ICAR Perspective on Israel's 2025 State Budget: Mental Health Reform and Systemic Implications

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Key Insights: Structural Gaps in Israel's 2025 Mental Health Budget

- Despite a ~17% increase in funding, mental health still receives only 2.4% of Israel's national health budget – far below the OECD benchmark of 8–10%.
- Only part of the ₪800M trauma-related allocation reflects new investment - much of it scales or continues existing plans.
- Lack of coordination and governance threatens implementation - without a clear operational framework, even well-funded reforms may fall short.

Introductory Context

Mental health in Israel has never been more visible - or more vulnerable.In the aftermath of October 7 and amid growing public awareness, the 2025 state budget presents an opportunity to invest in healing. But the numbers tell a grim reality that emerges from the data: mental health receives only 2.4% of the Ministry of Health's budget, far below the 8–10% average in OECD countries, and dwarfed by spending on other national priorities.

This document aims to make the mental health budget legible: to clarify what has been funded, what remains underfunded, and what is missing entirely.Understanding the budget is not a technical task - it is a civic responsibility, and a critical step toward budget justice in a society marked by collective trauma.

While approximately ₪800 million were designated for trauma-related services, only a portion reflects new or post-October 7 funding. Much of the allocation continues previous plans or scales up existing services. The gap remains wide: less than half of system needs are funded, and Israel's mental health system continues to operate far below international standards.The result is an estimated annual shortfall of ₪3-4.5 billion.

Guiding Principles for Interpreting the Mental Health Budget

This analysis is shaped by a set of cross-cutting principles that reflect our values, policy approach, and systemic view of mental health in Israel:

1. **Trauma-Informed, Intersectoral Lens:** We view mental health not in isolation, but as a cross-ministerial issue shaped by trauma. True healing requires coordination between health, education, welfare, and security systems - and recognition of the ongoing impact of collective and individual trauma.

2. **Mental Health as a Public Infrastructure:** Mental health is not a niche issue - it is foundational. When we invest in mental health, we strengthen communities, improve physical health outcomes, reduce inequality, and enhance social cohesion.
3. **From Illness to Wellbeing:** We advocate a shift from reactive, illness-based care to a proactive model of wellbeing. This includes prevention, early intervention, resilience-building, and support that begins long before clinical thresholds are reached.
4. **Budgets as Ethical Blueprints:** A state budget is more than a financial document - it is a moral map. We assess budget allocations not just by cost-effectiveness, but by their ability to shift the system toward equity, dignity, accessibility, and long-term transformation.

Introduction: A Call for Transformative Equity

This document presents ICAR's critical analysis of the 2025 Israeli state budget, with a focus on reforms in the mental health system. While we recognize key structural shifts-such as the introduction of capitation and increased investment in community mental health-we view the budget through a trauma-informed, equity-centered lens. Our goal is not only to describe the reforms, but to interpret their implications for people, communities, and systems still carrying the weight of collective trauma.

This plan suggests real progress. But after decades of underinvestment, it's just a first step - not a full fix. Mental health needs consistent, serious attention. ICAR sees this as a pivotal moment to increase efficiency and push toward justice, inclusion, and healing.

1. 2025 National Mental Health Plan - Overview

The 2025 National Mental Health Plan sets aside ₪1.4 billion to address inequalities in access to care, improve quality and train mental health professionals, this is not as an addition to the previous line, but as full designated budget for the year. This includes efforts to expand outpatient services, upgrade inpatient facilities, build the workforce, and invest in community-based infrastructure. It includes both new investments introduced in response to post-October 7 needs, as well as the continuation or expansion of pre-existing programs and commitments.

For 2025, a total of ₪1.4 billion was allocated to mental health system development, out of a Ministry of Health total budget of ₪59.1 billion. This represents approximately **2.4%** of the total Ministry budget.

By comparison, in 2024, mental health expenditures were approximately ₪1.2 billion, while the Ministry's total budget stood at approximately ₪54.3 billion, making mental health approximately **2.2%** of that year's total.

The additional funding is made possible through:

- An increase in **national health insurance contributions** (approved March 2024)

- Designated budget lines in the Ministry of Health and cross-ministerial collaboration (Health, Welfare, Education, Interior, IDF)

Here's a breakdown of where the money is going.

1) **Hospital Reform Package** - ₪570M To pay for previous commitments ; Most of the hospital infrastructure and psychiatrist salary reforms were already in motion before the war
2) **Investment Focused on Trauma Response** - ₪800M of investment focused on trauma scaling in community mental health

2. Hospital Reform Package (570 Million NIS)

1. Infrastructure and Physical Improvements (200 Million NIS)

This section reflects capital investment and includes several key items. These were largely planned before the war, are now being funded through the multi-year investment plan and are based on the Melamed Committee's recommendations **(Read box below to learn more about Melamed Committee).** They are described as "המשך תוכנית רב-שנתית לבינוי ושיפוץ תשתיות".

The Budget is **400 million NIS over multiple years**, of which **~200M NIS is part of the 2024–2025 plan.** This budget includes:

1. **Renovation Projects:** Continued implementation of physical upgrades across government-run psychiatric hospitals.
2. **Construction of Dedicated Forensic Observation Wards**:Intended for detainees awaiting psychiatric evaluation, these wards aim to reduce overcrowding in general psychiatric departments and improve conditions for individuals undergoing legal mental health assessments. This addresses a long-standing gap in the system and separates criminal forensic cases from therapeutic inpatient environments.
3. **Increase in Security Personnel:** Additional funding to hire trained guards in psychiatric hospitals to address long-standing safety concerns.
4. **Regionalization Reform:** Reconfiguration of ward space, transportation routes and reallocation of patients across hospitals for better balance. Referred to as "שינוי מודל האזוריות".

What is the Melamed Committee?

The Melamed Committee, a public inter-ministerial body initiated by the Israeli government was set up to review the psychiatric hospitalization system and lead reform efforts. Named after Prof. Yuval Melamed-director of Abarbanel Psychiatric Hospital-the committee was a joint initiative of the Health and Finance Ministries, forming part of a national strategy aimed at modernizing mental health services and aligning them with global standards.

The committee's mandate addresses long-standing structural issues and includes three core objectives:

1. Improve the quality of care in psychiatric hospitals
2. Reduce reliance on long-term institutionalization, especially for chronic cases
3. Shift toward community-based treatment models that emphasize continuity, recovery, and integration
4. Enhancing integration of psychiatric and general medical services to ensure holistic, person-centered care

The Melamed Committee's recommendations form the basis for several key reforms in the 2025 budget, including capital investments in infrastructure, changes to the regional model ("שינוי מודל האזוריות"), and the rollout of new service models designed to bridge inpatient and community-based care.

2. Service Delivery, Quality and Financial Reform (370 Million NIS)

This section reflects operational improvements, including budget reforms, service redesign, and quality initiatives. These elements collectively account for the 370 million NIS operational improvement package and aim to address the workforce crisis, and encourage better outcomes and accountability.

1. **Increase in Reimbursement Rates for Inpatient Days:** reimbursement rates are increasing immediately to correct chronic underfunding of psychiatric services, cover actual costs and reduce reliance on government bailouts (i.e., annual subsidies for deficit coverage). This will be applied to both psychiatric and general hospitals with psychiatric wards (see box below for exact changes reported).
2. **Clinical and Operational Improvements:** Enhancing the therapeutic environment in wards and increasing staff-to-patient ratios, especially in high-demand units.
3. **Increasing Psychiatrist pay:** ₪70M is allocated to improve base compensation for psychiatrists across the system. It addresses underpayment and retention challenges, and also includes initiatives to encourage physicians to specialize in psychiatry.
4. **New Capitation-Based Model:** A shift from per-day billing to global annual budgets for psychiatric hospitals encourages hospitals to reduce unnecessary admissions (see box below that explains what capitation-based model means).
5. **Quality Incentive Program:** ₪60M is allocated to provide performance incentives and are earned each year by hospitals based on how well they meet quality standards (being finalized by the Ministry of Health).

What is the capitation model?

Capitation is a new budgeting method in which psychiatric hospitals receive a fixed annual budget based on the size of the population they serve - rather than the number of inpatient days. It reflects a shift toward value-based and outcome-driven incentives, and is the prevailing model in many leading countries.

The goal is to incentivize preventive, community-based, and long-term care - instead of relying on hospitalization. This model reflects a global shift toward value-based funding in healthcare, and encourages smarter, more holistic resource use.

What is the Increase in Reimbursement Rates for Inpatient Days?

The 2025 budget includes an increase in the per-day reimbursement rates paid to psychiatric hospitals for inpatient care:

- **Psychiatric hospitals (בתי חולים פסיכיאטריים):**
  - Adult psychiatric ward: from ₪1,513 to ₪2,208 (**+45.9%**)
  - Youth ward: from ₪1,793 to ₪2,617 (**+46.0%**)
  - Psychiatric day hospitalization (adults): from ₪539 to ₪798 (**+48.1%**)
  - Psychiatric day hospitalization (youth): from ₪577 to ₪893 (**+54.8%**)

- **Psychiatric wards in general hospitals (בתי חולים כלליים):**
  - Adult psychiatric ward: from ₪1,408 to ₪1,702 by September 2025 (**+20.9%**)
  - Youth ward: from ₪1,690 to ₪2,039 by September 2025 (**+20.7%**)

The goals of these changes are:

- To **correct chronic underfunding** of psychiatric services
- To **cover actual costs** and reduce reliance on government bailouts (i.e., annual reimbursements for deficit coverage)
- To **stabilize the system in the short term**, especially amid rising demand

What is the new capitation-based model?

The capitation-based model is a new health financing mechanism introduced for psychiatric hospitals in Israel as part of the March 2025 reform. Under this model, hospitals no longer receive funding based on the number of inpatient days ("activity-based reimbursement"). Instead, they receive a fixed, pre-determined annual budget based on the size and needs of the population they serve.

This marks a major shift in how psychiatric care is funded, and it reflects a growing global trend toward risk-sharing and value-based payment models. Instead of rewarding volume, capitation creates incentives for:

- Preventive and community-based care
- Continuity of treatment beyond hospitalization
- Efficiency and cost containment without compromising quality

Hospitals are now encouraged to reduce unnecessary admissions and reinvest in outpatient and ambulatory services. If they manage their budgets well and maintain high standards of care, they are allowed to retain part of the savings - creating a built-in incentive for smart resource use.

The Ministry of Health has emphasized that this model:

"Will enable financial stability for psychiatric hospitals while allowing for a reduction in inpatient beds and improved services - without financial harm to the institutions."

To support this shift, a ₪230 million adjustment was made to existing payment tariffs, correcting years of underpricing and enabling hospitals to implement the new model without running deficits. Importantly, the capitation reform is tied to a new quality framework, which includes outcome-based indicators such as:

- Readmission rates
- Patient satisfaction
- Reduction in physical restraint or seclusion
- Success in community reintegration post-discharge

The goal is to ensure that efficiency does not come at the cost of dignity, safety, or equity - and to align Israel's psychiatric care system with international best practices.

3. Trauma Response and Community-Based Expansion (~800 Million NIS)

The 2025 mental health budget includes a major investment in strengthening community-based mental health services-totaling approximately **800 million NIS** across multiple initiatives. This reflects a strategic shift from institutional care toward scalable, accessible, and locally delivered mental health support in response to the combined increase in mental health cases resulting from the October 7 war and COVID-19.

Not all components are strictly post-October 7, and some build upon previous infrastructure or workforce plans. However, this funding marks the first time these investments have been consolidated, budgeted, and accelerated at this scale, responding to emergency-level needs.

1. Expanding Outpatient and Community Mental Health Services (~575 Million NIS)

This is the largest component of the trauma response package, aimed at scaling service delivery beyond hospital walls and closer to the communities most in need. The goal is to make mental health services available **closer to home**, especially for populations that face barriers to institutional access. This budget reflects the understanding that mental health recovery occurs not only in clinical settings, but also through strong, trauma-informed community systems. The aim is to enable early intervention, continuity of care, and psychosocial resilience at the local level.

This budget includes:

1. **Expansion of Outpatient Services: ₪410 million** to expand outpatient services delivered through the HMOs and government mental health centers. This includes:
    - Recruitment of therapists and psychiatrists, particularly in underserved areas. This effort is supported by targeted budget lines, including **₪30 million for psychology intern stipends** to encourage specialization in public sector clinics, and **₪70 million in psychiatrist salary increases** aimed at improving recruitment and retention in the public system - particularly in peripheral regions.
    - Expansion of in-home psychiatric care (אשפוז בית) to provide intensive treatment without institutionalization.
    - Deployment of mobile crisis teams to deliver acute response services where 24/7 coverage is limited.
    - Strengthening tele-mental health platforms and national hotlines.
    - Psychoeducation and community training initiatives to build mental health awareness and local response capacity.
2. **Alternatives to Hospitalization: ₪140 million**
    - Supported housing solutions for individuals with severe psychiatric conditions.
    - Partial hospitalization programs and structured day-care units as transitional or preventive care models.
    - Strengthening existing community rehabilitation programs, including employment, social integration, and daily living support.
3. **New Outpatient Clinics: ₪50 million** (₪25M from the Ministry of Health and ₪25M from the Jewish Federations of North America) to establish 16 new outpatient clinics attached to government psychiatric hospitals. These clinics will operate in community settings, with the aim of expanding geographic access, reducing wait times, and integrating hospital-based care with local service provision.

Crucially, these are community-based clinics - designed to operate outside hospital walls and closer to where people live. This approach reflects a shift toward more accessible,

preventive, and person-centered care. By embedding these services within local communities and existing public infrastructure, the government hopes to scale capacity quickly while ensuring continuity between hospital, outpatient, and community systems.

2. Building Community Resilience Infrastructure (~230 Million NIS)

This section of the budget reflects a broader understanding that **trauma recovery happens in communities, not just clinics**. The ₪230 million allocated here aims to build the systems, networks, and physical spaces that allow for early intervention, ongoing support, and long-term psychological resilience.

Key elements include:

1. **Expansion of Resilience Centers (מרכזי חוסן)**: These serve as community anchors for trauma support, especially in areas directly affected by war or displacement. New centers will be established in the North and South, and existing ones will be expanded to meet rising demand.
2. **Emergency mental health response systems** tailored to local needs: Rapid deployment teams, municipal response protocols, and specialized services for evacuees and chronically underserved populations.
3. **Cross-sector partnerships**: Funding will enable collaboration among municipalities, health agencies, civil society organizations, and frontline providers to deliver holistic, coordinated care at the local level.
4. **Capacity-building and infrastructure development**: Municipalities and community organizations will receive direct support to train local leadership in trauma-informed practices, build local mental health plans, and integrate mental health considerations into emergency preparedness and social services.

3. Workforce Development: Scholarships and Training (30 Million NIS)

A critical bottleneck in Israel's mental health system is the **shortage of qualified professionals** - particularly psychologists and therapists available for public-sector service. This ₪30 million allocation aims to **expand the professional pipeline** and support the next generation of trauma-informed providers.While welcome, this amount is modest relative to the depth of the workforce crisis.

Developing a diverse, community-rooted, and trauma-informed workforce is one of the most impactful levers for long-term reform. Professionals who reflect the languages, cultures, and lived experiences of the communities they serve are critical for building trust and ensuring access. This funding must be seen as a starting point, not a solution, for addressing structural gaps in human resources.

The components include:

1. **Psychology internship scholarships**: for students committing to placements in the public system, particularly in outpatient settings and geographic peripheries.

2. **Placement**: to ensure that early-career professionals are equipped to work in trauma-exposed communities and complex clinical settings.
3. **More equitable and culturally competent workforce**: the scholarships are part of a broader effort to make the profession more accessible to diverse candidates.

Strategic Implications: A System in Motion

This budget moment offers real opportunities for the mental health system in Israel. While long overdue, these reforms signal a systemic shift in how care is delivered, financed, and valued. They also raise critical questions about implementation, equity, and sustainability. We identify five key areas for strategic engagement:

1. Policy and Advocacy

The introduction of a capitation model and new quality indicators opens the door to reshaping how mental health is funded and evaluated. We must advocate to ensure that:

- Metrics rooted in trauma-informed care and equity are embedded from the outset. This includes indicators that account for geographical access (e.g. underserved periphery regions), cultural and linguistic inclusion, and differentiated outcomes across gender, socioeconomic, and national identity lines. For example, measuring wait times or service availability in Arab or Haredi communities compared to central urban areas can reveal persistent gaps.
- Funding must be allocated based on actual need - especially in communities historically underserved - not merely administrative ease or institutional inertia.
- Data should be leveraged for genuine accountability and learning, not just for internal reporting or compliance.

This is a moment to push for justice in both how resources are distributed and how outcomes are defined.

Case in point: Consider two neighboring municipalities - one in central Israel with four public mental health clinics and short waiting lists, and one in a northern periphery town with only one part-time clinic and no Arabic-speaking staff. Without metrics that account for these disparities, and funding mechanisms that correct them, reform risks reinforcing the very inequalities it aims to solve.

2. Community Engagement

Significant investment is flowing into resilience centers and community-based services. But money alone will not ensure access for:

- Conflict-affected communities
- Displaced and under-resourced populations
- Marginalized or peripheral groups

We must advocate for meaningful partnerships with grassroots organizations, local leaders, and culturally competent providers to ensure that care reaches those who need it most. One mechanism could include requiring inter-sectoral collaboration as a condition for funding - such as cross-sector calls for proposals involving municipalities, NGOs, health funds, and community organizations. This approach would embed partnership into the funding architecture itself.

3. Workforce and System Reform

The budget begins to address critical workforce shortages, including new internship scholarships. But the opportunity is broader:

- Integrate peer providers, family partners, and trauma survivors into service delivery
- Promote culturally diverse and community-rooted professionals
- Ensure training reflects inclusive, trauma-informed, and person-centered models

This is how we build a system that mirrors the society it serves.

4. Evaluation and Accountability

With new quality-based incentives and reforms in hospital financing, there is an opportunity-and responsibility-to define what success looks like. We must:

- Contribute tools to evaluate outcomes beyond utilization
- Measure recovery, lived experience, and psychosocial wellbeing
- Push for transparent, real-time data sharing across government and public platforms

Numbers matter, but so do narratives. Accountability must include the voices of those most impacted.

5. Governance, Data, and System Architecture

The reforms span multiple ministries, delivery systems, and sectors - but lack a clearly articulated governance model. Strategic actors must:

- Advocate for a joint implementation structure across Health, Welfare, Education, and Interior
- Ensure that data infrastructure and interoperability are prioritized
- Promote shared, trauma-informed indicators as the foundation for resource allocation

Additional cross-sector partnerships should also be explored to enhance implementation:

- **With the Ministry of Education**: to scale suicide prevention programs in underserved regions and train educational staff in trauma-informed approaches
- **With the Israel Innovation Authority**: to integrate technology for early detection, digital monitoring, and remote interventions
- **With the Ministry of Agriculture:** to expand rehabilitative farm-based programs that support trauma recovery through employment and nature therapy

Without coordination and clarity, even well-funded reforms can fail to reach the ground.

Conclusion: From Reform to Justice

While the 2025 budget includes important advances-structural reform, increased investment, and the largest-ever commitment to community mental health-the gap between rhetoric and reality remains.

Although there is a 17% increase in allocation for mental health services compared to 2024, the proportional share remains low by international standards. OECD countries typically dedicate 8–10% of national health budgets to mental health; Israel still stands at approximately 2.4%.

This is not just a budgetary issue-it is a question of values.

We call for a more courageous and deliberate commitment to trauma recovery, social inclusion, and systemic equity. We believe that now is the moment to build a mental health system that meets people where they are, reflects the diversity of Israeli society, and moves us toward collective healing.

Despite the progress outlined above, the budget does not adequately address core systemic needs. There is little to no investment in developing data infrastructure, integrated information systems, or tools for monitoring quality and equity.
Human resource shortages are acknowledged but not mapped with sufficient geographic or demographic detail.

Therefore, beyond increasing the overall investment, there is an urgent need to disaggregate the budget, highlight what is missing, and advocate for targeted funding in areas like workforce stratification, culturally adapted services, local mental health leadership, and data-driven planning.

This budget lays a floor, not a ceiling. It’s the start of a generational shift-but only if we act together to turn investment into justice, and reform into resilience.