

Chapter 4

Collection: Activities and Trends

1. General

The National Insurance Institute is responsible for collecting national insurance contributions to fund the benefits payable pursuant to the National Insurance Law and for collecting health insurance contributions pursuant to the Health Insurance Law, which are intended to fund the health system. National and health insurance contributions are collected from working (salaried employees and self-employed persons) and non-working residents of the State, at varying rates applicable to the income subject to insurance contributions. Furthermore, since 1986, the Finance Ministry has been compensating the National Insurance Institute for the loss of collection proceeds resulting from the reduction in insurance contributions of employers and self-employed persons. This compensation is called “**Finance Ministry indemnification**” and it constitutes a component of the NII’s proceeds from national insurance contributions¹.

As in previous years, in 2013 as well the collection from the public was affected by economic developments in the country, including fluctuations in the average wage and in the number of employed persons, and by legislation.

2. Legislative Changes

In 2005, a gradual reduction of employer insurance contributions began. Concurrently, two insurance contribution rates were instituted for employers, reduced and regular, in lieu of a uniform rate for all income levels subject to insurance contributions, similar to the rate structure of salaried and non-salaried employees. Prior to the revision of the law, the employer had been paying 5.93% of the employee’s income up to the maximum income subject to insurance contributions. Following application of the amendment, the employer paid during the period of January–August 2009, an amount of 3.45% at the reduced rate (up to 60% of the average wage) and 5.43% at the regular rate.

In the beginning of 2006, the following steps were also taken: the reduced rate of the employee’s insurance contributions was decreased from 1.4% of the income to 0.4%, the regular rate was increased from 5.58% to 7% and the reduced rate bracket was increased from 50% of the average wage to 60% thereof. These revisions were made using a zero budget, i.e. with no change in the volume of proceeds of the NII. The increase of the reduced rate bracket also applies to the employer’s share, so as to avoid loss of collection.

In July 2009, the enactment of the Economic Efficiency Law of 2009–2010 was completed and it comprised two revisions that affected the collection from September 2009 to March 2011: the reduced rate of the employer’s insurance contributions was raised from 3.45% to 3.85% (and thereby the situation prevailing in 2008 was reinstated)

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 1 The insurance contribution rate imposed on the government instead of on the employers appears in Schedule “J” of the National Insurance Law (the national contribution rates) and is entrenched in Section 32 thereof, which generally addresses the government’s participation in the funding of the insurance branches.

until March 31st, 2011 and the ceiling for payment of national and health insurance contributions was doubled: from 5 times the basic amount to 10 times the basic amount until December 31st, 2010.

These two steps should have increased the total collection of national insurance contributions, but in fact the additional collection and the additional allocations under Section 32 were transferred in their entirety to the Finance Ministry, inasmuch as the Finance Ministry's participation in the collection for the Children branch was simultaneously reduced from 210% to 207.5% in 2009, to 169% in 2010 and to 208% in 2011.

Under the Economy Arrangements Law of 2011- 2012, three further amendments were introduced: (a) The ceiling for payment of national and health insurance contributions was raised to 9 times the basic amount (from January 1st, 2011. (b) In 2012 the ceiling should have been raised to 8 times the basic amount, but following the Trajtenberg Law, which was enacted in the wake of the social protests, the ceiling for payment was decreased and reverted to 5 times the basic amount (from 1.1.2012). (c) The regular employer insurance contributions were raised by 0.47% – from 5.43% to 5.9% (from April 1st, 2011). These steps increased the collection of the NII, but not the share of the State Treasury and therefore its participation in the Children branch was 200.5% from 1.4.2011 (204.5% in 2012). In August 2012, the Deficit Reduction Law was enacted, which gradually increased the regular employer insurance contributions as of 2013 by 0.6 percentage points and it was applied to the insurance branches for which the employer is liable and where there is no Finance Ministry participation, therefore its participation in the collection for the Children branch reverted to 210%.

3. Collection of National Insurance Contributions

In 2013, the employer's insurance contributions were raised, as prescribed by the Trajtenberg committee established in the wake of the social protests of 2011. The

Table 1
Collection from the Public and Estimated Effect of the Legislative Changes
on the Proceeds (NIS million), 2012-2013

							Percent change 2013 vs. 2012			
	2012			2013			Nominal		Real	
	Net of legislative change	Legislative change	Actual	Net of legislative change	Legislative change*	Actual	Net of legislative change	Actual change	Net of legislative change	Actual change
Total	50,179	97	50,276	52,480	940	53,420	4.6	6.3	2.8	4.7
NII	32,069	75	32,144	33,558	940	34,498	4.6	7.3	2.9	5.7
Health insurance	18,110	22	18,132	18,922	0	18,922	4.5	4.4	2.7	2.8

* There were no legislative changes in 2012; there was only a continuation of one month at a ceiling of 9 times the basic amount, which later reverted to 5 times the basic amount. In 2013, the regular employer insurance rates rose by 0.6% (from 5.9% to 6.5%).

committee decided on a three stage increase. The first stage – an increase of 0.6% (from 5.9% to 6.5%) was carried out in 2013. The next two stages were split into three parts: an increase of 0.25% in 2014, 0.5% in 2015 and 0.25% in 2016.

In 2013, the NII's proceeds from collecting national and health insurance contributions amounted to NIS 55.9 billion: 53.4 billion were collected directly from the public and 2.5 billion were transferred by the State Treasury in accordance with Section 32C1 of the law, which indemnifies the NII for the reduction in national insurance contributions for employers and for self-employed persons (Table 1). This year, as in 2012, the direct collection from the public, without Finance Ministry indemnification net of legislative changes, increased by 2.8% in real terms.

In 2013, the collection of national insurance contributions from the public increased by 5.7% (compared to an increase of 1.2% in 2012) and the collection of health insurance contributions increased by 2.8% (compared to an increase of 2.3% in 2012). The proportion of health insurance contribution collection out of the total collection from the public decreased slightly and in 2013 it reached 35.4% compared to 36.1% in 2012. The decrease in the rate of growth of the health insurance contribution collection primarily stems from the increased rate of the employer's insurance contributions, which proportionally lowers the weight of health insurance contributions out of the total insurance contributions from the public. The ratio of the rate of collection from the public to the GDP in 2013 was 5.1%². The percentage of collection proceeds from the public out of the total direct taxes³ collected from individuals decreased, from 48.1% in 2012 to 47.9% in 2013, as a result of the increase in income tax collection.

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A. National Insurance Contribution Rates

In 1995, two national insurance contribution rates were prescribed – reduced and regular – for all categories of insureds. As of January 2006, the reduced rate has been imposed on the part of the income subject to national insurance contributions that does not exceed 60% of the average wage⁴ and the regular – on the balance of the income up to the ceiling: of the salaried employee, of the employer and of the self-employed person, without differentiating between his share as an employee or as an employer. The reduced rate is applicable to all the insureds – employees and non-employees – and as of August 2005, it has also been extended to employers (Table 2).

2 Table 13 in Chapter 1.

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

4 The average wage as defined under the National Insurance Law – NIS 8,828 per month in 2013 and the basis for reduced rates was 50% of the average wage until the end of 2005.

Table 2
Rates of National and Health Insurance Contributions
by Category of Insured (percentages), 2012 and 2013

Category of insured	National insurance contributions				Health insurance contributions	
	Regular rate		Reduced rate		Regular rate	Reduced rate
	2012	2013	2012	2013		
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	5.0	3.1
Employer	5.90	6.50	*3.45	*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
Thereof: Employee	11.23	11.23	6.72	6.72	5.0	3.1
Government	0.59	0.59	0.59	0.59	-	-
Not working and not a self-employed person	7.00	7.00	4.61	4.61	5.0	5.0

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In 2013, there were approximately 3.1 million salaried positions for which national insurance contributions were paid – an increase of 1.3% according to estimate (Table 3). This group does not include employees from the Palestinian Authority, foreign employees and Israeli insureds with special characteristics, such as kibbutz members, early pension recipients, domestic employees, anyone undergoing vocational training and Defense Ministry employees⁵.

Within the insured population other than salaried employees it is customary to differentiate between two groups: individuals paying insurance contributions based on their income (57.5%) and individuals who have no income and thus pay insurance contributions based on the minimum income (42.5%). The first group consists mainly of self-employed persons (90.9%), but pursuant to legislative changes in 2008, also insureds with passive income (dividends and capital income) higher than 25% of the average wage, whether or not they have income as an employee or as a self-employed person, are liable for insurance contributions (9.1% of the insureds in this group). The second group, of insureds paying the minimum level of insurance contributions, is divided between those who do not work and have no income subject to insurance contributions (approximately 65.8%) and pupils and students (34.25). In 2013, the number of insureds who paid the minimum level of insurance contributions increased by 2.0% and the number of those who do not work as salaried employees or as self-employed persons rose by 13.5%. The number of students decreased by 28.1% and the number of yeshiva students decreased by 1.9%, apparently since they entered the job market.

The number of employers paying insurance contributions for their employees rose by approximately 2.8% in 2013 (Table 3).

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 5 Section 5 of this chapter presents brief information regarding these populations.

Table 3
Employers (by Size of Employer) and Insureds Subject to
National Insurance Contributions, by Category of Insured, 2012 and 2013

Category of insured	2012	2013	Percent change
Insureds who are salaried employees*			
Total	3,046,000	3,085,000	1.3
Employers**			
Total	235,792	242,312	2.8
Employing 1-5 employees	170,470	175,070	2.7
Employing 6-20 employees	45,499	46,913	3.1
Employing 21-99 employees	15,900	16,309	2.6
Employing 100-499 employees	3,258	3,345	2.7
Employing 500 + employees	675	654	-3.1
Insureds other than salaried employees**			
Total	727,356	749,452	3.0
With liable income – total	415,278	431,015	3.8
From work (self-employed)	379,028	391,709	3.3
Not from work	36,240	39,306	8.5
Paying the minimum level of insurance contributions – total***	312,088	318,437	2.0
Not working and not a self-employed person (minimum 15%)	184,566	209,528	13.5
Pupil and student (minimum 5%)	61,813	44,471	-28.1
Yeshiva student (minimum 5%)	65,709	64,438	-1.9

* Number of employee insureds reported by the employers (on Form 102) – monthly average.

** The data refers to year end.

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

b. Volume of Proceeds of National Insurance Contributions

In 2013, the proceeds from national insurance contributions amounted to NIS 36.9 billion: NIS 34.5 billion were collected from the public and NIS 2.5 billion were transferred by the Finance Ministry as indemnification in respect of the reduction in the national insurance contributions of employers and self-employed persons (Table 4). That year the NII's proceeds from national insurance contributions increased by 5.2% in real terms and collection from the public increased by 5.6% in real terms. The amounts that the Finance Ministry transferred as indemnification in respect of the reduction in national insurance contributions of employers and self-employed persons rose in real terms by 0.4%. The proportion of the direct collection from the public in 2013 was 93.3% of all insurance contribution proceeds – a certain increase compared to previous years.

In 2013, the direct collection from the salaried employee public increased by 5.9% in real terms, compared to an increase of 1.1% in 2012. The direct collection from salaried

In 2013 the NII's proceeds from national insurance contributions increased by 5.2% in real terms and collection from the public increased by 5.6% in real terms

employees and their employers was affected both by the legislative changes surveyed and by job market changes: the average wage for a salaried position rose by 3.0% in nominal terms in 2013 (compared to an increase of 2.3% in 2012). The number of positions in 2013 rose by 1.5% (compared to an increase of 2.6% in 2012). National insurance contribution proceeds for salaried employees (including the share of the employee, the employer and the Finance Ministry) as a proportion of all proceeds continued to increase slightly (from 90.6% in 2011 to 90.7% in 2013) due to the legislative changes in the Economy Arrangements Laws of 2009-2012, notwithstanding the reinstatement of the ceiling for payment of insurance contributions to 5 times the basic amount.

Table 4
National Insurance Contributions Collected, by Category of Insured
(current prices, NIS million), 2009-2013

Category of insured	Absolute numbers					Percentage of real change				
	2009	2010	2011	2012	2013	2009	2010	2011	2012	2013
Total collection	28,229	31,335	33,736	34,569	36,969	-1.8	7.4	4.2	0.8	5.1
Salaried employees and employers	25,351	28,221	30,527	31,327	33,540	-2.4	7.7	4.7	0.9	5.5
Non-employees	2,878	3,124	3,208	3,242	3,429	3.4	5.1	-0.9	-0.6	4.2
Collection from the public – total	26,233	29,101	31,305	32,144	34,499	-1.9	7.4	4.1	1.0	5.7
Salaried employees and employers	23,519	26,139	28,268	29,067	31,252	-2.4	7.6	4.7	1.1	5.9
Non-employees	2,714	2,962	3,037	3,077	3,247	2.7	5.6	-1.1	-0.4	3.9
Finance Ministry indemnification – total	1,996	2,234	2,431	2,425	2,471	-0.9	8.3	5.3	-1.9	0.4
For employers	1,832	2,072	2,260	2,260	2,288	-2.2	9.5	5.5	-1.7	-0.3
For non-employees	164	162	171	165	183	15.5	-4.5	2.2	-5.1	9.2

In 2013, the direct collection from the non-employee insureds increased by 3.9 in real terms compared to 2012, after two consecutive years of decline in proceeds from this group.

The percentage of collection from self-employed persons out of their collection potential, including the outstanding balance, was 96.6% in 2013, with insureds at the minimum level this rate only reached 50.54%

The collection from non-employees for NII branches primarily consists of collection from self-employed persons (92%). In 2013, the collection from self-employed persons – which was based on the 2011 assessments that were updated by the price increases only – increased by 5.4% in real terms. The collection from non-employee insureds who pay national insurance contributions based on the minimum, which constitutes about 4% of all collection for the insurance branches from non-employees, increased by 1.6% in real terms. An examination of the payment ethics of self-employed persons and those who do not work and are not self-employed highlights the difference between them: while the percentage of collection from self-employed persons out of their collection potential, including the outstanding balance, was 96.6% in 2013, with insureds at the minimum level this rate only reached 50.54%.

4. Collection for the Health System

A. Health Insurance Contributions

In January 1995, the National Health Insurance Law came into force, which establishes the right of every Israeli resident to health insurance and prescribes a defined and uniform basket of health services for all, with the responsibility for funding its cost being imposed on the State. The Law specifies the sources for funding the basket, the method whereby the cost of the basket will be updated and the formula for allocating the resources among the funds. An Israeli resident may choose any one of the sick funds recognized by the Ministry of Health and the sick funds must accept every resident without any restriction, stipulation or payment whatsoever.

The health insurance contributions, which are used as one of the primary sources for funding the basket of health services, are collected by the National Insurance Institute and divided among the sick funds. For this purpose, the NII keeps a file of everyone insured by health insurance, which is regularly updated and provides information on the membership of the various sick funds.

In accordance with the Law, every Israeli resident is liable for payment of health insurance contributions, even if he does not work, excluding a few groups that are exempt from payment. The health insurance contributions from salaried employees and non-employee insureds are collected in the same way as are national insurance contributions, whereas the insurance contributions from recipients of National Insurance Institute benefits (who have no other income) are deducted at source from the benefit.

The health insurance contributions are imposed on the employees on two levels: a reduced rate of 3.1% on the part of the income that does not exceed 60% of the average wage and a regular rate of 5.0% on the balance of the income exceeding 60% of the average wage and up to the maximum income subject to insurance contributions, which is 5 times the basic amount. Also here the update is at the rate of price increases.

Those who do not work and those who receive benefits from the NII are entitled, in most cases, to special rates depending on their income level. Table 5 details the amounts of insurance contributions deducted from the benefits by benefit category, as follows:

- Health insurance contributions of wage-replacing benefit recipients (such as, maternity allowances, injury allowances, reserve service benefits and unemployment benefits) are deducted from the allowance at the governing rates for work income.
- Health insurance contributions of a working-age benefit recipient who does not work are deducted from the allowance by the minimum amount prescribed by law.
- Health insurance contributions of old-age and survivors' pension recipients with no income supplement are deducted from the pension by the amounts prescribed for an individual and a couple, as applicable.

- Health insurance contributions of old-age and survivors' pension recipients with an income supplement are deducted from their pension by the minimum amount, for all family compositions.
- Health insurance contributions of a working-age benefit recipient who has work income is imposed on his work income only, but not on his benefit.

Table 5
Level of Health Insurance Contributions by Benefit Category, 2013

Benefit category	Monthly health insurance contributions
Wage-replacing benefits	3.1% of the benefit up to 60% of the average wage 5% of the remaining benefit that exceeds 60% of the average wage and up to the ceiling
Maternity allowance	
Injury allowance	
Unemployment benefits	
Reserve service benefits	
Accident allowance	
Bankruptcy and corporate liquidation	
Old-age and survivors	
With income supplement	NIS 101
With no income supplement:	
For an individual	NIS 192
For a couple	NIS 278
Other benefits	NIS 101
Income supplement	
Maintenance	
General disability	
Work-related disability, with dependents	
Working-age survivors	

Since January 2006, the benefit amounts are updated according to the rate of increase of the price index in the previous year (i.e., the new index of the last November compared to the previous November) and therefore also the minimum amounts are updated by this rate. A person who is neither a salaried employee nor a self-employed person and who does not receive a benefit pays minimum insurance contributions (NIS 101 per month as of January 2013). Certain groups are exempt from payment of health insurance contributions: housewives, new immigrants during the first six months of the date of their immigration to Israel; employees younger than 18; students younger than 21 who do not work and who subsequently are inducted into the military – are exempt from payment for 12 months; and detainees and prisoners who have been sentenced to more than 12 months' imprisonment and who receive health services from the Israel Prison Service.

b. Health Insurance Contribution Proceeds and Their Distribution Among the Sick Funds

Up until the beginning of 1997, the National Insurance Institute collected the parallel tax and the health insurance contributions for the health system. Upon approval of the Economy Arrangements Law of 1997, the parallel tax collection was abolished altogether and funding of the basket of health services out of the State budget was increased accordingly. In 2013, the NII collected approximately NIS 18.9 billion in health insurance contributions – an increase of 2.8% in real terms, compared to an increase of 2.3% in 2012 (Table 6). 81% of the total collection was collected from salaried employees, from non-employees – approximately 9.7% – and from NII benefit recipients – 9.3%. Health insurance contributions from non-employee insureds were collected in the following proportion: 71% from self-employed persons and 29% from insureds who do not work and are not self-employed persons, who pay the minimum level of insurance contributions.

Table 6
Health Insurance Contributions Collected
by Category of Insured (NIS million), 2009-2013

Year	Total	Salaried employees	Non-employees	Benefit recipients	Rate of change	
					Nominal	Real
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
2012	18,132	14,665	1,750	1,717	4.0	2.3
2013	18,922	15,324	1,831	1,767	4.4	2.8

In 2013, health insurance contributions in the amount of NIS 1,767 million were deducted from benefits – a real increase of 1.4% compared with 2012 (Table 7). The increase in the amount deducted from unemployment benefits and bankruptcy is particularly prominent. Approximately 71% of the health insurance contributions deducted from benefits were paid by recipients of old-age and survivors' pensions (among them the pension recipients with income supplements). It should be noted that the health insurance contributions are deducted from the benefit only if the benefit recipient has no work income or he has other income that is exempt from payment of insurance contributions. Married women who work only in their own households (housewives) are exempt from payment of health insurance contributions, even if they receive a benefit in their own right from the National Insurance Institute, provided that this benefit is not a wage-replacing benefit.

The National Health Insurance Law prescribes that the monies designated for funding the health basket are to be transferred directly to the sick funds by the National

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Table 7
Health Insurance Contributions from Benefits
by Benefit Category (NIS million, 2013 prices), 2012 and 2013

Benefit category	2012	2013	Real annual increase (percentages)
Total	1,743.3	1,767.0	1.36
Old-age and survivors	1,225.3	1,259.4	2.78
Work-related disability	38.7	40.3	4.23
Disability	177.4	159.7	-10.0
Income supplement	79.5	81.4	2.3
Reserve service	0.3	0.3	0.5
Maternity allowance	112.8	120.6	6.9
Unemployment	60.8	67.1	10.4
Injury allowance	12.6	13.3	5.9
Maintenance	7.2	7.1	-0.8
Bankruptcy	4.0	4.4	10.0
Other	24.8	13.4	-45.7

Insurance Institute. The principle governing the distribution of the monies is based on the **capitation formula**, which takes into account primarily the number of insureds in each one of the funds, while weighting the age of each insured. As of the 1st of November 2010, two new variables were added to the capitation formula: the gender of the insured and the remoteness of his place of residence from population centers.

The capitation method works in favor of Clalit Health Services, since it is characterized by a high percentage of older members and of members living in communities that are remote from central Israel (Table 8). Thus, for instance, approximately 72% of the very elderly insureds (aged 85 or older) and 69% of the residents of outlying areas are insured by this sick fund. At the end of 2013, their proportion of its insureds was approximately 52% of all the insureds, but Clalit's share of health insurance monies was approximately 56%. On the other hand, this method reduces the amounts transferred to the Maccabi and Meuhedet sick funds, whose members are younger. In 2005–2013, Clalit Health Service's share in the distribution of health insurance monies diminished from approximately 59% to approximately 56%.

It should be noted that as of August 1, 2006, the capitation rates have been calculated every month instead of once every three months as was customary until then. The monthly calculation makes it possible to reduce the disparity between the number of insureds at the beginning of each quarter and the actual number of insureds in each of the three months of the quarter.

Under the National Health Insurance Law, the health services are funded from several sources:

- Health insurance contributions, which are collected by the National Insurance Institute;

In 2005–2013, Clalit Health Service's share in the distribution of health insurance monies diminished from approximately 59% to approximately 56%

Table 8
Number of Insureds and Key to Distribution of Health Insurance
Monies, by Sick Fund (percentages), January 2005- January 2013

Year	Total	Sick fund			
		Clalit	Leumit	Meuhedet	Maccabi
Total insureds					
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
1/2013	100.0	52.3	9.1	13.6	25.0
Distribution key					
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
1/2013	100.0	56.167	8.497	11.745	23.591

- Amounts transferred by the Road Accident Victims Compensation Fund (Karnit) to the National Insurance Institute (since 2010);
- The direct proceeds of the sick funds for health services that they provide for a fee (such as, medications and doctor visits);
- Additional amounts from the State budget intended to supplement the various health expenses up to coverage of the cost of the basket of health services.

According to the estimate for 2013, the cost of the health basket for which the sick funds are responsible increased by NIS 1.88 billion in nominal terms and reached 36.5 billion shekels – an increase of about 3.8% in real terms compared to 2012 (Table 9). In 2013, the proportionate part of the State in the funding of the basket rose to 40.7% compared to the proportion of the health insurance contributions, which declined to

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Table 9
Cost of Health Services Basket under the Responsibility
of the Sick Funds, by Source, 2009-2013

Source	2009	2010	2011	2012	2013
Cost – NIS million	28,141	30,333	32,668	34,678	36,553
Percentages					
Total	100.0	100.0	100.0	100.0	100.0
Health insurance contributions**	53.4	54.3	54.3	53.3	52.9
State budget	40.2	39.3	39.3	40.3	40.7
Independent income	6.4	6.4	6.4	6.4	6.4

* Ministry of Health estimate (February 2014).

** Includes amounts transferred to the NII by the Road Accident Victims Compensation Fund (since 2010). In 2013, an amount of NIS 433 million was transferred.

52.9%. It should be noted that under the Economy Arrangements Law of 2008, it was prescribed that the proceeds of the sick funds from the deductibles of their insureds would be at a rate of 6.45% of the cost of the basket (instead of 5.4% until 2007). This amendment explains the reduction in the State's participation by 1% since 2008.

The standardized per capita cost of the health basket makes it possible to study the effect of the insured's age on the expenses of the sick funds (Table 10). The per capita cost of the basket is calculated in relation to the sources of the basket that are distributed among the sick funds according to the capitation formula and excludes amounts not distributed in accordance therewith, such as expenses for serious illnesses, administrative expenses and allocations to the Health Council and to Magen David Adom. In 2013, the weighted per capita cost of the basket was NIS 3,979, compared to NIS 3,926 in 2012 – an increase of approximately 1.3% in real terms. The cost of the basket reflects the relative expenses among the age groups: except for children up to the age of 4, the cost of the younger age groups is usually lower than that of the older age groups. Thus, for instance, in 2013 the cost of the basket for the older population (aged 85 or older) was 3.8 times higher than the average cost for all insureds of the sick funds and 9.4 times the cost of the basket for 15 – 24 year olds.

Table 10
Per Capita Cost of the Health Basket, by Age Group
(NIS per year, 2013 prices), 2012 and 2013

Age group	2012	2013*
Standardized per capita total	3,926	3,979
Up to one year	6,487	6,576
1-4	3,357	3,400
5-14	1,578	1,599
15-24	1,582	1,602
25-34	2,270	2,300
35-44	2,685	2,720
45-54	4,215	4,270
55-64	6,870	6,960
65-74	11,275	11,426
75-84	14,580	14,776
85 or older	14,874	15,066

* Estimate.

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

The national insurance system, as any insurance system, makes the entitlement to benefits conditional, in most cases, on the payment of insurance contributions. According to

this principle, every insured, irrespective of his employment status, is liable for payment of insurance contributions. The parameters of the function of national insurance contributions, mentioned at the beginning of the chapter – a minimum and maximum for the income subject to national insurance contributions and the insurance contribution rates of the various insureds – is characteristic of most social insurance systems in western countries. Undisputedly, the setting of a floor and ceiling for income subject to national insurance contributions constitutes a regressive element of the collection system. The reform introduced in the collection system of the NII in 2006 – which broadens the income base subject to national insurance contributions and instituted a reduced rate for that part of the income that does not exceed 60% of the average wage – was designed to moderate the regressive distribution of the burden of payments of national insurance contributions imposed on the insured individuals. The decision to delegate the collection of health insurance contributions to the National Insurance Institute as of 1995, in tandem with the principles that every resident is insured and the majority of the insureds are liable for payment of health insurance contributions, have led policymakers to adopt the elements of the function of national insurance contributions also with respect to the function of health insurance contributions.

The most current income data available to us refers to 2011. The data in Tables 11 and 12 refers to the statutory status in 2011, i.e. to the insurance contribution rate of said year and to the maximum income subject to national insurance contributions and to health insurance contributions (up to 9 times the basic amount). The steps taken within the framework of the tax reform introduced in 2006 (such as the reduction in the

Table 11
Salaried Employees: Income (average per month of work)
and Burden of Insurance Contributions, by Decile, 2011

Decile	Average income per month of work	Insurance contribution payment					
		Absolute numbers (NIS)			Percentage of income		
		Total	National insurance	Health insurance	Total	National insurance	Health insurance
1	967	34	4	30	3.5	0.4	3.1
2	2,280	80	9	71	3.5	0.4	3.1
3	3,413	119	14	106	3.5	0.4	3.1
4	4,342	152	17	135	3.5	0.4	3.1
5	5,288	211	41	170	4.0	0.8	3.2
6	6,470	353	124	229	5.5	1.9	3.5
7	8,056	543	235	308	6.7	2.9	3.8
8	10,506	837	406	431	8.0	3.9	4.1
9	14,941	1,369	717	652	9.2	4.8	4.4
10	29,523	3,111	1,733	1,378	10.5	5.9	4.7
Average	8,579	606	272	334	7.1	3.2	3.9

reduced rate for employees from 4% to 0.4%, the increase in the regular rate from 5.58% to 7.0% and the increase in the reduced rate bracket from 50% of the average wage to 60% thereof) are also reflected in the insurance contribution rate that is calculated on the basis of the wage and income data for 2011.

Each one of the first four deciles pays national insurance contributions at a rate of 0.4% of his income and the rate rises gradually to 5.9% in the top decile

Table 11 presents data on the income (average per month of work), national insurance contributions (the share of the employee only) and health insurance contributions, on average per decile of the salaried employee population. The salaried employees are ranked according to the income subject to insurance contributions (average per month of work) so that each decile is comprised of 10% of the employed individuals⁶. Each one of the first four deciles pays national insurance contributions at a rate of 0.4% of his income and the rate rises gradually to 5.9% in the top decile. A similar picture arises from the health insurance contribution rates by deciles, but the lowest rate among the first five deciles is 3.1%.

Table 12 presents the insurance contribution rates by deciles of the self-employed population for 2011⁷. The burden of the national insurance contributions is prominent in the first and second deciles, since currently the minimum insurance contribution payment (25% of the average wage) underscores the regressive nature of the system at the lower income levels. The rate of national insurance contributions paid by self-employed persons (both as employees and as employers) is 6.7% in the third decile and it rises gradually to 9.7% in the tenth decile.

The effect of the maximum income subject to national insurance contributions is more prominent among self-employed persons, since the part of the self-employed persons' income that is exempt from payment of insurance contributions is relatively higher than that of the salaried employees, more than the part of the income that is subject to insurance contributions, which is actually 9 times the basic amount.

It should be noted that unlike salaried employees, the income of the self-employed person in each decile is indicated in terms of monthly average per 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 salaried employees, as presented in Table 11, cannot be compared to the income of self-employed persons as presented in Table 12.

6 In April 1999, a legislative amendment was adopted, whereby the minimum income for calculating insurance contributions of salaried employees was equated to 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 less than the minimum wage level are due to part-time jobs. The deviation in the average rate of insurance contributions from income in the lower deciles is negligible.

7 The last year for which there is complete administrative data on income of salaried employees and self-employed persons.

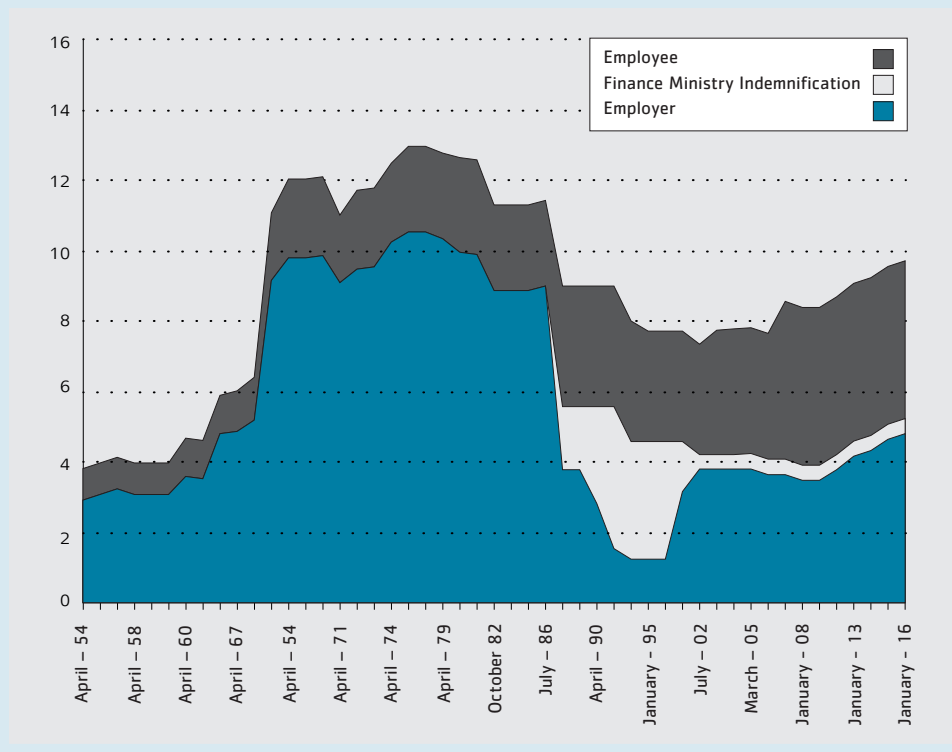
Employer Insurance Contribution Rates – Historical Survey

The National Insurance Law prescribes that the national insurance contribution rates for an employee are to be paid through the employer and shall include the share of the employee and the share of the employer.

The insurance contribution rates of employers were subject to frequent changes over the years, both due to the addition of insurance branches and due to legislative changes in the insurance contribution rates, mainly during the last decade. Initially, the National Insurance Institute had only four insurance branches: Old-age and Survivors, Work Injury, Maternity and Reserve Service. Over the years, by the early '80s, the Children, Disability, Unemployment, Long-term Care, Bankruptcy and Accident Injury branches had been added.

In the mid-'80s, due to the rising inflation and the difficult economic situation that prevailed in Israel, the government decided to reduce the cost of labor for employers and self-employed persons by reducing the insurance contribution rates paid by them and supplementing them from the State budget. Within this framework, it was determined that the State Treasury would compensate the NII in respect of the

Cumulative Regular Insurance Contribution Rates for One Employee



loss of collection (Finance Ministry indemnification). This indemnification, which is entrenched as a rate in Schedule “J” to the Law and as a percentage in Section 32C1 of the Law, as may be seen in the graph below, constitutes a substitute for the employer’s insurance contribution rates.

Accordingly, the insurance contributions for salaried employees are paid from a combination of three sources: the insurance contributions paid by the employees, the insurance contributions paid by the employers for their employees and the participation of the Finance Ministry. In 2013, the regular insurance contribution rates¹ deductible from employee wages were 6.5% for the employer, 7.0% for the employee and 0.67% for the State Treasury. In 2013, the collection of insurance contributions for salaried employees amounted to NIS 33,521 million according to the following distribution: NIS 17,615 million collected from employers (52.6% of total collection), NIS 13,618 million collected from employees (40.6% of total collection) and Finance Ministry indemnification – NIS 2,288 million (6.8% of total collection).

The graph shows the cumulative insurance contribution rates for employees, from the inception of the National Insurance Law in 1954.

The graph shows that from the fifties to this day there have been considerable changes in the composition of the insurance contributions by source. Up to the early ‘80s, there was an upward trend in the employer’s insurance contributions rates, mainly due to the introduction of new branches to the NII system: from 3.15% in 1954 to the peak in 1978 – 12.65%. In 1986, prior to the legislative change pertaining to the Finance Ministry’s participation in the insurance contributions replacing that of the employers, the employer’s insurance contributions were 10.05% and in 1987 the rate decreased to 5.9% (Finance Ministry participation – 2.8%). Up to 1995, the insurance contributions declined steadily, reaching a rate of 1.93% and since then they have begun to rise. In 2016, the rate of the employer’s insurance contributions for his employees will reach 7.5%.

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1 This box does not address reduced rates.

6. Special Populations Defined as Salaried Employees

The data presented in the body of the chapter on the number of salaried employees pertains to the number of salaried employees reported by the employer on Form 102. The salaried employee population, as defined by the National Insurance Institute, includes groups with unique characteristics and they are specified below.

Members of kibbutzim: Members of kibbutzim (communal settlements) and moshavim (cooperative settlements) are defined under the law as salaried employees of the cooperative society (as an employer), which has the duty and the responsibility to

Table 12
Self-Employed Persons: Income (monthly average per year)
and Burden of Insurance Contributions, by Decile, 2011

Decile	Average monthly income per year	Insurance contribution payment					
		Absolute numbers (NIS)			Percentage of income		
		Total	National insurance	Health insurance	Total	National insurance	Health insurance
1	660	204	140	64	30.9	21.1	9.8
2	1,776	204	140	64	11.5	7.9	3.6
3	2,362	232	159	73	9.8	6.7	3.1
4	3,355	329	225	104	9.8	6.7	3.1
5	4,389	431	295	136	9.8	6.7	3.1
6	5,618	592	406	186	10.5	7.2	3.3
7	7,408	883	607	276	11.9	8.2	3.7
8	9,995	1,303	898	405	13.0	9.0	4.1
9	14,543	2,041	1,408	632	14.0	9.7	4.3
10	34,752	4,879	3,371	1,508	14.0	9.7	4.3
Average	8,486	1,058	728	330	12.5	8.6	3.9

register them as salaried employees and to pay insurance contributions on their behalf. Members of kibbutzim or moshavim are insured under all the NII branches, except for the Unemployment branch. In 2013, an average of 40 thousand members was reported per month (ages 18 or older) and the insurance contributions paid on their behalf amounted to approximately NIS 110 million for the year.

Domestic employees: The status and rights of people employed in private households are the same as those of all other salaried employees, although the insurance contributions paid on their behalf are set at different rates. At the end of 2013, approximately 200 thousand active employers employing domestic employees were reported and insurance contributions in the amount of approximately NIS 80 million were collected from them that year.

Employees of the Palestinian Authority: Employees from the territories and from the Palestinian Authority who are employed by Israeli employers are liable for payment of insurance contributions to three branches: Work Injury, Maternity and Bankruptcy. The insurance contributions for them are collected by the Payments Section of the Employment Service. In 2013, an average of approximately 38 thousand such employees was reported per month and the amount of insurance contributions paid on their behalf was approximately NIS 8.8 million for the year. The average monthly wage per employee, on the basis of which the national insurance contributions were paid, was approximately NIS 3,860.

Foreign employees: This group consists of employees who are not Israeli residents and who are employed by Israeli employers. As in the case of employees from the

Palestinian Authority, the foreign employees are insured under the Maternity, Work Injury and Bankruptcy branches and the insurance contribution rates applicable to them are established by a special regulation. In 2013, an average of approximately 120 thousand foreign employees were employed per month; their average monthly wage was NIS 5,800 and the insurance contributions with which they were charged were NIS 70 million for the year.

Employees who retired prior to reaching retirement age: These employees are liable for the payment of national and health insurance contributions on their early pension. In 2013, an average of approximately 39 thousand pensioners paid insurance contributions per month and the amount charged for them amounted to approximately NIS 330 million for the year.

Insureds undergoing vocational training: This group includes insureds (non-working and working alike) who are undergoing vocational training within the framework of the Ministry of Economy or at locations approved for this purpose under the National Insurance Regulations. The national insurance contributions are imposed on the employer and on the person undergoing vocational training for two branches only: Work Injury and Maternity. In most cases, the Ministry of Economy is the employer, unless the person undergoing vocational training has been sent for studies on behalf of his employer. The number of insureds who were undergoing vocational training (and who paid insurance contributions) reached an average of approximately 37 thousand per month in 2013 and the insurance contributions paid for them amounted to NIS 8 million for the year. This since the employer has ceased collecting the “not working and not self-employed” insurance contributions from the employees in vocational training and transfers to the NII only the “employee” share of the insured. The insured pays his “not working” share directly to the NII separately.