Chapter 1 Social Policy and Trends in National Insurance Development

1. National Insurance – Historical Overview and Future Challenges: Introduction

At the beginning of April 2014, the National Insurance Institute celebrated 60 years of existence. This is a good time to look back and assess the social security situation, as well as to examine the NII's readiness for the challenges faced by insured persons and policy makers. This chapter analyses the development of social security in two parts – insurees and non-insured, according to the central goals of social security. It is proposed to divide all benefits into four groups – substitutes for income from work, universal, function-linked and subsistence benefits.

Universal benefits have eroded from 58% of all benefits to 48%, while the share of subsistence benefits has remained fairly stable. The rate of function-linked benefits has grown rapidly – from 1.5% to 12% of the total. In spite of their insurance importance, they are mostly selective, which harms the role of the NII as insurer. Instead of basing social security on rights that are accumulated by payment of premiums, benefit payments are gradually becoming dependent on the priorities of the government of the day, which erodes the insurance concept. This process has developed in spite of the fact that funding based on the Benefits Act has always constituted about 70% of the NII budget compared to funding through state contributions (Diagram 6).

The main challenges that the NII faces are to improve its financial stability while minimizing harm to social strength, in other words to the rights of insurees. The solution lies partly in eliminating distortions such as removing payments from the benefits budget to other institutions, above all the hospitalization grant – the recommendation is to transfer this to hospitals and government ministries without affecting the NII's revenues. Financial stability can also be improved in other ways: continuously raising theeligibility age for old age pensions, while keeping to a minimum the impact on those who have already accumulated rights, and to transfer the subsidy inherent in the government's interest payments as open and steady support for the NII's budget. Another important challenge is to link the subsistence benefits system to a suitable standard of living, with proper consideration of the negative effect on employment. The data show the need to increase the income support benefit for families with children,particularly large families.

In conclusion, we suggest a new role for social insurance: to initiate and encourage changes in behavior with the aim of reducing the incidence of insured risk situations, for example –to encourage sports activity to improve health or offer a reduction in insurance premiums for employers who take steps to reduce accidents at work.

2. Benefit Payments in 2014 and a Historical Overview

The NII, which is responsible for social security in Israel, has two functions:

- Social insurance: payment of benefits to insureesaccording to the National Insurance Act, funded by their **insurance premiums** and other revenues (hereinafter **the**

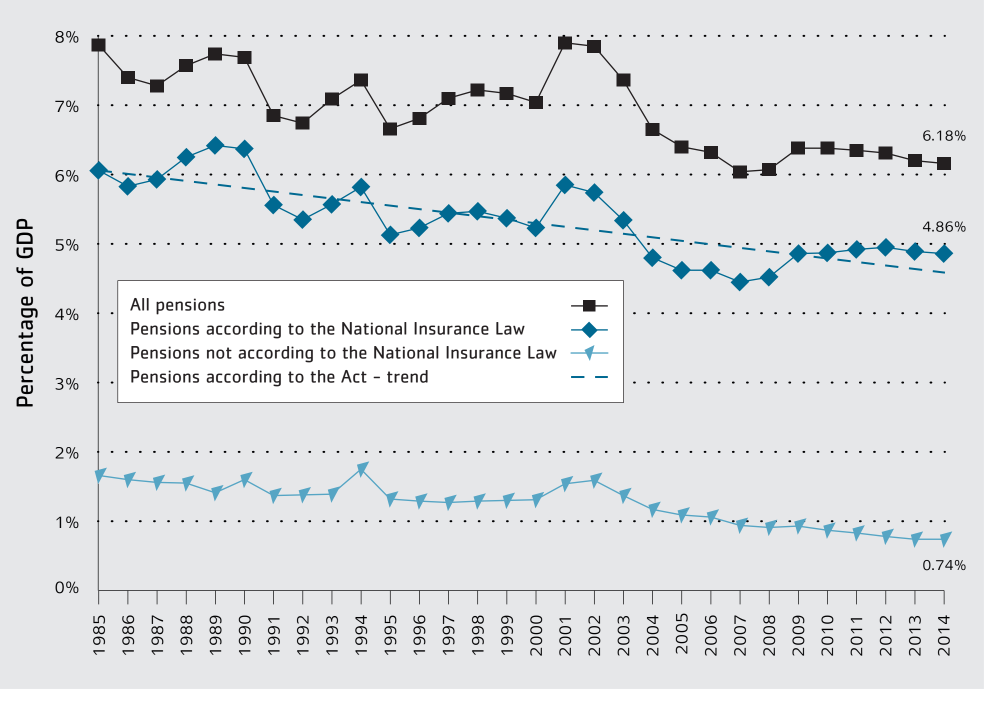
insurance function, insured benefits, benefits by law). Eligibility for these benefits is supposed to be granted by payment of the premiums.

Payments fully funded by the government for all residents, even those who are not insured (pursuant to Section 9 of the National Insurance Act and other agreements, hereinafter the **non-insurance function, non-insured benefits, benefits not by law**).

The aim of the NII as an insurer is to limit possible harm to the livelihood of insured persons in times of temporary or extended distress. This is the NII's main expenditure: in 2014 it funded about 88% of social security payments. The non-insured expenditure – about 12% of all payments – was mainly used for selective benefits, that is, benefits depending on a means test, other payments for those who had not accumulated insured rights (mainly new immigrants), and various types of compensation. These payments represent redistribution to the public of tax revenues, according to social considerations, which is one of the classic functions of government.

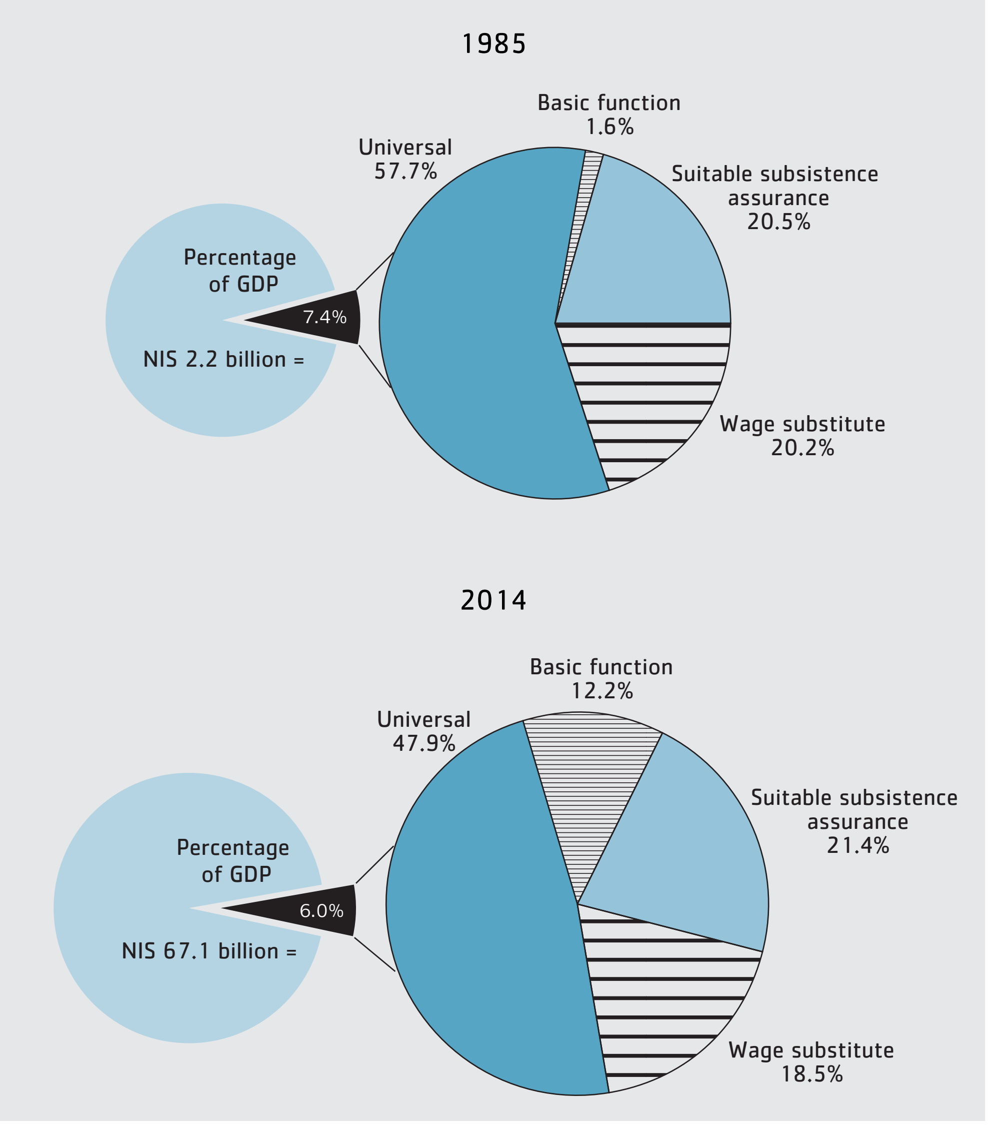
The extent of social security payments when measured as a percentage of GDP, that is, compared to the standard of living index, has been falling for some time (Diagram 1). This means that the total expenditure on social security paid through the NII – both insured and non-insured benefits -has eroded relative to the general standard of living as

Diagram 1
Benefit Payments By Law and Not By Law (Percentage of GDP), 1985-2014



measured by GDP[1]. In 2014 social security payments reached 6.2% of GDP. In times of economic recession it is possible to distinguish a sharp but temporary rise in this

Diagram 2
National Insurance Budget by Benefit Clusters (% of GDP), 1985 and 2014



1 Measuring the development of social security services relative to GDP is intended to estimate how far social security has risen with the general standard of living, since if these services are growing more slowly than GDP (which reflects the "income" of the economy), this means they are being eroded. Instead of being a social security system for the whole population, the erosion of these services could return it to being "welfare for the poor". Stiglitz, Sen and Fitoussi, with an impressive list of experts, wrote a report that critically examines the suitability of GDP as a measure of standard of living: Stiglitz, J., Sen, A.&Fitoussi, J.P. (2009).**The commission on the measurement of economic performance andsocial progress**, September, 1-291.

proportion, with the reverse reaction in times of rapid growth. It should be noted that during the last recession there was indeed a rise in social security payments, and contrary to previous cases of recession, it was actually the insured payments that stabilized at a higher level.

In the 1950s there were only three main branches in national insurance – old age and survivors, maternity, and victims of work accidents. Over the years other branches have been added – work accidents for the self-employed, children, unemployment, general disability, child disability benefits, and payments intended to finance special expenses required for daily function, mainly in the homes of people with disabilities. Later the branches of long-term nursing care, bankruptcy and accident victims were also added.

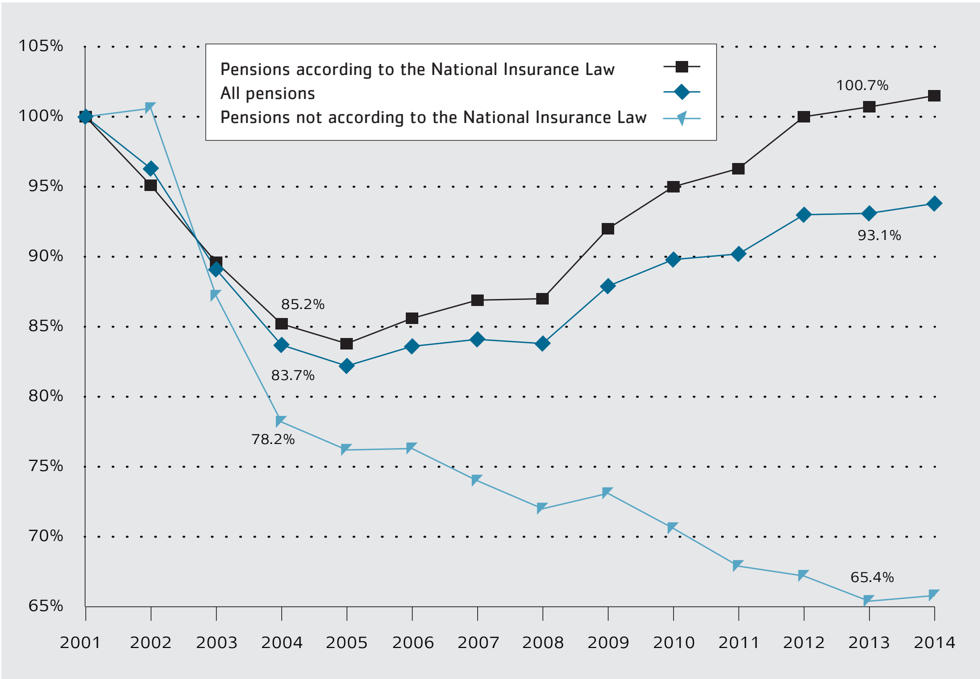
Benefits that were not based on the National Insurance Act, most of which were added since the 1970s, were mainly subsistence benefits – income support or income supplement for those of working age (including maintenance) and in old-age, including for new immigrants who had not managed to accumulate eligibility for insurance. In the 1990s benefits were added for special population groups, such as Russian Prisoners of Zion who immigrated to Israel, victims of hostile actions, AIDS sufferers and sufferers of scalp ringworm. In recent years compensation has also been paid to victims of polio because of failed treatments they received from the State.

Two other benefits that are not enshrined in the National Insurance Act but which are essentially insured benefits, are payments to army reservists (which were formerly part of the insured benefits) and the mobility benefit, which is intended to improve the mobility of physically disabled persons outside their homes. In insurance terms it would have been more correct to include these benefits in the insured framework – payment to reservists as a replacement for income, and mobility benefits as a function-based allowance (see Section 3 below). In 1985 the non-insured benefits accounted for some 26% of all social security payments, and at the end of the period under review (2014) this had dropped to 12%.

In the years 2002-2004 two governments made extensive cuts to social security, at the height of a recession that hit the economy following soon after two macro-social and economic events – the Second Intifada and the bursting of the high-tech bubble in 2000 and 2001. The anti-cyclical nature of the social security system is generally intended to protect the public at times of economic slowdown or recession by means of unemployment and subsistence benefits, but in fact that was when the governments decided to cut benefits, thus making life very difficult for the public. These decisions left their mark on the sharp rise in the proportion of poor families and the severity of poverty as shown by the **2013 Report on Dimensions of Poverty and Social Gaps**.[2] While benefits paid under the National Insurance Act ("insured") recovered and returned to

2 http://www.btl.gov.il/Publications/oni_report/Documents/oni2013.pdf

Diagram 3
Changes in Benefits (2001=100%, 2014 Prices), 2001-2014



their real level before the cuts, subsistence benefits were never amended and have since eroded in fixed price terms. All benefits have been eroded as a proportion of GDP.

The main damage from these cuts was absorbed by the child allowances, but since they are also a political-social issue, they were rehabilitated in 2009 following coalition agreements. Another attempt to reduce them was made in 2013, but apparently this cut will also not last for long, since – again due to a coalition agreement – some change at least is expected in the 2015-2016 budget. Thus the insured benefits appear to have become a pendulum driven to and fro by politics. This situation is damaging for recipients who rely on more stable social security: it is based on the insurance premiums they have paid and the eligibility they have accumulated thereby.

By 2005, the sharp cuts in benefits in 2002-2004 reduced the benefits not paid by law (non-insured) by about 24% in real terms (Diagram 3). Since then, they have fallen by another 10%, due to failure to update income support and stricter conditions on the means test (reduction of the disregard and so on). Insured benefits were cut temporarily and ultimately rose in fixed prices and returned to slightly more than their original level. Seeing them in terms of fixed prices is absolute in nature and ignores the continuing rise in the standard of living as expressed by GDP, and therefore the erosion is greater than reflected in real prices (as shown in Diagram 1). Benefits linked to support for families where the head of the household is of working age – unemployment, child allowance

Diagram 4
Cuts in Benefits (Unemployment, Income support& Child) (2001=100%, 2014 Prices), 2001-2004

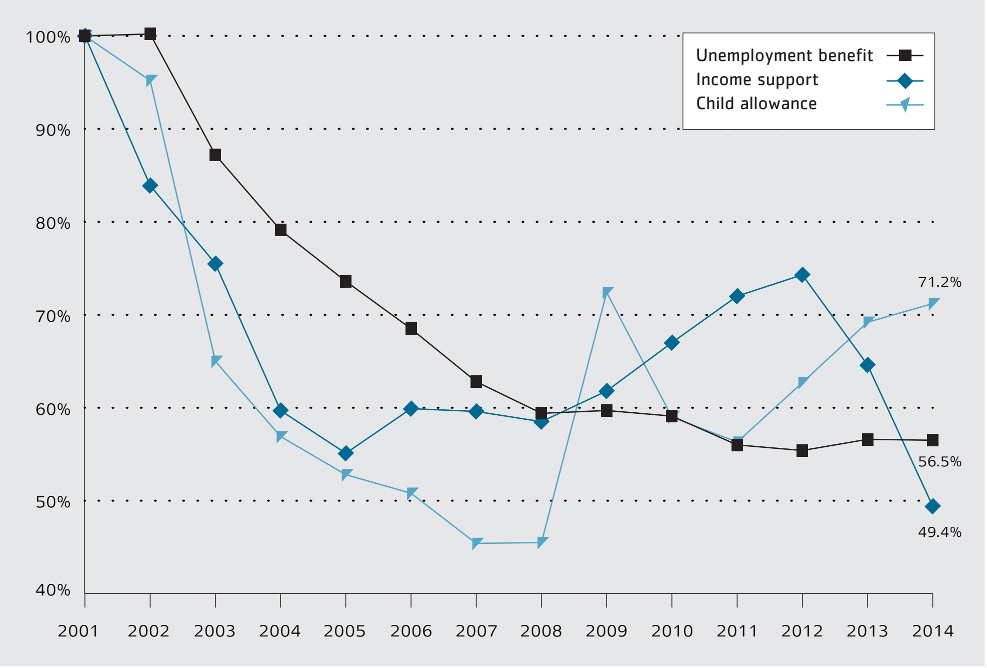
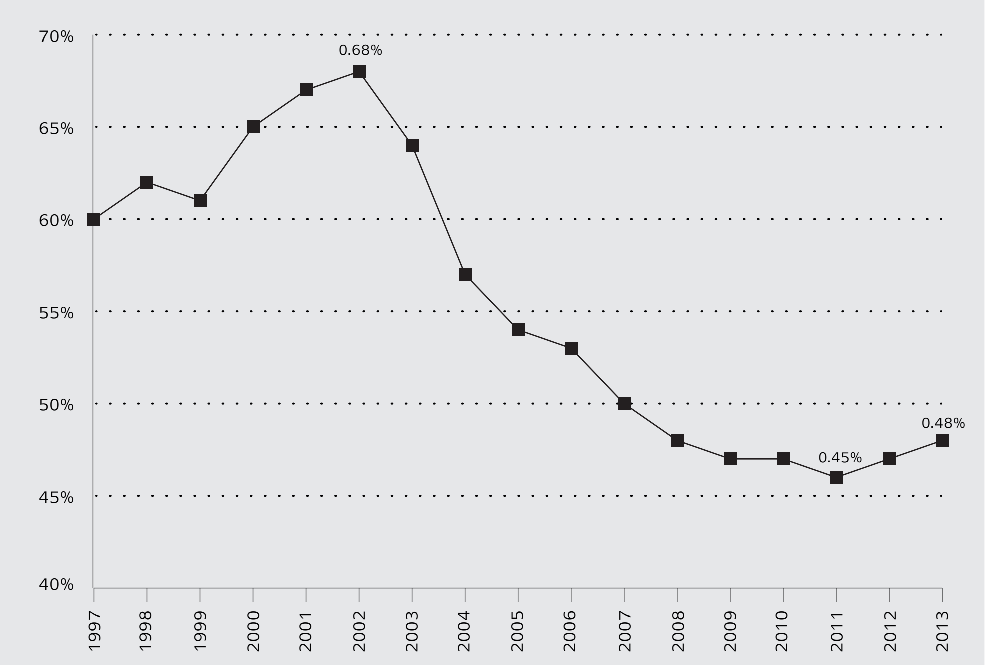


Diagram 5
Recipients of Subsistence Allowances Compared to Poor Families, 1997-2013



and income support – were more sharply affected by the policy of cuts (Diagram 4). The cut in income support was severe and became more so until 2011, when it stabilized at a low level – a cut of about 44%. In child allowances, the cumulative cuts up to 2014 were about 51% with a temporary reduction of cuts in 2004-2012. Unemployment benefits also went through reversals – with temporary improvement in 2009, as a response to the world economic crisis, and recently there have been other improvements for unemployed daily workers.

Tightening up selective benefits is clearly shown in Diagram 5: the rate of poor families receiving income support (working age) or income supplement (in old age, including survivors) grew until 2002, but the cuts in the early 2000s sharply affected the coverage provided by these benefits. In 2012and 2013 there was a relatively moderate improvement, and today fewer families living in poverty receive these benefits.

3. National Insurance Revenues in 2014 and a Historical Overview

National insurance is funded by contributions paid by the insured population and from the State. In 2014 the rate of funding through insurance contributions (including indemnity for employers) was about 61% of revenues under the National Insurance Act (Table 1). A further 10% is funded through interest paid by the government to the NII for investment in the Surplus Fund (reserve) which has accumulated from past surplus contributions. Since the source of the surpluses is mainly contributions, interest revenues should also be treated as funding from insurees, but in fact the payer is the borrower, that is, the government. According to this calculation, about 70% of the insurance budget is funded directly and indirectly by insurees from all periods, and the remaining 30% is funded by the government through participation in Section 32 – the section expressing solidarity with the **insurance** system paid from the State budget. The rate of funding the national insurance budget as presented in Table 1 includes insurance payments (including employer indemnity) and interest receipts, without the subsidy embodied in interest on the IBAL bonds[3] (Diagram 6), and third party compensation (mainly settling up with insurance companies).

The subsidy embodied in the interest of the IBAL bonds (Table 1) is here included in the State participation similar to Section 32, since essentially there is no difference between the participation in Section 32 and the participation through subsidizing interest. A few years ago the government decided to cancel this subsidy, but it did not

3 Receipts of interest on government debts to insurees are usually shown as one component, but here the two parts are shown separately for the first time: interest receipts without the subsidy embodied in IBAL bonds (as estimated by the Research & Planning Administration), and the subsidy. The source of the non-subsidized interest receipts are the surplus revenues over time, while the subsidy is the State's participation in the national insurance budget. It should be noted that this approach matches the demand of the State Comptroller in his last report, that the State subsidy must be transparent.

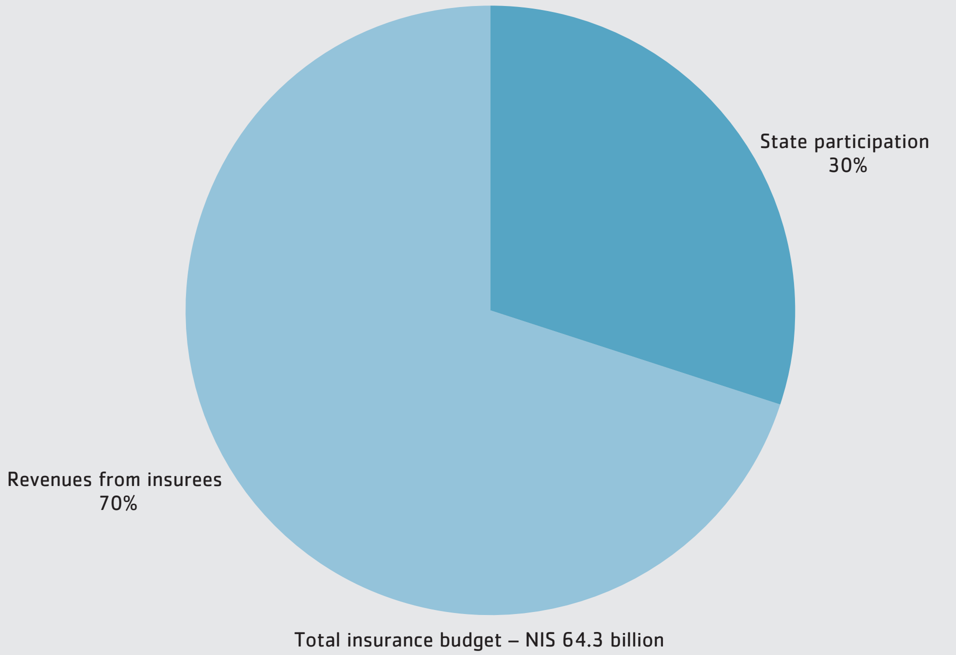
Table 1
Composition of Social Security Funding (Current Data and Percentages)

Year	Total	The Insurance-Based Budget											Non-insurance budget (section 9, laws and other agreements), % of total budget	
		Receipts of the Insurance Budget	Revenues from Contributions					Government Participation						
			Total		Employer indemnity	Interest from Investment Fund (excl. interest subsidy)	Compensation from 3rd parties	Total		Government allocation under NII Act (Section 32)	Subsidy on IVAL bond interest			
			Numbers	Percent				Numbers	Percent				Numbers	Percent
1998	34,384	28,035	19,824	71	17,052	2,698	74	8,211	29	7,392	818		6,349	42
1999	37,677	30,610	21,791	71	18,685	3,028	78	8,819	29	8,117	702		7,067	42
2000	40,996	33,061	24,088	73	20,751	3,267	70	8,974	27	8,334	640		7,935	41
2001	45,886	36,347	25,618	70	22,236	3,289	94	10,728	30	9,940	788		9,539	44
2002	48,407	38,055	26,835	71	23,113	3,549	172	11,220	29	10,504	716		10,352	45
2003	47,671	38,476	27,087	70	22,809	3,862	417	11,389	30	10,796	592		9,195	43
2004	47,322	38,967	27,226	70	23,021	3,866	340	11,741	30	10,989	751		8,355	42
2005	49,496	41,101	28,392	69	24,301	3,859	231	12,709	31	11,700	1,009		8,395	43
2006	52,085	43,340	29,847	69	25,240	4,369	239	13,493	31	12,569	924		8,745	43
2007	54,693	46,025	30,898	67	26,290	4,310	299	15,127	33	13,855	1,271		8,668	44
2008	58,246	49,258	32,859	67	27,827	4,675	357	16,398	33	14,905	1,493		8,988	44
2009	60,512	50,853	33,672	66	28,128	5,103	441	17,182	34	15,619	1,563		9,659	44
2010	62,879	53,123	37,186	70	31,335	5,359	493	15,937	30	14,291	1,646		9,756	41
2011	68,648	58,766	39,547	67	33,735	5,382	429	19,220	33	17,298	1,922		9,882	42
2012	71,070	60,944	40,814	67	34,569	5,770	476	20,130	33	18,206	1,923		10,127	43
2013	73,672	63,479	42,997	68	36,969	5,382	646	20,481	32	18,115	2,366		10,194	42
2014	74,835	64,322	44,755	70	38,930	5,261	565	19,567	30	17,015	2,551		10,513	40

implement the decision. In his last report, the State Comptroller called for the subsidy to be recorded openly.[4]

Total social security funding (that is, including benefits fully funded by the State) takes the rate of Government participation from 30% to 40%. The extent of interest subsidy changes over time as it depends on market interest rates: the lower the rate, the higher the subsidy (Diagram 7). In 2014 the low interest rate in the market caused the subsidy to reach 4% of all funding needs. The average subsidy in 1998-2014 was 2.7%.

Diagram 6
Insurance Budget (for Benefits by Law) by Source of Funding, 2014



Source of data: National Insurance Institute.

4. National Insurance – A Social Insurer or Government Agent?

Benefit payments provide a social safety net for the public. There is a difference in principle between payments funded by insurance contributions (the insured part) and those funded by taxation (the non-insured part). The insured part **grants** eligibility to the insured by virtue of premiums that they pay and is not supposed to be dependent on the state of the national budget or government priorities. By contrast, the non-insured

4 The NII accepts this demand of the State Comptroller and therefore Table 1 shows the interest subsidy in a transparent manner.

part is dependent on government priorities and its ability to finance it, and these factors can change with the micro-economic situation and budget pressures, or with the social perceptions of the government in power. So if the social security system is sufficiently independent and financially stable, eligibility for insured benefits should remainsteady.

One of the factors hindering the independence of social security is the fact that the insurer (NII) performs two roles simultaneously – insurer and government agent, which blurs the system's independence in the eyes of insurees. This contradiction becomes more serious if the role of agent (payer of non-insured benefits and collector of health insurance contributions) grows relative to the role of insurer and sometimes clashes with insurance rights[5] – payment of insured benefits and collection of **national** insurance premiums. The vaguer the situation becomes, the more the NII is perceived by insurees less as a trustee and more as a government agent, as indicated by the way the public refers to it as "income tax B" and health insurance premiums as "health tax".

Another central cause of erosion in the role of the NII as insurer lies in the uncertainty regarding the Surplus Fund, since the government (the borrower)has not kept the reserves in a separate account to facilitate using them as required. Contrary to other government debts, the debt to insurees is not even recorded as such, unlike the government debt to public holders of government bonds – a total of NIS 180 billion (about 18% of product), even though it is a public debt to all intents and purposes. If this debt were properly recorded, the rate of total public debt in GDP would not be 67.6% as published in the Bank of Israel Report[6], but about 85.6% of GDP!

There is further confusion over the NII's independence arising from the recording of hospitalization costs (**hospitalization grant** of about NIS 2.7 billion in 2014) as a national insurance benefit, since the NII pays it, but in fact this expense should be recorded in the health budget, particularly since the National Health Insurance Act was enacted. Even if before this Act there was some logic in recording hospitalization costs as a benefit to new mothers and infants, this should have changed in 1995 following passage of the Act. Recording this amount in national insurance creates an artificial situation in which the financial stability of the NII appears weaker than in reality. Proper recording would hugely reduce this problem[7].

The Surplus Fund is a safety net, essential at a time of adverse effects on financial stability and when a plan to correct the problem is taking shape, or during the time required to obtain government and Knesset approval of the plan. For example, in 2013

5 Thus for example, amounts owed by insurees in health tax payments to the health system are offset in National Insurance benefits, that is, the insuree's National Insurance rights are affected by his debts to the health system.

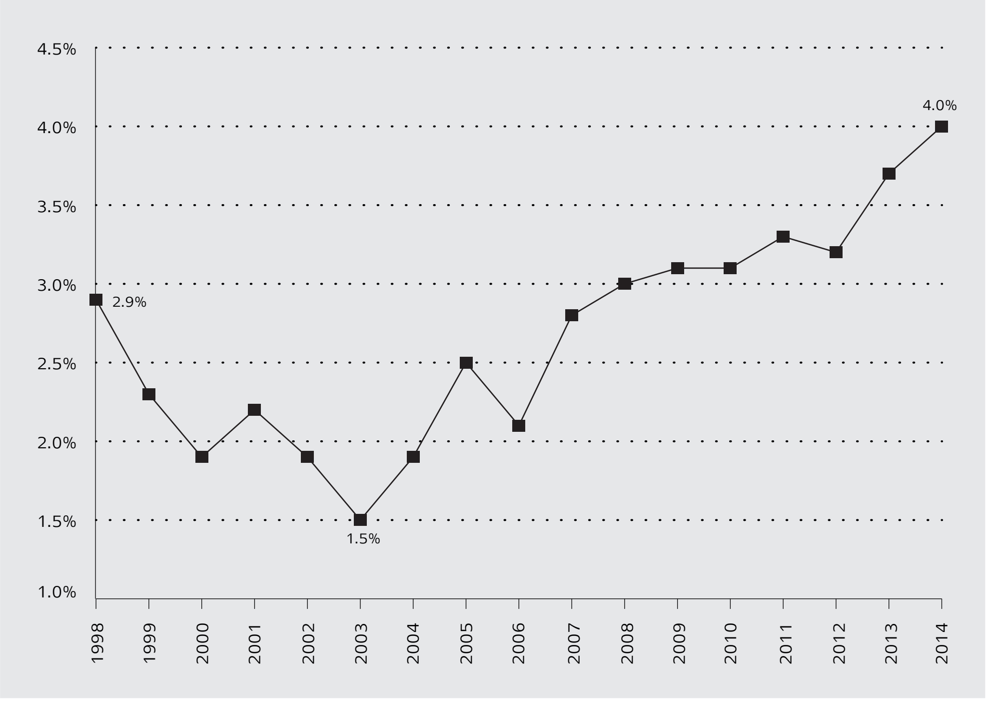
6 See Chapter 6, **Bank of Israel Report 2014**, p. 139.

7 For an estimate of the scope of the effect, see **National Insurance Report 2013** (Chapter A, p. 26, diagram 3): removing the hospitalization grant from national insurance benefits without affecting current insurance contributions, would improve its financial stability as expressed by postponing the elimination of the Fund balance in about 8 years.

the NII gave great prominence to the actuarial report stressing the actuarial problem, and now in 2015, it is preparing proposals for the government to solve this problem. Therefore the reserve is needed to bridge the time between recognition of the problem and government decision regarding the plan, legislative changes and actual implementation of the plan.

Today there is a **chronic** deficit in the government's current budget, although each year the NII deposits its surpluses in theState budget, roughly NIS 2-5 billion a year. In this situation, the independence of the social security system is undermined, since the accumulation of these deposits, that is, the addition to NII reserves, is swallowed up by the government's current deficit, meaning that the reserve is theoretical only. The test of the government's commitment to this debt will come when the NII current surplus, heaven forbid!becomes a current deficit due to population aging, assuming that no remedial steps are taken by then. If the debt were to be recorded according to proper accounting principles, the government's deficit would be NIS 6-7 billion larger each year and the **surplus** in the NII budget would grow by about half that. (See also the latest actuarial report[8].) If the government wishes to deal with this situation, it must take a

Diagram 7
Interest Subsidy as a Proportion of the NII Budget according to the National Insurance Act, 1998-2014



8 https://www.btl.gov.il/Publications/aktuaria/Documents/2010Triennial%20Report.pdf

number of steps (see Section 6 below), including raising taxes or cutting other budgets in order to honor its debt repayments to the NII, according to the schedule for clearing debt to insurees (currently about NIS 15 billion per annum: about NIS 10 billion repayment of principal and NIS 5 billion interest payments, excluding the subsidized component[9]). This step would break the immediate existing link between changes in the NII surplus and the government deficit. In this way, the independence of the social security system would be considerably increased.

The insurance component developed consistently from the establishment of the NII on April 1st 1954 to 1980. In 1981-1982 the State changed its welfare policy in the income support and income supplement systems – the two branches for which means tests are required (in other words, the benefits are paid selectively)[10]. That is the reason why these two branches were financed from the start from the State budget (Section 9 of the National Insurance Act, and other agreements and laws). Later,various payments that the NII pays on behalf of the State were added, that have no connection with social security. Today, the benefits paid under the National Insurance Act are over six times larger than those not paid under this Act.

5. Types of Benefits According to Social SecurityGoals

A. National insurance activity in terms of justice

In order to properly shape the work of social security, it is important to examine it in the light of its fundamental goals, which are formulated in terms of justice (Diagram 8).

The concepts of justice that are relevant in the context of social security are:

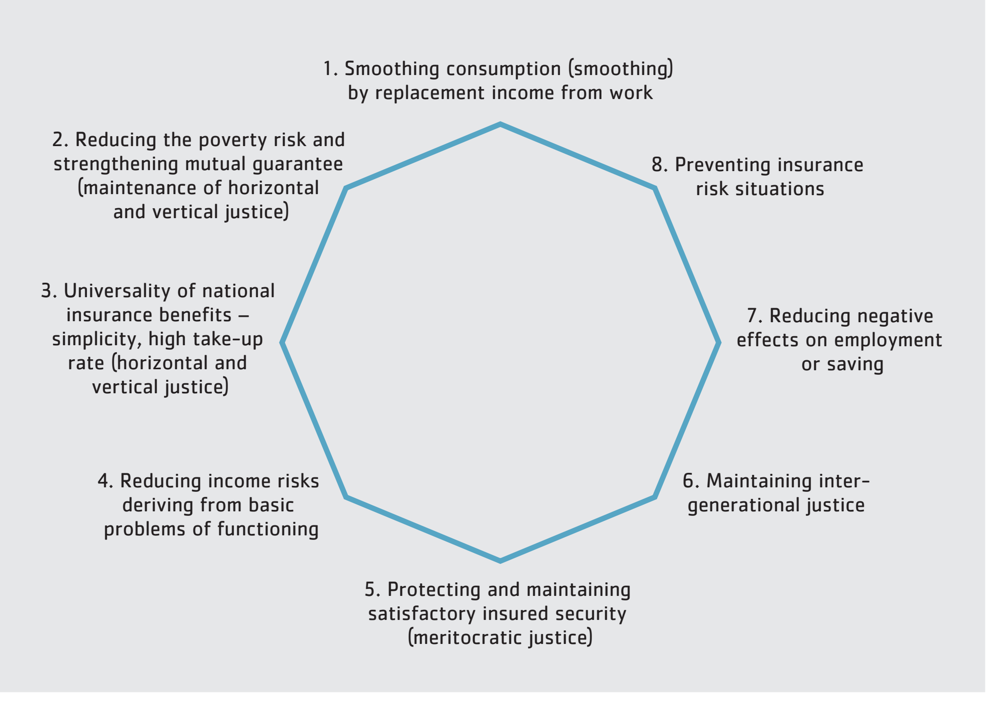
- **Distributive justice** – focuses on the redistribution of income (usually by means of benefits and progressive taxation) to limit inequality (objectives 2 and 3). Two components of this can be distinguished:
- **Horizontal justice** – to ensure that similar people (or similar in their welfare situation) are treated similarly. For that purpose, for example, weighted scales were developed in order to create a common denominator in terms of welfare between families of different sizes and other characteristics.
- **Vertical justice** –which aspires to allow people on low incomes to be eligible for relatively higher benefits than people in better economic circumstances, or for the taxes imposed on high income earners to be higher than those on low earners, etc. This effect is achieved, for example, by a universal and uniform allowance, or through a progressive income tax system.

9 An original and different way would be to imitate Norway and secure the government debt to the insured population using revenues from natural resources – particularly from the gas reserves recently discovered off Israel's coast.

10 Of course there are some exceptions, such as Milton Friedman's proposal regarding basic income, which is intended to be universal, but contains requirements to reduce the social security system that disqualify it.

- **Multi-generational justice –** seeks to safeguard the rights of those still unborn or who do not participate in the decision making process (children) regarding the current generation (objective 6). Such actions may be biased in favor of the current generation, inter alia because of the democratic system from which children and future generations are naturally excluded. For example, the issue of financial and social strength refers to this concept of justice.
- **Meritocratic justice**[11]-intended to balance distributive justice (objective 5). While distributive justice regards human needs as equal and imposes higher taxes on those with greater economic means, meritocratic justice stresses the individual's right to the added value of what he created with his own hands. On this principle, the size of benefits that substitute for wages was determined as a proportion of the last wage, as a way of providing insurance compensation when wages are affected (for example, for maternity allowances or after injury at work). According to meritocratic considerations, that insurance contributions to fund wage-substitution benefits should not increase progressively but rather linearly, is justified. Since these benefits are the backbone of the social security system, meritocratic justice is a foundation of the system no less than the demand for social solidarity, as reflected in universal benefits.

Diagram 8
The Social Security System – Objectives



11 Derives from 'merit', in other words: 'I deserve it'.

The objectives of social security differ from each other in terms of the justice concepts relevant to determining the size of benefits and how they are funded. Therefore it is important to understand the link between the main branches of insurance and the basic goals of social security. Distributing allowances to clusters based on branches with similar characteristics helps with a rational determination of their criteria and funding[12].Four main types of benefits may be listed: wage replacement, universal benefits, allowances (or reimbursement of expenses) to ensure basic function, and subsistence allowances to provide a minimum dignified standard of living.

There are other objectives, to increase financial stability, to restrain negative incentives for employment and savings, and to reduce risks through preventive action (Diagram 8).

B. Benefits that replace income from work

These benefits are paid to workers who experience a break in their work that reduces their income. The benefits help the workers and their families maintain their normal standard of living in terms of consumption of products and services (in the language of economists: they enable "smoothing of consumption over time"[13]). These benefits are paid following events such as giving birth, unemployment, accidents at work, or disability from work[14]. Of all social security benefits, these have the closest link to the concept of meritocratic justice: they give insurees a sense of 'insurance' – the sum is determined by an individual's economic achievements to date, and his/her rights are vested in previous premium payments.

Introducing means tests as a condition of eligibility for benefits that replace wages is like inserting a foreign body that harms the sense of insurance. Maintaining the meritocratic principle in these benefits is what also justifies taking increased premiums from people with higher income without the payment being seen as progressive taxation, since these benefits increase with income. An example of a breach of this principle is the unemployment benefit: the ceiling for payment is the average wage, while the maximum used to calculate the insurance premium is five times the average wage, and in the past even ten times. This gap blurs and even damages the sense of insurance (objective 5). The difference in the number of days for which unemployment is paid depending on age and family status also harms the sense of insurance, and is a kind of irrelevant discrimination,

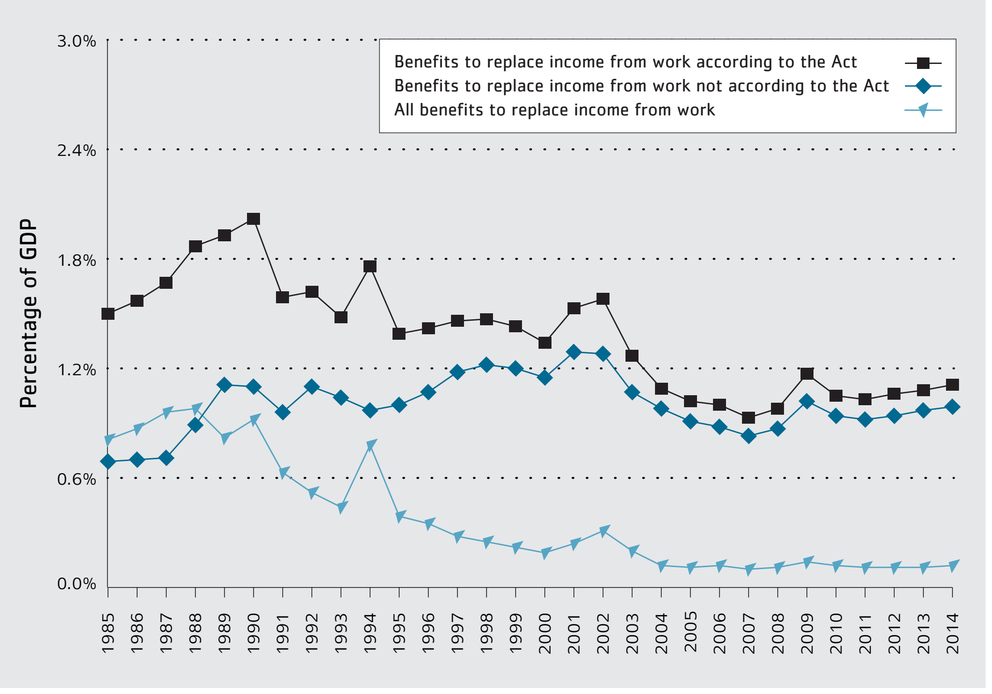
12 The Financial Stability Committee defined the clusters in terms of balance between benefits and revenues, and did not refer to the basic objectives of benefits or the differences in their risks, as is usual and as the clusters are presented in this chapter.

13 This is the argument underlying Milton Friedman's theory of permanent income: Friedman, M. (1957). **A theory of the consumption function**, and of **the life cycle theory** of Albert Ando and Franco Modigliani (1963): **The "Life Cycle" hypothesis of saving: Aggregate implications and tests.**

14 Some also consider the old age pension as a substitute for income, but we decided not to include it in this cluster because of its universal level and the absence of any link to the individual's last wage. In addition, it is also paid to those who have never worked and thus it stresses the component of distributive justice and universality.

since the conditions for the benefit should be set according to uniform rules, for example, compliance with a qualifying period. Reducing the number of days of eligibility for young people to only 50, for example, compared to an unemployed person aged 45 and over who is eligible for 175 days, and limiting the size of the benefit to the average wage, are examples of real damage to the insurance principle, and therefore also to how social security functions as social **insurance**.

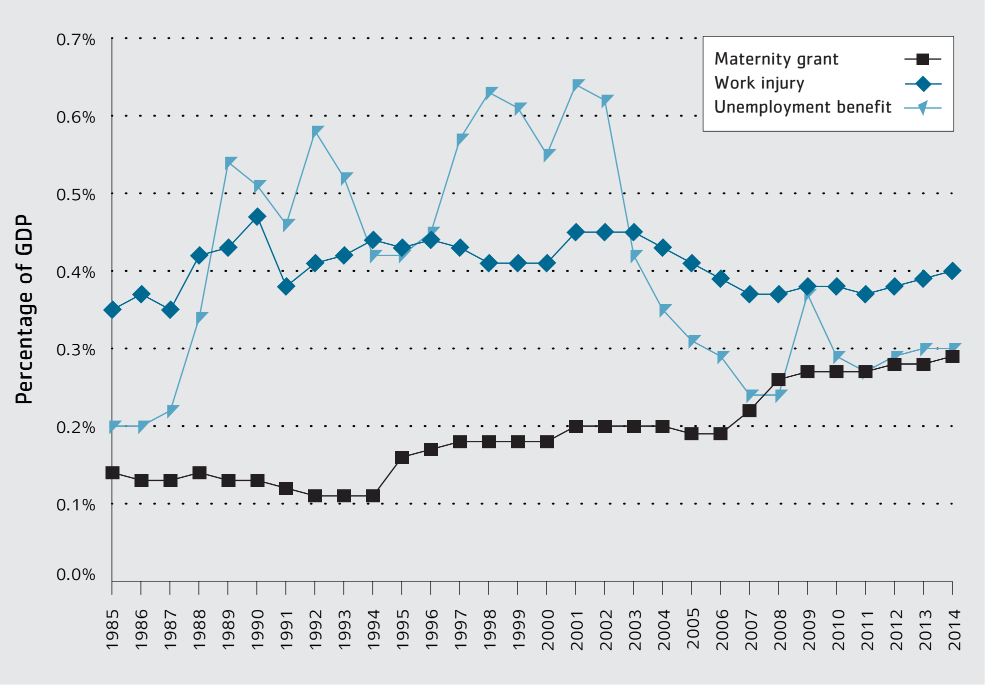
Diagram 9
Expenditure on Benefits that Substitute for Income from Work (Percentage of GDP), 1985-2014



More than the question of tension between the solidarity goals (objectives 2 and 3) and retaining the insurance aspect of the benefit (objectives 1 and 5), it appears that the damage to the nature of the wage substitute, such as unemployment pay, is largely a type of budgetary selectiveness. The reason is that we are not dealing with an improvement in the situation of low earners (who receive in general, 70% of their last wage), but a worsening of the insurance return for those who earn above the average wage, whose earnings are not high, and it could even affectpoor working families, and certainly lower middle class families. Therefore the damage to the insurance aspect does not only affect high earners but also workers with lower wages. However, wage-substitute benefits have more or less remained at a fixed proportion of GDP (Diagram 9).

The historical development of each of the wage-substitute benefits is different (Diagram 10): in the last three decades, not only have maternity grants kept their level relative to standard of living but have even risen, and their weight in GDP has more than doubled; the work accident allowance has maintained a high, stable ratio; and it is only unemployment insurance – which for almost two decades fulfilled an important social and economic function as an anti-cyclical benefit – that rapidly declined in the period 2002-2004, following cuts in the social security system. Its temporary revival in 2009, through a special agreement intended to halt the impact of the global financial crisis on employment in Israel, slightly postponed the decline of unemployment benefits to a low level. The latest amendment concerning unemployed day workers slightly improved the role of the benefit as a shield against unemployment, but the primary damage caused in the early 2000s is still clearly visible.

Diagram 10
Expenditure on Benefits that Substitute for Income from Work Funded by the Insured (Percentage of GDP), 1985-2014



C. Universal benefits (objective 3)

Universal benefits are characterized **by no means testing** (objective 3). The main ones are the child allowance and old age and survivors' pensions[15], and they are paid according to the ages of insurees or their children. Universal benefits reflect the solidarity of the

15 These include, for example, the widow/er's pension which is subject to a means test, and the old age pension at the conditional age, for which recipients are means-tested at relatively low wage levels. These are not shown here, but included under the selective benefits discussed later.

social security system, since they achieve progressiveness (vertical justice – objective 2 in Diagram 7) without using a means test - that is - without affecting system efficiency. Since they are uniform, these benefits promote vertical justice while retaining simplicity, which means they have **the highest rate of take-up** (full utilization)[16].

One of the most serious blows to social security benefits has been aimed at child allowances – which were gradually cut from 1.5% of GDP in 1985 to about a third of that in 2013 (Diagram 12). The old age pension was also considerably reduced at the end of the 1980s and early 1990s – by about 0.7% of GDP, mainly due to the rapid growth in per capita GDP. Universal benefits declined sharply relative to standard of living, as may be perceived by presenting the benefits as a percentage of GDP.

Diagram 11
Expenditure on Universal Benefits (Percentage of GDP), 1985-2013

The drop in the ratio of old age pensions to GDP from 1991 to the mid-1990s is explained by the rapid growth in per capita product at that time, when the Israeli economy successfully absorbed a huge, mostly educated wave of immigration, so that the GDP grew fast relative to the payment of pensions to elderly insurees (Diagram 12).

16 The mobility allowance, paid with no means testing, is included here as a functional benefit of an insurance type, but the influence of pressure groups seem to have led to it being funded from the State budget and not from insurance contributions as it should be, in other words by the NII.

Diagram 12
Expenditure on Universal Benefits According to Law (Percentage of GDP), 1985-2014

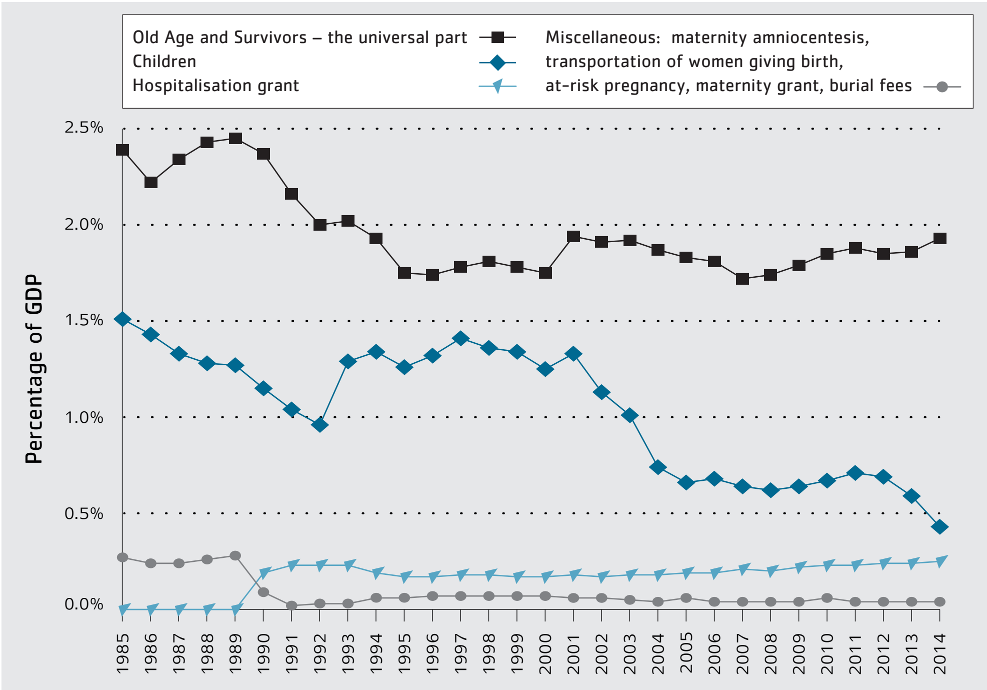
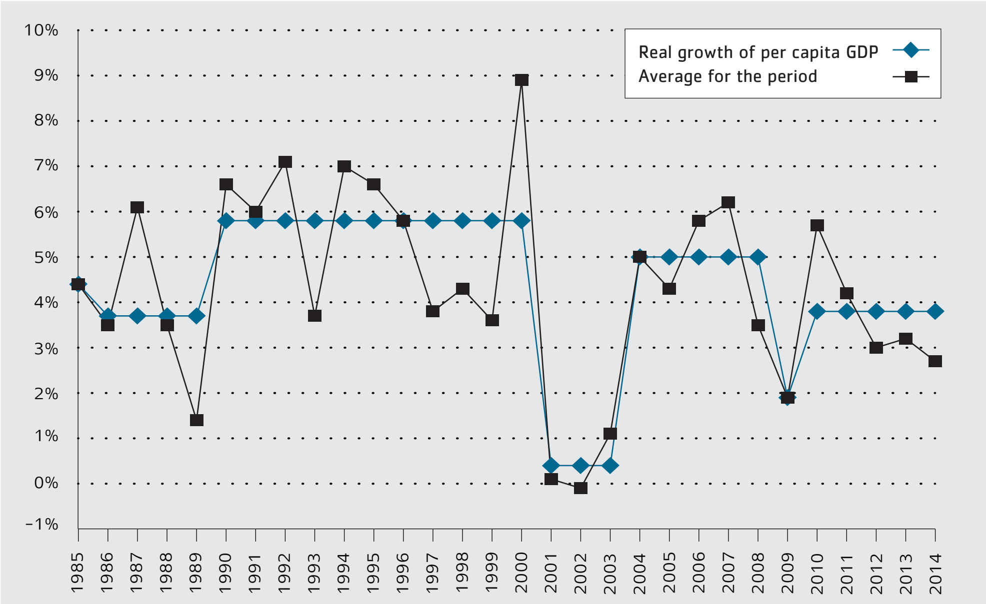


Diagram 13
Real Growth of Per Capita GDP (Percentage), 1985-2014

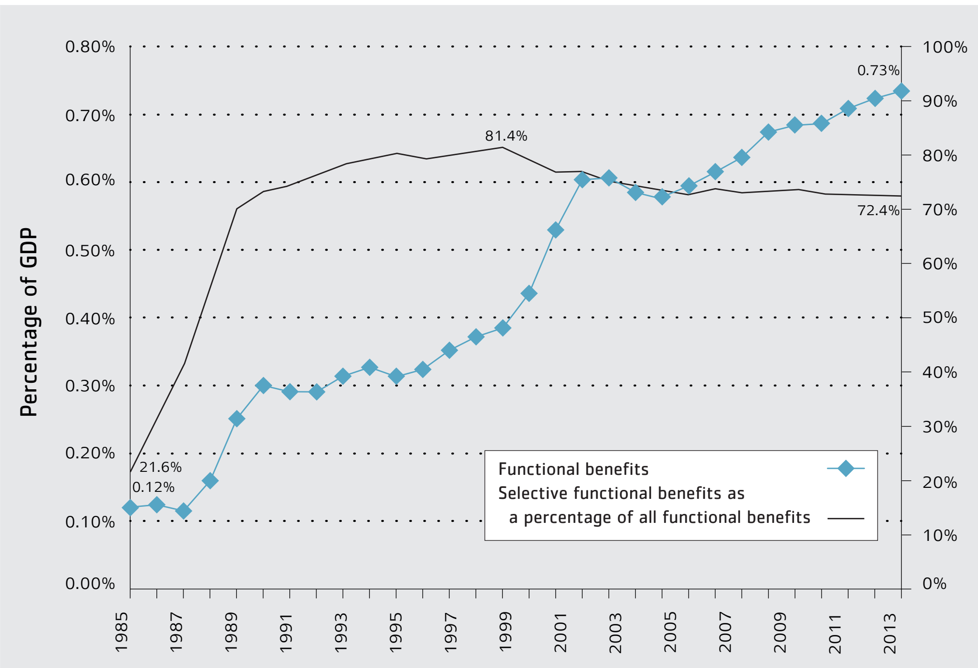


Translation? * מקור: דוח בנק ישראל (תוצר לנפש, לוח נספח ב' 1) ולמ"ס (גידול אוכלוסייה ממוצעת)

D. Benefits to provide basic functions (objective 4)

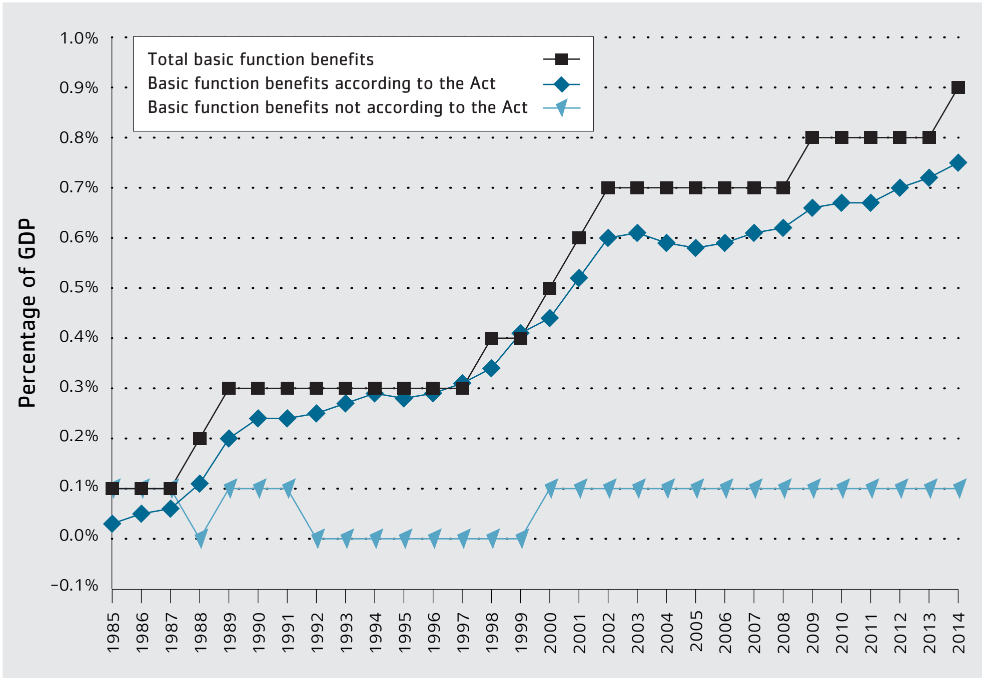
These benefits are paid to people with physical or mental disabilities, and so are based on the results of functional tests such as the ADL (activities of daily living) or IADL (instrumental activities of daily living). The benefits include payments for long-term care, special services, mobility and the child disability allowance[17]. They express the high costs required to maintain basic functionwhich insurees are unable to pay from their own income.The main benefit – long-term care – although funded by insurance contributions, **includes a means test**, and therefore becomes selective (Diagrams 14 and 15). The motive for the selective aspect is not a subsistence minimum, but the need 'to save costs' – a motive that is inimical to the insurance concept. So we will refer to this as **budgetary selectiveness**, as distinct from existential selectiveness (such as income support). If the means test affects rights at income levels typical of the middle class, the insurance aspectis severely damaged, and in this case reducing the allowance by half affects a large number of people. Not only that: the impact on the rich with their high income is inefficient, as in any case they are few in number so the 'saving' is insignificant

Diagram 14
Expenditure on Basic Function Payments – Proportion of Selective Payments and Percentage of GDP, 1985-2014



17 General disability and work disability benefits are not included in this cluster but in the selective benefits presented later (general disability) and wage-substitute benefits (disability from work and injury benefit). As stated, the mobility allowance is not paid by virtue of the National Insurance Act but is fully funded by the government.

Diagram 15
Expenditure on Basic Function Benefits (percentage of GDP), 1985-2014



in terms of the NII budget, and its effect on the State budget is extremely marginal (through the deposit of NII surpluses). So this damage is unnecessary and inefficient.

The arguments about insurance damage are also true for another classical functional benefit, the special service allowance, which is also subject to a means test. And it is actually the mobility allowance, which is also in essence a functional allowance and as such suitable to be insurance-based, that is funded by the State Treasury (Section 9 and agreements), so that it is outside social insurance. Nevertheless it is paid without a means test, as one might expect for an insurance-based benefit.

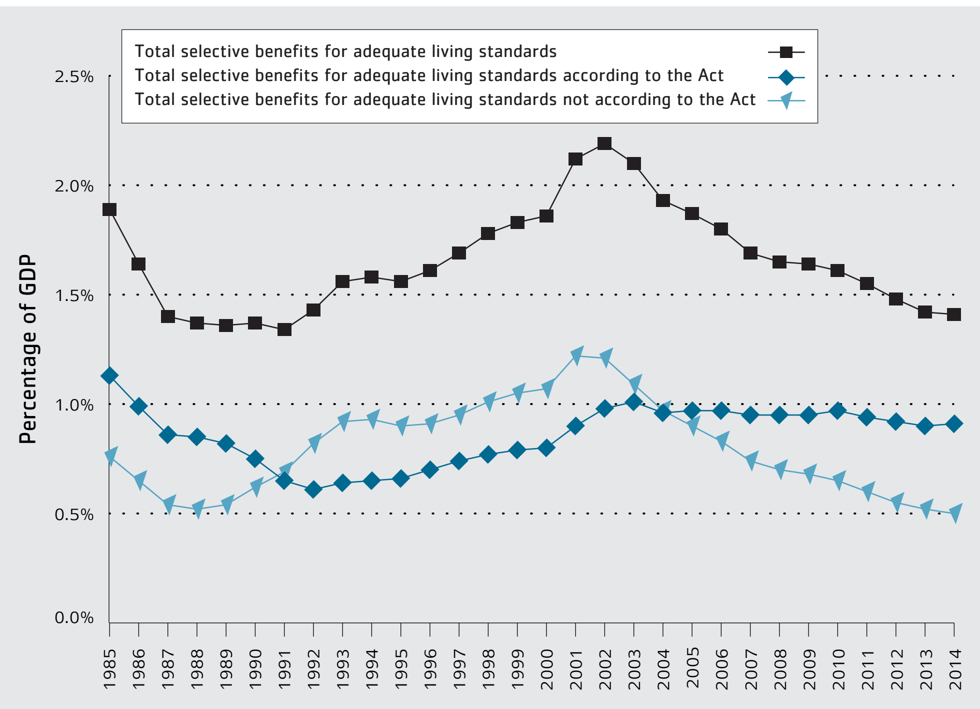
E. Selective benefits to insure adecent standard ofliving (objectives 2 and 7)

These benefits provide a solution to existence below a decent standard of living, once an individual or his family have exhausted their eligibility for other benefits. They promise a last chance for adequate conditions, even for those who are not insured. If eligibility was defined in terms of severe **damage** to the family's income, with the emphasis on acute change, it would also be possible to pay this benefit to insured persons whose standard of living had fallen significantly from the level to which they had been accustomed over a long period before the blow. In such cases the benefit would be a solution not only to poverty but also to severe deterioration in living standards. Without such cases we are dealing with subsistence benefits –income support and income supplement at working ages and income supplement in old age – and then this group is less suited to social security, since payment of the allowance in fact constitutes a redistribution of income. That is a classic government role: only it has a monopoly that enables it and the legislature to impose taxes for the purpose of granting minimal income. In this case the NII is the government's **emissary**.

The **General Disability Benefit** is an exception that cannot easily be fitted into the other clusters: wage-substitute benefits are not relevant, since eligibility also extends to people who have never worked. Universal benefits are also irrelevant, since the disability benefit is a classic case where use of a means test as a condition of eligibility is justified. Also the benefit cannot berecognized as an allowance to improve functioning, since the disabled are eligible for function allowances such as special services and mobility. The barriers to finding work are certainly greater for people with disabilities. The general disability benefit, being subject to a test of earning power, is in fact aselective insurance-based benefit. Unlike other benefits of this kind, it is logical to include it in social insurance and but to leave the earning power test in place.

After a few years of increases in the scope of general disability payments as a proportion of GDP, in the 2000s the ratio stabilized and has even fallen slightly over the last three years. The non-insurance-based selective benefits – mainly income support and income

Diagram 16
Expenditure on Selective Benefits for Proper
Living Standards (Percentage of GDP), 1985-2014

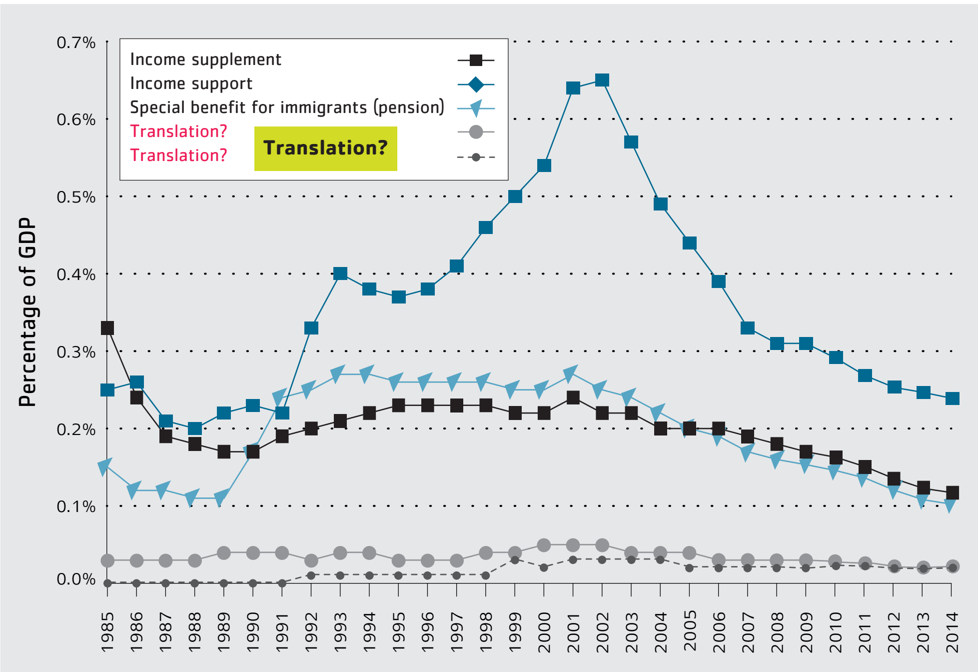


supplement – have declined over the years in terms of their proportion of GDP, although in most of these years poverty rates were high and in some years even rose. The absence of this coefficient derives inter alia from the ongoing erosion of subsistence benefits, particularly for those of working age, and have thus fallen far short of what is required for decent living standards (Diagrams 4 and 15). The decline in selective benefits could also be due to the difficulty of qualifying for the allowance because of means tests and the stigma attached to these benefits[18].

A common argument concerning selective working-age benefits is that they reduce the incentive to work, and largely for that reason the government tightened the criteria for eligibility in 2002-2004. The stricter criteria have remained in place, in spite of the increase in the extent of poverty in the period 2002-2011.

Objective 7 focuses on limiting the unavoidable distortions created by benefits on the incentive to work (mainly income support and general disability) or to save (old age pensions). To some extent this objective contradicts the others and is not a goal in itself; it should be among the goals of the Ministry of the Economy and the Finance Ministry as they strive to achieve a high rate of employment, greater work productivity

Diagram 17
Expenditure on Selective Benefits not in the National Insurance Act (Percentage of GDP), 1985-2014



18 So far no study confirming this claim has been published. The NII's Research& Planning Administration is currently working on a study about income support allowance in one year (2013).

and higher pay. A high rate of employment is also an important goal for social security, since it ensures a high standard of living and proper level of funding through collection of insurance payments from employed people. Therefore this objective is formulated here in terms of restraining rather than preventing damage to the incentive to work, since the NIIshould above all ensure a living minimum in the context of subsistence benefits. Some impact on the incentive to work is almost unavoidable, since there will certainly be people who delay returning to work – most recipients of income support apparently have difficulty finding work, due to low demand for their skills or various individual barriers. Dealing with employment problems requires additional tools apart from manipulating the benefit size, such as vocational training or employment subsidies. These tools can help supplement the benefit level, to provide a suitable standard of living.

It is sometimes argued that the basic old age pension should not be so high that it works as a negative incentive to save. It seems that this phenomenon exists only at higher levels of the benefit. The universal old age pension is a central tool for promoting equality in old age, since pension income is not distributed equally in the population and many people lack suitable pension cover. This is of course the case for people who never fully managed to integrate into work during their working years. This problem is more severe among people with little education and few work skills. Although there has been a mandatory pension law since 2008, many people have still not accumulated pension rights and the law is not yet fully enforced. For these reasons, an old age pension based on insurance irrespective of employment history is an essential layer of social security[19].

Objective 6 deals with maintaining inter-generational justice: aiming for a situation of financial stability which does not come at the expense of the social stability for future generations (see Section 5 above, on future challenges for the NII).

The problem of financial stability is first and foremost the outcome of demographic development, which according to NII forecasts is expressed by an increase in the proportion of the population eligible for old age pensions and long-term care allowances. This problem is expected to be more moderate in Israel than in other developed countries, as Israel has a relatively high birth rate. Therefore the issue of financial stability is closely linked to success in increasing the employment rate among young people, Arab women and Haredi men. The Research & Planning Administration (see Chapter 1 in the NII Annual Report 2013) expects to see an upward process, albeit slow, of the latter two groups, but this is not enough, since financial stability is also affected by wages: the higher the wages, the greater the stability, since contributions from wages constitute the foundation of NII revenues.

19 In this context there is some discrimination against women, particularly housewives, since their insurance is less than for women who worked. A man is fully insured even if he never worked, as he is defined as owing the minimum insurance payment and is insured even if he owes payments to the NII. The status of housewife should therefore be eliminated and these women should have the right to full old-age insurance.

Another aspect of financial stability is amending the historical anomaly of recording hospital payments (**hospitalization grant**), mainly for births and premature infants, as national insurance benefits. Rectifying this would increase financial stability and by means of the difference in receipts, the retirement and pension eligibilityages should be reduced.The rise in women's retirement age from 62-64 has already been legislated, and is expected to be gradually implemented by 2017. The supplement necessary to raise the retirement age in order to reach actuarial balance is not large.

In recent years thetensionbetween the ongoing rise in the State budget deficit and the shrinking surplus in the NII budgethas become more acute. The tension actually began with the establishment of the NII: at first, the insurance contributions were larger than necessary to pay benefits and pensions, since eligibility for some of them was postponed to allow the accumulation of assets and to complete legal qualifying periods. The growing reserves of the NII came face to face with the young State's need for huge financial resources to set up infrastructure in areas such as defense, transportation, education and health. So right from the start the NII, as historical representative of insurees, and the government agreed that the reserve would be invested as a **constructive investment**, that is, spent on developing economic and social infrastructure. Non-negotiable bonds were issued to the NII, some at 5.5% interest, and from a certain stage, at market interest rates. In the past, the 5.5% interest did not necessarily include a subsidy, since the yield on investment in infrastructure was higher than this rate. The capital market began to develop only after the reduction in inflation, from the second half of the 1980s. Instead of earmarking the NII deposits for constructive investments, that is, for its development budget as required by law, the borrower – the government of Israel – deposited the money in its current budget, contrary to the spirit of the agreement.

Recording the investments in the current account is improper in terms of the principles of debt management and bookkeeping in general, and ultimately harms the asset owner – the insured public: instead of accumulating capital and receiving a yield, the asset was being used for the government's current expenses and was therefore never available for its original purpose – to secure social security for future generations. However, it is clear that the Israeli economy is capable of repaying its debt to insurees based on the existing repayment schedule, should it decide to do so, because its basic strength permits the government to raise taxes whenever necessary without causing great harm, thereby reducing the deficit. In any event, the **government budget**'s stability has improved particularly since the discovery of gas fields, a natural resource that will bring the country considerable revenue. But governments, particularly those standing for privatization and low tax rates, are not usually prepared to raise taxes, and in the fact the reverse – they see tax reduction as an important task. This creates a forlorn situation for the asset owners, the NII'sinsurees: the resources are not available for their use, but the government does not raise taxes in order to correct this distortion.

The outcome is a situation in which the State is the NII's only borrower, sees the NII as part of the government system, and therefore allows itself the freedom to change repayment of the debt as it deems convenient. This can be seen in the report of the Inter-Ministerial Committee, whose members included the director general of the NII and representatives from the Bank of Israel, the Prime Minister's Office and the academic world, but no representation from the NII's professional team (**the Financial Stability Committee**[20], the Dominisini-Nissan Committee). The Committee recommended converting fund and interest repayments into an increase of the NII allocation in section 21 of the Act over the next 40 years. Such a process would in fact amount to rescheduling of the debt, a unilateral change in repayment terms by the borrower making it more convenient. Global rating companies such as Standard and Poor's or Fitch generally see similar situations as a kind of bankruptcy of the borrower. The collapse of Greece was linked, inter alia, to a lack of transparency in the government's public debt, since it failed to include the whole of the pension debt.Because the State of Israel does not record its commitment to NIIinsurees as a public debt, even if it is careful each year to pay the NII accurately and on time, some could regard the possible stoppage of payments to the NII as a breach of State debt payments to the general public (NIIinsurees), similar to the Greek case.

A possible cancellation of the repayment schedule means denying the debt to the insured and rolling the Government's deficit to the door of the NII: such a step would lead immediately to a deficit in the NII's current budget – about NIS 8 billion (interest) and of course another NIS 10 billion of debt repayment, particularly if the policy makers do not activate a plan to improve the necessary financialstability. Instead of callingthe government - the real budget deviant – to order, such a step could lead to unjustified pressure on the social security system. In order to avoid this possibility, the government must explicitly recognize its debt to insurees, first of all by including it in the disclosure of public debt by the Bank of Israel. At present this debt is not included in reporting official public debt. As a material step, the government should prepare to honor this debt through fiscal steps of increasing taxes (or reducing expenditure). At the same time, policy makers must act astutely to rehabilitate the NII's financial stability[21]. Clearly the NII has no right, either moral or practical, to waive full repayment of the government's debt to its insured as defined in the existing debt repayment schedule.

The Financial Stability Committee's idea to link repayment of the debt in Section 32 of the National Insurance Act is problematic, since this section expresses the current

20 See the conclusions of this committee that examined ways of maintaining the long term financial stability of the NII, April 2012, particularly section 5.5: increasing participation of the State budget in order to transfer the value of the current Surplus Fund (p. 124-130) and critical discussion of proposals in the 2013 NII Report (Chapter 1, p. 55-62): https://www.btl.gov.il/Publications/more_publications/Documents/Finance.pdf.

21 This is a central macro-economic and macro-social debt, since the NII has publically announced the existence of an actuarial deficit. See: https://www.btl.gov.il/Publications/aktuaria/Documents/2010Triennial%20Report.pdf. The idea

participation of the government budget (i.e. the taxpayer) in the social security system. While it is legitimate to express the distress of the (government's) budget in Section 32 according to the situation of the State budget, it is not legitimate to do so in connection with the obligation to repay a debt in the time stated on the promissory note. This obligation must not be dependent on the State'sshifting financial situation.It goes without saying that the NII requires the reserve as collateral particularly at a time when it is preparing a recovery program to improve financial stability while taking account of social strength. The participation plays a central role in supplementing social security, since the insured part must be based on principles of financial stability, and therefore any addition to social security that is not backed by insurance contributions must be funded from the State budget.

Objective 8 deals with the attempt to limit insurance risk situations by influencing the conduct of insurees. The tools for achieving this can be various incentives, for example, a reduction of NII contributions to employers who take action to reduce work accidents, encouraging sports activity in order to improve health and reduce the need for disability benefits, and so on.

6. FutureChallenges of the National Insurance Institute:

The NII faces several challenges for the future:

1. **Improvementof existing benefit levels:** particularly for families with children, while taking measured account of the possible negative effect on incentive to work, with an attempt to co-ordinate the effects of changes in benefits and the effects of other policy tools, particularly the work grant and benefits in kind.
2. **Improvement of the NII's financial stability:** in the coming decade – the time required to develop a deficit in the NII if no steps are taken to prevent it. This must be done while retaining social security's achievements thus far, and by the government honoring its debt to the insured public according to the original repayment schedule. This goal can be achieved through a number of steps:
   - **Transfer of payments that are not benefits** (for example hospitalization grant **to the State budget:** it is particularly desirable for the Government to participate only in its traditional roles – redistribution of resources (for example by funding the subsidy of NII contributions) and funding improvements in insurance benefits to those who are already unable to pay for them, such as improvement in the old age pension for people beyond working age.
   - **Further efforts by the government to increase employment rates of population groups with low employment:** this can be done by paying fair wages according to the rules of the Minimum Wage Act for the weakest working group, while retaining relatively reasonable wages for those with better skills. This process should reduce poverty rates and increase income tax revenues.

- **Moving the retirement age, the eligibility age, and the age of the oldest old:** according to two principles: (1) retaining the gender achievement, in other words enabling insurees to receivethe pension for several years, based on the rates in Table 2; (2) raising the age of retirement, eligibility and the age of the oldest old to the maximum extent only for the young who have not yet paid insurance contributions.
- When setting the effective age for adults, insurance contributions already paid will be taken into account. For example, for a managed 60 who has already paid 86% of his potential contributions, the effective age will increase by only 14% of the maximum increase.

Table 2
Number of Years of Benefit Payments as a Percentage of Life Expectancy at Birth, by Sex

	Women		Men	
	2015	**2017+**	**2015**	**2017+**
Conditional age (retirement age)	62	64	67	67
Age of eligibility	70	70	70	70
Heroic age	80	80	80	80
Life expectancy	84	84	80	80
Pension payments as a percentage of life expectancy				
Conditional age (retirement age)	26%	24%	16%	16%
Age of eligibility	17%	17%	13%	13%
Heroic age	55	5%	0%	0%

3. **After improving financial stability – strengthening the insurance component in the National Insurance Act:**
   - There must be strict protection of the rights to insurance-based benefits that will be a function of contributions already paid as a proportion of all potential contributions paid during working age. This protection must also be extended to benefits that substitute for wages, universal benefits and functional benefits.
   - It is necessary to abolish the means tests that have become rooted in what should be insurance-based benefits (benefits enshrined in the National Insurance Act). In this report we have called them benefits with a "selective-budgetary" character.
   - The mobility allowance should be defined as part of the functional-insurance benefits that have the clear insurance character of ensuring suitable function and not benefits operated by virtue of an agreement with the Treasury.
4. **Greater take-up of rights for the main benefits:** particularly the selective ones.
5. **Assistance to the government in the fight against poverty**, although this is clearly hard to achieve only by increasing benefits. There is a need to increase subsistence benefits in order to relieve the severity of poverty, but they cannot eliminate it. For

this purpose it is necessary to raise the income support benefit for working age recipientsto a reasonable level - particularly for large families,.

7. Scope of Payments

Payments of NII benefits in money and kind – both those based on contributions and non-contributory ones – amounted to NIS 71.56 billion in 2014, compared to NIS 69.32 billion in 2013.These amounts also include other payments made by the NII particularly to government ministries, for the costs of developing services in the community, as well as the administrative and operating costs of the wide-ranging national insurance system (totaling about NIS 1.5 billion).

The real growth in total national insurance payments was 2.7% in 2014, deriving mainly from the rise in the number of recipients for all types of benefits, at various rates. The number of employed people working in the labor market, which rose at a rate of 3.0% in 2014, and the real increase in wages of about 1.3%, also contributed to the growth in payments, while legislative changes in 2014, particularly the cut in child allowances (see below), partly offset these increases. In January 2014 benefits were updated by 1.9% in line with the rise in theindex between November 2012 and November 2013.

Table 3
Benefit Payments and Collection from the Public (excluding Administrative Costs) as a Percentage of GDP, 1980-2014*

	Benefit Payments		Collection	
Year	Total	Collection-based	Total**	NI contributions***
1980	6.09	4.98	6.77	5.15
1985	7.14	5.51	6.57	4.45
1990	8.36	7.04	7.21	5.28
1995	7.23	5.66	7.54	4.21
2000	7.65	6.09	6.00	4.08
2005	7.02	5.63	6.00	4.03
2006	6.87	5.53	5.80	3.75
2007	6.67	5.42	5.76	3.66
2008	6.73	5.51	5.86	3.64
2009	7.06	5.82	5.64	3.48
2010	6.65	5.93	5.46	3.60
2011	6.63	5.92	5.53	3.65
2012	6.60	5.58	5.32	3.49
2013	6.47	5.50	5.63	3.72
2014	6.44	5.47	5.70	3.71

* General note on data as a percentage of GDP in the whole report: there may be differences compared with previous years due to retroactive changes in definitions of GDP measurement to bring it in line with OECD definitions when Israel joined the OECD.

** Includes collection for the health system.

*** Includes Finance Ministry indemnity for the reduction in employers' national insurance contributions.

Despite this, in terms of percentage of GDP, there was a **decrease** of 0.03% (Table 3). In GDP terms, the benefit rate has fallen steadily in recent years from about 7% in 2099 to 6.44% in 2014, returning to the level in 2007-2008 from a high of 8.7% in 2002.

In 2014, collection as a percentage of GDP remained at the 2013 level – 5.7%, and the collection rate of insurance contributions remained at the 2013 level of 3.7%.

In total, the 2014 payments for collection-based benefits prescribed by the National Insurance Act rose by 2.7% in real terms. Payments for non-contribution-based benefits – paid by virtue of laws or agreements with the Treasury and fully funded by the State (such as income support, mobility, child support, old age and survivors' pensions for the non-insured [mainly new immigrants] and reserve duty payments) – rose at a similar rate of 2.6%. In 2014 these payments, including administrative costs, totaled NIS 10.5 billion, which constitutes about 15% of all benefit payments.

Analysis of the main trends in benefit payments by insurance branch shows that payments of old age and survivors' pensions rose by 5.4% in 2014[22], after a rise of 3.2% in 2013 and higher increases in 2009 and 2010 (Table 4). In 2008-2011 these pension payments increased largely due to changes in legislation: in April 2008, the basic old age and survivors' pensions were increased from 16.2% to 16.5% of the basic amount[23], and those aged 80 and over received a special supplement at the rate of 1% of it. In August 2009, under the Economic Efficiency Act, old age and survivors' pensions were raised again, from 16.5% to 17% of the basic amount. In January 2010 they were increased to 17.35%, as part of the process at the end of which, in January 2011, the basic pension was increased to 17.7% of the basic amount. The gradual and ongoing increase in old age pensions, from 16.2% to 17.7% of the basic amount, was accompanied by a process in which income supplementswere increased according to the age of eligible individuals. The effects of the legislative changes described were exhausted in 2011, and as stated, even the annual update of the pensions did not produce a real increase. Therefore the rise in pension payments in 2014 is explained solely by the increase in recipients.

Child allowance payments fell in real terms by 23% from 2012 to 2013, after a drop of 13% in 2013. In July 2013, in the framework of the Economic Efficiency Act, a decision was taken for a steep, immediate cut in allowances for all children, so apart from the allowance for older children (born before 1.6.2003) who are the third or later child in their family, the allowance for every child was set at a uniform NIS 140 per month. Since this change only came into force in August 2013, the drop in 2013 was only partial, and further results of this move are expressed in the figures for 2014.

chapters reviewing benefits, since the data on which this chapter is based include administrative costs and may also include other smaller components added to the payments total, such as the education grant added to child allowances.

23 **The basic amount** is the amount by which most pensions have been calculated since 2006. The amount is updated on January 1 each year according to the rise in the consumer price index over the preceding year. The basic amount has various tariffs for the purpose of updating the various benefits. In 2014 the basic amount for most benefits was NIS 8,648.

Table 4
National Insurance Benefit Payments (including Administrative Costs), 1995-2014

Year	Total payments	Old age & survivors**	General disability	Work injuries, border & hostile actions	Maternity	Child	Unemployment	Reserve duty	Income support***	Nursing & other
					NIS millions (current prices)					
1995	21,188*	7,675	2,254	1,487	1,206	4,287	1,280	*1,053	1,149	798
2000	39,706	13,670	5,128	2,569	2,423	7,000	3,023	1,039	2,957	1,897
2005	43,305	16,457	7,792	3,192	2,857	4,548	2,044	713	2,859	2,842
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
2014	71,564	27,519	13,964	5,238	6,586	4,986	3,361	1,390	2,747	5,771
					Real annual growth (percentages)					
1995	10.1	8.6	16.1	14.6	20.8	4.5	16.2	2.9	13.7	13.5
2000	8.1	8.4	14.8	11.4	10.8	1.5	-0.9	-7.4	18.1	18.2
2005	-0.1	1.3	4.6	0.2	3.4	-8.1	-6.9	-0.6	-6.0	2.5
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
2014	2.7	5.4	5.8	5.1	6.3	-23.2	2.9	22.1	0.2	4.5
					Breakdown by branches (percentages)					
1995	100.0	36.2	10.6	7.0	5.7	20.2	6.0	5.0	5.4	3.8
2000	100.0	34.4	12.9	6.5	6.1	17.6	7.6	2.6	7.4	4.8
2005	100.0	38.0	18.0	7.4	6.6	10.5	4.7	1.6	6.6	6.6
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
2014	100.0	38.5	19.5	7.3	9.2	7.0	4.7	1.9	3.8	8.1

* The figures for 1995 do not include the amounts transferred to the Ministry of Defense as a repayment of the debt for savings in the number of reserve duty days.
** Includes income supplement payments.
*** For working age population.

Unemployment benefit payments rose by about 3% in 2013 (after a steep rise of 10% in 2012). This increase is mainly due to the large increase in the number of recipients, and to legislative changes in March 2013, when the criteria for eligibility and the use of pay to calculate benefits for unemployed day workers were aligned with those of unemployed monthly workers – a step that increased the proportion of daily workers in the total of recipients of the benefit. Other wage-substitute benefits – maternity and work injuries – that are affected bylabor marketdevelopment, also recorded fairly high increases of 5%-6%. The increase in the maternity grant was a continuation of the rise in the number of eligible women and in the average maternity payment in recent years, following on the rise in the rate of employment and wages of working women over time.

Payments for long-term nursing care also increased substantially, by 5% in 2014, mainly due to the increase in the number of eligible individuals in general, and of those eligible for the higher benefit in particular. Disability benefits rose in real terms by 5.8% in 2014, a higher increase than the 3.3% rise recorded in 2013, which was mainly due to the rise in the number of recipients.

Income support payments for working age recipients rose by 0.2% after a rise of 2% in 2013 and following three years of various decreases in these payments. The increase in the last two years is due to a number of factors: legislative changes (relating to expanding the number of recipients with cars), a slight rise in recipient numbers and the rise in average benefit levels.

The scope of payments to reservists on active duty grew in 2011-2012, but fell in 2013. In 2014 payments rose again by 22% in real terms, due to the Protective Edge Campaign, and total payments amounted to about NIS 1.4 billion.

The share of most benefits in the total payment rose in 2014, at the expense of child allowances (Table 4). Payments in the largest branch, old-age and survivors, accounted for 38.5% of total payments in 2014, a rise of 1% compared to 2013, in view of the pension increase that was higher than the average rise in all benefits. Payments for general disability accounted for 19.5% of all benefits in 2014 – an increase of 0.5% compared to the previous year. As expected, the share of the third largest branch, child benefits, fell by 2.3% and now accounts for 7% of all payments – lower than the share of benefit payments for work injuries, maternity and nursing care. Unemployment benefits remained at 2013 levels – 4.7% of all payments. There was a halt to the downward trend in recent years in the share of income support payments, and it remained at 3.8% of total payments, as in the previous year – less than its share in 2002, when it accounted for 8% of all payments.

8. Benefit Levels

In January 2014, benefits were updated at the rate of the increase in the CPI for the period from November 2012 to November 2013, a rate of 1.9%. This rate updates the **basic amount**[24], according to which most benefits have been calculated since January

24 See note 23.

2006, following the Economy Recovery Program Act in June 2003. Before that, benefits were updated according to rises in the average wage. In 2014 the average wage rose at a similar rate to prices, so that the increase in benefits was similar to that of the average wage. However, since 2002, the average wage has increased at a cumulative rate that is slightly **lower** than the rise in the CPI over the same period. This trend, whereby the average wage has stopped growing at higher rates than prices over time, in fact cancels out the erosion in benefits that was expected based on past experience, following the change to updates based on the CPI instead of the average wage.

In 2014 old-age pensions rose following completion in 2011 of the process of increasing the basic individual pension, as prescribed in the Economic Efficiency Act of 2009. The pension reached 17.7% of the basic amount for single pensioners up to the age of 80. In the same way, the pension for the 80+ age group was also slightly increased, maintaining the gap of 1% of the basic amount in favor of the older pensioners, and the allowances for other family compositions, including old-age and survivors' pensions including income support, were also increased accordingly (Table 5).

Stopping the plan of raising the old age-pension and the real increase in the average wage left their mark in a drop in the pension level in terms of the average wage in 2013 compared to 2012, and its stabilization in 2014 (Table 10): in both the first age groups (up to 70 and up to 79) the pension fell from 16.9% of the average wage in 2012 to 16.7% in 2014, and for the 80+ age group it fell from 17.9% to 17.7%. It should be noted that pensions as a percentage of the average wage, as shown in Table 10, are lower than as a percentage of the basic amount (in percentage points), because the absolute level of the basic amount is lower than that of the basic wage.

The level of income support in its various definitions is shown in Table 6. The minimum assured income for the working-age population as a percentage of the average wage has also eroded compared to 2012, due to the real increase in the average wage (compared to the rate of updating the basic amount and pensions, which remained without real change). For example, the benefit for single mothers[25] up to age 55 with two children was 39% of the average wage in 2014 (compared to 42.9% in 2012 and 41.0% in 2013). The benefit is also far less than its 2000 level, just before the deep cut in income support benefits in the framework of the 2002-2003 economic plan, when it was 51.6% of the average wage. The benefit for a single person aged under 55 was 18.9% of the average wage in 2014, compared to the higher rate of 23.6% for those aged 55 and over. These rates are similar to and even slightly higher than the rates prior to the aforesaid cut in the early 2000s.

The deep cut in child allowances that began in August 2013 (and was fully achieved in 2014)is expressed in the value of child allowance points (Table 7). In each of the last few

25 Includes single fathers.

Table 5
Old Age and Survivors' Pensions and Minimum Assured Income for the Aged and Survivors (Fixed Prices and as a Percentage of the Average Wage*), Monthly Average, 1975-2014

Year	Age	Basic Old Age and Survivors' Pension				Minimum Assured Income (including Child Allowance)			
		Single old person				Single old person		Widow/er with two children	
		2014 prices (NIS)	% of average wage	2013 prices (NIS)	% of average wage	2014 prices (NIS)	% of average wage	2013 prices (NIS)	% of average wage
1975		762	14.9	1,267	24.8	1,306	25.5	2,537	49.6
1980		840	17.1	1,628	33.1	1,474	30.0	2,988	60.9
1985		947	18.2	1,835	35.3	1,889	36.4	3,791	73.0
1990		1,192	16.4	2,308	31.7	1,873	25.7	3,795	52.1
1995		1,207	15.5	2,340	30.1	2,021	26.0	4,465	57.3
2000		1,348	15.0	2,612	29.0	2,253	25.0	4,958	55.0
2005		1,374	15.2	2,663	30.2	2,440	27.6	5,100	57.8
2010	Up to 70**	1,485	16.8	2,872	32.4	2,739	30.9	5,604	63.6
	70-79	1,485	16.8			2,811	31.8		
	80+	1,570	17.8			2,940	33.2		
2011	Up to 70	1,498	16.9	2,903	32.7	2,744	30.9	5,689	64.0
	70-79	1,498	16.9			2,825	31.8		
	80+	1,583	16.9			2,953	33.2		
2012	Up to 70	1,511	16.9	2,929	32.7	2,769	30.9	5,753	64.2
	70-79	1,511	16.9			2,850	31.8		
	80+	1,596	17.9			2,979	33.2		
2013	Up to 70	1,509	16.7	2,924	32.4	2,765	30.6	5,691	63.0
	70-79	1,509	16.7			2,846	31.5		
	80+	1,594	17.7			2,975	32.9		
2014	Up to 70	1,531	16.7	2,964	32.4	2,803	30.6	5,701	62.2
	70-79	1,531	16.7			2,887	31.5		
	80+	1,617	17.7			3,016	32.9		

* As measured by the Central Bureau of Statistics
** Since 2008 the pension levels have been split by age.

years (since 2009) each pension point was worth 2%, and fell to 1.5% of the average wage in 2014, with a similar decrease for each type of family. For example, in families with four children, the allowance paid for children fell from 11.4% of the average wage to 6% of it. The percentage decreases in child allowance change for different types of family, and also differ for 'older' and 'new' children (born after June 2003). For example, in families receiving the allowance for two children, whether 'older' or 'new', the allowance fell in real terms by about 29% from 2013 to 2014. In families with four children, the real drop was higher if the children were all 'new' (27%) compared to a family where all children were 'older' (18%). The drop in child allowances in 2014 completely offset the rises recorded in recent years following the plan to raise child allowances. These gaps increase with the number of children in the family.

9. Recipients of Benefits

The number of recipients of **old-age and survivors' pensions** rose by 4.1% in 2014 (Table 8). The NII paid pensions to 868,300 old people and survivors on average each month. This represents an increase of 4.8% in the number of old-age pension recipients, which

Table 6
Minimum Assured Income for Working Age Population (Fixed Prices NIS and % of the Average Wage*), Monthly Average, 2000-2014

	Single person				Single mother* with 2 children		Couple with 2 children (including Child Allowance)			
	Normal rate		Increased rate		(Including Child Allowance)		Normal rate		Increased rate	
Year	2014 prices (NIS)	% of average wage	2014 prices (NIS)	% of average wage	2014 prices (NIS)	% of average wage	2014 prices (NIS)	% of average wage	2014 prices (NIS)	% of average wage
	The oldest person in the family is under 55 years of age									
2000	1684	18.7	2,106	23.4	4,649	51.6	3,992	44.3	4,624	51.3
2005	1,634	18.5	1,839	20.8	3,480	39.4	3,031	34.4	3,480	39.4
2006	1,644	18.4	1,850	20.7	3,559	39.8	3,108	34.8	3,559	39.8
2007	1,635	18.0	1,840	20.3	3,542	39.0	3,093	34.0	3,542	39.0
2008	1,674	18.6	1,884	20.9	3,611	40.0	3,151	34.9	3,611	40.0
2009	1,694	19.3	1,906	21.7	3,653	41.6	3,188	36.3	3,653	41.6
2010	1,712	19.3	1,926	21.8	3,708	41.9	3,238	36.6	3,708	41.9
2011	1,693	19.1	1,905	21.4	3,723	41.9	3,258	36.7	3,723	41.9
2012	1,708	19.1	1,921	21.4	3,768	42.1	3,298	36.8	3,768	42.1
2013	1,705	18.9	1,919	21.3	3,700	41.0	3,231	35.8	3,700	41.0
2014	1,730	18.9	1,946	21,2	3,653	39.9	3,177	34.7	3,653	39.9
	At least one member of the family is aged 55 or older									
2000	2,106	23.4	2,106	23.4	4,650	51.6	4,625	51.3	4,625	51.3
2005	2,043	23.1	2,043	23.1	4,383	49.7	4,338	49.2	4,338	49.2
2006	2,054	23.0	2,054	23.0	4,500	50.3	4,422	49.5	4,422	49.5
2007	2,044	22.5	2,044	22.5	4,478	49.3	4,400	48.4	4,400	48.4
2008	2,093	23.2	2,093	23.2	4,569	50.6	4,490	49.8	4,490	49.8
2009	2,117	24.1	2,117	24.1	4,622	52.6	4,543	51.7	4,543	51.7
2010	2,140	24.2	2,140	24.2	4,687	53.0	4,607	52.1	4,607	52.1
2011	2,117	23.8	2,117	23.8	4,690	52.8	4,611	51.9	4,611	51.9
2012	2,135	23.8	2,135	23.8	4,744	53.0	4,664	52.1	4,664	52.1
2013	2,132	23.6	2,132	23.6	4,690	51.9	4,595	50.9	4,595	50.9
2014	2,162	23.6	2,162	23.6	4,680	51.1	4,561	49.8	4,561	49.8

* As measured by the Central Bureau of Statistics
** Refers also to single fathers

Table 7
Pension Points and Child Allowance (Fixed Prices and as Percentage of Average Wage), Monthly Average, 1990-2014

Year	Value of pension point		Allowance for two children		Allowance for four children		Allowance for five children	
	2014 prices (NIS)	% of average wage	2014 prices (NIS)	% of average wage	2014 prices (NIS)	% of average wage	2014 prices (NIS)	% of average wage
1990	230	3.2	460	6.3	1,780	24.4	2,525	34.7
1995	222	2.9	445	5.8	1,788	23.0	2,543	32.7
2000	227	2.5	454	5.0	1,827	20.3	2,600	28.8
2005	147	1.7	293	3.3	924	10.5	1,414	16.0
2006	177	2.0	354	4.0	961	10.8	1,355	15.2
2007	176	1.9	353	3.9	956	10.5	1,348	14.8
2008	173	1.9	346	3.8	937	10.4	1,321	14.6
2009	175	2.0	351	4.0	1,034	11.8	1,424	16.2
2010 older	177	2.0	370	4.2	1,136	12.8	1,529	17.3
new	177	2.0	370	4.2	848	10.1	1,025	12.1
2011 older	175	2.0	422	4.8	1,179	13.3	1,569	17.7
new	175	2.0	422	4.8	936	10.6	1,111	12.6
2012 older	176	2.0	439	4.9	1,194	13.3	1,586	17.6
new	176	2.0	438	4.9	961	10.7	1,137	12.7
2013 older	161	1.8	374	4.2	1,046	11.4	1,422	15.6
new	161	1.8	374	4.2	800	9.0	961	10.8
2014 older		1.5		3.1		8.6	1,142	12.5
new	140	1.5	280	3.1	560	6.1	700	7.6

was offset by the drop of 1.1% in recipients of survivors' pension. In the **children** branch, as in previous years, the number of families receiving child allowances increased by 1.8% due to natural population increase. In 2014, child allowances were paid for about 2.5 million children living in about 1.1 million families.

Between 2013 and 2014 the number of recipients of the **unemployment benefit** rose steeply by 0.6%, after a sharpincrease of 11.6% from 2012 to 2013. The rise in the number of recipients in 2013 and 2014 was due, inter alia to the growth in the number of people employed and to legislative changes affecting daily workers, since the rate of unemployment fell (from 6.2% in 2013 to 5.7% in 2014 according to the CBS data). At the same time, there was an improvement in the cover of unemployment insurance.

The sharp increase in the number of recipients in the last two years comes against a background of a fall in the number of recipients in previous years: From 2003 to 2008 the number fell steadily due to the state of the economy and changes in eligibility criteria. Following the economic crisis and the rise in unemployment that began at the end of 2008, an Emergency Regulation was introduced in 2009 to help the unemployed who were not entitled to the unemployment benefit under the National Insurance Act by

Table 8
Recipients of Benefits in the Main Branches of Insurance (Monthly Average), 1990-2014

Year	Old age & survivors*	General Disability				Work Injury		Maternity		Children	Unemployment pay	Income support (working age)****	Nursing Care
		General disability	Special services	Disabled child	Mobility allowance	Injury grant**	Permanent disability	Maternity grant*	Maternity allowance*	Families receiving child allowance***			
Number of Recipients (thousands)													
1990	442.6	73.5	6.5	5.8	11.4	59.1	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	59.5	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	56.0	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	58.1	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	57.5	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	59.3	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	59.4	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	61.4	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	64.2	37.4	169.7	114.4	1088.3	69.6	104.4	156.5
2014	868.3	222.6	46.2	40.5	36.6	66.5	39.3	173.2	120.4	1,107.5	70.0	103.0	159.5
Annual Growth (Percentage)													
1990-1986	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
1995-1991	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
2000-1996	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	3.8	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	-1.0	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	3.1	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	0.2	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	3.4	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	4.6	4.9	0.3	2.1	1.9	11.6	0.6	2.4
2014	4.1	0.0	13.0	12.5	3.7	3.6	5.1	2.1	5.2	1.8	0.6	-1.3	1.9

* Since 2010, recipients of old age and survivors' pensions who received separate pensions have been counted as one unit.
** Number of various recipients during the year
*** The 1985 and 1990 data include families whose benefits for the 1st and 2nd child were paid through their employer. In 1993 the allowance became universal again.
**** From 2004 a pension split between several recipients is credited to one only. The monthly average including all recipients of a split benefit was 145,600 in 2014.

paying them special allowances. As a result many temporary recipients were added to the numbers which increased by over 50%. This steep rise was partly offset in 2010 when the Emergency Regulation expired and the number of recipients fell by 21%, with a further moderate decrease in 2011.

In the second largest branch, **General Disability**, there was no change in the number of recipients. Since the 1990s the average number of recipients each year has increased by 3%-8%. The other benefits derived from the General Disability benefit continued to rise at a similar rate to previous years. The number of recipients of the special services allowance rose by 13% (compared to 8% in 2013), mobility allowance recipients by 3.7%, and child disability allowance by 12.5%, similar to the rise in 2013, mainly due to broadening the grounds for eligibility to this benefit.

In the **work injury** branch, which is generally influenced by rates of employment (which rose in 2014), the number of recipients of the injury benefit rose by 3.6% and recipients of permanent disability benefits rose by 5.1% - similar to the annual rate in each year of the last decade. The number of recipients of the **long term-care benefit** rose moderately compared to recent years – by 1.9%. In the **maternity branch**, the number of recipients of maternity grant rose fairly moderately by 2.1%, while the number receiving maternity benefits rose by 5.2% after a more measured rise of 2% the previous year.

In 2014 the number of working age recipients of **income support** fell slightly by 1.3%, after a rise of about 0.5% in 2013. In 2005-2013 the number of recipients fell by about 8%. It should be noted that the moderate rise in 2013 was apparently due to legislative changes (in car ownership, see the chapter on Income Support) which extended the circle of eligibility.

10. Collection of Insurance Contributions from the Public and Sources of Benefit Funding

NII benefits are funded from four sources: (a) Collection of national insurance contributions (direct collection from the public and Finance Ministry compensation for the reduction in contributions from employers and the self-employed). (b) Government participation in funding collection-based benefits. (c) Government funding for non-collection based benefits. (d) Revenues from interest on investment of surpluses, mainly in government bonds. The NII also collects health insurance contributions and transfers them to the Health Service Providers.

The Arrangements Act for 2011-2012 introduced some amendments: (a) On 1.1.2011 the ceiling for national and health insurance contributions rose to 9 times the basic amount. (b) In 2012 the ceiling was supposed to rise to 8 times the basic amount, but after the Trachtenberg Act that passed following the social protests, on 1.1.2012 the ceiling for payments was restored to 5 times the basic amount. (c) The normal employer's contribution was increased by 0.47% on 1.4.2011 (from 5.43% to 5.9%). These moves increased collection of NI contributions but not the share of the State Treasury, and therefore participation in the Children's Branch was 200.5% from 1.4.2011 (204.5% in 2012).

In August 2012 the Deficit Reduction Act was passed, which from 2013 gradually increased the normal employer's contribution by 0.6%, and it was applied to insurance branches for which there is no Treasury assistance, so its participation returned to 210% of collection for the Children's Branch.

In 2014 the normal rates of employer's contributions were supposed to rise by 0.5%, but on 1.1.14 they were increased by 0.25% to 6.75%, and as a result it was decided to postpone the increase to 7.5% until 2016 rather than 2015, as was thought earlier.

Table 9
Collection for the National Insurance and Health Systems, 2010-2014

	2010	2011	2012	2013	2014
Current Prices (NIS millions)					
Total collection of contributions	**47,626**	**51,150**	**52,701**	**55,891**	**58,720**
Total collection from the public	**45,392**	**48,719**	**50,276**	**53,420**	**56,146**
For National Insurance branches	29,102	31,305	32,144	34,498	36,536
For the Health system	16,290	17,414	18,132	18,922	19,790
Compensation from the Treasury	2,234	2,431	2,425	2,471	2,574
Indicators of development in collection from the public					
Real rate of change					
Total collection from the public	7.2	3.7	1.5	4.7	4.6
For National Insurance branches	8.0	4.0	1.0	5.7	4.9
For the Health system	5.8	3.3	2.4	2.8	4.1
As a percentage of GDP					
Total collection from the public	5.2	5.3	5.1	5.1	5.2
For National Insurance branches	3.3	3.4	3.2	3.3	3.4
For the Health system	1.9	1.9	1.9	1.8	1.8
As a percentage of direct taxes on individuals					
Total collection from the public	48.4	48.4	48.1	47.9	47.0
For National Insurance branches	31.1	31.1	30.8	30.9	30.4
For the Health system	17.3	17.3	17.3	17.0	16.6
As a percent of direct taxes					
Total collection from the public	35.4	35.4	34.5	33.4	33.8
For National Insurance branches	22.7	22.7	22.1	21.6	21.9
For the Health system	12.7	12.7	12.4	11.8	11.9

A. Collection of national insurance contributions from the public

NII revenues from collections of national insurance and health insurance contributions rose in real terms by 4.6% in 2014 (compared to 4.7% in 2013). Revenues for NII branches rose by 4.9%, higher than the rate of increase in collection for the health system, which was 4.1% (Table 9). The rise was largely due to developments in the labor market

– widening the circle of the employed and real growth in wages, plus legislative changes that increased employer contributions.

In 2014 total collection amounted to NIS 58.7 billion: NIS 36.5 billion for NII branches and NIS 19.8 billion for the health system (Table 9). To the revenues collected from the public were added about NIS 2.6 billion transferred from the State Treasury as compensation for the reduction in NIIemployers' contributions and those of the self-employed (according to Section 32c(1) of the Act).

However, as a percentage of GDP, total collection rose to 5.2%, of which 3.4% was for NII branches (a rise of 0.1% over 2013) and 1.8% for the health system (similar to the percentage in 2012). In all years shown in the Table, collection ranges around 5% of GDP, lower than the rate at the start of the decade: in 2003, collection from the public reached 6.3% of GDP. Collection from the public as a proportion of total individual taxes fell slightly, from 47.9% in 2013 to 47.0% in 2014.

Rates of increase in collection are different for the salaried and the non-salaried. In 2014, direct collection from salaried employees rose by 4.8% in real terms compared to 5.9% in 2013. Direct collection from employees and employers was affected by the legislative changes surveyed and also by changes in the labor market: the average wage rose nominally by 2.0% in 2014 (compared to 3.0% in 2013), and the number of jobs rose by 2.2% in 2014 (compared to 1.5% in 2013). In recent years, insurance contributions (from the employee, the employer and the Treasury) have accounted for 90.7% of all revenues. By contrast, direct collection from the non-salaried public rose in real terms by 5.4% from 2013 to 2014, and by 3.9% from 2012 to 2013. In all, collection for national insurance in 2014 amounted to some 34% of the total direct tax collection in Israel, of which 65% were insurance contributions and 33% were health tax payments. The decrease as a percentage of total direct taxes was noticeable in the last four years – from 35.4% in 2011 to 33.8% last year.

B. Sources of pension funding

Total NII revenues to fund the branches of national insurance in 2014 rose by 1.1% in real terms, reaching NIS 75.2 billion in current prices (Table 10). The steep increase of 4.8% in collection from the public[26] was offset by the drop in other sources: Government participation in keeping with Section 32 of the Act fell by 6.5% in 2014, funding of pensions by the government rose at a higher rate of 2.7%, and interest payments that are about a tenth of NII revenues rose at a similar rate (0.3%).

In the decade since 2005, revenues have increased by about 24% in real terms, mainly due to a rise of 37% in collection of NII contributions. Both parts of the government's participation rose by about half that – at a rate of about 15%, while interest revenues

26 This rate is slightly different from the rate given in the previous section, since the collection of national insurance contributions given in this table includes compensation from the Treasury.

Table 10
Sources of Funding of National Insurance Branches, 1995-2014

Year	Total revenues*	Collection of contributions**	Government participation***	Government pension funding	Receipts from interest
			Current prices, NIS millions		
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
2014	75,201	38,930	17,015	10,879	7,812
			Real annual growth (percentage)		
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	0.5	-2.2	1.2	4.1	4.9
2010	2.2	8.3	-6.4	-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	2.1	5.4	-2.0	-0.7	-0.8
2014	1.1	4.8	-6.5	2.7	0.3
			Breakdown (percentage)		
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
2014	100.0	51.8	22.6	14.5	10.4

* Including third party compensation
** Including Treasury indemnity
*** According to Section 32(a) of the Act

rose steeply by 32%. The cumulative rise in the elements of government participation was therefore the most moderate of all components of revenues, which led to an increase in national insurance contributions as a proportion of all revenues, from 48.9% in 2005 to 51.8% in 2014. However, an examination of data over a longer period shows that collection from the public as a proportion of revenues fell from its highest rate of about half of all revenues in 1995, to the lowest proportion at the start of the decade. This indicates erosion of the independence of the NII.

C. Surpluses/ deficits and financial reserves

Aside of interest on the NII's investments, its budget deficit (excluding interest) rose to about NIS 4.2 billion in 2014, compared to NIS 3 billion in 2013. The last year in which there was a budget surplus was 2008. The size of this deficit is the result of increased payments in all NII branches except the Children branch, where the budget surplus grew by half a billion shekels, an increase that was offset by increases in all other branches (Table 11).

Table 11shows that the NII's financial activity ends with a surplus once interest receipts are included. The operating deficit becomes a surplus of NIS 3.6 billion compared to NIS 4.7 billion in the previous year. However, all branches that had a deficit without inclusion of interest on investments remained in shortfall after its inclusion.

Table 11
Surpluses/ Deficits in NII Branches
(NIS millions, current prices), 2011-2014

Branch of insurance	Excluding interest				Including interest			
	2011	2012	2013	2014	2011	2012	2013	2014
Total	**-994.2**	**-3,145**	**-3,053**	**-4,175**	**6,310**	**4,548**	**4,696**	**3,637**
Old age & survivors	-2004.8	-2862	-3,374	-4,233	692	-107	-692	-1,583
General disability	-3,606.4	-4,168	-5,046	-5,043	-3,407	-4,096	-4,349	-4,958
Work-injury	-1,252.2	-1,341	-857	-640	-1,140	-1,266	-836	-640
Maternity	-2,226	-2,579	-2,604	-2,771	-2,226.3	-2,613	-2,549	-2,724
Children	12,641	13,076	13,976	14,480	16,752	17,738	18,579	19,204
Unemployment	-1,881.7	-2,188	-2,456	-2,498	-1,881.7	-2,188	-2,456	-2,498
Long-term care	-2,786.2	-3,182	-3,428	-3,596	-2,786.2	-3,228	-3,360	-3,530
Other	123	99	134	126	307	307	358	365