

Pensions at a Glance 2023



Israel

Israel: Pension system in 2022

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	172 609	138 621
	USD	51 378	41 261
Public pension spending	% of GDP	4.7	7.7
Life expectancy	at birth	82.6	80.7
	at age 65	85.4	84.6
Population over age 65	% of working-age population	23.1	31.3

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 is 67 for men and 62 years 4 months for women. The age for women is increasing by 4 months per year until 2024 and then by 3 months per year until reaching 65 in 2032. 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 9 015 per month in 2022. The annual basic senior citizen benefit is ISL 19 148 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 28 776 (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 20 232.

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 2022. 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 2022, 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 85% 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 years and 4 months 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 62y4m/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 15 weeks Birth Allowance (full benefit for a single newborn). 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 12 214 a month in 2022), 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 is the profit after paying all contributions.

Personal income tax and social security contributions

Taxation of pensioners

There are no special rules for pensioners.

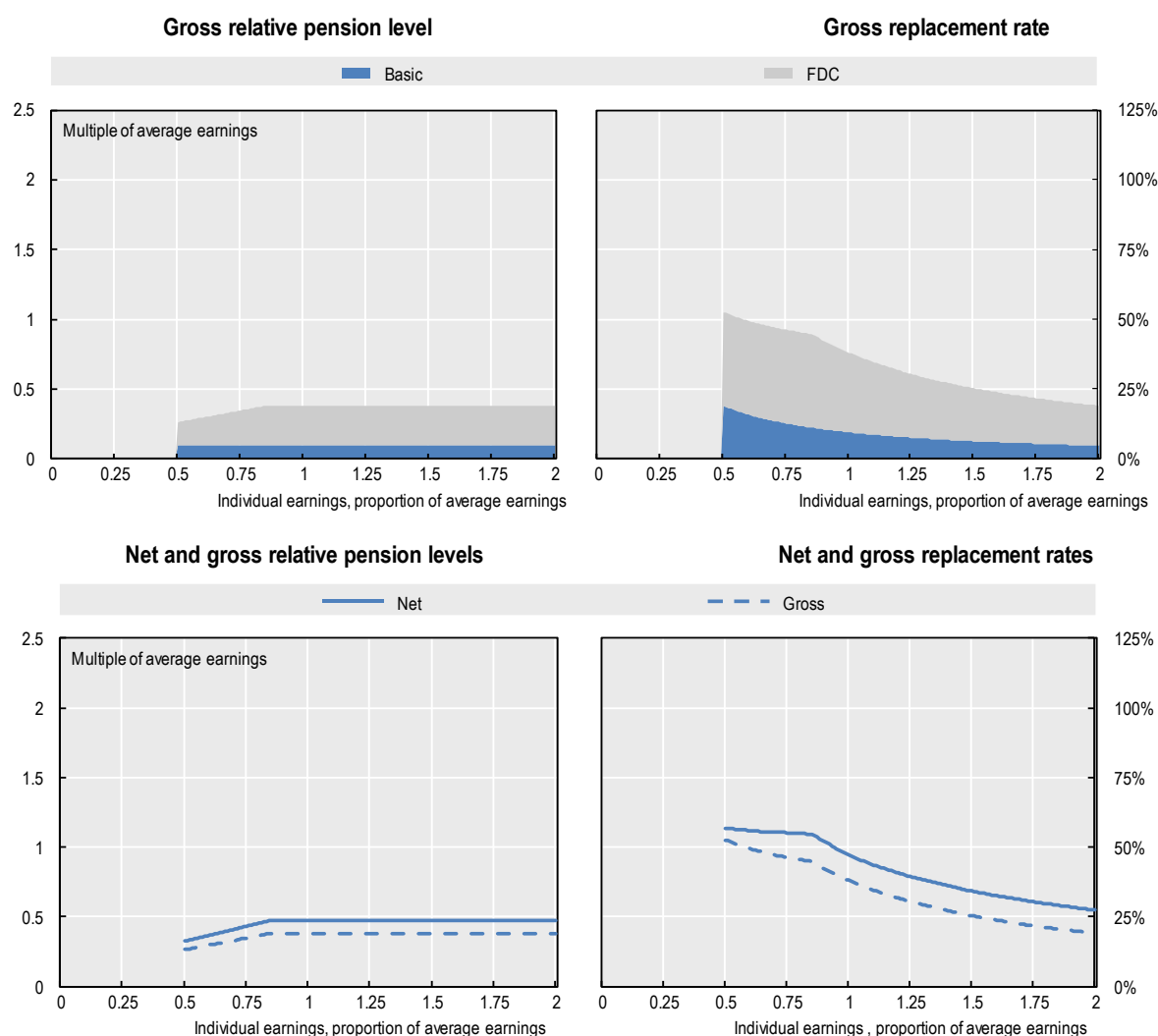
Taxation of pension income

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 216 (1 January 2022) for an individual and ISL 311 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 2067 retirement at age 67 (men)



Men Women (where different)	Individual earnings, multiple of average					
	0.5	0.75	1	1.5	2	3
Gross relative pension level	26.3	34.7	38.0	38.0	38.0	38.0
(% average gross earnings)	24.7	32.2	35.2	35.2	35.2	35.2
Net relative pension level	32.4	43.4	47.3	47.3	47.3	47.3
(% net average earnings)	30.3	40.1	43.9	43.9	43.9	43.9
Gross replacement rate	52.6	46.3	38.0	25.3	19.0	12.7
(% individual gross earnings)	49.4	42.9	35.2	23.4	17.6	11.7
Net replacement rate	56.9	55.2	47.3	34.2	27.3	19.5
(% individual net earnings)	53.3	51.0	43.9	31.7	25.4	18.1
Gross pension wealth	10.3	9.0	7.4	4.9	3.7	2.5
(multiple of individual gross earnings)	11.0	9.5	7.8	5.2	3.9	2.6
Net pension wealth	11.1	10.8	9.2	6.7	5.3	3.8
(multiple of individual net earnings)	11.8	11.3	9.8	7.1	5.6	4.0

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 equals 90%. Labour market entry occurs at age 22 in 2020. Tax system latest available: 2020.