



# A Guide to the New Government Savings Plan for Children

## An overview from the administrators of the Living Financially Smarter in Israel Facebook Group

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### Background:

The Government decided to increase benefits as part of child allowance. Instead of enlarging the monthly payments made by *Bituach Leumi* into the parent's bank account (known as *Kitzbat Yeladim*), *Bituach Leumi* will be paying an **additional 50 NIS** on the 20<sup>th</sup> of each month into a separate authorized savings plan for each child under the age of 18. As things stand, the 50 NIS being deposited are not linked to the *Madad* (CPI). Although this as well as any other future directive concerning these savings plans could change in the future, depending on any future make up of the government.

As of December 2016, there are currently 2.9 million children in Israel. This additional benefit being deposited into these funds by *Bituach Leumi* equates to 1,740,000,000 NIS to the future benefit of all Israeli children.

### How will I hear about this, and how will I know what to do?

The majority of parents would have received a letter from *Bituach Leumi* the first week of December 2016 notifying them of this and what to do.

If you did not receive the letter you can get all the information and sign up via the web site: <https://b2b.btl.gov.il/BTL.ILG.Payments/TochnitChisachonYeledForm.aspx>

If you want to receive the letter, you can contact *Bituach Leumi* on \*2637 or 02-5393700 (Sunday to Thursday 08.00-17.00).

### When will it start?

The savings plan starts from **January 2017**. The agreement for the savings plan however was agreed effective as of May 2015. As such, over the course of 2017, the government will make retroactive deposits into the savings plans for the period of May 2015 – December 2016.

### What's the catch?

There is **NO** catch. Without going into the political history behind this, this is an excellent way to ensure that each child will have some kind of savings. It also raises the awareness of the importance of savings for one's child's future.

### What do I need to do?

You have 2 **main** choices

1. **Do nothing**, and let the government make the deposits into a default track of the government's choice.

For children who are 15 and over this will be into a bank deposit, with fixed interest not inflation linked.

For children who are younger than 15 on 01.01.2017, the money will be deposited in a low risk *Kupat Gemel* (provident fund).

For newborns after 01.01.2017, if a fund is not chosen within 6 months after the birth, then the money will be deposited where the savings plan for the child older than the new born are being held. For a firstborn child born after 01.01.2017 the money will be deposited in a low risk *Kupat Gemel* (provident fund).

2. **Sign up and activate a fund of your choice**, for one of the authorized track options as stipulated by *Bituach Leumi*. This needs to be done **before 01.06.2017** and can be done via the following options:

- Through the official website <https://hly.gov.il/> or <https://b2b.btl.gov.il/BTL.ILG.Payments/TochnitChisachonYeledForm.aspx>  
The process takes under 5 minutes. If you do not understand Hebrew, you can use google translate, which actually does a semi decent translation job here.  
Once you have completed this, you will receive a message via SMS confirming the funds chosen.
- Via SMS with the word לך to 055-7000200, and you will then be sent a link in order to activate your fund choice.
- By calling *Bituach Leumi*. \*2637 or 02-5393700 (Sunday to Thursday 08.00-17.00).
- Via a specific form that can be downloaded from *Bituach Leumi's* website, or ordered via phone, which can then in turn be either sent by mail or fax to Bituach Leumi as indicated on the form.

## What are the investment options if I wish to make a choice?

There are two different types of financial institutions managing the plans:

- Banks
- Provident funds through investment houses or insurance companies.

Within each financial institution, there are different options.

### Banks:

There are 3 different types of plans:

1. Fixed interest rate without linkage
2. Variable interest rates
3. Fixed interest rate linked to the *Madad* (the CPI)

Within each option above, there are 2 types of tracks:

1. Fixed term track, whereby the savings track can **not** be changed for the entire duration of the savings plan period.
2. A track whereby there is an exit point every 5 years, with the ability to choose another savings track with a new 5 year exit date, within the **same** bank.

### Provident Funds:

There are 5 different types of plans, although not all funds will offer all 5:

1. Low risk investment
2. Medium risk investment
3. Higher risk investment
4. Track which conforms to orthodox Jewish Law
5. Track which conforms to *Sharia* Law

## What is the Halachic track?

There are a number of reasons why some people may consider this track option. The main two are considerations as a result of some investments involving loans that require a *Heter Iska* (a document that bypasses certain prohibitions involved with interest issues according to Jewish law) as well as potential issues of *Sechar Shabbat* (receiving remuneration on Shabbat) for certain investments and interest payments.

Whilst each track is approved by many rabbinic authorities, there are divergent opinions as to whether or not specific extra supervision is required. As a result, certain companies have opened up *Mehadrin* type tracks that conform to the opinion of those who deem this as necessary or preferential. From experience, there are divergent opinions within strictly orthodox circles as to whether or not this is required. For those for whom this may be relevant, it is advised that each individual consult with their own Rabbinic authority.

### **Can I switch plans at a later date?**

If you chose a plan through a **bank**, then you can **not** switch to another bank or a provident fund. You can **only** switch to a different interest plan if you have chosen the 5 year track and at the specific exit date.

If you chose a plan through a **provident fund**, then you can **not** switch to a fund at a bank. You **can** however switch to a different track within the same provident company or to a completely different provident fund company at any time, as long as they are approved by *Bituach Leumi* and the Finance Ministry for receiving this savings plan.

### **Which track should I choose?**

There is no one size fits all option for everyone. None of us have the crystal ball to determine which option will prove to be the most profitable type of investment during the life span of each child's savings plan.

There will be those who are conservative and may wish to know they are getting a fixed low return on the monies being invested, by choosing one of the conservative bank options. Others may wish to utilize this extra savings plan and deposit into a potentially more volatile higher risk provident fund, which does not give guaranteed returns. Whilst past performances on these or any funds do not guarantee future ones, historically they have outperformed bank rates over time, albeit with certain years providing a negative return.

Due to the nature of specific advice needing to be provided in the appropriate setting, we are unable to give a definitive indication of what each person should do here. As such, people with questions should seek information from licensed professionals to assist them in their decision making process.

None of these funds are very high risk and as a general rule the more time an investment has to grow the more risk one may wish to take.

### **Can I open up the plans via my financial advisor or insurance agent?**

No. These funds need to be opened via the approved tracks offered via *Bituach Leumi*.

### **Are there any tax implications?**

As far as Israeli taxation is concerned, there is no tax benefit or liability on the monies being deposited. Capital Gains Tax which currently stands at 25%, does apply at the time of withdrawing the funds. In other words, as with any other regular investment in Israel, the profits (not the principle) will be liable to this taxation.

### **Is there a way to get the money without paying Capital Gains Tax?**

The only way to avoid paying Capital Gains Tax is to **not** withdraw the money and keep it invested until retirement age. Should that be the case, and the person then elects to receive the money as a monthly annuity via an approved track at the time of retirement, then there will be no taxation to pay on the gains.

### **Are there any potential implications for USA citizens or residents?**

The following questions and answers relating to USA citizens have been provided by Larry Stern, CPA at [Aboulafia Avital Shrensky & Co.](#)

#### **Q What is the impact of these new plans on US citizens?**

*These plans can impact both financial account report requirements (FBAR and FATCA) as well as taxation in the USA.*

#### **Q. Do I need to report this account on my FBAR?**

*If you have signature authority over the account, then the account needs to be reported on your FBAR.*

#### **Q. Does my child need to file an FBAR? What if s/he is 3 years old?**

*FBAR requirements are not dependent on age. If the child is a US citizen or resident and maintains financial accounts, (including this savings account) outside the USA that exceed \$10,000 at any time during the year, an FBAR is required to be filed for the child for that year.*

#### **Q What is the tax impact in the US of these savings plans?**

*The "gemel" path is likely to be considered a PFIC (Passive Foreign Investment Company) which can create exposure to double tax (not covered under the US - Israel tax treaty) whereas the bank option would generate taxable interest, which would be reportable when paid. The tax rate at which this income would be taxed is dependent on a number of factors, and you should consult your US tax advisor to discuss your specific circumstances.*

We strongly advise that any USA citizen consults with their USA tax consultant to check any potential issues dependent on the family's specific portfolio and current reporting to the USA financial authorities.

### **The bank or insurance company has asked me to complete a W-8BEN or W-9 for my child. Is this required?**

Under the Intergovernmental Agreement between Israel and the USA, financial institutions must determine which of their clients are US citizens or residents, and require the completion of a W-8BEN (for non-US citizens or residents) or W-9 for US citizens. There is no minimum age for the completion of these forms.

### **Are there any management fees?**

All management fees and bank operating costs incurred will be paid for by *Bituach Leumi* until each child reaches 21 years of age. Should the child wish to keep the plan in place after this time, then if the management fees (for provident funds) and operating costs (according to standard practice within the banking system at that time) will be collected from within the funds.

### **Can I add to the savings plan?**

Yes you can, and this may be a financially smart thing to do. You have the ability to double the 50 NIS being paid by *Bituach Leumi* to a monthly deposit of 100 NIS. This will in essence double the savings for your child, and is recommended for those who have the ability to do so, unless you have a better savings plan set in place, in order to make use of the zero management fees and operating costs until your child reaches 21 years of age.

In order to do so, you have inform *Bituach Leumi* when setting up the fund of your choice, and they will deduct this extra 50 NIS per child, from the monthly child allowance you receive from them, and deposit it instead, into the savings plan for your child.

You are unable to add more than the extra 50 NIS per child into this specific fund.

Should you wish to deposit more than the extra 50 NIS, then you should speak to your bank, financial adviser or insurance agent in order to look at alternative options, in order to make an informed decision and compare the benefits of each option.

For those who are USA citizens, you should discuss any implications increasing the amounts may have, with your US tax expert, in order to ensure you are acting in a financially smart way.

### **Extra Bonuses paid by Bituach Leumi**

When your child reaches 18 years of age, *Bituach Leumi* will deposit an **extra** 500 NIS into the account.

Should your child not withdraw the money, and keep the savings plan in place until aged 21, they will receive a **further** 500 NIS from *Bituach Leumi*.

### **When can my child have access to the money?**

There are two options:

1. When the child reaches **aged 18**. In order to withdraw the funds, **both** the child **and** the parents will need to sign the appropriate forms.
2. When the child reaches **aged 21**. In order to withdraw the funds, the child will need to sign the appropriate forms. No parental consent will be required.

In extreme cases of life threatening medical issues the money may be withdrawn before the age of 18 following relevant approval. Monies will continue to be deposited on a monthly basis until the child reaches 21.

In the unforeseen event of a child passing away before they reach 21 years of age, then *Bituach Leumi* will deposit 50 NIS into the fund for a further 3 months. After this period, the parents will be entitled to withdraw the funds.

**Is there any further Information available in English?**

Yes. The government has put together a useful document in English which can be read on line.

<http://haotzarsheli.mof.gov.il/Documents/english.pdf>

*\*All information is correct as of December 2016 according to information provided by the Finance Ministry and Bituach Leumi. Financially Smarter in Israel and the authors of this guide can not be held responsible to any changes in legislation that may impact terms and conditions of the abovementioned savings plan for children.*

*Whilst this guide is meant as informative information to aid the English speaking community of Israel, specific information should be obtained from licensed professionals before making decisions that are pertinent to each individual.*