
Chapter 3

Collection of Insurance Contributions

1. Introduction

The National Insurance Institute is responsible for collecting national insurance contributions in order to fund the benefits paid under the National Insurance Law, and for collecting health insurance contributions to fund the health system. National and health insurance contributions are collected from both working (self-employed and salaried) and non-working residents of the country, at various rates based on income from which insurance contributions are deductible. In addition, since 1986, the government has compensated the National Insurance Institute for the loss of collected revenues due to the reduction in insurance contributions for employers and the self-employed. This compensation is called *Treasury indemnification*, and it forms part of the Institute's revenues from national insurance contributions¹.

In 2008, as in previous years, collection from the public was also affected by fluctuations due to economic developments in the economy as a whole, by the average wage, by the number of employed individuals (details below) and also by the legislative process – that commenced in 2005 with the tax reform of that year and that will continue to the end of 2009 – that included the gradual reduction of insurance contributions from employers. In 2006, two rates of contributions – reduced and regular – were introduced for employers instead of the flat rate at all levels of income from which insurance contributions are deductible, similar to the rate structure for salaried and non-salaried workers. Before the Law was changed, the employer paid 5.93% of the employee's salary, up to a ceiling of income from which the contributions are deductible. Following the amendment, for the period January-December 2008, employers paid 3.85% at the reduced rate (up to 60% of the average wage) and 5.43% at the regular rate. The tax reform also affected collection of National Insurance contributions: the reduced rate for insurance contributions paid by employees was reduced from 1.4% of income to 0.4%; the regular rate was increased from 5.58% to 7%; and the reduced rate bracket was increased from 50% of the average wage to 60%. These changes were made with a zero budget, that is, with no change to the overall size of the Institute's revenues. The increase in the reduced rate bracket also applies to the employer's share, to avoid a loss in collection of contributions. A summary of the changes in the period 2005-2009 is given later in this chapter (Tables 2 and 3).

The combined result of the Economy Arrangements Law, 2005 and of the reform introduced in 2006 is that the reduced and regular rates of insurance contributions paid by employers in 2009 will be 3.45% and 5.43% respectively. Compared with the situation before August 2005, this is a reduction of 1.5 percentage points in the average rate for the employer (4.43% compared with 5.93%). The cumulative loss of revenues from the start of this process (2005) to the end of 2008 amounts to NIS 8 billion, and this policy is expected to lead to a loss of a further NIS 3.9 billion approximately, in 2009. In accordance with the legislation, the National Insurance Institute will **not** be compensated by the Finance Ministry for this loss. However, the rates of government participation, based on section 32 of the Law, have been increased, so that the Finance Ministry

1 The rate of insurance contributions that is imposed on the government instead of on employers appears in the table of payment rates, but is also based on Section 32 of the Law, which deals with all government participation in funding the various branches of national insurance.

allocation for funding benefits under the Law will not be reduced as a result of the loss of revenue from insurance contributions collected from employers.

Table 1 shows collection from the public in 2007 and 2008, and the effect of changes in legislation on the amounts collected. In 2008, National Insurance Institute revenues from collection of national and health insurance contributions amounted to NIS 42.4 billion. NIS 40.4 billion was collected directly from the public, and NIS 2 billion was transferred by the Finance Ministry, pursuant to section 32(c) of the Act, which compensates the NII for the reduction in national insurance contributions by employers and self-employed individuals. In that year, direct collection from the public rose by 2% in real terms, compared with a growth of 4.4% in 2007. Without the change in the legislation introduced in 2006, direct collection from the public in 2008 would have risen by an estimated 3.9% in real terms.

National Insurance contributions collected from the public in 2008 rose by 1.1% (compared with 3.3% in 2007), and health insurance contributions increased by 3.6% (compared with an increase of 6.6% in 2007). Health insurance payments as a proportion of total amounts collected from the public increased from 35.5% in 2007 to 36.5% in 2008, due to the continuing process of reducing national insurance contributions from employers as described above – a process that reduces the weighting of national insurance contributions from the public and consequently increases the weighting of health insurance payments. The rate of collection from the public in relation to GDP did not change in 2008, and remained at 5.6%. The percentage of revenues from the public as a total of all direct taxes² collected from individuals increased from 46.2% in 2007 to 49.3% in 2008, as a result of the drop in income tax from individuals at the nominal rate of 2.5% and an increase of 6.1% in national insurance collection.

2 Direct taxes collected from individuals include income tax (from salaried employees, the self-employed, and company directors), national insurance and health insurance. Total direct taxes include, in addition to taxes collected from individuals, company tax.

Table 1
**Collection from Public and Estimated Effect of Legislative Changes on Revenues
 (NIS million), 2007-2008**

	2007			2008			Percentage change 2008 compared with 2007			
	Less legislative change	Legislative change	Actual	Less legislative change	Legislative change	Actual	Nominal		Real	
							Less legislative change	Actual	Less legislative change	Actual
Total	40,310	-2,400	37,910	43,814	-3,370	40,444	8.7	6.7	3.9	2.0
National Insurance	26,854	-2,400	24,454	29,239	-3,370	25,869	8.9	5.8	4.1	1.1
Health Insurance	13,456	-	13,456	14,575	-	14,575	8.3	8.3	3.6	3.6

2. Collection of national insurance contributions

A. Rates of national insurance contributions

In 1995, two rates of insurance contribution were instituted – reduced and regular – for all types of insured individuals. Starting in 2006, the reduced rate has been applied to that part of the income from which national insurance contributions are deductible, which is no more than 60% of the *average wage*³. The regular rate applied to the remaining income up to a ceiling – on the salaried employee's share, on the employer's share, and also on the self-employed, without distinction between their share as an employee or as an employer. As Table 2 shows, the reduced rate applied to all insured individuals – salaried and non-salaried – and, from August 2005, it has also been extended to employers.

3 The average wage as defined in the National Insurance Law was NIS 7,663 per month in 2008.

Table 2
**Rates of National and Health Insurance Contributions, by Type of Insured
 (percentages), 2007-2008**

Type of insured	National insurance payments				Health insurance	
	Regular rate		Reduced rate		Regular rate	Reduced rate
	2007	2008	2007	2008		
Salaried – total	13.37	13.10	5.23	4.92	5.0	3.1
Thereof - Employee's share	7.00	7.00	0.40	0.40	5.0	3.1
- Employer's share	5.68	5.43	4.14	3.85	-	-
- Government share	0.69	0.67	0.69	0.67	-	-
Self-employed – total	11.84	11.82	7.33	7.31	5.0	3.1
- Worker	11.23	11.23	6.72	6.72	5.0	3.1
- Government	0.61	0.59	0.61	0.59	-	-
Insured who is not working and not self-employed	11.05	7.00	4.61	4.61	5.0	5.0

Table 2 shows the rates of various types of insurance contributions, and Table 3 shows the expected rates of insurance contributions from employers in 2008-2009, following the reduction of the employer's contribution starting in July 2005.

Table 3
**Rates of National Insurance Contributions from Employers (percentages),
 2008-2009***

Year	Reduced rate		Regular rate	
	2005	2006	2005	2006
2008	3.63	3.85	5.43	5.43
2009	3.19	3.45	5.43	5.43

* These rates reflect the legislative situation from January 2006, compared with the legislation that was in force in 2005.

Table 4 shows the number of insured individuals who are required to make insurance contributions, by type of insured. In 2008, about 2.67 million salaried insured individuals paid national insurance contributions. That year, the number of salaried insureds increased by 6.1%. It should be noted that this group does not include workers from the Palestinian Authority, foreign workers, or insured Israeli residents with unique characteristics, such as kibbutz members, early retirees, home cleaners, persons in vocational training, and employees of the Ministry of Defense⁴.

In the case of non-salaried insured individuals, we generally distinguish between two groups: those who pay insurance contributions based on their income (57.3% of all non-salaried insured individuals), and those who have no income and pay national insurance according to the minimum income (42.7%). The first group consists mainly of the self-employed (91.3%), but following changes in the Economic Arrangements Law for 2008, insured individuals with passive income (dividends and income from capital) at a rate that is more than 25% of the average wage, whether or not they have income as employees or as self-employed, must pay contributions at the rate of an insured individual who does not work and is not self-employed. This amendment, introduced at the end of 2008, added about 23,000 insured individuals to this group (an increase of 263.3%).

4 Section 5 of this chapter gives brief information on these population groups.

Table 4
Employers (by Size) and Insured Individuals Required to Make National Insurance Contributions, by Type of Insured, 2007 and 2008

Type of insured	2007	2008	% change
Salaried insured*			
Total	2,520,000	2,670,000	6.1
Employers**			
Total	220,651	226,765	2.8
With 1-5 employees	161,841	166,817	3.1
With 6-20 employees	40,920	41,800	2.2
With 21-99 employees	14,295	14,509	1.5
With 100-499 employees	3,036	3,047	0.4
With 500+ employees	559	592	5.9
Non-salaried insured**			
Total	625,048	662,182	5.9
Liable to pay from their income (total)	344,064	379,329	10.2
From work (self-employed)	334,964	346,272	3.4
Not from work	9,100	33,057	263.3
Pay minimum insurance – total***	280,984	282,853	0.7
Not working and not self-employed (minimum 15%)	175,247	181,096	3.3
Pupils and students (minimum 5%)	45,506	36,942	-18.8
Yeshiva students (minimum 5%)	60,231	64,815	7.6

* Number of salaried insured individuals reported by employers (Form 102). The figure is the monthly average.

** Figures relate to the year-end.

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

The second group, of insured individuals who pay the minimum level of contribution, is divided between those who are not working and have no income from which insurance payments are deductible (about 64%), and pupils and students (36%). The figures show a rise of about 0.7% in the number of insured who paid the minimum contribution in 2008; the proportion of these who were not working as salaried employees or self-employed increased by 3.3%. The proportion of students continued to decline by about 18.8%, apparently due to their entering employment. The number of yeshiva students increased by 7.6% on average.

Table 4 also shows data on the number of employers who pay national insurance for their employees, and the breakdown by number of employees. In 2008, the number of employers increased by about 2.8%; the increase was particularly striking among the larger employees (with over 500 employees).

B. Scope of revenue from national insurance payments

Table 5 shows the amounts collected for national insurance in the years 2005-2008. In 2008, revenues from national insurance contributions totaled some NIS 27.8 billion. About NIS 25.9 billion were collected from the public, and about NIS 1.95 billion were transferred by the Finance Ministry, as compensation for the reduction in payments by employers and the self-employed. That year, the NII's revenues from national insurance contributions increased by 1.2% in real terms. Collection from the public in 2008 increased by 1.1% in real terms. Without the legislative changes introduced in 2005 and 2006, direct collection from the public would have increased by an estimated 3.9% in real terms. In addition, the amounts transferred by the Ministry of Finance as indemnification for the reduction in payments by employers and the self-employed increased by 1.9% in real terms. The increase in the transferred amounts, above the rate by which collection increased, derives from the increase in government participation, due to the reduction in employer contributions according to the tax reform legislated in March 2005, according to which Treasury allocations would not be affected, even though there was a reduction of 0.2% in the Economic Arrangements Law for 2008. In 2008, direct collection from the public accounted for 93.0% of all national insurance revenue, similar to the previous year.

Table 5
**Collection of National Insurance Contributions from Various Sectors,
 by Type of Insured, current prices (NIS million), 2005-2008**

Type of insured	2005	2006	2007	2008	Percentage of real change			
					2005	2006	2007	2008
Total collected	24,299	25,234	26,284	27,820	4.2	1.7	3.6	1.2
Salaried & employers	22,406	23,113	23,944	25,132	4.0	1.0	3.1	0.4
Non-salaried	1,893	2,121	2,340	2,688	6.4	9.7	9.8	9.8
Total collection from the public	22,759	23,554	24,454	25,870	3.7	1.4	3.3	1.1
Salaried & employers	20,962	21,541	22,234	23,320	3.5	0.6	2.7	0.3
Non-salaried	1,797	2,013	2,220	2,550	6.1	9.7	9.7	9.8
Total government indemnification	1,540	1,680	1,830	1,950	11.7	6.8	8.4	1.9
For employers	1,444	1,572	1,710	1,812	11.6	6.6	8.2	1.3
For non-salaried	96	108	120	138	14.1	10.2	10.5	10.0

In 2008, direct collection from salaried workers increased by 0.3% in real terms, compared with 2.7% in 2007. Direct collection from salaried workers and their employers was affected by changes in the labor market; average pay for a full-time salaried worker in the period from December 2007 to November 2008, for which insurance contributions were collected in 2008, increased by 4.4% (compared with 2.4% in 2007). The number of employed individuals increased by 4% in 2008 (compared with 4.5% in 2007), and salaried positions increased by 3.5% (compared with 4.2% in 2007). The reduction in the employers' contribution was mitigated by the increase in collection.

In 2008, direct collection from non-salaried insured persons increased in real terms by 9.8%, in addition to the real increase of 9.7% in 2007. National insurance revenues from salaried workers

(including the share of the employee, the employer and the Treasury), as a part of all revenues, declined slightly (from 91.1% to 90.3% in 2007), because of the reduction in insurance contributions from employers, on the one hand, and the increase in income of the self-employed, on the other hand. Collection from non-salaried individuals for the various branches of national insurance consists mainly of collection from the self-employed (about 94%). In 2008, collection from the self-employed – based on tax assessments from 2006 that were updated by price rises only – increased by 11.2% in real terms. Collection from non-salaried insured individuals who pay minimum contributions and account for 5% of all funds collected, to the insurance branches from the non-salaried, decreased by 5.4% in real terms. Examination of the payment ethics of the self-employed, and those who are not working and are not self-employed, emphasizes the difference between them; while collection from the self-employed as a proportion of their potential for collection, including the balance of debt, was about 92.8% in 2008, among those insured at minimum level, this proportion amounted to only about 45.6%.

3. Collection for health system

A. Health insurance contributions

The National Health Insurance Law came into force in January 1995. The Law ensures the right of every resident of Israel to health insurance and defines a uniform basket of health services for all, where the responsibility for funding rests with the government. The Law specifies the sources of funding for the basket, the method of updating its cost, and the formula for allocating resources between the health funds. Israeli residents are entitled to choose one of the health funds recognized by the Ministry of Health, and the health fund must accept any resident, without any limitations, conditions or payment whatsoever.

Health fund payments, one of the main sources of funding for the basket of health services, are collected by the National Insurance Institute and divided among the health funds. For this purpose, the NII keeps a file of everyone who is covered by health insurance, which is regularly updated and provides information on membership of the health funds.

According to the Law, every resident of Israel must pay health insurance contributions, even if he does not work, apart from a few exempt groups. The health insurance contribution from salaried and non-salaried insured is collected in the same way as the national insurance contributions, while the insurance contributions from recipients of NII benefits (who have no additional income) are deducted at source from the benefit.

Employees are charged for health insurance contributions at two levels: a reduced rate of 3.1% on that part of their income that is no more than 60% of the average wage, and a regular rate of 5.0% on the balance of their income above 60% of the average wage, up to the ceiling of income subject

to insurance contributions, which is 5 times the *basic amount*⁵. Here too, updates are based on price rises.

Those who do not work and those who receive benefits from the NII are in most cases entitled to special rates of contributions according to their financial situation. Table 6 specifies the amounts of insurance contributions that are deducted from benefits, by type of benefit, as follows:

- Health insurance contributions for recipients of wage-replacing benefits (such as maternity payments, hostile action injury benefit, reserve duty compensation and unemployment pay) are deducted from the benefit at the same rate as from income from work.
- Health insurance contributions for working-age benefit recipients who do not work are deducted from their benefit at the minimum amount specified in the Law.
- Health insurance contributions for recipients of old-age and survivors' pensions who don't receive income supplement are deducted from the pension at the amounts stipulated for individuals and couples as applicable.
- Health insurance contributions for recipients of old-age and survivors' pensions who also receive income supplement are deducted from their pension at the minimum rate, whatever the family composition.
- Health insurance contributions for working-age recipients of benefits who have income from work are applied only to their income from work, and not to the benefit.

Since January 2006, the amounts of benefits are updated according to the rate of increase in the consumer price index in the previous year (that is, the index for the previous November compared with the November before that), and therefore the minimum amounts are also updated by this rate. Anyone who is not salaried or self-employed and who does not receive any benefit pays the minimum health insurance contribution (NIS 88 per month since January 2008). Many groups are exempt from payment of health insurance contributions, such as housewives, new immigrants in the first six months following their arrival in Israel, workers under the age of 18, insured individuals under the age of 21 who are not working and who then enlist in the army, and detainees and prisoners who have been sentenced to more than 12 months in prison and receive health services from the Prison Service.

5 See note 25 in Chapter 1.

Table 6
Health Insurance Contributions, by Type of Benefit, 2008

Type of benefit	Monthly health insurance payment
Wage-replacing benefits	3.1% of the benefit up to 60% of the average wage; 5% of the balance over 60% of the average wage up to the ceiling
Maternity payments	
Hostile action injury benefit	
Unemployment benefit	
Reserve service compensation	
Work accident payments	
Old-age and survivors	
With income supplement	NIS 88
Without income supplement	
For an individual	NIS 166
For a couple	NIS 240
Other benefits	
Income support	NIS 88
Maintenance (Alimony)	
Work disability, with dependents	
Survivors of working age	

B. Health insurance revenues and their distribution among the Health Funds

Until the beginning of 1997, the National Insurance Institute collected the parallel tax and health insurance contributions for the health system. When the Economics Arrangements Law-1997 was approved, collection of the parallel tax was abolished, and funding for the basket of health services from the state budget was increased accordingly. Table 7 shows the amounts of health insurance contributions collected by the NII from salaried and non-salaried individuals and benefit recipients. In 2008, the NII collected some NIS 14.6 billion for health insurance. This is an increase of 3.6% in real terms, further to the increase of 6.6% in 2007. In 2008, 80.6% of all revenues for health insurance were collected from salaried employees; about 9.8% came from non-salaried individuals and about 9.6% from recipients of NII benefits. Health insurance payments collected from the non-salaried are broken down as follows: 70% from the self-employed and 30% from insured who are not employed and are not self-employed, and who pay the minimum level of health insurance contributions.

Table 7
Collection of Health Insurance Contributions (NIS million), 2005-2008

Year	Total	Salaried	Non-salaried	Benefit recipients	Real rate of change (%)
2005	11,838	9,437	1,080	1,321	3.3
2006	12,558	10,021	1,185	1,352	4.0
2007	13,456	10,820	1,288	1,348	6.6
2008	14,575	11,755	1,427	1,394	3.6

Table 8 shows the health insurance contributions collected from recipients of NII benefits. In 2008, a total of NIS 1,394 million was deducted from benefits for health insurance, and in real terms this represents a decrease of 1.1% compared with the previous year. Particularly noticeable is the decrease in health insurance contributions deducted from hostile action injury payments and from income support (10% each). About 72% of the health insurance contributions deducted from benefits were paid by recipients of old-age and survivors' pensions (including those who receive the pension with income supplement. It should be noted that health insurance contributions are only deducted from benefits on condition that the benefit recipient has no income from work, or that his only other income is exempt from insurance contributions. Married women who only work in their homes (housewives) are also exempt from payment of health insurance contributions, even if they receive a benefit in their own right from the NII, on condition that this benefit is not a wage-replacing benefit.

Table 8
Health Insurance Payments from Benefits, by Type of Benefit (NIS million), 2007 and 2008

Benefit	2007	2008	Real annual growth (%)
Total	1,348	1,394	-1.1
Old age and survivors	975	1,001	-1.9
Work disability	27	28	1.2
General disability	135	141	0.3
Income support	79	74	-10.1
Army reserve duty	1	1	-8.1
Maternity payment	63	81	23.3
Unemployment	37	38	-0.8
Hostile action injury payment	11	10	-10.9
Maintenance	8	8	-9.1
Bankruptcy	3	3	-11.6

The National Health Insurance Law states that the money to fund the basket of health is transferred to the health funds directly by the National Insurance Institute. The principle for dividing this money is based on the "capitation formula", which mainly takes into account the number of insured persons in each health fund, weighted by the age of each insured individual. Table 9

shows that the capitation method works in favor of the Clalit Health Fund, because its members tend to be older. For example, about 74% of the very old insured individuals (aged 85 plus) are insured in the Clalit Health Fund. At the end of 2008, the Clalit Health Fund accounted for 57% of all insured individuals, but its share of the health insurance moneys was about 58%. On the other hand, this method reduces the amounts transferred to Maccabi and Meuchedet Health Funds, whose members are generally younger. It should be noted that, in July 2005, a change was made to the formula for allocation to the various Health Funds, and two new age groups were added (up to 1 year and over 85 years), which reflects the consumption of health services by those age groups. This change has slightly improved the share of Clalit Health Fund in the distribution of the funds. Since August 1, 2006, the capitation rates are calculated each month, instead of once every three months, as was the case previously. The monthly capitation makes it possible to reduce the gap between the number of insured individuals at the beginning of each quarter, and the actual number of insured in each of the three months of that quarter.

Table 9
Breakdown of Number of Insured and Key for Distribution of Health Insurance Revenues, by Health Fund (percentages), December 2007 and December 2008

Health Fund	December 2007		December 2008	
	Total insured	Allocation key	Total insured	Allocation key
Total	100.0	100.0	100.0	100.0
Clalit	53.18	57.81	53.07	57.30
Leumit	9.47	8.82	9.36	8.71
Meuchedet	13.06	11.13	13.27	11.40
Maccabi	24.29	22.24	24.30	22.59

The sources of funding for the Health Services, under the National Health Insurance Law, are as follows:

- Health insurance payments, collected by the NII;
- Direct receipts collected by the Health Funds for health services given for payment (such as medicines, visits to doctor, etc.);
- Other amounts from the state budget intended to supplement the various health expenses, up to cover for the cost of the basket of health services.

The estimate for 2008 is that the cost of the health basket increased by about NIS 1.6 billion in nominal terms, reaching about NIS 26.6 billion (Table 10) in real terms, an increase of 2% compared with the previous year.

In 2008, the state's share of funding for the basket (39.9%) fell to the lowest level since the introduction of the National Health Insurance Law. On the other hand, the share of income from health insurance contributions increased to about 53.6%, in 2008. It should be noted that the

Economic Arrangements Law for 2008 states that the revenues of the Health Funds from direct payments by their members will be 6.45% of the cost of the Basket (instead of 5.4% until 2007). This amendment explains the reduction of about 1% in the state's participation from 2008.

Table 10
Cost and Sources of Health Services Basket, 2005-2008

Source	2005	2006	2007	2008*
Cost (NIS million)	22,768	24,041	24,946	26,599
Sources (%):				
Total	100.0	100.0	100.0	100.0
Health insurance payments	51.7	51.5	53.4	53.61
State budget	42.9	43.1	41.2	39.94
Own income	5.4	5.4	5.4	6.45

* Estimate.

The adjusted cost of the health basket per head allows an examination of the impact of the insured's age on the health fund's costs (Table 11). The cost per head of the basket is calculated for the basket's sources divided between the health funds according to the capitation formula, and does not include amounts that are not distributed according to capitation, such as expenses for serious illnesses, administration costs, allocations to the Health Council and Magen David Adom (MDA) ("Red Shield of David" in Hebrew). In 2008, the weighted cost per head of the basket of health was NIS 3,211, compared with NIS 3,106 in 2007 – a real decrease of about 1%. The basket's cost reflects the relative costs for different age groups: the cost of "younger" age groups is lower than that for the older groups. For example, in 2008, the cost of the basket of health for the oldest group (aged 85 plus) was 4.1 times higher than the average cost for all insured, and 10.2 times the cost of the basket for the 15-24 age group.

Table 11
**Adjusted Cost Per Head of Health Basket, by Age Group
(NIS per annum), 2007-2008**

Age group	2007	2008*
Total	3,106	3,211
Up to 1 year	4,815	4,977
1-4 years	2,982	3,083
5-14	1,460	1,509
15-24	1,243	1,284
25-34	1,771	1,830
35-44	2,112	2,183
45-54	3,324	3,436
55-64	5,250	5,427
65-74	8,884	9,184
75-84	11,058	11,431
85+	12,611	13,037

* Estimate.

4. Sharing burden of payment of national and health contributions

The national insurance system, like any insurance system, in most cases makes eligibility for benefits conditional on payment of fees (contributions). Accordingly, every insured person, irrespective of his employment status, must pay national insurance contributions. The parameters of the national insurance payments indicated at the beginning of this chapter – minimum and maximum for income subject to national insurance contributions and the rates of contributions for various types of insured individuals – are typical of most social security systems in western countries.

There is no disagreement on the fact that setting a floor and ceiling for income subject to national insurance contributions is a regressive element in the collection system. The reform introduced in the NII collection system in 1995 – broadening the income base from which national insurance contributions are deductible, and introducing a reduced rate for part of the income that is no greater than half the average wage, and raising the income ceiling in January 2000 – was intended to mitigate the regressive nature of the distribution of the burden of national insurance payments that is imposed on insured individuals. The decision to make the National Insurance Institute responsible for collection of health insurance contributions from 1995, alongside the perception that every resident is insured and that the majority of the insured must pay contributions, led policy makers to apply the elements of the function of national insurance contributions to that of health insurance contributions.

Table 12
**Salaried Employees: Income (average per month of work)
 and Burden of National Insurance Contributions, by Decile, 2006**

Decile	Average income per month of work	Payment of insurance contributions					
		Total	NIS		Percentage of income		
	National Ins.		Health Ins.	Total	National Ins.	Health Ins.	
1	720	25	3	22	3.5	0.4	3.1
2	1,753	61	7	54	3.5	0.4	3.1
3	2,668	93	11	83	3.5	0.4	3.1
4	3,459	121	14	107	3.5	0.4	3.1
5	4,154	145	17	129	3.5	0.4	3.1
6	5,026	227	59	167	4.5	1.2	3.3
7	6,173	364	140	224	5.9	2.3	3.6
8	7,877	569	259	310	7.2	3.3	3.9
9	11,057	950	482	469	8.6	4.4	4.2
10	24,857	2,606	1,448	1,159	10.5	5.8	4.7
Average	6,774	436	182	255	6.4	2.7	3.8

The latest figures available to us refer to 2006. The data in Tables 12 and 13 refer to the legal situation in 2006, that is, taking into account the rate of insurance payments for that year and the maximum income subject to national and health insurance contributions (up to 5 times the *basic amount*). The steps taken in the framework of the tax reform introduced in 2006 (such as lowering the reduced rate applying to workers from 1.4% to 0.4%, increasing the regular rate from 5.58% to 7.0% and increasing the reduced rate bracket from 50% of the average wage to 60%) is also reflected in the rate of insurance payments calculated on the salary and income data for 2006.

Table 12 presents data on income subject to insurance contributions (average per month of work), national insurance contributions (the employee's share only) and health insurance contributions, as the average per decile of the salaried population. Salaried employees are graded by income subject to insurance contributions (average per month of work), so that each decile covers 10% of the salaried individuals⁶. The data shows that each of the five first deciles pays national insurance contributions at the rate of 0.4% of income, and the rate gradually increases up to 5.8% in the top decile. A similar picture arises from the rates of health insurance contributions by deciles, but the lowest rate in the five first deciles is 3.1%.

Table 13 shows the rates of insurance contributions by deciles among the self-employed in 2006. It should be pointed out that, in the first and second deciles, the burden of national insurance

6 In April 1999, an Amendment to the Law was passed, by which the minimum income for calculating insurance contributions for salaried employees was put on a par with the minimum wage in the economy, taking part-time jobs into account. When calculating the insurance contribution, we have assumed full compliance by employers with the minimum pay regulations, and that any reported pay that is below the minimum wage is for part-time work. The bias in the average rate of insurance contributions as a portion of income in the lower deciles is negligible.

contributions is striking, due to the existence of a minimum payment (2.5% of the average wage), which highlights the regressive nature of the system at low income levels. The rate of national insurance contributions paid by the self-employed (whether as workers or employers) is 7.0% in the third decile, and rises gradually to 10.4% in the tenth decile. The effect of the maximum income subject to national insurance contributions is more striking among the self-employed, because a larger part of their income is higher than this maximum. A similar picture emerges from an analysis of the changes in the rates of health insurance contributions in the various deciles.

It should be noted that, unlike the case of the salaried workers, the income of the self-employed in each decile is given in terms of monthly average for the year (and not per month of work), because collection from them is based on their annual reported income. This is the reason why the income of the salaried workers in Table 12 cannot be compared with the income of the self-employed in Table 13.

Table 13
**Self-Employed Individuals – Income (as Monthly Average for the Year)
and National Insurance Burden, by Decile, 2008**

Decile	Average monthly income for the year	National insurance contributions					
		NIS			Percentage of income		
		Total	National Ins.	Health Ins.	Total	National Ins.	Health Ins.
1	604	196	134	62	32.5	22.2	10.2
2	1,391	196	134	62	14.1	9.6	4.4
3	1,922	196	134	62	10.2	7.0	3.2
4	2,678	263	180	83	9.8	6.7	3.1
5	3,594	253	242	111	9.8	6.7	3.1
6	4,601	462	317	146	10.1	6.9	3.2
7	6,020	690	473	217	11.5	7.9	3.6
8	8,067	1,019	700	319	12.6	8.7	4.0
9	11,807	1,619	1,113	509	13.7	9.4	4.3
10	28,590	4,313	2,967	1,345	15.1	10.4	4.7
Average	6,928	836	574	262	12.1	8.3	3.8

5. Special populations defined as salaried workers

The data on salaried workers given in this chapter refer to the number of salaried workers reported by employers on form 102. The salaried population as defined by the NII includes other groups.

The main groups included in this population are the following:

Kibbutz members: Kibbutz members are defined in the Law as salaried employees of the kibbutz (the employer), which has the duty and responsibility to register them as salaried employees and to pay their national insurance contributions. Kibbutz members are insured for all branches of national

insurance except for the unemployment branch. In 2008, on average about 55,000 kibbutz members were reported each month (aged 18 and over), and the national insurance contributions paid for them amounted to about NIS 9 million per month on average.

Domestic workers: The status and rights of people employed in private households are the same as those of other salaried workers, although the contributions paid for them are set at different rates. At the end of 2008, about 162,000 employers reported people employed in their homes, and about NIS 77 million was collected from them as national insurance contributions.

Workers from the territories and from the Palestinian Authority: Workers from the territories and the Palestinian Authority employed by Israeli employers owe national insurance contributions for three types of insurance: work accidents, maternity and bankruptcy. National insurance contributions for them are collected by the Payments Section of the Employment Service. In 2008, about 19,000 such workers were reported on average each month, and the national insurance contributions paid for them amounted to about NIS 350,000 per month. The average monthly wage per worker, as the basis for payment of national insurance contributions, was about NIS 3,300.

Foreign workers: This group includes workers who are not Israeli residents and who are employed by Israeli employers. As in the case of workers from the territories and the Palestinian Authority, foreign workers are insured in the sections for maternity, work accidents and bankruptcy, and the rate of contributions applying to them is based on special regulations. In 2008, an average of about 77,000 foreign workers were employed in Israel each month. Their average monthly wage was about NIS 4,550 and their national insurance contributions amounted to a monthly average of NIS 2.8 million.

Workers who took early retirement: These workers are charged national insurance and health insurance contributions on their early pension. In 2008, an average of about 49,000 pensioners paid contributions each month, amounting to about NIS 52 million per month.

Vocational training: This group includes people who are undergoing vocational training arranged by the Ministry of Industry, Trade and Employment (both working and not working) or by places approved for this purpose by the National Insurance Regulations. The national insurance contributions imposed on the employer and the trainee are for two sections only: work accidents and maternity. In most cases the Ministry of Industry, Trade & Labor is the employer, unless the trainee is sent for training by his employer. The number of insured who were undergoing vocational training (and who paid national insurance) was about 32,000 on average per month in 2008, and the contributions paid for them amounted to about NIS 1 million per month.