



***NATIONAL INSURANCE INSTITUTE
Research and Planning Administration***

***Poverty and Inequality in Income
Distribution in Israel, 2006/7***

Main Findings

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Poverty and Income Distribution in 2006/7

The present report on poverty and income distribution presents developments in the period including the second half of 2006 and the first half of 2007. This period, from July 2006 until June 2007, will be indicated as 2006/7.¹ However, the attached tables include data referring to the parallel period of 2005/6 (July 2005 - June 2006). A comparison of poverty and income distribution measures between 2006/7 and 2006 reflects the effects of the changes that occurred in income in the first half of 2007. This report focuses on the scope of poverty and less on the area of income distribution than did previous reports.²

Main Findings

- * Poverty scope continued to remain stable in 2006/7, as it has for the past three years: the poverty rate among families rose slightly, from 20.0% in 2006 to 20.5% in 2006/7, and the income gap ratio among the poor³ per family, reflecting the distance of the poor families' income from the poverty line, remained more or less the same as its 2006 level: 34.0% (as compared to 33.8% in 2006).
- * The incidence of poverty among persons remained stable between the two periods: the rate of poor persons went up from 24.5% in 2006 to 24.7% in 2006/7. The incidence of poverty among children also remained high – 35.9% (as compared to 35.8% in 2006).

¹ The data base is composed of two parts: the data from the second half of 2006 were taken from the 2006 Income Survey, while the data from the first half of 2007 were taken from the 2007 Income Survey, not yet completed. Therefore the second half of 2006 is common to the data base relating both to 2006/7 and to 2006.

² As of 2006, the Central Bureau of Statistics uses a new technique of top-coding in its income surveys, by which an average income is calculated out of a certain number of observations of particularly high incomes. This change does not affect the scope of poverty, but it may have an influence on the scope of inequality and on income distribution, to an extent that we cannot estimate at this stage.

³ Called "the poverty gap ratio" in previous reports.

- * There were about 420,000 poor families in 2006/7. 1,674,800 persons lived in these families, out of whom 805,000 were children.
- * The trend of stability in poverty according to economic income continued for the fifth straight year, and the incidence of poverty was 33%. This long-term stability trend can be explained by two opposing developments in the labor market: the expansion of employment increases the income from work of low-income families, while the erosion of wages in the traditional branches relative to the wages in the modern branches works in the opposite direction.
- * The Gini index of inequality in income distribution was 0.5141, calculated according to economic income, and 0.3834, calculated according to net income. These values reflect a large decrease relative to 2006 – of 1.8% and of 2.3% calculated according to economic and net income, respectively. It should be stressed that the explanation for these significant decreases is primarily technical⁴.
- * In 2006/7 there was an unexpected rise in the rate of poverty among the elderly: this rate increased from 21.5% in 2006 to 23.5% in 2006/7. A comprehensive examination showed that the source of the decline in the relative income of the elderly, according to the Survey data, is the **income from benefits** (since the other income components rose at a similar rate to the rise in the standard of living). This finding stands in opposition to the trends observed according to the administrative data available to the National Insurance Institute. This gap between data sources creates an upward deviation in the incidence of poverty measured among the elderly according to the Survey. A simulation that was conducted shows that had the Survey data shown the rise that actually occurred in the elderly persons' pensions (as reflected in the NII data), there would have been stability in the incidence of poverty among the elderly and among families in general. One may assume that this finding will be corrected downwards in the next annual Survey⁵.

⁴ The existence of exceptional observations in the 2006 Survey and/or the CBS technique of top-coding in both recent Surveys apparently acted in a direction of reducing inequality in the present Survey as compared to the 2006 Survey, and caused a relatively large change in the distribution of incomes by decile.

⁵ See also footnote 2 above.

- * The rate of poverty among families with children continued to rise slightly, from 25.5% in 2006 to 25.9% in 2006/7. On the other hand, the rate of poverty among large families remained at the high level of 2006 – 60% of families with four or more children were poor.
- * There was a continuation of the consistent rise in the rate of poor working families in general and of poor families with one earner in particular. The rate of poverty of families with one earner rose from 22.6% in 2005/6 to 23.4% in 2006 and to 23.9% in the present period. In 2002 the incidence of poverty in these families was 17.6%.
- * In 2006/7 the contribution of the transfer payments to reducing the scope of poverty continued to decline: only 37% of families were extracted from poverty due to transfer payments – as compared to 39.2% in 2006. This finding can be explained, *inter alia*, by the erosion of benefit levels relative to other income components.

Forecast for 2007

The next report on poverty and income distribution will refer to the entire year 2007 and will be published in mid-2008. The positive economic developments in the labor market that characterized the first half of 2007 continued into the second half of the year as well.

It is estimated that the expansion of employment in the course of 2007 and the raising of the minimum wage in April 2007, to be more fully reflected in the Annual Survey, will assist in bringing about an improvement in the scope of poverty according to economic income, and a stabilization or slight improvement in the scope of poverty according to net income. It can be assumed that the incidence of poverty among the elderly shall be corrected downwards in the Annual Survey. On the other hand, the real growth in transfer payments, that did not catch up with the rise in the other income components, is expected to worsen the relative situation of the low-income population. A reduction in poverty among children will not be achieved without enacting substantial assistance measures focused on large families.

TABLES

Poverty Line, by Family Size

Number of persons in family	As percentage of average wage	Average for period of 2006/7 Income Survey* (NIS per month)
1	26.9	2,028
2	43.0	3,244
3	57.0	4,299
4	68.8	5,191
5	80.6	6,083
6	91.4	6,894
7	102.1	7,705
8	111.8	8,435
9	120.4	9,084

* At 2006/7 Income Survey period prices, according to Price Index of 185.7 on the basis of 1993=100.0. The average wage calculated was a weighted average of the average wage per employee post (Israeli workers) for the months April 2006 until June 2007.

Poverty Measures among Families, Persons and Children, 2005-2006/7 (percentages)

	Before transfer payments and taxes	After transfer payments and taxes	Percentage of decrease in poverty rate following transfer payments and taxes
2006/7			
Poverty rate			
Families	33.0	20.5	37.9
Persons	33.5	24.7	26.3
Children	41.3	35.9	13.1
Income gap ratio*	60.1	34.0	43.4
2006			
Poverty rate			
Families	32.9	20.0	39.2
Persons	33.5	24.5	26.9
Children	41.5	35.8	13.7
Income gap ratio*	61.8	33.8	45.3
2005/6			
Poverty rate			
Families	33.1	20.2	39.0
Persons	33.5	24.4	27.2
Children	41.1	35.2	14.4
Income gap ratio*	62.5	33.9	45.8
2005			
Poverty rate			
Families	33.6	20.6	38.7
Persons	33.8	24.7	26.9
Children	41.1	35.2	14.4
Income gap ratio*	62.5	33.1	47.0

* The weight given to each family in calculating the measure is equal to the number of persons in the family, formerly called "the poverty gap ratio."

Number of Poor Families, Persons and Children

2004/5-2006/7

	Before transfer payments and taxes	After transfer payments and taxes
2006/7		
Families	677,700	420,000
Persons	2,272,200	1,674,800
Children	925,800	804,600
2006		
Families	665,800	404,400
Persons	2,254,800	1,649,800
Children	921,900	796,100
2005/6		
Families	664,500	404,500
Persons	2,238,100	1,630,100
Children	906,400	775,400
2005		
Families	668,200	410,700
Persons	2,235,800	1,630,500
Children	899,600	768,800
2004/5		
Families	663,000	403,400
Persons	2,212,500	1,580,200
Children	891,600	738,100

Poverty Rate among Families, by Family Type, 2005/6-2007 (percentages)

	Before transfer payments and taxes			After transfer payments and taxes			Percentage of decrease in poverty rate following transfer payments and taxes		
	2005/6	2006	2006/7	2005/6	2006	2006/7	2005/6	2006	2006/7
Total population	33.1	32.9	33.0	20.2	20.0	20.5	39.0	39.2	37.9
Head of family is elderly	56.9	56.2	56.4	22.9	21.5	23.5	59.8	61.7	58.3
Families with children	31.9	31.7	31.6	25.6	25.5	25.9	19.7	19.6	18.0
1-3 children	25.2	24.7	24.7	19.0	18.3	18.8	24.6	25.9	23.9
4 or more children	65.0	65.2	65.0	58.8	60.0	60.0	9.5	8.0	7.7
Head of family is working	18.2	18.6	18.8	11.9	12.4	12.6	34.6	33.3	33.0
Employee	18.6	18.9	19.1	11.7	12.2	12.4	37.1	35.4	35.1
Self-employed	15.2	16.3	17.1	12.6	13.9	14.3	17.1	14.7	16.4
Not working (working age)	89.7	88.9	90.6	67.9	66.6	68.9	24.3	25.1	24.0
Families with one earner	34.6	35.0	35.6	22.6	23.4	23.9	34.7	33.1	32.9
Families with two earners	4.8	5.1	4.9	3.1	3.4	3.5	35.4	33.3	28.6
Jews	29.5	28.8	28.7	15.4	14.7	15.2	47.8	49.0	47.0
Non-Jews	56.6	59.5	61.3	51.2	54.0	54.8	9.5	9.2	10.6
Single-parent	53.4	51.1	47.6	30.9	29.5	28.9	42.1	42.3	39.3

Number of Poor Families, by Income After Transfer Payments and Taxes, 2004/5 - 2005/6

Family type	2005/6	2006	2006/7
Total population	404,500	404,400	420,000
Head of family is elderly	89,600	84,500	95,600
Families with children	238,600	238,600	244,600
1-3 children	147,000	141,900	147,100
4 or more children	91,600	96,700	97,600
Head of family is working	174,600	185,500	192,500
Employee	150,300	157,400	163,700
Self-employed	24,300	28,100	28,800
Not working (working age)	142,500	135,900	134,200
Families with one earner	153,400	162,200	168,900
Families with two earners	19,700	21,800	23,000
Jews	267,200	258,000	270,900
Non-Jews	137,300	146,400	149,100
Single-parent	34,200	33,600	32,100

Poverty Rate After Transfer Payments and Taxes, by District, 2006-2006/7 (percentages)

District	Families		Persons		Children		Average net income per standard person as % of average net income in total population	
	2006	2006/7	2006	2006/7	2006	2006/7	2006	2006/7
Total population	20.0	20.5	24.5	24.7	35.8	35.9	100.0	100.0
Districts								
Jerusalem	31.3	33.3	39.5	41.4	51.4	53.8	86.5	84.1
North	31.5	32.6	35.3	36.6	45.0	47.5	72.9	74.0
Haifa	20.3	19.5	23.4	22.5	35.5	33.7	97.3	95.3
Center	12.9	14.0	14.7	14.8	21.7	20.4	115.0	115.7
Tel Aviv	12.3	12.4	14.7	14.2	24.5	23.0	119.7	120.0
South	22.5	22.1	26.6	26.1	38.2	38.3	85.6	86.6