

Chapter 1

Trends of Development in National Insurance

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1.1 Introduction

The National Insurance Institute (NII) is the administrative body responsible for implementing the National Insurance (NI) Law¹ and other State laws, which guarantee a basic income to the residents of Israel. The NII collects insurance contributions from the public and pays benefits to those entitled by law. Some of the benefit payments are short-term and aim to replace the wages of those who find themselves temporarily out of the work force (due to dismissal, work injury, giving birth or military reserve service), but most benefit payments are long-term, aiming to guarantee subsistence to those who have had to leave the work force permanently (due to old age or disability), to survivors who remain without a principal breadwinner, and to families facing the economic burden of raising children. The wage-replacing benefits are calculated as a (constant or progressive) percentage of the entitled person's wages prior to the occurrence of the incident entitling him to benefit, and their level necessarily varies from one individual to the next. The long-term benefits (except for child allowances, which are denominated in monetary values and linked to the Consumer's Price Index) are set, on the other hand, as a given percentage of the average wage in the economy as defined in the NI Law,² and they are uniform for all

¹ The NI Law, passed by the Knesset (Israeli Parliament) in November 1953, and implemented in April 1954, constitutes the core of the income maintenance system in Israel. At first the law included only three branches of insurance: old age and survivors, maternity and work injury. Over the years the law was expanded and amended and today it includes additional branches of insurance such as general disability, children, unemployment, long-term care, casualties of hostile and border action, military reserve service, bankruptcy and liquidation of corporations.

² The average wage as defined in the NI Law (for the purpose of benefit payments and collection of insurance contributions) is a monthly average of the average wage in the economy (for an employee post) for the last three months for which the Central Bureau of Statistics (CBS) has data enabling its calculation. Usually, there is a lag of three months between any given month and the last month for which the CBS has calculated the average wage in the economy. Thus, for example, the (last) average wage in the economy known on January 1 will be that of October of the preceding year. The average wage on January 1 according to the NI Law is therefore the monthly average of the average wage in the economy for August-October. In recent years, long-term benefits are updated on the basis of changes in the average wage three times a year: on January 1, and on those dates when employees are paid a cost-of-living increment. As of August 1991, one-time wage components (clothing and convalescence grants paid in June-July and wage back payments paid in December) are distributed over the course of the entire year for purposes of calculation of the average wage under the NI Law. This average wage thus includes the relative share of the one-time payments and prevents sharp fluctuations in the level of benefits, in advance payments of insurance contributions and in payments linked to the

entitled persons having the same family composition. Families of limited means whose benefit is very low or who do not meet the conditions of entitlement to a benefit under the NI Law are eligible for income guarantee/supplement under the Income Support Law. This law guarantees a minimum income to every family in Israel, determined as a given percentage of the average wage as defined in the NI Law, at two rates (a regular rate and an increased rate), in accordance with the age of the main breadwinner and the family composition. Each rate can be paid in full (income guarantee) or partially (income supplement).³

National insurance contributions are collected from employees (through their employers) and from employers (as a contribution to financing their employees' insurance costs), as well as from the self-employed and from persons who are not working, at different rates imposed on the income liable for insurance contributions.⁴ In the framework of the policy of reducing labor costs in the economy, the rates of insurance contributions imposed on employers and the self-employed were gradually lowered (starting in 1986). Since this date the government has compensated the NII for the loss of receipts from collection, a compensation known as *Treasury*

average wage as defined in the NI Law. At the same time, the average wage is also calculated without the above distribution, for other purposes such as updating of the minimum wage, of senior civil servants' wages, etc. In recent years, with the reduction in the inflation level and consequently, in the frequency of cost-of-living increment payments, benefits have been updated only once a year.

³ The Income Support Law, enacted on January 1, 1982, was meant to serve as an economic safety net for the needy who, for one reason or another, are not able to provide on their own (or by means of any benefit for which they are eligible) for their basic subsistence needs. The law created a continuum of entitlement to payment from the social security system, as a last refuge for those not covered by the NI Law, or those whose income from a benefit granted by force of the NI Law is lower than the minimum income established by the law. In contrast to insurance benefits, which, in general, are paid on the occurrence of the insurance contingency entitling to a benefit regardless of the income level or means of the recipient, the income support benefit is dependent on an income/means test. It is important to distinguish between the minimum income guaranteed to every family in Israel by virtue of the Income Support Law, and the minimum wage guaranteed solely to employees by virtue of the Minimum Wage Law, enacted on April 1, 1987. *Income supplement* under the former is the responsibility of the NII, while *wage supplementation* under the latter is the responsibility of the employer.

⁴ Insured persons who do not work are liable for a minimum payment prescribed by law.

indemnification.⁵ Furthermore, the government participates in the financing of some branches of insurance,⁶ and fully finances the benefits paid other than under the NI Law, for which contributions are not collected.⁷ The benefits paid in branches relying on (partial or full) collection from the public are known as *contributory benefits*, whereas the benefits paid in branches fully financed by the government are known as *non-contributory benefits*. In addition, the NII collects health insurance contributions from the public and distributes them among the sick funds in accordance with rules set in the National Health Insurance Law. Diagram A schematically describes the system of receipts and payments of the NII, including receipts from interest on investments (in index-linked government bonds), collection of health insurance contributions and the distribution of the amount collected among the sick funds.⁸

⁵ In 1986, before insurance contribution rates were reduced, the employer paid contributions at a rate of 10.25% of the worker's wage, while the share of the worker was 3.80% of his wage. In 1998, the share of the employer amounted to only 4.93% (after dropping down to 1.93% in 1997), while the share of the worker dropped to 2.66% for the part of wages not exceeding half the average wage (as defined in the NI law), but increased to 4.90% for the part of wages exceeding half the average wage.

⁶ Under the NI Law, the government participates in the financing of branches of insurance by adding 15% of the sum collected for the old-age and survivors branch, and 160% (starting January 1997) of that collected for the children branch, and by a reimbursement of 50% of payments to veteran recipients in the general disability branch and all payments to new immigrants in the long-term care branch.

⁷ The government fully finances benefits which the NII is responsible for providing but which are paid by force of special agreements (such as old-age and survivors' pensions to new immigrants, mobility allowances to disabled persons, and benefits to former Prisoners of Zion and to victims of hostile acts) or under other laws (such as the Alimony Law and the Income Support Law). Beginning in January 1995, the government fully finances military reserve service benefits as well.

⁸ Until December 1996, the NII also collected *parallel tax* from employers and self-employed persons, as part of the financing sources for health services, and transferred it to the sick funds. The parallel tax was canceled in January 1997, in the framework of the State Economy Arrangements Law. Since then, the government compensates the sick funds directly for the loss of parallel tax receipts. Concurrently, the contribution rates of employers and self-employed persons were increased and the *Treasury indemnification* for the NI branches was reduced by a similar amount (see section 1.4).

Diagram A: The National Insurance Institute - Resources and Uses

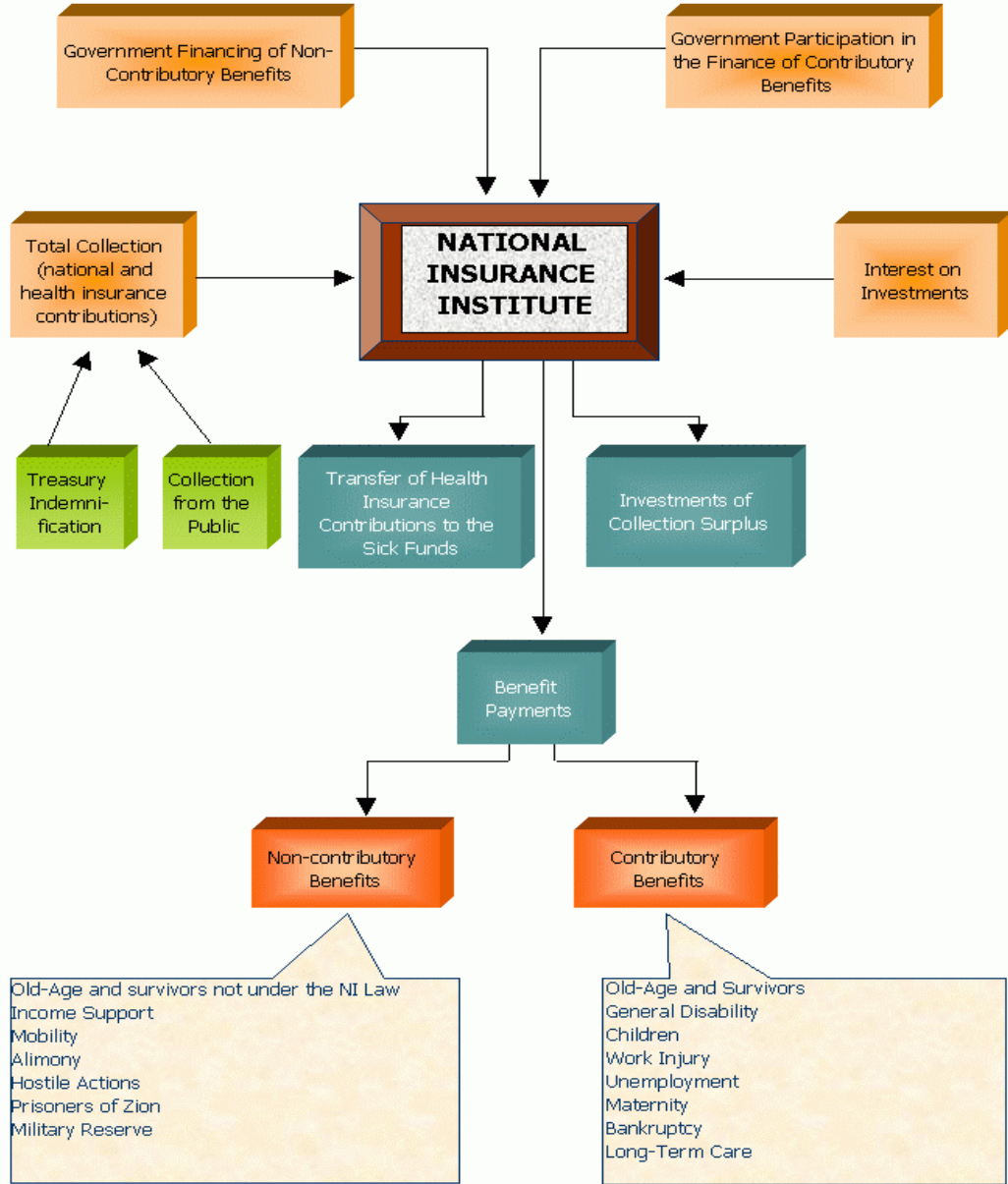
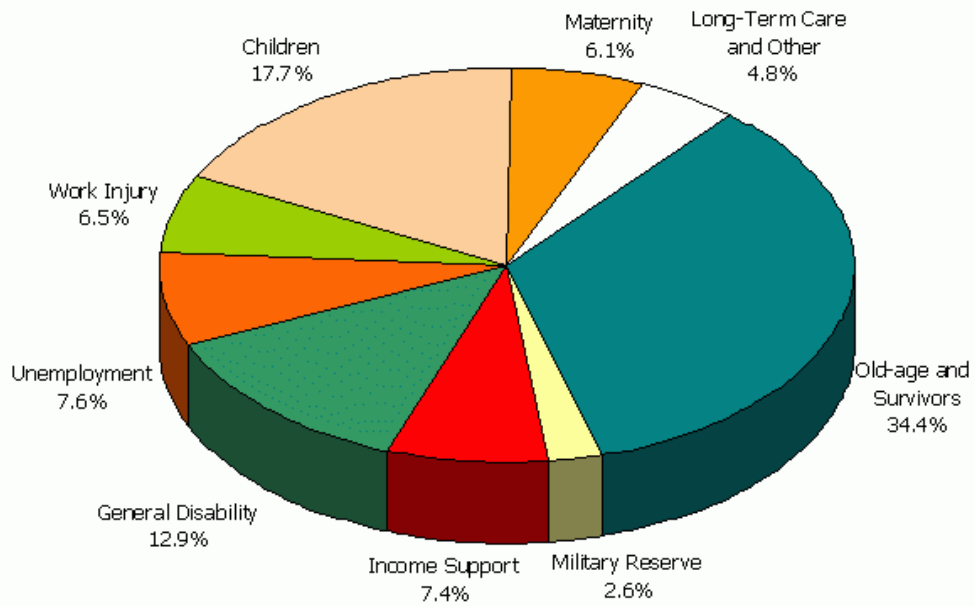


Diagram B: The Distribution of NII Benefit Payments and Receipts - 2000

Benefit Payments



Receipts

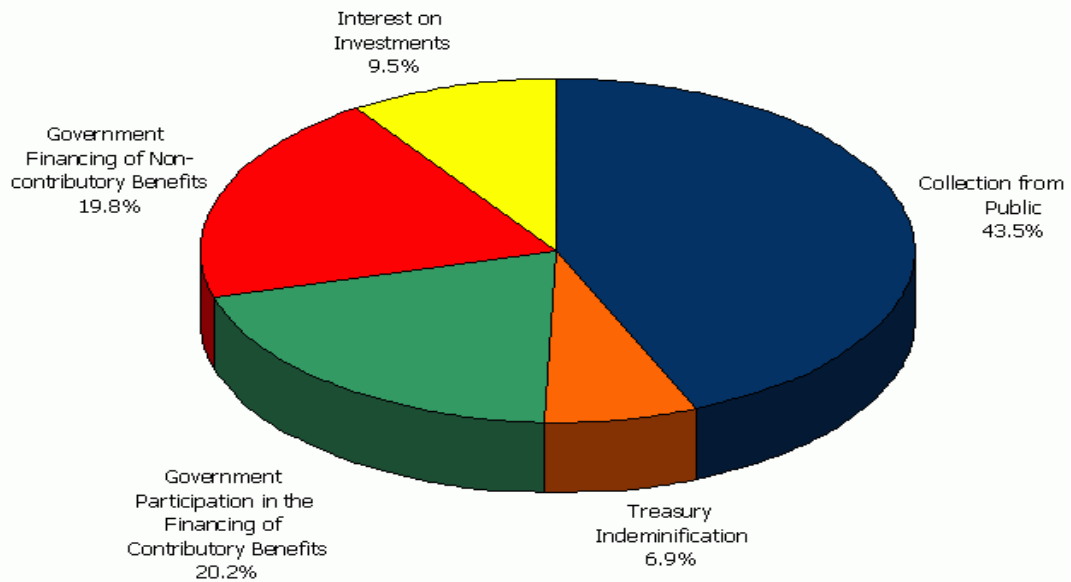


Table 1: Benefit Payments and Collection from the Public (percentages relative to the Gross Domestic Product), 1980-2000

Year	Benefit Payments		Collection from the Public	
	Total	Contributory Benefits	Total*	National Insurance Contributions**
1980	6.09	4.98	6.77	5.15
1985	7.14	5.51	6.57	4.45
1990	8.36	7.04	7.21	5.28
1995	8.01	6.28	8.36	4.67
1996	8.05	6.36	8.32	4.43
1997	8.26	6.63	6.79	4.52
1998	8.46	6.80	6.52	4.45
1999	8.52	6.82	6.57	4.48
2000	8.64	6.88	6.77	4.61

* Including collection for the sick funds.

** Including *Treasury indemnification* for the reduction of national insurance contributions of employers.

Diagram B presents the “pie” of the NII’s receipts and payments for 2000. The diagram shows that the old-age and survivors branch is the central insurance branch of the NII, paying (together with income supplement to those elderly and survivors who are entitled to it) 34.4% of total benefit payments. The children branch is the second largest in size, its payments reaching 17.7% of total benefit payments. Together with the general disability branch, payments to the NII’s central insurance branches amount to about 65% of total benefit payments. The payments of the long-term care branch amount to 4.8% of total payments, while the wage-replacing benefit branches (maternity, unemployment and work injury) contributes each 6.1%-7.6% of total payments. This is also the magnitude of the share in payments of the income support branch (7.4%), which pays benefits to families with limited means whose principal breadwinner is of working age. The distribution of the NII’s receipts reveals that total government financing in 1998-2000 constituted about 47% of all NII receipts, after reaching 61% in 1996.⁹ Table 1 shows that in 2000, collection from the public for the NII insurance branches (including *Treasury indemnification*) reached 4.61% of the Gross Domestic Product, while collection for the NII insurance branches and the sick funds together reached 6.77% of the GDP. The NII benefit payments amounted to about 8.64% of the GDP in 2000, and contributory benefits – 6.88% of the GDP.

⁹ See previous footnote.

1.2 Main Developments

NII activity in 2000 was characterized by the macro-economic developments that took place in the years 1999-2000, as well as by a number of legislative changes that came into effect in 2000, or that began to be gradually implemented in previous years, continuing until 2000. The accelerated economic growth in 2000 was accompanied by an expansion of employment, a notable rise in the average wage and a near-zero inflation rate – but not by a fall in the unemployment rate. The 4% rise in the number of employed persons was slightly less than the growth in the number of participants in the labor force (4.5%). Therefore, this rise was not sufficient to reduce the scope of unemployment, which continued to increase in 2000, reaching 8.8% of the work force (as compared to 8.7% in 1999). The average price level in 2000 was only 1.1% higher than that of 1999, while the average wage rose by about 8% in nominal terms and by 6.8% in real terms – as compared to by 7.9% and 2.6%, respectively, in 1999.

The expansion of employment and the significant rise in the average wage in 2000 affected the scope of collection of national and health insurance contributions from the public, while their influence on the NII branches that pay wage-replacing benefits was quite limited. Furthermore, because the benefits linked to the average wage were adjusted only in the beginning of the year in accordance with the previous year's wage rise, they too were not influenced by the 2000 wage rise. Similarly to the case in 1999, the 2000 inflation level did not require payment of a cost-of-living increment, and therefore did not necessitate a further adjustment of benefits. The high unemployment level continued to be reflected in the two income-guaranteeing schemes of the NII: unemployment insurance and income support.

A number of legislative changes were introduced in 1999-2000, two of which increased the burden of collection of insurance contributions. Under the first of these amendments (April 1999), the minimum income for payment of (national and health) insurance contributions for full-time employees was raised to a level equivalent to the minimum wage (as defined in the Minimum Wage Law – 47.5% of the average wage in the economy), and accordingly for employees who work on a part-time or daily basis. The influence of this amendment was felt partially in 1999 and fully in 2000. Under the second amendment (January 2000), the maximum income liable for payment of (national and health) insurance contributions was raised from four to five times the average wage. This rise applied both to the share of the employee in payment of national insurance contributions and to the worker's share of the self-employed – but not to the share of the employer (or to the employer's share of the self-employed).

In the area of benefits, amendments were enacted in Disability and in Unemployment Insurance. A number of amendments were introduced following the strike of the disabled population. These amendments served to expand the rights of disabled persons limited in mobility, of families of disabled children eligible for benefit for disabled child or for attendance allowance and of disabled housewives eligible for attendance allowance. The first stage of these amendments, to be implemented gradually, was carried out in 2000. Among the amendments to the Unemployment Insurance Law passed in the framework of the State Economy Arrangements Law – 2000, the only one actually put into effect shortened the period of entitlement to unemployment benefits (to 100 days and to 138 days, in accordance with family composition) for unemployed persons under the age of 40.¹⁰ The savings in payment of unemployment benefits resulting from this amendment was felt only partially in 2000, and will be fully felt in 2001.

In 2000, total NII benefit payments amounted to NIS 39.8 billion in current prices. Compared to 1999, NII payments increased by 8.3% in real terms, which is almost double the rate of growth in the previous year – 4.5%. Contrary to 1999, when the growth in total NII payments was attributed solely to the increase in the number of benefit recipients, the 2000 growth in NII payments reflects also a significant increase in the average wage as defined in the NII Law, to which the old-age and survivors' pensions and income supplement – as well as disability and long-term care benefits, income support benefits to the working-age population and alimony benefits to divorced and separated women – are linked. The level of these benefits was influenced by the 1999 wage rise, whereas the level of the wage-replacing benefits – such as unemployment benefits, injury allowance and maternity allowance – was influenced by the 2000 wage rise. It is estimated that about three-fifth of the real increase in total NII benefit payments in 2000 was contributed by the real growth in the average wage (both the actual wage and the wage defined in the NI Law), and the remainder – by the increase in the number of benefit recipients. An analysis of the contribution of each branch to the growth in total benefit payments shows that the old-age and survivors' branch, which is the main NII branch, contributed over a third (36%) of the total growth in benefit payments. The growth in payments of the children branch, the second largest branch of the NII, the allowances of which are linked to the price index, explains only about 6% of the increase in total payments. The disability branch, the third largest branch, contributed about one fifth (21%) of the increase in total NII payments. The unemployment branch, in which the scope of payments remained the same in real terms, did not contribute at all to the total increase in NII payments, whereas the growth in the other wage-replacing benefits combined (maternity, work

¹⁰ The amendment restricting entitlement to unemployment benefits in cases of recurring unemployment shall be implemented only in 2001.

injury and military reserve service) accounted for about 15% of the growth in total benefit payments. The significant and continuous growth in payments of income support benefit and long-term care benefit accounted for 14% and 9%, respectively, of the increase in total NII benefit payments.

The basic old-age and survivor's pension, as well as the general disability pension and the income support benefit to poor families, increased in 2000 by 5% in real terms, but they decreased relative to the actual average wage. The 1.3% erosion of benefits relative to the actual average wage stems from the fact that the average wage as defined in the NII Law increased in real terms by 5%, while the actual average wage increased in real terms by a higher rate: 6.8%. The level of children allowance to both small and large families remained more or less stable in real terms, but decreased relative to the actual average wage.

The population of benefit recipients increased by natural growth rates in the old-age and children branches, at the rate of the growth of employees in the work injury and maternity branches, but at relatively high rates in the disability, long-term and income support branches. In the unemployment branch there was a slight decrease in the number of recipients, after the stabilization that characterized the previous year.

NII total collection from the public, composed of national insurance contributions (including *Treasury indemnification*) and health insurance contributions, amounted in 2000 to about NIS 30.5 billion in current prices. Compared to 1999, total collection rose by 10%, in real terms, after a 4.4% rise in 1999. Collection of national insurance contributions amounted to about two-thirds of total collection – NIS 20.8 billion – out of which NIS 2.9 billion are Treasury indemnification. The scope of collection of national insurance contributions rose by 9.9% in real terms, reflecting a real growth of 10.5% in collection from employees, and of 3.4% in collection from non-employees. Collection of health insurance contributions increased by 10.4% in real terms, and these covered about half the cost of the basket of health services. Treasury indemnification rose by 7% in real terms, but had the Treasury remitted the indemnification in full, as the law requires, the indemnification amounts would have grown by 10%.

Government participation in the financing of contributory benefits – which is a function of the scope of collection of national insurance contributions – increased at a rate of only 1.6% in real terms, since the Treasury did not transfer to the NII the full sum of this government participation as required by law, but rather a sum lower by about NIS 740 million. Government payments for the financing of non-contributory benefits rose by about 11% in real terms, while NII receipts from interest on all its investments rose by 3.4% in real terms.

As a result of the above developments, NII receipts aimed at financing benefits rose by about 7.7% in real terms, and amounted to about NIS 41.2 billion. The share of the government in all sources of financing (including *Treasury indemnification*) decreased to 46.9% - as compared to 47.6% in 1999 – due to the lack of transfer of the entire sum as required by law.

1.3 Benefit Payments

Benefit payments in each of the NI branches are determined both by the number of benefit recipients in the branch and by the benefit level. Changes in the number of recipients and/or in the benefit level therefore explain the fluctuations that occur in total benefit payments. Changes in the number of recipients are explained, in turn, by changes in the natural growth rate of the population and/or in the rate of immigration to the country (which affect mainly payments of the children and old-age branches), by economic developments – mainly in employment (which affect mainly payments of the unemployment and income support branches), and by changes in the conditions of entitlement, which either expand or reduce the size of the eligible population. Changes in the level of the long-term benefits are explained mainly by changes in the average wage as defined in the NI Law (to which the long-term benefits and the income support benefit are linked), in the Consumer Price Index (by which child allowances are adjusted), in the frequency of updating the benefits linked to the average wage or to the consumer price index (carried out, in addition to once yearly in January, whenever a cost-of-living increment is paid to employees) and in legislation. Changes in the level of the wage-replacing benefits are explained not only by legislative changes, but also by changes in the distribution of benefit recipients by their pre-entitlement wage level. The changes, which occurred in 1999-2000 in the number of benefit recipients, in the benefit levels and in total benefit payments, are described below.

1.3.1 Benefit Recipients

As in previous years, in 2000 the number of NII benefit recipients continued to rise in most insurance branches (Table 2). In the central NII branch, old-age and survivors, the number of recipients rose by 3.4% – a little more than in 1999, and at a rate similar to that of 1993-1996 – reaching about 657,000 as a monthly average. This increase reflects mainly the rise in the number of recipients of old-age pensions (about 3.9%), since the number of recipients of survivors' pensions increased only slightly (0.7%). Similar to the case in 1997-1999, the major increase in the number of old-age pension recipients was not contributed (as in previous years) by the new immigrants

who receive a special old-age pension (not under the NII Law). Rather, it is attributed to the recipients under the NI Law, whose number rose by 4.1% – in contrast to a rate of growth of 3.0% in the number of the former group of recipients. Apparently, this stems from the slowing down in the rate of immigration to Israel, on the one hand, and from the introduction of old-age insurance for housewives (who reached age 65 as of January 1, 1996) on the other hand. In the long-term care branch, which pays in-kind benefits to the physically restricted elderly who do not reside in nursing institutions, the number of benefit recipients rose by 8.8% (similarly to 1999, but slightly less than in previous years), reaching about 96,000 as a monthly average.

In the children branch, the second largest NII branch, there was in 2000 a 2.3% increase in the number of families receiving child allowances, and a 2.0% increase in the number of children for whom an allowance was paid. In contrast to previous years, in which the change in the number of allowance recipients was influenced by frequent changes in the entitlement conditions, in 1995-2000 the increase in the number of allowance recipients reflects mainly the rate of the population growth (including new immigrants). The number of families receiving allowances reached 912,000 as a monthly average in 2000 (including 147,000 new immigrants who arrived in Israel since 1990), and the number of children for whom an allowance was received reached 2,119,000 (including 251,000 new immigrants).

In the general disability branch, the third largest NII branch, the rates of growth in the number of recipients of the general disability pension stabilized in 2000, but the number of recipients of the other benefits, particularly attendance allowance and mobility allowance, increased. The number of general disability pension recipients grew by 6.4% (similarly to 1997-1999) and reached about 135,000 as a monthly average. The number of disabled-child allowance recipients grew by 8.5% (a bit more than the average in 1997-1999), whereas the number of attendance and mobility allowance recipients grew notably – by 17% each. The increase in the number of recipients of these benefits is due to amendments in effect as of November 1999, the first stage of which was carried out in 2000 as a result of agreements reached with the disabled population following their strike. These amendments expanded the rights of the disabled persons limited in mobility and of persons entitled to benefit for disabled child or to attendance allowance. The main changes are as follows: (a) a disabled person is entitled to receive both a mobility allowance and attendance allowance in addition to his disability pension if he meets the conditions of entitlement to these benefits.¹¹ Prior to this amendment, a person who received a disability pension had to choose between mobility allowance and attendance allowance; (b) a disabled child

¹¹ Until January 2000, half of the additional benefit – mobility allowance or attendance allowance, according to the case in question – was paid; as of this date, the additional benefit is paid in full.

Table 2: Number of Benefit Recipients in Main Insurance Branches, Monthly Average, 1985-2000

Year	Old-Age and Survivors	General Disability				Work Injury			Maternity		Children	Unemployment ***	Income Support (to Working-Age Population)	Long-Term Care
		Disability Pension	Attendance Allowance	Benefit for Disabled Child	Mobility Allowance	Injury Allowance *	Permanent Disability Pension	Dependents Pension	Maternity Grant*	Maternity Allowance *	Families Receiving Child Allowances **			
number of recipients (thousands)														
1985	390.2	62.1	4.6	4.0	10.6	56.9	9.9	3.3	101.3	42.7	546.9	19.6	24.6	-
1990	442.6	73.4	6.5	5.8	11.4	56.7	11.6	3.5	103.6	43.7	532.5	50.6	31.8	25.0
1995	553.9	94.0	10.2	10.3	13.2	88.3	14.6	3.8	113.3	55.2	814.7	67.3	75.3	59.0
1996	573.5	104.5	11.2	11.6	13.4	92.3	15.3	3.9	118.1	58.0	830.7	73.6	81.3	65.9
1997	595.1	112.0	12.3	12.5	13.6	84.1	15.9	3.9	124.0	60.4	850.7	94.6	89.4	71.8
1998	615.9	119.7	11.6	13.3	14.1	82.5	17.7	4.0	129.5	64.2	871.2	105.0	100.8	79.8
1999	635.7	127.2	14.2	14.1	14.3	73.9	18.9	4.1	125.7	65.8	891.6	104.9	114.0	88.0
2000	657.1	135.3	16.6	15.3	16.8	76.2	19.8	4.2	131.8	70.6	912.5	101.6	128.0	95.7
annual growth (thousands)														
1985	2.8	1.7	4.5	5.3	2.9	-4.7	5.9	2.2	1.5	-0.1	-12.0	28.5	72.0	-
1990	5.1	2.2	8.3	9.4	1.8	-4.7	4.9	1.3	3.9	1.0	-2.0	18.5	14.1	29.6
1995	3.4	6.2	8.5	8.4	3.1	5.0	7.4	0.0	-2.8	6.1	2.4	10.2	6.2	13.5
1996	3.5	11.2	10.8	12.6	1.5	4.5	4.8	2.6	4.2	5.1	1.9	10.3	7.9	119
1997	3.8	7.6	9.8	7.7	1.5	-8.8	3.2	0.0	5.0	4.1	2.4	27.3	9.9	10.5
1998	3.4	6.9	-6.1	6.4	3.6	-1.9	11.3	2.5	4.4	6.2	2.4	10.3	12.7	11.0
1999	3.1	6.4	22.4	6.0	1.4	-10.4	7.3	2.5	-2.4	2.5	2.3	0.6	13.0	8.8
2000	3.4	6.4	16.9	8.5	17.4	3.1	4.7	2.4	4.9	7.3	2.3	-3.1	12.1	8.8

* Number of different recipients during the year.
 ** The figures for 1985-1993 include families to whom the allowances for the first and second child were reimbursed through the employers.
 *** The figure for 1985 refers to the average number of payments. The figures for 1990 onward refer to the number of recipients.

limited in mobility may receive a mobility allowance in addition to his benefit for disabled child – and not only one of these benefits, as the law enabled previously;¹² (c) the equalization of the level of the attendance allowance paid to a housewife to that of the allowance paid to insured disabled persons; previously, housewives received only 60% of this level; (d) the raising of the level of the mobility allowance paid to a non-earning disabled person with a 100% mobility limitation degree as well as to wheelchair-bound disabled persons to 75% of the mobility allowance paid to an earning disabled person – rather than only 50% of this allowance, as previously;¹³ (e) the expansion of the rights to mobility allowance of disabled persons who are non car-owners; (f) changes in the method of calculation of the mobility allowance; and finally (g) conditions of entitlement to assistance from the Loan Fund were made more flexible.

Since payment of double benefits of mobility allowances, attendance allowances and benefits for disabled child became possible, the number of recipients of these benefits increased, as well as the number of those receiving more than one benefit. For example, in December 2000, about 2,500 disabled persons received both mobility allowance and attendance allowance in addition to their disability pension; about 300 disabled children received mobility allowance in addition to their benefit for disabled child and about 2,950 persons received both attendance allowance and mobility allowance. The number of disabled persons who received both a general disability pension and a mobility allowance rose from about 4,800 in December 1999 to about 6,900 in December 2000.

As for recipients of wage-replacing benefits, the decrease registered in the number of recipients of work injury allowances in 1997-1998 was halted in 2000, and there was even a rise of 3%. The accumulative decrease (about 20%) in the number of benefit recipients in 1997-1999 stemmed mainly from the cancellation of benefit payments for the first nine days of entitlement and their imposition on the employer. The renewed growth in the number of recipients of work injury allowances is due to the increase (of 4%) in the number of employed persons in 2000. The number of recipients over the year grew from about 74,000 in 1999 to 76,000 in 2000. The number of recipients of permanent disability pensions among the work-injured increased by 4.7% as compared to 7.3% in 1999 and 11.3% in 1998 (starting in 1998, the number of pension recipients includes also the number of those who chose to partially capitalize their future pensions). The number of recipients of dependents' pensions increased slightly by 2.5% (similarly to 1999). In the maternity branch the number of recipients of

¹² Until January 2000, half of the mobility allowance was paid to the disabled child; as of this date, the full allowance has been paid.

¹³ The allowance shall be fully equalized by January 2001.

maternity allowance and maternity grant grew in 2000 by 7.3% and 4.9%, respectively – higher than in 1999. The number of recipients of maternity allowances reached 70,600 – reflecting mainly the rise in the number of employees – a figure almost double the number of recipients of maternity grants (132,000). In the unemployment branch, the number of unemployment benefit recipients decreased for the first time since 1995 – by 3%, reaching 102,000 as a monthly average – after having stabilized in 1999. (The figure was 104,000-105,000 recipients in 1998-1999.) This development reflects both the slight rise in the unemployment rate (from 8.7% in 1999 to 8.8% in 2000) and the influence of the amendment shortening the period of entitlement to unemployment benefit to persons under 40 (to 100 days or to 138 days, in accordance with his family composition).¹⁴

Finally, the number of income-support benefit recipients who are of working age (low-wage earners, unemployed who are not entitled to unemployment benefits, disabled persons who are not entitled to a disability pension, single mothers, etc.) continued to increase – by 12.1% – in 2000, reaching a monthly average of 128,000 (of whom about 40% were new immigrants). Although the number of recipients has been increasing constantly since 1994, it is still much lower than the rates characterizing the years 1992-1993 (67.5% and 19.9%, respectively), when the new immigrants became entitled to benefits. The expansion of the scope of income support recipients in the past four years – notable among all family types and population groups– stemmed, inter alia, from the growing unemployment distress in these years and by the failure of the systems responsible for finding jobs for the unemployed to deal with the increasing unemployment problem and/or to change the labor market patterns of income support recipients.

1.3.2 Benefit Level

The level of the long-term benefits is determined as a given percentage of the average wage in the economy, as defined in the NI Law.¹⁵ It thus varies with changes in the

¹⁴ This amendment led to a NIS 100 million savings in payments of unemployment benefits in 2000.

¹⁵ For example, the basic old-age pension (without seniority increment, deferred retirement increment or income support supplement) is 16% and 24% of the average wage, for single elderly and couples (due to entitlement of one spouse only), respectively. In contrast, the minimum income guaranteed by force of the Income Support Law is 25% and 37.5% of the average wage, for single elderly and couples, respectively. These pensions have been increased by 7% in recent years by force of the Law to Reduce Poverty and Income Gaps (August 1994).

average wage, in accordance with the updating times prescribed in the Law. The level of the wage-replacing benefit, on the other hand, is calculated as a (constant or progressive) percentage of the recipient's wages prior to the occurrence of the incident entitling him to benefit. Furthermore, the level of all benefits varies according to legislative changes that alter the benefit rates or the income base on which benefits are calculated. Contrary to previous years, particularly 1994-1995, which witnessed the enactment of legislative changes that had significant effects on benefit levels,¹⁶ in 1999-2000 no relevant legislation was introduced, with the exception of the State Economy Arrangements Law (February 1999). This law established, inter alia, that unemployment benefits will not exceed the average wage as defined in the NI Law, and that in the sixth (and last) month of payment, the benefit will not exceed two-thirds of the average wage. Within the framework of this law, the maximum income liable for insurance contributions – and thus, the basis for payment of wage-replacing benefits (injury allowance and maternity allowance) – was raised to five times the average wage. The mobility benefits and attendance allowance were raised in accordance with the amendments described above.

In the absence of legislative changes, the basic old-age and survivors' pensions (which do not include seniority increment, deferred retirement increment and income supplement) rose in 2000 by 5% in real terms (monthly average), which reflects the real rate of growth in the average wage under the NI Law, to which the pensions are linked. The actual average wage rose at a higher rate – 6.8%. Therefore, the level of the basic pensions relative to the average wage decreased slightly (in continuation of the 1999 decrease). Table 3 shows that the level of the basic pension paid to a single person fell from 15.6% of the average wage in the economy in 1998 to 15.1% in 1999 and to 14.9% in 2000, and that the level of the basic pension to a widow/widower with two children declined from 30.3% in 1998 to 28.8% in 2000. Similarly, the level of pensions granted to elderly people and survivors entitled to income supplement grew in real terms in 2000 but decreased in relation to the average wage. Accordingly, the minimum income guaranteed to a single elderly person (or

¹⁶ The major legislative changes in these years were: the Law to Reduce Poverty and Income Gaps (August 1994), which increased the level of pensions paid to elderly and survivors entitled to income support supplement; the Law to Reduce Poverty – Supplementary Steps (June 1995), which increased the general disability benefits and the income support benefit for single-parent families not defined as such in the Single-Parent Families Law; the reform in the NII collection system (January 1995), which expanded the income base liable for national insurance contributions and therefore also the income base for payment of short-term benefits; and the equalization of child allowances to all families, irrespective of military service (1994-1997).

Table 3: The Old-Age and Survivors' Pension and the Minimum Income Guaranteed to Pension Recipients (constant prices and percentage of average wage*), Monthly Average, 1975-2000

Year	Basic Old-Age & Survivors' Pension				Guaranteed Minimum Income (including child allowances)			
	Single elder		Widow/er with 2 children		Single elder		Widow/er with 2 children	
	2000 prices (NIS)	% of average wage	2000 prices (NIS)	% of average wage	2000 prices (NIS)	% of average wage	2000 prices (NIS)	% of average wage
1975	575	14.9	955	24.8	987	25.5	1,856.7	48.1
1980	632	13.5	1,225	26.3	1,110	23.8	2,250.4	48.2
1985	714	15.2	1,383	29.5	1,427	30.5	2,854.7	61.2
1990	899	15.9	1,739	30.7	1,411	25.0	2,861.1	50.5
1995	910	15.5	1,764	30.1	1,523	26.0	3,158.0	53.9
1996	918	15.4	1,779	29.8	1,536	25.8	3,179.2	53.4
1997	932	15.3	1,806	29.6	1,561	25.6	3,228.2	52.9
1998	975	15.6	1,889	30.3	1,630	26.1	3,367.6	54.0
1999	968	15.3	1,876	29.3	1,612	25.6	3,529.0	55.8
2000	1,016	14.9	1,968	28.8	1,698	24.9	3,736.0	54.7

* As measured by the Central Bureau of Statistics.

widow/widower) decreased from 26.1% of the average wage in the economy in 1998, to 24.9% in 2000, while the minimum income guaranteed to a widow/widower with two children (including child allowances) decreased from 55.8% of the average wage in the economy in 1999 to 54.7% in 2000. The general disability pension, which is identical to the minimum income guaranteed to recipients of old-age and survivors' pensions (for disabled persons having a work disability degree of 75% or more) and the minimum income guaranteed to the persons of working age who are not disabled (Table 4) grew also in similar rates in real terms, but went down in relation to the average wage.

Contrary to the benefits linked to the average wage, the value of the child-allowance point, which serves as a basis for determining the level of the child allowance paid to families of various sizes (and is denominated in shekels), is updated in accordance with the increase in the general price level. In 2000, the value of a child-allowance

Table 4: The Income Support Benefit to the Working-Age Population (constant prices and percentage of the average wage*), Monthly Average, 1985-2000

Year	Single person				Single parent with 2 children (including child allowance).		Couple with 2 children (including child allowances)			
	Regular rate		Increased rate				Regular rate		Increased rate	
	2000 prices (NIS)	Percent-age of average wage	2000 prices (NIS)	Percent-age of average wage	2000 prices (NIS)	Percent-age of average wage	2000 prices (NIS)	Percent-age of average wage	2000 prices (NIS)	Percent-Age of average wage
1985	1,141	24.5	1,424	30.5	2,853	61.2	2,570	55.1	2,996	64.3
1990	1,130	20.0	1,412	24.9	2,861	150.5	2,604	46.0	3,028	53.5
1995	1,140	19.4	1,424	24.3	3,153	53.9	2,729	46.6	3,156	53.8
1996	1,148	19.3	1,434	24.1	3,181	53.4	2,729	46.1	3,177	53.2
1997	1,167	19.1	1,459	23.9	3,229	52.9	2,782	45.6	3,220	52.7
1998	1,217	19.5	1,524	24.8	3,366	54.0	2,890	46.3	3,351	53.8
1999	1,210	19.1	1,524	23.8	3,338	52.4	2,882	45.4	3,337	52.5
2000	1,269	18.6	1,587	23.2	3,495	51.2	3,008	44.0	3,484	51.0

* As measured by the Central Bureau of Statistics.

Table 5: Child-Allowance Point and Child Allowances* (constant prices and percentage of the average wage), Monthly Average, 1975-2000**

Year	Value of child-allowance point		Allowance for 2 children**		Allowance for 4 children		Allowance for 5 children	
	2000 prices (NIS)	% of average wage	2000 prices (NIS)	% of average wage	2000 prices (NIS)	% of average wage	2000 prices (NIS)	% of average wage
1975	169	4.40	339	8.8	1,059	27.4	1,440	37.3
1980	132	2.80	264	5.6	824	17.7	1,120	24.0
1985	149	3.10	169	3.6	1,156	24.7	1,642	35.1
1990	173	2.92	83	1.5	1,339	23.4	1,899	33.2
1995	168	2.80	335	5.8	1,349	23.4	1,919	33.4
1997	168	2.76	334	5.5	1,347	22.1	1,916	31.0
1998	169	2.72	337	5.4	1,347	21.6	1,915	30.7
1999	172	2.69	345	5.4	1,384	21.6	1,969	30.7
2000	171	2.50	342	5.0	1,377	20.2	1,959	28.7

* Including Special Allowance for Veterans.

** As measured by the Central Bureau of Statistics.

*** The allowance level in 1985-1993 relates to a family (up to 3 children) not eligible for the first child allowance, and since October 1990 – for the second child allowance as well. In March 1993 the payment of child allowance on a universal basis was renewed.

point remained almost without change in real terms (decreased by about half a percent), but was eroded in relation to the average wage in the economy – from 26.9% in 1999 to 2.50% in 2000 (Table 5).

The wage-replacing benefits grew a little in real terms in 2000: the (daily average) level of the unemployment benefit grew by about 2%, the (daily average) level of the maternity allowance – by 5.6%, and the (daily average) level of the work injury allowance remained almost without change in real terms (while injury allowance to employees rose in real terms by 7%, that paid to the self-employed decreased in real terms by about 3.5%) In relative terms, the unemployment benefit level reached 45.6% of the daily average wage in the economy (as compared to 47.7% in 1999), the maternity allowance level – 71.9% (as compared to 73.4% in 1999), and the work injury level – 66.1% (as compared to 68.7% in 1999).

1.3.3 Scope of Benefit Payments

In 2000, total NII benefit payments amounted to NIS 39.8 billion in current prices (Table 6). Compared to 1999, benefit payments grew by 8.3% in real terms, a rate almost double that of the previous year – 4.5%. The highest rates of growth were noted in the branches of income support (18.1%), long-term care (18.2%), general disability (15.0%) maternity (11.5%) and unemployment (11.5%). In the central branch of the NII, old-age and survivors, benefit payments went up by a rate which approaches the rate of growth in total payments (8.6%), whereas the rate of growth of payments in the children branch, the second largest insurance branch, was the lowest of all NII branches (1.9%). An exception was the unemployment insurance branch, in which benefit payments remained almost without change in real terms (a fall of about half a percent), and payments to military reserve service, which experienced a real fall (of 6.8%), similar to the previous four years.

Weighting the rates of growth in the various branches by the share of the branch in total payments reveals that the growth in payments in the old-age and survivors branch accounted for about 36.0% of the growth in total NII benefit payments – a contribution similar to the share of this branch in total payments (34.5%). By contrast, the children branch, in which the growth in payments accounted for just 6% of the growth in total NII payments, made a particularly small contribution compared to the share of this branch in total payments (17.7%). The general disability branch contributed a fifth (21%) of the growth in total NII payments – one and a half times its share in total payments (about 13%). The contribution of the income support and long-term care branches, 14% and 9%, respectively, was two and a half times higher than their relative share in total NII payments. The unemployment branch, in which the scope of payments did not grow at all in real terms, contributed nothing to the growth in NII total payments. The growth in the other wage-replacing benefits accounted for about 15% of the growth in total benefit payments – a contribution more or less equal to their share in total payments (15.2%).

Contrary to 1999, in which the rise in total NII benefit payments reflect mainly the increase in the number of benefit recipients, in 2000 the rise in total benefit payments reflects also a significant increase in the average wage as defined in the NI Law, to which the old-age and survivors' pensions – as well as the general disability and income support benefits – are linked. A comparison of the rates of growth in benefit payments (Table 6) with the rates of growth in the number of recipients (Table 2) reveals a relatively large gap between the two in most NII branches, especially in the long-term benefit branches: thus, for example, payments of the old-age and survivors branch increased by 8.6% in real terms, while the number of recipients in the branch rose by only 3.4%. Payments of the general disability branch increased by 15%, while

Table 6: National Insurance Benefit Payments (including administrative costs), 1995-2000

Year	Total Payments*	Old-Age & Survivors**	General Disability	Work Injury, Hostile and Border Actions	Maternity	Children	Unemployment	Military Reserve Service*	Income Support***	Long-Term Care & Other
NIS million (current prices)										
1995	21,188.1	7,674.9	2,253.7	1,487.0	1,206.4	4,286.7	1,280.1	1,052.7	1,148.7	797.9
1996	24,997.3	8,936.8	2,782.2	1,788.4	1,460.6	4,983.8	1,625.8	1,113.0	1,372.2	934.5
1997	29,167.8	10,206.9	3,332.3	1,967.3	1,736.9	5,703.5	2,301.6	1,130.8	1,651.2	1,137.3
1998	33,066.3	11,556.4	3,889.5	2,115.6	1,998.3	6,126.5	2,814.3	1,103.2	2,094.3	1,368.2
1999	36,347.3	12,471.0	4,417.3	2,280.0	2,163.7	6,823.5	3,018.2	1,109.5	2,476.3	1,587.8
2000	39,808.3	13,698.4	5,127.3	2,570.7	2,438.4	7,028.8	3,036.5	1,045.0	2,956.4	1,896.8
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
1996	6.0	4.6	10.9	8.1	8.8	4.5	14.1	-5.0	7.3	5.2
1997	7.0	4.8	9.9	0.9	9.1	5.0	29.9	-6.8	10.4	11.6
1998	7.6	7.4	10.7	2.0	9.2	1.9	16.0	-7.4	20.3	14.1
1999	4.5	2.6	8.0	2.4	2.9	5.9	1.9	-4.4	12.4	10.3
2000	8.3	8.6	15.0	11.5	11.5	1.9	-0.5	-6.8	18.1	18.2
distribution by branch (percentages)										
1995	100.0	36.2	10.6	7.0	5.7	20.2	6.0	5.0	5.4	3.8
1996	100.0	35.8	11.1	7.2	5.8	19.9	6.5	4.5	5.5	3.7
1997	100.0	35.0	11.4	6.7	6.0	19.6	7.9	3.9	5.7	3.9
1998	100.0	34.9	11.8	6.4	6.0	18.5	8.5	3.3	6.3	4.1
1999	100.0	34.3	12.2	6.3	6.0	18.8	8.3	3.1	6.8	4.4
2000	100.0	34.4	12.9	6.5	6.1	17.7	7.6	2.6	2.6	7.4

** Including payments for income support.

*** For the working-age population.

the number of recipients in the branch rose (as a simple average) by 12%. The law amendments introduced to this branch contributed about one fifth of the increase in benefit recipients. Payments of the income support (to the working-age population) branch increased by 18%, while the number of recipients in the branch rose by 12.1%.

The development of the NII benefit payments since 1995 shows that the share of the two large branches – old-age and survivors and children – in total NII benefit payments decreased gradually, the most notable trend being in the children branch. In parallel, the branches that pay benefits to disabled or to unemployed persons and to those who are unable to be integrated into the labor market, raised their share in total payments.

1.4 Sources of Financing

The NII benefit payments are financed, it will be recalled (see Introduction), by four sources: collection of national insurance contributions (direct collection from the public as well as Treasury indemnification against the reduction in employer and self-employed contribution rates, in the framework of the policy to reduce labor costs), government participation in the financing of contributory benefits, government financing of non-contributory benefits and receipts from interest on investments of surpluses in government bonds. The changes that took place in 1999-2000 in the scope of collection from the public (for NII insurance branches and for the sick funds) in government financing and in total NII receipts, are described below.

1.4.1 Collection from the Public

The scope of collection from the public to the national insurance branches and to the health system in 1999-2000 was mainly influenced by economic developments, particularly in the area of wages and employment. Contrary to previous years, which witnessed the enactment of legislative changes that had significant effects on the scope of collection,¹⁷ in 1999-2000 only two relevant pieces of legislation were introduced,

¹⁷ The major legislative changes in these years were: the abolishment of military reserve service as an insurance branch (January 1995), which was accompanied by the reduction of insurance contribution rates paid by employers by 0.47 percentage points and of those paid by employees and by non-employees – by 0.45 percentage points; the reform in the NII collection system (January 1995), which expanded the income base liable for national insurance contributions and introduced reduced rates for employees for the part of wages not exceeding half the average wage as defined by the NI Law; the enactment of the National Health Insurance Law (January 1995) which assigned the NII the task of collecting the health insurance contributions, at the rate of 4.8% of the income liable for national insurance contributions (and at a reduced rate of 3.1% for income not exceeding half the average wage); and the reduction of the parallel tax rates by 1.95 percentage points

that contributed only slightly to the rise in the sums collected. In April 1999, the minimum income for payment of insurance contributions for employees was equalized to the minimum wage as defined in the Minimum Wage Law (47.5% of the average wage), in accordance with the extent of the position (full or part time).¹⁸ The influence of this amendment was felt partly in 1999, but fully only in 2000. The second amendment, which came into effect in January 2000, raised the maximum income liable for insurance contributions from four to five times the average wage. This raise applied to employees (but not to the employers' share) and to the worker's share of the self-employed. The additional collection of national and health insurance contributions stemming from the implementation of these two amendments amounted to NIS 400 million in 2000.¹⁹

NII total collection from the public, composed of national insurance contributions (including *Treasury indemnification*) and health insurance contributions amounted in 2000 to NIS 30.5 billion in current prices (Table 7). Compared to 1999, total collection from the public rose by 10%, in real terms, after a rise of 4.4% between 1998 and 1999. The legislative changes introduced in 1999-2000 contributed about 13% of the real rise noted in 2000 in total collection by means of the NII, while the remainder of the real growth is mainly attributed to changes in wages and employment.

The scope of collection of national insurance contributions (including *Treasury indemnification*) amounted to about two-thirds of total collection – NIS 20.8 billion, out of which NIS 2.86 billion are *Treasury indemnification*. In comparison with 1999, the NII collection of national insurance contributions rose by 9.9% in real terms, reflecting a real growth of 10.5% in collection from employees, and of 3.2% in collection from non-employees. Had the Treasury transferred the full amount of indemnification as required by law – and not a sum lower by NIS 100 million – the rate of increase of collection would have been slightly higher. The direct collection of national insurance contributions (not including *Treasury indemnification*) from the

(February 1995) in the framework of reducing labor costs in the economy; the full cancellation of the parallel tax (January 1997), accompanied by a raise in the rates of national insurance contributions imposed on employers and on non-employees, and by a reduction in Treasury indemnification.

¹⁸ Until that time, the minimum income was at a level of 25% of the average wage for employees who worked more than 18 work days a month (and accordingly for part-time employees who worked less than 18 work days a month).

¹⁹ The additional collection resulting from the first amendment amounted to about NIS 100 million in 1999 and about NIS 180 million in 2000, while the additional collection stemming from raising the income ceiling liable for insurance contributions amounted to about NIS 300 million in 2000.

public increased by 10.3% in real terms, whereas the indemnification transferred to the NII increased by only 7%.

Table 7: NII Collection from the Public, 1998-2000

Year	1998	1999	2000	1998	1999
	NIS million (current prices)			Real annual growth (percentages)	
National Insurance Contributions					
Employees	15,477	17,029	17,000	4.4	4.0
Non-employees	1,575	1,657	1,600	-3.8	-5.0
Total	17,052	18,686	18,600	3.6	3.5
Thereof: indemnification*	2,404	2,641	2,650	-17.2	4.4
Health Insurance Contributions					
Employees	6,171	6,171	6,750	5.2	3.6
Non-employees	1,703	1,733	1,900	2.5	5.7
Total	7,874	7,874	8,650	4.6	4.0
Total**					
Employees	21,648	23,817	23,750	1.8	3.9
Non-employees	3,314	3,594	3,500	-4.3	0.0
Total	24,962	27,411	27,250	1.0	3.4
Thereof: indemnification*	2,404	2,641	2,650	-23.2	4.4

* For the reduction in national insurance contributions (and parallel tax) imposed on employers and on non-employees within the policy of lowering labor costs in the economy.

** The sum of collection of contributions for 1998 includes NIS 36 million collected as parallel tax on assessment differentials of non-employee insured persons.

Collection of health insurance contributions – from employees, non-employees and benefit recipients – increased by 10.4% in real terms in 2000, reaching NIS 9.7 billion. This sum covered 49.8% of the cost of the basket of health services, as compared to 48.3% of this cost in 1999 and 46.7% in 1998. The increase in the collection of health insurance contributions – at a higher rate than that of the rise in the cost of the basket of services – enabled the government to reduce its share in financing this basket.

1.4.2 Government Financing and Total Receipts for NII Branches

Total NII receipts for financing its branches amounted in 2000 to NIS 41.2 billion in current prices (Table 8). As compared to 1999, total financing sources increased by 7.7% in real terms (as compared to a 4.2% increase between 1998 and 1999). As mentioned in the previous section, in 2000 collection of insurance contributions from the public and *Treasury indemnification* rose by 9.9% in real terms. Government participation in the financing of contributory benefits (under article 32 of the Law) is a function of the scope of collection of national insurance contributions, and thus its rate of growth should be the same as that of collection. However, in 2000 the government did not transfer the full sum as required by law, but rather a sum lower by NIS 740 million. Government participation in financing of national insurance branches, as budgeted for 2000, was based on a forecast of collection which turned out to be lower than the actual collection for this year – mainly due to the fact that wages and employment rose at higher rates than those noted at the time that the budget was being prepared. As a result of this development, government participation in financing of contributory benefits increased by only 1.6% in real terms, instead of by about 10%. Government participation in the financing of non-contributory benefits, on the other hand, was transferred in full in 2000, and increased by 11% in real terms. Finally, receipts from interest on NI investments rose in real terms by 3.4%, as a direct result of these developments.

1.5 Surpluses/Deficits and Financial Reserves

A budgetary examination of NII branches (Table 9)²⁰ reveals that, if income from interest on past surpluses is disregarded, in 2000 there was a further deepening in the current deficit of all benefit branches, with the exception of the unemployment branch, the deficit of which was lower than that recorded in 1999, and the children branch, in

²⁰ The national insurance contribution rates are split in differential rates (set in the law) among the insurance branches. Each branch is thus examined by the surplus/deficit in its budget.

Table 8: Sources of Financing of National Insurance Branches, 1985-2000

Year	Total Receipts	Collection of National Insurance Contributions (collection from public & Treasury indemnification)	Government Participation in Financing of Contributory Benefits	Government Financing of Non-Contributory Benefits	Receipts from Interest on Investments
NIS million (current prices)					
1985	2,914	1,516	380	564	447
1990	9,241	5,438	1,295	1,312	1,171
1995	23,581	12,171	4,222	4,650	2,504
1996	27,281	13,512	5,534	5,307	2,874
1997	31,400	15,618	6,698	5,795	3,240
1998	34,564	17,052	7,395	6,531	3,517
1999	37,874	18,685	8,119	7,276	3,729
2000	41,227	20,755	8,340	8,165	3,900
real annual growth (percentages)					
1990	9.1	23.4	17.2	-20.0	-9.9
1995	4.5	-5.1	11.2	31.4	6.3
1996	3.9	-0.2	17.8	2.5	3.1
1997	5.6	6.0	11.0	0.2	3.4
1998	4.4	3.6	4.8	6.9	3.0
1999	4.2	4.2	4.4	5.9	0.1
2000	7.7	9.9	1.6	11.0	3.4
Distribution by financing sources (percentages)					
1985	100.0	52.0	13.0	19.4	15.3
1990	100.0	58.8	14.0	14.2	12.7
1995	100.0	51.7	17.9	19.7	10.6
1996	100.0	49.5	20.3	19.5	10.5
1997	100.0	49.7	21.3	18.5	10.3
1998	100.0	49.3	21.4	18.9	10.2
1999	100.0	49.3	21.4	19.2	9.8
2000	100.0	50.4	20.2	19.8	9.5

which the surplus continued to grow. Overall, the NII ended 2000 with a current deficit of NIS 2,481 million, higher by 13% than the current deficit of 1999 (NIS 2,203 million). This means that in 2000, as in previous years, the rate of growth of NII insurance branch receipts from collection of contributions and from government participation in financing of NII insurance branches did not catch up with the rate of growth of contributory benefit payments. Thus, since 1995, there has been a systematic upward trend in the NII's current deficit.

Table 9: Surpluses/Deficit in National Insurance Branches, 1998-2000

Insurance Branch	Surplus/Deficit Without Interest on Investments			Surplus/Deficit Including Interest on Investments		
	1998	1999	2000	1998	1999	2000
NIS million (current prices)						
Total	-2,019	-2,203	-2,481	1,497	1,527	1,419
Old-age & survivors	-219	-110	-126	1,120	1,340	1,449
General disability	-844	-1,061	-1,284	-374	-211	-424
Work injury	-853	-914	1,025	-491	-501	-662
Maternity	-649	-670	-744	-615	-451	-544
Children	3,598	3,898	4,215	4,393	4,078	4,615
Unemployment	-2,417	-2,595	-2,568	-2,418	-2,474	-2,568
Reserve service	0	0	0	225	0	0
Long-term care	-790	-908	-1,091	-573	-498	-711
Other	155	159	168	230	244	263

The picture is, of course, improved if receipts from interest on past surpluses are taken into account: the deficit in the wage-replacing benefit branches (with the exception of unemployment) and in the long-term care and general disability branches becomes smaller, the deficit in the old-age and survivors branch turns into a surplus, and the surplus in the children branch increases substantially. As of 1999, the assets of the unemployment branch ran out, and therefore there was no income from interest in this branch. When receipts from interest are taken into account, there appears an overall budgetary surplus of NIS 1,497 million in 2000, which, however, is lower than the 1999 surplus (NIS 1,527 million).

The budgetary surplus/deficit clearly affects the financial reserves of the NII branches. The total financial reserves of the NII increased from NIS 80.3 billion in 1999 to NIS 83 billion in 2000. A shortage in reserves was registered in the unemployment branch since mid-1998, and under article 33 of the Law, the Treasury was required to finance the accumulated deficit in the unemployment branch; however, under the Economy Arrangements Law of 1999, the deficit in this branch is to be financed by the accumulated reserves in the military service branch, which was no longer an insurance branch. These reserves were sufficient to finance the entire deficit in the unemployment branch for the years 1998-1999, and some of this deficit for 2000. The 2000 Economy Arrangements Law determines – as a temporary order – that the deficit in the unemployment branch for 2000-2002 shall be financed by the accumulated reserves in the children branch. Naturally, these arrangements increased the loss of income from interest. In the years 1998-1999, a sum of NIS 4.2 billion was transferred to the unemployment branch (from the reserves of the military reserve service branch and the children branch) and in 2000 – NIS 1.7 billion (from the children branch only).

Table 10: NII Financial Reserves and Coverage Levels, by Insurance Branch, 1998-2000*

Insurance Branch	Total Reserves			Coverage Levels (Years)		
	1998	1999	2000	1998	1999	2000
NIS billion (current prices)						
Total	77.7	80.3	83.0			
	Distribution by branch (%)			Coverage years		
Old-age & survivors	38.6	39.8	40.7	3.2	3.3	3.2
General disability	12.9	22.4	21.3	2.7	4.5	3.8
Work injury	9.8	10.5	9.5	3.8	3.9	3.3
Maternity	0.4	5.3	4.5	0.2	2.4	1.7
Children	26.0	7.8	12.0	3.2	1.0	1.4
Unemployment	-2.1	1.2	0.0	-0.6	0.3	0.0
Reserve service	6.5	0.0	0.0	-		
Long-term care	5.6	10.5	9.4	3.2	5.6	4.3
Other	2.3	2.5	2.6	-	-	
Total	100.0	100.0	100.0			

* The figures refer to the end of the budgetary years.

It should be noted that in 1999, a sum of NIS 18.25 billion was transferred from the children branch to branches in which the financial situation has deteriorated in recent years: long-term care (NIS 4.5 billion); general disability (NIS 8.0 billion); work injury (NIS 1.25 billion); and maternity (NIS 4.5 billion). The transfer of assets from the children branch to these other branches in 1999 increased their relative share in the total financial reserves of the NII, while significantly reducing the share of the children branch. Table 10 shows that the share of the children branch in total financial reserves declined from 26% in 1998 to 7.8% in 1999. On the other hand, in 2000 the share of the children branch increased to 12% in 2000 – despite the sum transferred to cover the deficit in the unemployment branch. The table further shows that in 2000 the share of the wage-replacing benefit branches – maternity and work injury – and of the general disability and long-term care branches in the total financial reserves of the NII decreased in comparison to 1999, while the share of the old-age and survivors branch increased.

An examination of the coverage level of each of the NII branches, defined as the number of years of benefit payments made possible by the branch's financial reserves, shows that the reserves in the old-age and survivors and children branches were sufficient at the end of 2000 for 3.2 years of payment, and in the general disability branch – for 3.8 years. The reserves in the children branch shall be sufficient for only 1.4 years of payment (as compared to 3.2 years in 1998, when it had not yet been decided to transfer assets from the children branch to other branches). The actual coverage levels in the old-age and survivors and disability branches were somewhat higher than the minimal coverage level that was set for them – three years and two years, respectively, whereas in the children branch, the actual coverage level fell below the minimal (two years).

Chapter 2

Trends of Development in Poverty and Income Inequality (Summary)

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2.1 Introduction

As part of research carried out in Israel on poverty and income distribution, a relative approach to measuring poverty was formulated in the early 1970s, in line with that accepted by the majority of researchers and social policymakers in the western world. According to this approach, poverty is an expression of relative distress that should be evaluated in relation to the standard of living typical of a given society: a family is considered poor not only when it is unable to purchase a basic basket of products necessary for its subsistence, but when its living conditions are significantly inferior to those characteristic of the society as a whole. The relative approach further recognizes that distress is not only reflected in low income, but may also be expressed in the level of assets, housing conditions, education and public services available to those in distress. Nevertheless, since there is no agreed index that takes into account all the constituent aspects of distress, and since the National Insurance Institute only possesses data (taken from Central Bureau of Statistics Income Surveys) for the current income of households in Israel, poverty is measured solely as a function of the latter. The relative approach offers several operative methods for measuring poverty based on the level of income which rely, as a common denominator, on a comparison of the level of income of families on the lowest scale of income with the level of income of all other families in society. Each method is predicated on a “poverty line” set as a percentage of the income which is “representative” of society. A family whose income is below the poverty line will be considered poor, without this necessarily implying that the family suffers from want in the form of hunger, malnutrition, threadbare clothing or dilapidated housing, but only that its income is significantly lower than the representative income.

In Israel, the method for measuring poverty is based on the following three principles:

- a. The first principle views the family’s net income as the relevant income for assessing poverty. Net income is defined as the family’s market income (from work as well as from ownership of physical production means and financial assets) plus transfer payments (received not in return for economic efforts, such as national insurance benefits or support from institutions and individuals in Israel and abroad), less direct taxes (income tax, national insurance contributions and health insurance contributions).
- b. The second principle regards the median net income of the population as the society’s representative income. Median income is defined as the level of income which 50% of families have at least that income, while the remaining 50% have a higher level of income. The poverty line is defined as the level of income equivalent to 50% of the median net income. A family whose net income is lower

than one half of the median net income is thus regarded as poor.¹ Economic growth leading to an increase in the median net income also results in the raising of the poverty line. A non-poor family whose net income has increased by less than the rate of increase of the poverty line may thus become a poor family.

- c. The third principle adjusts the poverty line to the family size. This principle is based on the assumption that family size involves economics of scale, whereby the growth of a family by an additional person increases its needs not by an equivalent, but rather by a lesser, proportion. In other words, the additional income required by a family in order to maintain a fixed standard of living decreases with the increase in the number of family members. To enable a comparison between the standard of living of families of different sizes, an “equivalence scale” was developed by which the needs of each such family can be measured against the needs of a family of a given basic size. More specifically, the equivalence scale translates the number of persons in a family into the number of “standard” persons (or the number of “standard adults”) in that family (Table 1). The scale is based on a two-member family which is assigned a value of two standard persons. According to this scale, a family with one member has a value of 1.25 standard persons. In other words, the needs of a one-member family are not assessed as equivalent to one half the needs of a two-member family, but as greater. Similarly, the needs of a four-member family (which has a value of 3.2 standard persons) are not set at double the needs of a two-member family (which has a value of 2 standard persons), but at less than double (only 1.6 times greater).

In keeping with these principles, the poverty line per standard person in Israel was set at 50% of the median net income per standard person. A family in Israel is classified as poor if its net income, divided by the number of standard persons in the family, is lower than the poverty line per standard person. The poverty line per family can be calculated in a similar manner – by multiplying the poverty line per standard person by the number of standard persons in the family.

The poverty line per standard person in 1999 stood at NIS 1,272 a month, compared with NIS 1,149 in 1998 (in current values for the respective survey periods). In real terms, the poverty line per standard person rose by 5.2% compared to 1998. The average wage in the economy grew by nearly 1% in real terms between the Income Survey dates, hence the poverty line per standard person declined from 19.9% of the average wage in 1998 to 20.4% in 1999. Table 1 presents the poverty lines for families

¹ The median income is preferable to the average income, as representing the typical standard of living, since the latter is affected by extreme values in income distribution (i.e. by very high or very low incomes).

Table 1: Number of Standard Persons and the Poverty Line per Family, by Number of Family Members, 1999-2000

Number of Family Members	Number of Standard Persons	Poverty Line per Family (NIS per month)	
		1999	2000 (estimate)
1	1.25	1,590	1,742
2	2.00	2,543	2,788
3	2.65	3,370	3,694
4	3.20	4,069	4,460
5	3.75	4,769	5,227
6	4.25	5,404	5,924
7	4.75	6,040	6,621
8	5.20	6,612	7,248
9	5.60	7,121	7,806

of different sizes, in shekel values and as a percentage of the average wage.

As already indicated, the Annual Income Surveys conducted by the Central Bureau of Statistics (CBS) serve as the basis for calculating the dimensions of poverty and income inequality in Israel. Up until 1997 (inclusive), the survey population included households whose head was an employee or non-working person, in urban localities with 2,000 or more inhabitants (excluding East Jerusalem)². In 1998 the Central Bureau of Statistics decided to produce a combined Income Survey, based on both the current Income Survey and the Family Expenditures Survey. The combined Income Survey is based on a larger sample (1.8 times the previous sample) and encompasses 95% of all households in Israel in most forms of settlement. In addition to the employee and non-working populations in urban localities, the combined Income Survey also covers the self-employed population, the population in the moshavim and in rural and community localities, and the inhabitants of East Jerusalem. The populations not yet included are mainly the kibbutzim and the Beduin inhabitants who do not reside in permanent localities. In 1999 the CBS introduced a further improvement and updated the weight given to each family in the sample, in order that the sample be more representative of Israel's population.

² Up until 1994 (inclusive), the Income Surveys included non-Jewish localities with 10,000 or more inhabitants (excluding East Jerusalem). Since 1995, the Income Surveys have been expanded to include non-Jewish localities numbering 2,000 – 10,000 inhabitants.

The present summary surveys the dimensions of poverty and income inequality in Israel in 1998-1999 on the basis of the combined Income Survey³, and presents the main findings regarding the impact of transfer payments and direct taxes in reducing their scope. The dimensions of poverty are expressed by means of the two most widely used aggregate poverty indices in empirical studies, both in Israel and abroad: the poverty incidence and the poverty gap. The poverty incidence index indicates the scope of poverty in terms of the percentage of poor families in the total population. The poverty gap index reflects the depth of poverty: the poverty gap of a poor family is defined as the difference between the poverty line (corresponding to the family's size) and the family's actual income, while the poverty gap of the population as a whole is defined as the sum of the poverty gaps of the total number of poor families in the population. The poverty gap index can be standardized and defined as the ratio between the average poverty gap per poor family and the poverty line (hereafter, the "poverty gap ratio"). Income inequality among the entire population is measured by the GINI index.

2.2 Main Developments

The main developments in the dimensions of poverty in Israel in 1999 were as follows (Table 2):

- a. 1999 witnessed a slight rise in the incidence of poverty in Israel. The percentage of families whose net income (after transfer payments and direct taxes) was below the poverty line rose from 17.5% in 1998 to 18% in 1999.
- b. The number of poor families totaled 308,000 in 1999, compared to 293,000 in 1998. The increase in the number of poor families stemmed not only from the slight increase in the incidence of poverty, but from the population growth in the country.
- c. The percentage of poor persons in the total population of persons and especially the percentage of poor children in the total population of children rose as well in 1999 as compared to 1998: the percentage of poor persons rose from 18.2% in 1998 to 19.5% in 1999, and the percentage of poor children rose more significantly – from 22.8% to 26%.

³ For this purpose, a new data series was produced for the years 1997-1998, which differs from the series which served a basis for computing the dimensions of poverty and income distribution as published in the NII previous Annual Survey (for the years 1998/99).

- d. The number of poor persons reached 1,134,000 in 1999 (as compared to 1,103,000 in 1998), and included 510,000 children (440,000 in 1998).

The significance of these findings is that every fifth person and every fourth child in Israel lives in a poor family.

The slight rise in the incidence of poverty by net income, which characterized the population as a whole, was also observed among specific population groups, with the exception of large families, whose poverty incidence rose notably, and of single-parent families, whose incidence of poverty even declined slightly. The minor changes in poverty incidence in most population groups are not statistically insignificant and do not indicate a change with certainty.

The main developments in the dimensions of poverty among specific population groups were as follows:

- a. Families headed by an elderly person – In 1999 every fourth family headed by an elderly person was poor, according to net income, and the number of poor families headed by an elderly person reached about 87,000. . The incidence of poverty among families headed by an elderly person rose from 24.3% in 1998 to 25% in 1999. The reason for this rise was the light erosion which occurred in 1999 in the level of the basic old-age pension and in the level of the minimum guaranteed income in relation to the average wage in the economy and to the poverty line.
- b. Families with children – The incidence of poverty among families with children increased from 17.9% in 1998 to 19.3% in 1999. This increase stems mainly from the rise in the scope of poverty among large families with four or more children. In 1999, 41.6% of large families had a net income below the poverty line, as compared to 35.6% in 1998. The expansion of poverty among large families characterizes the non-Jewish population only. The poverty incidence among large non-Jewish families rose from about 50% in 1998 to about 61% in 1999. This development can be partly explained by the notable rise in the scope of unemployment in the non-Jewish population. The incidence of poverty among large Jewish families, on the other hand, did not change significantly. In 1999, transfer payments reduced poverty among large families by 27% only, as compared to 34.8% in 1998. The major decline in transfer payment contribution to reducing poverty took place among the non-Jewish population.

Table 2: Poverty in Total Population, by Selected Poverty Measures, 1997 and 1998

Poverty measure	Before transfer payments and direct taxes	After transfer payments only	After transfer payments and direct taxes
<u>1998</u>			
Poor population			
Families	548,100	238,700	292,500
Persons	1,789,800	846,200	1,033,000
Children	705,800	360,700	439,500
Incidence of poverty (%)			
Families	32.8	14.3	17.5
Persons	31.5	14.9	18.2
Children	36.7	18.7	22.8
Poverty gap ratio (%)*	59.8	25.7	25.3
<u>1999</u>			
Poor population			
Families	552,800	258,900	308,300
Persons	1,813,300	947,700	1,133,900
Children	719,300	427,700	509,700
Incidence of poverty (%)			
Families	32.2	15.1	18.0
Persons	31.2	16.3	19.5
Children	36.7	21.8	26.0
Poverty gap ratio (%)*	61.6	25.9	25.8

- c. Families headed by a working person – The incidence of poverty among families headed by a working person remained more or less stable in 1999. In this year, 9.3% of these families were poor (as compared to 9.1% in 1998). The scope of poverty among families with one breadwinner rose from 16.9% in 1998 to 18.2% in 1999, but among families with two breadwinners it remained stable and very low. The small improvement in unemployment that occurred in 1999, especially among women, led to a rise in the proportion of families with two or more breadwinners and to an increase in the average income of the family from work.

Table 3: The Impact of Transfer Payments and Direct Taxes on Poverty in Total Population, by Selected Poverty Measures, 1997-1998

Poverty measure	Percentage of decrease stemming from transfer payments only		Percentage of decrease stemming from transfer payments and direct taxes	
	1998	1999	1998	1999
Incidence of poverty (%)				
Families	56.4	53.1	46.6	44.1
Persons	52.7	47.8	42.2	37.5
Children	49.0	40.6	37.9	29.2
Poverty gap ratio (%)*	57.0	58.0	53.7	58.1

* See note to Table 2.

- d. Families headed by a non-worker (of working age) – The incidence of poverty among families headed by a non-worker (most of which do not have any other breadwinners) remained high in 1999 as well. 62% of these families were poor.
- e. Single-parent families – The incidence of poverty among single-parent families remained more or less stable; the rate of poor families in this group declined slightly, from 24.2% in 1998 to 23.7% in 1999.
- f. Non-Jewish families – The incidence of poverty among non-Jewish families (including those living in East Jerusalem) rose slightly, from 40% in 1998 to 42.3% in 1999. Only 20% of the non-Jewish families (as measured by market income) were extracted from poverty as a result of transfer payments.
- g. New immigrant families – The incidence of poverty among new immigrant families rose from 16.8% in 1998 to 18.0% in 1999. New immigrant families are no longer considered a separate group within the poor population; the scope of poverty in these families is similar to that of the average in the population as a whole and the incidence of poverty decreases with increasing seniority in the country.

There were marked differences in the dimensions of poverty by geographical dispersion and locality. The Jerusalem district, the northern district (both having a relatively high concentration of Arabs) and the southern district were characterized by a high incidence of poverty, reaching 26% in Jerusalem and in the north and 21% in the south. The development areas are also characterized by an incidence of poverty

Table 4: Gini Index of Inequality in Net Income Distribution, 1997-1999

Year	Before transfer payments and direct taxes	After transfer payments	After transfer payments and taxes	Percentage of decrease stemming from transfer payments and taxes
1997	0.509	0.414	0.353	30.6
1998	0.512	0.414	0.352	31.3
1999	0.517	0.421	0.359	30.6
Change in measure (%)				
1999 compared to 1997	1.6	1.7	1.7	
1999 compared to 1998	1.0	1.7	2.0	

that is higher than the overall average – 20% as compared to 18%, respectively. Jerusalem, Bnei Brak and Ashdod are the poorest cities of Israel according to the poverty indices: 24%-26% of families living in these cities have a net income below the poverty line. It should be noted that the incidence of poverty in West Jerusalem is only slightly higher than that of the whole population.

Income gaps in Israel deteriorated in 1997-1999. The GINI index for market income inequality (stemming mainly from the family's work) rose from 0.509 in 1997 to 0.512 in 1998 and to 0.517 in 1999 – an accumulative increase of 1.6%. This increase reflects mainly the growth of the upper decile's share in total market income. In addition to this development, 1999 witnessed a certain fall in the contribution of transfer payments to reducing market income gaps. The combined influence of these two developments led to an expansion of gaps in net income. The Gini index for net income inequality rose by 1.7% between 1997 and 1999 – from 0.353 to 0.359, respectively. The share of the upper decile in total net income rose at the expense of the share of the other deciles. In 1999, the upper decile took 0.6% of the national income pie.

In summary, the main developments in 1999 in poverty and income distribution in Israel point to a certain degree of deterioration in the scope of poverty as well as in income gaps as compared to 1998. The percentage of families whose net income fell below the poverty line rose from 17.5% in 1998 to 18% in 1999, and the Gini index of inequality in net income distribution increased by about 2%. The erosion in the level

of benefits to the low-income groups supported by the NII decreased the contribution of these benefits to the reduction in the scope of poverty. In 1999, the minimum guaranteed income (including child allowances and health tax deductions) to low-income families was lower than the poverty line – for all types of families. Therefore, the level of this income was not sufficient to extract the weak families from the circle of poverty.

Poverty and income inequality in Israel in an international perspective is examined on the basis of the data pool set up in Luxembourg in the framework of the Luxembourg Income Study project (LIS). This data pool, updated once every 5 years, created a database with uniform definitions for incomes and for demographic and occupational variables. The most updated databases in this pool refer to the mid 1990's (1994-1997). Table 5 presents the incidence of poverty among families, persons and children, measured according to net income, as well as the Gini index of inequality in net income distribution in 12 Western countries. The incidence of poverty and the Gini index were calculated and weighted according to the scale commonly used in Israel.

The twelve countries included in the comparison are divided into four main groups according to poverty incidence among families: the United States and Israel at the top of the scale, with a poverty incidence of about 18% (and only a tiny difference between them); Australia, Italy, Germany and Canada – with a poverty incidence of 12%-13%; Sweden, Holland, France and Belgium with a poverty incidence of 8%-9%; and Norway and Luxembourg, with the lowest poverty incidence – 4.5%- 6%. The poverty incidence among persons – but not the poverty incidence among children – shows the same grading,. For example, Italy is graded in second place after the United States, which has a higher percentage of poor children than does Israel, although the difference between them is not large. The lowest percentage of poor children is in Sweden: 3.3%.

The United States is graded in first place according to the Gini index of inequality in net income distribution as well. Afterwards are graded Israel and Italy, with levels of inequality that are relatively high, but substantially lower than that of the United States. Germany, France, Canada and Holland are in the middle of the inequality scale. The lowest inequality is to be found in Sweden, Norway and Luxembourg. The Gini index of inequality in net income distribution in Sweden, which is at the bottom of the scale, is 42% lower than that of the United States, which is at the top of the scale.

Figure A: Poverty incidence among families in specific population groups, before and after transfer payments and direct taxes (percentages), 1999

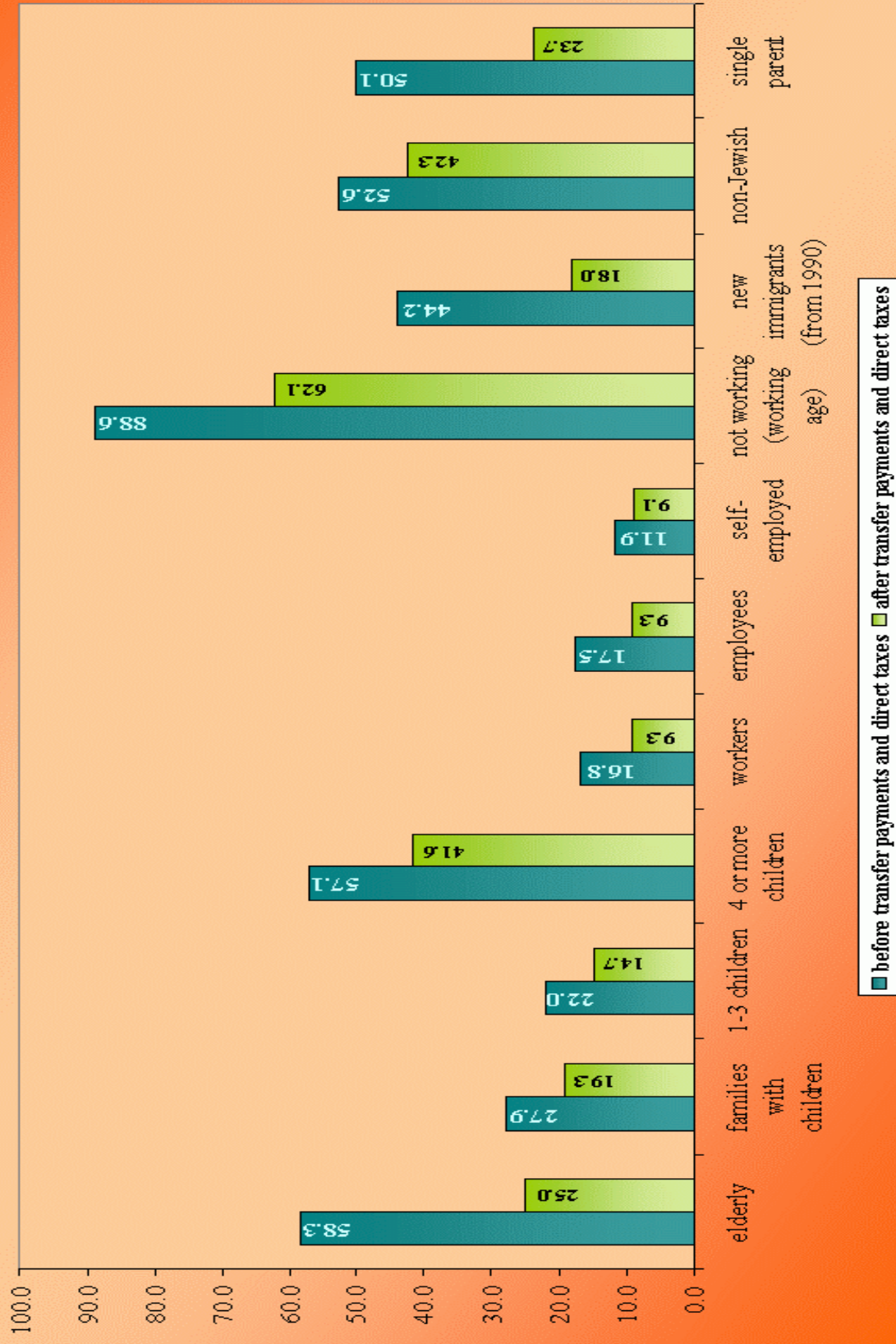


Figure B: The distribution of transfer payments and direct taxes, by deciles (percentages) 1999

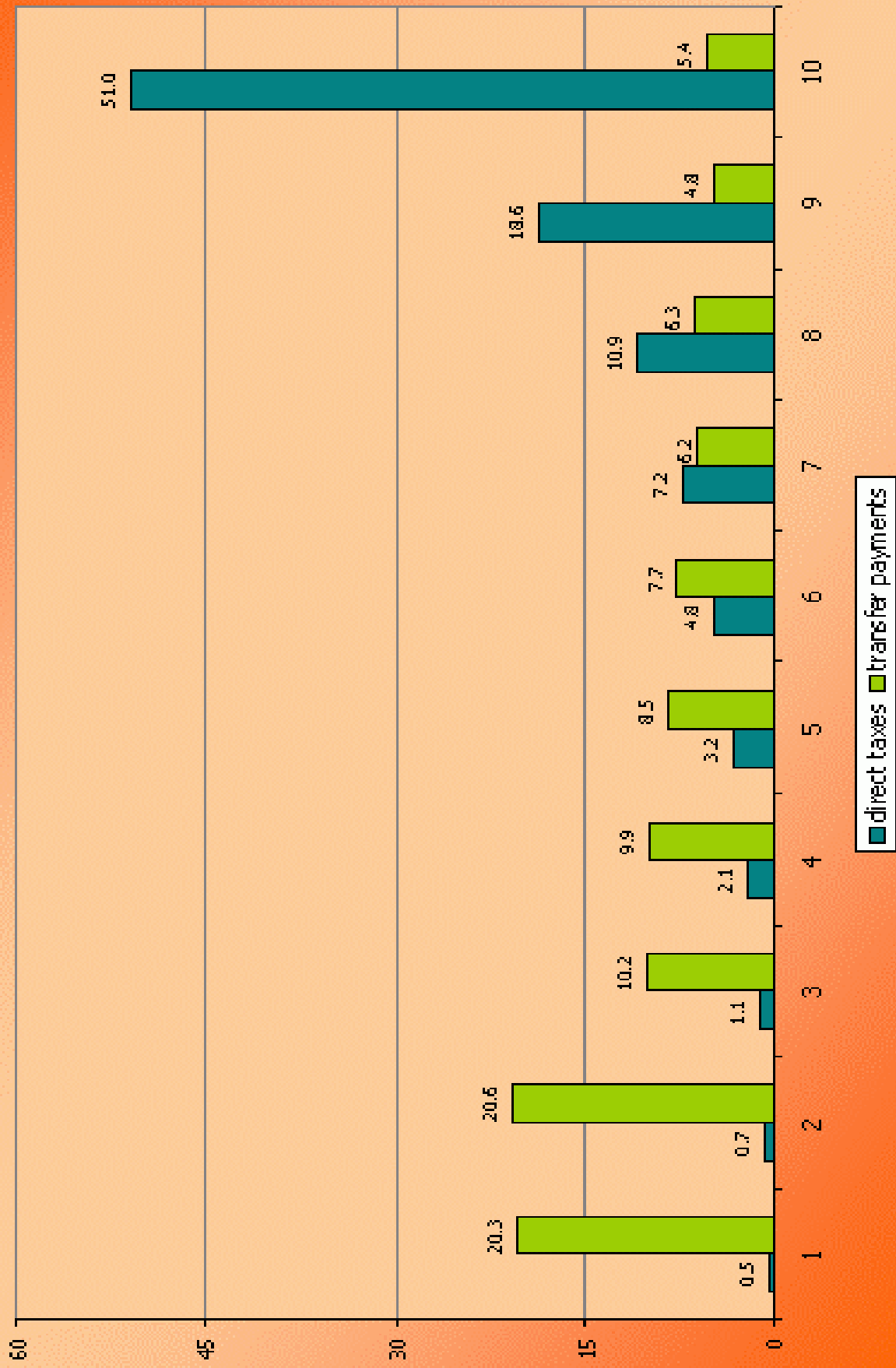


Table 5: The Incidence of Poverty and the Gini Index of Net Income Distribution in Selected Countries: The Mid - 1990's

Country	Poverty incidence			Gini index of inequality in income distribution	Scale according to Gini index
	Families	Persons	Children		
United States (1997)	17.9	18.8	27.6	0.3820	1
Israel (1997)	17.7	18.2	22.9	0.3531	2
Australia (1994)	12.7	12.7	18.3	0.3211	4
Italy (1995)	12.6	15.0	23.7	0.3443	3
Germany (1994)	12.0	12.3	17.5	0.3005	5
Canada (1994)	11.2	11.3	17.6	0.2898	7
Sweden (1995)	8.8	5.9	3.3	0.2219	12
Holland (1994)	8.4	8.7	9.8	0.2706	8
France (1994)	8.4	8.6	11.5	0.2924	6
Belgium (1996)	8.0	7.0	6.8	0.2691	9
Norway (1995)	6.0	4.3	4.3	0.2351	11
Luxembourg (1994)	4.5	5.0	9.0	0.2396	10

Source: Research and Planning Administration, National Insurance Institute of Israel.