

Opening Remarks

The social security system grew significantly stronger in 2015: the cut in child allowances made in the middle of 2013 was cancelled, with allowances even augmented by means of payments into savings plans for children that began gradually as of the end of 2015. Although these savings plans are universal, meaning that every child shall benefit therefrom, their contribution to the reduction of inequality is still thin, considering their lack of progressive component under state budget (matching).

The financial stability of the National Insurance Institute (NII) also improved in 2015; it has created close to a NIS 4 billion growth in asset balance up to an overall amount of over NIS 184 billion, by the end of 2015. The principal challenge faced by the NII is to break the interdependence between capital balance and state budget, and turn the former into a substantial reserve that will remain at insurees' disposal. Strengthening the insurance aspect of social insurance, and thereby giving insurees the feeling that they receive something in return for the insurance contributions that they have paid over their working-age period, is another important objective.

Chapter 1 of the report presents an international comparative analysis showing that the insurance part of social security in Israel is lower than generally accepted in other countries, regardless of their respective social security regimes – socio-democratic, neo-liberal or corporatist (in central European countries). This low level in Israel is manifested in the small proportion of expenditure on insurance allowances compared to either overall social security expenditure or yield. The comparison leads to a clear conclusion: strengthening social security's insurance component is to be regarded as a primary aim in the future.

Chapter 2 goes on to compare groups of countries, segmented according to their social security regime, in relation to poverty indices. In this field, too, Israel is in a worse situation than other countries, except in the late working-age group. This chapter also shows poverty data for 2013-2014 based on the traditional relative approach and other approaches which use expenditure data to measure poverty.

Chapter 3 presents the core of the NII's activity – payment of benefits – and specifies the main 2015 developments in this area, as regard to level of payments and number of recipients. This chapter contains a range of boxes on specific topics. In the topic of Reserve Service, a box discusses research on the take-up of rights for benefits showing a

high percentage of take-up, except among young soldiers and when periods of entitlement are very short, thereby providing little return on effort; and in Unemployment – an international comparison revealing that the condition of the unemployed in Israel is comfortable compared to their counterparts in other countries, both from the viewpoints of payment rate and conditions of entitlement. There are also other interesting boxes in this chapter, for example concerning the special attendance allowance in the General Disability branch.

Chapter 4 deals with national and health insurance contributions, and the box here reviews the increase in the number of insurees in every health maintenance organization and the changes in their composition.

Chapter 5, the last chapter of the report, reviews the activity of the NII's five Funds on behalf of the community (development of services for the disabled, promotion of long-term care programs, special enterprises, services for at-risk children and youth, and prevention of work-accidents) as well as the Research Fund, and the activity of the Research Room which is used by external researchers to promote empirical study in Israel.

The report in its entirety is translated into English, and a summary is translated into Arabic. All versions can be found on the NII website.

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Annual Report 2015 - Foreword

From the General Director

The National Insurance Institute (NII) strives to be an advanced, benevolent and comprehensive social security system, and sees this as an expression of the State's responsibility for helping people who are in temporary or ongoing distress. This goal is expressed in the effort to achieve optimal take-up and implementation of rights, and to initiate legislative processes for increasing existing rights, all within the limits of budgets and priorities.

As always, in 2015 the NII operated 32 social programs, covering 130 types of payments and services. These payments constitute the socioeconomic safety net of the State of Israel, and include among others, old-age pensions, child allowances, long-term care benefits, income support and various types of disability allowances. The NII has about 4,000 employees, who in 2015 handled about 15 million interactions with the insured public in 78 branches and service centers, by telephone and over the internet.

Figures and Trends

In 2015 Israel invested 16.1% of its GDP in welfare, mainly in expenditure on welfare and health services, and national insurance benefits. More than half of the expenditure – 8.7% – was allocated to cash support, and the rest – 7.2% – to in-kind support (services) essentially in health services.

In an international comparison, Israel is at the bottom of the OECD scale in its expenditure on welfare – only Mexico, Chile and South Korea are lower. The NII supports the gradual increase of public expenditure on welfare to about five percentage points (i.e. around 21% of GDP), which is the average rate for OECD countries.

2015 was characterized by positive developments in terms of growth and employment in Israel compared to developed countries, though in a more moderate manner than previous years. GDP grew by 2.5%, unemployment remained low, and the number of employed people continued to rise this year by about 3%.

Payments of NII benefits in cash and in kind – contributory and non-contributory – totaled in 2015 some NIS 74.2 billion, compared to NIS 71.6 billion in 2014. These

amounts include other payments made by the NII, mainly to government ministries, for costs related to developing services in the community, as well as administration and operation expenditures of the wide-ranging NII system in all of its areas (about NIS 1.5 billion). The real growth in total payments reached 4.4% in 2015, and was mainly caused by an increased number of recipients for every benefit in varying proportions, and legislative changes - above all - a renewed increase in child allowances after their cutback in 2013-2014.

In 2015 pensions were not adjusted at all, since the consumer price index did not rise during the determining period for pension adjustment. The increase in wages observed recently after years of stagnation in real terms, brought back a well-known trend according to which the average wage, which not only reflects changes in prices but also in living standards, is subject to a higher increase over time, in comparison with prices. Between 2002 and 2015 the average wage has cumulatively increased by about 35% - a rate about ten percentage points higher than the increase of the consumer price index over the same period. The cumulative erosion of pensions hence reaches a rate of 10% as results of their adjustment by reference to the consumer price index instead of wage changes, and it is therefore advisable to re-examine this matter.

New Aspects of Social Policy

As always, legislative amendments were made in 2015 with respect to various benefits, in particular: the renewed increase of child allowances after a cutback made two years earlier, adoption of a law providing a savings plan for every child, the increase of benefits to frail persons receiving old-age income supplements, and implementation of measures strengthening financial stability.

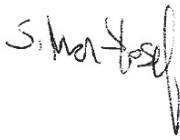
In recent years there have been growing calls from the public to expand and improve national insurance services and conditions of eligibility for the various benefits. The NII takes note of these calls and is working to develop new social programs based on the following principles:

- **Initiative:** However generous and suitable benefits may be, they are not effective if in practice they fail to reach those eligible for them. Therefore, initiatives to ensure full take-up of benefits by insured Israeli residents are at the top of the NII agenda. This concept puts insured individuals at the center, and NII employees and managers work to expedite their rights quickly, efficiently and with empathy. Furthermore, the aim is to achieve automatic take-up of rights as far as possible, while reducing cumbersome bureaucratic processes. Among other things, this involves developing convenient and accessible digital services. To that end, the NII uses surveys to review data related to take-up of rights and underlying reasons when rights were not fully exhausted.
- **Encouraging employment:** At present it is hard to encourage benefit recipients to join the labor market, because any income, however small, leads to pension revocation. This

creates what is called the poverty trap. The NII seeks to limit the poverty trap as much as possible, for example by planning benefits that will harmonize with employment integration, and by encouraging recipients to find work, mainly by means of reducing the negative impact on income support benefits and disability pensions for those going out to work.

- **Prevention:** In addition to a **care-oriented** social policy that deals with people who are already in socioeconomic distress, the NII also designs preventive social policy that aspires to forestall the occurrence of social, economic or health situations of distress. This is exemplified by the development of social ‘bonds’ to prevent diabetes, the creation of a “Social Ventures” Fund for the support of social businesses and elaborating and operating a long-term savings plan for children to prevent intergenerational poverty.

I would like to express my deep appreciation to the NII staff and its administration for their work in 2015, and their dedication to Israeli society and its social needs. I hope the NII will continue to advance socio-economic security among our citizens, and that we will succeed in building a stable, united and civic-minded society where every individual enjoys a life of wellbeing.



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