Notes and Brief Reports

Social Security Abroad

Israel's Program Revision For Families with Children*

Israel in 1975 consolidated two separate programs intended to assist families with children—children's monthly cash allowances and income tax exemptions for children [1] In order to support low-income families, children's allowances previously had been paid to families with one or more children Allowances for the first two children in the family were paid by the employer as part of the regular wage, allowances for the third and subsequent children were paid under the social security program Concurrently, tax exemptions for children within the income tax system provided additional (indirect) benefits, particularly to families with higher income

The 1975 reform combines these programs to create a single monthly benefit payable to all families with children, regardless of income The National Insurance Institute now administers the combined program and pays all allowances directly

Background

A program of monthly children's allowances has existed in Israel since 1959 Although all children of employed parents are covered, the program—through its benefit structure—has catered primarily to the large family By providing allowances that have added considerably to their income, the program has been instrumental in moving most disadvantaged families above the poverty line

Before the 1975 reform, the most important transfer payments to families with children were monthly cash children's allowances and tax exemptions for children under the income tax system In addition, public assistance and low-wage subsidies were available, and a minimum wage had been established to the advantage of the low earner

The children's allowance program was divided into three sections, each aimed at different segments of the population (1) Wage and salary workers with no more than two children (but not the self-employed), (2) all residents with three or more children, and (3) those with past or present armed forces service and more than three children Each was distinguished by its method of financing and tax status Thus, allowances for employees' families were paid at a uniform rate—IL 67 per child per month—by the employer [2] They were considered part of the wage and were also taxable as income

The allowances for families with three or more children were paid by the National Insurance Institute, based on residence Self-employed persons were eligible, as were the insured unemployed Allowances per child under this program were nontaxable for income tax purposes and were considerably higher than those for smaller families—IL 93 for the third child, IL 114 for the fourth, IL 117 for the fifth, IL 114 for the sixth, and IL 107 for the seventh and each subsequent child, on a monthly basis Servicemen and ex-servicemen with large families received, in addition, nontaxable allowances IL 25 a month for the third child, IL 75 for the fourth, and IL 50 for the fifth and each additional child

Income earners were also able to claim income tax exemptions for each child The regressive character of this program, however, aided the rich more than the poor The exemptions (a flat-rate amount for each child) came off the top of a family's income and were designed to reduce the taxable amount

Thus, in a progressive tax system where tax rates increase with the level of income, the higher the income, the higher the value of the exemptions On the other hand, families with income below the taxable limit did not benefit at all, since the value of the deductions was not taxed

Between these extremes were those families whose incomes were not large enough to benefit fully from the

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[1] See Raphael Roter and Nira Shamai, **The Reform in Tax-Transfer Payments in Israel, July 1975,** National Insurance Institute, Jerusalem, Israel, September 1976

[2] One Israeli pound equaled 16 7 U S cents as of December 31, 1974

exemptions They reaped only part of the benefit This situation occurred when the applicable deductions reduced income below the taxable level, making part of the deduction apply to income that would not have been taxable in the first place

The regressive pattern of the tax-exemption program dominated the income-maintenance plan for families with children Only the better-off families benefited fully from the exemptions, and the smallest allowance went to families most in need

In 1974, measures were taken to compensate the low-income population for a substantial devaluation of the Israeli pound that brought increasing prices on imported goods along with rapid inflation The minimum guaranteed income and the public assistance ceilings were raised in relation to the minimum wage and the minimum taxable income level As a result, public assistance payments could exceed the taxable income limit Furthermore, the taxable income limit for many families was then lower than the minimum wage Consequently, the 10 percent of employee families who, by definition, were below the official level for a minimum standard of living and therefore eligible for support were also liable to pay income tax on their support payments This condition is referred to as the "poverty trap" [3]

The 1975 reform greatly reduced the number of families caught in this trap by (1) raising the minimum taxable income level, (2) lowering the income level at which families became eligible for support, and (3) increasing the minimum wage The result of the reform for a family with two children is illustrated in the tabulation that follows The proportion of eligible familes with

[Monthly benefits in Israeli pounds]

Type of program	Before reform	After reform
Minimum taxable income level	984	1,200
Upper income limit for public assistance	1,492	1,200
Minimum wage	787	1,010

children in need of supplementary payments from the public assistance program was reduced from 10 percent to 4 percent of all such families Most of the latter group are presumed to be part-time workers

After the Reform

The program that emerged from the reform constitutes an integration of the various taxable and tax-exempt children's allowances and income tax credits for children This goal was accomplished primarily by assigning "credit points" for each child, beginning with the first, and by making the allowances tax-exempt and payable to all families For families with incomes below the minimum taxable income level, the allowance may be regarded as a negative income tax For families in higher income brackets, the allowances may be considered a tax credit that similarly reduces the amount of taxes payable on regular taxable income

The "credit point" method represents an easier and more elegant way of assigning to every family the amount of children's allowances it is entitled to receive The points were assigned beginning in July 1975 A family receives 1 00 point for each of the first two children, and 1 25 points for each additional child

Armed services allowances, in addition to the regular allowances for families with three or more children, are 0 75 points for the third child, 1 00 point each for the fourth and fifth children, and 1 25 points for the sixth and each subsequent child (table 1)

In 1975 a credit point was given the value of IL 100 The value was tied to the consumer price index (CPI) and will change over time with adjustments in the CPI A veteran's family with three children thus is assigned 4 00 points That point value was worth IL 400 at the time the program went into effect A subsequent increase of 10 percent in the CPI, for example, would bring the value to IL 440 [4]

The new program applies uniformly to all—employees, the self-employed, and welfare recipients—and is universal for the first time because the self-employed previously were included only from the third child on Since the reform, low and high earners receive the same amount, and the position of the low earner, compared with that of the high earner, consequently has improved markedly

Table 1 shows the size of children's allowances payable for each child under the three programs before and after the 1975 reform The total amount of the family allowance is shown by size of family and as a percentage of average earnings The tax exemption, eliminated under the 1975 reform, was previously worth up to IL 90 per child per month in the better-off families

As the total columns show, the reform improves the allowances for all families, including those eligible for armed services allowances The family with average income and two children is eligible for an allowance amounting to 8 percent of income (7 percent previously) With four children the family can expect an allowance of 19 percent of income (17 percent earlier) With armed services eligibility the allowance for a family with four children increases from 22 percent to 27 percent of average income

In addition to these improvements, administration of the new program was simplified by directing all benefit payments through the National Insurance Institute Before the reform, eligible families had received benefits from three different sources—through the employer for

[3] The same situation also occurred in the United Kingdom

[4] This procedure resembles the "pension point" method employed in the Swedish and Norwegian old-age, survivors, and disability insurance systems

Table 1.—Income-maintenance programs for families with children in Israel before and after the 1975 reform

Type of allowance program and number of children	Allowance before reform: Monthly benefits in Israeli pounds, Per child	Allowance before reform: Monthly benefits in Israeli pounds, Total	Allowance before reform: Percent of average earnings[1]	Allowance after reform: Credit points[2]	Allowance after reform: Monthly benefits in Israeli pounds, Per child	Allowance after reform: Monthly benefits in Israeli pounds, Total	Allowance after reform: Percent of average earnings[3]
Small family							
1	67	67	3	1 00	100	100	4
2	67	134	7	1 00	100	200	8
Large family							
3	93	227	11	1 25	125	325	14
4	114	341	17	1 25	125	450	19
5	117	458	23	1 25	125	575	24
6	114	572	29	1 25	125	700	30
7[4]	107	679	34	1 25	125	825	35
Armed service							
3	25	252	13	75	75	400	17
4	75	441	22	1 00	100	625	27
5	50	608	30	1 00	100	850	36
6	50	772	39	1 25	125	1,100	47
7[4]	50	929	46	1 25	125	1 350	57
Income tax exemption	[5]0–90						

[1] Average monthly earnings equaled IL 2,000 in April–June 1975 (before reform)
[2] Allowance stated in points and tied to the consumer price index 1 00 point equaled IL 100 at time of reform
[3] Average monthly earnings equaled IL 2 354 in October–December 1975 (after reform)
[4] Rate per child continues for each subsequent child
[5] Varied with income level

the first two children in the family (employer children's allowances), through the National Insurance Institute for eligible families with three or more children (regular children's allowances), and through the tax system (income tax deductions for children)

A need for certain additional income-maintenance payments still existed, however At the time of the reform, the poverty-line income for one adult was estimated to be IL 380 a month Studies indicated that at the poverty line, in a family with three or more children, each child required an income supplement of about one-half the adult amount or IL 190 a month

On this basis, the new allowances of IL 200–250 a month (including armed services allowances) for the third and subsequent children are adequate to ensure a subsistence level of support They can be compared favorably with the prereform public assistance program's allowance of IL 160–180 a month The allowance for each of the first two children (IL 100 per child per month), however, still falls below the stated level of minimum needs Low-income families therefore are eligible for a means-tested supplement equal to 5 percent of the average wage With the average approximating IL 2,000 a month at the time of the reform, this change ensures that the support for the first two children in low-income families also will be at a subsistence level of about IL 200 a month

Summary and Conclusion

The income-maintenance program developed in Israel since 1959 (based primarily on children's allowances) had managed to remove from poverty the greater portion of the most significant economically disadvantaged group—large families Inequities had developed, however, in the total transfer system, primarily with respect to the tax exemptions, from which the less well-to-do often did not benefit The 1975 reform removes these inequities and considerably improves the support for the majority of low-income families The thrust of the program was changed when the allowance was eliminated from the wage picture Previously the employer had paid the allowance in conjunction with ordinary wages, now it is a supplement, payable by the national insurance program, to cover the presumed needs of the employee's family

In table 2, children's allowances in Israel are compared with those in Canada, the Federal Republic of Germany, and Sweden Only two family sizes are considered—those with three children and those with five children The data show how long it would take the average earner in each country to earn an amount equal to one year's children's allowances for the family size indicated The data also show which benefits are taxable

Table 2.—Annual children's allowance in terms of number of weeks of average weekly wages, selected countries

Country and number of children	Number of weeks of average weekly wages	Benefits taxable	Tax exemption for children
Israel[1]			
3	10 4	No	No
5	22 1	No	No
Canada			
3	3 5	No	Yes
5	6 0	No	Yes
Germany, Federal Republic			
3	7 0	No	Yes
5	14 5	No	Yes
Sweden			
3	7 0	No	No
5	11 5	No	No

[1] After 1975 reform Includes armed services allowances

for income tax purposes, and whether income tax exemptions may be claimed for children

Tax exemptions for children, not allowable in Israel and Sweden, may double the figures for Canada and the Federal Republic of Germany, depending on the family size An overall comparison of these countries suggests that the new transfer payments program for families in Israel is as generous, relatively speaking, as similar programs in other advanced social security systems

Research Grants Studies

Sections 702 and 1110 of the Social Security Act authorize extramural research projects in the broad areas of social security The Social Security Administration provides funding through grants to nonprofit organizations and through contracts with both nonprofit and profitmaking organizations From time to time, as projects are completed, the BULLETIN publishes summaries of research findings A summary of a completed project (Grant No 57823) is presented below

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National Survey of the Black Aged

In January 1975 the Office of Research and Statistics gave a grant to the University of Illinois to gather certain information as part of a national survey of noninstitutionalized persons aged 65 and over The basic survey was funded by the Administration on Aging, and the supplement was used to collect a large enough sample of black Americans, aged 65 and over, so that analysis of the survey findings would permit a separation of the black and white elderly populations

The investigation was conducted by Ethel Shanas and Gloria Heinemann It was expected that the information gathered would provide the knowledge base for estimating needed community services and special programs for the elderly

The particular questions to which the survey gave special attention were What is the general level of physical functioning of older persons? What services may be necessary to maintain old people in their own homes in the face of their declining physical capacity? What is the role of the family in later life? What proportion of old people lead isolated lives and what are the main characteristics of these persons? Why do people retire? What are their attitudes toward retirement? What are the sources and range of income of old people?

This report summarizes highlights of the survey findings Discussion of the highlights and the sampling design as well as detailed tables appear in the full report, available from the Social Security Administration Library

Health Status and Health Attitudes

Although little difference exists between the black and white elderly populations in their proportions of housebound and bedfast elderly, the black aged, particularly black women, report more restricted physical mobility than do the white aged Black women are far more likely than white women to report that they can go outdoors only with difficulty

Less capacity for self-care is seen among the black aged than among the white aged Again, the greatest amount of incapacity is reported by black women The black aged are twice as likely as the white aged to report difficulties with common physical tasks The black population also is twice as likely as the white to report giddiness at least once during the week before the interview

The black aged are twice as likely as the white to report that they were interviewed, and they are more likely than the white aged to report that they saw a doctor during the month before their interviews They are also twice as likely to say that their health is poor and, in contrast, they are substantially less likely to say that their health is good The black aged are twice as likely as the white to say that their health is worse than the health of other people their age

Health and Welfare Services

The black aged who reported that they were ill at home some time during the year before they were interviewed were only sightly less likely than the white aged in the same situation to be visited by a doctor They are, however, more likely than the white group to see a doctor in a 1-month period

Almost twice as high a proportion of the black aged as of the white say they need medical care, but have delayed treatment Lack of money is the major reason both groups delay medical treatment Twice as high a proportion of the black group as of the white say that they need dental care but have delayed treatment Again, lack of money is the major reason given by both groups for delaying treatment Aged white persons who need footcare are more likely than elderly black persons to receive care from a private podiatrist

Families were the major providers of care to both aged groups who spent time in bed because of illness Substantial proportions of both populations, however, reported no help with either housework or meal preparation during such illnesses Aged white persons who have