

Forward

In 2005, the Annual Survey of the National Insurance Institute of Israel (NII) celebrates its twenty-fifth year of publication. The present Survey, like its predecessors, covers the varied activities of the NII in the previous year – benefit payments and collection of insurance contributions, social policy and research.

The first chapter presents benefit payments in 2005, in view of the government's recent social policy, and describes developments in public welfare expenditure in Israel in an international perspective. This year the international view is devoted to the link between the size of transfer payments and their contribution to reducing poverty. Several social aspects of the budgetary policy – both public expenditure and taxes – are presented, based on a model constructed by the NII. The chapter spells out the principles of the war on poverty, including recommendations regarding social security benefits.

The second chapter presents the picture of poverty and income gaps in Israel in 2004 and 2004/5. In addition to poverty findings according to the relative approach, the chapter presents updated findings on the scope of poverty according to the expenditure approach. Special chapters deal with developments in the income support system to the working-age population (Chapter 3), in collection of national and health insurance contributions (Chapter 4) and in the main insurance branches (Chapter 5). A large share of the chapter on income support describes the experience that has accumulated in the first half-year of the implementation of the Law to Integrate Benefit Recipients in Work (the Wisconsin plan – welfare-to-work). Some of the chapters include Boxes focusing on topics high in the social agenda in Israel, or on findings from recent research, or on the international experience in certain fields.

Summaries of the first chapter and of the chapter on trends in poverty and inequality appear in English.

The Survey includes three Appendices: an Appendix of Publications – summaries of research reports and surveys published by the Research and Planning Administration in 2005 – a bilingual Insurance Branch Table Appendix and a bilingual Poverty and Inequality Table Appendix.

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

Leah Achdut

Deputy Director-General for Research and Planning

Preface

By the Director General

In 2005, for the second straight year, Israel enjoyed impressive economic growth. The positive change in the economy since the end of the recession has not yet led to any real turning point in the government's social policy; however, more and more voices are calling for an increase in national resources to deal with economic distress and reduce social gaps. Social issues have been placed at the top of the public agenda, and support for a socio-economic policy different from the one of 2002-2004 has crossed lines of ideologies and political affiliations.

In general, the national insurance (social security) system continued to be shadowed by the strict social legislation of 2002-2004. Some of the first signs of the labor market's recovery were noted in the NII programs linked to the labor market and in the government's willingness to improve the economic situation of the elderly – but not in the other NII programs. The cuts in the child allowances continued in 2005, and most benefits were again not adjusted. The government decision to improve the pensions paid to the elderly, particularly to the low-income elderly, moderated the negative trends that had characterized the benefit system in the previous three years, but did not reverse them. The erosion in benefits continued in 2005, both as average per capita and in terms of GDP percentages. In this year benefit payments amounted to 7.6 GDP percentages – a similar level to that of a decade earlier. Since the 2002-2004 legislation has been almost fully implemented, and since the policy of benefit cuts was halted in 2005-2006, we estimate that expenditure will grow in real terms in the coming years.

Two signs of the government's socioeconomic policy since 2002 are the reduction in public expenditure and the lowering of taxes. Quantitative estimates of the social implications of the budgetary policy show an unfair distribution of the price of the economic recovery: the accumulative influence of the changes in transfer payments, in expenditure on education and health services and in direct taxes considerably lowered

the net income of the four lowest deciles, while raising that of the other deciles, particularly the two highest ones. A sum-up of budget policy in 2002-2005, together with an analysis of developments in public welfare expenditure, show that most cuts were in NII benefits, while expenditure on health and education (adjusted for capita) barely declined. The data presented in this Survey again show an increase in poverty in Israel: the rate of poor families soared to 20.5% and of poor children – to 34%. This trend strengthens Israel's position as one of the Western countries "leading" in the scope of poverty and income gaps. The international comparison in this Survey describes the link between the scope of transfer payments and the extent of their generosity, on the one hand, and their contribution to reducing poverty and income gaps, on the other. It was found that this contribution is low in Israel, ranging between 30% and 50%, while the poverty rate in the country is high – over 17%.

Although the poverty picture in 2004/5 remained a cause of concern, the data point to the beginnings of a positive development: a notable recovery of all sectors of the labor market that led to a slight improvement in economic income gaps (before transfer payments and taxes). Furthermore, it appears that the negative effects of the budget policy have exhausted themselves, and we believe that from the low point in which we are situated today a way will be paved, by means of a new policy, towards an improvement in the social situation.

The discussions that preceded the government decisions on the 2005 budget bore fruit, and in 2005 the NII stand that the minimum income for those elderly entitled to income supplement should be raised was accepted. This was a first step – carried out in two stages – the effects of which will be reflected in the poverty data to be published in 2005, and particularly in 2006. The government also decided to set up an inter-ministerial team to examine the possibility of introducing refundable tax credits (a negative income tax) for low-wage workers. In 2006 too the Bahar Committee, appointed by the Minister of Finance to recommend measures to reduce poverty in Israel, conducted sessions, including a presentation by the NII of its plan for the war on poverty in view of the situation in 2004/5.

The long-term plan of the NII – until the end of the present decade – is based on a number of principles: firstly, the wide range of causes of poverty requires a similarly wide range of interventions in the area of benefits, the labor market and social mobility. Secondly, there is need of a long-term plan to reduce poverty and income gaps in Israel, which reflects both the government's priorities and its commitment to ensure the resources required to implement the plan. For this purpose the removal of the ceiling of the growth in public expenditure should be considered. Thirdly, the universal benefits – old-age pensions and child allowances – should be the focus of a plan to increase benefits. The pensions paid to the elderly were raised in 2005, and it is proposed to continue this policy. Fourthly, the policy of income support after retirement should include two tiers: a national insurance benefit and an occupational pension in the framework of obligatory pension. Fifth, the selective sector of the social security system should be strengthened by introducing a negative income tax and by raising the income support benefit to those with limited occupational potential – after the proper mechanisms of diagnosis are formulated. Sixth, some of the intervention programs in the field of occupation and social mobility should focus on those population groups with a lack of opportunities in the labor market (such as the Arab sector and the periphery) or on at-risk population groups.

Some of these specific recommendations are spelled out in this Survey. Despite the differences between the various approaches regarding the specific policy required to solve the social problems and the different emphases of each one of these approaches, it is my firm belief that it is possible to reach agreement on a plan of action, in accordance with defined goals. The challenge facing the new government is to formulate such a plan and to implement it as soon as possible.

Dr. Yigal Ben Shalom
Director General

Chapter 1

Trends of Development in National Insurance *

Leah Achdut

* Rafeala Cohen, Michal Ophir and Miri Endweld prepared the Boxes presented in this Chapter.

1.1 Introduction

The National Insurance (social security) system of 2005, still in the shadow of the social legislation of 2002-2004, continued to reflect the government policy of reducing public expenditure: the cutbacks in the child allowance system continued, most benefits were once again not adjusted, and the number of new recipients of old-age pension was significantly diminished due to the deferral of the age of entitlement to pension. The signs of economic growth were evident, to a certain extent, in programs having a linkage to the labor market – unemployment and income support – but not in most other schemes. Accumulated evidence on the expansion of poverty led the government to improve the condition of the low-income elderly, and political agreements advanced the cancellation of some of the cutbacks in old-age pensions to all elderly – cutbacks anchored in a temporary order due to expire in early 2007.

The raise in pensions to the elderly in 2005 moderated the negative trends that characterized the benefit system in 2002-2004 – but did not cause a reversal of those trends. The erosion in benefit payments, in terms of both expenditure per capita and GDP, continued in 2005. After payments of cash and in-kind benefits decreased by about 12% in real terms in 2002-2004, they remained stable in the year under review, leading to continued erosion in the average benefit per capita – at an accumulated rate of about 18% in real terms since 2001. The shrinking of benefits relative to the GDP in 2005 is all the more notable in view of the economic growth in Israel: in this year benefits lost about an additional 0.4 of a GDP percentage, and in the past three years the benefits dwindled by 1.8 GDP percentages, down to 7.6% of the GDP in 2005, thereby returning to their level of the mid 1900's.

In 2005 the levels of all NII benefits, with the exception of the old-age pension and the hospitalization grant, were eroded in real terms, and the number of benefit recipients decreased in all branches, with the exception of General Disability and Children. The

stability, in real terms, that characterized benefit payments reflects the following developments: payments to the elderly and disabled as well as hospitalization grants grew, while payments of benefits to the working-age population – child allowances, income support benefits and wage-replacing benefits (unemployment, injury allowance, maternity allowance and reserve service benefits) – declined. The child allowances were again cut in accordance with the law and payments of these allowances fell by an additional 8%; their accumulated decline since 2001 amounted to about 50% in real terms. This notable reduction in child allowances places Israel on a low position in the generosity scale of support for families with children, as compared to many Western countries. The influence of harshening of conditions of entitlement to unemployment benefits on benefit expenditure was more or less exhausted in 2004, and remained more or less the same in 2005; only a fifth to a quarter of the jobless population were entitled to unemployment benefits, which is quite a low coverage level from an international perspective.

The continued decrease in unemployment benefit payments in 2005 is due to the improvement in employment as a whole: the decline in the unemployment rate shortened the period during which unemployment benefits were received. The increase in demand for workers can partially explain the continued decrease in the number of recipients of income support benefit in January-July 2005. In August 2005 occupation centers were opened in four experimental regions of Israel, in the framework of the welfare-to-work plan, anchored in the Law to Integrate Benefit Recipients in Work. In January-July 2005 the number of income support benefit recipients, as a monthly average, was about 142,300 families, as compared to 145,300 families in the parallel period of the previous year (a decrease of about 2%). This trend was intensified after the opening of the occupation centers, and the average number of recipients per month went down to 136,600 families in August-December 2005. In the year 2005 as a whole, the number of recipients, as a monthly average, was 139,900, as compared to 144,700 in 2004 – a decrease of slightly over 3%.

In 2005 there was a relatively high rise, in real terms (about 4%), in payments of the general disability pension and of the other benefits granted by the General Disability branch. The rise in payments of old-age and survivors' pensions was a more moderate one (1.5%), and can be attributed solely to the government's new policy of improving the situation of the elderly population. The minimum guaranteed income to the elderly was raised – in two stages – by about 10%, and the 2002 reduction in the old-age pension was cut from 4% to 1.5% (while the 4% reduction in all benefits was meant to expire only in January 2007). The Retirement Age Law, implemented in June 2004, most strongly affected the Old-Age and Survivors branch, where the number of recipients of the statutory pension barely rose in 2005. The first effects of the law's implementation were also felt in the schemes for the working-age population; recipients of disability pensions and income support benefits had to extend their duration in these systems until the new age of entitlement. About half of the 2005 rise in the number of recipients of general disability pension can be attributed to the deferral of the age of entitlement to old-age pension.

Tables 1 and 2 present the structure of welfare expenditure in Israel and the trends of change in this structure between 2000 and 2005, in accordance with the OECD classification rules. Public welfare expenditure includes the expenditure of all public institutions on cash and in-kind benefits and on health (but not on education). Public welfare expenditure relative to the GDP was at its peak in 2002 – about NIS 96 billion, or about 19.5 GDP percentages. In this year cash benefits constituted 60% of total expenditure. In 2002-2005 welfare expenditure was eroded in real terms by an accumulated rate of about 3.5%. This development did not characterize all types of expenditure; whereas expenditure on in-kind benefits – mainly health and long-term care – rose in real terms by 2.7%, expenditure on cash benefits declined by 8.3% in real terms. When pension payments to civil servants (actually part of the occupational pension) are deducted, cash benefits declined in real terms by an accumulated rate of 12.5%.

Table 1: Public Expenditure on Welfare, 2000 – 2005 (percentages of GDP)*

	2000	2001	2002	2003	2004	2005
Total	11.79	19.29	19.48	19.05	17.88	17.17
Total cash benefits	10.44	11.56	11.48	11.20	10.24	9.82
Benefits to working-age population	5.53	6.13	6.05	5.54	4.91	4.63
NII	4.49	5.07	5.03	4.56	4.01	3.74
War and hostile actions	0.51	0.57	0.59	0.60	0.58	0.56
Other**	0.53	0.48	0.44	0.39	0.32	0.33
Benefits to the elderly	4.91	5.42	5.43	5.58	5.33	5.18
NII	2.83	3.14	3.09	3.06	2.98	2.90
Pension to civil servants	1.63	1.79	1.84	2.01	1.94	1.90
Other***	0.45	0.49	0.49	0.51	0.41	0.39
Total in-kind benefits	7.35	7.73	8.00	7.93	7.64	7.36
Health and long-term care	5.69	6.00	6.16	6.18	5.97	5.76
Other****	1.66	1.74	1.83	1.75	1.67	1.60

* Source: NII and CBS data, processed by the Research and Planning. Administration according to OECD classification rules.

** Includes benefits to demobilized soldiers, absorption basket and cash benefits as rental assistance.

*** Includes benefits to Nazi victims and cash benefits as rental assistance.

**** Includes in-kind benefits of NII, local authorities, national institutions, State non-profit bodies and Ministry of Labor and Social Affairs.

In 2003-2005, welfare expenditure lost 2.3 GDP percentages. In 2005 alone, public welfare expenditure decreased by 0.6 GDP percentages, reaching about 17.2% of the GDP. Most of the “loss” in terms of GDP since 2002 is in expenditure on cash benefits, particularly those paid by the NII to the working-age population. The expenditure on cash benefits decreased by about 1.7 GDP percentages, out of which 1.5 GDP percentages are to the working-age population. Cash benefits to the elderly

declined only slightly – from 5.4 GDP percentages in 2002 to 5.2% in 2005, with most of the decline occurring in 2004-2005. When pension payments to civil servants are deducted, cash benefits to the elderly decreased by 0.3 GDP percentages since 2002, down to only 3.3 GDP percentages in 2005. Expenditure on in-kind benefits, consisting mainly of health and long-term care benefits, decreased by 0.6 GDP percentages between 2002 and 2005. This decrease occurred mainly in 2004-2005 – years of economic growth.

Table 2: Public Expenditure on Welfare, 2000, 2002 and-2005 (percentages of GDP)*

	Expenditure – NIS billion, in current prices			Rate of real change : 2005 as compared to 2001
	2001	2002	2005	
Total	91.7	95.7	95.1	-3.5
Total cash benefits	55.2	56.7	54.4	-8.3
Benefits to working-age population	29.3	29.9	25.7	-18.5
NII	24.2	24.8	20.7	-20.3
War and hostile actions	2.7	2.9	3.1	5.3
Other**	2.3	2.2	1.8	-27.4
Benefits to the elderly	25.9	26.8	28.7	3.1
NII	15.0	15.3	16.1	-0.5
Pension to civil servants	8.5	9.1	10.5	14.6
Other**	2.4	2.4	2.1	-15.3
Total in-kind benefits	36.9	39.5	40.8	2.7
Health and long-term care	28.6	30.4	31.9	3.6
Other	8.3	9.1	8.9	-0.3

* Source: NII and CBS data, processed by the Research and Planning Administration according to OECD classification rules.

** Includes benefits to demobilized soldiers, absorption basket and cash benefits as rental assistance.

*** Includes benefits to Nazi victims and cash benefits as rental assistance.

**** Includes in-kind benefits of NII, local authorities, national institutions, State non-profit bodies and Ministry of Labor and Social Affairs.

Developments in public welfare expenditure were analyzed in comparison to 2001-2002, when the scope of this expenditure was at its peak. Even at this level, however, the welfare system of Israel as a whole and its cash benefit system in particular was not exceptionally generous in an international perspective. In 2001 Israel was at the 21st place in the scale grading the OECD countries by public welfare expenditure relative to the GDP, with the gap between Israel and the OECD average measuring 1.9 GDP percentages – 19.3% in comparison to 21.2% – and the gap between Israel and the EU average (EU15 – 24%) measuring 4.7 GDP percentages. In the measure of cash benefits as well, Israel is in the 20th place with 11.6 GDP percentages, as compared to an average of 12.9 percentages for the OECD countries and 15 GDP percentages for the EU15 countries. Deducting the benefits unique to Israel – hostile action casualties and the pensions paid by the State as an employer (which in most countries is included in the occupational pension, and not in the State pension) – expenditure on cash benefits in Israel in 2001 goes down to 9.2 GDP percentages. Adjusted for the relevant population size, the size of benefit per working-age person relative to the per capita GDP in Israel is similar to the EU average and England, but higher than the OECD average. On the other hand, the size of benefit per elderly person relative to the per capita GDP in Israel – after deduction of pensions to civil servants – is much lower than the OECD average, and even lower still than the EU average.¹

1.2 Welfare Policy Until the End of the Decade: Principles and Recommendations

The reduction in public expenditure and taxes are two basic elements of the government's socio-economic policy in 2002-2004. The government decided to curb public expenditure by means of two aims: firstly, the target of deficit in the State budget was 3.4 GDP percentages in 2005, but it will be further decreased gradually in

¹ For more detailed data, see "Annual Survey 2004", the NII.

the coming years, and secondly, government expenditure will not rise beyond 1% in real terms – a rise not even sufficient for the natural growth of the population². In parallel, and in order to avoid pressure to increase public expenditure, the Treasury embarked time and again on a policy of reducing taxes: in addition to the income tax reform – in both its stages – the rates of VAT, purchase tax and company tax were reduced, as were the national insurance contributions imposed on employers. In most cases the tax reductions will be carried out gradually, and will continue into the years 2006-2010. Some of the changes introduced in the direct tax system actually served to increase the tax burden, sometimes only on specific population groups: the tax benefits for those living in development towns and to those receiving early pensions were reduced; the rates of national and health insurance contributions imposed on those receiving early pensions were increased; and the income tax credit point for a non-working spouse was abolished, as was the adjustment of the credit point according to price rises. The last step led to a constant erosion in the tax thresholds, and in the long term, to a heavier tax burden, particularly for low and medium-wage earners and for working mothers. As of early 2006, the reduced rates of NII contributions paid by the employees will be lowered and the income bracket of the reduced rate will be raised from 50% to 60% of the average wage, while the regular rate will be increased. This last amendment was implemented with almost no loss or gain in total contributions collected by the NII; it aims to lower the tax burden on low-wage earners.

The reduction of public expenditure particularly intensified the burden on those population groups most in need of social services, while the income tax reform benefited the well-off groups. The findings presented below show that the economic

² The long-term target of the deficit ceiling was 3 GDP percentage, and the growth in expenditure was limited to one percentage. In order to finance the disengagement, it was decided to raise these targets temporarily, but in actual fact both the deficit and the expenditure were below the original targets. The government deficit in 2005 amounted to 1.9 percentages due to the under-utilization of the budget.

distress of the weak population groups became worse, and that the gaps in Israeli society expanded. It is true that there was an impressive growth in the economy and a significant recovery of the labor market – in all its sections – but these developments were not sufficient to reduce the gaps between the various strata of the population caused by government policy. Therefore, the social situation in Israel requires a plan of action in various fields and in accordance with defined goals. Even if the economy continues to grow, we will not be able to avoid the need for action in order to rehabilitate the benefit system in Israel.

Despite the differences between the various opinions on the policy measures required to solve the social problems, it is possible to reach an agreed-upon plan based on the common elements of all these opinions. The discussions that preceded the government decisions on the 2005 budget were fruitful ones, and in 2005 the minimum income for the elderly entitled to income supplement was increased. The government also decided to set up an inter-ministerial team to examine the possibility of introducing a refundable credit point (negative income tax) for low-wage earners, in order to encourage entry into the labor market and/or to ensure a more adequate compensation for these earners. The team deliberated in 2005, and its members – representatives of the Ministry of Finance, the National Insurance Institute and the Bank of Israel – formulated various proposals for the structure of the plan and the method of implementing it. The team completed the work without submitting a report or recommendations to the Ministry of Finance or to the government. The Ministry of Finance opposed the plan, while the NII and the Bank of Israel were in favor of it. In 2006 the "Bahar Committee" appointed by the Ministry of Finance and headed by the Ministry's Director-General, deliberated on the policy measures that should be enacted to reduce poverty in Israel.

The NII submitted its plan on the war on poverty to this committee, in view of the situation in 2004/5.

The point of departure for the NII's plan was that the wide range of causes of poverty requires a range of interventions in the fields of the labor market, benefits and social mobility. In view of the dire distress on the one hand and budgetary limitations on the other, there is a real need for a perennial plan that reflects the government's priorities and commitment to guarantee the required resources. The sharp rise in poverty among children demands immediate solutions. The elderly population too is a target of social policy, but the benefits paid to this population were increased in 2005. Of course this increase is not sufficient, but if the government allocates only limited resources to the war on poverty, it is fitting that in the framework of the 2006 budget – and particularly the 2007 budget (still not formulated at the time of this writing) – resources be directed to children and low-wage earners, and at a later stage, it will be possible to continue the policy of improving the welfare of the elderly.

The range of interventions in the war on poverty aims at helping the various groups of the poor population – each in accordance with the causes of its poverty – thereby "dispersing" the resources among the groups and increasing the chances for each group to be extracted from poverty. The range of interventions will also serve to "disperse" the risks sometimes entailed in enforcing one policy measure or other. The policy regarding the working-age population may include a rise in the minimum wage, a negative income tax, child allowances and assistance in child care. The advantages of some of these components is that they strengthen the incentive to work, and of others – that they guarantee an adequate standard of living. A proper mixture of policy measures can ensure a renewed balance between work incentives and a guaranteed minimum income for subsistence – after a government policy of 2002-2004 that emphasized work incentives and neglected its obligation to guarantee adequate income.

In setting policy regarding a guaranteed minimum income to the working-age population, one should distinguish between the different levels of occupational

potential. For this purpose, a mechanism of diagnosing work capacity should be constructed. The welfare-to-work plan experiment in four regions of Israel is still operating, and it is recommended not to expand it until the findings of the follow-up research – and the experience that will have accumulated during the research period – show that the targets of the plan, as defined by the policy makers, have been achieved. The experience thus far accumulated should spur those responsible for the employment test to create a mechanism for diagnosing employment capacity. The fact that a not insignificant share of the "impossible to place" recipients of the income support benefit are persons suffering from disabilities or social functional problems – becomes ever clearer, even to the Ministry of Industry, Commerce and Employment and to the Ministry of Finance. This population group needs not only sheltered jobs, but also rehabilitative services. It is proposed to increase the level of the income support benefit to those with limited potential, up to its level prior to the June 2003 cut.

Those who are capable of working may be assisted by means of work-support services, particularly vocational training and help with child care in kindergartens and daycare centers. The Israel of 2005 lacks a clear policy and overall view of needs in the field of vocational training. The resources for vocational training have dwindled due to the budgetary policy of 2002-2004, and the existing resources are not being fully utilized. Some of the intervention plans in the area of employment should be focused on those population groups that lack opportunities in the labor market – such as the Arab sector and the periphery. In the Arab sector, there is a low rate of participation of women in the labor force, and a high rate of both unemployment and low wages among men.

The recommendations formulated by the NII in the area of benefits and the "negative income tax" are presented in Boxes A and B, respectively. The recommendation to introduce a negative tax plan does not become superfluous even if it is decided to raise the minimum wage and/or to increase child allowances.

Box A:**The Policy of the War on Poverty: Recommendations to Increase Benefits and the Scope of Coverage**

Recommendations to improve benefit levels are at the core of the NII program to reduce poverty in Israel. These recommendations include adjusting benefits, halting the cuts in the child allowances and increasing benefits to children and to the elderly. The point of departure for these recommendations is that, with the temporary order due to expire in January 2007, the 4% reduction in benefits (all benefits except for income supplement to the elderly and general disability pension) will be cancelled. 2.5% of the reduction in the old-age pensions were restored to the elderly in 2005, and the remaining 1.5% will be restored in January 2007. At the same time, the NII recommends easing conditions of entitlement to unemployment benefits, in order to expand the scope of coverage of this scheme.

Adjustment of benefits that until 2002 were linked to the average wage (such as old-age and survivors' pensions, disability pensions, income support benefits and alimony):

The introduction of a method that would combine adjustment according to price rises with adjustment according to changes in the average wage — as a first stage in a process of restoring full linkage of benefits to the average wage. Under this combined method, benefits will be adjusted annually at a rate equivalent to price rises,¹ plus half the rate of the real rise in wages, which will be examined in comparison to the last year in which benefits were thereby adjusted according to wages.

Average wages under the National Insurance Law — according to which the adjustment is carried out — rose by about 1.3% in the past 15 years, so that the budgetary cost of adjusting benefits will be approximately NIS 200 million, as an annual average.

¹ Under the present law the amount of benefits is not reduced when prices decline.

Halting the cuts in child allowances, and increasing the allowances:

- a) Under present legislation, a further cut of about NIS 500 million in child allowances is planned. It is proposed to halt these cuts and to determine a uniform allowance on the basis of 2006 expenditure: that is, a sum of about NIS 173 per month for every child. In order that the reduction planned for 2007-2009 in the allowances for the fourth and subsequent children not be concentrated in 2007, the process may be carried out in the course of two years.
- b) Increasing allowances by about half a billion shekels over and beyond the rise in expenditure in 2006; this increase can be applied universally to all children, or can be focused on children aged 0 to 5 (approximately 800,000 children), or on the third and fourth children in families only (that is, a uniform allowance for the first two children and for the fifth and subsequent children, and an increased allowance for the third and fourth children). Differentiated rates of allowance according to the child's place in the family or to his age are common practice in many Western European countries.

Income support to the elderly:

- a) An additional increase in the minimum guaranteed income to the low-income elderly: It is proposed to increase pensions to a level of 30% of the "basic amount" for a single person and to about 45% of the "basic amount" for a couple. This would increase pensions by NIS 57 for a single person and by about NIS 110 for a couple (this is in addition to the NIS 170 and NIS 230, respectively, provided in 2005). This proposal would cost approximately NIS 160 million.
- b) Expanding the scope of persons eligible for income supplement by improving the means test: increasing the disregarded income from 17% to 20% of the average wage, and reducing the rate of deduction from income supplement due to pensions from 100% to 60%. The significance of this step is that at a cost of NIS 15 million,

it will be possible to provide income supplement to an additional 13,000 elderly people. This proposal is a very important part of the policy towards those elderly who have a relatively low pension, and it may be expanded in several stages in the coming years. It should be stressed that out of approximately 190,000 elderly persons presently eligible for income supplement, about 50% immigrated to Israel since the early 1990's. (Almost all new immigrants are eligible for income supplement.) Out of veteran Israelis, only 16% are eligible for income supplement, due to the strict means test.

Increasing the scope of coverage of unemployment insurance

- a) Equalizing the status of the daily worker in unemployment insurance to that of the monthly worker, from the point of view of both qualifying period and calculating unemployment benefits. The significance of this step would be that more daily workers will be eligible for unemployment benefits, although their benefits would be lower than those they presently receive.
- b) Shortening the qualifying period to ten months out of the last 18 months preceding the unemployment (rather than 12 out of 18 months, as is the case today). This would be a first stage in expanding the scope of persons eligible for unemployment benefits, out of those who worked prior to their unemployment.

These proposals will cost about NIS 350 million, at a 9% unemployment level.

Box B:**Earned-Income Tax Credits to Families with Children ("Negative Income Tax") – The Model Proposed by the NII**

Refundable earned-income tax credits to low-wage earners are part of the policy implemented by Western countries in order to encourage employment, to guarantee adequate compensation for work to low-wage earners and to reduce poverty. The NII proposed the introduction of earned-income tax credits to low-wage earners – "the negative income tax program" – already in 2001, in a plan submitted to the Minister of Labor and Social Affairs.¹ Recently, a committee appointed by the Director-General of the NII to examine the inter-relationships between benefits and the labor market recommended implementing a negative income tax, spelling out the principles of the plan, its elements and the method of implementing it.² This plan later constituted the basis for models proposed by the NII in the framework of the inter-ministerial team during the discussions on the 2005 budget. The team's members agreed that the proposed plans to be discussed would be applied to families with children – at least at its first stage– converging to plans costing from a billion to a billion and a half shekels.

The NII proposed a number of models for this plan, all having in common the following principles:

- * The plan will constitute an additional tier to the benefit schemes presently existing. It will not replace or detract from the present child allowance or income support system.

¹ "The policy of the Minister of Labor and Social Affairs, Dr. Ra'anan Cohen, for confronting unemployment, reducing poverty and economic gaps, and battling violence": the Ministry of Labor and Social Affairs, January 2001.

² "Report of the Committee to Examine the Inter-relationships between the NII and the Labor Market," NII, 2005. The committee was appointed by the Director General of the NII, Dr. Yigal Ben Shalom, and was headed by Ms. Leah Achdut and Dr. Momi Dahan.

- * The credit will be an integral part of the tax function, and the plan will be operated by the Income Tax Authority.
- * Each spouse will be eligible for the tax credit, in accordance with his/her wages only. Other income not from work will not be taken into account.
- * The credit will not be dependent on the scope of one's job, or level of income from work.
- * The maximum credit will rise with family size by means of an increment for each child or for some of the children, or by increasing the subsidy the larger the family).
- * In order to illustrate this plan and its implications on family income, one of the proposed models is presented below. The implementation of this model would cost about NIS 1.5 billion, and it includes the following components:
 - * Tax credit will be given to each of the parents, but on condition that the combined wages of both parents is not more than 1½ times the average wage (about NIS 10,000 in January 2006).
 - * The credit is equivalent to 15% of wages up to an income of about NIS 3,000 (90% of the minimum wage in January 2006) for families with 1-2 children, to 20% of the average wage for families with 3 children, and to 22.5% of the average wage for families with 4 or more children. After that, the credit will be reduced by 15% of extra wages for every family size, until it reaches zero (at wages of NIS 6,000 to NIS 7,500, depending on family size).

An additional credit of NIS 40 will be granted for every child from the second to the fourth in the family.

The maximum credit will range from NIS 450 for a family with one child to about NIS 800 for a family with 4 or more children. The credit will be provided to about 300,000 families, about a third of which are defined as poor.

The following table shows findings arising from a simulation of the implications of this plan on poverty and income distribution. The incidence of poverty among working families with children will decline by 19%, and among all children – by about 8%. The Gini index of net income distribution will decline by about 1.2%

Estimates of the Effects of the Proposed Plan on the Scope of Poverty and Income Distribution*

	Poverty among families	Poverty among working families	Poverty among working families with children	Poverty among children	Poverty gap among families	Gini index among families
Situation in 2004	20.3	11.4	16.3	33.2	33.3	0.3799
After proposal implementation	19.2	9.9	13.2	30.4	32.9	0.3740
Change (%)	-5.4	-13.2	-19.0	-8.4	-1.2	-1.5

* Income Survey data proposed by the Research and Planning administration of the NII. Calculation of the poverty measures after implementation of the proposal was based on the median in the present situation.

The extent of the proposed rise in the minimum wage for the coming years – over and beyond the adjustment determined in the law – is not known at the time of this writing, but it seems that its rate will not have an adverse effect on the unemployment level of non-skilled workers, particularly since the raising of the minimum wage will be accompanied by a lowering of national insurance contributions to employers, planned by 2010. Raising the minimum wage without strengthening law enforcement measures will miss its mark. Similarly, strict enforcement of the minimum wage and a continued policy of reducing the number of foreign workers in Israel are necessary conditions for the negative income tax plan, if implemented, to succeed.

1.3 Some Social Aspects of Government Policy

Presented below are findings on social aspects of government policy in 2001-2005, in three fields: expansion of poverty and economic gaps, in an international perspective; expenditure on health and on education; and influence of the budget on income distribution in 2001-2005.

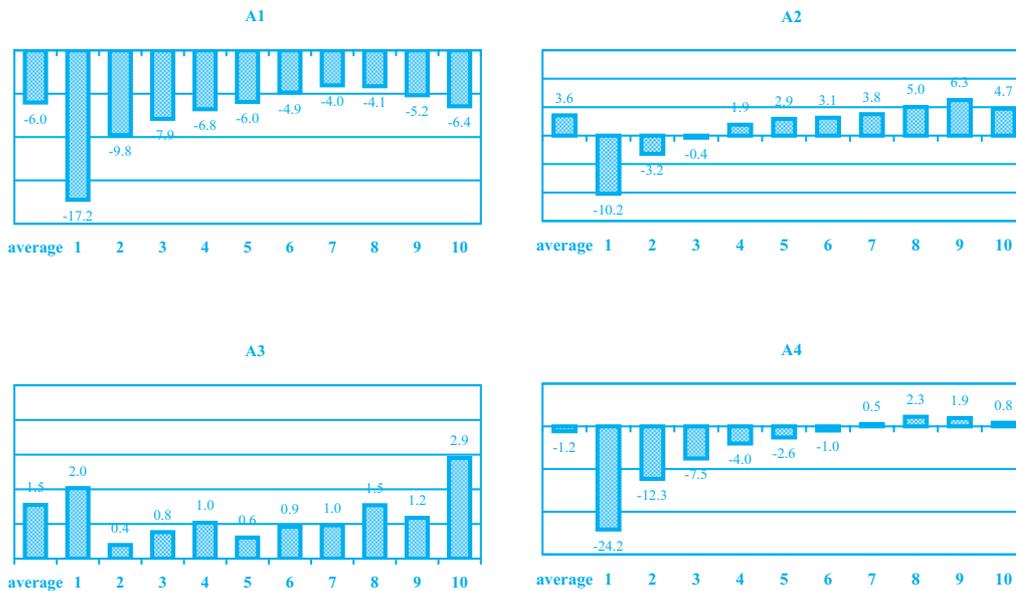
1.3.1 Social Policy, Poverty and Income Distribution: An International Perspective

The evidence thus far accumulated clearly points to an expansion of poverty and economic gaps in Israel – high even before 2002, when the social policy was implemented. Diagrams A1-A4 present the changes in net income per standard person (a measure of standard of living) according to deciles, in 2001-2004/5.³ The standard of living of the entire population was eroded following the recession, but the cuts in benefits – that had constituted an important element in the income of the weak population groups – led to an even deeper erosion in the standard of living of these groups.

³ Data for 2004/5 refer to the period including the second half of 2004 and the first half of 2005.

Diagram A1 illustrates the steep drop in the standard of living of the families in the low deciles in 2002-2003; net income per standard person declined in real terms in the first and second deciles by about 17% and 10%, respectively, as compared to an average real decline of 6% in the population as a whole.

Diagram A1-A4: The Real Change in Net Income per Standard Person, by Decile



The economic growth of 2004-2005 led to an improvement in economic income, to the benefit of the working-age population in the low deciles as well, but the accompanying cuts in benefits (mainly child allowances) and tax reductions benefited mainly those with high incomes. Net income per standard person rose in 2004 by 3.6% in real terms, as an average for the population as a whole; it continued to decline in the two bottom deciles, but grew in the other deciles, reaching 5%-6% in the top three deciles. The erosion in the standard of living of the bottom deciles was halted only in 2004/5, but even then there was no improvement in their net income. In the period of 2004/5 as a whole the income of the first six deciles was declined, that of the first and second deciles dropped by about 25% and about 12% in real terms, respectively, and the rate of erosion gradually decreased, reaching about 1% in the sixth decile. On the other hand, the entry into and exit from the recession left the four top deciles with a net income higher in real terms by about 1%-2% than what they had in 2001.

Poverty developments present an additional aspect of the deterioration of the social situation. The recession led to an expansion of poverty according to economic income – reaching a climax in 2002. This trend was halted with the renewed economic recovery. However, the government's socio-economic policy led to a sharp rise in the scope of poverty according to net income: the rate of poor families soared to 20.4% in 2004/5, and the rate of poor children – continuing the rise that began with the deep recession – went up to 34.1%. At the same time, there was an increase in the intensity of the poverty, and a decrease in the contribution of the benefits to reducing poverty and inequality in income distribution. In 2004/5 only about 39% of families and 17% of children were extracted from poverty, as compared to 47% and 25%, respectively, in 2002. Benefits and taxes together reduced the Gini index by 27% in 2004/5, as compared to 32% in 2002. From an international perspective, the Israel of 2004/5 continued to strengthen her dubious position as one of the Western countries leading in the scope of poverty. Diagram B presents the dispersal of the 23 countries

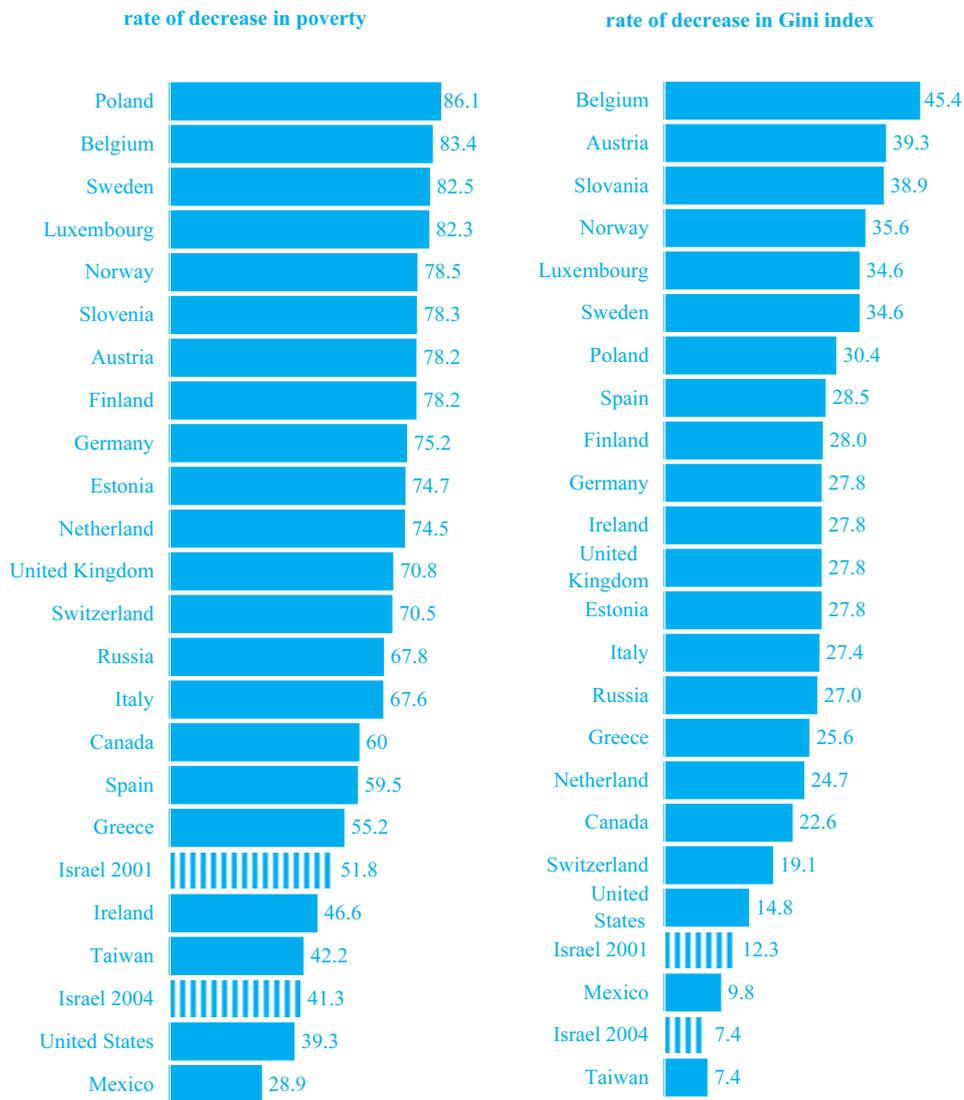
participating in the Luxemburg project, with poverty among families by net income on the vertical axis and the Gini index of net income distribution on the horizontal axis – for the early 2000's.

Diagram B: Poverty among Families and the Gini Index of Net Income
Distribution: Selected Countries, 1999-2001



The countries can be divided into three main groups: in the first group, including mainly countries from the central and northern parts of Western Europe, poverty ranges from 6% to 10% and the Gini index from 0.25 to 0.30. The second group includes 5 countries (such as England, Italy and Canada) with poverty at a level of 11%-12% and a Gini index of between 0.30 and 0.35. The third group includes 7 countries with a rather high incidence of poverty – 16% or more – and with a Gini index of 0.34 or more. The diagram shows the various groupings of the countries, with Israel in the third group, and the positive correlation – of 0.8 – observed empirically, between the incidence of poverty and the Gini index in the different countries.

Diagram C: The Contribution of Transfer Payments to Reduce Poverty among Families and to Reduce the Gini Index of Income Distribution: Selected Countries 1999-2001 (percentages)



The Luxemburg project database enables us to identify – for each country participating in the project – the contribution of the (cash) transfer payments to the reduction of poverty or inequality, by comparing the indices calculated according to net income (after transfers and direct taxes)⁴ to the indices calculated according to income after transfers but before taxes.

Diagram C presents the countries according to the contribution of the transfer payments to reducing both poverty among families and the Gini index of income distribution. This diagram shows Israel at the bottom of the list – in the last quarter of the two scales and very far from the Western European countries.

Box C expands the international comparison, focusing on the link between expenditure on (cash) transfer payments, on the one hand, and poverty and inequality in net income distribution, on the other – among OECD countries participating in the Luxemburg project. The findings show relatively high correlations, particularly those between the scope of cash benefits and their contribution to reducing poverty among families and children.

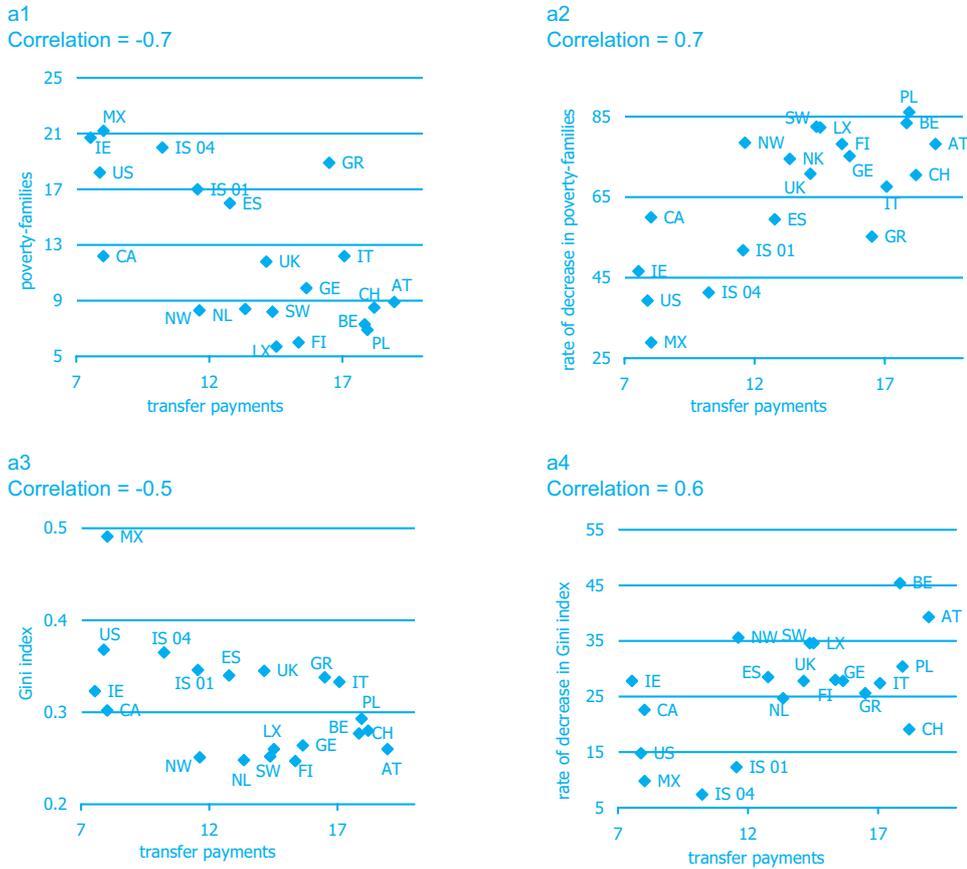
⁴ The identification of economic income (before transfer payments and taxes) is not possible for a large share of the countries participating in the project. It is therefore not possible to calculate the contribution of transfer payments compared to economic income only for all the countries.

Box C:**The Contribution of Transfer Payments to Reducing Poverty and Income Inequality: An International Perspective**

Many research works attempt to explain long-term changes in poverty and income distribution patterns by means of macro-economic developments, such as growth, inflation and unemployment — as well as by changes in the welfare policy of the country researched. Others try to explain the differences in poverty and inequality levels between various countries at certain points of time, or changes in these differences over time, also using macro-economic variables — mainly the rise in the GDP per capita — but focusing mainly on institutional variables linked to the country's particular welfare regime (such as socialistic or liberal) or to the labor market (such as rate of unionization), as well as variables indicating the depth of state intervention in the socio-economic field or the extent of generosity of social insurance programs. This box will discuss one aspect of the range of variables that cause differences in poverty and income distribution among countries: the link between the size of expenditure on cash benefits (according to the OECD classification) and the extent of poverty and income distribution, as well as the link between the size of expenditure on cash benefits and their contribution to an improvement of the social situation in 20 countries, according to these measures. The size of the expenditure on transfer payments as a percentage of the GDP serves as a measure of the extent of State intervention in welfare, and the size of benefits per capita (in a certain group, such as the elderly, for example) as a percentage of the GDP per capita serves as a measure of the generosity of the welfare system to that particular group. The hypothesis that poverty and inequality decrease with a rise in the scope of cash benefits is supported by empirical evidence.

Diagrams A1 and A2 reveal a relatively high (-0.7) negative correlation between cash benefits as a percentage of the GDP and the rate of poverty among families, and a high positive correlation (0.7) between the cash benefits and their contribution to reducing poverty. In countries having high transfer payments — ranging from 12 to 19 GDP percentages — the incidence of poverty among families ranges from 5% to 10%.

Diagram A: Cash Transfer Payments, Poverty Among Families and Net Income Distribution in Selected Countries, Early 2000's*



* The indices were calculated according to the LIS equivalence scale.
 Source: The database of the Luxembourg project, processed by the Research and Planning Administration.
 The key of the countries: AT-Austria, BE-Belgium, CA-Canada, CH-Switzerland, ES-Spain, FI-Finland, GE-Germany, GR-Greece, IE-Ireland, IS-Israel, IT-Italy, LX-Luxembourg, MX-Mexico, NL-Netherlands, NW-Norway, PL-Poland, SW-Sweden, UK-United Kingdom, US-United States.

The rate of decrease in poverty attributable to the transfer payments in these countries ranges from 70% to 86%. On the other hand, in most countries that allot 8-11 GDP percentages to cash benefits, the incidence of poverty is over 17%, and the contribution of transfer payments to reducing poverty ranges from about 30% to 50%. Israel is included in the second group — although its expenditure on cash benefits is higher than among the other members of this group (about 10% and 12% in Israel for the years 2001 and 2004, respectively, as compared to 8% in the US, Ireland and Mexico). Canada and Greece are exceptional: in Canada the incidence of poverty is relatively low (9.2%), with low expenditure (about 8 GDP percentages) and in Greece the incidence of poverty is high (19%), but so is expenditure (16 GDP percentages). The correlations between cash benefits and the Gini index of net income distribution (-0.5), on the one hand, and the rate of reduction of inequality that can be attributed to these benefits (0.6), on the other, are lower than the correlations between the benefits and poverty. Diagram 4A shows that, similar to the case in the US and in Mexico, the benefits in Israel reduced inequality only slightly (by 12% in 2001 and by 7% in 2004), although more resources are allocated to benefits in Israel than in Mexico, the US, Canada or Ireland¹.

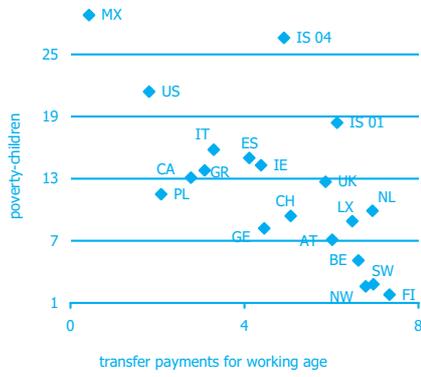
Diagram B clearly demonstrates that cash benefits have a greater effect on poverty among children than on poverty among the elderly. The negative correlation between benefits to the working-age population and the rate of poor children is -0.7, while the positive correlation between the benefits and their contribution to reducing poverty among children is 0.7². On one edge of the spectrum are countries whose benefits to working-age families constitute a very low rate of the GDP -1.5% - 4% (Mexico, the US and Italy); these are countries with a high rate of poverty among children (over 20%) and a low contribution of transfer payments to poverty reduction (around 20%).

¹ The correlations between the total cash and in-kind benefits and inequality, and the extent of the contribution of these benefits on its reduction, are higher (-0.7 and 0.6 respectively).

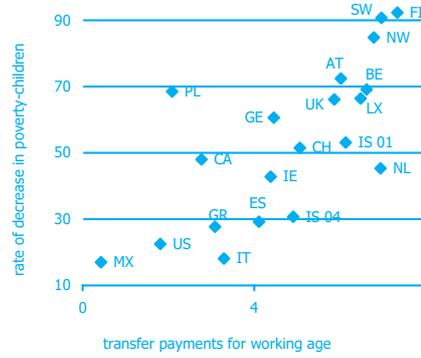
² Replacing the cash benefits as a percentage of GDP by cash benefits per working-age person as a percentage of GDP per capita yields the same correlations. On the other hand, replacing the cash benefits by total benefits (in cash and in kind) yields a correlation of 0.9 with the rate of decrease in poverty.

Diagram B: Transfer Payments (as a percentage of the GDP) and Poverty Among Children and Elderly in Selected Countries, in the Early 2000's*

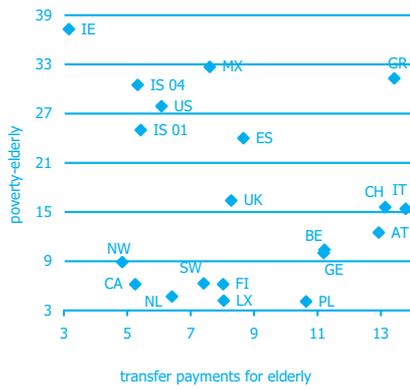
b1
Correlation = -0.7



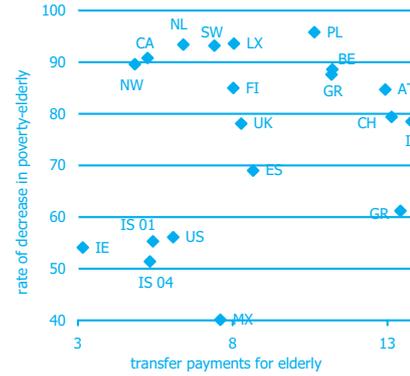
b2
Correlation = 0.7



b3
Correlation = -0.3



b4
Correlation = 0.3



* The indices were calculated according to the LIS equivalence scale.
 Source: The database of the Luxembourg project, processed by the Research and Planning Administration.
 The key of the countries: AT-Austria, BE-Belgium, CA-Canada, CH-Switzerland, ES-Spain, FI-Finland, GE-Germany, GR-Greece, IE-Ireland, IS-Israel, IT-Italy, LX-Luxembourg, MX-Mexico, NL-Netherlands, NW-Norway, PL-Poland, SW-Sweden, UK-United Kingdom, US-United States.

On the other edge of the spectrum is a bloc of countries that allot about 7-12 GDP percentages to benefits for the working-age population, and that succeed in reducing the rate of poor children by about 60%-90%. This bloc includes the Scandinavian countries, such as Sweden, Finland and Norway, but also countries like Belgium and England. Israel is rather exceptional; it has a high rate of poor children (18% in 2001 and 27% in 2004), but its cash benefits to the working-age population (7.3 and 6 GDP percentages in 2001 and 2004, respectively) are similar in size to those granted in countries like England and Switzerland, and even higher than those in countries like Canada, Greece and Spain. Israel was also characterized by erosion in the contribution of the transfer payments to reducing poverty among children — this contribution was lessened from about 50% in 2001 to about 30% in 2004. As opposed to the high correlations between benefits to the working-age population and the rates of poverty and decrease in poverty, Diagram B shows a relatively weak link between cash benefits to the elderly population and the poverty variables (a negative correlation of -0.3% between benefits and the poverty rate, and a positive correlation of 0.3 between benefits and the rate of decrease in poverty). This finding is not surprising, since in many countries the pension system is built on two tiers – a basic tier and a relative tier — and aims at guaranteeing that the elderly persons' standard of living will not significantly fall as a result of retirement. These systems deal with all the elderly, and do not focus specifically on reducing poverty.³

³ Replacing cash benefits as a percentage of the GDP by cash benefits per elderly person as a percentage of the per capita GDP results in the disappearance of any link between benefits and poverty among the elderly.

1.3.2 Government-funded Health and Education Expenditure⁵ and Income Distribution

An analysis of government influence on family welfare generally concentrates on cash transfers and direct taxation. However, family welfare is also dependent on services granted by the government without charge or at a reduced price in the framework of the social budget. These services are defined as “in-kind transfers” from the government to the families. Diagram D shows that government-funded national health expenditure (constituting close to 65% of total national health expenditure) when discounted by the civilian public consumption index, rose by 4.2% between 2001 and 2004, and at a similar rate between 2004 and 2005, so that the accumulative rise in 2005 was about 8.5%. The diagram also shows that health expenditure **per capita adjusted** by the capitation scale, rose by an accumulated rate of about 0.2% only between 2001 and 2005, with the growth in 2005 more or less offsetting the decrease of 2002-2004.

In 2005, government-funded expenditure on education (constituting about 80% of the national expenditure on education) rose in real terms by 4.1%, and by an accumulative rate of 5.2% between 2001 and 2005. Deducting the growth in the number of pupils in each level, expenditure on education remained almost without change – a decrease of 0.1%. However, an analysis of expenditure per pupil by grade shows that in 2002-2005, preference was given to pre-elementary school, and even more so to higher education, at the expense of junior high school and high school. Government funding of elementary school remained more or less without change in real terms in the same period. These calculations are based on the budget data published by the Ministry of Finance, updated to February 2006. At the time of this writing, the budgetary data were updated and it is becoming apparent that the 2006 decrease in the budget on

⁵ National expenditure funded by the government without administrative expenses, but with the addition of expenditure on investments.

education will be greater. Updated results for 2005 will be published prior to the discussions of the 2006-2007 budget.

Table 3: Government-funded Expenditure on Health and Education, 2001-2005, current prices (NIS million)

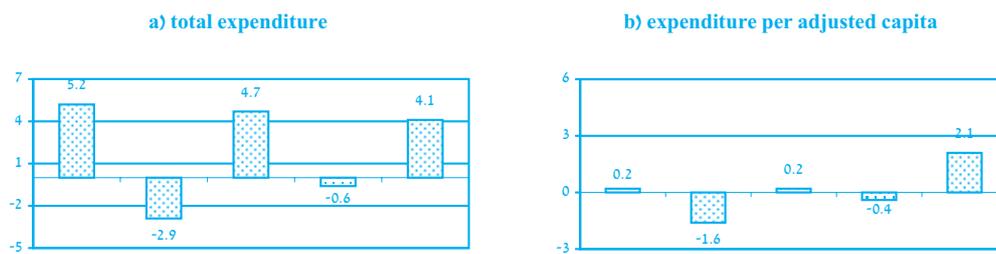
	2001	2002	2003	2004	2005
Expenditure on education*	31,614	31,664	33,190	34,030	35,772
Expenditure on health**	26,904	27,886	28,522	29,860	31,401

* The latest data published by CBS refer to 2001, and expenditure in 2002-2005 was advanced by the change in the budget of the Ministry of Education. The data were advanced from 2004 to 2005 according to the budget planned for 2005, and on assumption that the budget will be 98% utilized.

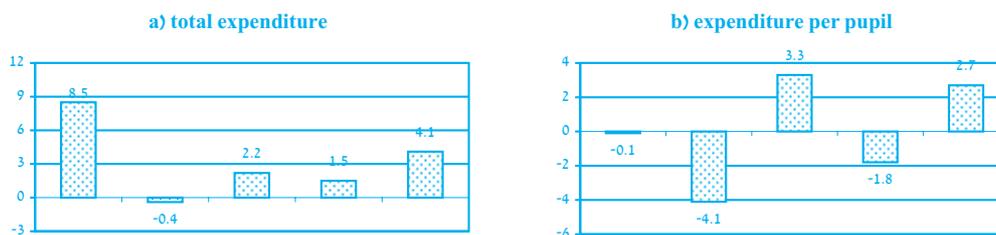
** The expenditure data published by CBS for 2004 were advanced to 2005 according to the change in the budget of the Ministry of Health

Diagram D: Rate of Real Change in Expenditure on Health and on Education

Health



Education



From presently available data, it appears that government policy in the fields of health and education did not substantially hurt families in the low deciles between 2001 and 2005. The amount of in-kind transfers to these families is higher than that to families in the high deciles, and the size of the in-kind transfer constitutes a greater share of their cash income. The in-kind transfer embodied in government-funded health and education services constitutes about 23% of the adjusted income (net cash income plus in-kind transfers); this rate is about 60% in the bottom decile, but gradually decreases, down to 8% in the top decile⁶.

1.4 Benefit Payments

In 2005, total NII cash and in-kind benefit payments – both contributory and non-contributory – as well as additional payments carried out by the NII, mostly for government ministries – amounted to about NIS 43.3 billion, as compared to 42.8 billion in 2004 and NIS 47.3 billion in 2002. These sums include the various administrative or operative expenses of the national insurance system.⁷

In 2005, the trend of decrease in NII payments was halted, and they remained the same in real terms – after an accumulated decrease of about 11.5% in the three-year period 2002-2004. The decrease would have continued in 2005 as well, had it not been for the rise in the number of benefit recipients, particularly in the central NII branches. The benefit payments paid by the NII went down to 7.63% of the GDP, as compared to 9.36 in 2001-2002.

The stability in the scope of benefit payments in 2005 is the net result of two opposing developments: the continued shrinking of payments for benefits to the working-age

⁶ More detailed findings are presented in “Social Aspects of the State Budget: 2001-2006”, by Leah Achdut, Miri Endweld, Zvi Zussman and Refaela Cohen (forthcoming).

⁷ Administrative and operative expenses for 2005 are estimated at NIS 1.2 billion.

population (child allowances, unemployment benefits and the income support benefit) and the rise in payments to the elderly, to persons with disabilities and in maternity benefits. Stability characterized branches that pay wage-replacing benefits (Work Injury and Reserve Service).

In 2004, the cuts in child allowances continued, as part of the gradual process of equalizing the allowance for all children (the Economy Recovery Law 2003 and the special temporary amendment for 2004-2005). Payments of child allowances decreased by an additional 8% in 2005. The harshening of conditions of entitlement to unemployment benefits continued to be reflected in the low rate of unemployment benefit recipients out of the total unemployed population (almost 25%), but the improvement in employment apparently led to a shortening of the period during which unemployed persons received benefits, leading, in turn, to a real decrease (of about 6%) in the scope of unemployment benefit payments. A similar rate of decrease was noted in payments of the income support benefit; this may be explained by the decline in the number of benefit recipients – as a result of the improvement in employment and the opening of occupational centers in four experimental regions of Israel in August 2005.

There were only slight increases in the other branches that pay benefits to the working-age population: an increase of less than half a percent in the Work Injury and the Reserve Service branches, and a 3.7% rise in the Maternity branch. The stability of the Work Injury branch is a result of opposing developments in the scope of payments of the various benefits provided by this branch: payments of injury allowances decreased in real terms by about 6%, while payments of disability and dependents' benefits rose by about 3% and 1%, respectively. The growth in payments of the Maternity branch stems from the increase (of about 8%) in the hospitalization grants, since the payments of maternity allowances and maternity grants decreased in real terms (by 2% and 4%, respectively).

In the Old-Age and Survivors branch, there was a real rise of 1.5% in the scope of payments of the old-age and survivors pensions, stemming entirely from the increase of the income supplement and the lessening of the rate of reduction of the old-age pensions – from 4% to 1.5%. Payments of statutory benefits increased by 1% in real terms, while payments of non-statutory benefits increased by a higher rate – 4.4%. Payments of the Long-Term Care branch rose by 1.8% in real terms: long-term care benefits by 1.7% and the remaining expenditure of the branch by about 3%.

Table 4: Benefit Payments and Collection from the Public (percentages relative to the Gross Domestic Product), 1980-2005

Year	Benefit Payments		Collection from the Public	
	Total	Contributory Benefits	Total	National Insurance Contributions**
1980	6.09	4.98	6.77	5.15
1985	7.14	5.51	6.57	4.45
1990	8.36	7.04	7.21	5.28
1995	7.69	6.02	8.02	4.49
2000	8.27	6.57	6.48	4.41
2001	9.34	7.34	6.87	4.65
2002	9.38	7.28	6.89	4.68
2003	8.74	6.90	6.70	4.54
2004	7.98	6.38	6.55	4.39
2005	7.63	6.11	6.51	4.38

* Including collection for the sick funds.

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

Table 5: National Insurance Benefit Payments (including administrative costs), 1995-2005

Year	Total Payments*	Old-Age & Survivors**	General Disability	Work Injury, Hostile and Border Actions	Maternity	Children	Unemployment	Military Reserve Service*	Income Support ***	Long-Term Care & Other
1995	21,188	7,675	2,254	1,487	1,206	4,287	1,280	1,053	1,149	798
2000	39,706	13,670	5,128	2,569	2,423	7,000	3,023	1,039	2,957	1,897
2001	45,441	15,408	6,076	2,879	2,662	7,643	3,579	1,350	3,579	2,262
2002	47,247	15,671	7,040	3,124	2,796	6,784	3,598	1,771	3,795	2,668
2003	44,808	15,750	7,327	3,167	2,733	6,154	2,481	1,149	3,333	2,714
2004	42,759	16,032	7,355	3,145	2,727	4,887	2,166	708	3,003	2,735
2005	43,345	16,496	7,741	3,195	2,866	4,562	2,062	721	2,856	2,846
NIS million (current prices)										
real annual growth (percentages)										
1995	10.1	8.6	16.1	14.6	20.8	4.5	16.2	2.9	13.7	13.5
2000	8.1	8.4	14.8	11.4	10.8	1.5	-0.9	-7.4	18.1	18.2
2001	13.2	11.5	17.2	10.8	8.7	8.0	17.1	28.6	19.7	18.0
2002	-1.6	-3.8	9.6	2.7	-0.7	-16.0	-4.9	24.1	0.3	11.6
2003	-5.8	-0.2	3.4	0.7	-2.9	-9.9	-31.5	-35.6	-12.8	1.0
2004	-4.2	2.2	0.8	-0.3	0.2	-20.3	-12.3	-38.1	-9.5	1.2
2005	0.0	1.5	3.9	0.2	3.7	-7.9	-6.1	0.6	-6.2	2.7
distribution by branch (percentages)										
1995	100.0	36.2	10.6	7.0	5.7	20.2	6.0	5.0	5.4	3.8
2000	100.0	34.4	12.9	6.5	6.1	17.6	7.6	2.6	7.4	4.8
2001	100.0	33.9	13.4	6.3	5.9	16.8	7.9	3.0	7.9	5.0
2002	100.0	33.2	14.9	6.6	5.9	14.4	7.6	3.7	8.0	5.6
2003	100.0	35.1	16.4	7.1	6.1	13.7	5.5	2.6	7.4	6.1
2004	100.0	37.5	17.2	7.4	6.4	11.4	5.1	1.7	7.1	6.4
2005	100.0	38.1	17.9	7.4	6.6	10.5	4.8	1.7	6.6	6.6

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

** Including payments for income support.

*** For the working-age population.

The trend in the General Disability branch again reversed itself, and the scope of payments of this branch rose by about 4% in real terms in 2005, after a significant slowdown in 2003-2004 (0.8% in 2004). The renewed growth in 2005 stemmed from a rise in the pace of growth of the number of recipients; also, this year, the deferral of the retirement age caused persons with disabilities to remain longer in the disability system.

Payments of contributory benefits under the National Insurance Law remained more or less stable in real terms in 2005 (0.1% increase). Payments of non-contributory benefits under other state laws or under agreements with – and completely financed by – the Treasury (such as income support, alimony, old-age and survivors to new immigrants and reserve service benefits) also remained more or less stable (0.3% decrease). The sum of non-contributory payments amounted to about NIS 8.6 billion in 2005, constituting some 20% of total benefit payments.

Table 5, presenting the distribution of total benefit payments by branch, shows that in 2005, the decrease in the share of the payments of the Children, Unemployment and Income Support branches continued, while the share of the Long-Term Care, Old-Age and Survivors and General Disability branches increased. The share of the other branches – Work Injury and Maternity – remained the same. 56% of the total benefit payments were concentrated in the two largest branches – Old-Age and Survivors and General Disability. The latter branch, which was the third largest branch until 2001, replaced the Children branch, and became the second largest. The share of the General Disability branch soared to 17.9% in 2005, as compared to about 10.5% in the mid 1990's, while the share of the Children branch fell to about 10.5%, as compared to about 20% in the mid 1990's.

1.5 Benefit Levels

The legislation enacted in 2002-2004 continued to have an impact on the level of benefits paid by the NII in 2005 as well: the freeze in the adjustment of benefits, the 4% reduction in the amounts of most benefits and the continued cuts in the child allowances. At the same time, the policy implemented in 2005 improved the situation of recipients of old-age and survivors' pensions, particularly those entitled to income supplement.

The adjustment of benefits linked to the average wage until January 2002 continued to be frozen in 2005. The Economy Recovery Law (June 2003) determined that all benefits paid by the NII, with the exception of the old-age and survivors' pensions, would not be adjusted until the end of 2005, and that from January 2006 onwards, pension recipients would be compensated at the rate of price rises only. The old-age and survivors' pensions were supposed to have been adjusted by the rate of price rises already in January 2004; however, prices actually declined by 0.4% in 2003. Pensions were thus updated only in January 2005 by the rate of the price rise: 0.9%. In view of the real erosion in the average wage in 2002-2003, the policy of freezing basic pensions at their nominal value is now known to have had a rather limited influence on benefit levels. It is true that the accumulated loss from the non-adjustment of the pensions to the average wage in 2002-2003 was 2.1% (1.2% in 2002 and 0.9% in 2003), but were it not for the policy of freezing pensions, they would have decreased in January 2004 by 2.7%. The rise in real wages in 2004 changed the picture, and in January 2005 the pensions were supposed to have been updated by about 0.6%. This rate was even lower than that by which the pensions were adjusted in accordance with the rise in the relevant price index (0.9%).⁸ However, the influence of the cancellation

⁸ Under the present law, adjustment of pensions in January of every year is in accordance with the price rises of the last 12 months for which the index is known (for example, in January 2005 the adjustment is according to the price rises between November 2003 and November 2004).

of linkage to the average wage and its replacement by adjustment according to price rises was already felt in 2006, and will become stronger in the coming years. In January 2006, all the benefits – with the exception of the old-age and survivors' pensions – were adjusted by the rate of the rise in the index: 2.7%. The old age and survivors' pensions were adjusted by 1.8% only, since they had already been adjusted by 0.9% in 2005. Had the benefits been adjusted in January 2006 in accordance with the average wage⁹ the old age and survivors' pensions, income support benefits and alimony payments would have risen by 6%, and the benefits paid in the General Disability, Long-Term Care, and Work Injury and Maternity branches would have risen by 4.7%.

The level of the basic old-age pension increased by 1.4% in real terms in 2005, due to the decrease in the rates of reduction of those benefits in May 2005 from 4% to 1.5%. The survivors' pensions, which increased by the rate of adjustment only, actually decreased in real terms by almost half a percent. The minimum income to elderly and survivors rose in real terms by a relatively high rate – 5.8% – due to the increase in the income supplement as of January 2005. This increase was implemented in two stages: in January-June, an increment of NIS 60 a month was provided to single persons and of NIS 80 a month to couples; in July-December the increment was raised to NIS 170 for a single person and to NIS 230 for a couple. A sum-up for the years 2002-2005 shows that the basic old-age pension lost about 8.2% of its purchasing power, and that the survivors' pension (which, similarly to the minimum income, was not reduced by 4% in 2002) – lost about 6%. On the other hand, the income supplement paid in 2005 compensated those elderly for the erosion of 2002-2004, so that their benefits maintained their purchasing power relative to 2001.

⁹ The reference is to the average wage under the NII Law, which was was NIS 7,383 per month in January 2006.

There was a moderate rise in the level of the old-age pensions relative to the average wage, although they were still far from their 2001 level (15.4% as compared to 15.7%, respectively, for a single person). The level of the guaranteed minimum income to a single elderly person rose in 2005 to 27.6% of the average wage, as compared to 26.3% in 2001.

Table 6: The Old-Age and Survivors' Pension and the Minimum Income Guaranteed to Pension Recipients (constant prices and percentage of average wage*), Monthly Average, 1975-2005

Year	Basic old-age & survivors' pension				Guaranteed minimum income (including child allowances)			
	Single elder		Widow/er with 2 children		Single elder		Widow/er with 2 children	
	2005 prices (NIS)	% of average wage	2005 prices (NIS)	% of average wage	2005 prices (NIS)	% of average wage	2005 prices (NIS)	% of average wage
1975	623	14.9	1,037	24.8	1,071	25.5	2,015	48.1
1980	687	13.5	1,331	26.3	1,194	23.8	2,442	48.2
1985	774	15.2	1,501	29.5	1,549	30.5	3,089	61.2
1990	975	15.9	1,888	30.7	1,532	25.0	3,105	50.5
1995	988	15.5	1,914	30.1	1,653	26.0	3,428	53.9
2000	1,103	14.9	2,136	28.8	1,843	24.9	4,054	54.7
2001	1,196	15.7	2,317	30.5	1,200	26.3	4,383	57.7
2002	1,111	15.6	2,197	30.8	1,897	26.6	4,032	56.4
2003	1,079	15.6	2,178	31.4	1,880	27.1	4,067	58.7
2004	1,083	15.2	2,187	30.7	1,887	26.5	4,037	56.7
2005	1,089	15.4	2,178	30.5	1,996	27.6	4,173	57.8

* As measured by the Central Bureau of Statistics.

Table 7: Minimum Guaranteed Income to Working-age Population (at set prices and as percentages of average wage), monthly averages, 1985-2005

Year	Single			Single parent with 2 children* (incl. child allowances)		Couple with 2 children (including child allowances)				
	Regular rate		Increased rate	2005 prices	% of average wage	2005 prices	% of average wage	Increased rate		
	2005 prices (NIS)	% of average wage	2005 prices (NIS)	% of average wage	2005 prices (NIS)	% of average wage	2005 prices (NIS)	% of average wage		
1985	1,239	24.5	1,546	30.5	3,097	61.2	2,789	55.1	3,252	64.3
1990	1,226	20.0	1,153	24.9	3,105	50.5	2,826	46.0	3,286	53.5
1995	1,238	19.4	1,546	24.3	3,422	53.9	2,962	46.6	3,425	53.8
2000	1,378	18.6	1,722	23.2	3,793	51.2	3,265	44.0	3,781	51.0
2001	1,495	19.7	1,869	24.6	4,109	54.1	3,507	46.2	4,067	53.6
2002	1,390	19.6	1,737	24.5	3,787	53.4	3,227	45.5	3,786	53.4
2003**	1,349	19.5	1,587	22.9	3,233	42.5	2,792	40.3	3,218	46.6
2003***	1,686	24.4	1,686	24.4	3,668	53.0	3,570	52.4	3,632	52.4
2004**	1,354	19.0	1,524	21.4	2,888	40.5	2,516	35.3	2,888	40.5
2004***	1,693	23.8	1,693	23.8	3,637	51.0	3,599	50.5	3,559	50.5
2005**	1,337	18.5	1,504	20.8	2,847	39.4	2,480	34.3	2,847	39.4
2005***	1,671	23.1	1,671	23.1	3,586	49.6	3,549	49.1	3,549	49.1

* 1985 and 1990 data refer to widow with two children who was entitled to income support.

** The eldest of the family is not yet 55.

*** At least one member of the family is over 55.

The income support benefit – guaranteed to the working-age population – was eroded in 2005 at the rate of the rise in the price index (1.3%), for all family compositions. Due to the rise in the average wage, the erosion in the relative level of the benefit was even higher. The benefit to a single person (under age 55) went down to 18.5% of the average wage for a person entitled to the regular rate (as compared to 19.7% in 2001) and to 20.8% of the average wage for a person entitled to the increased rate (as compared to 24.6% in 2001). The benefit to a single parent or to a couple, (under 55) with 2 children, plus the child allowance, was eroded by an accumulated real rate of about 30% in 2002-2005. The erosion relative to the average wage was also very high in 2005 – about 27%. The average benefit level to a family – conditional both on the level of guaranteed income under law and the composition of the population receiving the benefit – remained more or less stable in real terms in 2005, and the real erosion accumulated since 2002 amounted to about 30%.

The basic disability pension and the benefits derived from it were eroded by about 1.3% in 2005. A real erosion was also noted in the average levels of the general disability pension (1.8%) and benefit for disabled child (3.7%), while the attendance allowance increased by an average of about 4.8%.

The average long-term care benefit provided to the elderly (the benefit is translated into care hours) remained without change in real terms in 2005 (after an erosion of about 5% in 2002-2003). This stability was noted despite the relatively high rise (of about 13%) in the number of persons entitled to the high level of the benefit.

The cuts in the child allowances continued in 2005, and in January of that year the third stage of the gradual process of equalizing the allowance for all children was implemented, while the policy of non-adjustment of the allowance continued. In comparison to 2004, in 2005 the (monthly average) allowance to a family with 2 children decreased by about 2.8% in real terms, while that paid to a family with 5

children (without “new” children) decreased by about 13%. The accumulated decrease since 2001 amounted to about 35% for a family with 2 children and 52% for a family with 5 children.

Table 8: Child-Allowance Point and Child Allowances* (constant prices and percentage of the average wage), monthly average, 1975-2005**

Year	Value of child-allowance point		Allowance for 2 children**		Allowance for 4 children		Allowance for 5 children	
	2005 prices (NIS)	% of average wage	2005 prices (NIS)	% of average wage	2005 prices (NIS)	% of average wage	2005 prices (NIS)	% of average wage
1975	183	4.4	369	8.8	1,150	27.4	1,564	37.3
1980	143	2.8	287	5.6	894	17.7	1,216	24.0
1985	162	3.1	183	3.6	1,255	24.7	1,783	35.1
1990	187	2.9	90	1.5	1,454	23.4	2,062	33.2
1995	182	2.8	365	5.8	1,465	23.4	2,084	33.4
2000	185	2.5	372	5.0	1,495	20.2	2,128	28.7
2001	183	2.4	368	4.8	1,481	19.5	2,400	31.6
2002	174	2.4	310	4.3	1,240	17.3	2,010	28.1
2003	172	2.5	293	4.2	1,081	15.6	1,726	24.9
2004	173	2.4	247	3.5	844	11.8	1,330	18.7
2005	171	2.4	240	3.3	756	10.5	1,157	16.0

* Until 1995, including Special Allowance for Veterans.

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

A slight real erosion occurred in the level of benefits in the branches that provide wage-replacing benefits, except for the hospitalization grant in the Maternity branch. The erosion stemmed mainly from the non-adjustment of benefits or from a moderate rise in the share of the low-wage earners among the benefit recipients. The average daily unemployment benefit was eroded by 1.3%, despite the rise in wages, due to a

moderate rise in the share of unemployed persons who earned low wages prior to their unemployment. The average daily unemployment benefit decreased from 52% of the daily average wage in 2004 to 50.6% in 2005. A similar decrease took place in the average daily maternity allowance: its real level was down by about half a percent, due to the moderate growth in the share of women who earned low wages prior to their giving birth. In addition, the average maternity grant was eroded by 1.3% in real terms. The hospitalization grant, on the other hand, grew in real terms by an average rate of about 7%.

Similarly to unemployment allowance and maternity allowance, the injury allowance paid in the Work Injury branch was eroded by about 2% in real terms. The average daily injury allowance to employees decreased in real terms by about half a percent, while that paid to the self-employed increased by about 4%. The levels of the disability and dependants' pensions were also eroded by about 1.6% and 0.3%, respectively.

1.6 Benefit Recipients

In 2005, for the first time since the Old-Age and Survivors branch – the largest NII branch – was established, there was a decrease (albeit a slight one) in the number of recipients of old-age and survivors' pensions. In the next two largest branches – General Disability and Children – the slowdown in the growth of recipients that had characterized 2003-2004 was halted, and there was a slight increase in 2005. A similar trend characterized the Long-Term Care branch. The number of recipients of unemployment benefits stabilized, after having decreased sharply in 2002-2004. On the other hand, the number of recipients of injury allowance, maternity allowance and maternity grant decreased, as did – for the second straight year – the number of recipients of income support benefit.

In the Old-Age and Survivors' branch, the number of benefit recipients went down by 0.3% in 2005, continuing the slowdown of 2002-2003 in the pace of growth. In 2005, the NII paid benefits to about 719,900 elderly and survivors. This trend of slowdown in the growth of old-age and survivors' pension recipients, noted since the mid-1990s, may be partially explained by a decrease in the scope of immigration to Israel. The implementation of the Retirement Law in June 2004, which raised the conditional age of entitlement to old-age pension for men and women and the absolute age of entitlement to pension for women, led to a further slowdown in the pace of growth of pension recipients. The number of statutory pension recipients grew by 3.4% in 2004, as compared to about 4% in 2002-2003. The pace of growth significantly slowed down in 2005, when the number of recipients of statutory pensions grew by 0.2% only. This development was not expected, since under the process of retirement deferral, many elderly persons were expected to begin receiving pensions in May-December 2005. An examination of the entry and exit flows of the statutory old-age pension system shows that the number of entrants, deducted by the number of exitees, was almost 20,000 in 2004. This number decreased to about 12,300 in 2004 and to about 3,600 in 2005. These data reflect mainly the sharp decline in the number of claims for pension – at a rate of about 12% relative to 2004 and of about 22% relative to 2003. It is surmised that the 2005 development will not continue into 2006, during which the number of recipients is expected to increase by about 2%. The number of recipients of the special (non-statutory) old-age benefit decreased in 2005 for the fourth year since the immigration wave of the early 1990s, and at a higher rate: 4.3% as compared to 3.8% in 2004, 3% in 2003 and 1.5% in 2002. Similarly to previous years, the number of recipients of survivors' pensions only remained more or less stable in 2005 as well; only a slight increase in this number (0.6%) was observed. In this year about 104,500 widows and widowers received a survivors' pension only (those who receive old-age pension plus half a survivors' pension are counted in the elderly population).

Table 9: Number of Benefit Recipients in Main Insurance Branches, Monthly Average, 1985-2005

Year	Old-age and Survivors	General Disability			Work Injury		Maternity		Children Families Receiving Child Allowances	Unemployment	Income Support to Working-age Population ***	Long Term Care
		Disability Pension	Attendant Allowance	Benefit for Disabled Children	Mobility Allowance	Injury Allowance*	Permanent Disability Pension	Maternity Grant				
1985	390.2	62.1	4.6	4.0	10.6	56.9	9.9	101.3	42.7	546.9	19.6	20.4
1990	442.6	73.5	6.5	5.8	11.4	56.7	11.8	103.6	43.7	532.5	50.6	31.8
1995	553.9	94.0	10.2	10.3	13.2	84.9	14.6	113.1	55.2	814.7	61.5	74.8
2000	657.1	135.3	16.6	15.3	16.8	76.2	19.8	131.8	70.6	912.5	92.6	128.4
2001	677.0	142.4	18.9	16.4	19.3	69.1	20.8	127.1	71.2	928.2	104.7	141.8
2002	692.9	150.5	20.6	17.5	20.9	70.0	21.8	128.5	71.4	935.0	97.1	151.6
2003	709.2	157.3	21.7	18.4	22.3	61.5	23.0	136.4	73.9	939.1	70.5	155.2
2004	722.3	162.4	22.7	19.5	23.5	65.8	24.0	141.2	77.5	945.6	58.4	144.7
2005	719.9	170.9	24.0	21.0	24.9	63.9	25.2	140.6	77.0	956.3	58.8	139.9
Annual Growth (percentages)												
1986-1990	2.6	3.4	7.2	7.7	1.5	-0.1	3.6	0.5	0.5	-0.5	20.9	8.6
1991-1995	4.6	5.0	9.4	12.2	3.0	8.4	4.4	1.8	4.8	8.9	4.0	19.4
1996-2000	3.5	7.6	10.2	8.2	4.9	-2.1	6.3	3.1	5.0	2.3	8.5	11.4
2000	3.4	6.4	16.9	8.5	17.5	3.1	4.8	4.9	7.3	2.3	-3.6	12.6
2001	3.0	5.2	13.9	7.2	14.9	-9.3	5.1	-3.6	0.8	1.7	13.1	10.6
2002	2.3	5.7	9.0	6.7	8.3	1.3	4.8	1.1	0.3	0.7	-7.3	6.5
2003	2.4	4.5	5.3	5.1	6.7	-12.1	5.5	6.1	3.5	0.4	-27.4	2.4
2004	1.8	3.2	4.6	6.0	5.4	7.0	4.3	3.5	4.9	0.7	-17.2	-6.2
2005	-0.3	5.2	5.9	7.2	5.9	-2.9	5.0	-0.4	-0.6	1.1	0.7	-3.3
2005												1.4

* The number of different recipients throughout the year.

** The figures for 1985 and 1990 include families to whom the allowance for the first and second child were reimbursed through the employers. In 1993 the allowances again became universal.

*** In calculation of the data for 2004 onwards, a benefit divided among several recipients was credited to one recipient only. In 2004 there were a total of about 145,000 recipients of divided-up benefits, as a monthly average.

In the Long-Term Care branch, providing in-kind benefits (care hours) to those elderly who are limited in their daily functioning, there was a relatively low rate of growth in 2005 in the number of benefit recipients – though it was higher than the 2002-2004 rate. The number of elderly who received a long-term care benefit grew by 1.4% in 2005 (similar to the growth in the number of elderly altogether), as compared to an average of about half a percent in 2003-2004. These growth rates are very low compared to those (of about 10%) that characterized the beginning of the decade. This development can be partially explained by the policy of the branch regarding claim approval procedures and initiating re-examination of claims.

The rise of growth in the number of recipients of benefits from the General Disability branch increased in 2005, as opposed to the slowdown in 2002-2004. The number of recipients of general disability pensions rose by 5.2% in 2005 (as compared to 3.2% in 2004) and the number of recipients of attendance allowance and mobility allowance grew by about 6% (as compared to 4.5%-5.5% in 2004). It should be noted that the impact of the deferral of retirement age on the number of working-age benefit recipients – particularly those receiving general disability pension – was felt already in 2005. In 2004, there was an addition of about 500 new recipients of general disability pension, as a monthly average – about 10% of the rise in the number of recipients – due to the raising of the retirement age. This addition became more notable in 2005, with 4,700 new recipients, as a monthly average, constituting about 55% of the growth in recipients in this year. This addition will continue to grow in the coming years.

The number of families receiving child allowance rose by 1.1% in 2005 (as compared to 0.4% - 0.7% in 2002-2004), and the number of children to whom allowance was paid rose by 1.5% (as compared to 1% in 2002-2004). In 2004 a child allowance was paid to about 2.26 million children who lived in about 956,000 families.

Regarding the wage-replacing benefits, the sharp decrease in the number of recipients of unemployment benefits was curbed in 2005, and similarly to 2004, it was about 58,800 as a monthly average – as compared to about 105,000 in 2001. The rate of unemployment benefit recipients in 2005 was only about 24% of the total unemployed population, as compared to about 45% in 2001. The unemployment rate continued to decline in 2005, down to 9%, but the improvement in employment allowed more unemployed persons to accumulate a qualifying period (lengthened since 2002) and to become entitled to unemployment benefits.

The number of recipients of injury allowance began declining again in 2005; it went down by about 3% after having risen by about 7% in 2004. The 2004 rise can be explained by the improvement in employment and the replacement of foreign workers by Israeli workers (particularly in the construction branch), whereas the 2005 decline is due to the new legislation imposing on employers the finance of injury allowance for the first 12 days (rather than for the first 9 days, up to 2004). It is reasonable to assume that were it not for the continued improvement in employment in 2005, the number of recipients of injury allowance would have decreased by a higher rate. The number of recipients of injury allowance out of the total number of employed persons, which was 4.3% in the mid 1990's (prior to the frequent legislative changes in this program) went down to 2.3% in 2005. In contrast to the developments in the number of injury allowance recipients, the average number of days of work incapacity remained stable in 2004-2005 (34 days), as compared to an accumulated decrease of about 28% in 2002-2003. The number of recipients of (permanent) disability pensions in the Work Injury branch rose by about 5% in 2005 (similarly to its average rise in the four previous years), reaching about 25,200.

In the Maternity branch, there was a decline of about half a percent in the number of women receiving maternity grant and in the number of women receiving maternity allowance. Considering the expansion in employment, the decrease in the number of

women receiving maternity allowance was contrary to expectations, since, in the absence of any legislative changes, there is generally a high correlation between the employment situation and the scope of wage-replacing benefits such as maternity allowance and injury allowance. Thus, for example, the number of women who received maternity allowance rose by only 1% in the recession years of 2001-2002 together, while this number rose by about 8% in the years 2003 and 2004 together.

Finally, the decrease in the number of income support benefit recipients continued in 2005; this number declined by about 3%, after an approximate 6% decline in 2004. A monthly average of about 140,000 families received benefit in 2005, as compared to 144,700 in 2004 and about 155,200 in 2003. The amendments implemented in June 2003 ruled out entitlement to benefit to thousands of families that had previously received the benefit, made it difficult for new families to begin receiving benefit and applied the employment test to new groups of recipients previously exempt from this test. An examination of 2003-2005 developments shows a consecutive and uniform decline in the number of recipients from mid-2003 until mid-2004, followed by a more moderate decline in this number in the second half of 2004 and the first half of 2005, which can be partially explained by the improvement in employment. With the opening of occupation centers in four experimental regions in Israel in the framework of the Law to Integrate Benefit Recipients Into Work (the welfare-to-work plan), a sharp decrease was noted in the number of income support benefit recipients: from an average of about 142,300 in January-July 2005 to 136,600 in August-December 2005. This development can be entirely accounted for by the 25% decrease in recipients in the experimental regions.

1.7 Collection of Contributions from the Public and the Sources of Financing Benefits

The NII benefit payments are financed from four sources: collection of national insurance contributions (direct collection from the public as well as Treasury

indemnification against the reduction in employer and self-employed contribution rates); government participation in the financing of contributory benefits; and receipts from interest in investments of surpluses in government bonds. In addition to collection of national insurance contributions, the NII collects health insurance contributions and transfers them to the sick funds.

Similarly to previous years, collection from the public in 2005 was influenced not only by economic developments, but also by the frequent changes in government policy regarding the financing of the national insurance system. The first stage of the gradual process of reducing the national insurance contributions imposed on employers began to be implemented in August 2005, under the 2005 Economy Arrangements Law. This process will continue up through 2009 and the average rate of insurance contributions to be imposed on employers will be reduced by 1.5 percentage points. This policy is part of a more comprehensive government policy to reduce the tax burden, although it actually originated in a government commitment to employers under a recovery agreement for the veteran pension funds. In a 2004 agreement between the Histadrut and the Treasury, it was determined that the premiums to the above veteran pension funds would be raised by 3 percentage points in 2004-2007, with the workers and the employers sharing this raise equally. In order to moderate the rise in the cost of labor to employers as a result of this rise in premiums, the Minister of Finance promised to lower NII contribution rates. This commitment was in line with the overall policy of the Treasury to reduce the tax burden, and particularly to lower receipts from taxes in order to “force” policymakers in the government and in the Knesset to continue to reduce public expenditure and to prevent pressure to expand it when the economy grows.

The NII expressed its opposition to the reduction of the insurance contributions imposed on employers, particularly in view of the policy, implemented since the mid 1980's, to lower the cost of labor. The reduction of receipts from collection from the

public increases NII dependence on Treasury budgets. This situation means a deficit in the State budget, which may, in the longer term, create more pressure to reduce public expenditure, including expenditure on benefits. Lowering the rate of national insurance contributions by 1.5 percentage points involves a loss of NIS 3.3 billion (in 2002), and this sum is at least 10 times higher than the sum of the additional burden imposed on the employers by raising the premiums – amounting to an estimated NIS 300 million (taking into account the fact that NII contributions constitute a recognized expenditure for tax purposes). The NII also felt that this universal reduction was not focused on the weak population groups who needed help to integrate into work, or in supporting low-wage-earners, and therefore recommended the allocation of these resources to a “negative income tax” plan.

The first draft of the law proposed by the Treasury suggested an equal reduction in the uniform rate imposed on the employees, but in the course of the discussions it was decided to emphasize the reduction in contributions to those employers who pay low wages, thereby focusing the lowering of labor costs on relatively “weak” workplaces. Thus, in the proposal eventually ratified by the Knesset, two rates were determined – similarly to the case with employees: a reduced rate and a regular rate. However, the size of the reduction of the average rate of insurance contributions remained as in the original proposal: 1.5 percentage points (from 5.93% to 4.43%). With this situation, the rates of insurance contributions imposed on employers returned to the level of early 2002.

Under the legislation, the NII will not be indemnified by the Treasury for the loss in collection. However, the government participation anchored in Article 32 of the National Insurance Law has been enlarged so that the Treasury allocation for financing statutory benefits will not be reduced as a result of the loss in collection of national insurance contributions from employers.

An additional amendment that affected the financing of benefits was the raising of government participation in financing the Maternity branch (in the framework of the “Treasury Indemnification” under Article 32C of the Law), following the increase in the hospitalization grant for women giving birth and for regular and premature babies. The rate of insurance contributions imposed on the government in the Maternity branch was raised by 0.05 of a percentage point, meaning an addition of NIS 100 million in government financing.

The government policy regarding adjustment of NII benefits applied to collection parameters as well. In 2002-2005 the average wage under the National Insurance Law was not adjusted; thus, nor were the brackets of insurance contributions or minimum income for payment of insurance contributions for the various types of insured persons. The freeze in the average wage continued till the end of 2005, and from 2006 onwards the ceiling will be adjusted by the rate of the rise in the price index only. On the other hand, the reduced rate bracket and the minimum income for payment of insurance contributions for the various types of insured persons shall continue to be adjusted according to the average wage after 2006 as well. The change in the method of adjusting the income ceiling for payment of contributions will lead, in the long run, to an easing of the burden on many high wage-earners, who will be favorably discriminated as compared to those who pay insurance contributions at the minimum rate (such as unemployed persons and students). However, the continued linkage of the reduced rate bracket to the average wage will prevent a heavier burden of insurance contributions on low-wage earners.

1.7.1 Collection of Insurance Contributions from the Public

In 2005, the NII collected contributions from the public in accordance with its forecasts, and even more. In this year NII receipts from collection of national and health insurance contributions from the public amounted to NIS 34.6 billion: NIS 22.8 billion to national insurance branches and NIS 11.8 billion to the health system. To the collection from the public should be added the NIS 1.5 billion transferred by the

State Treasury as indemnification for the lowering of national insurance contributions to employers and the self-employed (under Article 32C of the Law). Direct collection from the public rose by about 3.6% in real terms in 2005: collection of national insurance contributions from the public rose by 3.7% and collection of health insurance contributions by 3.3%. Were it not for the legislative changes instituted in 2004 and in 2005, it is estimated that collection from the public would have risen by 4.9% in real terms (by 5.5% and 3.8% in collection of national and health insurance contributions, respectively). The sum of indemnification transferred by the Treasury to the account of the insurance branches rose by about 12% in real terms, as a result of the increase in government participation in financing the hospitalization grants of the Maternity branch.

In contrast to 2004, the direct collection from the public of employers and their employees in 2005 was affected also by the continued positive trends in the labor market – the rise in real wages and a higher rate of growth in the number of employed: 3.9% in real terms. In parallel, the economic recovery of 2004-2005 was reflected for the first time in collection from non-employees, which rose by 3.6% in real terms in 2005. Collection from the self-employed (constituting about 84% of all collection from non-employees) rose in real terms by 5.9%. Collection from self-employed in 2005 was based mainly on assessments from 2003, so that one may expect that the acceleration in economic activity in 2004-2005 will be reflected in the 2006 collection. On the other hand, collection from the other non-employees declined at a rate of about 8% – mainly due to the decrease in the number of insured persons paying contributions at the minimum rate.

The data also show that in 2005, for the second year, there was an additional slight decrease in the scope of collection from the public by means of the NII relative to the GDP, from 6.3% in 2004 to 6.2% in 2005. Moreover, in 2005 the trend of increase in the share of collection from the public in the total direct taxes collected from individuals continued, reaching 40.7%.¹⁰ This trend follows a consecutive increase in the previous

¹⁰ As opposed to previous Surveys, in this Survey total taxes from individuals include the health insurance contributions collected directly from NII benefit recipients.

years – from 34.6% in 2000 to 40.8% in 2004. The share of health insurance contributions in total collection from the public decreased from 34.3% in 2004 to 34.2% in 2005.

Table 10: Collection from National Insurance Institute and Health System, 2000-2005

	2000	2001	2002	2003	2004	2005
Current prices (NIS million)						
Total receipts from contributions	30,511	32,814	33,995	33,660	34,331	36,136
Total collection from public	27,655	29,724	31,378	32,275	32,971	34,596
For nat'l insurance branches	17,893	19,147	20,495	21,424	21,661	22,767
For health system	9,762	10,577	10,883	10,851	11,310	11,829
Total Treasury indemnification	2,856	3,090	2,617	1,385	1,360	1,540
Indicators of development of collection from the public						
A) as percentage of real change						
Total collection from public	10.4	6.3	-0.1	2.2	2.6	3.6
For nat'l insurance branches	10.3	5.8	1.3	3.8	1.5	3.7
For health system	10.7	7.2	-2.7	-1.0	4.6	3.3
B) as percentage of GDP						
Total collection from public	5.9	6.3	6.4	6.5	6.3	6.2
For nat'l insurance branches	3.8	4.0	4.2	4.3	4.1	4.1
For health system	2.1	2.2	2.2	2.2	2.2	2.1
C) as percentage of direct taxes to individuals						
Total collection from public	34.6	35.2	36.8	40.2	40.8	40.7
For nat'l insurance branches	22.4	22.7	24.0	26.7	26.8	26.8
For health system	11.2	12.5	12.8	13.5	14.0	13.9
D) as percentage of direct taxes						
Total collection from public	27.0	28.3	30.8	32.5	32.0	31.1
For nat'l insurance branches	17.5	18.2	20.1	21.6	21.0	20.4
For health system	9.5	10.1	10.7	10.9	11.0	10.6

1.7.2 Source of Financing

Total NII receipts for financing its branches amounted in 2005 to about NIS 49.7 billion, in current terms. In this year, the trend of real decrease in the sources of financing, evident since 2002, was curbed. Receipts from national insurance contributions (collection from the public and Treasury indemnification) grew in real terms by 4.2%, and government participation in financing insurance branches rose in real terms by a higher rate – 5%. The reason for this is that in 2005 government participation under Article 32 of the Law was raised in order to compensate for the loss in income as a result of the lowering of contributions imposed on employees. On the other hand, government financing of non-contributory benefits remained almost without change, after having gone down by about 20% in real terms in 2003-2004. This stability is due to several factors that operated in opposing directions: while payments of the income support benefits to the working-age population and alimony payments continued to decline, payments of income supplement to the elderly and mobility allowances increased in real terms. In parallel, the scope of reserve service payments, payments to radiation-affected persons and to hostile action victims remained more or less stable.

NII receipts from interest on its investments amounted to about NIS 4.9 billion, going up by 3.7% in real terms as compared to 2004. An examination of the distribution of benefit financing by source shows that the share of the government financing of the non-contributory benefits continued to decline in 2004, reaching 17.4% of total financing sources, while government participation in financing of the insurance branches continued to rise, reaching 23.5%. Receipts from independent sources – insurance contributions and income from interest – increased from 58.2% in 2004 to 58.7% in 2005.

Table 11: Sources of Financing of National Insurance Branches, 1995-2005

Year	Total receipts	Collection of national insurance contributions	Government participation	Government financing of benefits	Receipts from interest
NIS (current prices)					
1995	23,581	12,171	4,222	4,650	2,504
2000	41,207	20,751	8,336	8,148	3,907
2001	46,110	22,237	9,952	9,756	4,075
2002	48,642	23,114	10,506	10,590	4,266
2003	47,972	22,809	10,799	9,420	4,453
2004	47,513	23,021	10,996	8,548	4,617
2005	49,742	24,307	11,705	8,640	4,850
Real annual growth (percentages)					
2000	7.6	9.8	1.6	10.8	3.6
2001	10.7	6.0	18.1	18.4	3.2
2002	-0.2	-1.7	-0.1	2.7	-1.0
2003	-2.1	-2.0	2.1	-11.7	3.7
2004	-0.6	1.3	2.2	8.9	4.1
2005	3.3	4.2	5.1	-0.3	3.7
Distribution (percentages)					
1995	100.0	51.6	17.9	19.7	10.6
2000	100.0	50.4	20.2	19.8	9.5
2001	100.0	48.2	21.6	21.2	8.8
2002	100.0	47.5	21.6	21.8	8.8
2003	100.0	47.5	22.5	19.7	9.4
2004	100.0	48.5	23.1	18.0	9.7
2005	100.0	48.9	23.5	17.4	9.8

1.7.3 Surpluses/Deficits and Financial Resources

Government policy in the fields of benefit and collection was reflected in the gradual shrinking of the current deficit in all activities in 2002-2003 and in a transfer to a current surplus – a moderate one in 2004 and a more significant one in 2005. If income from interest on NII investments is not taken into account, the deficit was NIS 3.4 billion in 2001, and in 2005 there was a surplus of about NIS 1.5 billion. In 2005 alone the surplus grew by NIS 1.4 billion. It may be surmised that this trend will slow down to a certain extent in the coming years, due both to the lowering of the insurance contributions imposed on the employers and to the higher likelihood today that benefits will be raised in the framework of the policy to reduce poverty.

Table 12: Surpluses/Deficit in National Insurance Branches, 2001, 2004 and 2005

Insurance Branch	Surplus/Deficit Without Interest on Investments			Surplus/Deficit Including Interest on Investments		
	2001	2004	2005	2001	2004	2005
Total	-3,420	137	-1,547	629	4,754	6,397
Old-age & survivors	-633	-1,105	-850	1,019	873	1,160
General disability	-1,762	-2,603	-2,775	-912	-1,964	-2,241
Work injury	-1,193	-922	-887	-821	-658	-657
Maternity	-852	-945	-921	-674	-882	-902
Children	5,338	8,946	10,146	5,890	10,365	11,995
Unemployment	-3,090	-1,736	-1,595	-3,090	-1,778	-1,625
Long-term care	-1,410	-1,548	-1,616	-1,049	-1,358	-1,491
Other	182	50	46	294	156	158

The shrinking of the current deficit in 2002-2004 was particularly notable in the Work Injury and Unemployment branches, and this trend continued in 2005 as well.

Furthermore, in 2005, the current deficit began to get smaller in the Old-Age and Survivors and the Maternity branches. On the other hand, the deficit in the General Disability and Long-Term Care branches grew in 2005, albeit at relatively moderate rates. The current surplus in the Children branch – which characterizes it for all years – continued to grow, reaching slightly over NIS 10 billion.

Taking into account income from interest or past surpluses also presents an improvement in the financial situation of the NII branches: the surplus including interest grew by about NIS 0.66 billion in 2001, to about NIS 6.4 billion in 2005. At the same time, all the branches, except for Children and Old-Age and Survivors, remained in deficit. The assets of the Unemployment branch ran out in 1999, and it is being financed entirely from the Children branch.

Diagram E: The National Insurance Institute - Resources and Uses

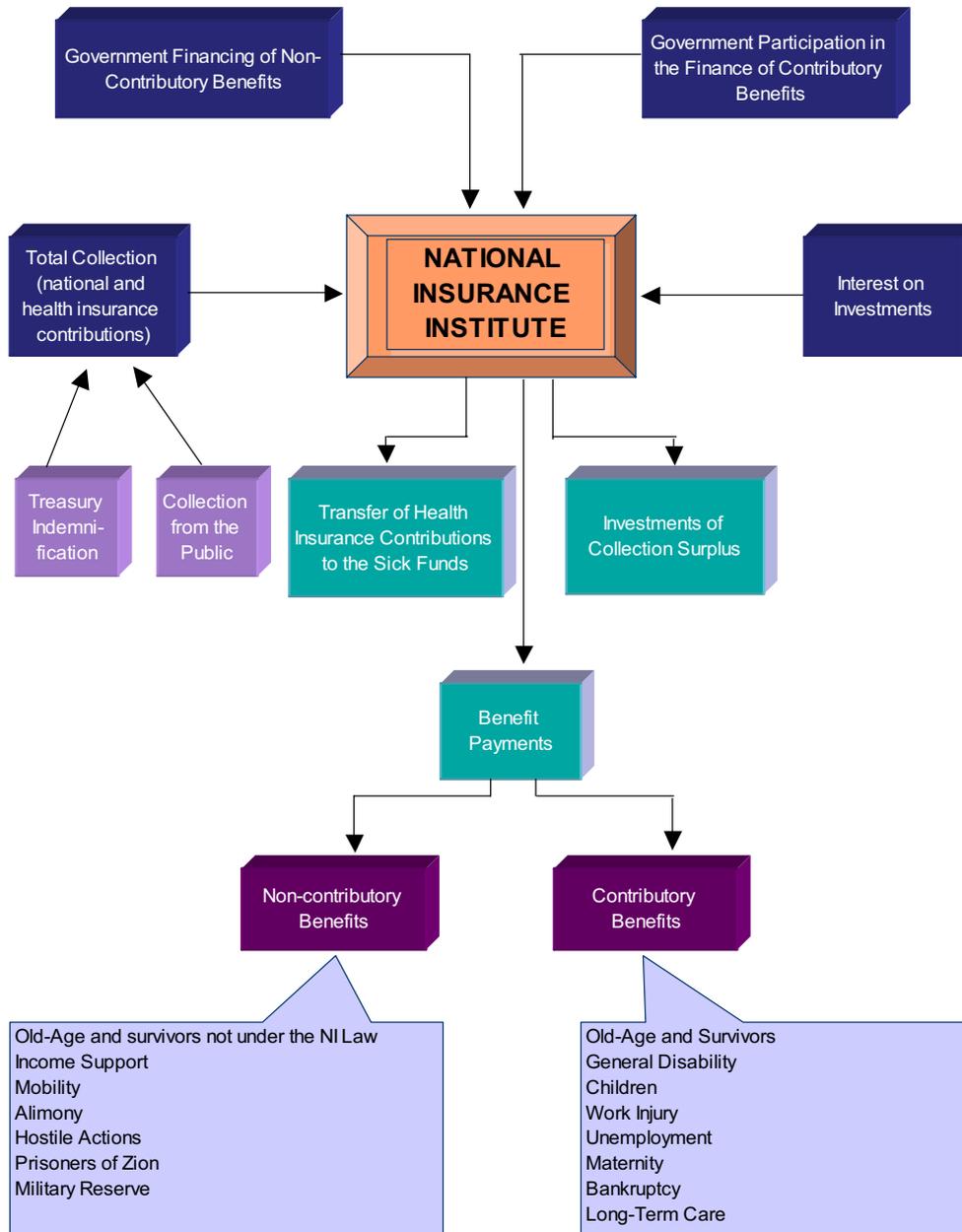
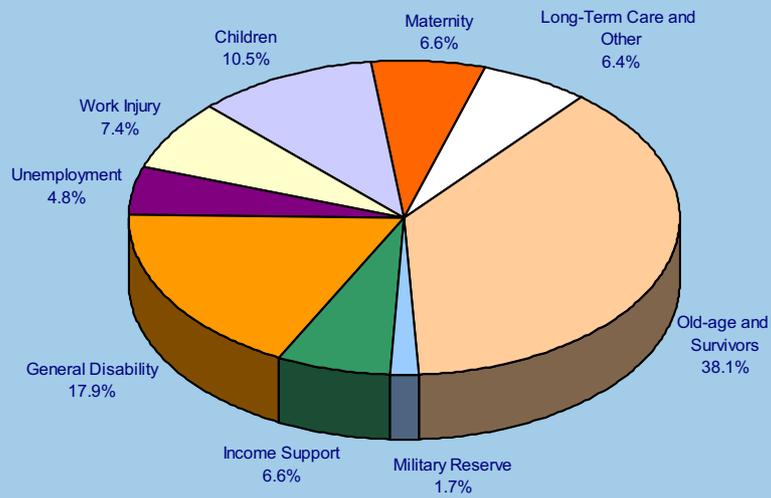


Diagram F: The Distribution of NII Benefit Payments and Receipts - 2005

Benefit Payments



Receipts

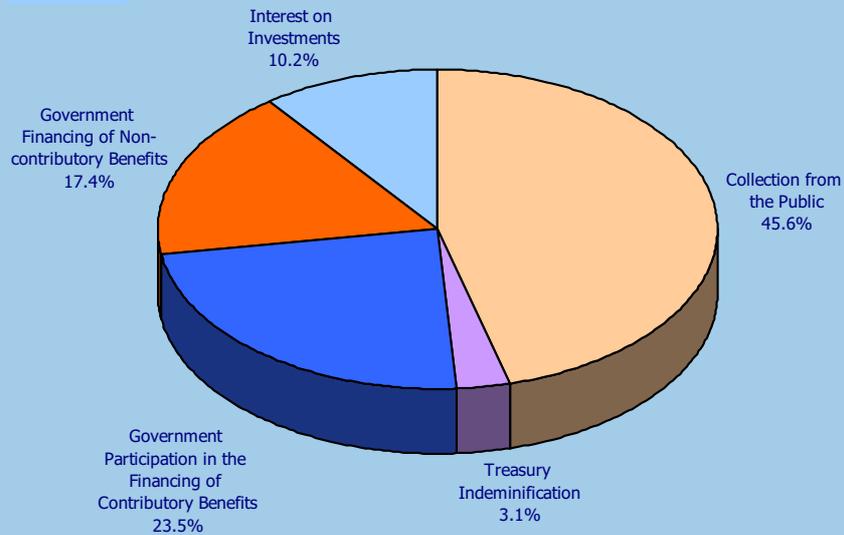


Diagram G: Benefit Payments (percentage of GDP), 1980-2005

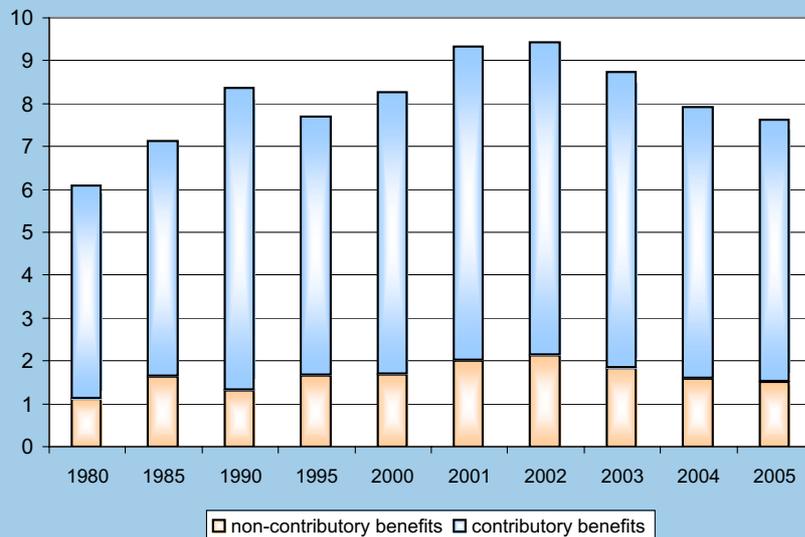


Diagram H: Contributory Payments from the Public (percentage of GDP), 1980-2005

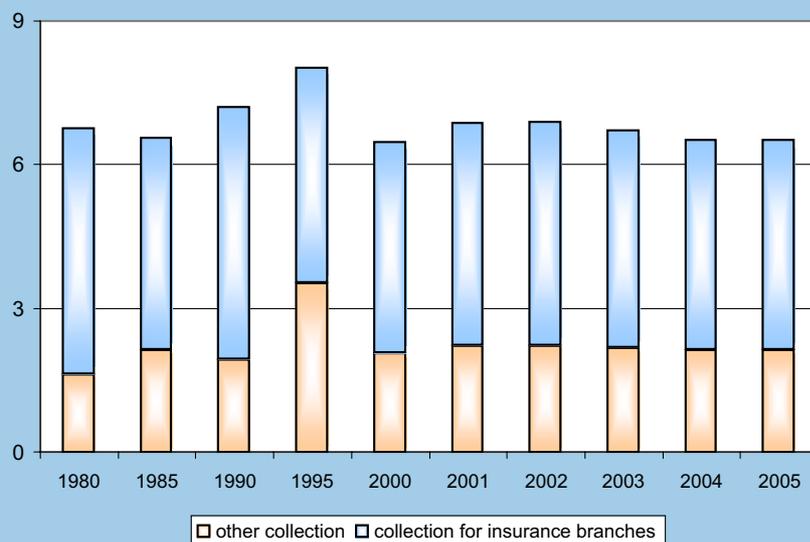
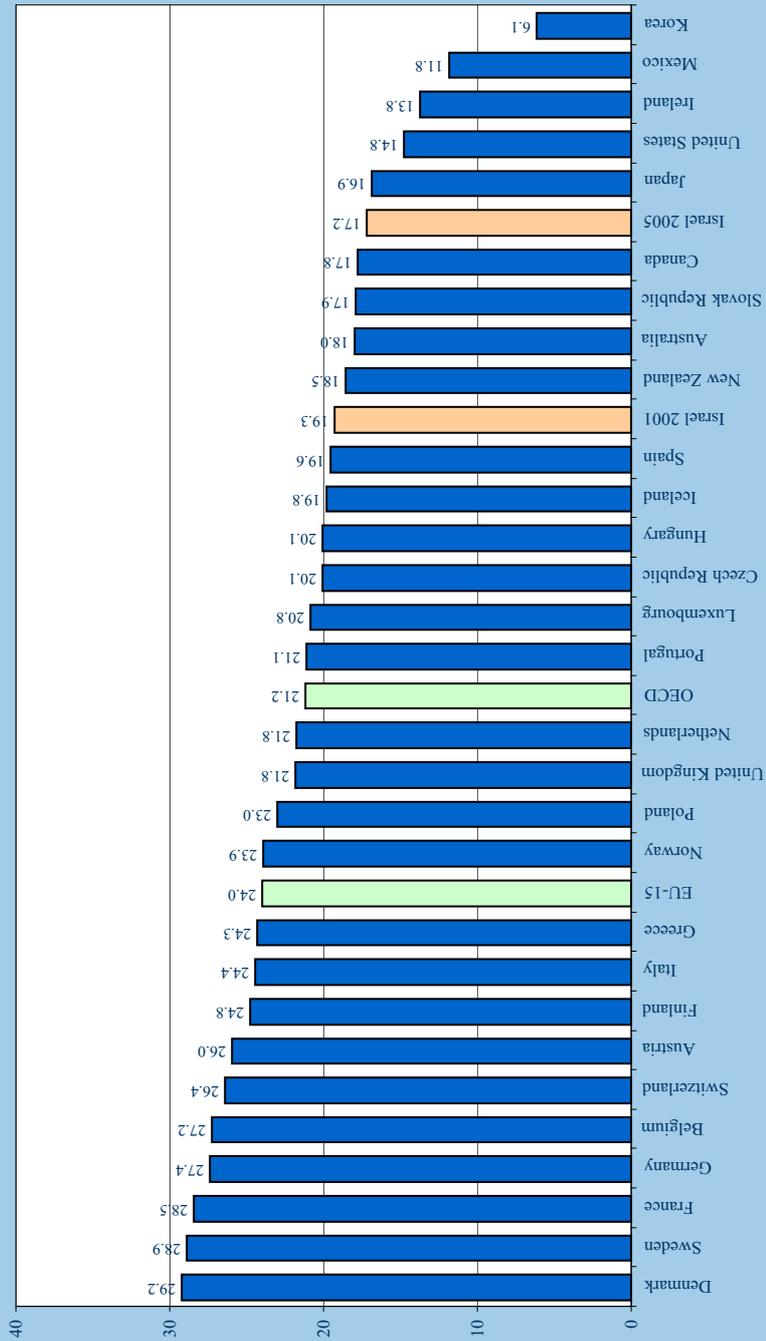
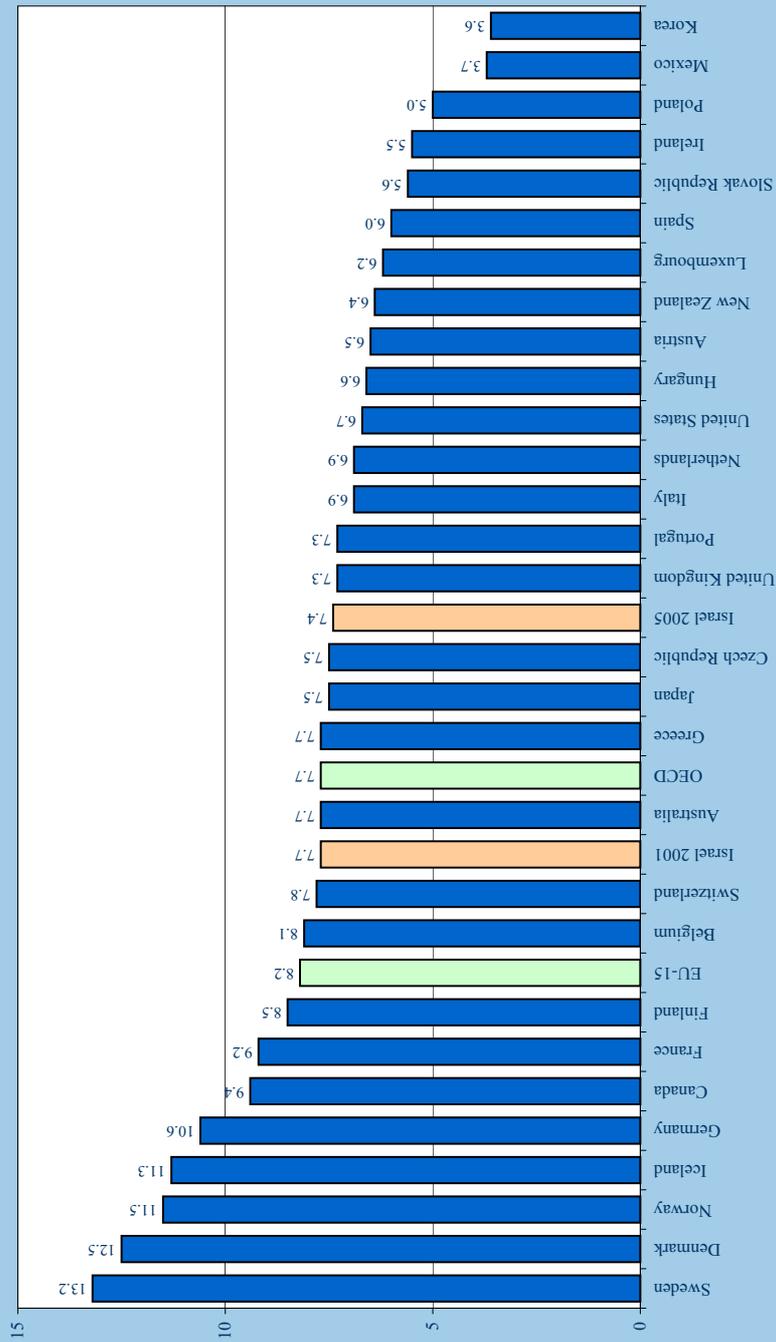


Diagram I: Total Public Social Expenditure, as a Percentage of the GDP, OECD Countries and Israel, 2001



Source: OECD (2004), Social Expenditure Database and National Insurance Institute of Israel.

Diagram J: Total Public Social Expenditure, on in-kind Benefits, as a Percentage of the GDP, OECD Countries and Israel, 2001



Chapter 2

Trends of Development in Poverty and Income Inequality (Summary)

**Leah Achdut
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2.1 Introduction

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

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

- a. The first principle views the family's net income as the relevant income for assessing poverty. Net income is defined as the family's market income (from work as well as from ownership of physical production means and financial assets) plus transfer payments (received not in return for economic efforts, such as national insurance benefits or support from institutions and individuals in Israel and abroad), less direct taxes (income tax, national insurance contributions and health insurance contributions).
- b. The second principle regards the median net income of the population as the society's representative income. Median income is defined as the level of income which 50% of families have at least that income, while the remaining 50% have a higher level of income. The poverty line is defined as the level of income equivalent to 50% of the median net income. A family whose net income is lower than one half of the median net income is thus regarded as poor.¹ Economic growth leading to an increase in the median net income also results in the raising of the poverty line. A non-poor family whose net income has increased by less than the rate of increase of the poverty line may thus become a poor family.
- c. The third principle adjusts the poverty line to the family size. This principle is based on the assumption that family size involves economics of scale, whereby the growth of a family by an additional person increases its needs not by an equivalent, but rather by a lesser, proportion. In other words, the additional income required by a family in order to maintain a fixed standard of living decreases with the increase in the number of family members. To enable a comparison between the standard of living of families of different sizes, an "equivalence scale" was developed by which the needs of each such family can be measured against the needs of a family of a given basic size. More specifically, the equivalence scale

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

translates the number of persons in a family into the number of “standard” persons (or the number of “standard adults”) in that family (Table 1). The scale is based on a two-member family which is assigned a value of two standard persons. According to this scale, a family with one member has a value of 1.25 standard persons. In other words, the needs of a one-member family are not assessed as equivalent to one half the needs of a two-member family, but as greater. Similarly, the needs of a four-member family (which has a value of 3.2 standard persons) are not set at double the needs of a two-member family (which has a value of 2 standard persons), but at less than double (only 1.6 times greater).

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

2.2 Database

The Annual Income Surveys conducted by the Central Bureau of Statistics (CBS) serve as the basis for calculating the dimensions of poverty and income inequality in Israel. Up until 1997 (inclusive), the survey population included households whose head was an employee or non-working person, in urban localities with 2,000 or more inhabitants (excluding East Jerusalem). In 1998 the Central Bureau of Statistics decided to produce a combined Income Survey, based on both the current Income Survey and the Family Expenditures Survey. The combined Income Survey is based on a larger sample (1.8 times the previous sample) and encompasses 95% of all households in Israel in most forms of settlement. In addition to the employee and non-working populations in urban localities, the combined Income Survey also covers the

self-employed population, the population in the moshavim and in rural and community localities, and the inhabitants of East Jerusalem.²

Beginning in 2005, the NII calculates poverty data twice a year. In addition to the 2004 data, poverty findings will be presented below for a period including the second half of 2004 and the first half of 2005 (July 2004-June 2005). No special sample-based survey was conducted to investigate poverty and income inequality in this period; rather, a two-part database was created: data for the second half of 2004 were taken from the 2004 Income Survey, while data for the first half of 2005 were taken from the 2005 Income Survey (not yet completed). This database and its findings will be referred to as: 2004/5. The second half of 2004 is therefore part of both survey periods (generally) referred to by the tables below, while the text will usually compare findings with 2003 and with trends of recent years.

The present summary surveys the dimensions of poverty and income inequality in Israel in 2004 and 2004/5 on the basis of the combined Income Survey, and presents the main findings regarding the impact of transfer payments and direct taxes in reducing their scope. The dimensions of poverty are expressed by means of the two most widely used aggregate poverty indices in empirical studies, both in Israel and abroad: the poverty incidence and the poverty gap. The poverty incidence index indicates the scope of poverty in terms of the percentage of poor families in the total population. The poverty gap index reflects the depth of poverty: the poverty gap of a poor family is defined as the difference between the poverty line (corresponding to the family's size) and the family's actual income, while the poverty gap of the population as a whole is defined as the sum of the poverty gaps of the total number of poor families in the population. The poverty gap index can be standardized and defined as

² However, in 2000-2001 the inhabitants of East Jerusalem were not included in the survey, due to difficulties in data collection. The populations not yet included are mainly the kibbutzim and the Beduin inhabitants who do not reside in permanent localities.

the ratio between the average poverty gap per poor family and the poverty line (hereafter, the “poverty gap ratio”). Income inequality among the entire population is measured by the GINI index.

2.3 Poverty in 2004 as Compared to 2004/5

The scope of poverty in Israel continued to expand in 2004/5. The rate of families whose net income fell below the poverty line rose from 19.3 in 2003 to 20.3 in 2004, and to 20.5 in 2004/5.

Table 1: Number of Standard Persons and the Poverty Line per Family, by Number of Family Members, 2004 – 2004/5

Number of family members	Number of standard persons	Poverty line per family in 2004		Poverty line per family in 2004/5	
		percentage of the average wage	percentage of the average wage	percentage of the average wage	percentage of the average wage
1	1.25	1,777	25.2	1,804	25.4
2	2.00	2,843	40.3	2,886	40.7
3	2.65	3,766	53.4	3,824	53.9
4	3.20	4,548	64.4	4,618	65.1
5	3.75	5,330	75.5	5,411	76.2
6	4.25	6,041	85.6	6,133	86.4
7	4.75	6,751	95.6	6,854	96.6
8	5.20	7,391	104.7	7,504	105.7
**9	5.60	7,959	112.8	8,081	113.9

The effects of most of the amendments that reduced NII benefit levels were already fully reflected in the 2004 and 2004/5 surveys. It is worthy of note that since 2001, the poverty rate increased by almost 3 percentage points. On the other hand, the trend of stability noted in recent years in poverty among families according to economic income (before transfer payments and taxes) continued. The poverty rate according to economic income was 33.7% in 2004 and in 2004/5. This stability can be explained by an improvement in the employment situation, particularly in the weak links of the labor market, and by the stability of the minimum wage level, set in the law.

The expansion of the poverty rate by net income was also noted among persons and children; the rate of poor persons out of total persons in the population rose from 22.4% in 2003 to 23.6% in 2004 and to 24.1% in 2004/5, while the rate of poor children out of total children in the population rose from 30.8% in 2003 to 33.2% in 2004 and to 34.1% in 2004/5. The increase in the rate of poor children continued the gradual upward trend that occurred in the years 1998-2004/5. The poverty rate of children in 1998 was 22.8%.

The poverty rate rose most notably among families with children and among families headed mainly by an elderly person. This rate rose from 23% in 2003 to 25.1% in 2004/5 and from 22.3% in 2003 to 24.5% in 2004/5, respectively.

The increase in the poverty rate did not skip over working families. For example, the rate of single-earner families with a net income below the poverty line grew from 18.6% in 2003 to 20.8% in 2004 and to 22.0% in 2004/5.

The poverty gap ratio, which expresses the depth of poverty among poor families, has increased steadily in recent years, stabilizing at the high rate of 33.3%, showing that the average income of poor families is about three-quarters of the poverty line income. The increase in the poverty gap between 2003 and 2004 characterized all population

groups; however, in most groups the poverty gap stabilized in 2004/5, while it continued to rise in non-working families of working age and in large families. These family types were hurt the most by the benefit cuts, but they did not benefit from the changes that led to a rise in net income. A rise in the poverty gap ratio between the two survey periods was observed also among the elderly and the single-parent families, as opposed to a slight decline in this gap among working families.

Table 2: Poverty in Total Population, 2003 - 2004/5

Poor population	Before transfer payments and direct taxes	After transfer payments only	After transfer payments and direct taxes
2003			
Families	645,300	292,800	366,300
Persons	2,156,200	1,199,700	1,426,800
Children	862,200	565,600	652,400
2004			
Families	656,800	320,600	394,200
Persons	2,184,100	1,308,500	1,534,300
Children	881,600	652,400	713,600
2004/5			
Families	663,000	332,000	403,400
Persons	2,212,500	1,353,500	1,580,200
Children	891,600	650,600	738,100

Table 3: Poverty in Total Population, by Selected Poverty Measures, 2003 - 2004/5

Poverty measure	Before transfer payments and direct taxes	After transfer payments only	After transfer payments and direct taxes
2003			
Incidence of poverty (%)			
Families	33.9	15.4	19.3
Persons	33.8	18.8	22.4
Children	40.7	36.7	30.8
Poverty gap ratio (%)*	64.8	30.5	30.5
SEN index*	0.284	0.081	0.097
Gini index of inequality in income distribution of poor*	0.5534	0.1818	0.1858
2004			
Incidence of poverty (%)			
Families	33.7	15.8	20.3
Persons	33.6	20.2	23.6
Children	41.0	29.4	33.2
Poverty gap ratio (%)*	64.5	33.4	33.3
SEN index*	0.283	0.094	0.111
Gini index of inequality in income distribution of poor*	0.5499	0.2007	0.2045
2004/5			
Incidence of poverty (%)			
Families	33.7	16.7	20.5
Persons	33.8	20.7	24.1
Children	41.1	30.0	34.1
Poverty gap ratio (%)*	63.4	33.3	33.3
SEN index*	0.281	0.096	0.113
Gini index of inequality in income distribution of poor*	0.5385	0.1977	0.2011

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

Table 4: Poverty in Specific Population Groups, 2004 and 2004/5

Population group (families)	2004			2005		
	Economic income	Net income	Concentration index*	Economic income	Net income	Concentration index*
Total population	33.7	20.3	1.00	33.7	20.5	1.00
Family head:						
Elderly	59.2	25.1	1.24	57.7	24.5	1.20
Not working (of working age)	91.2	64.8	3.19	91.6	66.6	3.25
Working:	17.6	11.4	0.56	17.9	11.8	0.58
Employee	17.5	10.8	0.53	18.1	11.4	0.56
Self-employed	17.8	15.6	0.77	16.7	14.6	0.71
Families with one earner	32.6	20.8	1.02	33.5	22.0	1.07
Families with two earners	4.7	3.3	0.16	4.4	3.0	0.15
Jews**	30.5	15.9	0.78	..***
Arabs	56.9	49.9	2.46
Immigrants (from 1990)	42.9	18.8	0.93	42.9	20.8	1.01
Single-parent	52.9	31.4	1.55	51.8	29.2	1.42
Families with children	31.6	24.5	1.21	32.1	25.1	1.22
1-3 children	25.3	18.5	0.91	25.6	18.9	0.92
4 or more children	62.4	54.7	2.69	65.7	57.0	2.78

* The concentration index refers to the net income.

** The category of "Jews" also includes non-Jews who are not Arabs.

*** Data are not presented by nationality, which is correlated with place of residence, since the 2004/5 database is not based on an independent and annual sample reflecting the geographical distribution of the families.

The contribution of the transfer payment and direct taxation systems to a reduction of poverty among persons and children continues to decrease, a trend that began in 2002. These two systems extricated 39.2% of poor families from poverty in the 2004/5 survey period (as compared to 47% in 2002, prior to the deep benefit cuts). This trend of decrease in the impact of transfer payments on poverty reduction stems from the erosion in the child allowances – characterizing all population strata – while the poor population suffered from a deep cut in their income support benefit as well. As opposed to families, the incidence of poverty – including that measured by economic income – among children increased slightly between 2003 and 2004/5. Transfer payments and direct taxation extricated less than 30% of poor people, and less than a fifth of poor children, from poverty, as compared to over a third of poor people and a quarter of poor children in 2002.

2.4 Inequality in Income Distribution in 2004/5 as Compared to 2003

The picture of income gaps that arises from the data of the 2004 and 2004/5 Income Surveys indicates two contrasting developments: while the gaps in the distribution of economic income grew smaller, those in the distribution of net income grew slightly wider. The Gini index of economic income distribution declined by about 0.8% between 2003 and 2004/5, but in the same period the index of net income distribution rose slightly – by 4%. At the same time, the Gini index of economic income distribution completed an accumulative rise of 1.1% in 1999, while the Gini index of net income rose drastically in the same period: by 6.8%.

The significance of these findings is that the contribution of the benefits and direct taxes to the reduction of gaps in net income decreased from 2003 to 2004/5, and that the decline in inequality in economic income was not translated into a parallel decline in inequality in net income.

A reduction occurred in 2004/5 in the gaps in economic income distribution: the top decile took 34.7% of total economic income, as compared to 35.4% in 2003. The gaps in net income, however, widened: the share of the three top deciles in total net income rose, while that of the first through seventh deciles, and particularly that of the first two deciles, declined slightly. The four lowest deciles lost one percentage point out of total net income, and this was “gained” by the highest deciles. The ratio between the share of the top quintile and that of the bottom quintile out of total income rose from 7.1% in 2003 to 8.1% in 2004/5.

Table 5: Gini Index of Inequality in Income Distribution, 2002-2004/5

	Before transfer payments and direct taxes	After transfer payments only	After transfer payments and taxes	Percentage of decrease stemming from transfer payments and taxes
Total population				
2004/5	0.5225	0.4313	0.3837	26.6
2004	0.5234	0.4300	0.3799	27.4
2003	0.5265	0.4241	0.3685	30.0
2002	0.5372	0.4312	0.3679	31.5
1999	0.5167	0.4214	0.3593	30.5
Change in Gini Index (%)				
2004/5 compared to 2004	-0.2	0.3	1.0	
2004/5 compared to 2003	-0.8	1.7	4.1	
2004/5 compared to 2002	-2.7	0.0	4.3	
2004/5 compared to 1999	1.1	2.4	6.8	
2004 compared to 2003	-0.6	1.4	3.1	
2003 compared to 2002	-2.0	-1.7	0.2	
2002 compared to 1999	4.0	2.3	2.4	

Detailed bilingual tables on poverty appears in the Appendices.