

National Insurance Institute  
Research and Planning Administration



2018

**Poverty  
and Social Gaps**

**Annual Report**



# 2018

## Poverty and Social Gaps

### Annual Report

## Introduction

The current report indicates a socio-economic situation of treading water. According to the Central Bureau of Statistics Expenditure Surveys from 2009 to 2013, the poverty rates of children, persons and families decreased significantly and since then they have been remaining at a high poverty level, both from a historical perspective and in an international comparison. Meanwhile, the poverty levels of senior citizens have worsened – the rate of senior citizen families living in poverty increased, while until 2017, the severity of poverty in old age was significantly lower than in the rest of the population. In 2018, the severity of poverty (FGT index) jumped sharply for the first time and approached the severity of general poverty (Appendix 32).

Since Israel joined the OECD in 2009, the poverty situation, after State intervention through progressive taxation and benefit payments, has not really improved but remains among the highest in an international comparison. The general poverty situation remains one of the highest in the OECD, and among children the situation has even worsened in terms of disposable income (Figures 12.a and 12.c).

What are the reasons for this? This question is troubling in view of the efforts that the State is making through a pro-active employment policy, a continuous increase in the minimum wage, an employment grant starting in 2012, the savings plan "savings plan for each child starting in 2017, the increase in the income supplement for senior citizens, in 2017, the increase in the general disability allowance and the nursing reform that started in 2018. All these have and will improve the socio-economic situation. Still, after considering these policy measures, the result in an international comparison remains bleak, as Israel continues to appear at the wrong end of the international ranking.

The weakness of the policy lies in several of its characteristics: The application of most of the tools is too low and hesitant: for example, the employment grant is too small and selective, especially compared to similar grants in other countries, in that young people are not eligible for it if they do not have children. The savings for each child were activated while simultaneously reducing the current children's allowance and in order to accumulate more significant savings, families are suggested to make an additional deposit while further reducing the current allowance. This is difficult for families living in poverty. The level of the allowances has also been eroded because it is updated only according to the Consumer Price Index, rather than according to the general standard of living in the economy. Another example is the government's response to the reduction of the offset rate to just over NIS 3,000 for a single mother – this improvement was immediately accompanied by a corresponding reduction of the employment grant for the mother who increased her work effort.

Appendix Figure 33 shows that the efforts in Israel are dwarfed in comparison to the efforts accepted in advanced countries – if we measure the State's efforts to reduce the incidence of poverty from the economic poverty rate to the poverty rate according to disposable income, which is ultimately the relevant test, Israel succeeds in reducing the incidence of poverty by only two-tenths of a percentage point, compared to the average of the OECD countries, while in the countries that succeed significantly in reducing poverty, the

policy implemented results in achievements of 1.5 to 3 times compared to the OECD average. In this context, one should not be comforted by the low rate of “economic poverty” (that is, before the State’s intervention (see Figure 12.b). This is a known phenomenon in countries where the public feels that it cannot count on significant government assistance to overcome the socio-economic distress. Many need assistance in view of the difficulties people face in their attempt to integrate into everyday life successfully.

A certain ray of light is the impressive growth that has occurred in recent years in the size of the middle class (see Figure 10). In order to sustain this improvement, it is essential to maintain the National Insurance Institute as a strong social security system. As long as the long-term financial and social stability of the National Insurance Institute is not strengthened, the threat of a collapse of the social security system and its transformation into a nationalized and minimal relief system will increase. A striking example of the damage of such nationalization is written on the wall: The severity of the poverty of working-age recipients of income support benefits is currently approx. 45% higher than that of the general population living in poverty (see Appendix 33). In 2002, before the unprecedented harm to benefits, the severity of the poverty of working age recipients of income support benefits was approx. 43% below the general poverty severity. The National Insurance Institute proposed, in the Committee on the War against Poverty, to amend the existing policy while increasing the incentive to work by linking the amount of the allowance to 2/3 of the poverty line and increasing the disregard by the remaining third. It is time to reconsider this proposal.



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## Summary of Findings

- The growth of the economy and the increase in employment and wages in 2018 **led to an increase in the standard of living**. The disposable financial income per standard person **increased in real terms in 2018 by 4.1%**, and consequently, also the poverty line derived therefrom.
- In 2018, the incidence of poverty among **families declined** compared to 2017 – from 18.4% to **18.0%**.
- The incidence of poverty of **persons remained unchanged** between the two years and amounts to 21.2%, and the rate of **children** living in poverty **increased** from 29.6% in 2017 to 30.0% in 2018.
- In 2018, **469,400** families lived in poverty, including **1,810,500** persons, of whom **841,700** were children.
- **Sampling difficulties and, as a result, an insufficient and probably biased representation of the East Jerusalem Arab population** in the 2018 household Expenditure Survey, on which this report is based, sometimes led to exceptional results. **This technical bias is probably the main reason for the decrease in the general incidence of poverty**, since in the general population, excluding East Jerusalem, the incidence of poverty among families increased slightly in 2018 compared to 2017 – from 17.4% to 17.5%, and the incidence of poverty for persons and children increased at even higher rates – from 19.4% to 20.4% for persons and from 27.1% to 29.1% for children.
- **In 2018, the situation of the population living in poverty improved:** The indices for the depth and severity of poverty decreased by 4.9% and 4.1%, respectively. The improvement in the severity of poverty characterized most of the population groups.
- The incidence of poverty among families measured by economic income (originating in the markets, less the government intervention) **declined** from 28.4% in 2017 to 27.8% in 2018 and remained unchanged among the population that does not include East Jerusalem Arabs (27.5%).
- After almost consecutive years of a decrease in the Gini index for inequality in Israel, **the index according to disposable income increased by 1.1%**, and according to economic income it **increased by 1.3%**. Since the beginning of the millennium, the Gini Index according to economic income has declined by a cumulative rate of approximately 10%. From an international point of view, the decline of the Index in the past was not enough to improve its relative position in terms of inequality. This worsened in 2018, and now Israel has a Gini index that is **approximately 10% higher than the average index in developed countries**, compared to a distance of 5% in 2017.
- The findings indicate an **improvement in the condition of the “extreme quintiles”** – the lower quintile and the upper quintile – compared to a deterioration in the condition of the quintiles that represent the middle class. At the same time, the share of the middle class decreased slightly in 2018 compared to 2017.
- **The incidence of poverty of families headed by an elderly person(s) increased** from 21.8% in 2017 **to 23.4% in 2018** and the incidence of poverty of **elderly persons also increased** from 17.2% **to 18.8%** between the two years. Furthermore: the index for the depth of poverty rose from 27.7% to 32% – that is, the income of the poor families headed by an elderly person moved away from the poverty line by

more than 4 additional percentage points. The severity of poverty according to the FGT index also increased. At the same time, the indices for the depth of poverty and the severity of poverty indicate that it is significantly lower among families after retirement age than among younger age groups.

- The increase in poverty of the elderly is in the context of an absolute **improvement** in their situation: the disposable income per standard person in their families increased at a rate of approximately 6% – above the rate of the general population, so that the increase in the standard of living of the elderly was higher than that of society as a whole. The explanation for the apparent contradiction between the two means, among other things, that **the level of inequality between the families of the elderly has risen sharply – the Gini index for the inequality of the families of the elderly rose by 11% in 2018**. This means that the polarization between low-income elderly families and high-income families has increased, **and so despite a general benefit in their situation, their poverty rates are higher**.
- **The incidence of poverty among Arab families decreased from 47.1% in 2017 to 45.3% in 2018**. The change continues a downward trend in recent years, but this change implies a sharp drop of over 20% in the incidence of poverty of East Jerusalem Arabs from 74.7% in 2017 to 58.8% in 2018. Among Arab families, **excluding East Jerusalem, there was an increase** in the incidence of poverty from 42.6% in 2017 to 44.2% in 2018. These differences also exist for the incidence of poverty among persons and children. However, in the indices of the depth of poverty and the severity of poverty, there is an improvement among Arabs with and without East Jerusalem.
- The incidence of poverty of **families with children**, who make up more than half of all poor families, **decreased slightly** between the two years from 21.6% to 21.4%. The indices for the depth of poverty and the severity of poverty also declined between the two years, by approximately 5% and 7%, respectively. On the other hand, there was an increase in the dimensions of poverty for large families (4 children or more) and single-parent families.
- **The incidence of poverty among immigrants decreased considerably** in 2018 from a level of 18.4% in 2017 to 16.0% in 2018, after a continuous downward trend throughout recent years (except for 2017). Nevertheless, the index for the depth of poverty increased by approximately 3%, while the index for the severity of poverty remained unchanged.
- The incidence of poverty of **working families continued to decrease** in 2018 as well (following a decrease in 2017) from 12.6% in 2017 to 12.3% in 2018. **However, among families with two or more breadwinners, the incidence of poverty rose from 5.0% to 5.6% between the two years**, as part of a long-term trend. The depth of poverty of working families decreased in both groups – at a rate of approximately 6% in families with one breadwinner and approximately 5% in families with two breadwinners. The share of working families in the overall poor population remained unchanged in 2018 – 55.5%.



- In 2018, **the incidence of poverty among working age non-working families declined** from 75.7% to approximately 71.0%. Its share in the population living in poverty also continued to decrease by approximately 6% in 2018. In addition to the decrease in the incidence of poverty, the severity of poverty of these families also decreased by approximately 6% between the two years. However, the weight of these families, which constitute only approximately 4% of the total population, rose rapidly – to a rate of approximately 17% of the poor population, **and their poverty level, which increased in recent years and remains enormous even after the decrease in 2018, is 3-4 times higher than that of the general population.**
- **In 2018, the gaps between men and women widened:** A study of the incidence of poverty by gender group shows that the incidence of poverty for women increased by 0.2 percentage points between 2017 and 2018, while the incidence of poverty for men decreased by 0.8 percentage points **so that in total the gender gap widened by a full percentage point** between the two years. At the same time, the gap in the effect of the policy on the incidence of poverty by gender narrowed, and in 2018 the policy measures extricated 31.6% of men and 34.1% of women (compared to 30.3% and 34.2% in 2017, respectively). The gaps in the level of poverty measured by economic income are much higher and reach approximately 21%.
- The stability in the dimensions of poverty according to the population that does not include East Jerusalem, and the decrease when this population is included, are **mainly the result of the positive changes in employment and wages**, including the significant increase in the minimum wage this year as well as in the years since 2015. However, also in 2018, similar to 2017, 35.4% of families were extricated from poverty due to the allowances, which also reduced inequality by 23.4%.
- Despite the improvements in the dimensions of poverty and inequality, **even in 2018 Israel continues to be among the “leading” countries in the rate of poverty of persons (the first four – a slight improvement compared to 2017) and among the two countries with the highest rate of poverty among children.** The international comparison also shows that the impact of policy on the alleviation of poverty is low in Israel compared to the developed countries.

## A. Dimensions of Poverty

### 1. The Poverty Line and Standard of Living

In 2018, the GDP continued to rise and the growth rate reached 3.3%. At the same time, the rate of employment continued to increase, as did the number of employed persons, which rose by approximately an additional 2% compared with 2017. The unemployment rate this year was historically low – 4.0% of the workforce. The expansion of employment was accompanied by an increase of approximately 2.5% in the average real wage in 2018 (and of 3.2% according to the survey data) – and this after a sequence of wage increases since 2010, in contrast to the wage stagnation in the first decade of the millennium. In view of the fact that the proportion of people earning a low wage is considerable in Israel, the wage increase in 2018, as in recent years, was partly influenced by the increase in the minimum wage, which rose by a cumulative rate of 14% between 2015 and 2018, of which a 5.5% increase was in 2018.<sup>1</sup>

**11: Monthly Income per Household by Type of Income (NIS), 2016-2018**

Type of Income	2016	2017	2018	The Real Change between 2017 and 2018 (Percentages)
<b>Average income</b>				
Economic per family	16,880	17,773	18,768	4.8
Economic per standard person	6,439	6,680	7,127	5.8
Gross per family	19,137	20,028	21,065	4.3
Gross per standard person	7,448	7,692	8,164	5.3
Net per family	15,771	16,520	17,279	3.8
Net per standard person	6,160	6,385	6,733	4.6
<b>Median income</b>				
<b>Median net income per standard person</b>	5,223	5,477	5,750	4.1
Poverty line per standard person	2,612	2,739	2,875	4.1

In view of these developments, in 2018 household incomes of all types also increased at a good rate. According to the data of the Household Expenditure Survey conducted by the Central Bureau of Statistics, on which the processing and analysis in this report are based, the increase in income occurred mainly as a result of the positive changes in employment and in wages.

The current report is based, as usual, on the aforementioned survey, however in the year to which the survey refers, 2018, there was an insufficient sample of the population of East Jerusalem: the number of observations of East Jerusalem Arab families was 87 in the current survey compared to 144 in the 2017 survey. This is a decrease of almost half of the number of observations. It is possible that the difference in the characteristics of this population, which this year are quite different from its known characteristics in previous years, is due to the insufficient sample. As a result, the main result in the context of the current report, which is the sharp decrease in the incidence of poverty among families, should be referred to with

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<sup>1</sup> The minimum wage was updated in December 2017 to NIS 5,300. The 5.5% increase reflects the change in the weighted average of the minimum wage throughout the year, between 2017 and 2018.

caution: it decreased sharply, from approximately 75% in 2017 (and similar values in previous years) to approximately 59% in 2018. Although the population of East Jerusalem constitutes less than 4% of Israel's population, such a sharp decrease in its dimensions of poverty also affects the national level, and so an opposite result is obtained when this population is not included. In other words, the incidence of poverty for families increases somewhat, while the inclusion of this population in 2018 results in a fairly significant decrease, of approximately half a percentage point, in the general incidence of poverty of families between the two years. **However, it should be emphasized that, in general, the report refers to the population that includes East Jerusalem, unless stated otherwise.** For more on this topic, see the Box in Chapter 2 below and references throughout the report.

The standard of living as reflected in the average disposable income per standard person increased in 2018 at a rate of 4.6% and the economic income per standard person also increased at a rate of 5.8%. The median income per standard person increased in 2018 by a rate of 4.1%, as did the poverty line derived therefrom.<sup>2</sup> The faster growth of the average income per standard person compared to the median income indicates higher growth in the incomes of the upper classes compared to the middle class (see below).

The poverty lines for families of different sizes are presented in Table 2 and they show that a single person with disposable financial income of less than NIS 3,593 per month is defined as poor according to the official definition, as are couples whose income is less than NIS 5,750 per month. NIS 10,780 per month is required for a family of five to not live in poverty.<sup>3</sup> The poverty lines for families with 6 or more people in the family indicate that in families with four children and more, income in the amount of the minimum wage for both spouses was no longer enough to live above the official poverty line.

**Table 2: Poverty Line by Family Size, 2018**

Family size	Number of standardized persons	NIS per month	Marginal addition in NIS
1	1.25	3,593	.
2	2	5,750	2,156
3	2.65	7,618	1,869
4	3.2	9,199	1,581
5	3.75	10,780	1,581
6	4.25	12,218	1,437
7	4.75	13,655	1,437
8	5.2	14,949	1,294
9	5.6	16,099	1,150

Table 3 shows the extent to which at least one wage earner who earns the minimum wage, together with the allowances that every family with children are entitled to (the universal child allowance) is sufficient for minimum subsistence (i.e., covers the poverty line). A ratio of over 100% in this table is an indication that

<sup>2</sup> The income per standard person takes into account the effect of the size of the family and its expenses, since family expenses grow more slowly than the size of the family.

<sup>3</sup> מקור ההפניה לא נמצא. שגיאה! מקור ההפניה לא נמצא. presents the income of families of different sizes according to all deciles of disposable income.

income from work and from universal allowances at working age are sufficient to extricate a family of the corresponding size from poverty.<sup>4</sup>

The table shows that according to the 2018 data, a single mother with one child lives in poverty even if she works full-time at the minimum wage (and receives a child allowance) – despite a certain improvement compared to previous years, an improvement resulting mainly from the increase (of approximately 14%) in the minimum wage from 2015 to 2018. An independent mother with two children working full-time at the minimum wage will not be able to extricate herself from poverty without finding additional resources amounting to approximately 40% of her income, and with more than two children, the required supplement is even higher. For couples in which both spouses work full-time at the minimum wage, the situation is slightly better but still indicates a serious problem of extricating themselves from poverty through work and universal allowances, since only families with up to two children will not live in poverty. A couple who both work at the minimum wage and together reach a scope of one and a half positions will be approximately 30% above the poverty line, with one child they will be at about the poverty line, but already a second child will put them over the poverty line, and their situation will worsen as the number of children in the household increases. Even if two spouses work full-time at minimum wage, they will live in poverty if they have three children and each additional child in the home means a greater depth of poverty. **שגיאה! מקור ההפניה לא .0 נמצא.** presents a similar table in which the work grant is also taken into account in addition to wages and child allowances. This calculation should be qualified because, as is known, the work grant is not automatically received and must be claimed actively (according to studies, it has been found to have a utilization rate of around 60% of the potential) and in addition, certain populations are excluded.<sup>5</sup>

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<sup>4</sup> In this table, there is no reference to allowances that are not universal (that is, conditional on an income test, such as income support benefits). This is because studies carried out on this topic in the Research and Planning Administration indicate a relatively low utilization rate of these allowances and it cannot be assumed that all those in need receive them. For example, it was found that the number of income support benefit recipients is small over time: While poverty rates change only slightly over time, the rate of income support benefit recipients (according to administrative data) in 2002 was approximately 55% of the number of poor households, while in 2017 the rate was less than half, approximately 25%. One of the reasons for this is the linking of the amount of the allowance to the consumer price index, which erodes over time compared to the increase in the general standard of living.

<sup>5</sup> The entitlement and the size of the work grant are influenced by the composition of the household and by demographic data such as age, as well as the income from work. Accordingly, single-parent working families who receive income support benefits will receive a higher allowance in return for a **waiver** of the work grant, according to a change in legislation enacted since January 2016.

**Table 3: Family Income from Work and Universal Allowances as a Percentage of the Poverty Lines, 2018 (%)**

Household Composition	Disposable Income from Minimum Monthly Wage* for One Position as % of the Poverty Line	Disposable Income from Minimum Monthly Wage* for One and a Half Positions as % of the Poverty Line	Disposable Income from Minimum Monthly Wage* for Two Positions as % of the Poverty Line	Disposable Income from Average Monthly Wage* for One Position as % of the Poverty Line	Twice the Disposable Income from Average Monthly Wage* as % of the Poverty Line
Single person	141	-	-	262	-
Single + child	92	-	-	170	-
Single + 2 children	72	-	-	134	-
Single + 3 children	61	-	-	115	-
Couple	88	133	177	164	329
Couple + child	69	102	136	126	253
Couple + 2 children	59	87	114	106	214
Couple + 3 children	52	76	99	92	187
Couple + 4 children	47	68	89	83	167
Couple + 5 children	44	62	81	75	150

\* Calculated as the sum of the minimum wage or the average wage for 2018 plus the size of the child allowance, less mandatory payments. The average gross minimum wage for 2018 was NIS 5,300 and the average wage was NIS 10,470 per month.

Note: See **מקור ההפניה לא נמצא. שגיאה!** for a similar table, which includes income from the work grant (“negative income tax”) according to the entitlement rules. In view of the partial utilization of this benefit, it is not included in the income components in this table.

## 2. Dimensions of Poverty in 2018 and their Development in Recent Years

The incidence of poverty among families decreased from 18.4% in 2017 to 18.0% in 2018, the incidence of poverty among persons remained unchanged and the incidence of poverty among children increased between the two years by approximately 0.4 percentage points.

Table4, which presents these data, this year also includes the findings regarding the population **that does not include East Jerusalem**, due to the problems with its sampling in the 2018 survey. The incidence of poverty of families excluding East Jerusalem indicates an opposite trend – of a slight increase – from 17.4% to 17.5% between the two years. The contrast between the two forms of calculation is exacerbated with regard to persons and children: In the calculation without East Jerusalem, the incidence of poverty among persons increased by one percentage point and the incidence of poverty among children increased by two percentage points. It should be noted that in view of the high level of poverty of the Arab population of East Jerusalem, the absolute level of the incidence of poverty is slightly lower in the population excluding East Jerusalem in any given year, but unlike the current year – both forms of calculation usually yield trends that are similar to the level in the general population. Table4 also shows that in 2018, **469,400** families lived in poverty in Israel, including **1,810,500** persons, of which **841,700** were children (an increase of 3.3%).

**Table4: Incidence of Poverty (Percentages) and Number of Poor, 2017-2018**

	Total population			Excluding East Jerusalem		
	Before Transfer Payments and Direct Taxes	After Transfer Payments and Direct Taxes	Rate of Decline in Incidence of Poverty resulting from Transfer Payments and Taxes After Transfer Payments and Taxes	Before Transfer Payments and Direct Taxes	After Transfer Payments and Direct Taxes	Rate of Decline in Incidence of Poverty resulting from Transfer Payments and Taxes After Transfer Payments and Taxes
<b>Percentages</b>						
<b>2018</b>						
<b>Families</b>	27.8	18.0	35.3	27.5	17.5	36.4
<b>Persons</b>	28.0	21.2	24.3	27.0	20.4	24.4
<b>Children</b>	33.7	30.0	11.0	32.4	29.1	10.2
<b>2017</b>						
<b>Families</b>	28.4	18.4	35.2	27.5	17.4	36.7
<b>Persons</b>	28.0	21.2	24.3	26.3	19.4	26.2
<b>Children</b>	33.5	29.6	11.6	31.2	27.1	13.1
<b>Absolute Numbers</b>						
<b>2018</b>						
<b>Families</b>	726,500	469,400	257,100	700,700	446,100	254,600
<b>Persons</b>	2,393,100	1,810,500	582,600	2,223,000	1,672,700	550,300
<b>Children</b>	946,500	841,700	104,800	862,900	773,000	89,900
<b>2017</b>						
<b>Families</b>	722,100	466,400	255,700	683,300	432,400	250,900
<b>Persons</b>	2,352,900	1,780,500	572,400	2,122,800	1,561,700	561,100
<b>Children</b>	923,800	814,800	109,000	816,000	707,700	108,300

The incidence of poverty of elderly people (as opposed to families headed by an elderly person), rose this year to the highest level since 2013 and amounts to 18.8%, compared to 17.2% the previous year. The relatively sharp increase in the incidence of poverty of the elderly occurred despite the policy that worked to increase the disposable income of senior citizens who have low incomes from pensions and savings. This was done through the increase of income supplement allowances and the advance of the seniority supplement for senior citizens from the end of 2015 until 2018. The increase in the incidence of poverty of the elderly this year may in part be a statistical correction of a decrease by too high a rate between the years 2013 and 2016, but it is mainly due to the fact that the rate of increase in the standard of living of the elderly, although it was considerable, did not catch up with the rate of increase in the income of the general population, which takes an active part in the labor market and enjoys the fruits of the increase in wages and employment to an extent that is not equal to that of the elderly population, since a large part thereof does not work.

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Figure 1 shows the development of the incidence of poverty among families, persons, children and the elderly – from 1998 to 2018. The incidence of poverty among persons stabilized at a level of 21%, following an almost continuous gradual decline that began in 2012.<sup>6</sup>

The incidence of poverty of elderly people (as opposed to families headed by an elderly person), rose this year to the highest level since 2013 and amounts to 18.8%, compared to 17.2% the previous year. The relatively sharp increase in the incidence of poverty of the elderly occurred despite the policy that worked to increase the disposable income of senior citizens who have low incomes from pensions and savings. This was done through the increase of income supplement allowances and the advance of the seniority supplement

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<sup>6</sup> Some of the positive changes stem from changes in wages and employment, but some may be explained by the structural change of the database and the transition from an income survey to an expenditure survey. The break between the 2011 and 2012 data stems from a structural change in the survey on which the data are based: Until 2011, the poverty data were based on income surveys (which until then consisted of a combination of the Family Expenditure Survey and Labor Force Survey observations), and as of 2012 they are based on Household Expenditure Survey data only. For changes in the definitions of the survey, see details in the Poverty and Social Gaps Report of 2012.



for senior citizens from the end of 2015 until 2018. The increase in the incidence of poverty of the elderly this year may in part be a statistical correction of a decrease by too high a rate between the years 2013 and 2016, but it is mainly due to the fact that the rate of increase in the standard of living of the elderly, although it was considerable, did not catch up with the rate of increase in the income of the general population, which takes an active part in the labor market and enjoys the fruits of the increase in wages and employment to an extent that is not equal to that of the elderly population, since a large part thereof does not work.

**Figure 1: Incidence of Poverty among Families, Persons, Children and the Elderly, 1998-2018**

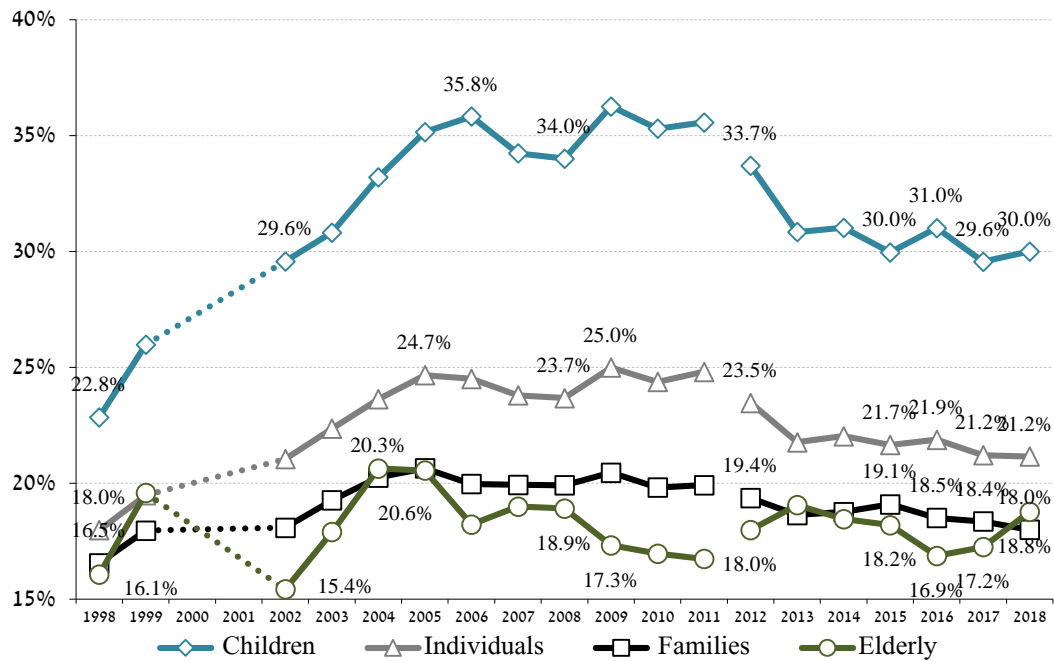
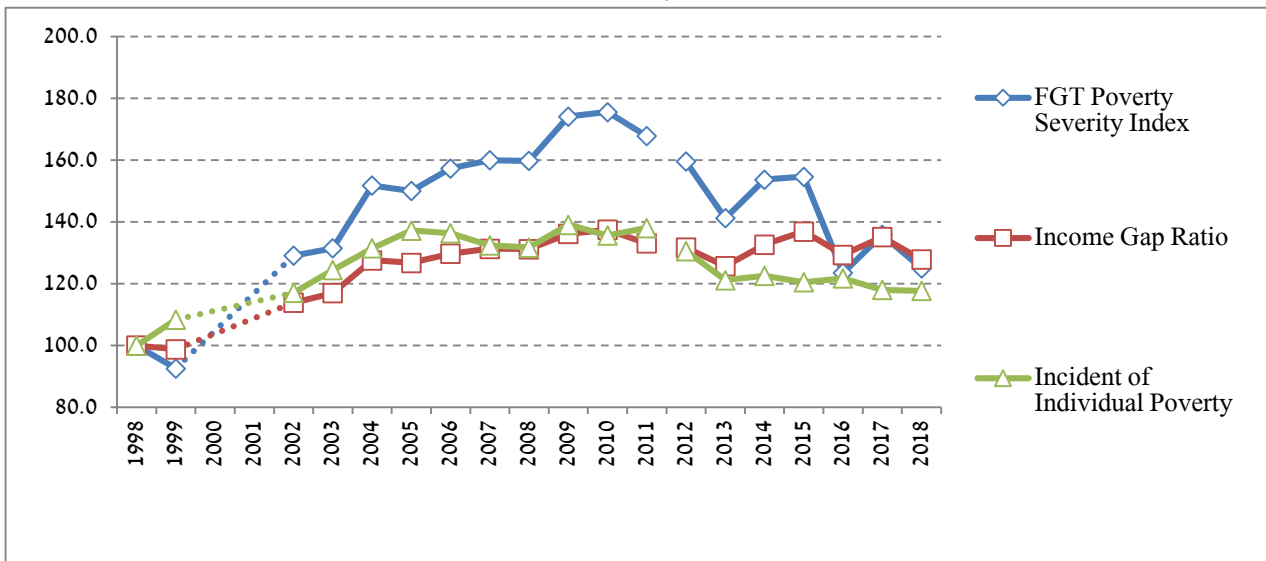


Figure 2 presents the depth of poverty (income gap ratio), and the poverty severity index in the years 1998-2018, and for a comparison, the incidence of poverty of persons as well. The depth of poverty decreased by approximately 5% and amounted to 33.3% in 2018, and the FGT poverty severity index decreased by approximately 8% and amounted to 16.4% in 2018. Approximately 9% of the decrease in the depth of poverty and approximately 50% of the decrease in the FGT index are the result of changes between the years in the population of East Jerusalem, without which these indices would have decreased at more moderate rates, of 4.9% and 4.1%, respectively. The indices for the depth of poverty and the severity of poverty have fluctuated since 2012, but the general trend indicates a decrease.



**Figure 2: Indices of the Depth and Severity of Poverty\* of the General Population, 1998-2018 (1998 = 100.0)**



\* The FGT index for the severity of poverty is calculated as a rate of the incidence of poverty. It refers to the entire population but reflects the “rate of persons in severe poverty” from the poverty rate. So for example, if everyone living in poverty had no income at all, the poverty severity index would be 100%. Conversely, if all those in poverty had incomes that were only slightly below the poverty line, the FGT index would be close to 0%. Unlike the depth of poverty index, in the FGT index the severity of poverty is given increasing weight the poorer the family.

## **Box: 2018 Expenditure Survey and the Population of East Jerusalem**

According to the survey data in recent years, the population of East Jerusalem constitutes approximately 2.5% of the households and 4% of the persons in the total Israeli population, however the enormous levels of poverty among them increase its effect in relation to the subject of the report. In the year to which the survey refers, 2018, there was an insufficient sample of the population of East Jerusalem: the number of observations of East Jerusalem Arab families reached 87 in the current survey compared to 144 in the 2017 survey. That is, the number of observations was cut in half (if the demographic growth each year is also taken into account). But that is not all, the composition of the population and its characteristics as reflected in the 2018 survey were generally found to be different from those of the known characteristics of this population. The “inflating” of the weight of each observation from East Jerusalem in the survey in order to bring this group to a normal representation compared to its weight in the general population sometimes leads to biases and misrepresentation of the population it is supposed to represent.

In 2000 and 2001, the Central Bureau of Statistics failed to sample the population of East Jerusalem, so this population was not included in the poverty report at all. However, its exclusion in those years led to a lack of continuity in the poverty data series, as can be seen in long-term poverty calculations. The insufficient sample this year, and the findings that differ from what is known about this population as a result, led to reservations regarding the very inclusion of this population in the current report. Among all the considerations, the inclusion option was preferred, also because it includes an element of correction to the 2017 data (see below), indicating the reservations and making the necessary comparisons throughout the report. **Therefore the report, including its tables and figures, refers to the population that includes East Jerusalem, unless stated otherwise.**

For the purpose of a partial study of the “real” trends regarding what is happening in the East Jerusalem population, available administrative data were studied on wages and employment of employees in East Jerusalem in the years 2016-2018. The findings show that indeed the employment and wage rates, each separately, increased in East Jerusalem between 2017 and 2018 by a rate of approximately 3% (the growth was led by women more than men). However, these findings, despite the similar directions, are very far from the findings regarding employees in East Jerusalem in the 2018 Expenditure Survey: there the employment increases by a rate of approximately 7%, which is 2 times the administrative data, and the wage in the survey increases **by approximately 23%, which is 7.5 times the rate in the administrative data.**

Nevertheless, the administrative data regarding the wage earners in East Jerusalem also show similar trends and rates in 2017 (compared to 2016), but in the 2017 survey, the data is the opposite – wages decreased by approximately 8% and the employment rate also decreased by approximately 7%. Cumulatively, between 2016 and 2018, the employment rate in East Jerusalem increased by 7.2% according to the administrative data compared to a decrease of 1.8% according to the survey data, and the average wage increased cumulatively in these two years by 9.6% compared to 13.3%, respectively. Therefore, the 2018 data present a picture that is not consistent with the administrative data of this year (as with the 2017 data), but the years offset each other, so it is possible that the 2018 data also partly reflect a certain correction to the 2017 data.

The comparison between the two data sources (the administrative and the survey) is, as mentioned, only partial. This is because it refers to the salaried population only, while the gap between the data for East Jerusalem in 2018 and the data for the same population in previous years is also reflected in the composition of the population and in the poverty level of various other groups therein, which results from being based on too small a number of observations (while inflating their weight to the “normal” indices they are supposed to represent). For example, the population of families headed by an elderly person constituted approximately 7% of all East Jerusalem families in 2017 and increased to approximately 17% in 2018. The poverty level among this population also rose, from approximately 76% to approximately 97% between the two years, and more (see also **שגיאה! מקור ההפניה לא נמצא.**).

### 3. The Effect of Policy Measures on the Dimensions of Poverty

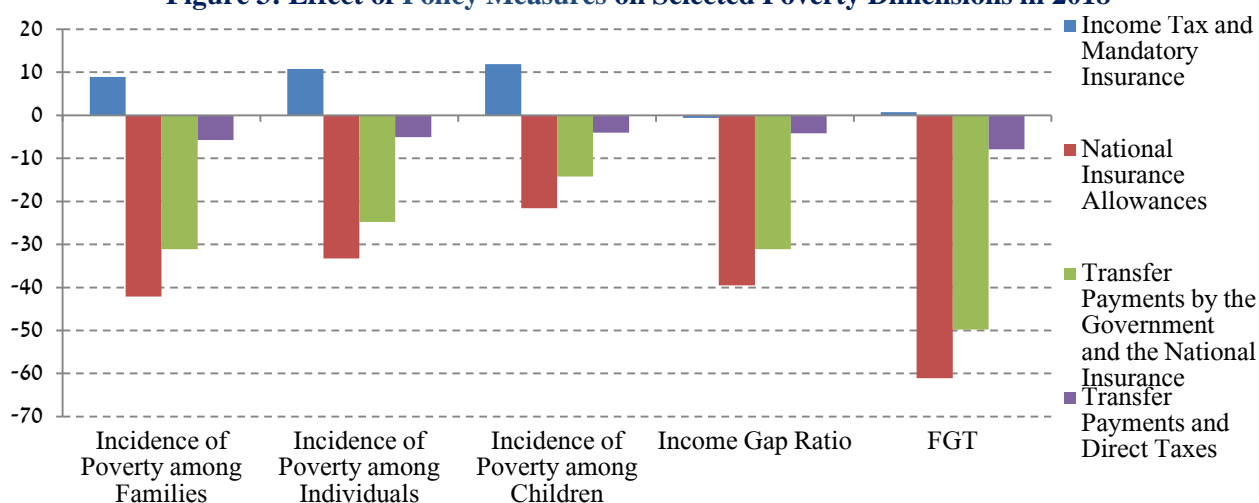
The economic income stemming mainly from work and pension income and from capital market income reflects the economic independence of the family. Table 5 shows that the incidence of poverty according to the economic income (income before direct government intervention through taxation and allowances) decreased this year compared to last year: among families the incidence of poverty in the measurement according to the economic income decreased by 0.6 percentage points and reached 27.8%, among persons it remained unchanged at a level of 28.0% and among children it increased by 0.2 percentage points and reached 33.7%. If we calculate the changes compared to 2017 for the population that does not include East Jerusalem, the incidence of poverty for families as measured by the economic income has not changed, among persons it has increased by 0.7 percentage points and among children it has increased by 1.2 percentage points.

The gap between the dimensions of poverty and inequality measured according to the economic income (which are higher) and the indices according to the disposable income are an indication of the effectiveness of the government's intervention.<sup>7</sup> The contribution of policy measures to the reduction of poverty in 2018 is similar to that of 2017. In 2018, the combined effect of allowances and direct taxes worked to extricate 35.4% of the poor families from poverty (see Table 5). The rate of persons who were extricated from poverty also remained at the same level and amounts to 24.3%, and the rate of children who extricated from poverty decreased by approximately 6% and amounted to 11.1% of poor children in 2018.

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<sup>7</sup> The presentation of the gap in the incidence of economic poverty with the post-intervention implications requires caution in the analysis, since the effect of the policy in this case is biased upwards: it is reasonable to assume that without the existence of a social security system, the individual would have been forced to make greater efforts to survive in a world lacking such solidarity, and therefore the incidence of economic poverty was lower than that measured at present, where there is a social benefit system and we artificially "neutralize" it through a technical calculation. It should be noted that in such an imaginary and asocial case of the absence of a welfare system, this level would also be similar to the "after intervention", since in countries where the welfare systems are very limited, the dimensions of poverty after intervention are usually higher (see Figure 11). At the same time, in these countries, the incidence of poverty before intervention tends to be relatively low.

**Figure 3: Effect of Policy Measures on Selected Poverty Dimensions in 2018**



Despite the progressivity of the income tax system, the contribution of direct mandatory payments to reducing poverty is negative among working families since national insurance contributions and health insurance contributions are paid by the general public, including many in the low-income brackets. The effect of the direct mandatory payments increases the incidence of poverty among families, persons and children, and even the severity of the poverty at similar rates (Figure 3). The main factor effecting the reduction of poverty is that of the National Insurance allowances. There is also another reducing effect, albeit less, from the transfer payments from the government. National Insurance contributions constitute approximately 70% of the total contribution of transfer payments. The smallest is the effect of household support of others. The greatest effect is that of the National Insurance allowances: they sharply reduce the incidence of poverty of families and the severity of poverty: approximately 31% and approximately 50%, respectively.

As of the 2014 Expenditure Survey, data are being collected regarding the work grant (“negative income tax”) received by families with low-wage workers. **שגיאה! מקור ההפניה לא נמצא.** shows the data by population group. **The survey data on this subject are still very partial and lacking.** For example, according to the survey data, only approximately 40 thousand families received a work grant in 2018, while according to the Tax Authority for that year, the number of recipients was approximately 320 thousand employees (constituting approximately 70% of all those eligible. This phenomenon may indicate that it is difficult for recipients of the work grant to see the connection between it and the work effort of the previous year, a difficulty inherent in the method of payment of the grant.<sup>8</sup> Great differences also exist in the average grant amount. In other words, there is a lack in the reporting regarding the number of recipients, while there is an over-reporting of the average grant amount. It should be noted that in the Expenditure Surveys in recent years, there has been a gradual increase in the number of recipients, so there may be some improvement in reporting. As in the two years preceding the current survey year, the influence of the work grant and therefore its impact on the dimensions of poverty in the survey is still lacking and biased downward, and therefore the

<sup>8</sup> The current year’s grant is received the following year, so the 2018 figures refer to work in 2017.

assessment of the social status of the work grant recipients in 2018 is poor. The nationwide grant has existed since 2012 and it is hoped that over time these data will continue to improve in the survey until more can be learned from them about the contribution (that is higher in reality) of the work grant to reducing poverty and inequality.

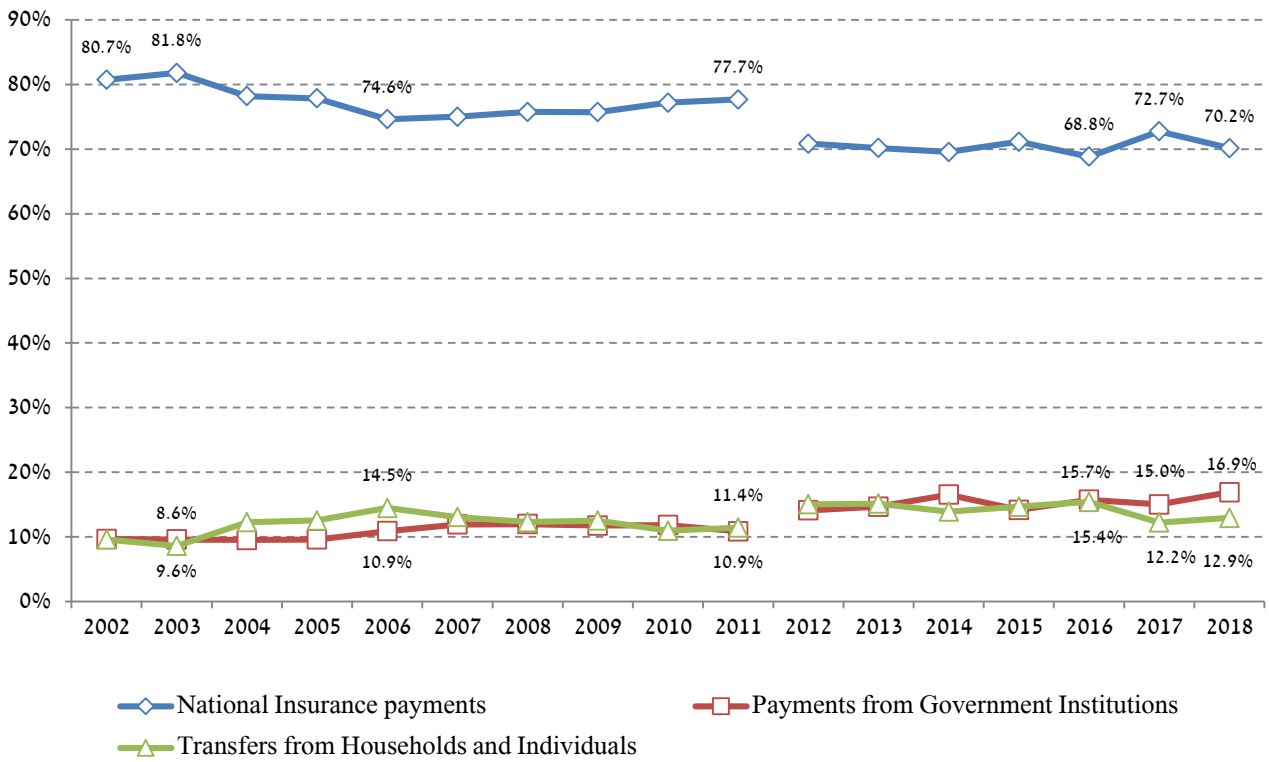
The weight of the National Insurance allowances, which constitute the main transfer payments, is approximately 70% of the total contribution to the reduction of poverty, and the support components from other government institutions and support from other households (which also includes some alimony payments), constitute approximately 17% and approximately 13%, respectively, of the total contribution of transfer payments. The overall share of the government and the National Insurance in reducing poverty through transfer payments and allowances amounts therefore to approximately 87% of the total contribution of transfer payments to the reduction of poverty of families<sup>9</sup>.

Figure 4 presents the development of the contribution to the reduction of poverty due to the above three types of financial support over time. While the weight of the impact of National Insurance allowances declined gradually from approximately 80% in 2002 to approximately 70% in 2018, the weight of payments by other government institutions and support from private households increased by approximately 1.5 times compared to 2002. It should be noted that due to a change in legislation, the Ministry of Housing rent assistance included in “support from other institutions” has increased considerably since 2002, especially that given to eligible families who have not yet received an apartment in public housing.

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<sup>9</sup> There are additional transfers from the government to families, such as allowances in kind, which are not taken into account here. One of the most important is the nursing allowance. Support provided to various businesses under the Law for the Encouragement of Capital Investments and other laws, which increase profits and consequently increase the income of the households of the owners of the companies, are not taken into account here. According to estimates (since data are not published on this subject), the main beneficiaries of these tax benefits are the top decile and in a decreasing amount, the ninth to sixth deciles. The beneficiaries of the long-term care benefit (which has recently partially become a cash allowance) are the lower deciles, which is due to an income test in the allowance, even though it is supposed to be an insurance.

**Figure 4: Effect of Allowances on Reducing the Incidence of Poverty – by Institutional Source of Payment, 2002-2018**



**Table 5: Incidence of Poverty according to Various Definitions of Income, and Contribution of Direct Taxation and Various Types of Transfer Payments to the Reduction of Poverty, 2017 and 2018**

	Incidence of poverty							Impact of Policy Tools					
	Before Transfer Payments and Mandatory Payments	After Mandatory Payments Only	After Transfer Payments Only	After National Insurance Payments Only	After Payments from Government Institutions and National Insurance Payments Only	After Transfers from Households and Persons Only	After Transfer Payments and Direct Taxes	Income Tax and Mandatory Insurance	Allowances and Other Transfer Payments	National Insurance Allowances	Transfer Payments by the Government and the National Insurance	Transfers between Households	Transfer Payments and Direct Taxes
<b>2018</b>													
<b>Incidence of poverty among families</b>	27.8%	30.3%	16.1%	19.2%	25.8%	26.3%	18.0%	8.9	-42.1	-31.1	-7.5	-5.7	-35.4
<b>Incidence of Poverty among Persons</b>	28.0%	31.0%	18.6%	21.0%	26.4%	26.5%	21.2%	10.8	-33.3	-24.8	-5.7	-5.1	-24.3
<b>Incidence of poverty among children</b>	33.7%	37.8%	26.4%	29.0%	32.4%	32.4%	30.0%	11.9	-21.6	-14.2	-4.1	-4.0	-11.1
<b>Income gap ratio</b>	54.8%	54.5%	33.2%	37.7%	51.1%	52.5%	33.3%	-0.6	-39.5	-31.1	-6.8	-4.2	-39.1
<b>FGT Severity of Poverty Index</b>	41.3%	41.6%	16.0%	20.7%	36.3%	38.0%	16.4%	0.7	-61.1	-49.8	-12.1	-7.9	-60.3
<b>2017</b>													
<b>Incidence of poverty among families</b>	28.4%	30.8%	16.6%	19.9%	26.7%	27.0%	18.4%	8.3	-41.5	-30.0	-6.2	-5.0	-35.4
<b>Incidence of Poverty among Persons</b>	28.0%	30.9%	19.1%	21.7%	26.6%	26.9%	21.2%	10.3	-31.7	-22.6	-5.2	-4.0	-24.3
<b>Incidence of poverty among children</b>	33.5%	37.1%	26.9%	29.5%	32.1%	32.4%	29.6%	10.7	-19.8	-11.8	-4.1	-3.3	-11.8
<b>Income gap ratio</b>	55.6%	55.3%	34.5%	39.0%	51.5%	53.2%	35.2%	-0.5	-38.0	-29.9	-7.4	-4.3	-36.6
<b>FGT Severity of Poverty Index</b>	41.9%	42.2%	17.2%	21.9%	36.7%	38.7%	17.8%	0.9	-59.0	-47.7	-12.4	-7.4	-57.5



#### 4. Dimensions of Poverty by Population Groups and Geographical Areas

Between 2017 and 2018, the incidence of poverty of elderly families increased from 21.8% to 23.4% and the incidence of poverty of elderly persons increased from 17.2% to 18.8% (Table 9). Furthermore: The depth and severity of poverty for the elderly also increased – from 27.7% to 32% and from 12.4% to 16.1%, respectively. This means that the income of poor families headed by an elderly person moved away from the poverty line by approximately 4 additional percentage points, even when the weight of the poorer families is greater in the index (according to the poverty severity index, FGT) (Table 8).

These findings materialized even though the government made an effort in 2018 to prevent the worsening of the elderly population through two moves: (1) An increase in the income supplement for old-age and survivors' allowances, following increases in these allowances at the end of 2015, with the aim of bringing the old-age allowance, including the income supplement, closer to the poverty line, taking into account the size of the household (individuals and couples); (2) An increase in the seniority supplement for the allowance recipients began to be paid in 2018 starting from the ninth year (compared to payment only from the tenth year, as was the case before the change). While an increase in the income supplement only benefits those whose savings and pension are insufficient, the second move is universal and therefore benefits the entire elderly population.

The increase in the poverty levels of the elderly population occurred in the context of an improvement in the situation of the elderly population in general – the disposable income per standard person of the elderly increased by approximately 6% – a faster rate than that of the general population. The explanation for the fact that poverty in this population has increased along with the increase in the general standard of living of the elderly lies in the fact that **the level of inequality between the families of the elderly has risen sharply – the Gini index for the inequality of the families of the elderly rose by 11% in 2018**. This means that the polarization between low-income elderly families and high-income families has widened, **and so despite an average improvement in the situation of the elderly, the poverty rates of those who have not been able to catch up are higher**.

The adverse change in the situation of the elderly population with low incomes is partly due to the fact that the increase in incomes originating from the labor market (which also includes working elderly people, whose income from work grew at a sharp rate of approximately 13% in 2018), naturally bypassed the group of elderly people who are no longer working. If it weren't for the increase in pensions for the senior citizens, their situation would have been even worse. The incidence of poverty in elderly families as well as the indices of the depth and severity of poverty also increased among the population that does not include East Jerusalem, although at slightly lower rates (see the Box in chapter 2).

**The incidence of poverty among Arab families decreased from 47.1% in 2017 to 45.3% in 2018.** This change also includes an implied decrease of over 20% in the incidence of poverty among East Jerusalem Arabs – from 74.7% in 2017 to 58.8% in 2018. Among Arab families, **excluding East Jerusalem, there was an increase** in the incidence of poverty from 42.6% in 2017 to 44.2% in 2018.

The incidence of poverty for Arab persons and children also decreased by 6% and 5%, respectively. These decreases are also attributed to the sharp changes in the population of East Jerusalem, since in a study of the Arab population excluding East Jerusalem, an **increase** of 2% and 3% is obtained in the incidence of poverty for persons and children, respectively.

At the same time, **the indices for the depth of poverty and the severity of poverty** declined between the two years, by approximately 8% and 11%, respectively. In these indices the trends were similar to those of East Jerusalem Arabs.

The incidence of poverty among children in Haredi families increased by approximately 5 percentage points. Part of this increase probably stems from the change in the composition of families in 2018, which includes an increase in the proportion of large Haredi families characterized by higher poverty. However, the income gap ratio (“depth of poverty”) and the FGT index for the severity of poverty decreased this year by 5.1% and 6.7%. According to the 2018 survey, the proportion of poor Haredi families in the total number of poor families reaches approximately 16% – nearly 2 times higher than their relative proportion in the population of families, according to the Household Expenditure Survey.

The incidence of poverty of **families with children**, who constitute more than half of all poor families, decreased slightly between the two years and amounts to 21.4%. However, among the population excluding East Jerusalem, the incidence of poverty increased from 19.6% in 2017 to 20.3% in 2018. The indices for the depth of poverty and the severity of poverty in families with children also decreased, at rates of 5% and 7%, respectively. However, in large families (4 children and more) there was a 1.3% increase in the incidence of poverty in 2018.

**The incidence of poverty for single-parent families increased slightly**, from 24.4% in 2017 to 25.1% in 2018, and even the depth of poverty and the severity of poverty increased by exceptional rates (18% and 38%, respectively). However, in the calculation that excludes East Jerusalem, there is actually an improvement in the situation of single-parent families, and the (essentially technical) explanation for the difference lies in part in a sharp increase in the weight of single-parent families in the population of East Jerusalem.

The incidence of poverty of **working families** continued to decrease in 2018 from 12.6% to 12.3%, following a decrease also in 2017. However, among families with two or more breadwinners, the incidence of poverty rose from 5.0% to 5.6% between the two years, as part of a continuing trend. This phenomenon is mainly related to those joining the workforce (often partially) at the low wages of disadvantaged populations (as an indication of this, see the figures in **שגיאה! מקור ההפניה לא נמצא**). The depth of poverty of working families decreased in both groups – at a rate of approximately 6% in families with one breadwinner and approximately 5% in families with two breadwinners. The share of working families in the overall poor population remained unchanged in 2018 – 55.5%. It should be noted that the poverty status of working families excluding the population of East Jerusalem is reversed – an increase

of 0.4 percentage points (the decrease in poverty of working families in East Jerusalem was very sharp due to data limitations, and reached a rate of approximately 22 percentage points).

In 2018, **the incidence of poverty among working age non-working families declined** from 75.7% to approximately 71.0%. Its share in the population also continued to decrease by approximately 6% in 2018. In addition to the decrease in the incidence of poverty, the severity of poverty of these families also decreased by approximately 6% between the two years (Table ). However, these families, which constitute only approximately 4% of the total population, while they constitute approximately 17% of the poor population, and their poverty level, remains enormous even after the decrease in 2018, is 3-4 times higher than that of the general population.

**Table 6: Incidence of Poverty Among Adults\* by Gender (%) 1999-2018**

Year	Men			Women		
	Before Transfer Payments and Taxes	After Transfer Payments and Taxes	Rate of Decline in Incidence of Poverty resulting from Transfer Payments and Taxes	Before Transfer Payments and Taxes	After Transfer Payments and Taxes	Rate of Decline in Incidence of Poverty resulting from Transfer Payments and Taxes
1999	25.6	15.2	40.5	30.9	17.1	44.8
2002	27.0	16.2	40.0	31.5	16.9	46.3
2003	27.7	17.4	37.1	32.8	18.8	42.6
2004	27.6	18.0	34.7	32.2	19.7	38.8
2005	28.2	18.7	33.6	32.0	20.2	36.9
2006	26.8	18.2	32.2	32.1	19.6	38.9
2007	26.8	18.1	32.6	30.8	19.2	37.6
2008	26.3	17.6	33.1	31.4	19.5	38.0
2009	27.9	18.8	32.7	31.8	20.0	36.9
2010	26.7	18.2	31.8	31.3	19.9	36.4
2011	27.3	18.8	31.3	32.0	20.3	36.4
2012	25.2	17.3	31.4	30.2	19.7	34.7
2013	23.1	16.5	28.6	27.6	18.4	33.3
2014	24.3	17.1	29.6	28.1	18.3	34.7
2015	23.6	17.0	28.2	27.9	18.4	34.1
2016	23.8	16.2	31.9	27.9	18.6	33.4
2017	23.4	16.3	30.3	27.1	17.9	34.2
2018	22.7	15.5	31.6	27.5	18.1	34.1

\* Women and men aged 18 and older.

A study of the incidence of poverty by gender group shows that the incidence of poverty for women increased by 0.2 percentage points between 2017 and 2018, while the incidence of poverty for men decreased by 0.8 percentage points **so that in total the gender gap widened by a full percentage point** between the two years. Therefore, in 2018, the gap in the incidence of poverty according to disposable income between men and women reached a record 16.8%, the highest gap in the last 20 years. At the same time, the gap in the effect of the policy on the incidence of poverty by gender narrowed. The policy measures extricated 31.6% of men and 34.1% of women (compared to 30.3% and 34.2% in 2017,

respectively). The gaps in the level of poverty measured by economic income are much higher and reach approximately 21%.

**The incidence of poverty among immigrants decreased considerably** in 2018 from a level of 18.4% in 2017 to 16.0% in 2018, after a continuous downward trend throughout recent years (except for 2017). Nevertheless, the index for the depth of poverty increased by approximately 3%, while the index for the severity of poverty remained unchanged.

The segmentation of the population **according to the age of the head of the household** indicates the sharpest decrease in the poverty indices among young households – in which the head of the household is up to the age of 29 – from 24.7% in 2017 to 22.2% in 2018 alongside a more moderate decrease in the older ages – 30 to 44 – from 17.1% in 2017 to 16.7% in 2018. The age group in which poverty in Israel is the lowest remains 45 until retirement age, with the incidence of poverty approximately 5 percentage points away from the general incidence of poverty – 12.5% in 2018.

**Table 7: Incidence of Poverty among Families by Population Group (Percentages), 2016-2018**

	Income before Transfer Payments and Taxes			Income after Transfer Payments and Taxes			Rate of Decline in Incidence of Poverty after Transfer Payments and Taxes (Percentages)		
	2016	2017	2018	2016	2017	2018	2016	2017	2018
<b>Total population</b>	28.9	28.4	27.8	18.5	18.4	18.0	36.0	35.4	35.4
<b>Population group of head of household:</b>									
Jews	24.9	24.4	24.1	13.2	13.4	13.4	46.8	44.8	44.5
Haredim (according to subjective definition)*	58.9	57.1	57.4	45.1	43.1	42.3	23.4	24.5	26.2
Immigrants	36.4	37.3	34.2	17.0	18.4	16.0	53.4	50.7	53.1
Arabs	52.4	52.1	50.2	49.2	47.1	45.3	6.1	9.7	9.7
<b>Families with children – total</b>	27.4	25.9	25.0	23.0	21.6	21.4	15.9	16.7	14.3
3-1 children	21.6	20.4	18.9	17.4	15.9	15.6	19.6	22.1	17.9
4 or more children	54.7	52.8	54.4	49.8	49.3	49.9	8.9	6.6	8.2
5 or more children	67.2	64.9	69.6	63.8	61.2	66.2	5.1	5.7	4.8
Single parent families	41.0	38.2	38.5	26.0	24.4	25.1	36.7	36.0	34.6
<b>Employment status of head of household:</b>									
Working	19.3	18.5	17.6	13.5	12.6	12.3	29.8	31.8	30.1
Salaried employee	19.7	18.9	17.8	13.4	12.6	12.4	32.2	33.5	30.3
Self-employed	16.5	15.8	16.6	14.6	12.8	11.8	11.4	19.1	28.9
Working age non-working	91.3	93.3	91.4	69.4	75.7	71.0	24.0	18.9	22.4
Single wage earner	38.4	37.6	34.9	27.0	24.9	24.1	29.7	33.7	31.0
Two or more wage earners	7.5	7.3	7.3	5.2	5.4	5.3	30.2	26.0	27.4
<b>Age group of working-age head of household:</b>									
Up to 29	30.1	33.5	30.2	22.7	24.7	22.2	24.3	26.4	26.5
Age 30-44	24.5	21.9	21.3	19.3	17.1	16.7	21.1	22.1	21.8
Age 45 to retirement age	18.8	17.8	17.5	13.1	13.3	12.5	30.3	25.6	28.2
<b>Age group of retired head of household:</b>									
Elderly**	47.7	47.9	48.6	20.8	21.8	23.4	56.4	54.4	51.8
Legal retirement age***	50.6	50.5	51.2	21.6	22.8	24.6	57.3	54.8	52.0
<b>Education groups of head of household:</b>									
Up to 8 years of education	68.3	70.6	70.5	44.4	49.4	46.2	35.0	30.0	34.4
9-12 years of education	32.9	31.3	29.7	21.7	21.1	20.4	34.2	32.4	31.4
13 or more years of education	21.0	21.0	20.9	12.9	12.5	12.6	38.4	40.7	39.6

\* By subjective definition: level of religiosity as reported by the interviewee: secular, traditional, religious, Haredi, mixed.

\*\* According to the definition that was applied until now: elderly families from age 60 for women and 65 for men.

\*\*\* Elderly families from age 62 for women and 67 for men.

**Table 8: Incidence of Poverty among Families by Population Group – Excluding East Jerusalem (Percentages), 2016-2018**

	Income before Transfer Payments and Taxes			Income after Transfer Payments and Taxes			Rate of Decline in Incidence of Poverty after Transfer Payments and Taxes (Percentages)		
	2016	2017	2018	2016	2017	2018	2016	2017	2018
<b>Total population</b>	28.4	27.5	27.5	17.8	17.4	17.5	-37.3	-36.7	-36.4
<b>Population group of head of household:</b>									
Jews	25.4	24.6	24.4	13.7	13.8	13.7	-46.1	-43.9	-43.9
Haredim (according to subjective definition)*	60.1	57.7	57.7	45.8	43.6	43.2	-23.8	-24.4	-25.1
Immigrants	36.6	37.6	34.4	17.7	18.9	16.6	-51.6	-49.7	-51.7
Arabs	49.6	47.6	49.8	45.8	42.6	44.2	-7.7	-10.5	-11.2
<b>Families with children – total</b>	26.1	23.9	23.9	21.3	19.6	20.3	-18.4	-18.0	-15.1
3-1 children	20.8	18.7	18.4	16.2	14.3	14.6	-22.1	-23.5	-20.7
4 or more children	52.3	50.5	52.3	46.7	46.4	49.1	-10.7	-8.1	-6.1
5 or more children	65.8	62.7	70.0	60.8	58.3	66.8	-7.6	-7.0	-4.6
Single parent families	40.8	37.6	36.8	25.8	24.9	24.3	-36.8	-33.8	-34.0
<b>Employment status of head of household:</b>									
Working	18.7	17.4	17.2	12.6	11.4	11.8	-32.6	-34.5	-31.4
Salaried employee	19.0	17.9	17.3	12.4	11.5	11.8	-34.7	-35.8	-31.8
Self-employed	16.2	13.8	16.9	13.7	10.9	11.7	-15.4	-21.0	-30.8
Working age non-working	91.0	92.9	91.1	69.1	75.6	70.8	-24.1	-18.6	-22.3
Single wage earner	37.8	35.8	34.3	25.4	22.8	22.5	-32.8	-36.3	-34.4
Two or more wage earners	7.1	6.9	7.4	4.9	5.0	5.6	-31.0	-27.5	-24.3
<b>Age group of working-age head of household:</b>									
Up to 29	30.0	31.8	30.8	22.2	23.0	22.3	-26.0	-27.7	-27.6
Age 30-44	23.3	20.6	20.6	17.9	15.8	16.0	-23.2	-23.3	-22.3
Age 45 to retirement age	18.1	17.1	16.7	12.2	12.4	11.7	-32.6	-27.5	-29.9
<b>Age group of retired head of household:</b>									
Elderly**	47.7	47.9	48.6	21.2	21.9	23.2	-55.6	-54.3	-52.3
Legal retirement age***	50.7	50.4	51.1	22.1	23.0	24.4	-56.4	-54.4	-52.3
<b>Education groups of head of household:</b>									
Up to 8 years of education	66.5	69.7	71.8	42.5	48.4	47.6	-36.1	-30.6	-33.7
9-12 years of education	32.1	30.0	28.9	20.6	19.5	19.5	-35.8	-35.0	-32.5
13 or more years of education	21.1	20.6	20.9	12.8	12.2	12.3	-39.3	-40.8	-41.1

\* By subjective definition: level of religiosity as reported by the interviewee: secular, traditional, religious, Haredi, mixed.

\*\* According to the definition that was applied until now: elderly families from age 60 for women and 65 for men.

\*\*\* Elderly families from age 62 for women and 67 for men.

**Table 9: Incidence of Poverty among Families, Persons, Children and the Elderly\*\*\* by Population Group, 2017 and 2018**

	2017				2018			
	Families	Persons	Children	Elderly	Families	Persons	Children	Elderly
<b>Total population</b>	18.4	21.2	29.6	17.2	18.0	21.2	30.0	18.8
<b>Population group of head of household:</b>								
Jews	13.4	13.9	19.6	13.7	13.4	14.5	21.2	14.9
Haredim (according to subjective definition)*	43.1	48.7	55.4	19.9	42.3	51.8	60.4	18.9
Immigrants	18.4	17.2	23.9	20.6	16.0	15.3	21.8	21.1
Arabs	47.1	50.3	60.7	52.5	45.3	47.4	57.8	55.9
<b>Families with children – total</b>	21.6	25.6	29.6	21.6	21.4	25.5	30.0	31.0
3-1 children	15.9	16.5	17.6	16.7	15.6	15.6	16.8	26.5
4 or more children	49.3	51.9	52.3	70.7	49.9	53.0	54.1	47.9
5 or more children	61.2	62.2	62.8	81.6	66.2	66.7	67.9	60.3
Single parent families	24.4	28.4	33.1	15.6	25.1	28.0	32.9	29.3
<b>Employment status of head of household:</b>								
Working	12.6	17.4	25.8	4.2	12.3	17.4	26.3	5.3
Salaried employee	12.6	17.5	25.9	4.2	12.4	17.4	26.2	5.4
Self-employed	12.8	17.2	25.5	4.4	11.8	17.4	27.1	4.7
Working age non-working	75.7	82.8	90.2	46.7	71.0	82.3	92.0	34.7
Single wage earner	24.9	41.2	60.0	5.3	24.1	41.2	60.9	8.0
Two or more wage earners	5.4	7.8	10.7	2.8	5.3	7.8	11.4	1.5
<b>Age group of working-age head of household:</b>								
Up to 29	24.7	25.9	40.3	11.9	22.2	25.1	41.3	5.3
Age 30-44	17.1	23.7	30.5	7.3	16.7	23.2	30.1	7.2
Age 45 to retirement age	13.3	14.9	21.0	6.6	12.5	14.7	21.7	9.2
<b>Age group of retired head of household:</b>								
Elderly**	21.8	20.4	44.9	19.9	23.4	23.3	70.9	21.8
Legal retirement age***	22.8	21.6	54.7	20.4	24.6	24.9	78.1	22.3
<b>Education groups of head of household:</b>								
Up to 8 years of education	49.4	53.2	69.4	43.6	46.2	49.6	66.2	44.1
9-12 years of education	21.1	26.1	41.4	15.5	20.4	24.1	37.9	17.3
13 or more years of education	12.5	14.3	19.7	10.4	12.6	15.8	22.8	11.3

\* By subjective definition: level of religiosity as reported by the interviewee: secular, traditional, religious, Haredi, mixed.

\*\* According to the definition that was applied until now: from age 60 for women and 65 for men.

\*\*\* Age 62 for women and 67 for men.

**Table 10: Percentage of Types of Families in the Total Population and in the Poor Population, by Demographic and Employment Characteristics, 2017-2018**

	Total population		Poor population			
			Before Transfer Payments and Direct Taxes		After Transfer Payments and Direct Taxes	
	2017	2018	2017	2018	2017	2018
<b>Population group of head of household:</b>						
Jews	85.4	85.5	73.2	73.8	62.6	63.4
Haredim (according to subjective definition)*	6.6	6.7	13.2	13.9	15.5	15.8
Immigrants	19.6	19.6	25.8	24.1	19.7	17.5
Arabs	14.6	14.5	26.8	26.2	37.4	36.6
<b>Families with children – total</b>	45.2	44.7	41.2	40.2	53.2	53.3
3-1 children	37.5	37.1	26.9	25.2	32.5	32.0
4 or more children	7.7	7.7	14.3	15.0	20.7	21.3
5 or more children	3.5	3.5	7.9	8.7	11.5	12.9
Single parent families	5.7	5.8	7.7	8.0	7.6	8.1
<b>Population groups of head of household:</b>						
Working	80.3	80.2	52.2	50.8	55.1	55.0
Salaried employee	69.2	69.3	46.0	44.3	47.3	47.8
Self-employed	11.1	10.9	6.2	6.5	7.8	7.1
Working age non-working	4.6	4.3	15.2	14.2	19.1	17.1
Single wage earner	29.7	30.0	39.3	37.7	40.3	40.2
Two or more wage earners	50.6	50.1	12.9	13.2	14.8	14.8
<b>Age group of working age head of household:</b>						
Up to 29	16.0	16.0	18.9	17.3	21.5	19.7
Age 30-44	34.4	33.7	26.5	25.8	32.0	31.2
Age 45 to retirement age	29.2	29.4	18.3	18.5	21.1	20.5
<b>Age group of retired head of household:</b>						
Elderly**	22.6	23.0	38.2	40.2	26.9	30.0
Legal retirement age***	20.4	20.9	36.3	38.4	25.4	28.6
<b>Education groups of head of household:</b>						
Up to 8 years of education	7.3	7.3	18.1	18.6	19.6	18.9
9-12 years of education	36.8	37.2	40.5	39.7	42.4	42.2
13 or more years of education	55.9	55.5	41.4	41.7	38.0	39.0

\* By subjective definition: level of religiosity as reported by the interviewee: secular, traditional, religious, Haredi, mixed.

\*\* According to the definition that was applied until now: from age 60 for women and 65 for men.

\*\*\* Age 62 for women and 67 for men.



**Table 8: Assessment of the Depth and Severity of Poverty by Population Group and Selected Indices, Percentages, 2017 and 2018**

	Income gap ratio		FGT Index		SEN Index	
	2017	2018	2017	2018	2017	2018
<b>Total population</b>	35.2	33.3	17.8	16.4	0.103	0.098
<b>Population group of head of household:</b>						
Jews	31.1	30.6	14.7	14.3	0.06	0.062
Haredim (according to subjective definition)*	33.7	32	15.4	14.4	0.22	0.226
Immigrants	28.7	29.6	13.6	13.6	0.071	0.064
Arabs	39.7	36.6	21.2	18.9	0.266	0.237
<b>Families with children – total</b>	35.9	34.1	18.1	16.8	0.125	0.12
1-3 children	31.5	31.4	15.3	15.2	0.073	0.069
4 or more children	39.8	36.3	20.7	18.1	0.272	0.259
5 or more children	42.3	35.2	22.5	17.2	0.339	0.318
Single parent families	35.7	42.1	17.7	24.4	0.138	0.159
<b>Population groups of head of household:</b>						
Working	31.4	29.5	14.1	12.8	0.075	0.071
Salaried employee	31.2	29.3	13.9	12.5	0.075	0.071
Self-Employed	32.8	30.9	15.8	14.4	0.078	0.075
Working age non-working	56	52.4	37.4	34.3	0.58	0.554
Single wage earner	34.7	33	16.3	15.0	0.191	0.183
Two or more wage earners	24.4	22.2	9.5	8.0	0.027	0.025
<b>Age group of working age head of household:</b>						
Up to 29	34.8	31.5	18.2	15.3	0.126	0.112
Age 30-44	36.6	33.5	18.6	15.8	0.117	0.106
Age 45 to retirement age	36.4	35.6	18.9	19.2	0.074	0.073
<b>Age group of retired head of household:</b>						
Elderly**	29.1	32.7	12.4	16.1	0.082	0.106
Legal retirement age***	27.7	32	11.3	15.5	0.083	0.111
<b>Education groups of head of household:</b>						
Up to 8 years of education	41.6	38.5	22.6	20.7	0.292	0.259
9-12 years of education	35.2	33.7	17.7	16.6	0.126	0.112
13 or more years of education	32.7	31.1	16.0	14.7	0.065	0.069

\* By subjective definition: level of religiosity as reported by the interviewee: secular, traditional, religious, Haredi, mixed.

\*\* According to the definition that was applied until now: from age 60 for women and 65 for men.

\*\*\* Age 62 for women and 67 for men.

Table 9 presents the dimensions of poverty by district and nationality and includes specific data for several large cities. In some categories, the results fluctuate due to the small number of observations and the low significance level of the data.

Despite the sharp decrease of approximately 20 percentage points in the poverty of East Jerusalem in 2018, the incidence of poverty in the **Jerusalem district** is the highest. The incidence of poverty among children in Jerusalem is 50.8% (having decreased from approximately 54.7% in 2017). Segmentation by religion shows that the change stems from the Arabs of Jerusalem, while among Jews the incidence of poverty increased in 2018. The depth of poverty and the severity of poverty in the Jerusalem District, and in the city of Jerusalem in particular, are higher than in the general population.

After the Jerusalem District, the **Northern district** is the next highest with poverty rates which are also higher than in the other districts. However, in that district, poverty rates have been on a continuous downward trend since 2012.

In the **Haifa district**, the poverty levels of families, persons and children have changed only slightly, and their level is similar to that of the general population. However, the indices for the depth and severity of poverty dropped sharply – by 17% and 22%, respectively. A significant improvement in the severity of poverty was recorded among the Arab population in this district.

**In the Center** of the country, the dimensions of poverty declined: the incidence of poverty among families, persons and children in the Center declined by 5%, 22% and 33%, respectively, between 2017 and 2018. These decreases place the Central District “in first place” (before the Tel Aviv district) as a district with the lowest levels of poverty: 9.4% of families in this district are poor, while the rate in the city of Rishon Letzion is half that rate: only 4.8% of families are poor.

**Also in the Tel Aviv district** and in particular in the city of Tel Aviv, poverty levels are low compared to the other districts. In 2018, the incidence of poverty among families in the Tel-Aviv district remained approximately 11% and in the city of Tel-Aviv it decreased from 9% to 8.5%. The incidence of poverty among children in the city of Tel Aviv declined by 1.3 percentage points and reached 4%. The depth of poverty increased between 2017 and 2018 by 8% in the Tel Aviv district and by 30% in the city of Tel Aviv between the two years.

In the **Southern district**, the incidence of poverty among families decreased between 2017 and 2018 by half a percentage point, the incidence of poverty of persons increased by 4.5 percentage points and the incidence of poverty among children increased by 9 percentage points. **In the city of Ashdod**, the incidence of poverty among families, persons and children decreased and reached approximately 20%, 21.5% and 30.5%, respectively. The increase in the incidence of poverty of persons and children in the Southern district was recorded both among Jews and among Arabs.

**שגיאה! מקור ההפניה לא נמצא.** and **שגיאה! מקור ההפניה לא נמצא.** present the statistical significance of the data in this report by population group. **שגיאה! מקור ההפניה לא נמצא.** shows that despite the many changes in the dimensions of poverty, the changes between 2017 and 2018 were statistically significant only for a small part of the population groups (for example: the increase in the income gap of Arabs and families with

children, and more). **שגיאה! מקור הפניה לא נמצא.** demonstrates that also over time, except for the years 2003-2004, in which there was a jump in the dimensions of poverty, generally the changes in the dimensions of poverty (at least from then until 2011) were not significant. Even in the new series that began in 2012, after the break that occurred in that year following the cancellation of the Manpower Survey observations and the reliance only on the observations of the Expenditure Survey – it is difficult to find cases in which the changes from year to year are significant.

**Table 9: Incidence of Poverty by District and Nationality, 2017-2018**

	2017					2018				
	Incidence of poverty			Income gap ratio	FGT	Incidence of poverty			Income Gap Ratio	FGT
	Families	Persons	Children			Families	Persons	Children		
<b>Total*</b>	<b>18.4</b>	<b>21.2</b>	<b>29.6</b>	<b>35.2</b>	<b>17.8</b>	<b>18.0</b>	<b>21.2</b>	<b>30.0</b>	<b>33.3</b>	<b>16.4</b>
Jerusalem	34.0	42.2	52.2	36.4	17.9	30.9	39.3	50.6	37.1	18.7
Jerusalem City	36.5	44.8	54.7	37.8	18.8	31.1	39.5	50.8	38.5	19.7
North	27.0	29.1	38.4	33.3	16.2	26.7	27.6	36.1	32.3	15.7
Haifa	18.8	19.1	26.6	36.1	18.4	18.1	19.5	26.6	29.8	14.3
Haifa City	17.6	14.1	13.8	32.9	19.1	15.6	14.8	21.9	25.1	12.3
Center	9.9	10.3	14.2	31.2	14.9	9.4	8.1	9.5	29.3	13.4
Rishon Letzion City	4.3	4.4	7.8	22.4	8.3	4.8	4.3	5.3	20.6	5.7
Petach Tikva City	10.4	8.8	8.7	25.7	9.8	13.2	8.7	7.3	21.7	7.0
Tel Aviv	11.0	11.4	17.9	34.4	18.3	11.2	12.2	18.5	31.7	15.8
Tel Aviv City	9.1	6.6	5.7	49.5	33.0	8.5	6.9	4.4	34.8	20.1
South	22.7	23.4	29.8	39.6	22.3	22.2	27.9	38.9	35.3	18.2
Ashdod City	25.0	22.8	33.2	29.0	12.1	20.2	21.5	30.5	28.7	12.1
<b>Jews*</b>	<b>13.4</b>	<b>13.9</b>	<b>19.6</b>	<b>31.1</b>	<b>14.7</b>	<b>13.4</b>	<b>14.5</b>	<b>21.2</b>	<b>30.6</b>	<b>14.3</b>
Jerusalem	22.0	26.5	36.1	31.7	14.0	22.5	30.7	43.6	35.5	17.6
North	17.1	16.9	22.1	30.8	14.8	15.5	15.0	18.5	27.9	12.4
Haifa	13.2	10.7	12.2	27.9	14.3	12.7	11.7	15.5	26.0	12.6
Center	8.0	7.7	10.0	28.1	12.5	8.0	6.4	7.4	26.8	11.5
Tel Aviv	10.8	11.1	17.5	34.1	18.0	11.1	12.0	18.2	31.9	16.1
South	18.7	15.4	17.9	30.0	13.7	17.3	16.7	22.2	29.4	12.7
<b>Arabs</b>	<b>47.1</b>	<b>50.3</b>	<b>60.7</b>	<b>39.7</b>	<b>21.2</b>	<b>45.3</b>	<b>47.4</b>	<b>57.8</b>	<b>36.6</b>	<b>18.9</b>
Jerusalem	70.3	74.2	82.0	39.8	20.7	55.6	56.6	63.7	38.9	19.9
North	37.7	38.9	49.1	34.2	16.7	38.8	37.6	48.0	33.7	16.8
Haifa	45.2	45.3	57.7	42.1	21.4	42.9	42.8	51.2	33.0	15.7
Center	42.1	39.7	48.2	38.0	20.1	44.0	40.0	46.2	37.0	19.6
Tel Aviv**	.	.	.	.	.	.	.	.	.	.
South	63.7	67.8	73.1	51.5	33.0	66.6	72.9	79.6	40.9	23.3

\* Includes settlements in Judea and Samaria.

\*\* Does not exist due to the lack of observations.

## B. Inequality, Classes and Income Gaps and their Causes

### 1. Inequality in 2018 and in Recent Years

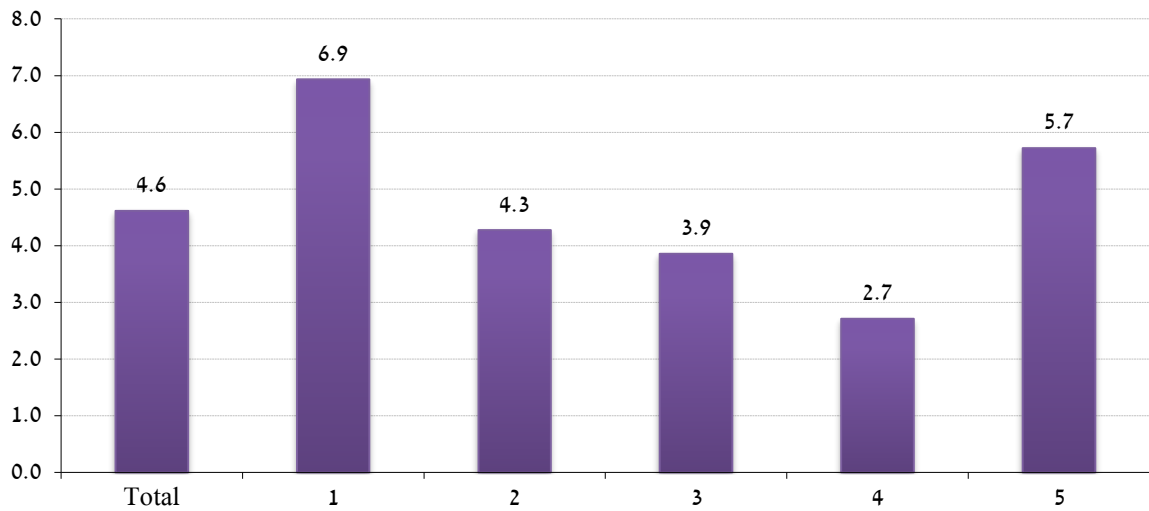
Table 10 shows the Gini index of inequality in economic income and disposable income over time.<sup>10</sup> After years of declining inequality indices (with the exception of 2014), in 2018 income inequality rose. In 2018, the Gini index of inequality in disposable income was 0.3559 and according to the economic income it was 0.4644. Compared to 2017, inequality increased according to both indices – by rates of 1.1% and 1.3%, respectively. The trends in the Gini index of economic and disposable income did not always move together. While the trend in economic income has been uniform since 2002, in disposable income there was a deterioration in the years 2002 to 2006 due to the policy of reducing allowances and reducing progressivity in the tax policy, but since 2006 the fluctuations in the Gini index are more or less consistent in the economic and disposable income. Another way to view the increase in inequality is presented in Figure 8, which shows the real increase in disposable income per standard person by quintile. The diagram indicates an improvement in the condition of the extreme quintiles – the bottom quintile and the top quintile – compared to a **relative** deterioration in the condition of the middle quintiles (see also the discussion on the middle class below).

**Table 10: Gini Index of Income Inequality in the Population, by Economic and Disposable Income, 2002-2018**

Year	Before Transfer Payments and Direct Taxes	After Transfer Payments and Direct Taxes	Decline due to Transfer Payments and Taxes (Percentages)
2018	0.4644	0.3559	23.4
2017	0.4585	0.3520	23.2
2016	0.4646	0.3577	23.0
2015	0.4719	0.3653	22.6
2014	0.4778	0.3712	22.3
2013	0.4766	0.3634	23.7
2012	0.4891	0.3770	22.9
2011	0.4973	0.3794	23.7
2010	0.5045	0.3841	23.9
2009	0.5099	0.3892	23.7
2008	0.5118	0.3853	24.7
2007	0.5134	0.3831	25.4
2006	0.5237	0.3923	25.1
2005	0.5225	0.3878	25.8
2004	0.5234	0.3799	27.4
2003	0.5265	0.3685	30.0
2002	0.5372	0.3679	31.5
<b>Change in the Index (Percentages)</b>			
2018 compared to 2017	1.30	1.09	
2018 compared to 2016	-0.15	-0.52	
2018 compared to 2002	-13.55	-3.28	
2018 compared to 1999	-10.12	-0.96	

<sup>10</sup> The Gini index measures gaps in income between all the persons in the economy. The index ranges from 0 to 1, where the value of 0 reflects a situation of absolute equality (“all persons have equal income”) and the value 1 reflects absolute inequality (“all income is in the hands of one person and all other persons have no income”).

**Figure 5: Real Change in Disposable Income per Standard Person in 2018 compared to 2017, by Quintiles (Percentages)**



A study of the changes from a long-term perspective (Figure 5) shows that from 1999 to 2006, the index rose, after which it stabilized for the next 3 years, and since then it has gradually declined, with a particularly large drop in 2013 and a correction in 2014. From 2002 (the year the cuts began, which were exacerbated during 2003 and 2004) and until 2017, inequality according to the economic income fell by a rate of approximately 14.6%, compared with a relatively small decline (4.3%) in inequality that was recorded in the same period according to the disposable income. While the increase between 2002 and 2006 was mainly due to the government's policy regarding allowances, the subsequent decrease in the Gini index of disposable income was mainly influenced by the positive changes in inequality according to the economic income.<sup>11</sup> In other words, the increase in employment (שגיאה! מקור ההפניה לא נמצא), and in later years also the increase in the real wage, among other things as a result of the significant increase in the minimum wage.

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<sup>11</sup> Part of the decline in the inequality index is may be technical and related to the transition from the Income Survey to the Expenditure Survey, due to the difficulty in identifying the sources of the “break” between the two series of surveys.

**Figure 6: Inequality over Time in Israel – Gini Index by Economic and Disposable Income: 1998 to 2018**

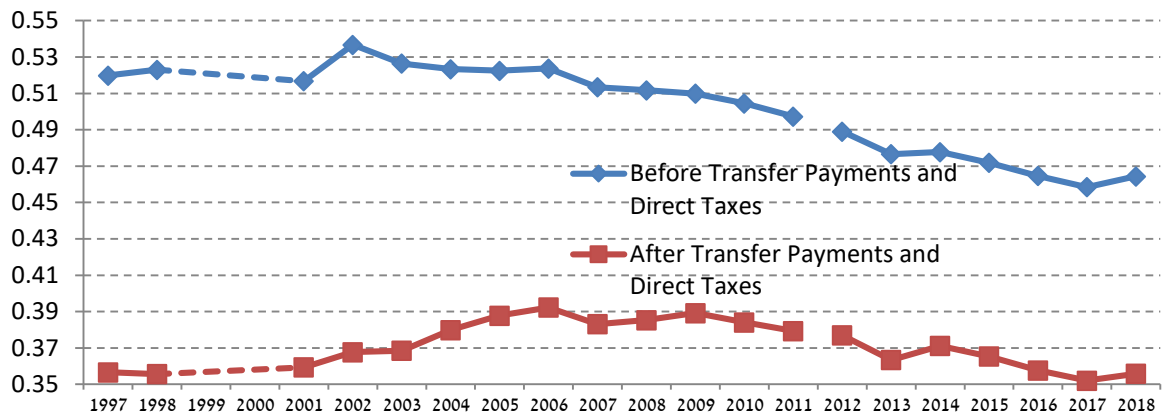
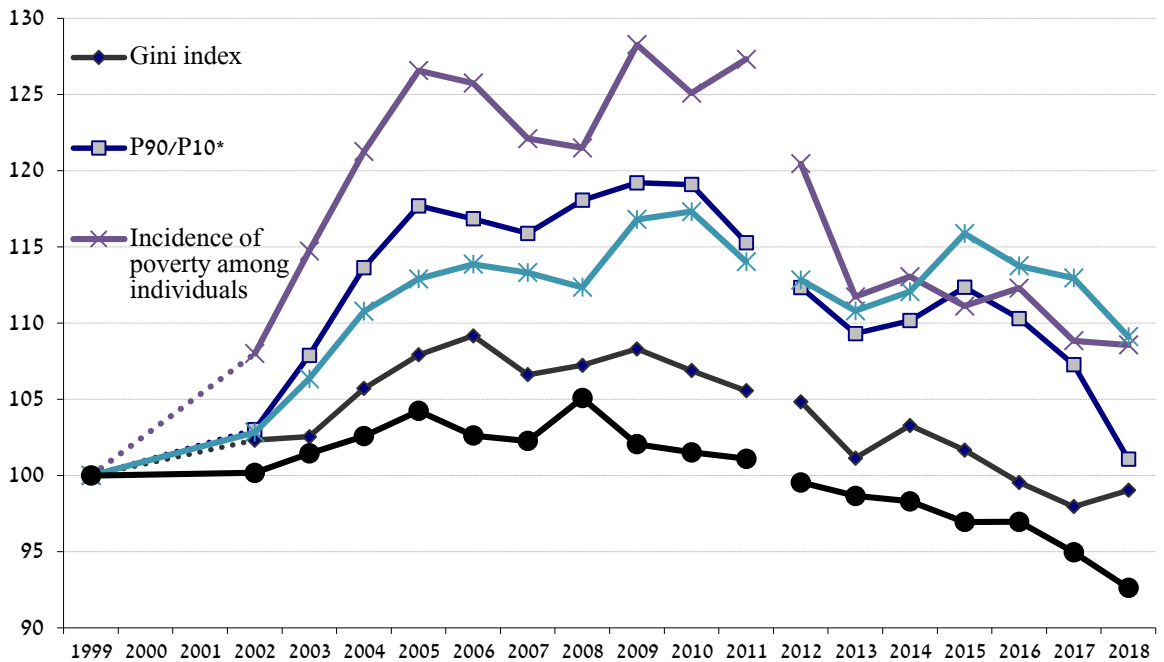


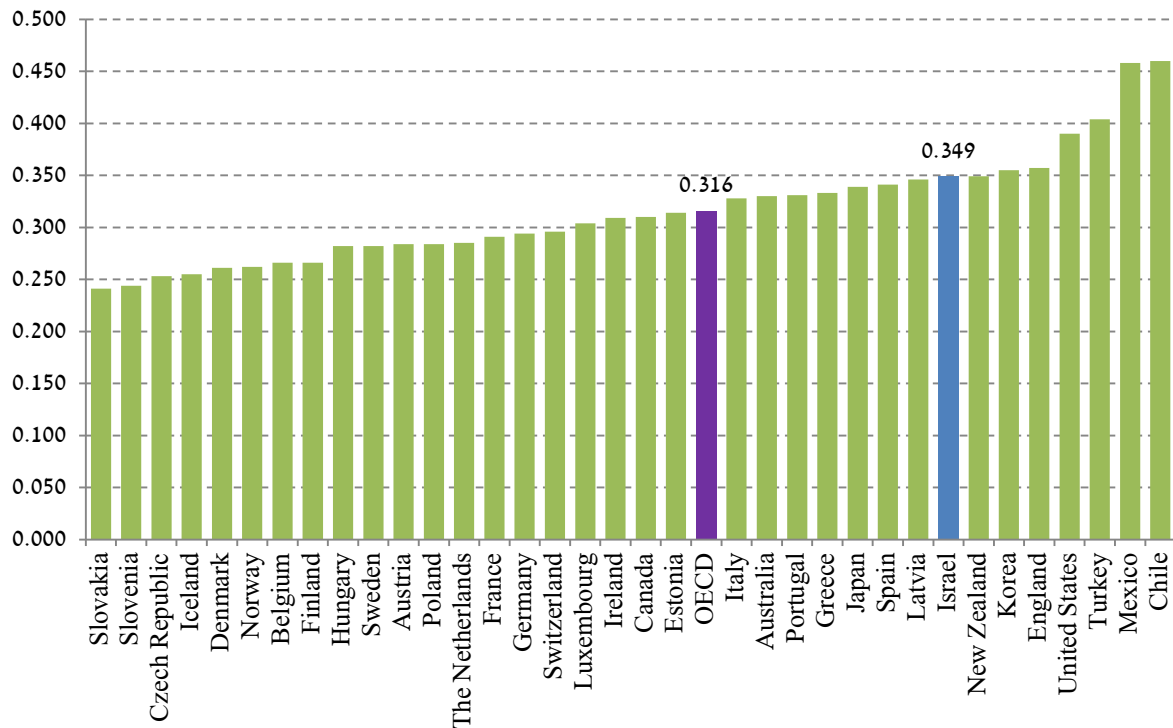
Figure 7 presents several indices of inequality – the Gini index and indices of the ratio between different income deciles, with respect to the incidence of poverty among persons.<sup>12</sup> Among the income gap indices in the various deciles, the P90/P50 index, which reflects income gaps among the high-income half of the population, decreased also this year and reached a level even lower than its level in 1999. The P90/P10 and P50/P10 indices, which respectively reflect the gaps in income between high incomes and the incomes at the bottom of the income scale and between the median income and the bottom of the incomes, indicate the continuation of the downward trend recorded last year, after having increased in recent years.

**Figure 7 Indices of Selected Gaps and Inequality, 1999-2018**



\* For calculation purposes, the deciles were classified based on disposable income per standard person; each decile comprises 10% of the families.

**Figure 8: Gini Index of Inequality of Disposable Income per Standard Person, OECD Countries and Israel, Various Years (2015-2017, Israel 2018), OECD Definition**



A comparison of the data on disposable income inequality among the developed countries, presented in Figure 8, indicates a deterioration in Israel's situation in this area, and it currently has a Gini index that is approximately 10% higher than the average index in developed countries, compared to a gap of 5% in 2017.

**שגיאה! מקור ההפניה לא נמצא.** presents the share of each quintile in total income according to the various sources of income – work, pension, provident funds and capital, allowances and subsidies, etc. The data show that the share of the top quintile in income from work reaches approximately 41.7% of the total wages in the economy, a rate 9 times higher than the share of the bottom quintile in the total income from work, which is approximately 4%. On the other hand, larger gaps exist in the direct taxation due to the progressive structure of income tax and, to a lesser extent, national insurance and health insurance. Therefore, the total income from direct taxes from the lowest quintile is 0.6%, similar to 2017, compared with 66.9% in the upper quintile, which pays over 3 times more taxes than the next quintile. Due to the structure of direct taxes and allowances that work to change the distribution of income, the disposable income in the economy is divided more equally than the income from work: the lowest quintile receives 7% of it – compared to 38.2% received by the highest quintile in 2018.

<sup>12</sup> To calculate these indices, the upper threshold of the income among the relevant decile was used. For example, the P90/P50 index reflects the ratio between the highest wage in the ninth decile and the highest wage in the fifth decile.



## 2. The Middle Class in Israel

Starting with the 2017 report, we added the current chapter which deals with the economic classes that make up Israeli society, with an emphasis on the middle class. A large and strong middle class contributes to economic growth, political stability and increasing trust in government institutions and society in general. Its purchasing power, and in particular its ability to acquire an education, is a significant contribution to the economy. This chapter presents data regarding the size and strength of the middle class in Israel, long-term developments and comparisons between population groups.

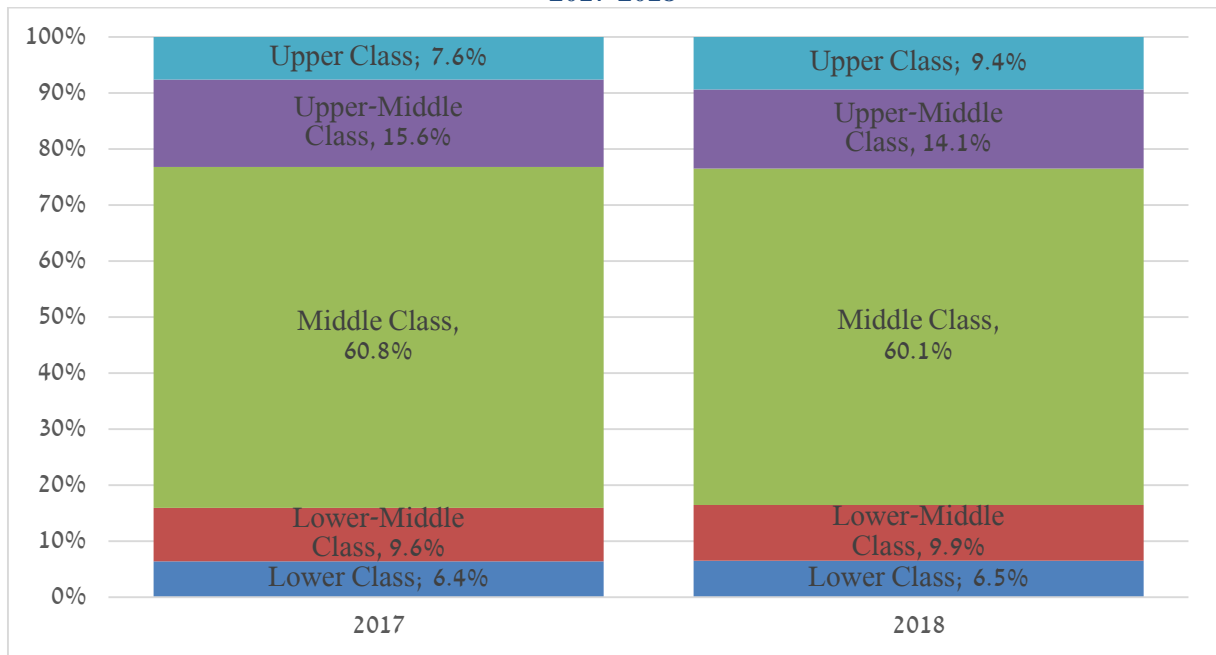
The World Bank and the OECD define the middle class according to the disposable income of the household: an income of between 75% and 200% of the net monetary income per standard person.<sup>13</sup> Those with income below the poverty line are associated with the lower class; those whose income is between the poverty line (50% of the median) and 75% thereof are the lower-middle class, and those whose income is between 200% and 300% are the upper-middle class, while the upper class is represented by families with an income higher than 300% of the median disposable income per standard person.

In most OECD member countries, including Israel, approximately half to two-thirds of the population are associated with the middle class. Figure 9 presents the distribution of income by class in Israel (the rate of the total income of each economic class), according to the above definitions in 2017 and 2018, and shows that the share of the middle class in income decreased slightly from 60.8% in 2017 to 60.1% in 2018 and this is due to the transfer of a part of the income to the classes that are in poverty or at risk of poverty, whose share in the total income increased from 16.0% in 2017 to 16.4% in 2018. The share of the upper-middle class decreased in the same period from 15.6 % to 14.1%, compared to an increase of approximately 2% in the share of the upper class, from 7.6% to approximately 9.4%.

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<sup>13</sup> See the OECD Report on the subject: OECD. (2016). *The Squeezed Middle Class in OECD and Emerging Countries: Myth and Reality*. Paris: OECD.

**Figure 9: The Distribution of Income by Class in Israel According to the OECD Definition in 2017-2018**



A broader reference to the middle class which also includes the lower-middle class (which is at “risk of poverty”) and the upper-middle class, the result is that the share of the middle class in the total income decreased in 2018 to 84.1%, compared to 86% in 2017, a decrease of 1.9%. As a result, the share of the lower class (coinciding with the proportion of the poor) increased slightly by approximately 0.1% between the years. In contrast, the share of the upper class in the total income increased by approximately 1.8%.

A study of the changes in the size of the middle class in Israel (in the narrow sense) since the beginning of the millennium (Figure 10) shows that at the same time as the policy of cuts in the welfare system (2002 to 2006) was implemented, the share of the middle class decreased. It remained low until 2011 and since then there has been a change and the middle class began to strengthen and gradually increased to a rate of approximately 53% in 2017.<sup>14</sup> In 2018, on the other hand, there was a decrease in the share of the middle class both in the population and in total income. The figure also shows that the share of the middle class as a proportion of the population decreased slightly from 53.4% to 53.1% between 2017 and 2018. In addition, its share in the total income decreased slightly between these years from 60.8% to 60.1%.

**Figure 10: The Israeli Middle Class as a Rate of Income and as a Rate of the Population 1997-2018**

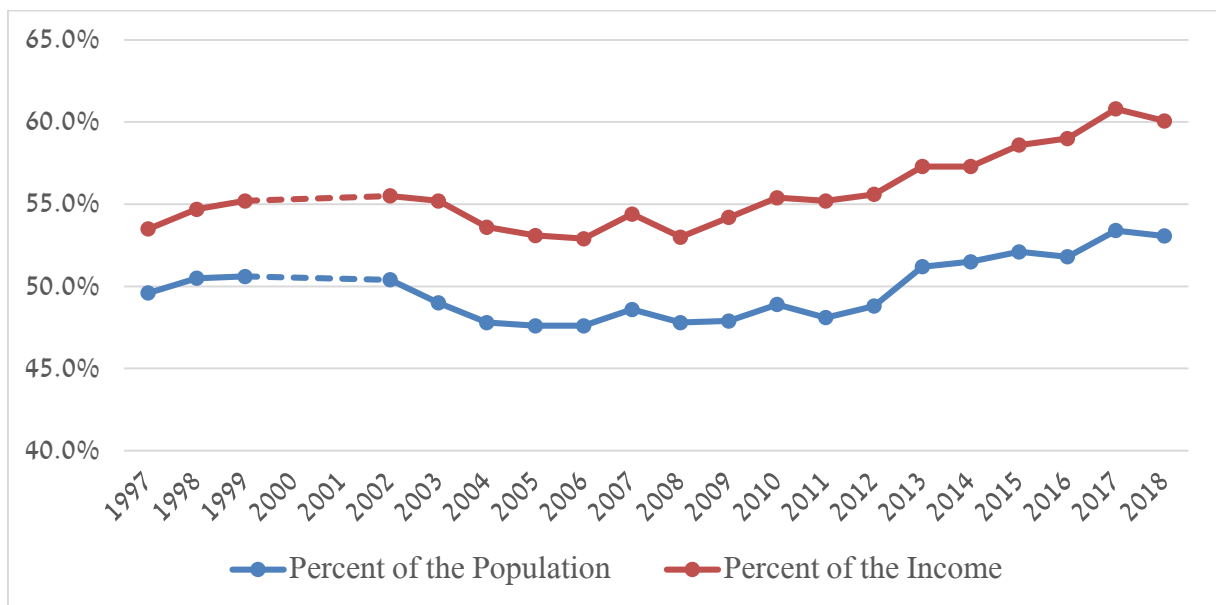


Table 11 presents the rate associated with each of the classes according to population group in 2018 (weighted by persons). As the table shows, the share of non-Haredi Jews and immigrants in the middle class is more than 2 times higher than the share of Arabs, Haredim, large families, non-workers of working age and those with low education (which overlap). Also, more than half of the single-parent families are associated with the lower or lower-middle class. These classes among single parents are larger than their middle class. In some of these population groups, the share of families in the middle class is even lower than one third.

<sup>14</sup> It is interesting to note that the strengthening of the middle class according to this method began with the social protest in 2011 in Israel and elsewhere around the world.

**Table 11: Distribution of Economic Classes by Population Group in 2018**

	Lower Class (Poor)	Lower-Middle Class	Middle Class	Upper-Middle Class	Upper Class
<b>Total population</b>	21.2	17.1	53.1	6.5	2.2
<b>Population group of head of household:</b>					
Jews	14.5	14.9	60.0	7.8	2.8
Non-Haredi Jews according to self-definition*	8.7	13.5	65.7	9.0	3.1
Haredi according to self-definition*	51.8	24.5	23.1	0.5	0.2
Immigrants	15.3	20.4	56.7	6.0	1.6
Arabs	47.4	25.6	25.8	1.0	0.1
<b>Families with children - total</b>	25.5	19.2	50.3	4.0	1.0
3-1 children	15.6	18.0	59.9	5.2	1.2
4 or more children	53.0	22.6	23.8	0.5	0.2
5 or more children	66.7	22.0	11.2	0.0	0.2
Single parent families	28.0	24.0	41.7	3.1	3.2
<b>Population groups of head of household:</b>					
Working	17.4	17.2	56.3	6.9	2.3
Employed	17.4	17.3	56.5	6.8	2.1
Self-Employed	17.4	17.0	54.9	7.4	3.3
Working age non-working	82.3	8.4	8.4	0.9	0.0
Single wage earner	41.2	18.0	34.8	4.5	1.6
Two or more wage earners	7.8	16.9	64.9	7.8	2.5
<b>Age group of working age head of household:</b>					
Up to 29	25.1	21.6	48.5	3.9	1.0
Age 30-44	23.2	18.3	53.2	4.3	1.0
Age 45 to retirement age	14.7	12.6	58.9	10.2	3.6
<b>Age group of retired head of household:</b>					
Elderly**	23.3	16.7	45.8	8.7	5.4
Legal Retirement age ***	24.9	17.6	44.1	8.3	5.1
<b>Education groups of head of household:</b>					
Up to 8 years of education	49.6	24.0	25.0	1.4	0.0
9-12 years of education	24.1	20.0	51.9	3.1	0.9
13 or more years of education	15.8	14.3	57.1	9.4	3.4

\* By subjective definition: level of religiosity as reported by the interviewee: secular, traditional, religious, Haredi, mixed.

\*\* According to the definition that was applied until now: elderly families from age 60 for women and 65 for men.

\*\*\* Elderly families from age 62 for women and 67 for men.

### 3. Factors that Affect Poverty and Inequality

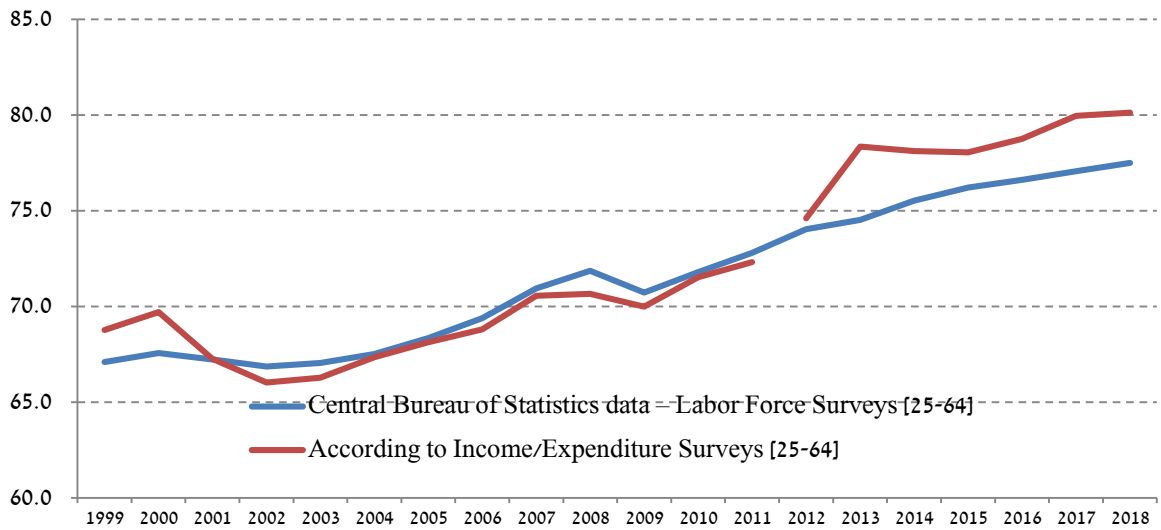
In 2018, economic growth continued – the GDP increased by 3.3% (and GDP per capita by approximately 1.3%), and the rate of employees increased and expanded by approximately 2%. In addition, the survey data indicate high employment rates - an average of 80.2% among households in 2018, similar to 2017 (see **שגיאה! מקור ההפניה לא נמצא**). When the changes among different population groups are studied, it can be seen that according to the expenditure survey, there was a decrease in employment rates among Haredim, single-parent families and large households, while among all households, Arabs and households with young heads of household (there is an overlap between the groups) there was an increase.

A particularly sharp drop in employment rates was recorded among Haredim and among households in which the head of the household is of retirement age. At the same time, in 2017, unemployment reached a historically low level of 3.5% among those aged 25-64 (and 4% among the total workforce). It should be noted that despite the concerns that usually accompany increases in the minimum wage, the decrease in the level of unemployment in the last two years occurred at the same time as a significant increase in the minimum wage.

The real wage increased by approximately 3 (according to the Expenditure Survey, **שגיאה! מקור ההפניה לא נמצא**). A study of the increase in wages according to profession in the survey shows that among all groups, with the exception of sales and service workers, there was an increase in wages, albeit at differential rates. For those in academic professions (9.4%), managers, freelance and technical professionals (6.5%) the increase was considerable. Among professional workers in agriculture, non-professional workers and clerical workers there were also increases, although more moderate (see **שגיאה! מקור ההפניה לא נמצא**).

**שגיאה! מקור ההפניה לא נמצא** shows that the employment rate increased both according to Labor Force Surveys and according to the Central Bureau of Statistics survey. The gap between the employment rates in the two surveys narrowed slightly this year after it “opened” in 2013, and the annual growth rate is similar.

**Figure 11: Employment Rates in the Income / Expenditure Surveys vs. the Labor Force Survey, 1999-2018**



The second dimension that has a great impact on poverty is the financial support. According to the administrative data, National Insurance allowances increased by approximately 4.8% in real terms between the two years, compared with a slightly higher increase of approximately 5.3%, according to the survey data.

The increase in allowances according to the two data sources may hide considerable differences between them when it comes to the breakdown of the allowances. Especially in allowances that apply to a low population (but sometimes high in the poor population), and therefore they are not well represented in the survey. In that way, the income support benefit payments increased by approximately 12% according to the survey data compared to a decrease of approximately 9% according to the administrative data and more<sup>15</sup>.

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<sup>15</sup> A  
 ccording to the administrative data, there was a decrease of approximately 13% in the child benefit payments, due to a decrease in retroactive payments related to the “Savings for Each Child” program. When excluding the program, the child benefit payments remained unchanged.

**Table 12 : Wage Distribution\*\* of Salaried Workers and of Poor Salaried Workers, by Wage Level, 2018**

	Total (thousands)	Percentages	Up to Half the Minimum Wage	From Half to the Minimum Wage	Minimum Wage to the Average Wage	Above Average Wage
Total salaried workers	3,499	100	13.5	15.3	36.5	34.7
*Salaried workers employed in full-time positions	2,728	100	8.3	9.7	40.4	41.6
<b>Among the Economically Poor Population</b>						
Total salaried workers	431	100	33.8	31.9	32.1	2.2
Salaried workers employed in full-time positions	234	100	17.4	28.3	50.8	3.5
<b>Among the Net Poor Population</b>						
Total salaried workers	301	100	32.9	30.8	32.8	3.4
Salaried workers employed in full-time positions	168	100	17.0	25.8	51.3	5.9
<b>Among Men</b>						
Total salaried workers	1,806	100	11.2	10.3	35.9	42.7
*Salaried workers employed in full-time positions	1,573	100	8.0	6.5	38.0	47.5
<b>Among the Economically Poor Population</b>						
Total salaried workers	206	100	25.7	26.2	45.2	2.9
Salaried workers employed in full-time positions	141	100	13.3	20.0	62.6	4.1
<b>Among the Net Poor Population</b>						
Total salaried workers	158	100	21.8	25.0	47.4	5.7
Salaried workers employed in full-time positions	114	100	10.2	19.3	62.7	7.8
<b>Among Women</b>						
Total salaried workers	1,692	100	16.0	20.6	37.2	26.2
*Salaried workers employed in full-time positions	1,155	100	8.7	14.1	43.8	33.4
<b>Among the Economically Poor Population</b>						
Total salaried workers	224	100	41.2	37.2	20.1	1.5
Salaried workers employed in full-time positions	93	100	23.7	40.9	32.9	2.6
<b>Among the Net Poor Population</b>						
Total salaried workers	143	100	45.2	37.3	16.7	0.9
Salaried workers employed in full-time positions	53	100	31.5	39.8	26.8	1.9

\* 35 or more weekly work hours.

\*\* The minimum wage and the average wage in the economy were adjusted for the period of the 2018 Expenditure Survey.

Table 12 presents the distribution of workers in poor families and in the general population according to wage level. The table shows that most salaried workers, approximately 78%, work full-time. This average represents a high gender gap, with approximately 87% of employed men and approximately 68% of employed women working full-time. Among the employed living in poor families, approximately 57% are employed in full-time positions. Almost one-third of salaried workers, some of whom are not poor, are employed at salaries that are less than the minimum wage, with the rate among men at approximately 21%, compared to a rate of approximately 37% among women.

Of the poor population, even among full-time employees, there are approximately 46% whose income is low or does not exceed the minimum wage, of whom less than half have salaries that do not

exceed half of the minimum wage despite the full-time work. It should be noted that despite the increase in the minimum wage, the percentage of poor salaried employees who earn a lower full-time salary is 43%, and are therefore apparently exposed to non-compliance with the law by their employers.<sup>16</sup>

Among the poor population, an additional 51.3% are employed at wages higher than the minimum wage but lower than the average wage, and a low rate of less than 6% earns more than the average wage. In contrast, in the general population, most of those employed full-time, approximately 42%, earn more than the average wage.

To summarize this section, the stable situation in the dimensions of poverty according to the population that does not include East Jerusalem, and the decrease when this population is included, are mainly the result of the positive changes in employment and wages, including the significant increase in the minimum wage this year as well as in the years since 2015. A real increase in some of the allowances in 2018, including the senior citizen pensions, failed to catch up with the gap in the general standard of living, which was due to the growth in the labor market, and therefore there was an increase in the dimensions of poverty among populations that depend to a large extent on pensions, such as the elderly.

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<sup>16</sup> This phenomenon is common during periods of a significant increase in the minimum wage, among other things because the increase to the new level of the minimum wage may be an ongoing process.



## C. Selected Issues in Measuring Poverty and Inequality

In this section, we will present other important aspects of the measurement of poverty and inequality in Israel and the policies for their reduction. This will include presentation of international comparisons, persistent poverty, the development the desire for the reduction of poverty as expressed in the 2014 War on Poverty Report, and finally assessments of the effect of changes that occurred in 2018 on the poverty and inequality.

### 1. Persistent Poverty

The population living in poverty is not permanent. From one period to another, a part of the population is extricated from poverty, and another part is drawn into a life of poverty. The most alarming situation from a human perspective, and the most challenging in terms of policy design, is the treatment of families that continue to live in poverty over time and even over generations. In the absence of information on long-term data in the Household Expenditure Survey regarding a permanent population, it is customary to estimate the size of the group living in persistent poverty as follows: those whose income and expenditure for consumption are below the poverty line are treated as those who are in persistent poverty, since consumption is mainly affected by stable income, and not by temporary changes therein.<sup>17</sup> The assumption is that during a sudden and one-time loss of current income (such as due to unemployment), the families will try to maintain a stable standard of living at least in the short term, among other things by bridging the loss of income through opening savings, taking out loans, selling assets, etc. In these situations there is a risk of being in temporary poverty.<sup>18</sup> On the other hand, a family that assesses that its economic situation has worsened in a fundamental and continuous manner will be forced to reduce consumption spending, since its ability to exceed its income is limited in time. Therefore, we define families whose income and consumption are below the poverty line as families living in persistent poverty.<sup>19</sup>

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<sup>17</sup> According to Milton Friedman's Permanent Income Theory, a family tends to change its current consumption due to stable income changes, while temporary changes in income tend to mainly increase the savings and purchases of durable goods.

<sup>18</sup> That is also one of the reasons that for many poor people consumption spending is higher than their income.

<sup>19</sup> In view of the absence of follow-up data in the Expenditure Survey, which enable the monitoring of those families living in persistent ("permanent") poverty, Recommendation 2(a) in the "Report of the Team for the Development of Additional Poverty Indices" suggested that the following index be treated as a measure of persistent ("permanent") poverty: a particular family will be defined as permanently poor if both its income and its consumption expenditure are below the poverty line.

**Table 13: Estimated Persistent Poverty – the Proportion of Families and Persons in the Total Poor whose Financial Expenditure per Standard Person is Lower than the Poverty Line (Percentages) 2017 and 2018**

Population groups	Families		Persons	
	2017	2018	2017	2018
<b>Total population</b>	61	60	65	63
<b>Population group of head of household:</b>				
Jews	63	65	68	72
Haredim (according to subjective definition)*	76	82	78	84
Immigrants	66	63	68	64
Arabs	58	53	62	53
<b>Families with children – total</b>	64	63	67	65
3-1 children	58	55	59	55
4 or more children	72	75	74	73
5 or more children	76	77	77	75
Single parent families	58	64	62	68
<b>Employment status of head of household:</b>				
Working	58	58	63	61
Salaried employee	61	58	65	61
Self-employed	39	56	45	60
Working age non-working	67	61	77	70
Single wage earner	60	58	65	61
Two or more wage earners	53	59	57	62
<b>Age group of working-age head of household:</b>				
Up to 29	64	60	71	64
Age 30-44	61	60	65	64
Age 45 to retirement age	56	57	59	58
<b>Age group of retired head of household:</b>				
Elderly**	64	64	64	67
Legal retirement age***	64	64	65	67
<b>Education groups of head of household:</b>				
Up to 8 years of education	64	64	69	66
9-12 years of education	60	59	63	59
13 or more years of education	61	60	66	67

\* By subjective definition: level of religiosity as reported by the interviewee: secular, traditional, religious, Haredi, mixed.

\*\* According to the definition that was applied until now: from age 60 for women and 65 for men.

\*\*\* Age 62 for women and 67 for men.

Table 13 presents the proportion of poor families and persons, according to the definition of persistent poverty, from the total number of poor families. According to the findings, it can be determined that approximately two-thirds of poor families live in persistent poverty and that this rate is quite stable.

The table shows that in the general economy the phenomenon of persistent poverty has decreased slightly. There is a mixed trend in the changes in the proportion of families in persistent poverty in the various groups compared to last year. The rate of persistent poverty has increased among the Jewish, Haredi population, among large families and single-parent families, among households headed by a self-employed person, and among poor households with two or more breadwinners. In contrast, the rate of persistent poverty decreased or remained unchanged among working families and among families with 1 to 3 children. The rate of people living in persistent poverty is the highest among the Haredim and in families with 4 or more children (there is overlap between the groups) and it reaches rates exceeding 80% (Haredim) or approaching 80% (large families). This means that most of the people living in poverty in these groups live in persistent poverty.

In the context of persistent poverty, it should be noted that the policy of “Savings for Each Child” implemented by the government in cooperation with the National Insurance beginning in 2017, is intended to reduce long-term poverty that is affected by the assets held by the family. The lack of assets affects the ongoing poverty, among other things because of the difficulty of investing in human capital such as studies and professional training of young people from disadvantaged economic strata. The Savings for Each Child program as carried out in Israel does not include direct guidance for investing in human capital, but rather leaves the decision regarding the use of the money with the parents and the child. Over time it will be possible to examine to what extent this affects the use of the money.

## 2. Poverty in Israel by International Comparison

The method of calculating the dimensions of poverty of the OECD is similar to the method of the National Insurance Institute and implemented in Israel – both define the median disposable financial income as an indicator of the standard of living and use it to define the poverty line. However, there are certain differences, which relate mainly to the calculation of the equivalence scale between the two forms of calculation.<sup>20</sup>

The source of the data for the calculation of poverty in all OECD countries, including Israel, is household surveys with data on income, which are usually conducted by the Central Bureau of Statistics. Therefore, the OECD calculations for Israel are based on the same data as the National Insurance calculations.<sup>21</sup>

Figure 11 including its three parts, shows the incidence of poverty among persons by 50% of the median income per standard person, the most current available for each OECD member country (from 2012-2017; in Israel from 2018). The first figure presents the incidence of poverty of persons according to disposable financial income, and the second figure according to economic income. The third figure presents the poverty situation of children (according to disposable income).

When comparing Israel to itself in the previous year, the incidence of poverty of persons calculated using the OECD method of calculation decreased by approximately a percentage point, from 17.9% in 2017 to 16.8% in 2018 (שגיאה! מקור ההפניה לא נמצא.) and it even slightly improved its position in the comparison scale between the countries, to the fourth place from the top in the level of poverty, so that its poverty level is lower than that of the USA, Turkey and Korea. However, in 2018, the incidence of poverty among children, which according to the OECD definition is 22% in Israel, has a very high place in the ranking in this comparison, second only to Turkey.

The decline in the incidence of poverty in Israel in recent years, due to various factors, mainly from the improvement in employment rates, from a real increase in the average wage and in the minimum wage, and even from an increase in old-age and child allowances, did not succeed in significantly improving Israel's ranking in an international comparison.<sup>22</sup> This is because Israel's relative position is also affected by what is happening in other countries. For example, in Mexico, where in certain years

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<sup>20</sup> For further details, see the Appendix "Measuring Poverty and Data Sources", which appears annually in the appendix to the annual report of the National Insurance Institute.

<sup>21</sup> In 2012, the OECD made a slight change to the definition of the calculation to include some of the income in kind in the disposable income, and mainly deducted forced savings components such as pension contributions and the payment of alimony to other families from the income. This year, unlike previous years, the way in which the dimensions of poverty were calculated was changed and adapted to the OECD's calculation method. Therefore, all the tables that include the OECD indices were calculated according to the new form of calculation. It should be noted that there is still a small difference between the data that appear here and those appearing in the OECD data and calculated by the Central Bureau of Statistics.

<sup>22</sup> The break in the series in Israel also did not affect Israel's ranking. It is possible that the change in the definition of disposable income in the OECD also affected the widening of the gap between Israel and the OECD countries in Israel's vicinity.

Israel was placed below it the in the poverty level, between 2012 and 2014 there was a significant decline of 2.2 points in the number of poor persons.

Compared with the calculation obtained according to the disposable income (Figure 11a), a comparison of the incidence of poverty among the OECD countries according to the economic income (Figure 11b), which stems from the labor market and the capital market, indicates low poverty in Israel compared to the OECD countries – the incidence of poverty is 22.2%, approximately 6% **less** than the average among the comparison countries. This fact shows that the problem of poverty in Israel is first and foremost a problem of limited government intervention compared to the OECD countries.

The three parts of Figure 11 show therefore that in addition to the differences between the developed countries in the dimensions of poverty before government intervention, there is a great difference in the extent of their intervention in the distribution of income. The poverty charts according to economic income and disposable income show an interesting segmentation of the countries on the two axes: the countries at the left end of the chart, with low economic poverty rates, are divided into two types: on the one hand, countries with a **generous** welfare system, fairness in labor relations, high unionization rates and a guarantee of adequate wages such as Iceland, the Netherlands, Denmark, Sweden and Norway. On the other hand, countries with a limited welfare system or low-level allowances, less fair labor relations and lower unionization rates, where Israel is associated with the second category. In the countries with generous welfare policies, the **dimensions of poverty** remain low **even after intervention**. On the other hand, in countries of the other type, poverty rates according to **disposable income** are among the highest, such as Turkey, Mexico, the United States and **Israel**. It can be concluded that the lower economic poverty rates in countries associated with the second category reflect the economic insecurity of poor families due to the limited welfare system. Therefore, the high rate of poor families working for low wages is partly due to the lack of economic security, which is derived from a limited welfare policy. Other reasons for this situation are unfair (even if legal) employment patterns, such as employment based on hourly wages and not a monthly wage on a large scale, employment of workers at minimum wage even if they have education and skills in their profession, and low compliance with the minimum wage law, low unionization and more.

The incidence of poverty among various groups of families, persons, children and the elderly according to the accepted OECD measurement is presented in **שגיאה! מקור ההפניה לא נמצא. שגיאה! מקור ההפניה לא נמצא.** and **שגיאה! מקור ההפניה לא נמצא. שגיאה! מקור ההפניה לא נמצא.**, where the poverty line is defined as 50%, 40%, and 60% of the disposable income, respectively. **שגיאה! מקור ההפניה לא נמצא.** shows that in the measurement of poverty according to the OECD's calculation method, there has been a significant decrease among populations such as Haredim, Arabs, large households, households with a working age non-working head of household, under 30 and those with low education. This decrease was not seen in the official measurement of the official incidences of poverty presented in **שגיאה! מקור ההפניה לא נמצא.** Since the equivalence scale used in the OECD approach includes, as mentioned, significant economies of scale

for large households compared to the Israeli scale, the incidences of poverty among large families are less compared to the official Israeli index. As a result, the poverty levels among children are indeed much lower than those obtained according to the Israeli equivalence scale, but for the same reason the poverty levels among the elderly are higher. By the same logic, the incidence of poverty among population groups with a high proportion of large families (Arabs, Haredim and others) is lower in this method than in the official incidence of poverty. For example, the incidence of poverty according to the OECD definition (50% of the median) and according to the official definition among Haredi families is 31.4% and 42.3%, respectively; among families with children, the incidence of poverty is 16.3% and 21.4%, respectively.

Despite the differences in the calculation versions, **the general trends in the analysis by population groups remain** also according to this calculation: the poorest population group relatively are the Arab families, the Haredi families and the large families (which overlap to a certain extent), families in which the head of the household has very low education (up to 8 years of education) and families with a working age non-working head of the household.

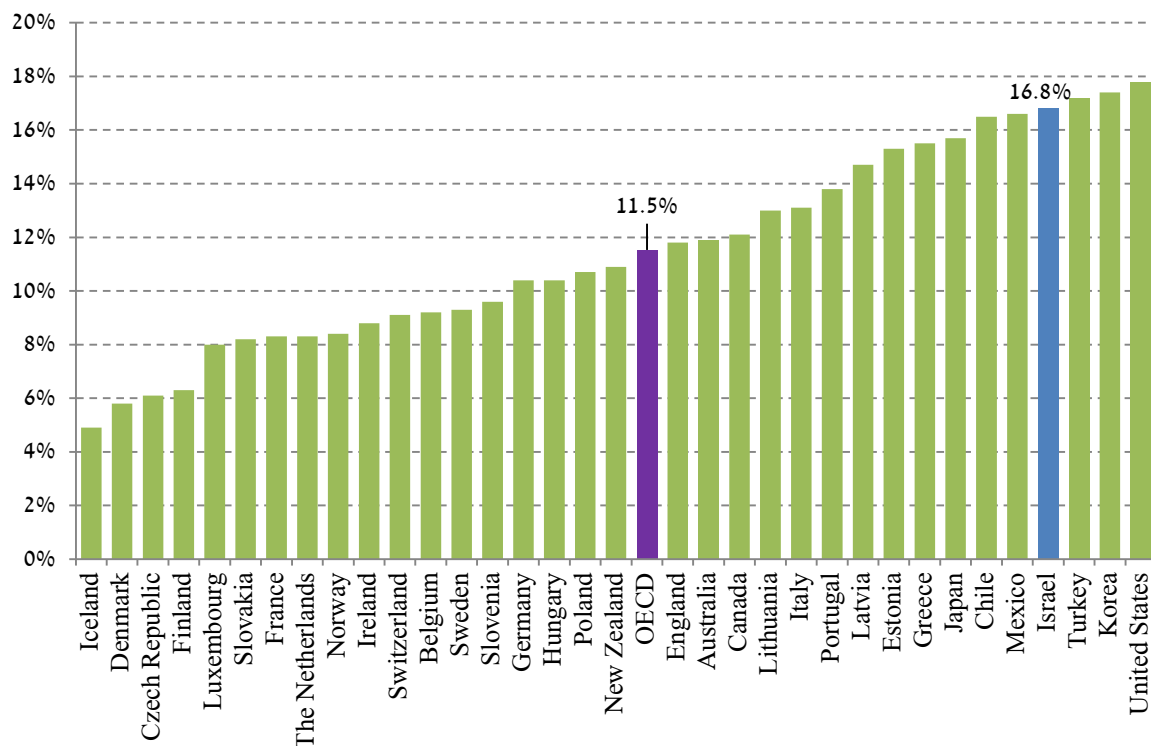
The inconsistency between the incidence of relative poverty in some groups according to the Israeli measurement compared with **the measurement according to the OECD's measurement method** is due, among other things, to the fact that the OECD's equivalence scale gives a lower weight than the Israeli scale to large families and therefore reflects a lack of conformity to the conditions of the Israeli economy and society. This is because the proportion of large families in Israel is significantly higher than in the OECD countries.<sup>23</sup> Therefore, the worsening of the situation of families with children is given too low a weight according to the OECD's method of measurement compared with that obtained by the Israeli calculation method.

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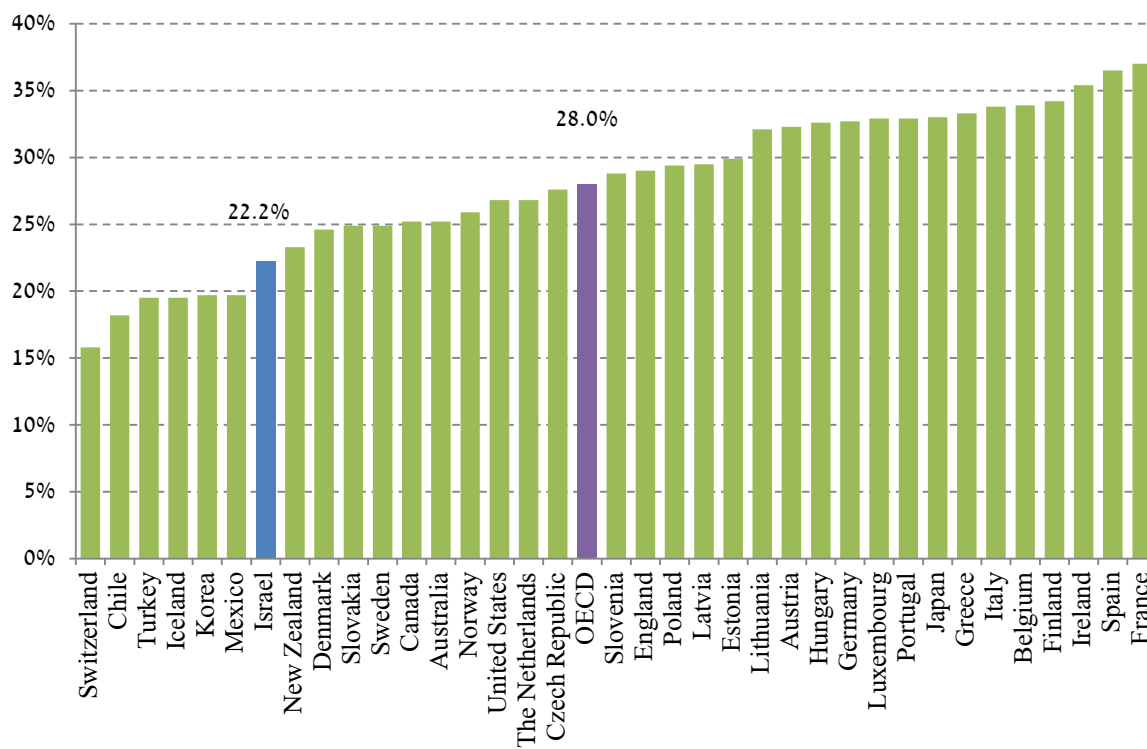
<sup>23</sup> In the OECD method, the root of the family size is used as the number of standard persons – for example, a family of nine will be considered a family of three standard persons, whereas in the Israeli scale the number of standard persons is 5.6 (see Table 2).

**Figure 11: Poverty Rates among Persons (50% of the Median Income), OECD Countries and Israel, Various Years (2012-2017, Israel 2018), OECD Definition**

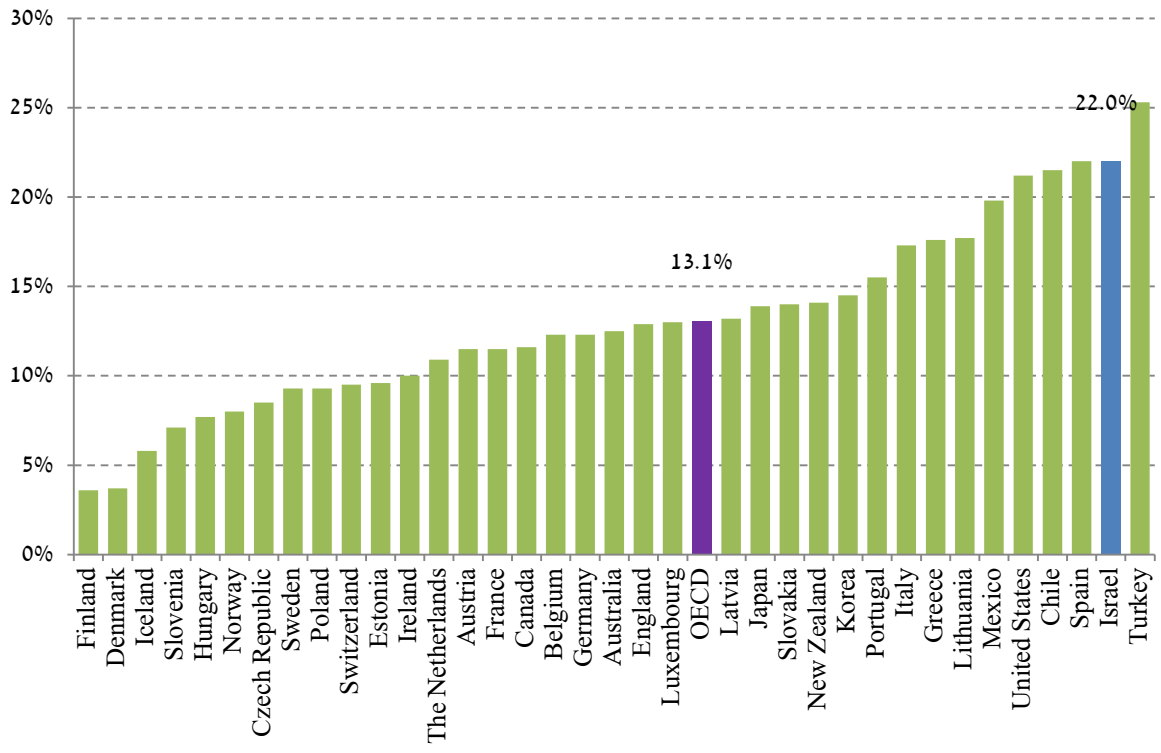
**i. By Disposable Income**



**ii. Incidence of Poverty of Persons by Economic Income**



### iii. Incidence of Poverty among Children by Disposable Income





### 3. Target for the Reduction of Poverty

The recommendation to set a target for the reduction of poverty has been brought to several governments in Israel on various occasions. For example, in 2003 the Bank of Israel emphasized the need to set a poverty target.<sup>24</sup> The government at the time did not respond to the proposal, but about 4 years later the Economic Council repeated a similar recommendation and subsequently recommended setting a multi-year target for the reduction of poverty for the period of 2008 to 2010, which was approved by the government in 2008. Towards 2010, when the target appeared to be unattainable, the government decided to extend the period for reaching the target by 2013. Between 2008 and 2013, in this report, we monitored the degree of achievement of the target according to the National Economic Council. Ultimately, the target set for the years 2008 to 2013 was achieved, mainly because of the marked decline in poverty rates in 2013. As described in the report of that year, the intensity of the decline in poverty in 2013 is questionable, and in any case the various governments did not take this goal seriously throughout the period.

In July 2014, the “Report of the Committee for the War on Poverty” was submitted to the government.<sup>25</sup> The report states that “the Committee’s goal is for **Israel to reach a poverty rate similar to the OECD average at that time (10.9%) within 10 years** and to reduce multidimensional aspects of the poverty”. In addition, the report recommended that the goal of reducing poverty be addressed to the general population, and to the elderly and children in particular. With regard to the general population and to children, the Committee Report recommended that this aim be determined in relation to the lower levels of poverty in the OECD countries, and regarding the elderly, an “adequate standard of living” target should be determined. The Committee also recommended that the goal also include the reduction of the depth and severity of poverty.

This part of the report is devoted to the long-term examination and monitoring of the poverty situation in Israel, compared to the report of the Committee, as a kind of replacement for the poverty target set by the National Economic Council in 2007 and examined in the previous reports of the National Insurance Institute.

Figure 12 presents the aim of the Committee for the War on Poverty: the average incidence of poverty among persons in the OECD countries is 10.9% (as of 2012), and in order for this to be the incidence of poverty in Israel at the end of 10 years from the date the target was determined (2014), an average annual decline of less than one percentage point (approximately 0.6 percentage points) was required at the time, as shown in the chart with the broken line that begins in 2013. The average incidence of poverty among children in the OECD countries is 13.0%, and in order for this to be the incidence of

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<sup>24</sup> See Gottlieb and Kasir (2003), p. 16, <http://www.boi.org.il/deptdata/papers/paper08h.pdf>.

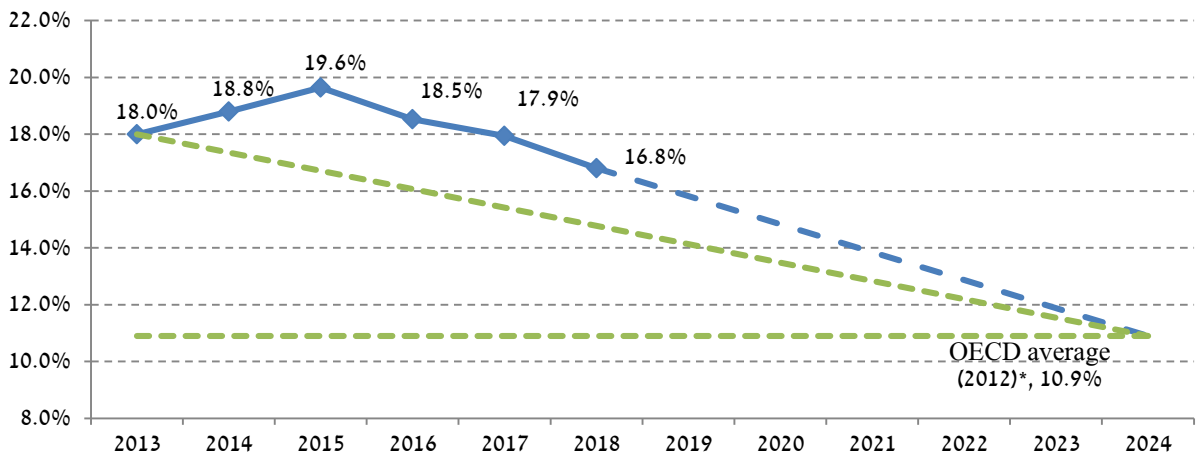
<sup>25</sup> See Report of the Committee for the War on Poverty in Israel (“The Allalouf Committee”), Part 1, p. 9, <http://www.milhamabaoni.org>.

poverty in Israel at the end of 10 years, from 2014 an average annual decline of approximately one percentage point was required.

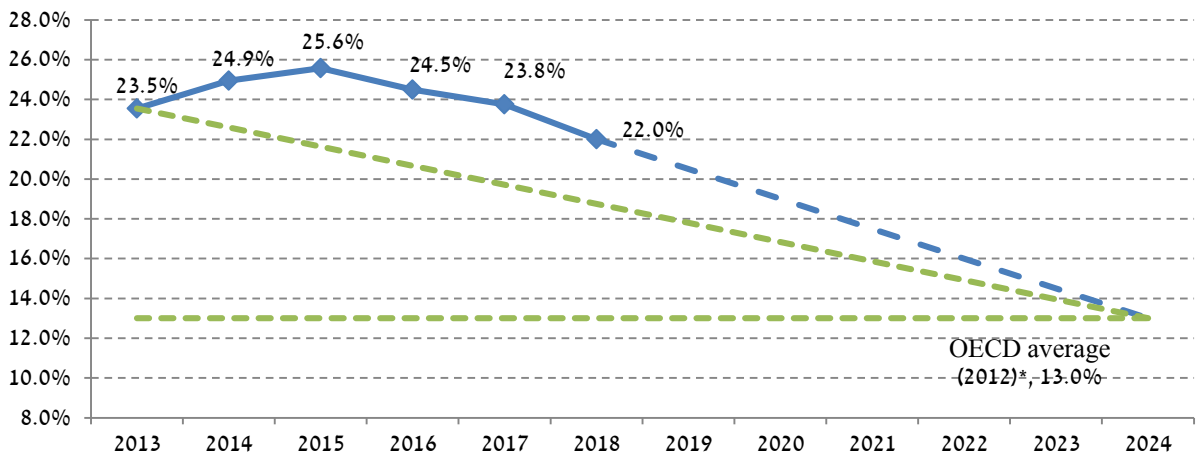
The charts show that in the first two years since the publication of the Committee’s report, the incidence of poverty in Israel, according to the OECD definition, has strayed from the target track, but from 2016, the change was in the desired direction, albeit not at the desired intensity. In order to meet the goal, a constant decrease is therefore required in the following years as well, similar to 2017 and 2018. Regarding poverty among children, although there was a sharper decrease this year, a more massive intervention is still required to achieve the target.

**Figure 12: Aspirations of the Committee for the War on Poverty, the Incidence of Poverty in Israel, and the Paths of Change Required to Achieve the Aspiration**

**Incidence of Poverty of Persons according to the OECD Definition**



**Incidence of Poverty of Children according to the OECD Definition**



#### **4. The Main Developments that will Affect the State of Poverty in the Coming Years**

This report did not reflect changes in policy measures made after 2018. Due to the special political situation in 2019, not many changes were made in legislation and also the gradual increase between 2015-2018 in the minimum wage was almost completely exhausted. However, past decisions that refer to 2019 include the following two changes that will mainly affect the elderly population:

- **In senior citizen pensions, a seniority supplement was added for each year of insurance for the pension recipients.** The change is made gradually so that ultimately, the seniority supplement will be paid starting from the first year. In 2019, this process will continue and therefore the allowance will be raised for some of its recipients. This move may affect housewives who worked only a few years (less than 12 years), new immigrants and other groups for whom the mandatory pension law was enacted at a later stage of their professional careers or women who had not worked enough years.

- The conversion of the **long-term care benefit** to a cash allowance starting in November 2018, is expected to have an effect in the direction of increasing the disposable financial income of the families receiving this allowance.



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