



Legal Update

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Labor Relations Department

Introduction to Israeli Employment Law

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Israeli employment law is a blend between the Continental and Common law legal systems. This area of law is constantly evolving, not only through new legislation, but also through collective agreements, extension orders and labor court rulings.

Employment protection laws - a set of laws that provide minimum conditions for employees in Israel applicable to employees of all kinds, irrespective of their wage levels - are at the foundation and provide the framework for employment law in Israel. Below we provide a general overview of specific basic rights granted to employees in Israel, which are among the most important to be familiar with for businesses looking to operate in, or expand to, Israel.

Workweek and Overtime: The Work and Rest Hours Law (1951) establishes the right of an employee to receive compensation for overtime (defined as working beyond nine hours a day and all weekly hours beyond 43 hours), and it restricts the employment of an employee on weekly rest days. For the first two hours of overtime, an employee is entitled to 125% of his hourly salary and for each additional hour thereafter he is entitled to 150% of his hourly salary.

Payment of Salary: The Salary Protection Law (1958) provides that an employer must pay employee salaries no later than the ninth day of the calendar month following the month in which wages were earned.

Annual Vacation: The Annual Vacation Law (1951) provides a minimum annual leave for employees ranging from 15 to 28

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days, based on seniority. The law provides that up to a maximum of two years of unused vacation days are redeemable upon termination of employment.

Sick Leave: The Sick Leave Payment Law (1976) provides that employees are entitled to sick leave payment such that one and a half days of sick leave are earned for each month of employment, up to a maximum of 90 days. The employee is not entitled to compensation for the first day of sick leave, compensation is set at half pay for the second and third days, and thereafter the employee is entitled to full pay. Unused accumulated sick days may not be redeemed.

Convalescence Pay: According to the General Extension Order Regarding Payment of Convalescence, employees are entitled to convalescence payments (from five to ten days per year) based on their seniority.

Pension Insurance: Every employee in Israel is entitled to pension insurance consistent with an Extension Order issued by the Minister of Economy. According to the Extension Order, employers must contribute 6.5% of an employee's gross salary to a pension plan (the rates may be slightly different if the employee chose a 'manager insurance policy') and 6% of an employee's gross salary as severance pay, with the employee also contributing 6% toward the pension plan. Generally, an employer must make provisions for pension insurance after the employee has been employed for six months. However, if the employee had a pension plan with a previous employer, the employee is entitled to the pension arrangement as of the first day of work.

Severance Pay: Under the Severance Pay Law (1963), an employee who has completed a full year of employment and is terminated by the employer is entitled to one month of salary per each year of employment based on the monthly salary at the time of termination. However, Section 14 of the Severance Pay Law provides an alternative whereby an employer is exempt from the severance pay obligation in cases of dismissal. This would apply if the employer implements an arrangement according to Section 14 in which the employer makes monthly payments out of the employee's monthly salary towards a pension plan in the name of

the employee, which includes a component of severance pay and a component of pension payment. The amounts accrued in the severance pay component may be substituted for the statutory amount if the employer and employee agree to the Section 14 Arrangement in writing; provided, however, that the funds must be released to the employee even if the employee resigns.

Termination - Prior Notice: The Prior Notice for Resignation and Dismissal Law (2001) stipulates specific minimum periods of prior notice that employers must provide employees before a dismissal. During the first year of employment, the period varies from 1 day to 21 days based on the length of employment and, following the first year of employment, the period is set at one month. According to Israeli National Labor Court rulings, an employer that wishes to transfer the ownership of its business to another entity should provide prior notice to employees.

Collective agreements are an additional source of employee rights. They are signed at organized workplaces, between a representative labor organization and the employer.

In a unionized company, a labor organization represents the employees vis-à-vis the employer and, therefore, negotiations regarding salaries, employment terms, and termination process are no longer conducted on an individual basis between each employee and the company, but rather in a collective manner. This results in the signing of a collective agreement between the employer company and the labor organization.

A collective agreement is a result of negotiations between the labor organization and the employer and it provides employees with better employment terms and enhances their rights relative to the terms and rights pursuant to the employment protection laws.

Extension orders are another source of employee rights. An extension order is an order by the Minister of Labor and Social Services that is enacted following the signing of a collective agreement. When a collective agreement is signed, the Minister of Labor and Social Services may extend some of its provisions and apply them to a relevant group of employees in the market. For example, when a collective agreement is signed between a security company and a labor organization, the Minister may

extend it to all security companies in the market so that all employees in the security sector will be subject to the terms established in the extension order. In this manner, there is equalization of work conditions in a specific branch of the economy.

An additional source of employee rights is caselaw of the labor courts. Labor courts in Israel are considered to be activist whereby they not only interpret existing laws, but also establish new and innovative doctrines in cases where there are no applicable laws addressing specific circumstances.

We would be happy to answer any questions that you might have.

Sincerely,

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