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Collection: Activity and Trends in the Collection Field

General

The NII is responsible for collecting national insurance contributions to fund the benefits paid according to National Insurance Law, as well as for collecting health insurance contributions according to Health Insurance Law, intended to fund the health system. National insurance and health insurance contributions are collected from working people (employees and self-employed) and non-working residents at various rates on income subject to insurance contributions. In addition, since 1986 the Treasury has compensated the NII for the loss of the collection receivables deriving from a reduction in the insurance contributions of employers and the self-employed. This compensation is called Treasury Indemnification, and forms part of the Institute's receivables from national insurance contributions¹.

As in previous years, in 2016 collection from the public was affected by fluctuations deriving from economic developments in the country, the average wage, the number of people employed, as well as from legislative changes.

Legislative Changes

- In 2005, a gradual reduction of employer insurance contributions began. Concurrently, two insurance contribution rates were introduced for employers, a reduced rate and a regular rate, instead of a uniform rate for all income levels, similar to the rate structure for employees and non-salaried employees. During the period January–August 2009 the reduced rates amounted to 3.45% (up to 60% of average wage) and 5.43% at the regular rate. Before the Law was changed, an employer paid 5.93% of an employee's income up to the ceiling subject to insurance contributions.

¹ The insurance contributions rate imposed upon the government instead of the employers is shown in Table 10 of the Law (Rates of Insurance Contributions) and anchored in Section 32 thereof, addressing government participation in funding branches of insurance in general.

- At the beginning of 2006, the following changes were also introduced: the reduced national insurance rate for an employee was decreased from 1.4% of income to 0.4%, the regular rate was increased from 5.58% to 7%, and the reduced rate bracket was increased from 50% of the average wage to 60% thereof. These changes were made with a zero budget, namely, without changing the NII's scope of receivables. Increasing the reduced rate bracket also applies to the employer's portion to avoid a collection loss.
- In September 2009, within the framework of the Economic Efficiency Law for 2009-2010, two changes were made which influenced collection: the reduced rate for an employer was increased from 3.45% to 3.85% (thereby reinstating the situation that prevailed in 2008) until the end of 3/2011, and the cap on payment of national and health insurance contributions was doubled by the end of 12/2010: from 5 times the basic amount to 10 times the basic amount.

These two steps should have increased the total collection of national insurance contributions, however in practice the additional collection and allocations under Section 32 were transferred in their entirety to the Treasury, since simultaneously the Treasury's participation in the collection for the Children's branch was reduced from 210% to 207.5% in 2009, to 169% in 2010 and to 208% in 2011.

- Under the Arrangements Law for 2011-2012, three additional amendments were introduced. **For employees:** (a) The cap for payment of national insurance and health insurance contributions was increased to 9 times the basic amount (from 2011); (b) In 2012 the cap for payment was supposed to increase to 8 times the basic amount, however following the Trachtenberg Law that was enacted in the wake of the social protests, it was reduced and reverted to 5 times the basic amount. **For employers:** (c) regular insurance contributions were increased by 0.47% - from 5.43% to 5.9% (from 4/2011). These steps increased national insurance collection, however not the State Treasury's portion, and therefore its participation in the Children's branch was 200.5% from 1.4.2011 (204.5% in 2012).
- In 2013, regular insurance contributions **for employers** were gradually increased by 0.6 percentage points, and applied to the insurance branches in which there is no Treasury participation, therefore its participation reverted to 210% in collection for the Children's branch.
- In 2014, the regular rate for an employer should have increased by 0.5 percentage points, however it rose on 1.1.14 by only 0.25 points. The increase to 7.5% continued until 2016 and not until 2015 as originally determined.
- In 2015, the regular rate for an employer continued to increase and reached 7.25%. The insurance contributions rate on an income that is more than 60% of the average wage and up to a cap (5 times the basic amount) also includes the employee's portion that was 14.25%.

- In 2016, the regular rate for an employer continued to increase and reached 7.5%. Ever since regular rates have amounted to 14.5% and comprised both the employee's and the employer's portion.

Table 1

Collection from the Public and Estimated Effect of the Legislative Changes on Receivables (Millions of NIS), 2015-2016

???	2015	2016			Percentage change			
					Nominal		Real	
	De facto	Less legislative changes	Legislative changes*	De facto	Less legislative changes	De facto	Less legislative changes	De facto
Total collection	62,272	65,752	580	66,332	5.6	6.5	6.2	7.1
Total collection from the public	59,564	62,872	580	63,452	5.6	6.5	6.1	7.1
National insurance	38,783	40,955	580	41,535	5.6	7.1	6.2	7.7
Health insurance	20,781	21,917	0	21,917	5.5	5.5	6.0	6.0
Treasury indemnification	2,708	2,880	0	2,880	6.4	6.4	6.9	6.9

* In 2016 there was an increase of 0.25 percentage points for an employer in respect of the regular rate in comparison with 2015 - when this rate increased by 0.5 percentage points.

Collection of National Insurance Contributions

Scope of Collection

In 2016, employers' insurance contributions increased as determined by the Trachtenberg Committee that was established following the 2011 social protests. The Committee decided on a three-stage increase: in the first stage, an increase of 0.6% (from 5.9% to 6.5%), implemented in 2013; the next two stages were split into three parts: an increase of 0.25% in 2014, 0.5% in 2015 and 0.25% in 2016.

The NII's receivables from collecting national insurance and health insurance contributions amounted in 2016 to NIS 66.3 billion: 63.4 billion were collected directly from the public and 2.9 billion were transferred by the State Treasury in accordance with

Section 32 C1 of the Law, which indemnifies the NII for reducing national insurance contributions for employers and the self-employed (Table 1). Minus the legislative changes in 2016, direct collection from the public without Treasury Indemnification, increased in real terms by 6.2%.

National insurance contributions from the public increased in 2016 by 7.7% (in comparison with 7.4% in 2015), and health insurance contributions increased by 6.0% (in comparison with 5.7% in 2015). The portion of the health insurance contributions of the total collection from the public (without indemnification) decreased slightly, and in 2015 reached 34.5% in comparison with 34.9%. The decrease in the growth of health insurance contributions mainly derives from the increased insurance contribution rate for employers, which relatively reduces the weight of health insurance contributions in total insurance contributions from the public. The collection rate from the public in relation to the GDP in 2015 was 5.2%² - higher than rates in earlier years showing an increasing trend. The collection percentage from the public of the total direct taxes³ decreased from 48.1% in 2014 to 47.3% in 2015 and to 45.6% in 2016, as a result of an increase in the collection of income tax.

Insurance Contribution Rates

In 1995 two rates for national insurance contributions were set - a reduced and a regular rate - for different types of insureds⁴. From January 2006 the lower rate was imposed on the part of the income liable for insurance contributions not exceeding 60% of the average wage by law⁵, and the regular - the balance of the income up to a cap: of an employee, employer and self-employed person (without distinguishing between his/her portion as an employee or employer). The lower rate applies to all the insured, employed and non-employed, and since August 2005, applies to employers too (Table 2).

2 Table 7 in Chapter 1.

3 Income tax (from employees, self-employed and company managers), national insurance contributions and health insurance contributions are included in the direct taxes collected from individuals. The total of all the direct taxes also include, in addition to taxes collected from individuals, company tax (State Income Administration, Annual Statements).

4 The lower rate was imposed upon that part of taxable income that does not exceed 50% of the average wage by law.

5 The average wage as defined in the National Insurance Law - NIS 9,464 per month in 2016.

Table 2

National Insurance and Health Insurance Contribution Rates, by Type of Insured (Percentages), 2015 and 2016

Type of insured	National insurance contributions				Health insurance contributions	
	Regular rate		Reduced rate		Regular rate	Reduced rate
	2015	2016	2015	2016		
Employee - Total	14.92	15.17	4.52	4.52	5.0	3.1
Of which: Employee	7.00	7.00	0.40	0.40	5.0	3.1
Employer	7.25	7.50	3.45	3.45	-	-
Government	0.67	0.67	0.67	0.67	-	-
Self-employed – Total	11.82	11.82	7.31	7.31	5.0	3.1
Of which: Employee	11.23	11.23	6.72	6.72	5.0	3.1
Government	0.59	0.59	0.59	0.59	-	-
Not an employee nor self-employed	7.00	7.00	4.61	4.61	5.0	5.0

Types of Insured

Employees

In 2016, there were approximately 3.28 million positions upon which national insurance contributions were paid – an increase of 0.4% according to estimate (Table 3). This group does not include employees from the Palestinian Authority, foreign workers and Israeli insureds with special characteristics, such as members of kibbutzim, early retirees, domestic workers, those attending vocational training and Ministry of Defense employees (see below Section 6).

The number of employers paying insurance contributions for their employees increased in 2016 by approximately 3.7% (Table 3). Most of the employers (72%) have up to 5 employees and approximately 20% of them employ between 6 and 20 employees.

Non-employee

Two groups are included in this definition:

- Whoever pays insurance contributions on the basis of their income (58% of all non-employed insureds). This group is mainly self-employed (89.9%), however following the 2008 change in law, those insureds with passive income (dividends and income from capital) are also charge insurance contributions that are higher than 25% of the average wage, whether they have income as an employee or self-employed or not (10% of the insureds in this group).

Table 3
Employers and Insureds Required to Pay National Insurance Contributions,
by Type of Insured, 2015 and 2016

Type of insured	2015	2016	Percentage change
Employers** – Total	257,882	267,294	3.7
Employers – 1-5 employees	185,965	192,641	3.6
Employers- 6-20 employees	50,458	52,265	3.6
Employers – 21-99 employees	17,190	17,995	4.7
Employers – 100-499 employees	3,534	3,606	2.0
Employers – 500+ employees	730	787	7.8
Employees insured* - total	3,264,000	3,278,000	0.4
Non-salaried Employees insured** – Total	810,153	839,505	3.6
Debtors from their income – Total	465,481	486,888	4.6
From work (self-employed)	418,702	437,501	4.5
Not from work	46,779	49,387	5.6
Those paying insurance contributions at the minimum level – Total ***	344,672	352,617	2.3
Not an employee and nor self-employed (Minimum 15%)	226,628	227,428	0.4
Pupil and student (minimum 5%)	48,868	52,324	7.1
Yeshiva student (minimum 5%)	69,176	72,865	5.3

* Number of insured employees reported by employers (on Form 102) – average per month.

** The data refers to the end of year.

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

- Those who pay insurance contributions at the minimum level (42% of all non-employed insureds): (a) do not work and have no income subject to insurance contributions – approximately 64.5%; (b) pupils and students – 35.5%. In 2016 the number of those paying the minimum amount increased by approximately 2% and the number of those who did not work increased by 0.4%. In mid-2015, two computerization processes were added that changed the definition of part of the population: gradual development of **cessation calculation** for insurance contributions and employees, who were charged for missing periods in the **network expansion**⁶ operation. This operation led to a considerable increase in the number of insureds who were not employed and not self-employed. The number of students increased in 2016 by 7.1% and the number of yeshiva students increased by 5.3%.

6 The Prescription Law on insurance contributions debt after seven years applies to debtors from the beginning of 2015, and therefore the NII decided to expand the debtors network (network expansion) into two debtor groups: (a) those paying the minimum amount – for those who since 1999 were not sent charge notice and were in **cessation calculation** (debt did not manifest for many of them as they were overseas with a foreign passport and missing authenticated charge periods). (b) Employees owing insurance contributions for missing periods, to maintain continuity of their insurance.

Scope of Collection

In 2016, receivables from national insurance contributions amounted to NIS 44.4 billion: NIS 41.5 billion were collected from the public and NIS 2.9 billion were transferred by the Treasury as indemnification for reducing national insurance contributions for employers and the self-employed (Table 4). In this year the NII's receivables increased in real terms by 7.6% and collection from the public increased by 7.7%. The amounts transferred by the Treasury as indemnification for reducing national insurance contributions for employers and the self-employed increased in real terms by a lesser 6.9%. The portion of direct collection from the public was similar in 2016 and 2015, constituting 93.5% of all insurance contributions.

Table 4

National Insurance Contributions (Collection and Treasury Indemnification), by Type of Insured (Current Prices in Millions of NIS), 2014-2016

Type of insured	Absolute numbers			Real change (%)		
	2014	2015	2016	2014	2015	2016
Insurance contributions – total	38,930	41,491	44,415	4.8	7.3	7.6
Employees and employers	35,310	37,636	40,292	4.8	7.3	7.6
Non-employees	3,620	3,855	4,123	5.1	7.2	7.5
Collection from the public- total	36,356	38,783	41,535	4.9	7.4	7.7
Employees and employers	32,920	35,129	37,626	4.8	7.4	7.7
Non-employees	3,436	3,654	3,909	5.4	7.0	7.6
Treasury indemnification – total	2,574	2,708	2,880	3.7	5.9	6.9
For employers	2,390	2,507	2,666	4.0	5.6	6.9
For non-employees	184	201	214	0.1	9.9	7.1

Employees

In 2016, direct collection from employees increased in real terms by 7.7%, in comparison with 7.4% in 2015. Collection from employees and their employers was affected by changes in legislation discussed above, and in the labor market: the average wage for a salaried employee's position nominally increased by 3.0% (in comparison with 2.3% in 2015) and the number of positions increased by 0.4%. Insurance contribution for employees (including the respective portions of the employee, the employer and the Treasury) constituted 90.6% of all receivables in the last two years.

Non-employee

Direct collection from non-employee insureds increased in real terms in 2016 in comparison with 2015 by 7.6% (in comparison with 7.0% between 2014 and 2015)

and is mainly (90.6%) collection from the self-employed. The collection from the self-employed increased – based on the assessments from 2015 that were revised by an increase in prices only – by 5.7% in real terms. The collection from non-employees paying national insurance contributions on the basis of minimum income, which constitutes approximately 9.0% of all collection from non-employees, increased in real terms by 16.1% following the **network expansion** operation launched in mid-2015. A review of the payment ethic highlights the difference between the two groups of non-working: the collection percentage from self-employed in 2016 was 98.7% in comparison with only 46.9% of those paying the minimum amount. As a result of the network expansion, insureds were added to this group who were, for up to seven years, in **cessation calculation** for insurance contributions.

Collection for Health Care System

National Health Insurance Law

In January 1995, the National Health Insurance Law came into effect, which establishes the right of every Israeli resident to health insurance and determines a defined and uniform basket of health services for all, where the State assumes responsibility for funding. The Law specifies sources for funding the basket, the method by means of which the cost of the basket will be updated and the formula for allocating resources between funds. Israeli residents may choose one of the health maintenance organizations (HMO) recognized by the Ministry of Health, and the HMO must accept every resident without restrictions, stipulations or payment.

Health insurance contributions, serving as one of the primary sources for funding the health services basket, are collected by the NII and divided between the HMOs. To this end the NII keeps a file of all insureds, which is regularly updated and provides information regarding membership in the various HMOs.

Under the Law, every Israeli resident, even if unemployed, must pay health insurance contributions, excluding several groups who are exempted from payment. Health insurance contributions from employees and from non-employees are collected in the same manner as national insurance contributions, whereas the insurance contributions from those receiving NII benefits (who have no other income) are deducted from the benefit itself.

Health insurance contributions are imposed on employees at two levels: a reduced rate of 3.1% on part of the income that does not exceed 60% of the average wage, and

a regular rate of 5.0% on the balance of income exceeding 60% of the average wage and up to a capped sum, subject to insurance contributions (5 times the basic amount). The update is at the rate of price increases.

In most cases, those who do not work and those receiving NII benefits are entitled to special rates depending on their income level. Table 5 specifies insurance contribution amounts deducted from benefits according to the type of benefit.

Since January 2006, benefits amounts have been revised according to the increase in the price index of the previous year (the index for last November in comparison with November the year before) and therefore the minimum amounts are also revised this way. Those who are not employees or self-employed and do not receive a pension, pay minimum insurance contributions (NIS 103 per month since January 2014). Certain groups are exempt from payment of health insurance contributions: housewives, new immigrants during the first six months of emigrating to Israel; employees under the age of 18; pupils younger than 21 who do not work and later enlist in the army (exempt from payment for 12 months); detainees and prisoners sentenced to more than 12 months' imprisonment and receiving health services from the Prisons Service.

Table 5
Health Insurance Contribution Amount, by Type of Benefit, 2016

Type of benefit	Monthly health insurance contribution
Wage Substitute Benefits:	
Maternity allowance	Of rates similar to employees: 3.1% of the benefit up to 60% of the average wage 5% of the balance of the benefit exceeding 60% of the average wage, and up to cap (5 times the basic amount)
Injury allowance	
Unemployment benefit	
Reserve service benefits	
Accident benefit	
Bankruptcy and liquidation of corporation	
Old-age and survivors	
With income supplement	NIS 103
Without income supplement:	
For a single person	NIS 196
For a couple	NIS 283
Other benefits:	
Income support	NIS 103
Maintenance	
General disability	
Work-related disability and dependents	
Survivors of working age	

Health Insurance Contribution Receivables

Until the beginning of 1997, the NII collected parallel tax and health insurance contributions for the health system. With the approval of the Arrangements Law of

1997, parallel tax collection was entirely abolished, and funding of the health services basket from the State budget was increased accordingly. In 2016, the NII collected approximately NIS 21.9 billion in health insurance contributions – a real increase of 6% in comparison with 5.7% in 2015 (Table 6). Of all insurance contributions collected, 81% came from employees, approximately 10% from non-employees and approximately 9% from recipients of NII benefits. From the non-employed, health insurance contributions were collected as follows: 79% from the self-employed and 21% from those paying insurance contributions at the minimum level.

Table 6
Health Insurance Contributions Collected, by Type of Insured (Millions of NIS), 2012-2016

Year	Total	Employees	Non-employees	Benefit recipients	Annual increase (%)	
					Nominal	Real
2012	18,132	14,665	1,750	1,717	4.0	2.3
2013	18,922	15,324	1,831	1,767	4.4	2.8
2014	19,791	16,036	1,926	1,829	4.6	4.1
2015	20,781	16,812	2,068	1,901	5.0	5.7
2016	21,917	17,740	2,247	1,930	5.4	6.0

Table 7
Health Insurance Contributions from Benefits, by Type of Benefit (Millions of NIS, 2016 Prices), 2015 and 2016

Type of benefit	2015	2016	Real annual increase (%)
Total	1,890.6	1,930.0	2.1
Old age and survivors	1373.5	1430.6	4.2
Work-related disability	38.1	36.7	-3.6
Disability	163.4	153.0	-6.4
Income support	75.2	65.7	-12.6
Reserve service	0.3	0.3	-0.1
Maternity allowance	132.9	139.8	5.2
Unemployment	67.0	65.1	-2.9
Injury allowance	15.0	15.8	5.3
Maintenance	7.0	6.7	-4.1
Bankruptcy	5.7	2.9	-48.2
Other	12.6	13.3	5.3

In 2016, an amount of NIS 1,930 million was deducted from insurance contributions benefits – a real increase of 2.1% in comparison with 2015 (Table 7). Approximately 73% of health insurance contributions deducted from benefits, was paid by recipients of

old-age and survivors' pensions (including pension recipients with income supplement) and approximately 8% was paid by recipients of disability pensions. It should be noted that health insurance contributions are deducted from the benefits only if the recipient of the benefit has no income from work or has other income that is exempted from payment of insurance contributions. Housewives (married women who only work in their households) are exempt from payment even if they receive a benefit in their own right from the NII, on condition that the benefit is not wage substitute.

The National Health Insurance Law stipulates that monies designed to fund the health basket are transferred to the health funds directly by the NII. The distribution of monies is based on the **capitation formula**, which primarily takes into account the number of insured persons in each of the funds and weights the age of each insured. From November 1, 2010, two new variables were added to the capitation formula: the insured's gender and the distance of his place of residence from population centers.

The capitation method operates in favor of the Clalit Health Fund, since it is characterized by a high percentage of elderly members and members living in communities remote from the center of the country (Table 8). Thus for example, approximately 70% of very elderly insureds (aged 85 and above) and 69% of the outlying areas are insured by this health maintenance organization. In January 2016, the portion of insureds in Clalit

Table 8

Number of Insureds and Key to Distribution of Health Insurance Monies by Health Fund (Percentages), January 2005 - January 2016

Year	Total	Health fund			
		Clalit	Leumit	Meuhedet	Maccabi
Total number of insureds					
1/2005	100.0	54.4	9.8	11.7	24.0
1/2010	100.0	52.4	9.2	13.5	24.8
1/2012	100.0	52.3	9.1	13.6	25.0
1/2013	100.0	52.3	9.1	13.6	25.0
1/2014	100.0	52.4	8.9	13.7	25.0
1/2015	100.0	52.4	8.9	13.7	25.0
1/2016	100.0	52.5	8.7	13.8	25.0
Key to distribution					
1/2005	100.0	58.970	9.105	10.085	21.839
1/2010	100.0	56.822	8.607	11.647	22.924
1/2012	100.0	56.451	8.517	11.627	23.405
1/2013	100.0	56.167	8.497	11.745	23.591
1/2014	100.0	55.969	8.402	11.839	23.790
1/2015	100.0	55.666	8.398	11.926	24.010
1/2016	100.0	55.312	8.265	12.056	24.367

was approximately 52.5% of the total, however its share of the health insurance monies was approximately 55.3%. In contrast, this method reduces the amounts transferred to the Maccabi and Meuhedet, whose members are younger. In the years 2005–2016, Clalit Health Fund's share of the distribution of health insurance monies decreased from approximately 59% to approximately 55.3%.

It should be noted that since August 2006 capitation rates are calculated every month instead of once every three months, as was customary until then. The monthly calculation enables the reduction of the disparity between the number of insureds at the beginning of each quarter and the actual number in each of the three months in the quarter.

According to the National Health Insurance Law, health services are financed from several sources:

- Health insurance contributions, collected by the NII.
- Funds from the Road Accident Victims Compensation Fund (Karnit) that transfers amounts to the NII (since 2010).
- HMOs direct receivables for health services rendered for payment (such as medication and visiting a doctor).
- Additional amounts from the State's budget designed to supplement various expenses to cover the costs of the health services basket.

According to the estimate for 2016, the cost of the health basket for which the HMOs are responsible increased nominally by approximately NIS 4.491 billion and reached approximately 45.84 billion shekels – a real increase of approximately 11.7% as opposed to 2015 (Table 9). In 2016, the State's relative portion in funding the basket increased to approximately 42.1%, in comparison with the portion of health insurance contributions receivables which decreased to 51.5%. It should be noted that the Arrangements Law of 2008 stipulated that HMOs receivables from their insureds deductibles would be 6.45%

Table 9
Cost of the Health Services Basket Under the Responsibility of the Health Funds, by Source, 2012-2016

Source	2012	2013	2014	2015	2016*
Cost – Millions of NIS	34,678	36,555	38,582	41,349	45,840
Percentages					
Total	100.0	100.0	100.0	100.0	100.0
Health insurance contributions**	53.3	52.9	52.4	51.5	48.7
State budget	40.3	40.7	41.2	42.1	44.9
Independent income	6.4	6.4	6.4	6.4	6.4

* Ministry of Health estimate (March 2017)

** Including amounts transferred by the Road Accident Victims Compensation Fund to the NII (since 2010). In 2016, an amount of NIS 452 million was transferred.

Table 10

Per Capita Cost of the Health Basket Per Capita, by Age Group (NIS per Year, 2016 Prices), 2015 and 2016

Age group	2015	2016*
Total amended per capita	4,249	4,657
Up to one year	7,023	7,698
1-4	3,631	3,980
5-14	1,706	1,870
15-24	1,710	1,874
25-34	2,455	2,690
35-44	2,904	3,183
45-54	4,558	4,996
55-64	7,432	8,147
65-74	12,204	13,377
75-84	15,796	17,314
85 and above	16,088	17,635

* Estimate

of the basket cost (instead of 5.4% until 2007). This amendment explains the reduction in the State's participation by approximately 1% since 2008.

The amended per capita cost of the health basket enables the effect of insured's age on the HMOs expenses to be examined (Table 10). The basket cost per capita is calculated by the basket sources divided between the HMOs according to the capitation formula taking into account age, gender and outlying areas, but does not include amounts that are not divided this way, such as costs for severe illnesses, administration costs, allocation to the Health Council and the Magen David Adom. In 2016, the cost of weighted health baskets per capita was NIS 4,657 in comparison with NIS 4,272 in 2015 – a real increase of approximately 9.6%. The cost of the basket reflects relative expenses between the age groups: except for children up to the age of 4, the cost of younger age groups is generally lower than of older ones. Thus for example, in 2016 the cost of the basket for the elderly population (85 years or older) was 3.8 times higher than the average cost for all HMO insureds and 9.4 times the cost of the basket for 15-24 year olds.

Distribution of Payment Burden

The national insurance system stipulates in most cases, eligibility for a benefit upon payment of insurance contributions. Accordance to this perception, every insured, irrespective of his/her employment status, must pay insurance contributions.

The parameters of national insurance contributions mentioned at the beginning of the chapter – a minimum and maximum for income subject to national insurance contributions and rates of insurance contributions for various insureds – are characteristic of most social insurance systems in western countries. There is no disputing the fact that setting a floor and a cap for income subject to national insurance contributions constitutes a regressive component of the collection system. The reform introduced in 2006 in the NII's collection system – expanding the income base for national insurance contributions and introducing a reduced rate for income that does not exceed 60% of the average wage – was designed to moderate the regressive distribution of the burden of payments of national insurance contributions imposed on the individuals.

The decision to impose health insurance contributions collection on the NII from 1995, together with the perception that every resident is insured and the majority of insureds must pay health insurance contributions, led policy makers to adopt aspects of national insurance contributions with respect to health insurance contribution function.

The most up-to-date income data refers to 2014⁷. The data in Tables 11 and 12 refer to the legal situation in 2014, meaning the insurance contributions rate for that year and the maximum income subject to national insurance and health insurance contributions

Table 11
Employees: Income (on Average per Month of Work) and Insurance Contributions Burden, by Decile, 2014*

Decile	Income on average per month of work	Payment of insurance contributions					
		Absolute numbers (NIS)			Percentage of income		
		Total	National insurance	Health insurance	Total	National insurance	Health insurance
1	1,058	37	4	33	3.5	0.4	3.1
2	2,498	87	10	77	3.5	0.4	3.1
3	3,735	131	15	116	3.5	0.4	3.1
4	4,756	166	19	147	3.5	0.4	3.1
5	5,816	258	66	193	4.4	1.1	3.3
6	7,132	416	158	258	5.8	2.2	3.6
7	8,830	620	277	343	7.0	3.1	3.9
8	11,420	931	458	473	8.2	4.0	4.1
9	16,178	1,502	791	711	9.3	4.9	4.4
10	29,681	3,017	1,681	1,337	10.2	5.7	4.5
Average	9,110	654	296	357	7.2	3.3	3.9

* The last year for which there is full administrative data on employees and self-employed income.

⁷ The last year for which there is full administrative data on employees and self-employed income.

(up to 5 times the basic amount). The steps taken within the framework of the tax reform introduced in 2006 (such as lowering the reduced rate for an employee from 1.4% to 0.4%, increasing the regular rate from 5.58% to 7.0% and increasing the reduced rate bracket from 50% of the average wage to 60%) are also expressed in the insurance contribution rate calculated on the wage and income data for 2014.

Table 11 shows data pertaining to income (on average per month of work), national insurance contributions (the employee's portion only) and health insurance contributions, on average per decile in the employee population. Employees are rated according to income subject to insurance contributions (on average per month of work) and in each decile are 10% of the individual employees⁸. Each one of the first four deciles pay national insurance contributions of a rate of 0.4% of income and the rate gradually increases to 5.7% of the upper decile. A similar picture is portrayed with health insurance contribution rates also; however, the lowest rate in the first four deciles is 3.1%, as with the reduced rate. Furthermore, the rate paid by the two upper deciles is lower, reaching 4.5%.

Table 12

Self-Employed: Income (Average per Month in a Year) and the Insurance Contribution Burden, by Decile, 2014*

Decile	Average income per month in a year	Payment of insurance contributions					
		Absolute numbers (NIS)			Percentage of income		
		Total	National insurance	Health insurance	Total	National insurance	Health insurance
1	744	212	145	67	28.5	19.5	9.0
2	1,986	212	145	67	10.7	7.3	3.4
3	2,560	251	172	79	9.8	6.7	3.1
4	3,601	354	242	112	9.8	6.7	3.1
5	4,691	461	315	145	9.8	6.7	3.1
6	6,008	644	442	202	10.7	7.3	3.4
7	7,959	960	661	300	12.1	8.3	3.8
8	10,881	1,434	989	446	13.2	9.1	4.1
9	15,921	2,253	1,555	698	14.1	9.8	4.4
10	36,847	4,939	3,413	1,526	13.4	9.3	4.1
Average	9,120	1,149	791	358	12.6	8.7	3.9

* The last year for which there is full administrative data on employees and self-employed income.

8 In April 1999, a legislative amendment to the Law was adopted according to which the minimum income to calculate insurance contributions for employees was equated with the minimum wage in the economy, taking part-time positions into account. When calculating insurance contributions we assumed full compliance by employers with the Minimum Wage Law, and that a wage reported at a level that is lower than the minimum wage derives from part-time positions. The deviation in the average rate of insurance contributions from income in the lower deciles is negligible.

Table 12 shows insurance contribution rates by deciles in self-employed populations for 2014. In the first and second deciles the national insurance contribution burden is prominent since today the minimum for payment of insurance contribution payment (25% of the average wage) highlights the system's regressiveness at the low-income levels. The national insurance contribution rate paid by the self-employed (like employees and employers) is 6.7% in the third decile and gradually increases to 9.3% in the tenth decile. Contrary to employees, the income of the self-employed in each decile is stated in terms of the average per month in a year (and not per month of work), since collection from this group is based on the annual income that they report. Therefore, employees' income as presented in Table 11 cannot be compared with the self-employed's income persons as presented in Table 12.

Populations Defined as Employees

The data presented in this chapter regarding the number of employees refers to the number of employees reported by employers in Form 102. Special groups whose characteristics and collection data for 2016 are detailed below are also included in the employees' population as defined by the NII.

Members of Kibbutzim

Kibbutz members and those of cooperative settlements are defined in the Law as employees of a cooperative society (as employer), who is obligated and responsible to register them as employees and to pay insurance contributions for them. Kibbutz and cooperative settlements members are insured in all national insurance branches except the unemployment. In 2016 approximately 41 thousand members on average per month (18 or older) were reported and the insurance contributions paid for them amounted to approximately NIS 92 million per year.

Domestic employees

The status and rights of domestic employees are similar to other employees although the insurance contributions paid for them are determined at varying rates. At the end of 2016, approximately 210 thousand were reported as active employers employing domestic employees from which in this year approximately NIS 91 million in insurance contributions were collected.

Employees from the Palestinian Authority

Employees from the occupied territories and the Palestinian Authority employed by Israeli employers must pay insurance contributions for three branches: work injury, maternity and bankruptcy. Their insurance contributions are collected by the payments department of the Employment Service. In 2016, approximately 60 thousand employees on average per month were reported and the amount that was paid for them was approximately NIS 18 million per year. The average monthly wage for an employee on the basis of which the national insurance contributions were paid, was approximately NIS 4,333.

Foreign Workers

Employees who are not Israeli residents hired by Israeli employers are included in this group. Similar to Palestinian Authority employees, foreign workers are insured by the maternity, work injury and bankruptcy branches, and the insurance contributions rate applicable to them is set forth in a special regulation. In 2016 approximately 154 thousand foreign workers on average per month were employed in Israel, their average monthly wage was approximately NIS 6,350 and the insurance contributions charged for them was NIS 115 million per year.

Employees Who Retired Before Reaching Retirement Age

These employees are subject to payment of national insurance and health insurance contributions for early pension. In 2016 approximately 53 thousand pensioners on average per month paid insurance contributions, and the sum collected for them amounted to approximately NIS 330 million per year.

Insureds Attending Vocational Training

This group includes insureds attending vocational training within the framework of the Ministry of Economy (non-working and employees alike), or at places approved for this purpose in the national insurance regulations. National insurance contributions are imposed upon the employer and the person attending vocational training for only two branches: work injury and maternity. In most cases, the Ministry of Economy is the employer, unless the person attending vocational training was sent to study on his employer's behalf. The number of insureds attending vocational training (who paid insurance contributions) reached approximately 48 thousand on average per month in 2016, and the insurance contributions paid for them amounted to approximately NIS 10 million per year. This is because employers ceased collecting insurance contributions from employees-in-training as non-working and not self-employed, and transferred only the insured's portion as an employee to the NII. The insured's portion as non-working is paid separately by him/her, directly to the NII.

