

Chapter 1
Social Policy and Developments in
National Insurance

1. Introduction

The beginning of this chapter (Section 1) will discuss how the social security system in Israel continues to cope in 2009/10 with the residue of global recession, as well as the social policies to which Israel aspires, taking into account the great social gaps between Israel and the other OECD countries, as expressed in the NII poverty reports and Annual Surveys over the years, as well as in the OECD report on Israel published at the beginning of 2010, when Israel joined the organization.¹

As is well known, the OECD's goal is to promote cooperation between the member countries in an effort to help improve their standard of living over time. One of the important aims internalized by the organization in this regard, perhaps more than in other international organizations, is the promotion of economic and social policies that can reinforce "the sustainability" of Israel's economy. Such a policy of permanent growth is particularly significant with regard to social policies, since one of the characteristics of sustainability is the requirement that economic growth be pro-poor, and not only be concentrated on the "well-to-do" – while protecting human and natural resources. This is also one of the reasons that the OECD emphasizes social policies in its reports, measuring poverty and inequality, and going as far as to analyze issues related to the enforcement of labor laws not only on Israeli workers, but also on foreign workers, to the integration of weak potential workers into the labor market, etc. The OECD reports regarding the situation in Israel present an international comparison, not only in an effort to help the country learn from the positive experiences of member countries, but also to avoid problems experienced by other economies. Regarding certain issues, such as immigrant absorption, the OECD recommends that other countries learn from Israeli good practice.

In view of the difficult social situation – from an international point of view as well as from a historical perspective – it is important that the government be the body that heads the battle against poverty and social gaps. Section 2 of this chapter discusses several ideas for poverty reduction, which is the government's declared policy. Reducing poverty through these proposed strategies will enable renewed growth while reinforcing its social sustainability, since growth that does not reach all population sectors cannot endure. The goals of the tools to reduce poverty presented here are to enable the weaker sectors as well to be able to enjoy the fruits of economic growth.

Sections 3 to 6 in this chapter summarize the activities of the NII during the year under review in the areas of benefits and collection, and portray the state of the NII's surpluses and deficits.

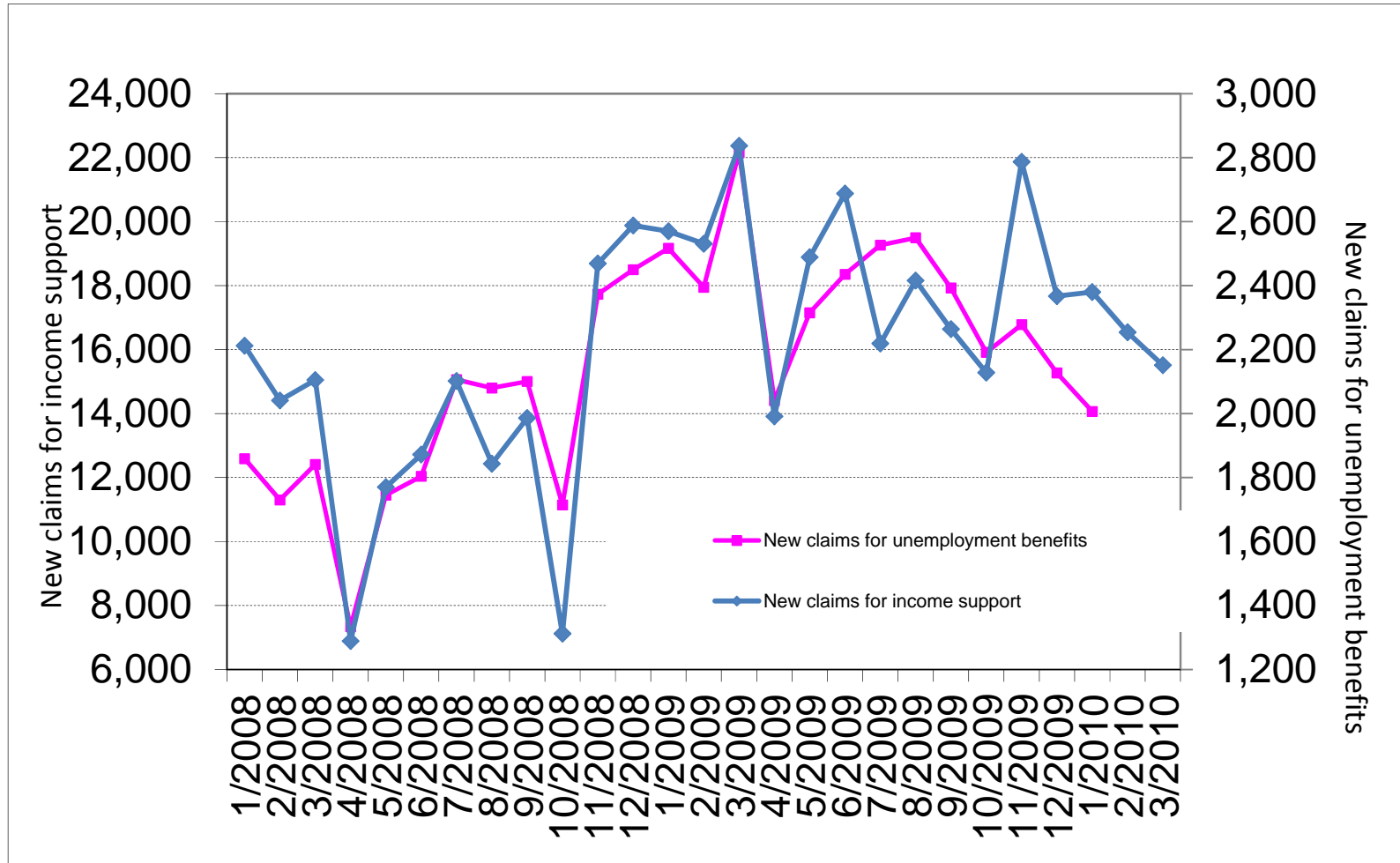
¹ See the publication: *OECD Reviews of Labour Market and Social Policies: Israel, January 2010*, 1-288

2. How the Israel social security system copes with the global crisis

Both the recession and the exit from the recession are strongly reflected in the number of new unemployment benefit and income support benefit claims. As is clear from developments in these two benefits, claims rapidly rose from a relatively low level during the last quarter of 2008 to a record peak in March 2009. Fluctuating noticeably, they both dropped during the second half of 2009, and at the end of 2009 and the beginning of 2010, they reached their lowest levels. New claims for unemployment benefits declined more rapidly than did those for income support benefits.

Figure 1

New Claims for Unemployment and Income Support during the 2008/9 Economic Crisis and Afterwards



This result reflects, inter alia, the decline in the unemployment rate to below 7.5%, which constituted a condition for benefit payment to those with a shorter qualification period. These indicators are therefore also consistent with the brief sharp effect of the recession on Israel's economy with regard to new claims for unemployment benefit.

3. The Program for Combating Poverty

The poverty situation is described in detail in Chapter 2 (Poverty and Social Gaps). At this point, we will summarize only the major problems which must be the focus of any program for combating poverty.

As described in the OECD report,² Israel's poverty rate increased until it reached the upper limit of OECD countries, and it remained at that level for approximately twice as long as these countries' average. Looking back, too, on the development of poverty in Israel, the importance of putting into action a program to reduce poverty becomes clear.

A. The current situation

Poverty is a problem that concerns the whole of Israeli society: for example, the largest group of poor are Jews who are not ultra-Orthodox (about 634,000 poor persons, of which about 237,000 are children).³

There are groups living in acute poverty: for example within the Arab population, particularly in the South, and within the ultra-Orthodox population. However, since 2005, a certain improvement has been detected. There has been a decrease of 4.5 percentage points; among the ultra-Orthodox, it dropped by approximately 3 percentage points. Poverty is prevalent among the Arabs in the South, particularly in the unrecognized settlements – in 2004 it reached almost 80% there.⁴

Poverty among children tends to be persistent, and the rate of poverty among children is particularly high. Poverty is more damaging to children than to members of the other age groups, since the damage is long-term – children are unable to properly develop into “human capital” and as a result, their ability to earn a living in the future is impaired and their chances of breaking out of the

² See Figure 1.11, page 57, in the *OECD Reviews of Labour Market and Social Policies: Israel, January 2010*

³ It is difficult to calculate the size of the Orthodox population and therefore, the non-ultra-Orthodox as well, since the Central Bureau of Statistics is unable to officially estimate the ultra-Orthodox population in its income survey. The above reference is based upon Gottlieb and Kushnir (<http://www.economics-ejournal.org/economics/journalarticles/2009-28>)

⁴ With regard to the Bedouin populations in the unrecognized settlements in the South, the Central Bureau of Statistics does not collate statistical data either, so that it is impossible to present consistent data based upon income and expenditure surveys. A detailed analysis, valid for 2003/2004 and which was based upon data collected by the Galil Association, can be found in the following link: www.vanleer.org.il/econonsoc/pdf/1_research_m6.pdf.

poverty cycle are small. Therefore, first and foremost, the proposed plan must address the problem of poverty among children.

The poverty situation has improved since 2005 among families with 1-3 children, while the situation in the larger families worsened from 2005-2008. Studies show that a reduced birthrate can be achieved mostly through an increase of learning opportunities and the woman's ability to earn a living, while the effect of the child allowance upon the family's decision with regard to its size is negligible.⁵ Therefore, for the most part, the child allowance only moderates the poverty situation.

With no comprehensive program for combating poverty or a focused investment in the area of education (including an educational infrastructure among the Bedouins), the basic problem of poverty will become more acute, since the birth rate among the ultra-Orthodox is approximately three times that of the rest of the Jewish population and among the Bedouins in the south, it is about 2.5 times that of the rest of the Arab population. As a result, today, children aged 0-4 already account for one-fifth of the total ultra-Orthodox and Bedouin sectors, while in the rest of the population, they reach 7% and 14% (non-ultra-Orthodox Jewish and non-Bedouin Arabs, respectively). This is significant because when these children reach working age, the work situation of these two populations will become even more dismal. Therefore, thorough handling of this problem must clearly include concentration upon resources in education for each of those sectors, according to their specific needs: There is a strong desire for study among the Bedouins,⁶ and basically, the problem is that the high schools and comparable levels of study are not easily accessible to them, while among the ultra-Orthodox, their curricula lack balance when it comes to basic subjects which will affect future wage-earning, such as mathematics, digital skills and English. If these problems are not dealt with, this will only increase the difficulties faced by youths lacking a formal education when they try to enter the labor market in the next few years.

B. The target for reducing poverty

The government should be congratulated for designating poverty as a goal several years ago.⁷ However, there is not enough consistency in the aim of dealing with poverty. For example, during the 2008/9 recession, when it became difficult to reach the designated goal, it was deferred to a later time instead of taking a pro-active approach and increasing

⁵ See – Esther Toledano et al (2009). The effect of the size of the child allowance upon the fertility rate – <http://www.btl.gov.il/Publications/resarch>

⁶ For example, see: Ismael abu-Saad et al (1998). *Bedouin Arab Mothers' Aspiration for Their Children's Education in the Context of Radical Social Change*. International Journal of Educational Development, Volume 18, Issue 4, July, 347-359, ISSN 0738-0593, www.sciencedirect.com.

⁷ In its initial version, the goal was reached if the average family's gross financial income within the bottom quintile of the population rose in real terms by at least 10% per person more than GNP during 2008-2010 (that is, 1.1 times). See Government Decision no. 2162, 5.8.2007.

efforts to attain the goal on schedule. The public's trust in policy can only be gained if it believes that policymakers' efforts are sincere and not simply an attempt to achieve a patently numerical goal. Not achieving a goal when efforts are accompanied by increased endeavors can, in some way, be considered credible since failure is not always the fault of those who establish policy but rather is often the consequence of events beyond their control.

Table 1

**The Government Poverty Goal and Changes in Poverty,
2002-2008, had the Goal been Implemented**

Year	GDP growth per person +10%	Gross income per family in bottom quintile*	Was the goal attained - according to the official target	Change in incidence of poverty among persons		Change in poverty severity		
				Official index	Adequate consumption index	Official index	Adequate consumption index	Annual measure of goal (column 2 minus column 1)
2002	-2.5							
2003	0.1	-1.8	No	No	No	No	No	-4.9
2004	3.1	-1.8	No	No	No	No	No	0.6
2005	3.8	4.4	Yes	No	Yes	No	Yes	0.6
2006	3.8	5.4	Yes	Yes	Yes	No	Yes	1.6
2007	3.7	1.8	No	Yes	Yes	No	Yes	-1.9
2008	2.6	-1.3	No	Yes	Yes	Yes	Yes	-3.9

* In accordance with the definition of the goal, the quintiles are classified according to disposable income per standard person; every quintile constitutes 20% of the families.

The current goal of the fight against poverty does not, therefore, reflect all of the policy's effects on poverty measured in Israel and abroad, thus causing problems for the government, which, for example, is interested in implementing taxation as a tool in the battle against poverty. In addition, the current goal does not take into account the various bonuses provided by the public sector or through associations for the benefit of the weaker sectors. The existing index also ignores the families' actual in kind income. It turns out that in-kind income constitutes a substantial portion of the income of the lower deciles (i.e., see Box 2, Chapter 2).

The current poverty goal contradicts basic intuition: i.e., in Table 1, one can see that the goal would not have been attained had it been set in 2007-2008, even though the incidence of poverty for those years actually dropped. Had this goal been implemented in 2005, it might have been reached, despite the fact that poverty rose that year.⁸

⁸ See a detailed discussion of possibilities for improving the goal in its current formula in the NII Annual Survey of 2007, pp. 30-37. In order to illustrate the situation, the official goal is based upon the gross financial income of the lower quintile. Since the target is based upon "gross" (that is pre-tax), it disregards the effect of taxation and benefits upon the welfare and poverty situation. Therefore, it is not affected by a negative income tax plan, which is considered, and rightly so, to be an essential tool for reducing poverty. Hence, even if this plan succeeds in improving the poverty situation based upon the simple criterion of, for instance, reducing the accepted incidence of poverty among working families, it will not be reflected in the official poverty goal. In addition, the goal also does not indicate

It has been suggested that a combined goal be defined so that policy can be more transparent, thereby increasing its reliability as well.

A comparative goal, based upon the relative method generally used in Israel as well as in most other countries and international organizations: in light of Israel's having joined the OECD, it is even more important than ever that the government do its utmost to attain a strategic goal based on a relative approach (that is, in the mid-term and long term) that will improve its situation regarding indices, so that the improvement will be reflected also in its poverty rating among the member countries. Today, Israel's poverty level places it near the top of the list of the OECD member countries.⁹

It has been proposed that Israel define its long-term goal in terms of decreasing the magnitude of poverty (according to the existing variation of calculations or that of the OECD) to 10%, which was the average poverty incidence in OECD countries in the mid-2000's.¹⁰

A secondary poverty goal based on adequate consumption expenditure: an additional problem with regard to poverty goals is that the tools used by governments to reduce poverty often simply consist of discounts on essential expenditures such as medication, public transport, housing, etc., or of providing hot meals for schoolchildren. None of these are reflected in the consumption indices of monetary income, as is customary in the NII and in most developed countries. Consumption poverty measures recently developed in Israel and elsewhere take into account the public's non-monetary income ("income in kind") and various benefits in kind provided by the Government. The advantage of these considerations is that they are sensitive to those policy tools. Therefore, it is proposed that the government adopt an additional goal – that of a poverty index based on realistic consumption.

improvement if, for example, the government increases old-age pensions in order to ease poverty among the elderly, nor in the case of a policy which reduces the cost of necessities for the poor population, such as benefits provided to the poor populations by the local authorities through flexible fees or concessions by the government with regard to prices of basic products wherever possible, or through the introduction of nourishment projects in the schools located in the poorer neighborhoods, etc. Therefore, even if the government takes welcome steps to reduce poverty, this is not reflected today in the selected indicator.

⁹ As is well known, the NII 2007 report on Poverty and Social Gaps began reporting data in accordance with OECD regulations for computing poverty.

¹⁰ The OECD measures the poverty line according to half of the monetary income of a person, where a standard person is calculated as the basis of the size of the family. Based on this method, the incidence of poverty in large families tilts downwards in comparison with the accepted measurements of the NII. Theoretically, it would be preferable to focus upon the acuteness of poverty as defined in professional literature, for example, the quarterly FGT index, whose reports are included in the NII poverty reports on a steady basis. This index is better than the incidence of poverty, since it complies with the criteria of poverty indices as defined in professional literature: the most important of these is the axiom of transfer, according to which the transfer of amounts from one household to another must reflect an improvement, if the household from which the income is transferred is poorer than the one receiving the money.

Positive signs indicating the policy's success will make it possible to increase policy transparency, thus improving resource allocation. This will also allow for more efficient measurements of many policy tools which are presently being implemented without their effect being measured.

C. Tools for reducing poverty

The government defined the increase in employment as a crucial tool in the battle against poverty since profitable and continued employment guarantees a continual exit from poverty, and is the basis for a strong economic foundation for the family. In addition, this is also a way to ensure that economic growth anticipated for the coming years (about 3.2%-3.6% a year in 2010-2014) will reach the less-educated sectors.

Tools for increasing employment – ALMP (Active Labor Market Policy)

According to the OECD's report, one of Israel's main weaknesses is the inconsequential investment it has made in an active labor market policy – for example, the implementation of programs such as the “Prospects for Employment” plan, budgeting and allowing the Employment Service to operate effectively and implementing programs for improving work income, such as negative income tax, etc. While Israel invests only approximately 0.1% of its product in such programs, an average similar investment by OECD countries reaches six times that in terms of products.¹¹

I An active placement plan for the labor market (“Wisconsin”)

The “Prospects for Employment” (“Wisconsin”) plan was recently terminated. This program played a vital role in increasing employment among the disadvantaged. Below are some proposals for improving the program, some of which appear also in the OECD report:

Proposal allowing the client his choice of operators: Such a step will cause operators to increase their efforts vis-à-vis the clients, since it will compel them to compete. At the same time, one can assume that the clients' involvement and commitment will increase, since they themselves will have selected the operator. It goes without saying that a system of compensation for both employers and clients – from the aspects of perseverance at work and wages, based on the success of the placement – will have to continue. It would be desirable if the incentives took into account the objective difficulties in placement, so that an employer might find it more worthwhile to place an older or disabled person than a young person. Thus, the bulk of the effort will not always be put into placing those clients who are easier to place.

Proposal to cancel the age limit for clients: In view of the proposition presented in the above paragraph, it will be possible to cancel the age limit, since

¹¹ See Figure 1.18 on page 65 of the *OECD Reviews of Labour Market and Social Policies, Israel, January 2010*.

this, in fact, constitutes discrimination. This point is also important from the aspect of intra-operator competition: such competition can only succeed if there are enough cases vying for placement, since when there are only a few cases, placement profitability is diminished and this affects potential operators. Should the placement plan not succeed, it will be necessary to implement the income support system anticipated for situations of this kind (see proposals in Chapter 2, Box 3).

Taking the business cycle into consideration: The system is built mainly around the principle of “work comes first”. In order to take a weak labor market into consideration, it is proposed that a claimant for income support benefits receive financing for one month’s vocational training for periods during which the rate of unemployment rose beyond the threshold of 7.5% for at least six months, so that even at times of continuing difficulties in the labor market, efforts can be spent on improving claimants’ capabilities.

II Negative Income Tax¹²

Today, in many of the OECD countries, benefits allocated to poor workers constitute a large part of the plans to combat poverty and increase employment among the disadvantaged. Such programs have become prevalent in those countries during the past ten years. A similar program is still in its early experimental stages in Israel, limited to certain areas, and the grant itself is small compared to that paid to a worker in, for example, the U.S. or Britain. The Israeli plan has been added to the “Prospects for Employment” program which, for the time being, has been suspended, despite the fact that Israel very much needs such a program, particularly in view of the very low employment rates in many sectors and the high rate of unemployment in comparison with the past, as well as in comparison with the global situation. The conclusion is that based upon the positive conclusions of similar experiments in other countries, this type of program must be given priority and must be more daring.¹³

The programs described in detail by Immervol and Pearson suggest a large variety of possibilities. Their study shows that the approach taken in Israel, and inspired by the American program, indeed produces an abnormal result (the authors used the expression “perverse”) with regard to the worker’s spouse, the other provider. They feel that there are two reasons for this: the family means test and the programs’ connection between providers in the same family. For example, in the U.S., only one member of the family can participate in the program, thereby reducing the number of working hours of the second provider. In Israel, it was decided that both providers could participate in the program. This is a significant decision, but the incentive for the second provider,

¹² As was explained in the paper prepared by the above inter-ministerial team, the name is slightly misleading, since the current Israeli plan is similar to the American plan which is called income tax credit and refers to work-generated income, while negative income tax refers to the plan originally proposed by Milton Friedman as an absolute alternative for the income support system.

¹³ A comprehensive and current report by Immervol and Pearson of the OECD regarding the programs for policies to benefit disadvantaged workers. This report is more positive than previous reports which were based mainly upon the American model.

particularly in a large family, is small since he or she (usually the mother) must work full time or almost full time in order to be able to benefit from the subsidy.

The study carried out by the intra-ministerial team, with the participation of the NII Research and Planning Administration, reveals very low initial results with regard to the pool of potential workers. The program resulted in an approximately 3% decline in the poverty level of persons who were entitled and who took advantage of their right (constituting an improvement of approximately 8% in comparison with the incidence of poverty prior to the implementation of the program).¹⁴ The goals of the recommendations below are to increase the potential effect of the program upon poverty by increasing employment among the disadvantaged.

A proposal to extend the negative income tax program nationwide. The extension should be carried out alongside the “Prospects for Employment” program, but it is not absolutely necessary that the two programs be linked.

This type of program constitutes a major tool for increasing the salaries of disadvantaged workers. Many Western countries do this with varied levels of success and in a variety of models. In countries where the minimum wage is paid as legally required, or where the employer’s behavior towards the workers is fair and equitable, it is clear that the problem of low salaries is mainly the concern of part-time workers.

At this stage of the study, it is not possible to examine the effect of potential members of the labor market, since according to the existing program, payment made is retroactively based on the previous year of employment (2007), when decisions regarding the criteria were made before the beginning of the program. Moreover, in programs implemented in other countries, the positive effect of employment was felt mainly by single mothers and not by families with two providers. At times, the latter even suffered from a reverse effect. In order to provide the second provider with the best chance for joining the work force, thereby helping to escape poverty, it is suggested that the subsidy to a **new** second provider in a family be increased (see below).

A proposal to significantly increase the negative income tax for the second person joining, starting at a minimum salary of NIS 1,800, in a family where there are more than two children. Thus, it will be worthwhile for the spouse to join the wage-earning effort (see Figure 2, where the proposed increase can come to NIS 800). Using the current method, it does not really make sense to work part time since the supplement provided to reach minimum wage is small. The proposed gradual increase takes into account the fact that for a variety of reasons, it is difficult for the second person (among Arabs, this is usually the wife and among the ultra-Orthodox – the husband) to join the labor market working full time. However, a half-time position can constitute the first step toward

¹⁴ It is certain that the overall effect is larger, since the income of some of those receiving low salaries from work is above the poverty line, but the improvement in income distances them from the perils of falling into poverty.

accumulating experience in the labor market, especially when the children are still small and require the care of at least one of the family members. The proposal is that the grant be awarded to whoever did not work for three years prior to his joining the program, that it be limited to two years and that it be provided to a person who works at least 18 months out of two years.

Increasing the generosity of the negative income tax: While the basic structure of the subsidy in Israel is similar to that in the U.S. (shaped like a trapezoid), the level of the negative tax in Israel is significantly lower than is customary in the U.S. There are more significant differences:

Israelis who are under 55 years old are eligible only if they are single parents or if they have at least two children.

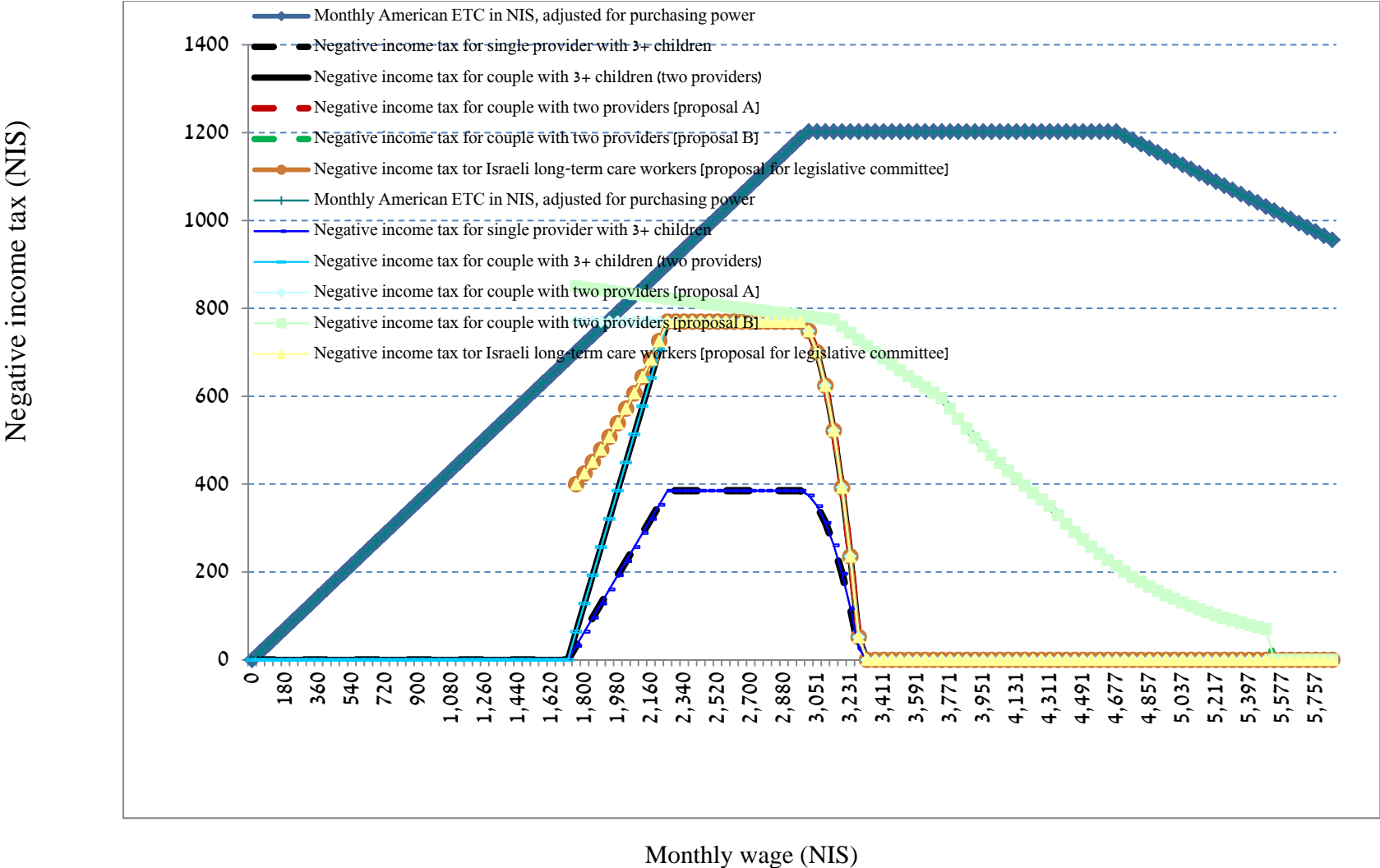
The method requires a means test and this raises the probability that the bonus will be under-evaluated, thereby lowering a person's incentive to enter the labor market. Apparently, the advantage of the Israeli method is that if both spouses are working, the bonus increases, while in the U.S., only one of the providers is eligible to receive the bonus.

Despite the fact that in Israel, both spouses can receive negative income tax benefits, the bonus in the U.S. is significantly larger than that given in Israel.

Adopting the negative income tax horizontal structure (“The British model”): the adoption of a payment track similar to that of the bonus granted in Britain, where it immediately starts at a high level and where there are no increases, is an interesting possibility for encouraging the participation of the second provider. This constitutes a definite incentive for beginning to work. Of course, in order to avoid discrimination against single mothers, they must be allowed to participate in the same track. Under the structure of the present program, a person earning less than NIS 1,800 a month is not entitled to the bonus; in order to reach a real bonus, he must work full time. An economy where the rate of employment among mothers with many children is very low, such as, for example, in the Arab sector, **raising the bar to a horizontal track for a second provider, or even lowering it, could constitute a definite incentive for easing the entrance of the second provider into the labor market** (the dotted lines in Figure 2 below).

Figure 2

Negative Income Tax: Comparison between the Structures in Israel and the United States



III Encouraging the replacement of foreign workers with Israeli workers

Various studies have emphasized the negative effect of Israel's immigration policies with regard to foreign workers, a policy which, from the beginning, was aimed at the low-skilled labor market. The policy was intended to provide a massive introduction of foreign workers to do work which does not require any particular skills; however, in Israel (contrary to other countries which also encourage the influx of foreign workers), there are many young people who can do such work. Therefore, this policy spoils the chances of young Israelis to find profitable work, especially in view of the fact that regulations are not enforced when it comes to wage conditions of foreign workers and when the cost of their labor is significantly lower than for Israelis. At the same time, the damage caused to the social safety net (unemployment and income support benefits to young people) has affected the standard of living of those who found it hard to earn an adequate salary. In order to encourage youths with little education to enter the labor market, it is proposed that work in the sector of long-term care – a sector where there are good possibilities for earning a living – be made more worthwhile. In addition, the ongoing increase in the number of elderly persons and of persons requiring long-term care, can ensure a steady demand for this type of work.

In many countries, the reverse income tax plan is implemented only in relation to special employment sectors and for disabled workers.¹⁵ A proposal is presented below to specifically, and preferably, employ Israelis in the sector of long-term care – in which tens of thousands of foreign workers are employed – whenever they are prepared to replace foreign workers. The government and the NII have begun to implement a special program in which Israeli workers are given preference by granting additional care hours to persons in need of long-term care, thereby weighing the balance in favor of Israeli workers. Promoting this goal is an important element in the battle against poverty, since long-term care work is suitable also for women who lack education but are intelligent and sensitive. Strengthening their standing in the labor market might add second providers in poor families and at the same time, reduce dependence on foreign workers, even in cases that the work is not "around the clock". The definition of 24-hour care is flexible to a certain extent, and therefore, being flexible about the work and its profitability could increase employment opportunities for Israelis as opposed to foreign workers.

A proposal to grant increased negative income tax to a person working in a dependent elderly person's home for a period of over five years, in order to encourage Israelis to work in the long-term care sector which is today reserved almost completely for foreign workers. In view of the demographic changes, this sector has gradually turned into potential employment which could be suitable for low-skilled workers. This market represents good working opportunities with relative high salaries for both men and women with little education. It therefore constitutes an excellent tool for increasing participation in the labor force, while, at the same time, reducing the number of foreign workers in Israel.

A proposal to raise the number of care hours approved for recipients of long-term care benefits who transfer care from a foreign worker to an Israeli worker.

¹⁵ See Immervol and Pearson, page 43.

This policy has yet to be examined in depth but at this time, it seems that recipients of long-term care and their families are not rejecting such an alternative, and from November 2009 to May 2010, there were many cases (several hundreds) of persons requiring long-term care who employed a foreign worker and who decided to switch and employ an Israeli worker.

A proposal to enable a family member who provides long-term care for a relative – and who therefore, does not work outside of the house – to benefit from the value of income tax credit points. This system constitutes a type of alternate negative income tax. If the income tax system recognizes a family member as an unpaid worker, it will be possible to deposit an amount of money in his account that is equal to the unused number of credit points. This policy could potentially reduce poverty, particularly among Arab families where, apparently, it is common for a family member to provide long-term care.

It should be pointed out that these measures – which involve increasing employment and dependence upon a low-skilled Israeli work force – can also have a positive contribution to the NII's financial strength since it is a potential source of permanent income.

D. Encouraging the employer to invest in the worker's human capital

The law for encouraging capital investment does not include investing in the worker's human capital. This possibility should be taken into account so that employers can benefit from tax breaks or receive a grant based on the investments they make to provide vocational training for their workers. In the end, this investment could raise workers' salaries, since employers and workers could construct a training program that could lead to what the former consider to be increased productivity on the part of the latter.

E. Income support benefits

It is not possible to solve the problem of poverty simply by empowering those who do not work, or by improving salaries or one's chances of employment. There will always be a group of people and families that will have to fall back on a safety net, whether temporary or permanent. Therefore, one of the goals of the plan for combating poverty is to examine the situation of the social safety net, particularly that of income support benefits. An analysis of income support benefits for families where the head of the family is of working age reveals that this system has not operated satisfactorily as a final safety net for needy families since 2002/3 (see Box 3 in Chapter 2), due to the extensive budget cutbacks in the system during those years. The analysis in Chapter 2 suggests the need to significantly increase benefits for large families (two spouses with three or more children) where in some cases, the satisfactory minimum standard of living ("adequate") reached only 35-40%. In such cases, Table 1 in Box 3 of Chapter 2 suggests the need to at least double the benefit, even if this measure does not solve the problem entirely.

F. An empowerment¹⁶ grant to relieve the problem of inter-generational poverty (child development account)

As stated above, the level of poverty among children in Israel is high in comparison with the other OECD countries, as well as from a historical aspect (See Chapter 2). The more permanent the poverty status of a child's family, the higher the chances that this child will remain poor when he reaches maturity. One of the indications of ongoing poverty is a situation where both the family income and the family's consumption of necessities are below the poverty line. The longer poverty persists, the more the long-term implications on the child's future ability to extract himself out are affected more negatively. One of the ways to help him do so is to provide the child with the means to acquire a certain initial capital, as well as additional subsidized savings over the years. This capital becomes the child's own property when he reaches the point of being able to earn a living, in the form of assistance to acquire an education or suitable vocational training, or even establish a business. The empowerment grant proposed below will not solve the problem entirely, but can serve as a complementary tool in a long list of measures aimed at improving a person's ability to earn a living.

Following are the main points of the program:

- (1) **Birth grant and right of refusal:** The NII will offer the mother the choice of depositing the birth grant – which amounts to NIS 1,600 today for the first child – into a special savings account in the child's name, or to receive the birth grant outright, as is the norm today.
- (2) **Minimum amount:** At the time of birth, the parent will be offered the opportunity of regularly depositing a minimum amount, i.e. NIS 50, to be deducted from the monthly child allowance, into the child's account as a standing order, or to continue receiving the child allowance as is the norm today. Should the family agree, it will also be able to deposit additional amounts whenever it can or wishes. Whoever does not agree to deposit the monthly deduction but agrees to the initial deposit of the birth grant will accumulate interest and income accordingly.
- (3) **Granting a bonus:** Until the child reaches the age of 18, the government will deposit into his/her account an amount that matches the family's deposits. This government investment will be limited to a certain ceiling, which shall be

¹⁶ This proposal constitutes a continuation of the previous proposal with regard to an empowerment grant for children, proposed by the NII back in 2008. The present draft was formulated following a seminar on the issue of savings accounts for children (Child Development Account) which took place in the Research and Planning Administration of the NII, with the participation of international experts, among them Prof. Michael Sherraden, who was included as one of the 100 most influential leaders in Time Magazine for his contribution to this specific area of interest. Other participants were Mark Iwri, one of the U.S. President's senior economic advisors, Ray Boshara, Vice-President of the New American Foundation, as well as Prof. Michal Grinstein, who promoted the issue of the Child Development Account as well as the contact between American and Israeli teams. Many other representatives from the NII took part in the seminar, as well as representatives from the Ministry of Social Affairs and Social Services, the Ministry of Finance, academia, the Brookdale Institute, the Bank of Israel and other organizations.

- announced in advance. Studies regarding similar programs in the world indicate that such a declaration promotes saving, by giving the family an incentive to try to receive the government subsidy. This measure was found to be more encouraging than progressive matching, since it promises a government deposit that is higher than the invested amount, i.e. doubling the family's investment.
- (4) **The purpose of the savings:** These savings are intended to be long-term, at least until the child reaches 21, when the accumulated capital can be used to empower the child's ability to make a decent living. Therefore, this capital must be earmarked for acquiring an education or vocational training which will enable him to successfully join the labor market. Other possible goals for the use of this capital can be helping to establish a business, or investing the savings for longer periods, possibly until retirement age.
 - (5) **Entitlement to an empowerment grant:** The plan is that entitlement to the empowerment program be granted pursuant to the following principle: anyone who is not exempt today from income tax on any type of savings plan such as pension, advanced studies funds, retirement funds, etc., shall be eligible for the grant. The poor population sector generally does not enjoy such exemptions since they do not reach an income level where they have to pay income tax or they are unable to save any money in these preferred programs. These are mainly families without providers and those who work in places where workers' rights are ambiguous. The implementation of such a program will help reduce inequality both in government benefits related to savings and in public assets.
 - (6) **Feasibility of the project based upon existing data regarding eligibility:** The project was approved by the State Revenue Administration. There are lists of providers who receive tax benefits in the area of savings, so that the eligibility rule will be the absence of the names of the parents of a newborn baby from the list in a given month. It was explained to us that there are even data regarding the size of the bonus, which in time, will make it possible to improve the program.
 - (7) **Involvement of the banking system:** The banking system can implement the plan under conditions of fair competition with relation to the accounts. We feel that it will be necessary to introduce regulations to ensure that commissions charged are minimal. It can be assumed that because of competition for future clients, the banks will be interested in improving the conditions of the savings accounts. Alternatively, one should not ignore the possibility of arriving at an understanding with the Postal Bank which will include minimal commissions.
 - (8) **The advantage of the program for the saver:** At the age of 18, a person saving in this program will have NIS 38,000 at his disposal for reasonable expenditures. It can be assumed that universities, colleges and training institutions will see the potential in this, from their point of view, and will offer preferential conditions in order to attract these potential students. If someone prefers to leave the money in the account in order to establish a business at the age of 25, he will then be able to start out with approximately NIS 64,000.

- (9) **Matching subsidy and 5% actual interest subsidy:** It is proposed that the program start with a deposit of NIS 50 per month until the age of 18, in keeping with the conditions outlined above, on the assumption that nominal interest will be paid on the savings.
- (10) **Cost of the program (based upon prices at the beginning of 2010):** According to an initial estimate, the cost of a subsidy of NIS 50 a month during the first year will be NIS 30 million. Every year thereafter, the cost will be multiplied by the number of years since the beginning of the program, since the reference is to cumulative costs. At full maturity, the cost will come to slightly over half a billion new shekels. Should subsidized interest also be provided, for example 5% real interest, which would require a subsidy of 2.5% if based upon interest rates on the current market, this cost will range from NIS 35 per saver during the first year to NIS 480 when he reaches 18. Subsidized interest will add approximately NIS 1.9 million during the first year and approximately NIS 25 million at maturity, so that the size of the budget for these bonuses will come to approximately 33 million NIS during the first year, and slightly less than 600 million NIS at maturity (in another 18 years).
- (11) **Follow-up study and termination of the program:** It is desirable to determine the timing of the termination of the program in advance, that is, when to halt the subsidy program. The program can fade out gradually, and even disappear with follow-up studies carried out after implementation, when a normative change in the desired direction with regard to behavior in the domain of saving will have been observed, and the private sector becomes involved and supports this type of savings plan. The Research and Planning Administration of the NII, together with a team of experts, should carry out a follow-up study on the project and its various effects.

A regular deposit of NIS 30 per month by a family, when taken out of the child allowance after the initial deposit of NIS 1,600 [the birth grant] can come to a capital of approximately NIS 31,000 set aside for the child. This capital can reach approximately NIS 70,000 if a needy family invests NIS 50 a month and the government supports it by depositing a matching amount.

The empowerment grant is intended to provide a mature child with a financial springboard for academic or professional studies (when he reaches the age of 18/21 to 30), or, alternatively, for starting a business (at the age of 25 to 30) or for purchasing an apartment (when even older), or to save towards a retirement pension, should he decide not to take advantage of any of the previous options. Another advantage of the program is that it teaches the child to save money, particularly important if, because of the poor economic condition of the family, he is not used to such habits.

Similar programs are being successfully implemented in several countries, some of them with significant success. Today, there is a program in England that helps young people break out of the poverty cycle when they mature, by allocating a split grant, part of which is received when the child is born, and the other part when the child turns 7. This grant is awarded to all children, but children in the needy population receive a larger amount.

Similar programs are being implemented on an experimental basis in the U.S., as well as in Singapore and Korea.

G. Additional tools

The connection between basic education, higher education and earning a living is among the best connections known today, as is, ultimately, the link between these and poverty. It is obvious that education must be at the core of any plan to combat poverty, particularly in connection with subject matters which, today, are not found in the curricula for ultra-Orthodox boys, and which are essential for being able to earn a living in the long run, such as mathematics, English and digital skills.

Improving access by the Bedouin population to education by developing educational infrastructures and a comprehensive scholarship program: There is no doubt that expanding the school system in the Bedouin sector is vital for improving their standard of living in the long run, especially with regard to high school education in the unrecognized settlements. However, another important connection between education and poverty should be emphasized here, and that is where the woman acts as an agent for social change: improving a woman's ability to earn a living by investing in her human capital not only improves her salary but also – and even more importantly – affects the timing for raising a family and shapes the life of the family and the joint decision made with her spouse regarding family size. In the end, reducing the size of the family in return for educational gains and the ability to earn a livelihood can improve a person's wellbeing. In fact, one of the ways to promote education and welfare in the Bedouin sector is to change, on a massive scale, the system for providing scholarships for higher education and vocational training for anyone who is interested and is able to study at the required level. The costs involved are minor compared to the long-term effects on the standard of living of the population and the indirect benefits to Israeli society.

Promoting the issues described above will certainly lead to a steady reduction of poverty in Israel, will improve public welfare and will result in a feeling on the part of fringe groups that they belong, thus increasing the potential for economic growth.

Increasing sensitivity regarding financial services for the disadvantaged who do not have a bank account: The Postal Bank, branches of which are deployed throughout the country, can develop basic financial services which will include handling current accounts and access to small loans, similar to services provided in various places in the world. It is proposed that the Postal Bank operate this system at cost price, with the support of a government budget that can provide guarantees and subsidize operating costs, especially since studies¹⁷ have shown

¹⁷ Florence Brown, Yaakov Yaron, Galia Piet, (2010). **Microfinance in Israel: Issues for discussion.** Jerusalem, Draft, pp. 1-15

that micro-loans are very expensive for poor borrowers and their costs are reminiscent of high interest rates in the “gray market”.

4. Scope of Payments

In 2009, NII benefit payments in cash and in kind – contributory and non-contributory – came to NIS 55.4 billion compared to NIS 49.9 billion in 2008. These amounts also include other payments made by the NII, particularly to government ministries, for developing services in the community. This also includes all types of administrative and operating expenses within the NII system (in the amount of approximately NIS 1.2 billion). There was a real increase of 7.4% in NIS payments, stemming from a combination of several elements: the rate at which benefits are subject to updates, based upon the price rises of the previous year and the rate of index increase in 2009 (which explains 2 percentage points out of the total increase in payments); macro-economic changes, particularly a steep increase in unemployment in the year under review; the increase in the number of benefit recipients; and the real rise in some benefits as a result of amendments to the 2009-2010 Economic Efficiency Law and agreements based upon Section 9 of the NI Law (some stemming from coalition deals). Benefits rose by approximately 0.4% (Table 1) after several years of either declining or remaining unchanged, in terms of percentage of productivity as well. The rate of benefits out of the GDP, which reached a peak of 8.7% in 2001-2002, dropped steadily to 6.8% in 2007 and 2008, while in 2009, they rose to 7.1% for the first time. This increase is particularly conspicuous in view of the decline in collection receipts due to the economic situation in the labor market (increased unemployment) in 2009 and a gradual decline that began in 2005 in the rate of NII collection from employers. In terms of the GDP, the collection rate for the NII branches dropped from 3.8% of the GDP in 2008 to 3.7% in 2009.

In general, benefit payments under the National Insurance Law rose by 8.3% in real terms in 2009. The non-contributory benefit payments – those paid under the country’s laws or as a result of agreements with the Treasury, and fully funded by the State Treasury (such as income support, mobility, maintenance and old-age and survivors pensions), for the uninsured (particularly new immigrants and reserve service payments) rose by 4.1%. In 2009, non-contributory benefits, including administrative expenditure, came to NIS 9.94 billion, 17.9% of all benefit payments.

The data in Table 3 demonstrate the main trends in benefit payments by branch. A particularly high increase, approximately 60%, was noted in the Unemployment branch due to an increase in the rate of unemployment from 6.1% in 2008 to 7.6% in 2009 following the economic crisis during this period that hit the world as a whole and Israel in particular. The Reserve Service branch also felt a sharp increase: approximately 35%. This is explained by two factors: payments attributable to the “Cast Lead” operation that

began near the end of 2008, and legislative changes: the lowest benefit was set at 68% of the basic wage (approximately NIS 5,200), while up to August 2008, the level of the benefit paid had been the minimum wage. In addition, the method for calculating the benefit paid to salaried workers and self-employed persons serving in the military reserves on week-ends was changed.

In the Long-term Care and Maternity branches, there was a real increase of approximately 8% in total payments. The increase in payment for long-term care is partially explained by the fact that as of March 2009, additional care hours were approved for those entitled to the two highest benefit levels if they employed Israeli caregivers: an additional three weekly hours of care were granted for those entitled to a benefit of 150% and an additional four weekly hours of care for those entitled to a benefit of 168%. Furthermore, more persons are receiving long-term care benefits, particularly the higher level of the benefit. The increase in maternity payments represents a phenomenon of recent years, where there was an increase in the number of those entitled to a maternity allowance, and where the average maternity allowance amount rose as a result of increased employment rates and women's salaries over time. There were 3.5% more births in 2009 than in 2008. As in previous years, this increase was higher than the increase in the number of women of fertility age.

Child allowance payments rose by 5.4% between 2008 and 2009. This rise stems, inter alia, from the gradual increase in child allowance payments that began in July 2009 pursuant to the introduction of the 2009-2010 Economic Efficiency Law. Under this law, allowances for second, third or fourth children in a family are to be increased gradually until an additional NIS 100 is paid in 2012 for every child in this category. The amount paid out in 2009 totaled approximately one-sixth of the increase (which, in 2012, will amount to an additional NIS 1,500 million compared to 2008). It should be pointed out that within the context of the agreement, the increments will be purely nominal, and the allowance will not be revised to keep up with price changes during that period, so that in real terms, it is expected that the benefits of the increments will be eroded. It should be emphasized that the increase in child allowance payments was, in part, set off by the exclusion of the "old-time" children (born prior to 2003) in the system, replacing them with "new" children, who receive a sum that is uniform and lower than the sum received by the "old-timers" (a process which began in 2002), a measure aimed at reducing child allowance payments.

Old-age and survivors' pensions were increased by 4.7%. Some changes took place during 2009, with the goal of increasing payments for old-age and survivors' pensions: in April 2008, the basic old-age pensions and survivors' pensions were raised from 16.2% to 16.5%, and those aged 80 years or over received a special additional 1 percentage point over the basic amount. At the same time, income support benefits were increased, based upon the age of the person eligible. Moreover, in August 2009, under

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the Economic Efficiency Law, old-age and survivors' pensions were raised even further, from 16.5% to 17.0%, as part of a process which, in January 2011, will culminate in raising the basic pension to 17.7% of the basic amount. The income supplement to these pensions will also be increased at a similar rate. In addition cash increments to the income supplement were paid to 70-79 years old in August 2009 (NIS 133) as well as to those aged 80 or over (NIS 80).

Table 2

**Benefit Payments and Collection from the Public (excluding administrative expenses)
as Percentage of GDP, 1980-2009**

Year	Benefit payments		Total collection	
	Total	Contributory benefits	Total*	NII contributions**
1980	6.09	4.98	6.77	5.15
1985	7.14	5.51	6.57	4.45
1990	8.36	7.04	7.21	5.28
1995	7.23	5.66	7.54	4.21
2000	7.72	6.14	6.05	4.11
2001	8.72	6.85	6.41	4.35
2002	8.74	6.78	6.42	4.36
2003	8.18	6.46	6.27	4.25
2004	7.41	5.93	6.09	4.08
2005	7.08	5.68	6.05	4.06
2006	6.88	5.54	5.82	3.88
2007	6.71	5.45	5.79	3.83
2008	6.74	5.50	5.85	3.84
2009	7.08	5.82	5.64	3.68

* Including health insurance

* Including Treasury compensation for reduction of NII contributions from employers

Table 3 presents the total distribution of all benefit payments by branch. The largest, the Old-age and Survivors branch, paid 36.4% of all NII benefits in 2009. In comparison to the previous year (2008), this branch's activities declined by one percentage point. The second largest branch, the Disability branch, dropped from 19.2% in 2008 to 18.6% in 2009, while the Children branch maintained its position as granting one tenth of all payments. The Unemployment branch increased its share considerably, from 3.8% of total payments in 2008 to 5.6% in 2009 (see above) and the Reserve Service branch increased its modest portion as well, from 1.7% in 2008 to 2.1% in 2009. In comparison, the Income Support branch continued its downward trend of the last few years and came to 4.7% of total payments (compared to 7% in 2004). The other branches remained more or less at their 2008 levels.

Table 3
Payments of NII Benefits (including administrative expenses), 1995-2009

Year	Total payments*	Old-age and survivors**	General disability	Work injuries, casualties of border and hostile acts	Maternity	Children	Unemployment	Reserve service	Income support***	Long-term care and other
NIS million (current prices)										
1995	21,188	7,675	2,254	1,487	1,206	4,287	1,280	1,053	1,149	798
2000	39,706	13,670	5,128	2,569	2,423	7,000	3,023	1,039	2,957	1,897
2004	42,759	16,032	7,355	3,145	2,727	4,887	2,177	708	3,003	2,735
2005	43,305	16,457	7,792	3,192	2,857	4,548	2,044	713	2,859	2,842
2006	45,760	17,376	8,392	3,306	3,103	5,038	2,013	860	2,730	2,941
2007	47,089	17,615	9,034	3,332	3,605	5,038	1,812	760	2,543	3,350
2008	49,920	18,655	9,599	3,506	4,146	5,188	1,896	841	2,518	3,572
2009	55,394	20,180	10,295	3,811	4,604	5,650	3,089	1,169	2,613	3,984
Real annual increase (percentages)										
1995	10.1	8.6	16.1	14.6	20-8	4.5	16.2	2.9	13.7	13.5
2000	8.1	8.4	14.8	11.4	10.8	1.5	-0.9	-7.4	18.1	18.2
2004	-4.2	2.2	0.8	-0.3	0.2	-20.3	-12.3	-38.1	-9.5	1.2
2005	-0.1	1.3	4.6	0.2	3.4	-8.1	-6.9	-0.6	-6.0	2.5
2006	3.5	3.4	5.5	1.4	6.4	8.5	-3.6	18.1	-6.5	1.4
2007	2.4	0.8	7.1	0.2	15.6	-0.5	-10.5	-12.1	-7.3	13.3
2008	1.4	1.3	1.6	0.6	10.0	-1.5	0.0	5.8	-5.3	2.0
2009	7.4	4.7	3.8	5.2	7.5	5.4	57.7	34.5	0.4	7.9
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
2000	100.0	34.4	12.9	6.5	6.1	17.6	7.6	2.6	7.4	4.8
2004	100.0	37.5	17.2	7.4	6.4	11.4	5.1	1.7	7.0	6.4
2005	100.0	48.0	18.0	7.4	6.6	120.5	4.7	1.6	6.6	6.6
2006	100.0	38.0	18.3	7.2	6.8	11.0	4.4	1.9	6.0	6.4
2007	100.0	37.4	19.2	7.1	7.7	10.7	3.8	1.6	5.4	7.1
2008	100.0	37.4	19.2	7.0	8.3	10.4	3.8	1.7	5.0	7.2
2009	100.0	36.4	18.6	6.9	8.3	10.2	5.6	2.1	4.7	7.2

* The data for 1995 do not include sums transferred to the Ministry of Defense as repayment of debt for savings in number of days of reserve duty.

** Including payments for income support.

*** For working-age population.

5. Benefit Levels

In January 2009, benefits were adjusted at the rate of the increase in the consumer price index between November 2007 and November 2008: 4.7%. This rate updated the “basic amount”¹⁸, which had been the basis for adjusting most benefits since 2006, pursuant to the Economic Recovery Program of June 2003. During the same period, the average wage, the previous basis for adjusting benefits, rose by 3.3%. The average wage rose cumulatively by 14% from 2002 to 2009, compared to an increase of 12% in prices during that same period. Thus the gap between the two indicators shrank, even if past experience demonstrates that benefits adjusted to prices can be eroded relative to salaries, so that when looking back over the past 30 years, real wages (those from price rises are deducted) increased by an average of 1.5% per year. However, if the above-described trend continues and returns from work continue to decrease in the upcoming decades, the erosion in benefits resulting from adjustments to prices rather than to wages will probably continue to lessen until it disappears.

The data in Table 4 reveal that in 2009, the basic rate of an old-age pension for a single person as a share of the average wage increased from 15.2% to 16.1% of the average wage for a single elderly person up to age 80, and from 15.9% to 17.1% of the average wage for those who are 80 years old and older. Similar rates of increase between 2008 and 2009 were noticeable also in the survivors’ pensions for widow/ers with two children.

The data in Table 5 reveal that in 2008, the guaranteed minimum income for the working age population rose slightly. The minimum income for a single person, as defined in the context of a percent of the average wage, rose by 0.1-0.2 tenths of a percent between 2008 and 2009, and the income within the increment of child allowances rose at a slightly higher rate (0.3-0.4 tenths of a percent of the average wage). The benefit paid to a single parent up to the age of 55 with two children amounts to 41.7% of the average wage compared to 53.4% of the same in 2002, the eve of the deep cuts in income support benefits under the 2002-2003 economic program. By contrast, benefit to an individual aged 55 or older returned to its previous level and reached 24.2% of the average wage in 2009, compared to 24.3% in 2002.

¹⁸ The “basic amount” is the amount according to which most benefits have been calculated since January 2006. This amount is adjusted on the first of January of every year based upon the rate of the increase in the consumer price index of the previous year. The basic amount has different rates for updating the various benefits. In 2009, the basic amount for calculating most of the benefits was NIS 7,836.

Table 4

Old-age and Survivors' Pensions and Guaranteed Minimum Income for the Elderly and Survivors (Fixed prices and percentage of the average wage in the economy*), monthly average, 1975-2009

Year	Basic old-age pension and survivors' benefit				Guaranteed minimum income (including child allowance)			
	Elderly individual		Widow/er with two children		Elderly individual		Widow/er with two children	
	2009 prices (NIS)	% of the average wage	2009 prices (NIS)	% of the average wage	2009 prices (NIS)	% of the average wage	2009 prices (NIS)	% of the average wage
1975	691	14.9	1,150	24.8	1,185	25.5	2,302	49.6
1980	762	17.1	1,477	33.1	1,337	30.0	2,302	60.0
1985	859	15.2	1,665	29.5	1,713	30.5	3,287	58.3
1990	1,082	15.9	2,094	30.7	1,699	24.9	3,125	45.9
1995	1,095	15.5	2,123	30.1	1,835	26.0	4,051	57.3
2000	1,223	15.0	2,370	29.0	2,044	25.0	4,498	55.0
2001	1,326	15.7	2,569	30.5	2,218	26.3	4,861	57.7
2002	1,233	15.6	2,437	30.8	2,104	26.5	4,567	56.4
2003	1,196	15.6	2,416	31.5	2,083	27.2	4,511	58.7
2004	1,202	15.2	2,425	30.6	2,093	26.4	2,278	56.7
2005	1,217	15.2	2,416	30.2	2,214	27.6	4,629	57.8
2006	1,242	15.3	2,424	29.9	2,319	28.6	4,854	59.6
2007	1,252	15.2	2,428	29.5	2,357	28.6	4,898	59.4
2008	1,248	15.2	2,413	29.5	2,334	28.5	4,845	59.2
2008 **	1,305	15.9			2,456	30.0		
2009***	1,284	16.1	2,480	31.2	2,388	30.0	4,945	62.2
2009****	1,284	16.1			2,419	30.4		
2009 **	1,361	17.1			2,563	321.2		

* As calculated by the Central Bureau of Statistics.

** 80 years of age or over.

*** Up to 70 years of age.

**** 70-79 year olds.

The average disability pension increased in real terms. As a percentage of the average wage for a salaried employee, it came to 31% in 2008 and rose to 32.3% in 2009. Since 2003, the value of the pension has eroded by approximately 1.5 percentage points in terms of the average wage. The rising trend also affected the benefits which stem from the general disability pension: the average attendance allowance rose to an especially high rate, 7.7%, after the level of the pension for the most severely disabled was raised and in 2009, reached 28.1% of the average wage (compared to 25.4% in 2008). The average benefit for a disabled child rose by approximately one percent between 2008 and

2009 and in real terms, the mobility allowance rose by approximately 3% during the same period. In 2009, the average long-term care benefit granted to the elderly (translated into hours of care) rose by 1.7% in real terms compared to 2008.

Table 5 shows the size of the child allowance payable to various family structures both at 2009 prices and as a percentage of the average wage. The allowance rose somewhat between 2008 and 2009 in relation to the average wage as a result of increased allowances in mid-2009, but since the increase was only for the second to the fourth child, the increase as a percentage of the average wage of families with two children is rather moderate, but it reaches almost 2 percentage points in a family with four children. These real increases in the allowance were responsible for minimizing the great cumulative decline experienced by the allowances since the economic program of 2002-2003, which had affected almost 50% of the families with four children.

A real increase in benefit levels was noted in the branches which pay wage-replacing benefits: the average daily injury allowances for salaried employees and the self-employed rose by 4.4% and 13.4%, respectively. The increase for salaried employees mainly reflects the end of temporary cuts of approximately 4% introduced between 2002 and 2007. In addition to this change, the increase in injury allowances for the self-employed reflects also an increase in their income and the integral element of fluctuation which stems from the small number of beneficiaries.

Table 5

Guaranteed Minimum Income for the Working-age Population
(Fixed prices and percentage of the average wage in the economy*) monthly average, 1990-2009

Year	Individual				Single parent with two children* (including child allowance)		Couple with two children (incl. child allowance)			
	Normal rate		Increased rate				Normal rate		Increased rate	
	2009 prices (NIS)	% of average wage	2009 prices (NIS)	% of average wage	2009 prices (NIS)	% of average wage	2009 prices (NIS)	% of average wage	2009 prices (NIS)	% of average wage
1990	1,359	20.0	1,700	24.9	3,444	50.5	3,134	46.0	3,645	53.5
1995	1,370	19.4	1,713	24.3	3,796	53.9	3,285	46.6	3,799	53.8
2000	1,528	18.7	1,910	23.4	4,207	51.2	3,622	44.0	4,193	51.0
2001	1,659	19.7	2,074	24.6	4,557	54.1	3,890	46.2	4,511	53.6
2002	1,542	19.5	1,927	24.3	4,201	53.4	3,580	45.5	4,200	53.4
2003***	1,497	19.5	1,761	22.9	3,586	42.5	3,097	40.3	3,570	46.6
2003****	1,870	24.4	1,870	24.4	4,068	53.0	3,960	42.4	4,028	52.4
2004***	1,502	19.0	1,691	21.3	3,204	40.5	2,791	35.3	3,204	40.5
2004****	1,878	23.7	1,878	23.7	4,034	51.0	3,992	50.5	3,948	50.5
2005***	1,482	18.5	1,669	20.8	3,158	39.4	2,751	34.4	3,158	39.4
2005****	1,853	23.1	1,853	23.1	3,977	49.6	3,937	49.1	2,937	49.1
2006***	1,491	18.4	1,678	20.7	3,230	39.7	2,820	34.7	3,230	39.7
2006****	1,864	23.0	1,864	22.9	4,084	50.2	4,013	49.3	2,013	49.3
2007***	1,484	18.0	1,669	20.3	3,212	39.0	2,805	34.0	3,213	39.0
2007****	1,854	22.5	1,854	22.5	4,062	49.3	3,991	48.4	3,991	48.4
2008***	1,519	19.2	1,710	21.6	3,276	41.4	2,859	36.1	3,276	41.4
2008****	1,899	24.0	1,899	24.0	4,145	52.3	4,074	51.4	4,074	51.4
2009***	1,537	19.3	1,729	21.7	3,314	41.7	2,574	32.4	3,314	41.7
2009****	1,921	24.2	1,921	24.2	4,193	52.7	4,121	51.8	4,121	51.8

* As calculated by the Central Bureau of Statistics

** Data re 1985 and 1990 refer to a widow with two children who is entitled to an income support benefit

*** For an adult within a family, who has not reached 55 years of age

**** At least one member of the family is over 55 years of age

On average, the rate of the daily maternity allowance declined at a real rate of about 2% as a result of the changes in real wages, and despite the changes in the composition of recipients of maternity allowances: an increase in the number of women earning salaries 75% or higher than the average wage and a decline in the number of women earning less than this salary. By contrast, there was a real increase of 3% in the rate of the birth grant. Average daily unemployment benefits rose in 2009 by approximately 6% in real terms on an average daily basis, since in this year, recipients of unemployment benefits earned higher salaries in terms of an average wage than did recipients of the previous year.

Table 6

Allowance Point and Child Allowances* (Fixed prices and percentage of average wage in economy, monthly average), 1990-2009

Year	Value of allowance point		Allowance for two children **		Allowance for four children		Allowance for five children	
	2009 prices (NIS)	Percentage of average wage	2009 prices (NIS)	Percentage of average wage	2009 prices (NIS)	Percentage of average wage	2009 prices (NIS)	Percentage of average wage
1990	200	2.9	99	1.5	1,615	23.4	2,291	33.2
1995	202	2.8	403	5.8	1,622	23.4	2,307	33.4
2000	206	2.5	412	5.0	1,658	20.2	2,359	28.7
2001	204	2.4	407	4.8	1,642	19.5	2,661	31.6
2002	172	2.4	343	4.3	2,375	17.3	2,229	28.1
2003	163	2.5	325	4/2	1,199	15.6	1,915	24.9
2004	137	2.4	274	3.5	936	11.8	1,476	18.7
2005	133	2.4	266	3.3	838	10.5	1,283	16.0
2006***	161	2.0	322	4.0	872	10.7	1,230	15.1
2007****	160	1.9	320	3.8	868	10.5	1,223	14.8
2008	157	1.9	314	3.8	850	10.4	1,198	14.6
2009	159	2.0	318	4.0	939	11.8	1,292	16.2

* Up until 1995, including the special increment for veterans.

** The level of the allowance in 1985 and 1990 relates to a family (up to three children) which was not entitled to the first-child allowance, and as of October 1990, not for the second child either. In March 1993, the universal payment of child allowances was resumed.

*** As of 2006, child allowances were calculated according to the basic amount, which, in January 2006, stood at NIS 148.

**** The basic amount was not adjusted In January 2007 and therefore, child allowances remained unchanged at their current value.

6. Benefit Recipients

In 2009, the number of recipients of old-age and survivors' pensions rose by 1.5%. On the average, the NII paid monthly pensions and benefits to 746.9 thousand elderly persons and survivors (Table 6). In the Children branch, the number of families receiving child allowances rose by 1.7%, the result of natural population growth. In 2009, child allowances were paid for approximately 2.4 million children in approximately one million families.

A sharp rise was recorded in the number of recipients of unemployment benefits, which, rose by approximately 50% from 2008 to 2009 as a result of the economic crisis and the fact that conditions of eligibility were eased for the period during which an unemployment rate of 7.5% or higher prevailed (see above). This sharp increase stemmed from the fact that since 2003 until recently, the number of unemployment benefits recipients dropped steadily by 4% to 27% (with the exception of 2005, when the rate remained stable).

The second largest branch, Disability, recorded a slower rate of increase than in recent years: 2.6%. Since the beginning of the 1990's, the average number of recipients rose each year by 4% to 8%. However, the increases in other benefits derived from general disability pensions continued at the same rate as those which had prevailed in recent years: the number of recipients of attendance allowance rose by 6.1%; the number of recipients of mobility allowance rose by 5.2%; and the number of recipients of benefit for disabled child rose by 4.7%. The number of recipients of benefits from the Maternity and Long-term Care branches also increased by approximately 4% each.

The Work Injury branch, affected by the employment rate, experienced a decline of 5.6% in the number of recipients. However, the number of recipients of permanent disability pensions in this branch rose at the same rate.

For the first time since 2003, the number of recipients of income support benefits remained steady. This stability came after a series of decreases ranging from 3% to 7% each year since 2004, and reached approximately 28% between 2004 and 2008, as a result of positive changes in employment, the stringent amendments legislated in 2003 and the implementation of the law to incorporate benefit recipients into the labor market. Conditions in the labor market after the economic crisis of 2009 halted this downward trend and the number of recipients remained as it was in 2008.

Table 7
Number of Benefit Recipients in the Main Insurance Branches (monthly average), 1990-2009

Year	Old-age and survivors	General disability				Work-related injuries		Maternity		Children	Unemployment benefits	Income support (for working-age population)	Long-term care
		General disability pension	Pension for special services	Allowance for disabled child	Mobility allowance	Injury allowance	Permanent disability allowance	Birth grant*	Maternity allowance*	Families receiving child allowance**			
Number of recipients (in thousands)													
1990	442.6	73.5	6.5	5.8	11.4	56.7	11.8	103.6	43.7	532.5	50.6	30.8	25.0
1995	553.9	94.0	10.2	10.3	12.2	84.9	14.6	113.1	55.2	814.7	61.5	74.8	59.0
2001	677.0	142.4	18.9	16.4	19.3	69.1	20.8	127.1	71.2	928.2	104.7	141.8	105.4
2003	709.2	157.3	21.7	18.4	22.3	61.5	23.0	136.4	73.9	939.1	70.5	155.2	113.0
2004	722.3	162.4	22.7	19.5	23.5	65.8	24.0	141.2	77.5	945.6	58.4	144.7	113.4
2005	719.9	170.9	24.0	21.0	24.9	63.9	25.2	142.9	77.0	956.3	58.8	139.9	115.0
2006	727.5	178.3	25.6	22.2	25.1	64.3	26.4	143.6	82.7	968.3	56.0	130.3	120.4
2007	728.9	187.5	27.4	23.8	27.3	67.6	27.8	147.2	86.0	980.6	49.8	120.2	125.4
2008	735.8	195.0	29.4	25.3	28.9	69.7	29.2	152.0	93.6	994.8	48.0	111.8	131.1
2009	746.9	200.1	31.2	26.5	30.4	65.8	30.9	157.7	97.7	1,012.0	73.0	111.8	136.6
Annual increase (percentage)													
1986-1990	2.6	3.4	7.2	7.7	1.5	-0.1	3.6	0.5	0.5	-0.5	20.9	8.6	17.4
1991-1995	4.6	5.0	9.4	12.2	3.0	8.4	4.4	1.8	4.8	8.9	4.0	19.4	18.7
1996-2000	3.5	7.6	10.2	8.2	4.9	-2.1	6.3	3.1	5.0	2.3	8.5	11.4	10.2
2001	3.0	5.2	13.9	7.2	14.9	-9.3	5.1	-3.6	0.8	1.7	13.1	10.6	10.1
2003	2.4	4.5	5.3	5.1	6.7	-12.1	5.5	6.1	3.5	0.4	-27.4	2.6	0.7
2004	1.8	3.2	4.6	6.0	5.4	7.0	4.3	3.5	4.9	0.7	-17.2	-6.2	0.4
2005	-0.3	5.2	5.9	7.2	5.9	-2.9	5.0	--	-0.6	1.1	0.7	-3.3	1.4
2006	1.1	4.3	6.7	6.0	4.7	0.6	4.8	0.5	7.3	1.3	-4.9	-6.9	4.7
2007	0.2	5.2	6.9	7.2	4.7	5.2	5.1	2.5	4.1	1.3	-10.9	-7.7	4.3
2008	0.9	4.0	7.3	6.3	5.9	3.1	5.0	3.3	8.8	1.4	-3.6	-6.8	4.7
2009	1.5	2.6	6.1	4.7	5.2	-5.6	5.8	3.7	4.4	1.7	52.1	0.0	4.2

* The number of different recipients during the year.

** The 1999 data include families whose allowances for the first and second child were refunded to them through their employers. In 1993, these allowances once again became universal.

*** When calculating data for 2004 and thereafter, only one recipient received a benefit that was distributed among a number of recipients. When taking into account all recipients of a split benefit, on the average, the number of recipients for 2004 amounted to 145.6 thousands per month.

7. Collection of Insurance Contributions from the Public and Sources for Financing Benefits

NII benefit payments are financed by four sources: the collection of NII contributions (direct contributions from the public and Treasury indemnification for a decline in NII contributions received from employers and the self-employed), the Government's participation in funding the levied benefits, financing by the Government of non-contributory benefits, and income from interest stemming from the investment of monetary balances, mainly in government bonds. In addition to collecting contributions to the NII, the NII collects health insurance payments and transfers them to the health funds.

The first stage in the process was activated in August 2005, at which time NII contributions imposed on employers were reduced. This process was gradual and continued until 2009, and ultimately, NII contributions from employers were reduced by 1.5 percentage points. Two insurance contribution rates were instituted concurrently – reduced rates and regular rates – instead of the uniform rate that previously applied to all levels of income for which insurance contributions must be paid. This measure was part of a more comprehensive policy initiated in the 1980's, aimed at reducing the employers' labor costs. It should be noted that the NII expressed its opposition to this measure: reducing collection of receipts from the public would increase the NII's dependence upon Treasury budgets, and might, if only indirectly, cause a further reduction in expenditure on benefits.

Another reform was implemented in early 2006 in the domain of collections of national insurance contributions, where the reduced rate of contributions imposed upon **the employee** was reduced from 1.4% of earnings to 0.4%, the regular rate was increased from 5.58% to 7%, and the bracket for the reduced rate was raised from 50% of the average wage to 60%. These changes were made in a zero budget.

Just as with the policy regarding benefits, the average wage was not adjusted by law during 2002-2005, and therefore, the brackets related to insurance contributions and the lowest income were not taken into account for the computation of insurance contributions to the various categories of insured persons. The freeze on the average wage continued until the end of 2005, and since 2006, the ceiling has been adjusted only after an increase in the index. On the other hand, even after 2006, the reduced rate bracket and the lowest income taken into account for insurance contribution to the various insured persons continue to be adjusted in accordance with changes in the average wage. The modification in the approach taken for adjusting the ceiling could, over time, ease the burden on those earning very high salaries, and they will receive preferential treatment in comparison with those making minimum level insurance contributions (such as the unemployed and students). On the other hand, continued linkage of the reduced rate

bracket to the average wage will avoid imposing the burden of insurance contribution upon low wage-earners.

Under the 2009-2010 Economy Arrangements Law, the ceiling for payment of national and health insurance contributions was doubled, from five to ten times the basis, without instituting a corresponding increase in the basic ceiling for calculating benefits to replace salaries. Concurrently, the reduced rate paid by the employer was raised by 0.4%. Steps such as these will raise the collection of NII contributions from the public by an estimated amount of half a billion new shekels a year, and will also increase government participation. It should be noted that these increases are expected to be set off by a reduction in government participation in the Children branch, a step that will take place mainly in 2010.

A. Collecting insurance contributions from the public

In 2009, NII receipts from collecting national and health insurance payments totaled NIS 43.2 billion: NIS 26.2 billion for the NII branches and NIS 15 billion for the health insurance system. Approximately NIS 2 billion were transferred to the Institute by the State Treasury to compensate for the decline in contributions by employers and the self-employed (under section 32C of the NI Law) and have been added to public contributions.

Table 8 demonstrates that in 2009, direct contributions from the public decreased by 1.4% in real terms: collection of NII contributions dropped by 1.9% and contributions for health insurance decreased at a more moderate rate, 0.4%. These decreases stem from developments affecting employment and salaries as a result of the economic crisis, as well as legislative amendments concerning the reduction of national insurance contribution rates by employers, amendments which were gradually enacted in 2005 and which continued to be in effect until 2009. Since these amendments did not affect the collection of health insurance contributions, the decline in contributions did not affect the health insurance system significantly. Doubling the salary ceiling for the purpose of contributions offset the effect of the decrease in collecting national insurance contributions and, if only slightly, added to the amount of contributions to the health insurance system.

The downward trend that had characterized the degree of collection in terms of the GDP, and which had been halted in 2008, was renewed and in terms of the GDP, contributions decreased from 5.6% in 2008 to 5.4% in 2009. It should be noted that in 2003, contributions from the public amounted to 6.3% of the GDP and since then, have not exceeded the rate of 5.8%. The source of this decline only applies to contributions collected for national insurance branches, since the money collected for the health insurance system remained at their level (2%) in terms of the GDP. The portion of

contributions from the public that stemmed from direct taxes continued to increase and rose gradually from 40.2% in 2003 to 50.3% in 2009 due to the tax reductions implemented after 2003 as part of the income tax reform.

The changes in collection rates differ between salaried employees and the non-salaried. While contributions from salaried employees decreased by 2.4% in 2009, the corresponding amounts from non-salaried persons rose by approximately 3% after the high rate of increase of approximately 10% each year between 2006 and 2008. As of 2005, the real collection from salaried employees rose cumulatively by approximately 2% compared to a corresponding increase of approximately 33% from the self-employed. These differences can be explained by the plan to reduce insurance contributions from employers during 2005-2009 – since, had it not been implemented, contributions from salaried employees would have risen by even higher rates – as well as by increasing contributions from non-salaried employees in recent years.

Table 8

Collection for the National and Health Insurance Systems, 2004-2009

	2004	2005	2006	2007	2008	2009
	Current prices (NIS million)					
Total receipts from insurance contributions	34,331	36,137	37,792	39,740	42,402	43,224
Total collection from the public	32,971	34,597	36,112	37,910	40,452	41,228
For National Insurance branches	21,661	22,759	23,554	24,454	25,877	26,233
For the health insurance system	11,310	11,838	12,558	13,456	14,575	14,995
Total compensation from the Treasury	1,350	1,540	1,680	1,830	1,950	1,996
	Indicators for developing collection from the public					
A. Percentage of real change						
Total collection from the public	2.6	3.6	2.2	4.4	2.0	-1.4
For National Insurance branches	1.5	3.7	1.4	3.3	1.2	-1.9
For the health insurance system	4.6	3.3	4.0	6.6	3.6	-0.4
B. As a percentage of GDP						
Total collection from the public	5.8	5.8	5.6	5.6	5.6	5.4
For National Insurance branches	3.8	3.8	3.7	3.6	3.6	3.4
For the health insurance system	2.0	2.0	2.0	2.0	2.0	2.0
C. As a percentage of direct taxes on individuals						
Total collection from the public	41.9	42.1	44.0	46.2	49.3	50.3
For National Insurance branches	27.5	27.7	28.7	29.8	31.5	32.0
For the health insurance system	14.4	14.4	15.3	16.4	17.8	18.3
D. As a percentage of direct taxes						
Total collection from the public	32.0	31.4	28.8	28.7	32.5	35.4
For National Insurance branches	21.0	20.7	18.8	18.5	20.8	22.5

For the health insurance system	11.0	10.7	10.0	10.2	11.7	12.9
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B. Sources for financing the benefits

Table 9 shows that in 2009, overall NII receipts for financing the NII branches totaled NIS 60.9 billion at current prices. This is a real annual increase of 0.8% over the past two years, mainly the result of financing from the Ministry of the Treasury which increased 2.2% in real terms. A real increase in receipts from interest, at the rate of 5%, contributed to this growth as well. These increases were offset by a decline of approximately 2% in collecting national insurance contributions between 2008 and 2009.

Table 9

Sources of Financing National Insurance Branches, 1995, 2000, 2004-2009

Year	Total receipts	Collection of National Insurance contributions*	Government participation**	Government financing of benefits	Interest receipts
NIS millions, current prices					
1995	23,581	12,171	4,333	4,650	2,504
2000	41,207	20,751	8,336	8,148	3,907
2004	47,513	23,021	10,996	8,548	4,617
2005	49,705	24,299	11,700	8,616	4,850
2006	52,344	25,234	12,600	8,982	5,290
2007	54,974	26,284	13,888	8,906	5,600
2008	58,525	27,827	14,938	9,245	6,150
2009	60,934	28,229	15,657	9,939	6,666
Real annual increase (percentages)					
2000	7.6	9.8	1.6	10.8	3.6
2004	-0.6	1.3	2.2	-8.9	4.1
2005	3.2	4.2	5.0	-0.5	3.7
2006	3.1	1.7	5.5	2.1	6.8
2007	4.5	3.6	9.6	-1.4	5.3
2008	1.8	1.2	2.8	-0.7	5.0
2009	0.8	-1.8	1.5	4.1	4.9
Distribution (percentages)					
1995	100.0	51.6	17.9	19.7	20.6
2000	100.0	50.4	20.2	19.8	9.5
2004	100.0	48.5	23.1	18.0	9.7
2005	100.0	48.9	23.5	17.3	9.8
2006	100.0	48.2	24.1	17.2	10.1
2007	100.0	47.8	25.3	16.2	10.2
2008	100.0	47.5	25.5	15.8	10.5
2009	100.0	46.3	25.7	16.3	10.9

* Including compensation from the Ministry of the Treasury.

** Under Section 32C of the National Insurance Law.

Receipts have risen by over 10% in real terms since 2005, reflecting the growth in all the financial elements, stemming from an increase in real salaries and from legislative amendments that increased government participation in the NII's activities. Income from interest, whose weight in the total receipts is relatively small, rose by 24% in real terms during the same period. The addition of the element of government participation points to an increased rate that is higher than average for the same period. The cumulative increase in government participation is a reflection of an increased share in contributions as a result of government assurances that it will compensate the NII for any losses of income stemming from the decline in NII contributions from employers under Section 32 of the National Insurance Law.¹⁹ The goals point to a growing dependence by the NII on government financing of benefits, possibly signifying an erosion of its independence.

C. Surpluses/deficits and capital reserves

Setting aside any income from interest on the NII's investment, the trend pointing to a budgetary surplus which came to over NIS 2 billion in 2007 and 2008, was reversed – 2009 saw a deficit of approximately NIS 1.1 billion. Contributing factors to this reversal were the Old-age and Survivors branch which tripled its deficit compared to 2008 and reached NIS 1.5 billion; the Unemployment branch, which increased its deficit by approximately NIS one billion; the branches that provide wage-replacing benefits – Work Injury and Maternity – where the combined deficit of both rose by approximately half a billion new shekels; and the Long-term Care branch, which added another NIS 200 million to the deficit. The increased deficits in the various branches described above offset, if only slightly, the NIS 12 billion surplus in the Children branch. It should be noted that based upon the findings stemming from a simulation that was carried out, one can see that this trend will escalate over the coming years.

The inclusion of income from interest originating from investments of past surpluses points to an improvement in the financial conditions of the NII's branches. The surplus that includes interest was reduced from NIS 8.6 billion in 2008 to NIS 5.5 billion in 2009. However, with the exception of the Old-age and Survivors branch, all of the other branches that showed deficits when they did not include interest gained from investments remained stable even after the inclusion. The disappearance of the surplus in the NII's budget since 2004, and the reinstatement of the current deficit is, of course, expressed in the extension of the deficit in the State budget.

¹⁹ The NII reached an agreement with the Ministry of the Treasury according to which Treasury benefits under Section 32 of the National Insurance Law would not be affected by a decline in insurance contributions and as a result, necessary adjustments to the Law were carried out.

Table 10

Surpluses/Deficits in NII Branches
(NIS million, current prices) 2001, 2007-2009

Branch	Surplus/deficit, excluding interest on investments				Surplus/deficit, including interest on investments			
	2001	2007	2008	2009	2001	2007	2008	2009
Total	-3,420	2,285	2,454	-1,126	657	7,885	8,604	5,540
Old-age and survivors	-633	-366	-406	-1,520	1,019	1,844	1,964	986
General disability	-1,762	-2,927	-2,934	-3,506	-912	-2,507	-2,394	-3,076
Work-related injury	-1,193	-1,104	-1,142	-1,351	-821	-914	-902	-1,151
Maternity	-852	-1,219	-1,608	-1,999	-674	-1,229	-1,558	-2,029
Children	5,338	11,161	11,960	12,013	5,890	13,791	14,660	15,413
Unemployment	-3,090	-1,312	-1,357	-2,468	-3,090	-1,342	-1,356	-2,468
Long-term care	-1,410	-2,000	-2,164	-2,376	-1,049	-1,970	-2,064	-2,377
Other	182	73	107	81	294	213	257	241