in the benefits will require the NII to demand to receive resources from the asset balance beyond principal repayment.  |

Table 3 (continued)  
State Budget (NIS thousand), 2013

| Description  | NII related income Item 081 | NII related expenses – Items 45, 84 and 27 of the State budget | Effect of the NII items (net) on the State budget (increased deficit) | Change in the State budget (increased deficit) compared to the status quo | Change in the NII budget (increased deficit) compared to the status quo | Notes   |
|--|-----------------------------|--|---|---|---|---|
| Alternative "D"<br>Removing only the deposits from the budget and reducing the Treasury appropriation (items 27, 45, 84 of the government budget) by the size of the expected surplus in the NII budget: | 0                           | 45,567,000   | 45,567,000  | 14,719,000  |   | This alternative henceforth theoretically ensures the generation of a new asset balance for the NII. It increases the government deficit even more than Alternative "B". Similarly, the negative effect on the deficit due to the principal repayment will increase over the years since the new deposits (which will not be recorded in the current budget) will result in the accumulation of new repayments in the future. Therefore the repayments will increase in the future. |
| Alternative "E"<br>Replacing the amortization schedule with increased participation of the State Treasury under Section 32   | 0                           | 34,708,000   | 34,708,000  | 0   | 3,860,000   | This alternative cancels the debt to the NII all at once. Therefore, the receipts of the NII in its current budget will be reduced immediately by the size of the surplus. Ignoring the need to address the financial strength problem will result in a worsening of this new deficit of the NII, which will facilitate the government in persuading the legislature to infringe the rights of the insureds.  |

### 3. Summary of Sections 1 and 2

In Section 1 we surveyed the financial strength of the National Insurance Institute according to a model that was established by the Research and Planning Administration. First, we detailed the expected development of the population from the long-term population forecast project by primary groups (non-ultra-Orthodox Jews, ultra-Orthodox Jews and Arabs) and by age and gender and subsequently we presented the possible assumptions and their long-term consequences in terms of the population. In Box 1 we elaborated on the options for selecting a basic forecast for the financial strength model.

In Box 2, we presented the developments in the labor market from the perspective of those groups, while emphasizing the dynamic that can be identified in the last decade in relation to the behavior of the different groups in the labor market. In order to tie what is occurring in the labor market to the social security strength model we developed a forecast for labor market participation according to these groups and according to gender and age groups. For this purpose, we determined that the trends would continue and we also determined a reasonable limit with regard to the development of the employment rates of each one of the groups. We used the leading group in the labor market – the non-Orthodox population – in order to provide a limit for the different groups.

The result obtained is that the long-term employment rates are expected to be similar to those that we assumed when we began applying the model (Annual Survey 2010, Chapter 4): the employment rates were then derived from the government objectives as set out in the Agenda document of the National Economic Council. One of the conclusions of this chapter is that the employment objectives, as they were then, were probably reasonable, inasmuch as the present continuation of trends model has even improved the employment situation compared to the first version.

Box 2 describes what is expected in terms of the financial strength situation of the forecasts as described thus far and it shows that the actuarial situation improves slightly with the present employment assumptions. The box also shows that a fairly basic step of transferring the hospitalization expenses to their natural place – to the health budget or to item 9, i.e. outside the insurance benefits without changing the insurance contributions – can lead to a substantial improvement of the financial strength situation of the NII without compromising social security at all.

The conclusion that follows from Section 2 of this chapter is that the probability of meeting the challenge of the financial sustainability of the NII without having to compromise the level of social security – is high.

In Box 3, we clarify the importance of the asset balance of the NII and demonstrate the danger of adopting an approach whereby the amortization schedule of the NII bonds should be eliminated and replaced with direct State deposits in the NII budget (Section 32 of the National Insurance Law).

The probability of meeting the challenge of the financial sustainability of the NII without having to compromise the level of social security – is high

## 4. Volume of Payments

Payments of the cash and in-kind benefits of the National Insurance Institute – contributory and non-contributory – totaled NIS 69.32 billion in 2013, compared to 66.85 billion in 2012. These amounts include also other payments made by the NII, mainly to the government ministries, for community service development expenses, as well as administrative and operating expenses of the NII system and its miscellaneous domains (in the sum of approximately NIS 1.4 billion).

The real growth in the total NII payments reached 2.2% and it mainly stems from the growth in the number recipients of all the benefits

The real growth in the total NII payments reached 2.2% and it mainly stems from the growth in the number recipients of all the benefits paid by the NII, at varying rates. The number of employees, which rose in 2013 by a rate of about 3% and the real increase in the wage at a rate of about 1% also contributed to the increase in the total payments, whereas the legislative changes in 2013, mainly the cuts in child allowances (see below), partially offset the increase that stemmed from these factors. In 2012, child allowances were updated by 1.4% according to the increase in the index between November 2011 and November 2012 – a rate similar to the average index increase in 2013, which totaled 1.5%, so that the benefits were raised by 0.1%, i.e. they remained at the same level in real terms.

The cuts in child allowances, partially offset this increase

**Table 8**  
**Benefit Payments and Collection from the Public (excluding administrative expenses) as a Percentage of the Gross Domestic Product, 1980-2013\***

| Year | Benefit payments |                       | Collection |                                     |
|------|------------------|-----------------------|------------|-------------------------------------|
|      | Total            | Contributory benefits | Total**    | National insurance contributions*** |
| 1980 | 6.09             | 4.98                  | 6.77       | 5.15                                |
| 1985 | 7.14             | 5.51                  | 6.57       | 4.45                                |
| 1990 | 8.36             | 7.04                  | 7.21       | 5.28                                |
| 1995 | 7.23             | 5.66                  | 7.54       | 4.21                                |
| 2000 | 7.65             | 6.09                  | 6.00       | 4.08                                |
| 2005 | 7.02             | 5.63                  | 6.00       | 4.03                                |
| 2006 | 6.65             | 5.35                  | 5.62       | 3.75                                |
| 2007 | 6.41             | 5.20                  | 5.53       | 3.66                                |
| 2008 | 6.39             | 5.21                  | 5.54       | 3.64                                |
| 2009 | 6.71             | 5.51                  | 5.34       | 3.48                                |
| 2010 | 6.69             | 5.57                  | 5.49       | 3.62                                |
| 2011 | 6.64             | 5.57                  | 5.54       | 3.65                                |
| 2012 | 6.59             | 5.57                  | 5.31       | 3.49                                |
| 2013 | 6.44             | 5.47                  | 5.30       | 3.72                                |

\* General note for data as a percentage of the GDP throughout the entire report: there may be differences compared to previous years due to retroactive changes made to the definitions of GDP measurement in order to adapt it upon Israel joining the OECD countries.

\*\* Including collection for the health system.

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

However, in terms of GDP, a decline of 0.15 percentage points was recorded (Table 8). The table data shows that in terms of GDP the benefit rate fell consistently in recent years from 7 percentages of GDP in 2009 to 6.44 thereof in 2013 and thereby it reverted to the level prevailing in 2007 - 2008, after reaching a peak of 8.7% in 2002.

The collection's rate of the GDP in 2013 remained similar to the level of 2012 - 5.3% - and the national insurance contribution collection's rate of the GDP rose by 0.2 percentages of GDP, reaching 3.7% in 2013.

Overall, in 2013 the contributory benefit payments under the National Insurance Law rose by 2.5% in real terms. The payments of non-contributory benefits - which are paid by virtue of the State laws or by virtue of agreements with the Treasury and which are fully funded by the State Treasury (such as income support, mobility, maintenance, old-age and survivors to those who are not insured [primarily new immigrants] and reserve service benefits) - fell by 0.8%. In 2013, these benefit payments, including administrative expenses, totaled NIS 10.4 billion, which constitute approximately 15% of all benefit payments.

An analysis of the major trends in benefit payments by branches shows that the old-age and survivors' pension payments rose by 3.2% in 2013<sup>18</sup>, following an increase of 3.6% in 2012 and higher increases in 2009 and in 2010 (Table 9). During 2008 to 2011, the old-age and survivors' pension payments were raised, mainly due to legislative changes that acted to increase the payments of these pensions: in April 2008 the basic old-age and survivors' pensions were increased from 16.2% to 16.5% of the basic amount<sup>19</sup> and those aged 80 or older received a special increment at a rate of one percentage point thereof. In August 2009, under the Economic Efficiency Law, the old-age and survivors' pensions were raised further, from 16.5% to 17% of the basic amount. In January 2010, the pensions were raised to 17.35%, as part of a process at the end of which, in January 2011, the basic pension was increased to 17.7% of the basic amount. The gradual and continuous growth in old-age pensions from 16.2% to 17.7% of the basic amount was accompanied by a parallel process in which the income supplement benefits were raised according to the age of the entitled persons. The effect of the described legislative changes was exhausted in 2011, and as set forth above, also the annual pension update did not contribute to a real increase of the benefits. Accordingly, the increase in benefit payments in 2013 is explained solely by growth in the number of recipients.

In terms of GDP the benefit rate fell consistently in recent years from 7 percentages of GDP in 2009 to 6.44 thereof in 2013

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18 There may be differences in the rates of change of the payments presented in this chapter compared to those presented in the specific chapter surveying the benefits, since the data on which the calculation in this chapter is based includes administrative expenses and may also include additional small components that are added to the total benefit payments, such as a study grant in the child allowance.

19 The basic amount is the amount according to which most of the benefits are calculated as of January 2006. This amount is updated on the 1st of January of each year at the rate of increase of the consumer price index that occurred in the preceding year. The basic amount has different rates for updating the different benefits. In 2013, the basic amount for most of the benefits was NIS 8,487.

Child allowance payments fell by a real rate of 13% between 2012 and 2013, following an increase of 3.2% in 2012

Child allowance payments fell by a real rate of 13% between 2012 and 2013, following an increase of 3.2% in 2012. In July 2013, in the framework of the Economic Efficiency Law, it was decided to institute a steep and immediate cutback of the child allowance amounts for all children, so that except for the allowance for older children (born before June 1st, 2003), whose sequential number in the family is third or subsequent born, the allowance amount for all children was set at a uniform level of NIS 140 per month. Since the change came into effect only in August 2013, the aforesaid decline of 13% in child allowances is only partial and the further consequences of this process are expected to be reflected in the 2014 data.

The payments of unemployment benefits rose at the steep rate of approximately 10% in 2013 (following a similar increase in the previous year), which primarily originated in the steep rise in the number of recipients and in the legislative change in March 2013, when the conditions of entitlement and wage determination for benefit calculation for daily unemployed persons were equated to those of monthly unemployed persons – a step that raised the daily unemployed workers' proportion of all unemployment recipients. In other wage-replacement benefits – maternity and work injury – affected by the developments in the labor market, fairly steep rises of 5% - 6% were recorded. The increase in the maternity allowance constitutes a continuation of the growth in the number of women entitled to this benefit and the increase in the average maternity allowance payment in recent years, in light of the growth in employment rates and in the wages of women over time.

The long-term care benefit payments also rose by the high rate of 6% in 2013, primarily in light of the growth in the number of persons entitled to the benefit in general and in the number of persons entitled to the benefit at its highest rate in particular. Disability benefits rose by a real rate of 3.3% in 2013, a more moderate increase than that which was recorded the previous year, reaching 5.7%, which primarily stems from the growth in the number of recipients.

The income support benefit for the working age population rose by 2% for the first time after three years of declines in the volume of payments for this benefit, by varying rates. The increase in the payments stems from a combination of several factors: legislative changes (in the area of widening the circle of recipients who have a vehicle in their possession), the slight increase in the number of recipients and the increase in the average benefit level in 2013.

The only benefit that decreased is for those serving in reserve duty. Its volume of payments fell by 2.8% in 2013, following an increase at a rate nearly double that in 2012.

Most of the benefits increased their proportion in 2013 at the expense of the decline in the proportion of the child allowances out of total benefit payments (Table 9). The payments for the Old-age and Survivors' branch, the largest branch in size, constituted 37.5% of total benefits paid in 2013. Compared to 2012, their proportion rose by a further

Most of the benefits increased their proportion in 2013 at the expense of the decline in the proportion of the child allowances out of total benefit payments

Table 9  
NII Benefit Payments (including administrative expenses), 1995-2013

| Year | Total payments | Old-age and survivors** | General disability | Work injury, border and hostile actions | Maternity                                     | Children | Unemployment | Reserve service | Income support*** | Long-term care and other |  |
|------|----------------|-------------------------|--------------------|---|---|----------|--------------|-----------------|-------------------|--------------------------|--|
| 1995 | 21,188*        | 7,675                   | 2,254              | 1,487                                   | 1,206   | 4,287    | 1,280        | 1,053*          | 1,149             | 798                      |  |
| 2000 | 39,706         | 13,670                  | 5,128              | 2,569                                   | 2,423   | 7,000    | 3,023        | 1,039           | 2,957             | 1,897                    |  |
| 2005 | 43,305         | 16,457                  | 7,792              | 3,192                                   | 2,857   | 4,548    | 2,044        | 713             | 2,859             | 2,842                    |  |
| 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                    |  |
| 2013 | 69,321         | 25,980                  | 13,137             | 4,961                                   | 6,168   | 6,465    | 3,252        | 1,133           | 2,728             | 5,498                    |  |
|      |                |                         |                    |   | <b>Real annual growth (percentages)</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                      |  |
| 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                      |  |
| 2013 | 2.2            | 3.2                     | 3.3                | 6.2                                     | 5.2   | -13.0    | 9.9          | -2.8            | 2.0               | 5.9                      |  |
|      |                |                         |                    |   | <b>Distribution by branches (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                      |  |
| 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                      |  |
| 2013 | 100.0          | 37.5                    | 19.0               | 7.2                                     | 8.9   | 9.3      | 4.7          | 1.6             | 3.9               | 7.9                      |  |

\* The data for 1995 does not include the amounts transferred to the Ministry of Defense as repayment of debt in respect of savings in the number of reserve days.



0.4 percentage points, in light of the increase higher than the average increase in the total benefits paid. The general disability payments constituted 19.0% of the total benefits in 2013 – an increase of 0.3 percentage points compared to the previous year. As expected, the Children branch – the third largest in size – slightly reduced its proportion (by 1.6 percentage points) and it currently constitutes 9.3 of the total benefits, approaching the level of the work injury, maternity and long-term care benefits. The Unemployment branch continued to rise this year, from 4.4% to 4.7% between 2012 and 2013, as a result of the steep rise in the number of unemployment benefit recipients in 2013, while in the Income Support branch the diminishing trend in its proportion in recent years halted and it constitutes, as in the previous year, 3.9% of total payments – about less than half of its proportion in 2002, when it had constituted approximately 8% of the total payments.

## 5. Benefit Levels

In January 2013 the benefits were updated by the rate of increase of the consumer price index during the period of November 2011 to November 2012, by a rate of 1.4%. This rate updates the basic amount<sup>20</sup>, according to which most of the benefits are updated as of January 2006 under the Plan for Economic Recovery Law of June 2003. Previously, the benefits had been updated according to the increase in the average wage. In 2013, the average wage rose by a higher rate than the price increases, so that the pensions rose less than the average wage. However, as of 2002 the average wage cumulatively rose by a slightly lower rate than the increase in the consumer price index during the corresponding period. The described trend, whereby the average wage ceased rising by rates higher than the price increases over time, effectively eliminates the erosion that was expected to occur in the benefits (according to past experience), in the wake of the transition to updating them according to the consumer price index instead of according to the changes in the average wage.

In 2013, old-age pensions are the increased pensions after the completion in 2011 of a process raising the basic individual pension, as prescribed under the Economic Efficiency Law of 2009. The pension reached 17.7% as a rate of the basic amount for elderly individuals up to age 80 (an increase of about 2%). According to this layout, the pension for those who have turned 80 was also raised slightly, so that the gap of 1% of the basic amount in favor of these elderly in comparison to the elderly who have not yet turned 80 years old has been maintained, and the pensions for the other family compositions, including the old-age and survivors' pensions that include an income supplement, were also raised accordingly (Table 10).

The cessation of the layout for raising the old-age pension and the real increase in the average wage were reflected in the decline of the benefit level in terms of the average

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20 See Note 19 in this chapter.

The cessation of the layout for raising the old-age pension and the real increase in the average wage were reflected in the decline of the benefit level in terms of the average wage in 2013



wage in 2013 compared to the previous year (Table 10): In the first two age groups (up to 70 and up to 79) the benefit fell from 16.9% of the average wage to 16.7% thereof and in the 80+ ages it fell from 17.9% to 17.7% of the average wage. It should be noted that the pension rates as a percentage of the average wage, as presented in Table 10, are lower than their rates as a percentage of the basic amount (by approximately one percentage point), since the basic wage level in absolute values is less than that of the average wage.

The benefit level for income support with its various definitions is presented in Table 11. The guaranteed minimum income for the working-age population as a percentage of the average wage has also been eroded compared to 2012 due to the real increase in the average wage (compared to the rate of update of the basic amount and of the benefits, which has remained unchanged in real terms). The benefit for a single mother<sup>21</sup> up to age

**Table 10**  
**Old-age and Survivors' Pension and Guaranteed Minimum Income for the Elderly and Survivors (fixed prices and percentage of average wage\*), Monthly Average, 1975-2013**

| Year | Age      | Basic old-age and survivors' pension |                                |                                   |                                | Guaranteed minimum income (including child allowances) |                                |                                   |                                |
|------|----------|--------------------------------------|--------------------------------|-----------------------------------|--------------------------------|--|--------------------------------|-----------------------------------|--------------------------------|
|      |          | Elderly individual                   |                                | Widow / widower with two children |                                | Elderly individual                                     |                                | Widow / widower with two children |                                |
|      |          | 2013 prices (NIS)                    | Percentage of the average wage | 2013 prices (NIS)                 | Percentage of the average wage | 2013 prices (NIS)                                      | Percentage of the average wage | 2013 prices (NIS)                 | Percentage of the average wage |
| 1975 |          | 758                                  | 14.9                           | 1,261                             | 24.8                           | 1,300  | 25.5                           | 2,525                             | 49.6                           |
| 1980 |          | 836                                  | 17.1                           | 1,620                             | 33.1                           | 1,467  | 30.0                           | 2,974                             | 60.9                           |
| 1985 |          | 942                                  | 28.2                           | 1,826                             | 35.3                           | 1,880  | 36.4                           | 3,774                             | 73.0                           |
| 1990 |          | 1,187                                | 16.4                           | 2,297                             | 31.7                           | 1,864  | 25.7                           | 3,777                             | 52.1                           |
| 1995 |          | 1,202                                | 15.5                           | 2,329                             | 30.1                           | 2,011  | 26.0                           | 4,444                             | 57.3                           |
| 2000 |          | 1,342                                | 15.0                           | 2,599                             | 29.0                           | 2,243  | 25.0                           | 4,935                             | 55.0                           |
| 2005 |          | 1,336                                | 15.2                           | 2,650                             | 30.2                           | 2,428  | 27.6                           | 5,077                             | 57.8                           |
| 2010 | Up to 70 | 1,478                                | 16.8                           | 2,859                             | 32.4                           | 2,726  | 30.9                           | 5,607                             | 63.6                           |
|      | 70-79    | 1,478                                | 16.8                           |                                   |                                | 2,798  | 31.8                           |                                   |                                |
|      | 80+      | 1,563                                | 17.8                           |                                   |                                | 2,926  | 33.2                           |                                   |                                |
| 2011 | Up to 70 | 1,491                                | 16.9                           | 2,889                             | 32.7                           | 2,731  | 30.9                           | 5,663                             | 64.0                           |
|      | 70-79    | 1,491                                | 16.9                           |                                   |                                | 2,812  | 31.8                           |                                   |                                |
|      | 80+      | 1,576                                | 16.9                           |                                   |                                | 2,939  | 33.2                           |                                   |                                |
| 2012 | Up to 70 | 1,054                                | 16.9                           | 2,915                             | 32.7                           | 2,755  | 30.9                           | 5,725                             | 64.2                           |
|      | 70-79    | 1,054                                | 16.9                           |                                   |                                | 2,837  | 31.8                           |                                   |                                |
|      | 80+      | 1,589                                | 17.9                           |                                   |                                | 2,965  | 33.2                           |                                   |                                |
| 2013 | Up to 70 | 1,502                                | 16.7                           | 2,910                             | 32.4                           | 2,752  | 30.6                           | 5,664                             | 63.0                           |
|      | 70-79    | 1,502                                | 16.7                           |                                   |                                | 2,833  | 31.5                           |                                   |                                |
|      | 80+      | 1,587                                | 17.7                           |                                   |                                | 2,961  | 32.9                           |                                   |                                |

\* As measured by the Central Bureau of Statistics.

\*\* Since 2008, the benefit levels were split by age.

21 Imports also a single father.

**Table 11**  
**Guaranteed Minimum Income for the Working-age Population (fixed prices in NIS and percentage of average monthly wages\*), Monthly Average, 2000-2013**

| Year | Individual        |                            |                   | Single mother** with 2 children (including child allowances) |                            |                            | Couple with two children (including child allowances) |                   |                            |      |  |
|------|-------------------|----------------------------|-------------------|--|----------------------------|----------------------------|---|-------------------|----------------------------|------|--|
|      | Regular rate      |                            | Increased rate    | Percentage of average wage                                   |                            | Percentage of average wage | Regular rate  |                   | Increased rate             |      |  |
|      | 2013 prices (NIS) | Percentage of average wage | 2013 prices (NIS) | 2013 prices (NIS)  | Percentage of average wage | 2013 prices (NIS)          | Percentage of average wage                            | 2013 prices (NIS) | Percentage of average wage |      |  |
| 2000 | 1,676             | 18.7                       | 2,096             | 23.4   | 4,627                      | 51.6                       | 3,973   | 44.3              | 4,602                      | 51.3 |  |
| 2005 | 1,627             | 18.5                       | 1,830             | 20.8   | 3,464                      | 39.4                       | 3,017   | 34.4              | 3,464                      | 39.4 |  |
| 2006 | 1,636             | 18.4                       | 1,841             | 20.7   | 3,543                      | 39.8                       | 3,093   | 34.8              | 3,543                      | 39.8 |  |
| 2007 | 1,628             | 18.0                       | 1,832             | 20.3   | 3,524                      | 39.0                       | 3,077   | 34.0              | 3,524                      | 39.0 |  |
| 2008 | 1,666             | 18.6                       | 1,875             | 20.9   | 3,594                      | 40.0                       | 3,136   | 34.9              | 3,594                      | 40.0 |  |
| 2009 | 1,686             | 19.3                       | 1,897             | 21.7   | 3,635                      | 41.6                       | 3,173   | 36.3              | 3,635                      | 41.6 |  |
| 2010 | 1,704             | 19.3                       | 1,916             | 21.8   | 3,691                      | 41.9                       | 3,223   | 36.6              | 3,691                      | 41.9 |  |
| 2011 | 1,685             | 19.1                       | 1,896             | 21.4   | 3,706                      | 41.9                       | 3,242   | 36.7              | 3,706                      | 41.9 |  |
| 2012 | 1,700             | 19.1                       | 1,912             | 21.4   | 3,751                      | 42.1                       | 3,284   | 36.8              | 3,751                      | 42.1 |  |
| 2013 | 1,697             | 18.9                       | 1,910             | 21.3   | 3,682                      | 41.0                       | 3,215   | 35.8              | 3,682                      | 41.0 |  |
|      |                   |                            |                   | <b>Adult family members under the age of 55 years</b>        |                            |                            |   |                   |                            |      |  |
| 2000 | 2,096             | 23.4                       | 2,096             | 23.4   | 4,627                      | 51.6                       | 4,602   | 51.3              | 4,602                      | 51.3 |  |
| 2005 | 2,033             | 23.1                       | 2,033             | 23.1   | 4,363                      | 49.7                       | 4,318   | 49.2              | 4,318                      | 49.2 |  |
| 2006 | 2,045             | 23.0                       | 2,045             | 23.0   | 4,479                      | 50.3                       | 4,402   | 49.5              | 4,402                      | 49.5 |  |
| 2007 | 2,034             | 22.5                       | 2,034             | 22.5   | 4,456                      | 49.3                       | 4,379   | 48.4              | 4,379                      | 48.4 |  |
| 2008 | 2,083             | 23.2                       | 2,083             | 23.2   | 4,547                      | 50.6                       | 4,469   | 49.8              | 4,469                      | 49.8 |  |
| 2009 | 2,107             | 24.1                       | 2,107             | 24.1   | 4,600                      | 52.6                       | 4,521   | 51.7              | 4,521                      | 51.7 |  |
| 2010 | 2,130             | 24.2                       | 2,130             | 24.2   | 4,665                      | 53.0                       | 4,586   | 52.1              | 4,586                      | 52.1 |  |
| 2011 | 2,106             | 23.8                       | 2,106             | 23.8   | 4,668                      | 52.8                       | 4,590   | 51.9              | 4,590                      | 51.9 |  |
| 2012 | 2,125             | 23.8                       | 2,125             | 23.8   | 4,722                      | 53.0                       | 4,643   | 52.1              | 4,643                      | 52.1 |  |
| 2013 | 2,122             | 23.6                       | 2,122             | 23.6   | 4,668                      | 51.9                       | 4,573   | 50.9              | 4,573                      | 50.9 |  |
|      |                   |                            |                   | <b>At least one family member is aged 55 or older</b>        |                            |                            |   |                   |                            |      |  |
| 2000 | 2,096             | 23.4                       | 2,096             | 23.4   | 4,627                      | 51.6                       | 4,602   | 51.3              | 4,602                      | 51.3 |  |
| 2005 | 2,033             | 23.1                       | 2,033             | 23.1   | 4,363                      | 49.7                       | 4,318   | 49.2              | 4,318                      | 49.2 |  |
| 2006 | 2,045             | 23.0                       | 2,045             | 23.0   | 4,479                      | 50.3                       | 4,402   | 49.5              | 4,402                      | 49.5 |  |
| 2007 | 2,034             | 22.5                       | 2,034             | 22.5   | 4,456                      | 49.3                       | 4,379   | 48.4              | 4,379                      | 48.4 |  |
| 2008 | 2,083             | 23.2                       | 2,083             | 23.2   | 4,547                      | 50.6                       | 4,469   | 49.8              | 4,469                      | 49.8 |  |
| 2009 | 2,107             | 24.1                       | 2,107             | 24.1   | 4,600                      | 52.6                       | 4,521   | 51.7              | 4,521                      | 51.7 |  |
| 2010 | 2,130             | 24.2                       | 2,130             | 24.2   | 4,665                      | 53.0                       | 4,586   | 52.1              | 4,586                      | 52.1 |  |
| 2011 | 2,106             | 23.8                       | 2,106             | 23.8   | 4,668                      | 52.8                       | 4,590   | 51.9              | 4,590                      | 51.9 |  |
| 2012 | 2,125             | 23.8                       | 2,125             | 23.8   | 4,722                      | 53.0                       | 4,643   | 52.1              | 4,643                      | 52.1 |  |
| 2013 | 2,122             | 23.6                       | 2,122             | 23.6   | 4,668                      | 51.9                       | 4,573   | 50.9              | 4,573                      | 50.9 |  |

\* As measured by the Central Bureau of Statistics.

\*\* Imports also a single father.

**Table 12**  
**Allowance Point and Child Allowances (fixed prices and percentage of average wage), Monthly Average, 1990-2013**

| Year<br>2013 prices | Allowance point value |                            | Allowance for two children |                            | Allowance for four children |                            | Allowance for five children |                            |      |
|---------------------|-----------------------|----------------------------|----------------------------|----------------------------|-----------------------------|----------------------------|-----------------------------|----------------------------|------|
|                     | 2013 prices           | Percentage of average wage | 2013 prices                | Percentage of average wage | 2013 prices                 | Percentage of average wage | 2013 prices                 | Percentage of average wage |      |
| 1990                | 229                   | 3.2                        | 459                        | 6.3                        | 1,772                       | 24.4                       | 2,514                       | 34.7                       |      |
| 1995                | 221                   | 2.9                        | 443                        | 5.8                        | 1,779                       | 23                         | 2,531                       | 32.7                       |      |
| 2000                | 226                   | 2.5                        | 451                        | 5                          | 1,818                       | 20.3                       | 2,588                       | 28.8                       |      |
| 2005                | 145                   | 1.7                        | 292                        | 3.3                        | 920                         | 10.5                       | 1,407                       | 16                         |      |
| 2006                | 177                   | 2                          | 353                        | 4                          | 957                         | 10.8                       | 1,348                       | 15.2                       |      |
| 2007                | 176                   | 1.9                        | 351                        | 3.9                        | 952                         | 10.5                       | 1,342                       | 14.8                       |      |
| 2008                | 173                   | 1.9                        | 345                        | 3.8                        | 932                         | 10.4                       | 1,315                       | 14.6                       |      |
| 2009                | 175                   | 2.0                        | 349                        | 4                          | 1,030                       | 11.8                       | 1,416                       | 16.2                       |      |
| 2010                | Older                 | 177                        | 2.0                        | 369                        | 4.2                         | 1,131                      | 12.8                        | 1,522                      | 17.3 |
|                     | New                   | 177                        | 2.0                        | 369                        | 4.2                         | 889                        | 10.1                        | 1,064                      | 12.1 |
| 2011                | Older                 | 175                        | 2.0                        | 420                        | 4.8                         | 1,174                      | 13.3                        | 1,562                      | 17.7 |
|                     | New                   | 175                        | 2.0                        | 420                        | 4.8                         | 941                        | 10.6                        | 1,115                      | 12.6 |
| 2012                | Older                 | 176                        | 2.0                        | 437                        | 4.9                         | 1,188                      | 13.3                        | 1,552                      | 17.6 |
|                     | New                   | 176                        | 2.0                        | 437                        | 4.9                         | 958                        | 10.7                        | 1,134                      | 12.7 |
| 2013                | Older                 | 160                        | 1.8                        | 373                        | 4.2                         | 1,024                      | 11.4                        | 1,399                      | 15.6 |
|                     | New                   | 160                        | 1.8                        | 373                        | 4.2                         | 797                        | 9.0                         | 957                        | 10.8 |

55 with two children, for instance, is 41% of the average wage in 2013 (compared to 41.9% in 2011 and 42.1% in 2012). The benefit was also greatly reduced compared to its level in 2000, on the eve of the deep cuts in the income support benefits as part of the Economic Plan of 2002-2003, when it was 51.6% of the average wage. The benefit for an individual who is under the age of 55 was 38.9% of the average wage, compared to a higher rate of 23.6% for those who had turned 55. These rates are similar and even slightly higher than the rates that prevailed on the eve of the aforesaid cuts in the beginning of the 2000s.

The average long-term care benefit granted to the elderly (whose amount is translated into hours of care) rose in 2013 by 0.3 in real terms, compared to 2012. In 2013, the average disability pension fell in real terms by approximately half a percent and remained at the same level as a percentage of the average wage – 31.5% thereof. A similar development occurred in the average attendance allowance and in the benefit for a disabled child; these fell by a rate of 0.4% and 0.7% in real terms respectively and remained at their 2012 level as a rate of the average wage – 27.8% and 27.4%, respectively.

By contrast, the average monthly mobility benefit rose by a rate of 3.1% as a result of the growth in the rate of persons entitled to a specially accessorized vehicle.

The average long-term care benefit granted to the elderly rose in 2013 by 0.3 in real terms, compared to 2012

The deep cuts in the child allowances, which began in August 2013 (and therefore were not fully exhausted in 2013), were reflected in the child allowance point value (Table 12). In all the recent years (as of 2009) the allowance point was set at 2% and fell to 1.8% of the average wage. The table shows that there was a decrease on a similar scale in all the family categories. For families with four children, for instance, the rate of the allowance paid for the children fell from 11.4% to 9.0% of the average wage. The rates of decrease in the child allowance vary among different categories of families, as well as among “older” and “new” (born subsequent to June 2003) children. Thus, for instance, for families receiving an allowance for two children, “new” or “older”, the allowance fell by a rate of approximately 15% in real terms between 2012 and 2013. For a family with four children, the real decrease was higher if the children were all “new” (17%) compared to a family in which all the children are “older” (13%). The decrease in the child allowances in 2013, which as stated was partial, completely offset the increase that was recorded therein in recent years pursuant to the layout for raising the child allowances. These gaps grow as the number of children in the family grows.

In the Unemployment branch, the level of the average unemployment benefits as a percentage of the average wage fell by about 3% in 2013, compared to 2012, in light of the legislative change that added a relatively disadvantaged population in the labor market to the circle of recipients

In the wage-replacement benefit branches there were mixed trends in the benefit levels. In the Work Injury branch, the average daily injury allowance for salaried employees rose in 2013 compared to 2012 at a rate of approximately half a percent, but fell by a similar rate as a percentage of the average wage. In the Unemployment branch, the level of the average unemployment benefits as a percentage of the average wage fell by about 3% in 2013, compared to 2012, in light of the legislative change that added a relatively disadvantaged population in the labor market to the circle of recipients – daily unemployed persons. The average daily maternity allowance fell at a rate of 1.7% in 2013, compared to 2012. By contrast, the hospitalization grant to the mother rose by 4.5% and the increment for a premature baby rose by 5.3% between the two years.

## 6. Benefit Recipients

The number of old-age and survivors' pension recipients rose in 2013 by 3.9%

The number of old-age and survivors' pension recipients rose in 2013 by 3.9% (Table 13). The NII paid pensions to 833.9 thousand old people and survivors on average per month. This rate reflects an increase of 4.6% in the number of old-age pension recipients, which was offset by a decrease of 0.8% in the survivors' pension recipients. In the Children branch, as in recent years, the number of families receiving child allowances rose by 1.9% as a result of natural population growth. In 2013, child allowances were paid to approximately 2.5 million children living in 1.1 million families.

Between 2012 and 2013, the number of unemployment benefit recipients rose by a steep rate of 11.6%, following a steep rise also in 2012 by 7.7%. The increase in the number of recipients in 2013 stems, inter alia, from the growth in the number of employed persons and from the legislative change pertaining to daily workers, inasmuch

as the unemployment rate fell (from 6.8% in 2012 to 6.2% in 2013 according to CBS data). Concurrently with these increases, there was improvement in the unemployment insurance's coverage rate of the unemployed persons in the economy.

The steep rises in the number of unemployment benefit recipients in the last two years come against the background of a decline in the number of recipients in the preceding years: in 2003 - 2008 their number fell consistently as a combined result of the economic situation in the economy and changes to the benefit entitlement conditions. In the wake of the economic crisis and the increase in the unemployment rate in the latter part of 2008, a temporary order was enacted in the beginning of 2009, with the aim of assisting unemployed persons who are not entitled to an unemployment benefit under the National Insurance Law and paying them special benefits. Consequently, many people were temporarily added to the circle of recipients and the rate of recipients rose by more than 50%. A partial offset of this steep increase by a decrease of 21% in the number of recipients occurred in 2010 upon the lapse of said temporary order and there was a further moderate decrease in 2011.

In the second largest branch, General Disability, an increase of 2.3% was recorded compared to 2012 – the lowest growth rate in the last decade. Since the 90s, the average number of recipients per year has risen by rates ranging between 3% and 8% each year. In the benefits deriving from the general disability pension, the increases continued on a scale similar to those in previous years: the number of attendance benefit recipients rose by 8.1% (compared to 7.4% in 2011), the number of mobility allowance recipients soared by 3.6% and the number of recipients of a benefit for disabled child rose by a steep rate of 12.2%, following an increase of 8.8% in the previous year, primarily due to the expansion of the list of causes entitling to this benefit.

In the Work Injury branch, which is generally affected by employment rates (which rose in 2013), the number of injury allowance recipients rose by a rate of 6.2% and the number of permanent disability pension recipients rose by 4.9% – a rate similar to the annual rate in each one of the years in the past decade. In the Long-term Care branch, the number of recipients rose by a slightly more moderate rate compared to recent years – 2.4%. In the Maternity branch, the number of birth grant recipients rose by the fairly moderate rate of 0.3%, whereas the number of maternity allowance recipients rose by 2.1%, following a steep rise of 6% in the previous year.

In 2013, for the first time since 2005, the number of working-age recipients of income support benefits rose slightly – by about half a percent. From 2005 to 2013, the number of recipients fell by a cumulative rate of approximately 25%. The moderate increase in the number of recipients probably stems from the growth in the number of employed persons and from the legislative changes (vehicle ownership, see the chapter on income support), which widened the circle of persons entitled to the benefit.

In the Work Injury branch, which is generally affected by employment rates (which rose in 2013), the number of injury allowance recipients rose by a rate of 6.2%

**Table 13**  
**Benefit Recipients of the Principal Insurance Branches (monthly average), 1990-2013**

| Year      | General disability                    |                            |                      | Work injury                |                    | Maternity                   |                              | Children                |                      | Income support (for the working-age population) <sup>****</sup> | Long-term care |                                       |                       |
|-----------|---------------------------------------|----------------------------|----------------------|----------------------------|--------------------|-----------------------------|------------------------------|-------------------------|----------------------|---|----------------|---------------------------------------|-----------------------|
|           | Old-age and survivors <sup>****</sup> | General disability pension | Attendance allowance | Benefit for disabled child | Mobility allowance | Injury allowance*           | Permanent disability pension | Birth grant* allowance* | Maternity allowance* |   |                | Families receiving child allowances** | Unemployment benefits |
| 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                 |
| 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                 |
| 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                | 1,048.7   | 57.4           | 105.3                                 | 145.6                 |
| 2012      | 802.5                                 | 217.6                      | 37.8                 | 32.1                       | 34.1               | 69.7                        | 35.7                         | 169.2                   | 112.0                | 1,068.1   | 62.4           | 103.8                                 | 152.8                 |
| 2013      | 833.9                                 | 222.6                      | 40.9                 | 36.0                       | 35.3               | 37.4                        | 37.4                         | 169.7                   | 114.4                | 1088.3  | 69.6           | 104.4                                 | 156.5                 |
|           |                                       |                            |                      |                            |                    | Annual growth (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                  |
| 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                   |
| 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                | -0.1                        | 5.0                          | -1.8                    | 2.3                  | 1.8   | -0.5           | -3.7                                  | 3.0                   |
| 2012      | 2.9                                   | 2.2                        | 7.4                  | 8.8                        | 3.3                | 3.2                         | 5.3                          | 3.5                     | 6.0                  | 1.8   | 7.7            | -1.4                                  | 4.9                   |
| 2013      | 3.9                                   | 2.3                        | 8.1                  | 12.2                       | 3.6                | 3.6                         | 4.9                          | 0.3                     | 2.1                  | 1.9   | 11.6           | 0.6                                   | 2.4                   |

\* The number of the various recipients during the year.

\*\* The data for 1985 and 1990 include the families whose first child and second child allowances were restored to them through the employers. In 1993, the allowances reverted to being universal.

\*\*\* In calculating the figure for 2004 onward, a benefit that was split between several recipients was attributed to only one recipient. The number of recipients in 2004, in the calculation of which all the split benefit recipients were included, was 145.6 thousand on average per month.

\*\*\*\* From 2010, the number of old-age and survivors' pension recipients who received split old-age and survivors' pensions are counted as a single unit.



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

The benefit payments of the National Insurance Institute are funded by four sources: (a) collection of national insurance contributions (direct collection from the public and Treasury indemnification in respect of the reduction in the national insurance contributions of employers and self-employed insureds) (b) government participation in funding the contributory benefits (c) government funding of non-contributory benefits (d) receipts from interest on the investment of financial balances, mainly 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.

Under the Economy Arrangements Law of 2011-2012, several amendments were introduced: (a) the ceiling for payment of national and health insurance contributions was raised to 9 times the basic amount from January 1st, 2011. (b) In 2012, the ceiling should have been raised to 8 times the basic amount, but pursuant to the Trajtenberg Law, which was enacted in the wake of the social protests, the ceiling for payment was lowered and reverted to 5 times the basic amount from 1.1.2012. (c) The regular employer insurance contributions were raised by 0.47% (from 5.43% to 5.9%) as of April 1st, 2011. These steps increased the collection of the NII, but not the share of the State Treasury and therefore the participation in the Children branch was 200.5% from April 1st, 2011 (204.5% in 2012).

In August 2013, child allowances were reduced and pursuant thereto the State participation diminished by the rate of the budgetary savings. The participation rate fell from 210% to 166.3% of the collection for the Children branch.

In August 2012, the Deficit Reduction Law was enacted, which gradually increased the regular employer insurance contributions from 2013 and reinstated, from June 1st, 2012, Treasury participation in collection for the Children branch to 210% – the governing rate in 2009. In 2013, employer insurance contributions were raised, as prescribed by the Trajtenberg Committee in 2011. The Committee decided on a three-stage increase: the first stage – an increase of 0.6% (from 5.9% to 6.5%) – which was made in 2013, and the following two stages were split into three parts: an increase of 0.25% in 2014, 0.5% in 2015 and 0.25% in 2016.

### A. Collection of Insurance Contributions from the Public

The NII's receipts from collecting national and health insurance contributions rose by 4.7% in real terms in 2013 (compared to 1.5% in 2012). The receipts of the NII branches rose by 5.7% – a rate double the rate of increase in the receipts of the health system, which was 2.8% (Table 14). The increase stems mainly from the developments in the labor market – the widening of the circle of employed persons and the real growth in wages – as well as the stated legislative change with regard to raising employer insurance contributions.

The NII's receipts from collecting national and health insurance contributions rose by 4.7% in real terms in 2013

In 2013, total collection receipts totaled NIS 55.9 billion

In 2013, total collection receipts totaled NIS 55.9 billion: 34.5 billion for the NII branches and 18.9 billion for the health system (Table 14). Approximately NIS 2.5 billion was added to the collection from the public, which the State Treasury transferred as indemnification for the reduction in the national insurance contributions of employers and self-employed persons (in accordance with section 32C1 of the National Insurance Law).

However, in terms of f GDP, total collection remained at its 2012 level – 5.1% of the GDP: 3.3% thereof being collection for the NII branches (an increase of 0.1% compared to 2012) and 1.8% for the health system (a decrease of 0.1% compared to 2012). In all the

**Table 14**  
**Collection for the National Insurance System**  
**and for the Health Insurance System, 2009-2013**

|   | 2009   | 2010   | 2011   | 2012   | 2013   |
|---|--------|--------|--------|--------|--------|
| <b>Current prices (NIS million)</b>                             |        |        |        |        |        |
| <b>Total insurance contribution receipts</b>                    | 43,224 | 47,626 | 51,150 | 52,701 | 55,891 |
| <b>Total collection from the public</b>                         | 41,228 | 45,392 | 48,719 | 50,276 | 53,420 |
| For the NII branches  | 26,233 | 29,102 | 31,305 | 32,144 | 34,498 |
| For the health system   | 14,995 | 16,290 | 17,414 | 18,132 | 18,922 |
| Treasury indemnification  | 1,996  | 2,234  | 2,431  | 2,425  | 2,471  |
| <b>Development indicators of the collection from the public</b> |        |        |        |        |        |
| <b>Real percent change</b>                                      |        |        |        |        |        |
| <b>Total collection from the public</b>                         | -1.4   | 7.2    | 3.7    | 1.5    | 4.7    |
| For the NII branches  | -1.9   | 8.0    | 4.0    | 1.0    | 5.7    |
| For the health system   | -0.4   | 5.8    | 3.3    | 2.4    | 2.8    |
| As a percentage of the GDP                                      |        |        |        |        |        |
| <b>Total collection from the public</b>                         | 5.1    | 5.2    | 5.3    | 5.1    | 5.1    |
| For the NII branches  | 3.2    | 3.3    | 3.4    | 3.2    | 3.3    |
| For the health system   | 1.9    | 1.9    | 1.9    | 1.9    | 1.8    |
| <b>As a percentage of direct taxes on individuals</b>           |        |        |        |        |        |
| <b>Total collection from the public</b>                         | 46.5   | 48.6   | 48.4   | 48.1   | 47.9   |
| For the NII branches  | 29.6   | 31.2   | 31.1   | 30.8   | 30.9   |
| For the health system   | 16.9   | 17.4   | 17.3   | 17.3   | 17.0   |
| <b>As a percentage of direct taxes</b>                          |        |        |        |        |        |
| <b>Total collection from the public</b>                         | 35.2   | 35.7   | 35.2   | 34.8   | 33.1   |
| For the NII branches  | 22.4   | 22.9   | 22.6   | 22.2   | 21.4   |
| For the health system   | 12.8   | 12.8   | 12.6   | 12.6   | 11.7   |



years indicated in the table, the collection, in terms of GDP, ranges around five percent of the GDP, a rate lower than that at the beginning of the decade: in 2003 collection from the public reached 6.3% of the GDP. The proportion of the collection from the public of the total direct taxes on individuals fell slightly: from 48.1% in 2012 to 47.9% in 2013.

The changes in the collection growth rates differ between those paid for salaried employees (i.e. from salaried employees and from employers) and those paid for those other than salaried employees. In 2012, direct collection from the salaried employee public grew by 1.3% in real terms, compared to a growth of 4.7% in 2011. The direct collection from the salaried employees and their employers was affected both by the surveyed legislative changes and by the changes in the labor market: the average wage for a salaried position rose by 2.7, in nominal terms, in 2012 (compared to an increase of 4.1% in 2011). The number of positions rose by 2.6% in 2012 (compared to an increase of 3.6% in 2011). By contrast, the direct collection from non-employee insureds fell by 0.4% in real terms in 2012, compared to a decline of 1.1% in 2011. Overall, the collection of the NII in 2013 constitutes approximately 35% of the total collection of direct taxes in Israel, 63% of which are from national insurance contributions and 37% from health insurance contributions. The decline as a percentage of the direct taxes in general was more significant – from 34.8% to 33.1% between the two years.

Overall, the collection of the NII in 2013 constitutes approximately 35% of the total collection of direct taxes

## B. Sources of Funding of the Benefits

In 2013, the total NII receipts for funding the NII branches rose by 1.7% in real terms and totaled NIS 74.0 billion in current prices (Table 15). The steep rise at a rate of 4.7% in collection from the public<sup>22</sup>

was offset by declines in the other sources items: government participation under Section 32 of the Law fell by 2.4% in 2013; government funding of NII benefits fell by a more moderate rate of 1.1% and the interest payments that constitute about one-tenth of the total NII receipts fell by a similar rate (1.2%).

In the past decade (since 2003), receipts have risen by about 25% in real terms, primarily due to an increase in the national insurance contribution collection receipts by 32%. Both parts of the government participation component rose by about half that rate – by approximately 15% – whereas receipts from interest rose by the steepest rate of approximately 42% over the course of said decade. The cumulative increase of the aggregate government participation components was therefore the most moderate among the various components of the receipts. This trend led to a certain rise in the national insurance contributions' proportion of the total receipts: from 47.5% in 2003 to 49.9% in 2012. However, a longer-range examination shows that the proportion of the receipts from the public diminished from a rate higher than half the total receipts in

22 This rate is slightly different than the rate indicated in the previous section, inasmuch as the collection of national insurance contributions in this table includes the Treasury indemnification.

**Table 15**  
**The Sources of Funding of the National Insurance Branches, 1995-2013**

| Year                             | Total receipts* | Collection of national insurance contributions** | Government participation*** | Government funding of benefits | Interest receipts |
|----------------------------------|-----------------|--|-----------------------------|--------------------------------|-------------------|
| NIS million, current prices      |                 |  |                             |                                |                   |
| 1995                             | 23,581          | 12,171   | 4,222                       | 4,650                          | 2,504             |
| 2000                             | 41,207          | 20,751   | 8,336                       | 8,148                          | 3,907             |
| 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                             | 71,398          | 34,569   | 18,206                      | 10,454                         | 7,693             |
| 2013                             | 74,017          | 36,969   | 18,115                      | 10,539                         | 7,748             |
| Real annual growth (percentages) |                 |  |                             |                                |                   |
| 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               |
| 2013                             | 1.7             | 4.9  | -2.4                        | -1.1                           | -1.2              |
| Distribution (percentages)       |                 |  |                             |                                |                   |
| 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              |
| 2013                             | 100.0           | 49.9   | 24.5                        | 14.2                           | 10.5              |

\* Including third party compensation.

\*\* Including Treasury indemnification.

\*\*\* Under Section 32 (a) of the Law.

1995 and at the beginning of the decade, to a lower rate. This indicates an erosion of the independence of the National Insurance Institute.

### C. Surpluses / Deficits and Financial Reserves

Disregarding the interest revenues on the NII investments, in 2013 the NII budget deficit (excluding interest) remained almost unchanged at a level of approximately NIS 3 billion in 2013, a rate similar to that prevailing in 2010. The most recent year in which there was a budget surplus is 2008. The size of this deficit is a result of increases in all the NII branches, save the Children Insurance branch, in which growth of nearly one billion NIS was recorded in the budget surplus, which offset the increases in all the other branches (Table 16).

The table further shows that the financial activity of the NII adds up to a surplus, when the interest receipts are included. The operating deficit turns into a surplus of NIS 4.7 billion, compared to NIS 4.55 billion in the previous year. However, all the branches that showed a deficit without inclusion of the interest on investments remained so also subsequent to the inclusion thereof.

Disregarding the interest revenues on the NII investments, in 2013 the NII budget deficit remained almost unchanged at a level of approximately NIS 3 billion in 2013

**Table 16**  
**Surpluses / Deficits of the National Insurance**  
**Institute Branches (NIS million, current prices), 2010–2013**

| Insurance branch      | Excluding interest |               |               |               | Including interest |              |              |              |
|-----------------------|--------------------|---------------|---------------|---------------|--------------------|--------------|--------------|--------------|
|                       | 2010               | 2011          | 2012          | 2013          | 2010               | 2011         | 2012         | 2013         |
| <b>Total</b>          | <b>-3006.1</b>     | <b>-994.2</b> | <b>-3,145</b> | <b>-3,053</b> | <b>3,999</b>       | <b>6,310</b> | <b>4,548</b> | <b>4,696</b> |
| Old-age and survivors | -1,365.4           | -2004.8       | -2862         | -3,374        | 1,243              | 692          | -107         | -692         |
| General disability    | -3,445.4           | -3,606.4      | -4,168        | -4,444        | -3,118.5           | -3,407       | -4,096       | -4,349       |
| Work injury           | -1,460.7           | -1,252.2      | -1,341        | -857          | -1,304.4           | -1,140       | -1,266       | -836         |
| Maternity             | -2,181.7           | -2,226        | -2,579        | -2,604        | -2,296.7           | -2,226.3     | -2,613       | -2,549       |
| Children              | 10,075             | 12,641        | 13,076        | 13,976        | 14,059             | 16,752       | 17,738       | 18,579       |
| Unemployment          | -1944              | -1,881.7      | -2,188        | -2,456        | -1,981.9           | -1,881.7     | -2,188       | -2,456       |
| Long-term care        | -2,719.5           | -2,786.2      | -3,182        | -3,428        | -2,813.3           | -2,786.2     | -3,228       | -3,360       |
| Other                 | 37                 | 123           | 99            | 134           | 212                | 307          | 307          | 358          |

