

Chapter 8

Welfare Policy Issues

- Since 2006, the level of inequality in Israel has stabilized and even declined slightly. However, it remains among the highest in the Western world, and is high in historic terms as well.
- The increase in the rates of employment among population groups that are characterized by low participation and employment rates and a high incidence of poverty (particularly among Arab women and the ultra-Orthodox) has increased their relative share of income and has contributed to a reduction in the inequality of economic income.
- The decrease in inequality and poverty in terms of economic income was offset by the shift in government tax and transfer payments policy, which made it less progressive, and which increased inequality in net income.
- The average income of a middle class household has grown at a faster pace than the prices of most goods and services since 1997. Nonetheless, price increases accelerated since 2007 and the prices of housing services, rent, food, electricity, gas and water have grown faster than income.
- The increase in the proportion of the elderly in the general population, which is expected to accelerate in the future, bolsters the need to improve, and increase the efficiency of, the long-term care of the elderly.

1. THE INCOME DISTRIBUTION, INEQUALITY AND POVERTY

a. Measures of inequality

Since 2006, the level of inequality in Israel has steadied and even declined somewhat (Table 8.1, Figure 8.1). However, measures of inequality are among the highest in the Western world and are also high in historical terms.¹ The leveling off of the previous upward trend in inequality that characterized the early 2000s was a result of the reduced inequality in wages and in economic income (the income of households before taxes and before transfer payments). The inequality in net income remained relatively high, following a significant increase during the early 2000s.

Since 2006, the level of inequality in Israel has steadied and even declined somewhat. However, measures of inequality are among the highest in the Western world and are also high in historical terms.

¹ Most of the analysis in this chapter is based on data from Income Surveys and Expenditure Surveys. The most recent Income Survey published covers the period July 2010 to June 2011. Data from this survey appearing in this chapter will be referred to as relating to the period 2010/11. The last Expenditure Survey was published for 2010 and therefore the data based on Expenditure Surveys are only updated to 2010.

Table 8.1**Indices of Inequality and Poverty, 2002–2010/2011^a**

	2002	2004	2006	2008	2009	2010	(percent) 2010/11
A. Inequality indices^b							
Gini Index	0.365	0.377	0.390	0.382	0.386	0.381	0.376
Ratio of income of 90th percentile to income of 10th percentile	5.487	6.541	6.541	6.538	6.738	6.808	6.725
Ratio of median income to average income	0.828	0.825	0.812	0.822	0.822	0.835	0.837
B. Poverty indices							
B1. Relative poverty index^c							
Equivalized poverty line ^c (NIS)	1,395	1,449	1,629	1,742	1,815	1,932	1,963
Number of poor ('000)	1,317	1,529	1,644	1,646	1,769	1,772	1,782
Incidence of poverty - individuals	21.1	23.6	24.5	23.7	25.0	24.4	24.3
Incidence of poverty - families	18.1	20.3	20.0	19.9	20.5	19.9	19.4
Income gap ^d	29.7	33.3	33.8	34.2	35.5	35.8	35.9
Percentage of poor whose consumption is below the poverty line	52.5	56.6	60.4	62.4	61.5	57.9	
B2. Incidence of poverty according to fixed index^c - individuals	16.7	18.1	17.1	14.7	16.2	14.7	14.7
B3. Selected groups							
Incidence of poverty among:							
Children	29.6	33.2	35.8	34.0	36.3	35.4	35.5
Aged 65+	20.3	25.4	22.7	22.7	21.8	23.1	20.4
Arabs	49.5	51.6	57.6	53.1	57.4	56.7	56.6
Ultra-Orthodox ^e	50.5	57.4	57.2	60.4	58.5	56.7	55.4
Members of household with one earner	25.1	31.3	35.9	35.6	38.7	40.1	39.9
Members of household with two or more earners	3.0	3.8	4.2	4.3	5.2	5.1	5.5

^a Figures in the column headed 2010/11 are based on a survey conducted between July 2010 and June 2011.

^b Inequality indices based on disposable income per individual (equivalized).

^c The relative poverty line is calculated as half the median monetary income per individual (equivalized). The absolute poverty line is calculated relative to the real poverty line in 1997.

^d The average gap between poverty line and the income of poor persons.

^e There is a difficulty in identifying the ultra-Orthodox in Income Surveys. They are identified here based on one household member learning in a post secondary religious institution (yeshiva).

SOURCE: Based on Central Bureau of Statistics' Income and Expenditure Surveys.

Table 8.2
Shares of Income Quintiles, ^{a,b} 1997-2010/11

	Calculated according to net income					Calculated according to economic income					Difference between net income and economic income		
	Lowest decile	Lowest quintile (1)	Quintiles 2+3+4	Top quintile (5)	Top decile	Lowest decile	Lowest quintile (1)	Quintiles 2+3+4	Top quintile (5)	Top decile	Lowest quintile (1)	Quintiles 2+3+4	Top quintile (5)
1997	2.6	6.9	51.8	41.3	25.2	0.0	1.4	46.5	52.1	33.8	5.5	5.4	-10.8
1998	2.7	6.9	51.9	41.2	25.3	0.0	1.4	46.2	52.4	34.2	5.5	5.7	-11.2
1999	2.7	6.9	51.7	41.4	25.7	0.0	1.7	46.2	52.1	34.1	5.2	5.4	-10.6
2000	2.8	7.0	52.3	40.7	24.9	0.0	1.7	47.0	51.2	33.1	5.3	5.3	-10.5
2001	2.5	6.7	52.1	41.3	25.5	0.0	1.1	46.3	52.6	34.4	5.6	5.7	-11.3
2002	2.2	6.2	52.0	41.8	25.9	0.0	1.0	45.7	53.3	35.2	5.2	6.3	-11.5
2003	2.2	6.1	52.3	41.6	25.5	0.0	1.2	46.8	52.1	34.1	5.0	5.5	-10.5
2004	1.9	5.6	52.0	42.3	25.9	0.0	1.3	47.0	51.8	33.5	4.4	5.1	-9.4
2005	2.0	5.7	51.3	43.0	26.6	0.0	1.4	46.6	52.0	33.8	4.2	4.7	-9.0
2006	2.0	5.6	50.9	43.5	27.3	0.0	1.6	46.2	52.2	34.2	4.0	4.7	-8.7
2007	2.0	5.7	51.6	42.7	26.5	0.1	1.8	46.9	51.3	33.4	3.8	4.8	-8.6
2008	2.0	5.6	51.4	43.0	26.6	0.1	1.9	46.7	51.4	33.5	3.7	4.8	-8.4
2009	1.7	5.2	51.7	43.1	26.7	0.1	1.9	47.2	50.9	33.0	3.4	4.4	-7.8
2010	1.8	5.4	52.0	42.6	26.4	0.1	2.0	47.5	50.6	32.9	3.4	4.6	-8.0
2010/11	1.9	5.5	52.3	42.2	25.8	0.1	2.0	48.0	50.0	32.1	3.4	4.3	-7.8

^a Income quintiles are based on the weights used in the OECD scale.

^b Net income quintiles are calculated from net income, and economic income quintiles from economic income. Each quintile contains 20 percent of individuals/observations.

^c Data for 2010/11 are based on a survey carried out between July 2010 and June 2011.

SOURCE: Based on Central Bureau of Statistics' Income Surveys.

The proportion of the lower deciles in total economic income has grown in Israel, in contrast to other countries; however, their proportion of net income has declined

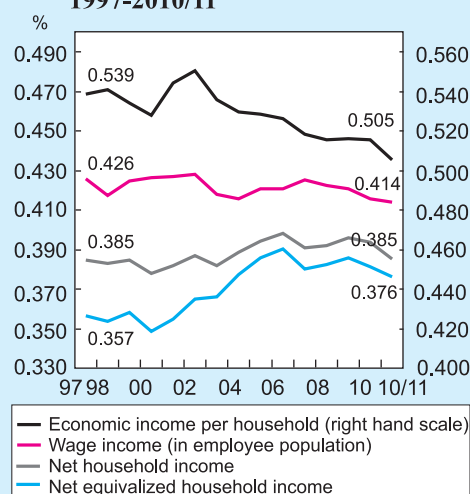
A new OECD report² reviews the trends in inequality in OECD countries since the mid-1980s. In Israel, as in most of OECD countries, there has been an increase in the inequality of disposable income because disposable income has grown faster in the upper deciles than in the lower ones. However, in Israel, unlike in other countries, the share of the lower deciles in economic income—income before taxes and transfer payments—has also grown during the last decade while the share of the top quintile has fallen somewhat (Table 8.2). This outcome is the result of the faster increase in the total economic income of the bottom quintile (due to an increase in the total labor input of households, in particular through higher rates of employment and an increased number of income earners in each household).

Average wage income has not grown to a similar extent and in certain cases has even eroded (Table 8.3).³

The trend in inequality of economic income during the last two decades has reflected the influence of various opposing forces: Globalization, technological improvements and structural and institutional changes in the labor market have acted to increase the return on higher education and to worsen inequality. The influence of these forces is evident in most OECD countries and has in general been manifested in greater inequality. Yet, at the same time, policy changes made in the early 2000s have worked to reduce inequality and have provided incentives for weaker segments of the population to increase their labor input. This is in contrast to most other OECD countries where the labor input of the lower income quintiles has contracted, primarily as a result of the reduction in work hours per employee at the bottom of the wage scale.

The increase in rates of employment in 2010 represented a continuation of an upward trend that has characterized the population as a whole and most of the demographic groups within it. During the last three years, there has been an especially large increase in the rates of employment among women, and particularly among

Figure 8.1
Gini Index of Inequality, by
Selected Income Measures
1997-2010/11



^a Data referring to 2010/11 are based on a survey conducted between July 2010 and June 2011.
Source: Based on Central Bureau of Statistics Income Survey.

In recent years, the proportion of households with more than one income earner has grown while the proportion of households with no income earners has declined significantly.

² OECD, "Divided We Stand: Why Inequality Keeps Rising," (2011), OECD Publishing. <http://dx.doi.org/10.1787/9789264119536-en>.

³ The calculation of average wage income also includes the income of new employees and it is reasonable to assume that their income is low relative to that of more experienced workers. Therefore, in the absence of panel data that can track the income of individuals over time, it is not possible to isolate the influence of the composition of employment and to calculate the development of wages earned by those who worked throughout the decade.

Table 8.3
Employment Rate and Average Wage Income by Segment of Population Aged 25–64, Selected Years

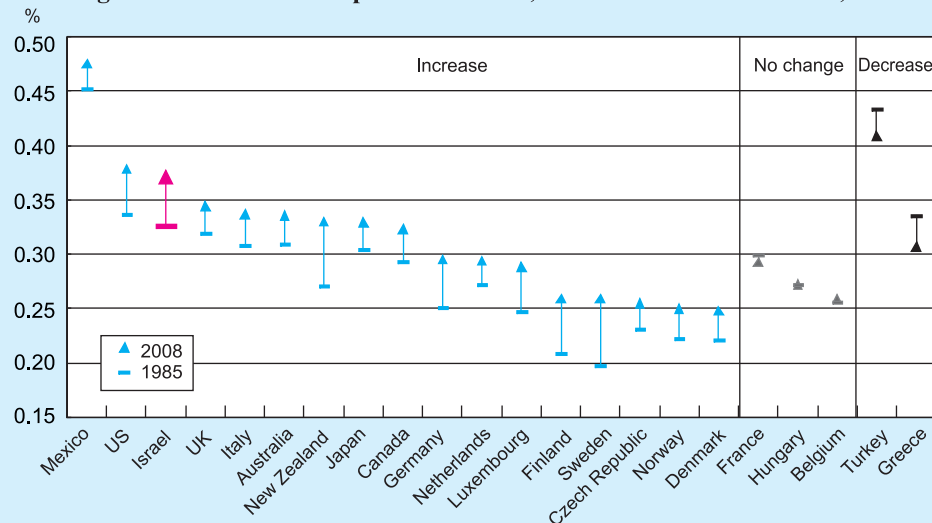
	Employment rate					Average wage income (2010 prices)						
	1997	2003	2008	2009	2010	2011 ^a	1997	2003	2008	2009	2010	2010/11 ^b
	(Men)											
Total population	77.3	73.4	77.6	75.7	76.7	77.7	10,094	10,361	10,941	10,472	10,364	10,220
Arabs	74.8	66.3	72.1	70.7	70.6	72.2	6,326	6,579	6,523	6,263	6,232	6,060
Ultra-Orthodox Jews ^c	42.2	36.2	39.3	38.5	42.2	45.1	7,532	7,672	8,147	7,007	6,823	6,632
Population excluding Arabs and ultra-Orthodox Jews	79.6	77.3	81.6	79.6	80.6	81.4	10,819	11,043	11,855	11,373	11,281	11,145
0–10 years of education	67.4	58.3	62.8	61.7	60.4	61.4	6,227	6,189	6,329	5,956	5,825	5,945
11–12 years of education	82.7	76.6	80.7	78.3	79.3	80.6	8,787	8,329	8,370	7,876	7,978	8,040
13–15 years of education	80.2	76.8	79.8	78.2	79.0	79.5	10,603	10,306	10,846	10,789	10,323	10,311
16+ years of education	78.2	78.7	81.2	79.2	81.2	81.9	14,702	15,267	15,910	14,834	14,766	14,136
	(Women)											
Total population	55.8	59.3	64.6	64.2	65.8	66.3	6,123	6,481	6,999	6,975	6,923	6,918
Arabs	19.3	20	24.1	24.7	26.6	26.8	4,650	5,167	4,623	4,779	4,990	4,977
Ultra-Orthodox Jews ^c	47.1	50.3	56.7	58	61.7	61.0	4,707	5,536	5,249	5,098	5,308	5,167
Population excluding Arabs and ultra-Orthodox Jews	63.1	67.3	73.5	73	74.7	75.4	6,229	6,583	7,218	7,214	7,133	7,146
0–10 years of education	25.5	24.1	27.5	27	29.0	30.5	3,454	3,770	3,616	3,733	3,614	3,679
11–12 years of education	58	58.1	61	59.6	61.6	62.3	5,123	5,179	5,462	5,141	5,242	5,152
13–15 years of education	68.1	70.9	73.8	73.2	73.9	74.7	5,934	6,324	6,664	6,672	6,560	6,526
16+ years of education	79.3	78.9	81.8	81.8	81.8	81.7	8,586	8,568	9,282	9,202	9,135	9,191

^a Figures for 2011 are the average of the first three quarters.

^b Figures in this column are based on a survey carried out between July 2010 and June 2011.

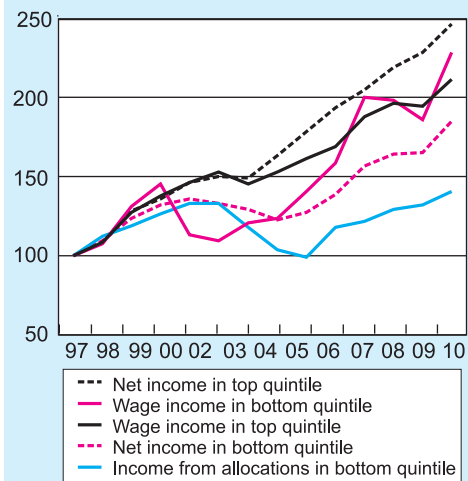
^c There is a difficulty in identifying the ultra-Orthodox in Income Surveys. Here they are identified as families in which the last educational institution attended by a member of the family was a post-secondary yeshiva. This definition may create a bias regarding people who tend to participate less in the workforce.

SOURCE: Based on Central Bureau of Statistics Labour Force Surveys and Income Surveys.

Figure 8.2**Change in Gini Index of Disposable Income, Selected OECD Countries, 1985-2008**

SOURCE: OECD (2011) Divided We Stand: Why Inequality Keeps Rising, OECD Publishing

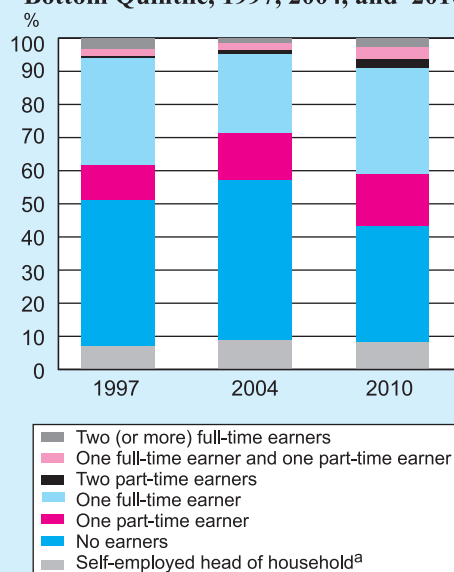
women in demographic groups that are characterized by low employment rates and high levels of poverty, i.e., the ultra-Orthodox, Arabs and those with low levels of schooling. The rates of employment among women with higher levels of education remained almost unchanged (Table 8.3). There were indications of the opposite trends among men: the rate of participation increased among relatively strong populations while there was a decline in participation rates among men with a lower level of schooling and Arab men.⁴ At the same time, the participation rates of ultra-Orthodox men increased significantly. These trends are consistent with the changes in the distribution of income. Thus, the slowdown in activity as a result of

Figure 8.3
Total Income in Bottom Quintile and Upper Quintile, 1997-2010
(index, 1997 income = 100)

SOURCE: Based on Central Bureau of Statistics Income Survey and Bank of Israel.

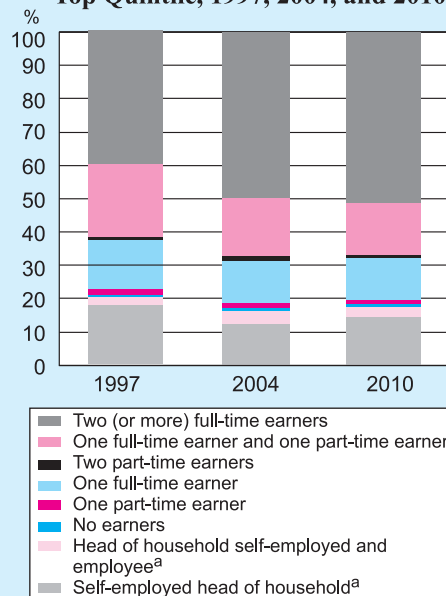
⁴ During the first three quarters of 2011, the rate of employment among Arab women remained almost unchanged while that of ultra-Orthodox women fell. The employment rates of ultra-Orthodox and Arab men grew significantly.

Figure 8.4a
Employment Characteristics of the Bottom Quintile, 1997, 2004, and 2010



^a All households in the bottom quintile in which the head of the household is self-employed. Those households may include other workers at various levels of employment. Other categories only include wage earners.
 SOURCE: Based on Central Bureau of Statistics Income Survey.

Figure 8.4b
Employment Characteristics of the Top Quintile, 1997, 2004, and 2010



^a All households in the top quintile in which the head of the household is self-employed. Those households may include other workers at various levels of employment. Other categories only include wage earners.
 SOURCE: Based on Central Bureau of Statistics Income Survey.

the economic crisis particularly affected the employment of men with a low level of schooling and their situation did not improve much even as the economy recovered from the crisis in 2010. At the same time, rates of employment increased among women in the weaker segments of the population. This may have been a result of the “additional breadwinner” effect in households where the man had stopped working, a result of a long-run upward trend in higher education and rates of employment among women, or a result of the government policy that cut back social welfare allowances, which increased the incentive for women in weaker segments of the population to join the workforce. In short, the proportion of households with more than one income earner increased and the proportion of households with no income earners declined considerably. This change was more significant in the lowest quintile than in the better-off segments of the population, in which the level of education and rates of employment among women were already high. As a result, the increase in the economic income of households in the lower income quintile has exceeded that of households in other quintiles.

The changes in employment and income in Israel, as mentioned, differ from those in most of the OECD countries, where the incomes of men and women have become more closely correlated. Thus, the rates of employment and the incomes of women married to high-earning men have risen faster than for women married to low-earning

men. A variance decomposition analysis indicates that the change in the variance of equivalized disposable income is entirely due to changes in the variance of household income, while the variance in the equivalized household size has remained constant during this period and has not contributed to the change in inequality.

While the rates of employment have increased, the average wage income eroded again in 2010.

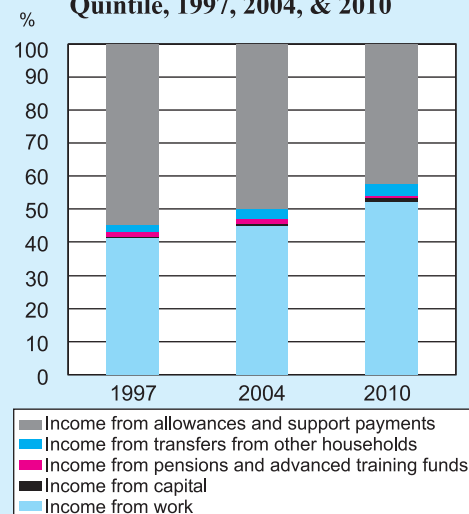
In contrast to the rise in employment rates, average wage income eroded again in 2010, which reflected among other things the fact that the real wage has not increased in recent years, despite the approach of the economy toward full employment.⁵ Although the net wage began to rise, the rise was apparent mostly at higher wage levels, while the increase in the net wage of low income earners was minimal.

b. Measures of poverty

The year 2010 was characterized by a rapid rate of growth and by economic prosperity, which was also reflected in individual incomes. The median equivalized income grew by 3.7 percent in real terms. Accordingly, the poverty line rose to NIS 1,932 per person (Table 8.1). In contrast, the intensity of poverty, as measured by differences in income, has increased. The proportion of the poor whose consumption is below the poverty line—a measure which is generally used as an indicator of persistent poverty—has fallen, and the proportion consuming above the poverty line has risen somewhat (Figure 8.6). A broader perspective that takes into account all measures of poverty since the late 1990s shows a marked increase until 2005, followed by stability.

The decline in the incidence of poverty in 2010 was mostly the result of a change in the distribution of income and primarily an increase in wage income. In contrast, the real rise in the poverty line contributed to an increase in the number of poor people and

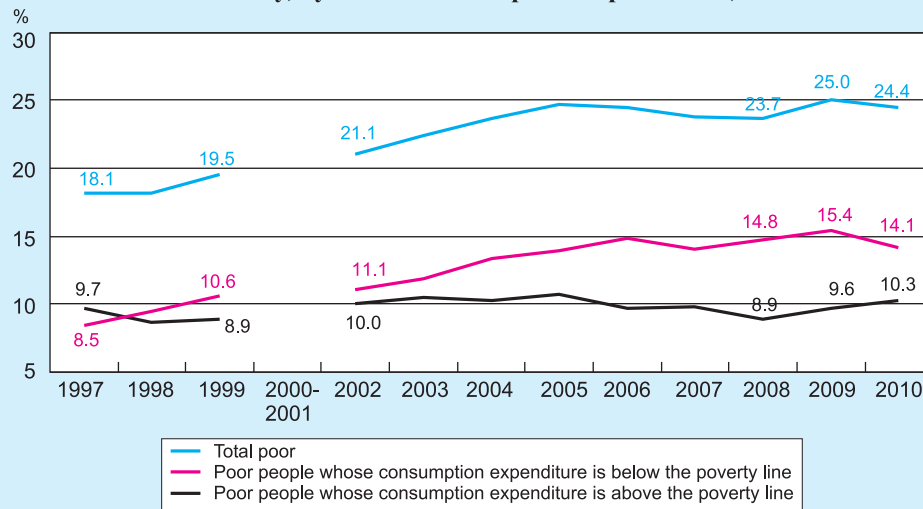
Figure 8.5
Composition of Income of Bottom Quintile, 1997, 2004, & 2010



SOURCE: Based on Central Bureau of Statistics Income Survey.

⁵ It should be mentioned that the erosion of average wage income and the standstill in the real wage may also be the result of the entry into the workforce of workers with a low level of human capital, i.e., workers who have little experience or education. An analysis of the composition of workers in the labor market shows that there has not been a major change in the composition of employment with respect to level of education or age. Thus, for example, the rates of employment of people with a low level of education grew faster, but since this is a relatively small group, the increase in the employment rates of other groups maintained, and even increased, the weights of these groups in the workforce. For additional details on changes in the real wage in recent years, see Chapter 5 of this report (The Labor Market).

Figure 8.6
Incidence of Poverty, by Size of Consumption Expenditure^a, 1997-2010



^a In 2000-01 Arabs in Jerusalem were not included in the income or expense surveys. Those years are omitted in the graph to provide comparable indices.

SOURCE: Based on Central Bureau of Statistics Income Surveys and Expenditure Surveys.

the incidence of poverty. Table 8.4 shows the contribution of the rise in the poverty line to the change in the incidence of poverty in various segments of the population. It can be seen that if not for the rise of the poverty line, the incidence of poverty among the general population would have declined to 23.2 percent while it actually fell to 24.4 percent in 2010. This implies that the rise in the poverty line in itself led to the inclusion of additional individuals among the poor and thus increased the incidence of poverty by about 1.2 percentage points, while the change in the distribution of income (and in particular the growth in the incomes of those close to the poverty line) meant that they were no longer considered poor and as a result, the incidence of poverty fell by 1.8 percentage points. The combination of the two effects—the rise in the poverty line and the improvement in incomes—was reflected in a decline of 0.6 percentage points in the incidence of poverty. The largest groups to benefit from the change in the distribution of income in 2010 were the ultra-Orthodox and Arabs. In both of these groups, the rates of employment increased substantially in 2010, and although average wage income did not grow very much, the shift to employment itself lifted a considerable number of ultra-Orthodox and Arab households to above the poverty line. Another group that benefited from the change in the distribution of income consisted of households without any income earners, since their income from social welfare allowances grew.

Figure 8.7 presents the characteristics of employment among the poor. It can be seen that most of the poor live in households that have at least one income earner. As the rates of employment in the economy rise—in parallel to the rise in the level of education and the entry of new cohorts that have a higher tendency to participate

Table 8.4
The Contribution of the Change in the Poverty Line to the Change in the Incidence of Poverty in 2010

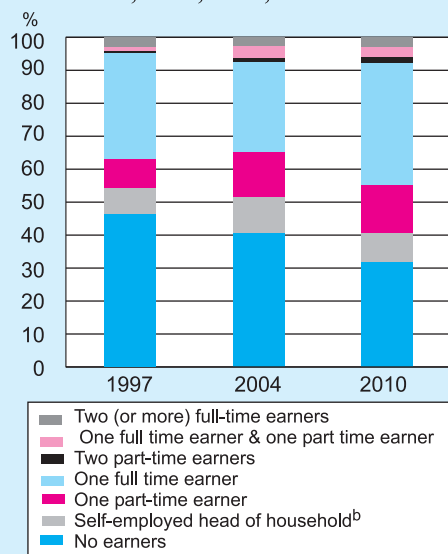
	Incidence of poverty for individuals in 2009	Incidence of poverty according to poverty line of 2009	Incidence of poverty for individuals in 2010	Change in actual incidence of poverty	Contribution of change in poverty line to the change in the incidence of poverty ^a	Contribution of change in income distribution to the change in the incidence of poverty ^b
General population	25.0	23.2	24.4	-0.6	1.3	-1.8
Ultra-Orthodox	58.5	54.8	56.7	-1.8	1.9	-3.7
Arab	57.4	54.4	56.7	-0.7	2.3	-3.0
Non-ultra-Orthodox Jews	12.8	11.7	12.7	-0.1	0.9	-1.0
Immigrants	18.0	16.1	18.4	0.3	2.2	-1.9
Children	36.3	34.1	35.4	-0.9	1.3	-2.1
No earners	57.5	54.2	56.9	-0.6	2.8	-3.4
Single earner	38.7	38.3	40.1	1.3	1.8	-0.5
Two or more earners	5.2	4.6	5.1	-0.1	0.5	-0.6
Head of household 65+	21.8	20.1	23.1	1.3	2.9	-1.6
Relative poverty line (half the median income per equivalized individual) in 2009						1814.6
2009 poverty line in 2010 prices						1863.6
Relative poverty line in 2010						1932

^a The contribution of the change in the poverty line to the change in the incidence of poverty is calculated as the difference between the actual incidence of poverty in 2010 (third column) and the incidence of poverty in 2010 according to the real poverty line of 2009 (second column). In effect, the year on year change in the incidence of poverty comprises three factors: the effect of the change in the poverty line, the effect of the change in income distribution, and a composite component of the two factors. The composite component is miniscule, and thus is included here in the effect of the change in the poverty line.

^b The contribution of the change in distribution of income to the change in the incidence of poverty is calculated as the difference between the incidence of poverty calculated in 2010 using the real poverty line of 2009 (what would have been the incidence of poverty if there would not have been a change in the poverty line, column two) and the incidence of poverty in 2009. A negative sign indicates that the distribution of income contributed toward a reduction in the incidence of poverty in the group.

SOURCE: Based on Central Bureau of Statistics Labour Force Surveys and Income Surveys Income Survey.

Figure 8.7
Employment Characteristics of the Poor^a, 1997, 2004, & 2010



^a Poor people living in households in which the head of the household is 25-64 years old.

^b All poor people in households in which the head of the household is self-employed. Those households may include other workers at various levels of employment. Other categories only include wage earners.

SOURCE: Based on Central Bureau of Statistics Income Survey.

in the workforce—the proportion of poor households with no income earners has declined and the proportion of poor households which have income earners has risen. The phenomenon of the working poor is particularly evident in households with only one fulltime income earner, which are especially common among the Arab population. In households with two or more income earners, the incidence of poverty is very low; however, it is also increasing over time and the proportion of the poor living in such households within the total number of the poor is increasing. The phenomenon of the working poor, and particularly its increasing appearance among fulltime workers, emphasizes the need for a policy that will supplement employment encouragement policies as a means of reducing poverty. It is insufficient to provide incentives (whether positive or negative) for joining the workforce; there is a need for

Most of the poor live in households with one or more income earners. The problem of the working poor is particularly evident among households with one fulltime income earner.

supplementary measures to enable workers at the bottom of the wage scale to increase their earning capacity. Since having two income earners in a household significantly reduces the incidence of poverty, it would be worthwhile expanding the use of policy tools that will enable both spouses to work, such as improving the support system for families with young children (see Box 5.3 in this report), tightening the supervision and enforcement of labor laws relating to the employment of women, etc.

c. The contribution of policies to reduce poverty and inequality

The State seeks to reduce poverty and inequality through three main channels: (a) the direct contribution of the redistribution of income, which is accomplished by means of taxes and transfer payments (and which has an indirect effect on inequality and poverty through its effect on the incentives of individuals and firms in the labor market); (b) the indirect contribution through the economic income of individuals, which is accomplished through the effect on the labor market, the capital market and the goods market; and (c) the effect on long-run inequality and poverty through welfare policy in its broader sense and through the provision of services, in particular education, investment in infrastructure, and health policy. Some of the government services can also be considered as “income in kind,” since the provision of these

The direct effect of government policy on the level of inequality and poverty, by means of transfer payments and taxes, has weakened during the last ten years.

services for only partial payment increases the disposable income of individuals, which in general increases progressivity and thus reduces inequality.⁶

The direct effect of government policy on the levels of inequality and poverty through social welfare allowances and direct taxes has weakened during the last decade, due to the drastic cuts in allowances (a goal of which was to encourage participation in the workforce, in addition to cutting the budget) and the reduction in direct tax rates. Figure 8.8 presents the direct contribution of transfers and direct taxes to the reduction of poverty and inequality. Although poverty as calculated according to economic income (before government intervention) remained unchanged, and inequality according to disposable income even declined, poverty and inequality according to disposable income increased until the middle of the previous decade and stabilized afterwards. In other words, the contribution of government policy to the reduction in poverty and inequality has declined. A small increase was recorded in 2010 but it remained low in historical terms and was very low by international standards.

In a similar manner, one may calculate the contributions of each of the various components of government policy to reducing poverty and inequality,⁷ and their direct effect on particular segments of the population. The sharp decline in the influence of policy during the first half of the previous decade encompassed all segments of the population, both the working population (due to the reduced progressivity of the tax system) and groups with low employment rates due to their reliance on government support, which has been cut back to a major extent.

Although the reduction in tax rates increased the net wages of workers at all wage levels, they were more significant at higher wage levels.

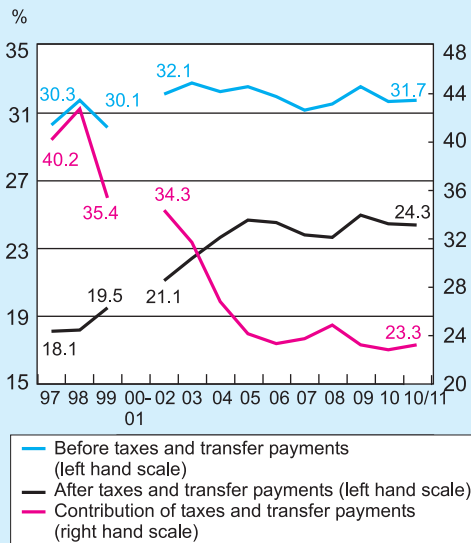
The reduced progressivity of the tax system is reflected in Figure 8.9, which presents the net wage as a percentage of the gross wage. For the sake of simplicity and for purposes of illustration, we assume the case of a man who is a sole income earner and has one child. It can be seen that although the tax reductions increased the net wages of workers at all wage levels, they become more significant as the wage level rises. Those who earned four times the average wage benefited the most in their net wage. Although the net wage share of gross wage of those at the bottom of the scale rose by about 3 percentage points, the increase was entirely offset by the erosion of social welfare allowances so that in effect they did not benefit from the tax reduction. It is important to remember that the calculation presented below is an underestimate of the reduction in progressivity since it is reasonable to assume that its effect on inequality between households is even greater due to the positive correlation that generally exists between the earnings of each spouse. (High-earning women tend to live in households where the man is also a high earner.)

A portion of low-income earners, particularly women, live in households where the other income earners earn a high wage and therefore they belong to the higher

⁶ The OECD presented a comparison of this effect for most of the member countries in its report on inequality "Divided We Stand: Why Inequality Keeps Rising?" mentioned above. This report does not include a figure for Israel.

⁷ See for example: "The Level of Poverty and Inequality, Annual Report for 2010," Table 6, p.13, (2011), The National Insurance Institute.

Figure 8.8a
Incidence of Relative Poverty and the Influence of Transfer Payments and Direct Taxes,^{a,b} 1997-2010/11^c



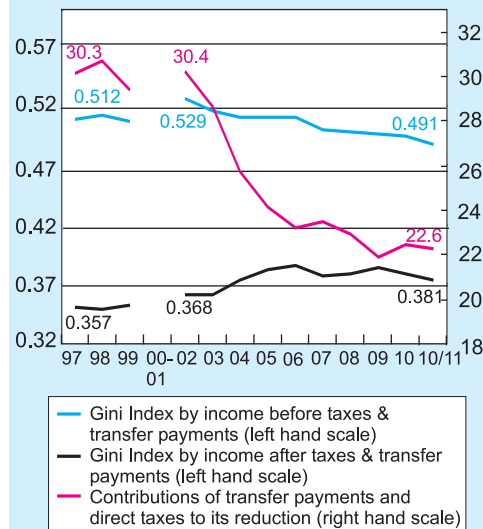
^a Transfer payments from individuals and abroad are not deducted from disposable income, and so there is a difference between the figure above and the figure published by the National Insurance Institute.

^b In 2000-01 Arabs in Jerusalem were not included in the income or expenditure surveys. Those years are omitted in the graph to provide comparable indices.

^c Data referring to 2010/11 are based on a survey conducted between July 2010 and June 2011.

SOURCE: Based on Central Bureau of Statistics data.

Figure 8.8b
Inequality and the Contributions of Transfer Payments and Direct Taxes to its Reduction^a 1997-2010/11^{b,c}



^a Transfer payments from individuals and from abroad were deducted from disposable income.

^b In 2000-01 Arabs in Jerusalem were not included in the income or expenditure surveys. Those years are omitted in the graph to provide comparable indices.

^c Data referring to 2010/11 are based on a survey conducted between July 2010 and June 2011.

SOURCE: Based on Central Bureau of Statistics Income Surveys.

income deciles. In other words, they benefited indirectly from the reduction in tax rates. Therefore, almost all of those who benefited from the reduction in tax rates are to be found in the highest income deciles. This illustrates the extent to which the progressivity of direct taxation declined.

Table 8.9 presents the degree of government intervention in the income of individuals and shows that the reduction in progressivity had two aspects to it, both of which worked to reduce the effect of policy on the distribution of income, i.e., the reduction in government allowances paid to the low income quintiles⁸ and the reduction in taxes that benefited those in the high income quintile.

One of the main policy measures aimed at reducing poverty among the working poor, and one of the most efficient, is the earned income tax credit (EITC) for low-

Almost all of those who benefited from the tax reductions were to be found in the highest income deciles.

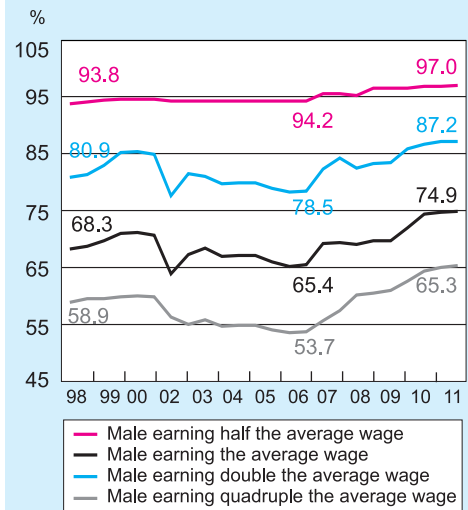
⁸ The reduced proportion of government intervention in the incomes of the lowest income quintile is a reflection of the increase in the proportion of economic income, in particular labor income, as a result of the increase in employment (since net income is the sum of economic income plus transfer payments less direct taxes). The larger the proportion of economic income, the smaller is the proportion of the government, even if there is no change in total transfers. An increase in employment rates in the lowest income quintile is positive in itself; however, as mentioned, entry into the labor market does not in itself guarantee rising above the poverty line.

The earned income tax credit has a large and positive effect on the welfare of working individuals.

earning workers (the “negative income tax”). The EITC has a considerable and positive effect on the welfare of working individuals. It improves the economic situation of households with low-income earners and may lift them to above the poverty line; it raises the return on employment and thus may strengthen the incentive to work rather than relying on allowances. There is also added value in reducing poverty and increasing employment, through the effect on children in the households that receive the benefit. Essentially, the EITC is one of very few policy measures that make it possible to increase the incomes and welfare of low-earning households without reducing the incentive to work or the demand for labor. Since it is focused on the weak segments of the population it can be used effectively to assist the working poor.

The EITC system began operating in a number of regions in Israel in October 2008. In 2010, the EITC was paid to the eligible workers according to their income in 2009. Working mothers with children up to the age of two were added to the program on a country-wide basis. The findings for the first three years of implementation⁹ indicate that in 2010 a total of NIS 131 million was paid out. Eighty percent of the payments were to weak segments of the population, i.e., Arabs, immigrants and the ultra-Orthodox. The nationwide implementation of the EITC program, which was planned

Figure 8.9
Share of Net Salary in Gross Salary^a



^a Net salary: Gross salary net of income tax and National Insurance payments (not including child allowances).

SOURCE: Based on Central Bureau of Statistics Income Surveys.

Table 8.5
Share of Government Intervention^a in Disposable Income, 2002-2010/11^a

Quintile	2002	2003	2004	2005	2006	2007	2008	2009	2010	2010/11
Lowest	56.5	53.5	49.1	47.2	45.6	42.6	42.5	42.4	41.8	40.9
2	29.5	29.7	27.4	27.5	25.9	23.7	24.1	25.3	25.0	24.7
3	4.5	5.7	5.5	3.9	5.0	3.5	4.4	6.6	6.1	6.8
4	-10.6	-9.4	-10.1	-8.8	-7.6	-9.0	-7.2	-4.8	-4.9	-4.7
Highest	-38.6	-33.0	-31.3	-28.9	-27.8	-29.9	-27.4	-23.1	-23.3	-21.7

^a Data based on a survey carried out between July 2010 and June 2011.

SOURCE: Based on Central Bureau of Statistics Income Surveys.

⁹ Bank of Israel (2011), Recent Economic Developments 130, June 2011.

for 2010 (on the basis of income earned in 2009), was postponed by the Arrangements Law to 2012. In 2011, the EITC was paid to those with entitlement based on only the first four months of 2010. The data for 2011 have not yet been processed; however, the temporary cancellation of the law in 2010 is likely to reduce the size of the annual credit significantly, as well as the number of those eligible and the proportion of those eligible who actually apply to receive the credit. It will also reduce confidence in the program and will thus lower the employment incentive implicit within it. As a result of the recommendations of the Trajtenberg Committee, it was decided to increase the EITC by 50 percent for eligible women who have children up to the age of 18.

Following the recommendations of the Trajtenberg Committee, it was decided to increase the earned income tax credit for eligible women with children up to the age of 18 by fifty percent.

2. THE MIDDLE CLASS IN ISRAEL

The continuing widening of the economic and social gaps in Israel, in a period of political and economic change around the world, have generated an overwhelming sense of dissatisfaction with the quality of life in the core of Israel's society and economy, the middle class; those of whom it is generally said that they bear most of the social, economic, and security burden, but are concerned that their standard of living and the quality of services that they receive from the government are declining.

a. Who belongs to the middle class?

Identifying the middle class has engendered widespread research literature in Israel and around the world, both in economics and in other social sciences, primarily sociology.¹⁰ In order to calculate the figures presented below, we chose to define the middle class so as to include individuals earning more than 75 percent but less than 125 percent of the median income. The upper middle class will include those who earn more than 125 percent but less than 200 percent of the median income. The use of income as the only parameter for this classification is meant to simplify the calculations and the analysis. The use of a relative definition (comparison with the median income rather than a division into quintiles or deciles) makes it possible to identify changes in the distribution of income that are not reflected in the division according to income quintiles—for example, when the income distribution becomes more concentrated around the median.

The middle class includes those who earn between 75 and 125 percent of the median income. The upper middle class includes those whose income is between 125 and 200 percent of the median.

The division of the population into classes according to equivalized net income (Figure 8.10) shows that the middle class constitutes about one-quarter of the population and the upper middle class about one-fifth.¹¹ The middle class and the upper middle class include the fifth to the ninth deciles for individuals and the fourth

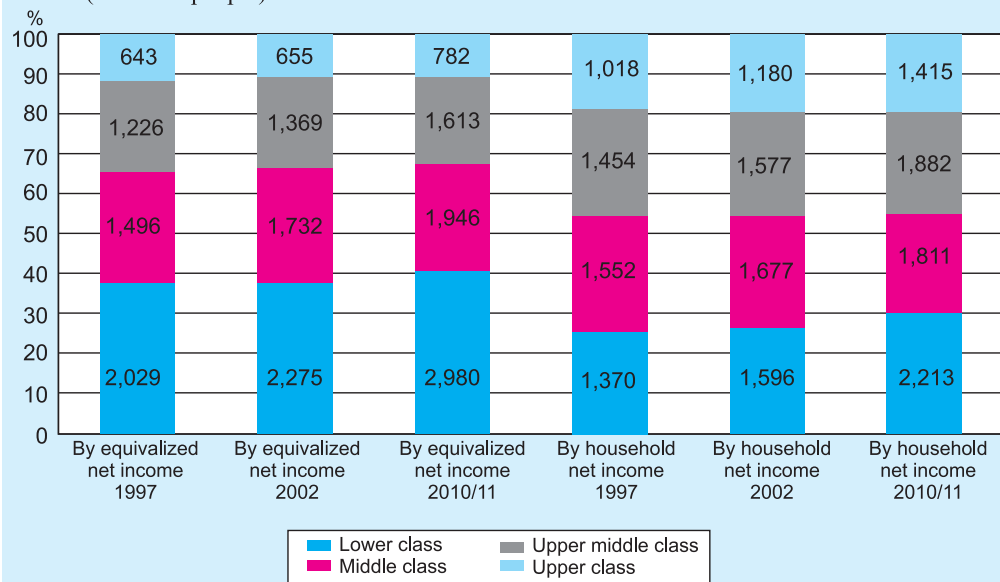
¹⁰ For a partial survey and a comparison of the various approaches and their influence on the measurement in selected countries, see: Atkinson, A.B. and B. Brandolini (2011) "On the identification of the 'middle class'," ECINEQ 2011-217, September.

¹¹ In the calculation according to household income, the middle class together with the upper middle class make up about one half of the population.

to eighth deciles for households. The proportion of these two classes within the total population has declined since 1997, primarily due to the increase in the proportion of the lower class. This is similar to developments in other advanced economies.

The characterization of the middle class from a demographic aspect indicates that the vast majority of those in it, and those in the upper middle class, are non-ultra-Orthodox Jews (90 percent of the middle class and 95 percent of the upper middle class). About half live in households with a couple and children and about an additional quarter are households with a couple but no children. Of the households with children, most have one or two children. Only about 2 percent of the middle class households have five or more children, and the number of such households in the upper middle class households is negligible.

Figure 8.10
Population Distribution by Socioeconomic Class, Selected Years
1997, 2002, and 2010/11
(thousand people)



Boundary between classes (2010 prices)	By household net income			By equivalized net income		
	1997	2002	2010/11	1997	2002	2010/11
From lower to middle class	5,952	6,271	7,275	2,185	2,420	2,881
From middle to upper middle class	9,919	10,451	12,125	3,642	4,034	4,801
From upper middle to upper class	15,871	16,721	19,400	5,827	6,454	7,682
Median income	7,935	8,361	9,700	2,913	3,227	3,841

^a Data referring to 2010/11 are based on a survey conducted between July 2010 and June 2011.
SOURCE: Based on Central Bureau of Statistics Income Survey.

The age composition of the heads of households has changed during the last two decades so that the two middle classes include more adults and the average age in the two middle classes has increased. With that, the proportion of individuals aged 65+ in the middle class has fallen and in the upper middle class has risen.

Figure 8.11a
Composition of Middle Class Households, Selected Years
1997, 2004, and 2010/11

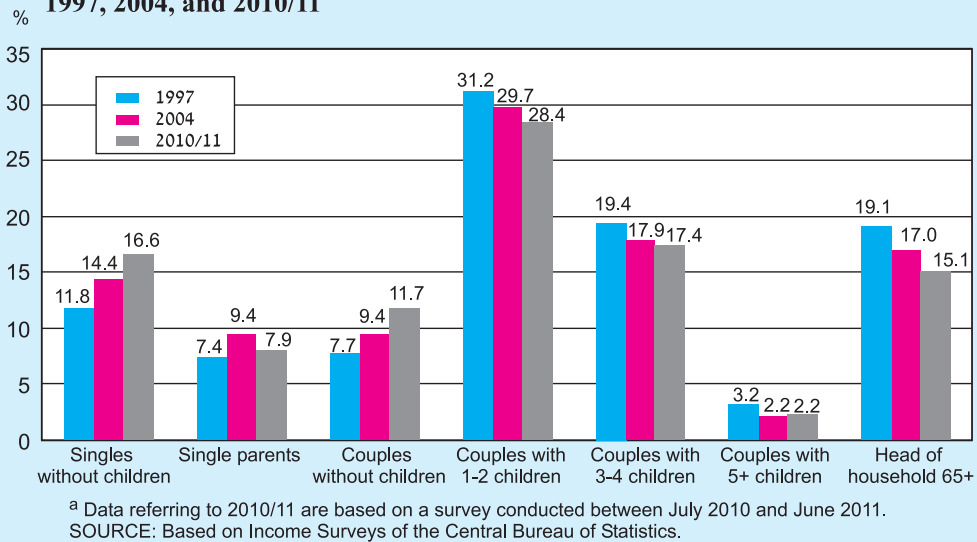
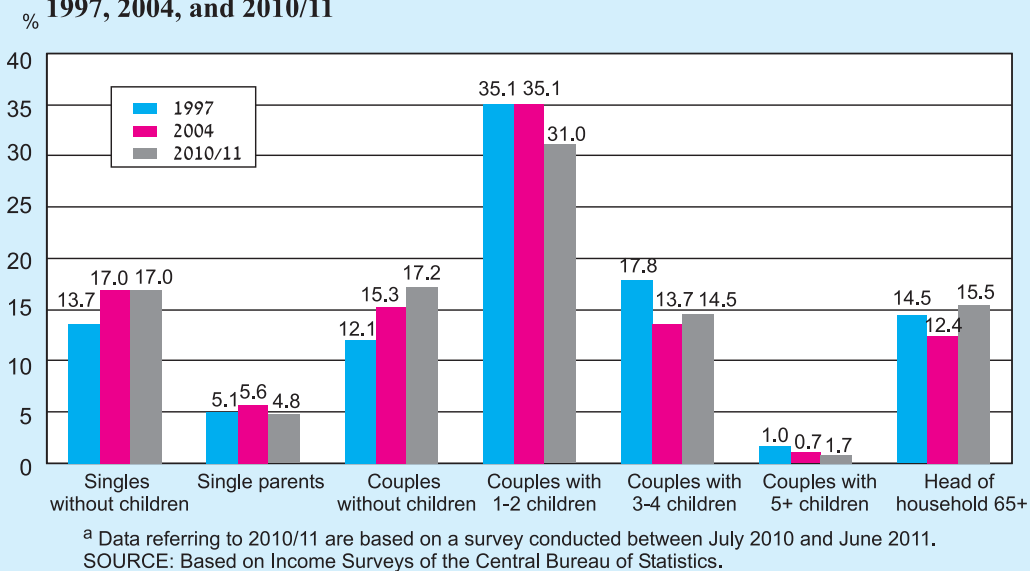


Figure 8.11b
Composition of Upper Middle Class Households, Selected Years
1997, 2004, and 2010/11

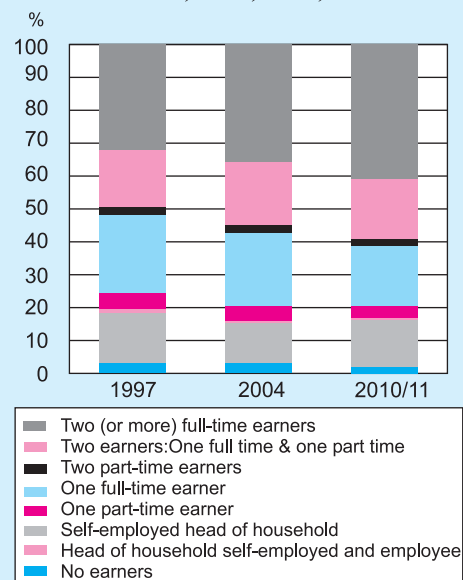


b. Employment characteristics of the middle class

Most middle class households have two income earners.

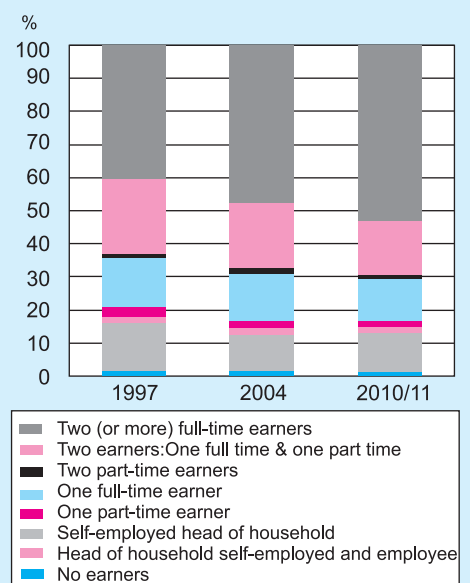
In more than 40 percent of the households in the middle class and more than one-half of the households in the upper middle class there are two full-time earners. In most of the other households in these classes, there is at least one full-time earner or a self-employed head of household. The proportion of the households without any earners or in which there are only part-time earners is less than 10 percent. The labor input of middle and upper middle class households has increased significantly since 1997. A relatively large proportion of the members of the middle class are in professions requiring higher education or the “free” professions (medicine, law etc.) or professional services. Among men, there is also a significant proportion of workers in technical professions. Among women, there is also a significant proportion employed in clerical professions and in sales and services (Figure 8.13).

Figure 8.12a
Composition of Employment in
Middle Class Households
Selected Years, 1997, 2004, and 2010/11^a



^a Data referring to 2010/11 are based on a survey conducted between July 2010 and June 2011.
SOURCE: Based on Central Bureau of Statistics Income Survey.

Figure 8.12b
Composition of Employment in Upper
Middle Class Households
Selected Years, 1997, 2004, and 2010/11^a

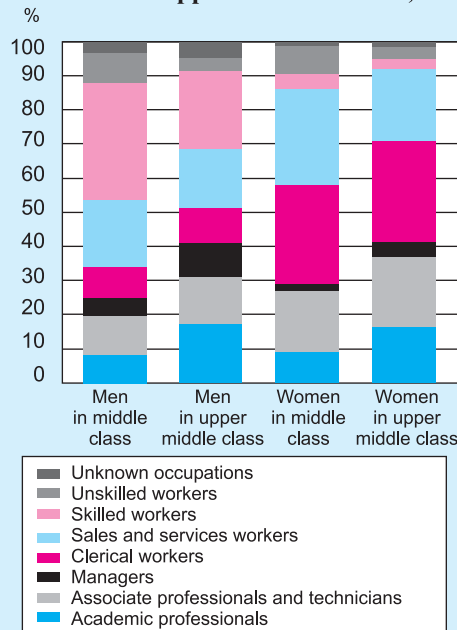


^a Data referring to 2010/11 are based on a survey conducted between July 2010 and June 2011.
SOURCE: Based on Central Bureau of Statistics Income Survey.

c. The expenditure side and the prices of goods and services

One of the main claims that arose in the public discourse on the state of the middle class in Israel related to the erosion of its income, in contrast to the marked increase in its expenditure on goods and services. Meanwhile, the share of private expenditure out of total expenditure on services such as education and health has increased in

Figure 8.13
Distribution of Occupations among
Middle and Upper Middle Classes, 2010
 %



SOURCE: Based on Central Bureau of Statistics Income Surveys.

recent decades. Furthermore, public expenditure on education and health in Israel is low relative to the developed countries.¹²

An analysis of the expenditures of members of the middle class according to category shows that there are several types of expenditure that consume a large proportion of household income. Thus, about 30 percent of middle class households pay rent, and this proportion is higher among singles than among couples and among parents of young children than among parents of older children. The expenditure on rent is a relatively heavy burden on the household, ranging from 20 to 37 percent of income, on average. In addition, a large proportion of the households that own a home have mortgage payments that consume a significant portion of their disposable income.

Another major expense category is transportation, with a majority of households paying from 12 to 20 percent of their income to maintain a vehicle. A large proportion of households have public transportation expenses that constitute from 3 to 5 percent of their income.

A large proportion of households with young children (up to the age of 9) incur expenses for pre-school education, which constitutes a sizable proportion of their income. Thus, the expenditure on baby and toddler care constitutes about 11 percent of their income, expenditure on kindergartens constitutes about 8 percent, and the expenditure on pre-first-grade programs and primary school constitutes about 2–5 percent. The expenditure on afternoon childcare constitutes 5–8 percent of income. For households with more than one child in the relevant age group, the expenses can accumulate to a significant proportion of income.

Almost all middle class households spend some of their income on health services. Most of them pay for health insurance and supplementary health insurance and a smaller proportion for other health-related products and services.

The expenditure on travel abroad constitutes a sizable proportion of disposable income for households that spend on this item. However, contrary to what is commonly

¹² For a discussion of the education and health services from an international perspective, see Chapter 6 of this report.

believed, the percentage of households that spend on travel abroad is small relative to other expense items.

The disposable income of middle and upper middle class households has increased faster than prices since 1997, both on average (the CPI) and for most expenditure items (apart from health insurance and the expenditure on electricity, water and gas). However, the rate of increase in prices since 2007 has accelerated and a comparison of the increase in average income with the rise in the prices of certain goods and services from 2007 to 2010 shows that the price of goods and services which were at the core of the protest (housing, food, electricity, gas and water) increased more than income.

From 2007 until 2010, the prices of certain goods and services increased at a faster pace than the average income of a middle class household; on the other hand, the prices of other goods have declined. The CPI has risen less than income.

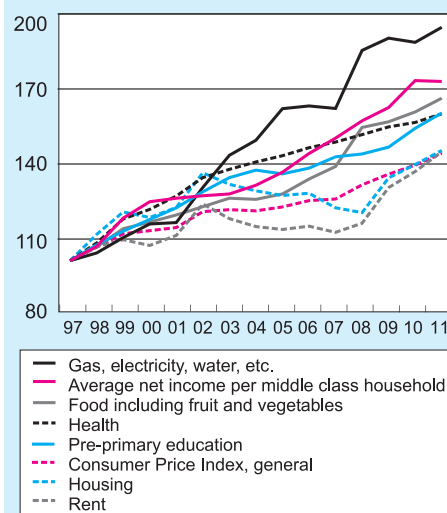
The burden of these expenses on young households is even larger for several reasons: First, their income is lower than that of older households. Second, there is a lower proportion of home ownership among these households and therefore a higher proportion of them pay rent. Of those that own a home, many of them have a large mortgage to be serviced and this consumes a sizable portion of their income. Third, a larger proportion of these households have education expenses. Expenses for very young children are considerable and also involve an aspect of “babysitting” that enables parents to go to work, such that the elasticity of demand for education services for this age group is lower than for older ones. It is important to remember that a significant portion of the increase in income has been the result of an increase in household labor input. This implies that in order to maintain their standard of living, households have to work more than in the past. In contrast, there are goods that have become significantly cheaper, such as clothing and footwear and household electrical appliances.

d. Recommendations of the Trajtenberg Committee

The Trajtenberg Committee, which was appointed to formulate policy recommendations in response to the protests in Israel during the summer of 2011, chose to focus on working families (defined by the Committee as households in which the labor input exceeds 125 percent of an employee post) with young children. This is based on the idea that this population bears a disproportionate share of the burden,

Figure 8.14
Price Indices of Goods and Services Compared With Average Net Income Per Middle Class Household,^a 1997-2011

Index: 1997 = 100



^a Average net income per middle class household for 2011 in this graph was calculated using figures from July 2010 through June 2011.
SOURCE: Based on Central Bureau of Statistics price indices and Income Surveys.

both in economic terms and in terms of their contribution to society in general. In addition, young parents are at the beginning of their careers and therefore earn low wages (also relative to their future wages) while their expenses at this stage in life (such as for starting a family, childrearing, purchasing a home, etc.) are very high.

An analysis of the main characteristics of families that satisfy both basic criteria established by the Committee compared with the characteristics of families in which there is a similar labor input but older children, shows that the share of working families with children has increased during the last decade (as a result of the significant increase in the participation rates of women) and in 2010/11 they constituted about one quarter of all households. Of these, about 15 percent are Arab, about 5 percent are ultra-Orthodox, and about 63 percent have children up to the age of nine.

The average income of households that fulfill the employment criterion and have children up to the age of nine is somewhat above the average; however, as expected, it is lower than that of similar households that fulfill the employment criterion and have children over the age of nine. Figure 8.15 presents the distribution, by class, of households that have children and fulfill the employment criterion. These households are located higher up than the general population and households with older children are located, as expected, higher up still.

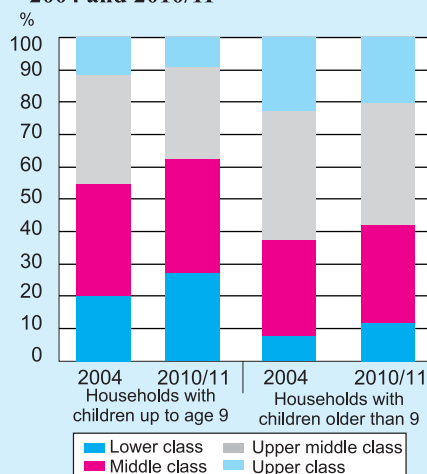
One of the Committee's recommendations that affects families who were defined as its focus population involves free education for children aged 3-4 (kindergartens) and at a later stage free or subsidized education for younger ages as well. The

recommendation to provide free nursery school education is set to be partly implemented in September 2012. The Committee explained its recommendation by the fact that most children aged 3-4 are not eligible for free education and therefore a sizable economic burden is imposed on the parents. In addition, about 28 percent of the children do not attend a supervised pedagogic framework and instead are to be found in private, non-supervised frameworks, which are often more expensive, or in no framework at all.

An initial examination of the effect of implementing this recommendation indicates that the addition to income for each household that currently pays for pre-school education (day care and private nursery schools) in the amount of the actual expenditure will not have a significant effect on inequality in the economy as a whole or within the group itself. This

The recommendation of the Trajtenberg Committee to extend the Free Education Law to children aged 3-4 will go into effect starting from September 2012.

Figure 8.15
Distribution of Focus Population^a by Socioeconomic Class, 2004 and 2010/11^b



^a The focus population for the Trajtenberg Committee includes families in which the labor input is greater than 125 percent of a full-time position.

^b Data referring to 2010/11 are based on a survey conducted between July 2010 and June 2011. SOURCE: Based on Central Bureau of Statistics Income Surveys.

Table 8.6
Expenses of Focus Population,^a 2005 and 2010

	2005			2010		
	Overall population	Labor input of household with over 50 work hours weekly		Overall population	Labor input of household with over 50 work hours weekly	
		Couples with children under 9	Couples with children older than 9		Couples with children under 9	Couples with children older than 9
Individuals	6,428,333	1,441,688	937,890	7,121,950	1,643,246	1,126,336
Households	1,913,523	305,579	224,734	2,117,516	338,412	262,451
of which: Arab	1,071,501	219,805	79,519	1,374,535	287,474	190,586
ultra-Orthodox	352,598	26,706	12,265	420,299	63,329	21,664
Average income	10,177	14,627	15,692	12,946	17,308	19,319
Gini Index	0.385	0.292	0.274	0.374	0.273	0.279
Housing:						
Percentage of households which own a home	72.2	76.8	84.8	70.6	72.4	87.0
Percentage of households paying a mortgage	35.1	60.7	49.5	31.0	53.3	46.1
Mortgage expense share of income	19.6	17.8	14.4	23.9	20.4	13.8
Percentage of households paying rent	25.1	20.5	15.5	26.7	22.6	14.5
Rent expense share of income	27.5	19.0	18.7	29.9	19.2	17.9
Education:						
Total share of households which have education services expenses	55.5	86.5	69.7	58.9	91.8	72.0
Total share of education expenses out of income	10.6	9.7	6.7	11.3	11.6	6.2
Share of households paying for baby care and toddler care (up to age 3)	6.0	21.2	0.0	6.9	23.8	0.0
Share of household expenses on baby care and toddler care out of income	10.6	10.1	.	11.3	10.2	.
Share of households paying for kindergarten (ages 4-5)	10.2	28.3	0.0	10.9	34.5	0.0
Share of household expenses on kindergarten out of income	8.3	6.9	.	7.5	6.6	.
Share of households paying for afterschool childcare	4.1	15.2	0.4	5.2	21.2	0.0
Share of household expenses on afterschool childcare out of income	4.2	4.1	1.6	4.3	3.7	.
Share of households paying for pre-first grade programs and primary education (generally ages 5-12)	16.1	37.0	9.3	16.0	38.3	8.8
Share of household expenses on pre-first grade programs and primary education out of income	3.7	2.1	1.9	3.9	2.5	2.3
Share of households paying for middle school or high school	12.3	17.1	27.8	11.5	14.3	26.3
Share of expenses on middle school or high school out of income	4.0	2.1	2.4	4.8	3.0	2.2
Share of households paying a post-secondary institution	10.3	9.6	23.1	11.7	12.3	23.8

Table 8.6 (Cont.)
Expenses of Focus Population^a, 2005 and 2010

	2005			2010		
	Overall population	Labor input of household with over 50 work hours weekly		Overall population	Labor input of household with over 50 work hours weekly	
		Couples with children under 9	Couples with children older than 9		Couples with children under 9	Couples with children older than 9
Share of expenses on post-secondary or academic institution out of income	11.7	8.1	8.6	18.8	6.2	7.5
Share of households paying for other educational services (such as clubs and tutors)	26.7	46.2	35.3	29.4	50.1	37.9
Share of other education services expenses (such as clubs and tutors) out of income	2.9	2.6	2.5	3.7	2.9	2.2
Health:						
Total share of households which have health-related expenses	93.1	96.7	95.0	97.5	97.4	96.2
Total share of health-related expenses out of income	9.1	4.4	5.3	8.3	4.6	5.2
Transport:						
Share of households which pay for public transport	42.8	33.0	48.1	38.3	31.0	41.3
Share of public transport expenses out of income	4.3	2.5	2.8	4.1	2.5	2.2
Share of households which pay for vehicle maintenance	62.3	86.0	82.9	66.4	87.7	83.6
Share of vehicle maintenance expenses out of income	19.0	15.9	16.4	17.3	15.7	14.9
Other:						
Share of households which pay for travel abroad	13.1	13.5	20.7	13.1	13.7	20.2
Share of travel abroad expenses out of income	25.3	15.2	16.2	28.4	14.3	14.9
Share of households which pay for recreation and excursions	24.6	39.2	28.9	23.3	37.1	28.4
Share of expenditure on recreation and excursions out of income	3.8	3.4	2.5	3.9	3.5	2.9
Share of households which pay for cultural activities and hobbies	97.9	99.7	99.4	97.9	99.3	99.3
Share of spending on cultural activities and hobbies out of income	7.4	6.3	6.5	8.0	6.5	5.8
Share of households which pay for meals outside the home	56.6	71.2	67.3	54.8	66.9	64.4
Share of spending on meals outside the home out of income	4.8	2.9	3.0	4.8	3.2	2.7

^a The population defined in the Trajtenberg Committee report as the focus population: households in which the labor input is greater than 125 percent of an employee post. For the simplification of the calculation, the focus population was defined as households consisting of couples in which the labor input is above 50 hours per week. A more complicated definition, referring to place of work (business sector or public sector) and to branch of education yielded similar results.

SOURCE: Central Bureau of Statistics Expenses Surveys.

calculation is only a rough estimate of the effect of the recommended measure on inequality. Thus, on the one hand, implementation on a large scale is expected to have a larger effect on inequality, since it is reasonable to assume that there are those who will take advantage of free education who have young children and who until now did not pay for their education. In the long run, it is possible that this measure will have an additional effect on inequality by lowering the costs of going to work for parents with young children and will thus increase their employment rates. On the other hand, households that fulfill the employment criterion are relatively better off. In other words, a large part of the benefit will go to households that were in any case in the upper part of the income distribution, which may moderate the effect of the benefit on inequality. Another factor that may limit the measure's effect on inequality is the manner in which it is implemented. In other words, will all households who fulfill the criteria receive the benefit and to what extent will free education be widely accessible and equally available to all? It should be remembered that some of the potential beneficiaries already receive free education services and therefore they will not gain any additional benefit from the measure. These parents live in peripheral areas where average income is lower and this fact will moderate the expected effect of the measure even further.

In short, it appears that free nursery education will have only a moderate effect on inequality. The investment of these resources in alternative policy measures might have achieved a greater reduction in inequality. However, it appears that the main goal of the measure is not to reduce inequality at a particular point in time but rather in the short run to provide a solution for households which, despite their relatively large labor input, have difficulty meeting their high level of expenses. In the medium term, free education may have an additional positive effect by reducing the cost of going to work and thus increasing employment rates. In the long run and if free education is fully and effectively implemented, the measure may improve pre-school education and thus may improve the development of children and their chances of future success.

3. PUBLIC SERVICES NETWORK FOR LONG-TERM CARE OF THE ELDERLY IN ISRAEL

a. The demographic changes and their effect on public services to the elderly

The number of the elderly (aged over 65) in Israel, their proportion in the total population and the proportion of the very old (aged over 80) within the population in Israel have increased greatly since the 1970s, and according to the forecasts of the Central Bureau of Statistics¹³ they are expected to continue doing so in the future

¹³ Paltiel, A. et al. (2011), "The forecast population of Israel in the long run: 2009–2059," Demography and Census Branch, Central Bureau of Statistics. These forecasts take into account existing and currently measurable trends only. Actual developments are likely to be influenced to a large extent by policy changes, economic conditions, health developments, etc., which are currently unknown.

(Table 8.7). The increase in the proportion of the elderly in the population is also reflected in an increase in the old-age dependency ratio, which is the ratio of the elderly population to the working-age population (ages 20-64), and by an increase in the proportion of individuals aged 65 and older who suffer from physical limitations which impair their day-to-day functioning. The ageing of the population has increased the demand for public and private care services and health services for the elderly. The demand for these services is expected to increase considerably in the future, and to increase public and private expenditure on those services. The factors behind these trends are also expected to intensify in the future—the proportion of the elderly in general and of the elderly who have difficulty in day-to-day functioning will increase; economic and social trends that reduce the capability of family members to serve as the prime caregivers will intensify,¹⁴ and the standard of living will increase and along with it the demand for better long-term care of the elderly.

The ageing of the population is expected to increase national expenditure on long-term care of the elderly.

Table 8.7
The Proportion of the Elderly in the Population and the Life Expectancy of Men and Women at Birth and at Age 65 (Historical and Forecast Data)

	1975	2009	2019	2059
Share of people aged 65+ in total population (percent)	8.7	9.8	12	15.8
Share of people aged 80+ in total population (percent)	1.1	2.8	3	6.2
Number of people aged 80+ (thousand)	31.3	207.8	270.6	1,029.30
Old-age dependency ratio (over 65s divided by population aged 20-64, in percent)	15.9	18.1	23.2	33
Men				
Life expectancy at birth	70.3	79.7	No life expectancy forecasts available	
Life expectancy at age 65 ^a	14.1	18.5		
Healthy life expectancy ^b	-	71.8		
Women				
Life expectancy at birth	73.9	83.5	No life expectancy forecasts available	
Life expectancy at age 65 ^a	15.6	20.7		
Healthy life expectancy ^b	-	73.7		

^a Averages for the period 1975–79, 2006–10.

^b Data is not available for 1975 or 2009. The data presented relate to the last year for which figures are available (2007).

SOURCE: Central Bureau of Statistics; database of the Center for the Study of the Ageing of the Population in Israel; and the European Health for All (HFA) database.

¹⁴ For example, the fact that the elderly live apart from other family members, the drop in the birthrate and the increase in workforce participation among women, who are in general the main caregivers within the family.

The ageing of the population and long-term old age care services¹⁵ are one of the main topics of public discourse in developed countries.¹⁶ All the countries maintain public services to support the elderly, and the following issues are the focus of attention (including in Israel): (1) The health situation of the elderly, their quality of life and that of their family members, and the ability of their family members to bear the financial, physical or emotional burden of care; (2) the public budget allocated to public services for long-term geriatric care (including care allowances or in-kind services, establishment of geriatric institutions, supervision of the activity of those institutions and the financing of institutionalization and the accompanying social and logistic services); (3) the effect on the labor market, i.e., the increase in demand for caregivers who are not family members and the reduced participation in the workforce of family members who are traditionally the main caregivers; (4) the development of the private geriatric care insurance market and the increase in the number of private frameworks for geriatric care, which reflect the rapid growth in private expenditure on nursing care; and (5) the structure of the public institutions and their effect on inequality in the level of assistance received by elderly persons with different income levels.

The system of public services for the long-term care of the elderly in Israel already suffers from several problematic features, and it is vital to improve them and make them more efficient.

The system of publicly provided services for the long-term care of the elderly in Israel already suffers from a number of problematic features. For example, services offered and the supervision over them are the responsibility of several different bodies, without any entity that connects between them, which affects the quality of service to those needing the care and leads to inefficiency; some of the means tests involve complicated bureaucratic procedures, which leads to underutilization of patients' rights and to higher costs relative to alternatives; and the growing volume of long-term care services and private nursing care insurance, a process which is likely to increase inequality in the consumption of nursing care services in the future. Against the background of the expected increase in the number of the elderly and in their proportion of the population, there is a critical need to improve long-term elder care services and to increase their efficiency, while at the same time taking into account the expected effects of future demographic changes on the economic situation of the elderly and on the supply of caregivers.

b. Publicly provided services for long-term care of the elderly

The system of publicly provided services for long-term care of the elderly in Israel is the responsibility of the National Insurance Institute, the Ministry of Health, the

¹⁵ Long-term care is the therapeutic and individual services provided to a person with limited abilities who is in need of assistance in day-to-day functioning.

¹⁶ The OECD dealt with these issues at length in two of its recent publications: Colombo F., et al., "Help Wanted? Providing and Paying for Long-Term Care" (2011) and "Health at a Glance 2011," among many others.

health funds, the Ministry of Welfare and Social Services and the municipalities.¹⁷ The services are provided either by these bodies directly or through subcontractors. The dispersion of services among various ministries is a reflection of the division of authority for the care of individuals in various stages of dependency, according to the evaluation of each link in the chain of assistance:

1) The National Insurance Institute provides long-term care benefits for individuals over retirement age who live in the community (in their homes or in sheltered housing).

2) The Ministry of Health provides assistance to those requiring institutionalization and supervises some of the geriatric institutions.

3) The health funds deal with the most serious cases that require complicated hospital care, although they also provide health services to all elderly individuals living in the community.¹⁸

4) The Ministry of Welfare and Social Services deals with independent elderly individuals who suffer from, for example, loneliness, mental disturbances or financial distress, and those who require assistance from others, but are not considered to be in need of geriatric care, and who live in the community or in institutions. In addition, the Ministry of Welfare and Social Services deals with the elderly in the community in need of nursing, via for example day centers, placing elderly individuals in institutions, and supervising some of the geriatric hospitals. Most of the activity of the Ministry of Welfare and Social Services in this area is carried out jointly with the municipalities, which also cover about one-quarter of the cost.

The eligibility for publicly provided long-term care is based on an evaluation of the elderly individual's dependence on assistance in order to carry out daily activities. The level of public assistance provided to finance these services is dependent on means tests carried out by the various bodies providing assistance. These tests vary in stringency: the National Insurance Institute only examines the income of the elderly individual and his spouse in order to determine eligibility for a long-term care allowance; the Ministry of Health also examines the income of the elderly individual's children in order to establish eligibility for assistance in hospitalization expenses; and the Ministry of Welfare and Social Services evaluates the income of sons/daughters-in-law, in addition to that of the elderly individuals themselves and that of their spouse and children. The processes involved in these means tests often deter the public from applying for assistance and can lead to underutilization of an elderly individual's rights. Thus, for example, many households fully finance the cost of geriatric institutionalization on their own, at private market prices, rather than apply for assistance from the Ministry of Health. This, in spite of the fact that because

Several institutions and Ministries play a role in the system of public long-term care of the elderly.

The processes involved in the means tests deter the public from applying for assistance, and can lead to underutilization of the rights to which the elderly are entitled.

¹⁷ Also involved in assistance to the elderly: the Ministry of Construction and Housing (in renovating residential housing for the elderly), the Ministry for Senior Citizens and the Ministry of the Interior (which issues permits for foreign workers in the nursing care industry). The Ministry of Housing and the Ministry of Absorption also operate sheltered housing, which is intended primarily for individuals who immigrated to Israel starting in the 1990s (about one quarter of the population over 65); this framework is intended for relatively independent elderly individuals.

¹⁸ According to the National Health Insurance Law, 5754–1994.

the service is universal, if they had applied for assistance they would have at least benefited from Ministry of Health prices, which are lower than those in the private market, even if they had been found ineligible for a subsidy.

Most of the long-term care services for the elderly in Israel are provided in the community, as in most OECD countries. Starting in 1988, the National Insurance Institute has provided long-term care benefits, which is the main means of assistance (in terms of the budget allocated to this purpose and the number of those benefiting from the assistance). The allowance is provided on the basis of the Long-Term-Care Insurance Law, which reflects the preference given to care in the community over institutional care. This preference is meant to be for the benefit both of the elderly individual and of society, and to minimize costs, which are lower for care provided in the community.¹⁹ In 2010, about 141,000 elderly individuals (monthly average) were eligible for a long-term-care benefit, of which about 56 percent were eligible for the lower level of the allowance. However, the percentage of those eligible for the highest level of the allowance is growing continuously.²⁰ The long-term-care benefit is provided as services in kind and its level denotes the number of hours of home care that the allowance pays for, according to the rate set by a government committee.²¹ (The lowest level of the allowance is sufficient for 9.75 weekly hours of home care while the highest level is sufficient for 18 hours.) In March 2008, a pilot was begun that provided cash allowance instead of service in kind and following the pilot the National Insurance Institute recommended expanding the provision of the allowance in this form.²²

Figure 8.16 depicts three important trends in the use of long-term care services in the wake of the Long-Term-Care-Insurance Law: (1) the use of nursing services in the community has risen continuously and at a more rapid rate than the growth rate of the elderly population, which is reflected in the rapid increase in the number of recipients of the nursing care allowance and the number of Israeli and foreign caregivers employed in home care; (2) the number of beds for long-term institutionalization has risen only moderately, which reflects the substitution between services in the community and in institutions; and (3) there has been a pronounced upward trend in the number of foreign home caregivers, who are the primary paid caregivers in households (in terms of fulltime positions).

¹⁹ Brick, Y., "Growing old in the community" and Brodsky J., "Issues and dilemmas related to the home care of chronically ill elderly individuals and those that are functionally limited," in E. Iecovich (ed.) (2011), *Home Care for the Functionally Limited Elderly: Issues, Services and Programs*, Joint Israel, Eshel in cooperation with the Ministry for Senior Citizens.

²⁰ The National Insurance Institute (2011), "Annual Survey 2010".

²¹ The nursing care allowance can be used to finance other services apart from home care, such as visits to a day center, diaper products, laundry services and a panic button.

²² See Gharrah, R. (2010), "Cash Long-Term Care Benefit Experiment: Accompanying Research," the National Insurance Institute, Research and Planning Authority, Paper 103.

Since the second half of the 1990s more and more of the long-term care services for the elderly are provided in the community, and these currently constitute most of those services.

Foreign workers are a major component in the system of care for the elderly in the community.

Foreign workers have become a central component of long-term care of the elderly, and the number of permitted workers stood at 54,000 in 2010.²³ The government policy to reduce the number of foreign workers in the economy and the setting of quotas on their employment does not apply to nursing care. Compared to other countries, Israel's proportion of foreign caregivers among total workers employed in long-term home care is very high; among the OECD countries, only Italy and Greece have higher rates, although a large proportion of the workers employed in long-term home care in those countries work illegally.²⁴ The employment of foreign workers in nursing care has some important advantages. It allows elderly individuals who are very dependent on nursing aid to continue living in the community and puts off their institutionalization, thereby reducing the burden of expenditure on households and the public, and contributing to the progressivity of care. In certain cases it also results in a higher level of care. However, this situation also leads to negative externalities, which have been written about extensively.²⁵

In recent years, a number of steps have been taken to encourage the employment of Israelis in home care. At the beginning of 2007, an additional (higher) level was added to the nursing care allowance, and in March 2009 the nursing care allowance was raised for those who employ Israelis.²⁶ However, the influence of these measures on the employment of Israelis has been only a modest one. For most elderly individuals, the employment of an Israeli in the home is not viewed as an alternative to a foreign worker, particularly by those already employing foreign workers, especially in view of their lower cost.²⁷ Although the availability and relatively low wages of foreign workers in the nursing care industry in Israel make this one of the main methods of providing care for the elderly in the community, it has hindered the development of other solutions beside the already existing ones, in particular the expansion of public services in the community, and has prevented the growth in the number of Israeli workers in the industry.

²³ About 43,500 are employed legally. About 65 percent of the foreign workers in the nursing care industry are employed as caregivers for elderly individuals who are eligible according to the Nursing Insurance Law. About one-half of the rest are employed as caregivers for elderly individuals who do not come under the Law and the other half are employed as caregivers for non-elderly handicapped individuals.

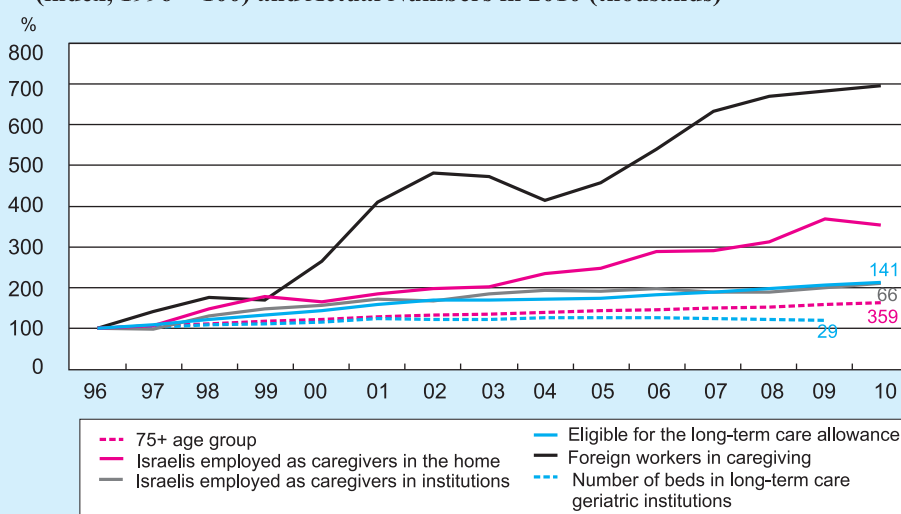
²⁴ Colombo F., et al., "Help Wanted? Providing and Paying for Long-Term Care" (2011), OECD Health Policy Studies, OECD Publishing.

²⁵ For further details, see "Report of the Committee to Design Policy for Non-Israeli Workers," which can be found on the website of the Prime Minister's Office.

²⁶ The National Insurance Institute (2011), "Annual Survey 2010," Chapter 3: Activity and Trends in Nursing Care Allowances.

²⁷ Bar Tsur, R., "Holders of permits to employ foreign workers in nursing care – an overall view," (2010), Ministry of Industry, Trade and Labor, Research and Economics Authority.

Figure 8.16
Indices for the Supply of Services for the Long-Term Care of the Elderly^a
 (index, 1996 = 100) and Actual Numbers in 2010 (thousands)



^a According to the figures of the National Insurance Institute (which are not available in the form of a long-term time series), there were 67,800 workers employed as caregivers in the homes of the elderly in 2010 who were funded by the Long-Term-Care Insurance Law. The figures presented in the graph were calculated based on the Labour Force Survey of the Central Bureau of Statistics in order to present a long-term series of data. These numbers represent about one-third of the workers actually employed in 2010 according to the data of the National Insurance Institute. The difference is apparently the result of the fact that the primary employment of many of the Israeli workers is not as caregivers. Nonetheless, it is reasonable to assume that the trend in the number of Israeli workers is reflected in the Labour Force Survey over the years and that what appears in the graph is indeed consistent with actual trends. There are no available historical figures on the number of foreign workers actually employed in the nursing care industry, so the graph presents the number of authorizations for their employment, which reflects the trend of demand for their services. The sharp fluctuations in the number of authorizations for foreign caregivers in the nursing care industry during 2003-05 is a result of technical factors and does not reflect a real drop in their number. A small portion of the foreign workers in the nursing care industry are employed in the homes of non-elderly handicapped individuals. The figures for number of beds in long-term care institutions were not available for 2010. Sources: Based on data from the Labour Force Survey of the Central Bureau of Statistics; Population and Immigration Authority; the National Insurance Institute Statistical Quarterly; database of the Center for the Study of the Ageing of the Population in Israel.

c. The expenditure on long-term care of the elderly

The public expenditure on long-term geriatric care was about NIS 5.8 billion²⁸ in 2010, which represents about 0.7 percent of GDP (Table 8.8). For 2010, the Ministry of Health estimated private expenditure²⁹ on long-term geriatric care to be about NIS 4.1 billion, about half of which went to financing care in the community and the rest to financing hospitalization. Therefore, the total national expenditure on long-term geriatric care came to about NIS 9.9 billion.

²⁸ In addition to this amount, the health funds spent about NIS 255 million on complicated geriatric hospitalization, an expenditure that is included in the per capita formula.

²⁹ Horev, T., N. Kedar and A. HersHKovits, "Public Insurance for Long-Term Care – an Outline for Reform" (2011), Ministry of Health.

Table 8.8
Publicly Provided Long-Term Care of the Elderly in 2010

	Services in the community	Services in institutions	Expenditure in 2010
The National Insurance Institute	Mainly long term care benefits and also development of services in the community and transfer of budgets to subcontractors that provide services in the community.	Financing of hospitalization in the geriatric hospitals.	NIS 4 billion (98 percent of which is paid out as nursing care allowances)
The Ministry of Health	Participation in financing the use of rehabilitation and mobility aids.	Funding of hospitalization in geriatric hospitals and their supervision.	NIS 1.3 billion
Health funds	Provision of home care.	Funding of complicated hospital care.	NIS 245 million (for complicated hospital care)
Ministry of Welfare and Social Services ("Service for the Elderly")	Operation of day centers.	Funding of old age homes for the independent elderly; funding of sheltered housing for the elderly and supervision of the institutions.	NIS 216 million ^a (45 percent of which goes to funding of services in the community)
Total expenditure ^a	NIS 5.8 billion (2.8 percent of total public expenditure; 0.7 percent of GDP)		

^a In addition, the municipalities spent about one-third of this sum to fund local Service for the Elderly activity.

SOURCE: Ministry of Welfare and Social Services, "Survey of Social Services for 2009 and Figures for Elderly Services"; National Insurance Institute Statistical Quarterly; T. Horev, N. Kedar and A. HersHKovitz (2011), "Public Insurance for Long-Term Care—Outline of a Reform," Ministry of Health.

The ratio of public expenditure to GDP in Israel is low in comparison with other OECD countries, even when taking into account the fact that the population in Israel is young relative to those countries.³⁰ In addition, the share of private expenditure on long-term geriatric care within total expenditure (both public and private) on long-term care of the elderly in Israel is high relative to other OECD countries. While in Israel private expenditure is only a little less than public expenditure, in other OECD countries public expenditure is on average four times larger than private expenditure. In other words, public expenditure on long-term care of the elderly is lower in Israel than in advanced economies while its private expenditure is higher. In Israel, demographic trends alone are expected to increase public expenditure on long-term geriatric care by at least 30 percent (in constant prices) by 2019 and by more than 300 percent by 2059 (assuming that the proportion of the relevant age group needing long-term care remains at its present level).³¹

³⁰ A strong correlation was found in the OECD countries between the proportion of the population aged 80+ and the proportion of public expenditure on long-term geriatric care within GDP. According to the regression line for OECD countries, the proportion of public expenditure in Israel should have been about one percent of GDP.

³¹ The proportion of those needing nursing care may also increase as a result of, for example, an increase in the proportion of the 80+ age group within the population or an increase in dependency with age, or it may decline as a result of, for example, a possible decline in the dependence on assistance in younger age groups.

Private expenditure on long-term care of the elderly is higher than that in the OECD.

d. Policy trends

The ageing of the population in Israel, as in other countries, is increasing the demand for health and welfare services, particularly long-term health care for the elderly. The increase in demand is being accelerated by the rise in the standard of living and the growth in the participation of women in the workforce. The expected demographic trends and other factors are expected to significantly increase public and private expenditure on long-term geriatric care and the demand for caregivers.

Israel's publicly provided services for long-term care of the elderly have undergone a number of changes over the years, and a number of proposals have recently been made to change the administration, funding and supply of these services. The Ministry of Health is working towards a comprehensive reform of the structure and operation of public services for long-term elderly nursing care.³² The aim of the reform is to make public nursing care services universal and to allocate the main responsibility for the management and provision of nursing care services, and for the interface with the patients, to the health funds. The Ministry of Health itself will be responsible for supervision and policy making, and the National Insurance Institute will continue to implement the tests to determine the dependence of elderly individuals. Based on a plan prepared by the Research and Planning Authority of the National Insurance Institute, the Trajtenberg Committee³³ recommended a change in the criteria for the nursing care allowance, which would focus on assistance to elderly individuals who are in greater need of assistance due to their dependence on others and their financial situation. Both proposals recommend reinforcing support for the elderly in the community and strengthening the coordination between the various entities responsible for elderly care. The Ministry of Health also presented a detailed plan for implementing these changes.

The division of long-term care services between the various entities without a coordinating body and the existence of a number of different means tests is apparently leading to underutilization of patients' rights, bureaucratic overload and reduced quality of service for the elderly and their families. Ways should be examined for increasing the coordination between the various services in the community and in institutions and the efficiency of the means tests in a way that will improve public services for the elderly and their families and will lead to full utilization of their rights. As for the proposed reforms, it is recommended that their implementation focus on the structure of public services for the elderly, both in the community and in geriatric institutions, and their funding, in order to deal with future demographic trends.

Changes are needed
in the structure and
financing of public care
of the elderly.

Two proposed reforms
have been put forward
to change the system
of long-term public
care of the elderly.

³² Horev, T., N. Kedar and A. HersHKovits, "Public Insurance for Long-Term Care – an Outline for Reform" (2011), Ministry of Health.

³³ Report of The Committee for Economic and Social Change (Trajtenberg Committee) <http://hidavrut.gov.il>.