

**POLICY PAPER SERIES**

**THE SOCIAL SECURITY SYSTEM**

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## סדרת ניירות מדיניות

### מערכת הביטחון הסוציאלי

ג'וני גל

נייר מדיניות מס' 2010.06

הפרק בוחן את השינויים במערכת הביטחון הסוציאלי, המרכיב הגדול ביותר בהוצאה החברתית של ישראל, בשנים 2008-2010. מערכת זו מתמקדת בהספקת קצבאות לאוכלוסיות מגוונות. על אף הגידול שחל בחלק ממרכיבי המערכת בשנים האחרונות, ההוצאה הכוללת נמוכה מהמקובל במדינות ה-OECD והיא נמוכה במונחי תוצר מהרמה שאפיינה אותה לפני עשור. בתחומים אחדים של הביטחון הסוציאלי אומצו שינויים, המגדילים את הנגישות והנדיבות של הקצבאות, במיוחד ביחס לקשישים ולאנשים עם מוגבלות, ולאחרונה – גם למשפחות עם ילדים ולמובטלים. לעומת זאת, התכניות המיועדות לאנשים החיים בעוני בישראל מוגבלות מאוד בסיוע שהן מעניקות. מוגבלות הסיוע של מערכת הביטחון הסוציאלי בתחומים שונים מצמצמת מאוד את יכולתה להתמודד באופן יעיל עם רמות גבוהות מאוד של אי-שוויון ושל עוני בחברה הישראלית.

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*ג'וני גל הוא ראש תכנית מדיניות רווחה חברתית במרכז טאוב לחקר המדיניות החברתית בישראל ופרופסור בבית-הספר לעבודה סוציאלית ולרווחה חברתית ע"ש פאול בארוולד באוניברסיטה העברית. כל הטעויות הן של המחבר. הדעות המובאות להלן הן של המחבר ואינן בהכרח משקפות את דעות מרכז טאוב לחקר המדיניות החברתית בישראל.*

*מותר לצטט קטעי טקסט קצרים – שאינם עולים על שתי פסקאות – ללא הסכמה מפורשת, ובלבד שיינתן אזכור מלא למקור הציטוט.*

# The Social Security System

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John Gal\*

## *Abstract*

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*This chapter examines changes in the social security system, the largest component of the social expenditure in Israel in the years 2008-2010. This system focuses on providing allocations to varied population groups. Despite the growth in parts of the system's components in the past years, the overall expenditure is lower than that of OECD countries and in terms of output it is lower than its average level a decade ago. In some areas of social security, changes were made which increased accessibility to allowances and their overall level of support, especially with regard to the elderly and persons with disabilities, and, of late, also for families with children and the unemployed. Conversely, the programs designed for people who live in poverty in Israel provide very limited assistance. The limited assistance by the social security system in various areas seriously restricts its ability to cope effectively with very high levels of disparity and poverty in Israeli society.*

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**S**ocial security is the largest component in the Israeli welfare state. Over the last year, economic and political developments led to the introduction of a number of changes to the social security system. The number of recipients of unemployment benefits and those relying on income support, the social safety net, increased. The rise in unemployment led policy makers to introduce changes to the

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\* I am grateful to Michal Alfasi of the Hebrew University for her assistance in preparing this article, and special thanks to Yulia Cogan from the Taub Center for her assistance in data processing and preparation of the figures.

unemployment insurance program in order to provide assistance to a larger number of unemployed. The outcome of the elections and the establishment of a new government led to an increased readiness to expand a number of social security programs. In particular, the new government changed course with regard to child allowances, deviating from the policy that had characterized governments of the past decade which prioritized resource allocation to the elderly and to individuals with disabilities and refrained from expanding programs designed for families with children.

The recently adopted changes (or those about to be instituted) in the social security system reflect continuing slow growth in the allocation of resources for that system. This trend, which began during the previous government, is expected to continue in the coming years, with a slight shift in emphasis, as noted, in favor of families with children. It should be pointed out, however, that overall social security expenditure in Israel is still low and assistance granted to most segments of the population is limited. Thus, for example, spending in Israel on transfer payments as a share of Gross Domestic Product (GDP) was 8.8 percent in 2008 compared with 9.2 percent in 2005. In OECD countries the equivalent average in 2005 was 11.6 percent (OECD, 2009). In European welfare states, the equivalent figure exceeded 15 percent of GDP (National Insurance Institute, 2009; OECD, 2009). Spending declined in Israel especially in the case of programs focusing on the unemployed and on families living in poverty, such as income support. Consequently, the system's capacity to bring about any real reduction in poverty and in social gaps is limited. Moreover, the insurance dimension of the social security system is still weak, as can be seen in the extent of coverage and benefit levels for the elderly and the unemployed. Continued public support for the social security system requires strengthening the insurance dimension of this system and enhancing the perception that it provides social protection for all citizens.

The social security system consists of income transfer programs, administered by the National Insurance Institute and a number of other

government ministries (the Ministries of Defense, Finance, Immigrant Absorption and Education), as well as by the free market (e.g., occupational pension plans). The system seeks to provide a safety net for individuals and families lacking adequate sources of income or faced with unforeseen expenses due to a variety of circumstances. The programs focus on the reduction of poverty, assurance of an acceptable standard of living for all citizens, distribution of an individual's income over the life span, participation in additional outlays such as raising children, the reintegration of the unemployed in the labor market, provision of compensation for loss or damage, redistribution of resources in society, and increasing gender equality. In 2008 expenditure on this system amounted to about NIS 45 billion and is expected to grow in coming years.<sup>1</sup>

This chapter examines the changes in the social security system over the past year and discusses its core programs. The discussion of old age pensions, unemployment insurance and child allowances relates to changes recently adopted in these programs, while that pertaining to individuals with disabilities focuses on measures to integrate individuals with disabilities into the labor market. This chapter includes a special discussion of income maintenance for the ultra-Orthodox. The chapter also discusses the notion of Conditional Cash Transfers (CCTs) which, in the past year, entered the policy discourse in Israel.

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<sup>1</sup> This assessment is based on the Taub Center's estimates of social spending, excluding the outlays for funding long-term care benefits, which is under the auspices of the National Insurance Institute. This expense is part of the outlays for services in-kind (further discussed in the chapter on personal social services). It also excludes the Ministry of Defense's outlays for disabled army veterans and bereaved families.

## ***1. Major Trends in the Social Security System in 2008-2010***

In 2008, transfer payments by the social security system (excluding outlays for long-term care insurance as well as for victims of the Nazis) amounted to NIS 44,745 million. This level of expenditure represents an increase from the total spending in 2007 and an overall average annual growth of 2.3 percent for the 2005-2008 period. This trend is expected to intensify over the next two years. According to the Economic Arrangements Law, voted into law by the Knesset in July 2009, expenditure on social security programs should reach NIS 47,407 million in 2009 and NIS 49,572 million in 2010. Relative to the past, expenditure on social security in 2009 in real terms is expected to once again reach the level of 2001, after a number of years in which expenditure levels decreased. This represents an annual growth rate of 5.9 percent. However, social security expenditure as a percentage of the GDP, amounting to 6.2 percent of GDP (excluding long-term care), is still considerably lower than its level a decade ago (7.1 percent in 2000).

Table 1 shows expenditure on programs for the elderly, individuals with disabilities (general disability allowances) and families with children (child allowances). The share of child allowances in the overall expenditure is expected to grow somewhat as of 2010, following the planned increase in the amount of allowances effective mid-2009, and is expected to reach its intended maximum level over the next few years. Expenditure for programs for people of working age who lack income from the labor market (income support and unemployment insurance), still comprises a relatively small part of overall expenditure on social security – about one-tenth of the overall expenditure – and current forecasts do not foresee a significant increase of this share in coming years.

Table 1. **Expenditures in the Main Social Security Programs, 1990-2010** (NIS million, set prices)\*

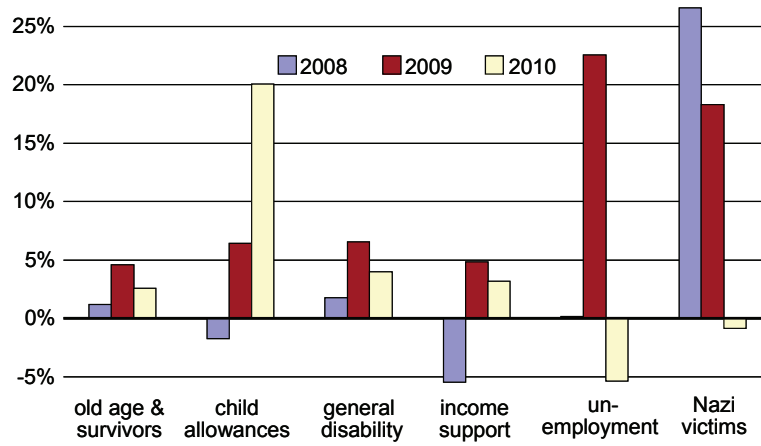
	Total	Old age and survivors	General disability	Child allowances	Income support	Unemployment allowances
1990	20,696	9,240	2,336	4,588	687	1,513
2000	41,945	15,713	5,782	8,090	3,350	3,448
2007	43,834	18,212	9,168	5,200	2,530	1,838
2008	44,745	18,425	9,329	5,109	2,392	1,840
2009	47,407	19,271	9,940	5,437	2,570	2,255
2010	49,572	19,768	10,333	6,528	2,587	2,134
<i>Distribution in percentages</i>						
1990	100	44.6	11.3	22.2	3.3	7.3
2000	100	37.5	13.8	19.3	8.0	8.2
2007	100	41.5	20.9	11.9	5.8	4.2
2008	100	41.2	20.8	11.4	5.3	4.1
2009	100	40.8	21.0	11.5	5.3	4.8
2010	100	39.9	20.8	13.2	5.2	4.3

\* Data for 2009 and 2010 are estimates. The data refer to selected programs and therefore the data distribution does not amount to 100.

**Source:** Taub Center for Social Policy Studies in Israel.  
Data: National Insurance Institute, various years.

Figure 1 provides a more focused look at anticipated changes in the various social security programs in the coming years, 2008-2010. Such changes result either from increased generosity or greater access to programs or – alternatively or simultaneously – changes in the size of the target population, affected primarily by the economic situation.

Figure 1  
**Expenditure on Main Social Security Programs\***  
 annual change in percents, 2008-2010



\* The data for the years 2009 and 2010 are estimates. Data refer to selected programs and therefore the data distribution does not amount to 100.

**Source:** Taub Center for Social Policy Studies in Israel.  
 Data: National Insurance Institute.



As can be seen in Figure 1, expenditure on two programs – child allowances and income support – decreased in 2008. In the former, the decrease is presumably due to changes in allowance levels for newborn children, decided upon during the first half of this decade and voted into law in the Economic Arrangements Law. The decrease in the income support program, on the other hand, is due to a decline in the number of individuals eligible for the allowance, as a result both of the implementation of the welfare-to-work Wisconsin Plan and improvement in the rate of participation in the labor market and the concomitant decline in unemployment until the end of 2008. The marked growth in payments to victims of the Nazis is the result of an increase in the generosity and accessibility to this program approved this year. The most notable change in 2009 is in the unemployment insurance program: a sharp increase in unemployment levels due to the economic crisis with simultaneous improvements in access to this program and changes in the duration of the program resulted in a rise in the number of those eligible for unemployment benefits. A similar phenomenon, albeit on a much smaller scale, is also evident in the income support program.

## *2. Social Security for the Elderly*

Social security programs for the elderly constitute the lion's share of the Israeli social security system. Nevertheless, the scale of spending for this population in Israel is smaller than its equivalent in other welfare states, due to the relatively low percentage of the elderly in Israel's population. Thus, while the average expenditure for public assistance to the elderly in OECD countries was 7.2 percent of GDP in 2005, the equivalent expenditure in Israel for the same year was 4.7 percent (National Insurance Institute, 2009; OECD, 2009<sup>2</sup>).

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<sup>2</sup> The OECD published the latest comparative data in 2009, relating to 2005. They include the same components, including some of the core components of assistance for the elderly (see: OECD, 2009).

A comparative calculation of the average level of assistance for the elderly as a share of GDP in Israel and OECD countries indicates that they are similar – approximately half a percent of GDP. In this context it is important to reiterate that, in comparison to other welfare states, the percentage of the elderly population in Israel is particularly low: the elderly (65+) in Israel represent roughly 10 percent, compared to an average of nearly 14 percent in OECD nations and to the European average of close to 17 percent.

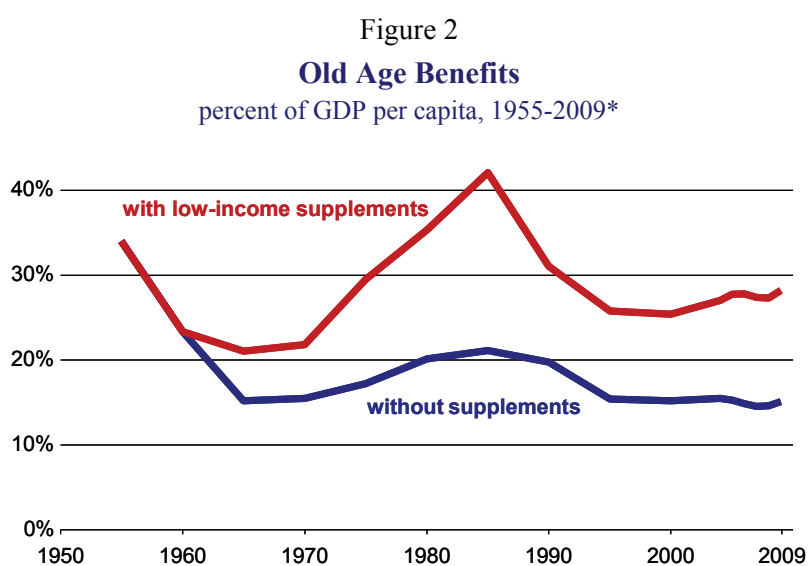
Social security for the elderly in Israel is comprised of four tiers: universal old age pensions for all the elderly; an income supplement, which is a selective benefit for the elderly lacking additional sources of income; occupational pensions; and savings arrangements for old age. This structure achieves several goals: The combination of the first, third and fourth tiers is intended to maintain the standard of living for individuals after retirement from the labor market and to facilitate a distribution of income over their life spans. In cases of those who have not accrued retirement benefits or savings, the system seeks to alleviate poverty due to a lack of income by combining the first and second tiers.

Universal old age pensions are provided to all the elderly (age 65 for men and 70 for women) and their survivors. At the beginning of 2009, an average of 746,000 elderly people per month received elderly and survivor pensions: 86 percent were old age pension recipients, and the remainder received survivor benefits. One-tenth of these recipients, primarily immigrants who had arrived in Israel after the age of 60, had not accrued rights under the National Insurance Law.

The second tier of social security for the elderly is an income supplement, paid out to elderly for whom old age pensions constitute their main source of income and who, in most cases, are not recipients of an occupational pension. One quarter of old age pension recipients also receive an income supplement.

Over the past five years, there has been a gradual improvement in the level of universal old age pensions, and even more so in the level of the income supplement. These increases relied on political support, mainly

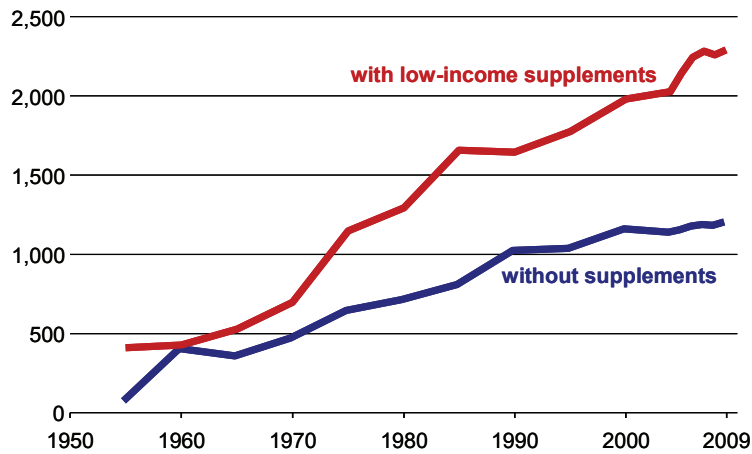
through the Pensioners Party, which was in the government until early 2009. The latest step in this process took place during the budget formulation for the years 2009-2010, when, after the most recent government's coalition agreements, it was agreed to increase old age allowances gradually. Figure 2 shows the changes in old age pensions as a percent of GDP over a 5 decade period per capita from the mid-1950's. Figure 3 shows the development of the benefits in real terms for the same year.



\* June 2009.

**Source:** Taub Center for Social Policy Studies in Israel.  
**Data:** National Insurance Institute.

Figure 3  
**Old Age Benefits, 1955-2009\***  
 NIS, 2008 prices



\*June 2009.

**Source:** Taub Center for Social Policy Studies in Israel.  
**Data:** National Insurance Institute.

The third tier, occupational pensions, is designed to provide the elderly with an income after retirement from the labor market. Since in the past there was no mandatory pension law and most employees were not party to collective agreements that included membership in a pension fund, many employees were not covered by occupational pensions. This is reflected in the large proportion of employees and retirees without pension coverage, as well as the prevalence of poverty among the elderly. An extension order effective January 2008, based on an agreement between the *Histadrut* (General Federation of Labor) and the Coordinating Bureau of Economic Organizations, is intended to change this situation. This order requires all employers to insure their employees through a pension fund. At this point, data regarding the extent of pension coverage indicate only partial success in enforcing this order.

The fourth tier of social security for the elderly is that of savings for old age, which includes primarily provident funds of different types. This is a savings instrument based on joint funding by employees and employers, supported by the government through tax discounts. This tier plays a central role particularly in income maintenance for the self-employed and salaried employees who had not previously joined pension funds.

A final component, providing a significant contribution to the income maintenance of a portion of the elderly in Israel, is funds for Holocaust survivors. In recent years, the programs designed to alleviate the suffering of Holocaust survivors have attracted a great deal of interest following widespread public protest. Changes in the level of benefits and services for Holocaust survivors, as well as moves designed to increase accessibility to these programs, contributed to the expansion of public expenditure for Holocaust survivors in 2008-2010 and to improvements in the living standard of this population.

### *3. Social Security for Individuals with Disabilities*

Individuals with disabilities constitute the second largest focus of the social security system in Israel. There are various programs for coping with the social security of individuals with disabilities through transfer payments as well as by encouraging the reintegration of this population into the labor market. In recent years there has been a significant increase in the number of individuals with disabilities receiving assistance through these programs, especially under the general disability insurance program of the National Insurance Institute. The reasons for this increase have not yet been thoroughly investigated and the potential size of the population in need of assistance is unclear.

There are various estimates regarding the size of the population with disabilities in Israel. The difficulty in reaching a single estimate stems from failure to agree on a uniform definition for determining disabilities, as well as methodological impediments to conducting valid research.

Estimates in Israel and abroad maintain that about 14 percent of the overall working age population are people with physical, mental or emotional disabilities (OECD, 2003). In Israel, the number of individuals with disabilities in 2006 was estimated at 1.4 million, representing slightly over one-fifth of the total population (Ministry of Justice, Office of the Spokesperson, 2007).

The data indicates that 477,000 adults (age 20+) suffer from a severe disability (of whom more than half, 270,000, are of working age, 20-64) and another 700,000 suffer from mild disabilities (Ministry of Justice, Office of the Spokesperson, 2008). The proportion of people with severe disabilities has been stable in recent years – around 10 percent of the adult population – whereas the share of those with mild disabilities has been about 16 percent of the adult population. These levels are higher than the average in the OECD but they are within the acceptable range in those countries (Ministry of Justice, Office of the Spokesperson, 2008).

Regarding the child population, the number of children requiring on-going medical care is estimated at 190,000 (8 percent of children) and another 120,000 children are diagnosed as having a disability that does not require on-going medical care (5 percent of children) (Ministry of Justice, Office of the Spokesperson, 2008).

There are various programs for dealing with the needs of individuals with disabilities from specific target groups and there is much variance in basic principles, accessibility conditions, benefit levels, and the range of services provided for them. Two main programs are administered by the National Insurance Institute: general disability insurance and work accident insurance. A third program is intended for disabled military veterans and is administered by the Rehabilitation Department at the Ministry of Defense.

### *3.A. General Disability Insurance*

The General Disability Insurance Act is intended to respond to the needs of all individuals with disabilities not covered by other social security programs. The law includes four allowances: a disability pension,

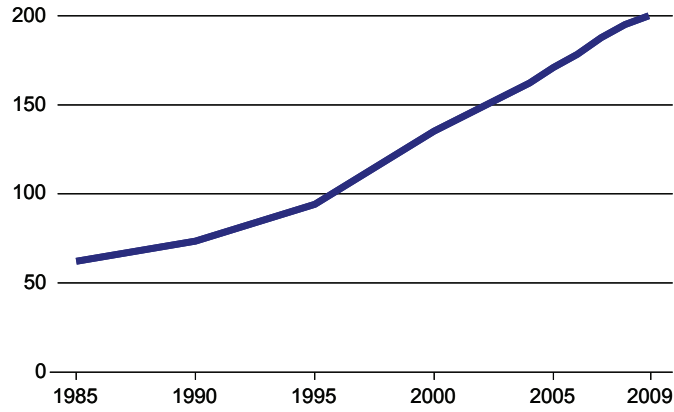
designed to ensure a minimum subsistence level income; an attendant's allowance, designed to assist the disabled that require the assistance of others to perform everyday functions; a disabled child benefit that seeks to enable the family to care for their disabled children; and a mobility allowance, designed to help disabled persons to be mobile outside their home. In addition to these allowances, the law confers eligibility for rehabilitation to disabled persons with rehabilitation potential, in order to help them integrate in the work force.

In early 2009, 198,000 individuals with disabilities received a disability pension. As shown in Figure 4, over the past decade there was a constant increase in the number of recipients of this allowance. Figure 5 shows an increase relative to a rise in the working age population. The factors that caused the continuous growth are not sufficiently clear, and it would be useful to examine those factors in depth. It is reasonable to assume that the changes in pension allowance levels early this decade and changes in eligibility criteria for benefits designed to ensure the subsistence of people of working age (income maintenance and unemployment insurance) have had an impact on this growth.

Only one-third of working age people with a severe disability have income from work, one-fifth of them also receive a monthly pension from the National Insurance Institute. About 40 percent more receive only a monthly pension from the National Insurance Institute and the balance, close to one quarter (about 70,000 persons) have no income source whatsoever other than that of family members.

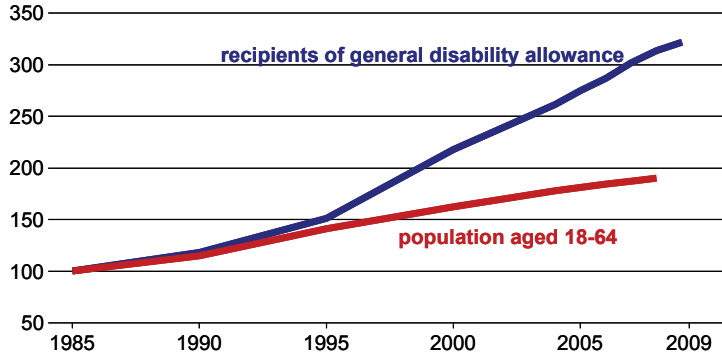
Regarding working age people with a mild disability, 53 percent of them have income from work, one-tenth of them also receive an allowance from the National Insurance Institute. Twenty-three percent receive only an allowance from the National Insurance Institute and the remaining quarter or so depends on family members' income.

**Figure 4**  
**Recipients of General Disability Allowance**  
 thousands, 1985-2009\*



\* June 2009.

**Figure 5**  
**Recipients of General Disability Allowance**  
**and the Population\*, 1985-2009\*\***  
 index 1985 = 100



\* Ages 18-64, women to age 60. \*\* June 2009.

**Source for Figures 4 and 5:** Taub Center for Social Policy Studies in Israel.  
 Data: National Insurance Institute.



Disbursements of general disability pensions and other allowances within general disability insurance added up to about NIS 9.4 billion for 2008. The average monthly pension is currently NIS 2,570 (current prices, June 2009) and it is equivalent to 32 per cent of the average monthly wage in Israel. Over time there has been a continuous increase in the pension level relative to the average income, from 26.6 percent of the average wages in 1990 to 29.4 percent in 2000, and this trend has continued in recent years.

Policy towards employment of individuals with disabilities in Israel is based on the recommendations of the *Laron Committee*, a public committee headed by the late Justice Ephraim Laron and established in the wake of the 2002 strike by disabled persons (Israel, 2005). A central objective of the Committee was to recommend incentives for the disabled to integrate into the labor market. The Committee formulated a number of major recommendations in this area:

#### ***Reform in the disbursement of allowances***

The Committee found that the linkage between eligibility and the level of disability allowance and the disabled persons' income from work was a major obstacle to integration of individuals with disabilities into the labor market. At that time, an increase in the earnings from work of a person with disabilities led in most cases to a decrease in overall income (income from the pension and work), which inevitably created a disincentive to work. The committee recommended that there be a gradual decrease in the allowance as income from work increased so as to ensure that overall income did not decline. Implementation of this recommendation began with the approval in July 2008 of an amendment to the National Insurance Law to encourage the integration of individuals with disabilities into the labor market.<sup>3</sup> The law went into effect in August 2009.

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<sup>3</sup> The "National Insurance Law (Amendment No. 101) (Advancement of the Integration of People with a Disability in the Labor Market), 5767-2007" is a

### *Facilitating the integration of individuals with disabilities into the labor market*

The committee recommended that employers facilitate the integration of individuals with disabilities into the labor market by ensuring fair representation of individuals with disabilities in the workplace and making the workplace accessible to the disabled. The committee supported the adoption of an adjusted minimum wage for individuals with disabilities with limited working ability. As of November 2006, the regulations are being implemented by the Ministry of Industry, Trade and Commerce. These regulations are seen as an incentive for employers to hire individuals with disabilities by offering employers the option of paying workers lower than minimum wage depending on the level of output.<sup>4</sup>

### *Encouraging sustained employment*

The committee recommended the expansion and deepening of the sustained employment model, in light of findings from other countries that show that this tool has great potential for success. The committee specified a program for the integration of 8,500 disabled persons over five years in this employment track and recommended the launch of this program immediately, allocating NIS 25 million for its implementation.

## **3.B. *Victims of Work Injury***

The Work Injury Insurance program provides allocations and rehabilitation services to those disabled as a result of an accident or illness, during or caused by work. The program includes a temporary allowance payable during the first period after injury and a permanent allowance (the work disability benefit). This program is designed to

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government bill of law made public following the *Laron Committee* recommendations.

<sup>4</sup> Task Force for the Integration of Individuals with disabilities into the Labor Market, Ministry of Industry, Trade and Commerce.

<http://www.moital.gov.il/NR/exeres/252E154E-5D0D-4F6A-BBB7-4DAAD2BF43D3.htm>

maintain the injured party's standard of living and therefore the allowance is calculated as 75 percent of previous income relative to the degree of disability.

The number of victims of work accidents receiving permanent disability benefits payments has been growing steadily and in the middle of 2009 reached 30,776. The level of disability benefits for people who had been self-employed is higher than that of those injured as salaried employees – 42 percent versus 39 percent of the average monthly wages, respectively – the difference reflecting the gaps in average income level between self-employed and employees.

### *3.C. Disabled Military (IDF) Veterans*

The program designated for disabled IDF veterans is administered by the Ministry of Defense Rehabilitation Department and compensates those injured or taken ill during their military service (or service in other branches of the security system) or as a result of it. Allowances are calculated by the degree of medical disability in accordance with a mid-level civil service wage. Besides the basic allowance, disabled IDF veterans are entitled to numerous additional allowances and other services. The number of recipients of disability allowances in 2008 was 55,459 and the total amount of disbursements reached NIS 3.8 billion (including the amount paid to bereaved families), comprising 0.53 percent of GDP.

In recent years, a public and professional debate regarding the extent of disbursements made to disabled IDF veterans, the definition of eligibility for benefits, and the gaps between generous allowances paid to them and the wider group of individuals with disabilities has taken place. Ministry of Defense data indicate that the vast majority of casualties in recent years are not victims of direct military or security-related operations, but are people who became disabled as a result of illness, accidents or non-combat accidents (Ministry of Defense, 2009). In light of the high operational costs of funding the Rehabilitation Department, a

report by the Committee to Assess the Defense Budget (the *Brodet Committee*) suggested possible changes in the department's policies, namely a distinction between classes of injuries (*Report of the Committee to Assess the Defense Budget*, 2007). There seems to be willingness within the Ministry of Defense to implement a policy of this sort in the coming years.

#### ***4. Allowances for People of Working Age***

The economic crisis and growing unemployment have shifted public and professional attention to the social security of working age people who do not participate in the labor market for various reasons or whose labor market income is insufficient for a minimal subsistence. Two major programs in the Israeli social security system are designed to ensure the social security of members of this segment of the population – unemployment insurance and income support.

##### ***4.A. Unemployment Insurance***

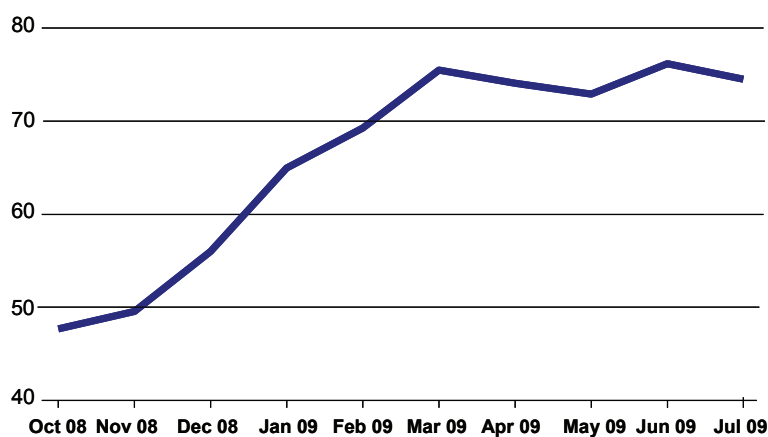
Unemployment insurance provides a wage replacement for a limited period for those involuntarily unemployed thus enabling them to seek suitable employment. In 2003-2008 there was a continuous decline in the number of recipients of unemployment benefits, resulting from improvements in the labor market and a tightening of criteria that limited eligibility and benefit levels of this program. Entitlement to unemployment benefits is conditional on individuals being dismissed from their job, their willingness to accept a suitable job offer, as well as their having completed a qualification period (payment of social security contributions) of 12 of the 18 months prior to dismissal. The duration of the entitlement to unemployment benefits ranges from between 50-175 days, depending on the age and the number of dependents of the unemployed. Unemployment benefits are calculated according to the salary of the employee in the period preceding unemployment. The

average unemployment benefit was 54.2 percent of the average monthly wage in April 2009, slightly higher than the level in recent years.

The downward trend in the number of recipients of unemployment benefits was reversed in 2008, and rose further in 2009, due to the economic crisis and a reversal of policy regarding this program. This trend is evident in the data presented in Figure 6, which reflects the number of recipients of unemployment benefits in the first half of 2009.

In light of the increase in the number of unemployed and the low percentage of those who are eligible for unemployment benefits (less than a quarter of the unemployed), an agreement was signed in early 2009 between the National Insurance Institute and the government, according to which unemployed people over age 25, who completed at least nine months of contributions, can receive unemployment benefits that are not greater than 50 percent of the entitlement. This agreement was implemented in June 2009, when the level of unemployment in the economy crossed the threshold of 7.5 percent of the civilian workforce.

Figure 6  
**Recipients of Unemployment Insurance, 2008-2009**  
thousands



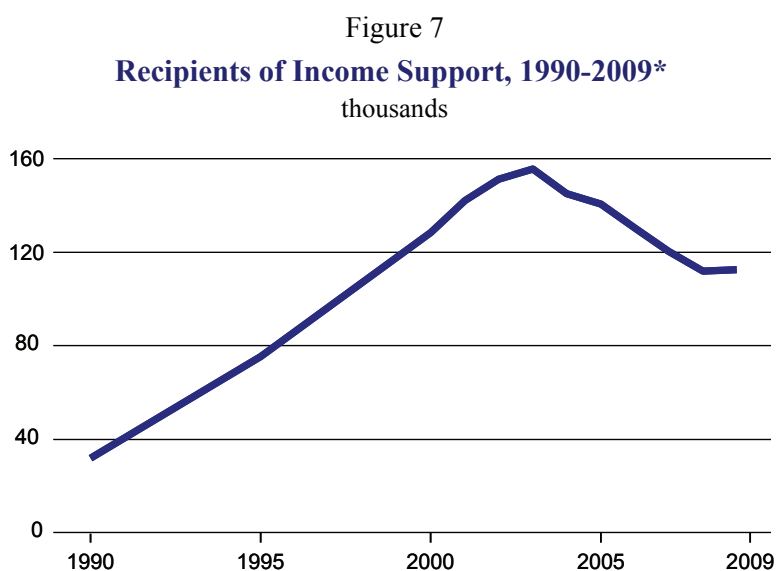
**Source:** Taub Center for Social Policy Studies in Israel.  
**Data:** National Insurance Institute.

Despite the temporary change which shortened the qualifying period for unemployment benefits, unemployment insurance still provides only a partial solution for the predicament of the unemployed in Israel. The program's shortcomings are particularly obvious during a period of severe crisis in employment. The long qualification time and the short eligibility period of the Israeli program are exceptional compared with the standards of most welfare states. The typical qualification time in welfare states ranges from six to 12 months, whereas the maximum eligibility period exceeds six months, and in many states it is even longer than one year (OECD, 2007). The Israeli combination of a long contribution period and the exceptionally short period of receiving unemployment benefits results in excluding many from eligibility for unemployment benefits and denies them benefits even if they fail to reintegrate into the labor market due to lack of suitable employment opportunities. The Taub Center, like many other professional organizations in Israel, has underscored the need to review the components of this program and adapt its characteristics to its original objectives.

#### *4.B. Income Support*

The Income Support Program is a safety net for families and individuals who are unable to maintain a minimal standard of living by themselves. It is intended for people of working age who are not employed or whose overall income is lower than the threshold established by the law. People who are part of this population do not receive assistance under any other social security program aside from child allowances. The program is selective and eligibility for the allowance is conditional on a means test, limiting access to the benefits only to those whose income is lower than the threshold set by law, and an employment test, making it conditional on the recipient having made every effort to enter the labor market. The employment test requires the applicant to report to an employment service office or to employment centers of the Wisconsin Plan

("Employment Lights") and to accept any job offered, with exemptions for those who are determined as unable to work for health reasons or because they are designated as caregivers. In 2008 the number of recipients of income support was 112,000. The changes made in the program early this decade which tightened the program's eligibility criteria and benefit level, as well as the experimental implementation of the Wisconsin Plan (for a more comprehensive discussion of this program see *Israel's Social Services 2008*, pp. 222-223) and the improvement in employment have all contributed to a decline in the number of recipients of this benefit. Figure 7 shows the sharp drop in the number of recipients of income support over the decade, from its peak of 155,000 in 2003. In March 2009 the deterioration in employment and wages led to an increase in the number of income support recipients to 112,512.



\* June 2009.

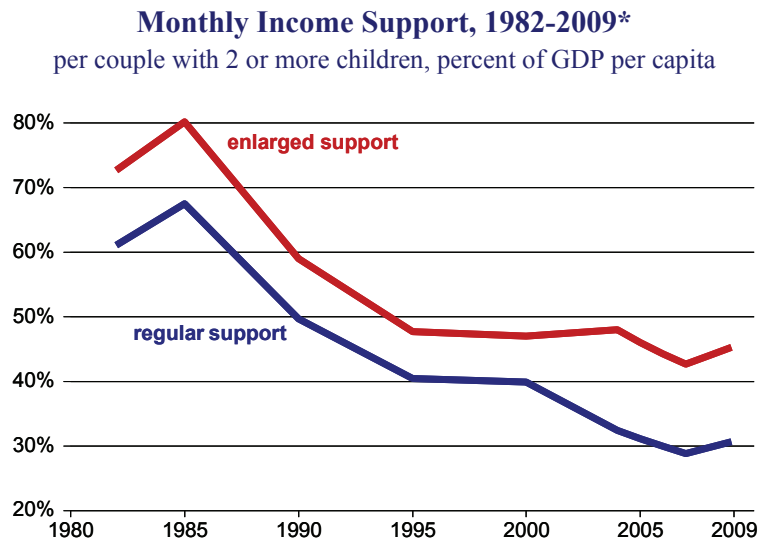
**Source:** Taub Center for Social Policy Studies in Israel.

Data: National Insurance Institute.

Income support is intended to guarantee a minimum standard of living for allowance recipients and their family members, and at the same time it is not intended to serve as a disincentive to work. Even in its early days, this allocation was low and it is doubtful that it had ever achieved the goal of guaranteeing a minimum standard of living. After a slight increase in the amount of the allocation during the nineties (especially for those who remained in the system for a long time and for single mothers), it was cut again in the years 2002-2003.

The average benefit in 2008 for a couple with two children or more was NIS 2,269 per month, equivalent to 28.6 percent of the average monthly wage (Figure 8). By comparison, in 2001 the average benefit equaled 38.1 percent of the average monthly wage (National Insurance Institute, 2009a). Comparisons with other countries show that after the cuts early this decade, the benefit in Israel (particularly that for families with children) is lower than what is typical in other welfare states. It is very doubtful that a family would be able to subsist on such income.

Figure 8



\* June 2009.

**Source:** Taub Center for Social Policy Studies in Israel.  
**Data:** National Insurance Institute.



The Taub Center recommends raising the income support benefit and in particular, providing a supplement for those who are in this system long term. The assumption is that those who stay for a short time in the program can delay large expenditures to the period after their return to the labor market at which time their income level improves. However, the situation of those who are not able to return to the job market for a long time is unbearable due to the low level of allowances.

#### 4.C. *Negative Income Tax*

A negative income tax program was implemented in Israel in October 2008 on a limited basis in areas where the Wisconsin Plan is in place for the purpose of increasing the income of low income working families. The program provides these families with an additional income of up to NIS 400 per month, depending on the family's size and income level. Participation in the program requires filling out forms and signing a statement at a local post office verifying income level and eligibility.

Monitoring the take-up levels of the grant at the end of its first implementation phase (the end of 2008) indicated that only 38.5 percent of 67,000 potential recipients took advantage of their right to receive the grant during this period. The cost of the approved grant (pertaining to 2007 income) totaled NIS 64.3 million. In view of these findings, a special effort was made by the Israel Tax Authority, which administers the program, and advocacy organizations such as *Yedid*, to raise public awareness of the program. To our knowledge, despite public criticism about the difficulties in applying for the grant, the way the program is run has not been re-examined. Although the original plan was to expand the Negative Income Tax program to the entire country during 2010, this proposal was not included in the Economic Arrangements Law confirmed in July 2009, and therefore it is not clear whether, and when, this program might be expanded. In its recommendations for social policy, the Taub Center expressed support for expanding the Negative Income Tax Program by raising the negative tax rate, raising the maximum ceiling and easing eligibility to the program.

***Spotlight: Income Maintenance for the Ultra-Orthodox***

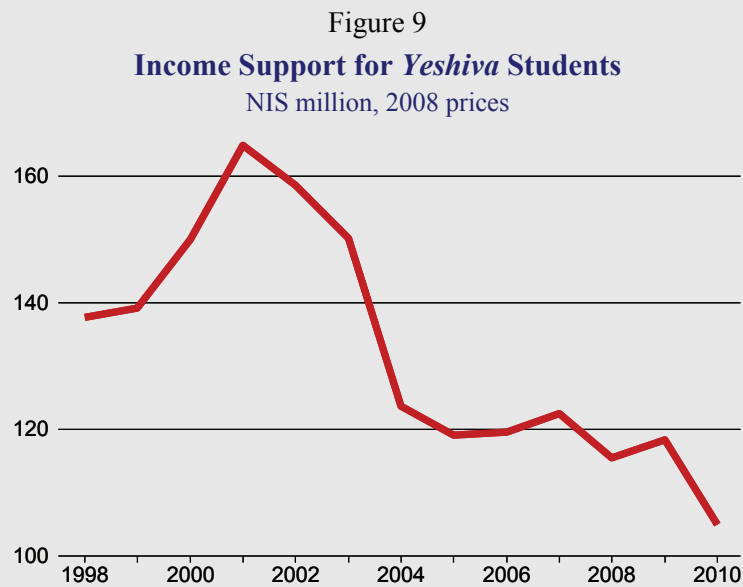
Like policy makers in other welfare states, the designers of the income support program in Israel viewed employment as a major source of livelihood. Consequently, they made receipt of the benefit conditional on the claimant having made every effort to join the labor market. The “employment test” applied in this program requires that the recipient of the allowance appear regularly at the employment service offices and be willing to accept any suitable job. When the Wisconsin Plan began to be implemented, appearing at the program’s employment centers was required as part of this “employment test.”

The income support program provides a safety net to anyone of working age who lacks sufficient resources for a minimum dignified subsistence. However, with its implementation in 1982 it was decided that the safety net designed for one segment of the population would operate independently and with different eligibility criteria. This pertains to individuals who study in Jewish religious institutes of higher learning (*Yeshivas*) who are not expected to engage in gainful employment.

The safety net program for full-time *Yeshiva* students, which was based on previous arrangements introduced in the seventies, was assigned to the Ministry of Religious Affairs and offered a benefit similar to the National Insurance Institute’s income support benefit. Benefits were given to low income *Yeshiva* students without requiring them to pass the employment test.

This program provides a monthly allowance to full-time *Yeshiva* students at an institution recognized by the Ministry of Education who have at least three children. *Yeshiva* students are required to undergo an income test – their monthly income cannot be over NIS 1,200 in addition to the grant they receive from the *Yeshiva* and child allowances. The monthly allowance paid to qualifying *Yeshiva* students amounts to NIS 1,040 per month.

Not all those who study in *Torah* institutions receive allowances in the framework of the program for *Yeshiva* students' income maintenance. The proportion of those who do so is not very high: Of a total of 63,000 *Yeshiva* students, only 10,851 receive an allowance. The budgetary cost of this program in 2008 was NIS 110 million. Figure 9 indicates stability in the expenditure for this program over the past five years after a decline in 2003-2004 due to cuts in all social security programs.



**Source:** Taub Center for Social Policy Studies in Israel.  
**Data:** National Insurance Institute.

## 5. *Family Support*

The social security system includes several programs for families with different procedural principles and goals. While some programs seek to cope with problems of distress and poverty among families, others seek to alleviate the burden of child rearing costs, provide social security during the initial period after the birth of a baby, or encourage gender equality through more equitable division of labor within the family.

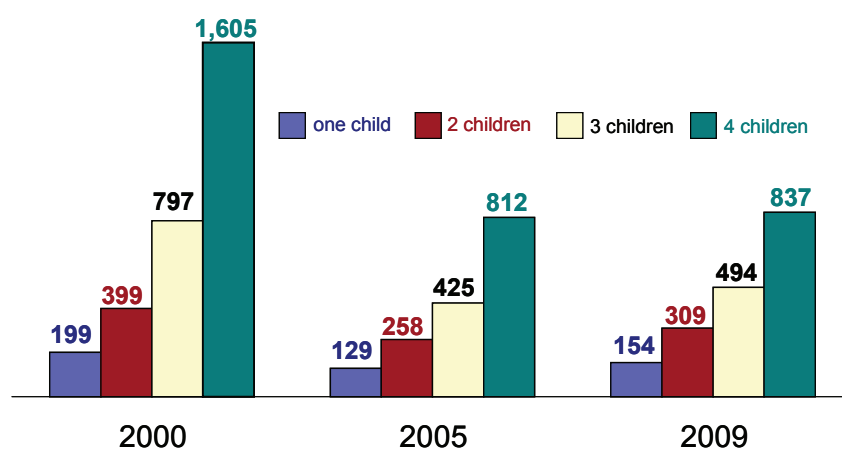
### 5.A. *Child Allowances*

Just over a million families received child allowances in Israel in early 2009, and the number of children for whom allowances were paid was 2.4 million. The Child Allowance Program is a universal program, granting allowances to all families in Israel with children under age 18. Child allowances exist in all welfare states except the United States and Japan (where support for childcare is through the tax system), and are designed to subsidize the costs of raising children and contribute to the reduction of poverty and gaps among large families. In the past, child allowances were also intended to encourage childbirth, but research shows that they do not make a significant contribution towards this goal (for a more comprehensive discussion of this issue see *Israel's Social Services 2008*, pp. 219-216).

Child allowances were first introduced in Israel in 1959, but the program became universal and comprehensive only in 1975. A sharp change of policy trend regarding child allowances occurred in 2002, when the allowance was cut sharply and a decision was made to switch to uniform (and low) allowances for all children regardless of family size. As a result, the program offered significantly lower benefits also compared to other welfare states. These changes had a clear influence on the ability of child allowances to make a significant impact on helping large families cope with poverty.

Public and political pressure, as well as professional recommendations (including by the Taub Center), caused a policy shift this year. The government coalition agreements included the provision of a gradual increase in child allowances, focusing first on families with three or four children, and as of next year (2010) also on families with two children. The change process is shown in Figure 10.

Figure 10  
**Family Income from Child Allowances**  
by family size, NIS, 2008 prices



**Source:** Taub Center for Social Policy Studies in Israel.  
**Data:** National Insurance Institute.

The intended increase is expected to result in a rise of NIS 1.3 billion in expenditures for child allowances over the years 2009-2010. The figure indicates a sharp drop in the income of families with children after the changes in child allocations earlier this decade. The situation of families with children born after June 2003 was particularly difficult. Following the recently introduced changes, the allowance payable for the third child in the family increased by NIS 60 per month and for the fourth child by an additional NIS 93. In July 2010 the allowance is expected to increase by NIS 36 per month for the second child and by an additional NIS 93 for the third and fourth child. While the level of allowances is still far from that of the beginning of the decade, the anticipated changes are expected to have a positive impact on the well-being of families living in poverty.

Are conditional transfer payments effective? Despite the difficulty in assessing such programs, evaluation studies indicate rather impressive achievements in terms of coping with the immediate economic hardship of poor families, increasing the consumption of these families, improving the health and nutrition of children in the different countries and a substantial increase in their participation in the education system (Hall, 2006; Rawlings, 2006). Furthermore, data is available indicating that the programs contribute, to some extent, to the narrowing of the deep social gaps in Latin American countries (Soares et al., 2007). Still, implementation of the programs is not without problems (Álvarez, Devoto & Winters, 2008). A widespread conclusion among researchers is that the success of these programs largely depends on their structure and on the way by which they seek to change the behavior of their target populations (Bastagli, 2008). In any case, it is fairly obvious that such programs cannot bring about real change in the social gaps and prevalence of poverty in those countries without other significant changes in the social structure and on the macro-economic plain.

### ***Spotlight: Conditional Cash Transfers***

Conditional Cash Transfers (CCTs) provide allowances to families living in poverty, whereby receipt of the allowance is contingent upon the family's doing a specified activity that is intended to improve the child's welfare. These might include ensuring the children's school attendance, regular visits to infant care facilities, or agreeing to use food supplements. CCT programs began to develop in the late 1990s and now exist in most Latin American countries. These programs have received substantial assistance from European countries and international organizations, including the World Bank. The largest and best known CCTs have been in operation since 1997 in Mexico, *Oportunidades*, and in Brazil, *Bolsa Família* (Rawlings, 2006; Molyneux, 2006).

The main purpose of the programs is coping with poverty in the short term through allowances that raise the income level of families suffering severe economic distress. But alongside this goal, the programs also seek to combat longer term poverty by improving the human capital of the children in these families. These programs are based on the premise that the behavior of families can be changed through the social security system. For example, the goal of some programs is to attain improvement in children's health, and therefore receipt of the allowance depends on regular visits to a clinic by mothers with small children. Other programs are intended to cope with problems of child employment or lack of education and therefore the allowance depends on the child's school attendance.

The idea of using welfare payments to influence the behavior of different target populations was first adopted in Israel in 1954, with the introduction of maternity grants, making the grant formally conditional on funding the initial purchases for the baby. In reality, the purpose of the grant was to encourage giving birth in hospitals. Last year this idea seems to have aroused renewed interest among policy makers in Israel. This is reflected in one of the changes recently made in the child allowances program. As part of the Economic Arrangements Law, passed by the Knesset in July 2009, it has been decided to make the receipt of increased child allowances conditional on vaccinating the children. It remains to be seen how the decision to make allocations conditional on vaccinations would be implemented.

### 5.B. *Maternity Insurance*

The Maternity Insurance Program consists of three components: a maternity grant, a maternity allowance and a hospital grant.

- The maternity grant was originally intended to encourage giving birth in hospital and it is paid to every mother giving birth in a hospital and not to those who choose to do so at home. The underlying assumption behind this grant is that hospital births are safer for both the mother and the child and therefore should be encouraged. The grant does not include an insurance component and eligibility is not conditional on being in the labor market. In recent years the grant had been cut and doubts have surfaced regarding the need to encourage births in hospitals and whether preference should be given to women who give birth at a hospital over those who do so at home or in other settings. Some 152,000 maternity grants were awarded in 2008, totaling NIS 151 million. In early 2009 the grant amount was NIS 1,556 for the birth of a first child, NIS 700 for a second child, and NIS 467 for each additional child.
- Maternity allowances are paid by the National Insurance Institute to working mothers during their maternity leave as a wage replacement. The allowance is currently equal to the full salary of the mother and it is paid for a period of 14 weeks after birth. Although it is possible to split the allowance between the mother and father, the number of men actually receiving maternity allowances is still very small and no real effort is being made to encourage this trend. In 2007 only 0.2 percent of allowance recipients were men.
- The third element of the Maternity Insurance is a hospital grant which is intended to fund the expenses of giving birth and the mother's hospitalization after birth. This grant is paid directly to the hospitals by the National Insurance Institute, and is now part of the integrated health basket. The number of hospital grants in 2008 was 152,000.



### 5.C. *Single-Parent Families*

A number of programs in the social security system are designed specifically for families in which there is one parent. The Alimony Law (Assurance of Payment) guarantees support for women following the failure of the husband to pay the required alimony. This follows a court judgment in response to a petition for collection through the National Insurance Institute or the Support Collections Unit. Alimony payments are funded by income from creditors and by money from the Treasury. Entitlement to alimony payment is conditional on criteria similar to those of income maintenance and includes a means test. There is a continuing trend towards a decline in the number of women who receive alimony payment through the National Insurance Institute. The number of those who received alimony payments in March of 2009 totaled 20,300 women. The average allowance paid to them during this period was about NIS 1,550 per month, which is about 20 percent of the average monthly wages.

Additionally, following the 1992 Single Parent Families Law, single parent families are eligible for a studies grant for their children aged 6-14. This grant is paid once a year and is meant to help finance the expenditures for school supplies for children aged 6-14. The amount of this grant is NIS 1,364 for children aged 6-11 and NIS 758 for children aged 12-14. Altogether, 56,285 single families received the grant in 2008.

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