

POLICY BRIEF

Unemployment Benefits for Young Adults in Israel

Recently proposed changes to Israel's Unemployment Insurance Law and their implications for the young and unemployed

John Gal, Shavit Madhala-Brik*

Introduction

Unemployment insurance is intended to help those who are temporarily unemployed to maintain their standard of living while encouraging them to return to the labor market. The rate of young adults under the age of 30 who receive unemployment benefits in Israel is about 16%. The past few years have witnessed a number of changes to the unemployment benefits program, some of which have worked against the younger age groups. Most recently, there has been a proposal that would make entitlement even more difficult for younger adults who find themselves unemployed, due to a tightening of the qualifying period requirement (the amount of time one must work in order to be eligible for unemployment benefits). In the proposal, the qualifying period for a young adult under 30 would be 24 months of employment out of the 30 months preceding unemployment; the qualifying period for an individual between the ages of 30 and 35 would be 18 months out of the preceding 24 months. This comes in place of the current qualifying period requirement which is the same for all ages and requires an employment period of 12 months within the 18 months preceding unemployment.

This policy brief discusses the relevant Israeli law and the changes that have been proposed with respect to younger unemployed people, and compares them to the provisions for older people and to accepted practice in other social welfare countries. Our findings show that while the envisioned change would undoubtedly bring about a budgetary savings, it would nevertheless alter the entitlement

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This brief examines Israeli's Unemployment Insurance Law and the effects of proposed changes to the law on young unemployed adults. The law is looked at in terms of how it relates to older unemployed persons and to accepted practice in other social welfare countries. The proposed change to the law will affect Israel's young and unemployed in an unprecedented way relative to those countries. It will also serve to deepen the existing gaps between younger and older benefit recipients and will cause a substantial decrease in the number of qualifying young adults.

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conditions for young adults in Israel in an unprecedented way relative to other social welfare countries. What is more, the change would widen existing disparities between older and younger Israeli adults in terms of their entitlement to unemployment benefits. It is estimated that if this change is adopted it will affect about 15% of the young and unemployed (about 11,000 people), and that the impact on women, those with families, and Arab Israelis will be particularly severe. In light of this, the proposal would undoubtedly disrupt, to a substantial degree, the desired balance between the functions and aims of unemployment insurance.

1. Unemployment Insurance in Israel and Abroad

Israel's Unemployment Insurance Law was adopted in 1973 and assures a wage replacement benefit to individuals who, through no fault of their own, find themselves out of work and wish to re-enter the labor market in employment frameworks suited to their skills and abilities. Unemployment insurance programs in all welfare states seek to strike a reasonable balance between two goals: to preserve the standard of living of those obliged to live without income from a labor-market source; and to encourage unemployed people to return to the labor market while enabling them to find work commensurate with their skills. In order to maintain a balance between these two objectives, welfare states impose entitlement conditions and limit both the amount of unemployment compensation to be paid and the period of entitlement.

In Israel, unemployed people must meet several conditions in order to be entitled to unemployment benefits:

- They must be covered by unemployment insurance; that is, they must have been salaried employees.
- They must be between the ages of 20-67.
- They must have worked (and insurance premiums must have been paid for them) for 12 of the 18 months preceding unemployment.
- They must have been dismissed from their jobs,¹ have registered as non-employed persons at the Employment Service, and have reported to the service in order to look for work.

The amount of the benefit is calculated on the basis of the unemployed person's salary from work, and the average wage in the Israeli economy. Currently, the average unemployment benefit is 50 percent of the average wage in the economy (Toledano, 2015). The maximum period during which an unemployed person is entitled to receive unemployment compensation ranges from 50 to 175 days, according to age and number of dependents (see Appendix). By law, unemployment benefits are not paid for the first five days of any continuous four-month period of unemployment, starting from the first of the month in which the unemployment period begins.

¹ Except for those who terminated their employment for legitimate reasons as specified in the law.

Qualifying period for unemployment benefits

The qualifying period is a major component of unemployment insurance programs. It reflects the fundamental character of unemployment insurance as a social insurance program that aims to preserve the individual's standard of living while he/she is without income from labor due to having been dismissed from his/her job. The qualifying period is a legally-specified insurance component: the assistance that the state provides is intended for those who have participated in the labor market and who have contributed to the social security system's funding. In other words, unemployment insurance is a form of wage replacement for those who have insured themselves against the danger of unemployment.

As noted, Israel's qualifying period is 12 months of work out of the 18 months that preceded unemployment. This requirement is consistent with the norm for many European countries, where the qualifying period is 12 months of work out of the 24 months preceding unemployment (Table 1). However, some countries have more lenient conditions, with shorter qualifying periods. Iceland, for instance, requires 3 months of work over the 12 months preceding unemployment. In some countries, the months of work are counted over longer reference periods. In Hungary, for example, although 12 months of work are required, they can be spread out over a period of three years.

A few countries specify different qualifying periods for different age groups: Austria's conditions for people under the age of 25 are lenient, as are Slovenia's for those under 30, and France's for those over 50 (see Table 1). Spain, Finland, Germany and Ireland have no qualifying period requirement for non-monetary forms of aid (vocational training, job search assistance, etc.), while Estonia's qualifying period conditions for labor market assistance are more lenient.

Table 1. Qualifying periods for entitlement in selected countries	
Country	Calculation of Entitlement Period
Austria	Over age 25 - 12 out 24 months preceding unemployment; Under age 25 - 6 out of 12 months preceding unemployment
Italy	Generally, 24 months, of these, 12 of the 24 preceding months
Iceland	3 out of 12 months preceding unemployment for minimum benefits; 12 continuous months of employment for maximum
Ireland	Generally, 24 months employment, of these, 9 out of 12 months preceding unemployment
Estonia	12 out of 36 months preceding unemployment for various benefits; 180 days employment (about 8 months) out of 12 for unemployment benefits
United States	Most states require minimum income; some require specific number of weeks of employment
Bulgaria	9 out of 15 months preceding unemployment
Belgium	14 out of 21 months preceding unemployment, and 29 out of 42 months preceding unemployment (according to age)
Germany	12 out of 24 months preceding unemployment
Denmark	Minimum 1,924 hours (FTE 1 year) out of 3 years preceding unemployment
Netherlands	6 out of 8.3 months preceding unemployment entitled to 3 months; 208 annual hours in 4 out of the 5 years entitles to number of months of employment, to a maximum of 38 months
Hungary	1 year out of 3 years preceding unemployment
Greece	5.7 out of 14 months preceding unemployment or 9 out of 24 months
Norway	Minimum annual wage
Slovenia	Over age 30 - 9 out of 24 months preceding unemployment; Over age 30 - 6 out of 24 months preceding unemployment
Spain	1 year out of 6; some benefits require 3 months (for those with a family) or 6 months (without a family); Over age 50 - 6 years of employment at any time
Poland	12 out of 18 months preceding unemployment
Portugal	12 out of 24 months preceding unemployment
Finland	Salaried - 6 out of 38 months preceding unemployment; Self-employed - 15 out 48 months preceding unemployment
Czech Republic	12 out of 24 months preceding unemployment
France	4 out of 28 months preceding unemployment; Over age 50 - 4 out of 36 months preceding unemployment
Canada	420-700 work hours in year preceding unemployment (dependent on local unemployment rates)
Croatia	9 out of 24 months preceding unemployment
Sweden	In insurance fund at least 12 months with at least 6 out of 12 months preceding unemployment, or 480 hours out of 6 months and at least 50 weekly hours out of 12 months preceding unemployment
Switzerland	12 out of 24 months preceding unemployment

Source: John Gal and Shavit Madhala-Brik, Taub Center.

Data: MISSOC, 2015; *Social Security Programs Throughout the World*, 2013.

Since it was first enacted, Israel's Unemployment Insurance Law has undergone many changes (Gal, 2004), some of them over the past decade. One change, adopted in 2007, relates to the qualifying period for discharged soldiers. Formerly, discharged soldiers were not required to fulfill the qualifying period obligation, but the change in the law now makes unemployment benefits for this group conditional on 6 months' work over a reference period of 12 months from the date of discharge. The actual number of discharged soldiers who collected unemployment compensation in 2014 was exceedingly low – 1,796 (compared with 29,901 in 2006). Another change to the law, adopted in April 2013, did away with the distinction between unemployed people who worked on a monthly or per diem basis.

2. Unemployment Among Young Adults: An Inter-Age Comparison

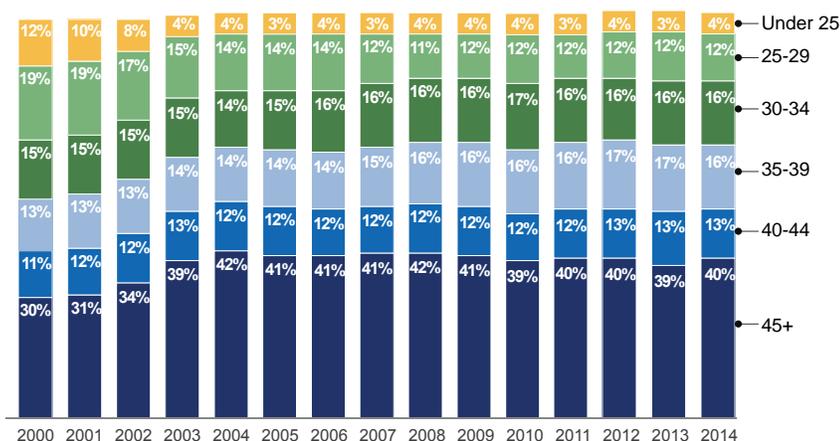
Unemployed young adults account for a relatively small percentage of Israeli unemployment benefit recipients: those under age 30 constitute 16 percent, and those aged 24 and under constitute 4 percent, of the recipient population. Thirty to thirty-five-year-olds account for another 16 percent of unemployment benefit recipients – a figure that has remained substantially unchanged over the years. By contrast, the under-30 age group within the overall unemployment recipient population has declined: in 2000, this group amounted to 31 percent of all recipients, compared with 15 percent in 2007, a figure that has since remained stable (Figure 1).

The rate of recipients in the 30-34-year-old age group is about 16% of all unemployment recipients, and has not changed substantially over the years. In contrast, the ratio of young adults under age 30 out of all unemployment benefit recipients has been declining: in 2000 the rate was about 31%, and in 2007, this rate had declined to about 15%.

Figure 1

Distribution of unemployment beneficiaries by age

Monthly average, percent, 2000-2014



Source: John Gal and Shavit Madhala-Brik, Taub Center.

Data: National Insurance Institute.

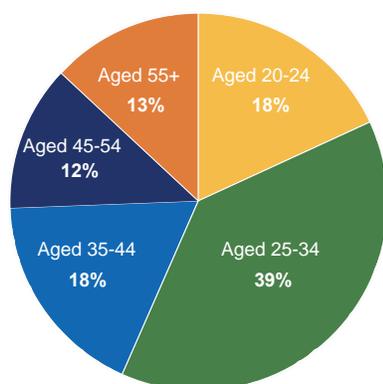
Eligibility for unemployment benefits within the unemployed population

The Unemployment Insurance Law specifies, as a prerequisite for entitlement to unemployment benefits, that one report to one of Israel's Employment Service offices. In 2013, 289,000 Israelis reported to these offices, with 85% of them filing unemployment benefit claims. Figure 2 presents the distribution by age group of those who reported to the Employment Service without filing benefit claims. Sixty percent of this group are unemployed young adults up to age 34, among whom those aged 25-34 were most prominent, accounting for 38% of unemployed people who did not file benefit claims. Non-filing of claims can be due to several reasons, including qualifying periods that fall short of the requirement for unemployment benefits (this is the main reason, according to National Insurance Institute (NII) data for 2013), 5 or fewer days of unemployment (not covered), or continued employment despite having visited the Employment Service.

Figure 2

Distribution of those who reported to the Employment Service and did not file for unemployment benefits

By age group, 2013



Source: John Gal and Shavit Madhala-Brik, Taub Center.

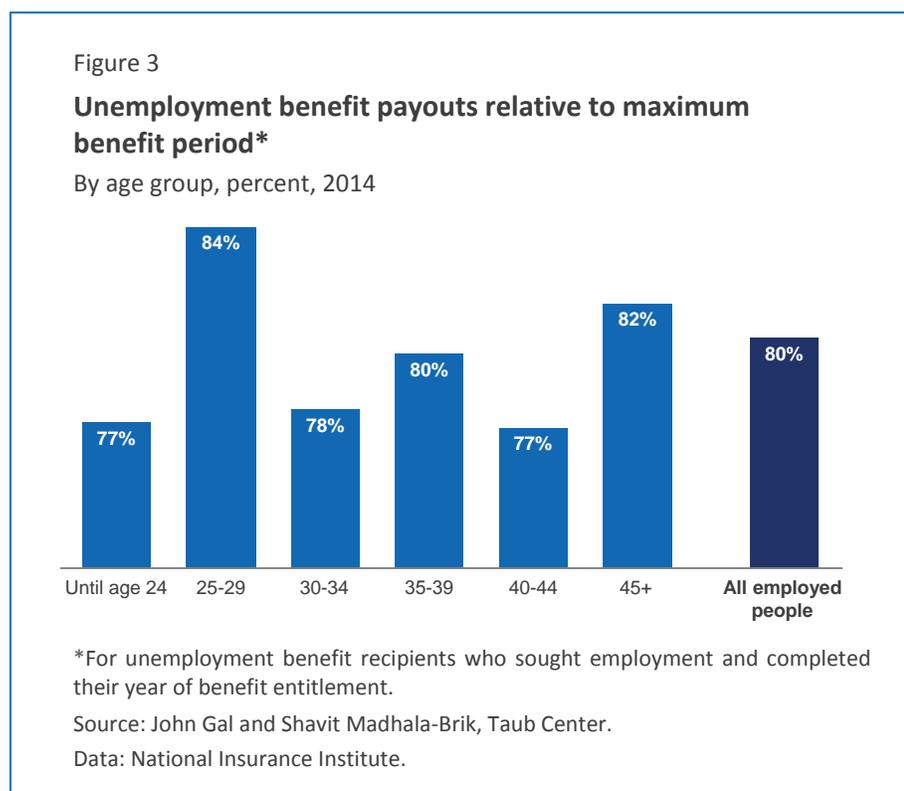
Data: National Insurance Institute.

Lengthening the qualifying period for unemployed young adults is another means by which the Unemployment Insurance Law has made entitlement conditions more stringent for this age group. As noted above, even today the law makes distinctions regarding duration of entitlement to unemployment benefits. The entitlement period for younger unemployed people is shorter than for older ones: unemployed people over age 35 can be entitled to 138-175 unemployment benefit days, versus 50 for those under 25, and 67 for those in the 25-28 year age group. Thus, an unemployed Israeli who is over 35 can receive 3.5 times more unemployment benefit days than one who is under 25.

The depth of unemployment

The depth of unemployment is the number of days for which an unemployed person received unemployment benefits in his/her year of entitlement, that is: the number of days of unemployment for which he/she received payment in relation to the maximum number of days for which he/she was eligible (the maximum period for which unemployed people are entitled to receive unemployment benefits varies, again, by age and family status, i.e., number of dependents).

Figure 3 presents the period of unemployment payments in relation to the maximum benefit period for unemployed people who completed their year of unemployment in 2014. The most prominent group is that of unemployed people aged 25-29, in which the ratio is high – 84%. In numerical terms, the mean number of unemployment payout days utilized by this group is 60 (most people in this age group are entitled to a maximum of 67 payout days), versus a mean of 105 days for the other age groups (Toledano, 2015). It is reasonable to assume that the maximum benefit period's high utilization rate among younger unemployed people indicates that these people have trouble rejoining the labor market during the period in which they receive unemployment payments.



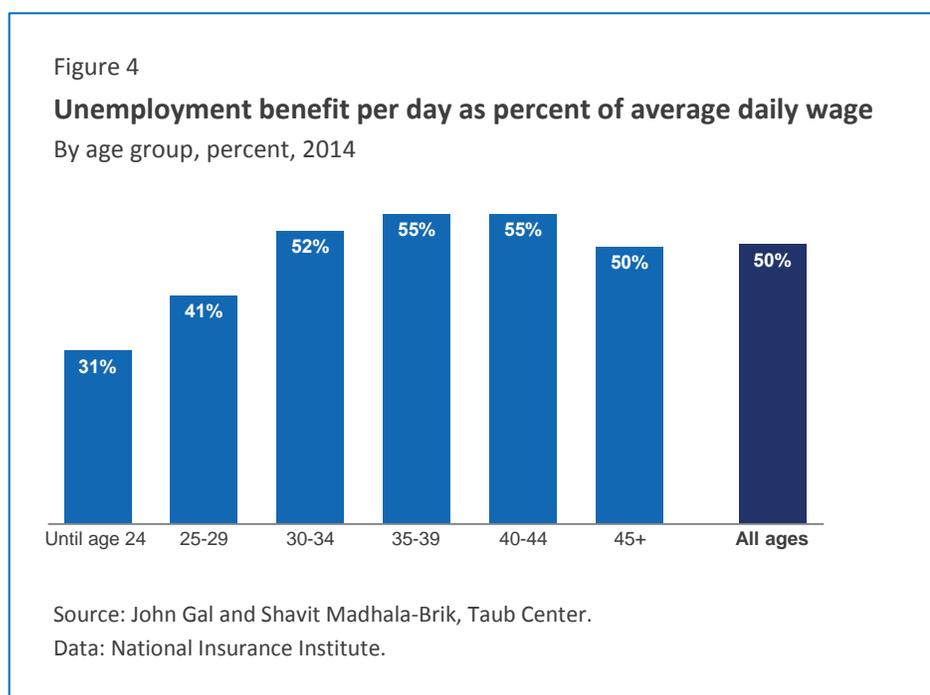
Amount of unemployment benefits

Until 2007, unemployment payments were identical for all recipients, regardless of age. That year, however, in the framework of the Economic Arrangements Law, the unemployment benefits of people under the age of 28 were reduced by 25 percent. As a result, the amount of unemployment compensation paid to younger

Israelis is relatively low to begin with, even without taking their wage levels (which are also low on average) into account.

Figure 4 presents unemployment benefits per day as a percentage of the average daily wage in the economy as a whole, by age group. The younger age groups – up to age 24 and from 24 to 29 – are especially prominent; for these groups, the ratio is lower than for others. The average amount of unemployment benefit paid per day to unemployed young adults up to age 24 is NIS 113, while the average amount for those aged 25-29 is NIS 149 – compared with an average of NIS 182 for all age groups (Toledano, 2015).

A higher ratio of qualifying employment period to length of reference period (the number of months of employment counted out of a specified number of months) testifies to more stringent eligibility requirements. Relative to other social welfare countries, Israel's ratio is high and stands at about 67%. This gap is even more notable when looking at unemployed young adults. A change in the qualifying period for young adults will increase this ratio even more to 75% for those in the 30-35-year-old age group and to 80% for those under 30.



3. The Qualifying Period for Young Adults in Israel Compared to Other Welfare States

As noted above, a change in Israel's Unemployment Insurance Law was recently proposed that would lengthen the qualifying period for unemployed young adults (for those under 30 the period would be lengthened to 24 months out of the 30 months preceding unemployment, while for those aged 30-35 it would be increased to 18 out of the 24 months preceding unemployment). To understand the significance of this change, we need to compare unemployment entitlement conditions across a range of countries.

Table 2 presents an index that is useful when comparing different countries' unemployment eligibility conditions: the ratio between the qualifying period and the length of the reference period (the period during which the work months are counted). A higher ratio testifies to more stringent conditions, for one of two reasons: either more work days are required for unemployment benefit eligibility, or the period in which the work months are accumulated is shorter, meaning that the insurance plan is imposing stricter conditions for the receipt of unemployment benefit payments.

Table 2. **The ratio of months of employment over the specified period of months (reference period) in selected countries***

Country	Months of employment	Reference period (months)	Ratio of reference period to months of employment
Hungary	12	36	33%
Denmark	12	36	33%
Germany	12	24	50%
Portugal	12	24	50%
Czech Republic	12	24	50%
Sweden	6	12	50%
Switzerland	12	24	50%
Bulgaria	9	15	60%
Israel	12	18	67%
Belgium**	14	21	67%
Netherlands***	6	8.3	72%
Israel after the proposed changes			
Until age 30	24	30	80%
Ages 30-35	18	24	75%

* Countries for which data are available. ** Changes according to age - varies between 14 months of employment out of 24 to 28 months of employment out of 42. *** In the Netherlands, there are additional requirements, see Table 1.

Source: John Gal and Shavit Madhala-Brik, Taub Center.

Data: MISSOC, 2015.

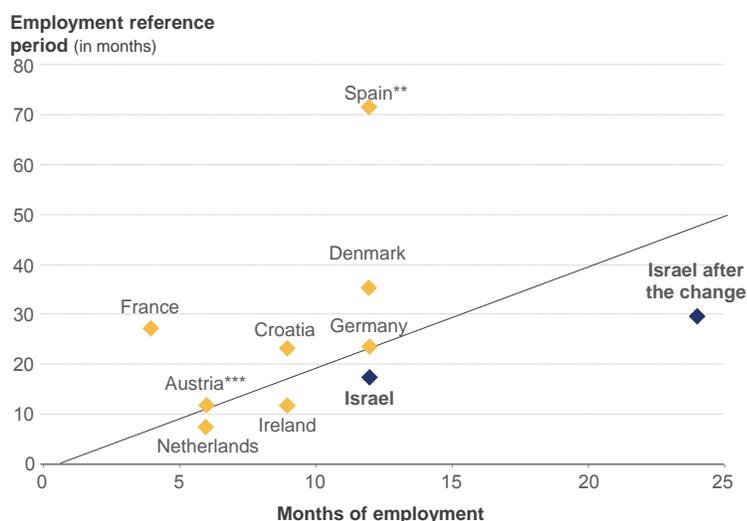
Compared to other welfare states, Israel's current ratio is high – 67%. The gap is even more prominent with regard to unemployed young adults. We can see that the change in qualifying period envisioned for the young adult age group would increase this ratio even more, to 75% for Israelis aged 30-35 and to 80% for those under 30.

Figure 5 also shows the ratio between the required number of work months and the length of the reference period in OECD countries, for unemployed people up to age 30. The proposed change to the Israeli law would impose a much stricter requirement that would distance Israel greatly from the comparison countries.

Figure 5

Employment qualifying period in selected countries*

Months of employment required and length of reference period, for unemployed individuals up to age 30



* The line shows a relationship of 50% - the most common in European countries.

** In Spain, some of the benefits require 3 or 6 months of employment. *** In Austria, unemployed persons until age 25.

Source: John Gal and Shavit Madhala-Brik, Taub Center.

Data: MISSOC, 2015.

4. Implications for Young Israeli Adults of the Proposed Change in the Unemployment Insurance Law

Table 3 presents the number of unemployed people who will be ineligible for unemployment benefits should the proposed change take effect (according to National Insurance Institute data on current unemployment compensation recipients), and the average amount of unemployment compensation that each group receives today. We see that the change would make 15% of today's unemployment recipients (11,000 unemployed people) ineligible for benefits, and that these are benefit recipients whose average payments are lower than the overall average. Additionally, it should be remembered that these age groups' benefit entitlement period is shorter than that of older unemployed people.

A change in the law is expected to lower National Insurance expenditure for unemployment benefits by about NIS 78 million per year.

	Beneficiaries (as percent of all recipients)	Average full unemployment benefit per month, shekels
Current benefit recipients	71,634 (100%)	4,208
Of them: will not be entitled after change	11,081 (15%)	3,581
Of them: will continue to be entitled	60,553 (85%)	4,322

Source: John Gal and Shavit Madhala-Brik, Taub Center.

Data: National Insurance Institute.

Figure 6 shows the distribution of unemployed Israelis who would lose their eligibility under the proposed change to the law, by sector, gender and number of children. Most unemployed people who would be affected are female: 7,100 women (64% of the group total) will be ineligible for unemployment benefits should the change be implemented, compared with 4,000 men (36%). Another finding that stands out is the negative impact on unemployment recipients with one or two children: 23% of those with two children will become ineligible for unemployment benefits after the change. Regarding sector: 19 percent of Arab Israeli unemployment benefit recipients will become ineligible under the new law, versus 15 percent of Jewish benefit recipients.

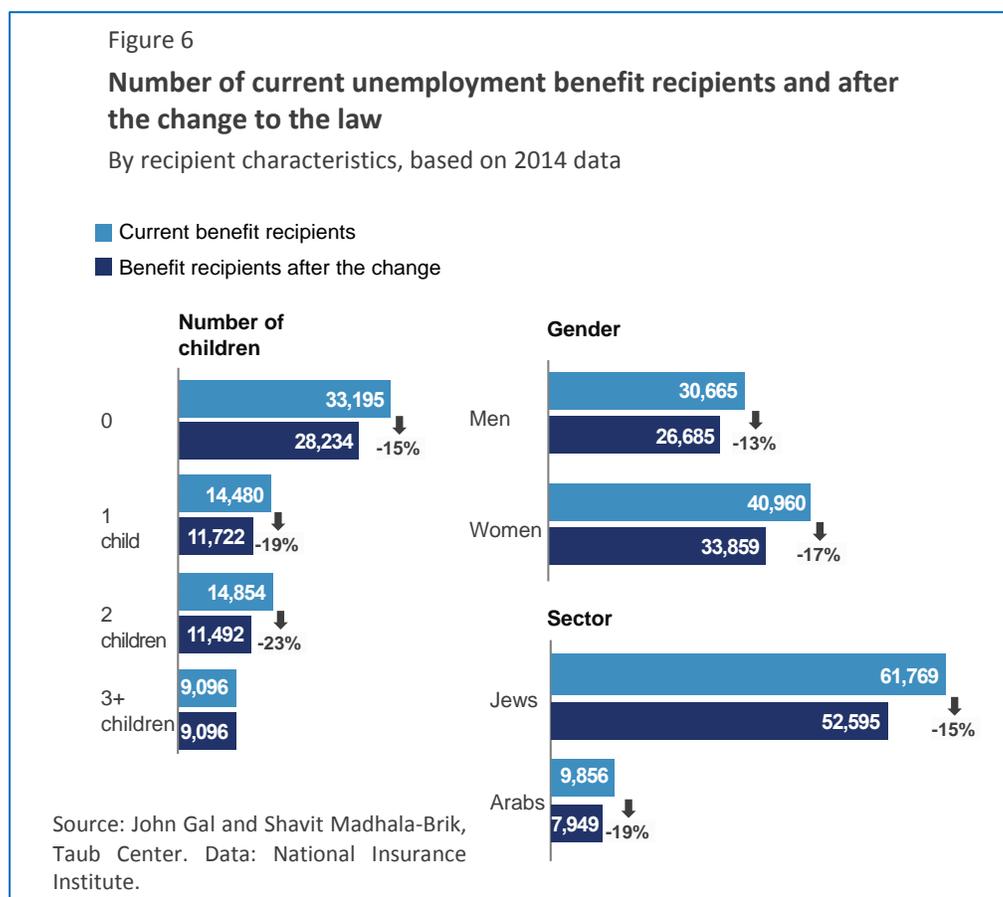
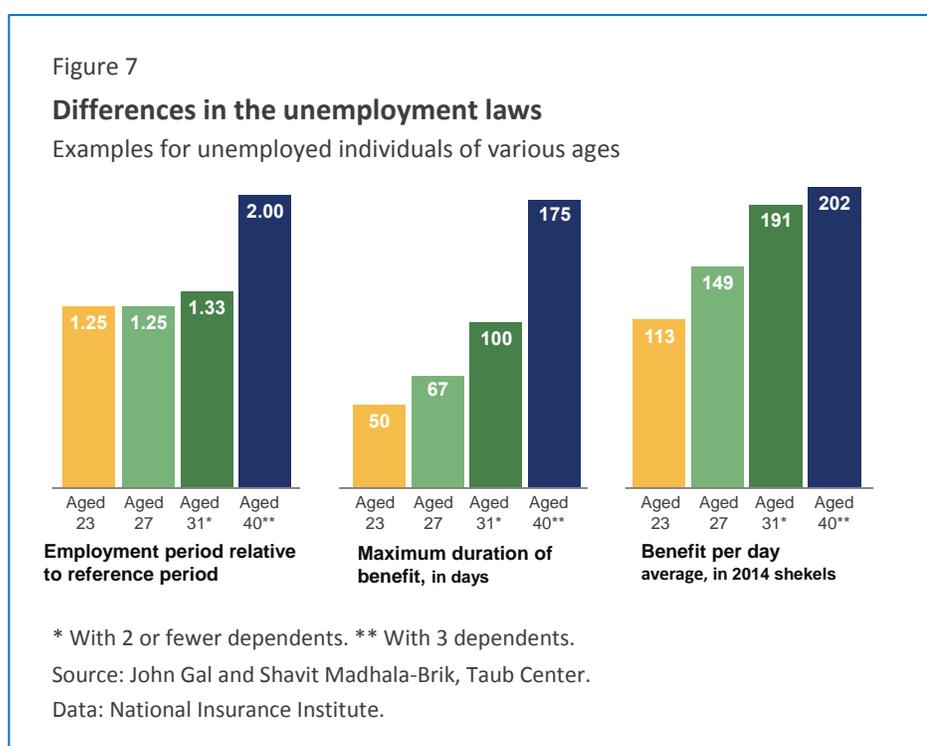


Figure 7 shows the differences between the provisions of the law that apply to unemployed people in the various age groups, as reflected in several indices: amount of unemployment payout received per day,² length of benefit period in days, and the qualifying period ratio (i.e., the ratio between the length of the period in which the work months are counted and the number of work months required – the inverse of the ratio presented above in Section 3). The higher this inverse ratio is, the more lenient the qualifying conditions.

The differences presented regarding the qualifying period are those obtained if the proposed legislative change is adopted. We see that an unemployed 23-year-old is eligible for unemployment payments, and for a number of benefit days, that are substantially lower than those to which all other unemployed people are entitled – especially someone who is 40-years-old (representing the age group that is entitled to the longest maximum benefit period). If the change is adopted, the disparity between these two unemployed Israelis will widen with regard to the qualifying period index as well.



² The average amount of unemployment compensation per day for those belonging to the various age groups, according to the age breakdown provided by Toledano (2015).

Budgetary implications

Table 4 shows the National Insurance Institute's current unemployment expenditure figures, the unemployment expenditures anticipated should the change in the qualifying period for young adults be adopted, and the difference between them. The legislative change may be expected to decrease NII unemployment expenditures by NIS 78 million per year. It should be noted that, as of 2014, the NII's unemployment expenditure amounted to 5% of its total benefit expenditure.

Table 4. **Expenditure for unemployment benefits for unemployed individuals up to age 35, before and after the proposed change**, shekels

	Total	Until age 30	Ages 30-35
Current expenditure	635,372,339	255,375,712	379,996,627
Expenditure after change	557,547,761	204,854,325	352,693,436
Savings due to change	77,824,578	50,521,387	27,303,191

Source: John Gal and Shavit Madhala-Brik, Taub Center.

Data: National Insurance Institute.

Conclusion

The purpose of unemployment insurance is to preserve the standard of living of unemployed people while encouraging them to return to the labor market through employment suited to their skills. The eligibility conditions for benefits, the amount of benefit received and the length of the period in which it is provided enable a balance to be struck between these two vital goals. The changes that have been made to the Israeli unemployment law in recent years appear to have significantly disrupted this balance, especially with regard to unemployed young adults.

The change that is now being proposed would produce some degree of savings in Israel's social security expenditure, but would also substantially decrease younger unemployed adult's access to an unemployment insurance benefit. The altered plan would not affect all young unemployed adults equally; those most negatively affected would be women, people with families and Arab Israelis. These particular populations generally lack the sound economic footing that provides people with alternative income sources during periods of unemployment. This being the case, we suggest that the proposed change be reconsidered, as it would likely constitute a major reduction in accessibility to unemployment benefits for young unemployed adults in Israel.

Appendix

Appendix Table. **Maximum period for receiving unemployment benefit according to the Unemployment Insurance Law, in days**

Number of days of entitlement	Entitlement requirements
175	Recipient is at least 45-years-old or at least 35-years-old with at least 3 dependents
138	Recipient is at least 35-years-old and does not qualify in Section 1, or if recipient is under 35-years-old-with at least 3 dependents
70	If recipient is insured as specified in Sections 2 or 3 in the beneficiary requirements in Section 158 (of the law) even if some of the entitlement period fell after the year period since service that is within the same classification, on condition that the entitlement period is continuous and began before the year's end
67	Recipient is at least 25-years-old and not yet 28-years-old
50	Recipient is not yet 25-years-old
100	Any other circumstance

Source: National Insurance Law.

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