Ageing & Society **22**, 2002, 161–183. © 2002 Cambridge University Press 161
DOI: 10.1017/S0144686X02008619 Printed in the United Kingdom

How well does a partnership in pensions really work? The Israeli public/private pension mix

JOHN GAL*

ABSTRACT

This paper takes the old-age pension system in Israel as a test case to examine the implications of proposals for pension reform now being debated or implemented in many welfare states. For over a decade, high on the agenda of decision-makers on both national and international levels, there has been the notion of moving towards a changing 'partnership in pensions' or, to put it more bluntly, towards greater privatisation of social security. Virtually since its emergence in the 1950s, the Israeli old-age pension has been based primarily upon a mix of low universal state pensions and income-related private occupational pensions. This paper compares the British and Israeli social security systems for older people in the wake of the reforms recently introduced in Britain and analyses the implications of the Israeli structure on the distribution of social security spending and on the wellbeing of different categories of older individuals.

KEY WORDS – pensions, Israel, partnership in pensions, social protection.

Introduction

Provision for older people after they have left the labour force is an issue that has taken centre field in debates on social welfare policy in virtually all welfare states in recent years (Bernard and Phillips 2000; Tamburi 1999). High on the agenda of decision-makers on both national and international levels has been the notion of moving towards a changing 'partnership in pensions' (Bodie and Mitchell 1996; Department of Social Security 1998; Holzmann 2000; Ross 2000). Inevitably, this search for a different distribution of responsibility for the welfare of older people has generated interest in models of welfare states in which such partnerships in pensions already exist and, especially, in the implications of this structure both upon social expenditure and upon the wellbeing of pensioners.

* Paul Baerwald School of Social Work, Hebrew University, Israel.

https://doi.org/10.1017/S0144686X02008619 Published online by Cambridge University Press

This paper seeks to contribute to this ongoing debate by using the old age pension system in Israel as a test case in order to examine the implications of the proposals for pension reform now being proposed or implemented in many welfare states. The Israeli old-age pension system is an interesting case for analysis because it comprises a number of key characteristics that appear to be at the very heart of the pension models conceived by decision-makers and social security experts in various countries and international organizations. In particular, virtually since its emergence in the mid 1950s, the Israeli old-age pension system has been based primarily upon a mix of low universal state pensions and a very significant state-supported but privately-funded system of income-related occupational pensions and long-term savings schemes.

This discussion of the Israeli public/private pension mix begins with a brief overview of the debate on pension reform. In particular, it will identify some common characteristics in the reforms adopted or advocated in various welfare states and, specifically, those in the British government's *Partnership in Pensions* proposals. The paper will then go on to describe the emergence of the Israeli system and depict various aspects of its structure, with the focus upon the existing public/private mix. Here, I will endeavour to indicate the similarities between this structure and the core elements of the pension reform introduced in Britain in recent years. The next part of the paper will present the findings of a study that examined the consequences of this structure for both the distribution of social security spending and for the wellbeing of different categories of elderly individuals. The findings indicate that, while the Israeli model does indeed achieve a unique balance between public and private sources for social security for members of the non-working older population, its impact upon the living standards of at least some of this group is very problematic. On the basis of this analysis, the paper will conclude with some rather sobering comments on the implications of these findings for the process of reform of social security systems for older people.

Pension reform in welfare states

Ever since the publication of the World Bank's influential study *Averting the Old Age Crisis* in 1994, the issue of future provision for non-working older populations in advanced industrial societies has remained high on the social policy agenda. Fears concerning demographic change and, particularly the combination of growing life expectancy with dwindling

https://doi.org/10.1017/S0144686X02008619 Published online by Cambridge University Press

birth rates, have fueled this debate (Commission of the European Community 1995; OECD 1998). International organisations, such as the World Bank and International Monetary Fund, have advocated the adoption of immediate steps in order to pre-empt the potentially negative implications of the burden that will be imposed upon the reduced working population in such a situation (Chand and Jaeger 1996; World Bank 1994). Moreover, the clamour for change in the structure of provision for older people has been intensified because of the changing ideological climate in welfare states. Both conservatives and adherents of the 'Third Way' are critical of generous state provision for older people, and of the lack of relevant non-state involvement in the funding and operation of social security systems (Feldstein 1998; Giddens 1998; Marsland 1995).

The result of this debate has been a concentrated effort to restructure social security systems for older people in an array of welfare states over the last decade or so. The very significant differences that exist between various welfare state regimes and the legacies which social security systems reflect, along with the divergent political, social, demographic and economic characteristics of these societies, have led to major variations in both the structures of existing pension systems and in the proposals for reform of these systems (Palme 1990). On the one hand, however, common to proposals for pension reform in welfare states is a sense that the state must continue to maintain a system that provides an acceptable level of social security for its non-working elders. On the other hand, governments have sought to introduce change that creates a new contract between state and individuals, and which will lead to an eventual reduction of state spending on these systems and a growth in the levels of private expenditure. The proposals for pension reform undertaken in the 1990s included changes in the qualifying period for state pensions, reform of methods for calculating benefits, and tightening conditions for receiving alternative and more generous social security benefits (Bonoli 1997; Madrid 2000; Piachaud 1999; Taylor-Gooby 1999).

Yet, alongside these changes to the existing system, the thrust of the process of pension reform has been an effort to bring about an enhanced role for enterprise in the welfare state or, more bluntly, to move towards greater privatisation of social security (Rein and Wadensjö 1997). The aim has been to redistribute responsibility for provision for non-working older people by encouraging the development and growth of market-based pension systems, especially occupational and private pension programmes (Behrendt 2000; Ebbinghaus 2000). These programmes are predominantly Defined

https://doi.org/10.1017/S0144686X02008619 Published online by Cambridge University Press

Contribution (DC) systems that, unlike most state pension programmes, are not based on the Pay-As-You-Go (PAYG) principle but rather are individually funded. Membership of these programmes has been made mandatory in some cases while in others it has remained voluntary.

The approach adopted in most welfare states has been one that seeks to move towards a 'multi-pillar model' social security system for older people, which combines a variety of state- and market-based programmes (Holzmann 2000; McGillivray 2000). In order to achieve this goal, welfare states have sought to encourage the establishment of private pensions through a wide variety of tax benefits and other financial incentives, and to enhance public confidence in them through tighter regulation by state institutions. The British government's 1998 Green Paper on Pensions contained proposals for a new contract for the welfare of pensioners that do not stray significantly from the contours of pension reform adopted elsewhere (Barr 1999; Department of Social Security 1998; Rake, Falkingham and Evans 2000). The proposals support the continuation of the existing contributory universal basic state pension, indexed to prices rather than wages. The implication of this is the maintenance of a constantly devaluating state-funded basic benefit for virtually all older people. The Green Paper also proposes the replacement of State Earnings Related Pension Scheme (SERPS) with a Second State Pension (SSP), which is intended to boost the state pension for lower earners (Agulnik 1999). This tier is intended to provide a basic living standard for pensioners lacking any sufficient sources of income for old age. The final component of the reform proposals concerns private pension schemes. It clearly signals the government's determination to transfer at least some of the responsibility for provision of the financial needs of older people to the free market. Additional support for existing arrangements for occupational and personal pensions, and the introduction is proposed of Stakeholders' Pensions (SHP), state regulated and individually funded accounts intended for individuals who are unable to join occupational pension schemes (Barr 1999; Waine 1999).

The emergence of the Israeli old age social security system

The origins of the social security for older people in Israel can be found in the pre-state British Mandate period. As no state social security structure was established by the central government, initiatives in this field were left to the respective ethnic communities. This was primarily

https://doi.org/10.1017/S0144686X02008619 Published online by Cambridge University Press

the case in the Jewish community, within which the efforts were spearheaded by the *Histadrut*, the trade union federation established in 1920. It adopted a strategy similar to that of many other European trade unions in the pre-depression period and offered its members a wide range of social protection (Histadrut 1949). Indeed, during the 1940s, provident funds, which were jointly funded, usually enterprise-based, savings programmes that offered lump-sum payments to employees upon retirement, were established as part of the many voluntary collective agreements signed between *Histadrut* representatives and employers (Sarnat 1966; Shalev 1992). By the end of the British Mandate, 275 such funds covered 43,397 workers (Anonymous 1950).

Upon establishment in 1948, Israel lacked any state social security system. The first elected government committed itself to the introduction of a system of social insurance and mutual aid institutions (*Knesset Deliberations*, 8.3.1949) and convened a state committee to draw up a programme for social insurance. It recommended that the state system provide universal, low flat-rated benefits to older people, while the workplace-based funds would serve as a major additional source of income after retirement. Thus, the National Insurance Law that was eventually passed offered universal flat and low level benefits while leaving the provident funds untouched (*Knesset Deliberations*, 18.11.1953).

At the same time, the *Histadrut* was engaged in restructuring its social security institutions for older people. A dramatic growth in the number of provident funds led to worries concerning the viability of the small plant-based provident funds and a lack of coverage for temporary workers. Consequently, the *Histadrut* initiated the establishment of sector-based funds and the amalgamation of existing funds. It also sought to tighten its control over the funds by founding an investment company to co-ordinate the investment of the funds' capital (Gross and Greenberg 1994). An additional crucial aspect of the *Histadrut's* policy during this period was a growing emphasis upon pensions rather than lump sum payments. Thus, over the next decade, seven sector-based provident funds were transformed into pension funds. Based upon joint monthly payments by both employees (11 per cent of the wage) and employers (five per cent of the wage), these Defined Benefit funds offered pensioners the possibility to receive a pension equal to 70 per cent of their previous earnings following a qualification period of 35 years (Zinamon 1964). State support for the pension funds took the form of high-rate guaranteed interest on state bonds, in which it was required that most of the pension funds' resources should be invested.

https://doi.org/10.1017/S0144686X02008619 Published online by Cambridge University Press

There should, moreover, also be tax relief for contributions to pension funds (Sarnat 1966). Not surprisingly, the pension funds had soon gained a very significant foothold in the labour force and could claim nearly a quarter of a million members. By the end of the 1950s, then, the foundations of the Israeli social security system for older people were in place. From 1957 onwards, the state offered a relatively low universal pension to all those who managed to acquire the necessary contributory history. Alongside this, wage-earners covered by collective agreements were generally members of either pension or provident funds, while state employees were covered by a pension programme, fully funded from state revenues.

During the following three decades, a number of significant changes were introduced into this system. An additional non-contributory benefit was granted to those of the elderly population (primarily immigrants) not eligible for the regular benefit because they lacked the required qualification period. Steps were also taken to deal with the detrimental impact of inflation on the state pension which led to loss of over half of its original value by the early 1970s. The benefit level for a single person was set at 15 per cent of the average wage and a mechanism for indexation was introduced (Doron and Kramer 1991). The low level of the universal state pension created other problems that led to pressure for change. Decision-makers had originally assumed that retirees would enjoy a significant level of income from occupational pensions in addition to the state pension. Early on, however, it became clear that this was not the case and that many of them were forced to rely upon this benefit as a sole source of income after retirement from the workforce. Thus, in 1965 a means-tested supplementary benefit was introduced and within a short period 40 per cent of old age pension recipients were successfully claiming this supplement (Lotan and Nizan 1970). At the same time, pressure was mounting to reform the occupational pension system so as to increase its coverage. Yet, despite intense support during the 1970s on the part of the National Insurance Institute (the state agency responsible for provision of social security) and the recommendations of a state commission, efforts to introduce legislation concerning mandatory earnings-related pensions were unsuccessful. Strong opposition to the idea from both the pension funds, who feared any encroachment upon their domain, and the Ministry of Finance have defeated a number of subsequent attempts to introduce a mandatory pension law.

https://doi.org/10.1017/S0144686X02008619 Published online by Cambridge University Press

The social security system for older people in Israel today

Five decades after its inception, the Israeli social security system for older people has not digressed dramatically from the structure formulated in the decade immediately following statehood (Achdut and Habib 1992). Of the changes that have occurred, the most significant was the introduction of the means-tested supplementary benefit during the mid-sixties. But while the contours of the system are similar to those that existed 40 or 50 years ago, the programmes themselves have evolved. The contemporary social security system for older people in Israel consists of four interconnected tiers.

The first tier – the basic state old age benefit

A basic state old-age benefit is paid to Israeli residents aged 65 or more years (in the case of women) and 70 or more (for men). This is a universal pay-as-you-go pension scheme that provides virtually all the elderly citizens of Israel with their basic source of income.[1] It is a contributory benefit, funded jointly by the state (0.87 per cent of wages), employers (1.85%) and employees (2.70%), with eligibility formally conditional upon the completion of a qualification period of not less than 60 months of payment of social insurance contributions during the 10 years prior to retirement. Women between the ages of 60 and 65 and men between the ages of 65 and 70 can also receive this benefit, but it is means-tested. The programme provides recipients with a monthly flat-rated benefit that is set by law at a percentage of the average wage and indexed regularly. Eligible single pensioners (regardless of gender or marital status) receive a monthly benefit set at 16 per cent of the average wage, a sum that is currently equivalent to approximately £160, and couples (if only the husband is eligible) receive a benefit set at 24 per cent of the average wage, equivalent to approximately £250 per month. Increments to the basic benefit arising from the payment of contribution to the social security fund in excess of 10 years, or from the deferment of receipt of the benefit, can lead to an addition of 50 per cent to this sum. Consequently, the actual average benefit paid to single pensioners is equivalent to 21.5 per cent of the average wage (National Insurance Institute 2000).

While the basic state old-age benefit programme was initially formulated on the basis of the Beveridge model, and thus incorporated very stringent social insurance principles, the insurance component of the programme has been significantly eroded over time. Furthermore, the proportion of the old age population eligible for benefits, despite the

https://doi.org/10.1017/S0144686X02008619 Published online by Cambridge University Press

fact that they have not fulfilled the basic qualification conditions, has grown considerably (Doron 1994). Thus, of the 557,392 pensioners who actually received state old-age benefits at the end of 2000, 97,794 were immigrants[2] who were eligible for 'special old-age benefits' not conditional upon completion of any qualification period, and in the wake of a 1994 amendment to the law, 'housewives' not covered by National Insurance were also granted eligibility for the basic state old-age benefit (Ajzenstadt and Gal in press).

The second tier – the supplementary old-age benefit

This consists of a means tested supplementary old-age benefit intended to provide a top-up for the basic universal state benefit and to guarantee a minimum income to older people. This benefit is targeted at pensioners with little or no source of income apart from their state benefits. The level of income of single individuals disregarded in the means test is 13 per cent of the average wage, while in the case of couples it is 17 per cent. A joint means test usually takes place on entry into the system with only random checks of pensioners' incomes undertaken afterwards. Single recipients of the supplementary benefit receive an additional nine per cent of the average wage to their basic state benefit, thus providing them with an overall income of 25 per cent of the average wage, a monthly sum of approximately £283. Couples receive a higher addition to the basic old-age benefit ensuring that the level of their benefit is equivalent to 37.5 per cent of the average wage. Of the recipients of the state contributory old age benefit, 16.5 per cent receive this supplementary benefit. However, among the older immigrant population eligibility reaches 95 per cent (National Insurance Institute 2000).

The third tier – occupational pensions

This comprises mainly *Histadrut*-affiliated private pension programmes, primarily intended for salaried employees in organisations covered by collective work agreements. Traditionally these schemes have offered pensioners eligible for full pensions (after 35 years of contribution) up to 70 per cent of their pre-retirement wages. The schemes are jointly funded by employers and employees, with the proportion of wages devoted to contribution to pension funds set at 17.5 per cent. State support for the funds has taken the form of guaranteed investment of most of the funds' capital in subsidised state bonds and in various tax deductions for employees and employers on pension

https://doi.org/10.1017/S0144686X02008619 Published online by Cambridge University Press

savings and on eventual withdrawal of the pensions (Balas 2000). In addition to these private pension schemes, unfunded public-sector pension programmes that offer similar conditions are provided to state employees.

Over the last two decades, significant changes have been introduced into this system. Initially, during the 1980s changes in the methods of calculating the levels of benefits were introduced into the existing non-state occupational pension schemes, and for-profit private insurance companies were allowed to establish pension funds for the first time. However, continuing fears regarding the future financial viability of some of the trade union affiliated funds (primarily the smaller of these funds) and Finance Ministry pressure led to the establishment of two state commissions in 1990 and in 1992 (Peleg 1997). Some of the recommendations of one of these commissions were adopted by the government in 1995 following an intense process of negotiation with the *Histadrut*. While the commission advocated the introduction of a major reform of the occupational pension system that would include reduced government subsidies, raising the qualifying age for a pension, the privatisation of the system, and the introduction of a Defined Contribution system for all new members, the policies eventually adopted fell somewhat short of these proposals (Spivak 1999). With the *Histadrut*'s consent, existing pension funds were closed to additional members with the state agreeing to guarantee the rights and benefits of existing members and pension recipients. At the same time, 17 new funds were established and in contrast to the old funds these offered fully-funded Defined Contribution pension programmes. They were authorised to invest 30 per cent of their capital in the free market and the remainder in state bonds. Tax relief for savings and withdrawal of funds from pension programmes generally remained intact. The reform also sought gradually to discontinue the provision of unfunded public sector pension funds by requiring state employees to join the funded non-state pension programmes.

While these reforms have led to greater diversity and competition within the occupational pension market and have encouraged more individual choice, they have not had any significant impact upon the market. Half a decade after the adoption of the reform programme, the largest of the *Histadrut* funds have managed to maintain their standing in the pension market despite efforts to increase the competitiveness of this market. By establishing new subsidiary funds and utilising their resources, reputation and trade union links to recruit new members, the *Histadrut* funds continue to dominate the pension market, controlling 85 per cent of it (Ministry of Finance 1999).

https://doi.org/10.1017/S0144686X02008619 Published online by Cambridge University Press

Accurate official data on the levels of pension coverage in the working population do not exist. However, based on the findings of their recent study, Lavi and Spivak (1999) estimate that approximately half of all employees in Israel are insured to receive a pension. Just over a third of all the insured are covered by unfunded public pension programmes and the remainder are members of private occupational pension schemes. Of the employees currently covered by the occupational pension schemes, a fifth are members of the new fully-funded programmes and the remainder are covered by the old funds (Ministry of Finance 1999).

The fourth tier – long-term savings schemes

Provident funds of different types dominate this tier. These funds complement pension funds or often serve as an alternative to a fully-fledged pension. They are long-term savings programmes intended to serve as a source of income after retirement, are funded jointly by employers and employees and have enjoyed significant state support through tax relief. Though in the past these funds were often plant-based, today most are administered by banks. Despite decreasing popularity, savings in these funds are still substantial, and contributions are of a greater volume than those intended for pension schemes. Indeed, 16.8 per cent of financial assets held by the public are provident fund savings (Ministry of Finance 21.2.2001).

The Israeli social security system for older people and *Partnership for Pensions*

While the original Israeli social security system for older people was explicitly formulated along the lines of the Beveridge model, from the onset it differed in various ways. Moreover, in the half century that has passed since, both the British and Israeli systems have developed in response to an array of very different economic, demographic and political influences (Daykin 1996; Doron 1994). As such, significant differences between the Israeli and the British systems exist. Nevertheless, it would appear that the *Partnership for Pensions* proposals, specified in the Department of Social Security Green Paper of 1998, introduce elements into the British social security system for older people that bring it closer to the Israeli model. The proposals are presented as a move that seeks to deal with some, if not all, of the failings of the existing system by guaranteeing a decent income and

https://doi.org/10.1017/S0144686X02008619 Published online by Cambridge University Press

social security for all those in retirement, either through state programmes or by encouraging private sector savings. The emphasis is upon a greater role for the private sector and for non-state funding in the provision of social security. The state's role is envisaged as being far less central with its focus upon the lowest income groups. The goals of the Israeli system are quite similar. From the start, the system has sought to provide a minimal income through state benefits and to encourage retirees to maintain their pre-retirement living standard through a combination of state benefits and pension or provident fund schemes (Lotan 1969).

A comparison of the system envisaged by the authors of the British Green Paper and the Israeli system as it exists today reveals a number of similarities. First, at the basis of both systems is a low flat-rated contributory benefit, administered by the state and funded partially by regular payments by individuals during their working life. Second, elderly individuals who were unable to build up pensions during their working life, had not saved significant funds for old age, or had not gained eligibility to the contributory system, are eligible for means-tested income support benefits intended to provide a guaranteed minimum income. Third, both systems see pension or quasi-pension schemes funded through the private sector, either fully by individuals or jointly by employers and employees, as the major source of income for most older people. These schemes benefit from various indirect state subsidies, primarily in the form of tax relief. Fundamentally, then, both the proposed British system and the existing Israeli system seek to combine a flat-rated primarily state-funded pension, with privately-funded and non-mandatory income-related pension schemes. While both seek to guarantee a basic source of income from the state system, the emphasis is upon private provision and incentives to build up adequate sources of income for old age during working life.

Nevertheless, there are a number of significant differences between the two systems. These emerge primarily from efforts to cope with the inability of the combination of the flat-rate contributory state system and the occupational-based market pension system to deal with the needs of many older people. To combat the lack of coverage of the contributory system and the low level of the universal benefits, Israel introduced non-contributory 'special old-age benefits' and supplementary selective benefits. To deal with the ravages of inflation on benefit value, benefits were indexed automatically to the cost-of-living index. However, efforts to introduce mandatory pensions or a tier of state-funded income-related pensions failed. To ensure long-term stability of the occupational pensions and to encourage membership of pension

https://doi.org/10.1017/S0144686X02008619 Published online by Cambridge University Press

schemes among client groups not party to collective agreements (such as the self-employed and hi-tech enterprise employees), the 1990 reforms created a framework for fully-funded individualised Defined Contribution pensions.

By contrast, British decision-makers have over time sought to maintain more strictly the social insurance principle. Though there are some exceptions which break the link between contributions and benefits (Home Responsibilities Protection, for example), access to basic state pensions is intended for employed individuals contributing to National Insurance, and is denied to those who earn less than a set minimum. While prior to 1980, the level of benefit generally increased in line with rises in earnings, this was discontinued and benefits have only been increased in line with prices, thereby leading to a significant decrease in pension value. These characteristics are not set to change according to the new proposals (Ginn 2001). Perhaps the single most important change in the British old-age social security system was the introduction of earnings-related SERPS in 1976. This signified a major move away from the Beveridge notion of universal flat-rated state benefits to a more social-democratic model of a second-tier of state-administered social security for the elderly population (McKay and Rowlingson 1999). Certainly, the notion of state earnings-related benefits for older people is one that differentiates between the existing British and Israeli systems. Yet, in the years since the introduction of SERPS, efforts have been made to limit the impact of this tier and to encourage opting out of this programme to market-based occupational pension schemes. The Green Paper takes this process one step further and proposes to replace SERPS with a State Second Pension for employees or carers unable to join private pensions. It will eventually become a flat-rated addition to the basic state benefit that will replace means-tested Income Support supplements for many low-income pensioners (Agulnik 1999).

Thus, a comparison of the Israeli system of social protection for older people with that envisaged in the British reform reveals various similarities. This can be seen primarily in the effort to create a public-private mix that emphasises the role of the private sector in providing a major source of funding for the pension system, alongside a system of universal low state old-age benefits and selective supplementary benefits. The primary differences between the two systems relate to the degree of conformity to social insurance principles, which is still much greater in the British case, and the idea of a state non-means tested and earnings-related tier, adopted by Britain in the 1970s that will evolve into the SSP.

https://doi.org/10.1017/S0144686X02008619 Published online by Cambridge University Press

The impact of the social security system for older people in Israel upon social spending

One crucial criterion for assessing social protection systems is their impact upon overall state expenditure, as measured by the proportion of Gross Domestic Product devoted to this goal. Given the magnitude of this type of social security expenditure, this criterion has been at the forefront of much of the debate on pension reform in recent years with efforts often concentrated on formulations that will lead to a reduction in state spending. Here this issue is examined in the Israeli case and in a comparative context (Gal and Pessach in press). The analysis of the impact of the Israeli social security system for older people follows upon that undertaken by Adema and Einerhand (1998). The relevant data on expenditure on social security include both direct public and private expenditure, and cover a period of nearly two decades. Public spending includes national insurance benefits, both the universal state benefit and the selective supplement, and public pensions. Employee and employer payments to non-state pension funds and provident funds are defined as private spending. The data on public spending are based on National Insurance Institute and government pension expenditure data, while the figures on private spending are based on calculations of data found in reports to the Ministry of Finance by the different market-based funds. A lack of adequate data on tax relief has precluded the inclusion of indirect state subsidies (primarily through the taxation system) in the analysis though clearly this should be a component in a fuller examination of this issue.[3]

Table 1 shows the distribution of public and private expenditure on social protection for older people in Israel over the period between 1980 and 1997.[4] While the actual level of benefits and the division between the two sources fluctuated over this period, the findings indicate that spending has been divided almost equally between public and private sources, with the balance tilted towards private spending. The state has provided between 44 per cent and 48 per cent of the overall direct expenditure on social protection for older people in Israel during the last two decades, while private provision (either employees or employers) has consisted of between 52 per cent and 56 per cent of total expenditure.

Seen in a comparative perspective, the level of overall spending for social spending for members of the older population in Israel is not particularly low. True, as can be seen in Table 2, it is markedly lower than that in Sweden and Germany, but they are both generous welfare states with relatively high proportions of elderly citizens. However, the

https://doi.org/10.1017/S0144686X02008619 Published online by Cambridge University Press

Table 1. *Public and private expenditure on social protection for older people in Israel, various years*

Year	Expenditure by provision type	Proportion of provision type of GDP	Overall proportion of GDP	% private
1980	Public	2.9		
	Private	3.5	6.4	54
1985	Public	3.5		
	Private	4.0	7.4	54
1990	Public	4.2		
	Private	5.2	9.4	55
1993	Public	3.5		
	Private	4.6	8.1	56
1995	Public	3.9		
	Private	4.2	8.1	52
1997	Public	4.0		
	Private	4.3	8.3	52

Sources: Kop, 1999; Central Bureau of Statistics, *Statistical Yearbooks*; Correspondence with the Ministry of Finance.

Table 2. *The public-private mix (as % of GDP) in social protection for older people in various welfare states, 1993*[1]

Country	Public	Private	Total	% of elderly (65+) in population (1999)
Britain	7.2	2.6	9.8	15.7
Denmark	6.8	0.5	7.3	14.9
Germany	11.2	0.7	11.9	15.9
Israel	3.6	4.6	8.2	9.9
Sweden	10.3	1.6	11.9	17.3
United States	6.1	2.4	8.5	12.7

Sources: Adema and Einerhand, 1998; Same as Table 1.
[1] The data on social expenditure in the various welfare states (apart from Israel) are based on the OECD Social Expenditure database. Public social protection for the elderly population includes old-age cash benefits and survivors, while the sources and definitions of private social protection is detailed in the Adema and Einerhand study.

level of expenditure in Israel is similar to, or even higher than, that in other welfare states in which the proportion of elders in the population is not lower than that in Israel.

By contrast, the level of public spending on social protection for older people in Israel is significantly lower than that in the other welfare states examined here. Moreover, the level of direct public expenditure is actually lower than that of private spending. While the proportion of relevant direct public expenditure on social protection in Israel was only 3.6 per cent of GDP in 1993, the level of public expenditure in other welfare states varied from a low of 6.1 per cent in the United

https://doi.org/10.1017/S0144686X02008619 Published online by Cambridge University Press

TABLE 3. *The public-private mix (as % of GDP) in social protection in various welfare states, 1993*

Country	Public	Private	Total
Britain	23.4	3.8	27.2
Denmark	30.5	1.2	31.7
Germany	28.6	2.8	31.5
Israel	16.8	7.2	24.0
Sweden	38.2	2.3	40.5
United States	15.0	8.3	23.3

Sources: As in Table 2; Central Bureau of Statistics, 1995, *A Survey of Health Indicators*; Lahav 1998; Correspondence with the Ministry of Defense.

States to a high of 11.2 per cent in Germany. The figure for Britain places it in a middle position. The low levels of direct public expenditure are balanced in the Israeli case by a high level of private expenditure. The Israeli level of private spending, 4.6 per cent of GDP, was much higher than that in all the other countries studied, with Britain taking second place with 2.6 per cent of GDP. Thus, while the actual overall level of spending on social protection for older people in Israel is not particularly low, the public-private mix is unusual due to the very major role played by the non-state sector in funding this type of social protection.

One of the implications of this structuring of the social security system for older people in Israel can be seen in Table 3. A comparison of the public-private mix in overall social protection in various welfare states reveals that the level of private expenditure in the funding of social protection in Israel is high and just a little less than that in the United States. It is nearly double that of Britain. By contrast, public spending on social protection in Israel is very low, once again on a par with that of the United States and far below that in the other welfare states. Even the British level of spending is significantly higher than the level of direct public expenditure in Israel. The findings appear to confirm that the structuring of the public-private pension mix in Israel has contributed to the country's limited state social protection burden. By emphasising occupational pensions as a source of income, Israel has succeeded in maintaining a relatively low level of state social protection expenditure.

A second criterion for assessing the impact of social security systems for older people is the degree to which these systems offer adequate protection after they leave the workforce (Ginn and Arber 1999). In fact, the goals of these systems are actually twofold – both to prevent significant deprivation among non-working elders, regardless of their

https://doi.org/10.1017/S0144686X02008619 Published online by Cambridge University Press

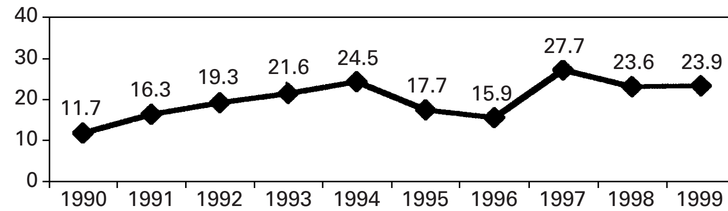

Figure 1. Elderly individuals below the poverty line in Israel (per cent), 1990–1999.

previous work history, and to encourage savings among employed individuals of working age so as to enable them to maintain their pre-retirement standard of living after leaving work.

One obvious indication of the success of social protection for older people in a given society will be the degree to which the system does indeed create the conditions that encourage employees to save for retirement and subsequently maintain their standard of living during old age. Another will be the degree to which social institutions can, at the very least, guarantee them an income level that does not entail significant deprivation and undue hardship after reaching retirement age. Poverty levels provide a useful indicator of the degree of success of efforts to achieve this second goal – the prevention of deprivation. The poverty line can be regarded as the minimum level of income required by an individual or family in order to maintain a standard of living that does not entail a significant degree of deprivation. An effective social security system for the elderly population will be one that ensures that as few as possible live below the poverty line, regardless of their previous workforce attachment or the level of their pre- and post-retirement income from sources other than transfer payments.

As can be seen in Figure 1 above, the proportion of the elderly population living in households in which the income level is below that of the official poverty line in Israel has fluctuated over the last decade.[5] Mass immigration from the former Soviet Union, which included a significant proportion of older or 'nearly-older' individuals, and consistently high levels of unemployment have undoubtedly contributed to a low level of pre- and post-retirement income among many of them. The degree to which the social security system for older people is successful in providing a sufficient income level for this population is reflected in the data. Clearly there has been a major increase in the relevant poverty levels over the last decade. From a low of 11.7 per cent of the elderly population in 1990, poverty levels rose to 27.7 per cent in the mid-1990s and declined slightly to 23.9 per cent in 1999. Thus, by the end of the decade the income of nearly one in every four elderly

https://doi.org/10.1017/S0144686X02008619 Published online by Cambridge University Press

individuals in Israel was below that of the minimum level necessary to ensure an acceptable living standard.

A comparison between the levels of poverty among older people in Israel and in other welfare states indicates that the effectiveness of the Israeli welfare state's effort to intervene on behalf of this section of the population is relatively limited. Luxembourg Income Study figures indicate that while levels of poverty among older people in welfare states differ greatly between low single-digit figures in countries such as Sweden and the Netherlands, and higher double-digit figures in countries such as Australia and the United States, it would appear that their level of poverty in most welfare states is generally around one-tenth of the population (Luxembourg Income Study 26.6.01). The Israeli levels are much higher than that. The mid-1990s elderly poverty level in Israel (21.6 per cent) was nearly double that in three of the European welfare states: Denmark (11.1 per cent), Germany (seven per cent) and Britain (13.7 per cent), ten times the level of poverty among the same group in Sweden (2.7 per cent), and similar only to that found in the United States (20.7 per cent).

A partial explanation for the ineffectiveness of the Israeli social security system to guarantee a minimally adequate income for many older people can be found in data on the contribution of transfer payments leading to a decrease in poverty among them. These data indicate that their poverty levels prior to the contribution of transfer payments were very high (reaching 56.1 per cent of the elderly individuals in 1999), and that intervention by the social security system was successful in extracting only 57.5 per cent of the elderly from below the poverty line, thereby leaving 23.9 per cent in poverty (National Insurance Institute 2001: E40). The level of old-age benefits contributes to this result. It is such that individuals dependent entirely on these benefits will remain below the poverty line. This is the case even when an elderly person is eligible for the supplementary benefit. The current value of the combined universal and supplementary benefits for an individual is 92.2 per cent of the poverty line and the value of the benefits granted a couple is only 87.8 per cent of the poverty line (National Insurance Institute 2001: 43). Thus, only older individuals with an additional source of income will be able to attain a standard of living above the poverty line.

An effective social security system should be able to encourage most working individuals to save for retirement and thereby have, at the very least, sufficient income during old age to guarantee a minimal standard of living (along with the state benefits) and, preferably, an income level similar to that they enjoyed while working. This second

https://doi.org/10.1017/S0144686X02008619 Published online by Cambridge University Press

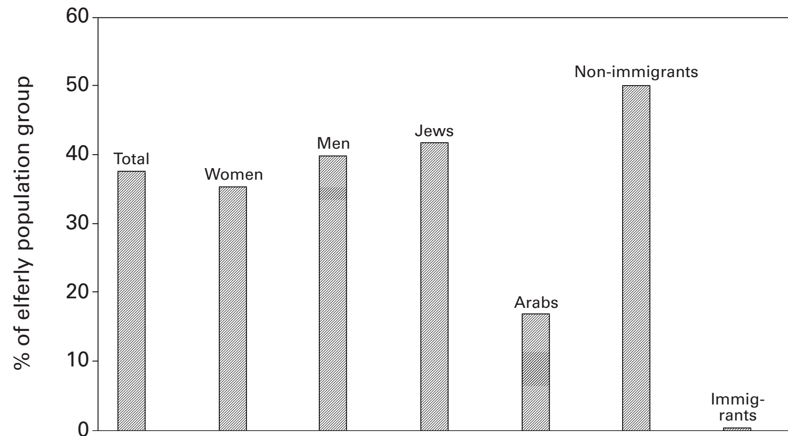

Figure 2. Occupational pension recipients by population group, 1997–1998.

goal was clearly that envisaged when the Israeli social security system was first established. However, an examination of the sources of income of the elderly population belies this assumption. A secondary analysis of data collected in a 1997–1998 survey of the incomes of a representative sample of over 60 year olds indicates that, despite the existence of a sophisticated system of occupational welfare alongside the state-provided benefits for nearly half a century, only a minority of the elderly population do indeed have any type of occupational pension income (Gal and Pessach in press).

As can be seen in Figure 2, an analysis of the findings of the survey reveals that only one in every three elderly Israelis (37.6 per cent) does indeed have any type of income from pensions. Among many of the two-thirds of the elderly population lacking any pension income, old-age benefits comprise all or most of their income. Indeed, a recently published study found that state benefits comprise over 80 per cent of the income of 40 per cent of the older population in Israel. Among those who do have pensions, the actual level of pension income differs very greatly. The study found that the overall level has in fact risen over the last decade. In 1985, 85 per cent reported having pensions that provided an income below half the average wage. By the end of the 1990s, however, this was the case for only 64 per cent of pensioners. Even so, among these pensioners, nearly half had pensions that provided a monthly income that was less than a quarter of the average wage. Particularly dominant among those with low pensions were women. By contrast, 14.2 per cent of the retirees had pensions that were equal to over 75 per cent of the average wage (Morgenstein *et al.* 2000).

https://doi.org/10.1017/S0144686X02008619 Published online by Cambridge University Press

The data on the distribution of pensions among various demographic groups revealed very stark differences between some of them. Not surprisingly, it was among non-immigrant Israelis, and particularly among men, that the proportion of those with access to pensions was revealed to be relatively high. Just over half (50.2 per cent) of all non-immigrants and 39.7 per cent of all elderly men had pensions. By contrast, the lack of old-age pension income is particularly marked among population groups with weak or short-term links to the labour market – immigrants and members of the minority Arab population. The findings indicate that only 0.5 per cent of all elderly immigrants have pensions and less than a fifth (17.1 per cent) of aged Arabs had any income from this source. Differences along gender lines also existed with the proportion of elderly women (35.5 per cent) with pensions lower than that among men.

The results of this study indicate that the success of the Israeli social security system in encouraging older people to save an acceptable proportion of their income while working, in order to ensure a sufficient source of income after retirement, has been very modest. This is particularly the case among very specific segments of the population. While the social security system for older people in Israel has enabled a proportion of this population to maintain a good standard of living after leaving the workforce, it has effectively condemned a majority to life in poverty or near-poverty.

Conclusions

The Israeli social security system for older people has been based from its beginnings in the 1950s on a public-private mix that has encouraged a much greater emphasis upon non-state financing and administration of pensions than in most other welfare states. This article has emphasised the development of this system, and its implications both upon social expenditure and upon the wellbeing of the population it is intended to serve. The findings indicate that the structuring of this system has indeed contributed to a reduced level of state expenditure in comparison with other welfare states. As a result, the level of public spending on social protection for members of this population in Israel is less than that in other welfare states. In this sense, it would appear that the Israeli system has achieved a primary goal of pension reforms adopted in various welfare states, among them Britain.

The downside of the Israeli system, however, is the degree of its failure to encourage savings for old age among the working population

https://doi.org/10.1017/S0144686X02008619 Published online by Cambridge University Press

and its inability to ensure that, after retirement from the workforce, they can maintain an acceptable standard of living. Extremely high poverty levels among older people reflect both the low levels of state benefits and the lack of occupational pension income among a majority of this population. Not surprisingly, a lack of pension income is particularly common among the more excluded segments of Israeli society – elderly immigrants and Arabs. However, even among those who do have pensions, the data indicate that there are very large disparities in the levels of this income, and many receive very small pensions. Clearly, a large majority are unable to maintain a standard of living similar to that of their pre-retirement situation.

Seen as a test case, the Israeli experience would appear to contain a powerful message for those contemplating pension reform based upon greater privatisation of the social security system for older people. While the adoption of these policies may indeed lead to reduced state expenditure, it can very easily contribute to greater hardship. For pension reforms to succeed, two conditions are necessary. First, they should address the inherent difficulties that members of the workforce face in gaining access to occupational or private pension schemes. Secondly, those who lack any significant source of income during old age (for whatever reasons), must be dealt with in a fair manner. Only thus, can the primary goal of the reforms – the social protection of society's elderly members – be achieved.

NOTES

1 This refers to all residents of Israel, Jews and Arabs alike, but not to Palestinian residents of the Occupied Territories. Israeli citizens living in these areas are however covered by the programme.

2 These are Jewish immigrants to Israel who were not insured by the programme because of their age at the time of immigration, and thus did not complete the qualifying period by the time they reached pensionable age.

3 An exploratory study of this topic was recently published by Balas (2000).

4 In the Adema and Einerhand study (1998), social protection is defined thus: 'The provision by public and private institutions of benefits to, and financial contributions targeted at, households and individuals in order to provide support during circumstances which adversely affect their welfare, provided that the provision of the benefits and financial contributions constitutes neither a direct payment for a particular good or service nor an individual contract or transfer. Such benefits can be cash transfers, or can be the direct (in-kind) provision of goods and services. Since only benefits provided by institutions are included, transfers between households – albeit of a social nature – are not' (1998: 6).

5 As is the case in most welfare states, the poverty line in Israel is set at 50 per cent of the median net income of the population per standard person. The National Insurance Institute publishes annual data on poverty levels that is based upon

https://doi.org/10.1017/S0144686X02008619 Published online by Cambridge University Press

Annual Income Surveys conducted by the Central Bureau of Statistics. For a more detailed explanation, see National Insurance Institute, 2001.

References

Achdut, L. and Habib, J. 1992. Israel. In Tracy, M. B. and Pampel, F. C. (eds), *International Handbook on Old-Age Insurance*. Greenwood, New York, 121–132.

Adema, W. and Einerhand, M. 1998. *The Growing Role of Private Social Benefits*. Organisation for Economic Co-operation and Development, Paris.

Agulnik, P. 1999. The proposed state second pension and national insurance. In Agulnik, P., Barr, N., Falkingham, J. and Rake, K. (eds), *Partnership in Pensions? Responses to the Green Paper*. Centre for Analysis of Social Exclusion, London School of Economics, London, 1–29.

Ajzenstadt, M. and Gal, J. 2001. Appearances can be deceptive: gender in the Israeli welfare state. *Social Politics*, **8**, 292–324.

Anonymous 1950. Figures on provident funds and pensions, *Labor Monthly*, **10**, 14.

Balas, A. 2000. *The Cost of Subsidizing the Pension System in Israel*. Bank of Israel, Jerusalem.

Barr, N. 1999. A public-private partnership in pensions: getting the balance right. In Agulnik, P., Barr, N., Falkingham, J. and Rake, K. (eds), *Partnership in Pensions? Responses to the Green Paper*. Centre for Analysis of Social Exclusion, London School of Economics, London, 30–45.

Behrendt, C. 2000. Private pensions: a viable alternative? Their distributive effects in a comparative perspective. *International Social Security Review*, **53**, 3–26.

Bernard, M. and Phillips, J. 2000. The challenge of ageing in tomorrow's Britain. *Ageing and Society*, **20**, 33–54.

Bodie, Z. and Mitchell, O. S. 1996. Pension security in an aging world. In Bodie, Z., Mitchell, O. S. and Turner, J. A. (eds), *Securing Employee-Based Pensions: an International Perspective*. University of Pennsylvania Press, Philadelphia, 1–28.

Bonoli, G. 1997. Pension politics in France: patterns of cooperation and conflict in two recent reforms. *West European Politics*, **20**, 111–24.

Central Bureau of Statistics 1995. *A Survey of Health Indicators*. Central Bureau of Statistics, Jerusalem.

Central Bureau of Statistics Various years. *Statistical Yearbooks*. Central Bureau of Statistics, Jerusalem.

Chand, S. K. and Jaeger, A. 1996. *Aging Populations and Public Pension Schemes*. International Monetary Fund, Washington D.C.

Commission of the European Community. 1995. *Social Protection in Europe*. Commissions of the European Communities, Luxembourg.

Daykin, C. D. 1996. Occupational pension provision in the United Kingdom. In Bodie, Z., Mitchell, O. S. and Turner, J. A. (eds), *Securing Employer-Based Pensions*. University of Pennsylvania Press, Philadelphia, 33–68.

Department of Social Security 1998. *A New Contract for Welfare: Partnership in Pensions*. Stationery Office, London.

Doron, A. 1994. The effectiveness of the Beveridge model at different stages of socio-economic development: the Israeli experience. In Hills, J., Ditch, J. and Glennerster, H. (eds), *Beveridge and Social Security*. Oxford University Press, Oxford, 189–202.

Doron, A. and Kramer, R. M. 1991. *The Welfare State in Israel*. Westview, Boulder, Colorado.

Ebbinghaus, B. 2000. Between state and market: occupational pensions, welfare regimes and labour relations in comparison. Paper presented at the International Sociological Association RC-19 Conference, Tilburg, Holland.

https://doi.org/10.1017/S0144686X02008619 Published online by Cambridge University Press

Factor, H., Habib, J. and Lerman, R. 1976. *Economic Aspects of Reforming Pensions in Israel*. Brookdale Institute for Gerentology and Adult Human Development in Israel, Jerusalem.

Feldstein, M. (ed.) 1998. *Privatizing Social Security*. Chicago University Press, Chicago.

Gal, J. and Pessach, R. in press. The development of the social security system for the elderly in Israel and its implications. *Social Security*.

Galin, A. 1997. *The Difficulties of Unions under Democratization: the Case of Israel*. Working Paper 9/97. Israel Institute of Business Research, Tel Aviv University, Tel Aviv.

Giddens, A. 1998. *The Third Way*. Polity, Oxford.

Ginn, J. 2001. Third way or third class: Conservative pension policies rebranded under Labour. *Critical Social Policy*, **21**, 541–5.

Ginn, J. and Arber, S. 1999. Changing patterns of pension inequality: the shift from state to private sources. *Ageing and Society*, **19**, 319–42.

Gross, N. and Greenberg, Y. 1994. *Bank Hapolim – the First Fifty Years: 1921–1971*. Am Oved, Tel Aviv.

Histadrut 1949. *Report to the Seventh Convention, May 1949*. Histadrut, Tel Aviv.

Holzmann, R. 2000. The World Bank approach to pension reform. *International Social Security Review*, **53**, 11–34.

Kop, Y. (ed) 1999. *The 1999 Annual Analysis of Israel's Social Expenditure*. Centre for Social Policy Studies in Israel, Jerusalem.

Lahav, E. (ed) 1996. *50 Years of Rehabilitation*. Ministry of Defense, Tel Aviv.

Lavi, V. and Spivak, A. 1999. The impact of pension schemes on saving in Israel. *Applied Economics*, **31**, 761–74.

Lotan, G. 1969. *National Insurance in Israel*. National Insurance Institute, Jerusalem.

Lotan, G. and Nizan, A. 1970. *Supplementary Benefits to Old Age and Survivors Pensioners*. National Insurance Institute, Jerusalem.

Luxembourg Income Study 12.2.2001. Relative poverty rates for the total population, children and the elderly. www.lisweb.ceps.lu

Madrid, R. L. 2000. Understanding the wave of pension reforms. *International Social Science Journal*, **52**, 51–9.

Marsland, D. (ed) 1995. *Self Reliance*. Transaction, New Brunswick, New Jersey.

McGillivray, W. 2000. Pension reform: where are we now? *International Social Security Review*, **53**, 3–10.

McKay, S. and Rowlingson, K. 1999. *Social Security in Britain*. Macmillan, Basingstoke, Hampshire.

Ministry of Finance 1999. *Report of the Department for Financial Markets 1998*. Ministry of Finance, Jerusalem.

Ministry of Finance 21.2.2001. *Summary of the Discussions of an Interministerial Committee on the Control of Provident Funds by the Banks and a Proposal for a Provident Fund Law*. www.mof.gov.il/hon/sikum-dium.htm

Morgenstein, B., Shmeltzer, M. and Gera, R. 2000. *The Economic Situation of the Elderly in Israel*. National Insurance Institute, Jerusalem.

National Insurance Institute 2000. *Statistical Quarterly*, **30**: 2. National Insurance Institute, Jerusalem.

National Insurance Institute 2001. *Annual Survey 2000*. National Insurance Institute, Jerusalem.

Organisation for Economic Co-operation and Development (OECD) 1998. Maintaining prosperity in an ageing society. *OECD Policy Brief*, June, OECD, Paris.

OECD 1999. *Labour Force Statistics: 1978–1998*. OECD, Paris.

Palme, J. 1990. *Pension Rights in Welfare Capitalism*. Swedish Institute for Social Research, Stockholm.

Piachaud, D. 1999. Security for old age? *Benefits*, **26**, 1–6.

https://doi.org/10.1017/S0144686X02008619 Published online by Cambridge University Press

Peleg, D. 1997. Reform of the pension system. *Social Security*, **49**, 97–129.
Rake, K., Falkingham, J. and Evans, M. 2000. British pension policy in the twenty-first century: a partnership in pensions or a marriage to the means test? *Social Policy and Administration*, **34**, 296–317.
Rein, M. and Wadensjö, E. 1997. The emerging role of enterprise in social policy. In Rein, M. and Wadensjö, E. (eds), *Enterprise and the Welfare State*. Edward Elgar, Cheltenham, Gloucestershire, 1–32.
Ross, S. G. 2000. Doctrine and practice in social security pension reforms. *International Social Security Review*, **53**, 3–29.
Sarnat, M. 1966. *Saving and Investment through Retirement Funds in Israel*. Maurice Falk Institute for Economic Research in Israel, Jerusalem.
Shalev, M. 1992. *Labour and the Political Economy in Israel*. Oxford University Press, Oxford.
Spivak, A. 1999. *Reform of the Pension Funds*. Monester Centre for Economic Research, Beer Sheva, Israel.
Tamburi, G. 1999. Motivation, purpose and processes in pension reform. *International Social Security Review*, **52**, 15–44.
Taylor-Gooby, P. 1999. Policy change at a time of retrenchment: recent pension reform in France, Germany, Italy and the UK. *Social Policy and Administration*, **33**, 1–19.
Waine, B. 1999. The future is private. *Benefits*, **26**, 7–10.
World Bank 1994. *Averting the Old Age Crisis*. Oxford University Press, Oxford.
Zinamon, M. 1964. *The Trade Union Social Insurance System in Israel*. Mivtahim, Tel Aviv.

Accepted 5 February 2002

Address for correspondence:
John Gal, Paul Baerwald School of Social Work, Hebrew University, Mt Scopus, Jerusalem 91905, Israel
e-mail: msjgsw@mscc.huji.ac.il

https://doi.org/10.1017/S0144686X02008619 Published online by Cambridge University Press