

Forward

The Annual Survey of the National Insurance Institute of Israel (NII) has been published every year for over twenty years. The present Survey covers the activities of the NII for 2001.

The first chapter opens with a review of the trends of development in the social security system noted in 2001 and expected for 2002. The changes that occurred during these years in the level of benefits and in the number of benefit recipients are described, and the effects of legislative changes and recent economic and demographic developments on the level of benefits and on the means of financing them are analyzed.

The second chapter presents NII findings concerning the incidence of poverty and income inequality in Israel in 2001, focusing on the impact of transfer payments and direct taxes to reducing poverty and inequality.

Special chapters are devoted to developments in the income support system (Chapter Three), in the sphere of collection of national and health insurance contributions (Chapter Four), and in the main insurance branches (Chapter Five). This year a review of the activities of the Hostile Action Casualties branch and Rehabilitation branch in 2000 was added to this chapter.

The Survey includes three Appendices: an Appendix of Publications – summaries of research reports and surveys published by the Research and Planning Administration

in 2001 and of the research reports of the Fund for Demonstration Projects – an Insurance Branch Table Appendix and a Poverty and Inequality Table Appendix.

I extend my thanks to the employees of the Research and Planning Administration who assisted in the preparation of the Survey and bringing it to print, and particularly to Mia Orev-HaTal, who carried out the linguistic editing. A special thanks is due to Or-el Abutbul, Ani Cohen and Nira Amir, who bore the burden of the typing, for work carried out with willingness, initiative and devotion.

Leah Achdut

Deputy Director-General for Research and Planning

Preface

The year 2001, covered in this report, was overshadowed by a deepening of the economic recession and a deterioration in the security situation due to the eruption of the *intifada* (Arab terror) towards the end of 2000. In contrast to 2000, an exceptional year in terms of economic growth rates and wage rises, the recession of 2001 – reflected in a freeze in the GDP – was accompanied by a significant slowdown in wage growth and by an expansion of unemployment. By all estimates, the economic crisis is expected to continue in 2002.

The activities of the National Insurance Institute (NII) in 2001 were dictated not only by the economic developments and by security situation in the country in that year, but also – due to the built-in lag in benefit adjustment – by the notable wage rise of 2000. In January 2001 the benefits linked to changes in the average wage (the primary NII benefits) were updated by 9.7%. These developments were expressed in the scope of benefit payments and in collection of insurance contributions: the sums of benefits paid rose in real terms by 13.3% – almost double the rate observed in the last half of the nineties – and collection by about 6% in real terms. In contrast to the freeze in production, the scope of NII benefit payments reached about 9.5% of the GDP and collection of contributions – about 7.1%. About three-fifth of the rise in total benefits paid can be attributed to the increase in the average wage as defined in the National Insurance Law, and the remainder – mainly to the increase in the number of benefit recipients, stemming to a large extent from the expansion in unemployment and the natural growth in the country's population. The implementation of the Large Families Law accounts for about 10% of the rise in benefit payments.

High rates of growth (over 8%) were observed in the payments of all insurance branches, particularly in Income Support and Unemployment (as a result of the soaring unemployment rates, reaching about 10% of the labor force) and in the Disability and Long-term Care branches. The payments of military reserve service benefits carried out by the NII for the Ministry of Defense and the benefits for hostile action casualties financed by the State Treasury grew by about 30%, due to the deterioration in the security situation that caused a steep rise in the number of acts of terror, in which hundreds of residents were killed and thousands injured.

The picture of poverty and economic gaps in Israeli society for 2000 does not indicate any major change: the high level of poverty characterizing 1997-1999 remained in 2000 as well, and the patterns of income distribution of 2000 still show deep economic gaps. About 305,000 families (including about 1.1 million persons – of these, about 480,000 children) had a net income below the poverty line. Poverty foci in Israeli society are very clear: families whose head is unemployed, families with one breadwinner earning a low wage and large families, among which the poverty rate is more than double that of the population at large. In many cases, these family types merge and poverty is then much more severe. The influence of unemployment on the expansion of poverty is obvious; but in view of the wage structure in Israel, the employment of one breadwinner in the family is not always sufficient to extract the family from poverty, even if this breadwinner works full time. The unequal distribution of poverty is also reflected in differences observed according to geographical dispersion: settlements in the Southern and Northern districts of the country are poorer than most of those in the central districts. Furthermore, people subsisting on social security benefits only, such as elderly without income from occupational pension or any other source and severely disabled persons, are not able to extract themselves from poverty by means of their benefits. In 2000, too, the minimum

income guaranteed to the weak population groups by the NII was lower than the poverty line, for all family types.

In view of the economic transformations of 1997-2000, the stability observed in the dimensions of poverty and in income inequality in these years shows the importance of the benefits system in reducing poverty and income gaps, in two ways: the updating of the benefits in accordance with changes in standard of living – as reflected in the average wage – and the ensuring of economic protection for the unemployed. The legislative changes enacted in the framework of the Economy Arrangements Law of 2002 – mainly the non-adjustment of the benefits linked to the average wage (1.2% in January 2002), the non-adjustment of child allowances, linked to price rises (1.4% in January 2002), and the 12% cut in the child allowances, by a total amount of about NIS 1.1 billion – hurt the weakest groups in the population and lessen the contribution of NII benefits to reducing economic gaps. The NII's proposal for a more heterogeneous package of budget cuts – making the tax burden somewhat heavier, so as to distribute the burden more fairly between families with children and those without children, as well as among families with different income levels, from work and from capital – was not accepted. At the same time, it is clear to all that it is not sufficient to improve the situation of the lower deciles by means of benefit payments alone; innovative and daring steps are needed to create new jobs and to move the economy quickly forward.

In 2001, the NII worked towards the implementation of several amendments. The second stage of the legislation on benefits for disabled persons, following their first strike (that began in 2000) was implemented. In the framework of this legislation, the rights of disabled persons (both adults and children) limited in their mobility as well as of housewives, were expanded. The agreement signed with the disabled population following the recent strike of 2002 – under which the financial support to the disabled,

particularly to the severely disabled, is to be increased – shall be implemented after the completion of the required legislative process. In 2001, the *short-term nursing benefit*, paid for a period of 60 days, mainly to patients having acute functional difficulties – for example, upon release from hospital or in the process of convalescence at home from a severe illness – was paid for the first time. In the Children branch, the allowance for the fifth child and subsequent children was raised in January 2001, as was the maternity grant paid under the Large Families Law.

The activities of the NII are not confined to payment of cash benefits and collection of insurance contributions, but rather include the development of services in the community as well. The Bureau for Development of Services binds together four Funds under one roof: Fund for Development of Services for the Disabled, Fund for Development of Long-Term Care Programs, Fund for Demonstration Projects and Fund for Activities Aimed at Work Safety and Prevention of Work Accidents. In 2001 the overall budget of these Funds amounted to about NIS 200 million, used to operate about 880 projects throughout the country. For example: day centers for the elderly, the expansion of nursing beds, occupational frameworks for disabled adults, accessibility aids for the disabled, a community framework for handicapped children, and an experimental development of modern welfare services in the community. These activities promote the welfare of families in Israel and improve the quality of life of persons in need of services. In recognition of the importance of the Funds, the NII is endeavoring to locate communities and groups whose needs have not yet been met, and encourages public bodies to apply to the NII for assistance in developing welfare services.

The work burden of NII employees, dealing with the millions of appeals every year, is increasing steadily, not only due to the welcome growth in population, but also due to the increasing economic distress and unemployment of certain sectors of the

population. The burden on those NII employees responsible for benefits to families of hostile action casualties, and their rehabilitation, increased even further with the recent wave of acts of terror. The NII will act this year as well to improve the physical conditions at the local branches and to increase its staff – in both quantity and quality – so that every appeal can be answered cheerfully and attentively. Service improvement requires the continued use of new technologies for client self-service and the development of NII computerization and control systems. Constant modernization is essential not only in order to reduce the number of applicants to the local branches (and thereby, lessen the burden of providing information to the NII), but also to help ensure take-up of rights and prevent exploitation of the system.

We face many challenges in all the areas concerning the welfare of the individual and the family. Despite budgetary constraints, Israeli society at large and the NII in particular are committed to continue to strive, even more intensely, to implement the necessary changes, for the benefit of all sectors of the population and full take-up of their rights.

Prof. Johanan Stessman
Director General

Chapter 1

Trends of Development in National Insurance

Leah Achdut

1.1 Introduction

The National Insurance Institute (NII) is the administrative body responsible for implementing the National Insurance (NI) Law¹ and other State laws, which guarantee a basic income to the residents of Israel. The NII collects insurance contributions from the public and pays benefits to those entitled by law. Some of the benefit payments are short-term and aim to replace the wages of those who find themselves temporarily out of the work force (due to dismissal, work injury, giving birth or military reserve service), but most benefit payments are long-term, aiming to guarantee subsistence to those who have had to leave the work force permanently (due to old age or disability), to survivors who remain without a principal breadwinner, and to families facing the economic burden of raising children. The wage-replacing benefits are calculated as a (constant or progressive) percentage of the entitled person's wages prior to the occurrence of the incident entitling him to benefit. The long-term benefits (except for child allowances, which are denominated in monetary values and linked to the Consumer's Price Index) are set, on the other hand, as a given percentage of the average wage as defined in the NI Law², and they are uniform for all entitled persons having the same family composition. Families of limited means whose benefit is very low or who do not meet the conditions of entitlement to a benefit under the NI Law are eligible for income guarantee/supplement under the Income Support Law. This law guarantees a minimum income to every family in Israel,

¹ The NI Law, passed by the Knesset (Israeli Parliament) in November 1953, and implemented in April 1954, constitutes the core of the income maintenance system in Israel. At first the law included only three insurance branches: old-age and survivors, maternity and work injury. Over the years the law was expanded and amended and today it includes additional insurance branches such as general disability, children, unemployment, long-term care, hostile and border action casualties, reserve service, bankruptcy and breaking-up of companies.

² The average wage as defined in the NI Law is a monthly average of the average wage in the economy for the last three months on which the Central Bureau of Statistics (CBS) has data enabling its calculation. Usually, there is a lag of three months between any determined month and the last month for which the CBS calculated the average wage in the economy. Thus, for example, the (last) average wage in the economy known on the 1st of August is that of May. The average wage under the NI Law on the 1st of August will therefore be an average of the average wage in the economy for March-May. As of August 1991, one-time wage components (such as clothing and convalescence grants paid in June-July and wage back payments paid at the end of the year) are distributed over the course of the entire year for purposes of calculation of the average wage under the NI Law. This average wage thus includes the relative share of the one-time payments and prevents sharp fluctuations in the level of benefits, in back payments of insurance contributions and in payments linked to the average wage as defined in the NI Law.

Diagram A: The National Insurance Institute - Resources and Uses

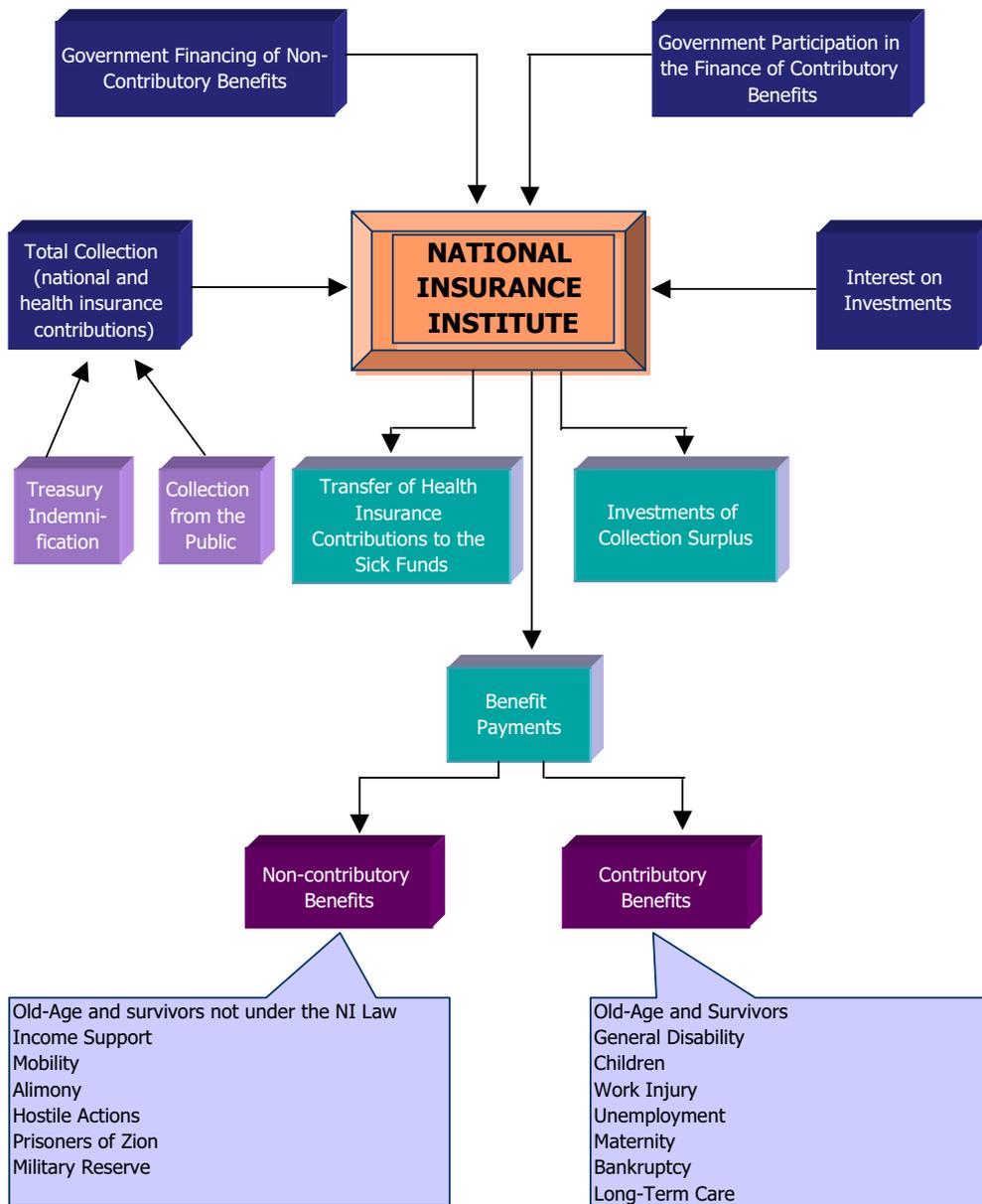
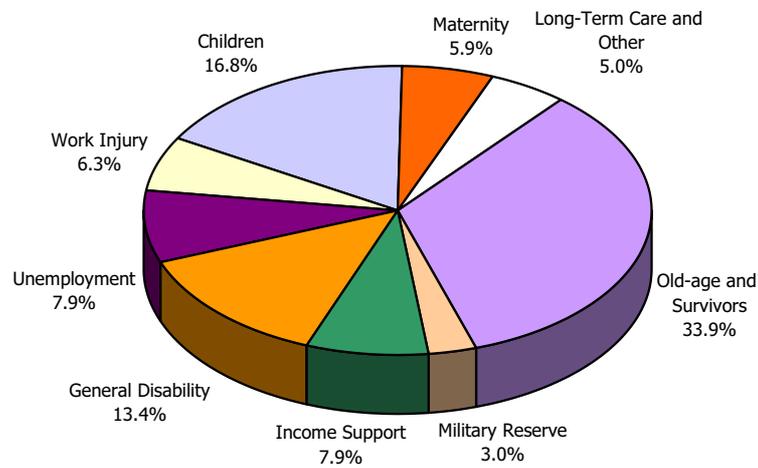
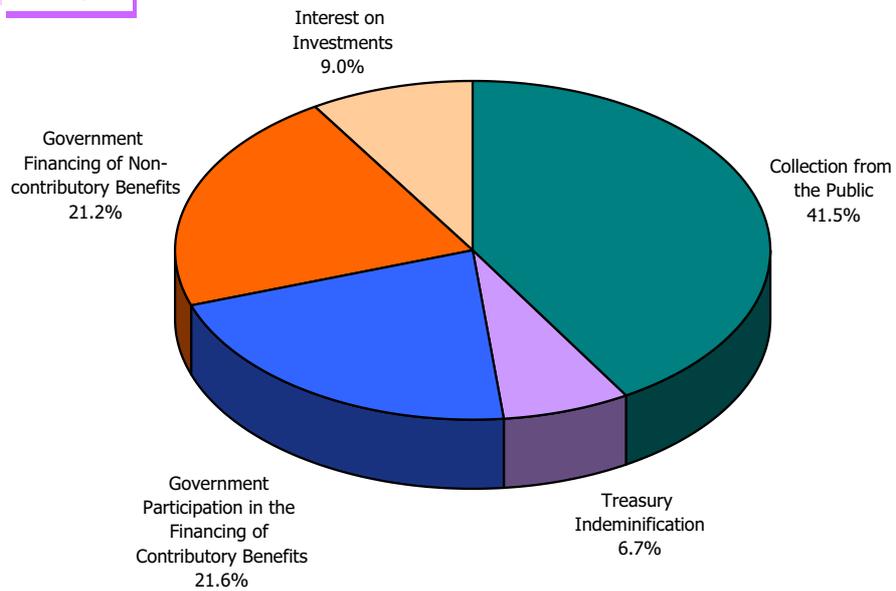


Diagram B: The Distribution of NII Benefit Payments and Receipts - 2001

Benefit Payments



Receipts



determined as a given percentage of the average wage as defined in the NI Law, at two rates (a regular rate and an increased rate), in accordance with the age of the main breadwinner and the family composition. Each rate can be paid in full (income guarantee) or partially (income supplement).

National insurance contributions are collected from employees (through their employers) and from employers (who participate in the financing of their employees' insurance costs), as well as from the self-employed and from persons who are not working, at different rates imposed on the income liable for insurance contributions. In the framework of the policy of reducing labor costs in the economy, the rates of insurance contributions imposed on employers and the self-employed were gradually lowered, and the government compensates the NII for the loss of receipts from collection, a compensation known as Treasury indemnification. Furthermore, the government participates in the financing of some branches of insurance,³ and fully finances the benefits paid other than under the NI Law, for which contributions are not collected.⁴ The benefits paid in branches relying on (partial or full) collection from the public are known as *contributory benefits*, whereas the benefits paid in branches fully financed by the government are known as *non-contributory benefits*. In addition, the NII collects health insurance contributions from the public and distributes them among the sick funds in accordance with rules set in the National Health Insurance Law. Diagram A schematically describes the system of receipts and payments of the NII, including receipts from interest on investments (in index-linked government bonds), collection of health insurance contributions and the distribution of the amount collected among the sick funds.

Diagram B presents the “pie” of the NII's receipts and payments for 2001. The diagram shows that the old-age and survivors branch is the central insurance branch of the NII, paying 33.9% of total benefit payments (including income supplement to

³ Under the NI Law, the government participates in the financing of branches of insurance by adding 15% of the sum collected for the old-age and survivors branch, and 160% (starting January 1997) of that collected for the children branch, and by a reimbursement of 50% of payments to veteran recipients in the general disability branch and all payments to new immigrants in the long-term care branch.

⁴ The government fully finances benefits which the NII is responsible for providing but which are paid by force of special agreements (such as old-age and survivors' pensions to new immigrants, mobility allowances to disabled persons, and benefits to former Prisoners of Zion and to victims of hostile acts) or under other laws (such as the Alimony Law and the Income Support Law). Beginning in January 1995, the government fully finances military reserve service benefits as well.

Diagram C: Benefit Payments (percentage of GDP), 1980-2001

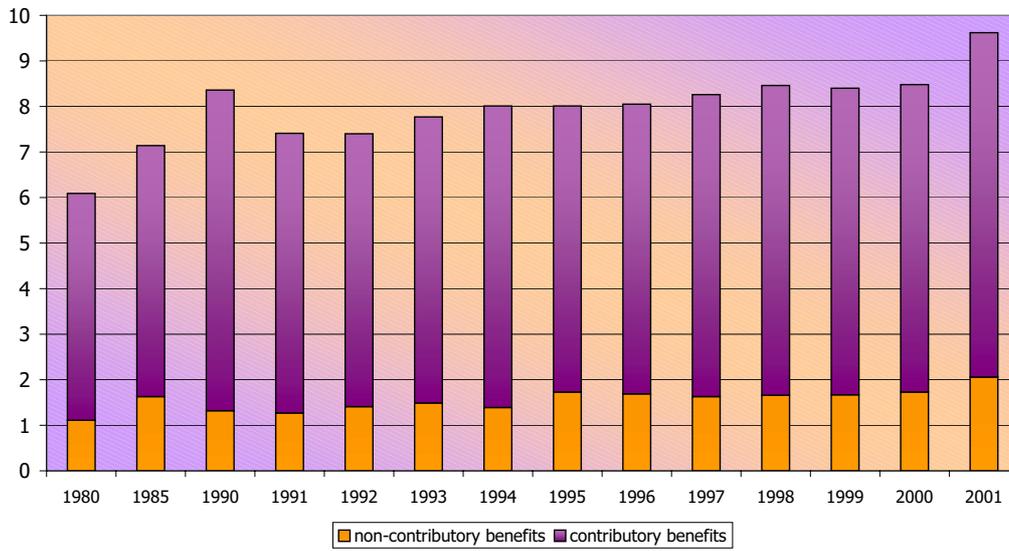


Diagram D: Contributory Payments from the Public (percentage of GDP), 1980-2001

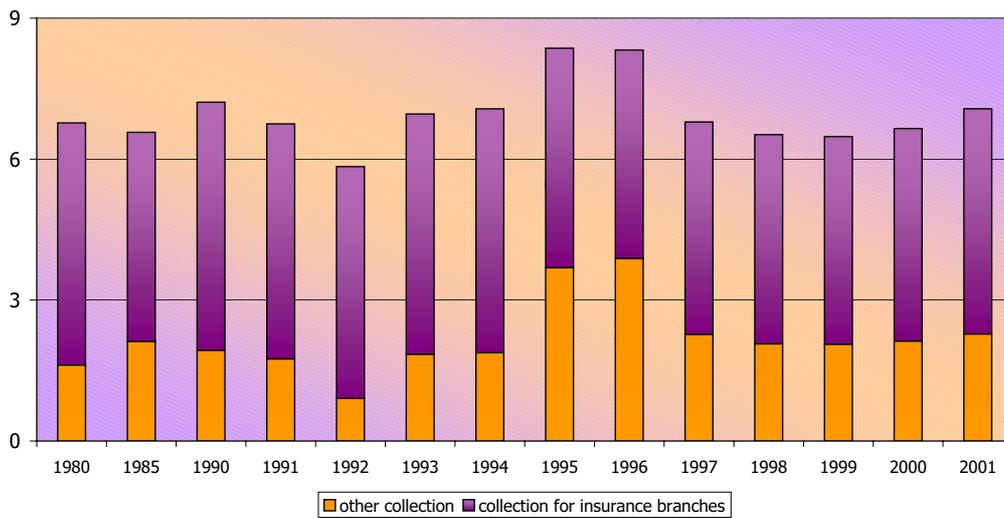


Table 1: Benefit Payments and Collection from the Public (percentages relative to the Gross Domestic Product), 1980-2001

Year	Benefit Payments		Collection from the Public	
	Total	Contributory Benefits	Total*	National Insurance Contributions**
1980	6.09	4.98	6.77	5.15
1985	7.14	5.51	6.57	4.45
1990	8.36	7.04	7.21	5.28
1991	7.41	6.14	6.75	5.00
1992	7.40	5.99	5.84	4.93
1993	7.77	6.28	6.96	5.11
1994	8.01	6.62	7.07	5.19
1995	8.01	6.28	8.36	4.67
1996	8.05	6.36	8.32	4.43
1997	8.26	6.63	6.79	4.52
1998	8.46	6.80	6.52	4.45
1999	8.40	6.73	6.48	4.42
2000	8.48	6.75	6.65	4.52
2001	9.62	7.56	7.07	4.79

* Including collection for the sick funds.

** Including *Treasury indemnification* for the reduction of national insurance contributions of employers.

entitled elderly and survivors). The children branch is the second largest in size, its payments reaching 16.8% of total benefit payments. Together with the general disability branch, payments of the NII's three central insurance branches amount to about 64.1% of total benefit payments. Payments of the long-term care branch amount to 5.0% of total payments, while the wage-replacing benefit branches (maternity, unemployment and work injury) contribute each 5.9%-7.9% of total payments. This is also the share in payments of the income support branch (7.9%), which pays benefits to families with limited means whose principal breadwinner is of working age.

Table 1 shows that NII benefit payments amounted to about 9.62% of the Gross Domestic Product in 2001, and contributory benefits – 7.54% of the GDP. Collection from the public for the NII insurance branches (including Treasury indemnification) reached in 2001 4.78% of the GDP, while collection for the NII insurance branches and the sick funds together reached 7.05% of the GDP. The distribution of the NII's receipts reveals that total government financing in 2001 constituted about 49% of all NII receipts.

1.2 Main Developments

NII activity in 2001 was affected mainly by the macro-economic developments of 2000-2001. The accelerated economic growth of 2000 was accompanied by a notable rise in the average wage, particularly in the last half of the year. Due to the built-in delay in the adjustment mechanisms of NII benefits, the wage rise of 2000 was reflected in the scope of benefit payments only in 2001. The spurt of growth that characterized 2000 was a brief episode deviating from the general trend – since 1996 – of economic slowdown. The recession returned in the last quarter of 2000, and deepened in the course of 2001, leaving imprints in every field: a freeze in the GNP, a slowdown in the growth of employment, an expansion of unemployment and a significant decrease in the pace of wage rises. The only economic development common to the years 2000 and 2001 was the inflation, which remained at a low rate.

In 2001, total NII benefit payments – including administrative expenditure, payments to organizations assisting in entitlement tests, NII participation in government Ministry budgets and in the development of services and social projects in the community – amounted to about NIS 45.5 billion in current prices. Compared to 2000, NII payments increased by 13.3% in real terms, continuing the growth (about 8%) of the previous year. In contrast to the freeze in the GDP in 2001, the scope of NII payments grew this year, reaching about 9.6% of the GDP, as compared to about 8.5% in 2000.

In 2001, the cash benefit payments of the NII were influenced mainly by the wage rises of 2000 and by the expansion of unemployment in 2001. The benefits linked to the average wage – determined in law as a certain percentage of the average wage and updated in accordance with changes thereof – were adjusted by 9.7% in the beginning of 2001. This rate reflects the high rate of growth in the average wage in the second half of 2000 – even higher than that characterizing the entire year 2000 (about 7%).

The level of the basic old-age and survivor's pensions, as well as that of the general disability pensions and the income support benefits to poor families, rose in 2001 by 8.5% in real terms, and increased relative to the actual average wage as well. The wage rise in the course of 2001 at a nominal rate of about 4.2% and at a real rate of about 3% affected the level of the wage-replacing benefits (such as injury allowance, maternity allowance and unemployment benefits), but the share of these benefits in total NII benefits remained relatively small. On the other hand, the value of the child allowance point (which serves as a basis for determining child allowances paid to families of various sizes and updated at the rate of the price rise) decreased both in real terms (by about one percentage) and as compared to the actual average wage.

The expansion of unemployment – to 9.3% of the labor force – was expressed in the two schemes that guarantee income to the unemployed: unemployment insurance and income support. The number of recipients in these schemes rose by 11%-13%. The employment slowdown in 2001 made it particularly difficult for the disabled to find work. On the other hand, the reduction in the growth of the number of employed workers contributed to a significant decrease in the rate of growth of the number of women who received maternity allowance (0.8% in 2001 as compared to 7.3% in 2000) and to a decrease in the absolute number of recipients of injury allowance (by about 9%).

The scope of NII benefit payments was influenced by two additional factors: firstly, in January 2001, the Large Families Law came into effect, increasing the levels of the child allowance and of the maternity grant paid to the fifth child onwards. The annual cost of this law summed up to about NIS 500 million. Secondly, the security situation in Israel – since the Palestinian uprising broke out at the end of 2000 – led to a rise in expenditure on military reserve service benefits and on hostile action benefits, both of which are paid by means of the NII but financed by the State Treasury. The expenditure in each one of these schemes grew by about 30% in 2001 as compared to the previous year.

An analysis of the relative contribution of each one of the national insurance branches to the growth in the benefit payments of the NII shows that about 30% of this growth can be attributed to the increase in the payments of the old-age and survivors insurance branch – the main NII branch. The increase in the payments of the children branch – the second largest branch – accounts for about 11% of the growth in total benefit payments. About three-quarters of the growth in the payments of the children branch stemmed from the implementation of the Large Families Law, and only about one quarter was due to the updating of the child allowance point and the increase in the number of children. The disability branch, the third largest insurance branch, contributed about 17% of the growth in total benefit payments. The unemployment branch and income support scheme contributed about 10% each to this growth, while the increase in the other wage-replacing benefit payments (injury allowance and maternity) together accounted for about 10% of the growth in total benefit payments. The continued increase in payments of the long-term care benefit accounted for about 6% of the growth in total NII benefit payments.

NII total collection from the public, composed of national insurance contributions (including Treasury indemnification) and health insurance contributions, amounted in 2001 to about NIS 32.8 billion in current prices. Compared to 2000, total collection rose by 6.3% in real terms, after a 10% rise in 1999-2000. Collection of national insurance contributions amounted to about two-thirds of total collection – NIS 22.2

billion – out of which NIS 3.1 billion are Treasury indemnification. The scope of collection of national insurance contributions rose by 6.0% in real terms, reflecting a real growth of 6.4% in collection from employees, and of only 1.6% in collection from non-employees. Collection of health insurance contributions increased by 7.1% in real terms, and these covered slightly more than half (52%) the cost of the basket of health services.

Government participation in the financing of contributory benefits – which is a function of the scope of collection of national insurance contributions – reached a sum of close to NIS 10 billion. It grew in real terms at a significant rate – 18% – higher than the rate of growth of collection. The reason for this is that in 2000, the Treasury did not transfer to the NII the full sum as obligated by law (but rather, a sum lower by about NIS 710 million), while in 2001, the entire sum as obligated by law was transferred to the NII, with the addition of a debt payment of about NIS 170 million.

The government was due to pay a sum of about NIS 9.8 billion – a real growth of about 18.4% as compared to 2000 – to finance non-contributory benefits, but in fact the Treasury transferred an amount lower by about NIS 243 million than obligated by law. The shortage was financed by the reserves of NII branches. The high rate of growth in payments of non-contributory benefits stemmed mainly from the adjustment of benefit levels and from the increase in the number of recipients of those benefits (such as income support, mobility and military reserve service).

As a result of the above developments, NII receipts aimed at financing benefits rose by about 10% in real terms, and amounted to about NIS 46.1 billion. The share of the government in all sources of financing (including Treasury indemnification) increased to 49.5% – as compared to 46.9% in 2000. The Treasury's accumulative debt to the NII was about NIS 1.23 billion.

1.3 Benefit Payments

Benefit payments in each of the NI branches are determined both by the number of benefit recipients in the branch and by the benefit level. Changes in the number of recipients and/or in the benefit level therefore explain the fluctuations that occur in total benefit payments. Changes in the number of recipients are explained, in turn, by changes in the natural growth rate of the population and/or in the rate of immigration to the country (which affect mainly payments of the children and old-age branches), by economic developments – mainly in employment (which affect mainly payments of

the unemployment and income support branches), and by changes in the conditions of entitlement, which either expand or reduce the size of the eligible population. Changes in the level of the long-term benefits are explained mainly by changes in the average wage as defined in the NI Law (to which the long-term benefits and the income support benefit are linked), in the Consumer Price Index (by which child allowances are adjusted), in the frequency of updating the benefits linked to the average wage or to the consumer price index (carried out, in addition to once yearly in January, whenever a cost-of-living increment is paid to employees) and in legislation. Changes in the level of the wage-replacing benefits are explained not only by legislative changes, but also by changes in the distribution of benefit recipients by their pre-entitlement wage level. The changes, which occurred in 2001 in the number of benefit recipients, in the benefit levels and in total benefit payments, are described below.

1.3.1 Benefit Recipients

The rise in the number of NII benefit recipients in 2001 was not uniform in all branches (Table 2): the number of recipients in the unemployment, income support and long-term care branches rose sharply, while in the branches paying other wage-replacing benefits – work injury and maternity – it remained stable or declined. These two trends are strongly connected to the employment slowdown of 2001. On the other hand, the rise in the number of recipients of old-age and survivors' pensions reflects both the aging of the population and the long-term increase in the participation rates of women in the labor force. Additional factors that contributed to this trend since 1997 are the implementation of the amendment enabling housewives to receive an old-age pension and the slowdown in the pace of immigration to Israel. In the children branch, the second-largest branch, the number of recipients of allowances matches the natural rise in the number of children in the country.

The number of recipients in the old-age and survivors branch grew in 2001 by 3%, slightly under the average rate for 1995 and 2000 – reaching 677,000 recipients as a monthly average. This rise reflects mainly an increase in the number of recipients of old-age pensions (with or without survivors' pensions) at a rate of 3.5%, since the number of recipients of survivors' pensions only rose by a mere 0.7% – similarly to previous years. The rise in the number of recipients of old-age pensions, in turn, mainly reflected the increase in the number of recipients of the pension under NI Law (4.1%), since the number of recipients of the special old-age benefit (new immigrants) increased by about one percent only.

Table 2: Number of Benefit Recipients in Main Insurance Branches, Monthly Average, 1985-2001

Year	Old-Age and Survivors	General Disability			Work Injury			Maternity		Children Families Receiving Child Allowances **	Unemployment ***	Income Support (to Working-Age Population)	Long-Term Care	
		Disability Pension	Attendance Allowance	Benefit for Disabled Child	Mobility Allowance	Injury Allowance *	Permanent Disability Pension	Dependents Pension	Maternity Grant *					Maternity Allowance *
1985	390.2	62.1	4.6	4.0	10.6	56.9	9.9	3.3	101.3	42.7	546.9	19.6	24.6	-
1990	442.6	73.4	6.5	5.8	11.4	56.7	11.6	3.5	103.6	43.7	532.5	50.6	31.8	25.0
1995	553.9	94.0	10.2	10.3	13.2	88.3	14.6	3.8	113.3	55.2	814.7	61.5	75.3	59.0
1996	573.5	104.5	11.2	11.6	13.4	92.3	15.3	3.9	118.1	58.0	830.7	61.5	81.3	65.9
1997	595.1	112.0	12.3	12.5	13.6	84.1	15.9	3.9	124.0	60.4	850.7	86.5	89.4	71.8
1998	615.9	119.7	11.6	13.3	14.1	82.5	17.7	4.0	129.5	64.2	871.2	95.9	100.8	79.8
1999	635.7	127.2	14.2	14.1	14.3	73.9	18.9	4.1	125.7	65.8	891.6	96.1	114.0	88.0
2000	657.1	135.3	16.6	15.3	16.8	76.2	19.8	4.2	131.8	70.6	912.5	92.6	128.4	95.7
2001	677.0	142.4	18.9	16.4	19.3	69.1	20.8	4.2	129.1	71.2	928.2	103.0	145.5	105.4
1986-	2.6	3.4	7.2	7.7	1.5	-0.1	3.6	annual growth (thousands)	0.5	0.5	-0.5	20.9	8.6	17.4
1990	4.6	5.0	9.4	12.2	3.0	8.4	4.4		1.8	4.8	8.9	4.0	19.4	18.7
1995	3.5	11.2	10.8	12.6	1.5	4.5	4.8	2.6	11.9	5.1	1.9	10.4	7.9	11.9
1997	3.8	7.2	9.8	7.7	1.5	-8.8	3.2	0.0	10.5	4.1	2.4	27.4	9.9	10.5
1998	3.4	6.9	-6.1	6.4	3.6	-1.9	11.3	2.5	11.6	6.2	2.4	10.9	13.5	11.0
1999	3.1	6.4	22.4	6.0	1.4	-10.4	7.3	2.5	8.8	2.5	2.3	0.2	13.2	8.8
2000	3.4	6.4	16.9	8.5	17.4	3.1	4.7	2.4	8.8	7.3	2.3	-3.6	12.4	8.8
2001	3.0	5.2	14.0	7.6	15.0	-9.3	5.0	1.0	10.0	0.8	1.7	11.2	13.4	10.0

* Number of different recipients during the year.

** The figures for 1985-1993 include families to whom the allowances for the first and second child were reimbursed through the employers.

*** The figure for 1985 refers to the average number of payments. The figures for 1990 onward refer to the number of recipients.

In the long-term care branch – granting in-kind benefits to elderly persons limited in their daily functioning who do not live in nursing homes – the number of benefit recipients continued to rise significantly, as it has done since the branch's inception. In 2001, the number of recipients increased by about 10%, similarly to the average rate over the past decade, reaching a monthly average of 105,000 recipients.

In the children branch, there was a 1.7% increase in 2001, both in the number of families receiving child allowances and in the number of children for whom an allowance was paid. In that year, a monthly average of about 928,000 families received child allowances for about 2.15 million children.

In the general disability branch, the rate of growth in the number of recipients of the general disability pension decreased slightly in 2001, but the rate of growth in the number of recipients of the other benefits, particularly attendance allowance and mobility allowance, continued to increase. The number of general disability pension recipients rose by 5%, reaching about 142,000 recipients as a monthly average. The number of recipients of benefit for disabled child rose by 7.5%, while the number of attendance allowance and mobility allowance recipients increased notably (similarly to 2000) – by about 15% each. The increase in the number of recipients of these benefits during 2001-2002 (at an accumulative rate of 30%) is due to amendments gradually implemented in the framework of the agreement reached with the disabled population following their strike in 1999. These amendments expanded the rights of the disabled persons limited in mobility and of persons entitled to benefit for disabled child or to attendance allowance.

As for recipients of wage-replacing benefits, the decrease in the number of recipients of work injury allowances which began in 1997 continued in 2001. There was an accumulative decrease (about 25%) in the number of benefit recipients in 1997-2000, the rate of decrease in 2001 alone being about 10%. The number of recipients of work injury benefits decreased from about 92,000 in 1996 to about 69,000 in 2001, due to two factors: the first, the cancellation of benefit payments for the first nine days of entitlement (regarding employees) and their imposition on the employer; and the second – the slowdown in the pace of growth of the number of employed persons due to the unemployment crisis, mainly in the traditional high-risk sectors for work accidents (such as construction). The number of recipients of permanent disability pensions among the work-injured increased by 5% in 2001, a rate similar to the average annual rate. In the maternity branch, the number of recipients of maternity grant decreased in 2001 by about 2%, while the number of recipients of maternity allowance increased by slightly less than one percent – mainly as a result of the slowdown in the pace of employment.

The deepening employment recession and the expansion of unemployment in 2001 left their mark mainly on the unemployment and income support branches. The number of recipients of unemployment benefits increased in 2001 by about 11%, as opposed to the approximate 3% decrease of the previous year (mainly due to the shortening of the period of entitlement to benefit to persons under 40). In 2001, the number of recipients of unemployment benefit reached a monthly average of 103,000, and their rate out of the total non-employed rose to 45.5% (as compared to 43.3% in 2000). As a result of the increase in dismissals and the rise in the share of the non-employed who worked in the 12 months preceding their unemployment out of total non-employed, more unemployed persons became eligible for benefits. Finally, the number of working-age recipients of income support benefit (jobless, single-parent families with small children, low-wage earners and persons not capable of working for health reasons) continued to rise in 2001 – by 13.4% – reaching a monthly average of 145,000. The rise in the number of income support benefit recipients over the past five years – notable for all family compositions and all types of neediness – stemmed mainly from the deepening unemployment crisis of these years, but also from the failure of the systems responsible for finding work for the unemployed to overcome this crisis or to change behavior patterns of income support benefit recipients. The hoped-for reform in integrating the supported population in the labor market, in the spirit of the recommendations of the Tamir Committee, has not yet reached even the planning stages.

1.3.2 Benefit Level

The level of the long-term benefits has been set as a given percentage of the average wage, as defined in the NI Law.⁵ It thus varies with changes in the average wage and its updating times as prescribed in the Law. The level of the wage-replacing benefits, on the other hand, is calculated as a (constant or progressive) percentage of the recipient's wages prior to the occurrence of the incident entitling him to benefit. Furthermore, the level of all benefits varies according to legislative changes that alter the benefit rates or the wage base on which benefits are calculated. The main legislative change of 2001 was the Large Families law, increasing the level of the child allowance paid to the fifth and subsequent children in large families (by about NIS 250 per child) as well as the maternity grant to these children (from 20% to 40%

⁵ For example, the basic old-age pension (without seniority increment, deferred retirement increment or income support supplement) is 16% and 24% of the average wage, for single elderly and couples (due to entitlement of one spouse only), respectively. In contrast, the minimum income guaranteed by force of the Income Support Law is 25% and 37.5% of the average wage, for single elderly and couples, respectively.

of the actual average wage). Moreover, the process of implementation of amendments in the disability branch was completed in 2001, with the payment of a full mobility allowance to a disabled child, in addition to the benefit for disabled child, and the equalization of the level of the mobility allowance to a disabled person who is a non-earner to that of an earner.

The level of the basic old-age and survivors' pensions (not including seniority increment, deferred retirement increment or income supplement) rose in 2001 by 8.4% in real terms (as a monthly average), which reflects the real rate of growth in the average wage under the NI Law, to which the pensions are linked. The actual average wage rose at a lower rate – 3%. Therefore, the level of the basic pension relative to the actual average wage rose slightly (after decreasing in 1999-2000). Table 3 shows that the level of the basic pension paid to a single person rose from 14.9% of the actual average wage in 2000 to 15.8% in 2001, The same rates of growth characterized the basic pensions paid to other family compositions. Similarly, the level of pensions granted to elderly people and survivors entitled to income supplement grew in 2001 both in real terms and in relation to the actual average wage. The minimum income guaranteed to a single elderly person (or widow/widower) increased from

Table 3: The Old-Age and Survivors' Pension and the Minimum Income Guaranteed to Pension Recipients (constant prices and percentage of average wage*), Monthly Average, 1975-2001

Year	Basic Old-Age & Survivors' Pension				Guaranteed Minimum Income (including child allowances)			
	Single elder		Widow/er with 2 children		Single elder		Widow/er with 2 children	
	2001 prices (NIS)	% of average wage	2001 prices (NIS)	% of average wage	2001 prices (NIS)	% of average wage	2001 prices (NIS)	% of average wage
1975	581.3	14.9	965.5	24.8	997.9	25.5	1,877.1	48.1
1980	639.0	13.5	1,238.5	26.3	1,112.1	23.8	2,275.2	48.2
1985	721.9	15.2	1,398.2	29.5	1,442.7	30.5	2,886.1	61.2
1990	908.9	15.9	1,758.1	30.7	1,426.5	25.0	2,892.6	50.5
1995	920.0	15.5	1,783.4	30.1	1,539.8	26.0	3,192.7	53.9
1998	985.7	15.6	1,909.8	30.3	1,647.9	26.1	3,404.6	54.0
1999	978.6	15.1	1,896.6	29.3	1,629.7	25.6	3,567.8	55.8
2000	1,027.6	14.9	1,989.6	28.8	1,716.7	24.9	3,777.1	54.7
2001	1,114.0	15.8	2,158.0	30.5	1,863.0	26.3	4,083.0	57.7

* As measured by the Central Bureau of Statistics.

Table 4: The Income Support Benefit to the Working-Age Population (constant prices and percentage of the average wage), Monthly Average, 1985-2001

Year	Single person				Single parent with 2 children* (including child allowance).				Couple with 2 children (including child allowances)			
	Regular rate		Increased rate		2001 prices (NIS)		Percent-age of average wage		2001 prices (NIS)		Percent-age of average wage	
	2001 prices (NIS)	Percent-age of average wage	2001 prices (NIS)	Percent-age of average wage	2001 prices (NIS)	Percent-age of average wage	2001 prices (NIS)	Percent-age of average wage	2001 prices (NIS)	Percent-age of average wage	2001 prices (NIS)	Percent-age of average wage
1985	1,154	24.5	1,440	30.5	2,884	61.2	2,598	55.1	3,029	64.3		
1990	1,142	20.0	1,428	24.9	2,892	50.5	2,633	46.0	3,061	53.5		
1995	1,153	19.4	1,440	24.3	3,188	53.9	2,759	46.6	3,191	53.8		
1996	1,161	19.3	1,450	24.1	3,216	53.4	2,773	46.1	3,212	53.2		
1997	1,180	19.1	1,475	23.9	3,265	52.9	2,813	45.6	3,255	52.7		
1998	1,230	19.5	1,541	24.8	3,403	54.0	2,922	46.3	3,388	53.8		
1999	1,223	19.1	1,541	23.8	3,375	52.4	2,914	45.4	3,374	52.5		
2000	1,283	18.6	1,604	23.2	3,533	51.2	3,041	44.0	3,522	51.0		
2001	1,393	19.7	1,741	24.6	3,827	54.1	3,267	46.2	3,789	53.6		

* The data for 1985-1990 refer to widows with two children who were eligible for income support benefit.

24.9% of the actual average wage in 2000 to 26.3% in 2001, while the minimum income guaranteed to a widow/widower with two children (including child allowances) increased from 54.7% of the actual average wage in 2000 to 57.7% in 2001. The level of the general disability pension, which is identical to the minimum income guaranteed to recipients of old-age and survivors' pensions (for disabled persons having a work disability degree of 75% or more) and the minimum income guaranteed to the persons of working age who are not disabled (Table 4) increased at similar rates, both in real terms and in relation to the actual average wage.

Contrary to the benefits linked to the average wage, the value of the child-allowance point, which serves as a basis for determining the level of the child allowance paid to families of various sizes (and is denominated in shekels), is updated in accordance

Table 5: Child-Allowance Point and Child Allowances* (constant prices and percentage of the average wage), Monthly Average, 1975-2001**

Year	Value of child-allowance point		Allowance for 2 children**		Allowance for 4 children		Allowance for 5 children	
	2001 prices (NIS)	% of average wage	2001 prices (NIS)	% of average wage	2001 prices (NIS)	% of average wage	2001 prices (NIS)	% of average wage
1975	171	4.40	343	8.8	1,071	27.4	1,456	37.3
1980	133	2.80	267	5.6	833	17.7	1,132	24.0
1985	151	3.10	171	3.6	1,169	24.7	1,660	35.1
1990	175	2.92	84	1.5	1,354	23.4	1,920	33.2
1995	170	2.80	339	5.8	1,364	23.4	1,940	33.4
1997	170	2.76	338	5.5	1,362	22.1	1,937	31.0
1998	171	2.72	341	5.4	1,362	21.6	1,936	30.7
1999	174	2.69	349	5.4	1,399	21.6	1,991	30.7
2000	173	2.50	346	5.0	1,392	20.2	1,981	28.7
2001	171	2.40	342	4.8	1,379	19.5	2,235	31.6

* Including Special Allowance for Veterans.

** As measured by the Central Bureau of Statistics.

*** The allowance level in 1985-1993 relates to a family (up to 3 children) not eligible for the first child allowance, and since October 1990 – for the second child allowance as well. In March 1993 the payment of child allowance on a universal basis was renewed.

with the increase in the general price level. In 2001, the value of a child-allowance point was eroded in relation to the actual average wage – from 2.5% in 2000 to 2.4% in 2001 (Table 5).

The level of the wage-replacing benefits also rose in real terms in 2001: the (daily average) level of the unemployment benefit grew by about 10.4%, reaching 49.8% of the actual average wage (as a daily average). The real growth in unemployment benefits stemmed not only from the wage rises, but also from the fact that higher wage-earners (in comparison to 2000) began receiving unemployment benefits. Furthermore, the levels of the injury allowance and maternity allowance grew in real terms at rates similar to the increase in real wages: that of injury allowance grew in real terms by about 4% (allowances paid to employees by 4.7% and those paid to self-employed by 1.2%), and that of the maternity allowance by 5.4%. Injury allowances constituted 66% of the actual average wage (similarly to 2000) and maternity allowances – about 75% of the actual average wage (as compared to 73% in 2000).

1.3.3 Benefit Payments

In 2001, total NII benefit payments amounted to NIS 45.5 billion in current prices (Table 6). Compared to 2000, benefit payments grew by 13.3% in real terms – almost double the average rate that characterized 1995-2000. High rates of growth (8% and over) were noted in all insurance branches and in all types of benefits, but particularly in income support (19.8%), and in the unemployment (17.5%), long-term care (17.7%) and disability (17.5%) branches. Payments for the military reserve service benefits – that the NII carries out for the Ministry of Defense – increased by an even higher rate (about 29%), due to the security incidents of 2001. In the central branch of the NII, old-age and survivors, benefit payments went up by a slightly lower rate than that of total payments (11.5%), whereas the rate of growth of payments in the children branch, the second largest insurance branch, was the lowest of all branches (8%). About two-thirds of the growth in the payments of the children branch is attributed to the implementation of the Large Families Law as of January 2001.

Weighting the rates of growth (in 2001) in the various branches by the share of the branch in total payments (in 2000) reveals that the growth in payments of the old-age and survivors branch accounted for about 30% of the growth of total NII benefit payments – a contribution somewhat smaller than the share of this branch in total payments (34.5%). By contrast, the children branch, in which the growth in payments accounted for 11% of the growth in total NII payments, made a small contribution compared to the share of this branch in total payments (17.6%).

Table 6: National Insurance Benefit Payments (including administrative costs), 1996-2001

Year	Total Payments*	Old-Age & Survivors**	General Disability	Work Injury, Hostile and Border Actions	Maternity	Children	Unemployment	Military Reserve Service*	Income Support***	Long-Term Care & Other
1996	24,997.3	8,936.8	2,782.2	1,788.4	1,460.6	4,983.8	1,625.8	1,113.0	1,372.2	934.5
1997	29,167.8	10,206.9	3,332.3	1,967.3	1,736.9	5,703.5	2,301.6	1,130.8	1,651.2	1,137.3
1998	33,066.3	11,556.4	3,889.5	2,115.6	1,998.3	6,126.5	2,814.3	1,103.2	2,094.3	1,368.2
1999	36,347.3	12,471.0	4,417.3	2,280.0	2,163.7	6,823.5	3,018.2	1,109.5	2,476.3	1,587.8
2000	39,706.2	13,670.3	5,127.8	2,568.9	2,423.0	6,999.7	3,023.4	1,038.6	2,957.4	1,897.1
2001	45,480.9	15,403.5	6,092.4	2,883.6	2,675.1	7,644.3	3,591.0	1,351.3	3,581.1	2,258.4
				real annual growth (percentages)						
1996	6.0	4.6	10.9	8.1	8.8	4.5	14.1	-5.0	7.3	5.2
1997	7.0	4.8	9.9	0.9	9.1	5.0	29.9	-6.8	10.4	11.6
1998	7.6	7.4	10.7	2.0	9.2	1.9	16.0	-7.4	20.3	14.1
1999	4.5	2.6	8.0	2.4	2.9	5.9	1.9	-4.4	12.4	10.3
2000	8.1	8.4	14.8	11.4	10.8	1.5	-0.9	-7.4	18.1	18.2
2001	13.3	11.5	17.5	11.0	9.2	8.0	17.5	28.7	19.8	17.1
				distribution by branch (percentages)						
1996	100.0	35.8	11.1	7.2	5.8	19.9	6.5	4.5	5.5	3.7
1997	100.0	35.0	11.4	6.7	6.0	19.6	7.9	3.9	5.7	3.9
1998	100.0	34.9	11.8	6.4	6.0	18.5	8.5	3.3	6.3	4.1
1999	100.0	34.3	12.2	6.3	6.0	18.8	8.3	3.1	6.8	4.4
2000	100.0	34.4	12.9	6.5	6.1	17.6	7.6	2.6	7.4	7.4
2001	100.0	33.9	13.4	6.3	5.9	16.8	7.9	3.0	7.9	5.0

* Payments for 1995-1996 do not include the amounts transferred to the Ministry of Defence as reimbursement of the debt for savings in reserve service duty days.

** Including payments for income support.

*** For the working-age population.

The general disability branch contributed almost 17% of the growth in total NII payments – more than its share in total payments (about 13%). The long-term care branch contributed about 6% of all payments, while the growth in payments of the income support benefit account for about 11% of all payments and the growth in the unemployment branch – about 10%. The benefit payments in these two schemes grew by about NIS 1.2 billion in 2001, reaching 7.2 billion. The growth in payments of the wage-replacing benefits (work injury and maternity) contributed about 10% to the growth in total benefit payments – a contribution lower than their share in total payments (12.6%). The above developments strengthened the downward trend in the share of the old-age and survivors and children branches in total NII payments, and in parallel, the rise in the share of the disability, unemployment, income support and long-term care branches.

The growth in benefit payments in 2001 reflects not only the significant rise in the average wage as defined in the NI Law, according to which most benefits (such as old-age and survivors pensions, general disability pension and income support benefit) are updated, and the relatively moderate increase in the actual average wage in 2001, which influences the wage-replacing benefits, but also the increase in the number of benefit recipients. The 2001 amendments had a relatively small impact on the scope of payments, expressed mainly in the children branch. According to rough estimate, close to 75% of the growth of benefit payments can be explained by the rise in the average wage (under law or actual), and about 25% of this growth in the number of recipients and by legislative changes. Were it not for the amendment introduced in the level of benefits for families with five or more children, the increase in the payments of the children branch would have amounted to only about 3%.

1.4 Sources of Financing

The NII benefit payments are financed, it will be recalled (see Introduction), by four sources: collection of national insurance contributions (direct collection from the public as well as Treasury indemnification against the reduction in employer and self-employed contribution rates, in the framework of the policy to reduce labor costs), government participation in the financing of contributory benefits, government financing of non-contributory benefits and receipts from interest on investments of surpluses in government bonds. The changes that took place in 1999-2000 in the scope of collection from the public (for NII insurance branches and for the sick funds) in government financing and in total NII receipts, are described below.

1.4.1 Collection from the Public

The scope of collection from the public to the national insurance branches and to the health system in 2000-2001 was mainly influenced by economic developments, particularly in the area of wages and employment. Contrary to previous years, which witnessed the enactment of legislative changes that had significant effects on the scope of collection,⁶ in 2000-2001 the only legislative change introduced was an amendment (January 2000) pertaining to the raising of the maximum income liable for insurance contributions from 4 to 5 times the average wage, applying to employees only (not to the share of the employer) and on the share of the self-employed as an employee.⁷

NII total collection from the public, composed of national insurance contributions (including Treasury indemnification) and health insurance contributions amounted in 2000 to NIS 32.8 billion in current prices (Table 7). Compared to 2000, total collection from the public grew by 6.3%, in real terms, after a growth of 10.1% between 1999 and 2000. The real growth in 2001 can be attributed mainly to changes in wages and employment; real wages rose by about 3% and the number of employees by about 2.2%. In addition to the influence of these developments, that of the updating of the basis of collection by about 10% in January 2001 must be taken into account.

The scope of collection of national insurance contributions (including Treasury indemnification) amounted to about two-thirds of total collection – NIS 22.2 billion,

⁶ The major legislative changes in these years were: the abolishment of military reserve service as an insurance branch (January 1995), which was accompanied by the reduction of insurance contribution rates paid by employers by 0.47 percentage points and of those paid by employees and by non-employees – by 0.45 percentage points; the reform in the NII collection system (January 1995), which expanded the income base liable for national insurance contributions and introduced reduced rates (2.66%) for employees for the part of wages not exceeding half the average wage as defined by the NI Law; the enactment of the National Health Insurance Law (January 1995) which assigned the NII the task of collecting the health insurance contributions and distributing them among the sick funds; and the reduction of the parallel tax rates to the employers and self-employed by 1.95 percentage points (February 1995) as against the Treasury indemnification, in the framework of reducing labor costs in the economy; the full cancellation of the parallel tax (January 1997), accompanied by a raise in the rates of national insurance contributions imposed on employers and on non-employees, and by a reduction in Treasury indemnification; the equalization of the minimum income for payment of insurance contributions for employees to the minimum wage – 47.5% of the average wage – in accordance with the scope of work (part-time or full-time) (April 1999).

⁷ The additional collection resulting from the raising of the maximum income liable for contributions amounted to about NIS 300 million in 2000.

Table 7: NII Collection from the Public, 1998-2001

Year	1998	1999	2000	2001	1999	2000	2001
	NIS million (current prices)				Real annual growth (percentages)		
National Insurance Contributions							
Employees	15,477	17,029	19,021	20,462	4.2	10.5	6.4
Non-employees	1,575	1,657	1,728	1,775	-0.4	3.2	1.6
Total	17,052	18,686	18,686	22,237	3.8	9.8	6.0
Thereof: indemnification*	2,404	2,641	2,641	3,090	4.0	7.0	7.0
Health Insurance Contributions							
Employees	6,171	6,788	7,638	8,226	4.6	11.3	6.5
Non-employees	1,703	1,938	2,824	2,341	8.2	8.4	9.0
Total	7,874	8,276	9,762	10,567	5.3	10.7	7.1
Total**							
Employees	21,648	23,817	26,659	28,688	4.5	10.7	6.4
Non-employees	3,314	3,594	3,852	4,116	3.0	6.0	5.7
Total	24,962	27,411	30,511	32,804	4.4	10.1	6.3
Thereof: indemnification*	2,404	2,641	2,856	3,090	4.0	7.0	7.0

* For the reduction in national insurance contributions (and parallel tax) imposed on employers and on non-employees within the policy of lowering labor costs in the economy.

** The sum of collection of contributions for 1998 includes NIS 36 million collected as parallel tax on assessment differentials of non-employee insured persons.

out of which NIS 3.1 billion are Treasury indemnification. In comparison with 2000, the NII collection of national insurance contributions grew by 6.0% in real terms, reflecting a real growth of 6.4% in collection from employees, and of 1.6% in collection from non-employees. The real growth in collection from non-employees stemmed mainly from the non-working population, since the scope of collection from the self-employed remained without change in real terms. In the years 2000-2001, the Treasury did not transfer the full amount of indemnification as obligated under law, and its accumulative debt in this field amounted to about NIS 150 million by the end of 2001.

Collection of health insurance contributions – from employees, non-employees and benefit recipients – increased by 7.1% in real terms in 2001, reaching NIS 10.6 billion. This sum covered 52% of the cost of the basket of health services, as compared to 49.6% of this cost in 2000 and 46.7% in 1998. The increase in the collection of health insurance contributions – at a rate higher than that of the rise in the cost of the basket of services – enabled the government to reduce its share in financing this basket, from 48% in 1998 to 42.7% in 2001.

1.4.2 Government Financing and Total Receipts for NII Branches

Total NII receipts for financing its branches amounted in 2001 to NIS 46.1 billion in current prices (Table 8). As compared to 2000, total financing sources increased by 10.7% in real terms (as compared to a 7.6% increase between 1999 and 2000). As mentioned in the previous section, in 2001 collection of insurance contributions from the public and Treasury indemnification rose by 6.0% in real terms. Government participation in the financing of contributory benefits (under article 32 of the Law) is a function of the scope of collection of national insurance contributions, and thus its rate of growth should be the same as that of collection. However, in 2000 the government did not transfer the full sum as required by law, but rather a sum lower by NIS 710 million. On the other hand, in 2001, the government transferred the full amount as obligated for that year (about NIS 9.8 billion), in addition to a sum of about NIS 170 billion on account of the debt accumulated in 2000. As a result, the participation of the government in the financing of the contributory benefits rose in 2000 by 1.6% only, but by 18% in 2001. However, as in 2000, in 2001 the government did not transfer the full amount of its participation in the financing of non-contributory benefits, and its accumulated debt under this article amounted to about NIS 543 million. Since the contributory benefits were paid in full by the NII to Israeli residents entitled to them, as per law, the NII financed the Treasury debt from the funds of the NII branches. It should be noted that the data in Table 8 reflect the sums that the NII actually paid to those entitled to the non-contributory benefits (about NIS 9.8 billion in 2001), and not the sums transferred to it by the Treasury.⁸

In 2001, the payments of the non-contributory benefits increased in real terms by 18.4% as a result of the updating of the level of benefits and the rise in the number of recipients (mainly of income support benefit, mobility benefit and military reserve service allowance).

⁸ The receipts of NIS 46.1 billion reflect the amount that the Treasury was supposed to pay for financing the non-contributory benefits as obligated under law, and not the amount actually transferred.

Table 8: Sources of Financing of National Insurance Branches, 1985-2001

Year	Total Receipts*	Collection of National Insurance Contributions (collection from public & Treasury indemnification)	Government Participation in Financing of Contributory Benefits	Government Financing of Non-Contributory Benefits**	Receipts from Interest on Investments
NIS million (current prices)					
1985	2,914	1,516	380	564	447
1990	9,241	5,438	1,295	1,312	1,171
1996	27,281	13,512	5,534	5,307	2,874
1997	31,400	15,618	6,698	5,795	3,240
1998	34,564	17,052	7,395	6,531	3,517
1999	37,874	18,685	8,119	7,276	3,729
2000	41,207	20,751	8,336	8,148	3,907
2001	46,110	22,237	9,952	9,756	4,076
real annual growth (percentages)					
1997	5.6	6.0	11.0	0.2	3.4
1998	4.4	3.6	4.8	6.9	3.0
1999	4.2	4.2	4.4	5.9	0.1
2000	7.6	9.8	1.6	10.8	3.6
2001	10.7	6.0	18.1	18.4	3.2
distribution by financing sources (percentages)					
1985	100.0	52.0	13.0	19.4	15.3
1990	100.0	58.8	14.0	14.2	12.7
1996	100.0	49.5	20.3	19.5	10.5
1997	100.0	49.7	21.3	18.5	10.3
1998	100.0	49.3	21.4	18.9	10.2
1999	100.0	49.3	21.4	19.2	9.8
2000	100.0	50.4	20.2	19.8	9.5
2001	100.0	48.2	21.6	21.2	8.8

* Including compensation from third party, not included in distribution according to percentages.

** The data refers to the amount of non-contributory benefits actually paid by the NII, and not to the amounts actually transferred by the Treasury.

1.5 Surpluses/Deficits and Financial Reserves

A budgetary examination of NII branches (Table 9)⁹ reveals that, if income from interest on past surpluses invested in the Bank of Israel is disregarded, in 2001 there was a further deepening in the current deficit of all benefit branches, with the exception of the children branch, in which the current surplus continued to grow. Overall, the NII ended 2001 with a current deficit of NIS 3,446 million, higher by 43% than the current deficit of 2000 (NIS 2,405 million). This means that in 2001, as in previous years, the rate of growth of NII insurance branch receipts from collection of contributions and from government participation in financing of NII insurance branches did not catch up with the rate of growth of contributory benefit payments. Thus, since 1995, there has been a systematic upward trend in the NII's current deficit, a trend which strengthened in 2000-2001 due also to the fact that the Treasury accumulated a debt to the NII of NIS 700 million for indemnification and for government participation in financing of the contributory benefits.¹⁰

Table 9: Surpluses/Deficit in National Insurance Branches, 1999-2001

Insurance Branch	Surplus/Deficit Without Interest on Investments			Surplus/Deficit Including Interest on Investments		
	1999	2000	2001	1999	2000	2001
NIS million (current prices)						
Total	-2,203	-2,405	-3,446	1,527	1,501	629
Old-age & survivors	-110	-115	-643	1,340	1,461	1,023
General disability	-1,061	-1,283	-1,782	-211	-421	-936
Work injury	-914	1,041	-1,196	-501	-646	-829
Maternity	-670	-741	-864	-451	-544	-692
Children	3,898	4,244	5,335	4,078	4,642	5,890
Unemployment	-2,595	-2,550	-3,080	-2,474	-2,556	-3,080
Reserve service	0	0	0	0	0	0
Long-term care	-908	-1,091	-1,402	-498	-704	-1,045
Other	159	172	186	244	269	298

⁹ The national insurance contribution rates are split in differential rates (set in the law) among the insurance branches. Each branch is thus examined by the surplus/deficit in its budget.

¹⁰ The Treasury's debt to the NII in 2000-2001 due for government participation in the financing of the non-contributory benefits is not reflected in the current deficit, but rather registered in the NII's asset registry. The covering of the debt reduced the sum of investments returned by the NII and thus the State income from NII funds.

The picture remains gloomy when receipts from interest on past surpluses are taken into account as well: the total deficit in the wage-replacing benefit branches and in the long-term care and general disability branches are larger than in 2000, the deficit in the old-age and survivors branch is smaller, and the surplus in the children branch increases substantially. In 1999, the assets of the unemployment branch ran out and since then the branch is financed entirely from the surplus of the children branch. When receipts from interest are taken into account, there appears an overall budgetary surplus of about NIS 630 million in 2001, lower than the 2000 surplus (about NIS 1,500 million).

The budgetary surplus/deficit clearly affects the financial reserves of the NII branches. The total financial reserves of the NII increased, according to a primary estimate, from NIS 83 billion in 2000 to NIS 85 billion in 2001. A shortage in reserves has been registered in the unemployment branch since mid-1998. Under article 33 of the NI Law, the Treasury is required to cover the accumulated deficit in this branch; however, under the 1999 Economy Arrangements Law, the deficit is to be covered by the accumulated reserves in the military reserve service branch, no longer an insurance branch. These reserves were sufficient to finance the entire deficit in the unemployment branch for 1998-1999, and some of this deficit for 2000. The 2000 Economy Arrangements Law determines – as a temporary order – that the deficit in the unemployment branch for 2000-2002 shall be covered by the accumulated reserves in the children branch.

Naturally, these arrangements led to a loss of income from interest. In 1998-1999, NIS 4.2 billion were transferred to the unemployment branch (from the reserves of both the military reserve service branch and the children branch) and in 2000 - 2001 – NIS 4.8 billion (from the children branch only). It should be noted that in 1999, NIS 18.25 billion were transferred from the children branch to the branches in which the financial situation has deteriorated in recent years: long-term care, general disability, work injury and maternity. Table 10 shows that the share of the children branch in total financial reserves went down from 26% in 1998 to 7.8% in 1999, but in 2001 again went up gradually, to 15.6% – despite the sum transferred to cover the unemployment branch. The table further shows that in 2001, the share of the wage-replacing benefits – maternity and work injury – declined further, and that of the old-age and survivors branch continued to grow.

Table 10: NII Financial Reserves and Coverage Levels, by Insurance Branch, 1999-2001 *

Insurance Branch	Total Reserves			Coverage Levels (Years)		
	1999	2000	2001	1999	2000	2001
NIS billion (current prices)						
Total	80.3	83.5	85.0			
Distribution by branch (%)			Coverage years			
Old-age & survivors	39.8	40.9	41.8	3.3	3.2	2.9
General disability	22.4	21.2	20.0	4.5	3.8	3.2
Work injury	10.5	9.3	8.3	3.9	3.3	2.7
Maternity	5.3	4.5	3.7	2.4	1.8	1.3
Children	7.8	12.5	15.6	1.0	1.4	1.8
Unemployment	1.2	0.0	0.0	0.3	0.0	0.0
Reserve service	0.0	0.0				
Long-term care	10.5	9.0	7.7	5.6	4.2	3.0
Other	2.5	2.6	2.9	-	-	
Total	100.0	100.0	100.0			

* The figures refer to the end of the budgetary years.

An examination of the coverage level of each of the NII branches, defined as the number of years of benefit payments made possible by the branch's financial reserves, shows that the reserves in the old-age and survivors and children branches were sufficient at the end of 2001 for 2.9 years of payment, and in the general disability branch – for 3.8 years. The reserves in the children branch shall be sufficient for only 1.8 years of payment (as compared to 3.2 years in 1998, when it had not yet been decided to transfer assets from the children branch to other branches). The actual coverage levels in the disability branch was somewhat higher than the minimal coverage level that was set for them – two years, whereas in the old-age and children branches, the actual coverage levels fell below the minimal (three years and two years, respectively).

1.6 Forecast for the Scope of National Insurance Activities in 2002

A forecast of NII payments and receipts in 2002, as presented in the budget proposal for this year, is based on the macroeconomic and demographic developments expected in 2002, on the average wage as defined in the NI Law, calculated for January 2002 for purposes of updating benefits and collection parameters, and on an estimate of the influence of legislative amendments on benefit payments and collection of contributions.

The main legislative changes implemented in 2002 are anchored in the Economy Arrangements Law for this year (summarized in Box 1 at the end of this chapter). An additional amendment (in January 2002) limits the period of entitlement to unemployment benefits to 4 years for unemployed persons who have already exhausted one maximum period of entitlement. It is estimated that the 2002 amendments will reduce expenditure on benefit payments by close to NIS 1.1 billion. On the other hand, collection by means of the NII in 2002 will barely be influenced by the freeze in the average wage as defined in the NI Law, since collection is expected to decline in negligible amounts.

The macroeconomic assumptions on which this forecast is based are: The average price level in 2002 will be about 2.6% higher than that of 2001; the average wage will rise by about 4.5% in nominal terms; the unemployment rate will remain at 9.5%-9.6% of the civil labor force; the number of employed will increase at a rate of about 2% only; the population of Israel will increase by 2.5% and in the course of the year about 40,000 immigrants will arrive in the country. The average wage as defined in the NI Law rose in January 2002 by 1.2%, but it will go down (in March or April, respectively, for purposes of updating benefits and collection), back to the December 2001 level.

The forecast for 2002 is entirely different than the developments that characterized 2001. The benefit payments (including other expenditure) of the NII are expected to rise in real terms by only 1.4%, and to reach about NIS billion 47.3. This rise stems almost entirely from the increase in the number of recipients, since the levels of most of the benefits will not increase in 2002 – the level of the child allowance will even decline.

The total collection of the NII, including Treasury indemnification, is expected to increase in real terms by about 3.0%, reaching about NIS billion 34.7, of which about a third (NIS 11.1 billion) is intended to finance the health system. The total sources for financing benefits shall reach NIS 48.7 billion, about half of this sum to be transferred from the government. An improvement is expected in 2002 in the financial

situation of the NII: according to estimate, a deficit of about NIS 2.8 billion is expected (as compared to about NIS 3.46 billion in 2001), and if interest from investments is included – a surplus of about NIS 1.4 billion (as compared to about NIS 630 million in 2000). The NII's assets will increase due not only to the growth in the surplus including interest, but also to the reimbursements of the Treasury's debt to the NII, expected to amount to about NIS 850 million in 2002 (in accordance with the State budget).

Box 1:**Implications of the Economy Arrangements Law 2002 on NII Benefit Payments**

The Economy Arrangements Law-2002 ratified by the Knesset in February of that year includes several amendments that together reduce the scope of NII benefit payments by an estimated NIS 1.1 billion. Some of the amendments were anchored as temporary orders until the end of 2002, while others are not limited in time. The main amendments are described below:

- a. The average wage as defined in the NI Law was reduced (for purposes of calculating benefits determined in the law as percentages of the average wage) to its 2001 level, as a temporary order from March 2002.¹ The significance of the amendment is the reduction of the level of benefits by 1.2%². This shall apply to old-age and survivors' pensions with and without income supplement, income support benefits, and alimony payments. This amendment does not apply to the general disability pension or its derivatives (benefit for disabled child and attendance allowance), nor to the long-term care benefit linked to the general disability pension.³ It should be noted that in January 2003, the benefits will be adjusted by the full rise in the average wage as defined in the NI Law during the period December 2001-January 2003. That is, the benefits will be eroded by 1.2% only in the period March 2002-December 2002.

¹ In January 2002, the average wage as defined in the NI Law (article 2) was NIS 7,050, as compared to NIS 6,964 in 2001.

² From April 2002, the reduction of the average wage shall also apply to the parameters of the national and health insurance contributions function – such as income brackets of the reduced rate, minimum or maximum income liable for insurance contributions. Furthermore, the average wage under article 1 of the law for purposes of updating the minimum wage and senior officials' wages will not be updated by 1.6% in April 2002.

³ The reduction of the average wage in March 2002 does not lead to a reduction in the level of the benefits that are adjusted in January of every year (and only in January) in accordance with changes in the average wage, but that are not adjusted whenever the average wage itself is recalculated (such as work injury disability pension, maternity grant, birth grant and maintenance allowance for orphans).

- b. The child allowances will be eroded by 13.4% as a temporary order for 10 months began in March 2002. The reduction in the child's allowance was anchored in two amendments: the first is the cancellation of the adjustment (at a rate of 1.4%) of allowances paid for the months January-February 2002, and the second is the reduction of 12% in the number of allowance points for all families, with no distinction regarding family size. These amendments too were anchored in a temporary order for 10 months.
- c. The maximum period for payment of work injury allowances was reduced from 182 days to 91 days (for those injured from February 2002). At the end of the 91 days during which he has received injury allowance, the injured person may receive a disability pension – if the Medical Board authorized to determine temporary or permanent disability decides that the disability results from a work accident.
- d. The payment of income support benefit at the increased rate was cancelled for persons who had received the benefit at the regular rate for 24 months (from April 2002). In other words, recipients of the benefit who had been in the system for 24 months (whether consecutive or not) during which they had been entitled to the benefit at the regular rate, will not be able to receive it at the increased rate – higher by about 25% than the regular rate – at the end of this period.
- e. The entire unemployment benefit will be taken into account for purposes of calculating entitlement to income support benefit as well as its level. Before the law was amended, the unemployment benefit that was taken into account for purposes of income support benefit was the unemployment benefit that the unemployed person received deducted by a sum equivalent to 13% or 17% of the average wage, in accordance with family composition.

An analysis of the implications of the reduction expected in 2002 on NII benefits shows that the weak population groups are those who will bear the main burden of the cut in

the State budget. In the natural course of events, every type of reduction in NII benefits hurts the weak groups more than others, since most benefit payments are allocated to the lower deciles. About 54% of total old-age and survivor pension payments (with income supplement to the low-income recipients) are paid to the three first deciles. The picture relating to payments of the income support benefit shows this trend even more sharply: 72% of these payments are made to the three lowest deciles.

By far the most part of the total reduction in benefits stems from the reduction in the payments of the child allowance – about NIS 835 million, out of NIS 1.1 billion. This reduction has a regressive influence on the distribution of income and on the dimensions of poverty among families with children. Indicators of this influence are presented in the table below.

The reduction in the low deciles is twice to three times as high as the reduction in the high deciles; it ranges from NIS 105 to NIS 155 per month for families with children in the low deciles, compared to about NIS 45-40 per month in the high deciles. The four first deciles bear close to 60% of the total burden of the reduction in child allowances. It is estimated that the rate of poor families with children will increase from 17.4% to about 18% – an addition of about 11,000 poor families with children. It should be stressed that all the alternatives to a reduction in NII benefits examined by the government – except payment of child allowances according to a means test – are regressive from the point of view of income distribution. The alternative of payment of child allowances according to a means test was preferred by the political system, but it was not accepted due to its administrative inapplicability. Professionals both in the Treasury and in the NII opposed the means test for two additional reasons: maintaining the role of the universal child allowance in achieving horizontal equity in the direct taxation system, and weakening disincentives to work.

The issues faced during discussions on the State budget for 2002 included not only the scope of the desired reduction at times of economic recession, but also the composition of this reduction. There is no doubt that a more “diverse” reduction package – one that

includes a certain increase of the tax burden – would have enabled a more equitable share of the burden among working and supported families, among families with children and those without children, and among families with various income levels – from work and from capital.

Influence of Reduction in Child Allowances on Income Distribution

Decile*	Average number of children per family with children	Average reduction in allowance per family with children (NIS per month)	Share of each decile in total reduction	Average net income per family with children (2001 prices)	Reduction as percentage of net income
Total	2.3	88	100.0	9,830	0.9
1	2.8	116	13.4	3,070	3.8
2	3.2	155	17.5	4,790	3.2
3	2.9	131	15.7	5,780	2.3
4	2.5	105	11.8	6,830	1.5
5	2.3	84	10.1	8,060	1.0
6	2.0	64	7.6	9,280	0.7
7	1.9	58	7.1	10,720	0.5
8	1.9	56	6.4	12,780	0.4
9	1.9	55	6.4	15,770	0.3
10	1.7	46	4.1	24,800	0.2

* Deciles of persons. Families are sorted into deciles according to net income per standard person.
Based on 2000 Income Survey.

Chapter 2

Trends of Development in Poverty and Income Inequality (Summary)

**Leah Achdut
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2.1 Introduction

As part of research carried out in Israel on poverty and income distribution, a relative approach to measuring poverty was formulated in the early 1970s, in line with that accepted by the majority of researchers and social policymakers in the western world. According to this approach, poverty is an expression of relative distress that should be evaluated in relation to the standard of living typical of a given society: a family is considered poor not only when it is unable to purchase a basic basket of products necessary for its subsistence, but when its living conditions are significantly inferior to those characteristic of the society as a whole. The relative approach further recognizes that distress is not only reflected in low income, but may also be expressed in the level of assets, housing conditions, education and public services available to those in distress. Nevertheless, since there is no agreed index that takes into account all the constituent aspects of distress, and since the National Insurance Institute only possesses data (taken from Central Bureau of Statistics Income Surveys) for the current income of households in Israel, poverty is measured solely as a function of the latter. The relative approach offers several operative methods for measuring poverty based on the level of income which rely, as a common denominator, on a comparison of the level of income of families on the lowest scale of income with the level of income of all other families in society. Each method is predicated on a “poverty line” set as a percentage of the income which is “representative” of society. A family whose income is below the poverty line will be considered poor, without this necessarily implying that the family suffers from want in the form of hunger, malnutrition, threadbare clothing or dilapidated housing, but only that its income is significantly lower than the representative income.

In Israel, the method for measuring poverty is based on the following three principles:

- a. The first principle views the family’s net income as the relevant income for assessing poverty. Net income is defined as the family’s market income (from work as well as from ownership of physical production means and financial assets) plus transfer payments (received not in return for economic efforts, such as national insurance benefits or support from institutions and individuals in Israel and abroad), less direct taxes (income tax, national insurance contributions and health insurance contributions).
- b. The second principle regards the median net income of the population as the society’s representative income. Median income is defined as the level of income which 50% of families have at least that income, while the remaining 50% have a higher level of income. The poverty line is defined as the level of income equivalent to 50% of the median net income. A family whose net income is lower

than one half of the median net income is thus regarded as poor.¹ Economic growth leading to an increase in the median net income also results in the raising of the poverty line. A non-poor family whose net income has increased by less than the rate of increase of the poverty line may thus become a poor family.

- c. The third principle adjusts the poverty line to the family size. This principle is based on the assumption that family size involves economics of scale, whereby the growth of a family by an additional person increases its needs not by an equivalent, but rather by a lesser, proportion. In other words, the additional income required by a family in order to maintain a fixed standard of living decreases with the increase in the number of family members. To enable a comparison between the standard of living of families of different sizes, an “equivalence scale” was developed by which the needs of each such family can be measured against the needs of a family of a given basic size. More specifically, the equivalence scale translates the number of persons in a family into the number of “standard” persons (or the number of “standard adults”) in that family (Table 1). The scale is based on a two-member family which is assigned a value of two standard persons. According to this scale, a family with one member has a value of 1.25 standard persons. In other words, the needs of a one-member family are not assessed as equivalent to one half the needs of a two-member family, but as greater. Similarly, the needs of a four-member family (which has a value of 3.2 standard persons) are not set at double the needs of a two-member family (which has a value of 2 standard persons), but at less than double (only 1.6 times greater).

In keeping with these principles, the poverty line per standard person in Israel was set at 50% of the median net income per standard person. A family in Israel is classified as poor if its net income, divided by the number of standard persons in the family, is lower than the poverty line per standard person. The poverty line per family can be calculated in a similar manner – by multiplying the poverty line per standard person by the number of standard persons in the family.

The poverty line per standard person in 2000 stood at NIS 1,338 a month, compared with NIS 1,289 in 1999 (in current values for the respective survey periods). In real terms, the poverty line per standard person rose by 2.7% compared to 1999. The average wage in the economy grew by nearly 7.0% in real terms between the Income Survey dates, hence the poverty line per standard person declined from 20.7% of the average wage in 1999 to 19.9% in 2000. Table 1 presents the poverty lines for families

¹ The median income is preferable to the average income, as representing the typical standard of living, since the latter is affected by extreme values in income distribution (i.e. by very high or very low incomes).

Table 1: Number of Standard Persons and the Poverty Line per Family, by Number of Family Members, 2000-2001

Number of family members	Number of standard persons	Poverty line per family (NIS per month)	
		2000	2001 (estimate)
1	1.25	1,673	1,753
2	2.00	2,677	2,805
3	2.65	3,546	3,717
4	3.20	4,282	4,488
5	3.75	5,018	5,260
6	4.25	5,688	5,961
7	4.75	6,357	6,662
8	5.20	6,959	7,293
9	5.60	7,494	7,854

of different sizes, in shekel values and as a percentage of the average wage.

As already indicated, the Annual Income Surveys conducted by the Central Bureau of Statistics (CBS) serve as the basis for calculating the dimensions of poverty and income inequality in Israel. Up until 1997 (inclusive), the survey population included households whose head was an employee or non-working person, in urban localities with 2,000 or more inhabitants (excluding East Jerusalem)². In 1998 the Central Bureau of Statistics decided to produce a combined Income Survey, based on both the current Income Survey and the Family Expenditures Survey. The combined Income Survey is based on a larger sample (1.8 times the previous sample) and encompasses 95% of all households in Israel in most forms of settlement. In addition to the employee and non-working populations in urban localities, the combined Income Survey also covers the self-employed population, the population in the moshavim and in rural and community localities, and the inhabitants of East Jerusalem.³ However, in 2000 the inhabitants of East Jerusalem were not included in the survey, due to

² Up until 1994 (inclusive), the Income Surveys included non-Jewish localities with 10,000 or more inhabitants (excluding East Jerusalem). Since 1995, the Income Surveys have been expanded to include non-Jewish localities numbering 2,000 – 10,000 inhabitants.

³ The populations not yet included are mainly the kibbutzim and the Beduin inhabitants who do not reside in permanent localities.

difficulties in data collection. For comparison purposes, the 1999 data were reproduced without East Jerusalem.

The present summary surveys the dimensions of poverty and income inequality in Israel in 1999-2000 on the basis of the combined Income Survey, and presents the main findings regarding the impact of transfer payments and direct taxes in reducing their scope. The dimensions of poverty are expressed by means of the two most widely used aggregate poverty indices in empirical studies, both in Israel and abroad: the poverty incidence and the poverty gap. The poverty incidence index indicates the scope of poverty in terms of the percentage of poor families in the total population. The poverty gap index reflects the depth of poverty: the poverty gap of a poor family is defined as the difference between the poverty line (corresponding to the family's size) and the family's actual income, while the poverty gap of the population as a whole is defined as the sum of the poverty gaps of the total number of poor families in the population. The poverty gap index can be standardized and defined as the ratio between the average poverty gap per poor family and the poverty line (hereafter, the "poverty gap ratio"). Income inequality among the entire population is measured by the GINI index.

2.2 Main Developments

The main developments in the dimensions of poverty in Israel in 2000 were as follows (Table 2):

- a. 2000 witnessed a slight decline in the incidence of poverty in Israel. The percentage of families whose net income (after transfer payments and direct taxes) was below the poverty line fell from 17.8% in 1999 to 17.6% in 2000.
- b. The number of poor families totaled 305,400 in 2000, compared to 299,700 in 1999. The increase in the number of poor families resulted entirely from the population growth in the country.
- c. The percentage of poor persons in the total population of persons remained constant between 1999 and 2000 at the level of 18.8%. The percentage of poor children in the total population of children rose a bit, from 24.9% in 1999 to 25.2% in 2000.
- d. The number of poor persons reached 1,088,100 in 2000 (as compared to 1,059,100 in 1999), and included 481,100 children (466,500 in 1999).

**Table 2: Poverty in Total Population, by Selected Poverty Measures
1999 and 2000**

Poverty measure	Before transfer payments and direct taxes	After transfer payments only	After transfer payments and direct taxes
1999			
Poor population			
Families	536,100	254,000	299,700
Persons	1,706,700	884,200	1,059,100
Children	660,600	389,400	466,500
Incidence of poverty (%)			
Families	31.9	15.1	17.8
Persons	30.3	15.7	18.8
Children	35.3	20.8	24.9
Poverty gap ratio (%)*	62.1	25.3	25.1
2000			
Poor population			
Families	560,000	254,700	305,400
Persons	1,781,200	892,400	1,088,100
Children	683,100	392,200	481,100
Incidence of poverty (%)			
Families	32.2	14.7	17.6
Persons	30.8	15.4	18.8
Children	35.7	20.5	25.2
Poverty gap ratio (%)*	60.7	25.1	25.6

* The weight given to each family in calculating the measure is equivalent to the number of persons in the family.

- e. In 2000, the contribution of transfer payments and direct taxes to reducing the incidence of poverty increased. Transfer payments and direct taxes extricated 45.3% of the total number of poor families from poverty, as measured by market income, compared to 44.2% in 1999 (Table 3). The contribution of transfer payments and direct taxes to reducing the incidence of poverty among persons also increased, albeit at a lower rate of 39.0% (38.0% in 1999), whereas among children it remained constant at the rate of 29.5%. The contribution of transfer payments alone (excluding direct taxes) to reducing the incidence of poverty among families exceeded the joint contribution of transfer payments and direct taxes: 54.3% in 2000 compared to 52.7% in 1999.

The slight decline in the incidence of poverty by net income, which characterized the population as a whole, was not observed among all specific population groups. Specifically, while the poverty incidence among the elderly fell a bit, it rose slightly among single-parent and large families, non-Jewish families and families headed by a non-worker who is of working age. Among other population groups, the incidence of poverty remained unchanged.

There were marked differences in the dimensions of poverty by geographical dispersion and locality. The northern district, the Jerusalem district, (both having a relatively high concentration of Arabs) and the southern district were characterized by a high incidence of poverty, reaching 29% in the north, 23.3% in Jerusalem and 20% in the south. The development areas are also characterized by an incidence of poverty

Table 3: The Impact of Transfer Payments and Direct Taxes on Poverty in Total Population, by Selected Poverty Measures, 1999-2000

Poverty measure	Percentage of decrease stemming from transfer payments only		Percentage of decrease stemming from transfer payments and direct taxes	
	1999	2000	1999	2000
Incidence of poverty (%)				
Families	52.7	54.3	44.2	45.3
Persons	48.2	50.0	38.0	39.0
Children	41.1	42.6	29.5	29.4
Poverty gap ratio (%)*	59.3	58.6	59.6	57.8

* See note to Table 2.

that is higher than the overall average – 20.4% as compared to 17.6%, respectively. Bnei Brak, Jerusalem and Ashdod are the poorest cities of Israel according to the poverty indices: 22%-33% of families living in these cities have a net income below the poverty line.

In 2000 there was a certain improvement in the distribution of income in the economy. The Gini index for distribution of economic income (stemming mainly from the family's work as employee and self-employed) decreased from 0.512 in 1999 to 0.509 in 2000 – a decrease of 0.6%.

An analysis of the patterns of distribution of economic income for households headed by an employee and for households headed by a self-employed shows opposing developments. The Gini index for inequality in income distribution in households

headed by employees increased by 2% (from 0.4305 in 1999 to 0.4390 in 2000), whereas in households headed by self-employed, it decreased significantly.

The increase in inequality of economic income in households headed by employees is in keeping with the finding that wage gaps between individual employees were not reduced in 2000; on the contrary, they even widened somewhat.

Table 4: Gini Index of Inequality in Net Income Distribution, 1998-2000

	Before transfer payments and direct taxes	After transfer payments	After transfer payments and taxes	Percentage of decrease stemming from transfer payments and taxes
Total population				
2000	0.509	0.411	0.350	31.2
1999	0.512	0.417	0.355	30.8
1998	0.507	0.408	0.347	31.5
Change in Gini Index (%)				
2000 compared to 1999	-0.6	-1.4	-1.3	
2000 compared to 1998	0.5	0.7	0.9	
Households of employees				
2000	0.439	0.385	0.321	26.8
1999	0.431	0.378	0.317	26.5
1998	0.432	0.377	0.317	26.7
Change in Gini Index (%)				
2000 compared to 1999	2.0	1.9	1.5	
2000 compared to 1998	1.6	2.1	1.5	

In 2000, the contribution of benefits and direct taxes – separately and together – to reducing economic income gaps increased (from 30.8% in 1999 to 31.2% in 2000). As a result, the Gini index for inequality in net income declined between 2000 and 1999 by 1.3% (from 0.355 to 0.350). The reduction in inequality reflects a decline in the share of the upper decile at the expense of the rise in the share of the seventh till ninth deciles. No change occurred in the share of the other deciles between the two years.

The moderate improvement in income inequality in 2000 did not essentially change the income distribution in the economy: The share of the lowest fifth quintile in total net income amounted to only 6.8%, whereas the upper fifth quintile took 41.5% of the total net income.

