

Israel

Israel: Pension system in 2020

The state senior citizen benefit comprises a universal insurance pension combined with means-tested income support. From 1 January 2008 mandatory contributions to defined contribution pension funds were introduced.

Key indicators: Israel

		Israel	OECD
Average worker earnings (AW)	ILS	157 093	134 868
	USD	45 635	39 178
Public pension spending	% of GDP	4.7	7.7
Life expectancy	at birth	82.7	80.6
	at age 65	20.6	19.7
Population over age 65	% of working- age population	23.9	30.4

Qualifying conditions

Residents are eligible for a senior citizen benefit from the National Insurance Institute when they reach the senior citizen benefit age. The senior citizen benefit age was gradually increased since 2004 - from 65 to 67 years for men and from 60 years to 62 years for women. Men are eligible for a senior citizen benefit at 67 years since 2009 while women are at 62. Before the age of 70 the benefit is means-tested for earnings from work.

Benefit calculation

Social insurance

The senior citizen benefit basic amount, which acts as a base for the calculation, is ILS 8 804 per month in 2020. The annual basic senior citizen benefit is ISL 18 696 for a recipient, equal to 17.7% of the senior citizen benefit basic amount (this is true for basic amount without any increments. Most recipients receive an increment of 50% - see below). A senior citizen benefit recipient with a dependent partner who does not receive senior citizen benefit receives ISL 28 044 (basic amount without any increments but actually the senior citizen benefit amount is 50% higher).

The basic annual senior citizen benefit for those aged 80 or older is ISL 19 752.

In addition there is a seniority increment where the senior citizen benefit is increased by 2% for each year of insurance coverage, up to a maximum equal to 50% of the senior citizen benefit. Most senior citizen benefit recipients receive an additional 50%.

The maximum earnings for contribution purposes are five times the old-age basic amount on 1 January 2020. The basic senior citizen benefit is price-indexed. A person receiving senior citizen benefit is exempt from paying national insurance contribution.

Residents not covered by old-age insurance will receive a special means-tested benefit equal to the basic senior citizen benefit.

Targeted

The income supplement is paid if income, including the senior citizen benefit, is less than the minimum level for subsistence. The size of the benefit depends on the age of the individual, marital status and the size of the household. In 2020, rates vary between 36.77% and 75.40% of the old-age basic amount a month,

depending on age, marital status and the number of children. Income above a disregarded amount is deducted by 60% (for single mothers- first increment by 25% and then 60%) from the Income Support benefit.

In addition, senior citizen benefit recipient receives a heating grant.

Defined contribution

Since January 2008, mandatory contributions have applied to earnings up to the national average wage for all employees, around 80% of the OECD average wage estimate. Initially the rates were modest with a total contribution of 2.5% but increased to 15% (5% from employees and 10% from employers) by 2013. In 2014 the contribution rate increased further to 17.5% (5.5% from employees and 12% from employers) and since January 2018 increased to 18.5% (6% from employees and 12.5% from employers). Six percentage points out of the employers' contribution provides severance insurance which, if utilised, diminishes the pension.

Variant careers

Early retirement

It is not possible to receive an old age benefit prior to 62 for women and 67 for men. Senior citizen benefit is not related to retirement since one can work and receive senior citizen benefit from age 62/67.

The pension age for the mandatory pension (second pillar) is different than the age of entitlement for senior citizen benefit.

Late retirement

The senior citizen benefit paid by the social security is increased by 5% for each year of deferral due to income from work above the disregarded amount

Childcare

A woman who worked before birth is entitled to a 15 weeks Birth Allowance (full benefit for a single new-born). Working males may share this period according to conditions of entitlement. This paid period is taken into account in the qualifying period for the senior citizen benefit.

Unemployment

An unemployed person before receiving senior citizen benefit has to pay a minimum contribution to be entitled to social security benefits including a senior citizen benefit. A senior citizen benefit recipient is exempt from social security contribution. Please note that the senior citizen benefit is a fixed amount and not a function of wages. All persons who accumulated the same qualifying period will receive the same benefit (not employment status related).

Self-employed

The self-employed are mandatorily covered by the same schemes as employees. In the public scheme, they pay slightly lower contributions than the employees but their entitlements are the same as for employees. In the DC scheme contributions of the self-employed are mandatory only for those aged 21-60, and the contribution rates are 4.45% for earnings up to half the average wage (NIS 11 538 a month in 2020), and 12.55% for income between half the average wage and the average wage. For higher income no contributions are mandatory. This is substantially less than employees, which contribute 12.50% for all earnings up to a ceiling. The contribution base in the profit after paying all contributions.

Personal income tax and social security contributions

Taxation of pensioners

There are no special rules for pensioners.

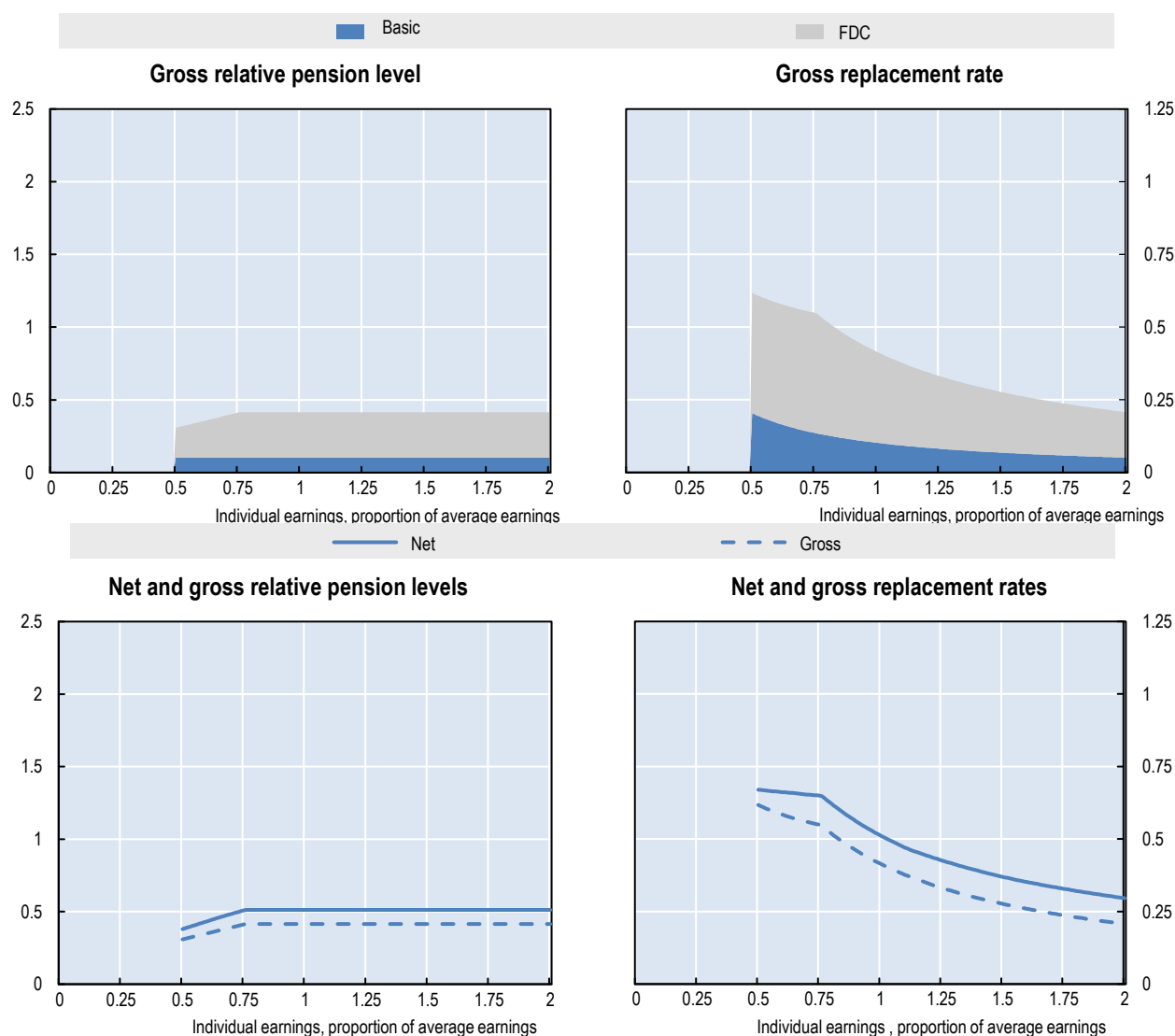
Taxation of pension income

There are no special allowances.

Social security contributions paid by pensioners

Health insurance contributions are deducted from the senior citizen benefit at the rate of ISL 200 (1 January 2020) for an individual and ISL 288 for a couple. If they are entitled to an income supplement, the health insurance deduction is ISL 104 for both an individual and a couple.

Pension modelling results: Israel in 2065 retirement at age 67 (men)



Men	Individual earnings, multiple of average					
	0.5	0.75	1	1.5	2	3
<i>Women (where different)</i>						
Gross relative pension level	30.9	41.2	41.5	41.5	41.5	41.5
(% average gross earnings)	26.2	33.9	34.1	34.1	34.1	34.1
Net relative pension level	38.0	50.9	51.2	51.2	51.2	51.2
(% net average earnings)	31.9	41.8	42.1	42.1	42.1	42.1
Gross replacement rate	61.7	54.9	41.5	27.7	20.7	13.8
(% individual gross earnings)	52.4	45.1	34.1	22.7	17.0	11.4
Net replacement rate	67.0	65.0	51.2	37.0	29.6	21.2
(% individual net earnings)	56.3	53.5	42.1	30.4	24.3	17.4
Gross pension wealth	11.1	9.9	7.5	5.0	3.7	2.5
(multiple of individual gross earnings)	11.5	9.9	7.5	5.0	3.7	2.5
Net pension wealth	12.1	11.7	9.2	6.7	5.3	3.8
(multiple of individual net earnings)	12.4	11.7	9.2	6.7	5.3	3.8

Assumptions: Real rate of return 3%, real earnings growth 1.25%, inflation 2%, and real discount rate 2%. All systems are modelled and indexed according to what is legislated. Transitional rules apply where relevant. DC conversion rate equal 90%. Labour market entry occurs at age 22 in 2020. Tax system latest available: 2020.