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**POVERTY WITHIN THE ELDERLY  
POPULATION IN ISRAEL**

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# Poverty Within the Elderly Population in Israel

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Haya Stier and Haim Bleikh\*

## *Abstract*

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*This chapter examines the risk of poverty among the elderly in Israel. While there has been an increase in poverty among the general population, the findings point to a decline in poverty rates among the elderly over time. These lower poverty rates relative to the younger population are achieved primarily through the National Insurance Institute old-age benefits that constitute a safety net for many people, as well as through income from retirement pensions. In practice, poverty rates among those entitled to pensions are extremely low. When the elderly population is broken down into three groups, long-term residents, immigrants from the former Soviet Union and Arab Israelis, poverty rates were found to be higher among the two groups with low pension entitlement – immigrants and Arab Israelis. One way that some of the elderly deal with poverty and hardship is to live with younger, working family members. Such living arrangements are especially typical among Arab Israelis and Russian immigrants, granting them a higher economic standing than they would have living on their own and helping them avoid poverty.*

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## *Introduction*

Poverty rates in Israel are amongst the highest in the West, a problem examined previously by researchers (Ben-David and Bleikh, 2013) and policy makers (OECD, 2011). Research in this realm points to work force participation as one of the central factors linked to poverty. Indeed, individuals who do not work are in danger of poverty and dependence on the welfare system. The elderly represent a population group that has largely ceased working due to its age; hence they face a relatively high risk of poverty and economic hardship. Some among this population succeed in living comfortably even after retiring from the work force, in most cases due to pensions accumulated and savings set aside during their working years. Yet many elderly fall within vulnerable population groups: people who worked throughout their lives under employment conditions that did not provide for a pension or immigrants who arrived in Israel at a later age and did not accrue pension rights. They are left, in practice, without a private source of income and are entirely dependent on government institutions and the welfare system.

In Western countries, the average age is consistently rising due to declining fertility rates on the one hand, and increasing life expectancy on the other (Wray, 2006). The aging process impacts poverty and inequality since most of the elderly no longer participate in the labor force and instead subsist largely on their savings – capital savings or employment pensions – or on welfare system entitlements. Thus, a heavy burden is placed on the economic systems of Western countries, which has led many countries to change their systems and raise the retirement age. The problem of poverty and inequality amongst the elderly is at the heart of the public discourse in many countries. Unlike other population groups whose entitlement to government assistance is open to debate, there is a general consensus that the elderly population is entitled to assistance. They are not expected to seek income through work because they are often not capable of doing so. At the same time, as much research shows, the share of adults over age 65 who remain in the work force for

increasingly longer periods, whether for economic or other reasons, is rising steadily (Kimhi and Shraberman, 2013).

Many countries seek to decrease poverty rates among the elderly through government pensions and allowances and other forms of support, each country according to its own pension agreements and the nature of its welfare system. In Israel as well, much attention is being paid to the economic plight of the elderly. Israel is a country with a relatively young population, chiefly due to high fertility rates that help maintain a younger age structure. At the same time, the percentage of people 65 and older amongst the overall population is rising steadily: from 6.7 percent in 1970 to 10.4 percent today. The percentage of people 75 and older has risen from 1.9 percent to 4.8 percent over the last forty years (Central Bureau of Statistics, 2013). The increase in the elderly population, along with the special needs of these individuals – especially following their departure from the work force – has intensified the need for a discussion on the economic condition of the elderly and on the governmental and private resources available to them.

Israeli poverty rates are linked to the labor force participation of the head of household, as well as to a variety of demographic factors, including family size and the composition of the household's wage earners (Stier, 2011). The elderly population faces a high risk of poverty due to limited income sources and because not everyone can draw on savings or employment pensions. Many depend on government allowances. Comparative studies indicate that in countries awarding generous government pensions and other forms of support to the elderly, poverty rates amongst the elderly are low (Kangas and Palme, 2000). There are other factors that facilitate a better economic situation for elderly households relative to the general population, such as the fact that most of the elderly live as couples or alone as single individuals. Furthermore, in these smaller family units, the level of needs is also low, and several studies show that the elderly are not necessarily the age group that suffers the most from economic hardship (Stier and Lewin, 2013).

This chapter presents a picture of poverty within various types of elderly households in Israel, with reference to their income sources and

the high degree of variation among those sources. To facilitate an examination of their economic situation, the elderly population in Israel is defined as those above the current retirement age, at which point the majority of this population no longer participates in the labor force. The retirement age in Israel, which affords entitlement to an old-age benefit, has risen over the years. Until 2004 it was 65 for men, and 60 for women. Since then, the retirement age has risen to 67 for men and 62 for women.

### ***1. Characteristics of Households in Which the Elderly Reside***

Since poverty is measured in terms of households, a picture of the households in which the elderly reside must first be presented. Data about elderly households, such as National Insurance Institute (NII) poverty figures, reflect that most of the elderly live in households headed by persons who have reached retirement age. Yet there are also “mixed” households, or “extended” households, in which elderly persons who have left the work force live together with younger people who are still economically active. For example, there are middle-aged families with children who also live with their elderly parents. These living arrangements affect the poverty picture and impact the differences between the various social groups.

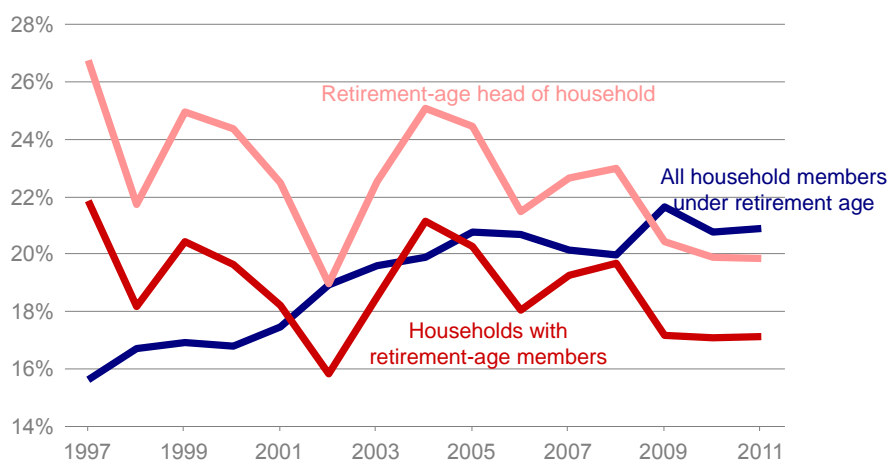
Figure 1 presents poverty figures in Israel<sup>1</sup> between 1997 and 2011, distinguishing between three types of households: (1) households in which the head of the household or spouse has reached retirement age (henceforth: retirement-age head of household); (2) households with members who have reached retirement age – whether as heads of the household or as part of an extended family such that this household includes the first group as well; (3) “young” households, containing no

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<sup>1</sup> Poverty rates are calculated according to income after tax deductions and transfers, adjusted according to household size.

individuals of retirement age. For parallel poverty figures by individuals rather than households, see Appendix Figure 4.

Figure 1  
**Percent of households below the poverty line**  
 by household type and ages of its members, 1997-2011\*



\* Data for 2000-2001 do not include residents of East Jerusalem

Source: Haya Stier and Haim Bleikh, Taub Center

Data: Central Bureau of Statistics

In 26 percent of Israeli households, there are elderly household members who have reached the retirement age. About 18 percent of households are headed by an elderly member. The elderly in Israel constitute 10 percent of the population, and most of them (71 percent) live in a household that they head.<sup>2</sup>

<sup>2</sup> Even when calculating according to the retirement age in practice before 2004 (60 for women and 65 for men), the data point to similar trends. See Appendix Figure 1.

Several interesting conclusions emerge from comparing these three types of households. A comparison between households with elderly members and younger households shows that in the late 1990s, poverty rates in households with elderly members were noticeably higher than those of younger households. In 1997, the difference was about 22 percent to about 15.5 percent. Poverty rates became more unstable during this period, both among the general population and among the elderly. Since 2003, economic instability, changes in welfare policy and in the level of general inequality in Israel have exacerbated this volatility. For example, the elderly experienced changes in government allowances during this time. Over the long term, these allowances have increased, but between 2002 and 2004, there were cutbacks, which were then followed by increases (Azary-Viesel and Stier, 2014; NII, 2012).

One result of these changes was a reversal in poverty-level trends. Poverty rates particularly increased amongst younger people from the end of the 1990s until the middle of the last decade, and then they stabilized. The picture among the elderly is different. At the start of the period, poverty rates in households with elderly members (about 22 percent in 1997) were higher than those of younger households. In 2001, the trend changed, reaching about 16 percent for elderly households versus 19 percent for younger households in 2002. Since then, there has been a rise in poverty rates for both groups, although it has been more rapid among the younger population. Today, 17 percent of households with elderly members live below the poverty line, versus 21 percent among households that have no elderly members.

A comparison between households headed by an elderly person and all households with elderly members shows a similar trend of changing poverty rates over time. Yet poverty rates in households headed by a retirement-age person are consistently higher, with the exception of 2009. Thus it seems that the elderly who live with other family members in the work force are more able to avoid poverty and manage economic hardships. This comparison suggests that the official data of the NII regarding poverty amongst the elderly (for example, as presented in the annual survey results) is somewhat biased since it only shows the

households headed by the elderly, and ignores the sizable share of elderly who live with younger family members.

As noted, the relatively low poverty rate among the elderly as compared to the young is likely due to a combination of factors such as the composition of the households in which they live, the level of government support they receive, their entitlement to employment pensions, and their continued economic activity in the work force. These assumptions will be discussed in greater depth.

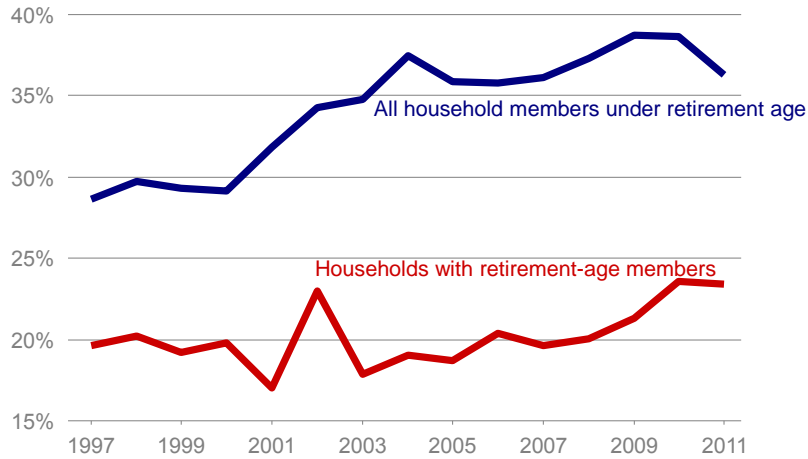
Many studies show that the “poverty line” is only one parameter to describe the economic situation, and that there is great variety within the population defined as poor, that is, those who live below the poverty line (see, for example, NII, 2013). In order to more accurately assess the situation of the poor, the “depth of poverty” must be examined to estimate just how far below the poverty line various population groups fall. Depth of poverty is measured in terms of “the poverty gap ratio” – the percentage gap between the average income of poor households and the poverty line (NII, 2013). The greater this gap, the lower one’s placement below the poverty line, attesting to greater poverty. Figure 2 presents the average depth of poverty in households without retirement-age members versus households with at least one retirement-age member. The lines present the distance of each of the two types of households from the poverty line in percentages.



Figure 2

**Depth of poverty**

the gap between average income of poor households and the poverty line, in percent, by household composition, 1997-2011\*



\* Data for 2000-2001 do not include residents of East Jerusalem

Source: Haya Stier and Haim Bleikh, Taub Center

Data: Central Bureau of Statistics

The picture of the poverty gap raises two important findings. First, poverty is less deep for households with elderly members than for those with no elderly members. Thus, for example, in 2011, the average income for poor households with elderly members was 24 percent below the poverty line, as opposed to homes without elderly members, where it was 36 percent below the poverty line. Relatively small gaps were registered between the two types of households at the start of the period (1997) – 20 percent versus 29 percent respectively. That small gap can, on the one hand, be attributed to the universal old-age benefit and the income supplement that enabled most of the elderly, even those who did not succeed in escaping poverty, to enjoy a standard of living resembling that

of households not having any elderly members. On the other hand, the existence of a gap in favor of the elderly could also be attributed to the fact that most elderly households are smaller than those of the younger population.

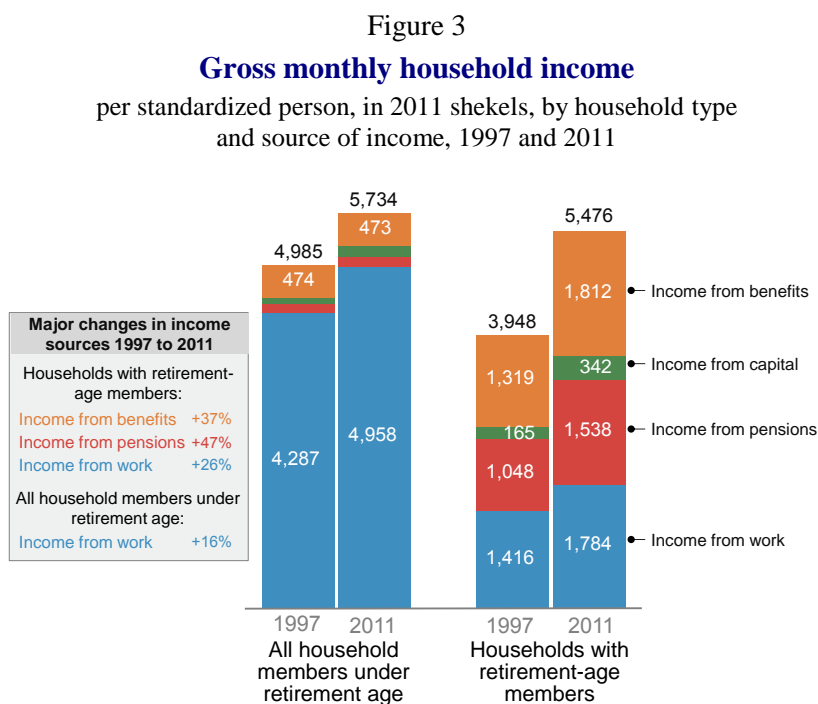
Yet the two types of households have both seen an increase in the depth of poverty over the years. The average depth of poverty among younger households has grown from 29 percent beneath the poverty line in 1997 to 36 percent today. Among households with elderly members, poverty has deepened from 20 percent to 24 percent beneath the poverty line. In other words, among younger households, not only has the depth of poverty increased over time, but the gap relative to elderly households has also grown. Among the elderly, while there has been a noticeable decrease in poverty rates, the poverty gap ratio for those under the poverty line has increased. It can be concluded that despite the decline in elderly poverty rates, and despite the increase in government transfers to the elderly – most of which, as noted, are universal – the plight of those elderly persons classified as poor is worse than in the past, on average. To understand the factors behind this deterioration, within the context of the general decline in poverty rates of the elderly, the social characteristics of this population as well as their income sources must be examined and will be further discussed in the proceeding section.

## *2. Income Sources of the Elderly Population in Israel*

The discussion in this section will focus on income sources of the elderly population in Israel and on the extent to which changes in poverty rates and in depth of poverty can be attributed to changes in income sources. Households with elderly members have three main income sources: (a) government support, particularly the old-age benefit paid to the general elderly population; (b) employment pensions; and (c) work income from those elderly those are still active in the work force or from other household members of working age who contribute economically.

Another possible income source for these households is capital income. Over the years, several important changes have occurred regarding income sources in households with elderly members: (a) the percentage of elderly living in households that receive income from employment pensions is on the rise. Employment pensions were paid to 48 percent of those reaching retirement age in 1999, in comparison to 51 percent in 2011 (Figure 7); (b) over the years, there has been a rise in the percentage of workers who do not leave the work force upon reaching retirement age. Kimhi and Shraberman (2013) show that work force participation amongst 65-74-year-old men rose from 20 percent in 2000 to 30 percent in 2011; and, at the same time, participation in the work force by women in that same age range rose from 7 percent to 12 percent. While part of that increase, particularly among men, is a result of the rise in the retirement age, nonetheless, many elderly persons who have reached retirement age are still involved in economic activity. In the wake of this activity, there has been a rise in the labor income of the elderly population; (c) the old-age benefit paid to those of retirement age has increased (NII, 2012).

Figure 3 presents the income sources of households with retirement-age members in 1997 and 2011. The figure relates to gross income per standardized person in 2011 prices, such that incomes for the two time periods can be compared.



Source: Haya Stier and Haim Bleikh, Taub Center

Data: Central Bureau of Statistics

The figure indicates three income sources of similar weight among households with retirement-age members: labor income, employment pensions and government benefits. These three components have each grown over time with the rise in the standard of living, yet the relative weight of each remains similar. Pensions reflected 27 percent of gross income per standardized person in 1997, and their weight had risen to 28 percent in 2011. Employment income was 36 percent of the total gross income per standardized person in 1997, and decreased to 33 percent in 2011. Government support accounted for 33 percent of gross income per standardized person in both periods. Over time, income from capital rose somewhat as well. The rise in every income source points to an

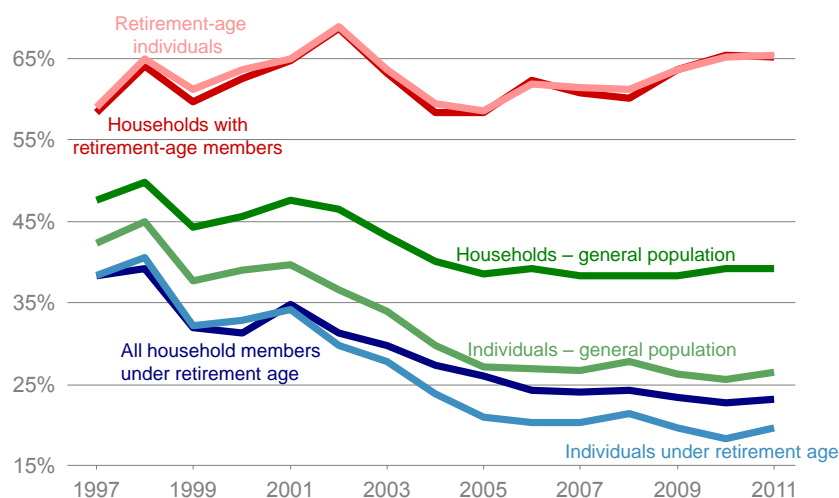
improvement in the economic status of households with elderly members, and to a great extent also explains the decrease in poverty rates.

In comparison to households with elderly members, there have been minor changes in income per standardized person in younger households. As expected, in these households, most of the income comes from labor, as these households have members of working age. Only a minority of income comes from government or other sources. An interesting point is that while there has been a noticeable rise in income per standardized person in elderly households, the rise in younger households has been more modest and comes entirely from changes in labor income. The government has not increased support during this time period, and has even cut back on major allowances to this population, such as the child allowance. A final analysis shows a very similar income level between younger households and those of the elderly in 2011, due to increased income for the elderly. Figure 3 shows that the increase in income of elderly households between 1997 and 2011 comes mainly from the increase in pensions (by 47 percent) and government support (by 37 percent).

As noted, most of the elderly do not participate in the work force, and their main income comes from employment pensions and government allowances. As the data shows, government support, namely old-age benefits, reflect about a third of the income to elderly households in both time periods. The increase in government support brings with it an increased standard of living and a decrease in poverty in some households.

Indeed, within the elderly population, there is great importance to government support, especially since a sizable segment of this population has no other income source. Figure 4 presents the decline in poverty rates after transfer payments and tax deductions for retirement-age individuals relative to pre-retirement-age individuals, and for households with elderly members as compared to those without. In other words, the percentages shown represent the decrease in poverty accounted for by transfer payments and tax deductions for each population group.

Figure 4  
**Percent decline in poverty rate in market income  
 versus disposable income poverty rate**  
 among individuals and households, 1997-2011\*



\* Data for 2000-2001 do not include residents of East Jerusalem

Source: Haya Stier and Haim Bleikh, Taub Center

Data: Central Bureau of Statistics

The figure shows that transfer payments and tax deductions reduce poverty substantially more among the elderly than among the younger population. Thus, for example, in 2011, allowances and tax breaks contributed to a 65 percent reduction in poverty rates among the elderly, whereas among the younger population, allowances and tax breaks decreased poverty rates by only about 20 percent for households and even less than that for younger individuals. Even when examining long-term trends, the government's effectiveness in reducing poverty for the elderly is fairly stable. In contrast, over the course of time, different trends are reflected among younger households. Specifically, it appears that the

government's influence in decreasing poverty among the younger population has been declining. While the taxation system and government transfers contributed to reducing poverty for the younger population by about 38 percent in 1997, the decrease was only about 20 percent in 2011. These differences are due in large part to reductions in child allowances and other benefits to the younger population. Social characteristics, such as family size, place those under retirement age at a higher risk of poverty (NII, 2012).

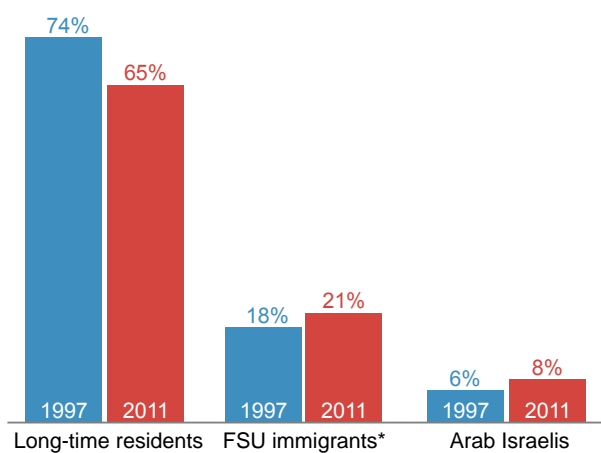
In conclusion, poverty rates among the elderly population in Israel are low in comparison to those of the younger population. Thanks to universal allowances and government support of those elderly who lack other income sources, the welfare system succeeds in decreasing the poverty for this population more than it does for the younger population.

### *3. Heterogeneity Among the Elderly*

Just as with the general population, there is great variety in the social characteristics of the elderly and their households. That variety is highly linked to differences in the availability of income sources and to the risk of poverty for household members. In this section, three segments of the elderly population are examined in detail: (1) "long-time residents," consisting of Jews who were born in Israel or who arrived before 1989; (2) the population that moved to Israel from the former Soviet Union after 1989; (3) the Arab Israeli population.

Figure 5 presents the breakdown of these three groups at two time periods: 1997 and 2011. In recent decades, the relative percentage of elderly Jewish long-time residents in Israel has decreased: from 74 percent of the total elderly population in 1997 to 65 percent today. In contrast, the relative percentage of the other two groups among the elderly population has increased: from 18 to 21 percent for immigrants from the former Soviet Union, most of whom arrived prior to 2005; and from 6 to 8 percent for the Arab Israeli population.

Figure 5  
**Distribution of retirement-age individuals**  
by population group, 1997 and 2011



\* Data do not include immigrants from other countries

Source: Haya Stier and Haim Bleikh, Taub Center

Data: Central Bureau of Statistics

These demographic changes influence the picture of poverty and inequality in the elderly population, inasmuch as a sizable portion of the immigrants from the 1990s arrived in Israel at an older age and did not have enough time in Israel to qualify for any meaningful pension. The increased share of immigrants from the former Soviet Union among the elderly population greatly increases the share of the population that relies primarily on government support. This group is also characterized by low employment rates and by a low income level relative to the long-time resident group (Kimhi and Shraberman, 2013). Among the Arab Israeli population, the share of elderly people is very low, due, on the one hand, to high fertility rates, and on the other, to low life expectancy among their elderly (Central Bureau of Statistics, 2013). The Arab Israeli population



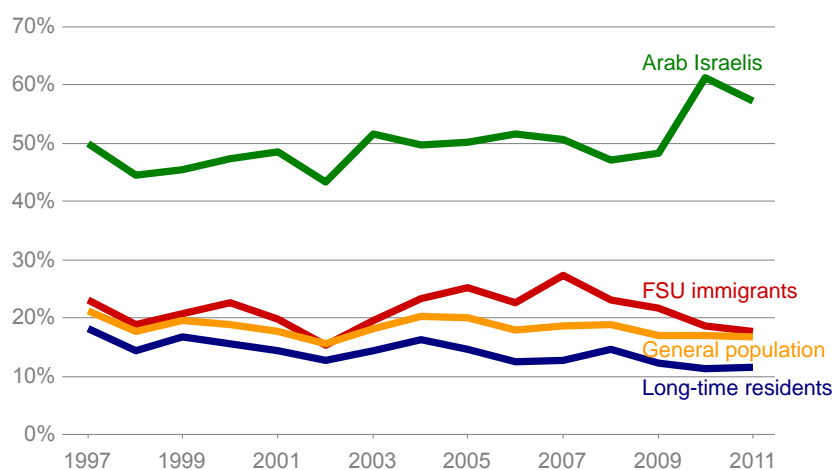
thus reflects a small minority out of the elderly population in Israel. At the same time, since poverty rates amongst Arab Israelis are very high, one can assume that their elderly face more severe economic difficulties than do the elderly of the other two groups. Likewise, this group has the lowest rates of participation in the work force beyond retirement age, compared to the other two elderly population groups in Israel (Kimhi and Shraberman, 2013).

An examination of poverty rates among the elderly<sup>3</sup> in the three groups between 1997-2011 (Figure 6) shows substantial differences among them, both in the rates themselves and in the long-term trends. Poverty rates among elderly Arab Israelis are the highest: about 60 percent live below the poverty line, compared to considerably lower levels among the Jewish population. About 18 percent of immigrants from the former Soviet Union live below the poverty line, similar to the general elderly population average. Only 11 percent of long-time Jewish residents fall below the poverty line. With regards to long-term trends, there has been a slight decline in poverty rates among long-time residents, and, in recent years, also among immigrants from the former Soviet Union. By contrast, among the elderly Arab Israeli population, poverty rates are high and stable – about 50 percent in most years, although decreases were recorded early in this time period, followed by an increase to 60 percent in 2010 and a small decrease since then.

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<sup>3</sup> From among all the retirement-age elderly, including those living in households headed by a working-age individual.

Figure 6  
**Percent of retirement-age individuals below the poverty line**  
 by population group, 1997-2011\*



\* Data for 2000-2001 do not include residents of East Jerusalem

Source: Haya Stier and Haim Bleikh, Taub Center

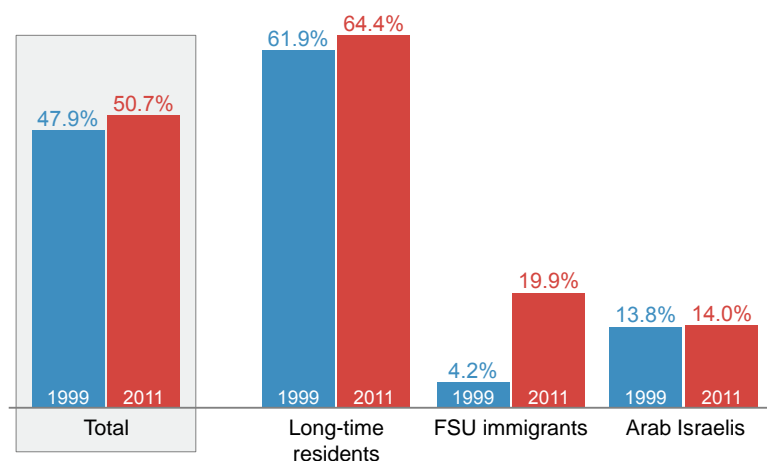
Data: Central Bureau of Statistics

The decrease in poverty rates among households of long-time residents apparently reflects the increasing share of elderly persons who have accumulated pensions during their lifetimes. Figure 7 presents the percentage of elderly, from retirement age and up, who live in households with income from employment pensions.<sup>4</sup> This figure accentuates the sizable difference between the three groups – about two-thirds of all

<sup>4</sup> Employment pensions are generally paid out to those who have stopped work in order to retire; however households can also include individuals who have not yet reached retirement age and who receive employment pensions, living together in the household with an elderly person who has no employment pension. Moreover, entitlement data for pensions are lower in practice than those shown in Figure 7, for not all elderly persons in the household are necessarily entitled to employment pensions.

elderly Jewish long-time residents benefit from a pension component to their household income, a rise of about 2.5 percentage points since 1999. By contrast, only 20 percent of immigrants from the former Soviet Union, and less than 15 percent of elderly Arab Israelis, live in households that benefit from any pension payments. There is a noticeable rise in the percentage of immigrants entitled to pension payments, in accordance with the growing number of years they lived in Israel and their accumulated rights over that time. It is harder to reach any conclusion about the Arab Israeli elderly population due to its relatively small size, although the figure suggests a fairly low rate of pension recipients amongst elderly Arab Israelis. The low rate of pension coverage of Arab Israelis derives from the ongoing difficulties of this population in the work force, and its particular vulnerability. In the past, Arab Israelis did not have high employment rates in organizations bound by collective wage and pension arrangements. It may well be that changes in employment arrangements, particularly the transition to employment through temporary employment agencies, the decrease in the employment of blue-collar workers, and the decreased power of organized labor in general hurt Arab Israelis more than other groups.

Figure 7  
**Percent of retirement-age individuals living in a household receiving income from pensions**  
 out of all retirement-age individuals, 1999 and 2011



Source: Haya Stier and Haim Bleikh, Taub Center

Data: Central Bureau of Statistics

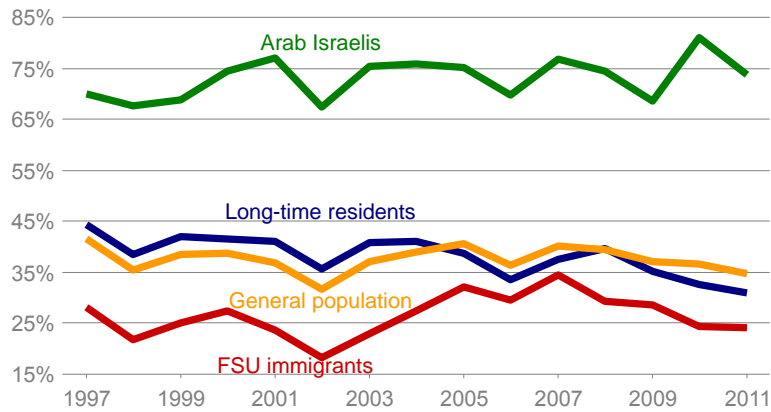
One of the central factors in preventing poverty among the elderly is pension eligibility. The poverty rate among all households with at least one elderly member entitled to a pension stands at 2 percent.<sup>5</sup> By contrast, in households with elderly members and no pension income, poverty rates are relatively high, even though these households may have other forms of income, such as income from work or from capital, as was shown in Figure 3. Figure 8 shows trends in poverty rates for the years 1997-2011 among the elderly for the three population groups in question, as compared to the general elderly population. The figure shows that among Arab Israelis who live in households without pension income, poverty rates stand between 65 and 75 percent, with small changes over

<sup>5</sup> Due to the low number of observations, poverty rates among those entitled to pensions in the three population groups are not presented.

the period. Among long-time residents and immigrants from the former Soviet Union, poverty rates stood at 31 percent and 24 percent, respectively, in 2011. The relatively low poverty rate in this group derives from the eligibility of immigrants from the former Soviet Union for income supplements and others forms of support. Among the general elderly population, there was a rise in poverty rates at the beginning of the 2000s, yet similar to the trend for long-time residents, there has been a decrease in poverty in recent years.

Figure 8

**Poverty rates among retirement-age individuals living in households with no income from pensions**  
out of all retirement-age individuals in households without income from pensions, by population group, 1997-2011\*



\* Data for 2000-2001 do not include residents of East Jerusalem

Source: Haya Stier and Haim Bleikh, Taub Center

Data: Central Bureau of Statistics

#### ***4. Living Arrangements Among the Elderly Population***

One method of dealing with poverty and economic need, as well as with the physical and social hardships that often accompany the elderly, is shared living arrangements with working-age relatives (Phua, McNally, and Park, 2007; Lee, 2009). Most of the elderly in Israel maintain independent households, and most own their own apartments. In about 80 percent of elderly households, the head of the house or spouse has reached retirement age.<sup>6</sup> Conversely, 20 percent of households with elderly members are households headed by a younger person, that is, households headed by a working-age individual.<sup>7</sup>

Figure 9 compares the share of households with elderly members that are headed by a working-age individual for two time periods (1997-1998 and 2010-2011), among the three elderly population groups under discussion – long-time residents, immigrants from the former Soviet Union and Arab Israelis. According to the figure, during this period, there was a 5 percentage point decline in the share of all households that are headed by a working-age individual and have an elderly person living with them. A sizable percentage of this decline can be attributed to the change in living arrangements of immigrants from the former Soviet

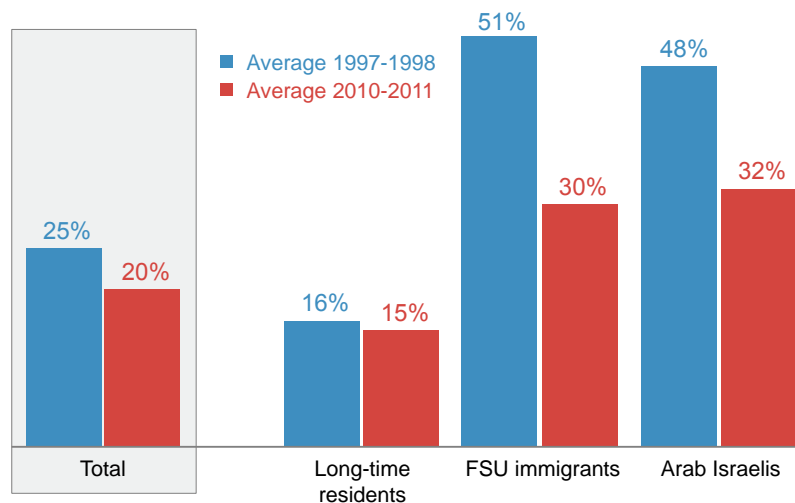
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<sup>6</sup> A household in which only one person within a couple has reached retirement age is also defined as having a “retirement-age head of household.” The head of the household is determined by the degree of involvement in the work force. In some households, for example, the elderly man has ceased working, but the woman is still in the work force and is thus considered the head of the household. The reverse is also the case if a man is still in the work force and the woman has ceased working.

<sup>7</sup> “Households headed by a working-age individual” are households headed by someone who works and has not yet reached retirement age, and in which at least one household member is of retirement age and is not married to the head of the household. An example of such a household would be a young couple who lives with their children and the parent of one member of the couple. Such a household is defined as an “extended family” or “extended household.”

Union, who in the first years of their arrival in Israel often resided in extended living arrangements with younger family members, yet, as the years passed, established separate households. Indeed, as the figure shows, in 1997, half of households in which elderly Soviet immigrants lived were extended households, whereas today only about 30 percent are households of this type. Among Arab Israelis, the phenomenon of joint residences for the elderly in households headed by the young is also widespread. Here as well, since the end of the 1990s, there has been a trend towards a declining share of elderly households headed by the young – from 48 percent to 32 percent. Among long-time residents, the share of extended homes is lower (15 percent) and has been relatively stable over time.

Figure 9  
**Percent of households with working-age head of household\***  
 out of all households with retirement-age members,  
 averages for 1997-1998 and 2010-2011



\* Neither head of household nor spouse is of retirement age

Source: Haya Stier and Haim Bleikh, Taub Center

Data: Central Bureau of Statistics

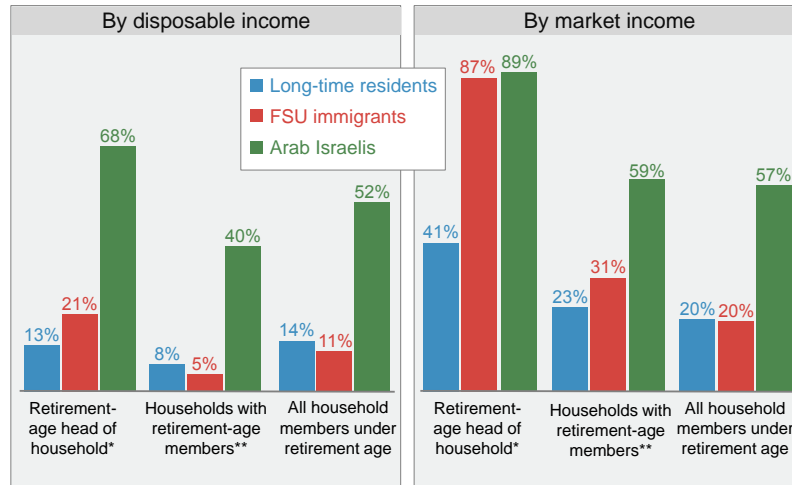
How do living arrangements influence poverty rates within the elderly population and can these living arrangements be viewed as a strategy for families (be they elderly or young) in dealing with the hardships of poverty?

Figure 10 presents the percentage of households under the poverty line from 2010-2011, for each of the three groups: long-time residents, immigrants from the former Soviet Union and Arab Israelis, both among households headed by working-age individuals (with and without elderly members), and households headed by the elderly. The left side presents the percentage of poor households according to disposable income, that is, after the payment of taxes as well as the receipt of allowances and benefits. The right side relates to market income (market income includes income from work, employment pensions, and capital gains, before taxation and before receiving governmental support). Comparing the share of poor households by disposable income shows that in extended families headed by a working-age individual and also containing retirement-age members, the share of poor households is substantially lower than in those headed by an elderly person. Living arrangements of extended families are characterized by households with lower poverty rates.

The differences regarding percentage of households under the poverty line are particularly salient among the more vulnerable populations – Arab Israelis and immigrants from the former Soviet Union. Among all households headed by an elderly person, the poverty rate is 19 percent, versus 10 percent for households with an elderly member but headed by a person of working age (not shown in figure). This difference in poverty rates according to housing arrangement is consistent for all groups: amongst long-time residents, the percentage of poor households headed by an elderly person is 13 percent, versus 8 percent for households with an elderly member but headed by a person of working age. The percentages are 21 percent versus 5 percent respectively amongst immigrants from the former Soviet Union, and 68 percent versus 40 percent respectively amongst Arab Israelis.



Figure 10  
**Percent of households below the poverty line**  
 by household type, average for 2010-2011



\* Head of household is retirement age, or classified as spouse of retirement-age individual

\*\* Neither head of household nor spouse is of retirement age

Source: Haya Stier and Haim Bleikh, Taub Center

Data: Central Bureau of Statistics

These differences are also noticeable when market income is examined.<sup>8</sup> Practically speaking, a comparison of the difference between poverty rates by market income and disposable income shows that government transfers and tax deductions to elderly Arab Israelis and immigrants from the former Soviet Union have a greater influence among those living in extended families headed by the young than in families headed by an elderly person. Among elderly immigrants from the former Soviet Union living in households they themselves head, taxes and

<sup>8</sup> Market income includes income from work, employment pensions, and capital gains before taxation and before receiving governmental support.

government allowances decrease the rate of poverty by 76 percent, whereas amongst elderly persons who reside in households headed by young people, the decrease is 85 percent. Among Arab Israelis, the decrease is noticeably less in both types of families, although the trend is similar – 23 percent and 32 percent respectively. Among long-time residents, there is no actual difference in the decrease in poverty between household types – 69 percent and 67 percent respectively.

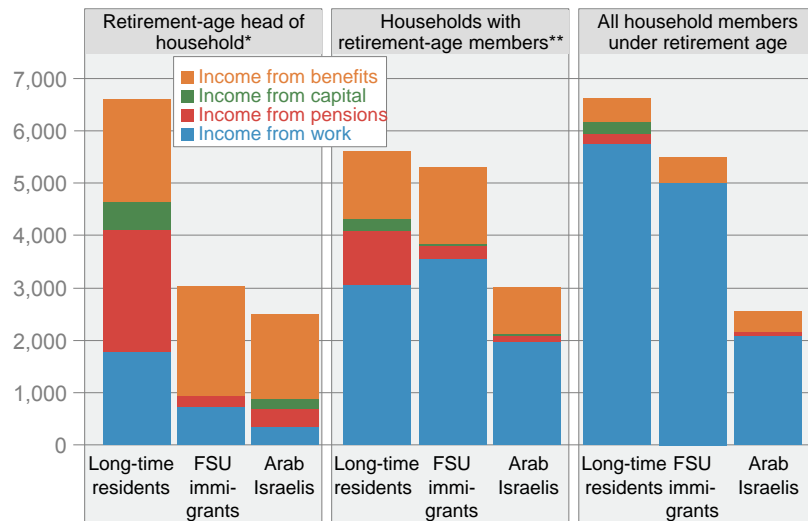
An examination of income sources for both groups – households headed by an elderly person and those headed by the young – points to the importance of housing arrangements, especially within a population entirely dependent on government allowances. Income sources for each of the three elderly population groups examined are presented in Figure 11. The figure shows that the main sources of income in retirement-age headed households are pensions and government support. A smaller portion of income is from work or from capital gains. Figure 11 also shows that among certain populations, retirement-age individuals living in households they themselves head are more likely to live under the poverty line than if they live in extended families.

Among the long-time resident Jewish population, the income from pensions in households headed by an elderly person reaches an average of NIS 2,309 per month per standardized person, versus NIS 1,036 in households with elderly members headed by working-age persons. Sixty-two percent of households headed by an elderly person have some income from pensions, which account for an average NIS 3,984 in total household income (see Appendix Figures 2 and 3). Only 54 percent of extended households have pension income, which accounts for an average NIS 2,877 in total income. In other words, those elderly who live in extended families have relatively lower pension incomes. It can thus be assumed that if they were to establish their own, independent households, their standard of living would be lower still. This is especially likely considering that the general standard of living of households headed by an elderly person among the long-time resident population is higher than that of households with elderly members headed by younger persons. The average income per standardized person in households headed by an

elderly person is NIS 6,600 per month versus NIS 5,600 in households that also have an elderly resident headed by a younger person. In households headed by an elderly person, income from government support is larger, both due to a higher percentage of both spouses receiving an old-age benefit, and because on average, these elderly persons have accumulated a higher level old-age benefit (for details on eligibility for old-age benefits, see Azary-Viesel and Stier, 2014; NII, 2012). Also their income derived from capital gains is higher. By contrast, as expected, the income from work is higher in households headed by a working-age person.

Figure 11

**Gross monthly household income**  
per standardized person, by household type,  
population group and income source, 2011



\* Head of household is retirement age, or classified as spouse of retirement-age individual

\*\* Neither head of household nor spouse is of retirement age

Source: Haya Stier and Haim Bleikh, Taub Center

Data: Central Bureau of Statistics

The picture is somewhat different for the other two population groups, in which, a priori, their eligibility for a pension and the size of their pensions are recognizably lower than that of long-time residents (see Appendix Figures 2 and 3). Among immigrants from the former Soviet Union, there is almost no difference in pension income per standardized person between the two types of households, and even though government support is higher amongst households headed by a retirement-age person, their standard of living falls below that of families headed by a person of working age, in which the main income source is from work. Also, among the Arab Israeli population, the standard of living for extended family households is higher than for households headed by an elderly person. While there is higher income from pensions, capital gains and government benefits in households headed by an elderly person, the standard of living of such households nonetheless falls well below that of households headed by persons of working age: an average of NIS 2,500 per standardized person versus NIS 3,000.

Interesting differences arise when comparing households with retirement-age individuals to households headed by individuals of working age and with no elderly members. Among the Jewish long-time resident population, households without retirement-age individuals enjoy a higher income level, most of which derives from employment. Their standard of living resembles that of elderly persons who head their own households and is higher than that of extended households. The difference between young and extended family households is particularly notable regarding work income – NIS 5,743 per standardized person in young households, versus NIS 3,062 per standardized person in extended households. A similar picture is seen regarding nominal incomes (see Appendix Figure 2). When examining households of immigrants from the former Soviet Union and of Arab Israelis, it can be concluded that shared housing affords the younger household members a higher standard of living on average. With a relatively low addition of individuals, such households enjoy a higher level of government support. For both population groups, income from employment in extended households falls below that of households in which there are no elderly individuals,

but the level of government support is notably higher in extended households, and compensates for the lower level of labor income. Thus the two types of households achieve a similar income. Among Arab Israelis, the extended family achieves a higher standard of living than that of the other two types of households.

It can be concluded that extended living arrangements, which are apparently more prevalent among low-income families, make a substantial contribution to improving the living conditions of the elderly population in economically vulnerable groups – in this case Arab Israelis and immigrants, groups that have not established pension rights as a considerable income source. This is also true, when it is considered that amongst these groups, a sizable share of households headed by the young with elderly members are not necessarily well off. As was shown, the income level per standardized person is lower amongst Arab Israeli and immigrant households in each type of household than it is for Jewish long-time residents. Moreover, it is assumed that an extended household contributes not only to raising the living standard of elderly individuals but that of the younger family, which benefits both from additional pension income and government support. This residential arrangement can be viewed a strategy for avoiding poverty for the entire family, young and old alike.

### ***Spotlight: International Comparisons of Poverty Among the Elderly***

As Ben-David and Bleikh (2013), Gornick and Jantti (2011), and many other studies have shown, most developed countries decrease market income poverty to a much greater extent than Israel does. The figure presents market income and disposable income poverty rates for 2010 by age group.<sup>9</sup> Examining the poverty rate by market income for the general population, before government intervention from taxes or welfare, Israel fares slightly better than the OECD average. Israel has 28 percent poverty rate versus an average of 29 percent, and has a lower poverty rate than 15 other OECD countries. Yet when examining disposable income poverty rates (after government intervention) among the general population, the situation is entirely different. Israel had the highest disposable income poverty rate, at 21 percent, versus the 12 percent average for developed countries. Thus, Israel's taxation and welfare policies decrease the percentage of poor households by just 25 percent, versus an average of 65 percent in developed countries.

The picture becomes even clearer when discussing the economic situation of the elderly. As can be seen, market income poverty rates among the elderly are lower in Israel compared to other countries (47 percent versus an average of 74 percent in OECD countries). Yet the disposable income poverty rates place Israel near the top: 21 percent of all elderly are under the poverty line, versus 12 percent for the OECD average. Israel's taxation and welfare policies decrease poverty among those aged 65 and over by only 55 percent versus an average of 84 percent in developed countries.

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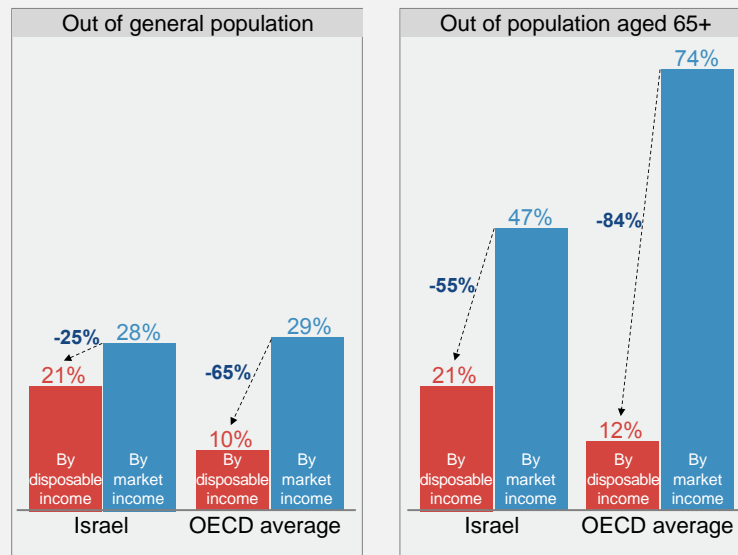
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<sup>9</sup> Poverty data are calculated in accordance with the OECD approach.

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Figure 12

**Percent of individuals under the poverty line**  
by age of head of household and by income type, 2010\*



\* OECD calculations are based on those countries which have data available for both the elderly and general population

Source: Haya Stier and Haim Bleikh, Taub Center

Data: OECD

Can it be concluded that Israel's welfare policy is inefficient even with regards to the elderly population? The answer to this question is complex, as the market income structure in every country must first be considered. When dealing with the working-age population, market income is mostly composed of income derived from work, a fact that applies for all countries.

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By contrast, there is a great difference in the market income structure of the elderly population, stemming from unique pension and allowance arrangements in each country (Bowers, 2014).

The pension system in Israel is composed of three levels: the first is based on NII allowances, including a universal old-age allowance, and an income supplement to ensure a minimal level of subsistence after retirement age. The second is composed of an employment pensions, amassed over the course of an individual's employment.<sup>10</sup> The third level depends on an individual's own initiative and on his ability to amass additional savings beyond the employment pension (Achdut and Spivak, 2010). In 2008, a reform was initiated in Israel requiring employers and workers to set aside money from wages into a pension fund. Nonetheless, most of today's pension income derives from employment pension arrangements that predate this reform. Unlike in Israel, most developed countries have a pension system based largely on universal government social insurance. Thus, the importance of employment pension plans differs between countries, and in some, is relatively small.<sup>11</sup> In countries where financial support for retirement-age individuals is chiefly communal, the share of market income out of total income for the elderly is low. Therefore, market income poverty rates among the elderly are considerably larger in those countries than in Israel, as shown in the figure.

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<sup>10</sup> Budgetary pensions arrangements refer to the defined-benefit pensions paid out of the state budget and provided to veteran state employees, such as teachers, military, police, and local authorities.

<sup>11</sup> In a few countries, employment pension plans have been in force over the years, but in most cases they do not apply to the elderly but to younger people who have not yet retired.



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To assess the efficiency of the governmental transfer system, the impact of the size of the elderly population relative to the general population, must be examined. Israel is characterized by a relatively young population. The percent of people 65 and over within the population is relatively lower than in other countries. According to OECD data, people 65 and over account for about 10 percent of Israel's population, versus the OECD average of about 16 percent. The composition of the population influences poverty rates for market income. In countries where market income of the elderly is low or negligible compared to other incomes sources (due to the country's pension policy), and the elderly make up a large share of the population, market income poverty rates will be high across the general population as well, and vice versa<sup>12</sup>.

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<sup>12</sup> This can be described by way of an equation for calculating market income poverty rates as a weighted average of poverty rates in sub-populations – the population of those over the age of 65 and the population of those below age 65:  $P1m * S1 + P2m * S2 = Pm$ .

$Pm$  is the share of poor people by market income across the entire population:  $P1m$  is the share of poor people by market income among those 65 and older.  $S1$  is the share of those 65 and older within the general population.  $P2m$  is the share of poor people by market income among the population under age 65.  $S2$  is the share of those under age 65 within the general population. Thus, for example, the contribution of the elderly population to market income poverty rates in the OECD countries is 11.8 percent, whereas the market income poverty rate in the general population is 29 percent:

$$P1m * S1 = 74\% * 16\% = 11.8\%$$

According to that same calculation, the contribution of the elderly in Israel to poverty rates is just 4.7 percent:  $P1m * S1 = 47\% * 10\% = 4.7\%$ .

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Considering that market income poverty rates for the general population in Israel (28 percent) are similar to those in developed countries (29 percent), it is easy to see that the contribution of those 65 and over to the market income poverty rate of the general population is significantly higher in developed countries than in Israel. Regarding market income, the difference between Israel and the developed countries vis-à-vis the composition of poor populations helps explain the array of considerations and constraints faced by decision makers regarding policies for reducing poverty. Thus, for example, the developed countries are faced with an elderly population that is consistently increasing and that constitutes a large electoral power; a working-age population that is decreasing in size, chiefly due to low birthrates; and a historic social contract according to which the state has a central and important role in funding old-age pensions by way of contributions by the employed. In contrast, Israeli decision makers are faced with an elderly population whose relative percentage – and perhaps relative political power as well – is small, coupled with high poverty rates among working-age families, particularly among large families.

This picture in Israel is entirely different from that of the developed countries, and suggests a different approach to reducing poverty. For example, the developed countries are committed to maintaining a similar level of universal pensions for the current generation of the elderly, even though this is likely to increase the ongoing financial burden on the younger generation. This is the policy because the current elderly population has no other income sources, nor is there any expectation that it will join the work force. Moreover, the array of pension payments is socially embedded and accepted as a behavioral norm. Changes involving sharp cuts in universal pensions are liable to contribute to political pressure and social unrest. Thus, poverty data points to a great emphasis

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on lowering poverty rates among those 65 and older (by 84 percent) in developed countries. Taking into account the large share of elderly in the general population, overall disposable income poverty rates are likewise substantially reduced.

By contrast, the challenges regarding poverty in Israel are different in many ways. Large families constitute a substantial portion of the poor population. From an economic standpoint, it is harder to support large families than smaller ones, such as elderly households.<sup>13</sup> From this perspective, Israel's welfare system has a hard time greatly reducing poverty. Therefore, the degree to which government intervention reduces poverty among the general population is also much lower in Israel than in developed countries.

In conclusion, the social safety net of developed countries – which for many in Israel are a model worth emulating – are effective in reducing the degree of market income poverty, yet they do not succeed in addressing the fundamental demographic problems that threaten their economic stability. The difference between Israel and these developed countries is due to differences in the composition of the poor population and in pension policy regarding the elderly. In light of this, it is very likely that an international comparison of poverty indices will present a partial or slanted picture of the gaps that actually exist.

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<sup>13</sup> There is constant tension between the size of allocations to working-age families and the negative incentive that these allowances are liable to create with regards to joining the labor force. Additionally, the size of the household influences the degree of effectiveness of transfer payments in lifting the household from below the poverty line.

## ***5. Conclusion***

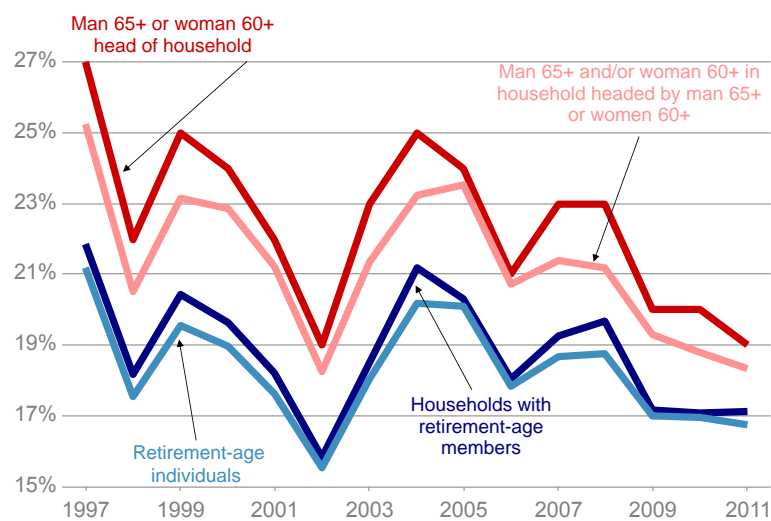
This chapter surveyed the economic situation of the elderly population in Israel with the aim of understanding to what degree that group is successfully lifted from poverty. The chapter also examined differences between social groups within the elderly population. From the findings, it is evident that poverty rates within the retirement-age population are lower than those in the general population and in the younger population in Israel. The welfare system, particularly the system of old-age benefits granted to all those who cease work at retirement age, operates as an efficient mechanism for rescuing elderly people from poverty, as opposed to other support systems granted to the younger population. This finding shows that old-age benefits in Israel are efficient at extricating people from poverty and at improving the standard of living of this vulnerable population group, both because they cover the entire elderly population and because they have been less eroded than other benefits over the years.

At the same time, despite the entitlement to old-age benefits, not all elderly populations succeed in living above the poverty line. The main finding of this research is the fact that income from pensions is the most central component to improving the standard of living within the elderly population, and in affording economic security during old age. Among elderly persons living in households enjoying pension income, poverty rates are extremely low. Lack of a pension largely explains the economic vulnerability of immigrants from the former Soviet Union – many of whom have been unable to accumulate pension savings during their time living in Israel – and of Arab Israelis, who have worked predominantly in workplaces that do not offer pensions. Presumably now that pension contributions are mandatory in Israel, the economic standing of future generations of elderly people will improve, although it must be noted that the size of pension savings is a direct result of a worker's wage levels and employment history.

This chapter points to the great importance of living arrangements among the elderly population, an issue often ignored when the economic condition of this population is being examined. Thus, for example, Israel's official data (the data of NII, as compiled from their annual surveys), describes to households headed by the elderly or to households headed by working-age individuals, but does not relate to the extended group of mixed elderly and young households. International research has similarly found that shared residences are an effective strategy for overcoming economic difficulties, both for younger people and for the elderly (Phua et al., 2007; Lee, 2009; Isengard and Szydlic, 2012). This sort of living arrangement allows elderly persons with a paucity of income sources, especially those lacking pension income or income from work, to improve their standard of living when they would otherwise be exposed to poverty and economic hardship. The combination of labor income contributed by younger people living in the household and government support received by the elderly helps raise the standard of living for the entire household. This strategy of extended residences is more widespread among groups that are economically vulnerable – Arab Israelis and immigrants from the former Soviet Union (Burr et al., 2012). At the same time, there may well be other reasons for shared residences beyond the economic motive, such as cultural, health or social factors. It appears, however, that government support on its own cannot guarantee economic security to those elderly persons who lack income from pensions or other sources.

## Appendices

Appendix Figure 1  
**Share of households and individuals below the poverty line**  
 by household type, 1997-2011\*

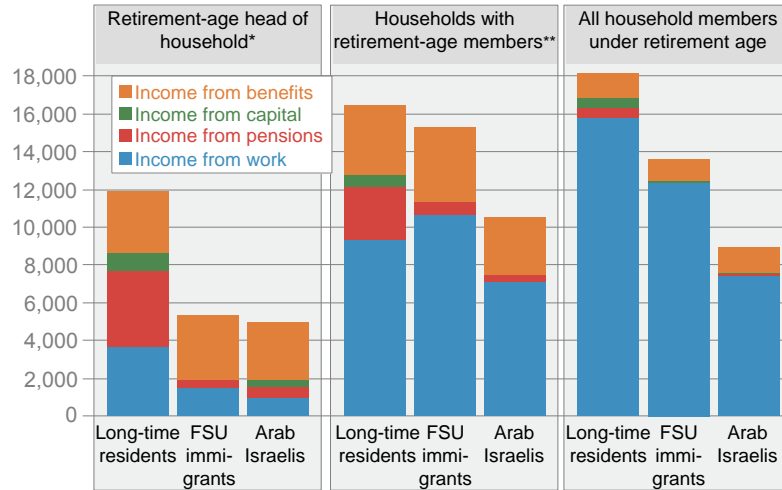


\* Data for 2000-2001 do not include residents of East Jerusalem

Source: Haya Stier and Haim Bleikh, Taub Center

Data: Central Bureau of Statistics

Appendix Figure 2  
**Gross monthly household income**  
 by household type, population group and income source, 2011



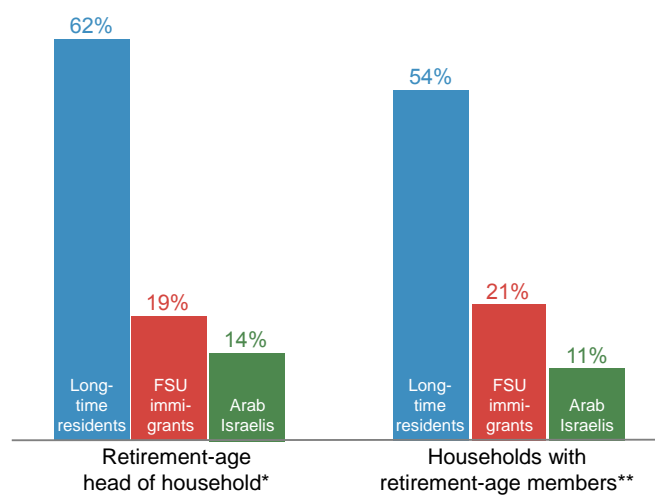
\* Head of household is retirement age, or classified as spouse of retirement-age individual

\*\* Neither head of household nor spouse is of retirement age

Source: Haya Stier and Haim Bleikh, Taub Center

Data: Central Bureau of Statistics

Appendix Figure 3  
**Share of households with income from pensions**  
by household type and population group, 2011



\* Head of household is retirement age, or classified as spouse of retirement-age individual

\*\* Neither head of household nor spouse is of retirement age

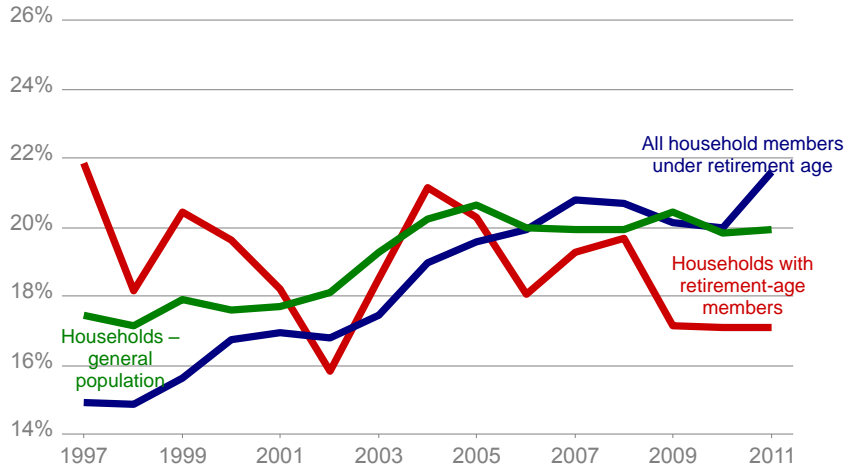
Source: Haya Stier and Haim Bleikh, Taub Center

Data: Central Bureau of Statistics

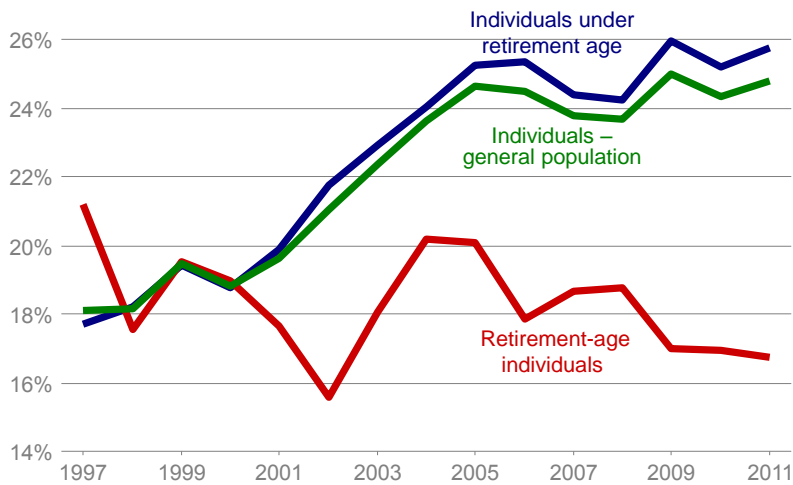


Appendix Figure 4

**A. Share of households below the poverty line**  
by household type, 1997-2011\*



**B. Share of individuals below the poverty line**  
by age, 1997-2011\*



\* Data for 2000-2001 do not include residents of East Jerusalem

Source for both: Haya Stier and Haim Bleikh, Taub Center

Data for both: Central Bureau of Statistics

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