

Chapter 4

Collection: Activities and Trends

1. General

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 Finance Ministry has been compensating the NII for losses of collection receipts due to the reduction in insurance contributions from employers and the self-employed. This compensation is called the Treasury indemnification, and it constitutes a component of the NII's receipts from national insurance contributions¹.

In 2012, as in previous years, collection from the public was affected by fluctuations deriving from economic developments in the country, from the average wage, from the number of employed individuals and from legislation in 2011 and 2012, which represented a continuation of the frequent legislative changes from previous years.

As of 2005 there has been a gradual reduction in employers' insurance contributions; concurrently, two insurance contribution rates for employers were introduced – reduced and regular – instead of the uniform rate applied to all income brackets liable for insurance contributions, similar to the rate structure for employees and the self-employed. Prior to the legislative amendment, employers paid 5.93% of the employee's salary, 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 steps were also taken: The reduced rate for employees' insurance contributions 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 with a zero budget; i.e., without affecting the NII's total receipts. In order to avoid a loss in the total collection, the increase in the reduced rate bracket was also applied to the employer's share.

In July 2009, the Economic Efficiency Law For 2009-2010 was enacted, which included two amendments that affected collections from September 2009 through March 2011: the reduced rate of employers' insurance contributions was raised from 3.45% to 3.85% (in fact, reverting to the situation that prevailed in 2008) until March 31, 2011; and the ceiling for the payment of national and health insurance contributions was doubled, from five times the basic amount to 10 times the basic amount until December 31, 2010.

Theoretically, these two amendments should have increased the total collection of

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1 The rate of the insurance contributions imposed on the government instead of on employers appears in the table of insurance contribution rates (Table 10 of the Law), and is prescribed in Section 32 of the National Insurance Law, which addresses all government participation in the funding of the various insurance branches.

In the Economy Arrangements Law for 2011-2012, the ceiling for the payment of national and health insurance contributions was raised to nine times the basic amount

In 2012, the NII's receipts from collection of national and health insurance contributions totaled NIS 52.7 billion: NIS 50.3 billion were collected directly from the public, and NIS 2.4 billion were transferred by the Treasury

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 the Ministry's participation in collection for the Children insurance branch was concurrently reduced from 210% to 207.5% in 2009, to 169% in 2010, and to 208% in 2011.

In the Economy Arrangements Law for the years 2011-2012 three additional changes were inserted: (a) the ceiling for the payment of national and health insurance contributions was raised to nine times the basic amount from January 1, 2011; (b) in 2012 the ceiling was supposed to rise to eight times the basic amount, but as a result of the Trachtenberg Law that was introduced following social protests, the ceiling was reduced to five times the basic amount from January 1, 2012; (c) the employer's regular insurance contributions were raised by 0.47% (from 5.43% to 5.9%), from April 1, 2011. 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). In August 2012 the Deficit Reduction Law was enacted, which gradually increased the normal rate of insurance contributions for employers from 2013 and restored the Treasury's participation in collection for the Children branch to 210% from June 1, 2012.

In 2012, the NII's receipts from collection of national and health insurance contributions totaled NIS 52.7 billion: NIS 50.3 billion were collected directly from the public, and NIS 2.4 billion were transferred by the Treasury under Section 32C.² of the Law³, which indemnifies the NII for the reduction in National Insurance contributions for employers and the self employed (Table 1). As in 2011, this year direct collection

Table 1
Collection from the Public and an Estimate of the Effect of Legislative Changes on Receipts (NIS Million), 2011-2012

	2011			2012			Percentage change 2012 versus 2011			
	Less legislative changes	Legislative changes*	Actual change	Less legislative changes	Legislative changes**	Actual change	Nominal		Real	
							Less legislative changes	Actual change	Less legislative changes	Actual change
Total	46,999	1,720	48,719	49,524	800	50,324	5.4	3.6	3.9	1.6
NI	29,805	1,500	31,305	31,406	800	32,206	5.4	2.9	3.6	1.2
Health Insurance	17,19	220	17,414	18,118	0	18,118	5.4	4.0	3.6	2.3

* Legislative changes in 2011 were four months with a reduced rate for employers (3.85% instead of 3.45%), 8 months of a regular rate for employers (5.90% instead of 5.43%) and a ceiling of 9 times the basic amount.

** Legislative changes in 2012 a regular rate for employers – 5.90% for 12 months and a ceiling of 5 times the basic amount.

2 See Table 13 in Chapter 1 of this Report.

3 Direct taxes collected from individuals include income tax (from employees, the self-employed and company directors), national insurance contributions and health insurance contributions. In addition to taxes collected from individuals, direct taxes also include company tax (National Revenues Administration, Annual Reports).

from the public, without the Treasury indemnification less legislative changes, increased by about 3.9% in real terms.

The collection of national insurance contributions from the public in 2012 increased by 1.2% (compared with an increase of 3.9% in 2011). Collection of health insurance contributions as a share of total collection from the public stabilized; in 2012 it reached 36.0% compared to 35.81% in 2011. The decrease in the rate of growth of collection of both national and health insurance contributions was mainly due to the lowering of the ceiling for payment back to 5 times the basic amount in 2012 (see above). The rate of collection from the public relative to GDP was 5.4% in 2012. The share of receipts from the public as a percentage of all direct taxes⁴ collected from individuals rose from 48% in 2011 to 49.6% in 2012, due to improvements in National Insurance collection processes.

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2. Collecting National Insurance Contributions

a. Rates of national insurance contributions

In 1995 two rates of insurance contributions were instituted – reduced and regular – for all categories of insured persons. 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 wage⁴. The regular rate is imposed on the balance of the income up to the ceiling – for employees, employers and 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 insured persons – employees and non-employees – and, since August 2005, also to employers.

Table 2
Rates of National and Health Insurance Contributions by Type of Insured (percentages), 2010 and 2012

Type of insured	National insurance				Health insurance	
	Regular rate		Reduced rate		Normal rate	Reduced rate
	2010	2012	2010*	2012		
Salaried employee - Total	13.10	13.10	4.92	4.52	5.0	3.1
thereof: Employee	7.00	7.00	0.40	0.40	5.00	5.00
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
Worker	11.23	11.23	6.72	6.72	5.0	3.1
Government	0.59	0.59	0.59	0.59	-	-
Not employed or self-employed	7.00	7.00	4.61	4.61	5.0	5.0

* From 1.4.2011

** Up to 31.3.2011

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 the end of 2005.

In 2012 there were about 3.0 million salaried jobs for which NI contributions were paid – an estimated increase of 4.5% (Table 3). This group does not include employees from the Palestinian Authority, foreign workers, and Israeli insured with special characteristics, such as kibbutz members, early retirees, house cleaners, people in vocational training, and employees of the Ministry of Defense⁵.

When talking of non-salaried insured persons, it is customary to distinguish between two groups: (a) those who pay national insurance on the basis of their income (56.6% of all non-salaried insured); (b) those who have no income and pay national insurance on the basis of the minimum income (42.9%). The first group includes mainly the self employed (91.3%), but following changes in legislation in 2008, people with passive income (dividends and income from capital) are also liable for NI payments at a rate over 25% of the average wage, whether or not they have income as a salaried employee or as a self employed individual (8.7% of the insured in this group). The second group, who pay minimum national insurance contributions, are divided between those who do not work and have no income liable for insurance contributions (about 59%), and pupils and students (41%). In 2012 the number of insured who paid minimum contributions grew by 0.7%, and the number of people who were neither salaried or self employed fell

Table 3
Employers (by Size of Business) and Insured Liable for National Insurance Contributions, by Type of Insured, 2011 and 2012

Type of insured	2011	2012	Percentage change
Salaried employees*			
Total	2,916,000	3,046,000	4.5
Employers** - Total	241,449	235,792	2.3
Employ 1-5 people	177,046	170,470	3.7
Employ 6-20 people	44,904	45,499	1.3
Employ 21-99 people	15,681	15,900	1.4
Employ 100-499 people	3,177	3,258	2.5
Employ 500+ people	641	675	5.3
Non-salaried insured** - total	714,518	727,356	1.8
Liable for NI contributions on income** - total	404,545	415,278	2.7
From work (self employed)	374,465	379,028	1.2
Not from work	30,080	36,240	20.5
Pay minimum NI contributions*** - total	309,973	312,088	0.7
Not salaried, not self employed (minimum 15%)	195,485	184,566	5.6
Pupil and student (minimum 5%)	49,518	61,813	24.8
Yeshiva student (minimum 5%)	64,970	65,709	1.1

* Number of salaried insured reported by their employers (Form 102) – monthly average

** The data refer to the end of the year.

*** Basis for income is a percentage of the average wage.

5 Section 5 in this chapter gives brief information about these population groups.

by 0.7%. The number of students rose by 24.8%, and the number of yeshiva students rose by 1.1%.

The number of employers paying national insurance contributions for their employees decreased by about 2.3% in 2012 (Table 3).

b. Size of receipts of national insurance contributions

In 2012, receipts from national insurance contributions amounted to about NIS 34.6 billion: about NIS 32.2 billion collected from the public, and about NIS 2.4 billion transferred by the Finance Ministry as indemnification for the reduction in national insurance contributions for employers and the self employed (Table 4). That year, NI receipts from national insurance contributions increased by 1.0% in real terms, while collection from the public increased by 1.2% in real terms. The amounts transferred by the Finance Ministry as indemnification for the reduction in national insurance contributions for employers and the self employed also rose in real terms – by 1.9%. The share of direct collection from the public in 2012 was 93.0% of all receipts – similar to previous years.

In 2012, direct collection from salaried employees grew by 1.3% in real terms, compared to a growth of 4.7% in 2011. Direct collection from salaried employees and their employers was affected by the legislative changes mentioned and by changes in the labor market: the average wage for a salaried employee rose nominally in 2012 by 2.7% (compared to an increase of 4.1% in 2011). The number of jobs rose by 2.6% in 2012 (compared to an increase of 3.6% in 2011).

In 2012, direct collection from non-salaried insured persons fell by 0.4% in real terms, compared to a decrease of 1.1% in 2011. NI receipts for salaried workers (including the

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Table 4
Collection of National Insurance Contributions for the Branches of Insurance by Type of Insured, Current Prices (NIS million), 2008-2012

Type of insured	Absolute numbers					Real percentage change				
	2008	2009	2010	2011	2012	2008	2009	2010	2011	2012
Total collection	27,827	28,229	31,335	33,736	34,645	1.2	-1.8	7.4	4.2	1.0
Salaried and employers	25,132	25,351	28,220	30,527	31,409	0.4	-2.4	7.7	4.7	1.2
Non-salaried	2,695	2,878	3,124	3,208	3,236	10.1	3.4	5.1	-0.9	-0.8
Total collection from the public	25,877	26,233	29,101	31,305	32,206	1.2	-1.9	7.4	4.1	1.2
Salaried and employers	23,319	23,519	26,139	28,268	29,131	0.3	-2.4	7.6	4.7	1.3
Non-salaried	2,558	2,714	2,962	3,037	3,075	10.2	2.7	5.6	-1.1	-0.4
Treasury indemnification - Total	1,950	1,996	2,234	2,431	2,439	1.9	-0.9	8.3	5.3	-1.3
For employers	1,812	1,832	2,072	2,260	2,278	1.3	-2.2	9.5	5.5	-0.9
For non-salaried	138	164	162	171	161	9.6	15.5	-4.5	2.2	-7.4

employee's share, the employer's share and the Finance Ministry share) as a portion of all receipts continued to grow slightly (from 90.5% in 2011 to 90.7% in 2012) because of changes in the Economy Arrangements Laws for the years 2009-2012, notwithstanding the return of the ceiling for payments to 5 times the basic amount.

Collection from the non-salaried for various branches of national insurance consists mainly of collection from the self employed (about 92%). In 2012 collection from the self employed – based on tax assessments from 2010 that were updated only according to price increases – fell by 0.3% in real terms. Collection from the non-salaried who pay national insurance contributions on the minimum basis and account for about 4% of all collection from the non-salaried, rose by 2.1% in real terms. A examination of the payment ethic of the self employed and the non-working and non-self employed emphasizes the difference between them: while collection from the self-employed as a percentage of their potential including the debt balance was about 95.90% in 2012, for the insured at the minimum level this percentage was only about 49.6%.

3. Collection for the Health System

a. Health insurance contributions

In January 1995 the National Health Insurance Law came into effect, stipulating the right of every resident of Israel to health insurance and defining a specific, uniform basket of health for all, where the responsibility for funding rests with the government. The law specifies sources of funding for the basket, the method by which the cost will be updated, and the formula for allocating resources between the Sick funds. An Israeli resident is entitled to choose one of the Sick funds recognized by the Ministry of Health, and each Health Fund must accept residents without any restrictions, preconditions or payment.

The health insurance contributions, which are one of the main sources of funding for the basket of health services, are collected by the National Insurance Institute and divided among the sick funds. For that purpose the NII maintains a constantly updated database of all individuals with health insurance, to provide information about 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, except for a few groups who are exempt. The health insurance contributions from salaried and non-salaried workers are collected in the same way as national insurance contributions, while the contributions of recipients of NII benefits (who have no other income) are deducted at source from their benefits.

Health insurance contributions are collected from people who work at two levels: a reduced level of 3.1% on that portion of income that does not exceed 60% of the average wage, and a normal level of 5.0% on the remaining income up to the ceiling of income liable for health insurance contributions, which is 5 times the “basic amount”. Here too the update is at the rate of price increases.

Those who are not working and those who receive benefits from the NII are in most cases eligible for special rates according to their level of income. Table 5 specifies the amounts of national insurance contributions deducted from benefit recipients, by type of benefit, as follows:

Health insurance contributions for recipients of benefits in lieu of salary (such as maternity benefit, injury benefit, reserve duty benefit and unemployment benefit) are deducted from their benefits at the rates in use for income from work.

Health insurance contributions for benefit recipients of working age who are not working are deducted from their benefits at the minimum rate defined by law.

Health insurance contributions for recipients of old age and survivors' pensions with income supplement are deducted from their benefits at the minimum rate, whatever the family composition.

Health insurance contributions for benefit recipients of working age who have income from work are applied only to their work income, and not to their benefits.

Since January 2006, the benefit amounts have been updated according to the rate of increase in the Price Index for the previous year (i.e., the index for the previous November compared to the November before that) and therefore the minimum amounts are also updated at this rate. Anyone who is not a salaried employee or self-employed and does not receive a benefit, pays the minimum health insurance contribution (NIS

Table 5
Health Insurance Contributions by Type of Benefit, 2012

Type of benefit	Monthly health insurance contribution
Benefits in lieu of salary	
Maternity Benefit	
Injury Benefit	
Unemployment Benefit	
Army Reserve Duty Benefit	
Accident Benefit	
Bankruptcy and Corporate Liquidation	3.1% of the benefit up to 60% of the average salary. 5% of the remaining benefit above 60% of the average salary up to the ceiling.
Old Age and Survivors	
With income supplement	NIS 100
Without income supplement:	
For a single person	NIS 189
For a couple	NIS 274
Other Benefits	
Income Support	
Maintenance (Alimony)	
General Disability	
Disability and Dependents from Work	
Survivors of Working Age	NIS 100

100 per month since January 2012). Certain groups are exempt from payment of health insurance contributions: housewives, new immigrants in the first six months following immigration, workers aged under 18; students aged under 21 who are not working and then join the army are exempt from payment for 12 months; and prisoners and detainees who have been sentenced to more than 12 months imprisonment receive health services from the Prisons Service.

In 2012, the NII collected about NIS 18.1 billion in health insurance contributions, an increase of 2.3% in real terms, compared to an increase of 3.3% in 2011. Salaried employees accounted for 81% of all amounts collected; non-salaried employees – about 9.6%; recipients of NII benefits – about 9.4%

In 2012, health insurance contributions amounting to NIS 1,703 million were deducted from benefits – a real increase of 3.6% compared to 2011

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 health insurance contributions for the health system. On ratification of the Economy Arrangements Law for 1997, collection of the parallel tax was completely abolished, and State funding of the health services basket was increased accordingly. In 2012, the NII collected about NIS 18.1 billion in health insurance contributions, an increase of 2.3% in real terms, compared to an increase of 3.3% in 2011 (Table 6). Salaried employees accounted for 81% of all amounts collected; non-salaried employees – about 9.6%; recipients of NII benefits – about 9.4%. From the non-salaried insured, health insurance contributions were collected as follows: 71% from the self employed and 29% from the non-working non-self employed who pay the minimum health insurance contribution.

In 2012, health insurance contributions amounting to NIS 1,703 million were deducted from benefits – a real increase of 3.6% compared to 2011 (Table 7). Particularly striking is the increase in the amount deducted from unemployment benefit and bankruptcy compensation. About 71% of the health insurance contributions deducted from benefits were paid by recipients of old age and survivors' pensions (including recipients of the pension with income supplement). It should be noted that health insurance contributions are deducted from pensions only on condition that the pension recipient has no income from work or if he has other income that is exempt from the contribution. Married women who work only in their homes (housewives) are exempt from health insurance contributions, even if they receive a benefit in their own right from the NII, on condition that the benefit is not in lieu of salary.

Table 6
Collection of Health Insurance Contributions (NIS million), 2008-2012

Year	Total	Salaried	Non-salaried	Benefits recipients	Rate of change	
					Nominal	Real
3.6	8.3	1,394	1,426	11,755	14,574	2008
-0.4	2.9	1,492	1,528	11,975	14,995	2009
5.8	8.6	1,563	1,660	13,067	16,290	2010
3.3	6.9	1,617	1,692	14,105	17,414	2011
2.3	4.0	1,703	1,750	14,665	18,118	2012

Table 7
Health Insurance Contributions from Benefits by Type of Benefit
(NIS million), 2011 and 2012

Type of benefit	2011	2012	Percentage annual real growth
Old Age and Survivors	1,147.7	1,206.8	3.4
Work-related Disability	34.8	38.1	7.6
Disability	169.0	174.7	1.6
Income Supplement	76.7	78.3	0.4
Reserve Duty	0.3	0.3	-1.7
Maternity Benefit	103.1	111.1	6.0
Unemployment Benefit	52.4	59.9	12.4
Injury Benefit	11.4	12.4	6.9
Child Support	7.2	7.1	-3.1
Bankruptcy	3.5	3.9	9.6
Other	10.9	10.4	-6.2

The National Health Insurance Law stipulates that the money intended to fund the health basket is transferred directly to the sick funds by the National Insurance Institute. The principle for sharing the money is based on the capitation formula, which primarily considers the number of insured members of each sick fund, weighted by age. As of November 1, 2010, two new variables were added to the capitation formula: the gender of the insured, and the distance of their home from population centers.

The capitation system works in favor of Clalit sick fund because it is characterized by a high proportion of older members and members who live in places far from the center of the country (Table 8). For example, about 72% of the oldest insured (aged 85 and over) and 69% of residents of outlying areas are insured in the Clalit sick fund. At the end of 2012, Clalit sick fund members accounted for 53% of all health fund members, but Clalit received 56% of health insurance funds. On the other hand, this method reduces the amounts transferred to Maccabi and Meuchedet sick funds, whose members are younger. From 2001-2012 Clalit's share of health insurance funds fell from about 59% to about 56%.

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It should be noted that as of August 1, 2006 the capitation rates are calculated each month instead of once a quarter, which was the case until then. Monthly capitation makes it possible to reduce the gap between the number of insured at the beginning of each quarter and the actual number of insured in each of the three months of the quarter.

- According to the National Health Insurance Law, health services are funded from a number of sources:
- Health insurance contributions, collected by the National Insurance Institute.
- Amounts transferred from the Fund for Compensation of Victims of Road Accidents (Karnit) to the NII (since 2010).

Table 8
Number of Insured and Key for Distributing Health Insurance Funds by Sick Fund (percentages), January 2001 – January 2012

Year	Total	Health Fund			
		Clalit	Leumit	Meuchedet	Maccabi
Total of all Insured					
1/2001	100.0	56.3	9.9	10.7	23.1
1/2005	100.0	54.4	9.8	11.7	24.0
1/2010	100.0	52.4	9.2	13.5	24.8
1/2011	100.0	52.3	9.2	13.6	24.9
1/2012	100.0	52.3	9.1	13.6	25.0
Distribution Key					
1/2001	100.0	61.262	9.140	9.069	20.529
1/2005	100.0	58.970	9.105	10.085	21.839
1/2010	100.0	56.822	8.607	11.647	22.924
1/2011	100.0	56.691	8.560	11.590	23.159
1/2012	100.0	56.451	8.517	11.627	23.405

According to the estimate for 2012, the cost of the basket of health under the responsibility of the sick funds grew nominally by about NIS 2.04 billion to about NIS 34.7 billion – a real increase of about 4.5% compared to 2011

- Direct receipts by the sick fund for health services provided for payment (such as medicines, visits to physicians, etc.).
- Additional amounts from the State budget intended to supplement various health expenses up to the cover provided by the health services basket.

According to the estimate for 2012, the cost of the basket of health under the responsibility of the sick funds grew nominally by about NIS 2.04 billion to about NIS 34.7 billion – a real increase of about 4.5% compared to 2011 (Table 9). In 2012, the government's share of funding the basket of health rose to about 40.6% compared to the share of health insurance receipts, which fell to 53%. It should be noted that the

Table 9
Cost and Sources for the Basket of Health Services Provided by the Sick Funds, 2008-2012

Source	2008	2009	2010	2011	2012*
Cost (NIS million)	26,583	28,141	30,333	32,668	34,711
Percentages					
Total of all sources	100.0	100.0	100.0	100.0	100.0
Health insurance contributions**	54.8	53.4	54.3	54.3	53.0
Government budget	38.8	40.2	39.3	39.3	40.6
Independent income	6.4	6.4	6.4	6.4	6.4

* Ministry of Health estimate (February 2013)

** Including amounts transferred from the Fund for Victims of Road Accidents (since 2010). In 2012, a total of NIS 425 million was transferred.

Table 10
The Cost per Head of the Health Basket by Age Bracket (NIS per annum, 2012 prices), 2011 and 2012

Age bracket	2011	2012*
Standardized total per head	3,810	3,873
Up to 1 year	6,296	6,396
1-4	3,257	3,310
5-14	1,531	1,556
15-24	1,535	1,560
25-34	2,203	2,238
35-44	2,605	2,647
45-54	4,089	4,156
55-64	6,663	6,773
56-74	10,935	11,116
75-84	14,135	14,375
85 and over	14,430	14,665

* Estimate

Economy Arrangements Law for 2008 stipulated that the receipts of the sick funds from payments by their insured members would be at the rate of 6.45% of the basket cost (instead of 5.4% up to 2007). This amendment explains the reduction of about 1% in the State's participation since 2008.

The cost of the standardized health basket per head facilitates an examination of the effect of the age of the insured on the sick fund's expenditure (Table 10). The cost of the basket per head is calculated for the sources of funding divided among the sick funds according to the capitation formula and does not include amounts that are not distributed on this account, such as the costs of severe illness, administrative costs, allocation to the Health Council and the Magen David Adom. In 2012 the weighted cost of the health basket per head was NIS 3,873 compared to NIS 3,746 in 2011 – a real increase of about 1.6%. The cost of the basket reflects the relative breakdown of expenditure between age brackets. Apart from children up to the age of 4, the cost of the younger age brackets is usually lower than for the old age brackets. For example, in 2012 the cost of the basket for the elderly population (over 85) was 3.8 times higher than the average cost for all sick fund insured, and 9.4 times higher than the basket for the 15-24 age bracket.

4. Sharing the Burden of Paying for National and Health Insurance

The national insurance system, as any insurance system, generally makes eligibility for a benefit conditional on payment of national insurance contributions. According to this concept, every insured, irrespective of his employment situation, must pay insurance

contributions. The parameters of the national insurance contribution, which as mentioned at the start of this chapter are a function of the minimum and maximum income liable for insurance contributions and the rates of the contributions for various categories of insured person, are typical of most social insurance systems in western countries.

Nobody doubts the fact that determining a floor and ceiling for income liable for national insurance is a regressive element in the collection system. The reform in the system introduced in 2006 – extending the base of income liable to national insurance and introducing a reduced rate over part of the income that does not exceed 60% of the average wage – was intended to mitigate the regressivity of sharing the burden of payments imposed on insured individuals. The decision to impose collection of health insurance contributions from 1995 on the National Insurance Institute, together with the perception that every resident is insured and the majority of those insured have to pay health insurance, led the policy makers to apply the elements of the function of national insurance contributions to the function of health insurance contributions as well.

The latest data on income available to us concern 2010. The figures in Tables 11 and 12 relate to the legal situation in 2010, that is, to the rate of insurance contributions that year and to the maximum income liable for national and health insurance (up to 10 times the basic amount). The effect of the steps taken as part of the tax reform introduced in 2006 (such as lowering the reduced rate for the employee from 1.4% to 0.4%, increasing the normal rate from 5.58% to 7.0% and increasing the bracket for the reduced rate from 50% of the average wage to 60% thereof) can also be seen in the rate of insurance contributions calculated on wages and income in 2010.

Table 11
Salaried Employees: Income (Average Per Working Month) and Burden of National Insurance Payments by Decile, 2010

Decile	Average income per working month	National insurance payments					
		Absolute numbers (NIS)			Percentage of income		
		Total	National insurance	Health insurance	Total	National insurance	Health insurance
1	899	32	4	28	3.5	0.4	3.1
2	2,155	76	9	67	3.5	0.4	3.1
3	3,249	114	13	101	3.5	0.4	3.1
4	4,135	145	17	128	3.5	0.4	3.1
5	5,021	194	34	160	3.9	0.7	3.2
6	6,123	326	111	215	5.3	1.8	3.5
7	7,620	506	216	290	6.6	2.8	3.8
8	9,935	783	378	405	7.9	3.8	4.1
9	14,233	1,299	679	620	9.3	4.8	4.4
10	28,400	3,000	1,671	1,329	10.6	5.9	4.7
Average	8,177	572	255	317	7.0	3.1	3.9

Table 11 shows data on income (average per working month), national insurance payments (the employee's share only) and the health insurance payments, on average per decile of the salaried population. Salaried employees are ranked by income liable for insurance contributions (on average per working month) and each decile contains 10% of salaried individuals⁶. Each of the first four deciles pays national insurance contributions at the rate of 0.4% of income, and the rate increases gradually to 5.9% in the top decile. A similar picture arises from the rates of health insurance paid by decile, although the lowest rate in the first five deciles is 3.1%.

Table 12 shows the rates of insurance payments by decile among the self employed in 2010⁷. In the first and second decile the burden of national insurance contributions is striking, since today the minimum payment (25% of the average wage) highlights the regressivity of the system at lower levels of income. The rate of national insurance contributions paid by the self employed (both as workers and as employers) is 6.7% in the third decile, rising gradually to 10.4% in the 10th decile.

The impact of the maximum income liable for NI payments is more striking among the self employed, since a larger portion of their income is higher than this maximum. A similar picture emerges from an analysis of the changes in rates of health insurance payments between the different deciles.

It should be noted that unlike the case with salaried employees, the income of the self employed in each decile is indicated in terms of the average per month over a year (and not per working month). Since collection from them is based on their reported annual income, this is the reason why the income of salaried workers as shown in Table 11 cannot be compared to that of the self employed as shown in Table 12.

Each of the first four deciles pays national insurance contributions at the rate of 0.4% of income, and the rate increases gradually to 5.9% in the top decile

Government Funding of the Social Security System in Countries of the European Union and In Israel, 2012

The issue of funding the social security system is on the agenda of social policy makers in Israel. Over the last decade the relative share of national insurance contributions as a portion of receipts has stabilized, and funding from the Israeli government has risen slightly. In other western countries the share of the government in funding social security has also risen in recent years, mainly to cover deficits.

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- 6 In April 1999 an amendment to the law was introduced, whereby the minimum income for calculating national insurance contributions for salaried employees was made equal to the minimum wage in the economy, taking into account part-time work. In calculating the insurance payments, we have assumed that employers are fully compliant with the Minimum Wage Law, and the reported wages that are less than the minimum wage are due to part-time jobs. The bias in the average rate of insurance contributions as a share of the income in the lower deciles is negligible.
- 7 The latest year for which there are administrative data on the income of the salaried and the self employed.

A few countries (particularly the Baltic states such as Lithuania, Estonia and Slovenia) reduce the insurance contributions paid by low-paid workers, and benefits for these population groups are funded by the State treasury. In most European countries examined, child benefits are funded by the State budget only

The European Union (EU) is a suitable framework for comparing Israel's policy regarding government funding of social security with that of developed countries¹. The table in this box summarizes how governments participate in the funding of social security in the EU countries and in Israel, and it shows both State participation by insurance branches and the duty of covering the social security deficit by the State Treasury. The main findings emerging from this comparison are as follows:

1. In all countries of the European Union, the social security system is funded by a combination of three sources: insurance contributions paid by workers, contributions paid by employers for their employees, and the State Treasury.
2. Governments can participate in funding the various benefits in two main ways:
 - a. Participation in the insurance payments or relative to wages, on the spot or in addition to individual contributions: Luxembourg, Malta, Cyprus.
 - b. Participation in benefit payments: Germany (old age), Finland (unemployment).
3. A few countries (particularly the Baltic states such as Lithuania, Estonia and Slovenia) reduce the insurance contributions paid by low-paid workers, and benefits for these population groups are funded by the State treasury.
4. In most European countries examined, child benefits are funded by the State budget only. In just a few countries (such as France and Italy), they are funded both by insurance payments and by a government subsidy (similar to Israel).
5. In most of the 27 EU countries (unlike Israel), the State is obliged by law to cover the current deficit of the insurance branches, particularly the branches of Disability and Old age.

In the field of funding the social security system worldwide, there are two main approaches:

The Bismarck approach, which is based on the principle of insurance, whereby social security is funded by insurance payments made by insured individuals. This approach is found in countries such as France, Germany, Holland and Belgium, where the share of insurance contributions amounts to about 65% of all receipts.

The Beveridge approach, which is based on State funding from tax payments. This approach is found in Scandinavian countries, England and Ireland, where the share of insurance contributions amounts to 30%-40% of total receipts².

In recent years, the distinction between the two most common approaches in the western world has become blurred. Israel today too is a model of combining the two methods. Over the last decade, Israel has recorded a very slowly rising trend in

1 The figures regarding countries of the European Union were taken from the EU's computerized Mutual Information System on Social Protection (MISSOC), updated to January 2012.

2 The figures are taken from the Eurostat website (correct for 2009).

Government Participation in Funding Social Security in Israel and in Countries of the European Union, 2012

Country	Government funding
Israel	Participation in all branches of insurance (for the salaried and self employed), plus allocation to the branches of Children, Old Age and Disability (as a percentage of receipts from insurance payments)
Austria	25% funding for child allowances, subsidy of 70% of payments for maternity benefits, funding of deficit in disability, old age and unemployment insurance.
Italy	Participation in all branches up to cover of the deficit (excluding maternity)
Ireland	Funding of child benefits, cover of deficit in all insurance branches.
Estonia	Funding of child benefits, participation in insurance payments for some groups, cover of the deficit for old age and disability.
Bulgaria	Funding of child benefits, cover of the deficit for old age and disability.
Belgium	Participation as needed (to cover deficit) in all insurance branches.
Britain	Funding of child and unemployment benefits, cover of the deficit for old age and disability.
Germany	Participation in old age insurance (31% of total cost), total funding of child benefits, cover of deficit for unemployment
Denmark	Full funding for old age, disability and child benefits, deficit cover for unemployment.
Holland	Funding for child benefits only.
Hungary	Deficit cover for all branches of insurance, excluding unemployment.
Greece	Deficit cover for unemployment and children, participation in old age, disability and maternity benefits at the rate of 1% of GDP.
Luxembourg	Participation in disability and old age at the rate of 30% of insurance payments, deficit cover for remaining branches.
Latvia	Funding of child benefits, deficit cover for all insurance branches.
Lithuania	Funding of child benefits, participation in insurance payments for some groups
Malta	Participation of 50% of insurance payments for all branches
Slovenia	Funding of child benefits, participation in insurance payments for some groups, deficit cover for all insurance branches.
Slovakia	Funding of child benefits, deficit cover for all insurance branches.
Spain	Funding of child benefits, deficit cover for old age and disability.
Poland	Funding of child benefits, deficit cover for all insurance branches.
Portugal	Funding of child benefits, cover for minimum disability and old age benefits
Finland	Funding of child benefits, funding of 70% of all payments for unemployment, deficit cover for old age and disability.
Czech Republic	Funding of child benefits only.
France	Participation in all branches up to cover of the deficit
Cyprus	Participation of 4.3% of all liable income for all branches of insurance
Romania	Deficit cover of all insurance branches
Sweden	Funding of child benefits, partial funding of remaining insurance branches.

Over the last decade, Israel has recorded a very slowly rising trend in government funding, but the share of insurance contributions in total receipts remains fixed at about 50%

government funding (concurrently with a drop in income from interest), but the share of insurance contributions in total receipts remains fixed at about 50%.

The slow increase in the participation of the Treasury is due to legislation in the Economy Arrangements Law for 2005, whereby notwithstanding the gradual reduction of 1.5 percentage points in the rate of insurance contributions from employers, the Treasury's participation would gradually increase, so that the NII's overall income from this source would not be affected.

We should also note that the Economy Arrangements Law for 2009-2010 stipulated an increase in the reduced national insurance contributions for employers (from 3.45% to 3.85%) and a doubling of the ceiling from 5 to 10 times the basic amount. Meanwhile, from 1.1.12, the ceiling was again reduced to 5 times the basic amount. It was also decided that any addition to the collection from this move would be transferred to the State Treasury through participation in collection for the Children branch, particularly in 2010, when the rate of participation fell from 210% to 169% of collection and the amount was estimated at NIS 2.5 billion.

Weight of Collection for National Insurance Branches and Treasury Participation in Total Receipts in Israel (percentages), 2005-2012

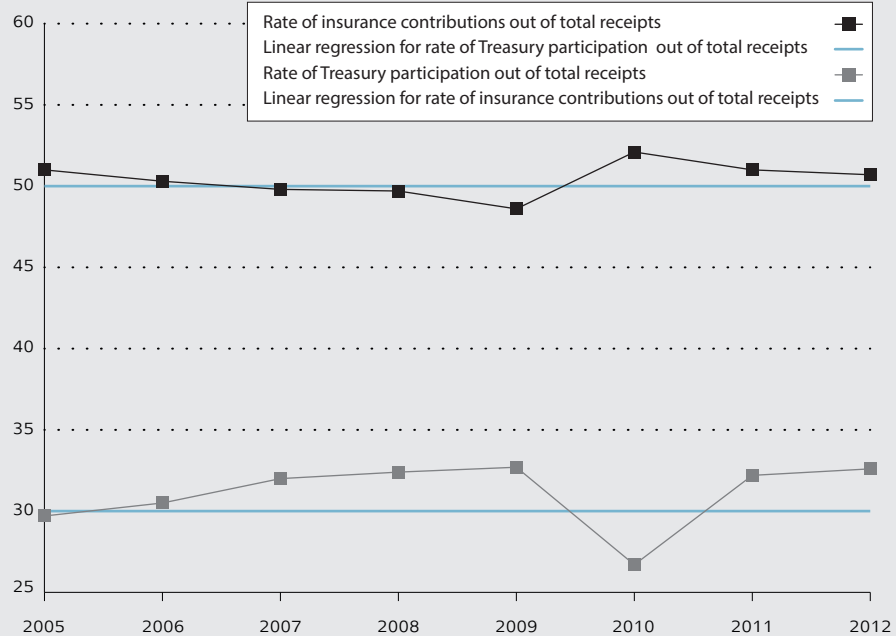


Table 12
Self Employed: Income (Average Per Month in a Year) and Burden of Insurance Contributions by Decile, 2010

Decile	Average income per month of a year	National insurance payments					
		Absolute numbers (NIS)			Percentage of income		
		Total	National insurance	Health insurance	Total	National insurance	Health insurance
1	640	197	135	62	30.7	21.0	9.7
2	1,719	197	135	62	11.4	7.8	3.6
3	2,275	224	153	71	9.8	6.7	3.1
4	3,225	317	217	100	9.8	6.7	3.1
5	4,218	414	283	131	9.8	6.7	3.1
6	5,393	566	388	178	10.5	7.2	3.3
7	7,088	838	575	263	11.8	8.1	3.7
8	9,572	1,236	849	367	12.9	8.9	4.0
9	13,936	1,937	1,332	605	13.9	9.6	4.3
10	33,282	5,042	3,469	1,573	15.1	10.4	4.7
Average	8,135	1,006	691	315	12.4	8.5	3.9

5. Special Populations Defined as Salaried Employees

The figures given in this chapter regarding the number of salaried employees refers to the numbers reported by employers on Form 102. The population of salaried employees, as defined in the National Insurance Institute, includes groups which special characteristics, as follows:

Kibbutz members: Members of kibbutzim and cooperative villages (moshavim) are defined by law as salaried employees of the Cooperative Association (the employer), who has the obligation and responsibility of registering them as salaried employees and paying national insurance contributions for them. Kibbutz and moshav members are insured under all NI branches, except for unemployment. In 2012 about 41,000 members on average were reported each month (aged 18 and over), and the insurance contributions paid for them amounted to about NIS 130 million for the year.

Household workers: The status and rights of people employed in housework are the same as those of other salaried employees, although the national insurance contributions paid for them are set at different rates. At the end of 2012, some 203,000 people reported that they were employing people in their homes, and total contributions of about NIS 60 million were collected from them for that year.

Workers from the Palestinian Authority: Workers from the territories and the Palestinian Authority who are employed by Israelis pay national insurance contributions in three branches: Work-related Injury, Maternity and Bankruptcy. The payments

for them are collected by the Payments Department of the Employment Service. In 2012, some 21,000 workers on average were reported each month, and the insurance contributions paid for them were about NIS 6.5 million for the year. The average monthly wage, which is the basis for the national insurance contributions, was about NIS 3,790.

Foreign workers: This group includes workers who are not Israeli residents but are employed by Israelis. Similarly to the workers from the Palestinian Authority, foreign workers are insured in the branches of Maternity, Work-related Injury and Bankruptcy, and the rates of contributions applicable to them are stipulated in a special regulation. In 2012 on average about 103,000 foreign workers were employed in Israel each month; their average monthly wage was about NIS 5,700 and the NI payments collected from them amounted to NIS 55 million for the year.

Workers who retired before reaching retirement age: These workers are required to pay national and health insurance contributions on their early pension. In 2012, this applied to about 55,000 people on average each month. The amount collected for them was about NIS 400 million for the year.

Insured persons in vocational training: This group includes people on vocational training provided by the Ministry of Industry, Trade & Employment (both not working and working) or in places approved for this in the NI Regulations. The national insurance contributions are imposed on the employer and the vocational trainee for two branches only: Work-related Injury and Maternity. In most cases, the Ministry of IT&E is the employer, unless the trainee was sent to the course by his employer. The average number of people on vocational training (who paid national insurance contributions) was about 38,000 per month in 2012, and payments for them amounted to about NIS 8 million for the year. This drop derives from the fact that in the middle of the year the employer stopped collecting insurance contributions from the vocational trainee as not working and not self employed, and sends the NII only his portion as an employee. The insured pays his portion as a non working person directly and separately to the National Insurance Institute.