

Chapter 4 | **Collection: Activities and Trends**

1. Introduction

The National Insurance Institute is responsible for collecting national insurance contributions to fund the benefits payable under the National Insurance Law, and for collecting health insurance contributions as per the Health Insurance Law 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 2011, as in previous years, collection from the public was affected by fluctuations deriving from the economic developments, from the average wage, from the number of employed individuals and from the legislative process relative to 2011 and 2012, which progressed towards concluding the legislative amendment process that had begun during previous years.

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, similar 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.

At the beginning of 2006 the following was also 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 2009-2010 was enacted, which included two amendments that affected collections from September 2009 through March 2011: An increase in the reduced rate of employers’ insurance contributions from 3.45% to

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.

3.85% (in fact, reverting the situation to what had prevailed in 2008) until March 31, 2011; and a doubling of the ceiling for the payment of national and health insurance contributions, from five times the basic amount to 10 times the basic amount until December 31, 2010.

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 Finance Ministry, 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, and back to 208% in 2011.

In the Economic Arrangements Law for the years 2011-2012 two additional changes were inserted: the ceiling for the payment of national and health insurance contributions was raised to nine times the basic amount from January 1, 2011 (and to eight times the basic amount from January 1, 2012); and the insurance contributions at the regular rate were increased for the employer by 0.47% (from 5.43% to 5.9%). These steps increased the collection of national insurance contributions but not the Treasury's portion; as a result, participation in the Children insurance branch was 200.5% from April 1, 2011 (204.5% in 2012)

Table 1 presents the collection from the public in 2010 and 2011 and the impact of the legislative changes on the volume of the collection. In 2011, the NII's receipts from collection of national and health insurance contributions totaled NIS 51.1 billion: NIS 48.7 billion were collected directly from the public, and NIS 2.4 billion were transferred by the Treasury under 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 3.7% in real terms, compared with an increase of 7.2% in 2010.

The collection of national insurance contributions from the public in 2011 increased by 3.9% (compared with an increase of 8.0% in 2010), while the collection of health insurance contributions increased by 3.3% (compared with an increase of 5.8% in 2010). The ratio of collections of health insurance contributions to total collection from the public continued to decrease but more moderately; in 2011 it reached 35.75% compared to 35.89% in 2010. This was 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.

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2 See Table 8 in Chapter 1.

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The collection of national insurance contributions from the public in 2011 increased by 3.9% while the collection of health insurance contributions increased by 3.3%

Table 1
Collection from the Public and the Estimated Impact of the Legislative Amendments
on the Receipts (NIS million), 2010-2011

	2010			2011			Percentage change 2011 versus 2010	
	Net of legislative changes	Legislative changes*	Actual	Net of legislative changes	Legislative changes**	Actual	Nominal	Real
Total	43,992	1,400	45,392	47,208	1,500	48,708	7.3	3.7
National Insurance	27,962	1,140	29,102	30,034	1,260	31,294	7.4	3.8
Health Insurance	16,030	260	16,290	17,174	240	17,414	7.1	3.6

* Legislative changes in 2010 included an increase in the reduced rate of employers' insurance contributions (3.85% instead of 3.45%) and a ceiling of 10 times the basic amount.
 ** Legislative changes in 2011 included four months of the reduced rate to the employers' contributions (3.85% instead of 3.45%), eight months of the regular rate of employers' contributions (5.90% instead of 5.43%) and a ceiling of nine times the basic amount.

The ratio of collection from the public to the GDP was 5.6% in 2011. The ratio of collection receipts from the public to total direct taxes³ collected from individuals increased from 47.3% in 2010 to 47.6% in 2011, as a result of greater improvement in collections by the NII compared to that of the Income Tax Authority.

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 imposed on that portion of the income liable for national insurance contributions that is 60% or less 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.

Table 2
Rates of National and Health Insurance Contributions,
by Category of Insured (percentages), 2010–2011

Category of insured	National insurance contributions				Health insurance contributions	
	Regular rate		Reduced rate		Regular rate	Reduced rate
	2010	2011	2010	2011		
Employees – total	13.10	13.57	4.92	4.52	5.0	3.1
Thereof: Employee	7.00	7.00	0.40	0.40	5.0	3.1
Employer	5.43	*5.90	**3.85	*3.45	-	-
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

* From April 1, 2011.

** Until March 31, 2011.

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, the corporation tax (State Revenue Administration, Annual Reports).

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.

Table 3
Employers (by Size of Employer) and Insureds Liable for National Insurance Contributions, by Category of Insured, 2010 and 2011

Category of insured	2010	2011	Percent change
Insured employees* – total	2,907,000	2,916,000	0.3
Employers** – total	234,751	241,449	2.9
Employing 1-5 employees	172,102	177,046	2.9
Employing 6-20 employees	43,695	44,904	2.8
Employing 21-99 employees	15,226	15,681	3.0
Employing 100-499 employees	3,109	3,177	2.2
Employing 500+ employees	619	641	3.6
Insureds – non-employees** – total	734,118	714,518	-2.7
With liable income – total	443,228	404,545	-8.7
From work (self-employed)	366,980	374,465	2.0
Not generated from work	76,248	30,080	-60.8
Paying minimum level of insurance contributions – total***	290,890	309,973	6.6
Not working and not self-employed (minimum 15%)	174,536	195,485	12.0
Pupils and students (minimum 5%)	51,816	49,518	-4.4
Yeshiva students (minimum 5%)	64,538	64,970	0.7

* 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.

Table 3 presents data on the number of insureds who are liable for national insurance contributions by category of insured. In 2011, national insurance contributions were paid in respect of approximately 2.92 million employee posts. This year, the number of employee posts has increased by an estimated 0.3%. 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 who took early retirement, domestic workers, individuals undergoing vocational training, and employees of the Defense Ministry.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 (56.6% 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 consists of the self-employed (92.6%); however, as a result of the

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

legislative change 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 weight of this group dropped by some 60% in 2011, despite its continuous rise since 2008, apparently because corporations exempt from insurance contributions were opened, a situation that constitutes a tax haven, especially since the ceiling for national insurance contributions was raised. The rates of the insurance contributions applicable to this income are the same as those applying to insureds who were not working and not self-employed.

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 63%), and pupils and students (37%). The statistics indicate an increase of approximately 6.6% in the number of insureds who paid the minimum level of insurance contributions in 2011. The number of insureds who are not working as employees or as self-employed increased by 12%. The number of students decreased by 4.4%, apparently because they were working, even if only part-time. An average increase of approximately 0.7% 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 2011, the number of employers increased by 2.9%.

B. Volume of receipts of national insurance contributions

Table 4 presents the sums of national insurance contributions that were collected in 2007-2011. In 2011, the receipts from national insurance contributions totaled approximately NIS 31.3 billion: about NIS 29.1 billion were collected from the public, and about NIS 2.4 billion were transferred by the Finance Ministry as indemnification for 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 4.2% in real terms. Collection from the public in 2011 increased by 4.1% in real terms. Furthermore, the sums transferred by the Finance Ministry as indemnification for the reduction of national insurance contributions from employers and the self-employed increased by 5.3% in real terms. In 2011 direct collection from the public accounted for 92.9% of all receipts of insurance contributions – a level similar to that of previous years.

In 2011, direct collection from employees increased by 4.7% in real terms, compared with the increase of 7.7% in 2010. The direct collection from employees and their employers was affected by changes in the labor market: the average wage per employee post in 2011 increased nominally by 4.1% (compared with the increase of 3.1% in 2010). The number of employee posts increased by 3.6% in 2011 (compared with an increase of 3.9% in 2009). The legislative amendments and the improved economic situation during the first three quarters of the year contributed to the significant increase in collection.

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Table 4
Collection of National Insurance Contributions for Insurance Branches,
by Category of Insured, Current Prices (NIS million), 2007–2011

Category of insured	2007	2008	2009	2010	2011	Percentage of real change				
						2007	2008	2009	2010	2011
Total collection	26,284	27,827	28,229	31,335	33,725	3.6	1.2	-1.8	7.4	4.2
Employees and employers	23,944	25,132	25,351	28,220	30,527	3.1	0.4	-2.4	7.7	4.7
Non-employees	2,340	2,695	2,878	3,124	3,198	9.8	10.1	3.4	5.1	-0.9
Total collection from the public	24,454	25,877	26,233	29,101	31,294	3.3	1.2	-1.9	7.4	4.1
Employees and employers	22,234	23,319	23,519	26,139	28,267	2.7	0.3	-2.4	7.6	4.7
Non-employees	2,220	2,558	2,714	2,962	3,027	9.7	10.2	2.7	5.6	-1.1
Total Treasury indemnification	1,830	1,950	1,996	2,234	2,431	8.4	1.9	-0.9	8.3	5.3
For employers	1,710	1,812	1,832	2,072	2,260	8.2	1.3	-2.2	9.5	5.5
For non-employees	120	138	164	162	171	10.5	9.6	15.5	-4.5	2.2

In 2011, direct collection from non-employee insureds decreased in real terms by 0.9%, compared to the real increase of 5.1% in 2010. 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 90.0% in 2010 to 90.5% in 2011), as a result of the legislative amendments to the Economy Arrangements Law for 2009 – 2012.

The collection from non-employees for the various national insurance branches is comprised mainly of collection from the self-employed (about 94%). In 2011, the collection from the self-employed – which was based on the tax assessments from 2009 updated relative to price rises only – increased by 0.2% in real terms. The collection from non-employee insureds who pay national insurance contributions on a minimum basis, which constitutes approximately 5% of the total collection for insurance branches from non-employees, increased by 1.7% in real terms.

Collection from the self-employed increased by 0.2% 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 relative to collection from the self-employed, the ratio of actual to potential collection (including any debt balance) is about 94.08%, among insureds paying minimum contributions, this ratio reaches only about 48.6% in 2011.

3. Collection for the Health System

A. Health insurance contributions

The National Health Insurance Law went 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 it 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 Health Ministry, 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.

Under the law, every resident of Israel, even if not working, must pay health insurance contributions, apart from a few categories exempted from paying. The health insurance contributions from employees and from insureds who are non-employees are collected in the same way as are national insurance contributions, 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 August 1, 2009 to December 31, 2010). These updates are also based on the rate of price rises.

Those who are not working and those receiving benefits from the NII are, in most cases, entitled to special rates depending upon their income level. 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 duty benefits and unemployment benefits) are deducted from the benefit at the same rates as is 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 without income supplement are deducted from the pension at the set sums determined for individuals and couples, as applicable.
- Health insurance contributions for recipients of old-age and survivors' pensions with income supplement are deducted from their pension or benefit 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 on their income from work only, and not on the benefit.

Table 5
Health Insurance Contributions by Benefit Category, 2011

Benefit category	Monthly health insurance contributions
Wage-replacing benefits	
Maternity allowance	
Injury allowance	
Unemployment benefit	
Reserve duty benefit	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 97
Without income supplement	
For individual	NIS 184
For couple	NIS 267
Other benefits	
Income support	
Maintenance	
General disability	
Work-related disability, with dependants	
Working-age survivors	NIS 97

Since January 2006, the sums of the benefits are updated according to the rate of the rise in the consumer price index of 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. A person who is neither an employee nor self-employed and who does not receive any benefit pays the minimum insurance contribution (NIS 97 per month as of January 2011).

Certain categories are exempt from health insurance contributions: housewives, new immigrants for the first six months after their immigration to Israel, and workers under the age of 18. Students under age 21 who are not working and subsequently enlist in the army are exempted from paying insurance contributions for 12 months, and detainees and convicts who have been sentenced to more than 12 months' imprisonment and who are receiving health services from the Israel Prison Service are also exempt.

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

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 Economic Arrangements Law for 1997, the parallel tax was abolished, while the funding for the basket of health services from the state budget was increased accordingly.

Table 6
Collection of Health Insurance Contributions
(NIS million), 2007-2011

Year	Total	Employees	Non-employees	Recipients of benefits	Rate of change	
					Nominal	Real
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
2011	17,414	14,105	1,692	1,617	6.9	3.3

In 2011, 81% of total health insurance contributions were collected from employees, about 9.7% from non-employees and about 9.3% from recipients of NII benefits

Table 6 presents the sums of health insurance contributions collected by the NII from employees, from non-employees and from benefit recipients. In 2011, the NII collected approximately NIS 17.4 billion in health insurance contributions, which constitute an increase of 3.3% in real terms, compared with an increase of 5.8% in 2010. In 2011, 81% of the total collection of health insurance contributions was collected from employees, about 9.7% from non-employees and about 9.3% from recipients of NII benefits. 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.

Table 7 presents the sums of health insurance contributions collected from recipients of NII benefits. In 2011, a total of NIS 1,617 million in health insurance contributions were deducted from the benefits, showing no increase in real terms from the previous year. Particularly evident are the increase in health insurance contributions being deducted from maternity benefits and the decrease in health insurance contributions being deducted from income support and 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 health insurance contributions are deducted from benefits only when the benefit recipient has no income from work, or when he has other income that is exempt from 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 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

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

Benefit	2010	2011	Real annual increase (%)
Total	1,563.0	1,617.0	0.0
Old-age and survivors	1,103.4	1,147.7	0.0
Work-related disability	32.8	34.8	2.6
Disability	163.8	169.0	0.0
Income support	78.5	76.7	-5.5
Reserve duty	0.2	0.3	45.0
Maternity allowance	95.4	103.1	4.8
Unemployment	53.2	52.4	-3.9
Injury allowance	10.6	11.4	3.3
Maintenance	7.2	7.2	-3.3
Bankruptcy	4.1	3.5	-17.5
Other	13.7	10.9	-23.0

capitation formula: the gender of the insured and the remoteness of his place of residence from the population centers.

Table 8 shows that the capitation methodology works in favor of Clalit Health Services, because this sick fund has a high percentage of elderly members and members residing in communities far from the center of the country. Thus, for example, about 73% of the very elderly insureds (age 85 and above) and 69% of the residents of outlying regions are members of Clalit Health Services. At the end of 2011, Clalit Health Services covered approximately 53% of all insureds, but Clalit's share of the health insurance funds was about 56%. On the other hand, this methodology reduces the sums 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 the policy until then. The monthly capitation makes

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Table 8
Number of Insureds and the Key to Distribution of Health Insurance
Contribution Receipts, by Sick Fund (percentages),
December 2010 and December 2011

Sick fund	December 2010		December 2011	
	Total insureds	Distribution key	Total insureds	Distribution key
Total	100.0	100.0	100.0	100.0
Clalit	52.30	56.71	52.52	56.46
Leumit	9.18	8.57	9.13	8.52
Meuhedet	13.59	11.58	13.54	11.62
Maccabi	24.93	22.14	24.81	23.40

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 under the National Health Insurance Law are as follows:

- Health insurance contributions, which are collected by the NII;
- Sums transferred to the NII by the Compensation Fund for Road Accident Victims (since 2010);
- Direct receipts of the sick funds for health services they provide for a fee (such as medicines, visits to doctors, 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.

According to the estimate for 2011, the cost of the health basket for which the sick funds are responsible increased by about NIS 2.26 billion in nominal terms, reaching about NIS 32.6 billion (Table 9). In real terms, this represents an increase of about 4% compared with the previous year. In 2011, the relative shares of the state, receipts of health insurance contributions and the sick funds' own income remained the same as it had been in 2010 (the state – 39.3%, receipts of health insurance contributions – about 54.3%). 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 starting in 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 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

Table 9
Cost and Sources of Health Services Basket Under the Responsibility of the Sick Funds, 2007-2011

Source	2007	2008	2009	2010	2011*
Cost (NIS million)	24,946	26,583	28,141	30,333	32,593
Sources (%)					
Total	100.0	100.0	100.0	100.0	100.0
Health insurance contributions**	53.4	54.8	53.4	54.3	54.4
State budget	41.2	38.8	40.2	39.3	39.2
Sick funds' own income	5.4	6.4	6.4	6.4	6.4

* Health Ministry estimate (February 2012).

** Including sums transferred to the NII by the Compensation Fund for Road Accident Victims (since 2010). In 2011, the sum of NIS 410 million was transferred.

According to the estimate for 2011, the cost of the health basket for which the sick funds are responsible increased by about NIS 2.26 billion in nominal terms. In real terms, this represents an increase of about 4%

Table 10
Per Capita Cost of the Health Basket, by Age Bracket
(NIS per annum, 2011 prices), 2010–2011

Age bracket	2010	2011*
Total per standard person	3,656	3,737
Up to one year	5,727	6,176
1-4 years	3,442	3,194
5-14	1,674	1,502
15-24	1,461	1,505
25-34	2,086	2,160
35-44	2,485	2,555
45-54	3,911	4,010
55-64	6,213	6,535
65-74	10,462	10,725
75-84	13,106	13,864
85+	14,680	14,153

* Estimate.

(the Israeli equivalent of the Red Cross). In 2011, the weighted per capita cost of the health basket was NIS 3,737, compared with NIS 3,656 in 2010 – a real increase of about 2.2%. 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 2011, the cost of the basket for the elderly population (above the age of 85) was 3.8 higher than the average cost for all of the sick funds' insureds, and 9.5 times the cost of the basket for the 15-24 age bracket.

In 2011, the weighted per capita cost of the health basket was NIS 3,737, compared with NIS 3,656 in 2010 – a real increase of about 2.2%

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 contributions (premiums). 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 insurance 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, introduced a reduced rate on that portion of the income not exceeding 60% of the average wage, as well as the amendment that

Table 11
Employees: Income (average per month of work) and the Burden of Insurance Contributions, by Decile, 2009

Decile	Average income per month of work	Insurance contribution payments					
		NIS			Percentage of income		
		Total	National insurance	Health insurance	Total	National insurance	Health insurance
1	873	31	3	27	3.5	0.4	3.1
2	2,077	73	8	64	3.5	0.4	3.1
3	3,137	110	13	97	3.5	0.4	3.1
4	4,012	140	16	124	3.5	0.4	3.1
5	4,856	178	26	152	3.7	0.5	3.1
6	5,905	304	99	205	5.2	1.7	3.5
7	7,305	472	197	275	6.5	2.7	3.8
8	9,451	730	348	382	7.7	3.7	4.0
9	13,528	1,219	633	586	9.0	4.7	4.3
10	26,299	2,752	1,527	1,225	10.5	5.8	4.7
Average	7,744	525	228	297	6.8	2.9	3.8

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 national insurance contributions 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 to health insurance contributions.

The latest figures available to us are for 2009. The data in Tables 12 and 13 refer to the legal situation in 2009; that is, taking into account the rate of the insurance contributions for that year and the maximum income liable for national and health insurance contributions (up to 5 times the base sum until July 2009, and 10 times the base sum from August 2009). 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 2009.

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 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 decile, 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 2009. It should be noted that the burden of national insurance 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 10.4% 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.

Table 12
Self-employed: Income (monthly average for the year) and the Burden of Insurance Contributions, by Decile, 2009

Decile	Average monthly income for the year	Insurance contribution payments					
		NIS			Percentage of income		
		Total	NII	Health insurance	Total	NII	Health insurance
1	623	195	133	61	31.2	21.4	9.9
2	1,665	195	133	61	11.7	8.0	3.7
3	2,187	215	147	68	9.8	6.7	3.1
4	3,071	302	206	95	9.8	6.7	3.1
5	4,029	396	271	125	9.8	6.7	3.1
6	5,147	530	363	167	10.3	7.0	3.2
7	6,776	791	543	248	11.7	8.0	3.7
8	9,181	1,177	809	369	12.8	8.8	4.0
9	13,465	1,865	1,282	583	13.8	9.5	4.3
10	33,354	5,057	3,480	1,577	15.2	10.4	4.7
Average	7,950	980	673	307	12.3	8.5	3.9

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 deviation in the average ratio of insurance contributions to income in the lower deciles is negligible.

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 salaried employees, as defined by the NII, includes additional categories specified as follows:

Kibbutz members: Members of *kibbutzim* (communal settlements) and *moshavim* (cooperative settlements) are defined under 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 branches, except for Unemployment insurance. In 2011, an average of about 40,000 members (aged 18 and above) were reported each month, and the insurance contributions paid for them totaled approximately NIS 120 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 2011, approximately 60,000 employers reported their employment of domestic workers in their homes, and insurance contributions totaling approximately NIS 20 million were collected from them that 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 branches: Work Injury, Maternity and Bankruptcy. The insurance contributions for them are collected by the Payments Section of the Employment Service. In 2011, an average of about 27,000 such workers was reported each month, and the insurance contributions paid for them totaled approximately NIS 5.8 million for the year. The average monthly wage per worker, on the basis of which the national insurance contributions were paid, was about NIS 3,430.

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 set by a special regulation. In 2011, an average of about 92,000 foreign workers were employed in Israel each month; their average monthly wage was about NIS 4,700 and the insurance contributions charged for them totaled NIS 50 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 2011, an average of about 54,000 pensioners each month paid insurance contributions, and the sum collected for them totaled approximately NIS 340 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 Industry, Trade and Labor Ministry or in locations approved for this purpose under 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 Industry, Trade and Labor Ministry 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 32,000 per month in 2011, and the insurance contributions paid for them totaled about NIS 12 million for the year.

This drop from the previous year is due to the fact that in mid-2011, the employer stopped collecting insurance contributions from employees in vocational training as "non-workers and non self-employed", and began to transfer to the NII only the portion of these employees as "workers". From then on, employees in vocational training transfer their portion as "non-workers and non self-employed" directly to the NII.

Wage Differentials Among Employers in Israel and the OECD Countries – 2008

The issue of wage differentials among salaried workers is at the focus of social policies to reduce inequality in income distribution. Data on the employment of salaried workers and their wage levels appear in two administrative files managed by the National Insurance Institute:

- The employers file, based on the monthly reports submitted by employers to the NII for the purpose of paying insurance contributions (Form 102): This file contains the monthly reports on the employment of salaried workers, as well as information about the employer, such as the company's economic sector, the number of its employees and its legal status.
- The salary file, based on the annual report employers submit about their workers to the Income Tax authority (Form 126): This file contains data about wages and salaried workers, including their annual salaries and the number of months they worked.

The data in this box were compiled by merging the data from both these files (employers and salary) for 2008. This is the first time that these NII files were used

to measure wage differentials among employers in Israel. The calculation was made using data about employees who work full-time and whose income is greater than the minimum monthly wage. Not included were kibbutz members, domestic workers, and workers who retired before the official retirement age and were getting an early pension from their most recent employer. The statistics presented here are based on the entire population (not a sampling).

For the purpose of this box, employees were sorted into deciles calculated according to the average gross monthly salary for each worker, such that every decile contains 10% of all employees. Wage differentials were measured using the D9/D1 ratio, which represents the ratio between the highest income in the ninth decile and the highest income in the bottom decile.

Wage Differentials by Size of Employer

To sort the employees by deciles for each employer separately, only employers who in 2008 employed at least 30 full-time employees each month were taken into account. The employers were sorted into five groups according to number of employees: 30-70 workers, 71-100 workers, 101-250 workers, 251-500 workers, and 501 workers or more. All told, some 1.5 million employees earning at least the minimum monthly wage and working for 7,900 employers who met the above criteria were taken into account.

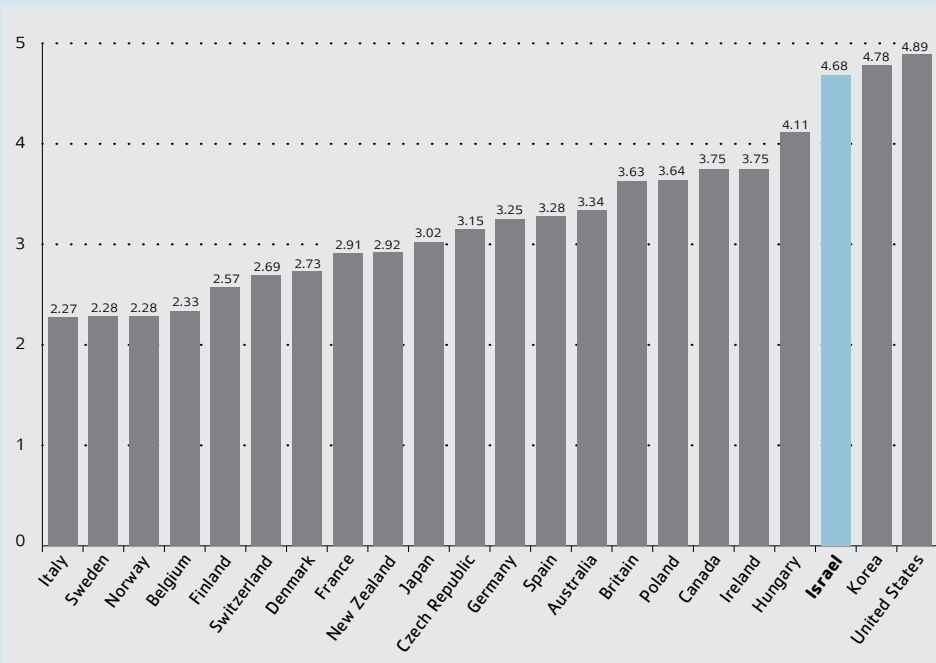
Wage Differential by Size of Employer, 2008 (D9/D1 Index)

Groups of employees	Number of workers (thousand)	Number of employees (thousand)	D9/D1 ratio
Total*	2,268.0	167.0	4.68
thereof:			
31-70	246.7	4.6	4.37
71-100	108.2	1.1	4.44
101-250	260.2	1.5	4.48
251-500	170.4	0.4	4.47
More than 500	705.4	0.3	5.15

* This total includes employers of up to 30 workers.

Table 1 presents the wage differentials by size of employer. In 2008, the ratio between the incomes as expressed by the D9/D1 ratio is 4.68. The findings show that the larger the employer, the greater the differential. Thus the largest differential (5.15) was found at the largest employers (more than 500 workers) and the lowest differential was at the smaller employers (up to 70 workers).

Graph 1
Wage Differentials in Israel Compared to selected OECD Countries,
2008 (D9/D1 Ratio)



Wage Differentials in Israel Compared to OECD Countries

The method of calculating wage differentials in the OECD is similar to that suggested in this box: the ratio between the ninth decile and the bottom decile.¹

Graph 1 presents the wage differentials in 21 selected OECD countries and in Israel in 2008. Israel is among those countries with the highest wage differentials, after Korea and the United States.²

1 Divided We Stand: Why Inequality Keeps Rising, OECD, 2011.

2 It should be noted that while the comparisons are being made using the same inequality ratio, different databases are used in each country. With regard to Israel, administrative data was used, which is likely to generate different results than the survey data usually used to make such calculations.

