

# *The Social Security System*

The social security system comprises a range of programs, most under the auspices of the National Insurance Institute, others through various government offices (Defense, Finance, Absorption) and still other programs through the free market (employer pension plans, for example). These programs offer a safety net for individuals and families in the case of lack of work-related income or reduced income or in the case of additional expenses in diverse circumstances. The programs focus on alleviating poverty; assisting individuals and families to maintain a reasonable standard of living; dispersing income over an individual's lifetime; helping families and individuals meet additional expenses such as those related to child raising; providing incentives for the unemployed to join the labor market; compensating for loss or injury; redistributing resources; and enhancing gender equality. Public expenditure on state run social security programs in 2007 was NIS 42 billion, 41 percent of total social expenditure in the current year's budget.<sup>1</sup>

## **1. Main Social Security Trends in the Past Year**

With regard to two of the goals of the social security system, alleviating poverty and redistributing income in order to narrow social gaps, no significant progress was made in 2006 although further deterioration in these two areas was prevented. In order to deal with poverty and social gaps successfully, change in the

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<sup>1</sup> Based on National Insurance Institute estimates of total payments in 2007 and Taub Center estimates of social expenditure in 2007.

economy and the labor market is required. Economic growth and expansion of the labor market in recent years have created pre-conditions for the easing of social exclusion. However, changes in macroeconomic conditions alone do not necessarily narrow social gaps and reduce poverty (Sussman, 2006). It is here that the social security system can play a vital role, especially in its contribution to the redistribution of resources to the most deprived sectors of society who do not have access to these resources through the free market. Progress toward these goals is directly related to ease of access to social security programs and the generosity of the benefits that these programs provide. Programs intended to cope with poverty and social gaps, such as income support (the social assistance program), and child benefits, were seriously cut back at the beginning of the current decade. As these cutbacks have not been rectified, the effectiveness of these programs remains limited. Indeed, poverty rates hardly declined in 2006 and inequality in income distribution actually worsened (National Insurance Institute, 2007).

One of the goals of the social security system that policy makers have stressed in recent years is that of encouraging recipients of welfare benefits to go back to work. To attain this goal, several measures have been adopted: major changes in the employment test required of applicants for income support were introduced; a welfare-to-work program was initiated; and, sweeping changes in the unemployment insurance program were adopted. While economic growth and the expansion of the labor market have been the main factors in the growth of labor market participation in recent years, clearly the changes in the social security system have helped move benefit recipients back into the labor market. However, the dramatic changes adopted to attain this goal upset the delicate balance between the aim of returning beneficiaries to the labor market and the programs' other aims. More specifically, the changes adopted severely compromised the welfare of unemployed

persons who qualified for benefits and pushed them out of the social security system before they could find work that would provide them with a reasonable income.

Significant changes also took place in the past year with regard to another goal of the social security system, that of compensation. The principle of compensation offers a response to injury or damage caused to a person, a person's family, or even a given social group. In various welfare states including Israel, the social security system invokes this principle to compensate people who suffer disability under defined circumstances, e.g., injury in the course of military service or work (Gal, 2002).

Programs with this goal tend to be easily accessible; they seldom require an income test, prior labor force participation, or social insurance contributions. Furthermore, the benefits are typically more generous than those granted to people who sustain similar disability or injury under other circumstances. Israel's social security system meets this need in a series of programs run by the National Insurance Institute (for victims of terror attacks), the Ministry of Defense (for disabled veterans and bereaved families), and the Ministry of Finance (for victims of the Nazis).

In 2007, the principle of compensation was given greater emphasis in social security programs that serve target populations that sustained injuries or losses. One example was the elimination of an income test to determine the level of benefits for bereaved families. Thus, all bereaved families will be entitled to generous, accessible, and standard compensation irrespective of their income. Another reflection of this trend was the government decision to pay Holocaust survivors benefits in addition to the regular National Insurance old-age benefits. These trends in the social security system raise issues of expenditure and equity within the system.

## 2. Benefits and Beneficiaries

Benefit outlays by the National Insurance Institute and payments to Nazi victims in 2006 added up to NIS 41 billion (in constant prices) and are projected at NIS 42 billion in 2007. The total expenditure in 2006, in constant prices, was 7 percent less than in 2001, the peak year in transfer payments, after which benefits were cut.

**Table 1. Expenditures on Selected Main National Insurance Benefits, 2005-2007**

	Total expenditure*	Old-age and survivors	Disability	Child benefits	Income support	Unemployment
<i>NIS millions, constant prices</i>						
2005	39,738	16,609	7,658	4,581	2,820	2,036
2006	40,968	17,165	8,101	4,973	2,623	1,957
2007	41,929	17,409	8,765	4,910	2,565	1,933
<i>Percent distribution*</i>						
2005	100.0	38.4	17.7	10.6	6.5	4.7
2006	100.0	38.5	18.2	11.2	5.9	4.4
2007	100.0	37.4	19.3	10.6	5.7	4.1

\* Since the data include only selected benefits each year, the itemized benefit expenditures in the table do not add up to the total and the percentage distribution does not add up to 100. The data do not include expenditure for long-term care insurance.

**Source:** National Insurance Institute, 2007.

The three largest social security programs – old-age and survivors, general disability, and child benefits – account for two-thirds of total benefit outlays. As Table 1 shows, benefits for the elderly are the costliest among the National Insurance programs. The share of disability benefits in total payments has risen during the past decade; this program now accounts for a larger share than child

benefits, which figured significantly in expenditure until the beginning of the decade (as the second largest component after old-age benefits). This trend intensified in 2007. The proportional decline of child benefits stems from retrenchment measures introduced in this program at the beginning of the decade. The continued rise in the share of disability benefits, in contrast, is related to improvements in accessibility and benefit levels of this program. During this time, the share of unemployment insurance and income support also continued to decline and that of long-term care benefits increased moderately.

There are diverse trends among recipient populations of different benefits. The population of unemployment insurance recipients and especially income support beneficiaries declined in 2006 and 2007. In contrast, the number of recipients of old-age and survivors' benefits and long-term care insurance grew in 2006-2007. In contrast to the slowed growth or mild increase in the beneficiary populations of most programs, the number of disability benefit recipients has been growing significantly and increased in every year during the last decade, including 2006-2007.

The extent of benefit receipts and the effect of the benefits on the target population can also be examined by analyzing surveys of the Central Bureau of Statistics. The findings shed light on the extent of benefit receipt among households, the contribution of the benefits to household income, and differences among population groups.

**Table 2. Recipients of Main National Insurance Benefits, 2005-2007**

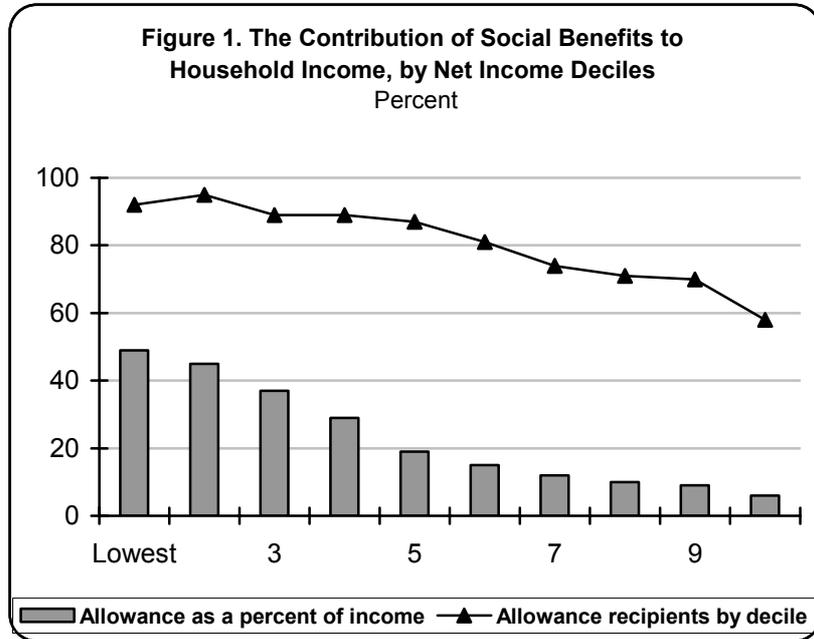
	Child benefits, and house- holds *	Old-age and survivors	Long-term care insurance	Disabilit y	Income support	Unem- ployment
<i>Monthly average, thousands</i>						
2005	956.3	719.9	114.1	170.9	140.7	58.9
2006	968.3	727.5	119.5	178.3	130.0	56.0
2007	977.5	731.0	124.3	188.6	127.0	54.0
<i>Percent distribution*</i>						
2005	1.1	-0.3	1.4	5.2	-3.0	0.3
2006	1.2	1.1	4.7	4.3	-7.6	-4.8
2007	0.9	0.48	4.0	5.8	-2.3	-3.6

\* Estimate for 2007.

**Note:** The total number of recipients each year is attained by adding recipients of maternity benefits, maternity grants, and injury benefits. The number of income support recipients is that of households that received a benefit in December. In the other programs, the monthly average is used.

**Source:** National Insurance Institute, 2007.

Findings from the 2005 Household Expenditure Survey show that benefits of various kinds, on average, provide 80 percent of households in Israel with 29 percent of their income. The survey data indicate that benefits contribute different proportions of household income depending on the households' total income. As Figure 1 shows, the lower the income, the higher the proportion of benefit receipts and the more the benefits contribute to household income. Thus, benefits are a component in the income of more than 90 percent of households in the three lowest income deciles as against 60 percent in the uppermost decile. The share of benefits in total income underscores the difference – 64 percent of the total income of households in the lowest decile, and 11 percent among households in the uppermost decile.



Analysis of the Expenditure Survey data also underscores the contribution of benefits to household income on the basis of various demographic indicators. Thus, the share of beneficiary households is highest in the Arab sector, at 92 percent, followed by 80 percent of post-1989 immigrant households and 79 percent of Jewish native citizens. However, benefits account for an especially large share of the total income of immigrant households (46 percent on average), as against 30 percent on average among Arab households and 24 percent among Jewish native households. A multivariate regression analysis revealed the explanatory factors behind the disparities in the contribution of the benefits to household income. It was found that if demographic indicators such as age and number of children in the household are held constant, group affiliation is an important variable. In other words,

the gap between immigrants and Arabs with regard to the relative contribution of benefits to household income correlates with the households' ethnicity. This is evidently related to Israel's welfare and social security system that has established programs that strive to promote immigrants' acculturation (Lewin, Stier, 2002; Gal and Barzuri, 2007).

The rest of this chapter examines developments and discusses issues related to social security programs that target four main groups: the elderly, persons with disabilities, working-age people who have no income, and family welfare.

### **3. Social Security for the Elderly**

Benefits for the elderly are the most expensive and comprehensive in the social security system. Expenditure on the elderly (old-age and survivors' benefits and long-term care insurance) accounts for 42 percent of total National Insurance outlays. The social protection system for the elderly is composed of four tiers: a universal old-age benefit for all the elderly; income maintenance (a selective benefit for the elderly who lack additional sources of income); occupational pensions (usually on basis of labor market collective agreements); and savings for old age. This system serves several goals. The first, third and fourth tiers seek to enable individuals and families to maintain a reasonable standard of living after retirement by dispersing income over time. For those who have not accumulated pension rights or savings, poverty and inadequate income can be alleviated by a combination of the first and second tiers.

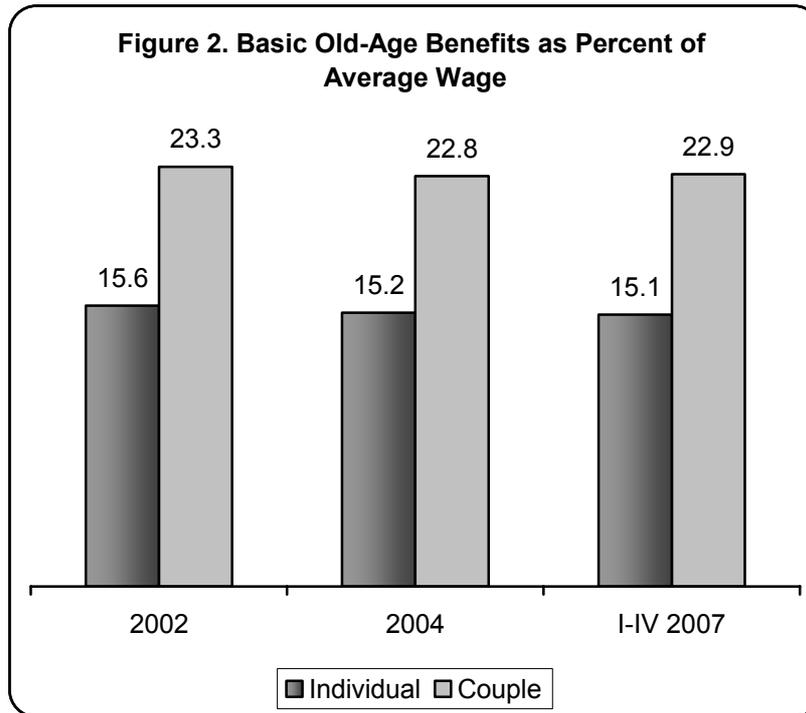
*a. Social Security Benefits for the Elderly*

*A universal old-age benefit* is paid to every elderly individual (from age 65 and age 70, for women and men respectively) and to their survivors. Some 731,000 elderly individuals (on monthly average) received old-age and survivors' pensions in 2007, largely (85 percent) the former. Some 13 percent of the beneficiaries were not entitled to social insurance benefits under the National Insurance Law (most of them being recent immigrants who reached the country after age 60). Their benefits were funded directly by the state.

The number of benefit recipients in 2007 increased by about 0.5 percent over 2006 and total benefit expenditure rose by 1.4 percent (in constant prices) due to an adjustment of the benefit level, elimination of part of an earlier cutback in the old-age benefit, and an increase in the level of the means tested income maintenance component. The basic monthly old-age benefit for an individual rose to NIS 1,159 as of July 2007. As can be seen in Figure 2, the basic benefit is 15 percent of the national average wage for an individual and 23 percent for a couple (Figure 2). These levels are still low compared to 2002, the year preceding the cutbacks.

The second tier of the social security system is an income maintenance benefit for elderly individuals who depend on their old-age benefit pension and usually lack an occupational pension. Some 27 percent of recipients of old-age benefits also receive income maintenance. An adjustment of benefits in 2005 and 2006 brought the average monthly level up to 31 percent of the national average wage in the first half of 2007 (NIS 2,395 for an individual). The increase in old-age benefits, mainly those earmarked for the indigent elderly, has helped to lower the incidence of poverty among the elderly in the past two years. Nevertheless, in 2006 the incidence of poverty amongst the elderly was 21.5 percent of households headed by an elderly person. This is indicative of the qualified success of the social security system in

coping with the problem of economic distress among Israel's senior citizens.



The third tier, occupational pensions, is intended to provide the elderly with their main source of income after retirement. The structuring of this tier has been a central issue in the public debate over social security for many years (Peleg, 2006). However, in the absence of a compulsory pension law or collective pension agreements, the coverage of the pension system is far from complete. The large proportion of employees and retirees who have no pension coverage reflects this situation, as does the overall incidence of poverty among the elderly. Although no such statute has been passed thus far, progress toward tackling the limitations

of this system was made in July 2007 when the *Histadrut* trade union federation employers concluded an agreement that will expand pension coverage by roughly a million working people.

The fourth tier of the social protection system for the elderly is retirement saving, largely via investment and long-term savings funds. Contributions are made by employees and employers and the state encourages this activity by means of tax benefits. This tier is essential in assuring the income of self-employed and salaried employees who do not join pension funds.

#### *b. Long-Term Care Insurance*

Long-term care insurance is intended for elderly persons living at home who are limited in their daily living. It is an in-kind benefit in the sense that it is paid out to an organization that delivers the service under arrangements set forth in the law. The benefit comprises a basket of services that is tailored to the client's needs. At the beginning of 2008 there will be a trial program that will offer cash rather than care to the elderly in a number of defined geographical areas.

In 2007, this benefit was granted on average to 124,000 elderly individuals every month. The beneficiary population grew significantly in 2006, by 4.6 percent relative to 2005. Some three-fourths of benefit recipients are women, 60 percent are aged 80+, and the proportion has been rising steadily over the years. About one-fourth of recipients are immigrants, which is greater than their number in the population. The coverage rate of long-term care insurance among the elderly population is 15 per cent and remained stable in recent years. The value of the benefit in the first half of 2007 was NIS 2,735 per month for those who are defined as "extremely dependent on others" and receive the full benefit sum.

Several changes in the level of the benefit were made in previous years.<sup>2</sup>

Long-term care benefits are disbursed at three levels that are differentiated by the number of hours of in-home care that they cover. The lowest benefit, for those who are “very dependent on others,” covers 9.75 weekly hours of care. The second level is for those “extremely dependent on others” and entitles them to 16 hours per week. The maximum benefit is for those who are “totally dependent on others” and allows them 18 hours of care per week. In mid 2007, 59 percent received the minimum benefit, 26 percent the medium benefit, and 15 percent the maximum benefit.

*c. Benefits for Holocaust Survivors*

Over the years, a separate array of benefits has evolved to compensate survivors of the Holocaust, i.e., “victims of Nazi actions” who are ineligible for direct assistance from the German government, other governments, and the Claims Conference. This set of benefits is funded by the Ministry of Finance on the basis of the Reparations Agreement concluded between West Germany and Israel in the early 1950s. It comprises two main programs, one for disabled veterans of the war against the Nazis, and one for persons disabled by Nazi persecution.

The first of the programs provides benefits and supplemental services for persons who were injured in the course of military service in an Allied army or a partisan unit that fought Nazi Germany in World War II. The second program – victims of Nazi persecution – provides benefits and aid for Holocaust survivors who suffered a disability and do not receive compensation from Germany because they immigrated to Israel or because they lack a

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<sup>2</sup> They are described in detail in the corresponding chapter of last year's Report (ibid.).

connection with Germany. Under this program, destitute Holocaust survivors receive a monthly benefit of NIS 1,041 without a disability test.

In 2001, under the Economic Arrangements Law, the Persons Disabled by Nazi Persecution Law was expanded to cover those who had spent time in displaced persons camps in Germany after the war and immigrated to Israel before 1953. Additionally, a Benefits for Indigent Holocaust Survivors Law, passed in 2007, provides an annual grant of NIS 1,000 and priority in rent assistance for Holocaust survivors who receive income maintenance.

In 2006, 50,764 people received benefits under the Disabled Veterans and Victims of Persecution Laws. The expenditure on benefits and other services for this population group came to NIS 1.5 billion that year, 0.22 percent of GDP, similar to the 2005 rate. Some 57,000 additional survivors received assistance from other countries. The number of Holocaust survivors living in Israel today is estimated at 250,000.<sup>3</sup>

In recent years, the government has come under severe criticism due to the economic distress of many Holocaust survivors. Consequently, the Minister of Social Affairs and Social Services, Yitzhak Herzog, established an inter-ministerial committee to propose ways of relieving the distress of survivors.<sup>4</sup> The committee recommended applying the Persons Disabled by Nazi Persecution Law to all Holocaust survivors who do not qualify for benefits under Israeli or German law. As for the extent of the aid, the committee proposed two alternatives. The first proposal was to introduce an income test to ensure that the survivor's income be no lower than the old-age benefit coupled with income maintenance,

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<sup>3</sup> State Comptroller, *Audit Report on Aid to Holocaust Survivors*, 2007.

<sup>4</sup> Ministry of Social Affairs, *Inter-ministerial Committee for the Formulation of Solutions for the Distress of Holocaust Survivors*, 2007.

plus the minimum sum granted to Holocaust survivors under this law. This would bring the individual beneficiary's monthly income to NIS 3,221. Alternately, it was proposed to add NIS 1,040 per month for every survivor whose eligibility for income maintenance is recognized by the National Insurance Institute. In addition, it was recommended to award an annual grant of NIS 5,000-NIS 6,000 (without income test) to every survivor who is ineligible for income maintenance or benefits under the Persons Disabled by Nazi Persecution Law or a pension from Germany. It was also proposed to grant survivors a package of services.

After a series of protests by survivors' organizations and intensive negotiations with the government, it was decided to award survivors of camps and ghettos, not currently receiving compensation, a monthly benefit of NIS 1,200 in addition to old-age pension and income maintenance. The proposal of an annual grant was also adopted; thus, Holocaust survivors who receive income maintenance will receive NIS 3,000 per year from 2008. Survivors of camps and ghettos are to receive a package of benefits. Finally, it was decided that the elderly who belong to the "second circle," i.e., who had been forced to flee from their homes due to the German invasion, may receive a monthly benefit of up to NIS 500, depending on their age and economic situation.

#### **4. Benefits for Persons with Disabilities**

Israel has a range of services that cater to the needs of specific target populations of the disabled. The basic principles, terms of access, levels of benefits, and services vary widely. Two main programs – general disability insurance and work injury insurance – are offered under the auspices of the National Insurance Institute. A third important program, for disabled veterans, is run by the Rehabilitation Division of the Ministry of Defense.

*a. General Disability Benefit*

General disability insurance is designed to deal with the needs of individuals with disabilities who are not covered by other programs. It offers four benefits: a general disability benefit meant to guarantee recipients a minimum income; a special services benefit that helps persons with disabilities to function in their households; a disabled child benefit, aiding families who care for a disabled child; and a mobility benefit, to help persons with disabilities to be mobile away from home. The law also entitles persons with rehabilitation potential to receive rehabilitation services so that they may find work.

Some 188,000 persons received general disability benefits in 2007 (on monthly average), the third-largest group among recipients of National Insurance benefits. The growth rate of this population resumed its upward trend in 2007 by 5.8 percent, the highest rate of increase among benefit recipients.

Outlays for general disability benefits and other benefits in the disability insurance category were NIS 8.8 billion in 2007 as compared to NIS 8.1 billion in 2006. In 2007, the number of disability benefit recipients and the number of clients defined as permanently disabled continued to grow rapidly, possibly indicating a spillover of income support recipients into the disability program.

The average monthly disability benefit in the middle of 2007 was NIS 2,400 (in current prices), 31.4 percent of the national average wage, basically unchanged from the previous year in real terms.

An issue that has recently been the subject of debate is the poverty trap that ensnares disabled persons who work. The debate, triggered by the adoption of the recommendations of the Laron

Committee (June 2005),<sup>5</sup> focused on the plight of disabled persons whose benefits are significantly reduced by even partial employment. In July 2007, a ministerial committee endorsed an amendment to the National Insurance Law that would promote the integration of general disability benefit recipients into the labor market by agreeing to disregard a more significant level of income.

In the context of rehabilitation of those with disabilities, it is noteworthy that one-third of disability benefit recipients have mental disabilities and their share is also noticeably high among those who have high levels of disability. Some 81 percent of all beneficiaries are classified as fully disabled (100 percent) in respect to their ability to find work.

*b. Work Injury Insurance*

The work injury insurance program provides benefits and rehabilitation services for persons injured in accidents or stricken by illness while on the job or because of the job. The program includes a temporary benefit (injury pay), given during the initial period following the injury, and a permanent benefit (work disability benefit). Since the program is designed to maintain the individual's standard of living, the permanent benefit is set at 75 percent of the prior wage and is pro-rated to the degree of disability.

The number of work-related disabled who receive permanent benefits has been rising steadily over time and came to 27,500 in 2007. Part of this may be explained by the continuous increase in Israel's labor force participation rate.

The disability benefit for the self-employed is higher than that for persons injured as salaried employees: 41 percent of the

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<sup>5</sup> In regard to the Laron Committee, see footnote 2.

average wage per employee position in the middle of 2007 as compared to 37 percent, respectively.

*c. Disabled Veterans and Bereaved Families*

The third important disability program, is for disabled veterans and is administered by the Rehabilitation Division of the Ministry of Defense, which compensates persons who sustain injury or illness during or as a result of military service. The level of the disabled veteran benefit is calculated on the basis of the extent of medical impairment and the wage level of persons at a given rank in the public service. In addition to the basic benefit, disabled veterans are entitled to a variety of additional benefits and services. Furthermore, the Ministry of Defense, through the Families and Commemoration Division, also helps members of bereaved families by providing social and economic services and diverse grants.

Some 54,000 disabled and another 20,000 members of families of military fatalities and disabled veterans received benefits from the Ministry of Defense in 2006. The number of Ministry of Defense disability beneficiaries rose by 5.5 percent during that year due to casualties of the Second Lebanon War.

The total benefit expenditure in 2006 was NIS 3.5 billion, 0.6 percent of GDP that year and 10 percent of social security expenditure in Israel in recent years.

Significant changes in the policy towards disabled veterans and bereaved families were proposed during the past year by a state commission. The Brodet Committee, whose recommendations in regard to the state budget were adopted in principle, recommended the establishment of a committee of experts to investigate the array

of Ministry of Defense rehabilitation services.<sup>6</sup> It also recommended several changes: limiting eligibility to benefits to individuals injured in combat; eliminating the benefits to widows who live with common-law partners; terminating benefits for persons with up to 40 percent disability; and toughening the criteria for benefits on the grounds of indigence.

The likelihood of implementing the Brodet Committee's recommendations in the foreseeable future is low and, in fact, changes in the opposite direction have been adopted in this field. Basing itself on the recommendations of a public commission headed by Yaakov Neeman, the Knesset approved a draft amendment to the Families of War Fatalities Law that abolishes the income test as a means of determining benefit levels and awards standard benefits to all bereaved families. Instead of a monthly benefit that ranged from NIS 1,065 to NIS 5,067 commensurate with the bereaved family's income, it is now proposed to pay all families at the maximum rate.

#### *d. Victims of Terror*

Victims of terrorist attacks receive Ministry of Finance funded benefits via the National Insurance Institute. This population includes victims of rocket attacks during the Second Lebanon War and of the recent shelling of Sderot and neighboring localities. Although this is a relatively small group (a monthly average of 3,022 recipients in 2006), it has been growing over time. Most members in this group receive small disability benefits (up to 39 percent disability) and 55 percent of benefit recipients in 2006 were males. The average benefit in the middle of 2007 was NIS 3,500, and it included the monthly grant for a disability, an indigent

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<sup>6</sup> Report of the Committee for Examination of the Defense Budget, May 2007.

casualty, a casualty who has no source of livelihood, and families of individuals killed as a result of terrorist attacks.

## **5. Benefits for Persons of Working Age: Income Support and Unemployment Insurance**

Persons of working age who lack an income because they do not participate in the labor force are the target population of two social security programs in Israel: income support and unemployment insurance.

### *a. Income Support*

Income support is paid to working age people who are not working or whose total income falls below the threshold established by law. A series of comprehensive amendments to the Income Support Law, implemented in the early 2000s after a large increase in beneficiaries and outlays in the 1990s, cut spending on income support, reduced the number of beneficiaries and changed their composition, and impacted on the capacity of the program to reduce the distress and poverty of the needy population.

In 2007, NIS 2.6 billion was paid out in income support benefits. The average monthly benefit in 2006 was NIS 1,680 and has been declining since 2003 (from NIS 1,785). The benefit was also reduced relative to the average wage, from 29 percent in 2000 to 22 percent in 2006.

The number of benefit recipients fell from 155,500 in 2003 to 130,300 in 2006 and continued to decline in 2007. The decrease reflects several trends that reduced the number of recipients: the tightened eligibility conditions; the rate of newly eligible individuals slowed; and the number of immigrants receiving assistance continued to decline and did so at a faster rate than that of native Israelis. Another change in the composition of Income

Support was a notable decrease in the number of single-parent households.

Income support pays benefits at different rates: a regular rate, a higher rate, and a special rate for single-parents. There is also a distinction between a full benefit, paid to persons who have no income or whose income falls below the minimum set by law, and a partial benefit, paid to those whose income exceeds the minimum but remains low enough to maintain their entitlement. Until 2002, many beneficiaries received a full benefit at the highest rate and a large number of single-parents received benefits. The revision of the eligibility rules in 2002 and 2003 changed the mix: the proportion of regular rate recipients increased (by more than 50 percent) and the share of single-parents among total benefit recipients fell. However, an amendment to the Income Support Law adopted in 2007 may herald a new trend. In contrast to previous policy that denied benefits to owners of cars, the new rule allows persons who own an old car with a small engine to receive benefits if their earned income does not exceed a specified level.

*b. Renaming and Revising the Welfare-to-Work Program*

Israel's adoption of the "Wisconsin Plan" was the most public act in enhancing the labor force participation of income support recipients who are deemed capable of working and whose eligibility had been revoked or downscaled. The local welfare-to-work program, called *Mehalev* (an acronym denoting "from income maintenance to secure income"), began in August 2005 after lengthy discussions and preparations.

The program adopted basic components of other welfare states' welfare-to-work programs, foremost those in the U.S. Under *Mehalev*, four employment centers were set up in various parts of the country, run by international business firms in conjunction with Israeli entities. The centers established individualized programs for income support recipients in the designated area who were able to

work. Participation in the program was compulsory at 30-40 hours per week.

The operators were paid under a complex formula based on the idea that they could profit if they reduced significantly the number of welfare recipients in their area by placing them in long-term jobs (lasting at least nine months). Only if more than one-third of beneficiaries were placed in the labor market (or rather left income support) could the operator earn some of the money saved to the system on the payout of income support benefits.

The program was meant to be a pilot that focused on a small proportion of the target population. Before the end of the first two years, however, it became clear that the pilot should be extended by at least one more year. At the same time, it was decided to make changes during the pilot phase. Several changes were introduced in the summer of 2007, including renaming the program to *Orot ha-ta'asuka* (a term suggesting the enlightening nature of being employed), excluding income support recipients aged 45+ from the program, as well as persons with disabilities, immigrants, those with an academic education, and those who spent a lengthy period of time in the program. The compensation method was modified in a way that strengthened the link between payments to operators and success in placement of participants in quality jobs – assurance of long-term employment at reasonable wage.

Although the program is small (fewer than 20,000 participants) and although most welfare states have similar programs,<sup>7</sup> its implementation has attracted fierce and often justified public criticism. However, the findings of evaluation studies indicate that the program has succeeded in placing some of its participants in

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<sup>7</sup> The international experience in this matter is described in Gal and Bar-On, 2007, and Hasenfeld, 2006.

jobs,<sup>8</sup> thereby improving their standard of living somewhat. For the others, however, the results were less positive.<sup>9</sup>

The conclusion to be drawn from the pilot is that a national welfare-to-work program in Israel is justified and stands a reasonable chance of helping some of the poor who depend on the benefit system, especially at a time when the labor market is expanding and they can be offered appropriate assistance that will help them to join the labor market. For this to happen, however, significant changes in the program are needed.

First, the goal of the program should be redefined: participants are to be placed in appropriate employment situations. The goal of reducing welfare rolls or moving beneficiaries into the labor market in any job is not sufficient or satisfactory.

Second, the employment centers should be run by public entities – NPOs or government agencies – so as to limit the incentive to place benefit recipients in dead-end jobs. As is common in other countries, some delivery of services related to the program, such as training courses, may be contracted out to for-profit entities. Alternatively, if the operation of the centers remains in the hands of for-profits or NPOs, the method of compensation should be revised to make sure that payment is linked to placement in quality jobs.<sup>10</sup>

Third, the client screening method should be fine-tuned in order to prevent individuals from becoming chronic clients of the employment centers. Screening should take place when potential

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<sup>8</sup> Studies based on data from the employment centers, National Insurance Institute data, and a survey of a large sample of program participants and a control group.

<sup>9</sup> See Project *Mehalev* monitoring reports by National Insurance Institute and Brookdale Institute, publications page at the National Insurance Institute website, [www.btl.gov.il](http://www.btl.gov.il); see also State Comptroller, 2007.

<sup>10</sup> See Taub Center, 2007.

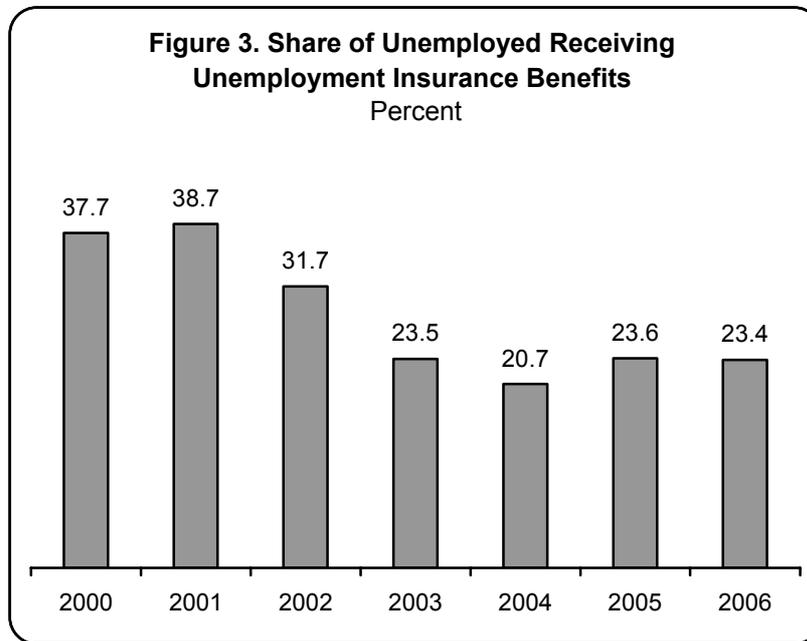
clients enter the Income Support system and during their stay in the employment centers.

Fourth, participants should be offered a wider variety of options tailored to their needs. For example, those in need of significant enhancement of human capital should be offered high-school equivalency and vocational training. In contrast, use of community service should be as limited as possible and participants should be compensated fairly.

### *c. Unemployment Insurance*

Unemployment insurance is intended to provide those who are involuntarily unemployed with a time-limited wage replacement so that they may seek appropriate work. The falling unemployment rates and the increasing difficulties of accessibility to, and low benefit level of, the unemployment insurance program has reduced the number of beneficiaries and made the program much less effective. Furthermore, in 2007 as in previous years, the exclusion of young people from the program was extended: the maximum term of eligibility of people aged 25-28 was cut from 100 days to 67, the benefit for young unemployed was reduced by one-fourth, and even discharged soldiers were required to accumulate a six-month qualifying period to be eligible. This measure marks a qualitative deviation from the basic premise of the benefit, because discharged soldiers had been exempt from this requirement ever since the original law was passed in 1972.

Some 55,000 Israelis received unemployment insurance benefits in 2006 and 54,000 did so on monthly average in 2007 – fewer than one-fourth of the unemployed (23.4 percent). The share of unemployment insurance recipients among the unemployed has ranged from one-fourth to one-fifth during most of the current decade (Figure 3). This indicates how little the program actually contributed toward assuring the well-being of the unemployed.



The unemployment insurance benefit is calculated as a proportion of the recipient's pre-unemployment wage. The average daily benefit in the first half of 2007 was 47.4 percent of the national average wage in 2006 and remained less generous than its past level and other welfare states' unemployment benefits.

## **6. Family Benefits: Child Benefits, Alimony, and Maternity Insurance**

The social security system includes several family oriented programs that differ in operating principles and objectives. Some are meant to deal with problems of household income distress and poverty; others try to ease the cost of child raising, provide income security during maternity leave, or promote gender equality by means of a more equal gender division of labor in the household.

*a. Child Benefits*

Universal child benefits have two main goals: to help families to cover the costs of raising their children and to alleviate poverty among households with children. The number of households that received a child benefit increased by 1 percent by the middle of 2007 to 980,000 households. The number of children for whom benefits were paid grew at a similar rate (1.5 percent), to 2.3 million.

NIS 4.9 billion was spent on child benefits in 2007. Expenditure started growing again in 2006 after a steep decline in 2004, due to natural increase in the child population and stabilization of the benefit level.

Of all the changes in social security benefits at the beginning of the decade, the cutbacks on child benefits were the most severe, both in the absolute value of the benefit and in the eligibility criteria. The main cutback was the reduction in benefits for families with two children (starting in February 2004) and a change in the method of payment for additional children in the family. According to the National Insurance Institute, due to these changes in 2005, families with three children received only 57 percent of what they had received in 2002 and families with five children received only half of what they had received at the beginning of the decade (National Insurance Institute, 2007). Since July 2004, families with three or more children that receive income support or alimony benefits from the National Insurance Institute have been partly compensated for the dual benefit reduction that they sustained – reductions in both child benefits and income support – by receiving a “family allowance” for third and fourth children only.

The immediate and across-the-board implementation of the child benefit cutbacks in the emergency economic plans since 2002 increased the incidence of poverty among children and households by one-third (especially among households whose heads do not participate in the labor market). Thus, some 713,000 children – 35

percent of all children in Israel – lived under the poverty line in 2005-2006.

The policy that has been adopted in this field should be reconsidered. To ensure that a significant share of the costs associated with child raising is covered, Israel's child benefits should be raised for all families. The Taub Center has proposed that the benefit for the first and second children should reflect the recommendation of the 1975 Ben-Shahar Committee, i.e., it should be set at NIS 170 in current values (as against NIS 148 today). To help deal with poverty among large families, their income should be raised in a way that does not serve as a disincentive to work. Until a negative income tax plan is implemented, a supplement should be paid for each child in large families (from the fourth child onward) with no income test. The increase should be set at a ratio of 1.5:1 for the third child and 2:1 for each child from the fourth onward, both relative to the first- and second-child benefit.

#### *b. Alimony*

The Alimony Law assures the payment of alimony to women as determined by court order. When alimony is not paid as ordered, the woman may apply for collection by means of the National Insurance Institute, through the Bailiffs' Service. Alimony payments are funded by the spouse and the State. The National Insurance Institute pays alimony where it is court-ordered and it is responsible for collecting money from the former spouse. This, however, covers only part of the liability.

In 2006, 22,700 persons received alimony via the National Insurance Institute, fewer than in 2005. The downward trend continued in 2007 and originates in a toughening of the eligibility terms in 2003. About half of the beneficiaries are mothers with one child; another one-third has two children. The average benefit was NIS 1,400 per month in 2006, 19 percent of the national average wage, similar to its proportion in previous years.

*c. Maternity Insurance*

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

**1) The maternity grant** is paid to every mother who gives birth in a hospital. Originally meant to encourage giving birth in hospital, it is not paid to those who elect home-birth. The grant does not have an insurance component and eligibility is not conditional on the mother's participation in the labor force. Some 150,000 mothers received maternity grants in 2006, at a total outlay of NIS 136.6 million. Until July 2003, the grant was set at 20 percent of the national average wage and was updated at the rate of general cost-of-living adjustments. Since then, it has been reduced for second and subsequent children (falling to 6 percent of the national average wage for the births of third and subsequent children).

**2) Maternity benefits** are paid by National Insurance as wage substitutes for mothers who were in the labor force prior to giving birth. Until 2007, the benefit was equal to the mother's wage and was paid out for twelve weeks after delivery. In mid-2007, a legislative amendment extended the term to fourteen weeks. Since 1998, men who divide the maternity leave with their spouses have also been eligible for maternity benefits for a brief period of time. In practice, few men exercise this entitlement (0.2 percent of the 77,000 recipients of maternity benefits in 2005).

The ratio of beneficiaries to total births – 57.6 percent – mirrors the current labor force participation rates of women. Most women who receive maternity benefits are salaried employees. The share of maternity benefits in the national average wage rose for some time and peaked at 77.5 percent in 2003<sup>11</sup> but has been declining

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<sup>11</sup> This statistic relates to the average maternity benefit that women actually receive. Despite the changeover from 75 percent compensation to 100

since 2005, evidently due to a proportional increase in low-wage earning women among recipients of this benefit. Therefore, in 2006 only one-fifth of beneficiaries qualified for a benefit that was greater than the national average wage.

3) The third component of maternity insurance is the **hospitalization grant**, intended to cover the expenses of giving birth and the inpatient care that follows. The grant is paid directly to hospitals by the National Insurance Institute and, practically speaking, is today part of national health insurance. Some 144,000 hospitalization grants were paid out in 2006, 0.6 percent fewer than in 2004.

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percent in the 1990s, the average maternity benefit is only three-fourths of the national average wage because most women earn much less than the average wage.

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