

Chapter 4

Collection: Activities and Trends

1. Introduction

The National Insurance Institute is responsible for collecting national insurance contributions in order to fund the benefits payable pursuant to the National Insurance Law, and for collecting health insurance contributions pursuant to the Health Insurance Law in order to fund the health system. National and health insurance contributions are collected from Israeli residents who are working (employees and the self-employed) and from those who are not working – at varying rates applicable to income liable for insurance contributions. In addition, since 1986, the government has been compensating the NII for losses of collection receipts deriving from the reduction in insurance contributions from employers and the self-employed. This compensation is called “Finance Ministry indemnification,” and it constitutes a component of the NII’s receipts from national insurance contributions.¹

In 2010, as in previous years, collection from the public was affected by fluctuations deriving from the economic developments in the economy, from the average wage, from the number of employed individuals and from the legislative process relative to 2009 and 2010, which progressed towards concluding the legislative amendment process that had begun in 2005. In 2005, employers’ insurance contributions began to be gradually reduced; concurrently, two insurance contribution rates were imposed on employers – reduced and regular – instead of the uniform rate applicable to all income brackets liable for insurance contributions, similarly to the customary rate structure according to the share of the employee and the self-employed. Prior to the legislative amendment, employers had been paying 5.93% of the employee’s income, up to the maximum income liable for insurance contributions. Subsequent to the amendment, during the period January- August 2009, employers paid 3.45% at the reduced rate (up to 60% of the average wage) and 5.43% at the regular rate. The following measures have also been instituted: the reduced rate for insurance contributions imposed on 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% to 60% of the average wage. These revisions were made using a zero budget; i.e., without affecting the NII’s total receipts. In order not to cause a loss in the total collection, the increase in the reduced rate bracket was also imposed on the employer’s share.

In July 2009, the Economic Efficiency Law (Legislated Amendments for Implementing the Economic Plan for 2009-2010) was enacted, which included two amendments that affected collections as of September 2009 and 2010: (1) an increase in the reduced rate of employers’ insurance contributions from 3.45% to 3.85% (in fact, reverting the situation to that which had prevailed in 2008); (2) doubling of the ceiling for the payment of

Two changes under Economic Efficiency affected collections in 2009 - 2010: an increase in the reduced rate of employers’ contributions and doubling of the ceiling for payment

1 The rate of the insurance contributions imposed on the government instead of on employers appears in the table of insurance contribution rates, and is prescribed in Section 32 of the National Insurance Law, which generally addresses the government’s participation in the funding of the various insurance branches.

Table 1
Collection from the Public and the Estimated Impact of the Legislative Amendments on the Receipts (NIS million), 2009–2010

	2009			2010			Change 2010 versus 2009 (Percentage)			
	Net of legislative amendment	Legislative amendment*	Actual	Net of legislative amendment	Legislative amendment**	Actual	Net of legislative amendment	Actual	Net of legislative amendment	Actual
Total	40,805	423	41,228	43,675	1,670	45,345	7.0	10.0	4.2	7.1
National Insurance	25,883	350	26,233	27,695	1,360	29,055	7.0	10.8	4.2	7.9
Health Insurance	14,922	73	14,995	15,980	310	16,290	7.1	8.6	4.3	5.8

* Eight months of reduction of the employers' insurance contributions and four months of additional collection in respect of the increase in the ceiling.
 ** Additional collection as a result of the doubling of the ceiling.

national and health insurance contributions, from five times the base sum to 10 times the base sum. Theoretically, these two amendments were expected to increase the total collection of national insurance contributions, but, in fact, the additional collection and the additional allocations pursuant to Section 32 were transferred in their entirety to the Ministry of Finance, since, concurrently, the ministry's participation in collection for the Children insurance branch was reduced from 210% to 207.5% in 2009 and to 169% in 2010 (in 2011, the ministry's participation was increased to 208%).

Table 1 presents the collection from the public in 2009 and 2010 and the impact of the legislative amendments on the volume of the collection. In 2010, the NII's receipts from collection of national and health insurance contributions totaled NIS 47.6 billion: NIS 45.4 billion were collected directly from the public, and NIS 2.2 billion were transferred by the State Treasury pursuant to Section 32C.1 of the Law,² which indemnifies the NII for the reduction in national insurance contributions from employers and from the self-employed. This year, direct collection from the public increased (without Finance Ministry indemnification) by about 7.1% in real terms, compared with a decrease of 1.4% in 2009. This increase is primarily attributed to the recovery from the global economic crisis (had it not been for the legislative amendments instituted as of 2009, the direct collection from the public in 2010 would have increased by an estimated 4.2% in real terms).

Direct collection from the public increased in 2010 by 7.1%, compared with a decrease of 1.4% in 2009

The collection of national Insurance contributions from the public in 2010 increased by 7.9% (compared with a decrease of 1.9% in 2009), while the collection of health insurance contributions increased by 5.8% (compared with a decrease of 0.4% in 2009). The ratio of collections of health insurance contributions to total collection from the public decreased from 36.4% in 2009 to 35.9% in 2010, due to the increase of the employers' national insurance contributions as described above – a process that increases the weight of the national insurance contributions from the public and necessarily decreases the weight of the health insurance contributions. The ratio of collection from the public to the GDP increased in 2010 to 5.6%. The ratio of collection receipts from the public to total direct taxes³ collected from individuals increased from 45.8% in 2009 to 46.8% in 2010, as a result of improvement in collections both by the Income Tax Authority and by the NII.

2. Collection of National Insurance Contributions

A. Rates of national insurance contributions

In 1995, two rates of insurance contributions were instituted – a reduced rate and a regular rate – for all categories of insureds. Since January 2006, the reduced rate has been

2 See Table 5 in Chapter 1.

3 Direct taxes collected from individuals include income tax (from employees, the self employed, and company directors), national insurance contributions and health insurance contributions. Total direct taxes include, in addition to taxes collected from individuals, corporation tax (State Revenue Administration, Annual Reports).

Table 2
Rates of National and Health Insurance Contributions, by Category of Insured (percentages), 2009–2010

Category of Insured	National Insurance Contributions				Health Insurance Contributions	
	Regular Rate		Reduced Rate		Regular Rate	Reduced Rate
	2009	2010	2009*	2010		
Employees – Total	13.10	13.10	4.52	4.92	5.0	3.1
Thereof:						
Employee	7.00	7.00	0.40	0.40	5.0	3.1
Employer	5.43	5.43	3.45	3.85	-	-
Government	0.67	0.67	0.67	0.67	-	-
Self-employed – Total	11.82	11.82	7.31	7.31	5.0	3.1
Employee	11.23	11.23	6.72	6.72	5.0	3.1
Government	0.59	0.59	0.59	0.59	-	-
Insured – not working and not self-employed	7.00	7.00	4.61	4.61	5.0	5.0

* Collection for January–August 2009 only.

imposed on that portion of the income liable for national insurance contributions that does not exceed 60% of the average wage.⁴ The regular rate is imposed on the balance of the income up to the ceiling – on the employee's share, on the employer's share, and on the self-employed, without differentiating between his share as an employee or as an employer. As Table 2 shows, the reduced rate applies to all insureds – employees and non-employees – and, since August 2005, the reduced rate has been applied to employers as well.

In 2010, national insurance contributions were paid in respect of 2.92 million employee jobs – a rise of about 3.5% compared to 2009

Table 3 presents data on the number of insureds who are liable for national insurance contributions by category of insured. In 2010, national insurance contributions were paid in respect of approximately 2.92 million employee jobs. This year, the number of employee jobs has increased by an estimated 3.5%. It should be noted that this category does not include workers from the Palestinian Authority, foreign workers, or special categories of Israeli insureds, such as kibbutz members, individuals receiving early retirement pensions, domestic workers, individuals undergoing vocational training, and employees of the Ministry of Defense.⁵

When referring to the insured population of non-employees, it is customary to differentiate between two categories: those paying insurance contributions based on their income (60.4% of all non-employee insureds), and those with no income who are paying insurance contributions based on the minimum income (39.6%). The first category mainly

4 The average wage, as defined in the National Insurance Law – NIS 8,307 per month in 2010, and the basis for reduced rates was 50% of the average wage until year-end 2005.

5 Section 5 of this chapter presents some information on these populations.

Table 3
Employers (by Size of Employer) and Insureds Liable for National Insurance Contributions, by Category of Insured, 2009 and 2010

Category of Insured	2009	2010	% Change
Insured employees*			
Total	2,820,000	2,920,000	3.5
Employers**			
Total	225,686	234,751	4.0
Employing 1- 5 employees	165,464	172,102	4.0
Employing 6-20 employees	42,128	43,695	3.7
Employing 21 -99 employees	14,536	15,226	4.7
Employing 100- 499 employees	2,968	3,109	4.8
Employing 500+ employees	590	619	4.9
Insureds – non-employees**			
Total	691,485	734,118	6.2
With liable income – total	423,028	443,228	4.8
From work (self-employed)	356,423	366,980	3.0
Not generated from work	66,605	76,248	14.5
Paying minimum level of insurance contributions – total***	268,457	290,890	8.4
Not working and not self-employed (minimum 15%)	162,449	174,536	7.4
Pupils and students (minimum 5%)	42,254	51,816	22.6
Yeshiva students (minimum 5%)	63,754	64,538	1.2

* The number of employee insureds reported by employers (using Form 102) – average per month.

** Year-end data.

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

consists of the self-employed (82.8%); however, as a result of the legislative amendment instituted in 2008, insureds with passive income (dividends and capital income) exceeding 25% of the average wage, whether or not they have income as employees or as self-employed, are liable for insurance contributions. The rates of the insurance contributions applicable to this income are the same as those applying to insureds who are not working and are not self-employed. This amendment is continuing to stimulate persistent growth of this category – in 2010, approximately 14.5%.

The second category of insureds paying the minimum level of insurance contributions consists of those who are not working and who have no income liable for insurance contributions (approximately 60%), and pupils and students (40%). The statistics indicate an increase of approximately 8.4% in the number of insureds who paid the minimum level of insurance contributions in 2010. The number of insureds who are not working as employees or as self-employed increased at the rate of 7.4%. The number of students increased at the rate of approximately 22.6%. An average increase of approximately 1.2% was recorded in the number of yeshiva students.

Table 3 also presents data on the number of employers paying insurance contributions for their employees, and their segmentation by number of employees. In 2010, the number of employers increased by approximately 4.0%. This increase was particularly evident among employers employing more than 25 employees.

B. Volume of receipts of national insurance contributions

Table 4 presents the sums of national insurance contributions that were collected from 2006 – 2010. In 2010, the receipts from national insurance contributions totaled approximately NIS 31.3 billion: approximately NIS 29.1 billion were collected from the public, and about NIS 2.2 billion were transferred by the Finance Ministry as indemnification in respect of the reduction of the national insurance contributions from employers and the self-employed. This year, the NII's receipts from national insurance contributions increased by 7.3% in real terms. Collection from the public in 2010 increased by 7.2% in real terms. Furthermore, the sums transferred by the Ministry of Finance as indemnification for the reduction of national insurance contributions from employers and the self-employed increased by 8.3% in real terms. In 2009, direct collection from the public accounted for 92.9% of all receipts of insurance contributions – similarly to previous years.

In 2010, the NII's receipts from national insurance contributions increased by 7.3%

In 2010, direct collection from employees increased by 7.6% in real terms, compared with the decrease of 2.4% in 2009. The direct collection from employees and their employers was affected by changes that occurred in the labor market: the average wage for an employee job in 2010 increased nominally by 3.5% (compared with the increase of

Table 4
Collection of National Insurance Contributions for Insurance Branches, by Category of Insured, Current Prices (NIS millions), 2006–2010

Category of insured	2006	2007	2008	2009	2010	Percentage of real change				
						2006	2007	2008	2009	2010
Total collection	25,234	26,284	27,827	28,229	31,289	1.7	3.6	1.2	-1.8	7.3
Employees and employers	23,113	23,944	25,132	25,351	28,220	1.0	3.1	0.4	-2.4	7.7
Non-employees	2,121	2,340	2,695	2,878	3,069	9.7	9.8	10.1	3.4	3.2
Total collection from the public	23,554	24,454	25,877	26,233	29,055	1.4	3.3	1.2	-1.9	7.2
Employees and employers	21,541	22,234	23,319	23,519	26,148	0.6	2.7	0.3	-2.4	7.6
Non-employees	2,013	2,220	2,558	2,714	2,907	9.7	9.7	10.2	2.7	3.7
Total Ministry of Finance indemnification	1,680	1,830	1,950	1,996	2,234	6.8	8.4	1.9	-0.9	8.3
For employers	1,572	1,710	1,812	1,832	2,072	6.6	8.2	1.3	-2.2	9.5
For non-employees	108	120	138	164	162	10.2	10.5	9.6	15.5	-4.5

0.6% in 2009). The number of employee jobs increased by 3.9% in 2010 (compared with the increase of 0.5% in 2009). The legislative amendments and the improved economic situation in the economy contributed to the significant increase in collection.

In 2010, the direct collection from non-employee insureds increased in real terms by 3.7%, in addition to the real increase of 2.7% in 2009. Receipts of national insurance contributions for employees (including the shares of the employee, the employer and the Finance Ministry), as a component of all receipts, increased slightly (from 89.8% in 2009 to 90.2% in 2010), as a result of the legislative amendments to the Arrangements Law for 2009 – 2010. The collection from non-employees for the various national insurance branches is comprised mainly of collection from the self-employed (about 94%). In 2010, the collection from the self-employed – which was based on the tax assessments from 2008 that were updated solely in relation to the rise in prices – increased by 4.2% in real terms. The collection from non-employee insureds who are paying national insurance contributions on a minimum basis, and which constitutes approximately 5% of the total collection for insurance branches from non-employees, increased by 4.4% in real terms. An examination of the payment ethics of the self-employed, as well as of those who are not working and are not self-employed, found a significant difference between them: while in relation to collection from the self-employed, the ratio of actual to potential collection (including any debt balance) is about 94.9% in 2010, in relation to insureds paying minimum contributions, this ratio reaches only about 48.9%.

3. Collection for the Health System

A. Health insurance contributions

The National Health Insurance Law came into effect in January 1995. The Law ensures the right of every resident of Israel to health insurance and prescribes a uniform and defined basket of health services for all, with the responsibility for funding the cost thereof imposed on the State. The Law specifies the sources of funding for the basket, the methodology for updating the cost of the basket, and the formula for allocating the resources among the sick funds. Israeli residents are entitled to choose one of the sick funds recognized by the Ministry of Health, and the sick fund is obligated to accept any resident, without any limitations, conditions or payment whatsoever.

The health insurance contributions, one of the main sources of funding for the basket of health services, are collected by the NII and are distributed among the sick funds. For this purpose, the NII keeps a file of all insureds under health insurance, which is regularly updated and provides information on the membership of the various sick funds.

According to the Law, every resident of Israel must pay health insurance contributions, even if he is not working, apart from a few categories who are exempted from paying. The health insurance contributions from employees and from insureds who are non-employees

are collected in the same way as the national insurance contributions are collected, while the insurance contributions from recipients of NII benefits (who have no additional income) are deducted at source from the benefit.

The health insurance contributions are imposed on employees according to two brackets: a reduced rate of 3.1% on that portion of their income not exceeding 60% of the average wage, and a regular rate of 5.0% on the balance of their income exceeding 60% of the average wage, up to the income ceiling liable for insurance contributions, which is 10 times the “basic amount” (from 1/8/2009 to 31/12/2010). Also in this instance, updates are based on the rate of the rise in prices.

Those who are not working and those receiving benefits from the NII are, in most cases, entitled to special rates depending upon their income bracket. Table 5 specifies the sums of insurance contributions that are deducted from benefits, by category of benefit, as follows:

- Health insurance contributions for recipients of wage-replacing benefits (such as maternity allowance, injury allowance, reserve service benefit and unemployment benefit) are deducted from the benefit at the same rates customary for income from work.
- Health insurance contributions for working-age recipients of benefits who are not working are deducted from their benefit at the minimum sum prescribed by Law.
- Health insurance contributions for recipients of old-age and survivors' pensions who are not receiving an income supplement are deducted from the pension at the sums stipulated for individuals and couples, as applicable.
- Health insurance contributions for recipients of old-age and survivors' pensions who are receiving an income supplement are deducted from their pension at the minimum rate, regardless of the family composition.
- Health insurance contributions for working-age recipients of benefits who have income from work are imposed only on their income from work, and not on the benefit.

Since January 2006, the sums of the benefits are updated according to the rate of the rise in the consumer price index in the previous year (e.g., the index for last November compared with the previous November); therefore, the minimum sums are also updated by this rate. Anyone who is neither an employee nor self-employed and who does not receive any benefit pays the minimum insurance contribution (NIS 95 per month as of January 2010). Particular categories are exempted from paying health insurance contributions: housewives, new immigrants for the first six months after their immigration to Israel, workers under the age of 18, students under the age of 21 who are not working and subsequently enlist in the army, who are exempted from paying insurance contributions for 12 months, and detainees and convicts who have been sentenced to more than 12 months of incarceration and who are receiving health services from the Israel Prison Service.

Table 5
Health Insurance Contributions by Benefit Category, 2010

Benefit category	Monthly health insurance contributions
Wage-replacing benefits	
Maternity allowance	
Injury allowance	
Unemployment benefit	
Reserve duty benefits	3.1% of the benefit up to 60% of the average wage; 5% of the balance of the benefit that exceeds 60% of the average wage up to the prescribed ceiling
Accident allowance	
Bankruptcy and liquidation	
Old-age and survivors	
With income supplement	NIS 95
Without income supplement	
For individual	NIS 180
For couple	NIS 261
Other benefits	
Income support	
Maintenance	
General disability	NIS 95
Work-related disability, with dependants	
Working-age survivors	

B. Receipts of health insurance contributions and their distribution among the sick funds

Up until the beginning of 1997, the NII collected the parallel tax and the health insurance contributions for the health system. Upon the enactment of the Arrangements in the Israeli Economy Law for 1997, the collection of parallel tax was completely abolished, while the funding for the basket of health services from the state budget was increased accordingly. Table 6 presents the sums of health insurance contributions collected by the NII from employees, non-employees and from benefit recipients. In 2010, the NII collected approximately NIS 16.3 billion in health insurance contributions, which constitutes an increase of 5.8% in real terms, compared with a decrease of 0.4% in 2009. In 2010, 80.2% of the total collection of health insurance contributions were collected from employees, from non-employees – about 10.2%, and from recipients of NII benefits – about 9.6%. The health insurance contributions collected from insureds who are non-employees are divided as follows: 70% from the self-employed and 30% from insureds who are not working and are not self-employed, and who are paying the minimum level of insurance contributions.

In 2010, the NII collected NIS 16.3 billion in health insurance contributions – an increase of 5.8% in real terms

Table 6
Collection of Health Insurance Contributions
(NIS million), 2006–2010

Year	Total	Employees	Non-employees	Recipients of benefits	Rate of change	
					Nominal	Real
2006	12,558	10,021	1,185	1,352	6.1	3.9
2007	13,456	10,820	1,288	1,348	7.1	6.6
2008	14,574	11,755	1,426	1,394	8.3	3.6
2009	14,995	11,975	1,528	1,492	2.9	-0.4
2010	16,290	13,067	1,660	1,563	8.6	5.8

Table 7
Health Insurance Contributions from Benefits,
by Benefit Category (NIS million), 2009 and 2010

Benefit	2009	2010	Real annual change (%)
Total	1,492.0	1,563.0	2.0
Old-age and survivors	1,041.6	1,103.4	3.2
Work-related disability	30.5	32.8	4.6
Disability	151.8	163.8	5.1
Income support	77.5	78.5	-1.4
Reserve duty	0.7	0.2	-68.5
Maternity allowance	89.3	95.4	4.0
Unemployment	67.0	53.2	-22.7
Injury allowance	10.0	10.6	3.1
Maintenance	6.4	7.2	9.4
Bankruptcy	3.4	4.1	18.4
Other	13.6	13.7	-2.2

Table 7 presents the sums of health insurance contributions collected from recipients of NII benefits. In 2010, a total of NIS 1,563 million in health insurance contributions was deducted from the benefits, and, in real terms, this represents an increase of 2.0% compared with the previous year. Particularly evident are the increase in health insurance contributions being deducted from disability benefits and the decrease in health insurance contributions being deducted from unemployment benefits. Approximately 71% of the health insurance contributions deducted from benefits were paid by recipients of old-age and survivors' pensions (including those who receive the pension along with an income supplement). It should be noted that the health insurance contributions are deducted from benefits solely when the benefit recipient has no income from work, or when he has other income that is exempt from paying insurance contributions. Married women who work only in their homes (housewives) are exempted from paying health insurance contributions, even if they are receiving a benefit in their own right from the NII, provided that this benefit is not a wage-replacing benefit.

The National Health Insurance Law prescribes that the funds designated for financing the health basket are to be transferred to the sick funds directly by the NII. The principle governing the distribution of these funds is based on the "capitation formula," which mainly takes into account the number of insureds in each of the sick funds, while weighting the age of each insured. As of November 1, 2010, two new variables have been added to the capitation formula: the gender of the insured and the remoteness of his place of residence from the population centers (see box). Table 8 shows that the capitation methodology works in favor of Clalit Health Services, because this sick fund is characterized by a high percentage of elderly members and members residing in communities that are remote from the center of the country. Thus, for example, about 73% of the very elderly insureds (age 85 and above) and 68% of the residents of outlying regions are members of Clalit Health Services. At the end of 2010, the ratio of insureds of Clalit Health Services constituted approximately 52% of all insureds, but Clalit's share of the health insurance funds was about 57%. On the other hand, this methodology reduces the sums being transferred to the Maccabi and Meuhedet sick funds, whose members are generally younger. It should be noted that, since August 1, 2006, the capitation rates have been calculated monthly, instead of quarterly, as was customary until then. The monthly capitation makes it possible to reduce the gap between the number of insureds at the beginning of each quarter and the actual number of insureds in each of the three months of that quarter.

The sources of funding for the health services, pursuant to the National Health Insurance Law, are as follows:

- health insurance contributions, which are collected by the NII;
- sums being transferred to the NII by the Compensation Fund for Traffic Accident Victims (since 2010);
- direct receipts of the sick funds in respect of health services they provide for a fee (such as medicines, visits to doctor, etc.);
- other sums from the State budget intended as a supplement to help cover the various health expenses and cover the cost of the basket of health services.

Table 8
Segmentation of the Number of Insureds and the Key for the Distribution of Health Insurance Contribution Receipts, by Sick Fund (percentages), December 2009 and December 2010

Sick fund	December 2009		December 2010	
	Total insureds	Distribution key	Total insureds	Distribution key
Total	100.0	100.0	100.0	100.0
Clalit	52.47	56.87	52.30	56.71
Leumit	9.23	8.61	9.18	8.57
Meuhedet	13.53	11.63	13.59	11.58
Maccabi	24.77	22.89	24.93	22.14

Table 9
Cost and Sources of Health Services Basket under the Responsibility of the Sick Funds, 2006–2010

Source	2006	2007	2008	2009	2010*
Cost (NIS million)	24,041	24,946	26,583	28,141	30,324
Sources (%)					
Total	100.0	100.0	100.0	100.0	100.0
Health insurance contributions**	51.5	53.4	54.8	53.4	54.3
State budget	43.1	41.2	38.8	40.2	39.3
Own income	5.4	5.4	6.4	6.4	6.4

* Ministry of Health estimate (February 2011).

** Including sums transferred to the NII by the Compensation Fund for Traffic Accident Victims (since 2010). In 2010, the sum of NIS 377 million was transferred.

Table 10
Per Capita Cost of the Health Basket, by Age Bracket (NIS per annum, 2010 prices), 2009–2010

Age bracket	2009	2010*
Total per standard person	3,421	3,534
Up to one year	5,302	5,535
1-4 years	3,284	3,326
5 -14	1,608	1,617
15- 24	1,368	1,411
25- 34	1,950	2,015
35 -44	2,326	2,401
45 -54	3,660	3,780
55 -64	5,781	6,004
65- 74	9,783	10,110
75 -84	12,177	12,665
85+	13,888	14,186

* Estimate.

In 2010, the State's share of funding for the basket was reduced to 39.3%, compared with the ratio paid from the receipts of health insurance contributions, which rose to 54.3%

According to the estimate for 2010, the cost of the health basket under the responsibility of the sick funds increased by about NIS 2.2 billion in nominal terms, reaching about NIS 30.3 billion (Table 9). In real terms, this represents an increase of about 4.9% compared with the previous year.

In 2010, the State's share of funding for the basket was reduced to approximately 39.3%, compared with the ratio paid from the receipts of health insurance contributions, which rose to about 54.3% this year. It should be noted that the Economic Arrangements Law for 2008 prescribes that the sick funds' receipts from their members' deductibles will be at the rate of 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 as of 2008.

The standardized per capita cost of the health basket enables examination of the impact of the insured's age on the sick funds' expenses (Table 10). The per capita cost of the basket is calculated in relation to the sources for the basket that are being distributed among the sick funds according to the capitation formula, and does not include sums not being distributed according to the capitation formula, such as expenses for serious illnesses, administrative expenses, allocations to the Health Council and to Magen David Adom (the Israeli equivalent to the Red Cross organization). In 2010, the weighted per capita cost of the health basket was NIS 3,534, compared with NIS 3,331 in 2009 – a real increase of about 3.3%. The cost of the basket reflects the relative costs among the age brackets: the cost of the "younger" age brackets is lower than that for the older age brackets. Thus, for example, in 2010, the cost of the basket for the elderly population (above the age of 85) was four times higher than the average cost for all of the sick funds' insureds, and ten times the cost of the basket for the 15-24 age bracket.

Revision of Formula for Allocating Health Insurance Revenues among Sick Funds – Effects on Funding of Health System

The "capitation formula" is used to allocate health insurance revenues to the sick funds. The allocation is done according to the weighted number of insureds in each sick fund and the composition of the insureds' age brackets. Taking into consideration the recommendations of an inter-ministerial team that examined the methodology for distributing the sources of funding among the sick funds,¹ the Labor, Welfare and Health Committee of the Knesset approved an amendment to the capitation formula, which came into effect as of November 1, 2010.

The amendment prescribes that, when calculating the weighted number of insureds, weight shall be given to each of the sick funds' insureds according to his age, gender and the remoteness of his place of residence from the population centers. Up until now, the distribution of the health insurance revenues had been based solely on the insured's age. The weights of the ages were revised according to the updated database. This revision has led to the revenues being distributed in a more efficient and accurate manner, while providing the sick funds with an incentive to provide optimal service to all of their insureds, regardless of age, gender or place of residence.

A. Updating of the age weights

The first revision to the capitation formula was made in July 2005: the age weights were updated and two new age brackets were added (up to 1 and above age 85). In

1 "Recommendations of the Inter-ministerial Team for Revising the Formula for Distributing the Sources of Funding, under the National Health Insurance Law, among the Sick Funds," submitted to the Ministers of Health and Finance, Jerusalem, June 2010.

Table 1
Weights of the Capitation Formula by Age and Gender – Comparison between the New and Old Methodology

Age Bracket	Weights until 31/10/2010	Weights as of 1/11/2010		Change in Weights (points)		
		Male	Female	Male	Female	Weighted Change
Up to 1	1.55	1.87	1.41	0.32 +	0.14 -	0.10 +
1-5	0.96	0.94	0.75	0.02 -	0.21 -	0.11 -
5-15	0.47	0.41	0.38	0.06 -	0.09 -	0.07 -
15-25	0.40	0.36	0.43	0.04 -	0.03 +	0.00
25-35	0.57	0.41	0.73	0.16 -	0.16 +	0.00
35-45	0.68	0.57	0.78	0.11 -	0.10 +	0.00
45-55	1.07	0.99	1.14	0.08 -	0.07 +	0.00
55-65	1.69	1.79	1.70	0.10 +	0.01 +	0.05 +
65-75	2.86	3.14	2.63	0.28 +	0.23 -	0.00
75-85	3.56	4.13	3.40	0.57 +	0.16 -	0.14 +
85 +	4.06	4.23	3.52	0.17 +	0.54 -	0.28 -

November 2010, the weights were updated according to the updated data base relating to expenses in the health services relative to all age brackets, such as hospitalization, medicines, outpatient clinics, etc.

B. Addition of a variable – gender

The gender variable differentiates between the healthcare needs of both genders (men and women) and focuses on child-bearing age brackets. The coefficients of the new formula compared with the previous formula are presented in Table 1.

The new formula increases the allocation to elderly men (aged 65 and above), but reduces the weight relative to elderly women. Furthermore, according to the new formula, women of child-bearing age (mainly between the ages of 25-45) receive additional weight that was deducted from the men's corresponding age brackets.

C. Addition of a variable – geographical remoteness

Ministry of Health data indicate that there are differences in the supply of health services in Israel between the central region and the outlying regions (north and south). Data from the Central Bureau of Statistics indicate that the outlying areas are characterized by a higher ratio of populations living at a lower socio-economic standard. In 2008, the Central Bureau of Statistics developed a new index "Peripherality of Local Authorities in Israel," which divides the local authorities into 10 clusters according to the degree of remoteness of each authority.² The value of the Peripherality Index is obtained as

2 Central Bureau of Statistics, Peripherality Index of Local Authorities 2004, Jerusalem, 2008.

an average of two components: the “potential accessibility” component (a weighted calculation of the proximity of the local authority to all local authorities in Israel and the size of their population), and the “proximity to the border of the Tel Aviv district” component (which is calculated so that a local authority closer to the Tel Aviv district receives a higher value).

An insured who resides in a local authority that is categorized under one of the four clusters with the lowest rank in the Peripherality Index is defined as a “resident of an outlying region.” Application of the new capitation formula: when calculating the weighted number of insureds, a resident of an outlying region receives an increment of 0.04 points to the weight prescribed for each age and gender category.

D. Implications of the revision of the capitation formula on the distribution of receipts

The new formula grants greater weight to residents of the outlying regions, to elderly insureds and to insured women of child-bearing age. The inter-ministerial team who had recommended revising the capitation formula believes that these changes will lead to a more accurate allocation of the resources pursuant to the National Health Insurance Law, without destabilizing the health system.

The NII’s Research and Planning Administration conducted a simulation to examine the impact of the new formula on the distribution of the health insurance revenues among the sick funds, based on the health budget distributed to the sick funds in 2010. Table 2 presents the results of calculating the distribution ratios, comparing the new formula to the previous formula, as on the revision date (November 2010).

The examination of the impact of the revision of the capitation formula on the distribution of the receipts among the sick funds shows that Clalit Health Services received an increase in its share of the health budget by approximately 0.22 percentage points compared with its share according to the previous formula. On the other hand,

Table 2
Weighted Number of Insureds – New Capitation Formula
versus Previous Formula – November 2010

Sick Fund	Weighted Number of Insureds (percentage)		
	New Formula	Previous Formula	Difference
Total	100.000	100.000	0
Clalit	56.746	56.529	+0.217
Leumit	8.572	8.593	-0.021
Maccabi	23.114	23.168	-0.054
Meuhedet	11.568	11.710	-0.142

Leumit Health Services lost approximately 0.02 percentage points, while Maccabi lost about 0.05 percentage points and Meuhedet lost about 0.14 percentage points.

As a result of the revision of the distribution formula, Clalit will be allocated an additional budget of approximately NIS 60 million per annum. On the other hand, Meuhedet's budget will be reduced by approximately NIS 40 million per annum, Maccabi's budget will be reduced by approximately NIS 15 million per annum, and Leumit's budget will be reduced by approximately NIS 5 million. In order to offset the losses of some of the sick funds deriving from the implementation of the new capitation formula, and in order to encourage competition among the sick funds in the outlying regions, the Ministries of Finance and Health have decided to increase the health basket budget by NIS 160 million per annum.

4. Distribution of the Payment Burden of National and Health Insurance Contributions

The national insurance system, like any insurance system, makes entitlement to benefits conditional, in most cases, on the payment of premiums (contributions). Accordingly, every insured person, irrespective of his employment status, must pay insurance contributions. The parameters of the function of national insurance contributions indicated at the beginning of this chapter – minimum and maximum for income liable for national insurance contributions and the insurance contribution rates applicable to the various categories of insureds – are typical of most social security systems in western countries.

Undisputedly, the prescribing of a floor and ceiling for income liable for national insurance contributions constitutes a regressive element in the collection system. The reform introduced in the NII's collection system in 1995 – which broadened the income base liable for national insurance contributions, which introduced a reduced rate on that portion of the income not exceeding 60% of the average wage, and which raised the income ceiling in August 2009 (from five times the base sum to 10 times the base sum) – were intended to moderate the regressive nature of the distribution of the payment burden of national insurance contributions that are imposed on insured individuals. The decision to delegate the responsibility for the collection of health insurance contributions as of 1995 on the NII, coupled with the principles that every resident is insured and that the majority of insureds are liable for the payment of health insurance contributions, led policy-makers to adopt the elements of the function of national insurance contributions also in relation to health insurance contributions.

The latest figures available to us are for 2008. The data in Tables 12 and 13 refer to the legal situation in 2008; that is, taking into account the rate of the insurance contributions for that year and the maximum income liable for national and health insurance

Table 11
Employees: Income (Average Per Month of Work) and the Burden of Insurance Contributions, by Deciles, 2008

Decile	Average income per month of work	Insurance contribution payments					
		NIS			Percentage of income		
		Total	NII	Health insurance	Total	NII	Health insurance
1	882	31	4	27	3.5	0.4	3.1
2	2,107	74	8	65	3.5	0.4	3.1
3	3,157	110	13	98	3.5	0.4	3.1
4	3,997	140	16	124	3.5	0.4	3.1
5	4,833	169	19	150	3.5	0.4	3.1
6	5,872	314	108	206	5.3	1.8	3.5
7	7,269	480	205	276	6.3	2.8	3.8
8	9,425	740	356	364	7.9	3.8	4.1
9	13,614	1,243	650	593	9.1	4.8	4.4
10	25,946	2,723	1,513	1,210	10.5	5.8	4.7
Average	7,710	534	236	298	7.0	3.1	3.9

contributions (up to 5 times the basic amount). The steps taken within the scope of the tax reform of 2006 (such as lowering the reduced rate applicable to employees from 1.4% to 0.4%, increasing the regular rate from 5.58% to 7.0% and increasing the reduced rate bracket from 50% of the average wage to 60%) are also reflected in the rate of the insurance contributions that is calculated on the basis of wage and income data for 2008.

Table 11 presents data on income (average per month of work), on national insurance contributions (the employee's share only) and on health insurance contributions, as the average per decile of the population of employees. Employees are ranked according to income liable for insurance contributions (average per month of work), so that each decile represents 10% of the individuals who are employees.⁶ The data show that each of the lowest five deciles pays national insurance contributions at the rate of 0.4% of the income, with the rate gradually increasing to 5.8% in the top decile. A similar picture arises from the health insurance contribution rates by deciles, but the lowest rate in the lowest five deciles is 3.1%.

Table 12 presents the insurance contribution rates by decile for the population of the self-employed in 2008. It should be noted that the burden of national insurance

6 In April 1999, a legislative amendment was enacted, which equated the minimum income for calculating employees' insurance contributions with the minimum wage in the economy, taking part-time jobs into account. When calculating the insurance contributions, we assumed full compliance by employers with the Minimum Wage Law, and that any reported wages that are below the minimum wage are due to part-time jobs. The bias in the average ratio of insurance contributions to income in the lower deciles is negligible.

Table 12
Self-employed: Income (Monthly Average for the Year) and the Burden of Insurance Contributions, by Decile, 2008

Decile	Average monthly income for the year	Insurance contribution payments					
		NIS			Percentage of income		
		Total	NII	Health insurance	Total	NII	Health insurance
1	620	188	129	59	30.3	20.8	9.6
2	1,156	188	129	59	11.4	7.8	3.6
3	2,188	215	147	68	9.8	6.7	3.1
4	3,111	306	209	96	9.8	6.7	3.1
5	4,069	390	273	116	9.6	6.7	2.9
6	5,183	546	374	172	10.5	7.2	3.3
7	6,827	809	555	254	11.9	8.1	3.7
8	9,258	1,199	824	376	13.0	8.9	4.1
9	13,684	1,910	1,313	597	13.0	9.6	4.4
10	33,928	5,159	3,550	1,609	15.2	10.5	4.7
Average	8,053	1,006	691	315	12.5	8.6	3.9

contributions is significant in the first and second deciles, as a result of the mandatory minimum payment of insurance contributions (25% of the average wage), which exemplifies the regressive nature of the system at the lower income levels. The rate of the national insurance contributions payable by the self-employed (in their capacity as both worker and employer) is 6.7% in the third decile, which rises gradually to 10.5% in the tenth decile. The impact of the maximum income liable for national insurance contributions is the most striking among the self-employed, since a larger portion of their total income exceeds the maximum liable income. A similar picture emerges from an analysis of the variability in the rates of health insurance contributions in the various deciles.

It should be noted that, unlike in the instance of employees, the income of the self-employed in each decile is presented in terms of monthly average for the year (and not per month of work), since the collection from them is based on their reported annual income. For this reason, the income of employees in Table 11 cannot be compared with the income of the self-employed in Table 12.

5. Special Populations Defined as Employees

The data on the number of employees that are presented in this chapter refer to the number of employees reported by employers on Form 102. The population of employees, as defined by the NII, includes additional categories as specified hereunder.

Kibbutz members: Members of *kibbutzim* (communal settlements) and *moshavim* (cooperative settlements) are defined in the Law as employees of the cooperative society (which is deemed the employer), with the cooperative society having the duty and responsibility to register their members as employees and to pay the insurance contributions for them. The members of *kibbutzim* and *moshavim* are insured under all national insurance lines, except for the unemployment insurance line. In 2010, an average of about 45,000 members (aged 18 and above) were reported each month, and the insurance contributions paid for them totalled approximately NIS 130 million for the year.

Domestic workers: The status and rights of people employed in private households are the same as those of all other employees; however, the insurance contributions payable for them have been prescribed at different rates. At the end of 2010, approximately 195,000 employers reported their employment of domestic workers in their homes, and insurance contributions totaling approximately NIS 60 million have been collected from them this year.

Workers from the Palestinian Authority: Workers from the territories and the Palestinian Authority employed by Israeli employers are liable for the payment of insurance contributions for three insurance lines: work injuries, maternity and bankruptcy. The insurance contributions for them are collected by the Payments Section of the Employment Service. In 2010, an average of about 26,000 such workers were reported each month, and the insurance contributions paid for them totaled approximately NIS 5.2 million for the year. The average monthly wage per worker, on the basis of which the national insurance contributions were paid, was about NIS 3,210.

Foreign workers: This category includes workers who are not Israeli residents and who are employed by Israeli employers. As in the case of workers from the Palestinian Authority, foreign workers are insured under the Maternity, Work Injury and Bankruptcy insurance branches, and the rates of the insurance contributions applicable to them are anchored in a special regulation. In 2010, an average of about 94,000 foreign workers were employed in Israel each month; their average monthly wage was about NIS 4,520 and the insurance contributions charged for them totaled NIS 40 million for the year.

Workers who retired prior to reaching retirement age: These workers are liable for the payment of national and health insurance contributions on their early pension. In 2010, an average of about 55,000 pensioners each month paid insurance contributions, and the sum collected for them totalled approximately NIS 330 million for the year.

Insureds undergoing vocational training: This category includes insureds (working and not working alike) who are undergoing vocational training within the framework of the Ministry of Industry, Trade and Labor, or in locations approved for this purpose pursuant to the National Insurance Regulations. The national insurance contributions imposed on the employer and on the insured undergoing vocational training are for

only two insurance branches: Work Injury and Maternity. In most cases, the Ministry of Industry, Trade and Labor is the employer, unless the insured undergoing vocational training has been sent for training by his employer. The number of insureds who were undergoing vocational training (and who paid insurance contributions) totaled an average of about 38,000 per month in 2010, and the insurance contributions paid for them totaled about NIS 13 million for the year.