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## **Welfare, Poverty and Social Gaps**



# 1. Introduction

Poverty measurement in Israel, as in most Western countries and international organizations, is based on the relative approach, whereby poverty is a condition of relative distress that must be evaluated in relation to the typical standard of living in a given society. A family is defined as poor if its standard of living as expressed by its disposable income per standard individual is less than half the median disposable income in the population. The findings presented in this chapter, which have been processed by the NII's Research & Planning Administration, are based on the annual surveys of income and expenditure done regularly by the Central Bureau of Statistics<sup>1</sup>.

The chapter opens with Israel's status in terms of public welfare expenditure in 2015 (Section 2) and then presents findings and selected analyses pertaining to the dimensions of poverty and inequality<sup>2</sup> in Israel as compared to OECD countries (Section 3). That is followed by principal findings on dimensions of poverty and inequality in the general population, according to measurement methods used in Israel<sup>3</sup> (Section 4), and finally there is a short survey of three alternative poverty indices developed by the NII Research & Planning Administration over the years, and the poverty findings they yield for 2013 and 2014 (Section 5). The chapter has two boxes: Box 1 presents preliminary data from a pretest of nutritional security among the families who were questioned about this in the 2011 and 2012 surveys, that is to say the data in the survey will be longitudinal from previous surveys and Box 2 expands the international comparison of dimensions of poverty according to age-groups, using Esping-Andersen's<sup>4</sup> classification of welfare states.

This chapter has two appendices (in the last section of the Report): **Measuring Poverty and Sources of Data**, with a detailed description of the poverty measuring method and sources of data, and **Tables of Poverty and Inequality**, which provide further information about the poverty and inequality findings.

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1 Further details and explanations of the measurement method and sources of data are presented in the appendix to this publication, **Poverty Measurement and Sources of Data**.

2 **Growing Unequal Income Distribution and Poverty in OECD Countries**, OECD (2008)

3 Section 3 is a brief summary of the publication, **Dimensions of Poverty and Social Gaps- Annual Report, 2014**, which can be found on the NII website.

4 Esping-Andersen, G. (1990) **The three worlds of welfare capitalism**, Princeton University.

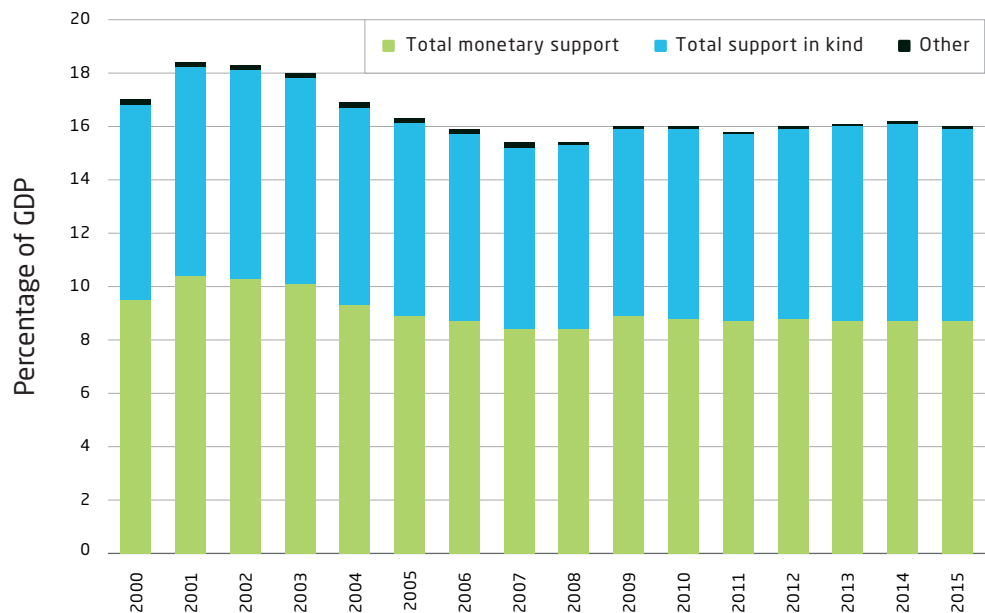
## 2. Public Welfare Expenditure in Israel in 2014

In 2015, public welfare expenditure constituted 16.1 percentage points of GDP. This rate, which peaked in 2001-2003 (at about 20% of GDP), fell consistently until 2006 and leveled at 16%-17% of GDP (Table 1, Figure1).

In 2015, more than half the expenditure (8.7% of GDP) was earmarked for monetary support, and the remainder (7.2%) for support in-kind, namely services for citizens, mainly health services. Over the years, the proportion of monetary support out of total welfare expenditure in terms of GDP has eroded to some extent compared to the proportion of services in-kind, which has risen moderately. In the years 2006-2012 expenditure in-kind as a proportion of total welfare expenditure stabilized at about 7% and since then rose slightly to 7.4% in 2014 and 7.2% in 2015. The monetary support, which from 2010 to 2014 was 8.7% -8.8% of GDP, remained at the same level in 2015.

Financial support for working-age people has gradually and continually declined from 5.6% of GDP at its peak in 2001 to 3.8% in 2015 – a trend which largely reflects

Figure 1  
Public Welfare Expenditure as a Percentage of GDP - Israel, 2000-2015



\* Source of the data for Israel: Central Bureau of Statistics

the cut in allowances. Support for the elderly increased from 4.6% in 2013 to 4.9% of GDP in 2014 and 2015.. As for support in-kind, the share of expenditure on health rose moderately but consistently between 2011 and 2014, from 5.4% of GDP to 5.7% thereof, and in 2015 decreased slightly to 5.5%.

Table 1  
Public Welfare Expenditure by its Components, 2010-2015

	2010	2011	2012	2013	2014	2015
<b>Total public welfare expenditure</b>	<b>16.0</b>	<b>15.8</b>	<b>16.0</b>	<b>16.1</b>	<b>16.3</b>	<b>16.1</b>
<b>Total monetary support</b>	<b>8.8</b>	<b>8.7</b>	<b>8.8</b>	<b>8.7</b>	<b>8.7</b>	<b>8.7</b>
Support for working- age population*	4.0	4.0	3.9	3.9	3.8	3.8
National Insurance	3.2	3.1	3.1	3.0	2.9	2.9
Other monetary benefits**	0.8	0.8	0.8	0.8	0.9	0.9
Support for the elderly***	4.8	4.8	4.9	4.8	4.9	4.9
National Insurance	2.5	2.5	2.5	2.4	2.5	2.5
Pensions for State employees	2.2	2.2	2.3	2.3	2.4	2.3
Assistance with rent	0.1	0.1	0.1	0.1	0.1	0.1
<b>Total support in kind</b>	<b>7.1</b>	<b>7.0</b>	<b>7.1</b>	<b>7.3</b>	<b>7.4</b>	<b>7.2</b>
Support for the working- age population****	1.5	1.4	1.5	1.6	1.6	1.6
Support for the elderly	0.1	0.1	0.1	0.1	0.1	0.1
Health and long-term care	5.5	5.4	5.5	5.6	5.7	5.5
<b>Other*****</b>	<b>0.1</b>	<b>0.1</b>	<b>0.1</b>	<b>0.1</b>	<b>0.1</b>	<b>0.1</b>

Source: Central Bureau of Statistics data and Research Administration processing, according to the OECD classification rules in the SOCX questionnaire.

\* Assistance with rent for working-age families is included in benefits in kind for support of the working-age population.

\*\* The income grant (negative income tax) is also included in this section.

\*\*\* Survivors' pensions have been transferred to "Support for the elderly" although a small number are paid to people of working age.

\*\*\*\* Benefits in kind linked to monetary benefits in the fields of survivors, work incapacity, family, etc.

\*\*\*\*\* Mainly active intervention in the labour market.

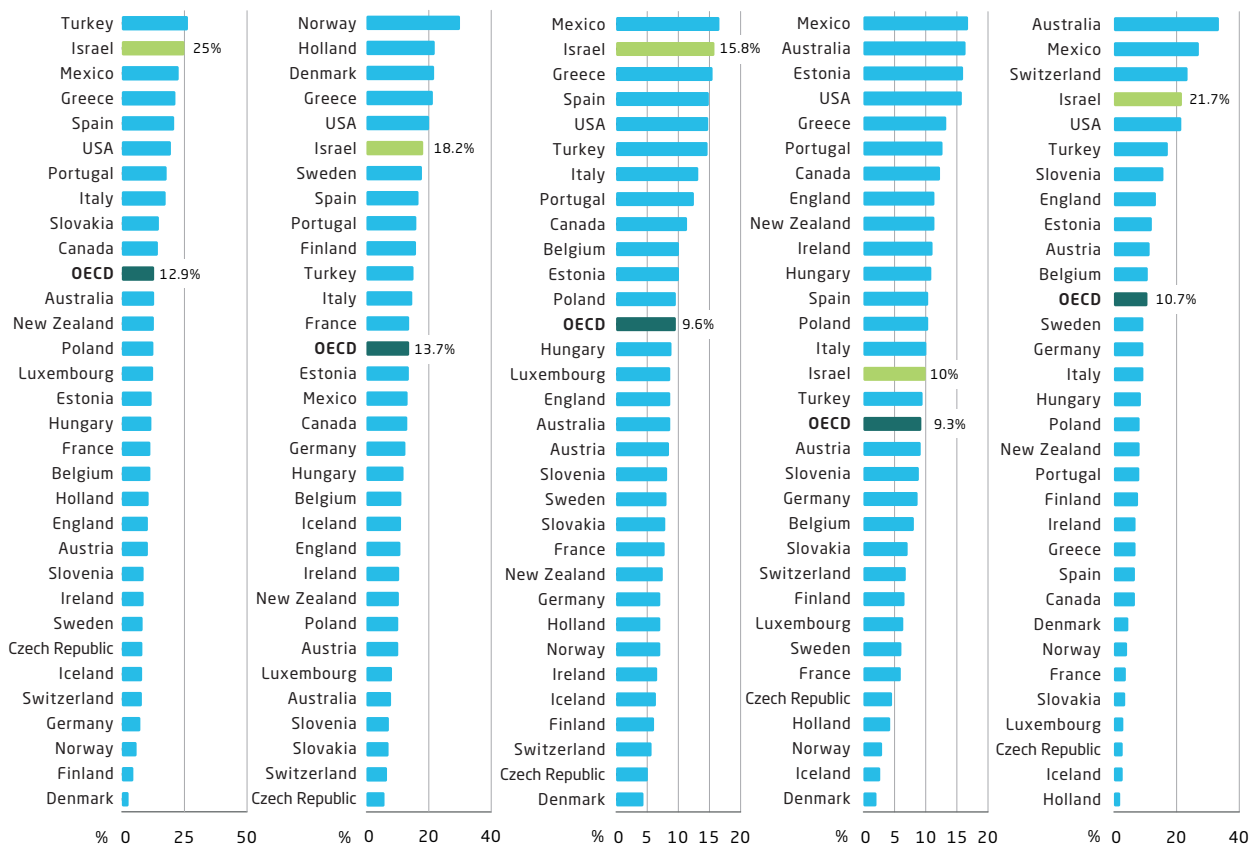
### 3. Dimensions of Poverty According to Age- International Comparison

Just as there is a change in life situation over the years, so the poverty rate also differs at different ages. For example – the employment situation, amount of income from work and family situation change over the years and influence the economic status of the individual and the probability of being poor.

According to the 2014 expenditure survey data in OECD poverty measurements<sup>5</sup>, the probability of a child in Israel being poor is 25.0%, the highest probability compared with other groups. This probability decreases with the passage of years, to 18.2%, 15.8% and 10.0% at the ages 18-25, 26-50 and 51-65 respectively. At retirement age the probability of being poor rises again and, according to the 2014 data, reaches 21.7%. The comparisons below are based on updated OECD data for each country for the years 2011-2014 in accordance with their availability<sup>6</sup> and on the 2014 expenditure survey for Israel, and have all been made corresponding to the definition of poverty used by the OECD.

Figure 2

## Poverty Rate Among Individuals By Age - International Comparison, Selected Years\*



\* See footnote 6.

5 As in Israel, measurement of poverty in OECD countries is based on the poverty line calculated as half the median disposable income per standard individual. However, there are small differences, mainly concerning the weighting scale (the mechanism used to compare the standard of living between families of different sizes).

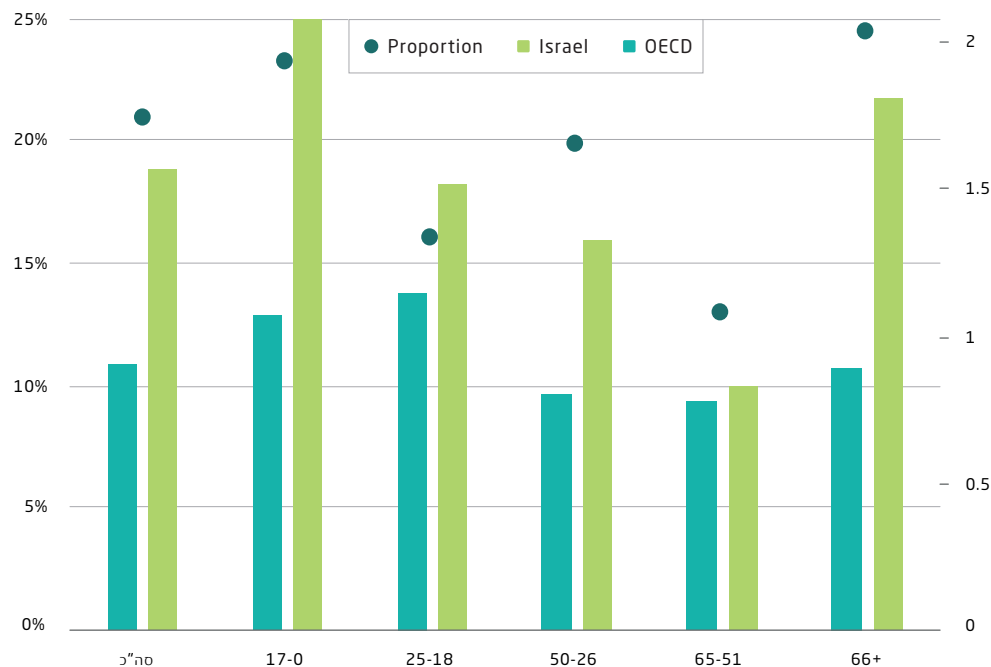
6 The OECD data in this chapter are the most up-to-date available: Canada- for 2011, Finland, Holland and the USA – for 2013, Hungary – for 2014 and the other countries – for 2012. Israeli data are based on the 2014 household expenditure survey.

Unlike in Israel, where the poorest age-group is children, the poorest age- group on average in OECD countries is young people aged 18-25 – 13.7% of them are poor (Figure 2). As in Israel, in the developed countries the probability of being poor also decreases on average in those countries in the following years, to 9.6% and 9.3% at the ages 26-50 and 51-65 respectively, and increases to 10.7% at retirement age. The decrease in the poverty rate during adult life and its increase thereafter at retirement age, both in Israel and in the developed countries, are in line with the increase in income from employment in the working years and the decrease on reaching retirement age.

The poverty rate in Israel compared with OECD countries is higher in most age-groups, except those aged 51-65 (older adults under retirement age), whose poverty rate is 10.0%, similar to that of the countries of comparison - 9.3%. This fact shows the great difference between level of poverty in Israel according to age-groups and high inequality in this regard compared with the average in developed countries.

The poverty rate among all people in Israel is about 74% higher than that of the OECD. This percentage is mainly influenced by the level of poverty among children and adults of retirement age, which are double those of OECD countries (See Figure 3, in which the relation between the two measurements for each age-group is shown in circles whose values appear on the left axis).

Figure 3  
Poverty Rate Among Individuals By Age - Comparison With The OECD Average



## 4. Poverty and inequality in 2014

### The poverty line and standard of living

Since 2012, when the combined income survey conducted by the Central Bureau of Statistics was cancelled, poverty and inequality have been calculated according to the CBS household expenditure survey, which includes, in addition to expenditure data, detailed information on family income and changes in data calculation compared with previous years. These changes have created a break in the series and consequently a problem with direct comparison to 2011 has arisen.<sup>7</sup>

In 2013 the survey made use of methods similar to those of 2012, but it emerged that the data on employment rates were very positive, which did not match data from other sources of information: according to the survey, the employment rate of the main age-group in the labor market (25-64) shot up by 4 percentage points and the number of employed people increased by 10% compared to far lower rates in similar years (Table 2). This influenced the dimensions of poverty, which decreased in that year<sup>8</sup>

Table 2  
Economic Indicators Influencing the Dimensions of Poverty (Percentages), 2006-2014

Influencing factor	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Domestic product growth rate	5.8	6.1	3.1	1.3	5.5	5.0	2.9	3.3	2.6	5.2
Rate of change in price levels during the entire survey period compared with previous levels	2.1	0.5	4.6	3.3	2.7	3.5	1.7	1.5	0.5	-0.6
Real rate of change in the average wage in the economy	1.3	1.8	-0.4	-2.5	0.8	0.7	0.7	1.1	1.5	2.7
Unemployment rate	10.5	9.1	7.6	9.4	8.3	7.0	6.9	6.2	5.9	5.2
Percentage of recipients of unemployment benefit among the unemployed	17.4	17.3	19.6	23.2	20.7	23.5	25.0	30.4	31.8	34.5
Minimum wage as a percentage of the average wage	46.2	47.5	46.8	47.3	45.8	45.5	46.2	46.7	45.8	47.6
Employment rate of those aged 25-64	69.4	70.9	71.9	70.7	71.8	72.8	74.0	74.5	75.5	76.2

7 For more information on the significance of this change, which makes direct comparison between 2011 and 2012 difficult, see **Dimensions of Poverty and Social Gaps – Annual Report, 2012** and the appendix to this Report on **Measurement of Poverty and Sources of Data**.

8 The clarifications and reservations arising from this special situation, which make direct comparison difficult not only between 2011 and 2012, but also between 2012 and 2013, are set out in **Dimensions of Poverty and Social Gaps- Annual Report, 2013**.



Table 3

### The Poverty Line and Average and Median Income per Standard Individual after Transfer Payments and Direct Taxes (NIS), 2012-2014

Income per standard individual	2012	2013	2014	(% Real growth rates	
				From 2012 to 2013	From 2013 to 2014
Average	5,458	5,691	5,904	2.7	3.3
Median	4,513	4,783	4,923	4.4	2.4
Poverty line	2,256	2,392	2,461	4.4	2.4

In 2014 the gap between the employment rate in the expenditure survey and the employment rate according to other sources moderated slightly, but was still quite high.

As in 2013, in 2014 household income of all kinds also rose, inter alia as a result of increased employment and salary according to the household expenditure survey data and the increase in other income components, such as pension income (Table 3). The average disposable income per standard individual was about NIS 5,900. Median income according to the same definition was about NIS 4,900, and the poverty line per standard individual, which is derived from it, reached NIS 2,461 per month. Average disposable income per standard individual, after deduction of direct taxes and compulsory insurance contributions and addition of allowances and other forms of support, rose by 3.3%, and median disposable income per standard individual, as well as the poverty line, rose by 2.4%.

Table 4

### The Number of Standard Individuals and the Poverty Line for a Family\*, by the Number of People in the Family, 2013-2014

Number of people in the family	Number of standard individuals in the family	Poverty line for the family			
		2013		2014	
		NIS per month	Percentage of average wage	NIS per month	Percentage of average wage
1	1.25	2,989	32.5	3,077	33.6
2	2	4,783	51.9	4,923	53.8
3	2.65	6,338	68.8	6,522	71.3
4	3.2	7,653	83.1	7,876	86.1
5	3.75	8,968	97.4	9,230	100.9
6	4.25	10,164	110.3	10,461	114.4
7	4.75	11,360	123.3	11,691	127.8
8	5.2	12,436	135.0	12,799	140.0
9**	5.6	13,393	145.4	13,783	150.7

\* The average wage calculated for 2013 and 2014 is the weighted average of the average wage for a salaried position (Israeli employees) in the period corresponding with the survey period

\*\* The weight of each additional person is 0.40. So for example in a family of 10 people there are 6 standard individuals

An examination of poverty data as a percentage of average wages shows that in 2014, as in previous years, the poverty line for a family of four was about 86% of the average wage. For a family of six or more, the salary of one breadwinner was not enough to avoid poverty, and to rise above the poverty line a family had to increase its salary by about 14% (six people) to about 50% (nine people) (Table 4)<sup>9</sup>.

## Dimensions of poverty and inequality in the total population

In 2014 the poverty rate of families, individuals and children rose slightly compared with 2013: from 18.6% to 18.8% for families, from 21.8% to 22.0% for individuals and from 30.8% to 31.0% for children. Despite these slight changes, the depth and severity of poverty indices indicate sharper increases between the two years (Table 5).

The poverty rate measured by disposable income is the result of transfer payments and direct taxes, which 'correct' economic income, defined as income from work and capital before taxes. Transfer payments, principally NII allowances, increase family income, while direct taxes reduce it. The less the amount of direct tax paid by a poor family, the greater its disposable income and chances to leave poverty. Table 5 presents the decrease in poverty indices achieved in each of the years, when taking into account only transfer payments and when adding direct taxes to the government's policy measures. In some indices great improvement was achieved by policy measures (FGT indices, SEN index and the Gini index of division of incomes of the poor fall by half or more of their value) and in indices of poverty rates, mainly of children, the improvement achieved is more moderate.

It can be seen that the improvement obtained when direct taxes are not taken into account is greater than when they are, since while direct taxes do indeed work to reduce inequality between incomes, they are not effective at reducing poverty, because they reduce the disposable income of the poor. Most of the poor do not reach the income tax threshold and therefore do not pay that tax, so the effect of taxation on their disposable income is discernible only in their payments of the health insurance contributions and NII contributions.

The poverty rate is higher in Israel than in OECD countries in most age-groups, except those aged 51-65 (older adults under retirement age), whose poverty rate is 10.0%, similar to that of the countries in the comparison- 9.3%. This fact shows the great difference in the poverty level in Israel according to age-groups and the high inequality in this regard compared with the average in developed countries.

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<sup>9</sup> This calculation does not take into account allowances and direct taxation; the former work to increase disposable income, while the latter reduce it.

Table 5

## Dimensions of Poverty in the Total Population by Selected Poverty Indices, 2012-2014

Poverty index	Before transfer payments and direct taxes	After transfer payments only	After transfer payments and direct taxes
<b>2012</b>			
Families	30.3	17.4	19.4
Individuals	31.4	21.0	23.5
Children	39.0	30.8	33.7
Income gap ratio of the poor (%)*	56.3	33.7	34.4
FGT index*	0.134	0.035	0.041
SEN Index*	0.236	0.098	0.111
Gini index of inequality of income distribution of the poor*	0.435	0.196	0.200
<b>2013</b>			
Families	28.6	16.6	18.6
Individuals	28.7	19.1	21.8
Children	35.7	27.6	30.8
Income gap ratio of the poor (%)*	56.2	32.8	32.8
FGT index*	0.124	0.030	0.035
SEN index*	0.217	0.086	0.099
Gini index of inequality of income distribution of the poor*	0.443	0.184	0.189
<b>2014</b>			
Families	29.1	16.9	18.8
Individuals	29.1	19.9	22.0
Children	35.0	28.1	31.0
Income gap ratio of the poor (%)*	56.3	33.6	34.6
FGT index*	0.125	0.033	0.038
SEN Index*	0.219	0.092	0.105
Gini index of inequality of income distribution of the poor*	0.439	0.192	0.196

\* The weight given to each family in the index calculation is equal to the number of individuals in it.

Table 6

## Influence of Transfer Payments and Direct Taxes on Dimensions of Poverty in the Total Population by Selected Poverty Indices, 2012-2014

Poverty indices	Percentage decrease					
	From transfer payments only			From transfer payments and direct taxes		
	2012	2013	2014	2012	2013	2014
<b>Poverty rate (%)</b>						
Families	42.4	42.1	41.8	36.0	34.9	35.5
Individuals	33.1	33.5	31.7	25.2	24.2	24.2
Children	21.1	22.6	19.6	13.6	13.6	11.3
Income gap ratio of the poor (%)*	40.1	41.6	40.3	39.0	41.6	38.5
FGT index*	73.8	76.0	73.9	69.8	72.1	69.7

\* The weight given to each family in the index calculation is equal to the number of individuals in it.

Between 2013 and 2014 the Gini index of inequality in division of disposable income increased at quite a high rate, 2.1%, compared with a moderate increase of 0.2% in the index measured according to economic income (see poverty and inequality tables appendix).

### Box 1

## Low-Salaried Workers - Characteristics

In 2014 about 28% of employees earned less than the minimum wage, and half of them earned even less than half the minimum wage. About 40% of employees earned more than the minimum wage but less than the average wage, and about a third earned more than the average wage. Among the poor population<sup>1</sup> the situation was worse: more than 60% of them earned less than the minimum wage and half of them even less than half the minimum wage, about 36% earned more than the minimum wage but less than the average wage and a negligible percentage earned more than the average wage<sup>2</sup>.

This situation, which repeats itself every year, and the lack of information about the employment patterns and characteristics of low-salaried workers, led the Research and Planning Administration to design a survey of low-salaried workers to examine various aspects of their situation in the labor market: extent of employment, salary, branches of employment and occupations, fringe benefits, workplace rights and socio-economic status. The survey will also include the self-employed in Israel, about whom there is little socio-economic information, especially the freelancers who, according to various indices, form an increasing number of the self-employed.

Table 1  
Interviewees for pretest-  
demographic characteristics (n= 131)

	Characteristics	(%)
	Men	40.0
Age	25-35	34.9
	36-45	28.6
	46-55	17.5
	56-65	19.0
Family Composition	Couple + children	60.2
	Single + children	10.2
	Couple	11.7
	Single	12.5
	Other	5.5
Years of study	Up to 8	7.3
	9-12	35.5
	13+	57.3
	Working at the time of the survey	81.3

1 According to economic income from work and capital

2 The data are taken from **Dimensions of Poverty and Social Gaps Report, 2014**, Research and Planning Administration, National Insurance Institute, Table 16.

From August to November 2015 a pretest was conducted among a sample of the general population aged 25-65, employees and self-employed at present and in the past, 70% of whom earned less than 2/3 of the median wage in the economy, and 30% of whom earned more, who were sampled for purposes of comparison.

Forty percent of interviewees were men, more than a third were young people up to the age of 35, and about 37% were older than 55 (Table 1). Sixty percent of them were couples with children and 10% single mothers. More than half had had

Table 2

Results of the pretest among interviewees who were working during the interview period (n= 104)

		Number (%)
	Employees	78.6
	Tenured (among employees only)	56.8
Self-employed	Freelancer	18.2
	Owner of small business	3.2
Fringe benefits accompanying the salary	Unionized in a workers' committee	32.0
	Has a pension fund or provident fund	77.6
	Has a continuing education fund	46.4
	Receives a refund of travelling expenses	72.2
	Full-time workers	74.0
Years of work in the labour market	Up to 5	5.3
	6 to 10	11.8
	11 to 20	42.1
	21 to 30	25.0
	31+	15.8
Manner of payment of remuneration	Per hour	41.0
	Per work day	7.0
	Per month of work	33.0
	Per project	16.0
	Others	3.0
Occupation	University graduates	27.1
	Members of the free professions	29.2
	Managers	5.2
	Clerical employees	6.3
	Services and sales	2.1
	Agriculture, industry and construction	19.8
	Unskilled workers	10.4
Employment sector	Private sector	57.0
	Government and local authorities	25.0
	Non-profit organization	16.0
	Other	6.0

13 or more years of schooling and about 80% were working at the time of the survey (according to the administrative data which were used in the sampling they were working at the time of sampling but not at the interview).

Selected results of the pretest, which are based on 104 interviewees who were working at the time of the interview, show some of the information which will be received from the survey after it is completed, and of course they do not represent the survey population (Table 2)<sup>3</sup>. According to the findings, about 80% work as employees and the rest as self-employed – 15% are owners of small businesses and 5% are defined as freelancers. More than 40% have more than 30 years of work experience, 74% work full-time.

About 40% of the workers are paid by the hour and do not work for a monthly salary. About 60% are employed in the private sector, 27% have an occupation requiring a university education and 30% are members of the free professions.

<sup>3</sup> The percentages shown in the table concern those who answered the question. The survey details will be processed after determining the weighting (inflation coefficient) of each participant, which represents the weight of the sample person in the general population.

## Poverty by population groups

Various population groups differ in terms of trends and changes in the dimensions of their poverty in 2013-2014 (Tables 7-9).

The poverty rate of families in selected groups changed only slightly in 2014 compared with 2013, except for single-parent families, where it decreased by about 9%, and its distance from the poverty rate in the total population was about 35% in 2014 compared with about 50% in 2013 (Table 7). In families where the head was self-employed, the concentration index rose from 0.7 to 0.8, in other words their poverty rate is 20% lower than that of the total population, compared with 30% in 2013. In families where the head is of working age and does not work the poverty rate decreased in 2014 and is 3.6 times higher than the general level, compared with 3.9 in 2013.

The proportion of families with five or more children among all poor families according to economic income, decreased by about 14% between 2013 and 2014, but when the transfer payments and direct taxes are also taken into account, their proportion decreases by only 7% (Tables 8-9). The proportion of single-parent families among poor families according to disposable income decreased by about 15%, while the decrease in their proportion according to economic income was more moderate – about 7%. The proportion of families whose head was self-employed or of working age and not working

Table 7

## Poverty Rate in Specific Population Groups, 2013 and 2014

(Population groups (families	2013			2014		
	Economic	Disposable	Concentration	Economic	Disposable	Concentration
	income	income	*index	income	income	*index
<b>Total population</b>	<b>28.5</b>	<b>18.6</b>	<b>1.00</b>	<b>29.1</b>	<b>18.8</b>	<b>1.00</b>
<b>Population group of head of household:</b>						
Jews*	24.4	13.7	0.73	24.7	13.6	0.72
Haredim (according to the last school approach)**	63.6	52.1	2.79	66.7	52.4	2.80
Haredim (according to subjective definition)***				65.8	54.3	2.89
Immigrants	34.4	18.5	0.99	35.1	18.0	0.96
Arabs	55.8	51.7	2.77	57.2	52.6	2.81
<b>Families with children-total</b>	<b>27.2</b>	<b>23.0</b>	<b>1.23</b>	<b>28.0</b>	<b>23.3</b>	<b>1.24</b>
1-3 children	21.4	17.4	0.93	22.8	17.9	0.95
4 or more children	57.3	52.3	2.80	56.2	52.7	2.81
5 or more children	65.4	60.0	3.22	62.7	60.7	3.24
Single-parent families	41.5	27.5	1.48	41.9	25.1	1.34
<b>Employment situation of head of household:</b>						
Working	17.7	12.5	0.67	18.7	13.1	0.70
Employee	17.7	12.3	0.66	19.0	12.8	0.68
Self-employed	16.7	13.2	0.71	16.4	15.2	0.81
Of working age and not working	91.2	72.9	3.91	92.0	68.0	3.62
One breadwinner	35.6	24.1	1.29	36.5	25.4	1.35
Two or more breadwinners	7.2	5.7	0.31	7.7	5.6	0.30
<b>Age group of head of household of working age:</b>						
Up to 30	29.8	21.7	1.17	31.6	21.9	1.17
Ages 31-45	24.3	19.4	1.04	24.6	19.5	1.04
Age 46 up to pension age	17.5	12.6	0.67	17.2	11.8	0.63
<b>Age group of head of household of retirement age:</b>						
Elderly****	48.0	22.1	1.19	48.7	23.1	1.23
Of legal pension age*****	51.4	23.5	1.26	51.4	24.1	1.28
<b>Education group of head of household:</b>						
Up to 8 years of study	68.7	46.1	2.47	68.6	46.8	2.49
Between 9 and 12 years of study	30.7	21.0	1.13	32.1	21.2	1.13
13 or more years of study	20.9	12.8	0.69	21.2	13.0	0.69

\* Tables which present data on Jews: Non-Jews who are not Arabs are also included in the Jewish population.

\*\* Type of last school at which the interviewee studied/studies.

\*\*\* According to subjective definition: level of religiosity reported by the interviewee: secular, traditional, religious, Haredi, mixed. In accordance with the definition which was used up to now: from the age of 60 for a woman and 65 for a man.

\*\*\*\*\* The definition has been adapted to the age of retirement from work under the Retirement Age Law. Therefore this population is not fixed until the completion of the process of raising the retirement age.

Table 8

Proportion of Selected Groups in the Total Population and in the Poor Population  
(Percentages)\*2013

Population group (families)	Total population		The poor population			
			Before transfer payments and direct taxes		After transfer payments and direct taxes	
	Families	Individuals	Families	Individuals	Families	Individuals
Jews**	86.9	81.5	74.5	61.7	63.7	52.6
Haredim (according to the last school approach)***	4.1	7.0	9.2	16.9	11.4	18.7
Haredim (according to the subjective approach)****						
Immigrants	19.8	16.6	23.9	16.8	19.7	12.7
Arabs	13.1	18.5	25.5	38.3	36.3	47.4
Families with children - total	44.7	65.3	42.8	70.8	55.1	80.0
1-3 children	37.4	49.5	28.2	37.7	34.9	40.9
4 or more children	7.2	15.8	14.6	33.2	20.2	39.1
5 or more children	3.2	8.2	7.6	19.7	10.5	23.0
Single-parent families	5.7	6.1	8.3	9.3	8.4	8.5
<b>Employment situation of head of household:</b>						
Working	0.8	0.9	0.5	0.7	0.5	0.7
Employee	0.7	0.8	0.4	0.6	0.4	0.6
Self-employed	0.1	0.1	0.1	0.1	0.1	0.1
Of working age and not working	0.1	0.1	0.2	0.2	0.2	0.2
One breadwinner	0.3	0.3	0.4	0.4	0.4	0.5
Two or more breadwinners	0.5	0.6	0.1	0.2	0.2	0.2
<b>Age group of head of household of working age:</b>						
Up to 30	0.2	0.2	0.2	0.2	0.2	0.2
Ages 31-45	0.3	0.4	0.3	0.4	0.4	0.5
Age 46 to pension age	0.3	0.3	0.2	0.2	0.2	0.2
<b>Age group of head of household of retirement age:</b>						
Elderly*****	0.2	0.1	0.4	0.2	0.3	0.1
Of legal pension age*****	0.2	0.1	0.3	0.2	0.2	0.1
<b>Education group of head of household:</b>						
Up to 8 years of study	0.1	0.1	0.2	0.2	0.2	0.2
Between 9 and 12 years of study	0.4	0.4	0.4	0.4	0.4	0.5
13 or more years of study	0.5	0.5	0.4	0.4	0.4	0.4

\* The weight given to each family in the index calculation is equal to the number of people in it.

\*\* Tables which present data on Jews: Non-Jews who are not Arabs are also included in the Jewish population.

\*\*\* The type of last school at which the interviewee studied/studies.

\*\*\*\* According to a subjective definition: the level of religiosity reported by the interviewee: secular, traditional, religious, Haredi, mixed.

\*\*\*\*\* In accordance with the definition which was used up to now: from the age of 60 for a woman and 65 for a man.

\*\*\*\*\* The definition has been adapted to the age of retirement from work under the Retirement Age Law. Therefore this population is not fixed until the completion of the process of raising the retirement age.

increased considerably, at rates of 7.5% and about 11% respectively, despite the decrease in the proportion of these kinds of families among all the those in the population. The proportion of individuals in families with two breadwinners among all poor individuals



decreased by about 12% and the proportion of families and individuals from the age of 46 to retirement among all poor families and individuals decreased by about 12%-13% between the two years.

Table 9

### The Proportion of Selected Groups in the Total Population and the Poor Population (Percentages)\*, 2014

Population groups (families)	Total population		Poor population			
			Before transfer payments and direct taxes		After transfer payments and direct taxes	
	Families	Individuals	Families	Individuals	Families	Individuals
Jews**	86.7	81.7	73.8	64.0	62.6	55.1
Haredim (according to the last school approach)***	3.8	6.5	8.8	15.8	10.7	17.3
Haredim (according to subjective definition)****						
Immigrants	19.8	16.5	23.9	17.2	19.0	13.0
Arabs	13.3	18.3	26.2	36.0	37.4	44.9
<b>Families with children</b>	<b>44.9</b>	<b>65.5</b>	<b>43.2</b>	<b>69.5</b>	<b>55.8</b>	<b>79.9</b>
1-3 children	37.9	50.3	29.7	39.2	36.1	42.0
4 or more children	7.0	15.2	13.5	30.3	19.6	37.9
5 or more children	3.0	7.6	6.5	16.9	9.7	21.8
Single-parent families	5.3	5.7	7.7	8.2	7.1	6.8
<b>Employment situation of head of household:</b>						
Working	0.8	0.9	0.5	0.7	0.6	0.7
Employee	0.7	0.8	0.4	0.6	0.5	0.6
Self-employed	0.1	0.1	0.1	0.1	0.1	0.1
<b>Of working age and not working</b>	<b>0.1</b>	<b>0.1</b>	<b>0.2</b>	<b>0.2</b>	<b>0.2</b>	<b>0.2</b>
One breadwinner	0.3	0.3	0.4	0.5	0.4	0.5
Two or more breadwinners	0.5	0.6	0.1	0.2	0.1	0.2
<b>Age group of head of household of working age:</b>						
Up to 30	0.2	0.2	0.2	0.2	0.2	0.2
Ages 31-45	0.3	0.4	0.3	0.4	0.4	0.5
Age 46 to pension age	0.3	0.3	0.2	0.2	0.2	0.2
<b>Age group of head of household of retirement age:</b>						
Elderly*****	0.2	0.1	0.4	0.2	0.3	0.1
Of legal pension age*****	0.2	0.1	0.3	0.2	0.2	0.1
<b>Education group of head of household:</b>						
Up to 8 years of study	0.1	0.1	0.2	0.1	0.2	0.1
Between 9 and 12 years of study	0.4	0.4	0.4	0.5	0.4	0.5
13 or more years of study	0.5	0.5	0.4	0.4	0.4	0.4

\* The weight given to each family in the index calculation is equal to the number of people in it.

\*\* Tables which present data on Jews: Non-Jews who are not Arabs are also included in the Jewish population.

\*\*\* Type of last school at which the interviewee studied/studies.

\*\*\*\* According to a subjective definition: level of religiosity reported by the interviewee: secular, traditional, religious, Haredi, mixed.

\*\*\*\*\* In accordance with the definition which was used up to now: from the age of 60 for a woman and 65 for a man.

\*\*\*\*\* This definition has been adapted to the retirement age from work under the Retirement Age Law. Therefore this population is not fixed until completion of the process of raising the retirement age.

Table 10

## Income Gap Ratio of the Poor in Sselected Population Groups in 2013 and 2014

Population group (families)	2013			2014		
	Economic income	Disposable income	Concentration index*	Economic income	Disposable income	Concentration index*
<b>Total population</b>	<b>56.2</b>	<b>32.8</b>	<b>1.00</b>	<b>56.3</b>	<b>34.6</b>	<b>1.00</b>
<b>Population group of head of household:</b>						
Jews**	59.0	30.2	0.92	57.6	31.5	0.91
Haredim (according to the last school approach)***	58.1	35.0	1.07	56.1	34.3	0.99
Haredim (according to subjective definition)****	56.2	32.8	1.00	55.0	33.9	0.98
Immigrants	67.0	27.1	0.83	63.1	25.9	0.75
Arabs	51.5	35.6	1.09	54.0	38.4	1.11
<b>Families with children -total</b>	<b>50.1</b>	<b>33.7</b>	<b>1.03</b>	<b>51.0</b>	<b>35.5</b>	<b>1.03</b>
1-3 children	47.7	30.8	0.94	48.0	32.5	0.94
4 or more children	52.9	36.7	1.12	54.8	38.9	1.12
5 or more children	54.0	36.7	1.12	57.1	38.2	1.10
Single-parent families	65.0	37.8	1.15	58.6	35.2	1.02
<b>Employment situation of head of household:</b>						
Working	39.7	28.8	0.88	41.3	31.7	0.92
Employee	39.4	28.6	0.87	41.5	31.1	0.90
Self-employed	38.5	29.9	0.91	40.5	35.4	1.02
Of working age and not working	95.5	51.3	1.57	94.8	51.1	1.48
One breadwinner	45.4	32.6	1.00	46.6	35.0	1.01
Two or more breadwinners	28.5	21.4	0.65	29.2	23.9	0.69
<b>Age group of head of household of working age:</b>						
Up to 30	50.3	33.4	1.02	51.0	35.7	1.03
Age 31-45	49.9	34.4	1.05	49.8	35.1	1.01
Age 46 to pension age	55.7	32.5	0.99	58.7	37.4	1.08
<b>Age group of head of household of retirement age:</b>						
Elderly*****	81.6	25.2	0.77	78.5	25.6	0.74
Of legal pension age*****	81.6	24.2	0.74	79.2	25.2	0.73
<b>Education group of head of household:</b>						
Up to 8 years of study	69.1	34.3	1.05	69.1	36.8	1.06
Between 9 and 12 years of study	52.5	33.4	1.02	52.3	34.9	1.01
13 or more years of study	55.3	31.4	0.96	56.4	33.4	0.97

\* Concentration index is a gap ratio indicating the ratio between the poverty rate in a group and in the population as a whole.

\*\* Tables showing data for Jews: the Jewish population includes non-Jews who are not Arabs.

\*\*\* Last type of school attended by interviewee.

\*\*\*\* Subjective definition: degree of religiosity based on interviewee's statement: secular, traditional, religious, Haredi, mixed.

\*\*\*\*\* According to the definition used until now – women from age 60 and men from age 65.

\*\*\*\*\* Definition adjusted to the retirement age under the Retirement Age Law. Therefore this population is not fixed until the process of raising the retirement age is complete.

The concentration index of the income gap ratio among the poor is the ratio between the income gap in a specific group and that in the total population, with the income gap representing the distance of the poor families from the poverty line. In most of the population groups slight changes occurred in the concentration index, except for poor families headed by a self-employed person, where the average distance from the poverty line in 2013 was about 30% - 10% less than the income gap of all poor families (Table 10). In 2014 the income gap in this group rose to about 35%, an even bigger distance than the average in the total population.

The income gap ratio of poor families headed by a person of working age who does not work remains almost unchanged, but the concentration index has decreased, so that the income gap ratio of those families was 48% higher than that of all poor families – a decrease of 6% from 2013. The poverty depth of immigrant families decreased between 2013 and 2014, and is 25% lower than that of all poor families, compared with 17% in 2013.

#### Box 2

### The Poverty Rate by Age-Group, according to Type of Welfare State

This box presents an analysis of the poverty rate according to age-group by international comparison using Esping-Andersen's classification of the welfare state (1990<sup>1</sup>: liberal, conservative-corporatist and social-democratic. English-speaking countries (for example the USA, Canada, England, Australia) are generally numbered among the liberal states, those in Western Europe (Germany, France, Austria and others) are numbered among the conservative countries and the social-democratic ones are those of Northern Europe (Denmark, Sweden, Finland and others).

Figure 1 shows, in two different ways, the poverty rate of the various age-groups according to the abovementioned welfare state and the average poverty rate for OECD countries and Israel. In the left column of Figure 1B the total poverty rates are shown.

As in Israel, in the liberal countries the poverty rate among children and the elderly is higher than that of working-age people. This fact is in line with fairly low government intervention, and it is also expressed in the larger share of income from work in the total income in those countries. In contrast to this, in the conservative and social-democratic countries the poverty rate of the elderly is the lowest. Although in Western countries the percentage of elderly is higher than in Israel, in countries with a social-democratic welfare state the poverty rate among children and among the elderly is lower than among working-age people.

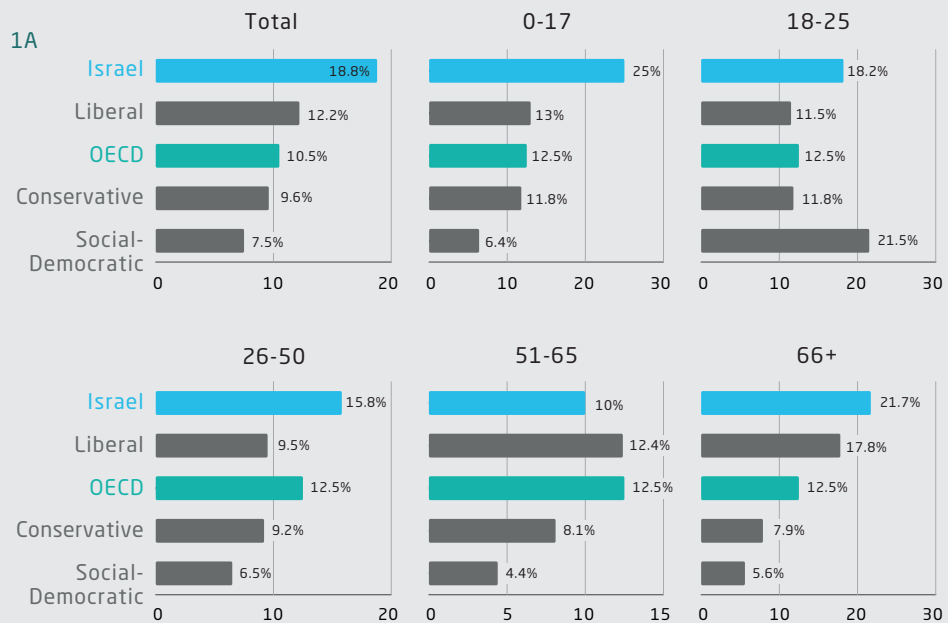
1 See footnote 4 in this chapter.

In Israel the age-group with the best economic situation is aged 51-65 – older workers. In contrast to the high poverty rates in Israel in the other age groups, in this group the poverty rate is about 47% lower than the total rate, and it is also lower than that of the liberal countries and only slightly higher than that of the conservative countries. A possible explanation for this is that these employees began working in a period when work arrangements were different from those of the last decades, which are characterized, inter alia, by globalization, indirect employment, great mobility and lower levels of unionization.

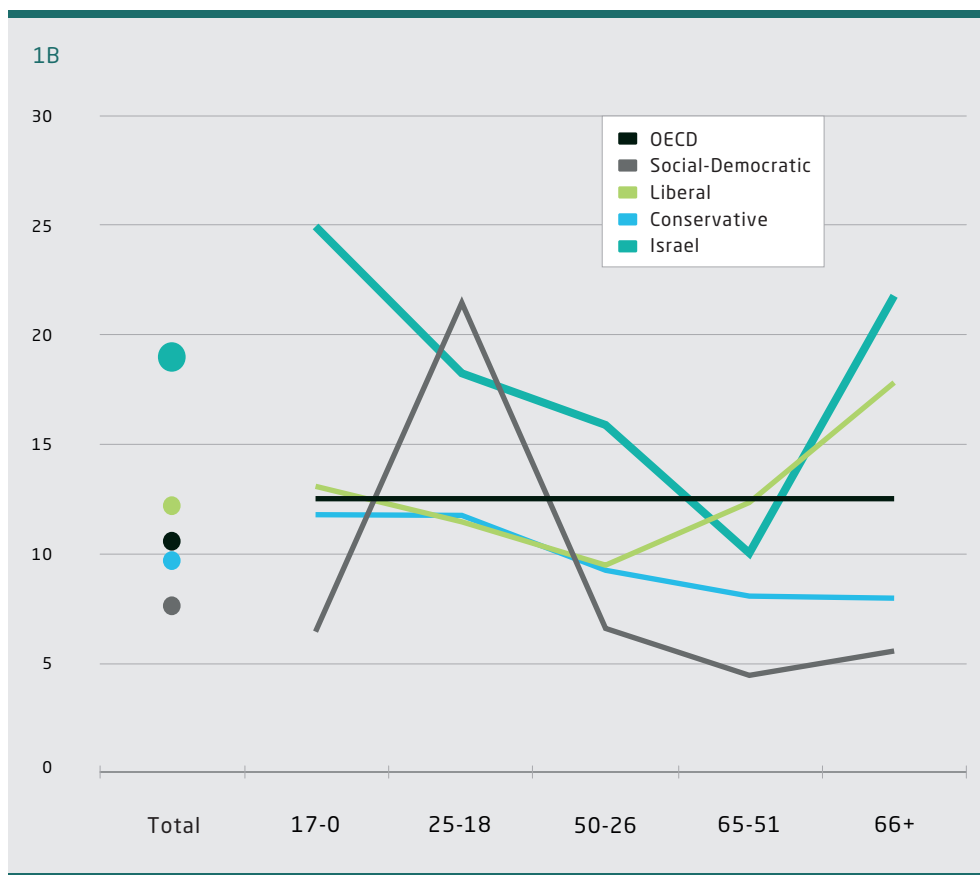
Figure 1B shows that in the countries which belong to the same type of welfare state, the poverty rates according to age-group are usually similar. Exceptions are the elderly in the liberal countries and young people aged 18-25 in social-democratic ones, whose poverty rates are higher than other age-groups. It is important to mention that apart from this group (aged 18-25) in the social democratic countries the poverty rates for all other ages are lower than in liberal and conservative countries, although in the conservative countries the poverty rates are also quite low. In Israel, except for one group – aged 51-65 – in all other groups the poverty rates are higher than in all the welfare states.

Figure 1

Poverty Rate among Individuals by Age Group and by Type of Welfare Policy in the Country\*



\* According to Andersen's classification presented in the chapter.



## 5. Poverty according to expenditure

Since the early 1970s poverty in Israel has been defined using the relative approach, which is accepted by most researchers and social policy makers in the West. In this approach, poverty is a condition of relative distress and a family is defined as poor if its living conditions are considerably worse than the typical living conditions in that society, and not when it is unable to purchase a basic basket of products necessary for survival.

In the 1990s, a semi-relative approach to measuring poverty was developed in the United States, whereby a threshold expenditure on a **basic basket of products** was defined (and in this sense this approach is absolutist), but the value of this basket is calculated as a percentage of the median expenditure on basic consumer products. This method was recommended as an alternative to the official poverty index in the United States. It was

developed by a committee of academic experts in the US and Britain (NRC – National Research Council), following an initiative of the Economic Committee of Congress designed to review in depth official U.S. poverty measurement and suggest an alternative method. The principles were finalized after years of thorough and comprehensive theoretical and empirical research. The Committee recommended basing the basket of products on actual consumption habits, as reflected in surveys of household expenditure.

Below we will examine three alternative indices to the existing poverty index, that were developed in the Research & Planning Administration of the NII and are calculated like the above approach, based on household expenditure and not on household income. These indices are calculated using three methods: **NRC** (National Research Council), **MBM** (Market Basket Measure), and **FES** (Food Energy Intake and Share). These methods take into account the various components of family consumption compared absolutely to a particular fixed basket of consumption and compared relatively to the baskets of consumption in other households.

## Measuring poverty using the NRC method

A study published by the NII in 2004<sup>10</sup> attempted to measure poverty in Israel using the NRC (National Research Council) approach, based largely on calculating the threshold expenditure of a representative family (two adults and two children), from the data on consumption of the population itself, as expressed in expenditure surveys carried out by the Central Bureau of Statistics. The basket used to calculate the threshold expenditure includes products and services in the areas of food, clothing, footwear and housing, plus other essential products. The threshold expenditure is adjusted for different family compositions using a weighting scale that takes into account the number of adults and children in the family. The income compared to threshold expenditure is the family's disposable income (gross income from all sources less direct taxes). An added component is the income in-kind if the family receives public housing and pays reduced rent compared to market prices<sup>11</sup>. A poor family is one whose disposable income cannot pay for this basket.

The study presented two options for calculating threshold expenditure and income compared to it for each type of family, where the difference between the two options lies in the definition of expenditure on housing: in the first option, expenditure on housing is

<sup>10</sup> Sabag-Endewald, M. & Achdut, L. (2004), **Developing an experimental poverty index from the expenditure side in Israel**. The Research & Planning Administration, National Insurance Institute.

<sup>11</sup> In addition to direct taxes, on the recommendation of the American committee, expenditure on transport for work purposes and on keeping children at daycare centres, kindergartens and with

obtained from total current payments for occupying an apartment (loans and mortgages, rent etc.), and in the second option, this expenditure is calculated according to rent (for those renting accommodation), or according to the attributed rent (for those who own their homes). In the case of a family living in its own home, it is compensated on the income side. The added income element is the difference between the attributed rent for the apartment and the total current expenditure on the apartment<sup>12</sup>.

## Measuring poverty using the MBM method

In another study published by the NII in 2011<sup>13</sup> a poverty index was calculated combining the Canadian and American approaches. The MBM (Market Basket Measure) index, as calculated for the Israeli economy, is located on the continuum between two endpoints – an absolute index and a relative index, and it belongs to the group of indices in which the poverty line is derived from a suitable level of consumption of a basket of products representing a reasonable estimate of the minimum required to live. This link to the minimum for living means that this poverty line can be used to assess the suitability of subsistence benefits, that is – income support and income supplement, which are the last safety net for those who cannot support themselves and their families. An important difference between the NRC index and the MBM index lies in the calculation of the food element: in the NRC index expenditure on food is measured according to actual data as with other expenditures on the suitable basket (which also includes clothing, housing and various supplements), by means of an expenditure multiplier; in the MBM, food expenditure is determined on a normative rather than an actual basis – according to principles of nutrition on the basis of the composition of the family by sex and age.

## Measuring poverty using the FES method

The third method, the FES (Food Energy Intake and Share) is based on calculation of normative food expenditure on the basis of the recommendations of experts on nutrition, so that a person will be able to function properly in daily life. Calculation of expenditure

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12 In both options, calculation of the income compared to threshold expenditure also takes into account the benefit embodied in public housing services: a family living in public housing (belonging to the housing companies Amidar, Amigur, etc.) is compensated on the income side by the difference between rent on the free market and the rent that it actually pays).

13 Gottlieb, D. & Froman, A. (2011). **Measuring poverty according to a suitable basket of consumption in Israel, 1997-2009**. National Insurance Institute, Research & Planning

on non-food products is more complicated and is based on some average of two points on the continuum of standard of living: minimum standard of living (food energy intake), in which the family budget is exactly sufficient to purchase the normative food basket, and the family's actual standard of living, which is higher. The identifying feature of this standard of living is that the actual expenditure on food is the same as the normative food basket and the expenditure on non-food items is higher than the amount which the family spent at the low point, as a family with income which is exactly sufficient for expenditure on the normative food basket is forced to make a difficult choice between essential expenditure on food and non-food outlay.

The various calculations in this method are done twice: once using the family's monetary income, and the second time including income in-kind. According to the data currently available to us, the main income in-kind is the result of owning the family home.

## Rate of Poverty

According to all the methods, the dimensions of poverty indicate a consistent drop over the years in both versions: when referring to monetary income and when referring to income including credit for home ownership (Table 11). The reason is that these three methods involve an absolute measurement dimension, whereas the official method is a relative method without any absolute dimension. As a rule, the dimensions of poverty based on income including the credit for home ownership are generally lower than when based on monetary income, that is to say inclusion of the component of home ownership reduces gaps between families in society.

The levels of poverty obtained from the NRC and MBM indices are fairly similar. According to the FES, the indices are lower for families but generally higher for children. According to this index, the drop between 2011 and 2014 was the steepest: about 5 percentage points for families and about 7 percentage points for children. In the case of 2014, the drop in poverty indices does not match the downward trend in poverty as measured by the relative approach on the income side, which rose slightly between 2013 and 2014. With all the methods, and particularly the FES and the MBM, which are based on a basket of food determined by external experts, there is an absolute element to the measurement of poverty. Therefore, as the standard of living measured by income rises (while the absolute element does not change in real terms), so the chances of a drop in the rate of poverty grow.

In 2013-2014 analysis of the data on the rate of poverty and threshold expenditure (the minimum expenditure required not to be considered poor), according to each of the methods, shows the following results: for different family compositions, incidence of poverty according to the NRC method, which takes account of credited housing rental



Table 11  
Poverty Rate of Families, Individuals and Children According To the Various Approaches, 2011-2014

	NRC			FES			MBM		
	Families	Individuals	Children	Families	Individuals	Children	Families	Individuals	Children
<b>According to monetary income</b>									
2011	20.7	24.8	34.3	17.9	27.5	40.6			
2012	20.1	24.2	33.3	16.5	24.7	36.8			
2013	18.4	22.2	30.6	14.7	22.0	33.7			
2014	17.3	20.5	28.3	14.7	22.0	33.1			
<b>According to total income</b>									
2011	18.0	23.1	33.0	18.3	28.4	42.6	20.3	27.5	39.6
2012	17.6	22.7	32.3	16.0	24.6	37.0	19.4	25.8	37.4
2013	16.4	21.1	30.4	14.6	22.4	34.4	17.6	22.8	33.8
2014	15.6	19.8	28.6	14.1	21.8	33.1	17.3	22.6	33.0

(calculated on total income), is lower than the incidence of poverty when current payments are taken into account (calculated on monetary income) in families without children (Table 12). On the other hand, families with children show similar rates of poverty in both calculations – by monetary income and by economic income. For example, the incidence of poverty among individuals without children based on monetary income is 20.3%, while according to economic income it is 13.7%. The FES method produces similar poverty rates for both measurement methods, including and excluding income in-kind, among nearly all kinds of families.

According to the three methods for measuring poverty from the expenditure side, there is a match between the number of children and the incidence of poverty. For example, among couples with five children, the poverty rate using both NRC and FES methods is about 57%, and about 52% according to the MBM method, and among two adults with one child the results are about 15%, about 9% and about 17% respectively.

Values of threshold expenditure for small families according to the NRC and MBM methods are higher than the threshold expenditure values according to FES, and in large families the ratio is reversed. Accordingly, the same ratio also exists in the poverty rate. This difference is due to the weighting scale used by the NRC and MBM methods, which relates differently to children and adults, unlike the FES method calculation.

A comparison of poverty rates in 2013 and 2014 measured by these three methods shows as with the poverty data on the income side, a decrease in poverty measured on the expenditure side, at different levels for different family compositions and varying measurement methods.

Table 1.2  
Poverty Rate and Threshold Expenditure By Family Composition, According to the NRC, FES and MBM Approaches, 2013-2014

Composition of family	NRC			FES			MBM					
	2013		2014		2013		2014		2013		2014	
	Threshold expenditure (NIS)	Poverty rate (%)	Threshold expenditure (NIS)	Poverty rate (%)	Threshold expenditure (NIS)	Poverty rate (%)	Threshold expenditure (NIS)	Poverty rate (%)	Threshold expenditure (NIS)	Poverty rate (%)	Threshold expenditure (NIS)	Poverty rate (%)
	<b>According to monetary income</b>											
One adult	2,872	20.5	2,915	20.3	1,947	6.6	1,963	6.1				
Two adults	4,665	12.7	4,735	11.6	3,886	7.1	3,913	7.4				
Two adults+child	5,756	14.5	5,842	12.2	5,269	9.4	5,340	8.6				
Two adults+ two children	6,764	14.2	6,864	13.3	7,216	11.2	7,187	11.7				
Two adults + three children	7,711	19.9	7,826	19.3	9,198	20.2	9,218	20.9				
Two adults+ four children	8,611	38.8	8,739	39.3	10,958	45.8	11,045	46.6				
Two adults+ five children	9,472	57.2	9,612	47.8	12,952	59.3	12,808	57.3				
Adult+two children	5,301	31.0	5,379	25.7	5,513	27.4	5,770	16.4				
	<b>According to total income</b>											
One adult	3,513	13.6	3,553	13.7	2,434	6.2	2,452	4.9	3,283	14.3	3,362	13.5
Two adults	5,707	9.8	5,773	9.2	4,857	5.6	4,887	5.6	5,593	9.8	5,719	9.6
Two adults+child	7,042	15.0	7,122	13.4	6,585	9.4	6,669	9.0	7,070	17.0	7,237	16.4
Two adults+ two children	8,275	14.8	8,369	14.4	9,018	10.8	8,976	11.7	8,677	18.4	8,828	17.5
Two adults+ three children	9,433	19.9	9,541	18.7	11,494	20.8	11,511	20.2	10,241	22.3	10,427	22.9
Two adults+ four children	10,534	38.6	10,654	39.9	13,694	46.5	13,794	45.5	11,683	45.9	11,910	47.5
Two adults+ five children	11,587	56.8	11,719	49.6	16,186	58.4	15,996	55.2	13,174	54.2	13,335	51.9
Adult+ two children	6,484	32.8	6,558	32.5	6,890	26.3	7,206	22.6	6,749	35.8	6,967	27.8