

The Social Security System

The social security system unfurls a safety net for individuals and households who experience a lack of (or a decline in) work related income and/or expenses incurred under various circumstances. The system encompasses a lengthy series of programs, most run by the National Insurance Institute and administered by various government ministries (Defense, Finance, Immigrant Absorption) and the free market (employer pension plans). The social security programs have several specific goals: alleviating poverty; maintaining the standard of living of the general population; distributing an individuals' income over various periods in his life; helping to cover additional expenses such as those related to child raising; inducing the unemployed to join the labor market; compensating for loss or injury; redistributing resources; and enhancing gender equality. Public expenditure on these programs in 2006 came to NIS 44.5 billion, 42 percent of total social expenditure in the past year's budget.¹

¹ Based on National Insurance estimates of total payments in 2006 and Taub Center estimates of social expenditure in 2006.

1. Main Trends in Recent Years

Since the beginning of this decade when government policy undertook the goal of cutting total public expenditure and encouraging recipients of various social benefits to join the labor market, social security expenditure has been reduced drastically.² As a result, the social security programs have become much less able to attain most of their goals (a limited ability to begin with). Among the many goals of the social security system, some progress was made toward only one: encouraging benefit recipients to return to work. The changes that were introduced in the employment test for the income-maintenance program, the pilot implementation of Project *Mehalev* (the Israeli "Welfare to Work" program), and the significant adjustments of terms of eligibility for unemployment compensation evidently encouraged some benefit recipients to go back to work. The main contributing factor in the reintegration of some of the unemployed in the labor market in 2004-006, however, was the resumption of economic growth and the expansion of the labor market. It should be mentioned in this context that many of the changes that were adopted for this purpose disturbed the balance in programs for the working-age population between the goal of returning benefit recipients to the labor market and other goals of these programs. They especially harmed the aims of tackling poverty (income-maintenance) and maintaining the standard of living of those unemployed not by choice (unemployment compensation). The changes that were adopted severely compromised the welfare of unemployed persons who qualified for benefits under various

² The process overlooked the care of persons with disabilities. Strikes by the disabled in the late 1990s and early 2000s led to an increase in benefits for some disabled who receive assistance through general disability benefits. The main beneficiaries were the severely disabled.

programs and excluded many people from the social security system before they could find work that would provide them with a reasonable livelihood.

Apart from reintegrating unemployed into the labor force, it is evident that the ability of Israel's social security system to attain its goals has been impaired. This is especially true with respect to two main goals: alleviating poverty and redistributing income. The deep cut in income-maintenance benefits and child allowances has affected the ability of the social security system to assure a minimum standard of living to the needy or to the low-wage working population. Furthermore, the proportions of households in poverty and, especially, of large families in distress have increased significantly. The share of poor families whose incomes rose above the poverty line as a result of the impact of transfer payments and direct taxes was reduced from 47 percent in 2001 to 40 percent in 2004 and 39 percent in 2005. At the same time, the widening of social disparities between 2002 and 2005 was reflected in a 5.4 percent rise in the Gini Index during this time, to 0.3878.

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

The most conspicuous **demographic changes**, mass immigration and the increase in life expectancy, were accompanied by changes in family patterns, foremost among them higher rates of divorce and a greater number of single-parent households. These factors in concert led to an increase in the scope of benefits that cater to these groups, i.e., alimony and income-maintenance. The rise in the number of Israelis receiving unemployment compensation, income-maintenance, and old-age and survivors' benefits also stems from the composition of the mass immigration – the relatively high proportion of elderly and single-parent households among the immigrants and the relatively low number of children – coupled

with difficulties in acculturation, occupational integration and the non-accrual of work-related pension rights.

As for **developments in the labor market**, the rise in economic growth to 5.2 percent in 2005, stemming largely from the improvement in the global economy, raised Israel's labor force participation rate and the number of persons employed and lowered the unemployment rate. The domestic labor market, however, is being influenced by several processes – globalization, technological developments, and changes in occupational structure – that give well-educated and skilled workers an advantage over the poorly educated and the unskilled. Although the unemployment rate among the unskilled also declined, their increase in employment was manifested mainly in filling low-wage part-time and temporary jobs. This caused the proportion of working poor to increase and made it necessary to insure their minimum standard of living by means of transfer payments. In 2006, the national unemployment rate stood at 8.4 percent after falling steadily since the end of 2003.

2. Benefits – Their Level and Recipients

The number of benefits paid out by the National Insurance Institute, the Ministry of Defense (to disabled veterans and bereaved families), and the Ministry of Finance (to victims of the Nazis) is estimated to be 2.6 million in 2006. (The number of recipients is less because some are entitled to more than one benefit.) Relative to previous years, the number of benefits paid out in 2005 and the first half of 2006 increased little, attesting to the continued slowing of growth among the beneficiary population.

The rate of decline varied among the various types of benefits. It was highest among recipients of income-maintenance, whose numbers continued to fall in 2005 and 2006. The growth rate of recipients of long-term care benefits

and child allowances dipped slightly in 2005 but rose again in 2006 (according to initial data for the first half of the year). The number of unemployment compensation recipients leveled off and rose slightly in 2005 after three years of steep decline but declined again in the first half of 2006. The population of recipients of old-age and survivors' benefits decreased for the first time in 2005 and stabilized at roughly the new level in the first half of 2006.

Table 1. Recipients of Main National Insurance Benefits,
(Monthly average, thousands)

Year	Families receiving child benefits	Old-age/survivors	Long-term care	Disability	Income-maintenance	Unemployment
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	145.1	58.7
2005	956.3	719.9	115.0	170.9	140.7	58.9
2006*	965.2	723.2	119.0	175.8	130.0	57.6
Annual percent change						
2001	1.7	3.0	10.0	5.2	10.6	13.1
2002	0.7	2.3	6.5	5.7	6.5	-7.4
2003	0.4	2.4	0.6	4.5	2.8	-27.0
2004	0.7	1.8	0.4	3.2	-6.7	-17.1
2005	1.1	-0.3	1.4	5.2	-3.0	0.3
2006*	0.9	0.5	3.5	2.9	-7.6	-0.2

Source: National Insurance Institute, 2006.

* Estimate for first half of 2006.

The growth rate among disability benefit recipients stands out against the background of slowdowns or low rates of increase in most types of benefits. The growth rate in disability benefits reverted in 2005 to the 2001 pace. The number of disability benefit recipients remained high in the first half of 2006, although the growth rate slowed relative to 2005.

Total benefit outlays by National Insurance were NIS 42.3 billion in 2005 and are projected at NIS 44.5 billion in 2006. Total payments in 2005 were 10 percent smaller in real terms than in 2002. The planned total for 2006 marks a return to the 2001 level.

Table 2. Expenditure for Selected National Insurance Benefits, 2000–2006 (NIS billions, current prices)

	Total outlays*	Old-age/survivors	Child benefits	Dis-ability	Income-main-tenance	Long-Term care	Unem-employment
2000	38,912	13,483	6,942	4,962	2,874	1,790	2,958
2001	44,571	15,197	7,576	5,901	3,494	2,142	3,512
2002	46,291	15,450	6,720	6,805	3,699	2,504	3,533
2003	43,875	15,551	6,088	7,063	3,242	2,463	2,428
2004	41,794	15,780	4,794	7,107	2,928	2,472	2,118
2005	42,327	16,257	4,483	7,496	2,760	2,551	1,993
2006	44,510	17,269	4,999	8,126	2,753	2,661	1,981
Percent distribution*							
2000	100.0	34.6	17.8	12.8	7.4	4.6	7.6
2001	100.0	34.1	17.0	13.2	7.8	4.8	7.9
2002	100.0	33.4	14.5	14.7	8.0	5.4	7.6
2003	100.0	35.4	13.9	16.1	7.4	5.6	5.5
2004	100.0	37.8	11.5	17.0	7.0	5.9	5.1
2005	100.0	38.4	10.6	17.7	6.5	6.0	4.7
2006	100.0	38.8	11.2	18.3	6.2	6.0	4.5

Source: National Insurance Institute, 2006.

* Because the data pertain to selected benefits each year, the outlays included in the columns do not add up to the total and the percent distribution does not add up to 100.

The three main types of insurance – old-age and survivors, child allowances, and general disability – account for two-thirds of total benefits as opposed to 70 percent in 1995. The decrease originates in a relative decline in child allowances, from one-

fifth of total expenditure in 1995 to around one-tenth in 2005. The share of disability and old-age benefits, in contrast, increased consistently and substantially during the decade. The share of unemployment compensation also fell noticeably, that of income-maintenance benefits dropped, and that of long-term care benefits increased moderately. The share of disability benefits in total benefits continued to rise and stands now at a level one-third higher than five years ago (2001).

The average level of benefits per capita continued to decline in 2005 and the real cumulative decrease relative to 2001 came to around 18 percent. The cumulative reduction was strongest in child allowances, which dropped to around 50 percent of their 2001 level.

The following sections examine issues relating to social security programs for four main population groups – the elderly, persons with disabilities, working-age persons without income, and families.

3. Social Security for the Elderly

Social security arrangements for the elderly are the most expensive and comprehensive in the social security system. National Insurance expenditures for the elderly (old-age and survivors' benefits and long-term care insurance) account for 44.4 percent of total expenditure. The social security system for the elderly has four tiers: universal old-age benefits for all seniors; income supplements, a selective benefit for seniors who have no other source of income; work-related pensions (set in labor agreements); and savings arrangements for old age.

The system at large has various goals. By combining the first, third, and fourth tiers, it seeks to maintain individual retirees' standard of living and by collecting insurance contribution during a person's working life, aims to disburse his income over his full lifespan. By combining the first and second tiers, the

system tries to alleviate poverty and the lack of adequate income of those who do not accumulate pension entitlements or savings.

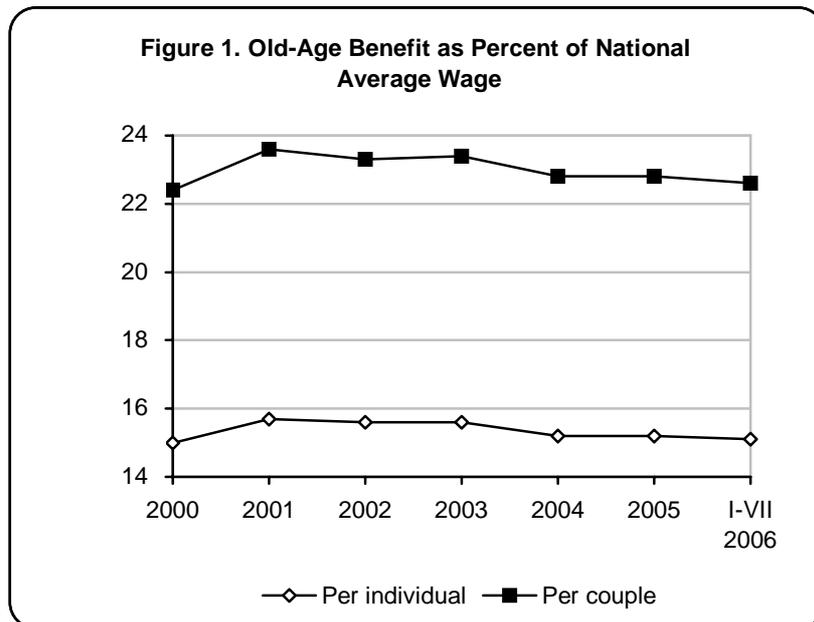
a. Benefits for the Elderly

The universal old-age benefit is paid to every elderly person (at age 65 and 70 for women and men, respectively) and survivors. Some 720,000 seniors (on monthly average) received old-age and survivors' benefits in 2005; 85 percent of them received the former benefit and the remainder received the latter. Some 13 percent of old-age benefit recipients did not accrue rights under the National Insurance Law; most of them were immigrants who arrived after age 60. Their benefits were paid by the government.

The number of benefit recipients declined by 0.3 percent in 2005 relative to 2004. Even though some of the decrease stems from the raising of the retirement age in 2004 and a decline in the number of recipients of special benefits, the downturn in old-age and survivors' benefit recipients was unexpected and is not fully explained by the aforementioned factors. Total expenditure for old age and survivors' benefits increased in 2005 by 1.7 percent (in constant prices) due to several changes that were introduced for that year: adjustment of the benefits to the cost of living; a reduction in the rate of decrease in the legislated old-age benefit; and an increase in benefits coupled with income supplements. Additional changes occurred in the mix of benefit recipient populations (mainly a proportional increase in the number of recipients of the seniority supplement).

The old-age benefit was reduced by 4 percent in June 2004. Beneficiaries who also received income supplement and/or survivors' benefits were exempted. Another decrease in the average real value of the benefits (by about 2 percent relative to 2001) occurred due to the fact that benefits in 2005 were not adjusted and the changeover in indexing from the national average wage to the Consumer Price Index. During 2005,

however, due to the realization that the benefit cuts to low-income seniors had been severe, several corrections were made. Thus, in January 2005 the old-age benefits were adjusted upward by 0.9 percent and in May the legislated benefit cut was reduced from 4 percent to only 1.5 percent. In addition, the combination of old-age and survivors' benefits with income supplement was raised gradually: by 3 percent in January and by 9 percent in July. In January 2006, after the series of changes, the basic personal old-age benefit stood at NIS 1,127.



After adjustments of the benefits in 2005 and 2006, the average rate of benefit was 30.7 percent of the national average wage (NIS 7,383 in January 2006). However, even though poverty among the elderly was slightly less prevalent in 2005 than in 2004 (declining from 25.1 percent to 24.4 percent in the

respective years), mainly due to the increase in benefits for seniors who receive income supplement, the fact remains that about one-fourth of seniors in Israel remain poor. This illustrates the very limited success of the social security system in coping with the problem.

The third tier, work-related pension, is supposed to supply the elderly with their main retirement income. It has been a major topic in the public debate over social security for many years.³ However, since Israel has no compulsory pension law and its collective (trade union) agreements do not apply to most workers, the pension system does not provide full coverage. Although there have been many attempts to legislate employer pensions in recent decades, none has succeeded thus far. The failure is reflected in the high rate of workers and retirees who have no pension coverage. Against this background, the value and level of the National Insurance old-age benefits should be considered very important as a basis of seniors' income. The incompleteness of coverage of the elderly by the other tiers, which are not legislated, coupled with the unique composition of Israel's elderly population – which in coming years will also include immigrants who cannot accumulate enough pension seniority to insure a reasonable standard of living⁴ – makes it necessary to maintain the level of the National Insurance benefits.⁵

Beyond maintaining the level of the benefits, a compulsory legislated pension that shifts all workers to cumulative pensions

³ Peleg, 2006.

⁴ Due to the onset of accumulation of immigrants' pension rights at a relatively advanced age, a large share of the immigrants (from the former Soviet Union and Ethiopia) are expected to accumulate only a few years of seniority, enough to qualify them for a low employer pension. Many arrived in Israel at pension age and did not work at all and so have not accumulated any pension rights.

⁵ Kop, Y., and Barzuri, R., 2005.

is needed due to income disparities between seniors who receive pensions and those who do not. The recent pension reform that was originally meant to alleviate the actuarial deficits of the old pension funds actually harmed members of all funds, new and old alike. It demonstrates the immediate need for a compulsory pension law that will insure the rights of pension fund members.

The **fourth tier** of the social security system for the elderly is **savings for old age**. The main vehicle here is the provident fund, which exists in many forms and is meant for the savings for retirement with employee and employer contributions encouraged by means of tax deductions. This tier of the system is central in insuring the income of self-employed persons and employees who do not join pension funds.

Several changes with regard to contributions to provident funds, made during 2005 and implemented in January 2006, affect savings for old age. The purpose was to increase contributions to these funds for retirement purposes at the expense of contributions for other purposes, by toughening the terms that apply to contributions to the latter.

b. Long-Term Care Benefit

The long-term care benefit is available to persons who live in the community, have reached retirement age, have difficulties in daily functioning, and pass a means test (applied to themselves and their spouses). The benefit is an in-kind service because it is paid directly to an organization that delivers the service under legislated arrangements. It includes a diverse “basket” of support services that are tailored to the individual's needs.

In 2005, an average of 115,000 seniors per month received this benefit. Three-fourths of the beneficiaries were women. Around 60 percent were aged 80+; the share of recipients in this age group has been rising steadily over the years. About one-fourth of recipients were immigrants, a group that is

overrepresented among the beneficiaries relative to their share in the population.

The coverage rate of long-term care insurance among those in need rose until 2002 but has been declining of late. Evidently the toughening in approving claims for the benefit has left its imprint by driving down the number of new benefit recipients. Although the rate of claims approved rose slightly in 2004 and 2005, the annual rate of increase in the number of beneficiaries has slowed to 1.4 percent.

The long-term care benefit, like other benefits, was cut by 4 percent between July 2002 and the end of 2006. The (average) benefit as a fraction of the national average wage eroded in 2001–2004, but in January 2006, after the freezing of the benefit (under the 2002 Economic Arrangements Law) ended, the benefit was adjusted upward by 2.7 percent. Accordingly, the average monthly benefit in 2006 is expected to be higher than the 2004 and 2005 levels of NIS 1,826 and NIS 1,879, respectively.

The benefit is awarded at two levels: a low level, set at 93 percent of the full disability benefit, and a high level, 150 percent. Some 33 percent of beneficiaries receive the larger sum. Their proportion among all benefit recipients has been rising over time and that of recipients of the lower benefit has been declining.

4. Benefits for Persons with Disabilities

Israel has a range of programs that serve persons with disabilities in specific target groups. The basic principles, terms of access, level of benefits, and baskets of services for these population groups vary widely. Two main programs are offered under the auspices of the National Insurance Institute: general disability insurance and work injury compensation. A third

important program, meant for disabled veterans, is run by the Rehabilitation Division of the Ministry of Defense.

The Disability Insurance Law is designed to provide for all persons with disabilities who are not covered by other programs. It offers four benefits: a disability benefit meant to assure recipients a minimum basic income; a special services benefit that helps persons with disabilities to function in their households; a disabled child benefit, aiding families who care for a disabled child; and a mobility benefit, to help persons with disabilities to gain mobility outside of the home. The law also entitles persons with rehabilitation potential to receive rehabilitation services so that they may find work.

a. Disability Benefit

Nearly 170,000 persons with disabilities received a disability benefit in 2005 (on monthly average) – 4.5 percent of the relevant population group (age 18+) and 6.8 percent of all benefit recipients in 2005. This is the third largest group among recipients of National Insurance benefits. The growth rate of this group, albeit slower than the pace in 2000-2002, resumed its increasing in 2005 (5 percent) and is expected to grow by 4 percent in 2006 – increasing faster than recipients of other benefits.

Due to the rising awareness in recent years of disability and the difficulties that persons with disabilities face, the Knesset passed – in addition to agreements previously concluded with associations of the disabled (after lengthy strikes by these associations) – the Assurance of Access to Public Places for Persons with Disabilities Law, which was immediately implemented on a compulsory basis in regard to most public buildings. Another development in this field stems from the government resolution that approved the conclusions of the *Laron* Committee (June 2005), which examined the needs of persons with disabilities and the advancement of their

integration into the community. The committee made several main recommendations:

- a. Reform the method of benefit payment. Persons with disabilities who find work should not lose their benefits at once; instead, this should be phased to allow the beneficiary's total income to rise as labor income increases.
- b. Make it easier for persons with disabilities to be employed and improve the organizational system that deals with their hiring; establish regulations for the modification of workplaces for persons with disabilities and provision of state assistance in covering these expenses; establish an adjusted minimum wage for a trial period; make government subsidies and participation in public tenders conditional on the employment of a certain proportion of persons with disabilities, following the principle of appropriate representation.
- c. Determine the methods and responsibilities of various government offices and centralize rehabilitation activities with the Rehabilitation Services Administration. The organizational array that helps persons with disabilities to find work should be organized around the principles of a one-stop service center and care giving coordinator.
- d. Encourage subsidized employment. A detailed plan should be drawn up for the hiring of 8,500 disabled persons over a five-year period in settings of this kind, and a NIS 25 million fund should be established for subsidizing these persons' employment, for immediate implementation.

The profile of beneficiaries by types and severity of disabilities shows that nearly one-third suffer from mental disorders. Most (81 percent) are defined as totally unable to join the labor market (100 percent disabled). Persons with mental disabilities also stand out among those with high disability scores. This finding has implications for the chances of their rehabilitation and deserves examination.

Payments for general disability and other benefits under the heading of disability insurance were NIS 7.4 billion in 2005 as against NIS 7 billion in 2004. Rapid growth in the numbers of beneficiaries and those defined as permanently disabled resumed in 2005, as stated. This may indicate the existence of “benefit creep,” as income-maintenance beneficiaries slide into disability benefits. This issue, too, deserves further examination.

The average disability benefit in 2005 was NIS 2,340 per month, 1.8 percent lower than the 2004 level in real terms, mainly because it was not adjusted for price increases and because the composition of the recipient population changed. In 2006, the real level of the disability benefit remained basically unchanged.

Table 3. Disability Benefits and Its Share of National Average Wage, 2000–2005

Year	Disability benefit (constant prices, monthly average, NIS)	Change (%)	Proportion of average wage (%)
2000	2,168	—	29.4
2001	2,354	8.6	31.0
2002	2,254	-4.2	31.5
2003	2,346	4.1	33.9
2004	2,383	1.6	33.4
2005	2,340	-1.8	33.2
2006	2,345	0.3	32.0

b. Work Injury Compensation

In addition to general disability, the National Insurance Institute has a work injury compensation program that provides benefits and rehabilitation services for persons injured in accidents or stricken by illness while on the job or because of the job. The program includes a temporary benefit (injury pay), given during the initial period following the injury, and a permanent benefit

(work disability benefit). Unlike the general disability benefit, work injury compensation is meant to maintain the individual's standard of living. Therefore, the standard benefit is calculated at 75 percent of the individual's previous wage and is pro-rated to degree of disability.

The number of those injured at their work place who receive lifetime disability benefits has been rising steadily over time. The explanation is linked to the continuing increase in Israel's labor force participation rate. The self-employed receive larger disability benefits than employees do – 43 percent of national average wage, on average, as against 38 percent, in 2005.

c. Disabled War Veterans and the Ministry of Defense

The third important disability program is for war veterans and is run by the Rehabilitation Division of the Ministry of Defense, which compensates persons who sustain injury or illness during or as a result of military service. The level of the disabled veteran benefit is calculated considering the extent of physical impairment and the wage level of persons at a certain rank/grade in the public service. In addition to the basic benefit, disabled veterans are entitled to a lengthy series of benefits and services. The Rehabilitation Division also helps members of bereaved families by providing social and economic services and various grants.

Table 4. Recipients of Disability Benefits (10–100 Percent Disability) from the Ministry of Defense, 2002–2005

Year	Total	Annual change %
2002	55,105	—
2003	56,435	2.4
2004	56,101	– 0.8
2005	56,989	1.6

Source: Ministry of Defense, 2005, Rehabilitation Division reports.

The population of Ministry of Defense beneficiaries in 2005 included some 57,000 recipients of financial benefits and another 25,000 family members of IDF fallen and disabled veterans. Compared with 2004, the number of disability benefit recipients increased by 1.6 percent in 2005 but the number of family member beneficiaries declined. This happened because there were fewer casualties in 2005 and lower mortality rates among older bereaved parents. The war in Lebanon in 2006 may change the picture.

The Ministry of Defense paid out NIS 3.4 billion in benefits in 2003,⁶ 0.68 percent of Gross Domestic Product that year and 10 percent of social security expenditure in Israel in recent years. In 2005, the rate declined to 0.64 percent of GDP.

Table 5. Ministry of Defense Benefits as Percent of GDP, Selected Years

Year	Percent of GDP
2000	0.60
2001	0.67
2002	0.67
2003	0.68

⁶ Gal, J., 2004.

2004	0.66
2005	0.64

Source: Bank of Israel, *Annual Report 2005*.

d. Casualties of Enemy Action

To complete the discussion of disability benefit recipients, one must examine the civilian casualties of enemy action, whose benefits are paid from the Ministry of Finance budget via the National Insurance Institute.⁷ Even though this group is relatively small (about 3,000 persons on monthly average in the first half of 2006), it has been rising over time. Most casualties in this group receive low disability benefits (up to 39 percent disability). Some 56 percent of beneficiaries in 2005 were men. The average monthly allowance was NIS 3,313 that year as against NIS 3,357 in 2004 (both in 2005 prices); it includes benefits for those who become disabled, the disabled needy, disabled persons who lack a source of livelihood, and survivors of the disabled.

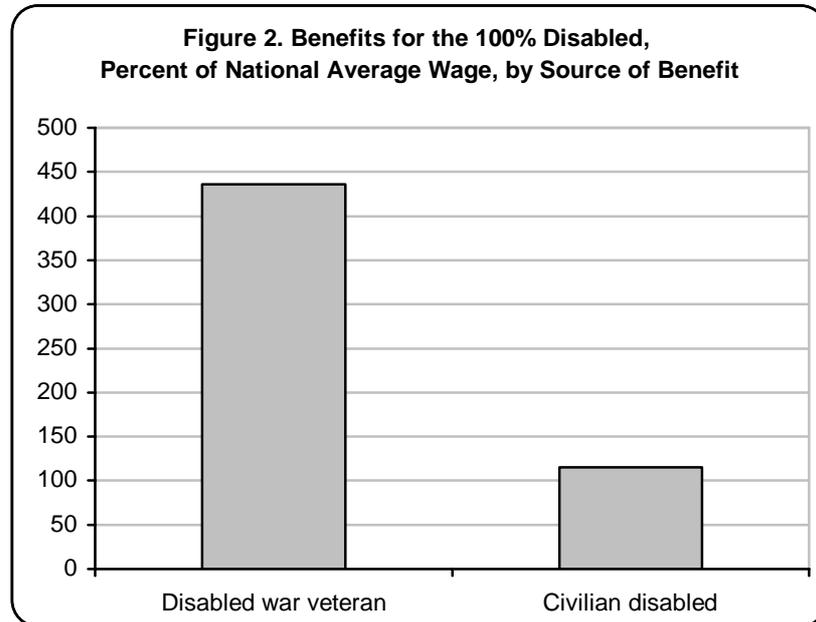
e. Disparities in Benefits for Persons with Disabilities

Dealing with differences in compensation for persons with disabilities is a sensitive issue that has led to charged and complex public discourse in Israel. A comparative glance at the existing programs reveals large disparities among population groups of the disabled in access, level of compensation, services, and supplemental benefits. Figure 2 summarizes the situation and reflects the different basic principles and goals of the programs that support these population groups. Despite the understandable justification of the desire to compensate those

⁷ This category is especially relevant in view of the profusion of injuries to civilians due to the bombardment of localities in Northern Israel during the recent Lebanon war.

who sustained injuries in the course of their military service, it is legitimate to ask whether the large existing disparities between the entitlements are acceptable. The time may have come to rethink the social security system for persons with disabilities as a whole. The benefits shown in Figure 2 also include supplemental benefits that persons with disabilities receive for medical needs, mobility, special services, and payments for an aide.

The debate surrounding the criteria for disability benefits centers on the adjustment of benefits to the intensity of the individual's needs and severity of injury. Some believe that the level of benefits should also depend on the circumstances of the injury (military or civilian). Another debate concerns the use of the benefit level as an incentive or deterrent, for example, setting benefits for traffic accident casualties at low levels in order to help reduce the number of accidents and raising disabled veterans' benefits to encourage volunteering for hazardous and/or combat tasks.



5. Income-Maintenance and Unemployment Compensation

People of working age who do not participate in the labor force and have no income are the target population of two social security programs in Israel – income-maintenance and unemployment compensation.

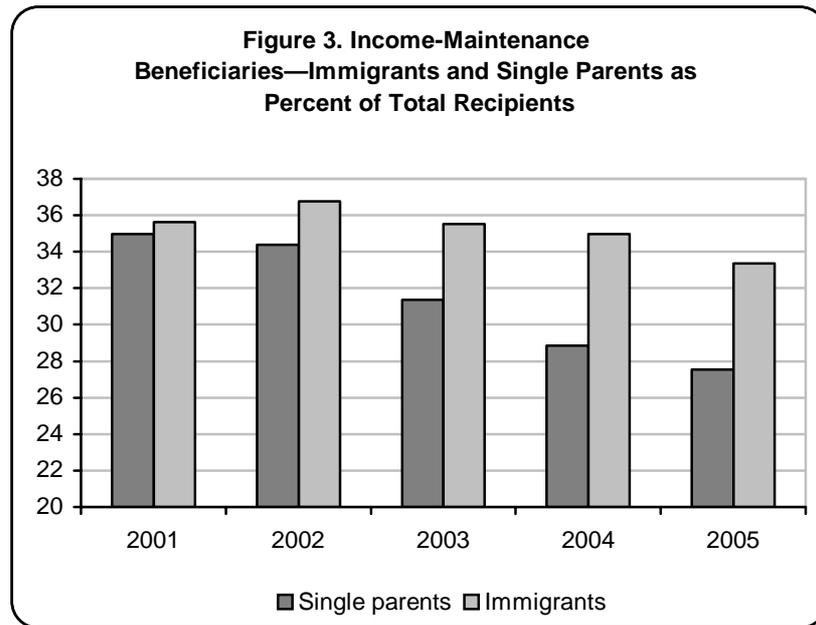
a. Income-Maintenance

Income-maintenance benefits are paid to households whose members are of working-age and either do not work or have a lower total income than the threshold established in law. The share of households that receive this benefit ballooned in the 1990s for reasons including mass immigration (which included immigrants who had no source of income), the high

unemployment rates that prevailed during much of that period, and changes in the eligibility rules that expanded the coverage of weaker population groups. The goal of cutting social transfer expenditure at large, stemming from the neo-liberal approach in the Finance Ministry's policies, coupled with the socio-political weakness of the beneficiaries, led to the enactment of a series of comprehensive legislative amendments in 2002-2003. The changes significantly reduced income-maintenance and its related benefits, reduced and recomposed the recipient population, and made the program less able to alleviate distress and poverty among the population in need.

Income-maintenance expenditures were NIS 2.76 billion in 2005, 15 percent lower than in 2003 (in nominal terms). The average monthly benefit declined from NIS 1,785 in 2003 to NIS 1,630 in 2005. The fraction of the benefit in the average wage fell during the 2002–2005 period from 29 percent to 23 percent.

The number of beneficiaries declined from 155,000 in 2003 to 145,000 in 2004 and 141,000 in 2005, for a total decrease of about 10 percent. The decline reflected several trends: the new legislation toughened the eligibility terms; the pace of entry of new beneficiaries slowed; and the significant long-term downward trend in the number of immigrants who received income-maintenance benefits (15 percent between 2003 and 2005) relative to non-immigrants. Another noticeable change in the composition of income-maintenance recipients was a decrease in the number of single parent households.



The income-maintenance program pays benefits at differential rates: the normal rate, a higher rate, and a special rate for single parents. There is also a distinction between the full benefit, paid to persons who have no income or whose income falls below the minimum established in law, and a partial benefit, paid to those whose income surpasses the minimum but remains low enough to maintain their entitlement. Until 2002, many income-maintenance recipients received a full benefit at the higher rate and a large share of single parents received full or partial benefits. The reform that changed the eligibility rules also changed the mix of beneficiaries: the proportion of normal rate beneficiaries increased (by more than 50 percent) and that of single parents fell. The income-maintenance benefit for persons up to age 55 eroded in 2003-2004 by 10-25 percent (depending on household composition).

The revision of the eligibility rules made the higher level of benefit more difficult to obtain, and the erosion of the benefit will continue as the toughening of the rules continues. This added difficulty coincided with changes in the labor market and the likelihood of avoiding poverty through finding employment. While in the past, a permanent job increased the likelihood of making a respectable living, today, the labor market creates severe inequality (mainly due to the demand for well-educated workers). This is due to the conditions of employment that the “new world of work” offers: temporary, part-time, low-wage jobs through personnel agencies, with less protection by trade unions. Consequently, the ranks of the “working poor” are growing: the proportion of working poor households has climbed to 43 percent of all poor households. Low-wage workers need income-maintenance and other supplemental benefits.

The measures that were adopted to reduce benefits and the number of people eligible aggravated the distress of these weak population groups and make it necessary to take actions to boost labor force participation among those who can work and whose eligibility for income-maintenance benefits was revoked or reduced. This should take the form of vocational training and other measures that would encourage labor force participation. One such program has been activated: a wage subsidy for single parents although these programs have reached only a select group of income-maintenance recipients. It is true that legislation concerning the occupational integration of income-maintenance recipients and the implementation of Project *Mehalev*⁸ may help to differentiate among people who have

⁸ A welfare-to-work program was adopted in the Integration of Income-Maintenance Beneficiaries in Work Law, passed as part of the 2004 Economic Arrangements Law; it pertains to income-maintenance recipients

different levels of earning ability. The intent of these measures is to facilitate continued support for those who are unable to work while reducing benefits and providing back-to-work assistance for those who can work. However, the program has many limitations⁹ and its success will be examined as it is implemented in pilot form through August 2007.

Although initial evaluation of the program after nine months of operation is premature, it illuminates several significant aspects. The findings of the evaluation show that 44 percent of program participants found work by means of the program and the per-participant outlay for income-maintenance declined. Most of those placed in jobs, however, were young men; jobs were not found for members of weak population groups – single-parent mothers and older workers – who were especially harmed by the benefit cutback. Furthermore, a large share of those who were found employment were placed in temporary or unsuitable jobs, prompting them to return to the program for replacement.

The decline in income-maintenance payments was achieved by subtracting those who found work *and* those who left the program without finding work due to illness, maternity leave, or despair. This may have led to the replacement of income-maintenance with other benefits. As stated, in order to make any decision about expanding or terminating Project *Mehalev*, one should evaluate the program at a later time, i.e., after two years

who are seeking work and have low income. Project *Mehalev* – the “Israeli Wisconsin Plan,” was activated in August 2005.

⁹ The limitations, as explained in the 2004 report of the Taub Center and in the following discussion about unemployment compensation, concern the program’s experimental and incomplete nature, its implementation only *after* the sweeping cutbacks were made, and its emphasis on reducing budget expenditure – which translates, in practical terms, into immediate job placement as opposed to the goal of placement in jobs with adequate wages and of a long-term nature.

of operation on a limited scale, as originally determined. Due to public pressure, however, it was decided in September 2006 to ease the terms for members of various participant groups: older people, single-parent mothers, immigrants, and persons with disabilities. Today, the possibility of revising the underlying economic model of the program is being weighed, so that its operators would be rewarded for placing participants in long-term jobs with reasonable salaries.

Various schemes to assure the income of disempowered population groups have been proposed recently. One of them is the introduction of a negative income tax, which would help insure a reasonable level of income for the working poor but which is unable to help meet the basic needs of those who do not work.¹⁰

b. Unemployment Compensation

Unemployment compensation is meant to provide those who have lost their jobs with a wage substitute, for a limited period of time, so that they may seek appropriate employment. The unemployment rate has fallen steadily since the end of 2003 and stood at 8.4 percent in 2006, i.e., around a quarter of a million unemployed. The rate fell not only due to economic growth and a decrease in the population of foreign workers, but also due to legislative changes and a toughening of the rules of eligibility for unemployment compensation, a process that began with the 2002 economic plan.

Around 59,000 people received unemployment compensation on monthly average in 2005, similar to the 2004 level – 24 percent of the unemployed as against 21 percent in 2004 – a 14 percent increase in the share of unemployment compensation recipients among all unemployed. It seems that despite the

¹⁰ Malul, Luski, 2006.

decrease in the number of unemployed, the total number of unemployment compensation recipients did not decrease because the improvement in the labor market allowed more jobless people to accumulate enough continuous days of work to qualify for compensation. In 2006, the share of compensation recipients among the unemployed remained at roughly the 2005 level.

About 29,000 compensation recipients were discharged soldiers (15 percent). Their numbers among total recipients have been rising continuously (except in 2004, when a decline occurred). Discharged soldiers who find work in preferred occupations are eligible for a grant, but the number of recipients of this grant declined last year due to a decision to exclude security services in schools and on public transport from the list of preferred occupations. This, in turn, caused an increase in the number of discharged soldiers receiving unemployment compensation. For some discharged soldiers, it seems that in the absence of sufficient financial incentive, the wish to receive unemployment compensation is greater than the desire to join the labor market.

Unemployment compensation is pro-rated to the individual's pre-unemployment wage. The average daily compensation stood at around half of the national average wage in 2005, similar to the 2004 level in nominal terms, and is less generous than in the past and relative to unemployment benefits in other Western countries. According to preliminary estimates, the value of unemployment compensation continued to trend downward in 2006, losing 10 percent relative to its 2001 level.

Participants in vocational training courses received especially low unemployment benefits. This is the result of a July 2002 legislative amendment that reduced the benefit given to vocational training students by 30 percent. For members of this group, the average unemployment compensation was 35 percent of the national average wage.

Figure 4. Unemployment Compensation as Percent of National Average Wage, Selected Groups
Average, 2005

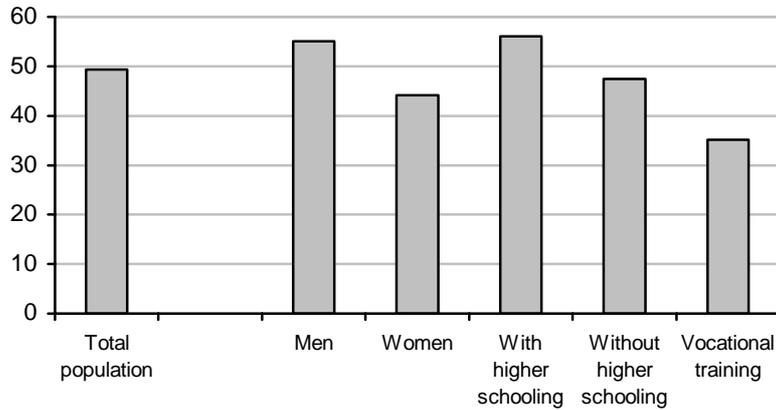
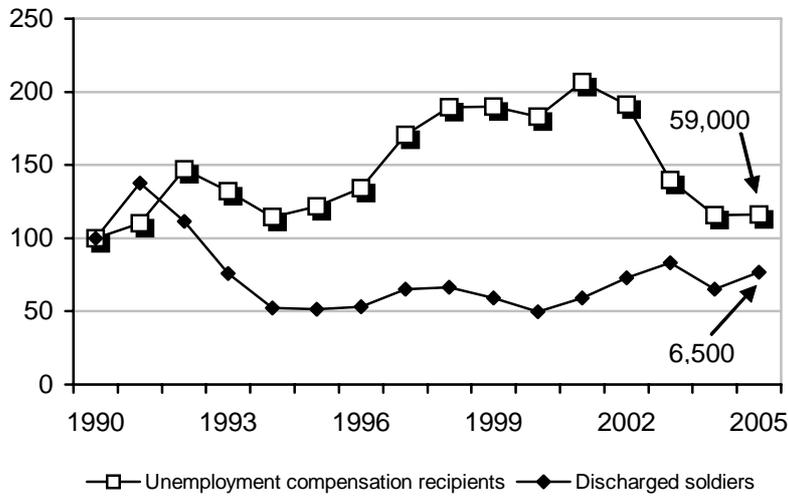


Figure 5. Unemployment-Compensation Recipients, Total and Discharged Soldiers
Index, 1990 = 100



The amendment dampened the willingness of unemployed persons to take vocational training, a vehicle meant to enhance and upgrade their vocational credentials. It also defeated the legislator's intention of giving the unemployed an opportunity to upgrade their qualifications. With this in mind, the law was recently amended again so that participants in vocational training may continue to receive unemployment compensation during their training. Even those who take study programs that last more than a year (mainly academic) are included, in a departure from the past. This amendment was not yet reflected in the data for 2005 which indicated a steep and continuous decline in the number of unemployment compensation recipients who took vocational training courses – from 5 percent of all unemployment compensation recipients in 2002 to 1 percent in 2005.

6. Family Subsidies: Child Allowances, Alimony, and Maternity Insurance

The social security system includes several family programs that differ in operating principles and objectives. Some attempt to cope with problems of family distress and poverty; others are aimed at easing the cost of child raising, provide maternity leave benefits, or promote gender equality by means of a more equal gender division of labor in the household.

a. Child Allowance

Child allowances are provided for two main purposes: to help families to cover the costs of raising their children and to alleviate poverty among households with children. The number of recipient households increased by 1.1 percent in 2005 relative to 2004 and came to 956,300, and the number of children for whom allowances were paid rose by 1.5 percent, to 2,260,600.

Amidst the changes that were introduced in the general array of social security benefits, child allowances were significantly affected, both in their level and in the eligibility criteria (including the leveling of the benefit such that the number of children in the household and their birth order no longer affect the allowance). The total outlay for child allowances fell from NIS 8.1 billion in 2001, the year preceding the cutbacks, to NIS 4.5 billion in 2005 – a 45 percent decrease in real cumulative terms. The continuation of this policy in the years to come (up to 2009) is expected to cause an additional 15 percent decline for first and second children, 57 percent for third children, and 80 percent for fourth-born children and up, relative to allowances paid out in 2002 (which had already been affected by the cuts).¹¹ The real rate of the cutbacks will probably be even steeper due to non-adjustment of the allowances.

Most of the decrease in child allowances originates in the February 2004 reduction of allowances for households with two children and revision of the payment method for additional children in the household. This measure cut the share of child allowances in the total disbursement of social security benefits by about one-third – from 17 percent in 2001 to 11 percent in 2004 and 2005. Since July 2004, households with three or more children that receive income-maintenance or alimony benefits from the National Insurance Institute have been partly compensated for the allowance reductions in both child allowances and income-maintenance benefits by receiving a “family allowance” for third and fourth children only.

The immediate across-the-board implementation of the child allowance cutbacks in the emergency economic plans since 2002 increased the incidence of poverty among children and households by one-third and especially in homes where the head

¹¹ National Insurance Institute, annual reports, various years.

of the household does not participate in the labor market. Thus, the number of children under the poverty line rose from 556,000 in 2002 to 714,000 in 2004 and around 770,000 children in 2005.

The consequences of increasing the financial burden on households with children, as opposed to spreading changes over time, should have been considered. The government's policy was especially inconsistent with respect to child allowance recipients. It revealed the sensitivity of this field to external pressures like the composition of Knesset coalitions and illustrates more acutely than ever the need for thorough debate before any fundamental revisions in the method of allocating transfer payments are enacted.

Comparison of in-cash benefits that households with children in Israel receive as against those in other countries shows that most Western countries give families additional in-cash benefits apart from the basic child allowance. Examples are tax credits, child-care benefits, study benefits, and extra increments for large families. Child allowances are universal in most European countries, as they are in Israel, and most countries pay them for children up to age eighteen.¹² Israel's average child allowance as a percent of per capita GDP was one of the highest in 2001 – 4.7 percent, approximating the level in generous countries such as Belgium and Finland. By 2005, however, the average per-child allowance had fallen to 2.5 percent of per capita GDP. By 2009, it is expected to sink to 2 percent.

To make sure that the child allowance covers a meaningful share of child raising costs, the level of the allowance paid in Israel should be raised for all households. The allowance for first and second children should reflect the recommendation of the 1975 *Ben-Shahar* Commission, i.e., it should be set at

¹² Ophir, Eliav, 2005.

NIS 170 in current values (as against NIS 148 today). To help tackle the problem of poverty among large families, their income should be raised in a way that does not diminish their motivation to work. Until a negative income tax plan is implemented, a supplement should be paid for each child in large families (from the fourth child onward) with no means test. The increase should be set at a ratio of 1.5:1 for the third children (relative to the allowance for first and second children) and 2:1 for each child from the fourth onward.

b. Alimony

The Alimony Law assures the payment of alimony to women where such has been determined by court order. When a former husband fails to pay in accordance with the court order, the woman may apply for collection by means of the National Insurance Institute through the Bailiffs' Service. Alimony payments are funded by receipts from debtors and from the state treasury. The undertaking of National Insurance to pay alimony includes responsibility for collecting money from the non-paying former spouse. This, however, covers only part of the liability. In 2005, National Insurance collected NIS 180 million from debtor spouses, 43 percent of payouts that year. This is a larger proportion than in previous years; the improvement stems from better methods of enforcement by the National Insurance Institute.¹³

Some 23,600 women received alimony via National Insurance in 2005. This represents a 15.5 percent decrease relative to 2002, the year preceding a toughening of the eligibility terms. Half of the recipients had one child; another one-third had two. The average monthly benefit in 2005 was NIS 1,381 – 19.3 percent of the national average wage – similar

¹³ Toledano, 2006.

to the level in 2003 and 2004 but lower than the share of the benefit before the law was toughened.

The Alimony Law itself does not assure a minimum income for those in need. Those who meet the statutory conditions for income-maintenance are entitled to an income supplement in addition to alimony. The legislative changes that applied to recipients of this benefit reduced the number of alimony recipients generally and recipients of income supplements on top of alimony – the neediest group among the alimony recipients – in particular. The share of the latter decreased from 45 percent of all alimony recipients in 2002 to 30 percent of this group in 2005. Thus, the size of the group diminished by about one-third relative to its level before the terms were toughened.

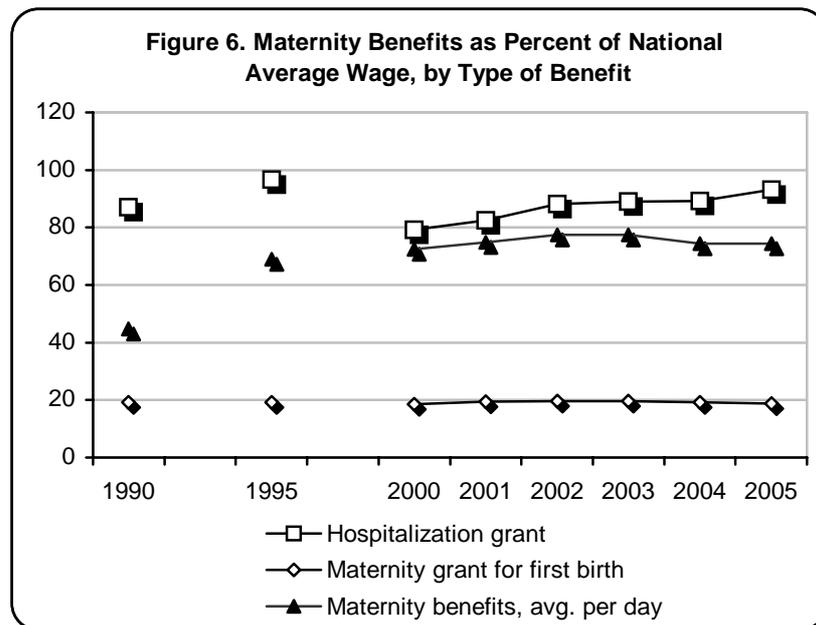
c. Maternity Insurance

The maternity insurance program is composed of a maternity grant, maternity benefits, and a hospitalization grant.

1. A **maternity grant** is paid to every mother who gives birth in a hospital. The grant was originally meant to encourage women to give birth in hospital; therefore, it is not paid to those who elect to give birth at home. Unlike the maternity benefits, this grant does not have an insurance component and eligibility is not conditioned on the mother's participation in the labor force. Some 142,500 mothers received maternity grants in 2005, 0.5 percent fewer than in 2004.

Total expenditure on maternity grants was NIS 122.7 million in 2005, 4 percent lower in real terms than in 2004. Until July 2003, the grant was set at 20 percent of the national average wage per birth and was updated at the rate of general cost-of-living adjustments. Since then, it has been reduced for second and subsequent children (falling to 6 percent of the national average wage for the births of third and subsequent children).

2. **Maternity benefits** are paid by National Insurance as wage substitutes for women on maternity leave who were in the labor market before giving birth. The benefit is equal to the mother's wage and is paid out for twelve weeks after birth. Since 1998, men who divide the maternity leave with their spouses have also been eligible for paternity benefits for a brief period of time. In practice, few men (0.2 percent of the 77,000 recipients of maternity benefits in 2005) exercise this entitlement.



The proportion of maternity benefit recipients in total births, 54 percent, reflects the current rate of women's participation in the labor force. Most of these women are salaried employees. Until 2003, the share of the maternity benefit in the national average wage rose gradually and came to 77.5 percent, but since 2005 there has been a downward trend.

This is evidently due to the proportional increase in low-wage earning women among maternity-benefit recipients; thus, in 2005 only one-fifth of benefit recipients qualified for a benefit that surpassed the national average wage.

3. The third component of maternity insurance is the **hospitalization grant**, meant to cover the expenses of giving birth and the inpatient care that follows. The grant is paid directly to the hospital by the National Insurance Institute and, practically speaking, is disbursed today as part of National Health Insurance. Some 142,560 hospitalization grants were paid out in 2005, 0.6 percent fewer than in 2004. The share of the hospitalization grant in the national average wage is 89.2 percent and has been trending up during the review period. In 2005, most of the increase in the hospitalization grant was due to a significant rise in the size of the grant for premature births.

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