Chapter 8
Welfare Policy Issues

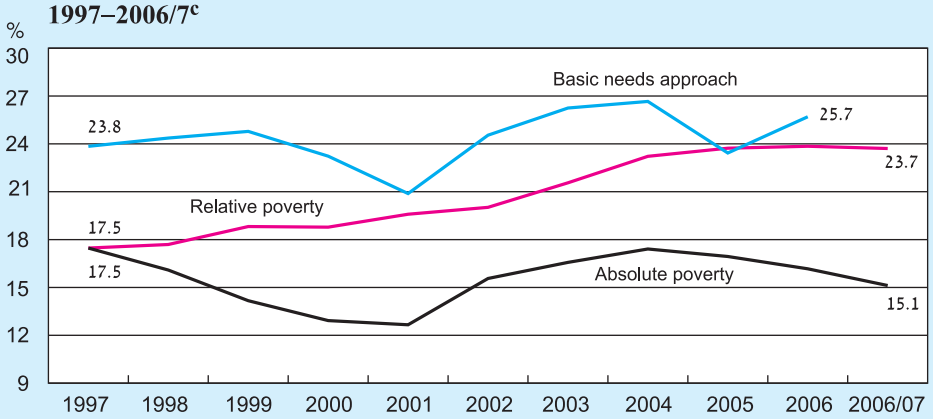
- Israel had 1.7 million people living below the poverty line in the year ending June 2007. The poverty rate in that period amounted to 24.7 percent of the population, similar to that in the years 2005 and 2006. According to additional indices, which reflect the ability to purchase basic commodities or a fixed basket, the poverty rate has declined in recent years. The poverty rate is especially high in the Arab sector and in the ultra-orthodox Jewish (Haredi) sector.
- Despite the stability and even slight improvement in the poverty rate as measured by certain indices, the poverty rates in the population in which not only income but also expenditure were below the poverty line continued to rise, indicating an increase in the proportion of the poor who have difficulty in maintaining a reasonable level of expenditure in the face of temporary reductions in their income.
- Due to economic growth and the cuts in transfer payments during recent years, the weak populations have entered the labor market at an increasing rate. However, this trend has not been accompanied to an adequate extent by programs for encouraging employment and for increasing the remuneration for labor. As a result, entry to the labor market has been no guarantee for escaping poverty.
- Over half of the ultra-orthodox population is poor. This is because of their low participation rates, relatively low wages, high birthrate, and education that is not directed at future income-earning ability.
- During recent years policy-makers have shown a growing tendency to adopt an approach whereby the focus of support for the elderly population should be moved from universal support to selective support, where the most important criterion must be the level of need for assistance.
- Since the beginning of the 1990s, a considerable improvement has been achieved in matriculation exam results (excluding adjustment in respect of the exams' level of difficulty). The growing proportion of the Arab and ultra-orthodox educational streams has moderated the improvement, while the enhancement of the socioeconomic characteristics of the students within each of the educational streams has supported an increased level of achievement.
- The gaps between the basic pattern of achievement in the matriculation exams among students from a weak socioeconomic background compared with those of students from a strong background contracted during the period, concurrent with an expansion of the gaps in achievements indicative of excellence.
- The complementary insurance plans offered by the health funds contribute to the average level of health in the population and increasing the scope of them reflects in a large growth in private and national expenditure on health.
- Seventy-seven percent of the population are covered by complementary health insurance. In the OECD countries excluding Holland and France, this ratio is lower.

1. POVERTY AND WELFARE POLICY[1]

Although the impact of growth since 2005 has also seeped down to the weaker groups in the population, the contribution of government policy to reducing poverty continued to decline.

On the basis of the generally accepted relative definition, Israel had 1.7 million poor, accounting for 24.7 percent of the population.[2] This was similar to the poverty rate in the years 2005 and 2006, following a continual increase in it until those years. Since 2005, the impact of growth has seeped down to the weak sections in the population, and is having a favorable effect on their well-being. Concurrently however, the contribution of government policy to reducing poverty has continued to decline. These conflicting trends have led to stability in the poverty rate according to the relative index, and to an actual decrease in recent years according to additional indices reflecting the ability to purchase basic commodities or a fixed basket[3] (Table 8.1 and Figure 8.1).

Figure 8.1
Incidence of Poverty among Individuals by Different Approaches,[a,b] 1997–2006/7[c]



[a] The relative poverty line is calculated according to half the median equivalized income. The basic needs poverty line is that defined by the Canadian Market Basket Measure (MBM) and the American (NAS) measure. This includes essential spending on food, accommodation, education, transport and personal products. Disposable income includes income from all sources and is after tax and essential family health expenses, and expenses associated with going out to work (See Box 8.1).
[b] Not including Arabs of Jerusalem.
[c] The data are based on a survey conducted between July 2006 and July 2007.
SOURCE: Based on Central Bureau of Statistics' Income and Expenditure surveys.

[1] The analysis on this section refers mainly to data from the Income Survey for the period beginning in July 2006 and ending in July 2007. A figure from the survey will be denoted in this chapter as a figure for the period 2006/7. The data presented for the year 2006/7 refer to the entire population, including Arab residents of Jerusalem, unless long-term developments are involved. In those cases, the data do not include Jerusalem Arabs because no information on their income in the years 2000 and 2001 exists.

[2] Including Jerusalem Arabs. The poverty rate calculated without them amounted to 23.7 percent in 2006/7.

[3] The calculation of the basic commodities index is largely based on the study of D. Gottlieb and R. Manor (2005), "Selection of a poverty index as a policy target," discussion paper series, Monaster Center for Economic Research, Ben Gurion University. See also Box 8.1 in the Bank of Israel Report for 2006. Since the index showed unexplained volatility in the years 2005 and 2006, it would be best to refer to the average of those years.

But even during the last two years, which were notable for stability or a slight improvement in the average poverty rate, the ratio of poor trying to maintain a level of consumption above the poverty line continued to rise. Moreover, the level of poverty in Israel is among the highest in the Western countries.[4] This poverty is centered in two main demographic groups—Arabs and ultra-orthodox Jews.[5] In recent years, the proportion of the weak populations entering the labor market has increased due inter alia to the cut in welfare allowances. Yet despite this positive trend of entry into the labor market, the initial and relatively difficult integration of the weak populations in the labor market has not yet had the desired effect of reducing their poverty rates. Among other reasons, this is because the process has not been accompanied by adequately supportive government policy.

The level of poverty in Israel is among the highest in the Western countries.

The high proportion of poor in Israel's population and its negative socioeconomic implications highlight the need for policy that will encourage the integration of the weak sections of the population in employment, concurrent with measures aimed at increasing the remuneration for labor among them. Recently adopted measures, such as the increased enforcement of the labor laws and the decision to implement negative income tax, are a step in the right direction and should be extended. At the same time, support for those with low income-earning ability or who are unable to integrate in the labor market should be continued by means of transfer payments and the direct supply of services.

More policy measures are necessary to encourage the weak sections of the population to enter the labor market and to increase the level of their remuneration from work.

The poverty rate is mainly influenced by the reciprocal relationships between the labor market and the weak populations, and by government policy, which affects these reciprocal relationships and also exerts a direct effect by means of transfer payments and taxes. The relative poverty rate, when calculated before government intervention by means of transfer payments and direct taxes, is high at 32.1 percent.[6] This high ratio results from the combination of low employment rates among men—7 percentage points below the average rate for those aged 25-64 in the OECD countries—and a broad stratum of employed persons located at the bottom of the wage distribution scale.

Government policy has not done enough to develop employment alternatives for the weak groups in the population. Expenditure on such alternative plans is low by international standards as well.[7] Moreover, during the last 15 years the government in fact permitted the large-scale entry of foreign workers into the economy. Another factor contributing to the low employment rates and high poverty rates in the economy is the existence of demographic groups whose integration in the labor market is only

Government policy has not done enough to encourage the weaker groups to join the labor force, and has permitted the large-scale entry of foreign workers into the economy.

[4] For an international comparison of relative poverty, see Recent Economic Developments, 115, Bank of Israel, Research Department, November 2006, pages 26-29.

[5] A difficulty exists in identifying the ultra-orthodox in the Income and Household Expenditure Survey and in the Manpower Survey. Here, they are identified as having one family member studying in a post-high school yeshiva as the last study institution.

[6] Since transfer payments from individuals and from abroad were not deducted from disposable income in this calculation, a difference is apparent between this figure and the figure published by the National Insurance Institute.

[7] See the section on the labor market for details.

Table 8.1
Main Indicators[a]

(percent)

	Average 1997–2000	2001	2002	2003	2004	2005	2006	2006/7[b]
A. Poverty indices								
Relative index								
Number of poor ('000)	1,012	1,158	1,207	1,323	1,451	1,507	1,541	1,546
Rate of poverty (individuals)	18.2	19.6	20.0	21.6	23.2	23.7	23.9	23.7
Rate of poverty (families)	17.4	17.7	17.7	19.2	20.3	20.3	20.2	19.9
Income gap[c]	25.2	26.2	28.8	30.2	33.3	33.5	33.3	33.2
SEN indexd	0.067	0.074	0.082	0.093	0.109	0.111	0.110	0.109
Share whose consumption is below the poverty line	50.2	52.0	52.2	52.0	55.9	57.5	60.6	
Rate of poverty according to basic needs[e]—Individuals	24.1	20.9	24.5	26.3	26.7	23.4	25.7	
Poverty, by fixed index—Individuals	15.2	12.7	15.6	16.6	17.4	16.9	16.2	15.1
Change in real incomef of family in lowest quintile	6.2	1.7	-7.6	-2.4	-1.7	2.4	7.6	
Gini index	0.352	0.357	0.362	0.363	0.375	0.383	0.387	0.377
B. Selected groups								
Rate of poverty by relative index among:								
Children (up to 18 years old)	23.6	26.9	28.1	29.4	32.5	33.7	34.6	34.9
Aged 65+	24.8	22.7	21.1	25.2	26.5	25.6	24.8	24.3
Arabs	39.9	44.3	46.8	48.3	51.7	54.2	56.5	57.2
Ultra-orthodox Jews[f]	44.0	54.2	51.5	50.3	59.3	64.1	58.8	59.1

Table 8.1 (Cont.)
Main Indicators[a]

(percent)

	Average 1997–2007	2001	2002	2003	2004	2005	2006	2006/7[b]
C. Policy indices								
Incidence of poverty prior to transfer payments and direct taxes[g]—Individuals	29.9	31.3	31.2	31.8	31.5	31.6	31.2	31.0
Contribution of transfer payments and direct taxes in reducing the incidence of poverty among individuals	39.1	37.4	35.8	32.3	26.4	25.0	23.6	23.5
Share of welfare expenditure in GDP	27.2	28.6	28.7	27.9	25.9	25.4	24.8	25.0[i]
Welfare expenditure per capita (NIS '000, at 2006 prices)	22.2	24.3	23.5	22.6	21.8	22.0	22.3	23.0[i]
Share of transfer payments to households in GDP[h]	9.0	9.9	9.8	9.3	8.5	8.1	8.0	7.8[i]
Transfer payments[h] per capita (NIS '000, at 2006 prices)	7.4	8.4	8.0	7.5	7.1	7.0	7.1	7.2[i]

[a] Not including the Arabs of Jerusalem.

[b] Data based on a survey caried out between July 2006 and June 2007.

[c] The relative poverty line is calculated as half of the median monetary income. The basic needs poverty line is calculated according to the Canadian (MBS) approach and the American (NAS) one. It includes essential expenditure on food, housing, education, transport and personal items. According to this approach, a household is considered poor if its income from all sources, after taxes and essential family expenditure on health and work-related expenditure,. is below the poverty line. The absolute poverty line is calculated relative to its real level in 1997.

[d] Average gap between poverty line income of poor families.

[e] The Sen index combines the incidence of poverty, the income gap and inequality among the poor.

[f] There is a problem regarding identifying the ultra-orthodox in the Income Survey. Here they are identified as families in which the last educational institute attended by one or more members of the family was a post-secondary school talmudic college.

[g] Transfer payments from individuals and from abroad are not deducted from disposable income; hence the above data differ from data published by the National Insurance Institute.institution attended by a member of the family was a post-secondary school talmudical college.

[h] Transfer payments minus actual pension payments to retired public sector employees.

[i] For the whole of 2007.

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

partial, due to their cultural and other characteristics. In addition, these groups were affected by government policy, such as a generous system of allowances in the past, which although it played an important role in reducing the extent of poverty and in maintaining a minimal standard of living, also had the effect of instilling norms of non-employment and thereby led to the perpetuation of poverty. In this context it should be noted that any reference to the allowances system must be examined in this multi-dimensional manner.

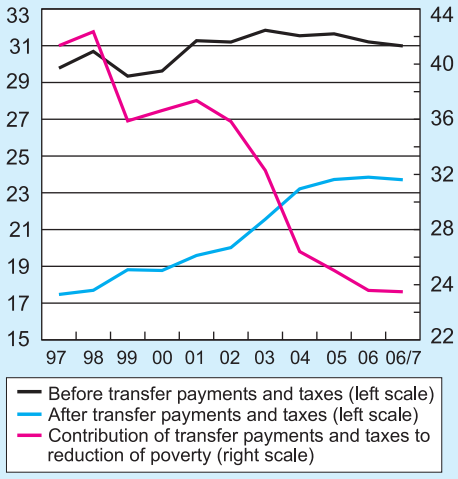
In the period 2006/7, government policy helped to reduce the incidence of poverty by a quarter.

Per capita welfare expenditure—spending on education, health, social and nursing insurance, housing, community services, culture, entertainment, sport and religious services—amounted to NIS 23,000 in 2007, an increase of 3.1 percent in real terms compared with the level in 2006, following increases of about one percent in the previous two years (see Chapter 5 for details of the composition of welfare expenditure). Due to the continued reduction in transfer payments in the years 2002 to 2004 however, per capita welfare expenditure, including per capita transfer payments, is actually lower than at the end of the 1990s. In the period 2006/7, direct government policy succeeded in rescuing 500,000 people from poverty by means of transfer payments (minus direct taxes) that helped to reduce the poverty rate by a quarter. This compares with a contribution of 40 percent a decade ago (Table 8.1 and Figure 8.2).[8]

Due to the increased income from labor in the weaker sections of the population and the reduction in transfer payments to them, the rate of government intervention decreased in the bottom quintile.

The rate of government intervention—the volume of transfer payments minus direct taxes relative to disposable income—is highest in the low income-earning quintiles and negative in the high income-earning quintiles. During the years 1997 to 2000, the rate of government intervention in the bottom quintile averaged 56 percent. In the years 2001 and 2002 it reached a peak of 60 percent, and from 2003 fell to only 45 percent in the year 2006/7 (Table 8.2). As stated, the decline mainly resulted from the reduction in the transfer payments intended for the weak populations, including child allowances for large

Figure 8.2
Incidence of Relative Poverty among Individuals and the Effect of Transfer Payments and Direct Taxes,[a,b] 1997 to 2006/7[c]
(percent)



[a] Not including Arabs of Jerusalem.
[b] Transfer payments from individuals and from abroad have not been deducted from disposable income; this causes a difference between data in the figure above and those of the National Insurance Institute.
[c] The data are based on a survey conducted between July 2006 and July 2007.
SOURCE: Based on Central Bureau of Statistics Income Surveys.

[8] This is without taking into account the effect of the taxation and allowances system on the behavior of the labor market and on the poverty line, and thereby on the poverty rate on the basis of economic income.

families, and as was necessary, from greater insistence on the criteria for the receipt of income benefit. The weak populations' entry into the labor market also contributed to reducing the rate of government intervention in the lower quintiles, principally from 2005, both directly, as a result of the rise in income from labor, which is reducing the government's share in overall income, and also indirectly, by reducing reliance on allowances. It should be noted that although only the volume of transfer payments to the bottom quintile increased in 2006, this quintile's income from labor rose by a higher rate, with the result that the rate of government intervention continued to decline in 2007. Concurrent with the reduction in share of government intervention (in disposable income) among the lowest quintiles, the tax burden was also reduced––which affects mainly the upper quintiles—and as a result the share of government intervention among those quintiles was also cut.

Table 8.2
Share of Government Intervention[a] in Disposable Income[b]
(percent)

Quintile	Average 1997–2000	2001	2002	2003	2004	2005	2006	2006/7[c]
Lowest	56.2	59.9	59.6	56.3	51.1	50.2	47.2	45.3
2	22.9	27.1	26.5	27.7	26.5	25.8	24.5	23.9
3	3.6	4.2	3.5	3.9	4.3	3.2	4.2	4.3
4	-13.1	-13.6	-11.4	-9.8	-10.6	-9.3	-8.3	-9.0
Highest	-37.8	-38.2	-39.0	-33.4	-31.7	-29.3	-28.2	-28.8

[a] Government transfer payments minus direct taxes.

[b] Not including the Arabs of Jerusalem

[c] Data based on a survey caried out between July 2006 and June 2007.

SOURCE: Based on Central Bureau of Satistics Income Surveys.

The government influences the well-being of the different sectors of population not only by means of direct taxes, but also by changes in indirect taxes, which are mostly regressive in nature. The burden of these taxes is mainly felt by the low deciles who consume a large part of their income. The indirect tax burden accounts for 40 percent of the income of the bottom decile, and for only 10 percent of the income of the upper decile.[9] The cut in VAT in the years 2005 and 2006 had the effect of reducing inequality and increasing the well-being of the weak strata. However other changes in those years, such as the reduction in taxes on automobiles (an item of consumption of the upper deciles), offset the effect of the VAT reduction on expenditure inequality.

[9] For more details, see: Leah Achdut, Miri Endbeld, Zvi Zusman and Rafaela Cohen (2006), "Sociological aspects of the 2001-2006 state budget," National Insurance Institute; and Nili Bibi-Karshai (2005), "The direct and indirect tax burden on households in Israel and its impact on inequality in 2003," Central Bureau of Statistics.

The changes in indirect taxes had less effect on inequality than the changes in direct taxes.

The cut in allowances, economic growth and the plans for integrating the weak groups in the population in the labor market (even if insufficient) had the effect of inducing the weak populations into the labor market.

The cut in allowances and especially in the guaranteed income supplement, the end of the recession in the economy and the plans for integrating the weaker population groups in the labor market (even if these were insufficient) have all had the effect of inducing those groups into the labor market: the participation and employment rates ceased to decline and actually increased. As an example, the employment rate of those with 0-10 years of education (a fifth of the working age population) remained unchanged at 26 percent from 2003 following a continual decrease in this rate from 33 percent in 1995. The employment rate of those with 11 to 12 years of education rose by 4 percentage points during the years 2004 to 2007, after falling in the previous years. The increase in participation and employment rates among the weak population groups in recent years led to stability in the poverty rate as calculated on the basis of economic income without government intervention—that is, before payment of direct taxes and the receipt of allowances and supports. This was despite the fact that education-oriented growth had been expected to increase its rate (Figure 8.2).[10]

The increase in the weak populations' employment rates has not yet led to a decrease in the poverty rate.

As the weak populations enter the labor market, their wages at the initial stage are expected to be low and to rise at later stages when the new workers become established in the market. The increase in the weak populations' employment rates has therefore not led for the time being to a decrease in the poverty rate. This is because a large proportion of workers from the weak populations enter the labor market at a low wage. As a result, the proportion of families without even a single breadwinner among all the poor fell from 44 percent in 2001 to 33 percent in 2006/7. The entry into employment of this relatively weak group was not enough to rescue them from poverty, and the poverty rate among families with one or more breadwinners rose by 50 percent in those years. The reliance on income from labor rather than from allowances is a positive trend that should be encouraged. However, the policy should be directed towards achieving the result that the entry of workers from the weaker sections of the population should lead to an improvement in their welfare, to boost the trend and strengthen those groups.

The reliance on income from labor rather than from allowances is a positive trend that should be encouraged.

The multi-dimensional aspect of the term poverty makes it necessary to examine poverty by means of additional indices.[11] All these indices show a relatively high level of poverty, but each of them differs in its description of the extent and the development of poverty. The real income of a household in the lowest quintile—an index which in August 2007 the government defined as a future objective for socioeconomic

[10] Due to the definition of the poverty line as a relative index.

[11] For details on the different indices and their contribution to understanding the poverty problem, see the Bank of Israel Report for 2005, Chapter 8 "Welfare Policy". In 2006, the complexity of the measurement of poverty led to the establishment of a committee headed by Prof. Shlomo Yitzhaki, whose purpose was to determine a clear and broad set of indices for examining the poverty situation in Israel.

policy[12]—increased by 1.3 percent in 2006/7 (compared with 2006) further to its rise in 2005 and in 2006. This increase reflects a growth in income from wages concurrent with a decrease in the government intervention rate. According to absolute indices as well, which reflect the ability to purchase a basket of basic commodities or a fixed basket (which was determined in 1997), the poverty rate in the years 2005 and 2006 was lower on average than in 2004, after rising in the previous three years (Table 8.1 and Figure 8.1). This development, which also indicates that the growth in the economy has seeped down to the weak population groups, had the effect of increasing the wages in these strata and of reducing their poverty rate on the basis of the absolute indices, even though it did not improve their relative position in the distribution of income.

The real income of a household in the bottom quintile increased by 1.3 percent from 2006 to 2007, following its rises in 2005 and 2006.

A similar picture emerges from a breakdown of the annual change in the rate of relative poverty into two main groups—"absolute effect" (which derives from the change in individuals' income for a fixed real poverty line) and "relative effect" (which derives from the real change in the poverty line compared with the previous year. The absolute effect is created by the change in the personal economic situation, which affects the ability to purchase a fixed basket of commodities (which is represented in the previous year's real poverty line). The relative effect is created by the change in the general standard of living (which is represented by the change in the median income), assuming that the personal income is fixed.[13]

While the purchasing power of the poor rose in 2006/7, the rate of the increase did not exceed that of the median in the population.

An examination of the contribution of the two effects of an increase in the poverty rate shows that in the period 2006/7 they offset each other: While the relative effect increased the poverty rate, the absolute effect reduced it (Figure 8.3). An analysis of the two effects reveals that while the purchasing power of the poor rose in 2006/7, the rate of the increase was similar to that of the median in the population.

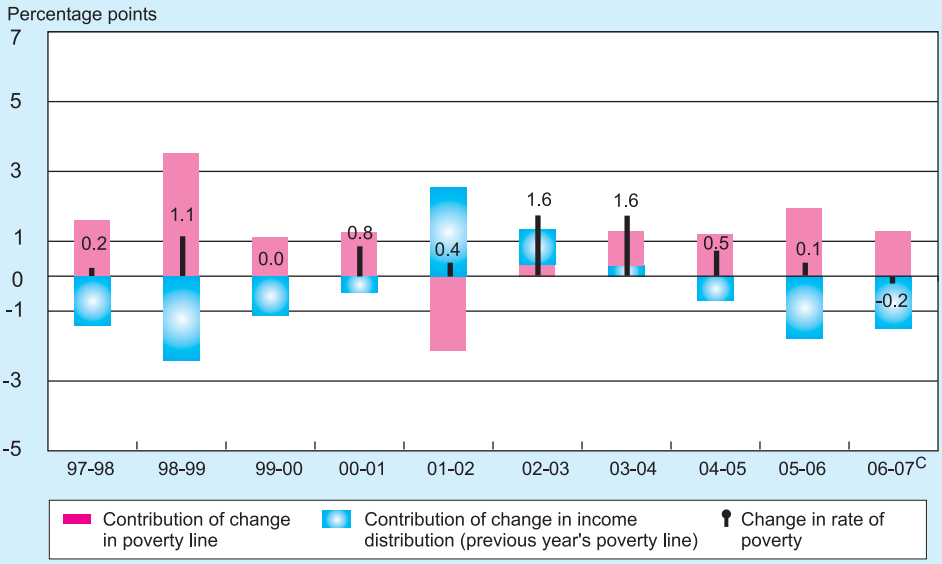
While the indices examining the individual's situation in accordance with his relative or absolute income show a lack of change or only a slight improvement in the poverty rate and in the extent of poverty (based on the income gap and the SEN index, see Table 8.1), when the poor are examined on the basis of current standard of living, a different picture emerges: The proportion of poor whose consumption as well as income is below the relative poverty line rose considerably in the years 2004 to 2006 and reached 60 percent of all the poor (Figure 8.4). In other words: An increase was recorded in the proportion of the poor have difficulty in maintaining a reasonable level of expenditure in the face of temporary reductions in their income. (For further details of this index, see the Bank of Israel Report for 2006, Chapter 8.)

The proportion of poor persons in the population who fail to maintain a consumption level above the poverty line is expanding.

[12] The Prime Minister's Office's socio-economic program for the years 2008 to 2010 targets a 10 percent increase in the income of the bottom quintile over and above the rate of increase in per capita product. This project is expected to lead to a rise in the proportion of income from labor to the total income of the bottom quintile. Regarding the importance of defining policy objectives in the area of well-being, see: "Poverty in Israel and the Strategy for Reducing It" D. Gottlieb and N. Kasir (Kaliner), 2004.

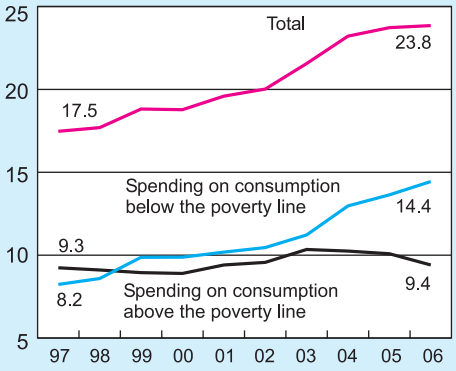
[13] The change in the poverty rate includes three components—an absolute component, a relative component and a combined component of the two effects. The third component is negligible, and is amalgamated here with the relative component.

Figure 8.3
Contribution to Changes in Rate of Poverty among Individuals,[a,b] 1997–2006/7



[a] The contribution of a change in the poverty line to the rate of poverty is calculated here as the difference between the total change in the rate of poverty and the change that stems from a shift in the distribution of income relative to the previous year's real poverty line.
[b] Data do not include Arabs of Jerusalem.
[c] The data are based on a survey conducted between July 2006 and July 2007.
SOURCE: Based on data from Central Bureau of Statistics and Income Surveys.

Figure 8.4
Incidence of Poverty among Individuals[a] by Spending on Consumption,1997–2006 (percent)
Relative approach



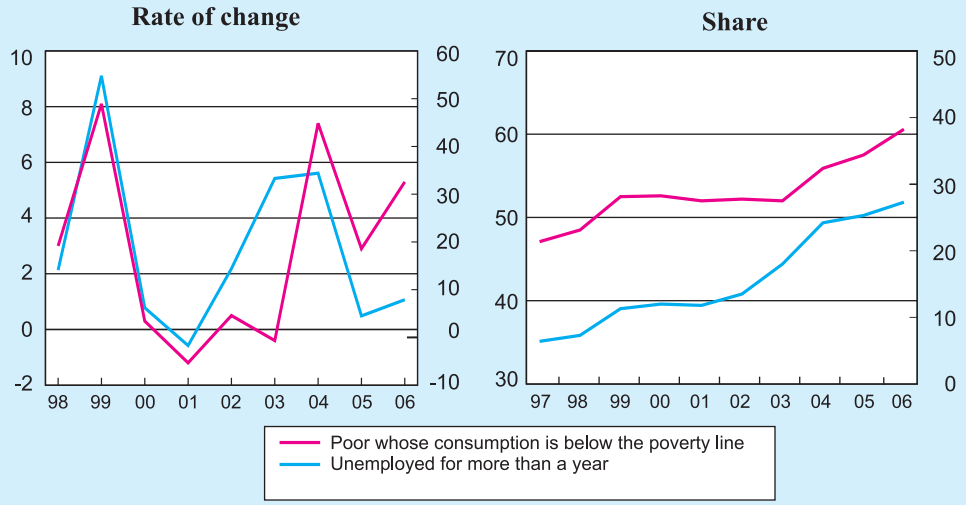
[a] Not including Arabs of Jerusalem.
SOURCE: Central Bureau of Statistics' Income and Expenditure Surveys.

This development indicates that the hard-core of poor persons in the population—who fail to maintain a level of consumption above the poverty line despite the stability and even slight improvement in the general poverty situation—increased. The expansion of hard-core poverty derives from poverty continuing for a long period, which erodes income from assets or capital in the event that such income exists. The expansion of hard-core poverty was also connected to the continuous rise in the hard core of unemployed,[14] who have difficulty in finding work over time even in periods of growth, and some of whom become discouraged workers. The

[14] The ratio of unemployed who have difficulty in finding work for more than 52 weeks.

coefficient of correlation between the rates of change in the two variables—the hard-core of unemployed and the proportion of the poor whose income and consumption are below the poverty line—is high, over 60 percent (Figure 8.5).

Figure 8.5
Share of Those Unemployed for More Than a Year in the Total Number of Unemployed, and the Share of the Poor Whose Consumption is Below the Poverty Line in the Total Number of Poor,[a] 1997 to 2006 (percent)

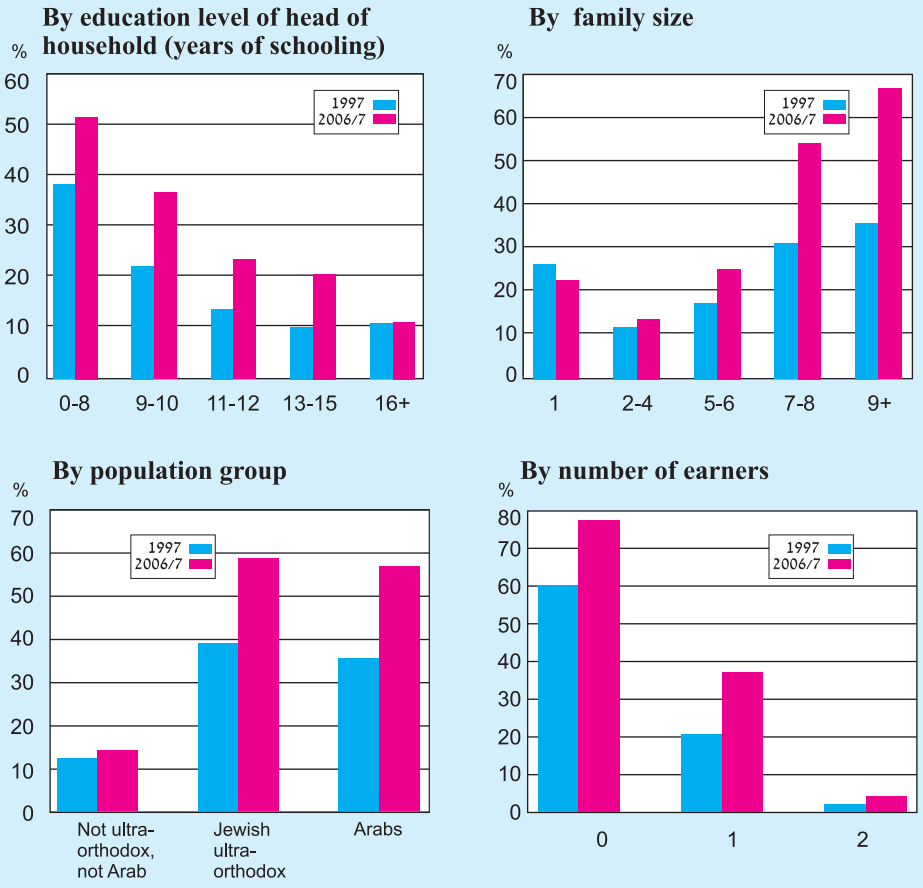


[a] Not including Arabs of Jerusalem.
SOURCE: Based on Central Bureau of Statistics Income and Expenditure Surveys.

The level of poverty is especially high among Arabs and the ultra-orthodox. These two sectors account for a quarter of the population but their proportion among the poor amounts to 60 percent.

The poverty rate is not uniform among the different populations, and a particularly high increase was recorded in the past decade (Figure 8.6) among the populations in which the poverty rates were high from the outset. The level of poverty is especially high among Arabs and ultra-orthodox Jews—two sectors that account for a quarter of the population but whose proportion among the poor as a whole is much higher, and amounted to 58 percent in the period 2006/7. An analysis of other cross-sections of the population shows that the poverty rate is high among the poorly-educated or those whose education does not match the requirements of the labor market, and among large families and families without a breadwinner or with only one breadwinner. These features are also part of the demographic characteristics of the Arab and ultra-orthodox sectors. Moreover, among the groups with a high poverty rate, the extent of poverty is higher than in the other groups. The differences in poverty and its extent between different groups are affected by the decisions which individuals make in accordance with their outlook regarding inter alia labor force participation and family size, and by individuals' objective difficulties in integrating into the labor force (Tables 8.3 and 8.4).

Figure 8.6
Rate of Poverty by Group,[a] 1997 and 2006/7[b]



[a] Not including Arabs of Jerusalem.
[b] The data are based on a survey conducted between July 2006 and July 2007.

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

In the non-ultra-orthodox Jewish sector, whose involvement in the labor market is high, the poverty rate is relatively low, and amounted to 14 percent in 2006/7. The extent of poverty in this group is also lower than in the other groups. The poverty rate in the non-ultra-orthodox Jewish sector has been declining since 2005, concurrent with a decrease in its proportion of poor persons to the total number of poor. The decline in the poverty rate is attributed to sustained economic growth, which led to a rise in employment rates and in the average wage[15] (Table 8.3). (For details of the effect of fluctuations in the business cycle on this group, see also the Bank of Israel Report for 2006, Chapter 8.)

[15] It should be noted however that in the period from July 2006 to June 2007, the poverty rate among this population was half a percentage point higher than in 2005.

Table 8.3
Indices of relative poverty among individuals by various characteristics and by selected sectors of the population[a], 2006/7[b]

	Poverty indices			Distribution, percentage of	
	Rate of poverty	Income gap[c]	Sen index[d]	the poor	the population
Total	25	34	0.117		
Years of education					
Up to 8	53	36	0.262	23	11
9–10	39	34	0.185	15	9
11–12	24	35	0.118	31	32
13–15	21	32	0.092	19	23
16+	11	31	0.049	12	25
Family size					
1 person	22	26	0.088	5	6
2–4 persons	14	31	0.064	28	49
5–6 persons	26	35	0.124	32	30
7–8 persons	55	37	0.274	23	10
9 or more persons	62	37	0.296	12	5
Number of wage earners[e]					
0	78	50	0.500	33	10
1	38	28	0.145	50	33
2+	4	20	0.012	8	48
Householder aged 65+	24	21	0.079	9	9
Population group					
Ultra-orthodoxe[f]	58	36	0.279	17	7
Arabs	58	38	0.302	41	18
Population excl. ultra-orthodox and Arabs	14	29	0.058	42	75
Single-parent families	36	34	0.165	6	4
Immigrants	18	27	0.073	12	16

[a] Including the Arabs in Jerusalem.
[b] Data based on a survey caried out between July 2006 and June 2007.
[c] Average gap between poverty line income and income of poor families.
[d] The Sen index combines the extent of poverty, the income gap and inequality among the poor.
[e] In families where the head of the household is less than 65 years old.
[f] There is a problem regarding identifying the ultra-orthodox in the Income Survey. Here they are identified as families in which the last educational institute attended by one or more members of the family was a post-secondary school talmudic college.
SOURCE: Based on Central Bureau of Statistics Incomes Surveys.

Table 8.4
Employment Rate and Average Wage per Employee Post by Population Group,[a] 2006

	Employment rate (%)		Average wage (NIS)	
	Men	Women	Men	Women
Total population	**61.7**	**53.0**	**8,735**	**5,558**
Arabs	58.1	22.6	5,230	3,846
Ultra-orthodox[b]	24.6	45.2	5,552	4,220
Population excluding ultra-orthodox and Arabs	66.7	62.0	9,516	5,664

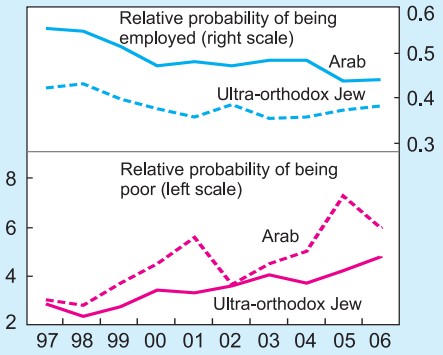
[a] Up to age 65.
[b] There is a difficulty in identifying the ultra-orthodox in the Labor Force Survey and the Income Survey. They are identified here by the attendance of one member of the family at a post-secondary school talmudic college.
SOURCE: Based on Central Bureau of Statistics' Labor Force Surveys and Incomes Surveys.

In the Arab and ultra-orthodox sectors, the poverty rate increased in the past decade (Figure 8.6). Due to the special characteristics of these groups, the development of poverty among them did not react appreciably to changes in growth, as did happen in the non-ultra-orthodox Jewish sector. The finding concerning the increased probability of these populations becoming poor also applies if the effect of other demographic variables such as number of children and individuals' education is deducted, by means of a multi-year regression (Figure 8.7).[16]

A new trend recently became apparent in the ultra-orthodox sector in 2006: The rate of poverty in it declined, and the relative probability of being included in the poor population fell heavily.

A new trend became apparent in the ultra-orthodox sector in 2006: The poverty rate in it fell by 5 percentage points compared with 2005. The relative probability of being included in the poor population,[17] exclusive of all the other effects, has decreased considerably since 2006 (Figure 8.7). The reduced poverty rate and chances of being poor can be attributed to the ultra-orthodox population's entry into the labor market. Although their participation rate is low relative to the entire population, it has increased during recent years. At first, their entry into the labor market was mainly apparent from the increase in their unemployment rate, while in the last two years it has led to a growth in

Figure 8.7
The Relative[a] Probability of Being Employed and of Being Poor in Certain Groups, 1997 to 2006



[a] Logit multi-variable regression coefficients over time.The ratio of the probability in each group and that among non-ultra-orthodox Jews.

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

[16] See Karnit Flug and Nitsa (Kaliner) Kasir 2003, "Poverty and Unemployment and the Gulf between them," Israel Economic Review, 1, 5-80.
[17] As opposed to the chance of being above the poverty line in the ultra-orthodox sector compared with that in the non-ultra-orthodox Jewish sector.

employment. These changes were particularly notable among ultra-orthodox women. The increase in the participation and employment rates were affected by the cuts in the system of allowances in recent years, and was supported by means of special employment programs for this population. The entry of the ultra-orthodox to the labor market enabled them to enjoy the benefits of growth to some extent, which reduced an ultra-orthodox Jew's relative chance of being poor in 2006. This was despite the large cut in allowances. (For more details, see the section on "Employment and poverty in ultra-orthodox society" in this chapter).

The rate of poverty in the Arab sector increased and the extent of poverty also increased.

In contrast to developments among ultra-orthodox Jews, the relative probability of Arabs being poor, exclusive of the effect of other demographic variables, continue to rise throughout the entire period. The extent of poverty also increased in the Arab sector, implying a deterioration in the situation of the poor. The cut in allowances and the deterioration in the economic situation of the Arab population during recent years pushed up the participation rate of Arab women to some extent, although this change actually led to a rise in unemployment among them rather than to a growth in employment. The relative chance of an Arab individual being employed, exclusive of all other demographic characteristics, decreases over the years (Figure 8.7). These serious developments highlight the importance of a comprehensive program for this sector, without which it will be difficult for it to escape from poverty.

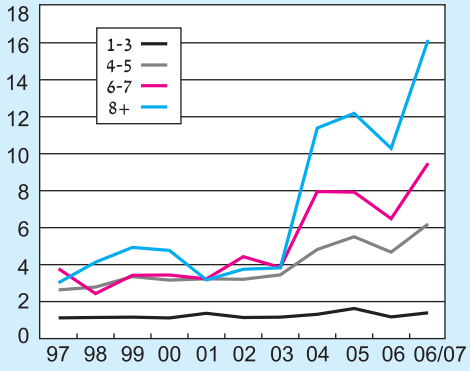
The ultra-orthodox population and the Arab population are also notable for a relatively high number of children per family. The number of children strongly influences a family's location below the poverty line because the larger the size of the family, the larger will be the income necessary in order for it to subsist above the poverty line. The poverty rate among families with 5 and more children rose during the entire decade, and in the years 2004 to 2006/7 reached a level double that among smaller families: Among families with 5-6 children, the poverty rate in the period 2006/7 amounted to 55 percent compared with 26 percent among families with 3 to 4 children.

The relative probability of being poor doubled among families with 6–7 children, and quadrupled among families with more than 8 children.

As stated however, an examination of the poverty rate in this manner does not take into account the high correlation between the number of children in the family and its additional characteristics, such as sector (ethnic group) and level of education. The use of a multi-variable regression, which deducts the effects of the additional characteristics in observing the effect of the number of children on the probability of being poor shows that until 2003, there were no appreciable differences in the probability of being poor among large families classified by family size. This is because the level of the allowance for each additional child from the fourth child exceeded the additional income necessary in order to subsist above the poverty line. During part of the period, the probability of being poor was actually higher among families with 6 to 7 children while with families with 8 or more children, it was slightly lower because of the structure of the allowances at the time[18] (Figure 8.8).

[18] Under the amendment to the Halpert Law, which went into effect in 2001 and was revoked in 2002, the allowance was significantly increased from the fifth child onwards. As a result the relative probability of being poor among large families decreased in that period.

Figure 8.8
The Relative Probability of Being Poor,[a] by Number of Children in the Household, 1997 to 2006/7[b]



[a] Logit multi-variable regression coefficients over time.The ratio of the probability in each group and that among families without children.
[b] The data are based on a survey conducted between June 2006 and June 2007.

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

Since 2004, the relative probability of being poor in families with four and more children has risen considerably. This increase is obtained when the effects of the other demographic characteristics have been deducted as stated. The large increase in the relative chance of being poor is connected with the cut in allowances, which comprise a substantial part of these families' disposable income, and the cut was proportionate to the number of children in the family. As a result, the relative probability of being poor doubled among families with 6-7 children, and quadrupled among families with more than 8 children.

The discussion of the two groups—the ultra-orthodox, among whom the poverty rate is high, and the elderly, with respect to whom government policy has changed, with further changes expected—will be expanded later in this chapter. Also examined will be the effect of the socioeconomic structure of the student population on achievements in the matriculation exams, and the issue of supplementary health insurance.

2. EMPLOYMENT AND POVERTY IN ULTRA-ORTHODOX SOCIETY

Most ultra-orthodox are poor, and a large proportion of the poor in Israel are ultra-orthodox.

The rates of labor force participation and employment in the ultra-orthodox population, which accounts for 8 percent of Israel's total population,[19] are very low. Most ultra-orthodox are poor and a large proportion of the poor in Israel—18 percent in 2006/7––are ultra-orthodox. The labor force participation and employment rates of the ultra-orthodox increased considerably during recent years, reducing the poverty rate

[19] The analysis of ultra-orthodox and non-ultra-orthodox households in this section is based on the Manpower Surveys. A household is identified as ultra-orthodox if one of the men in it stated that he studied in a higher yeshiva as his last educational institution. An analysis can also be made by means of the Central Bureau of Statistics' Social Survey, which states that the ultra-orthodox population accounted for 7.5 percent of the total population of Israel in 2005. For more details, see: D. Gottlieb (2006), *Poverty in Ultra-Orthodox Society in Israel*, Van Leer Institute, Jerusalem (Hebrew); E. Berman and R. Klinov (1997), *Human Capital Investment and Nonparticipation; Evidence from a Sample with Infinite Horizon (Or: Mr. Jewish Father Stops Going to Work)*, Maurice Falk Institute for Economic Research in Israel; M. Dahan (1998), *The Ultra-Orthodox Population and the Local Authority—The Distribution of Income in Israel*, Jerusalem Institute for Israel Studies (Hebrew).

among them to some extent. However, their employment rates are still low and their poverty rates are high. These require point-processing for integrating this population in employment and thereby raising their standard of living.

If their present birthrate is maintained, the ultra-orthodox population will double itself within 16-18 years.

The proportion of the ultra-orthodox in the total population has increased over the years, from 5 percent in 1980 to 8 percent in 2006, as a result of their high birthrate and the decrease in the birthrate among non-ultra-orthodox Jews. The share of the ultra-orthodox in the population is expected to continue growing even if their birthrate declines. According to assessments,[20] if their present birthrate is maintained, the ultra-orthodox population will double itself within 16-18 years. However, the birthrate in the ultra-orthodox sector has declined in recent years, while it has remained largely unchanged among the non-ultra-orthodox Jewish population. For example: The average number of children up to two years of age in an ultra-orthodox household in 2006 was 18 percent less than in 2001 and in ultra-orthodox cities such as Modiin Elite and Betar Elite, the birthrate in those years fell by over 10 percent.[21] Studies show a direct relationship between child allowances and the birthrate.[22] In the short term therefore, the cut in child allowances in 2003 had the effect of reducing the birthrate in Israel considerably. The decline in the birthrate may however also have derived from a change in the working patterns of ultra-orthodox women.

Most ultra-orthodox women are their household's principal breadwinner, despite the difficulty of going out to work while raising a large number of children.

The labor force participation rate in the ultra-orthodox sector is much lower than in the total population (Table 8.5). The gap largely derives from the low participation rates among ultra-orthodox men, whose main source of income is government allowances, especially the allowance for those who declare they are devoted to Torah study, and the child allowance. The participation rate of ultra-orthodox women is higher than that of ultra-orthodox men, but is still lower than that of non-ultra-orthodox Jewish women. The reason for the gap between women and men is that most ultra-orthodox women are their household's principal breadwinner. This is despite the difficulty of going out to work while raising a large number of children.

The labor force participation rate and the employment rate of the ultra-orthodox have increased in recent years. But since most of them lack suitable skills, their entry to the labor market has led to a rise in the unemployment rate among them in contrast to the downtrend in unemployment among the total population. An analysis by age shows relatively high participation rates among groups of ultra-orthodox aged between 35 and 64. This finding conforms to the recommendations of the Tal Committee, which exempts Torah scholars of over 35 years of age from military service.[23]

[20] E. Berman (1999), *Subsidized Sacrifice: State Support of Religion in Israel*, Pinhas Sapir Center for Development, Discussion Paper Series No. 2-99.

[21] From: Central Bureau of Statistics, *Productivity Patterns in Israel in 2006*, and N. Gorovitz and E. Cohen-Kastro (2004), *Geographical Distribution and Demographic, Sociological and Economic Characteristics of the Ultra-Orthodox Population in Israel 1996-2001*, Central Bureau of Statistics—Demographic Area (Hebrew).

[22] A. Cohen, R. Dehejia and D. Romanov (2007), *Do Financial Incentives Affect Fertility?* NBER Working Paper Series.

[23] From the report of the Knesset committee charged with devising a suitable arrangement for the conscription of yeshiva students—a committee headed by Justice Zvi Tal.

A number of obstacles related to the special nature of the ultra-orthodox population are responsible for their low rate of participation in the labor market: (1) The ultra-orthodox public's perception of secular studies as unsuitable and religious studies as obligatory, especially for men,[24] with the result that most of them lack a matriculation and higher education, and have only basic skills that do not match the requirements of the labor market; (2) The Tal Law of 1999, which permits an exemption from military service for yeshiva students for as long as they fulfill the precept of devotion to Torah study; (3) Ultra-orthodox society is a closed society, which is largely based on yeshivas and religious leaders law who object to exposure to secular society. Working in the secular sector is perceived as unsuitable in the ultra-orthodox sector due to the fear of losing the sense of community affiliation, especially when most secular places of employment do not match the religious lifestyle; (4) Their large number of children and housework make it difficult for ultra-orthodox women to go out to work. On the labor supply side as well, it is difficult for the ultra-orthodox to integrate in the labor force because of the small number of employment vacancies in that sector. This is due to the saturated level of employment in the education and teaching sector, which is the main focus of employment in the ultra-orthodox community, and because of the shortage of commercial and industrial centers in the new ultra-orthodox cities. It should be noted that unlike the ultra-orthodox in Israel, the ultra-orthodox in the Diaspora combine Torah study with income-earning activity.[25] The different approach to independent breadwinning in the ultra-orthodox sector in Israel compared with that abroad may well derive from the reliance on allowances in Israel and from the Tal Law.

Unlike the ultra-orthodox in Israel, the ultra-orthodox in the Diaspora combine Torah study with income-earning activity.

The ultra-orthodox earn less on average than the population at large because of their small number of work hours, lack of work experience and an education that does not match the requirements of the labor market. In addition, studies show that the return on an hour of yeshiva education is far less than that on an hour of other education.[26] During recent years, the number of work hours, and wages per hour have decreased among the ultra-orthodox, particularly among the men.

The poverty rate among the ultra-orthodox has increased continually over the years due to their low participation rates in the labor market and their relatively low wages.[27] The poverty rate[28] among ultra-orthodox families peaked at 64 percent in 2005 and fell

[24] See Y. Lupo (2003), *Turning Point in Ultra-Orthodox Society, Vocational Training and Academic Studies*, Floersheimer Institute for Policy Studies; M. Friedman (1991), *Ultra-Orthodox Society—Sources, Trends and Processes*, Jerusalem Institute for Israel Studies (Hebrew).

[25] See E Gonen (2005), *Between Torah Learning and Earning: A Society of Learners and Providers in London*, Floersheimer Institute for Policy Studies.

[26] See the article by Berman and Klinov mentioned in footnote 18.

[27] For further details on the effect of employment on the poor, see K. Flug and N. Kasir (Kaliner) (2001), *On Poverty, Employment and the Connection between them*, Discussion Paper Series, Bank of Israel Research Department.

[28] The calculation was made by the relative method, as defined by the National Insurance Institute. The rates of poverty in the ultra-orthodox population are also high under other measurement approaches. For further details on the subject, see the Bank of Israel Report for 2005, Chapter 8.

to 57 percent in 2006/7. The poverty in the ultra-orthodox sector mainly derives from the paucity of breadwinners, the high birthrate and the lack of integration in the labor market. Until 2006, poverty rates rose among the ultra-orthodox as a result of the cut in child allowances.[29] A statistical analysis covering the years 2000 to 2006 (exclusive of personal characteristics) that examined the chance of being poor[30] show that the chance of an ultra-orthodox household being poor was highest in 2005. However, the poverty rate among the ultra-orthodox before transfer payments and taxes (exclusive of government intervention, that is) fell, apparently due to the increase in labor force participation and employment rates. Accordingly, in the short term the effect of the cut in allowances on the poverty rate was stronger than the effect of the increase in the participation rate. The cut in allowances may have had the effect of reducing the poverty rate in the future, as the result of its implications on the birthrate and labor productivity in the ultra-orthodox sector.

The cut in allowances may have had the effect of reducing the poverty rate in the future, due to its implications on the birthrate and labor productivity in the ultra-orthodox sector.

During recent years, due to increased economic difficulties and a low level of income, the ultra-orthodox have been more willing to undergo vocational training. Supporting this trend is the large growth in the supply of vocational courses and the establishment of colleges and other frameworks for vocational training that are suited to this population. The Ministry of Industry, Commerce and Employment together with the Joint Distribution Committee offers a range of opportunities for vocational training. Examples are the "Making a good living" project of 2000[31] and the tenders for encouraging the employment of the ultra-orthodox in the "Growth in employment" project at the end of 2006.[32] Concurrently, the government is encouraging employers in a number of localities to take on workers from the ultra-orthodox sector by for example subsidizing ultra-orthodox employees and creating a suitable working environment at employers in areas of national preference (within the framework of the Encouragement of Capital Investment Law). Additional options have been developed for integrating the ultra-orthodox community in the labor market, but the main problem is that in order to avoid friction with the leaders of this community, most of the options have been developed without any media coverage city. As a result, only a very small segment of the target community become aware of them.

To conclude, in order to integrate the ultra-orthodox population in the labor market and to reduce the rates of poverty among them, it is essential to increase the motivation for studies suited to the labor market as early as the elementary school stage, to encourage the acquisition of a higher education, and to increase the attractiveness

[29] The Halpert Law, which was enacted in 2001, made it possible to obtain an increased allowance from the fifth child. Two years later, the law was revoked and the amount of the allowance was made the same for each child.

[30] The reference here is to the findings of a multi-year regression based on calculations from the Central Bureau of Statistics' Income Surveys in the years 2000 to 2006.

[31] For details, see Y. King and N. Gazit (2005), *Making a Good Living (Stream A): Vocational Training Programs for the Ultra-Orthodox—Assessment Study*, Meyers-Joint Brookdale Institute.

[32] See H. Sofer-Furman (2007), *Development Centers for the Employment of the Ultra-Orthodox—Socio-Demographic and Occupational Characteristics of the Applicants and the Activity at the Centers*, Report no. 1, Ministry of Industry, Trade and Employment, Economic Research Administration.

Table 8.5

Characteristics of the Ultra-Orthodox Popoulation and the Rest of the Jewish Population, 2001 and 2006

(percent)

	Non-ultra-orthodox		Ultra-orthodox	
Demographic features	2001	2006	2001	2006
Population ('000)	4,649.0	4,938.9	411.7	566.5
Share in total population	72.4	70.2	6.4	8.1
Average number of childrena	2.1	2.1	4.3	4.1
Average number of children up to two years old[a]	0.13	0.15	0.45	0.37
Employment characteristics				
Rate of employment	53.4	55.9	28.7	32.8
Men	58.2	59.9	21.4	24.3
Women	49.1	52.2	38.4	43.6
Rate of unemployment	9.2	7.9	8.2	12.0
Men	8.6	7.4	7.7	12.3
Women	9.9	8.4	8.6	11.8
Participation rate	58.8	60.6	31.3	37.3
Men	63.7	64.7	23.2	27.7
Women	54.4	56.9	42.1	49.4
Participation rate, by age group				
25–34	82.8	84.2	37.8	43.2
35–44	84.5	86.6	45.6	53.8
45–54	81.7	83.5	59.2	65.5
55–64	56.1	63.7	44.4	52.1
Average hours worked per employee	41.7	41.2	33.4	32.8
Men	46.8	46.2	39.5	38.1
Women	36.1	36.1	28.7	28.8
Real wage per hour (NIS)	40	41	39	36
Poverty[b]				
Distribution of the poor[c]	45	42	16	18
Incidence of poverty after transfer payments and taxes	12	13	54	59
Incidence of poverty before transfer payments and taxes	22	20	74	67

[a] In households whose head is aged 25 or more.

[b] Data on poverty do not include the Arabs of East Jerusalem.

[c] The figures do not total 100 as they do not include the Arab population.

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

of the labor market by means of vocational training programs and by subsidizing employers for the purpose of creating work places suited to the religious lifestyle. It is important continue the programs for training the ultra-orthodox to work, with an emphasis on publicizing these programs in the sector and increasing the awareness of them. Since this population relies heavily on rabbis and their rulings on religious matters and has special cultural characteristics, which encourage a preference for non-productive study rather than employment, these programs must be accompanied by cooperation on the part of the sector's leadership, and by the creation of frameworks conducive to the ultra-orthodox lifestyle.

3. THE EFFECT OF GOVERNMENT POLICY ON POVERTY AMONG THE ELDERLY

In 2006 Israel had 700,000 residents aged over 65, who account for 10 percent of the country's population. The proportion of elderly persons in Israel has grown continually over the years, although it is still low relative to the developed countries (16 percent in Europe and 12 percent in North America)[33] because of the higher birthrate. The average age of the elderly population in Israel is increasing together with the rise in life expectancy: In 1980 only 15 percent of all the elderly were aged over 80 while in 2006, this proportion amounted to 25 percent. Women account for 57 percent of the elderly population because their life expectancy exceeds that of men.

In 2006 Israel had 700,000 residents aged over 65, who account for 10 percent of the country's population.

The poverty rate among the elderly was 24.3 percent[34] in 2006/7, similar to its rate in the entire population. In the past, the poverty rate among the elderly was far higher than among the entire population, and the poverty rates only reached a similar level in the middle of the decade. The poverty rate in Israel is higher than that among the OECD countries, at 27 percent compared with 14.3 percent respectively according to the equivalence scale that is generally accepted in an international comparison.[35] Moreover, a high percentage of the elderly are not poor but their income is close to the poverty line income. Under the essential requirements approach, the poverty rate among the elderly is 19.3 percent, less than among the entire population, because of their relatively high rate of housing ownership—a component that is included in the

The incidence of poverty among the elderly is similar to its incidence in the entire population–some 24 percent–but considerably higher than that among the OECD countries.

[33] Source: United Nations, World Population Data, 2005.

[34] The poverty rate among the elderly calculated in this chapter refers to those aged over 65. This calculation does not match the poverty rate among the elderly that is calculated by the National Insurance Institute, which refers to men over the age of 65 and to women over the age of 60.

According to the National Insurance Institute document *Poverty Rates and Income Disparities 2006/7, Principal Findings*, the Income Survey for the period 2006/7 shows a decline in the component of income from allowances in contrast to the trends observed on the basis of the National Insurance Institute's administrative data. This creates an upward bias in the poverty rate in that period.

[35] Source: Luxembourg Income Study. The generally accepted calculation for an international comparison in the OECD countries attributes higher economies of scale (in consumption) to a large family, with the result that the poverty rate among small families, including the elderly in this respect, is higher in that calculation.

Table 8.6
Structure of First and Second Tier Pension Systems in Israel and OECD Countries

		First tier			Second tier	
	Rate of poverty among those aged 65+ (percent)[a]	Income support and special programs	Basic pension	State supplement to private pension	Mandatory pension (g–government p–private)	Total first tier as percentage of average wage
Israel	24.3	√	√			29
Austria	13.6	√			g	28
Australia	22.3	√			p	25
Italy	13.7	√			g	22
Iceleand		√			p	27
Ireland	36.8	√	√			30
UK	17.2	√	√	√	g	30
US	24.7	√			g	22
Belgium	16.4	√		√	g	34
Germany	10.4	√			g	19
Denmark	8.5	√	√		p	36
Netherlands	2.4		√		p	31
Hungary	3.7				g+p	22
Turkey				√	g	28
Greece	26.8	√		√	g	34
Japan			√		g	16
Luxembourg	3.7	√	√	√	g	39
Mexico	27.9		√	√	p	26
Norway	11.9		√	√	g+p	33
New Zealand			√			40
Slovakia	17.9			√	g+p	22
Spain	23.3			√	g	30
Poland				√	g+p	23
Portugal				√	g	44
Finland	8.5			√	p	19
Czech Republic	7.4	√	√	√	g	26
France	8.5	√		√	g	32
Korea			√		g	30
Canada	5.9	√	√		g	31
Sweden	7.7			√	g+p	34
Switzerland	18.4	√		√	g+p	24
OECD average	14.7					29

[a] Calculated using the equivalence sacle of the square root of the number of individuals. For each country the latest observation in the 2000-03 database was used. In the case of Israel, the figure relates to 2006/7. in 2003 the incidence of poverty was 29.7 percent.

SOURCE: Pensions at a Glance, OECD Publishing, 2007 and Luxembourg Income Study.

calculation of the poverty rate under the essential requirements approach, but not under the relative approach.

The income of the elderly that is not income from labor is divided into three tiers. The first tier is based on governmental transfer payments—the basic old-age allowance, income supplement allowance and benefits that are dependent on the recipient's economic position and economic needs, including a care support supplement for those requiring it.[36] The second tier is an employment pension which the employee accrued during his years of employment. The third tier of income consists of savings and other forms of income.

The purpose of the first income tier is to guarantee a minimum and absolute standard of living, while the objective of the second tier is to ensure that the pension received will be commensurate with the pensioners' previous income. This is not only to prevent them from being poor, but also to enable them to maintain the standard of living to which they were accustomed before retirement.

In all the OECD countries, the government has an obligation towards the elderly with respect to the first income tier (Table 8.6). An element of substitutability usually exists between the first and second tier: When the coverage in the first tier is low, the pension coverage mechanisms in the second tier are expected to be more extensive, and vice versa. Most of the countries have progressive programs addressed at the population of needy elderly, and only 12 out of 30 OECD countries provide a basic old-age allowance that is not dependent on income (or dependent only on the number of years of employment), like the old-age allowance in Israel. However, in the second tier most of these countries have a compulsory employment pension and the funds for this pension are usually managed by the state.[37] Moreover, all of the OECD countries require the state (within the framework of the first tier) to pay a minimum level of employment pension for low income-earners who have worked for a minimum period. (An extensive international comparison of the extent of generosity and extent of selectivity versus universality in old-age allowances can be found in the Bank of Israel Report for 2005, Box 6.2.)

Only 12 out of 30 OECD countries provide a basic old-age allowance that is not dependent on income, like the old-age allowance in Israel.

The proportion of households in Israel which are headed by an elderly person and with an income from an employment pension rose during the past decade, from 37 percent in 1997 to 51 percent in 2006/7, but is still low. This is because in contrast to most of the OECD countries, Israel did not have a compulsory employment pension[38] until 2008 (Figure 8.9). In addition, a high proportion of the elderly rely on allowances alone for their livelihood, and have no other income. These factors explain the high rates of poverty among the elderly in Israel compared with the OECD countries.

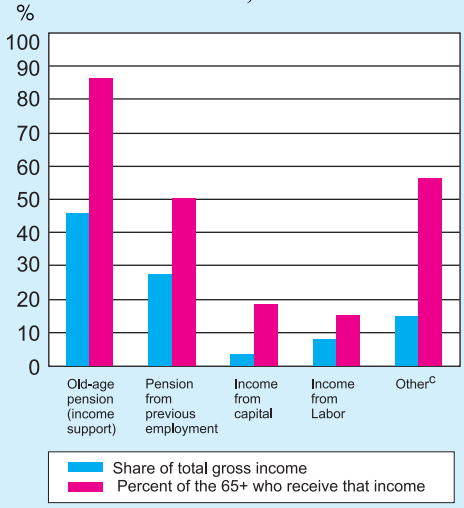
In contrast to most of the OECD countries, Israel did not have a compulsory employment pension until 2008.

[36] Income supplement allowance recipients are also entitled to discounts or exemption on payments to the health funds, the TV license fee, city taxes and public transport.

[37] Only 2 out of the 30 OECD countries—Ireland and New Zealand— do not have any level of compulsory employment pension.

[38] Nevertheless, a compulsory employment pension exists in the public services and in entities that have collective agreements on the subject.

Figure 8.9
Distribution of Total Family Income by Source, and Share of the Over-65-Year-Olds Receiving Income from Each Source, 2006/7[a,b]



[a] Including the Arabs of Jerusalem
[b] The data are based on a survey conducted between June 2006 and June 2007.
[c] Other: private transfers from abroad or in Israel, invalidity pension, payments from various institutions, etc.
SOURCE: Based on Central Bureau of Statistics Income and Manpower Surveys.

Apart from state support for the elderly by means of a system of allowances, the state provides additional welfare services within the framework of the Nursing Insurance Law, the community services and institutional services. The Nursing Insurance Law and the community services are intended to keep an elderly person within the environment familiar to him while maintaining a suitable quality of life. Within the community services framework, the elderly are entitled to assistance from the Community Service Center, to spend their time in day centers and clubs, and to other community services. Participation in the financing of institutional services is offered for those who are economically needy and unable to continue living in their own home.[39]

Some 90 percent of the members of families headed by an elderly person aged over 65 receive an old-age allowance. Ineligibility for the old-age allowance derives either from the failure to accrue adequate rights or from high income from other sources at the ages of 65 to 69.[40] Among those eligible to an old-age allowance, 15 percent are also eligible to the guaranteed income supplement. As a result, while the poverty rate among the elderly and exclusive of government intervention was particularly high—53.1 percent in 2006/7—the poverty rate after government intervention fell to 24.3 percent. The old-age allowance (together with the income supplement) for an individual was NIS 2,181 in 2007, an amount equivalent to 28 percent of the average wage in the economy and which was above the poverty line in that year. The high poverty rate among the elderly even after government intervention, even though the level of allowances was above the poverty line, was due to the fact that part of them were ineligible for the old-age allowance, and to relatively strict criteria for the receipt of income supplement.[41]

The incidence of poverty among the elderly exclusive of government intervention is particularly high–53.1 percent

The ratio of allowances and supports to the total income of a family headed by an elderly person increases in inverse proportion to the elderly person's income. For this reason, changes in allowances and especially changes relative to the poverty line, have

[39] New immigrants among the elderly have additional special rights.
[40] A difference exists between total payments for old-age allowance according to National Insurance Institute data, and the total payments derived from the Income Survey. This appears to be due to under-reporting in the Income Surveys, which also affects the calculation of the poverty rate in that group.
[41] As an example, a couple are not entitled to income supplement if one of them owns a car.

a decisive effect on the poverty rate among the elderly and on their probability of being poor. The basic old-age allowance in Israel is universal from a specific age,[42] because it is dependent not on an elderly person's level of income, but only on adherence to the eligibility criteria, which are dependent on the duration of employment, the payments made to the National Insurance Institute and special eligibility terms. In contrast to the basic old-age allowance, the need for the other allowances and the other welfare services is not homogenous among the elderly population. During recent years policy-makers have tended to adopt an approach whereby the focus of government support should move from universal support to selective support in accordance with economic or other requirements, and that the most important criterion should be the level of necessity for assistance.

During recent years policy-makers have tended to adopt an approach whereby the focus of government support should move from universal support to selective support, with the focus on the level of necessity for assistance.

In 2002 and 2003, this approach and budgetary considerations led to a nominal reduction and non-adjustment in the allowance. These in turn led to a 4 percent cumulative nominal decrease in the basic allowance in those years (a cumulative real decrease of 9.1 percent). The nominal reduction did not apply to those entitled to an income supplement or survivor's allowance, in line with the approach that a minimum standard of living should be maintained for the neediest. Due however to the impact of these measures on the entire elderly population, in 2005 and 2006 it was decided to increase the basic allowance again concurrent with an increase in the income supplement allowance. As a result, the nominal basic allowance rose by 2.3 percent in those years, although it did not revert to its real level prior to the cut, and the guaranteed income supplement was increased by 32 percent in nominal terms.

The nominal basic allowance was raised by 2.3 percent in 2005–06 following the large cut in it in the previous two years, and the guaranteed income supplement was increased by 32 percent in those years.

When running a regression controlling for the effect of all the other variables—such as level of education, sector and family size—it was found that the relative probability of poverty in families headed by an elderly person was double that of other families. During the years 2002 to 2004, the changes in the basic allowance including the income supplement allowance had the effect of increasing the probability that a family headed by an elderly person would be poor. During the years 2005 to 2006/7, the rate of the allowance increased, and the relative probability of being included in the poor population decreased on average (Figure 8.10).

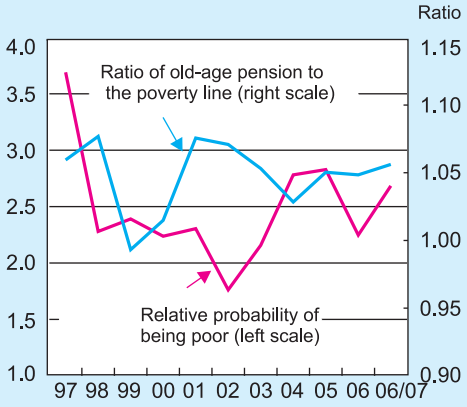
The relative probability of an elderly person being poor declined recently after the old-age allowance was increased.

In November 2007 the government decided[43] to gradually increase the basic old-age allowance until January 2010. In the spirit of the approach calling for a change from a collective system of support to a selective one, it was also decided to increase the income supplement for the elderly, focusing on those in particular need of support.

[42] The eligibility age for old-age allowance is defined as the eligibility age for the old-age allowance regardless of income. Until June 2004, this age was 70 for men and 65 for women. From July 2004, a gradual increase was prescribed for the age for women, with the result that at the end of the process it will be 70 for both men and women. Until June 2004, the eligibility age for the allowance, which was dependent on the level of income, was 65 for men and 64 women. From July 2004, a gradual increase was prescribed, with the result that at the end of the process it will be 67 for men and 64 for women.

[43] In line with a program for assisting Holocaust survivors and a program for changing and improving old-age allowances and the guaranteed income supplement for the needy elderly. A draft law on the matter was submitted in January 2008.

Figure 8.10
The Relative Probability of the Over-65-Year-Old Being Among the Poor, and the Ratio of the Old-Age Pension for an Individual (Including Income Support) to the Poverty Line, 1997 to 2006/7[a,b]



[a] Not including the Arabs of Jerusalem.
[b] The data are based on a survey conducted between June 2006 and June 2007.

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

The allowance will be given differentially, according to age and the need for housing.[44] The age criterion was selected because the older a person is, the greater is his need for assistance due to the decline in his health and in his functioning, once his income decreases and his sources of funds are depleted. Another criterion that was selected—the need for housing—makes it possible to focus the assistance on those who need it most. However, an increase in the different allowances—the old-age allowance and the guaranteed income supplement—without a change in the criteria for their receipt, especially with respect to the income supplement, is not expected to change the poverty rate among the elderly because even prior to the change, the level of allowances was higher than the poverty line as stated. In addition, it should be noted that a draft law places an emphasis on providing a special allowance for elderly Holocaust survivors who do not receive another allowance in respect of their past suffering. Other changes that have already been made in the direction of selective support are an increase in the eligibility age for the basic allowance which is not income-dependent, and an increase in the care allowance while adding a third, lower level.[45]

In line with the "measures for reducing social gaps and increasing the participation rate in the labor force" program, in 2007 the government decided to implement a compulsory employment pension by 2010. This is aimed at reducing the proportion of the elderly population who have to rely on allowances alone and the poverty rate among them. In addition, in order to increase the economic independence of the elderly and in view of their increased life expectancy, it was decided to require all those saving for a pension to redeem their new savings by means of a monthly allowance and to only permit a capital withdrawal (a one-time redemption of the savings) if an elderly person has a monthly income of at least NIS 4,000.

[44] For those entitled to housing assistance in accordance with Ministry of Construction and Housing procedures, except for residents of public housing (including in this respect all types of protected housing), and residents of institutions receiving government support.

[45] At the lowest level, 9.75 hours of weekly treatment or other services of the same value are provided for the elderly. At the higher level, 16 hours of weekly treatment or other services of the same value are provided. At the very highest level, 18 hours of weekly treatment or other services of the same value are provided.

From January 2008 anyone employing workers do not have a pension under another arrangement, will have to pay pension provisions for his employees.

From January 2008, in line up with an agreement signed by the Histradrut Labor Federation and the Manufacturers Association following a government resolution, anyone employing permanent or temporary workers who do not have a pension under another arrangement, will have to pay pension provisions for his employees.[46] The rate of the provisions from wages determined in the agreement is low in the initial stage, in order to make it easier for the employers in the short term, and will be gradually raised over five years to an overall rate of 15 percent. The provisions will be compulsory after a minimum period of employment and up to the level of the average wage in the economy. Despite the importance of this agreement, it should be noted that it is expected to reduce the workers' current income, which is low from the outset. However, the accrual of employees' pension rights in the long-term is in itself of major importance. It is to be hoped that this mechanism, which will reduce the dependency of the weak population groups on the selective allowances will increase their well-being after retirement.

4. THE SOCIOECONOMIC COMPOSITION OF THE STUDENT POPULATION AND ITS EFFECT ON ACHIEVEMENTS IN THE MATRICULATION EXAMS SINCE THE BEGINNING OF THE 1990s[47]

The composition of the school student population has changed considerably over the years. The changes have included an increased proportion of students in the ultra-orthodox and Arab educational streams,[48] the large-scale entry into the educational system of immigrants from the CIS and countries of distress such as Ethiopia, a rise in the proportion of one-parent families and an increase in the extent of poverty, especially among children. These developments, together with the continued decrease in public spending on education per student, as well as an apparent deterioration in

[46] This arrangement applies to women over the age of 20 and to men over the age of 21.

[47] The findings described in this part are based on analysis conducted in the Central Bureau of Statistics Research Room on the basis of files that were prepared by the Education Department and by the Office of the Chief Scientist. Differences may be apparent between these findings and the findings presented in other publications due to different definitions, and because the analysis was based on a sample of half of all 12th grade students.

A current annual analysis of the achievements in the matriculation exams can be found in the Education Ministry publication *Matriculation Examination Data*.

Studies that examined similar issues in previous periods are: D. Friedlander et al. (2002), *Changes in Educational Achievements in Israel since the Fifties—The Effects of Religion, Ethnic Origin and Family Characteristics*, Central Bureau of Statistics and the Department of Population Studies, Hebrew University of Jerusalem [in Hebrew]; M. Dahan et al. (2002), *Have the Disparities in Education Decreased? Factors Determining Eligibility for a Matriculation Certificate in Israel*, Yakov Hazan Center for Social Justice and Democracy, Van Leer Institute, Jerusalem [in Hebrew].

[48] The study does not include East Jerusalem Arabs, who learn under a Jordanian study program.

the quality of teachers,[49] have made it difficult for the educational system to improve students' achievements at the desired pace.

In Israel the disparities between the achievements of students from a strong socio-economic background and students from a weak background are among the largest in the developed countries.

Israeli students' achievements in international examinations have been poor, and the disparities in achievement to the detriment of students from a weak socioeconomic background compared with students from a strong background are among the largest in the developed countries. These factors highlight the need for analysis of the development of students' achievements and the disparities between student groups, especially as regards the issue of higher return on education and with it, the importance of investment in education.

The analysis focuses on the achievements of 12th grade students in the matriculation exams from the 1992/93 academic year till the 2004/05 academic year.[50] The analysis is incomplete, for several reasons: Firstly, it focuses solely on the principal measurable product of the educational system at the high-school stage, and does not relate to the educational system's contribution to the development of the student's values and modes of behavior. Secondly, the analysis does not take into account the impact of the educational system's resources—including public expenditure, the quality of teaching and teaching methods—on achievements in the matriculation exams. Thirdly, since the achievements are measured only among 12th grade students, the analysis is lacking: For technical reasons, it was not possible to examine high school dropout rates, and part of the 12th grade students will complete their matriculation certificate at a later stage.[51] Finally, the difficulty of the matriculation examinations is not uniform over time because the exams are not calibrated. The ability to compare achievements between different years is therefore limited. In the course of the period studied, at least two arrangements were implemented which reduced the volume of material tested in the matriculation exams (lotteries and "targeting"), and the relaxations in the examinations for students with learning difficulties were increased. All these factors are likely to help the student. Since the exams are not calibrated, the analysis places an emphasis on the development of the differences in matriculation exam achievements between student groups over time.[52]

Before we discuss the development of achievements in the matriculation exams, it should be remembered that during the period studied, the dropout rate from 9th to 12th grade fell considerably—from 6.0 to 4.8 percent in the Hebrew education

[49] Although teachers' educational level has increased, at the same time the quality group (according to marks in the matriculation examinations and in the psychometric examinations) of those studying in teacher training institutes appears to have declined recently. See H. Adler et al. (2001), *Good Education Means Good Teachers*, In: Y. Kop (editor), The Allocation of Resources for the Social Services, 2001, The Taub Center for Social Policy Studies in Israel. [in Hebrew].

[50] No data for previous years are available.

[51] As an example, the eligibility rate for a matriculation certificate of those completing their matriculation studies rose from 63 percent among those examined in 1998 to 76 percent in 2006 (Central Bureau of Statistics press release 217/2007).

[52] This analysis is not free of the non-calibrated examination problem, because the groups of students that performed well are blocked from above in their ability to improve their achievements, although this is a less serious problem.

sector and from 10.5 to 7.4 percent in the Arab education sector. In the Arab sector, the improvement was achieved due to the more rapid influx of girl students into high school education. This is because their dropout rates are much lower than among boys. The dropout rates in the Hebrew education sector fell to a moderate extent due to the integration of new immigrants, among whom the dropout rates are high.

During the years 1992/93 to 2004/05 the dropout rate from 9th to 12th grade fell considerably, particularly in Arab education.

The Compulsory Education Law was recently extended to cover the 11th and 12th grades, and will be fully implemented from the 2009/10 academic year. A study[53] shows that the enforcement of compulsory education reduces the dropout rates, especially among students from a weak background and in the Arab education sector in particular. Compulsory education also helps to increase the future wages of students, who in other circumstances would have dropped out from the system.

The matriculation certificate eligibility rates among 12th grade students rose by 10 percentage points from the 1992/93 to the 2004/05 academic years (Figure 8.11, Part A), and the proportion of those conforming to the threshold requirements for entering university increased as well. However, the disparities between the different educational streams remained large and actually expanded. While the eligibility rate in Hebrew state and state religious education amounted to 62 percent in 2004/05 after rising by 13 percentage points, in ultra-orthodox education it remained very low, and in the Arab sector reached 48 percent in 2004/05 after increasing by 11 percentage points in the period studied. The poor level of achievement among ultra-orthodox students mainly derives from the lack of study of core subjects.

The matriculation exam achievements of students in Jewish state and state religious education far exceed those of students in Arab education. However, the disparities have decreased over the years.

Within the Arab education sector, the achievements of Christian students are higher, and currently approach those of students in Hebrew state education and state religious education. These are followed, on a descending order, by the achievements of Druze, Moslem and Bedouin students. The matriculation certificate eligibility rate of Bedouin students amounted to only 42 percent in 2004/05, following an impressive 23 percentage point improvement during the period studied.

The higher achievements of students in Hebrew state education and state religious education compared with the achievements of students in the Arab education sector, as well as the achievements within that sector, fully conform to the socioeconomic position of the students themselves (parents' education and per capita family income, for example).

The considerable disparities to the detriment of students in the Arab education sector, at the level of present achievements and the rate of improvement in achievements over time, were also recorded in the indices indicative of excellence as the share of those conforming to the threshold requirements for university entry and the share of students obtaining high marks in such basic studies as mathematics and English. Nevertheless, a major increase in the rate of those examined to the extent of 4-5 study units in those subjects was recorded in the Arab education sector—a change indicative of an improvement in matriculation certificate quality. In mathematics, the present

[53] T. Krief, *A Compulsory Education Law and Liquidity Constraints*, Research Department, Bank of Israel (forthcoming).

rate is similar to that in the Hebrew education sector while in English it is still much lower.[54]

Differences in matriculation exam achievements can also be discerned along the socio-economic divide within the educational streams.

Differences in matriculation exam achievements can also be discerned along the socioeconomic divide within the educational streams. As an example, the matriculation certificate eligibility rate and the success rate in mathematics in the Hebrew state education sector among those belonging to the upper quintile of per capita disposable family income are far higher than among students in the bottom quintile, and the disparities have remained unchanged over the years (Figure 8.11, Part B). Although the eligibility rate of students in the development towns rose far more than that of students in the center of the country, it is still relatively low (Figure 8.11, Part C). However, the disparity in the success rate in mathematics to the benefit of students in the center of the country has increased greatly.

During the 1992/93 to 2004/05 academic years, the proportion of 12th grade students in Hebrew state education declined by 8 percentage points despite the fact that the majority of new immigrant students had joined this stream of education. At the same time, the proportion of ultra-orthodox and Arab students (especially Moslems, including Bedouin) increased, mainly because of the high rates of natural increase in those populations and the decrease in school dropout rates. Among the developments occurring in students' socioeconomic characteristics, the increased level of education of the parents, and the mother in particular, was the principal factor in enhancing students' achievements (which will be detailed later). The student's mother years of education rose within a single year to 13.1 in Hebrew education, and within approximately two years to 9.4 in Arab education.

An increase in the mother's educational level and in family income contribute considerably to success in the matriculation exams.

The contribution of students' socioeconomic characteristics to matriculation examination achievements[55] changed during the years studied (Figure 8.12). In Hebrew state education, each additional year of education of the mother increased the matriculation certificate eligibility rate by 1.5-2.0 percentage points. The contribution of the father's education is lower, and over the years the gap between them has expanded.[56] Private expenditure on education helps students to succeed in their studies. Because of the relatively high expenditure among those belonging to the strong strata[57] and the increased inequality in households' income, substantial disparities arise in educational achievements, which in the long term affect the socioeconomic

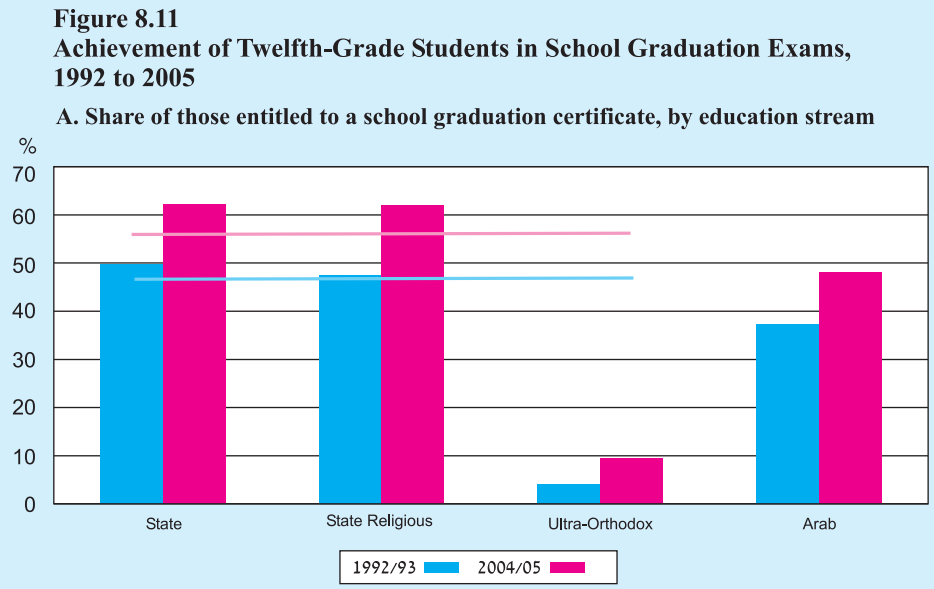
[54] The number of study units in all subjects together remained unchanged in both Arab education and Hebrew education.

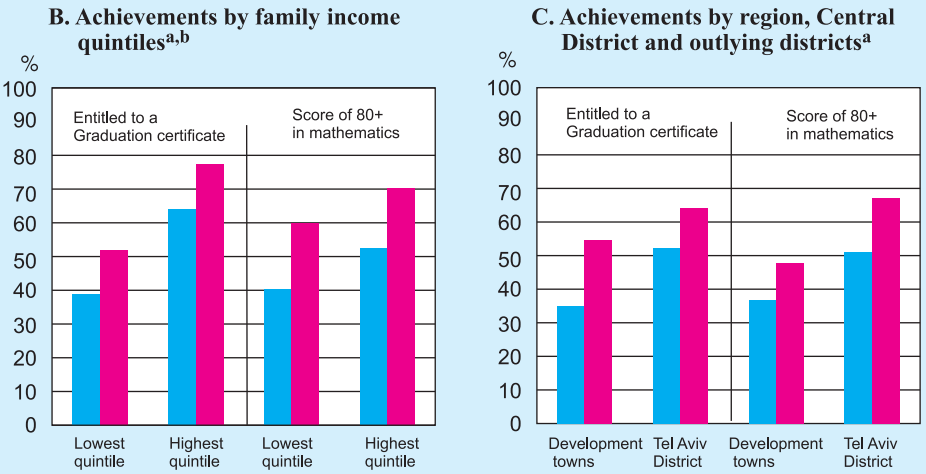
[55] The return to students' socio-economic characteristics was obtained from a multi-variable estimation in which the explained variable is the matriculation certificate eligibility rate. The estimates reflects the direct effect of the characteristics (parents' education, for example) and the indirect effects of unobservable factors correlated with the characteristics (for example, parents higher education could be indicative of their and their children's relatively high level of skills and the importance which parents place on acquiring an education).

[56] In Arab education, the return on the father's education fell continually, while the return on the mother's education increased, and the latter is currently higher.

[57] See for example, Central Bureau of Statistics (2007), *Private and Public Expenditure on Education of Primary School Pupils in Israel, 2003*, publication No. 1303.

Figure 8.11
Achievement of Twelfth-Grade Students in School Graduation Exams, 1992 to 2005





[a] In the Hebrew state stream.
[b] Disposable family income per standard person (income from wages and child allowances).

SOURCE: Based on Central Bureau of Statistics data.

status of those graduating from the educational system. During the period studied, the contribution of per capita income to the matriculation certificate eligibility rate increased. Today, a 10 percent growth in family income raises the eligibility rate by 0.4 percentage point on average.

The proportion of students from one-parent families in Hebrew state education has grown considerably since the beginning of the 1990s. Estimates show a large decrease in the matriculation certificate eligibility rate among students in single-parent families compared with students from families with two parents, all other

things equal . Another notable finding is that the disparity in the eligibility rate to the detriment of those of Afro-Asian origin compared with similar students whose parents are native-born Israelis, has contracted, and now amounts to less than two percentage points.[58,59] In Arab education, two phenomena are apparent: a large increase in the negative contribution of the number of siblings to the eligibility rate; an increase in girls' advantage compared with boys (currently 13 percentage points), a phenomenon that is less commonly observed in the Hebrew state educational sector. Finally, the disparity in the eligibility rate to the detriment of students in the technological stream compared with similar students in the academic stream contracted within the entire educational system, due to the reform in the technological track at the beginning of the 1990s whereby academic studies supportive of matriculation certificate achievement were increased.

Part C of Figure 8.12 presents a breakdown of the contribution of the socioeconomic characteristics of students of Ethiopian origin in state religious education (as an example of students from a weak background) to their average mark in the matriculation examinations, compared with those of other students in state religious education. Ethiopian students' average mark is approximately 8 percentage points lower than that of the other students.[60] After taking into account the mothers' education, which is much lower among Ethiopians, the disparity decreases to a considerable extent. Ethiopians' low family income is another reason for the relatively low mark achieved by Ethiopian students. Overall, after taking into account the entire range of relatively weak socioeconomic characteristics of students of Ethiopian origin compared with other students, their average mark in the matriculation exams is no less than that of the others. Similar analyses that were conducted with respect to additional achievements and in other years—as well as among students in Arab education compared with

[58] A detailed analysis of disparities in achievement by ethnic origin be found in: D. Friedlander et al. (2006), *The Matriculation Examinations in the 1990s: Disparities in Study Volumes, Marks and Eligibility*, Faculty of Social Sciences, Hebrew University of Jerusalem. The authors found that in the 1990s, the disparities between those of Afro-Asian origin and those of European-American origin in the quality of matriculation exam baskets (increased studies of mathematics and English), in the eligibility rate and in marks had remained. This contrasted with the 1980s, when the disparities in achievement had contracted.

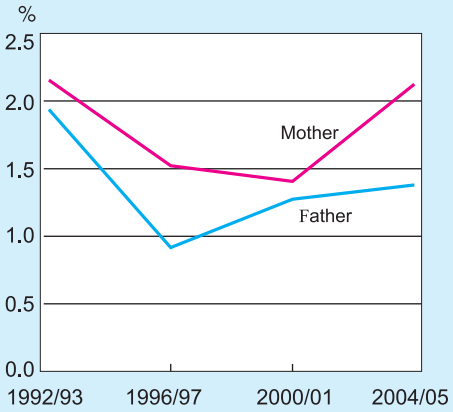
[59] No differences were found in the educational achievements of immigrants from the countries of the former Soviet Union from 1999 onwards compared with native-born Israelis, other factors, including the number of years in Israel, taking into account. This finding derives inter alia from the relatively high dropout rates of immigrant students (see footnote 60), and from the relaxations in examinations granted to them in their initial years in Israel. Reference to the educational achievements of new immigrants can be found in: T. Levine et al. (2003), *The Educational Situation of Immigrant Students*, Tel Aviv University School of Education. The publications show that in examinations in Hebrew and mathematics, which the authors conducted for a sample of 11th grade students, the disparities in marks to the detriment of immigrants only closed after 9 years. However and like the findings here, no differences were found between the two populations in the matriculation exams.

[60] Ethiopian students' high school dropout rate is higher than that of other students. The skills of Ethiopian students taking the matriculation examinations would therefore appear to be superior to those of other Ethiopian students. This selection process has the effect of reducing the disparity in matriculation exam achievements between Ethiopian and other students in state religious education.

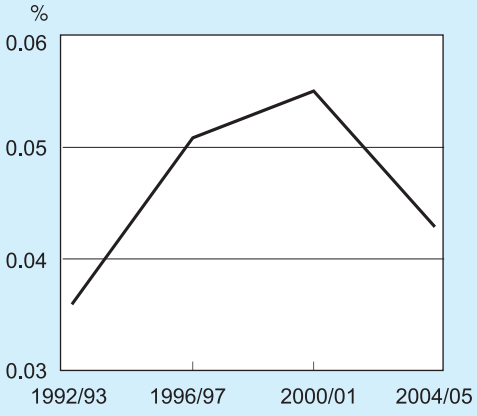
Figure 8.12
The Contribution of Parents' Level of Education and their Income to Students' Achievements in School Graduation Exams, 1992 to 2005

The contribution to entitlement to a school graduation certificate in the Hebrew state education stream

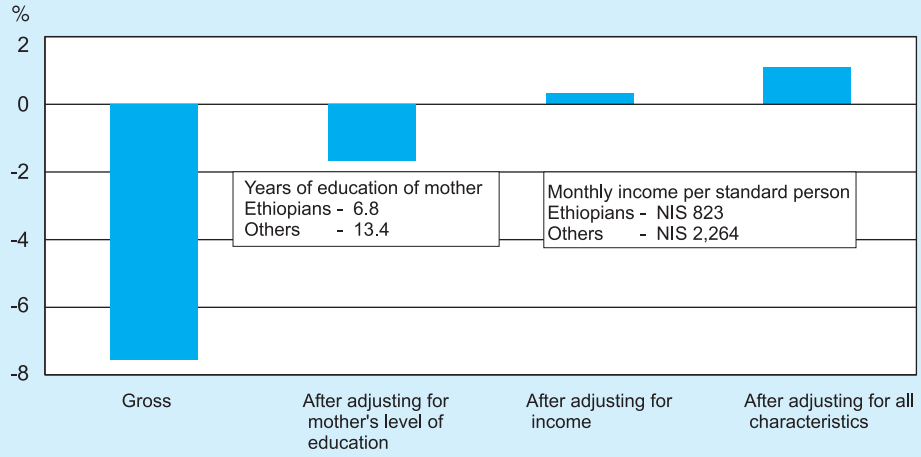
A. Contribution of one additional year of education



B. Contribution of one additional percent of income[a]



C. The gap in the average score in school graduation exams between Ethiopians and others,[b] before and after adjusting for characteristics, 2004/05



[a] Disposable family income per standard person (income from wages or self-employment and child allowances). Each one percent rise in income increases the entitlement to a school graduation certificate by the amount shown (in percentage points) on the vertical axis.
[b] In the State religious stream, in which most of the Ethiopians study.

SOURCE: Based on Central Bureau of Statistics data.

other students in the educational system—reveals that after taking into account the mothers' education and family income, that the disparities to the detriment of the week population groups in matriculation exam achievements had decreased to a very considerable extent and even closed.

The socio-economic characteristics observed among the students explain much of the differences in their achievements in the matriculation exams, and these highlight the need for adopting a policy of affirmative action in the allocation of public resources in education.

The findings, which show that the socioeconomic characteristics of the students explain much of the differences in their achievements in the matriculation exams, highlights the need for adopting a policy of affirmative action in the allocation of public resources in education to the benefit of high-school students from a weak socioeconomic background. The policy of affirmative action among high school students must be based on the observable characteristics, in the same manner as the development index that is used in elementary education, and in contrast to the almost uniform allocation of resources currently prevailing in post-elementary education.[61] The expansion of the development index to cover post-elementary education has already been recommended in the past in the National Education Program (the Dovrat Report of January 2005).

The changes in matriculation exam achievements between the 1992/93 to 2004/05 academic years derived from three sources: (a) developments in the proportion of students among the different educational streams; (b) changes in the socioeconomic composition of the student population within the educational streams; (c) the entire range of factors connected with the educational system itself—such as developments in the volume of public resources, the quality of teachers and teaching methods, and the difficulty of the examinations—the effects of which have not been subjected to separate analyses[62] (Figure 8.13).

The matriculation certificate eligibility rate among 12th grade students amounted to 46 percent in the 1992/93 academic year (column 1). When the eligibility rate within each of the educational streams is left as is but weighted by the nationwide eligibility rate, using the distribution of students by educational streams in the 2004/05 academic year for this purpose, an eligibility rate lower by 2 percentage points is obtained (column 2) as a result of the increased proportion of ultra-orthodox and Arab students, whose eligibility rates are much lower than those of students in Hebrew state and state religion education. When the socioeconomic characteristics of students in the 2004/05 academic year within each of the educational streams, and not only the distribution by educational streams in the present, are taken into account, an increase of 4 percentage points in the matriculation certificate eligibility rate is obtained, a rate exceeding that recorded in the base line year (column 3). The result is primarily connected with the increased level of education of students' parents overall and of their mothers in

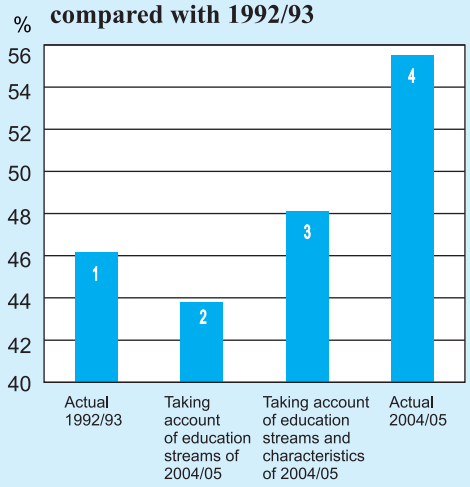
[61] For further details of the Education Ministry's policy of affirmative action, see: The Taub Center for Social Policy Studies in Israel (2007), *The Allocation of Resources for Social Services 2007*, pp. 145-154.

[62] It should be noted that part of the changes in the educational system affect the return on the students' characteristics. As an example, reducing per-student public spending on education is likely to increase the return on the parents' income, if they compensate for this by increasing private spending on education, which enhances their children's achievements.

particular, especially in Arab education, because parents' education has a considerable effect on their children's educational achievements as stated. Assuming no increase in the difficulty of examinations since the 1992/93 academic year, it therefore transpires that the maximum cumulative increase in the matriculation certificate eligibility rate among 12th grade students amounted to 7 percentage points until the 2004/05 academic year (the move from column 3 to column 4). This increase may derive from the range of factors connected with the educational system itself.

To conclude, the disparities in basic achievements in the matriculation exams to the detriment of students from a weak socioeconomic background compared with students from a strong background decreased during the 1992/93 to 2004/05 academic years, concurrent with an increase in the disparities in achievements indicative of excellence. The growth in the proportion of academic streams whose students are educationally disadvantaged and who do not learn the core program, held back the pace of improvement in achievements over time. At the same time however, the improvement in the socioeconomic characteristics of students within the educational streams contributed to an improvement in achievements. Overall, a substantial improvement was recorded in matriculation exam achievements (unadjusted in respect of their level of difficulty).

Figure 8.13
Share of Those Entitled to School Graduation Certificate, 2004/05 compared with 1992/93



SOURCE: Based on Central Bureau of Statistics data.

The growth in the proportion of academic streams whose students are educationally disadvantaged slowed improvement in achievements. The improvement in the socio-economic characteristics of students within the educational streams, however, contributed to an improvement in achievements. Overall, a substantial improvement was recorded in matriculation exam achievements.

5. INCREASING THE SCOPE OF COMPLEMENTARY HEALTH INSURANCE

Far-reaching changes were made during 2007 in the additional insurance services offered by the health funds (hereinafter: complementary insurance). Initially, the Health Ministry allowed the health funds to operate a second layer of complementary insurance covering inter alia drugs that are not included in the state health basket. Subsequently, a decision was taken to take out all life-saving drugs—whose cost to the patient is very high—from the complementary insurance to the state health basket and to increase the budget for the basket accordingly.[63]

[63] According to an agreement between the Minister of Health and the Minister of Finance, from 6 August 2007 life-saving and life-prolonging drugs will be removed from the health funds complementary insurance, and in return the budget for updating the state health basket will be increased significantly.

These developments have placed on the national agenda issues of health policy concerning the reciprocal relationships and the balance between the health basket and complementary insurance. This is against the background of the State Health Insurance Law, which already provides an extensive health basket by international standards.[64] The addition of expensive drugs to the public basket without an economic assessment of their efficiency is likely to be at the expense of other services whose cost-effectiveness is greater. But since most of the population are covered by complementary insurance, an expansion of the coverage provided by this form of insurance helps to increase the population's average level of health.[65]

Complementary insurance provides medical services that are not suitably covered in the public basket. From 1996 to 2006, 127 services (not including drugs) were added to the complementary insurance plans, and these are currently the major components of the plans. Most of the services added are services that expand the basic basket, and only a few of them are luxury services.[66] A third of the services added are preventative medical services whose cost benefit is very high, and which should have been included in the basic basket if the criterion for the inclusion of new technologies had been based on an efficiency assessment.

Although the complementary insurance plans provided coverage for drugs that are not included in the basket even before the introduction of the second layer, the coverage did not include live-saving drugs. There are major differences between the health funds in the number of drugs covered, in their nature, in the waiting period required before acceptance to the complementary insurance plans, and in the level of own participation. Leumit is the fund that offers coverage for the largest number of drugs, and provides a discount on 600 drugs without the need for a waiting period.

The second layer of complementary insurance, which was approved in 2007, considerably expanded the coverage for drugs that are not included in the drugs basket, especially for life-saving and life-extending drugs whose cost is very high. The health funds have included in this layer of complementary insurance, increased coverage for operations in Israel and abroad, fertility treatments and pregnancy tests. The greatest change was at Maccabi Health Services, which expanded complementary insurance coverage to include every oncological drug that has been approved for treatment anywhere in the world and which is not in the public basket, providing automatic participation for all those insured.

[64] For more details on the generosity of the drugs basket from an international perspective, see the Bank of Israel Report for 2006, Chapter 8.

[65] The increased coverage provided by complementary insurance improves the population's average level of health without increasing the budget of the Health Ministry, and is reflected by higher private spending on health. This has the effect of reducing public pressure for expanding the state basket, and thereby increases the inequality in the access to health services among the weak strata who are unable to purchase the insurance.

[66] S. Bramley-Greenberg, R. Gross and R. Matzliach (2007), "The Supplementary Insurance Plans Offered by the Health Fund: An Analysis and Comparison between the Service Baskets for 2006", DM 495-07, Meyers-Joint Brookdale Institute.

The expansion of complementary insurance coverage is contributing to the average level of health. This is because most of the population are covered by the complementary insurance plans of one of the health funds: 77 percent of households are covered by complementary insurance, and 30 percent of them are covered by supplementary commercial insurance as well (Table 8.7). Among the adult population—those aged 22 and above—the proportion of those covered by complementary insurance amounts to 80 percent. Households' monthly payment for complementary insurance averages NIS 111, and is dependent on the number of persons in the household and its composition.

Table 8.7
Health Insurance Among Households, 2006

	Percent of all households	Monthly income from all sources[a]	Monthly expenditure on health	of which On health insurance
		(NIS, at current prices)		
Uninsured	20.4	8,293	366	..
Covered by supplemental insurance	77.4	16,701	656	184
of which Supplemental insurance only	54.0	14,026	513	111
Supplemental and additional private insurance	23.4	22,870	986	352
Covered by private insurance only[b]	2.2	12,774	482	171

[a] Including income from labor, capital, pension, provident funds and allowances.

[b] Including collective insurance.

SOURCE: Based on the 2006 Household Expenditure Survey.

Unlike Israel, the proportion of health insurance plans in the OECD countries is negligible, both in cash terms and in terms of the supply of medical services.[67,68] In most of the OECD countries, the expenditure on health insurance accounts for less than 5 percent of total expenditure on health, and only a small part of the population are covered by complementary or supplementary insurance (Figure 8.14). Exceptions are Holland and France, where a selective system operates. In Holland, the public health system only insures residents whose annual income is less than the minimum wage, with the result that 93 percent of the population have to purchase private insurance.[69] Recently, reforms were implemented in Holland and France for the purpose of reducing private insurance in order for it to include luxury services alone. The high proportion of those insured in the USA results from the fact that only a quarter of the population are eligible for public health services : individuals

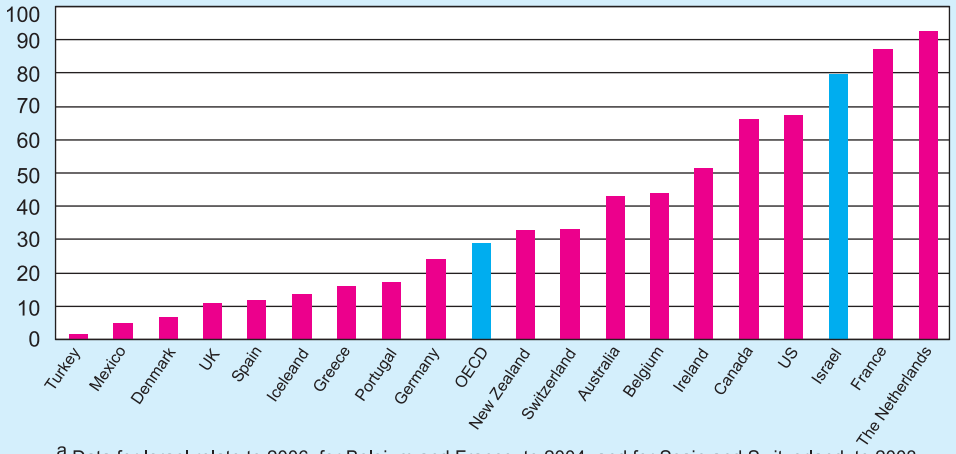
Unlike Israel, the proportion of supplementary insurance plans in the OECD countries is negligible, both in cash terms and in terms of the supply of medical services.

[67] S. Thomson and E. Mossialos (2004). "Private Health Insurance and Access to Health Care in the European Union," Euro Observer, Vol. 6 (1), World Health Organization.

[68] OECD Health Data 2007: Statistics and Indicators for 30 countries.

[69] F. Colombo and N. Tapay (2004), "Private Health Insurance in OECD Countries: The Benefits and Costs for Individuals and Health Systems," OECD Health Working Papers, No. 15.

Figure 8.14
Percent of Population Covered by Private Health Insurance,[a,b] Israel and OECD Countries



[a] Data for Israel relate to 2006; for Belgium and France, to 2004; and for Spain and Switzerland, to 2003.
[b] In Hungary, Norway, Slovakia and the Czech Republic the proportion of the population covered by private (complementary) insurance is close to zero; those countries are not shown in the figure.
SOURCE: Based on OECD Health Data 2007.

above the age of 65 who are in need of care (via Medicare), individuals whose income is particularly low (via Medicaid), and poor children (via SCHIP). The eligibility for public insurance in the USA is determined in each state separately.

In Israel the proportion of those covered by supplementary insurance varies greatly between the different population groups, and this ratio is correlated with income.

In Israel, the proportion of those covered by complementary insurance varies greatly between the different population groups, and this ratio is correlated with income. A Brookdale Institute survey found that 89 percent of Hebrew speakers (the veteran Jewish population) are covered by complementary insurance, compared with 58 percent of immigrants and 47 percent of Arabs. The ratio of those insured in the ultra-orthodox population and in the development towns amounts to approximately 80 percent, which is less than the average among Jews as a whole.[70] The gross income of a household that is not covered by complementary health insurance is approximately half that of a household which is insured. The same applies to health expenditure (excluding insurance) and especially to the health services.[71] The Social Survey of 2003, which examined why people do not purchase health insurance, found that over half of the uninsured population did not purchase insurance because of its cost.

The expansion of the complementary insurance plans in a manner whereby they include treatments that extend the public basket hinders access to health services because of the own participation requirement; 6 percent of the total population preferred not to obtain medical treatment (not including dental treatment and drugs) because of

[70] SOURCE: Household Expenditures Survey for 2006. The figure for the ultra-orthodox population refers to Bnei Brak.

[71] Health services including laboratory tests and X-rays, payments to specialists within the health fund framework, baby clinic treatments, and child development treatments.

the own participation requirement. Among those deciding to forgo treatment because of the cost, half of them did without services that are not included in the basket. Third even decided not to purchase prescription drugs. As expected, the percentage of those forgoing treatment was particularly high among low-income earners (19 percent) and the chronically sick (16 percent).[72]

The rapid growth in health insurance plans concurrent with the very moderate expansion of the public basket led to a large rise in private and national expenditure on health. The share of households' expenditure on supplementary and commercial health insurance in overall national expenditure on health rose from 2.1 percent in 1997 to 7.2 percent in 2006. Households' monthly expenditure on health increased by 47 percent in real terms within 10 years. Half of the increase derived from a large growth in spending on the health funds' supplementary insurance plans, which increased by 3.3 times in that period due to the more expensive premiums resulting from the expanded coverage and because of higher prices. Households' expenditure on commercial insurance plans rose by 1.4 times in that period, mainly due to the increased cost of health inputs.

Since the resources available to the health system are limited and the public health basket does not make it possible to supply all the innovations in the medical field, it would be preferable for the public basket to finance treatments with a high level of cost benefit, while the supplementary insurance plans should mainly cover luxury services and substitutes for services that are included in the basket. This approach is common in most of the OECD countries, where private insurance mainly covers optometry, the selection of a service provider, and luxury services connected with hospitalization. In Australia, Ireland, the UK and Spain, the private insurance plans cover luxury services only.

[72] See R. Gross, S. Bramley-Greenberg R. Weizberg (2008), "Public Opinion of the Level of Service and Functioning of the Health System 2007", Brookdale Institute.