

Transfer Payments – The National Insurance Benefits

1. Benefits and Social Policy

Transfer payments from the National Insurance Institute are a mainstay in government intervention to reduce economic inequality and poverty. They are administered largely in the form of financial support that recipients may use in accordance with their needs and preferences. Some benefits (old-age benefits and child allowances) are given universally; others (e.g., income maintenance and unemployment compensation) are only for those who meet set criteria and eligibility tests. In recent years, benefits have been eroding as the government strove to cut its budget generally and its social budget specifically. The most significant cutbacks have been in benefits for the working age population: child allowances, income maintenance, and unemployment compensation. During the review period, long-term care benefits, alimony payments, maternity grants, and workers' injury compensation were partly reduced, whereas disability benefits were hardly affected.

Above and beyond legislative changes, two factors have affected the trend in social transfer payments in recent decades: changes in demography and in the labor market.

The main **demographic developments** were immigration waves and the increase in life expectancy, which has lowered the proportion of children in the population and raised that of the elderly. Rising rates of divorce and single-parent households have led to larger outlays for benefits for these groups (alimony payments and income maintenance). Mass immigration, the relative high rate of elderly and single-parent households and

the relative low number of children among the immigrants, difficulties in social and occupational integration, and the failure of members of these groups to accumulate employer pension rights have all contributed to rapid growth of the population of recipients of unemployment compensation, income-maintenance, and old-age and survivors' benefits.

The **labor market developments** relate to the slowdown in economic activity (from the mid-1990s onward), the global economic downturn, and the *intifada* in Israel, which together dropped the domestic labor market into a slump. The falling labor participation rates and the rising unemployment rates were partly attributable to processes related to the shrinking of traditional industries due to import liberalization and the admission of large numbers of foreign workers, which caused the proportion of non-Israeli workers in the business sector to rise steeply. These developments were most harmful to the relatively poorly educated and poorly skilled, who by claiming unemployment and income-maintenance benefits widened the circle of benefit recipients.

The benefit eligibility rules, including employment tests for recipients of unemployment and income-maintenance benefits and the criteria for disability and long-term care benefits, had been eased in previous years – especially in the first half of the 1990s – which contributed to the growth of the recipient population. The welfare policy reform in 2002–2004 stanching the rise, and limited it to the rate of natural increase, and changed the distribution of benefit payments.

The toughening of eligibility rules and the cutbacks in National Insurance benefits have made transfer payments less effective in reducing poverty. Thus, only 40 percent of the poor were raised above the poverty line by transfer payments by 2004¹ as against 43 percent in 2003 and 47 percent in 2002. The

¹ National Insurance Institute, August 2005.

impact of the changes will be reflected more fully in the data for 2005 and subsequent years.

2. Benefits – Recipients and Outlays

An estimated 2.5 million Israelis receive at least one form of benefit from National Insurance; some receive more than one. The growth rate of the recipient population continued to slow in 2004. This slowdown was not uniform and was very high among recipients of unemployment compensation and income-maintenance (in which the absolute number of recipients decreased). The rate of increase in recipients of long-term care and disability benefits declined somewhat. In contrast, the population of recipients of old-age and survivors' benefits grew at a faster rate than previously and the growth rate of child allowance recipients rose and returned to that of 2002.

Estimates for 2005 suggest that the rising trend in the number of disability benefits recipients has resumed, the growth rate in child allowances and income-maintenance has leveled off at its current (low) level, the growth in old-age, survivors, and long-term care benefits has slowed, and the population of unemployment compensation recipients has stopped shrinking.

Total National Insurance benefit payments were NIS 41.8 billion in 2004 and are expected to come to NIS 42.4 billion in 2005, a nominal increase of 1.4 percent. Comparing total programmed transfer payments in 2005 with those in previous years, there is a 4.9 percent decrease relative to 2001 and an 8.4 percent decline relative to 2002. Notably, however, the real level of total benefits, controlling for population increase, was higher in 2005 than in the first half of the 1990s, even though most benefits have failed to keep up with the average standard of living since 2001. (See the chapter on Government Expenditure for Social Services).

**Table 1. Recipients of Main National Insurance Benefits,
1990–2000*** (Monthly average, thousands)

Year	Child allow- ances**	Old-age/ survivor	Long- term care	Dis- ability	Income main- tenance	Unem- ploy- ment
1990	532.5	450.8	27.7	73.5	31.8	50.6
1995	814.7	553.8	59.0	94.0	75.3	61.5
2000	912.5	657.1	95.8	135.3	128.4	92.6
2001	928.2	677.0	105.4	142.4	142.0	104.7
2002	935.0	692.9	112.3	150.5	151.2	96.9
2003	939.1	709.3	113.0	157.3	155.5	70.8
2004	945.6	722.3	113.4	162.4	145.3	58.7
2005	953.2	720.2	114.5	171.5	144.5	54.0
2001	1.7	3.0	10.0	5.2	10.6	13.1
2002	0.7	3.1	6.5	5.7	6.5	-7.4
2003	0.4	3.2	0.5	4.5	2.8	-27.0
2004	0.7	3.5	0.4	3.2	-6.6	-17.1
2005*	0.8	-0.3	1.0	5.6	-0.5	-8.0

Source: National Insurance Institute, 2005.

* The data for the first half of 2005 were calculated as an average for January–June 2005 and are based on the Statistical Quarterly of the National Insurance Institute, Research and Planning Administration, July 2005.

** Recipient households.

Table 2. Benefit Payments, By Main Types of Benefits, 1990-2005 (NIS millions, current prices)

Year	Child allowances	Old-age/survivors	Long-term-care	Disability	Income maintenance	Unemployment	Total payments
1990	1,650	3,323	225	840	247	544	8,813
1995	4,249	7,565	745	2,165	1,104	1,242	20,868
2000	6,942	13,483	1,790	4,962	2,874	2,958	38,912
2001	7,575	15,197	2,142	5,901	3,494	3,512	44,571
2002	6,720	15,450	2,504	6,805	3,699	3,533	46,291
2003	6,088	15,551	2,463	7,063	3,242	2,428	43,875
2004	4,794	15,780	2,472	7,107	2,928	2,118	41,794
2005	4,508	16,300	2,515	7,478	2,820	1,992	42,368
Annual percentage change							
2001	17.0	34.1	4.8	13.2	7.8	7.9	
2002	14.5	33.4	5.4	14.7	8.0	7.6	
2003	13.9	35.4	5.6	16.1	7.4	5.5	
2004	11.5	37.8	5.9	17.0	7.0	5.1	
2005	10.6	38.5	5.9	17.6	6.6	4.7	

Source: National Insurance Institute, 2005.

* The total does not add up to 100 percent because the table shows data only for selected benefits each year.

The three main types of benefits – old-age and survivors, child allowances, and general disability – account for about two-thirds of total benefits today as against 70 percent a decade ago (1995). The decrease originates in a marked decline in the share of child allowances, from one-fifth of total payments in 1995 to about one-tenth in 2005, whereas there was a steady and prominent rise in the proportion of disability and old-age benefits during the decade. The share of unemployment compensation also fell significantly, that of income-maintenance

benefits shrank somewhat, and that of long-term care benefits rose moderately. From a different perspective, one can point to a striking reduction in benefits to the working-age population between 2002 and 2005: unemployment compensation outlays fell by 44 percent, income maintenance by 24 percent, and child allowances by 33 percent.

The analysis that follows examines the developments in the four main benefit categories: those for the elderly, including old-age, survivors, and long-term care; those for persons with disabilities, including disability and rehabilitation benefits; those that attempt to assure the basic needs of populations who lack other sources of income – income-maintenance and unemployment compensation – and those related to children's welfare, i.e., child allowances and alimony payments.

3. Benefits for the Elderly

a. Old-Age and Survivors' Benefits

All elderly persons (men from age 70, women from age 65) and their survivors are eligible for basic old-age benefits. For those who retire from work the benefits begin five years earlier. Furthermore, the low-income elderly receive a higher pension. In all, 720,000 people receive old-age and survivors' benefits each month (average). Most of them (89 percent) receive old-age pensions; the rest are survivors of old-age benefit recipients. Some 13 percent of beneficiaries (mostly immigrants who settled in Israel after age 60) did not accumulate benefits under the National Insurance Law; the government covers their benefits. Outlays for old-age and survivors' benefits increased by 1.9 percent in 2004 (in constant prices), mainly due to the increase in the recipient population, and accounted for 38.5 percent of total NII benefit payments.

The annual rate of increase in the number of beneficiaries has been slowing, mainly because the retirement age was raised in

2004 and the number of recipients of special pensions – mostly immigrants, whose numbers are diminishing as immigration has slowed in recent years – has been falling. The old-age pension was cut by 4 percent in June 2004 (although the cutback was not applied to recipients of old-age *and* low-income supplementary benefits and/or to their survivors). Furthermore, since the indexation of benefits was changed from the national average wage to the Consumer Price Index, the value of the pensions has decreased by 8.4 percent in average real terms since 2001. The latest legislative changes, made in July 2004 – the raising of retirement age, which led to the raising of the age of eligibility for old-age benefits – coupled with the earlier cutbacks and changes, led to continued erosion in the benefits and in the level of income of the elderly, especially among those whose incomes are the lowest.

The purpose of old-age benefits is to assure the elderly population an adequate standard of living. This goal has become difficult to attain; about one-fourth of Israel's elderly were under the poverty line in 2004, up from 22 percent in 2003. To analyze the situation, it is important to examine two main frameworks that strive to ensure the well-being of the elderly in their later years: National Insurance old-age benefits and employer pensions.

A typical pension system is a three-tiered mechanism:

Basic tier – social insurance (in Israel, the Old-Age and Survivors' Division of the National Insurance Institute). Since this tier is legislated, it encompasses most of the target population. (The issue of benefit claimants is discussed below.)

Second tier – employment-based pensions (secured in labor accords). In Israel, only some of the elderly have this coverage: only about one-third of retirees and about half of those who reach retirement age today.

Third tier – private pension plans. Since very few Israelis are insured at this level, quite a few of the elderly need to

augment the standard old-age benefits with an income supplement allowance (which is given to all persons eligible for old-age benefits whose other incomes fall short of a certain threshold). Until the early 1990s, the proportion of old-age benefit recipients who were entitled to income supplement had been declining gradually due to the growing number of elderly who retired from places of employment that had made pension arrangements. The arrival of many new pension age immigrants who had not accumulated pension rights from their jobs, however, brought the trend to a halt. For the same reason, the share of elderly who receive a supplemental benefit for having deferred their retirement has been falling.

For many in Israel, retiring under current conditions lowers their standard of living and increases the burden on the state's resources. Most countries that contend with this issue have attempted to resolve it in four ways simultaneously: reducing retirement benefits, raising the retirement benefit contribution, raising social insurance contributions, and raising the retirement age. The preferred policy stresses incentives to defer retirement and strengthen the tier of employment-related pension by making contributions compulsory under law.

Israel has taken several measures to lighten the economic burden of pensions. As part of its socio-economic policy in 2002–2003, the government introduced a reform that addressed itself to two tiers of the pension system – National Insurance benefits and employment pension – and included a pension fund reform and raising of the retirement age. These measures may encourage the lengthening of working life and increase the potential accumulation of employment pension seniority, thereby lessening the burden on the state budget. However, the reform was not complemented by another measure that could have widened the second tier, the passage of a compulsory pension insurance law. Furthermore, the pension fund reform

reduced the pensions of persons insured with existing pension funds.

Table 3. Percent of Recipients of Income-Maintenance, Supplemental Benefit for Deferred Retirement, and Beneficiaries of Employment Pension among Total Recipients of Old-Age Benefits, 1970–2004 (selected years, percent)

Year	Income supplement recipients	Recipients of deferred retirement supplement	Employment-related pension recipients
1970	44.9	19.7	
1980	45.3	22.2	
1985	36.8	21.1	30.8
1990	31.8	18.3	
1995	33.5	16.4	
1997	32.6	15.6	33.8
2000	30.8	14.5	
2001	30.3	14.0	35.3
2002	29.5	13.8	36.6
2003	28.4	13.7	
2004	27.5	13.7	

Sources: 1. National Insurance Institute, *Annual Reports*, various years.
2. Mashav – Brookdale Institute and Eshel, 2004.

Against this background, it is very important to maintain the value of the basic tier, i.e., the National Insurance old-age benefit. This has to be done for several reasons: the incompleteness of coverage for the elderly at the other tiers, the absence of legislation that secures these tiers, and the unique mix of Israel's elderly population, which in the next few years will continue to include immigrants who cannot accumulate enough pension seniority to assure themselves an adequate

standard of living.² Many elderly rely on these benefits for their well-being and will continue to do so at least until the labor force participation rate of seniors rises to a level that will allow them to live in dignity (after accruing enough pension seniority years to become eligible for a full employment pension). Otherwise, the income level of the elderly will erode steadily after retirement.³

Apart from maintaining the level of the benefit, the introduction of compulsory pension by law – with all workers going over to an accumulation based pension – should be considered in view of the severe inequality among the elderly and the gap between the income of seniors who receive a pension and those who do not. Since Israel's population is aging at a slower rate than other countries in the West, the country has a window of opportunity to institute compulsory saving for an accumulated pension. By the time the aging of Israel's population catches up with the rates observed in many other countries, enough pension money will have accumulated for payments to the elderly without increasing the tax burden on the working population. This will also help to increase the equality among the elderly.⁴ The recent pension industry reform, originally meant to reduce the actuarial deficits of the old pension funds, dealt a blow to the members of all funds, including the new ones. This illustrates the immediate need to pass a compulsory pension law that would establish the rights of pension fund members. As matters stand now, members' rights

² Due to their immigration and their relatively advanced age when they began to accumulate pension rights, a large proportion of the immigrants (from the former Soviet Union and from Ethiopia) are expected to accumulate only a few years of seniority, entitling them to a low level of employment pension, or no seniority at all, since many were too old upon immigration to work in Israel.

³ Y. Kop, R. Barzuri, 2005

⁴ Yosef, R., and Spivak, A., 2005.

are only set in regulations, which by their very nature may be amended as the regulator wishes.

Another aspect of old-age benefits is the take-up of benefit rights.⁵ National Insurance entitlement claims are an issue mainly among elderly persons who have difficulty in claiming their rights due to lack of information, availability, and access, i.e., elderly immigrants who are not proficient in Hebrew, non-working adults who are disconnected from social systems, and elderly with mobility difficulties – common among members of this population group. Although the National Insurance Institute tries to provide all the information necessary to help people claim their rights, additional ways to disseminate this information among the elderly is evidently needed. It is especially necessary to be more flexible toward those who do not fully exercise their rights because they fail to apply on time. (The law allows those eligible to establish their benefit entitlements retroactively for no more than twelve months preceding the month in which the claim is presented. This may serve to increase the number of persons who fail to claim their benefit entitlements). The branches of the National Insurance Institute offer advisory services for the elderly. The thousands of volunteers who staff these services help the elderly by providing information about their rights and offering counseling and instruction in regard to services for the elderly. They also conduct home visits in order to identify elderly persons who need help.

⁵ State Comptroller, 2005, pp. 903–966. In the Comptroller’s estimation, NIS 24 million in entitlements to old-age and survivors’ benefits were not taken up in 2004 – about 5 percent of the total outlay for old-age and survivors’ benefits that year. Notably, however, the State Comptroller has also warned about the unlawful *overpayment* of benefits.

b. Long-Term Care

To qualify for long-term care benefits, the elderly must suffer from limitations in carrying out activities of daily living, live in the community, and pass a means test (client and spouse). Recently, the possibility of awarding long-term care benefits to seniors aged 85 and over even if they do not meet these criteria has been examined. The monthly average number of those eligible in 2005 was 114,000. The coverage rate of long-term care insurance rose until 2002 but has been declining recently. The increased stringency in approval of claims seems to have lessened the number of new claimants. Even though the proportion of approved claims rose in 2004, the rate of increase remained lower than in previous years, when it rose mainly due to the massive enrollment of elderly immigrants who had been recognized as eligible for this benefit. Three-fourths of beneficiaries are women, nearly 60 percent are aged 80 and over (a proportion that has been rising steadily over the years), and about one-fourth are new immigrants, who are over-represented relative to their share in the population.

Unlike most National Insurance benefits, the long-term care allowance is not given directly to those eligible but is paid to long-term care service providers as set forth in law. The program includes a "basket" of assistance services: personal care at home (used by 97 percent of beneficiaries), home help, transport and care at day centers, meals, laundry services, and miscellaneous services (e.g., emergency alarm services).

The benefit is given at two levels: a low level, set at 93 percent of the full disability benefit, and a high level of 150 percent of the same. The average benefit was NIS 1,826 per month in 2004 and NIS 1,849 in 2005. Relative to the national average wage, the average benefit declined in 2001–2004. Some 27 percent of beneficiaries receive the high benefit; their share has been rising over time and, in turn, that of recipients of the lower benefit has been falling. A 7 percent cutback in the low

benefit, in effect since 2003, has harmed the latter group and served to lower the average benefit.

The National Insurance Institute has designed an experiment, to be performed over a two-year period, to find out whether it would be more efficient to change the way the long-term care benefit is given. Instead of funding service to the elderly by paying long-term care service providers, those eligible would receive direct payments in cash and would be allowed to purchase long-term care services as they see fit. Opponents of such a change argue that even though elderly people in general can assume responsibility for arranging their care, those who are mentally frail cannot. Another concern is that families of the elderly may take the money and keep it out of the elderly patient's reach, thus defeating the purpose of the benefit. If the payment system were to change, however, the sums of money that the personnel companies make as profits today (they charge NIS 35 per hour and pay the caregiver only NIS 17) would be saved. Only after evaluating the results of a controlled experiment of this kind will the National Insurance Institute decide on the method that it will use to distribute long-term care benefits in the future. The revision of the funding method may have critical implications for the continued existence of services that do much to enhance the welfare of the elderly (i.e., day centers and similar services that are paid for from the long-term care budget).

4. Disability and Rehabilitation Benefits

The Disability Insurance Law and the benefits derived from it include the following: (a) disability benefits, meant to guarantee the disabled a basic minimum income; (b) special services benefits, to help the disabled who function in their households; (c) disabled child benefits, to help families caring for a disabled child at home, and (d) mobility allowances, to help the disabled with mobility issues when they are away from home. The law

also establishes eligibility for rehabilitation for disabled persons who have rehabilitation potential so they may integrate into the job market and also, since 1994, for a disability benefit paid out under the Compensation for Radiation Victims (Ringworm Treatment) Law.

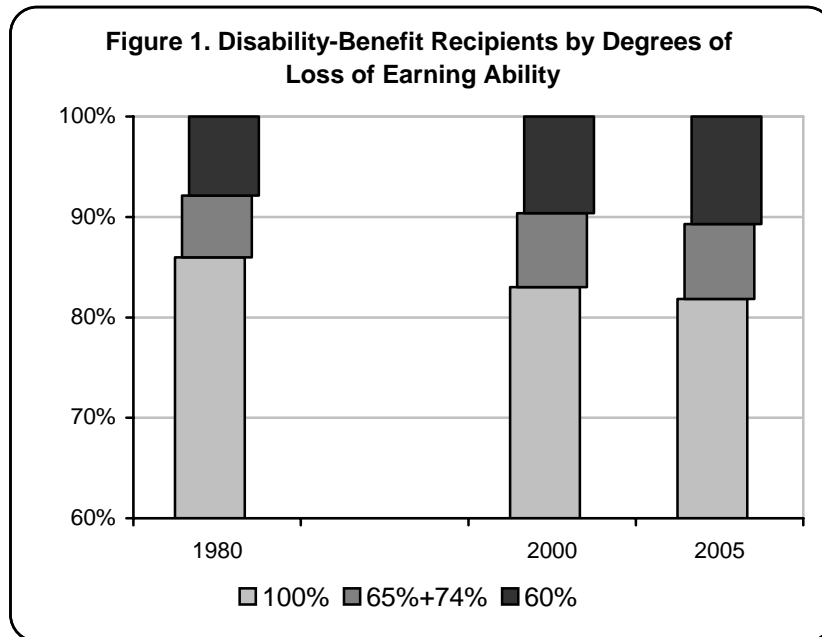
In 2004, an average of 162,000 persons per month received disability benefits, and the projected figure in 2005 is 172,000. The recipients of these benefits comprise 4 percent of the population, the third largest group of National Insurance beneficiaries, after recipients of child allowances and old-age and survivors' pensions. The growth rate of this beneficiary group after having slowed down in comparison to the 2000-2002 period, again accelerated in 2005 and is outpacing the growth rate of its relevant peer group (men aged 18-65 and women up to age 60) and the population of recipients of other benefits.

Various hypotheses have been proposed for why the number of disability benefit recipients has been growing so rapidly. They include growing awareness of the existence of disabilities, improvement in the ability to locate and identify them in early phases of life, a decrease in the stigma attached to the disclosure of disability (reflecting, among other things, greater disclosure of disabilities and defects among the Ultra-Orthodox), and flexibility in applying the definitions of the law to various disabilities. Although the terms of eligibility have not been formally revised, flexibility has been employed in recognizing certain kinds of eligibility. The rapid increase in recipients in 2005 can be linked to the change in retirement age.

In 2005, the heightened awareness of disabilities led to the passage of the Access of the Disabled to Public Places Law, which augments various agreements that had been concluded with organizations for the disabled (after lengthy strikes). The new statute went into effect immediately in regard to most public buildings. In a related development, the government resolved to endorse the conclusions of the Laron Committee

(June 2005) on the advancement and integration of persons with disabilities on the job and in the community. The resolution is to be followed by the preparation of legislative amendments to encourage the disabled to join the labor force. The reform at issue concerns how disability benefits are paid. Thus, payments will no longer be terminated at once when a disabled person accepts a job; benefits will decrease commensurate with the increase in income from employment. (Today, persons with disabilities who accept jobs are “penalized.”) Furthermore, a mechanism will be established to assure that persons with disabilities who do not succeed in integrating into the labor force will be able to reinstate their benefits, since under current conditions and without such arrangements the disabled fear the loss of their benefits if they do not succeed at work. The reform also includes an incentive for employers who hire persons with severe disabilities. (A NIS 25 million allocation for employer subsidies was promised.) The underlying assumption is that there is no reason for the disabled not to play an active role in the country’s social and economic systems.

To date, no programs for improving the occupational integration of this population group have been made public (beyond the recommendations of the Laron Committee) and persons who receive disability benefits today are not included in the welfare-to-work program, which focuses on recipients of income-maintenance. It is time to explore new methods and to adapt programs so that recipients of disability benefits will be better positioned to obtain training and jobs. Business sector organizations that take part in community level social programs as part of their “social responsibility” offer some programs for hiring the disabled, but there are only a few programs of this type, only a few businesses offer them, and they reach only a minority of persons with disabilities.



Studying the distribution of disability benefit recipients by types of benefits, the overall growth rate has slowed but the number of recipients of child disability benefits, transportation allowances, and special service benefits has increased relative to the population of general disability benefit recipients. Men outnumber women (57:43) and more than half of male recipients, as against 32 percent of women beneficiaries, are married. About one-fifth of women who receive the benefit are housewives, whose eligibility is conditioned on their being married, although the proportion of income earning women who receive a benefit has been rising over time.

The profile of the beneficiaries by types and severity of disability shows that one-third suffer from psychological disorders, the predominant group of disorders among recipients. Most of the disabled, 82 percent, are at the highest level of disability (100 percent loss of earning ability), 11 percent are

rated at 60 percent, and 7 percent are graded lower. The preponderance of psychological disorders in the high disability group is significant in terms of the likelihood of rehabilitation for members of this group and deserves further examination. The disabled are eligible for full or partial benefits in accordance with the extent of their loss of earning ability.

Disability benefits have been less affected than other National Insurance benefits by the recent changes, but even here the regular adjustment mechanisms have been suspended since 2003. Payments on account of general disability and other benefits that fall into the disability insurance category were NIS 7.1 billion in 2004. The outlay that year represented a significant and noteworthy slowdown in spending after the steep increase that occurred earlier due to supplements that had been awarded to the disabled in 2000–2002. During those years, a large share of the increase in payments of National Insurance benefits was due to the rise in benefit payments to persons with disabilities. Growth has resumed since then; outlays in 2005 are projected at NIS 7.5 billion. The rapid increase in the number of disability benefit recipients and in the share of those defined as permanently disabled may be a spillover effect from income-maintenance to disability benefits – a phenomenon that deserves further thorough examination.

Rehabilitation benefits also fall under the general heading of benefits for the disabled. The National Insurance Law entitles persons with disabilities to professional rehabilitation, a therapeutic process in which clients are trained for employment commensurate with their capabilities and qualifications. Some are also eligible for the reimbursement of auxiliary expenses related to the rehabilitation process. The National Insurance rehabilitation services include vocational evaluation, referral, counseling, training, studies, and assistance in covering basic expenses related to the training process.

Some 9,400 persons applied for rehabilitation in 2004 and their numbers have been rising over the years. About three-fourths of the applicants suffer from general disability; the others suffered from work related accidents, enemy action, and loss of a spouse. In 2004, men accounted for 59 percent of rehabilitation applicants and 88 percent of work related accident applicants. The latter figure is due to the higher labor force participation rate of men than of women and the riskier nature of their occupations. In 2004 on average, about one-third of rehabilitation patients found work in the labor market at the end of treatment as against hiring rates of 36.5 percent, 41.0 percent, and 48.2 percent for casualties of enemy action, workplace accidents, and loss of a spouse, respectively. Payments for rehabilitative care were NIS 187 million in 2004 (little change is expected in 2005), including tuition fees, rehabilitation expenses, travel, instruments, housing, and other expenses.

In this context, thought should be given to the implications of rehabilitating an individual towards independent living with earning capacity as well as to the potential savings in public expenditure when rehabilitation is successful. Those considerations are reflected in the relatively high share of expenditures for tuition, vocational training, and rehabilitation allowances (to cover living expenses during the rehabilitation period) in total rehabilitation outlays and in the attempts to include persons with disabilities in current back-to-work programs (specifically the *Mehalev* program). The American Jewish Joint Distribution Committee recently raised a proposal for an employment project along these lines.

5. Income Maintenance and Unemployment Compensation

a. Income Maintenance

An income-maintenance benefit is paid to working age households in which the recipients do not work, provided that the total household income falls short of the threshold established in law. The benefit was very generous by Western standards when it was introduced in 1982, and the share of households that received it climbed steeply, for reasons including the large wave of immigrants in the early 1990s many of whom had no source of income. Therefore, it evolved into a major portion of National Insurance outlays. The welfare-to-work approach that aims to return income-maintenance beneficiaries to the labor force, coupled with the need to reduce total transfer payments, led in 2002–2003 to a series of comprehensive legislative amendments that cut the allowance and its related benefits, reduced the number of recipients, and changed the composition of the recipient population.

Income-maintenance expenditure was NIS 3 billion in 2004 and is projected to be slightly lower in 2005. The average monthly benefit fell from NIS 1,737 in 2003 to NIS 1,630 in 2005. The share of benefits as a percent of the average wage declined from 29 percent in 2002 to 23 percent in 2005.

The number of beneficiaries decreased from 156,000 in 2003 to 145,000 in 2004 and to 144,500 in 2005. The decline occurred because more beneficiaries were excluded or dropped out of the program, the influx of newly eligible individuals slowed, and the number of immigrant recipients has been declining at a rate that is much steeper than among non-immigrants. Another change in the composition of the beneficiary population is a decrease in the number of single-parent households and couples with children as against a rise in the number of single recipients.

Table 4. Income-Maintenance Recipients: Non-immigrants, Immigrants, Singles, and Non-Singles, 2000–2005
(total and percent)

Year	Total recipients (thous.)	Non-immigrants (thous.)	Immigrants (thous.)	Change, non-immigrants	Change, immigrants	Singles, of total	Non-singles, of total
	N			Percent			
2000	128.4	80.5	47.9	14.9	8.5		
2001	141.8	91.2	50.6	13.4	5.6		
2002	151.6	96.0	55.6	5.2	9.9	35.2	64.8
2003	155.2	100.0	55.2	4.1	-0.7	37.0	63.0
2004	145.3	94.8	50.7	-5.1	-8.1	41.3	58.7
2005	145.5	42.3	57.7

* Data for the first half of 2005.

One of the most striking restrictive measures was the elimination of the exemption from an employment test for persons defined as unsuitable for employment. This change, coupled with lowering the age of a child at which a single parent is excused from the employment test (from seven to two), reduced the number of low-income single-parent households and couples with children who qualified for the income-maintenance benefit. Those affected the most by these changes were weak population groups, foremost among them immigrant single-parent households. The legislative changes also lowered the incidence of income-maintenance recipients among working people – households headed by breadwinners generally and those with children particularly.

The income-maintenance benefit is divided into levels: regular, higher, and a different rate for single parents. There is also a distinction between a full benefit, paid to those whose income falls below the minimum established in law and those who have no other source of income whatsoever, and a partial benefit, paid to those whose income exceeds the minimum but is

low enough to entitle them to the benefit. Until 2002, most income- maintenance recipients fell into two groups: those receiving the full benefit at the higher rate and single parents who received a partial benefit (Table 5). The eligibility reform changed the distribution of beneficiaries, raising the proportion of recipients at the regular rate by more than 50 percent. Thus, in 2002–2004 there were notable decreases in the proportions of those receiving the benefit at the higher rate (partial and full) and of those receiving single-parent benefits (partial and full). In turn, the number of beneficiaries at the regular rate has been rising and, within this group, the share of those receiving a partial benefit has risen markedly. The real erosion of the income- maintenance benefit (up to age 55) in 2003–2004 came to 10–25 percent (depending on the composition of the household).

Table 5. Income-Maintenance Recipients, by Rate and Level of Benefit, 2001–2004 (Percent)

Year	Total	Regular rate		Higher rate		Single-parent rate	
		Partial	Full	Partial	Full	Partial	Full
2001	100.0	4.3	17.8	13.0	30.4	21.3	13.2
2002	100.0	4.5	18.0	13.5	30.4	20.8	12.9
2003	100.0	6.0	22.9	12.4	28.0	18.9	11.8
2004	100.0	7.6	26.6	11.3	26.5	17.7	10.3

The change in eligibility rules made the higher benefit more difficult to obtain and the value of the benefit continues to erode as the entitlement rules continue to be toughened. This is also connected to the change that has occurred in the likelihood of a person's ability to rise out of poverty through employment. Unlike in the past, when regular work increased the likelihood of making a decent living, today the labor market generates severe inequality (mainly due to demand for well educated workers) that stems from the evolving terms of employment in

the “new world of work”: employment in low-wage, temporary part-time jobs via personnel companies with less protection by trade unions. Consequently, the stratum of the “working poor” is widening⁶ and low-wage workers need income-maintenance and supplementary benefits.

The measures that have been taken to reduce the benefit level and the population of those eligible for it has only served to worsen the distress of these weak population groups. Actions must be taken to increase the labor force participation of those capable of working by providing vocational training for income maintenance recipients whose eligibility has been revoked or downscaled. Such training should be given through professional courses and programs, combined with steps that encourage labor force participation, such as subsidized wages for single parents. Thus far, such programs have reached only a relatively small group of recipients of income-maintenance.⁷ The blow dealt to this group was severe and sweeping, affecting even those who cannot possibly join in the labor force. The law concerning the integration of income-maintenance recipients in work and the implementation of the *Mehalev* program⁸ may help to differentiate between those with different earning capabilities and make it possible to continue supporting those who cannot

⁶ The share of families headed by salaried employees climbed from 33.5 percent of all poor households in 1990 to 43.1 percent in 2003. See Ahdut, L., and Sussman, Z., 2005.

⁷ Ministry of Industry, Trade, and Employment, *Report of the Research and Planning Administration*, May 2005.

⁸ A welfare-to-work program was adopted in the Integration of Income Maintenance Recipients Law, which was enacted as part of the 2004 Economic Arrangements Law and addresses itself to job-seeking recipients of income-maintenance benefits and low-income workers. The *Mehalev* program, a Hebrew acronym for “from welfare to work” – the “Israeli Wisconsin Plan” – began in August 2005.

work. This plan, too, however, has many limitations⁹ and its success can be examined only after it is run on a pilot basis.

It is true that the idea of introducing a negative income tax, included in the 2006 budget proposal, may meet the need to assure the income of the working poor (those whose income falls below the minimum level established in law) and replace the income-maintenance benefits that this population group receives today. The negative income tax, however, cannot promise those who cannot work an adequate standard of living.

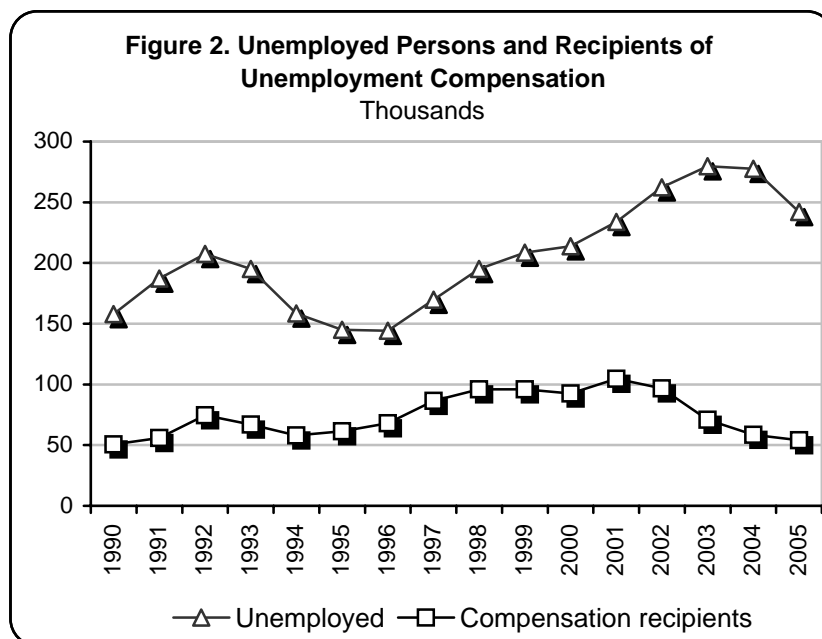
b. Unemployment Compensation

Unemployment compensation is meant to replace, for a limited period of time, the wages of those involuntarily unemployed while they search for appropriate work. The unemployment rate, after peaking at 11.6 percent in the third quarter of 2003, fell to less than 9 percent by the first half of 2005. The rate of recorded unemployment declined not only due to stronger economic growth and fewer foreign workers but also due to legislative changes and a toughening of the rules of eligibility for unemployment compensation, a process that began back in 2002. Some 59,000 people received unemployment compensation in 2004 (on monthly average) and this level was largely unchanged in the first half of 2005. (According to draft budget estimates, however, a smaller number was expected; therefore, NIS 2 billion was allocated for this purpose in 2005 as against NIS 2.1 billion in 2004.) The average daily

⁹ What is meant here, as explained in the 2004 Taub Center report and in the previous discussion of unemployment compensation, is that the program is experimental and partial, implemented belatedly relative to the sweeping cutbacks that were already made, and focused on reducing budget expenditure. The practical effect of this focus is immediate job placement, in contrast to setting a target of placing clients in appropriate employment that pays decent wages and offers suitable part- or full-time employment terms.

unemployment benefit rested at about half the national average wage in 2004 and is expected to have declined slightly in 2005.

The external and internal developments mentioned above – economic growth and the toughening of eligibility terms, respectively – caused the unemployment rate to fall appreciably and led to a decline of more than one-third (36 percent) in the proportion of the unemployed who received unemployment compensation: from about half of the registered unemployed in 1998 (before the rules were changed) to around one-fifth in 2004.



The falling share of unemployment compensation recipients is paradoxical in several ways. The first paradox is quantitative: precisely as the number of unemployed increased, the proportion

of them who received compensation declined. The second paradox has to do with a change in the characteristics of the recipient population: in the first five years of the current decade, the proportion of compensation recipients who had thirteen or more years of schooling increased (from 31.3 percent in 2000 to 37.2 percent in 2004) and that of poorly educated recipients fell. (Only 9.6 percent of recipients in 2004, as against 12.1 percent in 2000, had up to eight years of schooling.)¹⁰ These workers, who had held part-time, low-wage jobs, evidently failed to accumulate rights and meet the terms of eligibility for unemployment compensation due to their inferior “starting position”. Here, then, is another paradox, a more substantive one, of the withholding of insurance benefits from weak social groups.

As matters stand today, unemployment insurance largely misses its targets. It has become a partial solution, providing only some of those in need with the safety net that it was originally intended to spread. It has also become an exclusive insurance program that protects “stronger” population groups. Another study¹¹ reaches a similar conclusion, claiming that the overemphasis on encouraging the unemployed to return to the labor market has severely impaired the ability of the program to assure their social security. Under the law as currently phrased, insurance coverage of weak unemployed groups will remain partial, since 70 percent of unemployed people who have recently found work located only temporary, part-time, and poorly paying jobs. By having done so, they will remain unable to meet the qualifying requirements and accumulate rights that would entitle them to unemployment compensation. Since the main reason for the rise in the unemployment rate was a decrease in demand for labor, it is clearly unjust to penalize and disentitle the unemployed (even though the level of the benefit

¹⁰ Central Bureau of Statistics, *2004 Labor Force Survey*.

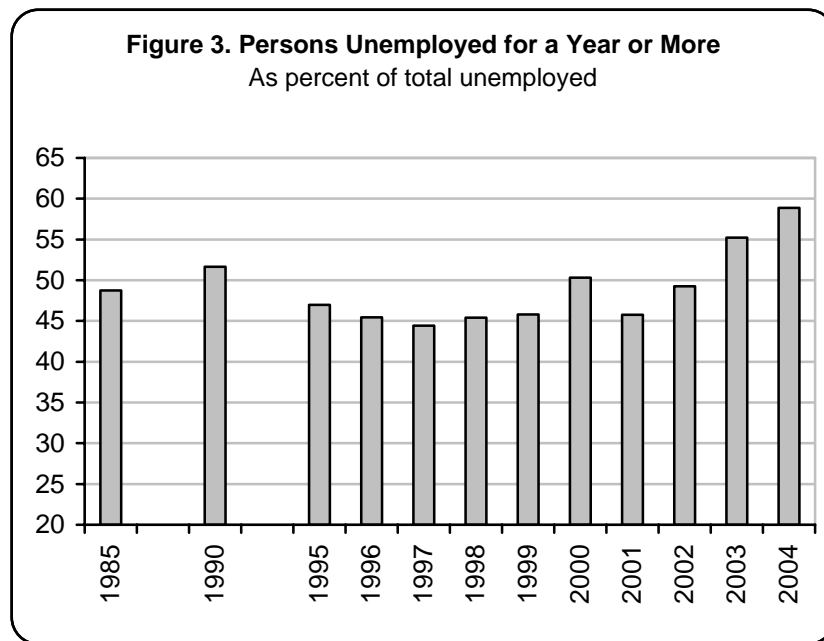
¹¹ Gal, J., 2004.

may have helped to prolong their unemployment and, in some cases contributed to the willful abuse of employment tests). What is necessary, in contrast, is concurrently to increase the supply of jobs and allow the unemployed to be more patient about seeking work. It is worth reconsidering the relaxation of the qualification terms for compensation eligibility and to extend the term of compensation in a way that will allow the unemployed to seek and find appropriate jobs, coupled with strict application of the employment tests and prevention of abuse.

The escalating unemployment rate was one of the factors that sped up the transfer payment reform that began in 2002. Although the toughening of eligibility terms did help to lower the unemployment rate, as stated, the increase in the number of "hard-core" unemployed, those who were unemployed for more than a year, must not be ignored, since this aspect actually suggests that the scope of unemployment has worsened.

These developments inspired the Ministry of Finance to take another programmatic initiative, pursuant to *Mehalev* (the welfare-to-work program), to encourage the unemployed to return to work. Although the new scheme corrects some of the limitations of earlier programs, it is not meant to respond to the erosion in the terms of eligibility for unemployment compensation. These terms, as stated, should be corrected so that the benefits will reach the intended target population and meet the original goals of the law.¹²

¹² The program is expected to give NIS 2,200 in tax relief to unemployed persons who return to work, and those who do so will receive an incentive in the form of one tax-credit point, worth NIS 2,000, in their first year back at work.



Another noteworthy point is that 9 percent of unemployment compensation recipients in 2004 (on monthly average) were recently discharged soldiers. This seems to be a high proportion, especially since most people in this group are young and were found sufficiently able-bodied for military service. The budget proposal for 2006 attempts to correct this by toughening the terms of unemployment compensation eligibility for discharged soldiers, limiting the benefit to those who have been unemployed for half a year after army service.

Persons newly eligible for compensation will receive only the new benefit, which is at a lower level than paid previously and lower than unemployment compensation in most Western developed countries. However, the size of the eligible population is expected to increase somewhat in the near future as coverage is extended to unemployed kibbutz members. It

would also seem proper to reconsider the extension of unemployment insurance to self-employed persons who are not working and are in distress. Although unemployment among members of this group is difficult to measure, and despite the current internal debate among various groups of the self-employed about the appropriate qualifying period and their willingness to pay larger National Insurance contributions (in order to include an unemployment compensation component), it seems sensible and just for a well functioning welfare state to expand the base of those paying into and qualifying for unemployment compensation.

6. Child Benefits

a. Child Allowances

The population of child allowance recipients increased by 0.7 percent in 2004 and 0.9 percent in 2005, after increases of 0.4 percent in 2003 and 0.7 percent in 2002, and stood at 945,600 households in 2004 and 953,000 households in the first half of 2005.

The number of children for whom allowances were paid grew in 2001–2005 by about one percent a year and came to 2,226,000 in 2004 and 2,255,000 in 2005. Among all benefits that were affected by the recent changes, child allowances were affected the most. Both the size of the allowance and the criteria for its receipt were revised to the recipients' detriment (including standardizing the size of the allowance so as to eliminate the effect of the number of children in the family and their order of birth). In comparison with pre-cutback level (2001), the cumulative real decrease has added up to 41 percent.

The continuation of this policy in future years (by 2009) will result in a further total decrease that is estimated at 17 percent for the first and second children and 58 percent for the third

child, relative to the allowances paid out in 2002 (which had already been dented).¹³

Total outlays for child allowances decreased by 22 percent in 2004 relative to 2003. Most of the decline is due to a reduction in allowances starting in February 2004 for families with up to two children and a change in the method of payment for newborn children. The decrease in child allowance outlays was reflected in a reduction of about one-third in the share of child allowances in total NII benefits, from 16 percent in previous years to 11 percent in 2004 and 2005. Since July 2004, families with three or more children that receive income-maintenance or alimony payments benefits from National Insurance have been compensated somewhat by means of a “family allowance,” which is paid for third and fourth children in order to compensate such families for the double reduction (to child allowances and income-maintenance).

The immediate and across-the-board implementation of the child allowance cutbacks since 2003, under the Emergency Economic Plan, led to an increase in poverty among children and among households that in many cases are not headed by breadwinners. Before the cutbacks were made, the implications of increasing the burden on such families that already have children, as against the alternative of introducing the changes over time, should have been considered. This policy reflects inconsistency in the approaches toward child allowances over the years, indicates that this area of social service is susceptible to outside influences (related to governing coalitions, etc.) and brings into greater focus the need for thorough debate before the basis of the method of allocating transfer payments is revised.

In response to the cutbacks in child allowances and government social spending, National Insurance took an initiative to reduce poverty among children by raising NIS 200

¹³ National Insurance Institute, *Annual Report*, 2004.

million in new sources from foundations and the private business sector. This multi-phased program, soon to be implemented, will include detection of the population at risk, profiling of its problems, and testing of innovative methods of intervention. The question of transferring responsibility for children's welfare to nongovernmental organizations should be dealt with as part of a broad based debate over the limits of the Israeli government's responsibility for the welfare of its citizens in future years.

b. Alimony Payments

Alimony payments (or spousal maintenance benefits) are discussed in this section of the report because they play a role in assuring children's standard of living. The Alimony Payments Law guarantees the payment of spousal support in cases where ex-husbands fail to pay despite a court ruling. Women may, in such cases, apply for collection via National Insurance or the Bailiff's Service. The sum of unpaid alimony was NIS 2.5 million in 2004 and a similar amount in 2005. Since only 10 percent of those liable pay regularly and two-thirds do not pay at all, National Insurance collected 41 percent in 2004 and 45 percent of total alimony in 2005 and forwarded payments to 25,000 low-income women (the target population of this benefit) on monthly average. About 72 percent of recipients are divorcees (the others are separated or common-law wives) and most of them – 82 percent – have one or two children. The size of this group has been stable over time. The average benefit was NIS 1,300 per month in 2004 – 19 percent of the national average wage – as against 20.1 percent in 2002 and roughly the same in 2005.

Since the Alimony Payments Law as such does not guarantee women a minimum income, some alimony recipients – about one-third in the past two years – also qualify for income-maintenance. The legislative changes that were applied to this

benefit, however, have reduced the number of alimony payments beneficiaries generally and recipients of both benefits – the most needy group of recipients – particularly, to two-thirds of its size in 2002: from 45 percent of recipients in 2002 to 32 percent in 2004 and 2005.

Table 7. Percent of Alimony Payment Recipients Who Also Receive Income-Maintenance

	Alimony payment recipients (thousand)	Alimony payment and income- maintenance recipients (thousand)	Alimony payment recipients who also receive income- maintenance (percent)
2002	27.9	12.2	45
2003	25.8	8.8	34
2004	24.6	7.9	32

Source: National Insurance Institute, *Annual Report 2004*.

The 2005 data throughout this survey are based on the NII operating budget, published in May 2005.

The responsibility that the National Insurance Institute has assumed for women and children whose husbands and fathers have evaded their responsibility for supporting them reflects the progressive principles of the welfare state. There does, however, appear to be an immediate need to make the collection of this benefit more efficient (perhaps by privatizing collection) in order to ensure that the National Insurance is reimbursed. Such a process would increase fathers' participation in raising their children and may help educate them to assume responsibility in the future. In contrast, reducing alimony payments for those in need punishes children (and their mothers) and absolves the fathers of their responsibilities.

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