Chapter 8
Welfare and Social Policy Issues

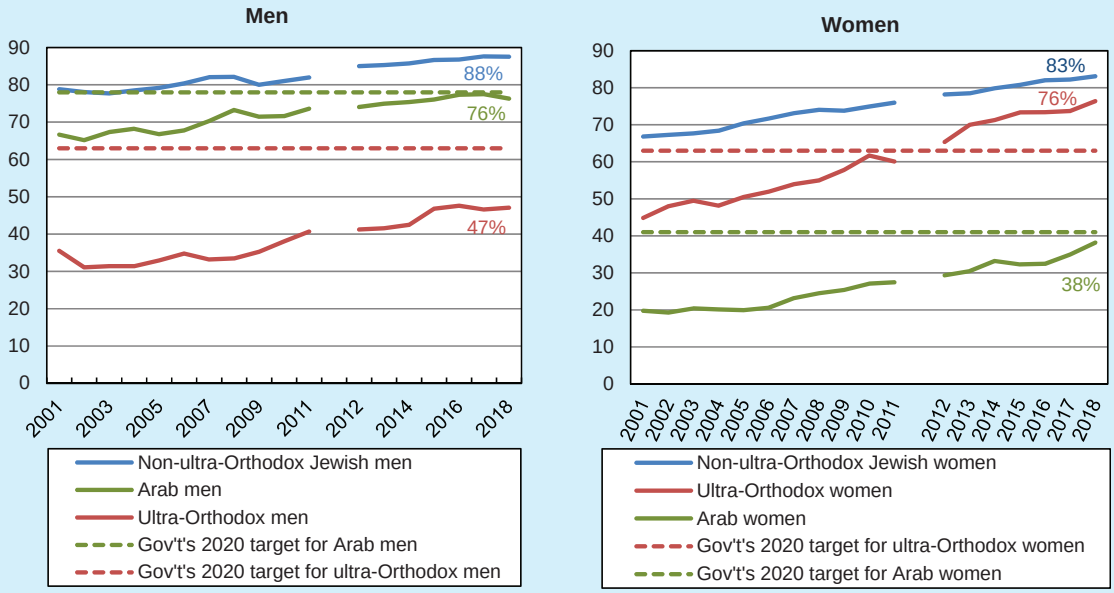
- The decline in unemployment and the increase in wages in 2017 and 2018 contributed to an improvement in the state of workers, particularly those with low incomes.
- In view of the improvement in the labor market in 2017, the incidence of poverty declined to 18.3 percent according to net household income, and there was a further marked decline in the Gini index of inequality between households in terms of economic income and net income. The poverty rate and inequality between households in terms of net income remained high by international comparison.
- In 2016–2017, the government' contribution to lowering inequality through direct intervention—taxes and transfer payments—increased.
- The trend of narrowing economic gaps between households is sensitive to the high level of employment. This is reflected in the fact that income inequality in terms of economic income narrowed more than inequality in terms of net income, and in the increase in income gaps between the working and nonworking populations.
- It is important that the government continue to support the economic worthwhileness of going to work, and the improvement of working families' chances of living in financial well-being.
- The effective retirement age—the average age at which workers aged 50 and over retire from the labor force, has increased over the years. The increase in the statutory retirement age between 2004 and 2009 contributed to raising the effective retirement age among women and men at all levels of education.
- In recent years, there have been signs that the upward trend in the effective retirement age among men (at all levels of education) and among women (with post-secondary education) is halting, and this may show that the increase in the statutory retirement age has exhausted its effect in these groups.
- In 2018, the government decided to establish a committee to examine ways to expand the supply of public housing dwellings. Between 2014 and 2018, the government continued to sell many homes from the stock of public housing to residents, and purchased dwellings for the stock of public housing totaling just one-quarter of the number of dwellings sold.
- In planning housing assistance policy, it is important to take into account the benefits inherent in government intervention, in order to properly assess the economic costs of the different means. In addition to the cost of means, the effect of household behavior should also be taken into account, particularly concerning their financial independence and their residential area.

PART 1: DEVELOPMENTS IN EMPLOYMENT AND THE DISTRIBUTION OF INCOME[1]

The full employment environment became further entrenched in Israel in 2017–2018, meaning that there were increased signs that the potential labor force is largely utilized. In 2018, 77.5 percent of those between 25 and 64 years of age (about 61.4 percent of those aged 15 and over) were employed, and the unemployment rate in this age range declined to 3.5 percent (4.0 percent of those aged 15 and over). The high demand for workers was reflected in a 3.6 percent wage increase in 2018 relative to the 2017 wage. The increase was 2.8 percent in fixed prices. The high job vacancy rate and the stability of the number of work hours also reflected the tight state of the labor market (see Chapter 2).

In 2010, the government set employment targets that were intended to direct government activity toward expanding participation among population groups with low employment participation rates and toward increasing the financial independence of households and lowering their dependence on government support. In the years since then, there were policy efforts made to achieve the government's targets in this area[2], and with the support of the macroeconomic conditions, employment managed

Figure 8.1
Employment Rates by Population Groups and the Government's 2020 Targets[a], 2001–2018 (percent)



[a] Changes were made to the survey in 2012, which created breaks in the series.
SOURCE: Central Bureau of Statistics.

[1] Available income data covers the period until 2017. Available employment data covers the period until 2018.

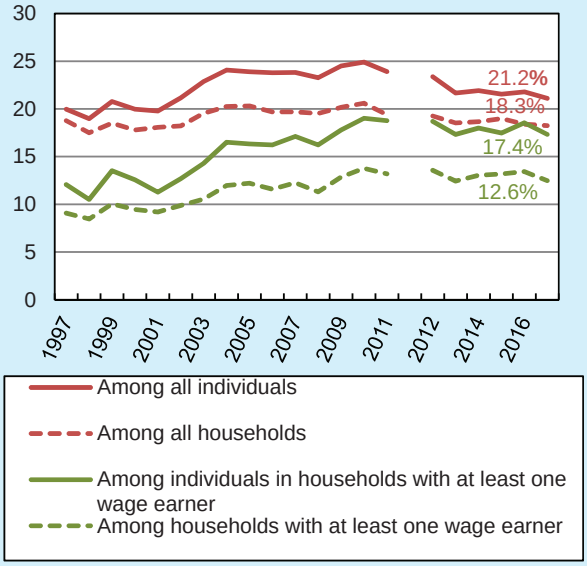
[2] See the Bank of Israel *Annual Report* for 2017, Chapter 8.

to grow. The employment rate target set by the government—an employment rate of 76.5 percent in 2020 among the general population aged 24–65—has been met. However, the rates in two groups remain below the target: (1) Arab women—whose employment rate is slightly below the target; and (2) Ultra-Orthodox Jews—where the employment rates are quite lower than the target (Figure 8.1). The employment rate among the ultra-Orthodox communities—about 11 percent of the population—has developed interestingly since the government set the employment targets in 2010. Ultra-Orthodox women between the ages of 25 and 64 greatly increased their employment rates over the years, and reached the 2020 target back in 2012. Many of them are working at part-time jobs. The positive employment trend among ultra-Orthodox men has halted since 2016, and it seems that they will not achieve the employment target by 2020.

Since 2016, the increase in the employment rate of ultra-Orthodox men has been halted. It seems that government measures reduced the economic worthwhileness of going to work for this population group.

In recent years, the government has made a number of decisions intended to increase employment among ultra-Orthodox men[3], for instance by focusing activity on the employment arm of the Ministry of Welfare with this objective. However, it also implemented a number of measures, beginning in 2015, the result of which was that going to work became less worthwhile for ultra-Orthodox men, and it is reasonable to assume that these explain, at least partially, the halt in the upward trend of employment among this population group. Malach, Cohen and Zicherman (2016) mention the following measures, among others: (1) The government stopped conditioning daycare discounts on both parents maximizing their earning power; (2) The government increased the budget for yeshivot and kollels, and some of the funds are transferred to the families of those learning in such institutions as subsistence allowances; (3)

Figure 8.2
Incidence of Poverty Among All Households and Among Working Households[a], 1997–2017 (percent)



[a] Changes were made to the survey in 2012, which created breaks in the series.

SOURCE: Based on the Central Bureau of Statistics Expenditure Surveys.

[3] The measures that encourage employment among ultra-Orthodox males include (1) the government's 2017 decision to set a target for recruitment of ultra-Orthodox employees in the public service; (2) decisions from 2013 to allocate budgets for the establishment of initiatives to encourage employment among ultra-Orthodox men and to assist their integration into academic studies; and (3) decisions from 2011 and 2013 intended to encourage ultra-Orthodox men to enter military or national service. Details of these programs appear in Azencot (2018).

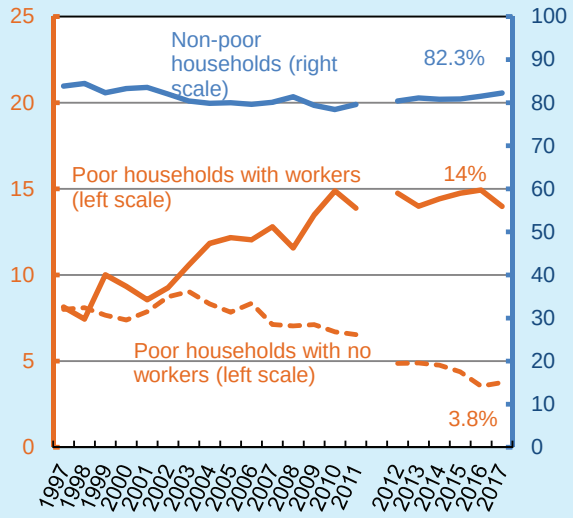
In 2016, the government allotted financial assistance to needy Torah students for a 5-year period.

The maximization of employment potential increased in 2017, and contributed to a decline in the incidence of poverty and to a decline in inequality.

The most up-to-date figures on household income relate to the year 2017. These data show that the increase in maximizing potential employment that began in 2017 and continued into 2018 increased household labor income and contributed to the continued decline in the incidence of poverty[4] according to net income[5] among households and among individuals[6] (Figure 8.2). Since employment increased from the early 2000s, in parallel with the steady reduction in government intervention intended to reduce poverty and income inequality, the percentage of working households among the poor increased steadily. This increase retreated slightly in 2017 among the entire population, and particularly among households with a head of household between 25 and 54 years of age, due to the decline in the incidence of poverty among working households (Figure 8.3).

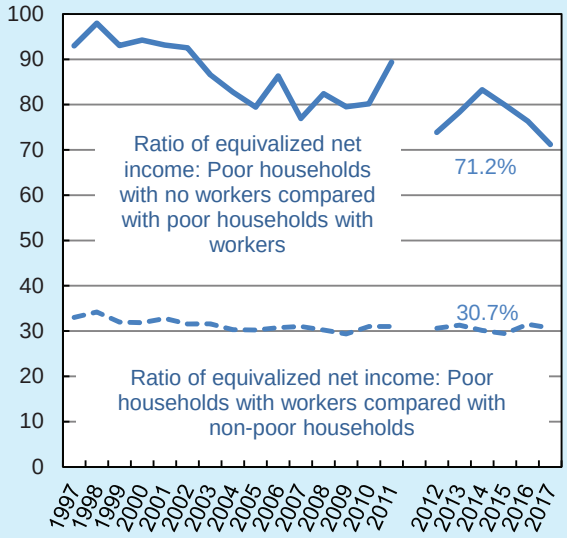
The expansion of employment in recent years has led to a change in the ratio between the poor who join the labor force and those who remain outside it. The former has increased in quantity while the latter has declined, and the income gap

Figure 8.3
Distribution of Households[a] Relative to the Poverty Line and Employment State[b], 1997–2017
(percent)



[a] Households with a head of household aged 25–54.
[b] Changes were made to the survey in 2012, which created breaks in the series.
SOURCE: Based on the Central Bureau of Statistics Expenditure Surveys.

Figure 8.4
Equivalized Net Household Income[a,b], 1997–2017
(percent)



[a] Households with a head of household aged 25–54.
[b] Changes were made to the survey in 2012, which created breaks in the series.
SOURCE: Based on the Central Bureau of Statistics Expenditure Surveys.

4 The rate of families whose equivalized income is lower than half the median equivalized income.
5 After deducting direct taxes and adding transfer payments.
6 Labor income also increased due to the increase in the minimum wage, which increased twice in 2017—in January and in December. In December 2017, the minimum wage reached NIS 5,300 per month.

between them has grown. Table 8.1 divides the households with a head of household aged between 25 and 54 by income and employment status, and emphasizes the close link between employment, the number of wage earners in the household, and its income. The Table shows that in 2017, the incidence of poverty in this population group was concentrated primarily in households with many children and fewer than 2 wage earners. These include Arab and ultra-Orthodox households, which accounted for more than half of poor households even though Arabs account for just 17 percent of all households with a head of household aged between 25 and 54, and the ultra-Orthodox account for just 6 percent.

Figure 8.4 illustrates the link between employment and income over time, and shows that in parallel with the rapid growth in the employment rates of households from the lowest quintile[7], income differences between the individuals in working households and those in households where there are no workers also widened. In contrast, income differences between working households, whether poor or not, remained steady. When households from the lowest quintile joined the labor force, the growth rate of their per capita income closed the gap with the growth rate of per capita income in the other quintiles. Households that did not join the labor force benefited from the fruits of economic growth to a much lower extent (Figure 8.5).

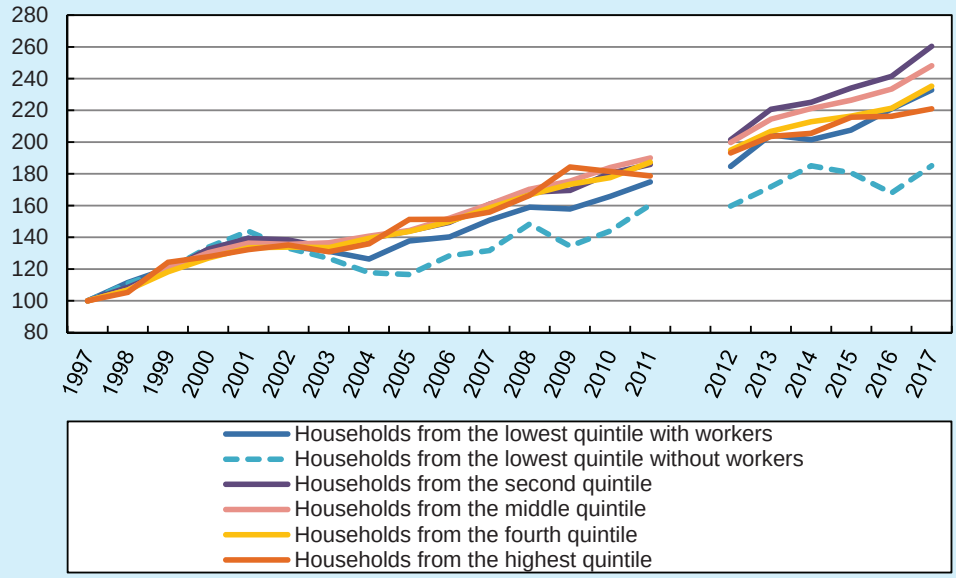
The minimum wage was revised in four installments between 2015 and 2017. In nominal terms, it increased from NIS 4,300 per month to NIS 5,300 per month. It seems that the increase in the minimum wage at the current time, when demand for workers is high and the average wage is increasing rapidly, is reflected in the increased labor income of households from the lowest portion of the distribution[8], and contributed to the continuation of the downward trend in inequality of economic income[9] that has been a characteristic of the economy in recent years. In 2017, the government's contribution to reducing poverty and inequality through transfer payments increased slightly—mainly due to the real increase in National Insurance Institute benefits in 2016 and 2017 (National Insurance Institute, 2019)—which contributed to a further reduction in inequality according to net income, a figure that has been declining since 2010 (Figure 8.6). Even though there was an improvement in net income, and both inequality in economic income and the incidence of poverty among individuals and

[7] Belonging to the lowest quintile is not a fixed characteristic of households. The households in the lowest quintile are identified each year. These are the households in the lowest part of the income distribution, and they comprise most of the poor population.

[8] Maza and Peled-Levi (2012) found that changes in the minimum wage are implemented and affect the wages of women and men at the bottom of the wage distribution, although the effect on women's wages is greater.

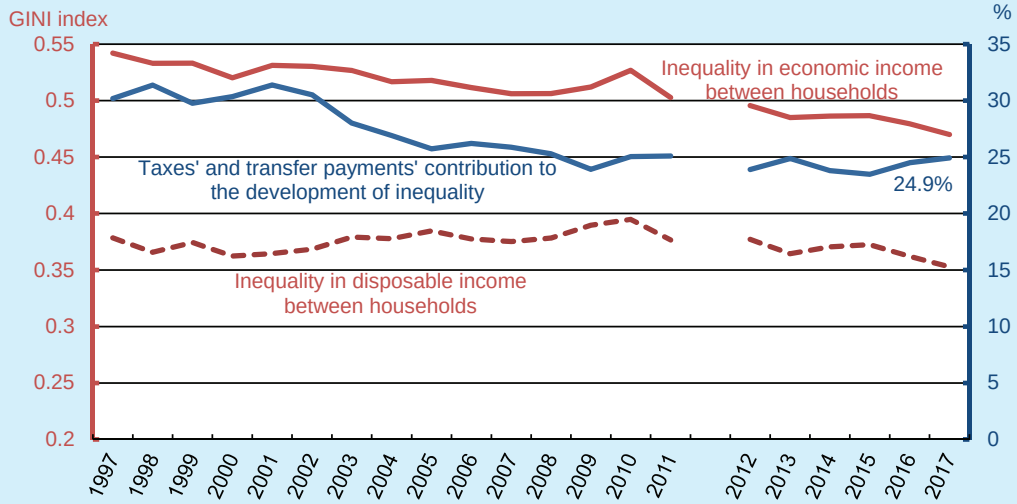
[9] Before deducting direct taxes and adding transfer payments.

Figure 8.5
Increase in Nominal Equivalized Income[a,b], 1997–2017 (index: 1997=100)



[a] Households with a head of household aged 25–54.
[b] Changes were made to the survey in 2012, which created breaks in the series.
SOURCE: Based on the Central Bureau of Statistics Expenditure Surveys.

Figure 8.6
Inequality Between Households and the Government's Contribution to its Development[a], 1997–2017



[a] Changes were made to the survey in 2012, which created breaks in the series.
SOURCE: Based on the Central Bureau of Statistics Expenditure Surveys.

Table 8.1
Characteristics of households where the head of household is aged 25–54, 2017

		Poor households		
	Non-poor households	Two or more wage earners	One wage earner	No workers
Rate of households with a head of household aged 25–54	82%	4%	10%	4%
Number of wage earners (average)	1.95	2.19	1.00	0.00
Number of children (average)	1.54	3.18	2.97	2.35
Arabs[a] (as a share of households in the group)	11%	39%	48%	37%
Ultra-Orthodox[a] (as a share of households in the group)	4%	18%	17%	13%
Married head of household (as a share of households in the group)	72%	86%	77%	50%
Details of total income (monthly average per housholds, NIS)				
Labor income	23,188	8,054	5,406	103
Overall support and benefit income	902	1,033	1,448	3,030
Overall net income	23,648	11,472	8,700	5,307
Equivalized net income	8,173	2,751	2,419	1,786
Recipients of income support allowance (as a share of households in the group)	1%	3%	3%	18%
Recipients of disability benefits (as a share of households in the group)	7%	7%	9%	29%

[a] Arab households account for 17 percent of households with a head of household aged 25–54, and ultra-Orthodox households account for 6 percent. Yet their share of the poor population is higher than both their share of the non-poor population and their share of the overall population.
Source: Based on the Central Bureau of Statistics Expenditure Survey.

households declined, the incidence of poverty among households in Israel remained very high by international comparison (Figure 8.7).[10]

The narrowing of the economic gaps is based on high work incentives and on the high demand for workers. This provides fertile ground for a structural expansion of the employment rates and for wage increases. It is important that the government continue to support the economic worthwhileness of going out to work, in all groups within Israeli society, and the improvement of families' economic well-being. Inequality in economic income declined gradually, largely due to increased employment and increased income for workers, and this trend should continue to be supported, since it expands the labor force and entrenches their connection with the labor market. One way to support it is through constant improvement of the education system, so that it will provide effective tools for all groups in the population to integrate into

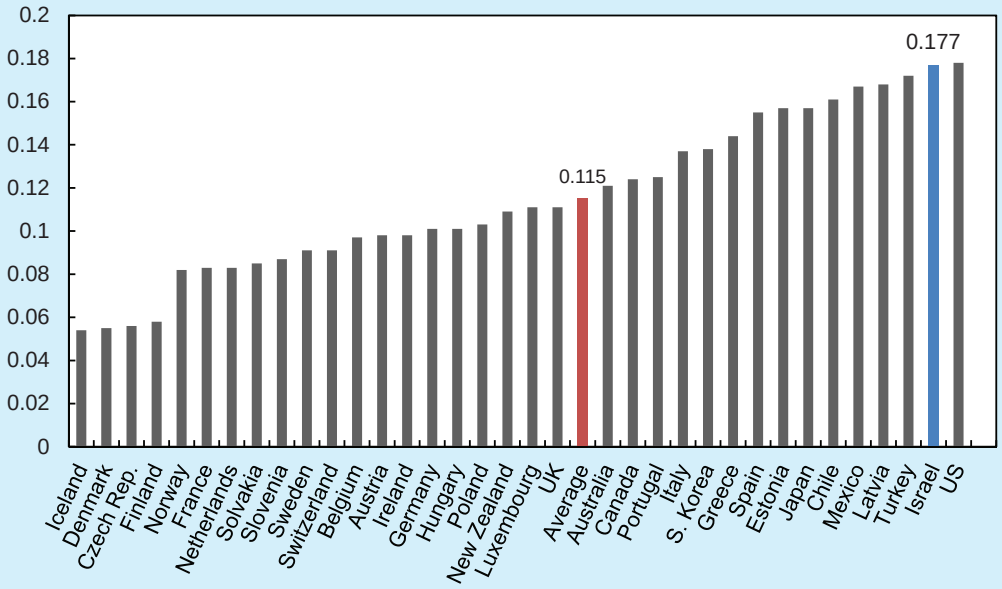
It is important that the government continue to support the economic worthwhileness of going to work, in all groups within Israeli society, and the improvement of families' economic well-being.

[10] The Gini index of inequality according to economic income—meaning income before government intervention—shows that Israel is in the lower third of the distribution. In other words, its position is relatively good. But while direct government intervention (through tax policy and transfer payments) in other countries significantly narrows the inequality, it makes a relatively low contribution in Israel. As such, inequality after government intervention (inequality in net income) is relatively high. Israel's position in the international comparison is discussed at length in the Bank of Israel's *Annual Report* for 2014, Chapter 8.

employment and society. Such improvement should narrow the existing correlation between scholastic achievement and socioeconomic status, help in improving labor productivity, and support stable and income-producing employment in the long-term.

The minimum wage increased between 2015 and 2018 due to an agreement that

Figure 8.7
Incidence of Poverty Among Households by Net Income: International Comparison



SOURCE: OECD.stat; We present the data from the last available year between 2014 and 2016.

The government increased the minimum wage during a period when there was high demand for workers, which contributed to a reduction in the incidence of poverty and inequality. However, there is a disadvantage to the marked increase—the rigidity of wages during periods when the demand for workers declines.

was signed at in late 2014 between representatives of workers and employers, which was then expanded to cover the entire economy. The agreement reflects employers' readiness for rapid wage increases in a period when demand for workers was high, and that preparedness shows that they expected a general wage increase in the economy regardless of the agreement. However, when agreements lead to a rapid increase in the minimum wage, they may lead to dismissals and unemployment in periods of economic contraction, which will restrain the demand for workers more than when wage flexibility can allow wage cuts to restrain the demand. It seems that at least some of the increase in the minimum wage between 2015 and 2018 has already been eroded due to the rapid increase in the average wage. In order to maintain the lower income gaps that were achieved in recent years, the good state of the labor market must be exploited to improve the policy that supports workers' income regardless of the business cycle and narrows the rigidity in adjusting wages to changes in the macroeconomic conditions. These policy tools include, for instance, the earned

income tax credit[11], which the government can continue to increase.[12] Policy makers are faced with an additional challenge: updating government support of population groups with limited earning capacity without impairing the incentive to work among those who are capable of doing so.

The following sections of this chapter deal with two current policy issues. Section 2 relates to the increase in the retirement age and the development of employment among workers aged 50 and above, and examines the effect of the age at which the elderly leave the labor force. Section 3 examines aspects of housing assistance policy for low-income population groups, and discusses the prices involved in significantly expanding the stock of homes in public housing.

PART 2: THE EFFECTIVE RETIREMENT AGE A DECADE AFTER RAISING THE OFFICIAL RETIREMENT AGE

Introduction

Life expectancy in Israel has increased rapidly in recent years, but society continues to age. Central Bureau of Statistics data show that in 2016, those aged 65 and over accounted for about 11 percent of the population. According to a CBS demographic forecast (the medium alternative), this rate is expected to grow to about 15 percent of the population by 2045.[13] Therefore, the adult dependency ratio—the ratio between those aged 65 and over and the those aged 20–64—is expected to also grow rapidly in the coming decades[14], reaching the levels that are currently at the center of the international distribution[15] (Figure 8.8). However, since the aging process is advancing rapidly in other countries as well, Israel is expected to maintain its current relative placing—near the bottom of the distribution (OECD, 2017).

[11] Bank of Israel (2015) found that a large segment of those earning minimum wage belong to households with incomes ranging around the median. In contrast, a large segment of those receiving earned income tax credits belong to the lower deciles, and only a small portion belong to households with incomes around the median. Therefore, raising the earned income tax credit is expected to lower the dimensions of poverty and inequality more than increasing the minimum wage, where the increases involve similar additional income.

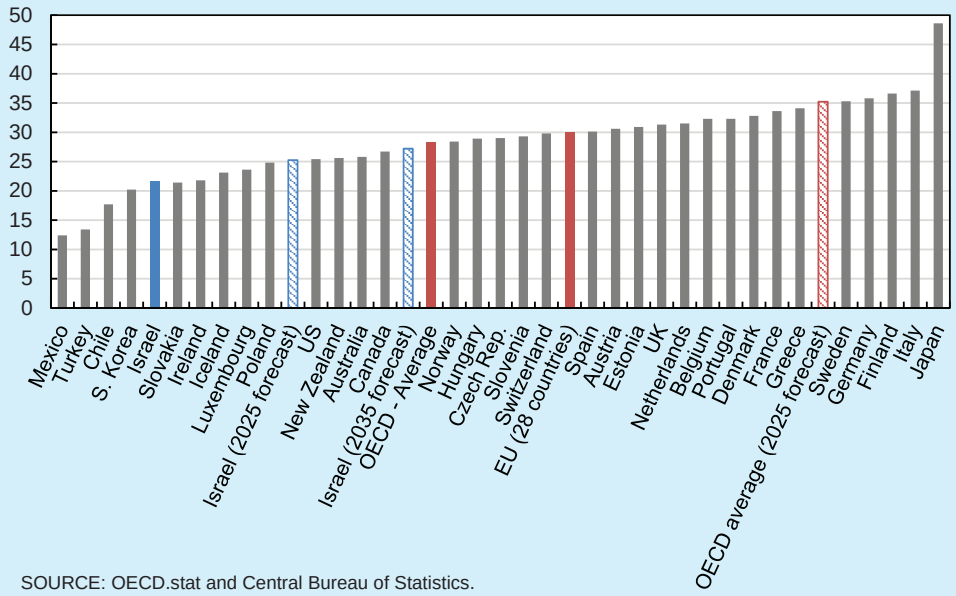
[12] As it did as part of the "Net Family" program that it approved in 2017.

[13] Due to the increase in life expectancy, the proportion of those aged 65 and over—and mainly the elderly aged 80 and over—is expected to increase even more rapidly. See the Bank of Israel *Annual Report* for 2017, Chapter 8.

[14] The ratio is generally calculated between the dependent population (children up to age 15 and adults over age 65) and the independent population (those aged 15–64). Due to the high number of children in Israel, the dependency ratio in Israel is high by international comparison. The adult dependency ratio is what is relevant for this discussion, and from this standpoint, Israel is actually place low in the international comparison.

[15] For the purpose of the international comparison, the dependency ratio presented here is between those aged 65 and over and those aged 20–64, even though in Israel, some of the population considered independent serves in the military and does not participate in the labor force.

Figure 8.8
Ratio Between Those Aged 65+ and Those Aged 20-64 (in hundreds), Israel and Other OECD Countries, 2016



SOURCE: OECD.stat and Central Bureau of Statistics.

The aging process, including the projection that it will intensify in the coming years, is expected to have a significant impact on the economy and on society, inter alia by increasing fiscal expenditure—on old-age pensions and survivor's benefits, long-term care payments, healthcare costs, and social services used mostly by the elderly population.

In order to prepare for this process, the Israeli government has acted over the past two decades along two channels. First, the government sought to hedge the fiscal risk in respect of future support of the elderly population. For this purpose, pension savings programs were transferred from defined benefit programs to defined contribution programs.[16] Second, the government has worked to increase employment at older ages and private pension savings. As part of this, the retirement age (the age of conditional eligibility for old-age pension[17] and the age of eligibility for employment pension in the old pension funds) was increased, and compulsory pension was instituted for salaried employees.[18]

[16] More discussion of the process and its significance appears in Chapter 1 of the Bank of Israel *Annual Report* for 2013.

[17] At this age, the eligibility for old-age pension from the National Insurance Institute, the first layer of pension, depends on household income. In parallel, the age of absolute eligibility for women was raised to 70, and from that age, both women and men in Israel are entitled to an old-age pension regardless of income.

[18] In 2017, the compulsory pension structure was applied to the self-employed as well. The "compulsory pension" arrangement may create a net loss of income for low-income households at the time of retirement, since it may impair their ability to receive income supplement grants at the time of retirement (Brender, 2010).

The following examines the developments in the second channel, looking at the decade that has passed since the retirement age was increased, and focusing on the effect of that increase on the age at which workers actually retire. The assumption is that the other reforms, involving pension savings, are already encouraging workers to delay their retirements, and that this effect will increase in the future as workers with defined contribution pensions become a larger share of those approaching retirement age. The analysis does not isolate the effects of the various policy measures.

The reform in the statutory retirement age, and its reflection in the actual (effective) retirement age

In 2004, the Retirement Age Law, 5764–2004 came into force. The law raised the age of eligibility for old-age pension (the first tier of pension) and for employment pension in the old funds (the second tier of pension for some of the population). For women, the age was raised from 60 to 62, and for men it was raised from 65 to 67. The increase was implemented gradually between 2004 and 2009, though it was more rapid than in other countries. The continuation of the process is intended to raise the retirement age for women from 62 to 64, but the Knesset delayed the additional increase a number of times, despite the recommendations of public committees that dealt with the issue, and even though the difference between men's and women's retirements ages in Israel is higher than in other OECD countries.[19]

Increasing the retirement age by two years contributed significantly to the increase in the labor force participation rates among the older age groups.

Raising the retirement age by two years, combined with the increases in life expectancy and in educational levels, contributed significantly to the increase in the labor force participation rate among the older age groups, which in turn increased the overall participation rate among those aged 25–64 (Figure 8.9). The Bank of Israel (2011)[20] used on Labor Force Survey data and found that between 2005 and 2009, after the implementation of the Retirement Age Law, the participation rates of women aged 60–61 increased by about 9 percentage points, and among men aged 65–66 it increased by about 17 percentage points. Most of the increase was directed at increased employment.

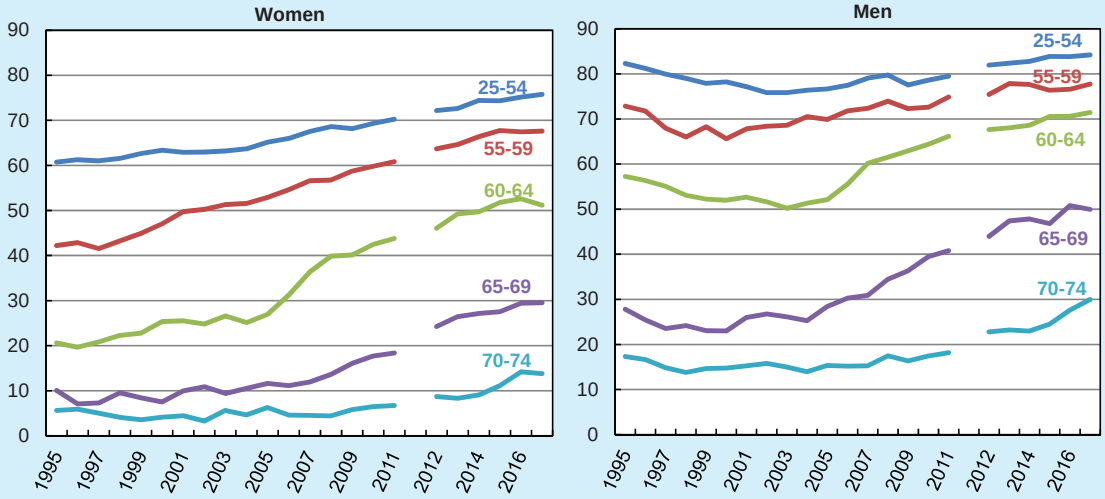
The Bank of Israel (2015)[21] presented an analysis with a methodology that neutralized as much as possible the effect of the differences between age cohorts on the tendency to work at an older age, thereby more precisely isolating the effect of the change in the retirement age on employment. The analysis was based on sample data from the Israel Tax Authority's file of salaried employees, and found that raising the retirement age made it about 7 percentage points more likely that men aged 65–66 would work, and about 4 percentage points more likely that women aged 60–61 would work.

[19] The OECD notes that in 2016, there was a gender gap in the official retirement age in 9 of the 35 member countries. According to legislation in the various countries, such a gap will remain in only three member countries by 2060: Israel, Switzerland, and Poland (OECD, 2018).

[20] Box 5.1, "The Effect of Change in the Retirement Age Law on Participation of the Older Population in the Labor Force".

[21] Chapter 5, Issue 2: "Raising the age of retirement and its effect on income".

Figure 8.9
Employed Individuals as a share of the Population, by Gender and Age Group[a], 1995–2017 (percent)



[a] Changes were made to the survey in 2012, which created breaks in the series.
SOURCE: Based on the Central Bureau of Statistics Expenditure Surveys.

The analysis also showed that the increase had a differential effect on employment among men. Among those with incomes above (below) the media, it increased the likelihood of working by 8.5 (5) percentage points. No similar differences were found among women. The Bank of Israel (2017)[22] found that the increase in participation rates among men and women aged 60–64, a development that was also a result of the increase in the retirement age, made a significant contribution to the increase in participation rates among men aged 25–64 since the beginning of the 2000s, and to moderating the slowdown in the growth rate of participation rates among women aged 25–64 in the same period. The analysis also showed that the increase in the retirement age added about one percentage point to the overall participation rate among those aged 25–64, representing a marked contribution to economic growth.

The effective retirement age adds to the information contained in the employment and participation rates, in that it weights the changes in the participation rates of various age groups and enables us to assess the dynamic created in the retirement age over time.

The term "effective retirement age" relates to the age at which workers actually leave the labor market. This figure adds to the information contained in the employment and participation rates, in that it weights the changes in the participation rates of various age groups, and enables us to assess the dynamic created in the retirement age over time. The effective retirement age is used to forecast the average duration of work periods and the timing of retirement, which are necessary to assess whether pension savings are in line with financial needs during retirement. The link between the effective retirement age and the statutory retirement age shows whether policy can affect individuals' decisions on when to retire and the elasticity of the decision relative to future government policy.

[22] Section 2: "The Composition of Those Joining the Labor Market in the First Decades of the Century".

There are various approaches to calculating the effective retirement age. These developed because there is no documentation in the official statistics of the age at which people retire absolutely from the labor force. In order to assess the effective retirement age, assumptions must be made concerning retirement patterns in older ages. The following are two different methods used in our calculation of the effective retirement age[23]: the dynamic method, and the cohort tracking method. In both methods, we assume that the participation rates of both men and women decline after age 50 due to retirement, and that absolute retirement takes place at age 70 or 75. The calculations in the various methods show that in recent years, the effective retirement age increased among both men and women, in view of the increase in participation rates after age 50.

We calculate the effective retirement ages for men and women separately. In each gender, we calculate them according to two education groups—those with post-secondary education, and those with secondary education or lower. The calculation according to the dynamic method shows that the increase in the effective retirement age moderated recently to the point of halting, and we attribute this to the fact that the increase of two years in the statutory retirement age has maximized its effect on the cohorts now reaching retirement age. The effective retirement age may yet increase in the future even without statutory intervention, because life expectancy is expected to continue increasing, and because defined contribution pensions encourage retirement at a later age, while those under such pension arrangements will account for a larger share of workers. In the cohort tracking method, we find that the increase in the effective retirement age has halted only among women and men with post-secondary education. The following is a description of the calculation in both methods and its results.

The dynamic method is the method used by the OECD to make international comparisons, and is better suited for real-time calculations than the cohort method. This method weights the difference in participation rates between two adjacent five-year age groups, and assumes that they have an equal tendency to participate, and that the measured participation differences are due to age differences. This calculation is made for the age groups between 50 and 70(75), and we assume that after age 70 (or 75), retirement is absolute. The calculation is made according to the following formula[24]:

$$AAR(y) = \sum_{k=11}^{15} (5k)\left(A_{5(k-1)}^{y-5} - A_{5k}^{y}\right) / \sum_{K=11}^{15} \left(A_{5(k-1)}^{y-5} - A_{5k}^{y}\right)$$

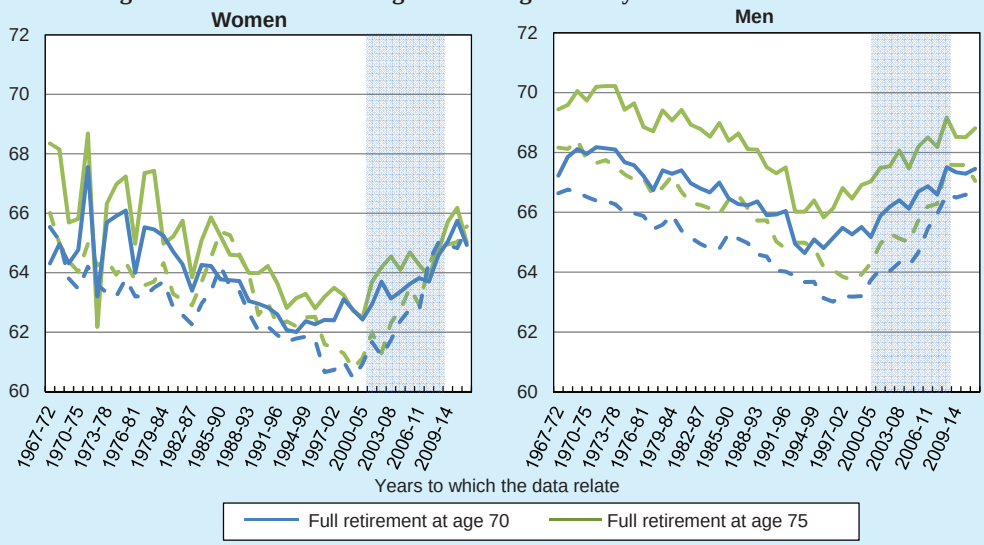
[23] The calculations presented below are based on a technical paper that details the calculation method in the OECD databases (http://www.oecd.org/els/emp/39371923.pdf)

[24] The formula relates to 5-year age groups, beginning with the 50–54 age group, and ending with those aged 75+.

where A_{5k}^{y} is the participation rate of the groups aged $5k$ (a variable with a value ranging from 55 to 75) in year y; and $A_{5(k-1)}^{y-5}$ is the participation rate of the groups aged 50–70 five years before year y. We calculate the effective retirement age according to education groups (post-secondary compared with secondary or less), assuming that there were no material changes in this characteristic among the 50–75 age group during the calculation period. The disadvantage of this method appears when there is a sharp increase (sharp decrease) in the participation rates of the age groups between adjacent years that are used in the calculation, since then it generates changes that are downward-biased (upward-biased) in the effective retirement age. For instance, if the participation rate of women at all ages increased consistently in recent decades, the method will attribute the low participation rate in older cohorts to early retirement of women, even though fewer women in those cohorts worked even at younger ages.

Figure 8.10 shows the average effective retirement age according to the dynamic method. Among men and women, the average effective retirement age has increased since the end of the 1990s, mainly because labor force participation after age 50 increased during that period. In both gender and education groups, the increase in the effective retirement age halted, and even declined slightly—among men in the last two years of the calculation period, and among women in the last year. Table 8.2 summarizes the findings of the method. It shows that the effective retirement age increased following the increase in the statutory retirement age, and that following the increase, the gap in the retirement age between women from the various education groups was closed.

Figure 8.10
The Average Effective Retirement Age According to the Dynamic Method[a]



[a] A solid line indicates post-secondary education, while a broken line indicates secondary or lower education.
SOURCE: Based on Central Bureau of Statistics Labor Force Survey.

Table 8.2
Change in the effective retirement age[a] according to the dynamic method
Difference between the cohorts that were affected by the change in the retirement age and those that were not[b], by gender and education

		Men	Women
Secondary or lower education	Effective retirement age "before"	60.9	64.3
	Effective retirement age "after"	64.9	67.6
	Difference (years)	4.0	3.3
Post-secondary education	Effective retirement age "before"	62.4	67.0
	Effective retirement age "after"	65.0	68.5
	Difference (years)	2.6	1.5

[a] In calculating the effective retirement age, we assumed that men begin absolute retirement at age 75 and that women begin absolute retirement at age 70, since among individuals that have passed age 70, a significant proportion of men still participate in the labor force, while women participate at negligible rates.
[b] The terms "before" and "after" relate to the period in which the statutory retirement age was changed (2004–2009). "Before" relates to the years 2000–2005, while "after" relates to the years 2009–2014.
SOURCE: Based on the Central Bureau of Statistics Labor Force Survey.

The cohort tracking method is unique in that it calculates the average effective retirement age for a particular cohort that has reached the retirement age considered the maximum for the purpose of the calculation[25]—meaning that it weights the changes in the participation rates over the lifespan of that cohort. The calculation focuses on groups of people who have the same year of birth[26], summing the changes in their participation rates when they belonged to different age groups, and weights them at the upper bound of the age group. The calculation is applied to those born in the same year after reaching the age of 50–55, and until reaching the age of 70–75, meaning 20–25 years later (in increments of 5 years) according to the formula:

$$AAR(y) = \frac{55\left(A_{50}^{y-25} - A_{55}^{y-20}\right) + 60\left(A_{55}^{y-20} - A_{60}^{y-15}\right) + \cdots + 75\left(A_{70}^{y-5} - A_{75}^{y}\right)}{\left(A_{50}^{y-25} - A_{55}^{y-20}\right) + \left(A_{55}^{y-20} - A_{60}^{y-15}\right) + \cdots + \left(A_{70}^{y-5} - A_{75}^{y}\right)}$$

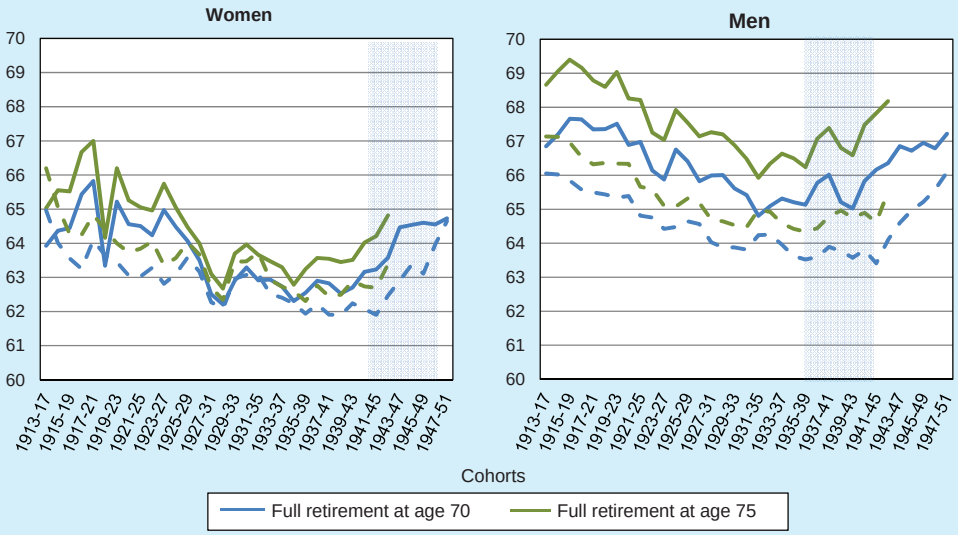
where A_{75}^{y}, for instance, is the participation rate of the cohort that reached the age of 75 in year y. Since the years of birth are collected in the database we are using (the Central Bureau of Statistics Labor Force Survey), we grouped every five years of birth.

The advantage of this method is in that it examines a population group with fixed characteristics over time, so there is no need to make assumptions regarding changes

[25] In the graphs outlining the retirement ages according to the cohort method, the years on the horizontal axis denote the birth years of the cohort for which the retirement age is measured.
[26] These are not necessarily the same people.

in its composition over time. The disadvantage is that it calculated the effective retirement age of a particular cohort only after the last of the cohort reaches the age of 70 or 75, according to the assumed maximum retirement age. The method therefore provides the calculation results only after the fact. As such, for women, the method presents the effective retirement age for cohorts fully affected by the change in the retirement age only at the end of the period, since those people were born after 1947, and have only recently reached the age of 70. We used this method to calculate the effective retirement age in both education groups—post-secondary and secondary or lower (Figure 8.11). The calculation is presented with the maximum retirement age cut off at 70, and at 75.[27]

Figure 8.11
The Average Effective Retirement Age According to the Cohort Tracking Method[a]



[a] A solid line indicates post-secondary education, while a broken line indicates secondary or lower education.
SOURCE: Bank of Israel calculations based on Central Bureau of Statistics Labor Force Survey.

In terms of how the increase in the statutory retirement age is reflected in the effective retirement age, the process has ended among men born after 1942 and women born after 1947. Among both men and women, this is reflected in a sharp increase in the effective retirement age, particularly among the population groups with secondary or lower education. Among both men and women with post-secondary education, the increase in the effective retirement age slows after the process of raising the statutory retirement age is completed. Table 8.3 summarizes the findings of the method, and

[27] "Cutting off" means that anyone retiring at age 70 (or 75) or later is considered as having retired at age 70 (or 75).

Table 8.3
Change in the effective retirement age[a] according to the cohort tracking method
Difference between the cohorts that were affected by the change in the retirement age and those that were not[b], by gender and education

		Men	Women
Secondary or lower education	Effective retirement age "before"	62.1	64.3
	Effective retirement age "after"	64.7	64.6
	Difference (years)	2.6	0.3
Post-secondary education	Effective retirement age "before"	63.2	66.2
	Effective retirement age "after"	64.7	67.8
	Difference (years)	1.6	1.6

[a] In calculating the effective retirement age, we assumed that men begin absolute retirement at age 75 and that women begin absolute retirement at age 70, since among individuals that have passed age 70, a significant proportion of men still participate in the labor force, while women participate at negligible rates.

[b] The terms "before" and "after" relate to the period in which the statutory retirement age was changed (2004–2009). Since the database groups years of birth, "before" for women relates to those born in the years 1940–1944, while "after" relates to those born in the years 1947–1951. For men, "before" relates to those born in the years 1935–1939, while "after" relates to those born in the years 1941–1945.
SOURCE: Based on the Central Bureau of Statistics Labor Force Survey.

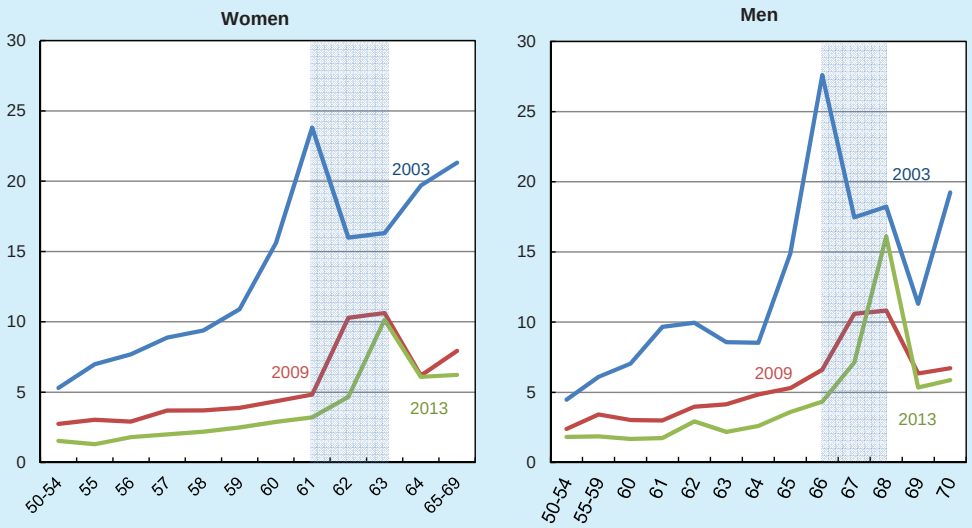
shows how the effective retirement age changed due to the change in the statutory retirement age.

Both methods show that the effective retirement age increased in all groups following the increase in the statutory retirement age. In both methods, the increase was prominent among women with secondary or lower education, whose effective retirement age drew even with that of men in the same education group and with that of women with higher education. The dynamic method finds that the effective retirement age increased more among women in both education groups and among men with secondary or lower education. There is also a clear difference in the effective retirement age between the methods, with the dynamic method generating a higher effective retirement age.

The rate of retirees in the age groups: Calculation according to administrative data on salaried employees

The development of the effective retirement age can also be examined using the salaried employees file (the file of assessed individuals from the Israel Tax Authority). The file we have documents employment among a representative sample of salaried employees, and tracks them between 2000 and 2016. The file enables a more precise assessment of the age at which individuals actually retire, but this assessment also has its limitations. In this administrative dataset, the information is trimmed because it is unknown whether an individual who stopped working and did not die will return to employment in the future (after 2016).

Figure 8.12
Those Retiring as a Share of Salaried Employees in the Age Groups[a], 2003, 2009, and 2013 (percent)



[a] Retirement age—The age at which a work stoppage of at least three years begins.
SOURCE: Bank of Israel calculations based on a sample from the Israel Tax Authority's file of employed persons.

The examination, the results of which are presented below, assumes that if individuals remained retired from salaried employment for a period of three consecutive years, they have essentially left the labor force. This assumption is based on the fact that workers aged 50 and over have a low chance of returning to employment after prolonged absences.[28]

This analysis tracked individuals starting in 2000, and examined the changes in the distribution of retirement ages[29] at three points in time: 2003 (representing the period prior to the increase in the retirement age), 2009 (representing the period immediately following the increase), and 2013 (representing the period in which the new retirement age became entrenched).[30]

Between the three periods, there is a clear decline in the tendency to retire throughout the age curve[31], which shows that the employment rates increased throughout the period[32] (Figure 8.12). Moreover, before the increase in the retirement age, men

[28] According to the examination conducted, this assumption cannot be made regarding workers in their 30s and 40s, since they tend more to return to salaried employment after interruptions.

[29] The age at which the work stoppage of three or more years began (meaning the age of the individual in the first year in which he did not work).

[30] This data file was also used to calculate the effective retirement age through a method similar to the dynamic method. The result was a retirement age higher than the one obtained using the labor force survey, but its upward trend is similar. The effective retirement age increases rapidly between 2004 and 2009, and since 2011 there has been a halt in the upward trend, in particular among men (the halt among women is slighter).

[31] This finding gains support from the survival analysis we conducted.

[32] The decline is also reflected in the fact that after 2003, there was a marked increase in employment persistence, meaning a decline in the tendency to move between employers, among all age groups. Among those aged 55 and over, the decline was also influenced by the change in the statutory retirement age (Suhoy and Ramot-Niska, 2017).

tended to retire at age 66. Following the increase, men tend to retire at age 68.[33] Among women as well, there is a marked movement in the retirement age—from 61 to 63. There is greater variance in retirement age among women, which is reflected in the lower rate of women retiring in all age groups. This apparently reflects the fact that the statutory retirement age for women, 62, is lower than the age at which the employer can require a worker to retire without it being considered a dismissal. That age is 67 for both men and women.

Summary and conclusions

An analysis of the effective retirement age using the different methods shows that the increase in the statutory retirement age between 2004 and 2009 had a marked effect on the effective retirement age. The impact is noticeable among women and men, at all levels of schooling. The analysis also shows that there is greater variance in the effective retirement age among women, and that a considerable proportion of women retire after the statutory retirement age.

These findings confirm that the statutory retirement age serves as an indication of the timing of actual retirement. Women can continue working after the statutory retirement age, in order to accumulate additional pension entitlement and increase their income from labor. Many actually do so, frequently at part-time positions. The analysis using the salaried employees file shows that the main actual retirement age for women is the age where the law sets out that they can maximize their rights.

Due to the significant difference in Israel between the retirement ages of men and women, and due to the fact that this difference is reflected in the effective retirement age as well, a further increase of the statutory retirement age for women could contribute to increased pension savings for women, and to increased financial well-being upon retirement. This is because the life expectancy of women is higher, and because they have lower replacement ratios[34] at retirement age due to less accumulation of pension rights—as shown by literature in Israel and abroad.

An additional increase in the statutory retirement age should contribute to increased pension savings by women and increased economic well-being at the time of retirement. This is because their life expectancy is higher and because they reach lower replacement rates at the time of retirement due to less accumulation of rights.

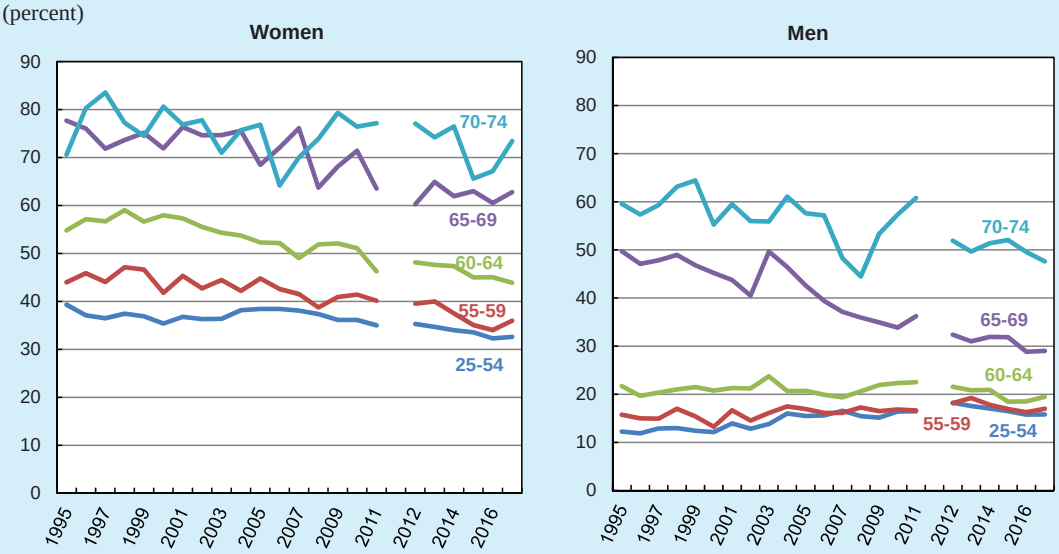
The analyses presented above do not relate the quality of employment or two the income levels of men and women who delayed their retirement. However, it is clear that many of them are working part time (Figure 8.13). They may have lowered their scope of employment only at an older age; many of them may have worked at part-time positions even at a younger age; and older individuals may prefer part-time positions due to the existing incentives between the statutory retirement age and age 70, when entitlement to old-age pension is conditional on low labor income. In order for a further increase in the retirement age not to lead to a significant decline in household income, it is important to increase it gradually and to create conditions that will enable support for continued growth of employment rates and that will allow women interested in working to expand their scope of employment at any age. These

[33] A person is considered an employee in the feel even if he worked for only part of the calendar year. Therefore, someone retiring at age 65 will appear as a retiree only in the following year.

[34] The ratio between the pension allowance and the last salary.

recommendations are similar to those in the report submitted by the Public Committee to Examine the Retirement Age for Women in September 2016.

Figure 8.13
Those Employed Part-Time as a Share of those Employed, by Gender and Age Group[a], 1995–2017
(percent)



SOURCE: Based on the Central Bureau of Statistics Labor Force Surveys.

PART 3: PUBLIC HOUSING IN ISRAEL AS A STARTING POINT FOR CHANGE IN THE HOUSING ASSISTANCE POLICY

Introduction

In July 2018, the government decided to establish a committee that would look into ways to increase the supply of dwellings in public housing, after the Ministry of Housing and Construction formulated a program to add about 70,000 dwellings between 2018 and 2029[35] to the existing stock of slightly more than 50,000 dwellings.[36] The initiative to significantly increase the stock of homes in public housing came up for discussion shortly after the Knesset extended the validity of the Public Housing Law (Sales Rights), a law which allowed many dwellings from the public housing stock to be sold at a discount to their tenants.[37] The following section relates to the planning-spatial characteristics of the stock of homes in public housing, and to their

[35] The "Living with Dignity" program, as a result of which Government Decision number 4078 was reached on July 29, 2018 regarding a national emergency plan for public housing.

[36] The public housing companies "Amidar" and "Amigur" manage 90 percent of the stock of dwellings in public housing. The rest of the stock is managed by municipal companies: "Prazot" in Jerusalem, "Halamish" in Tel Aviv, "Shikmona" in Haifa, and "Heled" in Petach Tikva. The Housing and Development Company also manages dwellings, even though it is not a municipal company.

[37] In March 2018, the Knesset approved extending the Public Housing Law until 2023.

economic implications. The characteristics of the current system serve as a starting point for policy planning in the area of housing assistance in general, and in public housing in particular. The section ends with a general discussion of the necessary components for housing assistance policy, taking existing policy into account.

Suitable housing is essential for building the foundations of households' social security and social functioning, creating economic and social opportunity, and narrowing economic and social gaps.

Suitable housing—in terms of density, quality of the structure and its surroundings, and access to the dwelling—is essential in building the foundations for social security of households and for maximizing their basic rights to human dignity.[38] It is also essential to social functioning, the creation of economic and social opportunity, and the narrowing of economic and social gaps. Since such housing requires high and rigid private expenditure[39], assistance in obtaining it is a component in the social security system of many advanced economies. In Israel, similar to the practice worldwide, the government assists with housing through earmarked subsidies or in-kind services, and not through the general subsistence allowances, in order to ensure that the assistance is used to finance housing services and not other consumption, and because housing consumption also affects the well-being of other households.[40]

Israel provides housing assistance to low-income families who do not own a dwelling and have not owned one in the past decade. In 2018, the assistance was concentrated in two main channels[41]: (1) subsidizing rent in the open market—about 170,000 households received such subsidies; and (2) making dwellings available to households—about 49,000 households received public housing dwellings, and about 24,000 households of the elderly received dwellings at seniors' residences. The state budget records public expenditure on housing assistance at about NIS 2.6 billion in 2018—about 0.2 percent of GDP.[42] In our assessment, an additional sum of at least NIS 1 billion (about 0.1 percent of GDP) was provided for rental subsidies in public housing and discounts on dwellings that were sold.[43] This cost does not appear in the State Budget, but it should be taken into account in policy planning, and particularly in determining preferences among the assistance alternatives. Table 8.4 presents data on the main characteristics of these means of assistance.

[38] The State Comptroller (2013) mentions the judicial rulings in which the court views housing as a component of the basic right to human dignity.

[39] Because of the high costs inherent in moving, and the rigidity of contracts, households have difficulty making adjustments to their housing expenditure in the short term, and tend to offset the relative price increases in housing by cutting back on other expenses. In the medium and long terms, they can make the adjustments by changing the quality and environment of the dwelling.

[40] Similar to education and healthcare services.

[41] In addition, the State provides home purchase subsidies and grants to low-income population groups. Further details on the development of public housing and its characteristics appear in Box 8.1 of the Bank of Israel *Annual Report* for 2014.

[42] This expenditure included rent subsidies on the open market, a maintenance and renovation budget for public housing companies, and various fees for managing the assistance, subsidies for loans to eligible borrowers, and grants for assistance in the purchase of a home for immigrants from Ethiopia and paralyzed individuals.

[43] The loss of income includes (1) the monetary value of the discounts on homes sold to residents in 2018, and (2) the estimated value of the rental subsidy in that year. The latter is apparently an underestimate, since public housing rents apparently include a market valuation that is too low.

Table 8.4
Public housing and rental assistance on the open market, select data (2018)

Public housing	
Number of dwellings in public housing (thousand)	53
Number of households[a] in public housing (thousand)	49
Number of assisted living dwellings for seniors[b] (thousand)	12.1
Number of residents in assisted living dwellings (thousand)	11.7
Number of dwellings in housing clusters for seniors[c] (thousand)	12
Households living in public housing or seniors residences as a share of total households	2.8%
Households living in public housing as a share of total households	1.9%
Number of dwellings sold, 2011–18 (thousand)	11.4
Number of dwellings purchased, 2011–18 (thousand)	2.2
Average rent paid by households in public housing[c] (NIS per month)	382
Average rental subsidy in public housing[d,e] (NIS per month)	772
Rental assistance (in the open market)	
Number of households receiving assistance (thousand)	168.3
Rental assistance recipients as a share of total households	6%
Rental assistance recipients as a share of total tenants in the open market	26%
Average rent in the open market[f] (NIS per month)	3,486
Average rental assistance (budget divided by eligible recipients, NIS per month)	970

[a] The number of eligible households is lower than the number of dwellings because aside from the dwellings occupied by eligible recipients, there were about 1000 empty dwellings and a further roughly 1000 dwellings where households that were not recognized as eligible were squatting. In addition, some of the eligible households reside in two conjoined dwellings.
[b] Public housing units intended for homeless independent elderly, managed by the Ministry of Housing.
[c] Public housing units intended for homeless independent elderly immigrants, managed by the Ministry of Immigrant Absorption.
[d] Data on rents in public housing and the subsidy level are based on a Bank of Israel estimate for 2018, based on a concatenation of Amidar data from 2013.
[e] The subsidy inherent in the rent paid in public housing is an underestaimation of the true subsidy, since the full rent (referred to by the Housing Ministry as "open rent") attributed to public housing dwellings is lower than the market price for these dwellings. It is based on an assessor's evaluation that is not current and is indexed to the Consumer Price Index.
[f] Apartments of 2.5 to 3 rooms; Central Bureau of Statistics data for the third quarter of 2018, national average.
SOURCE: Based on Ministry of Construction and Housing (data obtained by email), Central Bureau of Statistics, and Amidar.

The spatial characteristics of public housing in Israel, and their implications

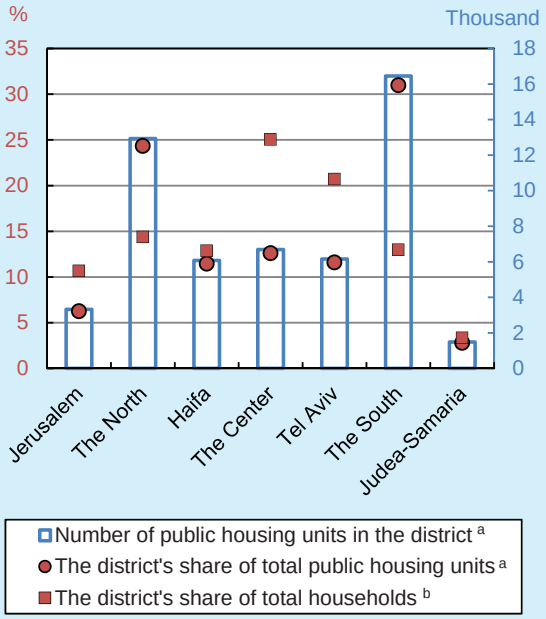
The low stock of dwellings in public housing is mainly located in the periphery areas (Figure 8.14) and in neighborhoods with a low socioeconomic ranking (Figure 8.15). The dwellings are fully occupied, meaning that it is almost impossible for households to move among them as their residential needs change during extended residency periods. The dwellings are located far from employment centers, which limits allocation and allocation changes in accordance with the employment considerations of households.

Due the rigidity of the stock, it sometimes happens that the size of the dwelling does not match the number of individuals in the household. Density is sometimes too high, but for the most part, families live in dwellings that are too large (War on Poverty Report, 2014), where average housing density is lower than what is typical for poor households living in rented accommodation[44] (Bank of Israel, 2015).

Eligibility for assistance through public housing is determined according to the household's income, composition, and socioeconomic status. In 2018, eligibility was awarded to families with prolonged dependency on

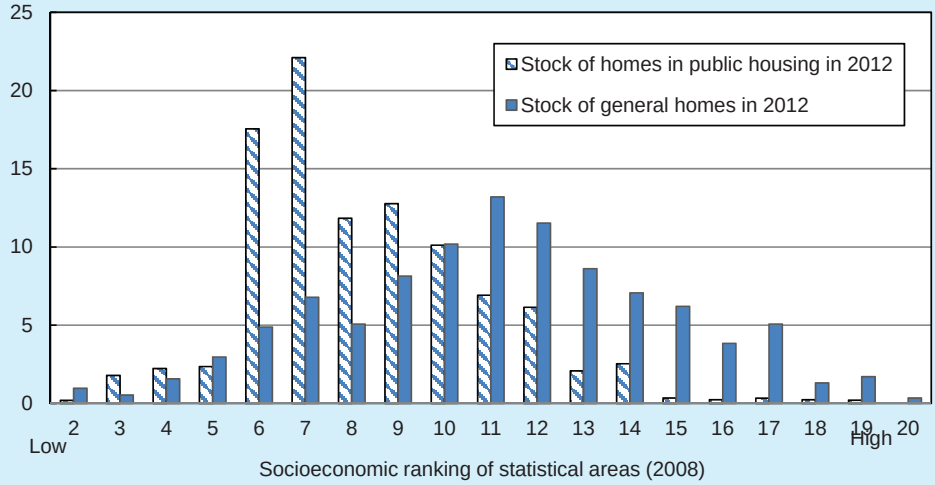
The reduced stock of dwellings in public housing limits the possibilities of adjusting their allocation to households' employment considerations and to changes in their needs during extended residency periods.

Figure 8.14
Public Housing Units by District



a Data to the end of 2017.
b Data to the end of 2018.
SOURCE: Ministry of Construction and Housing and Central Bureau of Statistics.

Figure 8.15
Public Housing Units[a] and Total Units by Socioeconomic Ranking of Statistical Areas[b]
(commonality of units in the area, percent)



a According to data from Amidar and Amigur, the companies that manage more than 90 percent of dwellings in the stock.
b Geographic units that are as small and homogeneous as possible within a locality, which have unique characteristics. Division into statistical areas is generally done in localities with 10,000 or more residents. A statistical area averages about 3,000 residents.
SOURCE: Based on Amidar, Amigur, and Central Bureau of Statistics.

[44] The State Comptroller (2015) discusses the inconsistency between family size and dwelling size.

subsistence allowances or with physical disability. Eligibility is not time-limited, and the yearly rental contract is renewed automatically. Every year, the public housing companies consider changes to the financial state of eligible recipients, their family composition, and their use of the dwelling. This examination is used in determining the subsidized rent those recipients will pay[45], but does not rule out eligibility for public housing.

Living in public housing may impair the incentives to work and to save, both because the dwellings are generally far from employment areas, and because this type of housing gives an almost permanent right to pay reduced rent. However, at least some of the households that are entitled to public housing may be able to extricate themselves from the distress that leads them to need such assistance. For its part, the impairment of the incentive to work may in the end have a negative impact on the households' freedom to choose their place of residence. Public housing residents are characterized by lower labor income and lower employment rates than poor households living in rented accommodations (Bank of Israel, 2015). There may be a number of reasons for this: (1) Public housing allocation policy properly identifies the population with very low permanent earning capacity, partly due to poor health[46]; (2) Residents may fear that increased employment and labor income will lead them to lose their social rights, including the right to public housing, and this concern dilutes the incentive for economic independence; and (3) public housing residences are distant from employment centers, and eligible recipients have little flexibility in adjusting their place of residence to employment opportunities.

When the stock of public housing expands rapidly, the chances are greater of creating clusters with higher density, poverty, and distress than those created without intervention.

The public housing neighborhoods in Israel developed as areas of distress (Carmon, 1989), and to a large extent, they still exist. In these residential areas, public housing apartments are clustered—meaning they are in proximity to each other—because public housing was used in the past as a means of building and condensing communities, and because there are advantages of scale in purchasing and managing a clustered inventory. These groups became diluted over the years, as many dwellings were sold by the housing companies to private ownership, and it seems that the dwellings purchased in recent years are also located in areas with less stock of such dwellings (Figure 8.16). However, when inventory increases through housing clusters—and it is reasonable that such a thing would occur if the inventory grows rapidly[47]—there are greater chances that large clusters will be created with higher density, poverty and distress than those created without intervention or when

[45] See State of Israel, Ministry of Construction and Housing, "Graduated Rent in Public Housing" procedure, directive number 08/28; http://www.moch.gov.il.SiteCollectionDocuments/nehalim/nohal_0828.pdf

[46] The rate of those receiving disability benefits is higher among public housing residents than in the comparison group.

[47] Such a process would occur, for instance, if the state adds many homes from the "Buyer's Fixed Price" program to public housing.

other housing assistance, such as affordable or subsidized rent, is used.[48] Globally, we also find that high concentrations of public housing may increase the chances that phenomena connected with economic distress, such as crime, may develop (Sandler, 2017).

The physical and human residential environment can contribute to the acquisition of human capital and to the creation of a network of contacts and interactions that can generate social and economic value.

The chances that a concentration of poverty may develop in public housing increased particularly when eligibility for assistance is determined by prolonged economic need, when the household has no incentive to leave public housing, or when the terms of eligibility do not encourage recipients to increase their labor income. The economic literature deals a lot with the contribution that the residential, physical, and human environment can make to the acquisition of human capital and the creation of a network of contacts and interactions that can generate social and economic value.[49] A weak, isolated, and homogeneous residential environment generally has a low level of social and public services. Such a residential environment may create a negative effect on the children who grow up in it, mainly when exposure to it is prolonged and takes place at a young age.[50] There is a prevailing agreement in the literature of recent years that helpful government intervention in the housing market acts to diversify the human environment and the social services in the residential location.[51]

Large public housing clusters may intensify neglect and social distress.

Large public housing clusters may intensify neglect and social distress. Large and crowded clusters may also impair the quality of the neighborhoods as reflected in home prices. A study conducted by the Bank of Israel examines the sale of units in public housing clusters through sales promotions conducted between 2000 and 2010 (Ramot-Nyska et al., forthcoming). About one-third of the public housing

[48] It is not clear whether the means of housing assistance increase the concentration of poverty in the neighborhoods, since it is difficult to isolate their effects from the processes that would have taken place in these neighborhoods in any case. Based on a number of studies in the area, Ellen at al. (2016) show that three means of housing assistance to the poor population groups—buildings that have affordable housing units, rental subsidies (vouchers), and public housing—have a differential effect on increasing the concentration of poverty in the neighborhoods. While affordable housing and the use of rent subsidies tend to focus on neighborhoods where the concentration of poverty is high, that concentration is lower in those neighborhoods than in public housing neighborhoods.

[49] Some of the studies did not find any effect, and some found that a high-quality residential environment has a positive effect. A review of studies of this type appears in Graham (2018).

[50] The literature obtained a significant contribution from a serious of studies conducted following a controlled experiment in the US (Moving to Opportunity). In the experiment, the authorities allocated financial incentives through rental vouchers. In the "treatment" group, families received vouchers that could be used only in neighborhoods where poverty rates were low, while families in the "control" group received vouchers that could also be used in neighborhoods with high concentrations of poverty. A few studies tracked the children exposed to the program, and found that in adulthood, the children who moved at a young age to a less-poor environment earned wages that were about one-third higher than their peers in the control group (Chetty et al., 2016). Chyn (2018) also found that when children moved from public housing concentrations to neighborhoods with lower concentrations of poverty (thanks to a rent subsidy), they had less chance of turning to crime or dropping out of high school, and a greater chance of working and earning a higher wage than the chances of children who lived in public housing neighborhoods and did not move to other neighborhoods.

[51] An alternative policy advances weaker places by diverting budgets to them (place-based policies). However, there is value to the social interaction that creates peer effects and to residence in an environment that is not disconnected from high-quality social services.

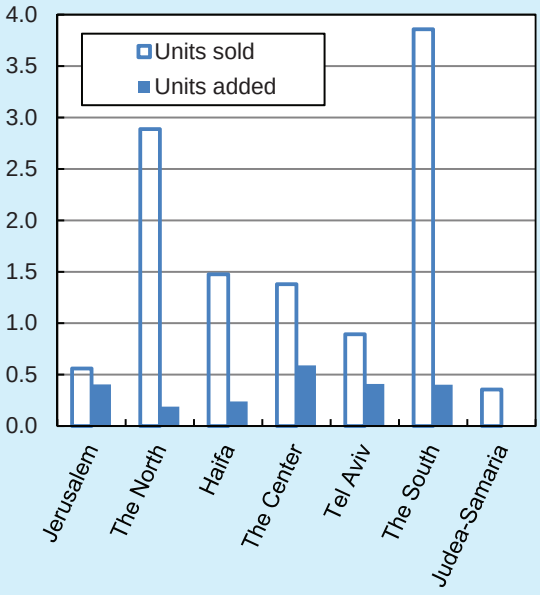
inventory was sold during that period to residents—i.e. the identity of those living in the dwellings did not change—and the concentration of public housing dwellings in many neighborhoods declined within a short period. The study found that transferring the dwellings from public to private ownership led to an increase in the prices of neighboring residential units. This effect was mainly noticeable in neighborhoods that were characterized by high concentrations of public housing units at the beginning of the study period. The study shows mainly that private ownership of housing has positive externalities. However, since it examines public housing, we can learn from it that high concentrations of public housing may create negative spatial effects.

The volume, cost, and consequences of the sale of dwellings from public housing

Over the years, the State has sold tens of thousands of public housing units, mostly to the tenants of those dwellings, and rarely on the open market. The dwellings were sold at discounts or with grants, the rates and terms of which changed from time to time. The sales were held in order to reduce poverty and to transfer capital to the households that they could bequeath to their children[52], and in order to support private home ownership (Weinstein, 2014).

In 1998, the Public Housing Law (Purchase Rights), 5759–1998 was passed. The law anchored the rights of public housing residents to purchase the dwellings in which they lived at discounts of as much as 90 percent off the market price, after they had built up at least five years of seniority in public housing. The implementation of the law was deferred each year until it came into force at the beginning of 2014. However, between 1999 and 2010, the government implemented sales promotions that set out terms of purchase eligibility and discounts in the spirit of the law. This period featured

Figure 8.16
Public Housing Units Added to the Stock, and Units Sold to Residents, 2011–2018 (thousand)



SOURCE: Ministry of Housing and Construction.

[52] Occasionally, the descendants of eligible participants purchased the dwellings, as "continuing residents".

vigorous sales. Roughly 30,000 out of the almost 90,000 public housing dwellings were sold, at discounts that averaged 70 percent.[53] During that period, barely any dwellings were purchased for inventory, so the inventory of public housing dwellings diminished.

Over the years, the State has sold many dwellings from the public housing inventory, while adding few dwellings. The number of such dwellings therefore eroded.

Since the law came into effect, public housing companies have continued to sell many dwellings.[54] Between 2014 and 2018, roughly 13 percent of the dwellings that remained in the inventory—about 8,000 dwellings out of slightly more than 60,000—were sold, while about 2,240 dwellings were added to the inventory. In 2018 alone, 1,397 dwellings were sold at an average discount of 59 percent off the market price. The dwellings that were added to the inventory are newer than those currently in the inventory, and were purchased in accordance with the characteristics of specific eligible recipients who waited during that period for a public housing dwelling, or in accordance with the characteristics of residents who needed to replace the dwelling in which they lived. Figure 8.16 shows the distribution of dwellings that were purchased and sold between 2011 and 2018 by district.[55] Since the public housing inventory eroded, housing prices have climbed in recent years, and there is a waiting list for public housing, committees dealing with public housing called for a halt in selling them[56] so that the existing inventory could be maintained, and even increased.[57]

The discounts that residents receive on the dwellings have very high economic value. Even so, the loss of income in respect of the sale is not internalized in the State Budget, and the alternative cost of purchase assistance—for instance in terms of rental assistance to other families—is not taken into account. Since most of the purchasers are adults, the benefit is basically passed on to their heirs, even though there is a long waiting list for public housing. The continuing sale to residents involves a moral risk, particularly when it is done according to the Public Housing Law, since that creates knowledge among the households of their future eligibility to purchase the dwellings, and may therefore direct their behavior to meeting the purchase terms. There is greater moral risk when the inventory is raised, since this increases the chance of purchasing a dwelling from public housing.

On the other hand, the residential environments may improve as a result of increased private ownership of dwellings, and both the purchasers and their neighbors stand to benefit from this. The home ownership rate among households from the lowest decile increased by about 10 percentage points between 1997 and 2017, while among the

[53] Based on administrative data from the "Amidar" company.

[54] In February 2018, the Public Housing Law was extended until 2023, and eligible participants will be able to continue exercising their eligibility during this period.

[55] The Figure essentially shows the state of sales and purchases during the period in which the Public Housing Law (Purchase Rights) was implemented, even though the law was applied only in 2014, because in the period between 2011 and 2013, almost no dwellings were purchased for the inventory, and few dwellings were sold.

[56] The Report of the Committee for Socioeconomic Change (Trajtenberg Committee) was submitted to Prime Minister Binyamin Netanyahu in September 2011.

[57] The Report of the Subcommittee of the Committee for the War on Poverty (Alalouf Committee) was submitted to the Minister of Welfare and Social Services in September 2014.

general population—and particularly in the intermediate deciles—it declined (Central Bureau of Statistics, 2019). However, the benefit of the sale to the residents has not yet been examined, and the only evidence of the benefit to the residential environment is in the price increases in neighborhoods that had particularly high public housing density (Ramot-Nyska et al., forthcoming). Against these possible benefits, there is the high cost of the subsidy for purchasing the dwellings.

Conclusion and policy recommendations

In order to take the long-term well-being of eligible residents into account, it is important that the government focus on setting out a strategic assistance plan that includes other means beyond public housing, and that it view this policy as part of the social safety net.

While public housing concentrations have diminished over the years, most of the dwellings remain in poor neighborhoods that are quite distant from employment centers. The number of public housing dwellings is low relative to the list of those eligible and its potential growth, and the main alternative—rental assistance—does not provide social security to some of the poor households, particularly those that have difficulty functioning. Supply rigidity in public housing makes it less possible to adapt the supply of dwellings to the needs of eligible recipients, which may in the end impair the well-being of eligible recipients over years and intensify their distress. In order to take their long-term well-being into account, it is important that the government focus on setting out a strategic assistance plan that includes other means beyond public housing, and that it view this policy as part of the social safety net. It is also important that the government internalize the costs of the various means of assistance and their effect on households' behavior. The housing assistance policy must internalize social considerations in spatial planning, with the aim of helping households maximize their socioeconomic potential and reduce the segregation of the poor population groups.

An update mechanism should be set for public housing rents and for rental assistance in the open market. This will set the housing assistance system in a policy framework that encourages financial independence among those who are able, while also supporting their standard of living.

Since rents in the open market are higher than rents on the public housing inventory, the maximum rental assistance in the open market is lower in value than minimal assistance through public housing.[58] This difference is due to the fact that rents on the open market, and the subsidy derived from them for rental assistance recipients in the open market, increase more rapidly than the pace at which rent on the public housing inventory—the amount upon which the subsidy for public housing residents is based—is updated.[59] An update mechanism should be set for public housing rents and for rental assistance in the open market. This will set the housing assistance system in a policy framework that encourages financial independence among those who are able, while also supporting their standard of living.

Residence in public housing, and the rights attached to it—reduced rent, almost-permanent eligibility for assistance, and the right to purchase the dwelling—include many subsidies. When housing assistance policy is examined, Subsidies for public housing residents should be examined in comparison to subsidies for

[58] A very small portion of those eligible for rental assistance in the open market are waiting for a public housing dwelling, and since 2014, they are eligible for increased rental assistance, which ranges from NIS 1,644 to NIS 3,900 per month.

[59] It is indexed to the CPI and based on property assessments that are not up-to-date.

households on the margins of eligibility for public housing that benefit from only a rental subsidy. It seems that the difference in rights between these two groups is large, even though the marginal differences in their characteristics are not large. This may lead households on the margins of eligibility to prefer public housing assistance over rental assistance, even though generous rental assistance in the open market may actually be better for them in the long term and increase their dominion and their flexibility in view of changing needs.

Subsidies for public housing residents should be examined in comparison to subsidies for households on the margins of eligibility for public housing that benefit from only a rental subsidy.

Empirical evidence from around the world shows that when recipients of housing assistance live in a neighborhood that is less poor, there is economic value derived, mainly for the children of the recipients. As such, alternatives to public housing should be developed that provide stable long-term solutions that are also flexible and have fewer external effects than public housing. Public housing must remain a means of assisting population groups with limited functioning. In such cases, the inventory of dwellings must be properly maintained, and must be scattered in many residential neighborhoods.

The economic and social price of the State continuing to sell public housing dwellings to residents should be examined, and consideration should be given to stopping the sale in its current format. The inventory of old dwellings can be replaced with new ones, and there should be geographic diversity and greater distribution within communities, in two ways. First, public housing dwellings that become available should be sold on the open market, and new dwellings should be purchased in their stead. Second, vacate-and-build initiatives should be established, to include dwellings for varied populations. In place of existing dwellings, new public housing units (alongside other units), or long term rental units should be built.

The economic and social price of the State continuing to sell public housing dwellings to tenants should be examined.

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