



Office of the State Comptroller | 2020

The State of Israel Response to the COVID-19 Crisis
Special Interim Report

Government Handling of Job Seekers and the Unemployed During the COVID-19 Crisis

**Obtaining Reliable Monthly Data from
Employers on their Employees' Salary**

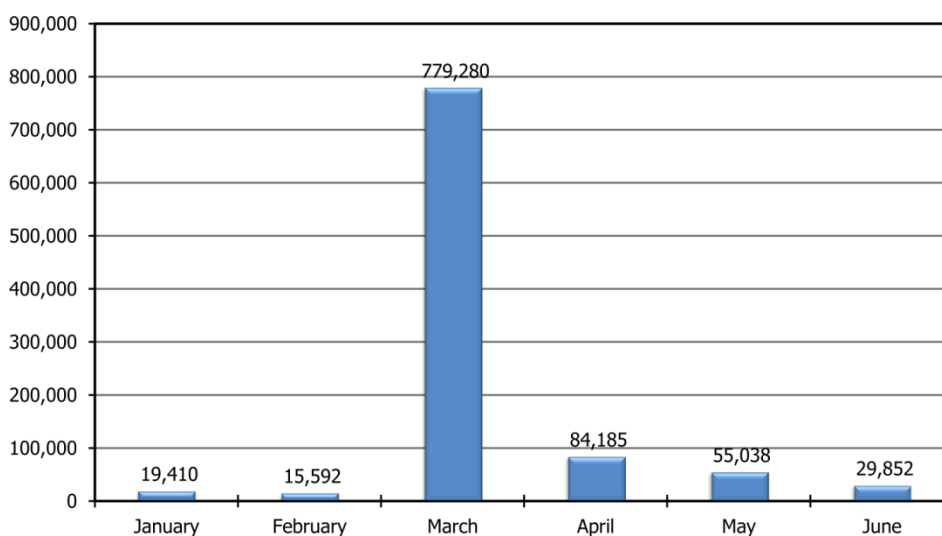
Interim findings | Published on 10 September 2020
The final report will be published in 2021

Background

The COVID-19 virus that spread throughout the world at the end of 2019 led to extensive morbidity and the World Health Organization declared it a pandemic in March 2020¹. The outbreak of the disease caused an enormous and deep crisis unlike anything experienced by global society in recent decades. It brought not only illness and death to hundreds of thousands of people, but also inflicted economic damage and had far-reaching social consequences. The pandemic did not spare Israel, and its impact is readily apparent.

This report focuses on a particular aspect of the unprecedented unemployment level and the serious occupational crisis facing the country based on monthly reports from employers on their employees' pay. According to figures from the National Insurance Institution², from the outbreak of the crisis (March 2020) to the end of June 2020, there were 948,355 claims for unemployment benefits. By July 15, 2020, that number had risen to 966,120. These claims are in addition to 140,000 claims submitted before the crisis began. Figure 1 shows the breakdown of claims for unemployment benefits in the months January to June 2020:

Figure 1: Claims for Unemployment Benefit (January-June 2020)



As of July 15, 2020 approximately 1.1 million claims for unemployment benefit had been submitted. According to NII figures, in June 2020, about 521,000 claimants received unemployment pay. From March to the end of June 2020, unemployment benefits paid amounted to NIS 10.2 bn.

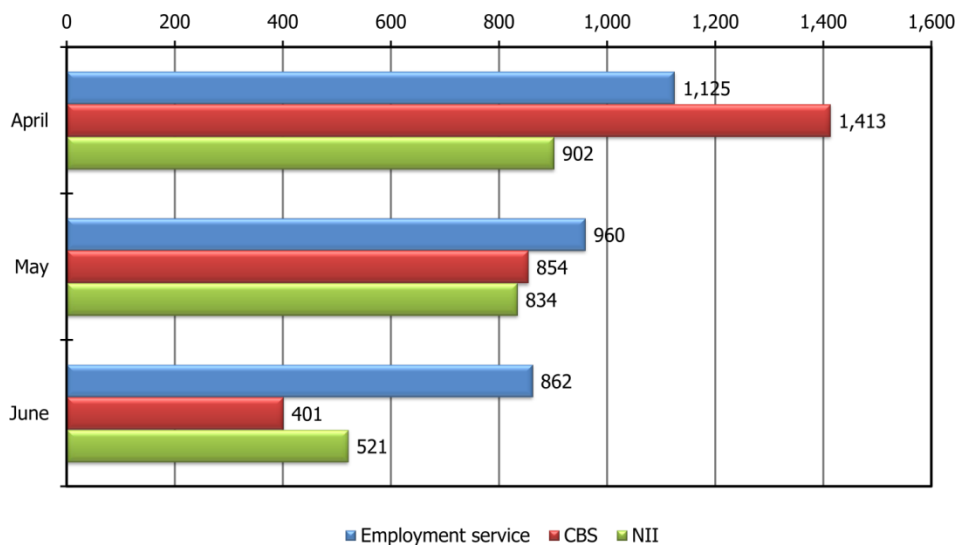
- 1 A pandemic or epidemic is the rapid spread of illness in the population. It generally refers to a sudden outbreak of an infectious disease caused by bacteria or a virus.
- 2 Forwarded to the State Comptroller's Office on 15.7.20.

National entities that coordinate data: three main bodies collect information about the state of employment in Israel: the National Insurance Institute (NII), the Israel Employment Service, and the Central Bureau of Statistics (CBS):

1. **The NII:** Calculates the number of unemployed individuals receiving unemployment benefits based on the number of claims it pays. Note that recipients of unemployment benefits are also obligated to register with the Employment Service.
2. **The Employment Service:** counts the number of job seekers who apply to the Service. Note that not everyone registered with the Employment Service is eligible for unemployment pay – for example if the has not completed the qualifying period³.
3. **The CBS:** relies on surveys of the workforce according to its definition of unemployed⁴.

The following diagram compares the figures from the three bodies for the months April to June 2020:

Figure 2: **NII, Employment Service and CBS figures (in thousands)**⁵



Source: Figures received from the NII on 15.7.20; figures from the Employment Service Pulse Report for May 2020; figures received from the Employment Service on 29.7.20; and figures from the CBS workforce survey for the months April-June 2020, processed by the State Comptroller's Office.

- 3 In cases of ineligibility for unemployment pay, job seekers apply to the Employment Service for help in finding suitable work.
- 4 According to the CBS website, an unemployed person is someone aged 15 and over who has not worked (for even one hour) in the past week; and has been actively looking for work in the four weeks prior to the survey. This is measured by registering with the Employment Service or applying for jobs in person or in writing, and being available to begin work immediately if suitable work was offered. "Available for work", includes someone promised work within 30 days.
- 5 The CBS figures include the number of unemployed persons (137,000, 170,000 and 192,000 in the months April, May and June respectively) and the number who were absent from their jobs during a whole week for reasons relating to COVID-19 (1.276 million, 684,000 and 209,000 in April, May and June respectively).

The diagram shows that there is a significant gap in the figures from the three bodies, to the extent that the number of job seekers in June 2020 according to the Employment Service is more than twice the number of unemployed according to the CBS workforce surveys.

The challenge – one of the main challenges that arise in managing the crisis is the lack of available and regular monthly data concerning; the number of employees whose work has terminated (due to unpaid leave or dismissal); the number of employees who have returned to work; their pay and characteristics; and salary information for workers whose job scope has been curtailed.

Damage due to lack of data – the lack of accessible, updated data could lead to an insufficiently grounded analysis of the employment situation in the economy, and result in making sub-optimal decisions. The need for precise salary data arises, for example, when the government examines plans for differential distribution of grants, such as the return to work incentive or plans to increase income-related benefits. The lack of current salary data arose in the summary report of the Committee on Promotion of Employment Towards 2030 (the Eckstein report) and also in the economic plan published in July 2020.

The State Comptroller's Office met with representatives from the NII, the Finance Department, the CBS, the Ministry of Labor, Welfare and Social Services, and economists from academia. It emerged that the NII can provide accessible and updated data. It can receive from employers, in "real-time", relevant data about every employee in Israel. Regular reports provide the infrastructure for building a comprehensive picture essential for making decisions about supporting needy populations and providing incentives to return to work, as described below.

Monthly Employers' Report

The statutory authority to ask employers for individual monthly reports on their employees' pay is stipulated in Section 8(a) of the National Insurance Regulations (Collection of Insurance Fees), 1954 (hereinafter: "the Collection Regulations"). According to the Collection Regulations, when paying monthly national insurance fees, every employer must submit a report on the wages paid to each of their employees in the relevant period.

The State Comptroller's Office dealt with this issue in detail in a report on the failure to exercise fully social rights published in May 2015⁶ (hereinafter: the Failure to Exercise Rights report). The report noted that although the Regulations state that employers must report to the NII every month about the pay of each employee, the NII determined that the monthly report submitted by employers (Form 102) will not specify the pay of each employee, but only the total number of employees and the total amount paid to

6 See State Comptroller, Annual Report 65C (2015), "Non-exercise of Social Rights", p. 19.

them⁷. In response to the findings of the audit sent to the State Comptroller's Office in December 2014, the NII pointed out that neither the Law nor the Regulations impose an obligation for automated reporting, and that they "are not prepared to receive the enormous quantity of figures manually". They added that the monthly (regular) report on the wages of salaried employees is neither verified nor final, and the use of the report is problematic because each month there is a reckoning of certain wage components from previous months, such as differentials, premiums and adjustments. According to the NII, the experience with receiving regular monthly reports from employers with up to nine employees required individually processing non-automated reports, reports that contain errors and discrepancies, etc.

It should be noted that already in April 2007, the National Economic Council submitted to the government a document entitled "Economic social agenda for Israel 2008-2010"⁸. In this document, the Council recommended, inter alia, establishing a proper and accessible database of household income taken from all sources, and stated that the existence of this infrastructure was an essential and basic precondition for effective handling of problems of poverty and good governance. The Council also stated that the main drawback of Form 102 is that the report "is not at the individual employee level", and that many of the reports from employers are processed after a delay of a year or more.

In January 2016, about 6 months after publication of the report on non-exercise of social rights, and following an amendment to Section 355 of the National Insurance Law [Combined Version], 1995 (hereinafter: the NI Law), the NII asked employers to submit a detailed report of each employee and their cumulative pay once in six months (Form 126). This report is in addition to the overall report of total employees and total wages. The report is submitted three times a year: by July 18 for the period January to June each year; by January 18 for the period January to December of the previous year; and employers are also required to report by April 30 for the previous tax year (to match the Tax Authority report).

This amendment contributed to an improvement in the level of reporting the employment situation in the economy, giving a correct picture of the six months before the reporting date and not of the previous year, but this is still a retrospective report and not a substitute for a current, updated monthly report⁹. For example, if an employee stops working or changes his job in January, the NII will only learn of this six months later – in July. At the macro-economic level, the results in a lack of available and reliable data on which to base immediate policy decisions. This is especially crucial in a time of economic crisis.

On the positive side, during the COVID-19 crisis, the NII has used an online interface to receive reports directly from employers about workers that they have placed on unpaid leave (Form 100). This method enabled employers to submit hundreds of thousands of

7 In the period when the above audit was carried out (Report 65C), the NII received information about all salaried employees from the Tax Authority. The employers reported once a year to the Tax Authority on Form 126 for the entire previous year, with details of their employees and their wages.

8 Government Resolution 1586 of 22.04.07 adopted the document.

9 The report provides cumulative earnings for the whole period, not broken down by month.

reports online to the NII about workers that were placed on unpaid leave or terminated. The report included details about the worker and monthly wage figures prior to the crisis. Consequently, individuals claiming unemployment benefits do not have to attach pay slip¹⁰. It should be emphasized that in technological terms, there is nothing to prevent employers from providing the NII with all the monthly pay figures for every employee, whether or not they are on unpaid leave or still employed¹¹.

The conclusion emerging from the use of Form 100 during the crisis is that employers have the technological capability to give the NII monthly pay details of their employees, while the NII has the technological capability to receive monthly pay reports.

Obliging employers to submit online monthly reports could also help to simplify bureaucratic procedures, increase the utilization of incentives to return to the job market, and reduce unemployment payments, while increasing the income of recipients. For example, Section 176A of the NII Law states that recipients of unemployment benefits are entitled to a **“grant for the unemployed performing a low-paid job”** on the conditions specified¹². The advantage of this grant is that it gives the recipients of unemployment benefits an incentive to work. They are entitled to the state grant if they are prepared to work for low pay so that in fact their total income from work will be higher than their unemployment benefit. There is also a significant benefit for the state in this arrangement. It reduces spending for unemployment benefits and encourages economic activity. **Nevertheless, the uptake rate of this “grant for low-paid unemployed workers” is negligible.** The reason lies in the complexity of the section. Moreover, the process of claiming is also very bureaucratic – the worker has to complete form NII/1517 and attach wage slips and the employer’s confirmation. Regular receipt of detailed pay details from employers could reduce the bureaucracy and thus increase the uptake of the grant.

Requiring employers to submit monthly pay reports to the NII has other benefits, and above all the possibility of increasing the full exercise of rights by the workers. Thus, according to the NII explanations to the State Comptroller’s Office in the non-exercise of rights report, the absence of monthly reporting is the main obstacle to full exercise of individual rights to benefits linked to an income test. This occurs when a condition for receiving the benefit is that the benefit claimant’s income does not exceed the amount defined as the maximum qualifying amount¹³. In its response to the report, the NII stated that if they received a separate monthly report of the pay of every employee, it

10 Form 100 The NII developed Form 100 together with the companies that supply the payroll software installed by employers. The NII is also developing an interface with employers through which it can receive the bank account details of employees on unpaid leave.

11 A check by the State Comptroller’s Office with three companies that develop payroll software through which employers can report to the NII found that they have the technological capability to enable employers to submit pay details every month.

12 An unemployed person who worked in a job where the average daily wage was lower than the daily benefit due to him may be entitled to the grant if he worked in this job for at least 25 days for at least 50% of full time. The maximum grant period is 100 days. The grant is the difference between the daily unemployment benefit the individual would otherwise receive and half of his average daily wage for the low paying job.

13 Including income support, income supplement, nursing benefit and old age pension at the stipulated age.

would be possible to initiate contact with people who were eligible for income-linked benefits and were apparently not exercising their right and to inform them of this. Moreover, monthly reports would enable the NII to initiate claims for benefits for certain insured individuals and automatically pay them the benefit, thus promoting the full exercise of rights.

The serious employment crisis requires the clear and immediate need for regular and reliable data. The employers have the data and the NII has already developed online interfaces to receive the data and has even begun receiving the figures from employers. Consequently, the State Comptroller's Office recommends that the NII should require every employer, at least during the current employment crisis, to submit monthly wage details for each of their employees, pursuant to Section 8(A) of the Collection Regulations – in the format of the semi-annual report currently in use, online or in any other way.

This step will probably place an extra burden on the employers or their representatives reporting to the NII. However, it could be of great benefit to the working interfaces between the NII and the employers, and each citizen, and to the national ability to obtain an overall picture of the job market, as an aid to preparing future economic plans to help the unemployed, workers on unpaid leave, and those with curtailed jobs.

This office also recommends an examination of the bureaucratic obstacles and the optimal ways of implementing Section 176A of the NII Law, which defines eligibility for the "grant for the low-paid unemployed". To ensure that the process is effective requires online implementation, which is also suitable for the current circumstances.

The Director General of the NII stated in his response to the State Comptroller's Office on 1.9.2020 that the Law requires monthly wage reports on a form. Online monthly reporting requires technology that is not available to all employers. Since the failure to report is criminal, the requirement for all employers to submit a monthly online report needs legislation. While working on an amendment to the Law, the NII has set up teams to consider the resources required to implement the monthly wage reports, and they will submit their conclusions in the coming weeks.