

2008

Annual Survey



National Insurance Institute of Israel
Research and Planning Administration

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Preface

by the Director-General

The year 2008, to which this Survey refers, marks the end of five consecutive years of growth, manifested by expanded employment, a decrease in unemployment and an increase in wages. These positive developments were reflected in the scope of benefit payments and collection through the National Insurance Institute of Israel, even after taking into account the effects of legislation that reduced these payments.

The year under survey passed under the shadow of recession cast over the entire global economy, including the Israeli economy. The signs of an economic crisis, expected to intensify during 2009 and 2010, were recognized already by the second half of 2008, with the accelerated rise in the number of unemployed and of families claiming income support. The social situation is affected both by the government's economic strategy and by the state of the social safety net. During such times, the role of the National Insurance Institute as a partner in shaping the character of the Israeli welfare state and as the provider of a safety net to its citizens becomes doubly important. Chapter 1 of this Survey raises key issues regarding economic and social policy, in light of the known starting point of a tense social situation, as revealed in historical and international comparisons of poverty and inequality in Israel.

The comparison of Israel with developed countries around the world in terms of socio-economic indicators of welfare expenditure for and the dimensions of poverty and inequality (expanded upon in Chapter 2), indicates Israel's relatively low position compared with the OECD countries (which, for the most part, are developed countries), and shows that the state of Israel's starting point as it entered the present crisis did not leave it with any "surpluses" for coping with a further exacerbation of the situation. The findings for 2007 and for the first half of 2008 (published previously) indicated an improvement in the poor population's situation and a downward trickling of profits from growth – for the first time since the last growth wave– even to the weak strata of society. The findings also showed a trend of expansion of employment and an increase in the earnings of disadvantaged population groups in general, and of large families in particular, to an extent that helped some of them extricate themselves from poverty.

These initial signs of improvement are likely to be short-lived, due to the present crisis and the anticipated shortage of jobs. However, if the government implements a macro-economic policy that temporarily expands demand – as the International Monetary Fund has recommended – and supports weak population groups and those harmed by the crisis by strengthening the social safety net for the long run as well, then the period of crisis may be transformed into an opportunity to improve the economy and benefit society when the crisis is over. To this end, it is advisable to make use of a variety of supporting tools: the social safety system will serve as a bridge between the two growth periods (before and after the crisis) for the working-age population, while a proactive policy in the labor market and an improvement in unemployment insurance will benefit the situation of the working population, which is not getting fair compensation, and will benefit those not presently working but who have the potential to enter the labor market when growth resumes.

The National Insurance Institute has recently been working on a strategic action plan, addressing both the benefits aspect and the financing aspect of its activities. In the course of the year, memoranda and position papers were prepared, addressing the Institute's benefits, its financial

infrastructure for financing these benefits and the socio-economic situation. These documents include, for the most part, proposals and recommendations relating to the various insurance schemes for which the National Insurance Institute is responsible, in order to adapt them to the changing times and to the challenges facing Israeli society. A summary of these proposals is presented in Chapter 1 (Section 2) of this Survey. Some of the proposals have already been accepted by policy makers. Improvements to unemployment insurance – which, in 2001, provided cover for nearly half of the unemployed in the economy, and, in recent years, fell so far that it covered only a quarter of the unemployed – are expected to come into effect in 2009. These improvements will shorten the qualification period required for receipt of unemployment benefits and extend the entitlement period, thus expanding coverage in this branch. Old-age pensions were increased in 2009, as part of ongoing efforts to increase their rates relative to the average wage, and thus provide a reasonable standard of living to those outside of the labor market. We hope that other recommendations proposed in this Survey and submitted during the course of the National Insurance Institute's routine activities will be seriously considered by the decision makers in Israel entrusted with social affairs.

In 2008, a negative income tax plan began to be implemented in pilot areas. It is still too early to assess the extent of the plan's impact, which is to be scrutinized by a research team of which the National Insurance Institute is a member. However, the plan could be an important tool for increasing the compensation that weak populations will receive for their labor. On various occasions, the National Insurance Institute has proposed that more intensive use be made of this tool – in terms of improving the benefits it provides – so that the additional income for families working for low wages would be more significant and would provide a greater incentive to draw new populations into the labor market. The pro-active employment policy required from the government at this time does not end just with financial support: this crisis may also present an opportunity to increase the earning capacity of population groups lacking necessary skills in the labor market, so that, when the crisis passes and growth resumes, they will be able to integrate into the labor market and extricate themselves from their economic hardship. Investment in physical infrastructure is also needed, in order to increase the accessibility of various population groups to the labor market, as well as to increase their welfare.

At the same time, and as an integral part of the National Insurance Institute's concerted efforts to enhance the welfare of the state's citizens, we are striving to formulate new plans to improve the quality, efficiency and accessibility of the spectrum of services available for citizens. This work is being supported by the skilled employees of the National Insurance Institute and by its computerized systems, which we also plan to upgrade and adapt to the new requirements.

This Survey provides an opportunity for me to commend the professional work of all those involved in social security in Israel, in all its local branches throughout the country, and to express the hope that we will win the support of the government and of the public at large in proceeding with the tasks we are facing in all spheres.

Esther Dominissini
Director-General

Foreword

This Survey presents the activities of the National Insurance Institute during 2008, and is the latest edition in the series of annual surveys published by the Institute. As usual, Chapter 1 opens with a summary of the social situation. However, this year, there are two innovations: firstly, emphasis has been placed on the response of macro-economic policy to the turning point in the socio-economic situation that began at the end of 2008, since this policy is likely to have substantial repercussions on the social situation, particularly in light of the distressing starting point of poverty, the severity of poverty and the widening inequality in Israel, compared with the past and with the international situation. The response of the macro-economic policy being formulated in Israel, whose key component is the continued reduction of taxes, while demanding cutbacks in public and social expenditure – runs contrary to the recommendations published in recent months by the central global economic organization, the International Monetary Fund (IMF), whose *raison d'être* is to monitor global economic stability and to take action to reinforce that stability. The IMF explicitly recommended that increasing public and social expenditure is preferable to reducing taxes (by a given deficit). The IMF also recommended that restraints on the deficit and therefore, on the public debt, should be relaxed for a limited period during the peak of the crisis.

The second innovation in Chapter 1 is that it presents, for the first time, abstracts of a number of position papers written during the year by Research and Planning Administration researchers. Some of these papers were written in response to proposals by the Ministry of Finance in the framework of the Economic Arrangements Act, some as initiated policy proposals of the Research and Planning Administration, and others were written as part of the brainstorming process on major issues faced by the National Insurance Institute.

Chapter 1 also addresses the main changes and trends in the Institute's two fields of activity – benefits and collection – as well as the immediate and long-term implications of the changes instituted in the Institute's plans.

Chapter 2 presents the situation of poverty and social gaps in Israel. This year, emphasis is placed on an international comparison between the social situation in OECD countries and in Israel, as reflected in various indices, such as government welfare expenditure divided between cash and in-kind benefits, and benefits directed to the working-age population and to the elderly. Emphasis is also placed on poverty and inequality in income distribution in all population groups (such as elderly persons and children). Later on in this chapter, the findings on the dimensions of poverty and the social situation for 2007 are summarized. Chapter 3 addresses the developments in the National Insurance Institute's collection system, while Chapter 4 presents the Institute's core activities and expounds on the main developments that occurred in the benefits in each of the various branches.

In order to ensure maximum access to the information contained in this Survey by the general public in Israel and abroad, the Survey has been translated in its entirety into English, while a condensed version has been translated into Arabic, and it has been published on the Internet and in a printed edition, as in 2007. The Survey also contains a number of appendices: abstracts of research and survey reports published in 2008 by the Research and Planning Administration (in

Hebrew only), abstracts of evaluation studies conducted by the Fund for Demonstration Projects (in Hebrew only), tables of the insurance branches, a survey measuring poverty and summarizing the data sources, and tables of poverty and inequality.

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