



Report of the State Comptroller of Israel | July 2024

Ministry of Health

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# **Clalit Health Services – Financial Audit**





## Clalit Health Services – Financial Audit

### Background

The four Health Maintenance Organizations (HMOs) (Clalit Health Services, Maccabi Healthcare Services, Meuhedet Health Fund, and Leumit Health Services) provide healthcare services to their members under the National Health Insurance Law, 1994, which came into effect on January 1, 1995, and as part of health services the members are entitled to under this law (the basket). Clalit Health Services (the HMO or Clalit) is the largest of the four HMOs. As of December 2022, it provided healthcare services to about 51% of Israel's population (about 4.8 million members). Clalit operates in two main sectors: the community sector, which includes about 1,400 clinics providing healthcare services across nine districts nationwide; and the hospital sector, where Clalit owns and operates 14 hospitals, also distributed throughout the country.



## Key Figures

**44.5  
NIS billion**

the consolidated revenue of Clalit for 2022, 54% of the total revenue of the four HMOs combined (NIS 83 billion)

**NIS 5.7  
billion**

deficit in Clalit's working capital as of December 31, 2022

**current  
plus  
93 days**

Clalit's payment terms to suppliers – longer than those stipulated by the Payment Ethics Law (which does not apply to the fund)

**1  
NIS billion**

equity (surplus balance) of Clalit's subsidiaries as of December 31, 2022 – a sum that Clalit cannot withdraw from its subsidiaries for the benefit of its members due to the absence of holding permits<sup>1</sup>

**NIS 287  
million**

Clalit's annual rental expenses in 2022, (which increased compared to 2021, totaling NIS 260 million)

**38%**

primary clinics rate in Clalit (215 out of 568 clinics) with a real estate efficiency index below 70%, the efficiency threshold set by the HMO

**NIS 70  
million**

annual value of unique benefits provided to Clalit's employees, retirees, and their family members

**40 years**

duration of Clalit's engagement with its accounting firm, noting that the partner in charge of Clalit's account at the firm was replaced only in 2019

<sup>1</sup> A holding permit delimits the scope of activities of the related corporation and establishes the HMOs supervision framework for its operations. Accordingly, the permit stipulates conditions regarding the structure and percentage of holdings, the related corporation's areas of activity and their relevance to the healthcare sector, its relationship with the HMO, profit distribution (dividends), management, supervision, and monitoring.



## Audit Actions



From February to September 2023, the State Comptroller's Office audited the financial matters related to Clalit Health Services, including issues concerning the HMO's financial statements, the recording of state support funds received as income for the community sector in the financial and comparative reports of the Ministry of Health; the holding permits for subsidiaries and their operating profits; real estate management; and corporate governance matters, such as the tenure of the external auditor and adequate representation of various sectors and genders on the fund's board of directors and council. The audit was conducted at Clalit, the Ministry of Health, and the Ministry of Finance. Supplementary examinations were carried out at the other three HMOs: Maccabi Healthcare Services, Meuhedet Health Fund, and Leumit Health Services.

## Key Findings

In the years 2019–2021, Clalit Health Services demonstrated an improving trend in its net asset surplus (deficit). However, in 2022, its financial position deteriorated, with the surplus decreasing from NIS 710 million in 2021 to NIS 190 million. By the end of 2022, Clalit reported a deficit of NIS 589 million. The changes in this trend can be explained by the impact of the Covid-19 pandemic in the years 2020–2021, which altered the mix of services provided by the fund. During these years, Clalit received additional funding from the state to help address the pandemic, including increased personnel budgets for hospitals and financial support of approximately NIS 900 million for each of the two years (2020–2021).


This additional funding enabled the fund to end 2020 and 2021 with surpluses of NIS 354 million and NIS 495 million, respectively. In contrast, Clalit ended 2022 with a deficit of NIS 589 million, partly because the state ceased compensating the fund for Covid-19-related expenses and due to increased payroll expenses following new agreements. The deficit in Clalit's working capital could exacerbate its cash flow crisis and hinder its ongoing operations. Additionally, the war that broke out on October 7<sup>th</sup>, 2023, could worsen the fund's financial position, as its expenses are projected to increase by about NIS 500 million, according to the fund's estimates at the end of October 2023, a time when Clalit had yet to receive compensation for these expenses.




**Recording State Support Funds** – the government establishes financial arrangements with the HMOS (stabilization agreements and stabilization support tests). These arrangements are intended to support the funds, ensuring their continued operations (a safety net) and assisting them in maintaining budgetary balance. Since these funds are



provided to Clalit for budgetary stabilization, Clalit records the revenues received from the state for this safety net as income for its community sector operations. However, it is the hospital operations that are in deficit and are balanced by this safety net. The Ministry of Health recognizes this method of recording by the HMO. For instance, in 2022, Clalit's community sector operations were reported as having a deficit of NIS 78 million, while the general hospital operations recorded a deficit of NIS 2.45 billion. After registering the state support funds and safety net revenues in the community sector results, this sector was presented with a surplus of NIS 2.2 billion. This method of recording revenues in Clalit's financial statements and the summary report of the Ministry of Health's Supervision Department on the HMOs gives a distorted presentation of the financial results of Clalit's operational sectors. It portrays exceptional profitability in the community sector, which, even before receiving the support funds, had balanced results and, in some years, a surplus of revenues over expenses. Such a presentation undermines the ability to compare data on community operations across the four HMOs. Additionally, it raises questions about the justification for the support funds, the need to expand services for HMO members, and the reduction of wait times for community-based physicians.

 **Deficits of Clalit's Medical Centers (Hospital Sector)** – the deficit rate of Clalit's hospitals in 2019–2022 was about 20% of their operating turnover. In contrast, in 2019–2021 government hospitals had a deficit rate of about 5%–9% and reported a surplus of 11% in 2022. Clalit's hospitals do not have health corporations<sup>2</sup>, and due to the employment structure of most Clalit employees (salaried workers under collective agreements), afternoon operations are limited to providing certain services through a wait-time reduction project. The cost of providing services outside regular working hours is particularly high, making it economically unviable for the HMO. Furthermore, increasing the volume of services in its hospitals could boost their revenues but simultaneously increase community sector expenses, thus exacerbating Clalit's overall deficit. As a result, Clalit's hospital infrastructure is not fully utilized (e.g., some operating rooms remain unused after 3:00 PM), and wait times for certain medical services remain long.

 **Timing of Support Fund Transfers to HMOs** – the cash balance of Clalit for 2020–2022 does not accurately reflect its actual financial position for most of the year. During these years, the support tests were finalized in December, resulting in the transfer of support funds to the HMOs during that month. Over 60% of the support amounts for these years were transferred by the government only in the final month of the year. The delay in transferring support funds from the Ministries of Health and Finance (about NIS 2.3 billion for Clalit and the other HMOs) hinders Clalit's ability to manage its cash flow. It creates uncertainty regarding the budget available for financing its ongoing operations and impairs its ability to plan activity, set goals, and implement cost-saving and efficiency

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<sup>2</sup> The health corporations in government hospitals conduct medical activity in the afternoon and evening hours, as well as medical research. Their activity is regulated under the Budget Foundations Regulations (Rules for the Operation of a Health Corporation), 2002.



measures. In addition, this delay complicates the Ministry of Health's ability to optimally fulfill its role as the regulator of the healthcare system.

**Deficits** – (a) The deficit in Clalit's net assets for operational use<sup>3</sup> increased from NIS 9.5 billion as of December 31, 2021, to NIS 10.6 billion as of December 31, 2022. In comparison, the deficits in net assets for operational use as of December 31, 2022, for the other three HMOs – Maccabi, Meuhedet, and Leumit – were NIS 2.4 billion, NIS 2.7 billion, and NIS 1.8 billion, respectively. (b) Clalit's working capital deficit in 2022 increased by NIS 1 billion compared to 2021, amounting to NIS 5.7 billion. Similarly, the working capital deficit in the other three HMOs also grew in 2022. The increase in the working capital deficit could indicate challenges faced by the HMOs in meeting their financial obligations, as well as an increasing reliance on state support to make payments.

**Supplier Payment Terms** – the average credit days for suppliers at Clalit increased from 62 days in 2019 to 68 days in 2022, a rise of about 10%. This delay negatively impacts suppliers by imposing a significant financial burden on them. The non-application of the Payment Ethics Law to HMOs allows them to determine payment terms for suppliers at their discretion. In Clalit's case, the terms are current +93 days, a considerably longer period than stipulated by the Payment Ethics Law.

**General and Administrative Expenses Per Member** – (a) In its summary report on the Supervision Department on HMOs, to improve their efficiency, the Ministry of Health does not examine the general and administrative expenses per member of the HMOs. (b) In 2022, general and administrative expenses per member was NIS 172 at Clalit, NIS 241 at Maccabi, NIS 189 at Meuhedet, and NIS 419 at Leumit (about 120% higher than those at Meuhedet). (c) An analysis of Clalit's general and administrative expenses per member raised a 12% increase between 2019 and 2022, from NIS 154 to NIS 172 per member, 12 times the growth observed at Maccabi, where these expenses increased by only 1%.

**Holding Permits for Subsidiaries of Clalit Health Services** – only half of Clalit's subsidiaries currently hold valid holding permits (five out of ten). Discussions between the Ministry of Health, the Ministry of Finance, and Clalit regarding the holding permits for Mor Institute and SHILA Medical Services began as early as 2013. Discussions concerning two subsidiaries of Mor Institute began in 2020 and 2023, while discussions for another subsidiary have yet to start. As of December 2022, the equity (surplus balance) of the subsidiaries exceeded NIS 1 billion. Under these circumstances, the Minister of Health, the Minister of Finance, and Clalit are failing to comply with explicit provisions of the National Health Insurance Law, which require prior authorization from

3 The HMO possesses dedicated fixed assets required to provide its unique services. The remaining balance of its fixed assets does not necessarily represent a net positive flow of future economic benefits, as is typically expected in a regular business entity (usage value). The net assets surplus (deficit) for operational use is calculated by deducting the HMO's fixed assets balance from the surplus (deficit) in net assets reported in the financial statements.



both ministers for the acquisition or holding of a corporation. The absence of signed holding permits constrains the Ministries of Health and Finance in effectively supervising Clalit's subsidiaries. This creates a potential for the subsidiaries to expand into unauthorized activities and to set prices for services provided to Clalit without proper supervision. Moreover, the absence of holding permits has allowed some subsidiaries to accumulate profits without returning them as dividends to Clalit, thereby depriving the HMO of resources that could be used to improve health services for its members. These profits have accumulated to about NIS 1 billion, 85% of which (NIS 892 million) came from Mor Institute and 6% (NIS 59 million) from SHILA, subsidiaries that still lack signed holding permits.

**Recording Fixed Assets in Financial Statements** – Clalit records its fixed assets in its financial statements based on their purchase cost. The depreciated cost of fixed assets for 2022 was about NIS 10.3 billion. While this presentation is permissible under accounting standards, it does not reflect the real value of the fixed assets. In the absence of a valuation (including disclosure in the notes to the financial statements), discrepancies may arise regarding the assets' value, potentially leading to a "hidden reserve" that represents an asset theoretically available for realization. For example, in 2012, Clalit sold an upgraded asset that had been used as a supply center on Derech Begin in Tel Aviv for about NIS 240 million. This asset had been listed in the HMO's balance sheet<sup>4</sup> at a value of NIS 60 million.

**Assets Owned by Clalit** – in recent years (2018–2022), Clalit has continued both to purchase properties for clinics (three clinics at a total cost of about NIS 40 million) and to lease properties for clinics (94 clinics with an annual rental cost of approximately NIS 38 million). Economically, this suggests that, in the long term, the cost of leasing properties may exceed the cost of purchasing comparable assets. Additionally, although Clalit's pilot project in Jerusalem identified the potential for upgrading eight properties, with an estimated enhancement value of about NIS 500 million, the pilot was not extended to a nationwide examination of all properties owned by Clalit to identify additional assets for potential upgrades. Furthermore, despite seven years having passed since the initial mapping, Clalit has yet to begin the enhancement process in Jerusalem. It was also found that Clalit does not regularly evaluate the potential upgrading or relocation of its properties, including those in high-demand areas where land values are among the highest in the country. These properties are not used as clinics, and there is no imperative for them to remain in their current locations, suggesting the possibility of relocating them to other areas.

**Economic Metric for Evaluating Clinic Real Estate Efficiency** – for 38% of primary clinics, the real estate efficiency metric (the ratio of physician and caregiver hours to opening hours and the number of rooms in the clinic) is below 70%. Clalit has established that a clinic is considered efficient if its efficiency metric exceeds this threshold. This


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<sup>4</sup> Cost less accumulated depreciation.





indicates that these clinics are not fully utilizing the available real estate to provide the maximum range of medical services. Alternatively, it suggests that the clinic's real estate space is disproportionately large relative to the volume of activity it handles, leading to excess costs for the fund.

 **Unique Benefits for Clalit Employees** – from November 2012 to October 2013, following a Supreme Court ruling, discussions were held between the Ministries of Health and Finance and Clalit regarding the possibility of discontinuing employee benefits and replacing them with monetary compensation. These discussions did not result in an agreement due to opposition from Clalit's labor unions, including the physicians' union. Under the stabilization agreement signed by the Ministries of Health and Finance with Clalit for 2017–2019, Clalit was prohibited from granting personnel benefits to employees who began working at the HMO after January 2019. However, due to opposition from the Clalit workers union, Clalit failed to comply with this provision. As a result, in 2019, Clalit did not receive NIS 100 million intended for hospital development or an additional NIS 10 million in regular support funding. In subsequent years, Clalit continued to provide these benefits to new employees, despite their prohibition under the fund's stabilization agreement. The Ministry of Health did not take any action against Clalit for this non-compliance.







 **Adequate Representation on Clalit's Board of Directors** – to meet the requirements for adequate representation on Clalit's Board of Directors, as outlined in the HMO's bylaws and similar to the requirements under the Government Companies Law, about half of the board members should be women – five to six members. However, only three women currently serve on the board. Adequate representation of the Arab community would require three Arab board members, but in reality, there is only one representative. Similarly, adequate representation of the ultra-Orthodox community would require one ultra-Orthodox board member, but there is currently none. In March 2024, as of the audit end, Clalit appointed a female board member from the ultra-Orthodox community.



**Investment in Fixed Assets** – in 2018–2021, Clalit's investment in fixed assets across all its general hospitals at about NIS 2.2 billion. This exceeds the depreciation expenses, which was about NIS 1.5 billion, indicating that the total value of the HMO's assets is being maintained.



## Key Recommendations

-  It is recommended that the Ministry of Health and the Ministry of Finance monitor the implementation of the framework approved in December 2023, assess its effectiveness in halting the trend of increasing deficits among the HMOs, and ensure that public services are not adversely affected. The Ministry of Health should evaluate the needs of the HMOs, considering both population growth and increased life expectancy, as well as technological advancements and their relevant inputs. Based on these findings, the Ministry should identify risks to the healthcare system that could undermine its financial resilience and public health. Subsequently, it should determine appropriate budget allocation priorities for the health services basket.
-  The Ministry of Health should consider a support model that addresses the deficit stemming from Clalit's hospital operations. This model should ensure that support funds are recorded in Clalit's financial statements in alignment with the activity they are intended to support and allow the financial results, as presented in the statements, to accurately reflect the performance of each operational sector (both community and the hospitals).
-  It is recommended that Clalit, in collaboration with the Ministry of Health, consider expanding its hospital operations, particularly in areas where long wait times for services exist (e.g., underutilized operating rooms after 3:00 PM). Such measures would enable increased output while maintaining the HMO's financial stability. Additionally, it is recommended that the Ministries of Health and Finance analyze the reasons behind the disparities in the gross surplus (deficit) rates between Clalit's hospitals and government hospitals. Based on the findings, they should consider instructing Clalit to expand its hospital operations as part of the wait-time reduction project or through alternative means that will help shorten wait times.
-  The Ministry of Health and the Ministry of Finance should ensure that the timing of support fund transfers, not incorporated into the health services basket, aligns with the payment schedules of the HMOs for the activities entitling them to receive these funds. This alignment would enhance the HMOs' budgetary certainty and facilitate better cash flow management.
-  To improve payment terms for suppliers, it is recommended that the Ministry of Health, the Ministry of Finance, and the Ministry of Economy and Industry approve a framework allowing the regulations under the Payment Ethics Law to apply to healthcare institutions and HMOs.
-  Under the law, and to ensure compliance with its requirements, the Ministry of Health, the Ministry of Finance, and Clalit must expedite the arrangement of holding permits for Clalit's subsidiaries. This measure would also enable, among other things, the distribution of their accumulated profits, at about NIS 1 billion. The Minister of Health and the Minister of



Finance comply with the law and ensure that Clalit is granted holding permits for its subsidiaries.



To evaluate its existing assets, Clalit should map the clinics with low real estate utilization, examine the reasons for inefficiency, and, in collaboration with its regional offices, develop a tailored plan for each clinic to implement measures that improve efficiency. By doing so, Clalit can maximize the use of resources at its disposal. As part of this process, it is important to uphold the principle established by the National Health Insurance Law, according to which healthcare services must be provided within the HMO's available financial resources, at a reasonable quality, within a reasonable timeframe, and at a reasonable distance from the insured's residence.



Clalit should align with the real estate management strategy it has developed to efficiently maximize the value of the real estate assets it operates. It is also recommended that Clalit prepare a work plan for managing new real estate assets that it acquires or leases, reflecting the principles of its policy in this area. Additionally, Clalit should map and categorize all its owned assets and define an appropriate management strategy for each. The Finance Committee of Clalit's Board of Directors should supervise the implementation of the fund's management strategy.



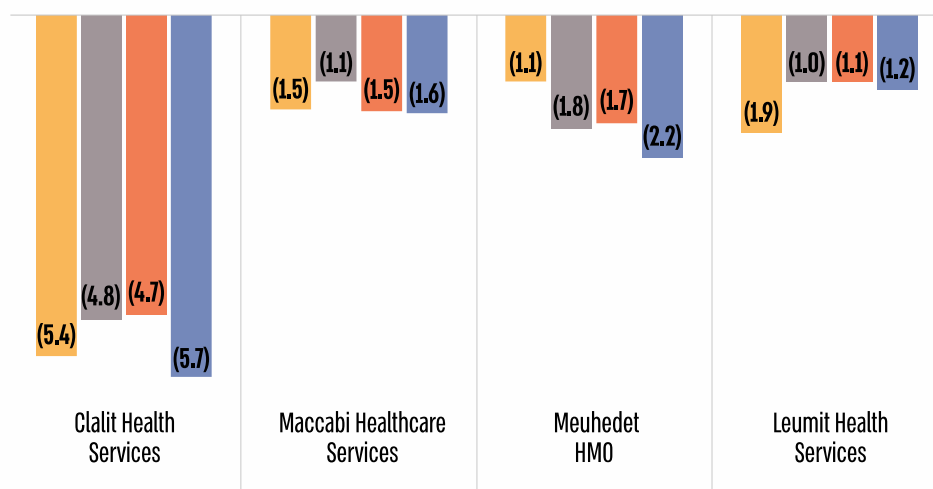
The Ministry of Health, in collaboration with the Ministry of Finance and Clalit, should resolve the issue of personnel benefits in alignment with the resolution reached and the stabilization agreement signed with Clalit. This resolution should align with the Supreme Court directive, instructing the Ministry of Health to examine the issue and formulate conclusions regarding the transition from a system of privileges and in-kind benefits to a system of monetary compensation incorporated into salaries and compliant with administrative law principles.



It is recommended that Clalit promote adequate representation of all segments of Israeli society within its Board of Directors, in alignment with its bylaws.



### The Working Capital Deficit of the HMOs, 2019–2022 (in NIS billions)



According to the financial statements of the HMOs for 2019–2022, as processed by the State Comptroller's Office.



## Summary

Clalit Health Services is the largest HMO in Israel. At the end of 2022, it had about 4.8 million members, about 51% of Israel's population, and owned 14 hospitals spread across the country. As an organization serving the public, maintaining its financial stability and ensuring its proper and optimal operation are of great importance for the benefit of its members.

The audit raised that, compared to 2019–2021, Clalit's financial position deteriorated in 2022. An analysis of the fund's financial ratios indicated that its working capital deficit could deepen the cash flow crisis and hinder its ongoing operations. Additionally, the war that broke out on October 7<sup>th</sup>, 2023, could worsen the HMO's financial position, as its expenses are projected to increase by about NIS 500 million, according to the HMO's estimates at the end of October 2023, a time when Clalit had yet to receive compensation for these expenses. The Ministry of Health, the Ministry of Finance, and Clalit have failed to regulate the operations of all of Clalit's subsidiaries through holding permits, as required by the National Health Insurance Law. This lack of regulation limits the ministries' ability to supervise and monitor the activity of these subsidiaries (which have a surplus balance of about NIS 1 billion) and delays the transfer of profits to Clalit. Clalit, which owns substantial real estate, has a significant proportion of clinics in which the efficiency metric (the ratio of physician and caregiver hours to opening hours and the number of rooms in the clinic) falls below the threshold it set. The HMO has not completed the pilot project conducted in Jerusalem, which identified the potential for upgrading eight properties, nor has it extended the evaluation to a nationwide review of all its assets to identify additional properties with upgrade potential. Clalit has failed to comply with the stabilization agreement regarding the cessation of granting privileges and benefits to new employees. According to Clalit's estimates, total employee and retiree benefits at about NIS 70 million annually from 2019 to 2022. Furthermore, Clalit's Board of Directors and Council lack adequate representation of the Arab community, the ultra-Orthodox community, and women.

Clalit should achieve balance across all its areas of activity, particularly by expanding operations in its hospital sector while leveraging the economies of scale it enjoys. Additionally, Clalit should map and characterize all its owned assets and establish an appropriate management strategy for each one of them. It is recommended that the Ministry of Health enhance the budgetary certainty of the HMOs. In collaboration with the HMOs and the Ministry of Finance, the Ministry should examine the mechanisms by which the health services basket budget is updated, to ensure they achieve their objectives and halt the trend of growing deficits among the HMOs. Furthermore, the Ministry of Health, the Ministry of Finance, and Clalit must regulate holding permits for Clalit's subsidiaries to ensure compliance with legal requirements.

Advancing all the issues raised in the report by Clalit's management and the Ministry of Health, in collaboration with all relevant parties, will lead to the optimal utilization of Clalit's budget, resources, and the advantages inherent in its size and structure as a HMO. As the owner of a



nationwide network of hospitals, Clalit serves roughly half of Israel's population with community-based healthcare services.