

# **Unified Collection of Income-Based, Mandatory Payments in Israel: Simplifying Operations, Reducing Market Costs and Enhancing Employee Welfare**

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The existing collection structure in Israel, based on multiple, separate mechanisms for income-based mandatory payments (income tax, National Insurance fees, health insurance fees, and mandatory pension contributions), generates duplications, mistakes, and high administrative costs for the state, for employers, and for the entire economy, harming small and medium-sized businesses in particular. Simultaneously, the operational complexity increases the risk of errors and deposit mismatches, and imposes on employees the burden of monitoring the continuity of their rights, alongside the concomitant uncertainty. This policy paper proposes a transition to a unified collection mechanism, based on a single report and centralized calculation, aimed at reducing friction points, improving productivity, and easing the burden on employers. This transition would not make any change to tax rates or existing social benefits, and would both preserve employees' choice of their pension components and strengthen the mechanisms that protect their rights.

## **Executive Summary**

This policy paper examines the economic and operational costs of Israel's fragmented collection system – into income tax, National Insurance fees, health insurance fees, and mandatory pension contributions - and proposes a structural reform to unify collection under the aegis of the Tax Authority. The mainstay of the reform is a transition to the single report and single collection of all mandatory income-based payments, alongside automatic, transparent, and supervised distribution of the same to their different end points, in accordance with existing law and employee preferences.

The current collection structure generates significant costs on four levels: (i) the direct budgetary cost to the state due to the duplication of collection and operational systems; (ii) the high administrative cost for employers and self-employed individuals, particularly in small and medium-sized businesses; (iii) the considerable operational cost for the institutional bodies that manage pension savings; and (iv) the indirect economic costs in the form of reduction in productivity and barriers to business expansion and formal employment.

An updated analysis for 2026 data indicates that the annual savings from unifying the collection of income tax, National Insurance, and health insurance would amount to

an order of magnitude of approximately 2 billion shekels, with additional savings of approximately 1 billion shekels from simplifying the operation of mandatory pension contributions for employers and the self-employed. Additionally, the reform is expected to save institutional bodies approximately 0.4 billion shekels a year in operational and service costs.

In total, the order of magnitude of the annual economic savings from a unified collection reform is estimated, according to 2026 data, at approximately 3.1- 4.4 billion shekels, in addition to onetime savings in capital expenditures and duplicate infrastructure investments. Due to the competition in Israel's labor and pension markets, a significant portion of the savings is expected to pass over to the public in the form of higher wages, improved employment conditions, and lower management fees.

The proposed reform is purely infrastructural: it includes no changes to tax rates, social benefits, or the scope of mandatory pension contributions. Its purpose is to reduce administrative friction, facilitate doing business, and improve the efficiency of the state's collection mechanism, while strengthening welfare for employees and pension fund members.

### **1. Collection as Macro-Economic Infrastructure: Institutional Fragmentation as a Continued Cost**

The collection of taxes and mandatory contributions represents a fundamental infrastructure of the modern market economy. The quality of this infrastructure impacts not only states' income but the rate of productivity, the labor market structure and the ease of conducting business. When the infrastructure is simple, unified and stable, it minimizes compliance costs and frees up resources for productive activity. The fragmentation of that infrastructure among multiple bodies creates perpetual friction that imposes a continuous economic cost while adding no collection value.

The collection system in Israel developed over the decades as an institutional patchwork: The Tax Authority collects income tax; the National Insurance Institute collects national insurance and health payments; and mandatory pension contributions are collected and operated by employers and the self-employed through a competitive, multi-bodied pension system. Despite the differences in their end-points, the data base is virtually identical for all: income from employment.

This patchwork means duplicate calculations, duplicate reporting and duplicate collection. Employers issue salary slips, report to the tax authorities, report to the National Insurance Institute and clear the pension payments to several funds. Each body operates separate data systems; different reporting deadlines; and independent oversight mechanisms.

Since a large portion of the cost to employers is static, the cost is regressive, and particularly harmful to small and medium businesses.

## **2. National Insurance and Health Fees: Income-Based Mandatory Payments<sup>1</sup>**

National Insurance payments in Israel are collected as a percentage of income by tax bracket and do not reflect a full actuarial insurance mechanism. Benefits are determined by policy decisions, and a significant portion of the expenditure is funded by the state budget. Operationally, the collection mechanism is similar to a graduated income tax.

Under these conditions, there is no economic advantage to maintaining a collection system separate from the Tax Authority. The separate collection requires expensive infrastructure: information systems, service centers, enforcement mechanisms, and refund processing – all infrastructure that already exists in the Tax Authority. Transferring the collection function does no harm to the core function of the National Insurance Institute as a benefits administration body, it only separates the payment collection from the management of benefits.

A similar duplication exists regarding health insurance as well: health insurance fees are collected through the National Insurance Institute and transferred to the health funds, in parallel with direct budgetary transfers from the Ministry of Finance. Multiple intermediary stations create a lack of transparency and unnecessary costs, which can be reduced through unified collection and direct transfer.

## **3. Reform Principles: Unified Collection, Central Calculation and Information and Money Flow**

The proposed reform is based on a simple yet far-reaching institutional principle: when the basis of a duty is identical - in this case, income - there is no economic logic to the maintenance of multiple, separate collection and operational mechanisms. It is therefore proposed to consolidate the collection of all mandatory income-based payments under the Tax Authority, while maintaining a clear separation between the functions of collection and benefits management.

Under the proposed model, employers and the self-employed report once, on a uniform date, based on income. Their report will include the relevant salary components in the exact same manner as they are calculated today for salary slips. A central calculation system will then compute all obligatory payments on the basis of this information, in accordance with the existing legal rules: income tax, National Insurance fees, health insurance fees, and mandatory pension contributions.

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<sup>1</sup> See the policy paper [Hebrew] on this issue <http://bit.ly/3GyJD9t>

Operationally, the transition will be from multiple payments to one single payment. Employers will make only one transfer, after which the government system will divide the sum it received into the relevant components and transfer them to their destinations. This process eliminates many friction points: different payment dates, multiple clearing interfaces, and the responsibility for making decisions about exceptions to the rule.

The flow of funds and information is designed in a way that holds employers responsible only for the accurate and timely reporting of income. The responsibility for executing the transfers, monitoring malfunctions, and correcting errors is turned over to the central system. This change is critical to understanding the potential in cost savings: the projected savings are not merely in reporting, but in the profound change made to the division of responsibility.

#### **4. Mandatory Pensions in Israel: When Regulation Meets High Operational Costs**

The public policy of mandating pension saving in Israel is fundamentally controversial, but so long as it is anchored in law, the discussion relevant to this paper is strictly practical and operational. In this aspect, mandatory pensions represent one of the most severe administrative failures in the current regulatory system: the state mandates a broad obligation, but imposes its ongoing operation almost entirely on employers.

In practice, Israeli employers do not serve merely as "fund transferors" but as full financial operators. This responsibility includes locating employees' existing pension arrangements, opening a new fund in the absence of such, verifying the application or non-application of Section 14, determining contribution rates for severance and compensation components, and executing accurate monthly clearing. Any error - even one resulting from a technical malfunction - may have legal implications, including exposure to employee lawsuits and administrative fines.

This administrative burden accumulates throughout the employment lifecycle. At the initial stage, issues arise around partial information, the submission of forms, and delays in fund selection. During ongoing employment, every change - unpaid leave, reserve duty, change in the scope of an employee's position, or a transfer between pension tracks - requires manual adjustments and possible retroactive corrections. The termination of employment adds more complexity regarding the severance component and possible supplements, especially when Section 14 does not apply.

A central characteristic of this cost is its fixed nature. Most of the cost is not dependent on the number of employees but the very existence of the obligation. Employers with only three employees require an operational infrastructure very

similar to that of much larger employers, making this a distinctly regressive burden, harming primarily small and medium-sized businesses, and creating a negative incentive for expansion, formal employment, and even the intake of new employees.

The solution to this failing is not to reduce contribution rates or cancel mandatory saving, but to transfer the operational responsibility to a single entity that enjoys the benefits of economies of scale - the state – while taking care to preserve competition, employees' freedom of choice, and the pension market's structure. Sections 5 and 9 below on managing employee preferences and the mechanisms for protecting their rights detail how this solution should be implemented in practice while preserving flexibility and choice.

## **5. Managing Employee Preferences under the Unified Model**

Under the proposed model, employee pension preferences – fund, track, instrument and rate – will be managed centrally by one system. Each employee will be issued a digital pension card, updated at will according to their choices. Employers will no longer be required to secure paperwork or make adjustments.

Upon first intake, the system will automatically recognize existing arrangements or activate a regulated default option. Changes during employment will be made directly within the system, with future deposits adjusted and no retroactive corrections performed. The money flow is included in the unified charge; in cases of malfunction, monies will be saved in an intermediate account until the issue is resolved, fully preserving employees' rights in the process.

## **6. Savings Estimate and Benefit - Cost Analysis: Breakdown, Sensitivity and Market Significance**

The estimates of savings in this paper are preliminary assessments in orders of magnitude, intended to support data-based policy discussion. Since the proposed reform is infrastructural and multi-component, there is no single "true number" at this stage; instead, there is a range dependent on assumptions. However, it is possible to break down savings into clear sources; present sensitivities; and assess the benefit-cost ratio of the proposal.

### **Breakdown of the Savings Components<sup>2</sup>**

*(a) Budgetary savings for the state (collection, systems and service):* Consolidating collection and operational functions of public bodies eliminates duplications in personnel, information systems, service centers, and enforcement and debt collection mechanisms. In 2026 terms, the order of magnitude of current budgetary savings from

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<sup>2</sup> The expected savings estimates from unifying National Insurance collection are based on the calculations detailed in the policy paper <http://bit.ly/3GyJD9t> [Hebrew]. The amounts were adjusted to the year 2026 by indexation to nominal GDP.

unifying the National Insurance and health insurance collection with income tax is estimated at approximately 0.7- 0.8 billion shekels a year, in addition to a one-time saving in capital and infrastructure expenditures (of approximately 0.35 - 0.45 billion shekels), resulting from the termination of duplicate investments, and the reduction in dedicated assets and software.

*(b) Savings for employers and the self-employed from the elimination of duplicate reporting and interfaces with authorities:* This component reflects a reduction in accounting/payroll time, professional fees, management time, and the reduction of the errors and corrections that occur when dealing with more than one body. This saving is estimated at approximately 1.2-1.5 billion shekels a year in 2026 terms.

*(c) Savings for employers and the self-employed from the simplification of mandatory pension operations:* This is a savings component that is usually "hidden" in budgets, as it manifests as a fixed burden on businesses and in the management of exceptions. Given that the operational complexity of pensions is higher (due to multiple funds and instruments, frequent changes, retroactive corrections and legal liability), it is reasonable to assume that the potential savings from its unification would not be less than that from eliminating duplicate reporting with National Insurance, and in certain cases would be greater. In 2026 terms, the preliminary estimate is a range of approximately 0.9-1.6 billion shekels per year, where the upper limit assumes a more significant decrease in errors, fines, and the cost of handling corrections.

*(d) Savings for institutional bodies that manage pension savings:* Usually, discussions of pensions focus on employers and employees, but institutional bodies also have high operational costs stemming from service interfaces with hundreds of thousands of employers and self-employed individuals: accepting clearing files in various formats, managing errors and mismatches, operating dedicated customer services for employers, and implementing a significant amount of retroactive corrections. The transition to a unified collection system with a single data standard is expected to significantly reduce these costs: fewer inquiries, fewer exceptions, fewer acceptance failures, and more consistency in matching the salary slip-report-deposit components. Although there is currently no official estimate based on administrative data, cautious orders of magnitude can be proposed based on the market's known operational cost structure, with the operational logic being clear: the result is real savings, expected to partially pass onto service improvement and the reduction of operational costs in the market.

### **Why Are Savings from Pensions Expected to Exceed Those from National Insurance?**

The primary disparity between pension contributions and National Insurance fees is not the base charge but the operational complexity. Since the rules for National Insurance are relatively uniform, and the variance between employees is small, the main cost for employers is the duplicate reporting and the interface with an additional body. In contrast, the complexity of pensions exists at the individual level: employees' pension choices (fund, instrument, track, rate of contribution), multiplicity of exceptions (vacations, reserve duty, change of job, change in salary) and the compensation component governed by different regimes (Section 14 versus the traditional regime). All this means that a significant portion of the costs is not mere

reporting but rather management: correcting mismatches, comparing data, responding to employees' queries and dealing, usually, with legal risk as well.

Should a central system take on the management of flow and exceptions, not only will the number of forms lessen, but so would the rate of mistakes and the accompanying retroactive corrections. This is exactly the type of saving that is not well captured by conservative estimates, but one that employers experience in actuality as a burden.

### **Cost-Benefit Scenarios and Return Period (Estimates in Orders of Magnitude)**

In addition to the annual savings, the reform includes the short-term costs of implementation and transition. Following are indicative scenarios (in orders of magnitude) that also include the estimated operational savings for institutional bodies:

*(a) Conservative scenario:* Total annual savings of approximately 3.1 billion shekels (of which approximately 0.3 billion shekels are in operational savings for institutional bodies), against a one-time investment of approximately 1.0 billion shekels (approximately 0.5 billion for development and integrations, approximately 0.2 billion for training and public engagement, and approximately 0.3 billion for dual operations and transition costs). Payback period: a few months after the commencement of full operation.

*(b) Optimistic-controlled scenario:* Total annual savings of approximately 4.4 billion shekels (of which approximately 0.5 billion shekels are in operational savings for institutional bodies), against a one-time investment of approximately 0.7 billion shekels (approximately 0.35 billion for focused development, approximately 0.15 billion for training, and approximately 0.2 billion for transition costs). Payback period: particularly short.

It should be emphasized that these estimates are based on orders of magnitude, as well as the assumption that the system will function stably after the implementation phase. The response times and service levels (SLA) proposed in Section 9 are indicative only, and should be calibrated according to actual operational capacity and accumulated experience during pilots and initial implementation phases.

### **Dynamic Impacts Not Fully Captured by Estimates**

Direct savings are only one part of the picture. There are also accumulative dynamic impacts: productivity improvements through the reduction of time spent on non-productive management; greater ease of establishing and expanding small businesses; the weakened incentive for informal employment; and the improvement of information leading to data-based policies and more efficient collection.

### **Recommending Complementary Estimates and Key Performance Indicators (KPIs)**

Since our estimates are preliminary, we recommend that complementary estimates be conducted by the Tax Authority, the National Insurance Institute, the Ministry of Finance, the Capital Market Authority and other employer organizations and institutional bodies. In addition, Key Performance Indicators (KPIs) should be defined

in advance: reduction of hours that small businesses spend on operation; reduction in the number of retroactive deposit corrections; average time spent on malfunctions, and the rate of match between salary slip-report-deposit.

## 7. International Comparison

Unifying all income based mandatory payments is not unique to Israel nor does it entail the adoption of a foreign institutional model in full. However, a careful study of the international experience provides important insights on feasibility, implementation priorities and risks. Many OECD countries maintain a clear separation between the determination of social rights and the collection of the payments that fund them, with the collection function centralized in a single tax authority or a unified report mechanism.

**Sweden** is considered a prominent example of income-based consolidated collection. The Swedish Tax Agency (*Skatteverket*) is responsible for collecting income tax, social insurance fees (*sociala avgifter*), and public pension components. Employers report once on their employees' salaries and transfer the total amount of payments, which is then divided by the central system. The public pension is managed separately by the Pension Agency (*Pensionsmyndigheten*), but its collection is carried out through the Tax Agency. This model relies on uniform personal identification, integrated databases, and full digital reporting, and was implemented gradually during the 2000s together with broad reforms in public administration. It's important to emphasize that Sweden maintained full competition in occupational pensions, so that the consolidation of the collection did no harm to choice mechanisms.

**Denmark** also operates a model of centralized income reporting through the central wage income reporting system (*eIndkomst*), which serves the Tax Agency (*Skattestyrelsen*), welfare authorities, and other bodies. Employers report salary data in real time, and this data is used for calculating taxes and entitlements. Although occupational pensions in Denmark are managed through collective agreements and with private bodies, the unified reporting reduces operational friction and decreases errors. The main lesson from Denmark is the contribution of a unified database to improving information reliability, even without full consolidation of all cash flows.

**The UK** implemented the Real Time Information (RTI) system in 2013, which requires employers to report to HMRC (His Majesty's Revenue and Customs) on salary payments, income tax, and National Insurance at each payment date. The information serves for both collection purposes and the management of welfare entitlements. Although collection remains formally separate, the unified reporting system significantly improved data quality and reduced fraud and errors. Official HMRC evaluation reports noted that after a challenging adaptation period, the system contributed to budgetary savings and operational efficiency. The British case emphasizes the importance of gradual implementation and making concessions to small businesses.

**Australia** provides a complementary example through its Single Touch Payroll and Payday Super reforms. The Australian Tax Office (ATO) serves as a central reporting hub for salary and tax duties, and employees can view data through the myGov interface. However, the responsibility for transferring pension contributions

(Superannuation) remains the employers'. Ahead of 2026, employers will be required to transfer contributions at the time of salary payment. The Australian experience illustrates that partial reform improves transparency and tracking, but does not eliminate the operational burden on small employers.

**Practical Lessons for Israel:** The international comparison demonstrates several consistent, verifiable principles: (1) centralizing income-based collection or at least reporting is the accepted practice in developed countries; (2) the reform's success is dependent on mature digital infrastructure and unified databases; (3) gradual implementation and designated concessions for small businesses are a necessary condition for reducing transition costs; and (4) unifying the collection is compatible with competition in pension instruments, as long as employees retain their freedom of choice. These principles strengthen the argument that the proposed reform is not anomalous, but rather an alignment with proven practices in the local context.

## **8. Implementation, Risks and Administrating the Change**

Implementing the reform of unified collection is a large-scale infrastructure project; its success therefore depends on the quality of the transition management no less than on the institutional design. International experience shows that collection reforms fail not due to their flawed economic logic, but to rushed implementation, lack of adequate digital infrastructure, or disregard for the impact on existing stakeholders.

Our proposed implementation relies on genuine gradualism. The first phase should focus on health insurance fees - a relatively simple, low-risk component, thus facilitating the necessary testing of the unified reporting standard and the payment distribution mechanism. The second phase should include National Insurance fees and would require a parallel run: for a defined period, reports would be submitted in both the old and new systems to identify discrepancies. Only after stabilization would the actual collection be transferred.

Integration of the mandatory pension contributions is expected to be the most sensitive phase. A limited-scope pilot is necessary - for instance, among small businesses or new employees on a voluntary basis. Such a pilot would make it possible to test the "pension card" mechanism, the database's stability, and the way exceptions are handled, without exposing the entire market to systemic risk.

Risk management requires a multi-layered framework. The central risk is operational: information system failures, data mismatches, or delays in fund transfers. This requires real-time control mechanisms, automated data quality checks, and clear notification interfaces. A fundamental principle here is the existence of a safety net: in the case of a systemic failure, the state will complete the deposit retroactively, without imposing fines and without harming employees' rights.

Institutional and political risks exist as well. Bodies currently handling the collection or operational functions may resist change. A structured engagement process is therefore required, one that includes transparency, clear timelines, and incentives for adaptation. In the case of institutional bodies, it should be emphasized that the reform is expected to reduce service costs, errors, and their subsequent corrections. In the

case of payroll consultants and software providers, early integration is required through open interface standards and dedicated training.<sup>3</sup>

Finally, managing the change will require the dedicated investment of resources to training and communication. Transitioning to a new system without adequate support may damage trust. It is therefore recommended that significant resources be allocated to a training framework; an adjustment period without sanctions; and dedicated support centers.

## **9. Protection Mechanisms for Employees and User Experience: Trust, Continuity and Response Times**

This reform's success depends not only on savings and efficiency but first and foremost on trust. Employees are the end-clients of the system: if they worry the reform will negatively impact their deposits, rights or continuity of insurance, public opposition to the reform will grow. Consequently, clear protection mechanisms and positive user experience are prerequisites, not added bonuses.

### **Employee Protection Mechanisms**

- (a) *Full Transparency*: Employees must be able to view their reported income, mandatory payment components and the actual deposits in one place – including dates, amounts, pension fund, pension track and rate of contribution.
- (b) *Continuity of Rights*: Technical malfunctions must not discontinue employees' rights. Deposits that miss their deadline due to system failures must not become the employees' problem to solve.
- (c) *Independence from Employers*: employees should not be forced to "chase" their employers in cases of system malfunctions.

### **Unified Digital Interface – What Employees Can View and Do**

The unified interface for employees should show three layers: (1) information on salary and reporting – what was reported and when; (2) mandatory payments calculation – income tax, National Insurance, health insurance and pension contribution; (3) actual deposits –how much was deposited and where. Additionally, the interface should offer the option of directly changing pension preferences (fund, track, and rate for employees in the lawful range), also showing the date of when the change comes into effect.

Alternative channels are required for the protection of non-digital employees: a designated call center, frontal service through existing centers, and the (supervised) option to carry out basic actions by power of attorney.

### **Active Exception Mechanism**

The system should identify issues before employees are harmed. Under the current model, employees often discover failures only months after the fact. In the proposed

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<sup>3</sup> It is advisable to consider cooperation with leading Israeli fin-tech companies, in a similar model to work done in the past with the Cellopark and Pango companies.

model, an automated monitoring mechanism is activated, checking the match between salary slip/report and actual deposit. In cases of mismatches (non-deposits, anomalous amounts, routing to the wrong fund), the system will automatically generate an exception event. In such cases, the pension component (or part of it) will not "disappear" – but be kept in a designated interim account and marked for processing. Employees will receive clear notification of the processing status in the interface (and through an additional channel of their choice).

### **Safety Net: Temporary Completion to Preserve Rights**

When an exception event is not resolved within a short time-period, a temporary completion mechanism will be activated: the system will complete an operational deposit so that employees' rights are not interrupted. After the error is resolved, a final settlement will be performed, including retroactive returns adjustment according to uniform rules.

### **Contact Channels and Guaranteed Response Times (SLA)**

For the system to function, a basic SLA set is required. Following is a proposed framework (as a basis for further discussion):

- Simple intake/routing malfunctions: initial response within 2 business days, resolution within 10 business days.
- Errors requiring coordination with an institutional body: initial response within 2 business days, resolution within 20 business days.
- Events that could harm insurance coverage: immediate handling and temporary completion within 48 hours.

Every event will receive a monitor number, and employees can view its status and the expected date of resolution.

### **Examples for Exception Events**

*Employee changes the place of employment in the middle of the month:* Two employers thus report on partial income. The system recognizes the continuity by employees' ID number, combines the data for tax calculation purposes and directs the deposits according to employee preferences. The employee views the month as one picture.

*Change of pension fund/track:* the change will take effect on a set date. Subsequent deposits will be redirected automatically. If the new fund does not accept the deposit, the money will be held in an interim account, with the temporary completion mechanism activated as necessary.

*Unpaid leave/reserve duty*: the system recognizes the circumstance through employees' salary components and prevents incorrect alerts.<sup>4</sup>

### **The Role of Institutional Bodies in the Protection Mechanism – and Their Savings**

Discussions of reform tend to focus on the state, employers, and employees, but institutional bodies that manage pension savings – pension funds, provident funds, and insurance companies – are also expected to see significant operational savings, with broad systemic implications. These savings are not secondary: they stem from the profound change in the structure of information and money flow, and may substantially affect both the total economic savings of the reform and its distribution among market players.

Today, a significant portion of the operational and service systems of institutional bodies is dedicated to dealing with employers and self-employed individuals: the intake of clearing files in various formats; handling errors and mismatches between salary slips, reports and actual deposits; responding to employer inquiries; and handling a large volume of retroactive corrections. Each institutional body is required to maintain dedicated IT and service systems to cope with the high variability in data, reporting dates, and information quality.

Transitioning to a unified collection model with a single data standard, a uniform reporting date, and a central distribution mechanism is expected to dramatically reduce these sources of friction. Several key points:

- *Dramatic reduction in intake errors*: When information arrives from a single central system, in a uniform format and with preliminary control, the rate of intake failures and adjustments is expected to decrease significantly.
- *Decrease in the volume of retroactive corrections*: Corrections necessitated by clearing errors, delays, or duplications will diminish, particularly complex corrections that span several months.
- *Reduction in services required for employers and the self-employed*: A significant portion of service inquiries today come not from pension fund members but from employers trying to clarify operational mismatches. This particular workload is expected to decrease substantially.
- *Streamlining IT and operational systems*: Standardization will allow institutional bodies to simplify their systems, decrease dedicated developments, and lower maintenance costs.

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<sup>4</sup> Today, employers carry some of the costs of employing reservists. The recent War of Redemption (Swords of Iron), in which many served hundreds of days, created extreme cases, leading the state to recompense employers by partial reimbursement. Perhaps the proposed change will simplify the way such cases are handled, and serve as an intermediate phase between current conditions and the proper state of affairs, where employers are not required to sustain losses for employees who serve reserve duty.

Although at this point we have no official estimate of the operational savings for institutional bodies, we can offer cautious orders of magnitude. The amount of management fees collected in the pension and provident fund market reaches tens of billions of shekels annually, with the operations and service component constituting a significant portion of the cost. Even the saving in operational costs of a few percentage points - a 3–5 percent reduction in service and operational costs related to the interface with employers, for instance - could translate into an order of magnitude of several hundred million shekels per year in terms of the economy as a whole. This saving is not fully reflected in the savings estimates presented above, and therefore increases the overall beneficial potential of our proposed reform.

It is important to emphasize that this saving is not expected to remain entirely in the hands of institutional bodies, due to the competitive nature of the pension market in Israel. The competition for fund members, particularly in default option tenders and transfers between funds, creates a natural transfer mechanism through which part of the saving will pass on to the public in the form of lower management fees and improved service quality. Thus, the reform is expected to contribute not only to operational efficiency but also to strengthening competition and improving fund members' welfare.

Similarly, the savings for employers - especially small and medium-sized businesses - is not expected to remain entirely as excess profit. In a competitive labor market, part of the savings in fixed costs will be passed on to employees, whether in the form of higher wages, improved employment conditions, or expanded employment. Therefore, the operational savings arising from the reform should be seen as an indirect mechanism for improving employee welfare, beyond the direct aspect of protecting their pension rights.

Taking this saving into account - even conservatively - indicates that the total economic benefit of the reform is higher than the direct estimates presented in the executive summary and in Section 6. This reinforces the argument that this infrastructural reform also carries a broad systemic contribution, extending well beyond the mere simplification of collection.

## **10. Summary**

The proposal to unify the collection of income tax, National Insurance, health insurance and mandatory contributions to pension funds is an administrative and infrastructural reform with a particularly high benefit-cost ratio. In contrast to other fiscal or regulatory reforms, there is no change proposed to tax rates, social benefits or the scope of mandatory contributions, only a change in implementation: moving from a fragmented collection system characterized by multiple friction points and redundancies to a unified mechanism based on single reporting, centralized calculation and a unified data standard.

The analysis in this paper demonstrates that the current collection structure imposes significant costs on the state, on employers and on the self-employed – primarily on small and medium business owners – as well as on the institutional bodies that handle pension savings. This complexity gives rise to lost administrative time; service and correction costs; accumulated risk for errors; and harm to the continuity of employees'

rights. Mandatory pensions are a prime example of this failure: a broad obligation is implemented by imposing heavy operational responsibility on employers.

The proposed reform offers a systemic resolution to these failings by consolidating the collection function and transferring operational responsibility to a single entity with economies of scale. This move is expected to reduce errors and retroactive corrections, improve data quality, and significantly ease the burden on employers, while preserving employees' choice of pension instruments and maintaining mechanisms for the protection of their rights and rights' continuity. At the same time, the reduction in operational and service costs for institutional bodies is expected, due to competition, to be partially passed on to the public in the form of lower management fees, higher wages, and improved employment conditions. The savings estimates point to an annual economic benefit in the range of billions of shekels, but the importance of the reform extends beyond direct savings: it is an infrastructural step that reduces administrative friction, returns resources to the economy for more productivity, and removes structural barriers to growth and formal employment.

International experience shows that consolidating income-based collection or reporting is an accepted practice in advanced economies, and that a gradual and careful implementation allows the benefits to be realized while managing risks.

**Therefore, we propose exploring and promoting the unified collection reform as an infrastructural policy measure with high implementation potential and broad benefit, a reform that can be instituted gradually and responsibly under the framework of government staff work.**