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2012

**Poverty
and Social Gaps**

Annual Report



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Foreword

In 2012 there was good economic growth in a stable macro-economic environment in terms of budget policy and price stability, except for the increase in the cost of housing and real estate, fed by low interest rates in Israel and other places. There are signs that in 2012 there was some improvement in general poverty and inequality, particularly among young people and small to medium sized families. On the other hand, poverty among the old worsened. Following extensive changes made by the Central Bureau of Statistics in the 2012 Expenditure Survey, on which the report into the dimensions of poverty and social gaps relies, greater caution should be used this year when referring to the results with respect to changes in these dimensions.

The general improvement is a step in the right direction, although it has apparently not improved the situation of the elderly.

The spread of the work grant (negative income tax) to all areas of the country certainly had a positive effect in reducing poverty and inequality, particularly among young workers with children, and older workers, but the potential of this tool has not yet been fully exploited.

The cut in child allowances in 2013 (and its effects are not yet expressed in this report) is in conflict with the efforts to reduce poverty. That is why it is necessary, particularly in light of the emerging improvement in the national budget deficit according to Treasury reports, but even without this improvement, to continue efforts to reduce social distress, particularly among the poorest children and their families.

The decision of the Minister of Welfare, Meir Cohen MK, to set up a committee to fight poverty, led by Mr. Eli Alaluf, will help the Government to finalize a number of sufficiently powerful ideas that are capable of reducing poverty and inequality.

Some of the other steps that could significantly further the goal of reducing poverty are:

- ✓ Introducing legislation containing quantitative targets for a gradual reduction in the severity and incidence of poverty.
- ✓ Long term government commitment to achieving these targets.
- ✓ Raising wages for low skilled workers, and a commitment to pay more for those who are more skilled.

- ✓ Increasing subsistence benefits for those who are unable to support their families, particularly large families.
- ✓ Encouraging the unemployed to find work by combining benefits with an improved work grant (“negative income tax”).
- ✓ Progressive funding of the resources required to combat poverty.

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Contents

Foreword	1
Summary of Findings	7
I. Introduction	10
II. Indices of Poverty	13
1. The poverty line and standard of living	13
2. Dimensions of poverty in 2012 and developments in recent years	15
3. The effect of benefits and direct taxes on dimensions of poverty	19
4. Dimensions of poverty by population groups and geographical area.....	25
5. Persistent poverty	36
6. Poverty and inequality in Israel by international comparison	38
7. The poverty reduction target.....	43
III. Dimensions of Inequality	45
1. Inequality in 2012 and in recent years	45
2. Inequality by quintiles.....	47
IV. Causes of Poverty and Inequality	54
<u>Tables</u>	
Table 1: Monthly Income per Household by Type of Income (NIS), 2010-2012	14
Table 2: Poverty Line by Family Size, 2012	14
Table 3: Family Income as Percentage of Poverty Line by Type of Family, 2012	15
Table 4: Incidence of Poverty (percentages and absolute numbers), 2011-2012	16
Table 5: Dimensions of Poverty by Selected Indices, 1999-2012	18
Table 6: Incidence of Poverty by Various Definitions of Income, and the Contribution of Direct Taxes and Various Types Payments to the Reduction in Poverty, 2011 and 2012.....	21
Table 7: Incidence of Poverty among Adults* according to Gender (%), 1999-2012	29
Table 8: Incidence of Poverty of Families by Population Group (%), 2011-2012	31
Table 9: Proportion of Various Types of Family in the General Population and in the Poor Population, by Demographic and Employment Characteristics, 2011- 2012	32

Table 10: Estimate of Dimensions of Poverty in Various Groups, by Selected Indices, 2011 and 2012.....	33
Table 11: Incidence of Poverty by Region and Religion	35
Table 12: Estimate of Permanent Poverty – Weight of Families and Individuals in Total Number of Poor whose Monetary Expenditure Per Standard Individual is Below the Poverty Line (percentages), 2011 and 2012	37
Table 13: Incidence of Poverty of Families, Individuals and Children in Selected Population Groups by the OECD Definition, 2011 and 2012	42
Table 14: Real Changes in the Poverty Reduction Target and in Income of the Lowest Quintile*, 2002-2012	43
Table 15: Gini index of Inequality of Income in the Population, 1999-2012.....	45
Table 16: Source and Type of Income and Fixed Payments by Quintiles*, 2012, and the Real Change Compared to 2011	51
Table 17: The Share of Each Quintile in the Total of Income and Fixed Payments, 2011-2012	52
Table 18: Expenditure by Quintile, Real Rates of Change, and Breakdown of Expenditure, 2011-2012.....	53
Table 19: Breakdown of Pay** of Poor Salaried Employees by Pay Level, 2012.....	58
Table 20: Breakdown of Employees and Rates of Growth in Total Employment by Branch (percentages), 2011-2012	60
Table 21: Pay as a Percentage of the Average Wage and Changes Therein by Branch of Employment (percentages), 2011-2012.....	61
Table 22: Breakdown of Employees and Rates of Growth in Total Employment by Occupation (percentages), 2011-2012	62
Table 23: Rates of Pay and Changes Therein by Occupation (percentages), 2011-2012	62

Figures

Figure 1: Incidence of Poverty in Families, Individuals and Children, 1998-2012 (1998 = 100.0)	17
Figure 2: Selected Indices of the Severity of Poverty, 1999-2012 (1999 = 100.0)	19
Figure 3: Weight of Benefits and Transfer Payments by Origin in Reducing the Incidence of Poverty in Families.....	22
Figure 4: Decline in the Incidence of Poverty among Families Receiving Benefits after Payment of the Benefits.....	24
Figure 5: Incidence of Poverty among Families and Individuals in Families with Two or More Earners, 1999-2012.....	26

Figure 6: Incidence of Poverty among Ederly Families, 1999-2012	28
Figure 7: Rate of Individuals Living in Permanent Poverty (out of total poor) in the General Population and in Selected Groups, 1999-2012	38
Figure 8a: Rate of Poverty among Individuals (50% of median income), OECD Countries and Israel, end of the 2000s (Israel 2012)	41
Figure 8b: Gini Index of Inequality in Available Income per Standard Individual, OECD Countries and Israel, end of the 2000s (Israel 2012)	41
Figure 9: Incidence of Individual Poverty and Selected Indices of Inequality, 1999-2012	47
Figure 10: Real Change in Available Income per Standard Individual in the Decade from 2002 to 2012, by Quintiles (percentages)	48
Figure 11a: Employment and Poverty – Population as a Whole	56
Figure 11b: Employment and Poverty – Non-Orthodox Jews	56
Figure 11c: Employment and Severity of Poverty – Non-Orthodox Jews	57

Appendices

Appendix 1a: Incidence of Poverty 1998-2012, including East Jerusalem*	64
Appendix 1b: Incidence of Poverty 1999-2012, excluding East Jerusalem*	63
Appendix 2: Number of Poor Families, Individuals and Children after Transfer Payments and Taxes, 2011-2012	65
Appendix 3: Incidence of Poverty among Individuals by Population Group, percentages, 2011 and 2012	66
Appendix 4: Income Gap Ratio among Families by Type of Family, 2011-2012 (percentages)	67
Appendix 5: Effect of Transfer Payments and Direct Taxes on Inequality in the Distribution of Income in the Whole Population, 2011-2012.....	68
Appendix 6: Financial Data by Quintiles According to the OECD Weightings Scale.....	69
Appendix 7: Incidence of Poverty When Defining Poverty Line as 40% of Median Income according to OECD Definition, 2011 and 2012.....	71
Appendix 8: Incidence of Poverty When Defining Poverty Line as 60% of Median Income according to OECD Definition, 2011 and 2012.....	72
Appendix 9: Incidence of Poverty in Individuals by Economic Income and Net Income, and Effect of Transfer Payments and Direct Taxes, according to OECD Approach (Poverty Line 50% of Median).....	73
Appendix 10: Alternative Way of Looking at Poverty and Inequality Over Time	74

General Comment

This year there was a structural change in the survey conducted by the Central Bureau of Statistics (CBS), on which the National Insurance Institute's report on poverty and social gaps is based. The CBS changed the format of its Income Survey, from a survey that (from 1997 to 2011) was a combination of its Household Expenditure Survey (about 40% of the survey observations) and the results of a questionnaire on income given to a sample of the workforce (about 60% of the observations). In 2011 almost 15,000 households were sampled for the combined Income Survey. This year, the CBS excluded observations of a sample of the workforce survey, and at the same time increased the number of surveyed households about their income and expenses to about 9,000.

In addition, this year the CBS changed its Family Expenditure Survey: it increased the scope of the sample by about half, increased the participation in the sample of the Arab population from the north of the country, and for the first time included renewed kibbutzim in the sample. Similarly to the change the CBS made in its Manpower Survey, this year it included among the employed in the Household Expenditure Survey soldiers in compulsory army service. However, it did not change the sampling system for the Expenditure Survey, even regarding soldiers. Because of the great difficulty of covering the Bedouin population in the south, the CBS did not in fact include them in the survey this year. Following the convening of the committee set up to examine an additional poverty index (Yitzhaki Committee II), the CBS also began to collect more information about various benefits.

Due to the above changes, this year there was a break in the statistical series over time.

Of course there are alternative responses to the question of how to present the dimensions of poverty and inequality in a year in which there is a break in the CBS series of data: we have chosen to present the 2012 data as a single first observation of a new series that will grow with the years.

An alternative approach to the development of poverty and inequality over time is presented in Appendix 10.

Summary of Findings

Due to technical changes in preparing the survey, it is difficult this year to separate the effect over time of economic and social indices deriving from socio-economic processes, from the technical effects. Therefore, most of the tables and figures are given with the 2012 data marked as a separate point and the historical data taken from Income Surveys as had been done since the end of the 1990s. In some tables and figures we have compared the main indices to the results of the Expenditure Survey of 2011, in order to broaden the view and include another angle (see discussion in Appendix 10).

- Based on general information about the economy, **2012 was characterized by ongoing positive growth** (3.1%), though more moderate than in 2011 (4.6%). Growth occurred in circumstances of reasonable macro-economic stability, with price rises within the government's objective to achieve price stability (about 1.7%), with a government deficit of 4.2% of GDP and real interest rates around zero. This encouraged investment, but it also strengthened the price of assets such as housing and real estate, and financial assets. The rate of employed grew by 3.4%. **In 2012 a work grant** ("negative income tax") **was paid for the first time on a nationwide basis** for 2011. Most of the beneficiaries were families with children. The economic expansion was accompanied by a **rise in real wages** (1.2%), with differences between the branches¹. After weighting according to the number of poor workers in each branch, **the wages of poor workers rose slightly more** than did the national average (about 1.4%). The level of unemployment stabilized at a fairly low level – around 6.9%² – compared to other developed countries, as well as in a historical comparison.
- **Taking a long-term view, the incidence of general poverty in 2012 was similar to that of the period from the end of 2004 to 2011** (following the temporary rise during the 2009 crisis). It should be remembered that poverty stabilized at this high level following the policy of benefit cuts from 2002 to 2004 (particularly in 2003/4) and after the recession (2001/2002) which preceded that policy.
- **In 2012 there was moderation in the incidence of general poverty by economic income and by net income, compared to 2011. This moderation embodied a**

¹ See Table e-c-7 in the statistical appendix of the Bank of Israel report.

² The CBS manpower survey has recently undergone big changes which at this stage make it difficult to estimate changes from year to year. Among other things, there was a move from quarterly collection of data to monthly collection; the size of the sample from outlying districts was increased, and soldiers on national service were included among the employed. These changes led to a finding that participation in the labor market was even higher than the average rate in OECD countries.

change in the composition of the poor –poverty among the young and young families (headed by those aged under 30 and families with 1 to 3 children) dropped, while poverty among elderly households rose. In 2012 the incidence of poverty among families was 19.4% (Table 4). The incidence of poverty per head was 23.5%, while about a third of children – 33.7% – were defined as poor. In 2012, there were 439,000 poor families in Israel, representing 1,754,700 individuals, of whom 817,200 were children.

- **The Gini index of inequality in net monetary income fell in 2012 to 0.3767. The index of economic income fell to 0.4885.** These indices fell in comparison to both the Income Survey and the Expenditure Survey of 2011. By international comparison, **as in previous years Israel continues to be in a relatively high position**, lower than only four countries: Chile, Mexico, Turkey and the United States.
- **In 2012 the depth and severity of poverty, as expressed in the income gap ratio and the FGT index, were about 34.4% and 0.0405, respectively.**
- IN 2012, the incidence of poverty **by economic income** derived from market forces (income from work, pensions and capital) reached 30.2% among families, 31.4% among individuals and 39% among children. Following government intervention through benefits and direct taxation, 36% of families, about a quarter of the individuals and 14% of the children were rescued from poverty. **The 2012 index of the depth of poverty** was even more affected by this intervention **and thus fell by about 40%.**
- **The incidence of poverty among elderly families in 2012 was about 22.7%.** A significant part of the change derives from technical changes in preparation of the survey by the CBS. The contribution of transfer payments and direct taxes among the elderly is the highest of all surveyed population groups, accounting for about 55% of those who were extricated from poverty in 2012.
- The incidence of poverty **among working families** before transfer payments and taxes was 19.7%, falling to 13.8% in the index of available income. The differences in the incidence of poverty among households with a salaried head and households headed by the self employed are small. In a long-term comparison, the dimensions of poverty in working families show a gradual, continuing rising trend.
- The incidence of poverty among **families with two or more earners** amounted to 5% of families and 7% of individuals in 2012. In spite of the aforesaid difficulty of comparing the survey data, these figures continue the trend of a gradual rise over time

in the dimensions of poverty among families in which both spouses work. For the purpose of comparison, in **1999 the incidence of poverty among working families was about half that of today – 7%.**

- The incidence of poverty among **families with children**, who constitute about half of all poor families, was 24.8% in 2012. While the incidence of poverty among families with 1-3 children is lower than the national average at 18.5%, the incidence of poverty among **large families** with 4 or more children is about 3 times higher than among smaller families – 56.6% – and reaches two fifths in the case of families with 5 or more children. The contribution of transfer payments to lifting small families out of poverty is far higher than among larger families: 24.6% compared to only 6.7%, respectively.
- As in previous years, in **the Jerusalem region**, the dimensions of poverty as expressed by the percentage of poor people and the severity of their poverty were the highest in 2012 for both Arabs and Jews (and among Arabs, considerably higher than in the second poorest region, Haifa – 74% compared to 52%, respectively). The incidence of **child poverty** in this region reached 59.4% (compared to 49.4% in the Northern region, the second highest in terms of child poverty). The Central region continues to have the lowest level of poverty – 9.9% – in 2012, followed by the Tel Aviv region, where 12.3% of families are poor.
- In 2012 **it is estimated that about 62% of poor families and about 65% of poor individuals are living in persistent poverty**, since not only is their income below the poverty line, but they have also reduced their expenses on consumption accordingly.
- **Comparison with OECD data: From an international perspective, Israel's position has improved slightly**, from second highest to third highest place among OECD countries. In the area of inequality (the Gini index), **as in previous years Israel continues to be placed in a relatively high position**, lower than only four countries: Chile, Mexico, Turkey and the United States.
- According to a comparison between the 2012 Family Expenditure Survey and the 2011 Income Survey, real income rose in 2012 according to the CBS findings, at a rate of from about 10 to 15%. In view of existing information about the economy in 2012, these changes are considerably more than seen from data from other sources.

I. Introduction

The 2012 report differs from its predecessors. In view of the cessation of the production of the combined Income Survey³, for the first time the 2012 report was prepared on the basis of the Household Expenditure Survey. As well as in the case of the Household Expenditure Survey, the Expenditure Surveys include data on income from various sources (wages, assets, benefits etc.), and therefore enable one to calculate the dimensions of poverty and inequality, previously calculated according to Household Income Surveys; however, the relatively small sample in the Expenditure Surveys (about 6,000 compared to about 15,000 households in the Income Surveys until 2011) presents some problems regarding poverty among small population groups⁴. Therefore the National Insurance increased the size of the sample in the Expenditure Survey (and also agreed to finance most of the additional cost involved from its budget), and the Expenditure Survey which was processed to provide data on poverty and inequality for this year is based on a sample of 9,000 households – almost 1.5 times as the previous year, but still smaller than the sample in the combined Income Survey⁵.

Other changes in addition to the significant growth in sample size were introduced this year into the CBS Expenditure Survey, such as⁶:

1. The sampled population also included cooperative villages and renewed kibbutzim (which have undergone a privatization process). As a result, population coverage rose from about 95% to about 97%.
2. Soldiers in compulsory army service were defined as salaried employees. Based on the uniform recommendations of the International Labor Organization (ILO), the CBS in Israel, along with most other countries, decided to change from measuring the civilian workforce only to measuring the entire workforce, by including soldiers in compulsory service. Following this decision, from 2012

³ The Income Survey included the Expenditure Survey and the Income Survey of some of those sampled in the Manpower Survey, who were asked the same questions about their income as those in the Expenditure Survey. The decision to eliminate the component of interviewees from the manpower survey was taken by the Public Council for Statistics with the change of the Manpower Survey from quarterly to monthly, which was the source of more than half the records in the combined Income Survey since 1997.

⁴ A difference that somewhat alleviates the problem of the small number of observations concerns the quality of the data in expense surveys compared to Income Surveys. According to the CBS, the quality of income data is better in expenditure surveys, both due to the possibility of validating the figures against expenses and in view of the deeper link created between the questioner and the family in expense surveys, which have a good effect on trust and therefore on data reported by the family.

⁵ The plan is for further gradual increases in the next few years.

⁶ More detail is given in the CBS press release which presents the initial findings of the 2012 Expenditure Survey and is available on the CBS website.

- onwards salaried income will include the income of soldiers in compulsory service.
3. Reinforcing the sample among the Arab population in northern settlements in order to provide more reliable estimates of this population. To this must be added the logistical difficulty this year of covering the Bedouin population and thus their absence from the sample. This difficulty is well known from other years as well but it appears to have been enhanced even more this year.
 4. Change in the method of estimating, designed to limit sampling errors as well as the bias that could arise due to the fact that households that fail to respond to the questionnaire will have different characteristics than those that did respond. From 2012 onwards, the population estimate in the Household Expenditure Survey was adjusted to the new structure of the monthly Workforce Survey.

Other changes to the survey include extending the list of products and services (mainly an attempt to deal with benefits in kind), but they do not affect the measurement of poverty as calculated and presented in the annual reports on poverty and social gaps⁷.

For these and other reasons, it is reasonable to assume that there is a statistical “break” between the two series⁸. Of course, this does not mean that there were no changes in the economy or in policy that affected poverty this year. For example, this was the second consecutive year in which the work grant (also called “negative income tax”) was extended from the pilot regions to the whole country, at a cost to the government of almost NIS 1 billion per annum⁹. This effect was certainly reinforced by the significant entry of groups previously absent from the labor force (such as ultra-Orthodox men and Arab women)¹⁰.

⁷ However, the addition of this important information will certainly be used by us in future reports for the purpose of calculating an additional poverty index, when the government accepts a decision in this spirit. This recommendation is included in the report of the Yitzhaki II Committee (2010/11) whose conclusions have not yet been approved by the government.

⁸ In such cases it is possible – by prior planning – to carry out some interviews using the old system and some with the new system, in order to obtain an estimate of the specific effect of the changes in the method of preparing the survey.

⁹ It should be noted that this year the Central Bureau of Statistics did not include a question about the work grant, but it is reasonable to assume that those who received the grant considered it additional income from work. In 2012 this payment was extended to the whole country for the first time.

¹⁰ See for example, Gottlieb & Toledano (November 2011), who examined administrative data from the pay file of the Tax Authority. An improvement in employment rates also occurred among immigrants from Ethiopia since the early 2000s. However, until 2011 the increase in employment rates in these groups was accompanied by low pay. It is still not possible to examine the development of this process for 2012. The latest data regarding Ethiopian immigrants will soon be published in an article on the NII website: http://www.btl.gov.il/Publications/more_publications/Documents/herkev-tasuka.pdf.

This was also the first year in which the initiated increase in old-age pensions, particularly noticeable from 2009 to 2011, ceased, and the first year with a growth in real wages, partly due to agreements in the health and education systems. True, economic growth in the country slowed down somewhat, but it was still slightly over 3%¹¹. Moreover, in recent years we have witnessed an acceleration in the rate at which Ultra-Orthodox youths and Arab women are joining the workforce, while those who joined in recent years are accumulating seniority at work and are therefore increasingly eligible for NII benefits such as the work-related disability pension, unemployment benefit, maternity allowance, etc. All these effects, together with the technical effects of how the survey is prepared, are creating a situation in which it is difficult to distinguish between them. Changes relating to the severity of poverty (particularly the FGT index) in percentages are usually larger than changes to the incidence of poverty, because of the low numbers¹². Therefore, if this year it is hard to interpret the changes in the incidence of poverty, it is even harder to estimate the effect on poverty severity.

In order to emphasize the uniqueness of 2012 compared to 2011 and the previous years, the 2012 figures are shown as dots are not connected to past trends.

¹¹ Bank of Israel report, Table 1a.

¹² Appendices 10a and b show the main changes in 2012 compared to 2011 according to the Income Survey and the Expenditure Survey.

II. Indices of Poverty

1. The poverty line and standard of living

2012 was characterized by ongoing growth of 3.1%, a slower rate than in 2011 (4.6%). Partly as a result of that, the workforce grew by 3.4%, and real pay rose by 1.2% between 2011 and 2012¹³. Unemployment stabilized at a lower level than in 2011 (by historical comparison) at 6.9%¹⁴. During 2012 prices rose by 1.6%. These changes do not match the high rates of increase in household income as reflected in the 2012 Income Survey and as compared to 2011 (Table 1).

The average available income per standard individual¹⁵ in 2012 was about NIS 5,500. Median income by the same definition was about NIS 4,500 and the poverty line derived from this was NIS 2,256 per month. The high rates of change do not reflect changes in the economy in 2012, since the macro-economic data do not indicate any real reason for such a significant growth in family income¹⁶. These high rates of change are therefore to a large extent apparently the result of structural changes in the survey.

¹³ The analysis of pay by industry in Table E-C-7 in the Bank of Israel report indicates the considerable difference in changes in real pay of Israelis by industry; for example it rose 2.5% in the public services sector, by 3.5% in the electricity and water industries, by 2.4% in education, and by 3.8% in the health and welfare services. In communal, social and personal services, pay did not change, while in trade and repairs it fell by 0.7%.

¹⁴ The CBS workforce survey recently underwent far-reaching changes which make it hard to assess year on year changes. The survey changed from quarterly collection of data to monthly collection; the size of the sample in outlying areas was increased, and included soldiers among the employed. These changes led to the finding that the rate of participation in the labor market under the new definition was higher than the average in OECD countries.

¹⁵ In the weighting scale used in Israel two people are equivalent to two standard individuals and from 3 people onwards, the number of standard individuals in a family is less than their actual number, based on the rationale that the increase in family expenditure shrinks as the number of individuals increases, due to the savings possible in large families compared to smaller families, for example in housing, energy and other costs.

¹⁶ The comparison with last year's Expenditure Survey is closer to the wage data in the Bank of Israel report, although it is relatively higher. Changes in the expenditure survey range from a quarter to a third of the change reported in the Income Survey of economic income, gross and net, and is about half of the change in the Income Survey regarding median income and the poverty line.

Table 1: Monthly Income per Household by Type of Income (NIS), 2010-2012

Type of income	2010	2011	2012	Real change 2011-2012 (%)
Averages				
Economic per family	12,527	12,709	14,529	12.4
Economic per standard individual	4,719	4,808	5,622	15.0
Gross per family	14,397	14,638	16,587	11.4
Gross per standard individual	5,559	5,671	6,526	13.1
Net per family	12,024	12,356	13,842	10.1
Net per standard individual	4,665	4,805	5,458	11.7
By median				
Net per standard individual	3,861	4,001	4,513	10.9
Poverty line per standard individual	1,931	2,000	2,256	10.9

The poverty lines for families of different sizes are presented in Table 2, which shows that an individual with a monthly income of less than NIS 2,820 is deemed poor, as is a couple with a monthly income of less than NIS 4,500. A family of five needs a monthly income of NIS 8,500 in order not to be considered poor.

Table 2: Poverty Line by Family Size, 2012

No. of people in the family	Number of standard individuals	NIS per month	Marginal increment in NIS
1	1.25	2,820	--
2	2.00	4,512	1,692
3	2.65	5,978	1,466
4	3.20	7,219	1,241
5	3.75	8,460	1,241
6	4.25	9,588	1,128
7	4.75	10,716	1,128
8	5.20	11,731	1,015
9	5.60	12,634	902

Table 3 shows the extent to which the minimum wage or the average wage plus universal child allowances extricate from poverty families who live on income from only one job (first column), 1.5 jobs (second column), two jobs (third column) or alternatively a full time job on average pay (the two last columns). A ratio higher than 100% indicates that

income from work and universal benefits is sufficient to save the family from poverty. The table shows that a single mother with two or more children who works a full-time job for the minimum wage must find additional resources equivalent to at least a quarter of her income in order to be extricated from poverty. A couple with two children where both partners work for the minimum wage for a joint total of 1.5 full-time jobs is below the poverty line (and their poverty increases as the number of children at home increases). Even if both partners work full time at the minimum wage (or one works for the average wage), they can be saved from poverty, according to these calculations, only if there are fewer than 4 children in the household.

Table 3: Family Income as Percentage of Poverty Line by Type of Family, 2012

Household composition	Available income from minimum monthly wage*			Available income from average monthly wage* for 1 job	Twice available income from average monthly wage*
	For 1 job	For 1.5 jobs	For 2 jobs		
	Percentage of poverty line				
Single person	141	-	-	290	-
Single + 1 child	92	-	-	190	-
Single + 2 children	74	-	-	151	-
Single + 3 children	65	-	-	131	-
Couple	88	132	176	181	364
Couple + 1 child	69	103	136	140	282
Couple + 2 children	61	89	116	119	240
Couple + 3 children	55	79	102	105	208
Couple + 4 children	51	72	93	95	186
Couple + 5 children	48	66	85	87	168

* Calculated as the minimum wage or average wage for 2012 plus child allowance less fixed payments. The average gross minimum wage for 2012 was estimated at NIS 4,120 and the average wage as about NIS 8,970 per month.

2. Dimensions of poverty in 2012 and developments in recent years

In 2012 the incidence of poverty in families was **19.4%** (Table 4). The incidence of poverty in individuals was 23.5%, while the percentage of children living in poor families was about a third: 33.7%. In spite of the aforesaid difficulty of comparing general poverty indices in families, individuals and children with previous years, there has been some

reduction but at the same time they are not significantly different from the rates prevalent in recent years (particularly since 2004).

In 2012 there were **439,500** poor families in Israel, representing **1,754,700** individuals, including **817,200** children.

Table 4: Incidence of Poverty (percentages and absolute numbers), 2011-2012

	Before transfer payments and direct taxes	After transfer payments and direct taxes	Decrease in rate of poverty after transfer payments and direct taxes
2012			
Families	30.3	19.4	36.0
Individuals	31.4	23.5	25.2
Children	39.0	33.7	13.6
2011			
Families	32.8	19.9	39.3
Individuals	33.7	24.8	26.4
Children	41.9	35.6	15.1

	Before transfer payments and direct taxes	After transfer payments and direct taxes	Number saved from poverty after transfer payments and direct taxes
2012			
Families	686,700	439,500	247,200
Individuals	2,345,700	1,754,700	591,000
Children	945,900	817,200	128,700
2011			
Families	728,000	442,200	285,800
Individuals	2,499,100	1,838,600	660,500
Children	1,014,600	860,900	153,700

Figure 1 shows the development of the incidence of poverty in families, individuals and children, and Figure 6 shows the same picture for the elderly, in the years 1998 to 2012. (The sharp increase from 2002 to 2004 has been mentioned in previous reports.) After that there is a growing gap between the general indices, and between the index of poverty

among children on one hand and among the elderly on the other. , The situation is reversed in 2012. The question arises as to whether or not there has indeed been a relative deterioration this year of the elderly compared to the young (and families are mostly young). Factors operating in 2012 could shed light on this development: 2012 was the first year in which old-age pensions were not increased under legislation (of course they remained at their real level according to the rules for updating each type of benefit). 2012 was also the first year in which the work grant was paid throughout the country. According to estimates of the Tax Authority and the Bank of Israel, about 370,000 salaried employees benefit from these changes¹⁷. About 75% of them are in the lowest quintile; that is, they are mostly poor. This could also explain at least some of the decrease in poverty among children.

Figure 1: Incidence of Poverty in Families, Individuals and Children, 1998-2012 (1998 = 100.0)

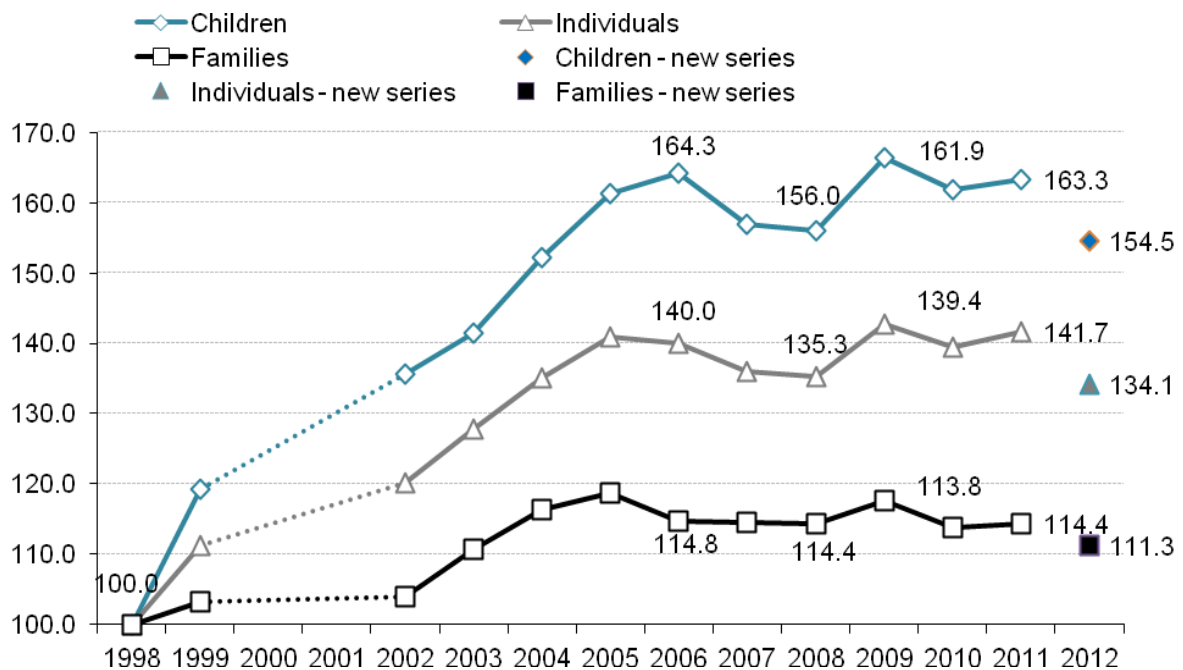


Table 5 summarizes the findings on poverty in families, individuals and children in the population at large according to selected indices, in the years 1999 and 2002 to 2012, and Figure 2 shows the incidence of poverty in individuals, the depth of poverty (the gap in income ratio) and the severity of poverty index (FGT).

¹⁷ See the notice from the Bank of Israel of December 2013: <http://www.boi.org.il/he/NewsAdPublications/PressReleases/Pages/04-12-2013-NegTaxIncom.aspx>

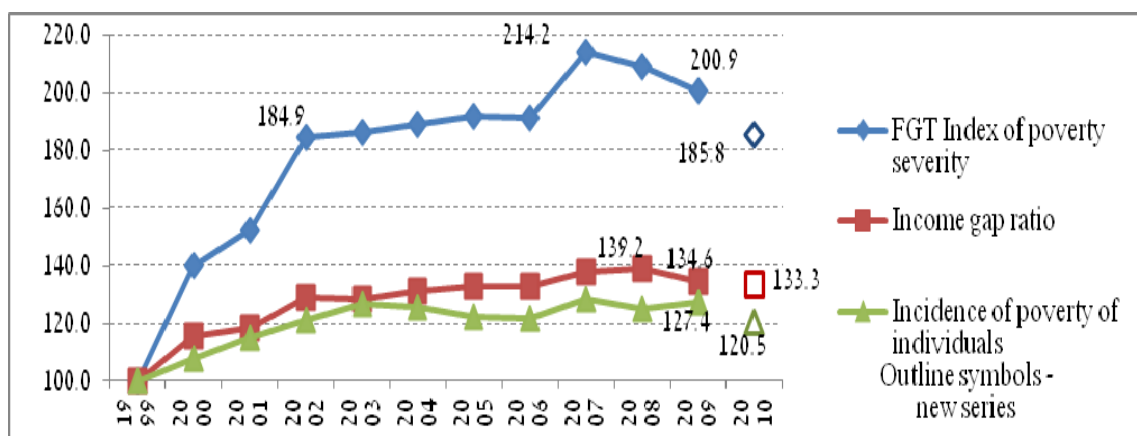
Table 5: Dimensions of Poverty by Selected Indices, 1999-2012

Index	1999	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Incidence of family poverty	18.0%	18.1%	19.3%	20.3%	20.6%	20.0%	19.9%	19.9%	20.5%	19.8%	19.9%	19.4%
Incidence of individual poverty	19.5%	21.0%	22.4%	23.6%	24.7%	24.5%	23.8%	23.7%	25.0%	24.4%	24.8%	23.5%
Incidence of child poverty	26.0%	29.6%	30.8%	33.2%	35.2%	35.8%	34.2%	34.0%	36.3%	35.3%	35.6%	33.7%
Incidence of poverty in the elderly	25.0%	19.0%	22.3%	25.1%	24.4%	21.5%	22.6%	22.7%	20.1%	19.6%	19.4%	22.7%
Gap in incomes ratio	25.8%	29.7%	30.5%	33.3%	33.1%	33.8%	34.3%	34.2%	35.5%	35.9%	34.7%	34.4%
Depth of poverty in NIS*	NIS420	NIS436	NIS502	NIS574	NIS532	NIS622	NIS671	NIS665	NIS636	NIS728	NIS716	NIS775
FGT index of severity of poverty	0.0218	0.0306	0.0332	0.0403	0.0406	0.0412	0.0418	0.0417	0.0467	0.0456	0.0438	0.0405
Gini index among the poor	0.1525	0.1840	0.1858	0.2045	0.1953	0.1952	0.2045	0.2051	0.2134	0.2111	0.2030	0.1995
SEN index	0.0723	0.0897	0.0971	0.1108	0.1138	0.1145	0.1135	0.1129	0.1231	0.1204	0.1189	0.1114

* The gap between the poverty line and the average income of the poor per standard individual in 2012 prices.

In general, the indices obtained according to the 2012 Expenditure Survey are lower than those calculated from the combined Income Survey in recent years. In particular, there are differences in the indices of severity of poverty and the SEN index, which is affected by differences in the Gini index of poverty. In our estimation, the changes in sample size, methods of surveying, composition of the sample and other factors explain some of these changes in the distribution of household income and rates of poverty. As stated above, at this stage we have no good indication to determine the relative weight of the effects of the two factors – changes in the method of preparing the survey and economic changes.

Figure 2: Selected Indices of the Severity of Poverty, 1999-2012 (1999 = 100.0)



The income gap ratio, which expresses the depth of poverty in families (that is, the average distance of their income from the poverty line), was 34.4% in 2012. The FGT index, which reflects the severity of poverty and combines the effect of the incidence of poverty with the depth of poverty, giving greater weight to the poorer, dropped from 2011 to 0.0405, and the SEN index, which combines the incidence of poverty, the poverty gap ratio and the Gini poverty index, was 0.1110 in the reported year. Taking the long term view, these values are similar to those prevalent in 2007-2008 (and generally rose slightly in the following years, excluding 2012).

3. The effect of benefits and direct taxes on dimensions of poverty

The economic independence of the poor is expressed by measuring poverty according to economic income – the proportion of the poor before direct government intervention

through taxes and benefits¹⁸. Table 4 shows that in 2012 the incidence of poverty measured by economic income deriving from market forces (income from work, pensions and capital) was 30.3% in families, 31.4% in individuals, and 39% in children. In other words, without government intervention in the form of transfer payments and direct taxes, the incidence of poverty would be higher. This intervention rescued from poverty 36% of the families, about a quarter of individuals and about 14% of the children. The index of the depth of poverty is even more affected by benefits, which bring it down by about 40%.

Notwithstanding the progressive nature of the income tax system, the contribution of direct taxation to the reduction in poverty is negative, since national and health insurance contributions are paid by everyone, including those with low income. Direct taxation raised the incidence of poverty among families, for instance, by 7.7% in 2012, compared to the net contribution of transfer payments to the reduction in poverty (without direct taxation) which amounted to about 42%. A breakdown of the contributions of various types of transfer payments – from National Insurance, other government institutions and from households – shows that transfer payments from households and individuals to other households reduce about 7% of family poverty; transfers from government institutions excluding National Insurance remove another 6%, and NII benefits reduce about 30% of those 42%.

¹⁸ A presentation of the gap in the incidence of economic poverty after intervention requires caution, since the effect of policy is biased upwards in this view. It is reasonable to assume that without the system of financial support, an individual would have to make more effort to achieve economic income and therefore the incidence of poverty would apparently be lower than in fact, although in this case there would also be the real incidence of poverty, which would be far higher than the incidence today (following the policy).

Table 6: Incidence of Poverty by Various Definitions of Income, and the Contribution of Direct Taxes and Various Types Payments to the Reduction in Poverty, 2011 and 2012

	Incidence of poverty							Change in incidence of poverty following intervention by Government, households and individuals					
	Before transfer & fixed payments	After fixed payments only	After transfer payments only	After NII payments only	After Govt. payments (excl. NII) only	After household+ individual transfers only	After transfer payments & direct taxes	After fixed payments only	After transfer payments & direct taxes	After transfer payments only	After NII payments only	After Govt. payments (excl. NII) only	After household+ individual transfers only
2012													
Incidence of poverty in families	30.3%	32.8%	17.4%	20.9%	28.4%	28.3%	19.4%	7.7	-36.0	-42.4	-30.9	-6.2	-6.6
Incidence of individual poverty	31.4%	34.6%	21.0%	23.6%	30.0%	30.0%	23.5%	9.4	-25.2	-33.1	-24.8	-4.5	-4.5
Incidence of poverty in children	39.0%	42.6%	30.8%	33.4%	38.0%	37.7%	33.7%	8.4	-13.6	-21.1	-14.4	-2.6	-3.3
Income gap ratio	56.3%	56.2%	33.7%	37.8%	53.3%	54.0%	34.4%	-0.1	-39.0	-40.1	-32.8	-5.4	-4.0
FGT	0.1342	0.1514	0.0351	0.0499	0.1162	0.1192	0.0405	11.4	-69.8	-73.8	-62.8	-13.4	-11.2
2011													
Incidence of poverty in families	32.8%	35.0%	17.3%	20.3%	31.0%	30.9%	19.9%	6.4	-39.3	-47.2	-38.2	-5.4	-5.6
Incidence of individual poverty	33.7%	36.1%	22.2%	24.5%	32.5%	32.4%	24.8%	6.6	-26.4	-34.1	-27.2	-3.6	-3.9
Incidence of poverty in children	41.9%	44.4%	32.9%	35.4%	41.1%	40.7%	35.6%	5.6	-15.1	-21.5	-15.5	-2.0	-2.9
Income gap ratio	58.3%	59.6%	34.2%	39.2%	54.6%	56.2%	34.7%	2.1	-40.5	-41.4	-32.7	-6.4	-3.7
FGT	0.1538	0.1726	0.0381	0.0562	0.1327	0.1386	0.0438	10.9	-71.5	-75.2	-63.4	-13.7	-9.9

Figure 3: Weight of Benefits and Transfer Payments by Origin in Reducing the Incidence of Poverty in Families

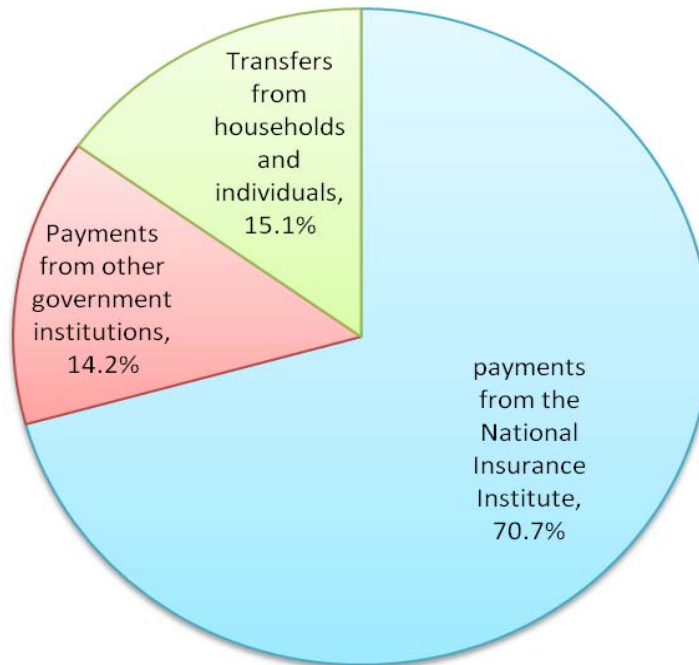


Figure 3 shows the effect of each type of financial support on rescuing families from poverty: NI benefits, which are the principal transfer payment, constitute about 71% of the total contribution to reducing poverty, and support from other government institutions and households (including some maintenance payments) each account for about another 15% of the total contribution of transfer payments. The broader government's overall share in reducing poverty (including the National Insurance Institute) therefore accounts for some 85% of the total contribution of transfer payments to the reduction in family poverty¹⁹.

¹⁹ There are additional transfers from the government to families, such as benefits in kind, that are not taken into account here. There are also supports given to various businesses in the framework of the Law to Encourage Capital Investment and other laws, which work to raise profits and consequently the income of other households. The beneficiaries are mainly in the top richest decile and perhaps even the top few hundredths. The Ministry of Finance does not publish information about the distribution of various benefits by deciles or hundredths, although such information is essential for shaping social policy. According to a report from the State Revenues Administration, the budget for benefits under the Encouragement of Capital Investment Law is about NIS 5 billion! Another important influence that is not taken into account in spite of its importance is the effect of exemption from income tax on income from capital, particularly in the areas of provident funds and training funds. Here too no information is published about the distributive effect, although it affects many billions of shekels – more than NIS 8 billion. Here too the beneficiaries are the better off populations, particularly the top decile, and to a decreasing extent, the ninth to sixth deciles.

Benefit payments are a significant factor in reducing poverty. The graphs below present the drop in the incidence of family poverty among groups who receive various benefits (Figure 4). The 2012 data show the very large effect attributed to unemployment benefit, which extricate about 44% from poverty²⁰. Old age and survivors' pensions and disability benefits also rescue a high proportion of families from poverty (39% and 38% , respectively). Other benefits have less effect, and in the case of child allowances it is only about 7%, because of its relatively low level. This effect is expected to continue declining next year, with the deep cuts in child benefits in 2013.

Another analysis of this aspect is an examination of the “uniform ruler” effect – that is, the effect of every NIS 100 of benefit (Figure 4a) on reducing poverty, and it shows that the order of benefits changes. An extra NIS 100 is more effective when added to the wage-replacement unemployment benefit and to the old age and survivors' pension than when added to income support or child allowances. However, it is clear that the budgetary significance of NIS 100 added to the child allowance, for example, is much greater than NIS 100 added to income support, which is a selective benefit given to a fairly low proportion of families. When deciding policy, it is desirable to relate also to the effectiveness of the tool (type of benefit) relative to its budgetary cost; this effectiveness is defined as the proportion of the extent of achieving a particular objective (for example, reducing the dimensions of poverty or inequality) in a given budget²¹. In addition, a benefit that can be effective in saving people from poverty could be less effective in reducing the depth or severity of poverty. Thus, for example, it is clear that the status of income support improves if we examine its effect on the depth and severity of poverty, since even if the benefit is not sufficient to raise a family from poverty, it is still effective in improving its situation.²²

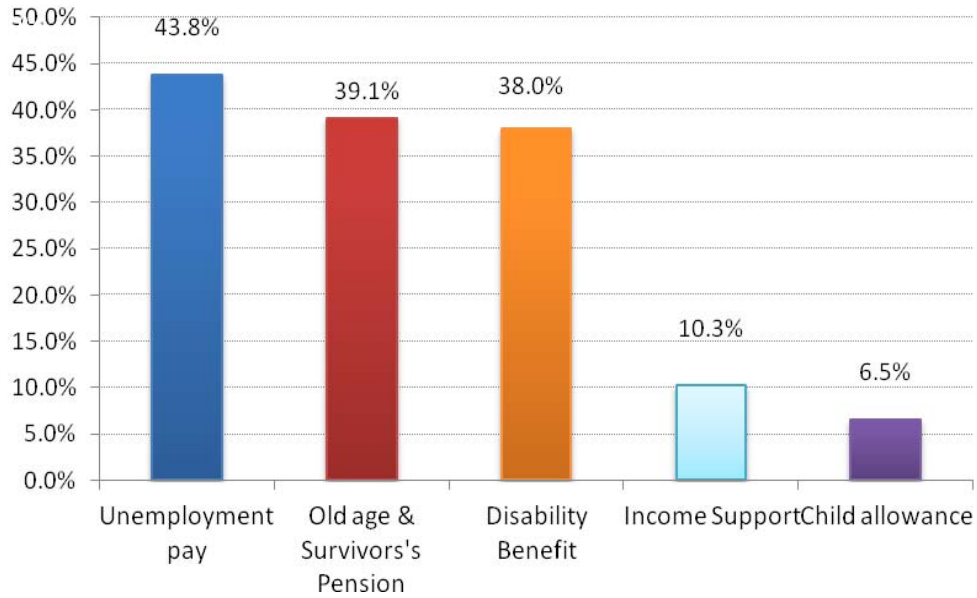
In the current survey there is an attempt to quantify some of these transfers and relevant estimates will be produced later.

²⁰ A considerably lower percentage than the figures calculated for previous Income Surveys, which reached about 55% – another change resulting from the structural change in the survey and not from any objective change that occurred in 2012.

²¹ See discussion of this in Table 1, p. 44 in Chapter A of the 2011 Annual Survey.

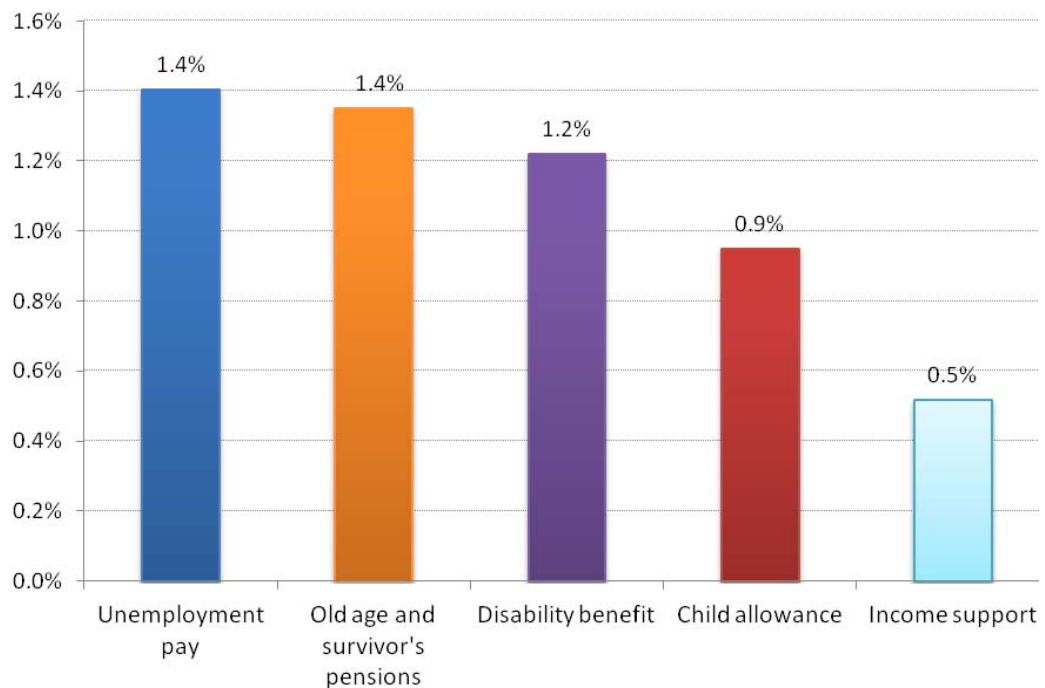
²² For a broader, more detailed comparison, which also takes into account the budgetary significance of adding a particular sum to each benefit for other indices such as severity of poverty, see Chapter 2 of the 2011 Annual Survey of the National Insurance Institute.

Figure 4: Decline in the Incidence of Poverty among Families Receiving Benefits after Payment of the Benefits



* The columns record the percentage incidence of poverty among families before and after payment of transfer payments and taxes in that group of benefit recipients.

Figure 4a: Decline in the Incidence of Poverty among Families who receive a Benefit for each NIS100 of Benefit



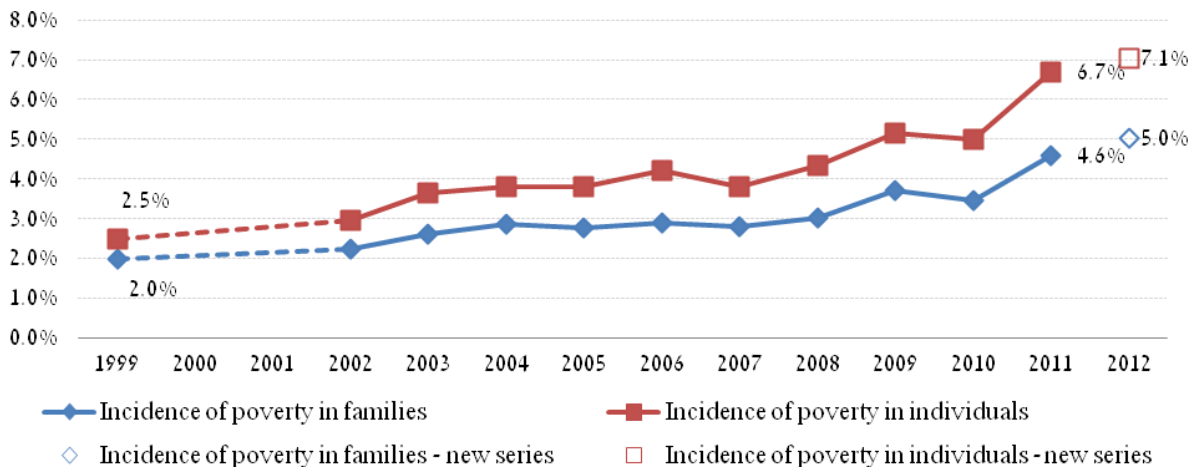
4. Dimensions of poverty by population group and geographical area

Table 7 shows the dimensions of poverty by gender over the years. Tables 8 through 10 show selected findings by population group: Table 8 presents the incidence of poverty in families by income before and after transfer and fixed payments, and the effect of transfer payment and fixed payment policy on the incidence of poverty in various groups (for similar tables regarding individuals, see Appendix 3); Table 9 shows the share of each group in the population as a whole and in the poor population and Table 10 shows additional indices for assessing the dimensions of poverty in various groups, such as the depth and severity of poverty.

The following are the main findings emerging from these tables:

- When measured by economic income, the incidence of poverty among **men** (adult individuals) **is lower than among women** (25.2% and 30.1%, respectively, in 2012), a finding that reflects men's advantage in the labor market. After government intervention through taxes and benefits, the incidence of poverty falls in both groups and the gap narrows: poverty among men falls to 17.3% and among women to 19.7%, since the contribution of these policy tools to rescuing women from poverty is greater than for men.
- The incidence of poverty among **working families** before transfer payments and taxes amounts to 19.7%, and drops to 13.7% when measured by available income. The differences between the incidence of poverty of households headed by a salaried worker compared to households led by a self-employed person are negligible. In the long term, the dimensions of poverty among working families show a gradual upward trend. For comparison, in 1999 the incidence of poverty of working families was about half the rate found today – 7% – and while the entry of relatively weak populations does widen the circle of employment and rate of labor market participation, it also works to increase poverty rates among the working population and more and more undermines the assumption that work itself is a guarantee of escaping poverty.
- The incidence of poverty among **families with two or more earners** amounts to 5% of families and 7% of individuals in 2012. Although it is difficult to compare data from the surveys, these figures continue the long gradual upward trend in the dimensions of poverty among families where both spouses work, and more and more undermines the assurance that having both spouses working is a guarantee of escaping poverty.

Figure 5: Incidence of Poverty among Families and Individuals in Families with Two or More Earners, 1999-2012



It is reasonable to assume that families where both spouses work but which have not managed to escape poverty include many low-skilled families or those that have only recently joined the workforce, or alternatively they work relatively few hours, in some cases because they are unable to find full-time work, particularly in areas of high unemployment. It is known that in recent years there has been a rise in the numbers of ultra-Orthodox men, Arab women and Ethiopian immigrants (both men and women) joining the workforce. Many of them work for low pay, sometimes below the minimum wage²³. Finally it should be noted that the severity of poverty in these families is very low. In other words, they are very close to the poverty line, so that a slight improvement in pay could move them to above that line.

Incidence of poverty among the elderly reached 22.7% in 2012. As Figure 6 shows, this is a high rate, and a change from the decrease that characterized this group in recent years, and certainly after the decrease that followed the gradual, ongoing improvement in the range of benefits for the elderly in Israel in recent years.

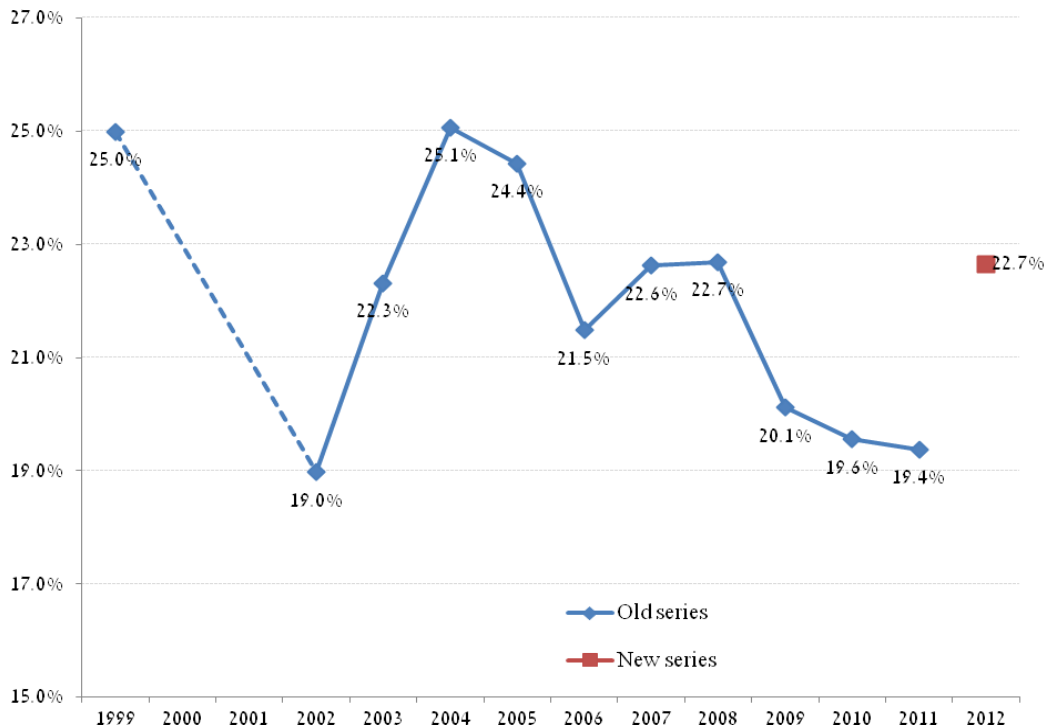
However, 2012 was the first year in which old-age pensions were not increased under legislation but only adjusted for price rises, similar to the updates of all benefits. Another reason that could explain the jump is that the level of old-age pensions, particularly for those who worked before reaching pension age, is higher relative to the relevant poverty line than the level of other benefits relative to their relevant poverty lines, partly when the seniority increment and income support (for those who are eligible) are added to the basic

²³ See the 2010 Annual Survey, Chapter 2, p. 71 and following, also: Gottlieb, Endeweld & Heller (July 2013): http://www.btl.gov.il/Publications/more_publications/Documents/TziyutScharMinimum.pdf

pension. Therefore many old people, even those who are poor, are fairly close to the poverty line; in other words their poverty is significantly less severe than that of other groups. Table 10 clarifies this point: in 2012 the severity of poverty among the elderly was about 43% less than that of families with children, or about a quarter of that of children with 4 or more children. It was less than a third of the severity among the population with little education. Therefore, the closer the elderly are to just above the poverty line, the more any raising of the line will increase the incidence of poverty in that group.

The level of income support benefit and the contribution of transfer payments and direct taxes are very high in this group, raising about 55% out of poverty. It should be noted that 2012 was the first year in which pensions were updated only by the change in the relevant price index and not through legislation (as occurred from 2009 to 2011). In a growing economy where the situation of young families is apparently improving (as already mentioned, for the first time the work grant was paid nationally), it is certainly possible that the situation of the elderly is relatively worse. However, as explained above, this year it is difficult to separate the effect of changes in the causes of poverty from the effect of changes in the method of preparing the survey. Therefore this result should be treated with caution.

Figure 6: Incidence of Poverty among Elderly Families, 1999-2012



- The incidence of poverty among **Arab families** remained high, at about 54.3% in 2012. The Arab population accounts for about 37% of poor families, although their proportion of the population as a whole is much lower (13% according to the current survey, which as mentioned does not include the Bedouin population in the south, not surveyed this year by the CBS). The other indices for assessing poverty, such as the depth and severity of poverty, also show a higher level of distress among the Arab population compared to the poor population as a whole. For example, the severity of poverty index for this population is 0.1230, which is three times higher than for the total poor population (0.0405).
- The incidence of poverty of **families with children**, who account for more than half of poor families, was 24.8% in 2012. While the incidence of poverty among families with 1-3 children is lower than the national average at 18.5%, the incidence among families with 4 or more children reaches 56.6% (and two thirds in the case of larger families, with 5 or more children). The contribution of transfer payments to lifting smaller families out of poverty is far greater than in the case of families with 4+

children: 24.6% compared to only 6.7%, because of the structure of child allowances and subsistence benefits, which do not give preference to large families; in many cases even the reverse is true.

- The incidence of poverty among the ultra-Orthodox²⁴ population in Israel, which is characterized by large families, reached 61.5% this year, and they accounted for 12% of the poor families – almost three times their proportion in the general population. Since ultra-Orthodox families are not directly identified in the survey, these findings could be subject to large variations.
- The incidence of poverty among **single-parent families** was 29% in 2012. The contribution of transfer payments and direct taxation to these families is high relative to other families with children: they lift about 36% of these families out of poverty. The indices for depth and severity of poverty are also higher in this population: the depth of poverty index is about 37% (compared to 34.4% in the general population) and the FGT severity index is 0.059 (compared to 0.0405 in the general population).

Table 7: Incidence of Poverty among Adults* according to Gender (%), 1999-2012

Year	Men			Women		
	Before transfer payments & taxes	After transfer payments & taxes	Decrease due to transfer payments & taxes	Before transfer payments & taxes	After transfer payments & taxes	Decrease due to transfer payments & 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	31.2	30.1	19.7	34.4

* Men and women aged 18 and over.

- The incidence of poverty among **immigrants**, which has recorded a decline over the years, reached 17.3% in 2012 – lower than the rate in the general population. The

²⁴ In the CBS surveys of household income and expenditure it is not possible to locate ultra orthodox families directly due to fluctuations in the annual data. The incidence of poverty figures are shown as a floating average of two years.

contribution of transfer payments to the rescue from poverty is higher among this population (which partly overlaps with the elderly population), and reached about half of them in 2012.

- In 2012 the incidence of poverty of **working-age unemployed families** contributed to “lead” the groups specified in the tables, reaching 66.1%. Without transfer payments and direct taxes, 89.1% of these families would be poor, so these payments lift about a quarter of them out of poverty. Following the entry of such families into the labor market, their share of the poor population has gradually declined, concurrently with the rise in the proportion of working families; in other words, despite joining the labor market they are generally still poor. Since 1999, the already high incidence of poverty among these families climbed from 64.5% to about 71% in 2011, although the structural changes in the current survey lead to slightly lower rates of poverty, of about 66% as mentioned above. In 2012, the severity of poverty in this population, which has apparently not received sufficient attention, was **about 7 times higher than** in the poor population as a whole (Table 10). The reason can be found in non participation in the labor market, in the relatively low application of subsistence benefits, and their low level compared to the minimum required for decent living, as expressed in the poverty line, and in the low level of child allowances.

Table 8: Incidence of Poverty of Families by Population Group (%), 2011-2012

	Income before transfer payments & taxes		Income after transfer payments & taxes		Drop in poverty after transfer payments & taxes (percentages)	
	2011	2012	2011	2012	2011	2012
Total population	32.8	30.3	19.9	19.4	39.3	36.0
Jews	28.1	25.9	14.2	14.1	49.4	45.5
Arabs	60.4	59.2	53.5	54.3	11.5	8.4
Elderly*	54.4	50.5	19.4	22.7	64.4	55.1
Immigrants	40.4	34.8	16.3	17.3	59.6	50.1
Ultra-Orthodox	66.9	68.0	54.3	53.2	18.8	21.8
Families with children						
Total	32.9	30.5	26.8	24.8	18.7	18.7
1-3 children	26.4	24.5	20.4	18.5	22.5	24.6
4 or more children	63.8	60.7	56.7	56.6	11.2	6.7
5 or more children	75.4	71.1	67.4	67.1	10.7	5.6
Single-parent families	47.5	45.1	30.8	29.0	35.2	35.8
Employment status of head of household						
Working	20.0	19.7	13.8	13.7	31.3	30.6
Salaried	20.6	20.1	13.7	13.7	33.4	32.0
Self employed	16.0	16.5	14.0	13.4	12.6	19.2
Working age unemployed	90.4	89.1	70.7	66.1	21.8	25.8
One earner	37.8	36.0	25.9	24.6	31.6	31.7
2 or more earners	6.6	6.8	4.6	5.0	29.9	26.2
Age of head of household						
Up to 30	36.2	32.2	25.4	22.4	29.8	30.4
31-45 years	27.9	26.1	21.7	20.1	22.3	22.9
46 to pension age	21.5	20.2	15.1	14.1	29.6	30.3
Of legal pension age***	58.1	54.0	19.8	24.1	65.9	55.4
Education of head of household						
Up to 8 years school	71.3	69.1	44.2	45.2	38.0	34.7
9-12 years study	36.1	33.2	23.6	22.3	34.6	32.9
13+ years of study	22.4	21.4	12.2	12.8	45.5	40.2

* According to the definition in use until now: 60 for a woman and 65 for a man.

** Due to fluctuations, a floating average of 2 years is shown. The definition of ultra-Orthodox is according to Gottlieb-Kushnir (2009)

*** The definition has been adjusted to the age of retirement from work according to the Retirement Age Act. Therefore this population is not fixed until the process of raising the retirement age is complete.

Table 9: Proportion of Various Family Types in the General Population and in the Poor Population, by Demographic and Employment Characteristics, 2011-2012

	Income before transfer payments & taxes		Income after transfer payments & taxes		Drop in poverty after transfer payments & taxes (percentages)	
	2011	2012	2011	2012	2011	2012
Jews	85.5	87.0	73.3	74.5	61.1	63.4
Arabs	14.5	13.0	26.7	25.5	38.9	36.6
Elderly*	20.8	20.4	34.6	34.0	20.3	23.8
Immigrants	19.3	20.3	23.8	23.3	15.9	18.1
Ultra-Orthodox	4.6	4.3	9.3	9.6	12.5	11.8
Families with children						
Total	45.3	45.0	45.5	45.3	60.9	57.6
1-3 children	37.4	37.5	30.1	30.4	38.4	35.8
4 or more children	7.9	7.4	15.4	14.9	22.5	21.7
5 or more children	3.7	3.5	8.4	8.3	12.4	12.3
Single-parent families	5.5	6.0	8.0	9.0	8.5	9.0
Employment status of head of household						
Working	76.5	79.4	46.7	51.7	52.9	56.0
Salaried	66.6	69.3	41.9	46.1	45.9	49.0
Self employed	9.9	10.1	4.8	5.5	7.0	7.0
Working age unemployed	7.9	6.3	21.8	18.6	28.1	21.6
One earner	32.9	35.0	38.0	41.7	42.8	44.5
2 or more earners	43.6	44.4	8.7	10.0	10.1	11.5
Age of head of household						
Up to 30	16.2	17.4	17.9	18.5	20.7	20.1
31-45 years	34.4	34.5	29.3	29.8	37.5	35.9
46 to pension age	31.1	30.5	20.4	20.3	23.6	22.2
Of legal pension age***	18.3	17.6	32.4	31.4	18.2	21.8
Education of head of household						
Up to 8 years school	10.7	9.2	23.2	20.9	23.6	21.4
9-12 years study	37.7	38.0	41.5	41.7	44.7	43.7
13+ years of study	51.6	52.9	35.3	37.4	31.7	35.0

* According to the definition in use until now: 60 for a woman and 65 for a man.

** Due to fluctuations, a floating average of 2 years is shown. The definition of ultra-Orthodox is according to Gottlieb-Kushnir (2009)

*** The definition has been adjusted to the age of retirement from work according to the Retirement Age Act. Therefore this population is not fixed until the process of raising the retirement age is complete.

**Table 10: Estimate of Dimensions of Poverty in Various Groups,
by Selected Indices, 2011 and 2012**

	Income gap ratio		FGT index		SEN index	
	2011	2012	2011	2012	2011	2012
Total population	34.7	34.4	0.0438	0.0405	0.119	0.111
Jews	31.8	29.8	0.0256	0.0215	0.073	0.065
Arabs	37.8	39.6	0.1146	0.1228	0.295	0.306
Elderly*	26.8	28.1	0.0266	0.0297	0.079	0.093
Immigrants	28.4	25.1	0.0236	0.0184	0.071	0.062
Ultra-Orthodox	38.4	36.3	0.1152	0.1032	0.299	0.282
Families with children						
Total	35.8	35.4	0.0567	0.0519	0.152	0.141
1-3 children	33.5	31.4	0.0373	0.0290	0.101	0.085
4 or more children	38.3	39.4	0.1108	0.1201	0.293	0.304
5 or more children	38.8	40.6	0.1291	0.1456	0.341	0.360
Single-parent families	36.3	36.0	0.0666	0.0590	0.173	0.154
Employment status of head of household						
Working	28.7	29.2	0.0229	0.0233	0.076	0.076
Salaried	28.3	28.7	0.0221	0.0221	0.075	0.073
Self employed	31.0	33.1	0.0279	0.0311	0.081	0.089
Working age unemployed	52.1	54.2	0.2737	0.2763	0.542	0.530
One earner	30.9	31.4	0.0540	0.0529	0.171	0.165
2 or more earners	20.8	22.3	0.0047	0.0061	0.020	0.023
Age of head of household						
Up to 30	35.6	33.0	0.0600	0.0413	0.157	0.117
31-45 years	35.1	35.1	0.0497	0.0473	0.137	0.129
46 to pension age	36.1	36.9	0.0332	0.0338	0.087	0.087
Of legal pension age***	24.7	27.2	0.0242	0.0296	0.076	0.096
Education of head of household						
Up to 8 years school	39.9	37.0	0.1209	0.1017	0.294	0.268
9-12 years study	33.5	34.2	0.0486	0.0476	0.137	0.131
13+ years of study	33.2	33.2	0.0261	0.0260	0.072	0.072

* 60 for a woman and 65 for a man.

** Due to fluctuations, a floating average of 2 years is shown. The definition of ultra-Orthodox is according to Gottlieb-Kushnir (2009)

*** The definition has been adjusted to the age of retirement from work according to the Retirement Age Act. Therefore this population is not fixed until the process of raising the retirement age is complete.

Table 11 shows the dimensions of poverty by geographical region and nationality²⁵.

As in previous years, the dimensions of poverty in the **Jerusalem Region** as reflected in the rate and severity of poverty were the highest in 2012, for both Arabs and Jews (and in the case of the Arabs, significantly higher than in the next poorest region, Haifa: 75% versus 52% respectively). The incidence of poverty among **children** in this region reached 59.4% (compared to 49.4% in the Haifa region, the second largest in the case of children). The Central region continues to have the lowest incidence of poverty – 9.9% in 2012 – followed by the Tel Aviv region with 12.3% family poverty.

The level of poverty among Arab families in the country as a whole is almost 4 times that of Jewish families. It is the highest in Haifa (where the rate of poor Arab families is over 4 times as high) and slightly lower in Jerusalem (almost 3.5 times the rate among Jewish families).

In all regions and nationalities, income is to a greater or lesser extent far from the national average of 34.4%, except in the Jerusalem region, where the average income gap ratio of the poor is about 43% of the poverty line and the FGT severity index is 3 times higher than the national average – far from any other region. The difference between the two national groups is also expressed in these indices. For example, poverty of Jews in Jerusalem almost reaches 34%, close to the national average, while among Arabs the rate is 50%, that is, the income of Arab families in Jerusalem is about 50% below the poverty line income.

²⁵ Except in places where it was not possible to calculate the indices this year as they were not surveyed.

Table 11: Incidence of Poverty by Region and Religion

	2011					2012				
	Incidence of poverty			Income gap ratio	FGT	Incidence of poverty			Income gap ratio	FGT
	Families	Individuals	Children			Families	Individuals	Children		
Total*	19.9	24.8	35.6	34.7	0.044	19.4	23.5	33.7	34.4	0.041
Jerusalem	34.5	45.5	57.3	43.8	0.118	34.7	46.5	59.4	43.0	0.118
North	33.5	36.7	45.3	32.3	0.055	34.5	38.3	49.4	33.3	0.059
Haifa	19.9	23.2	33.7	29.1	0.029	19.5	21.4	29.4	31.9	0.031
Center	10.8	13.0	19.9	30.0	0.019	9.9	10.9	15.9	29.9	0.015
Tel Aviv	12.2	14.5	24.3	31.4	0.022	12.3	14.1	23.7	30.4	0.021
South	21.5	25.9	37.4	34.0	0.044	18.8	18.4	24.7	29.5	0.025
Jews*	14.3	16.2	24.1	34.6	0.029	14.1	15.5	22.9	29.8	0.021
Jerusalem	23.1	29.5	41.3	37.4	0.058	22.2	31.3	45.3	34.2	0.052
North	18.5	18.0	21.2	27.7	0.023	21.0	19.5	25.1	27.4	0.023
Haifa	13.9	13.4	18.5	25.9	0.015	13.1	11.2	13.1	26.9	0.014
Center	8.2	9.4	14.2	27.5	0.012	7.6	7.6	10.5	27.1	0.009
Tel Aviv	12.0	14.4	24.4	31.7	0.023	12.3	14.0	23.5	30.2	0.020
South	18.6	19.3	26.4	32.1	0.031	18.7	18.2	24.1	29.4	0.025
Arabs*	53.2	56.6	65.8	37.2	0.110	54.3	57.9	67.9	39.6	0.123
Jerusalem	73.8	79.5	85.0	48.9	0.245	74.8	75.3	82.2	49.9	0.243
North	49.4	51.0	58.9	33.5	0.080	51.1	53.8	64.3	35.0	0.089
Haifa	48.7	52.3	60.4	31.6	0.073	52.5	54.2	61.7	35.2	0.089
Center	--	--	--	--	--	--	--	--	--	--
Tel Aviv	--	--	--	--	--	--	--	--	--	--
South	--	--	--	--	--	--	--	--	--	--

* Including places in Judea and Samaria.

5. Persistent poverty

The poor population is not fixed from one period to the next: some of the poor are rescued from poverty, while others become poor. However, there are some poor people for whom poverty is a continuing way of life. The professional literature usually refers to consumption expenditure as affected mainly by stable income, as distinct from temporary changes in it²⁶, so that expenditure fluctuates less than does income. The assumption is that when there is a sudden loss of regular income (for example, on becoming unemployed), families try to maintain a steady standard of living, and in the short term will overcome gaps by means of savings, loans etc. Therefore it is not economically illogical to find many poor people whose consumption spending is higher than their income. This indicates that these families belong to the temporarily poor population. On the other hand, a family that estimates that its economic situation has permanently deteriorated will be forced to reduce its spending on consumption, in order to stay within its income framework.

In view of the absence of data from follow-up surveys in Israel that could enable us to track families in order to measure their ongoing (“permanent”) poverty among them, recommendation 2(a) of the Report of the Team for Developing Additional Indices of Poverty²⁷ suggested referring to the next index as an index of permanent poverty: a given family would be defined as permanently poor if both its income and its consumption expenditure were below the poverty line.

Table 12 shows the proportion of poor families and individuals, according to the definition of permanent poverty, among all poor families. In general the findings show that two-thirds of poor families suffer from permanent poverty (and the other third from poverty of a temporary nature, such as following the unemployment of a earner). These figures are not very different from those of the previous year. However, the rate of the permanently poor is different in various population groups, so that for example, permanently poor families with two earners account for 56% of all poor families in this group, while their proportion in groups with relatively high levels of poverty (ultra-Orthodox, large families, working-age families with no earner, and people with low

²⁶ According to the theory of permanent income of the economist Milton Friedman, families tend to change their regular consumption following stable changes in income, while temporary changes in income tend to affect mainly savings and spending on permanent goods.

²⁷ The committee led by Prof. Shlomo Yitzhaki, which consisted of representatives of various ministries, including the National Insurance, and which submitted its recommendations in 2008. The report is published on the CBS website.

education) – can reach 80%, showing that a clear majority of poor families in these groups may be defined as suffering from permanent rather than temporary poverty.

Table 12: Estimate of Permanent Poverty – Weight of Families and Individuals in Total Number of Poor whose Monetary Expenditure Per Standard Individual is Below the Poverty Line (percentages), 2011 and 2012

Population groups	Families		Individuals	
	2011	2012	2011	2012
Total population	63	62	66	65
Jews	64	60	69	65
Arabs	59	64	63	66
Elderly*	67	66	74	67
Immigrants	67	62	70	63
ultra-Orthodox**	76	78	79	80
Families with children - total	64	64	68	67
1-3 children	55	60	56	62
4 or more children	79	71	79	72
5 or more children	74	78	75	79
Single parent families	67	60	69	63
Employment status of head of household				
Working	59	57	65	61
Salaried	59	58	66	63
Self employed	41	44	45	48
Working age unemployed	67	69	71	77
One earner	61	58	66	63
Two or more earners	53	53	60	56
Age of head of household:				
Up to 30	48	59	56	67
31-45 years	68	63	70	67
46 to pension age	60	56	62	59
Over pension age according to law***	68	67	75	68
Education of head of the household				
Up to 8 years of school	68	72	72	75
9-12 years of studies	64	59	63	61
13 and more years of studies	56	59	66	66

Source: Processing by the Research & Planning Administration of surveys of household expenditure by the CBS for the years indicated in the table.

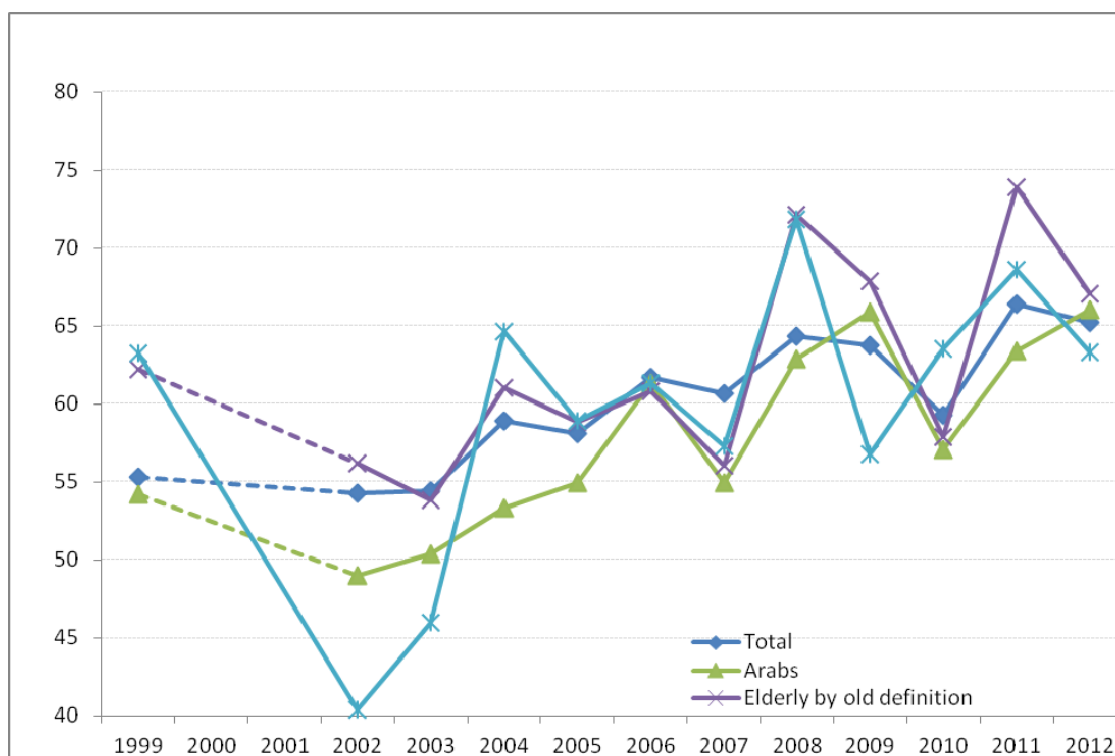
* According to the definition used until now: from 60 for a woman and 65 for a man.

** Due to fluctuations, a floating average of 2 years is shown. The definition of ultra-Orthodox is according to Gottlieb-Kushnir (2009)

*** The definition has been adjusted to the age of retirement from work according to the Retirement Age Act. Therefore this population is not fixed until the process of raising the retirement age is complete.

Note that an examination of data over time shows relatively high levels of fluctuation in the measurement of the proportion of families that can be defined as permanently poor, with particularly high levels of fluctuation in certain groups, as Figure 7 shows.

Figure 7: Rate of Individuals Living in Permanent Poverty (out of total poor) in the General Population and in Selected Groups, 1999-2012



6. Poverty and inequality in Israel by international comparison

The OECD method of calculating the dimensions of poverty is similar to that developed by the National Insurance and used in Israel – both define available, median monetary income as the relevant indicator of standard of living and define the poverty line as half of this. However, the method of translating the number of individuals in a family to the number of standard individuals (“weighting scale”) is different. The NII has for many years used a weighting scale based on the long-standing Engel method, whereby families of different sizes whose food expenditure as a percentage of total consumption expenditure is the same, are given equal weight in terms of welfare, while the OECD weighting scale is based on the square root of family size²⁸ as an estimate of the number

²⁸ For example, the number of standard individuals in a family of 4 is 2, and in a family of 9 there are 3 standard individuals and so on. This means that poverty among large families, which as we know are

of standard individuals in it. Another difference lies in the fact that the OECD calculated median income by individuals and not by families, which lowers the poverty line slightly compared to the NII calculation. All this means that the OECD poverty lines are higher, but the resulting incidence of poverty is lower than the figure obtained using the Israeli definition in the general population²⁹.

The sources of data for calculations of poverty in each country are Income Surveys or Expenditure Surveys carried out by the central bureau of statistics in each country. The OECD calculations for Israel are therefore based on the same data as are the NII calculations.

Figure 8a shows the incidence of poverty of individuals according to 50% of the median available monetary income per standard individual, at the end of the first decade of the 2000s (i.e., around 2010), in OECD countries. The following Figure 8b shows the Gini index of inequality of available income in those countries at that time. Later figures (until last year the figures referred to the mid 2000s and not the end of the decade) indicate that the dimensions of poverty as calculated by the 2012 Expenditure Survey, which for the first time this year was used to calculate the dimensions of poverty (unlike previous years which used data from income surveys), are showing a slight reduction in international comparison (which should not be deemed a sign of any “real” changes in 2012 but, as stated above, an indication of structural changes in the survey and in its methodology). According to these figures, the incidence of poverty among individuals in 2012 was 18.8%, moving Israel one column to the left compared to the previous year – after Chile (where the incidence of poverty is very similar to that of Israel – 18.9%), and further from Mexico, where poverty rates are the highest (about 21%). In the area of inequality (Gini index), Israel also continues to be placed fairly high, lower only than Chile (which recently joined the organization), Mexico, Turkey and the USA.

Table 13 shows the incidence of poverty among families, individuals and children when the poverty line is calculated using the OECD approach, for various population groups. The data for previous years and for 40% and 60% of the median (following EU practice) are given in Appendices 7 and 8.

common in Israel, is lower using the OECD method of calculation and vice versa for small families, such as the elderly and single people. Initial results of a study of this process indicate that the approach that assumes an equal standard of living of families based on a basket that includes other essential products besides food, such as housing and clothing, leads to a weighting scale that is very similar to the one obtained using the OECD method.

²⁹ The OECD calculates the dimensions of poverty in two more ways: for 60% and for 40% of the median monetary income – see Appendices 7-9.

The general trend in the analysis by population groups remains unchanged in the calculation using the current survey, although the incidence of poverty of families, individuals and above all children is lower than the rates calculated using Income Surveys from previous years. Thus, the incidence of poverty of children in 2012 is 25.7% (compared to 28% according to the Income Survey of 2011). This calculation also shows that the poorest families are the Arab families and the large families (two groups that overlap to a certain extent), families headed by someone with very little education (up to 8 years of school), and families where the head of the household of working age is not working. In families where the number of individuals differs from the average, such as the elderly and families with children, rates of poverty vary considerably compared to the existing approach, since the weighting scale gives more advantage to large families than does the weighting scale used in the existing approach. Thus for example, the incidence of poverty in large families, Arab families, and ultra-Orthodox families falls below half, compared to rates of 50% to 60% yielded by the existing approach. On the other hand, the rate of poverty in elderly families is 2 percentage points higher than the rate yielded by the existing method, and reaches 24.2%.

Figure 8a: Rate of Poverty among Individuals (50% of median income), OECD Countries and Israel, end of the 2000s (Israel 2012)

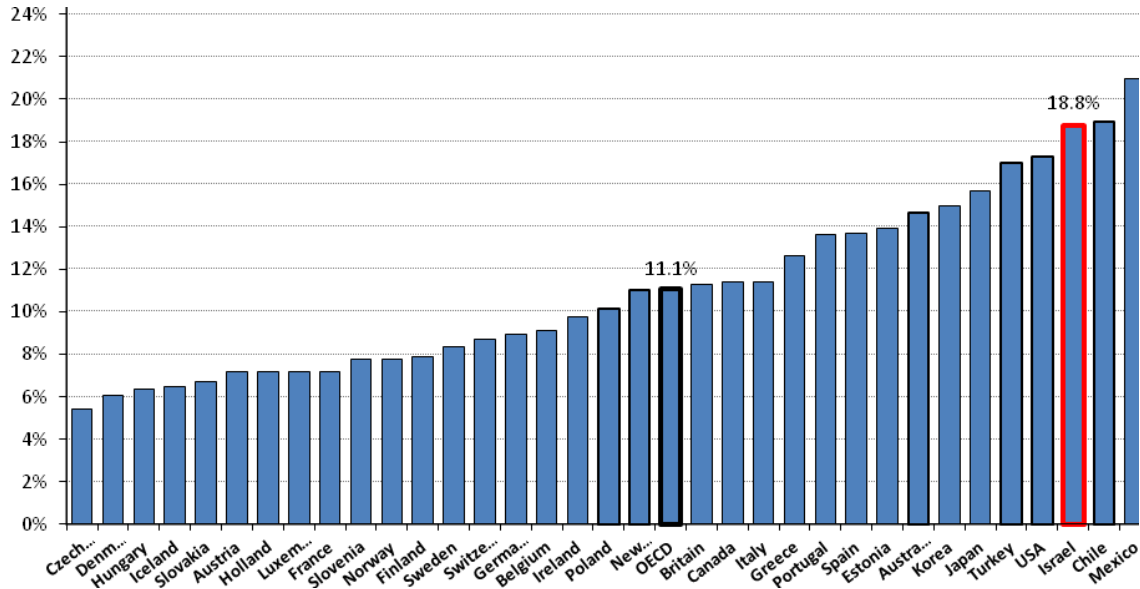
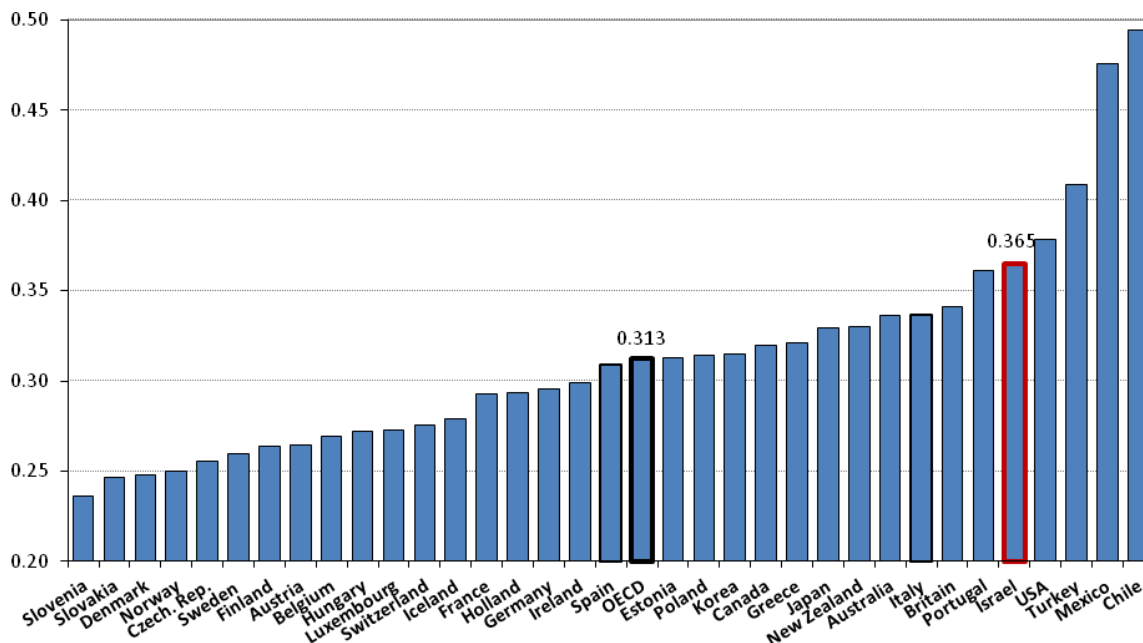


Figure 8b: Gini Index of Inequality in Available Income per Standard Individual, OECD Countries and Israel, end of the 2000s (Israel 2012)



Source: OECD, Society at a glance 2011, and processing by the Research & Planning Administration.

Table 13: Incidence of Poverty of Families, Individuals and Children in Selected Population Groups by the OECD Definition, 2011 and 2012

	2011			2012		
	Families	Individuals	Children	Families	Individuals	Children
Total population	19.0	20.6	28.0	17.4	18.8	25.7
Jews	14.3	13.5	18.1	13.1	12.0	15.7
Arabs	46.5	48.3	55.0	46.0	47.9	57.5
Elderly*	25.3	23.3	-	24.2	23.6	-
Immigrants	19.1	16.0	20.5	16.9	14.0	17.9
Ultra-Orthodox	45.0	46.6	50.1	40.2	42.8	46.8
Families with children						
Total	21.3	24.4	28.0	19.3	22.1	25.7
1-3 children	16.5	16.7	17.7	14.6	14.8	16.2
4 or more children	44.3	45.8	46.6	42.7	43.7	44.0
5 or more children	53.1	53.6	54.2	48.0	48.4	48.5
Single-parent families	27.1	29.3	34.3	26.1	26.4	32.1
Employment status of head of household						
Working	10.8	14.1	20.8	10.7	13.4	19.6
Salaried	10.8	14.3	21.0	10.6	13.2	19.3
Self employed	10.8	13.2	19.4	11.0	15.0	21.4
Working age unemployed	72.0	79.6	87.0	68.1	75.7	84.6
One earner	21.8	32.4	45.3	20.6	30.7	43.0
2 or more earners	2.5	3.5	4.4	2.9	3.5	4.5
Age of head of household						
Up to 30	22.7	25.4	37.4	18.9	18.8	29.6
31-45 years	17.9	22.8	27.8	16.4	20.9	25.6
46 to pension age	13.9	14.3	22.0	12.9	13.8	21.7
Of legal pension age***	26.4	24.5	48.1	25.8	25.8	85.5
Education of head of household						
Up to 8 years of school	46.1	50.1	68.8	44.0	47.9	68.1
9-12 years of study	20.9	24.0	34.4	19.2	21.8	32.5
13+ years of study	12.0	12.6	17.1	11.5	12.1	16.5

* According to the definition used until now: from 60 for a woman and 65 for a man.

** Due to fluctuations, a floating average of 2 years is shown. The definition of ultra-Orthodox is according to Gottlieb-Kushnir (2009)

*** The definition has been adjusted to the age of retirement from work according to the Retirement Age Act. Therefore this population is not fixed until the process of raising the retirement age is complete.

7. The poverty reduction target

The National Economic Council, together with the relevant government ministries, formulated a poverty reduction target that the government adopted, namely that the income of families in the lowest quintile would increase from 2008 to 2010 at an average rate at least 10% higher than the increase in per capita product, all in real terms. If during that period, per capita product increased by 10% (for illustrative purposes only), the target would be achieved in the gross income of families in the lowest quintile increased by at least 11% (that is, per capita product growth rate (10%) plus (10% \times 10%), or an extra 1 percentage point). Meanwhile, in the 2009-2010 budget, this objective was postponed to 2013.

Since then the government has decided to freeze the poverty reduction target and in fact it is already not part of social economic policy and has been put aside in public terms. However, because it is so important to set targets not only for economic subjects such as inflation and deficits, but also for social subjects, in this report we shall continue to trace the achievement of this target.

Table 14 presents a simulation over time of the poverty reduction target against changes in gross family income in the lowest quintile, as required for the official target. For comparative purposes, changes in net income per standard individual in the same quintile are given.

Table 14: Real Changes in the Poverty Reduction Target and in Income of the Lowest Quintile*, 2002-2012

Year	GDP+10%	Real change in income of lowest quintile year on year		
		Gross family income**	Gross income per standard individual	Net income per standard individual
2002	-2.6			
2003	-0.3	-1.8	-2.8	-2.3
2004	3.3	-1.8	-1.5	-1.6
2005	3.4	4.4	2.6	3.1
2006	4.1	5.4	4.1	4.8
2007	4.0	1.8	4.2	4.3
2008	2.4	-1.3	-0.6	-0.3
2009	-0.9	1.2	-2.1	-2.3
2010	3.2	3.9	3.5	3.5
2011	3.0	3.0	2.1	2.0
2012	(1.6	9.2	11.7	12.0)

According to the data shown in the current survey, the poverty reduction target was achieved in 2012, since gross family income in the lowest quintile apparently rose by

about 9%. It is improbable that gross family income increased at such a large rate, because low interest levels do not hint at a significant rise in income from capital, and because there was no rise in benefits in 2012. Although a comparison of the 2012 survey with the 2013 Expenditure Survey shows moderate and therefore more probable increases, they are still too high and it is difficult to explain them. In view of the difficulty of separating the economic-social effects from the break in data due to the change in preparing the survey, it is desirable to treat the calculations this year with extreme caution.

III. Dimensions of Inequality

1. Inequality in 2012 and in recent years

Table 15 presents the Gini indices for inequality of economic income and available income over time. As stated, the values of the index were calculated according to Income Surveys until 2011 and according to the Household Expenditure Survey in 2012. In spite of the material changes in the basis of the data, the Gini indices of inequality of income are not very different from those prevalent in recent years. The index measured by economic income per standard individual was 0.4885 in 2012, and by available income it was 0.3767 – 23% lower – reflecting the contribution of transfer payments and direct taxes to reducing inequality.

The trend towards a reduction in inequality, mainly in economic income (which derives from market forces) in recent years, continued in 2012. In a long-term perspective – since 1999 the index of inequality in available income per standard individual rose by 4.9%, while in the same period inequality according to economic income fell by a cumulative rate of 5.5%.

Table 15: Gini Index of Inequality of Income in the Population, 1999-2012

Year	Before transfer payments and direct taxes	After transfer payments and direct taxes	Percentage decrease due to transfer payments and taxes
2012	0.4885	0.3767	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
1999	0.5167	0.3593	30.5
Change in the index (percentages)			
2012 versus 2011	-1.8	-0.7	
2012 versus 2007	-4.8	-1.7	
2012 versus 2002	-9.1	2.4	
2012 versus 1999	-5.5	4.9	

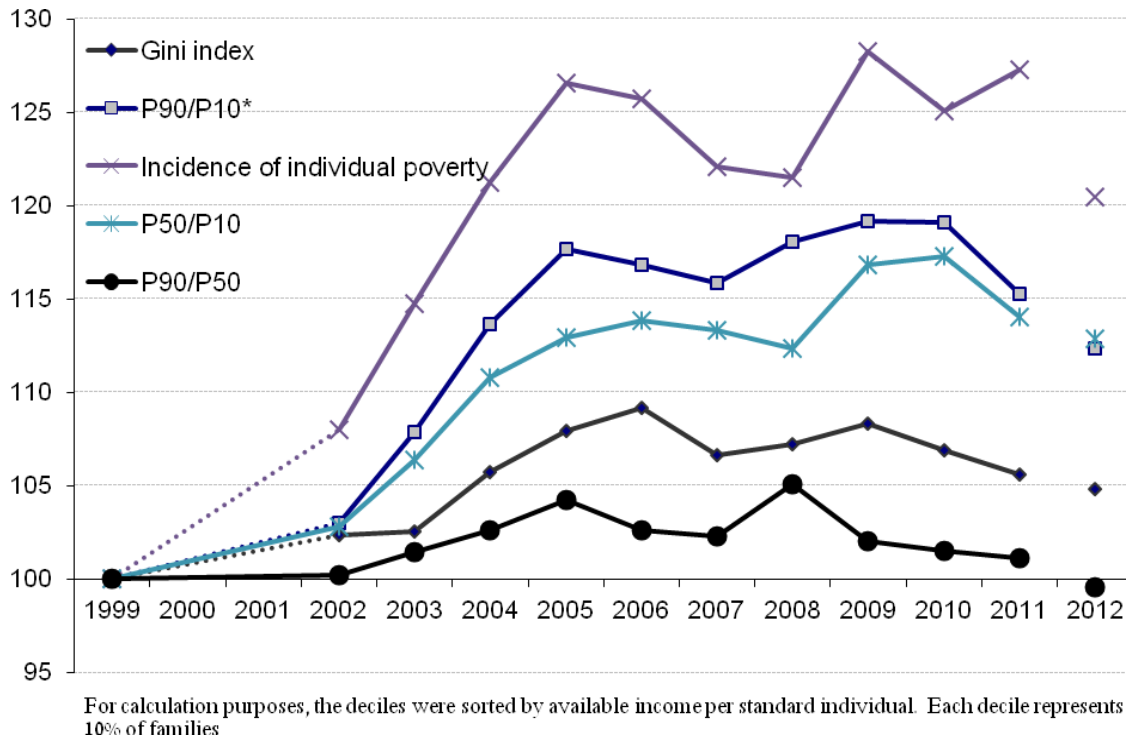
Figure 9 shows a number of indices of inequality – the Gini index and the ratio between income deciles. In all indices there was an improvement in 2012. The indices of inequality in 2012 continue the downward trend that began in 2009. The only case in which the index is lower than in 1999 is the p90/p50 index; the point for 2012 is placed lower than the basic point in 1999, that is, inequality between the ninth decile and the median did not increase and perhaps even shrank over the 13 years in the graph. On the other hand, the gaps between median income and income of the lowest decile increased, as shown in the p50/p10 index over the years, as did the gaps between the ninth decile and the lowest decile, as reflected in the p90/p10 index, which shows the gap between the highest income of the ninth decile and the highest income³⁰ of the lowest decile.

Thus, in the decade and a half shown in the graph, inequality grew, particularly between the highest incomes and the lowest incomes, where the highest incomes represent the ninth decile³¹. The aforesaid reservations regarding drawing conclusions regarding the improvement in the indices are valid for these results as well.

³⁰ It is usual to take the highest incomes in each decile for comparative purposes.

³¹ The findings may have been different if the subject was examined between smaller groups of people with high incomes, for example, in the top hundredth or thousandth, something that was not examined in this survey due to the limited number of observations.

Figure 9: Incidence of Individual Poverty and Selected Inequality Indices, 1999-2012



2. Inequality by quintiles

This part presents selected data on the standard of living of the population by quintiles³² in 2012. Contrary to the case in previous reports, the graph here does not include changes in income in 2012 compared to 2011 (because of the statistical break which makes such a comparison difficult³³), but rather only the change in the long-term view, which should be treated with caution (see below).

The real change in available income per standard individual in the last decade (compared to 2002) is presented in Figure 10, which shows that in all four of the top quintiles this income rose more or less to the same extent as did the average – around 34% – with a slight tendency towards a higher increase in the top quintile (36%). However, the lowest quintile remained behind, with an increase of 25% in amended available income, about 26% less than the average, which strengthens the unequal distribution of the fruits of growth in Israel in the last decade.

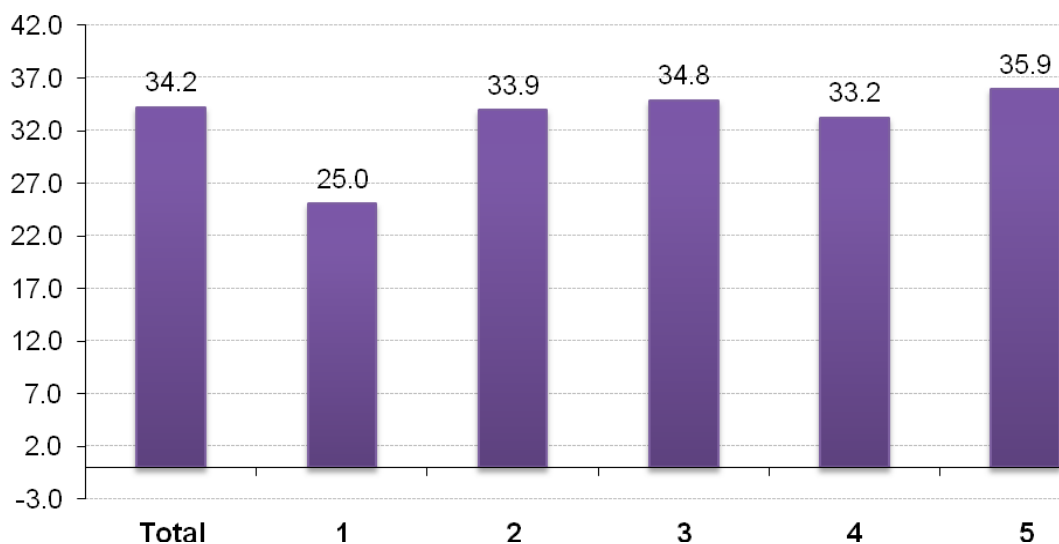
³² The quintiles were sorted by available income per standard individual where each quintile represents 20% of families. This definition matches the definition of quintiles in the Government's poverty reduction target (see above).

³³ See also Table 1 and the explanations of the values presented therein.

It is emphasized that in view of the huge rates of growth in income between 2011 and 2012 (generally ranging from 10% to 15% ,according to different definitions of income), due at least partly to structural changes in the survey, and only partly to social economic events and policy steps taken in 2012, the long-term rates as shown in Figure 10 should also be treated with the proper caution, paying greater attention to differences between quintiles and less to absolute rates.

Table 16 presents incomes in 2012 by source and type; Table 17 presents the breakdown of the income “cake” by various definitions between quintiles; and Table 18 presents the changes in family expenditure and the breakdown of the expenditure “cake” between quintiles.

Figure 10: Real Change in Available Income per Standard Individual in the Decade from 2002 to 2012, by quintiles (percentages)



The findings of Table 16 indicate significant changes in income and in taxes by various definitions. While National Insurance benefits did rise by about 5% according to the administrative figures, and by about 2% according to the survey figures (although there are differences in changes within the various benefits), income data still cannot be compared with administrative data, so it would be too early to ascribe the results shown here to social economic changes only. The relative effect of socio-economic changes on the survey method will become clear only when the administrative data from the survey are obtained, and even then it will not be easy to determine the answer.

In 2012 the income of the top quintile was 7.7 times higher than the income of the lowest quintile in terms of available income per standard individual, and 18.1 times higher if we refer to economic income, derived from market forces (income from work, pension and capital).

Because of changes in the breakdown of pay compared to the 2011 Income Survey (and some of the expenditure therein), there have also been considerable changes in total income tax payments and national insurance contributions, although the data for the whole economy show relatively moderate changes in 2012 compared to 2011³⁴.

Table 17 shows the share of each quintile in the total income by various definitions. The data show that the share of the top quintile of income from work accounts for some 45% of total pay in the economy, compared to 11 times less in the lowest earning quintile – about 4% of total pay. There are even larger gaps in direct taxes, because of the progressive structure of income tax and to a lesser extent also of national and health insurance contributions; the income from direct taxes from the lowest quintile is about 2.6% of the total, compared to 60.7% in the highest quintile, which pays 3 times more taxes and the quintile just below it. Total available income in the economy is divided slightly more equally than is income from work: the lowest quintile has 6.8% of the total, compared to 39.3% in the highest quintile in 2012. Taking the long-term view, these findings match the trends found in Income Survey of earlier years.

Table 18 presents breakdown of expenditure by quintiles. The figures show smaller gaps in expenditure than in income: expenditure per standard individual in the top quintile is 2.5 times higher than that in the lowest quintile (compared to 7.7 times higher when we refer to available income per standard individual). The top quintile consumes about 30% of all consumption of goods and services (about ten percent more than their share of the population), while the lowest quintile consumes about 12% – about 8 percentage less than their share of the population.

An examination of income and expenditure by quintiles using the OECD scale of weightings, that is, where the amended number of people is equal to the square root of the number of people in a household³⁵, produces as expected slightly different results, which are explained by the structure of the weighting scale³⁶. Tables that are equivalent to

³⁴ See the Report of the State Revenues Administration for 2012 on the Ministry of Finance website.

³⁵ On the need to sort the quintiles and also on the need to calculate income per standard individual, see further details in the chapter on international comparisons, below.

³⁶ Although both weighting scales give equal weight to an adult and a child, the “square root of individuals” scale used by the OECD gives more advantages to family size, and therefore any additional income/expenditure required for an additional person is relatively less than required by the Israeli scale. As a

Tables 16 to 18, that make use of the OECD scale instead of the Israeli scale are given in the Tables Appendix.

result, the composition of the quintiles sorted by income per standard individual differs in each scale: the Israeli weighting scale tends to include a higher proportion of large families in the lower quintiles, since they have less advantage of size, and therefore the additional income/ expenditure required to maintain the same standard of living is greater.

Table 16: Source and Type of Income and Fixed Payments by Quintiles*, 2012, and the Real Change compared to 2011

Source/ type of income (and fixed payments)	Income (NIS per month)							Real change compared to 2011, percentage					
	Average	1	2	3	4	5	Income ratio between top & bottom quintile	Average	1	2	3	4	5
From work	12,830	2,660	6,480	10,620	15,940	28,410	10.7	11.2	15.7	24.7	9.5	9.0	10.0
From pensions, capital and provident funds	1,770	110	510	1,110	1,840	5,300	48.2	20.6	26.7	19.8	18.7	12.7	24.0
Total supports & benefits	1,980	2,140	2,280	1,820	1,740	1,920	0.9	5.3	1.6	1.4	2.8	7.3	16.2
NI payments only	1,510	1,790	1,800	1,380	1,280	1,320	0.7	2.0	2.8	-1.6	-5.6	2.1	16.6
Government payments only	210	200	220	180	210	200	1.0	0.5	-7.3	5.7	38.3	27.4	-31.0
Payments from other households & individuals only	250	150	240	240	230	380	2.5	29.0	1.3	21.5	31.0	14.7	64.8
Total fixed payments	2,750	340	750	1,460	2,890	8,290	24.4	18.3	13.9	31.1	19.7	17.1	17.7
Income tax	1,590	40	220	620	1,500	5,580	139.5	23.9	100.0	60.0	31.8	20.7	22.6
National Insurance	560	80	190	360	680	1,500	18.8	13.9	15.1	34.3	15.7	17.1	9.9
Health insurance	590	220	340	480	710	1,210	5.5	9.2	5.7	16.3	9.3	9.8	7.2
Net per family	13,840	4,640	8,520	12,090	16,630	27,330	5.9	10.1	9.1	16.7	8.1	7.9	10.7
Gross per family	16,590	4,970	9,270	13,550	19,520	35,630	7.2	11.4	9.3	17.8	9.3	9.2	12.2
Economic per family	14,530	2,820	6,950	11,660	17,700	33,510	11.9	12.4	15.7	24.4	10.6	9.5	12.1
Net per standard individual	5,460	1,540	3,010	4,530	6,360	11,850	7.7	11.7	11.7	13.2	11.1	9.2	12.9
Gross per standard individual	6,530	1,650	3,250	5,020	7,380	15,340	9.3	13.1	11.7	14.0	12.0	10.5	14.8
Economic per standard individual	5,620	790	2,240	4,190	6,570	14,320	18.1	15.0	18.9	25.5	14.2	11.3	15.2

* The quintiles were sorted according to the available income per standard individual; each quintile covers 20% of families.

Table 17: The Share of each Quintile in the Total of Income and Fixed Payments, 2011-2012

Source/ type of income	2011						2012					
	Total	1	2	3	4	5	Total	1	2	3	4	5
From work	100.0	4.0	9.0	16.8	25.4	44.8	100.0	4.2	10.1	16.6	24.9	44.3
From pensions, capital and provident funds	100.0	1.2	5.8	12.7	22.2	58.2	100.0	1.2	5.7	12.5	20.8	59.8
Total supports & benefits	100.0	22.5	23.9	18.9	17.2	17.5	100.0	21.7	23.0	18.4	17.6	19.4
NI payments only	100.0	23.5	24.7	19.7	16.9	15.2	100.0	23.6	23.8	18.2	17.0	17.4
Government payments only	100.0	21.5	20.7	13.0	16.4	28.4	100.0	19.8	21.8	17.9	20.9	19.5
Payments from other households & individuals only	100.0	15.8	20.8	19.1	20.5	23.9	100.0	12.3	19.6	19.4	18.2	30.5
Total fixed payments	100.0	2.6	4.9	10.5	21.3	60.7	100.0	2.5	5.5	10.6	21.0	60.4
Income tax	100.0	0.3	2.1	7.3	19.4	70.9	100.0	0.4	2.7	7.8	18.9	70.2
National Insurance	100.0	2.9	5.8	12.6	23.3	55.3	100.0	3.0	6.8	12.8	24.0	53.4
Health insurance	100.0	7.8	10.8	16.2	23.7	41.5	100.0	7.5	11.5	16.2	23.9	40.8
Net per family	100.0	6.8	11.6	17.8	24.5	39.3	100.0	6.7	12.3	17.5	24.0	39.5
Gross per family	100.0	6.1	10.6	16.7	24.0	42.7	100.0	6.0	11.2	16.3	23.5	43.0
Economic per family	100.0	3.8	8.7	16.3	25.0	46.3	100.0	3.9	9.6	16.0	24.4	46.1

* The quintiles were sorted according to the available income per standard individual; each quintile covers 20% of families.

Table 18: Expenditure by Quintile, Real Rates of Change, and Breakdown of Expenditure, 2011-2012

	Average	1	2	3	4	5
Monthly expenditure in NIS, 2012						
Expenditure on consumption, per standard individual	5,660	3,160	4,140	5,200	6,470	9,320
Monetary expenditure, per standard individual	4,230	2,290	3,120	3,900	4,830	7,000
Expenditure on family consumption	14,270	8,830	11,390	13,570	16,390	21,190
Monetary family expenditure	10,750	6,590	8,680	10,280	12,280	15,930
Real change compared to 2011						
Expenditure on consumption, per standard individual	1.6	4.6	1.2	1.1	2.0	0.7
Monetary expenditure, per standard individual	1.4	4.5	2.0	1.4	1.4	0.2
Expenditure on family consumption	2.2	3.0	6.0	-0.7	1.7	2.1
Monetary family expenditure	2.0	2.8	5.7	-0.3	1.0	2.0
Expenditure as percentage of total expenditure - 2010						
Expenditure on family consumption	100.0	12.3	15.4	19.6	23.1	29.7
Monetary family expenditure	100.0	12.2	15.6	19.6	23.1	29.6
Expenditure as percentage of total expenditure - 2011						
Expenditure on family consumption	100.0	12.4	16.0	19.0	23.0	29.7
Monetary family expenditure	100.0	12.3	16.1	19.1	22.8	29.6

* Source: Processing by the Research & Planning Administration of surveys of household expenditure by the CBS for the years indicated in the table.

** The quintiles were sorted according to the available income per standard individual; each quintile covers 20% of families.

IV. Causes of Poverty and Inequality

2012 was characterized by a slowdown in the rate of growth of GDP compared to 2011. The economy grew by about 3% and the circle of employment widened by 3.4%. Real pay rose by about one percent, mostly in the branches of services (education and health), real estate and agriculture. The level of unemployment stabilized at the low level of 2011 (by historical comparison), 6.9%³⁷, and was stable for various parts of the year. Prices rose by 1.6% over 2012.

According to administrative data, national insurance benefits rose between these two years by about 5% in real terms. Increases of 3% to 6% are shared by most of the benefits paid by the NII, excluding income support which fell by about 1%, and unemployment benefits which increased by about 11% (although there were no changes in the rate of unemployment or in legislation that could explain this increase).

Unlike in previous years, the trends in changes that emerge from the survey on benefits are higher than the macro-economic developments of 2012. Regarding pay, it is possible that part of the explanation lies in the change in composition of the employed³⁸. Therefore it is reasonable to assume that at least some of the changes reflect structural changes and changes in definitions incorporated into the 2012 Expenditure Survey compared to the equivalent surveys (the combined Income Survey and Expenditure Survey) in 2011. For example, pay, income tax, available and economic income all increased by high rates (7%-15%) which it is difficult to believe are in line with developments on the ground in the reported year³⁹. The total increase of national insurance benefits by 5% in real terms also seems too high.

The following tables give a more detailed analysis of trends in the labor market divided between poor and non-poor workers. Table 19 shows the breakdown of pay in the salaried population, by poor and non-poor employees in 2012. The findings illustrate the considerable gaps in pay between poor workers compared to salaried workers as a whole: about 75% of workers in the economy are employed in a full-time position, and about 12% of them are paid less than the minimum wage. By contrast, about 58% of poor

³⁷ Changes introduced in the CBS survey of manpower with the change to a monthly rather than quarterly survey (which also affected the decision to cancel the combined Income Survey, on which poverty reports had been based from 1997 to 2011), led to a finding that the rate of participation in the labor market was higher than had been supposed and was no less than the average for OECD countries.

³⁸ Some of the improvement in pay may be due to the increasing seniority at work of the poor who joined the labor force in recent years.

³⁹ As stated above, the equivalent rates of increase when comparing the expenditure survey of 2011 with 2012 are lower (although also fairly high).

workers are employed full time, but here the proportion of those paid less than the minimum wage is 38%. At the same time, the proportion of salaried full-time employees paid more than the average wage is about 43%, but among full-time employees in poor families only 2.7% earn more than the average.

Figures 6a to 6e may indicate a new phenomenon in 2012: it appears there has been a considerable improvement in the effect of employment on the incidence of poverty (without forgetting the fact of the considerable change in the method of preparing the survey on which the poverty report is based). A possible explanation for this is the process of joining employment which began in 2001 and is ongoing for the population with few job skills. As time passes, people are acquiring skills through on-the-job training, and this will gradually be expressed by increased pay in return for improved productivity. It is certainly possible that this process, which has continued for more than a decade, is starting to bear fruit. We are not claiming that this is the explanation for the improvement in the dimensions of poverty that accompanied the increase in the rate of employment (as described in Figures 6a to 6d), but we can say that the development described in the graphs is consistent with such a claim⁴⁰.

⁴⁰ It should be noted that Figure 6e regarding the Arab population does not match this description. Their rate of employment appears to be shrinking fairly sharply. It is necessary to look more deeply at this point in order to understand whether this is related to the change in the survey method (for example, the non-inclusion of the Bedouin) or whether it is a significant economic phenomenon. At this stage there is no clear answer on this matter.

Figure 11a: Employment and Poverty – Total Population

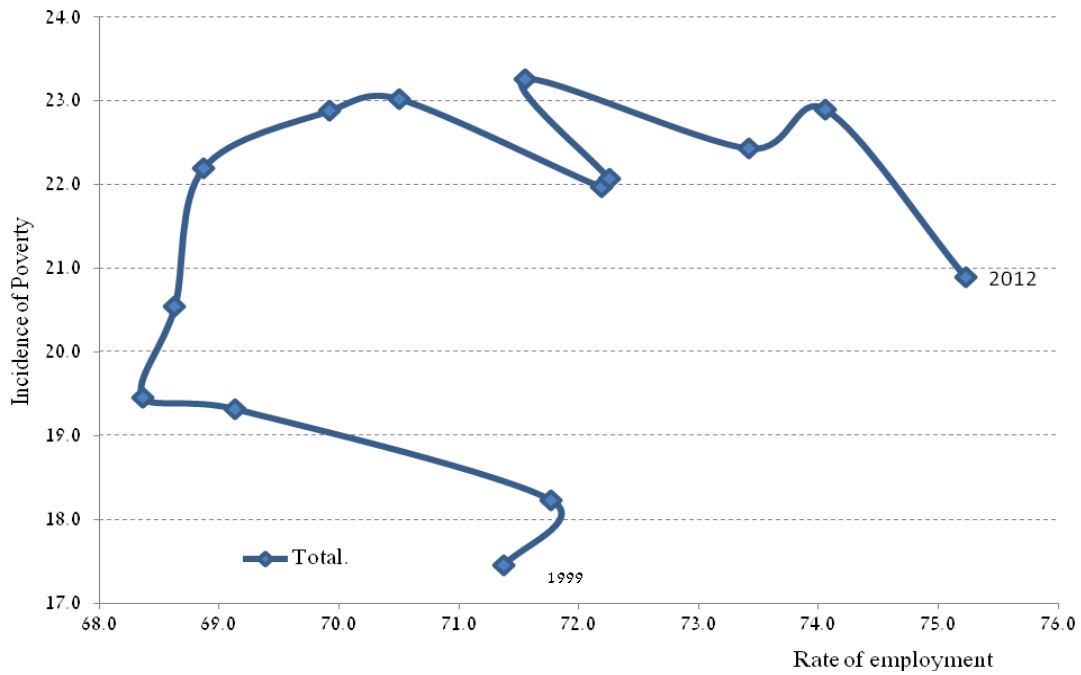


Figure 11b: Employment and Poverty – Non-Orthodox Jews

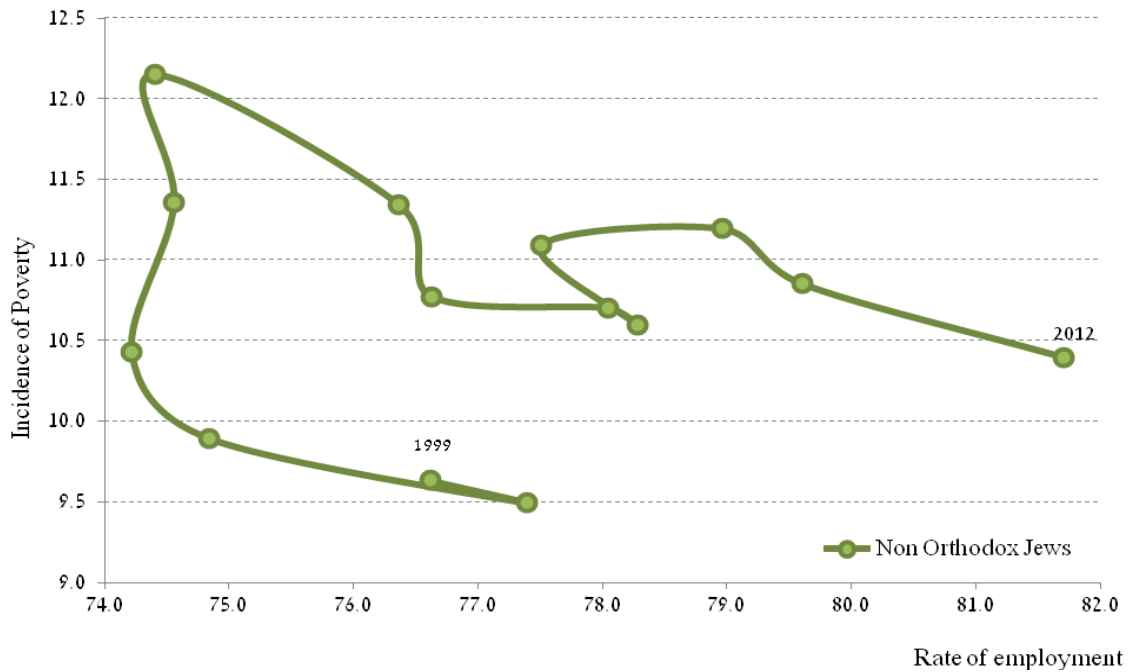


Figure 11c: Employment and Severity of Poverty – Non-Orthodox Jews

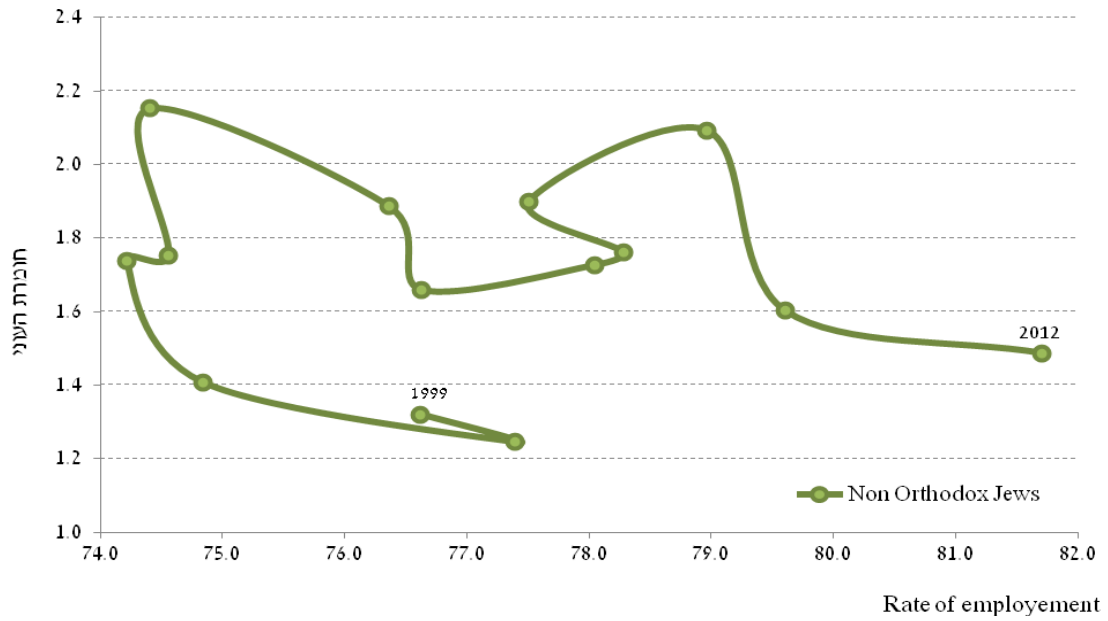


Figure 11d: Employment and Severity of Poverty – Ultra-Orthodox Jews

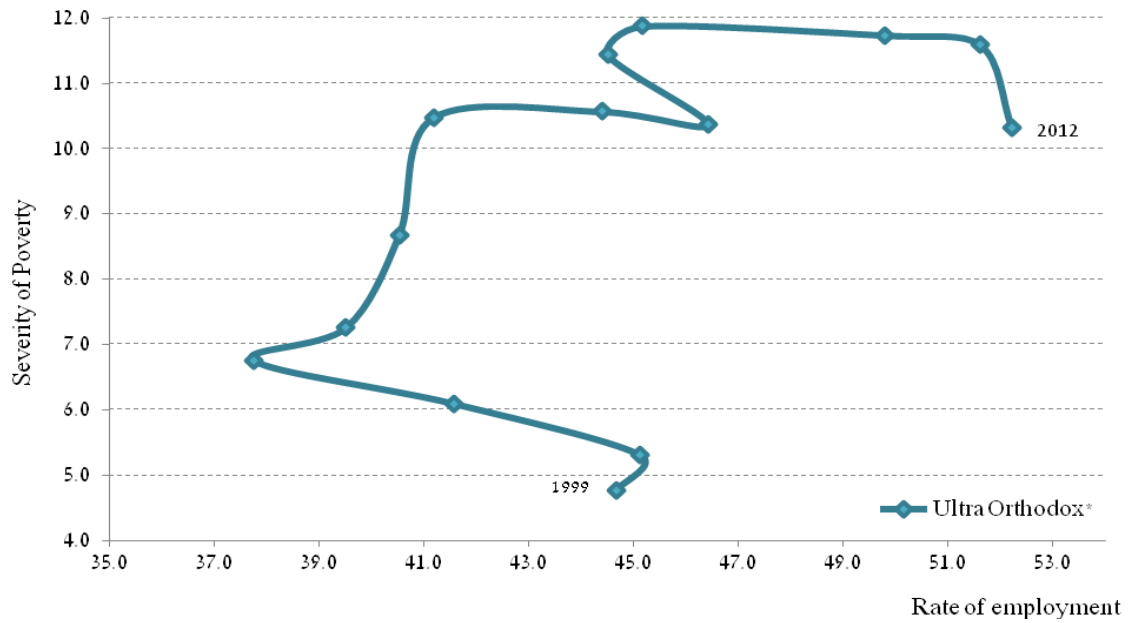


Figure 11e: Employment and Severity of Poverty – Arabs

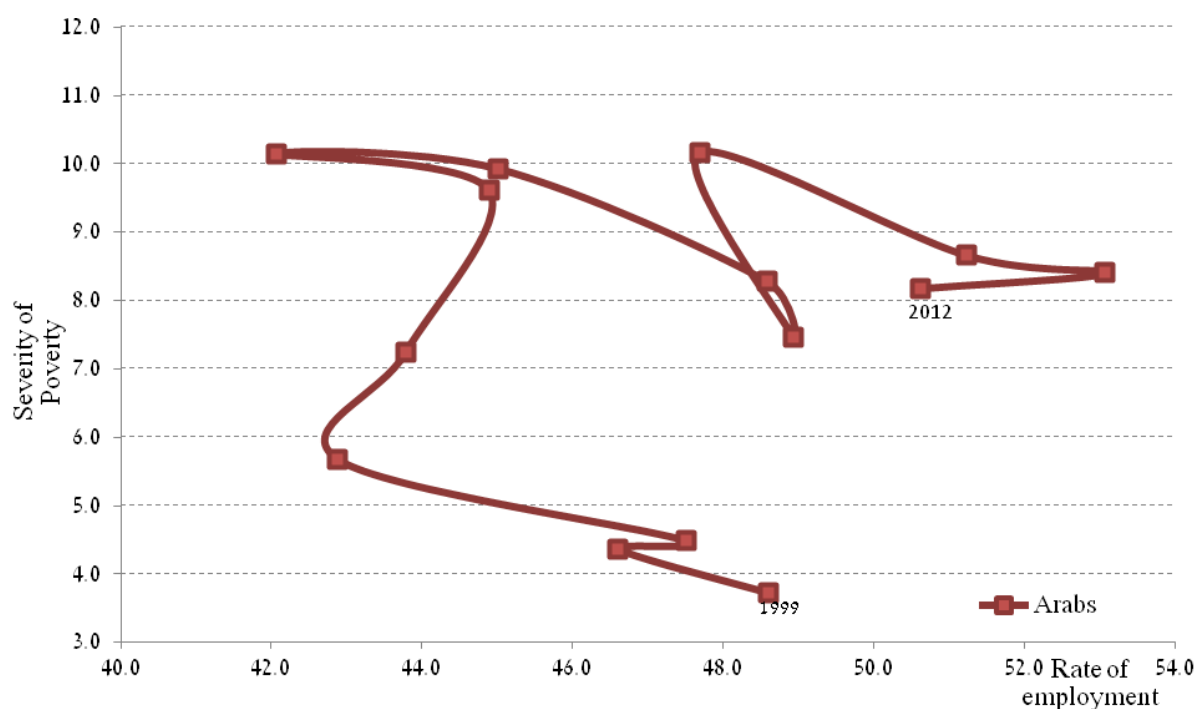


Table 19: Breakdown of Pay of Poor Salaried Employees by Pay Level, 2012**

	Total (thousands)	%	Up to half min. wage	From half to min. wage	Minimum to avg. wage	Above average wage
Total salaried	2,750	100.0	9.5	15.2	40.6	34.7
Full time salaried*	2,049	100.0	3.0	9.3	45.3	42.5
In the economically poor population						
Total salaried	387	100.0	30.4	30.8	37.2	1.6
Full time salaried	206	100.0	12.9	27.5	57.5	2.1
In the net poor population						
Total salaried	266	100.0	29.4	28.1	40.6	1.9
Full time salaried	154	100.0	14.2	23.4	59.7	2.7

* Working 35 hours a more a week.

** Minimum pay and average pay have been adjusted to the period of the 2011 incomes survey.

The data in Table 20, which presents the percentage of salaried employees in 2011 and 2012 by employment branch, show that in spite of large differences between surveys, the breakdown of workers by branch has not significantly changed. In some branches, such as construction and education, the rate of poor employees is higher than the rate of those who are not poor, while in other branches, characterized by relatively high salaries such as banking, finance and public service, the rate of non-poor employees is higher than that of poor ones.

Table 21 presents the pay of employees by branch compared to the average pay for the survey period, and the change in real pay between 2011 and 2012 by branch. Tables 22 and 23 show employment and pay figures for branches of employment, by occupation.

As stated, the large increase in pay, at a real rate of 7.5% in the current survey, does not match the trends emerging from national data, according to which real pay rose by one percent, and which are attributed to structural changes in the 2011 and 2012 surveys. The rates of change are presented as they are throughout the report, but they are primarily intended illustrate the difficulty of comparing the surveys, and not the reverse.

Table 20: Breakdown of Employees and Rates of Growth in Total Employment, by Branch (percentages), 2011-2012

Economic branch	Rate of people employed in each branch						Rate of growth in numbers employed from 2011 to 2012		
	2011			2012			Total	Poor	Non poor
	Total	Poor	Non poor	Total	Poor	Non poor			
Total	100.0	100.0	100.0	100.0	100.0	100.0	3.7	7.3	3.3
Agriculture	1.0	2.6	0.9	1.3	1.7	1.3	31.5	--	51.8
Industry (mining and factory)	15.0	11.9	15.4	15.1	10.5	15.6	4.0	-4.5	4.7
Electricity and water	0.7	0.3	0.8	0.8	0.3	0.9	19.1	--	20.5
Building and construction	4.7	13.9	3.7	5.0	12.7	4.2	11.8	-1.8	17.3
Retail and wholesale commerce	12.6	12.7	12.6	12.3	12.9	12.2	1.0	8.5	0.2
Hospitality and food services	4.6	6.5	4.4	4.5	5.6	4.4	1.9	-7.0	3.3
Transport, storage and communications	6.7	6.0	6.8	7.0	6.9	7.0	8.0	23.1	6.6
Business services, banking and insurance	17.8	8.6	18.8	18.0	8.6	19.0	4.7	7.9	4.5
Public administration	5.3	1.5	5.7	4.4	1.5	4.7	-14.7	--	-15.1
Education	14.3	20.2	13.7	14.2	20.4	13.6	3.0	8.6	2.1
Health services, welfare and nursing	11.2	9.0	11.4	10.9	9.4	11.0	0.7	12.3	-0.2
Community, social and other services	5.9	6.7	5.9	6.5	9.4	6.1	12.9	50.9	8.3

* The average wage is calculated according to Income Survey data and includes an "Unknown branch" which was omitted from the list; cases of few observations are marked --.

Table 21: Pay as a Percentage of the Average Wage and Changes Therein by Employment Branch (percentages), 2011-2012

Economic branch	Pay as a percentage of the average pay of employees*			Real rate of change in employees' pay, 2011 to 2012		
	Total	Poor	Non poor	Total	Poor	Non poor
Total	100.0	41.7	106.3	7.5	5.0	7.8
Agriculture	83.3	--	88.1	20.6	--	11.5
Industry (mining and factory)	121.2	46.2	126.8	11.6	-7.1	11.8
Electricity and water	206.7	--	211.2	30.0	--	28.7
Building and construction	85.5	51.8	96.8	5.0	2.0	3.3
Retail and wholesale commerce	81.4	44.8	85.7	2.3	6.5	2.5
Hospitality and food services	56.4	33.5	59.7	5.9	-1.5	6.0
Transport, storage and communications	99.2	51.4	104.4	7.0	11.0	7.5
Business services, banking and insurance	127.7	43.4	132.0	4.5	28.9	4.3
Public administration	136.6	--	139.6	10.8	--	11.4
Education	84.9	40.7	92.2	6.0	6.9	6.5
Health services, welfare and nursing	91.8	29.6	97.7	13.3	9.6	14.2
Community, social and other services	63.6	31.8	69.0	-5.9	-3.6	-3.9

* The average wage is calculated according to Income Survey data and includes an "Unknown branch" which was omitted from the list; cases of few observations are marked --.

Table 22: Breakdown of Employees and Rates of Growth in Total Employment by Occupation (percentages), 2011-2012

Occupation	Rate of Employees in the Occupation					
	2011			2012		
	Total	Poor	Non poor	Total	Poor	Non poor
Total	100.0	100.0	100.0	100.0	100.0	100.0
Academic professions and managers	20.8	6.3	22.3	22.1	5.2	24.0
Professions and Technical	15.3	12.5	15.6	15.4	16.6	15.2
Clerical workers	18.0	11.4	18.7	16.5	12.0	17.0
Sales and service staff	19.2	21.5	19.0	19.0	20.6	18.8
Skilled workers	15.5	29.1	14.1	15.7	24.4	14.7
Unskilled workers	8.0	18.2	7.0	8.2	18.6	7.1

* The total includes "Don't know".

Table 23: Rates of Pay and Changes Therein by Occupation (percentages), 2011-2012

Occupation	Pay as % of average wage*			Real rate of change in pay from 2011 to 2012		
	Total	Poor	Non-poor	Total	Poor	Non-poor
Total	100.0	41.7	106.3	7.5	5.0	7.8
Academic professions and managers	173.5	58.0	176.2	7.8	29.2	7.2
Professions and Technical	102.0	38.8	109.4	4.3	-1.6	6.6
Clerical workers	82.5	41.5	85.6	8.5	17.0	8.9
Sales and service staff	59.7	30.6	63.1	1.0	0.0	1.1
Skilled workers	85.0	54.4	90.5	9.4	8.1	8.1
Unskilled workers	51.5	36.1	55.8	9.3	3.6	10.7

* The total includes "Don't know".

Appendices

Appendix 1a: Incidence of Poverty 1998-2012, including East Jerusalem*

	Incidence of poverty (percentages)		
Year	Families	Individuals	Children
1998	17.4	17.5	21.8
1999	18.0	19.5	26.0
2002	18.1	21.0	29.6
2003	19.3	22.4	30.8
2004	20.3	23.6	33.2
2005	20.6	24.7	35.2
2006	20.0	24.5	35.8
2007	19.9	23.8	34.2
2008	19.9	23.7	34.0
2009	20.5	25.0	36.3
2010	19.8	24.4	35.3
2011	19.9	24.8	35.6
2012	19.4	23.5	33.7

Appendix 1b: Incidence of Poverty 1999-2012, excluding East Jerusalem*

	Incidence of poverty (percentages)		
Year	Families	Individuals	Children
1999	17.8	18.8	24.9
2000	17.5	18.8	25.2
2001	17.7	19.6	26.9
2002	17.7	20.0	28.0
2003	19.2	21.5	29.4
2004	20.3	23.2	32.5
2005	20.3	23.7	33.8
2006	20.2	23.9	34.6
2007	19.5	22.8	33.2
2008	19.6	22.7	32.5
2009	20.0	23.8	34.4
2010	19.3	23.1	33.6
2011	19.3	23.2	33.4
2012	18.6	21.8	31.3

* In the years 2000/2001 the Central Bureau of Statistics had trouble surveying Arab households in East Jerusalem. In order to obtain a continuous estimate of the development of social indices, it is therefore accepted to calculate social indices also without the Arabs of Jerusalem.

Appendix 2: Number of Poor Families, Individuals and Children after Transfer Payments and Taxes, 2011-2012

Note: The numbers are given to provide an idea of the size of the population and are not an indicator of changes in the dimensions of poverty, since they reflect a combination of changes in poverty and changes in relative and absolute population size. There could also be a situation when the incidence of poverty of a particular group declines and the number of poor families grows from year to year (Arabs and the elderly, as of the report year) and vice versa.

	2011			2012		
	Families	Individuals	Children	Families	Individuals	Children
Total population	442,200	1,838,600	860,900	439,500	1,754,700	817,200
Jews	270,200	956,500	426,900	278,800	941,500	423,200
Arabs	171,900	882,100	434,000	160,800	813,100	394,000
Elderly*	89,600	156,000	8,200	104,800	186,700	13,500
Immigrants	70,100	207,900	77,600	79,800	225,700	85,600
Ultra-Orthodox	55,200	342,700	215,100	51,700	336,200	217,800
Families with children						
Total	269,200	1,524,000	860,900	253,000	1,426,100	817,200
1-3 children	169,700	769,500	346,200	157,400	705,700	326,900
4 or more children	99,500	754,500	514,700	95,600	720,400	490,300
5 or more children	54,900	472,500	336,000	53,900	455,100	323,600
Single-parent families	37,700	157,200	89,800	39,500	159,900	92,000
Employment status of head of household						
Working	233,800	1,214,300	619,900	246,300	1,219,400	616,000
Salaried	203,000	1,060,400	538,800	215,300	1,053,700	528,300
Self employed	30,700	154,000	81,000	30,700	163,800	86,900
Working age unemployed	124,100	481,700	233,600	94,800	363,300	188,500
One earner	189,200	948,500	501,200	195,500	930,000	482,600
2 or more earners	44,600	265,800	118,700	50,700	289,500	133,400
Age of head of household						
Up to 30	91,500	381,100	157,400	88,400	326,500	131,700
31-45 years	165,700	910,900	556,400	157,600	871,600	539,500
46 to pension age	104,400	413,100	141,400	97,400	391,400	134,200
Of legal pension age***	80,600	133,600	5,700	96,000	165,200	11,900
Education of head of household						
Up to 8 years school	104,500	369,800	146,700	93,900	299,200	98,800
9-12 years study	197,600	885,700	424,400	192,000	853,000	413,200
13+ years of study	140,100	583,100	289,800	153,700	602,400	305,200

* According to the definition in use until now: 60 for a woman and 65 for a man.

** Due to fluctuations, a floating average of 2 years is shown. The definition of ultra-Orthodox is according to Gottlieb-Kushnir (2009)

*** The definition has been adjusted to the age of retirement from work according to the Retirement Age Act. Therefore this population is not fixed until the process of raising the retirement age is complete.

**Appendix 3: Incidence of poverty Among Individuals by Population Group,
(percentages), 2011 and 2012**

	Income before transfer payments & taxes		Income after transfer payments & taxes		Drop in poverty after transfer payments & taxes (percentages)	
	2011	2012	2011	2012	2011	2012
Total population	33.7	31.4	24.8	23.5	26.4	25.2
Jews	26.1	24.4	16.2	15.5	37.8	36.5
Arabs	63.2	61.5	58.0	57.9	8.2	5.8
Elderly*	50.5	48.9	19.8	23.3	60.8	52.3
Immigrants	34.6	30.6	17.3	17.3	50.1	43.4
Ultra-Orthodox	70.0	72.0	58.8	58.9	16.1	18.2
Families with children						
Total	37.2	34.3	31.2	29.1	16.2	15.4
1-3 children	26.9	24.9	21.4	19.2	20.7	23.0
4 or more children	66.0	62.5	58.6	58.4	11.1	6.5
5 or more children	76.5	71.3	68.2	67.3	10.8	5.6
Single-parent families	51.7	46.2	34.9	31.0	32.5	32.8
Employment status of head of household						
Working	25.3	24.3	19.3	18.8	23.5	22.7
Salaried	26.0	24.6	19.5	18.6	25.2	24.4
Self employed	20.2	22.0	18.5	19.7	8.7	10.6
Working age unemployed	94.7	92.9	81.5	77.5	13.9	16.6
One earner	52.7	50.6	40.9	39.0	22.3	22.8
2 or more earners	9.2	9.1	6.7	7.0	27.5	22.5
Age of head of household						
Up to 30	42.8	35.5	31.6	25.2	26.1	29.0
31-45 years	34.5	32.0	28.7	27.1	16.9	15.3
46 to pension age	22.0	21.9	17.4	17.0	21.0	22.3
Of legal pension age***	55.5	53.2	20.3	24.9	63.4	53.1
Education of head of household						
Up to 8 years school	70.9	70.1	54.5	53.5	23.2	23.7
9-12 years study	38.3	35.7	29.7	27.8	22.6	22.1
13+ years of study	23.3	22.3	15.6	15.6	33.3	29.9

* According to the definition in use until now: 60 for a woman and 65 for a man.

** Due to fluctuations, a floating average of 2 years is shown. The definition of ultra-Orthodox is according to Gottlieb-Kushnir (2009)

*** The definition has been adjusted to the age of retirement from work according to the Retirement Age Act. Therefore this population is not fixed until the process of raising the retirement age is complete.

**Appendix 4: Income Gap Ratio among Families by Type of Family, 2011-2012
(percentages)**

	Income before transfer payments & taxes		Income after transfer payments & taxes		Drop in poverty after transfer payments & taxes (percentages)	
	2011	2012	2011	2012	2011	2012
Total population	58.2	56.2	24.7	24.4	42.2	40.6
Jews	61.0	56.2	20.8	23.8	50.2	51.5
Arabs	55.4	56.5	27.8	23.6	22.2	21.7
Elderly*	73.5	78.1	26.8	28.0	70.4	63.8
Immigrants	65.2	60.0	28.4	25.0	58.5	53.8
Ultra-Orthodox	62.0	53.8	28.4	25.8	44.0	46.0
Families with children						
Total	52.8	52.1	25.8	25.4	27.6	25.4
1-3 children	51.2	47.2	22.5	20.4	27.6	27.5
4 or more children	57.7	57.6	28.2	23.4	27.6	22.7
5 or more children	53.5	53.0	28.8	41.6	28.8	22.2
Single-parent families	62.6	60.4	26.2	26.1	51.1	51.4
Employment status of head of household						
Working	23.6	41.0	28.7	23.2	22.5	20.0
Salaried	23.8	41.1	28.2	28.7	24.2	22.3
Self employed	27.7	41.7	20.1	22.0	08.2	07.7
Working age unemployed	35.6	34.2	52.0	54.2	46.2	42.5
One earner	42.5	42.5	21.3	20.4	22.2	20.8
2 or more earners	26.4	23.0	21.8	22.2	27.8	27.3
Age of head of household						
Up to 30	54.6	51.6	25.6	22.1	40.1	40.2
31-45 years	52.6	50.4	25.0	25.0	27.4	24.4
46 to pension age	58.7	55.3	26.0	26.3	41.8	26.7
Of legal pension age***	81.2	78.4	24.7	27.2	74.5	70.1
Education of head of household						
Up to 8 years school	70.2	72.0	23.3	27.1	46.4	50.1
9-12 years study	52.8	50.1	22.5	24.2	41.5	25.3
13+ years of study	57.0	55.3	22.2	22.2	44.5	42.1

* According to the definition in use until now: 60 for a woman and 65 for a man.

** Due to fluctuations, a floating average of 2 years is shown. The definition of ultra-Orthodox is according to Gottlieb-Kushnir (2009)

*** The definition has been adjusted to the age of retirement from work according to the Retirement Age Act. Therefore this population is not fixed until the process of raising the retirement age is complete.

Appendix 5: Effect of Transfer Payments⁴¹ and Direct Taxes on Inequality in the Distribution of Income in the Whole Population, 2011-2012

Decile*	Share of each decile in total income (%)**					
	Before transfer payments & taxes		After transfer payments		After transfer payments & taxes	
	2011	2012	2011	2012	2011	2012
Lowest	0.0	0.1	1.7	1.8	1.9	2.0
2	1.6	1.9	3.1	3.2	3.4	3.6
3	3.1	3.4	4.2	4.3	4.6	4.8
4	4.7	4.9	5.5	5.5	6.1	6.1
5	6.4	6.5	6.9	6.9	7.5	7.6
6	8.5	8.4	8.6	8.5	9.2	9.1
7	10.8	10.5	10.5	10.3	11.0	10.8
8	13.7	13.3	13.0	12.7	13.3	13.0
9	18.2	17.8	16.8	16.6	16.5	16.2
Highest	33.0	33.3	29.8	30.2	26.5	26.8
Ratio between income of highest quintile and income of lowest quintile	33.0	25.5	9.6	9.5	8.0	7.8

* Families in each column were graded according to the appropriate income per standard individual; each decile covers 10% of individuals in the population.

** In terms of income per standard individual.

⁴¹ This analysis is incomplete because some transfer payments are not reported and therefore not included here. For example, there is no reporting of tax benefits, particularly in the area of savings. Also, there is a lack of information about grants to the business sector under the Law for Encouraging Capital Investments. If the missing information was accessible in the income or expenditure surveys, it would apparently change the share of the upper deciles in the national income.

Appendix 6: Financial Data by Quintiles According to the OECD Weightings Scale

i. Income by source and type, 2012 and the real change compared to 2011

Source/type of income	Income (NIS per month)						Change compared to 2011, percentages					
	Average	1	2	3	4	5	Average	1	2	3	4	5
Work	12830	1960	5510	9500	15170	29420	11.2	26.5	23.1	10.2	10.3	8.8
Pensions, provident funds, capital	1770	100	540	1100	1780	4900	20.6	26.0	19.6	15.4	9.9	25.2
Benefits and supports	1980	2170	2240	1880	1740	1910	5.3	1.1	1.2	2.5	4.2	20.0
Fixed payments	2750	290	600	1200	2570	8340	18.3	15.0	27.9	17.6	20.2	16.6
Net per family	13840	4010	7700	11280	16130	27890	10.1	11.9	15.3	8.6	8.1	9.8
Gross per family	16590	4280	8300	12480	18700	36230	11.4	12.0	16.1	9.4	9.7	11.3
Economic per family	14530	2110	6000	10530	16880	34160	12.4	24.9	23.0	11.1	10.4	11.0
Net per standard individual	8110	2250	4350	6520	9250	16830	11.2	11.9	13.9	10.0	8.8	11.7
Gross per standard individual	9700	2410	4670	7180	10660	21820	12.6	11.8	14.5	10.7	10.2	13.4
Economic per standard individual	8400	1030	3210	5950	9520	20490	14.1	29.4	23.3	12.9	11.0	13.4

* The quintiles were sorted according to the available income per standard individual; each quintile covers 20% of families.

ii. Expenditure by quintile, breakdown of expenditure and real rates of change, 2011-2012

	Average	1	2	3	4	5
Monthly expenditure in NIS, 2012						
Consumption expenditure per standard individual	8,231	4,701	6,251	7,771	3,701	02,231
Monetary expenditure per standard individual	6,281	2,421	4,751	5,841	7,201	01,171
Consumption expenditure per family	04,271	8,011	00,021	02,201	06,671	22,051
Monetary expenditure per family	01,751	6,121	8,401	01,131	02,551	06,681
Real change compared to 2011						
Consumption expenditure per standard individual	1.3	1.3	3.2	0.4	2.8	-0.2
Monetary expenditure per standard individual	1.1	1.7	2.7	0.6	2.3	-0.4
Consumption expenditure per family	2.2	3.0	5.1	0.1	2.9	1.3
Monetary expenditure per family	2.0	2.9	4.2	0.5	2.3	1.2
Percentage of total expenditure - 2011						
Consumption expenditure per family	011.1	00.2	05.2	03.1	22.2	20.2
Monetary expenditure per family	011.1	00.0	05.2	03.1	22.2	20.2
Percentage of total expenditure - 2012						
Consumption expenditure per family	011.1	00.4	05.6	08.6	22.4	20.0
Monetary expenditure per family	011.1	00.2	05.7	08.8	22.2	20.1

* Source: Surveys of household expenditure by the CBS, 2010 and 2011

** The quintiles were sorted according to the available income per standard individual; each quintile covers 20% of families.

Appendix 7: Incidence of Poverty When Defining Poverty Line as 40% of Median Income according to OECD Definition, 2011 and 2012

	2011			2012		
	Families	Individuals	Children	Families	Individuals	Children
Total population	11.2	12.8	18.0	11.4	12.2	17.1
Jews	7.9	8.0	11.4	8.1	7.0	9.3
Arabs	30.3	31.6	36.0	33.4	34.9	41.8
Elderly*	11.5	11.7	44.9	15.6	15.0	58.9
Immigrants	7.8	7.7	12.3	8.9	7.4	10.3
Ultra-Orthodox	31.4	32.4	34.5	26.9	28.9	31.7
Families with children						
Total	13.5	15.6	18.0	12.2	14.5	17.1
1-3 children	9.9	10.0	10.4	8.5	8.6	9.2
4 or more children	30.4	31.2	31.8	31.0	31.9	32.0
5 or more children	35.1	35.5	36.0	36.7	37.0	36.7
Single-parent families	18.6	20.7	25.0	16.5	17.2	21.4
Employment status of head of household						
Working	5.7	7.5	11.1	6.0	7.6	11.1
Salaried	5.6	7.5	11.1	5.8	7.2	10.5
Self employed	6.1	7.4	10.8	7.5	10.6	14.9
Working age unemployed	57.9	66.8	74.3	56.0	65.0	74.9
One earner	12.0	18.4	25.6	12.0	17.9	25.0
2 or more earners	0.9	1.2	1.4	1.3	1.6	2.1
Age of head of household						
Up to 30	14.8	16.3	24.0	13.8	12.7	19.8
31-45 years	10.9	13.9	17.4	9.9	13.2	16.6
46 to pension age	9.4	9.9	15.6	8.7	9.4	15.2
Of legal pension age***	11.5	11.5	42.7	16.7	16.2	69.7
Education of head of household						
Up to 8 years school	30.0	36.9	54.2	31.4	35.1	53.8
9-12 years study	12.2	14.4	21.3	12.3	14.2	21.8
13+ years of study	6.5	7.2	10.2	7.3	7.3	9.9

* According to the definition in use until now: 60 for a woman and 65 for a man.

** Due to fluctuations, a floating average of 2 years is shown. The definition of ultra-Orthodox is according to Gottlieb-Kushnir (2009)

*** The definition has been adjusted to the age of retirement from work according to the Retirement Age Act. Therefore this population is not fixed until the process of raising the retirement age is complete.

Appendix 8: Incidence of Poverty When Defining Poverty Line as 60% of Median Income according to OECD Definition, 2011 and 2012

	2011			2012		
	Families	Individuals	Children	Families	Individuals	Children
Total population	25.7	27.6	36.4	24.4	26.1	34.6
Jews	20.2	19.2	24.9	19.3	18.3	23.7
Arabs	58.7	60.3	67.5	58.0	60.0	68.9
Elderly*	35.2	32.0	50.8	34.4	33.0	73.6
Immigrants	28.4	23.8	28.0	26.8	23.0	28.8
Ultra-Orthodox	56.6	59.1	63.5	53.7	57.6	63.1
Families with children						
Total	28.7	32.2	36.4	26.8	30.1	34.6
1-3 children	23.0	23.3	24.5	21.2	21.4	23.0
4 or more children	55.5	57.0	57.7	54.7	56.1	56.8
5 or more children	65.1	65.6	65.8	64.1	64.3	64.7
Single-parent families	36.6	39.3	45.1	35.9	35.1	41.5
Employment status of head of household						
Working	16.5	20.9	29.6	16.6	20.4	28.8
Salaried	16.6	21.1	29.8	16.8	20.5	28.9
Self employed	15.8	19.6	28.3	15.3	19.9	27.8
Working age unemployed	79.0	85.6	92.1	77.5	83.1	90.2
One earner	31.3	44.9	60.7	30.1	42.7	57.9
2 or more earners	5.3	6.9	8.8	5.9	7.5	10.1
Age of head of household						
Up to 30	30.1	34.4	49.5	26.5	27.8	43.2
31-45 years	24.2	30.0	35.9	22.8	28.5	34.4
46 to pension age	18.5	19.2	29.1	18.2	19.1	28.0
Of legal pension age***	36.9	34.1	50.4	36.2	35.3	88.1
Education of head of household						
Up to 8 years school	57.7	61.3	79.4	56.3	59.8	79.2
9-12 years study	28.8	32.5	45.2	27.6	30.9	43.6
13+ years of study	16.9	17.7	23.3	16.5	17.4	23.4

* According to the definition in use until now: 60 for a woman and 65 for a man.

** Due to fluctuations, a floating average of 2 years is shown. The definition of ultra-Orthodox is according to Gottlieb-Kushnir (2009)

*** The definition has been adjusted to the age of retirement from work according to the Retirement Age Act. Therefore this population is not fixed until the process of raising the retirement age is complete.

Appendix 9: Incidence of Poverty in Individuals by Economic Income and Net Income, and Effect of Transfer Payments and Direct Taxes, according to OECD Approach (Poverty Line 50% of Median)

	Income before transfer payments & taxes		Income before transfer payments & taxes		Decrease in Incidence of Poverty after Transfer Payments & Taxes (%)	
	2011	2012	2011	2012	2011	2012
Total population	30.7	28.2	20.6	18.8	20.6	30.7
Jews	23.9	22.0	13.5	12.0	13.5	23.9
Arabs	56.7	55.1	48.3	47.9	48.3	56.7
Elderly*	51.5	49.6	23.3	23.6	23.3	51.5
Immigrants	32.5	27.1	16.0	14.0	16.0	32.5
Ultra-Orthodox	63.6	65.0	46.6	42.8	46.6	32.2
Families with children						
Total	32.5	29.5	24.4	22.1	24.4	32.5
1-3 children	23.5	20.8	16.7	14.8	16.7	23.5
4 or more children	57.5	55.3	45.8	43.7	45.8	57.5
5 or more children	67.6	63.9	53.6	48.4	53.6	67.6
Single-parent families	49.5	41.6	29.3	26.4	29.3	49.5
Employment status of head of household						
Working	21.5	20.6	14.1	13.4	14.1	21.5
Salaried	22.4	20.9	14.3	13.2	14.3	22.4
Self employed	16.2	18.6	13.2	15.0	13.2	16.2
Working age unemployed	94.5	92.5	79.6	75.7	79.6	94.5
One earner	48.4	45.4	32.4	30.7	32.4	48.4
2 or more earners	5.9	6.2	3.5	3.5	3.5	5.9
Age of head of household						
Up to 30	39.0	32.5	25.4	18.8	25.4	39.0
31-45 years	30.1	28.1	22.8	20.9	22.8	30.1
46 to pension age	19.9	18.4	14.3	13.8	14.3	19.9
Of legal pension age***	56.6	54.2	24.5	25.8	24.5	56.6
Education of head of household						
Up to 8 years school	68.3	64.8	50.1	47.9	50.1	68.3
9-12 years study	34.8	31.2	24.0	21.8	24.0	34.8
13+ years of study	20.5	20.5	12.6	12.1	12.6	20.5

* According to the definition in use until now: 60 for a woman and 65 for a man.

** Due to fluctuations, a floating average of 2 years is shown. The definition of ultra-Orthodox is according to Gottlieb-Kushnir (2009)

*** The definition has been adjusted to the age of retirement from work according to the Retirement Age Act. Therefore this population is not fixed until the process of raising the retirement age is complete.

Appendix 10: Alternative Way of Looking at Poverty and Inequality Over Time⁴²

So far, throughout this report, we have presented 2012 data as individual observations, with no attempt to link them to the 2011 figures. In this Appendix an alternative approach is proposed, which shows the direction of change in the dimensions of poverty and inequality by comparing 2012 data to expenditure data for 2011 (which, it will be remembered, was an integral part of the Income Survey for that year).

Another way of presenting the development of poverty and inequality in 2012 over time is by presenting the break in the series of poverty figures in 2011 instead of in 2012, since the latest Income Survey figures were received from the Central Bureau of Statistics in 2011. According to this approach, it is possible to create a continuous series of Expenditure Surveys by placing the 2012 Expenditure Survey against the 2011 Expenditure Survey as received at that time from the CBS. This method of presentation gives an indication, though incomplete, of the development of poverty between 2011 and 2012, on a consistent basis of the data⁴³. () This analysis is presented in Figures A to C.

Table A: Monthly Income per Household by Type of Income (NIS) 2010-2012 (including comparison to the Expenditure Survey of 2011)

Type of Income	2010	2011	2011- expenditure	2012	Real change from 2011- 2012 (%)	Real change (expenditure) from 2011- 2012 (%)
Averages						
Economic/ family	12,527	12,709	13,828	14,529	12.4	3.3
Economic/ standard individual	4,719	4,808	5,304	5,622	15.0	4.2
Gross/ family	14,397	14,638	15,797	16,587	11.4	3.3
Gross/ standard individual	5,559	5,671	6,162	6,526	13.1	4.2
Net/ family	12,024	12,356	13,201	13,842	10.1	3.1
Net/ standard individual	4,665	4,805	5,171	5,458	11.7	3.8
by Median						
Median net income/ standard individual	3,861	4,001	4,203	4,513	10.9	5.6
Poverty line for standard individual	1,931	2,000	2,101	2,256	10.9	5.6

⁴² The description of the situation of poverty in this section expresses a position that is not accepted by all the authors of this report, and is therefore presented here as an alternative approach. See Appendix 10.

⁴³ As indicated above, 3000 observations were indeed added, representing an increase of about 50%. The renewed kibbutzim represent a small part of the population, and the difficulties of surveying the Bedouin in the south are not new and could at most slightly affect the assessment of the dimensions of poverty among the Arabs in the south, and perhaps among the Arab population in general.

Figure A: Development of Incidence of Poverty Over Time

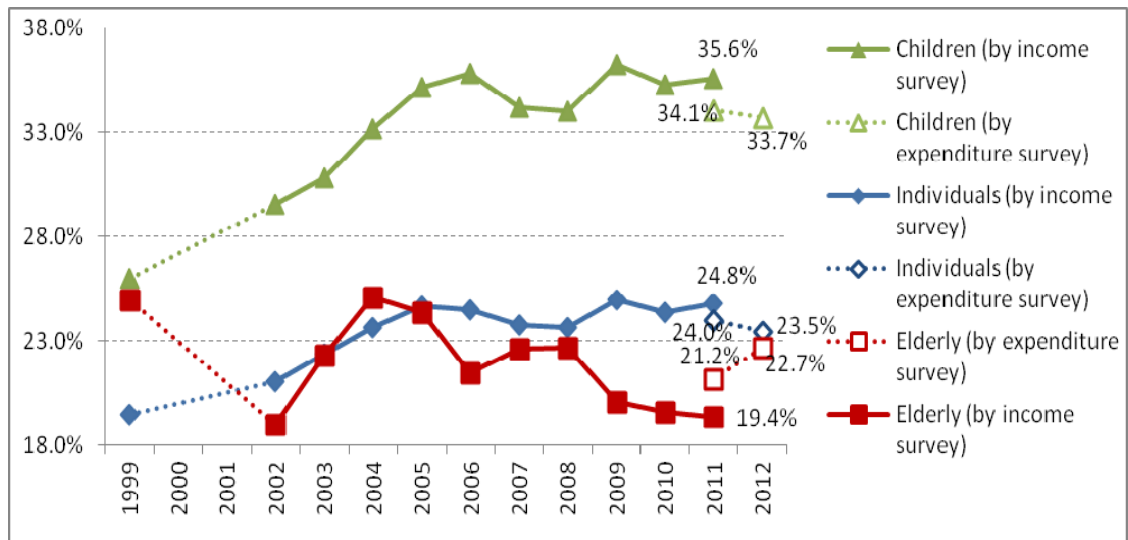


Figure B: Indicators of Severity of Poverty in Incomes according to FGT Index and SEN Index Over Time

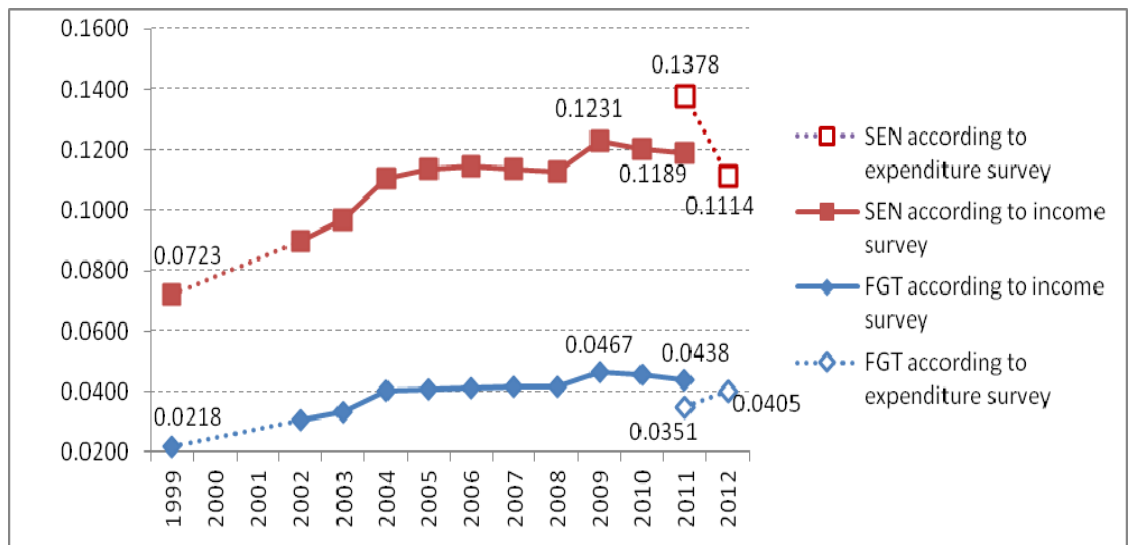
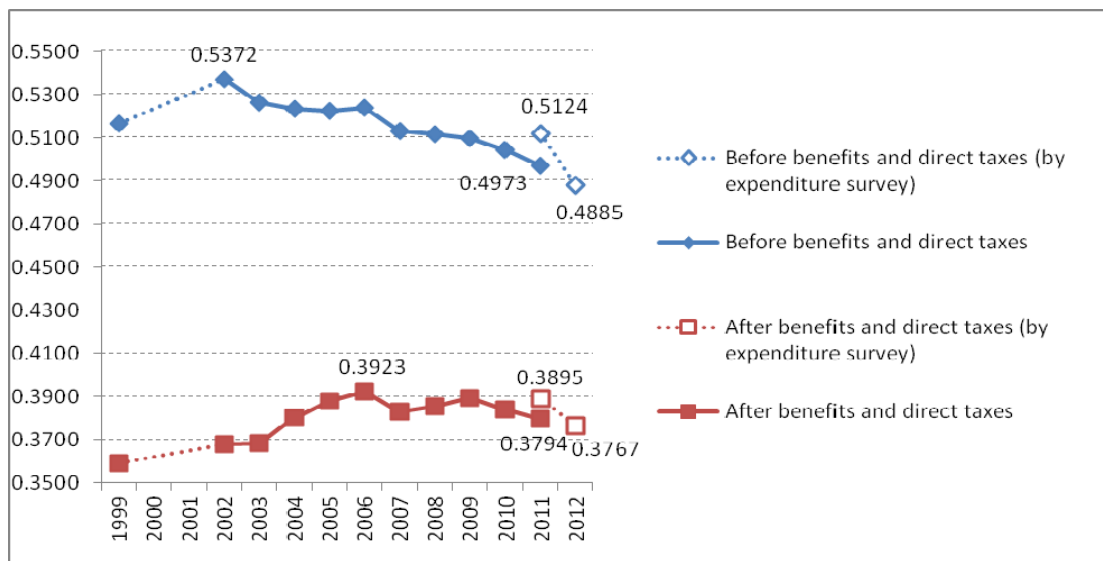


Figure C: Gini Index of Inequality in Income Over Time



According to this approach, the gap between the incidence of poverty in 2011 in the Income Survey and the figures in the expenditure survey is closer for a one-off correction, required for incidence of poverty due to the move from Income Surveys to Expenditure Surveys. According to these calculations, the effect of the change from an Income Survey to an expenditure survey has created a one-off downward correction in the general incidence of poverty and in that of children, and an upward correction among the elderly. As can be seen from Table A, based on a comparison between the 2011 Income Survey and the 2012 Expenditure Survey, this year there has been a high rate of growth in various types of income (economic, gross, net, median and the consequent poverty line). According to this alternative approach, it is better to refer to changes in income and in the poverty line based on a comparison between the expenditure surveys of 2011 and 2012, since although they are also high, they are a lot smaller than those in Table A (see Appendix 10). They are more similar to the rates of change in wages that we are familiar with in the economy. For example, we can see from Table E-N-7 in the statistical appendix of the Bank of Israel report, that there was a considerable difference in changes in the real pay of Israelis by branch: for example, it rose by 2.5% in public services, 3.5% in the electricity and water industries, 2.4% in education, and 3.8% in health, welfare and nursing services. In community, social and personal services pay did not change, while in commerce and repairs it fell by 0.7%. The significance of this for a report on the dimensions of poverty is that income, and consequently also the poverty line, rose notably in the comparison between 2011 and 2012.

The figures for 2012 indicate some decline in the incidence of poverty between 2011 and 2012, and a relatively sharp rise of the incidence of poverty among the elderly, even after the correction upwards. Figure C in Appendix 10 shows the development of incidence of poverty for all individuals, for children and for the elderly over time – with 2011 according to both alternatives. The figure shows that at least visually or (as economists say) according to “eye-econometrics”, there is also a certain logic to the focus on the expenditure survey of 2011 as the point of comparison. Therefore, although there is a rise in the incidence of poverty, this rise is more moderate than the rise obtained in the comparison with the Income Survey. This approach makes it possible to quantify the estimates of change in incidence of poverty deriving from the change in the method of collecting data.

Table B: Incidence of Poverty of Families by Population Group, Percentages, 2011 and 2012

	Income before transfer payments & taxes			Income before transfer payments & taxes			Decrease in Poverty after Transfer Payments & Taxes (%)		
	2011	2011- expenditure	2012	2011	2011- expenditure	2012	2011	2011- expenditure	2012
Total population	32.8	31.7	30.3	19.9	19.5	19.4	39.3	38.5	36.0
Jews	28.1	27.0	25.9	14.2	14.5	14.1	49.4	46.3	45.5
Arabs	60.4	55.7	59.2	53.5	45.2	54.3	11.5	18.8	8.4
Elderly*	54.4	45.7	50.5	19.4	19.8	22.7	64.4	56.8	55.1
Immigrants	40.4	40.0	34.8	16.3	19.5	17.3	59.6	51.2	50.1
Ultra-Orthodox	66.9	77.0	73.8	54.3	64.3	61.5	18.8	16.5	16.7
Families with children									
Total	32.9	33.1	30.5	26.8	25.4	24.8	18.7	23.1	18.7
1-3 children	26.4	26.6	24.5	20.4	19.1	18.5	22.5	28.1	24.6
4 or more children	63.8	62.9	60.7	56.7	54.4	56.6	11.2	13.6	6.7
5 or more children	75.4	74.6	71.1	67.4	68.2	67.1	10.7	8.7	5.6
Single-parent families	47.5	51.2	45.1	30.8	30.8	29.0	35.2	39.9	35.8
Employment status of head of household									
Working	20.0	20.0	19.7	13.8	13.3	13.7	31.3	33.5	30.6
Salaried	20.6	17.0	20.1	13.7	12.0	13.7	33.4	29.1	32.0
Self employed	16.0	10.4	16.5	14.0	9.8	13.4	12.6	5.5	19.2
Working age unemployed	90.4	88.2	89.1	70.7	64.2	66.1	21.8	27.2	25.8
One earner	37.8	36.9	36.0	25.9	24.4	24.6	31.6	33.9	31.7
2 or more earners	6.6	7.0	6.8	4.6	4.8	5.0	29.9	32.1	26.2
Age of head of household									
Up to 30	36.2	37.4	32.2	25.4	28.3	22.4	29.8	24.4	30.4
31-45 years	27.9	27.8	26.1	21.7	21.0	20.1	22.3	24.6	22.9
46 to pension age	21.5	21.8	20.2	15.1	14.1	14.1	29.6	35.0	30.3
Of legal pension age***	58.1	49.3	54.0	19.8	20.8	24.1	65.9	57.8	55.4
Education of head of household									
Up to 8 years school	71.3	66.5	69.1	44.2	41.0	45.2	38.0	38.4	34.7
9-12 years study	36.1	33.6	33.2	23.6	22.0	22.3	34.6	34.4	32.9
13+ years of study	22.4	21.8	21.4	12.2	12.5	12.8	45.5	42.7	40.2

* According to the definition in use until now: 60 for a woman and 65 for a man.

** Due to fluctuations, a floating average of 2 years is shown. The definition of ultra-Orthodox is according to Gottlieb-Kushnir (2009)

*** The definition has been adjusted to the age of retirement from work according to the Retirement Age Act. Therefore this population is not fixed until the process of raising the retirement age is complete.

Table C: Additional Dimensions of Poverty in Various Population Groups by Selected Indicators, 2011 and 2012

	Income gap ratio			FGT Index			SEN Index		
	2011	2011- expenditure	2012	2011	2011- expenditure	2012	2011	2011- expenditure	2012
Total population	34.7	31.8	34.4	0.0438	0.0351	0.0405	0.119	0.105	0.111
Jews	31.8	29.7	29.8	0.0256	0.0215	0.0215	0.073	0.068	0.065
Arabs	37.8	34.1	39.6	0.1146	0.0823	0.1228	0.295	0.234	0.306
Elderly*	26.8	28.1	28.1	0.0266	0.0258	0.0297	0.079	0.083	0.093
Immigrants	28.4	26.6	25.1	0.0236	0.0217	0.0184	0.071	0.075	0.062
Ultra-Orthodox	38.4	39.6	36.6	0.1152	0.1376	0.1157	0.299	0.358	0.317
Families with children									
Total	35.8	32.8	35.4	0.0567	0.0453	0.0519	0.152	0.133	0.141
1-3 children	33.5	28.3	31.4	0.0373	0.0254	0.0290	0.101	0.080	0.085
4 or more children	38.3	37.0	39.4	0.1108	0.0989	0.1201	0.293	0.273	0.304
5 or more children	38.8	39.1	40.6	0.1291	0.1315	0.1456	0.341	0.347	0.360
Single-parent families	36.3	29.4	36.0	0.0666	0.0428	0.0590	0.173	0.139	0.154
Employment status of head of household									
Working	28.7	28.1	29.2	0.0229	0.0218	0.0233	0.076	0.073	0.076
Salaried	28.3	29.2	28.7	0.0221	0.0205	0.0221	0.075	0.067	0.073
Self employed	31.0	26.5	33.1	0.0279	0.0150	0.0311	0.081	0.049	0.089
Working age unemployed	52.1	45.0	54.2	0.2737	0.1862	0.2763	0.542	0.428	0.530
One earner	30.9	30.2	31.4	0.0540	0.0502	0.0529	0.171	0.160	0.165
2 or more earners	20.8	20.8	22.3	0.0047	0.0048	0.0061	0.020	0.020	0.023
Age of head of household									
Up to 30	35.6	32.9	33.0	0.0600	0.0529	0.0413	0.157	0.152	0.117
31-45 years	35.1	33.1	35.1	0.0497	0.0415	0.0473	0.137	0.124	0.129
46 to pension age	36.1	30.4	36.9	0.0332	0.0256	0.0338	0.087	0.075	0.087
Of legal pension age***	24.7	28.2	27.2	0.0242	0.0278	0.0296	0.076	0.090	0.096
Education of head of household									
Up to 8 years school	39.9	34.1	37.0	0.1209	0.0817	0.1017	0.294	0.234	0.268
9-12 years study	33.5	31.3	34.2	0.0486	0.0410	0.0476	0.137	0.122	0.131
13+ years of study	33.2	30.3	33.2	0.0261	0.0186	0.0260	0.072	0.059	0.072

* According to the definition in use until now: 60 for a woman and 65 for a man.

** Due to fluctuations, a floating average of 2 years is shown. The definition of ultra-Orthodox is according to Gottlieb-Kushnir (2009)

*** The definition has been adjusted to the age of retirement from work according to the Retirement Age Act. Therefore this population is not fixed until the process of raising the retirement age is complete.