

Israel

Israel: Pension system in 2016

The state pension 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	142 247	141 060
	USD	36 930	36 622
Public pension spending	% of GDP	4.9	8.2
Life expectancy	at birth	82.7	80.9
	at age 65	20.6	19.7
Population over age 65	% of working- age population	21.1	27.9

StatLink  <http://dx.doi.org/10.1787/888933635598>

Qualifying conditions

Residents are eligible for an old-age pension from the National Insurance Institute when they reach the pension age. The pension age is gradually increasing since 2004 with increases from 65 to 67 years for men and from 60 years to 62 years for women. Men's retirement age reached 67 years in 2009 while women's is 62 increasing to 64 by 2022. There are limits on the earnings from work for pensioners until age 70 for men. For women this age is currently 68 but will increase to 70 years by 2020.

Benefit calculation

Social insurance

The old-age basic amount, which acts as a base for the calculation, is ILS 8 648 per month in 2016. The annual basic old-age pension is ISL 18 372 for a single pensioner, equal to 17.7% of the old-age basic amount, whereas a couple receives ISL 27 612.

The basic old-age pension for those aged 80 or older is ISL 19 404 for a single pensioner or ISL 28 644 for a couple.

In addition there is a seniority increment where the pension is increased by 2% for each year of insurance coverage exceeding ten years, up to a maximum equal to 50% of the pension.

The maximum earnings for contribution purposes are five times the national average wage in 1 January 2016. The basic pension benefit is indexed with prices.

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

Minimum

The income supplement is paid if income, including the pension, 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. Rates vary between 32.21% and 74.02% of the old-age basic amount a month, depending on age, marital status and the number of children. The resulting amount is increased by an additional 7%. Income Support is withdrawn for income from defined contribution pensions beyond a disregarded amount.

In addition the elderly may benefit from the heating grant if they fulfill the required conditions.

Defined contribution

Mandatory contributions have applied to earnings up to the average wage for all employees since January 2008, 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%. Half of the employers' contribution also provides severance insurance which, if utilised, diminishes the pension.

Variant careers

Early retirement

It is not possible to receive a pension prior to the normal pension age.

Late retirement

The pension is increased by 5% for each year of deferral.

Childcare

A woman who worked before birth is entitled to a 14 week Birth Allowance. This paid period is taken into account in the qualifying period for the old age pension.

Unemployment

An unemployed person has to pay a minimum premium to be entitled to an old age pension (first pillar). Please note that the old-age pension 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).

Personal income tax and social security contributions

Taxation of pensioners

There are no special rules for pensioners.

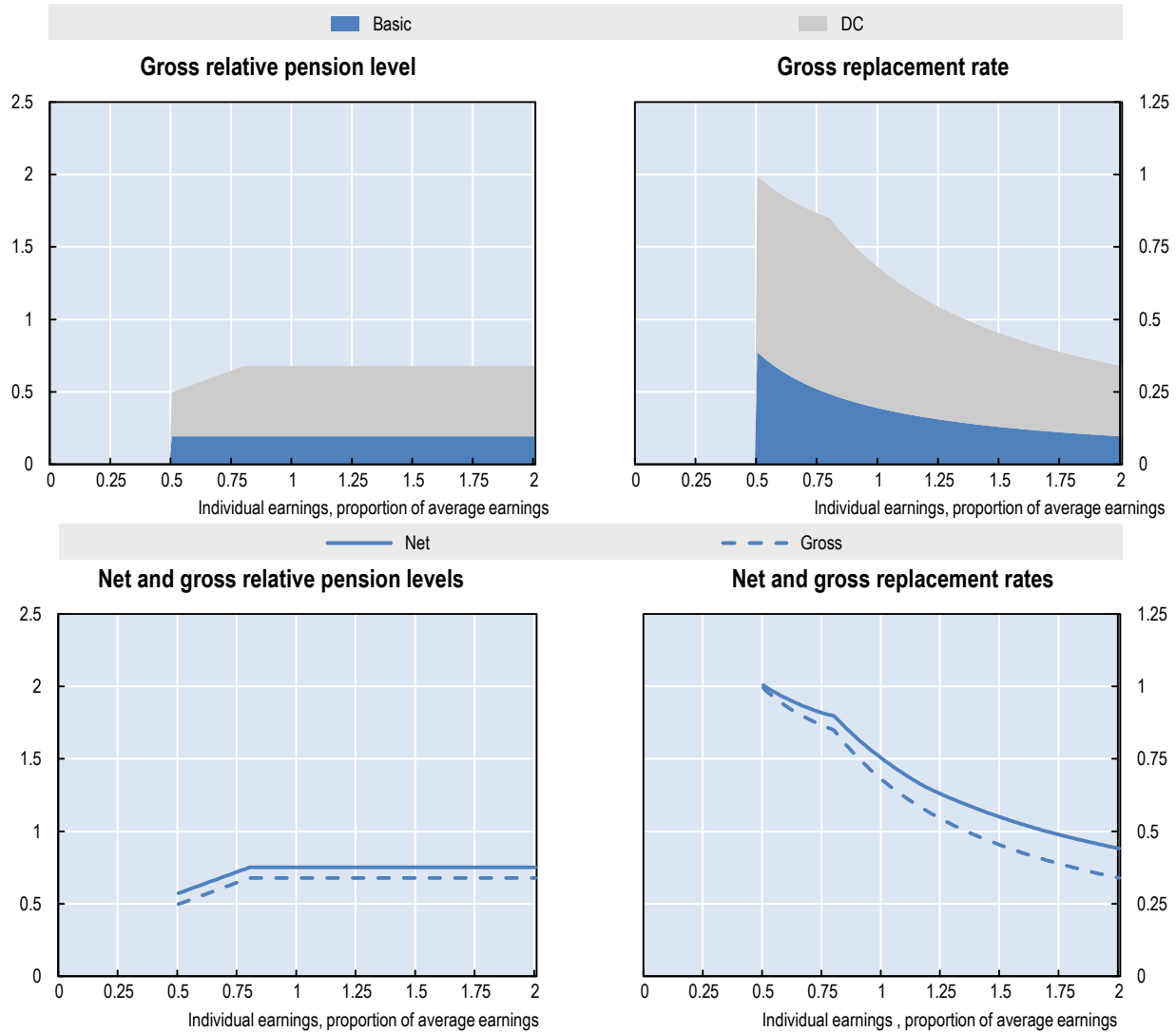
Taxation of pension income

There are no special allowances.

Social security contributions paid by pensioners

Health insurance contributions are deducted from the old-age pension at the rate of ISL 196 (1 January 2016) for an individual and ISL 283 for a couple. If they are entitled to an income supplement, the health insurance deduction is ISL 103 for both an individual and a couple.

Pension modelling results: Israel in 2063 retirement at age 67 (men)



Men <i>Women (where different)</i>	Individual earnings, multiple of average					
	0.5	0.75	1	1.5	2	3
Gross relative pension level	49.7	64.9	67.8	67.8	67.8	67.8
(% average gross earnings)	44.8	57.6	60.0	60.0	60.0	60.0
Net relative pension level	57.3	72.2	75.1	75.1	75.1	75.1
(% net average earnings)	52.4	65.0	67.4	67.4	67.4	67.4
Gross replacement rate	99.4	86.5	67.8	45.2	33.9	22.6
(% individual gross earnings)	89.7	76.8	60.0	40.0	30.0	20.0
Net replacement rate	100.4	90.8	75.1	54.9	44.1	31.8
(% individual net earnings)	91.9	81.7	67.4	49.3	39.6	28.6
Gross pension wealth	18.2	15.8	12.4	8.3	6.2	4.1
(multiple of individual gross earnings)	19.0	16.2	12.7	8.5	6.3	4.2
Net pension wealth	18.4	16.6	13.7	10.0	8.1	5.8
(multiple of individual net earnings)	19.4	17.3	14.3	10.4	8.4	6.0

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 20 in 2016. Tax system latest available: 2015.

StatLink  <http://dx.doi.org/10.1787/888933635617>