STATE OF ISRAEL

MINISTRY OF FINANCE - CAPITAL MARKET, INSURANCE AND SAVINGS DIVISION

Savings plan for each child - explanation

1. Home page

Within the framework of the plan devised by the Ministry of Finance and the National Insurance Institute, from January 2017 a long-term savings plan shall be opened for each child who is eligible for child allowance.

The National Insurance Institute shall deposit in the savings plan NIS 50 monthly until the child reaches the age of 18, in addition to the child allowance which is being paid for the child. The funds shall be transferred to a designated savings account held in the child's name and managed within the framework of an investment provident fund or bank savings account, according to your choice.

Set out hereinafter are the most important subjects, of which you should be aware, in order to take the optimal decision regarding the management of your child's savings. We recommend that you read the information in its entirety, and only thereafter enter the National Insurance Institute's website to choose whether to deposit the monies being saved in an investment provident fund or in a bank, and whether or not to double the monthly sum being saved.

2. Information about the plan

1. **The National Insurance Institute shall deposit NIS 50 a month in a savings plan held in the child's name until the age of 18**

   In January 2017, the National Insurance Institute shall open for your child, provided he is eligible for child allowance, a savings plan into which a sum of 50 NIS shall be deposited on 20th of each month (which coincides with the payment of child allowance). The money shall be paid into a designated savings account held in the child's name in either an investment provident fund or a bank, according to your choice. Should you make no choice, the National Insurance Institute shall choose for you where the savings are to be managed, as shall be explained in detail hereinafter.

2. **Please note, that you can save a further NIS 50 each month and double the amount of your child's savings!**

In addition to the 50 NIS being depositing each month by the National Insurance Institute, you have the option of depositing an additional sum of 50 NIS for your child out of the child allowance being paid to you. You may therefore increase the amount of your child's savings to 100 NIS a month, and ensure that after 18 years have passed he will have at his disposal a sum of money which is likely to reach around 20,000 NIS or even more. In order to supplement the savings by adding a sum of 50 NIS per month, you must enter the National Insurance Institute's website and choose the option of doubling the amount of savings.

3. Where the savings shall be managed

3. **Where will the savings be managed? In an investment provident fund or in a bank?**

You can choose in which type of institution and investment track you wish to deposit the monies and in this regard you must make two decisions:

(1) <u>Whether to deposit the savings in an investment provident fund or in a bank?</u>

An investment provident fund - The money which shall be deposited in an investment provident fund shall be saved in an investment track of your choosing. In each of the funds which have been selected by the Ministry of Finance for long-term savings management, you may choose to deposit the savings in one of 5 investment tracks being offered by each provident fund, and you can switch from one investment track to another at any time. Each investment track operates under a different investment policy regarding the manner in which the money is invested, which changes according to the level of risk in each track.

Bank - The money deposited in the bank shall be saved in a savings track in accordance with the interest being offered. In each of the banks nominated by the Ministry of Finance to manage long-term savings, you may choose to deposit the savings in one of 3 tracks offered by them, in two types of saving plan: a fixed term savings plan or a savings plan from which the funds may be withdrawn at five year intervals.

A parent who chooses the 5 year exit option track may change the savings track on each exit date as aforesaid.

<u>Hereinafter is a table summarizing the characteristics of saving in an investment provident fund compared to the characteristics of a bank savings plan</u>:

	Investment provident fund	**Bank**
Nature of the savings	The money shall be saved in an **investment track** of your choosing and invested in the capital market in accordance with the investment policy of the fund in the track. The yield which shall be generated in the investment track chosen by the parent shall be added to the savings deposited in the provident fund.	The money shall be saved in an **interest** bearing savings plan of your choosing, the rate of interest being known in advance in accordance with the savings track which was chosen. The savings tracks shall guarantee that at the end of the savings period the child shall receive at least the sums which were deposited (the fund) and accumulated.
Investment tracks which may be chosen	• Track for savers who prefer low risk investments • Track for savers who prefer a medium risk • Track for savers who prefer	• Fixed interest without linkage • Variable interest • Fixed interest linked to the consumer price index

	high risk • Track which accords with Jewish law • Track which accords with Sharia law	Please note, that in each of the savings tracks you may choose a fixed term savings plan with no exit points or a savings plan with exit points every 5 years, as shall be described hereinafter.
Transfer of the savings between investment tracks	At any time during the saving period you may change the investment track for another investment track, according to the investment tracks being offered by the provident fund.	If you chose a savings track with exit points every 5 years you may change the savings track which you chose for another savings track at on the exit date. In the case of a fixed term track with no exit points every 5 years the savings track cannot be changed for the entire duration of the saving period.
Transfer of the savings to a provident fund or to a bank	At any time during the saving period you may ask to transfer the savings to the management of a different provident fund from the list of provident funds which were chosen by the Ministry of Finance.The transfer shall be carried out through a request to the new provident fund which you wish to transfer to. The savings cannot be transferred from a provident fund to a bank.	The savings cannot be transferred from the bank which you chose to another bank or to another provident fund for the entire duration of the savings.
Payment of management fees for the savings	Until the age of 21 the National Insurance Institute shall pay the management fees on the savings. Thereafter the management fees shall be collected from the monies which have accumulated in the savings plan.	Until the age of 21 the National Insurance Institute shall pay the savings operating costs, and thereafter they shall be paid according to standard practice within the banking system.

(2) Which track should the savings be managed in?

After you have chosen whether to deposit your child's monies in an investment provident fund or in a bank account, you shall have to choose an investment track.

Should you choose to save in an **investment provident fund**, you may select one of the following 5 investment tracks:

(a) Track for savers who prefer low risk (default option).

(b) Track for savers who prefer a medium risk.
(c) Track for savers who prefer an high risk.
(d) Track which accords with Jewish law.
(e) Track which accords with Sharia law.

Should you choose to save in a **bank**, you may choose one of the following 3 savings tracks:

(a) A fixed interest track without linkage (default option)
(b) A variable interest track.
(c) A track providing fixed interest linked to the consumer price index.

In each of the savings tracks being offered by the banks you may choose one of the two following options:
(1) A savings plan without exit points.
(2) A savings plan with an exit point every 5 years, which enables a change of the savings track on the date of each exit point.
You must make your choices on the National Insurance Institute's website by 1.6.17, although in the case of children who were born after the 1.1.17 you shall have until six months from their date of birth to do so.

4. Default Track

1. If you did not choose where the savings are to be managed the money shall be saved for your child in a default track.

If you did not choose during the selection period where your children's savings are to be managed, the National Insurance Institute shall deposit them in a bank or provident fund in accordance with the following default mechanism.

- **Should your child be under 15 years of age on 1.1.17 - his savings shall be deposited in an investment provident fund for those who prefer a low**

risk track. The provident fund shall be chosen by the National Insurance Institute and in equal rotation from amongst the investment provident funds which were selected by the Ministry of Finance. If you have a number of children under the age of 15, then their savings shall be managed **in the same** provident fund, in separate accounts.

- **Should your child be 15 years of age or older on 1.1.17 - his savings shall be managed in the same bank** into which child allowance is paid by the National Insurance Institute, in a fixed interest unlinked track with no exit points. The interest on the joining date shall be determined according to the saving period until the child reaches the age of 18. Should the bank into which the child allowance is paid not appear in the list of banks which operate the relevant savings plans, the National Insurance Institute shall open a savings account in another bank, selected in equal rotation between the listed banks. If you have a number of children who are 15 years of age or older, then their savings shall be managed **in the same** bank, in separate savings accounts.

- **For children born on or after 1.1.17 -** generally speaking, the savings shall be managed in the same provident fund or bank in which the savings of his elder sibling is being managed at the time. If you made no choice or you have no other children, the savings shall be deposited in a listed investment provident fund chosen on an equal rotational basis.

For your information, the provident fund or bank in which your child's savings shall be managed, shall send you by the 1st March each year a report on the state of the savings in the child's account. You may also monitor the state of the savings on the website of the financial institution which is managing them.

5. Withdrawal rules

2. Rules for withdrawing monies from the savings plan

General

Other than in exceptional cases, as described hereinafter, the savings cannot be withdrawn before your child reaches the age of 18. In order to withdraw the savings you must apply to the financial institution which is managing your child's account (an investment provident fund or bank) and sign the withdrawal forms, which can be found on its website or on the website of the National Insurance Institute.
At the time of withdrawing all or part of the savings, capital gains tax, shall be deducted from the sum being withdrawn.
Please note! Where a child's account is held with an investment provident fund and it was decided to continue saving the sum which accumulated in his favor in that provident fund until retirement age, he may receive his savings after retirement in the form of an allowance, without being charged capital gains tax on them.

Withdrawal of the savings between the ages of 18 and 21

When your child reaches the age of 18, the National Insurance Institute shall deposit a grant in his savings account of 500 NIS.
At that time your child may ask to withdraw the balance of the savings plan through a request to the bank or provident fund which is managing it. The child shall make the withdrawal by filling out the withdrawal of funds request forms and having them countersigned by his parents to authorize the withdrawal. The forms may be found on the National Insurance Institute's website or on the website of the bank or provident fund which manages the savings.
Please note! A child who chooses not to withdraw <u>any</u> of his savings until the age of 21, shall be entitled to receive an additional grant of 500 NIS which shall be deposited by the National Insurance Institute in his account when he reaches that age.

Withdrawal of funds from the age of 21 onwards

When your child reaches the age of 21 the National Insurance Institute shall deposit an additional grant in his savings account of NIS 500, provided that he had not made any withdrawal from his account until then.

From the age of 21, the child may withdraw the balance of his savings account at any time and without the need for his parent's approval, by filling out the withdrawal of funds request forms which may be found on the National Insurance Institute's website or on the website of the bank or provident fund which manages the savings.

It is recommended to withdraw the money only for large and significant expenses which shall contribute to your child's future. For example, in order to finance studies, open a business, etc.

3. Withdrawal in exceptional cases

Withdrawal before the age of 18 due to the child's medical condition

The parents of a child who has a life-threatening medical condition may withdraw the savings before the child reaches the age of 18 in order to finance his medical needs, subject to the approval of a National Insurance Institute physician.

Should the conditions have been satisfied for withdrawing the funds before the age of 18, the National Insurance Institute shall deposit a grant in the sum of 500 NIS (instead of when he reaches the age of 18) in the savings plan which shall be added to the sum that may be withdrawn from it.

Following the withdrawal, the National Insurance Institute shall continue to deposit a monthly sum in the amount of 50 NIS in the child's savings account until he reaches the age of 18. In this scenario, when the child reached the age of 18, a grant of 500 NIS shall not be added (since it had already been given to the child when the withdrawal was made), although should the child continue saving until the age of 21 he shall receive the additional grant in the sum of 500 NIS which is paid at the age of 21.

Withdrawal as a result of a child's death

Should a child die for whom child allowance had been paid, the National Insurance Institute shall deposit in the savings plan a sum of 50 NIS in the month in which he died and for 3 additional months thereafter. At the end of this period, the parents shall be entitled to withdraw the savings.

<u>Savings plan for a child who reached the age of 18 between May 2015 and December 2016</u>

If you turned 18 between May 2015 and December 2016, a savings plan shall be opened for you in January 2017, into which a sum of 50 NIS shall be deposited for each month that child allowance was paid for you between May 2015 and the month in which you reached the age of 18, together with the grant payable to 18 year olds in the sum of 500 NIS.
You may choose to save the aforementioned payments in either a bank or provident fund account until 1.6.2017 through the National Insurance Institute's website, failing which a fixed interest, unlinked savings plan shall be opened in your name with the same bank into which child allowance has been paid for you. Should the bank into which the child allowance has been paid for you not appear in the list of banks selected by the Ministry of Finance, the savings plan shall be opened in another bank of the National Insurance Institute's choosing.
Please note, that should the balance of your savings account not be withdrawn until you reach the age of 21, a further grant of 500 NIS shall be deposited therein.

6. Children born between May 2015 and January 2017

Deposit of monies in the savings plan for the period between May 2015 and

December 2016

Monies shall be deposited in the savings plan retroactively for the period from May 2015 to December 2016.

In each month of the aforementioned period in which the child received child allowance, 50 NIS shall be deposited in his savings plan. Thus for example, if the National Insurance Institute paid child allowance for your child throughout the entire period (20 months), he shall be entitled to receive a retroactive sum in the amount of 1,000 shekels (NIS 50 for each of the 20 months).

Method of deposit: The retroactive sum owed to the child shall be paid into the savings plan in 3 installments.

7. Savings plan for a child who reached the age of 18 between May 2015 and December 2016

Should you have reached the age of 18 during the period between May 2015 and December 2016, a savings plan shall be opened for you in January 2017, into which a sum of 50 NIS shall be deposited for each month that child allowance was paid for you between May 2015 and the month in which you reached the age of 18, together with the grant payable to 18 year olds in the sum of NIS 500.

You may choose to save the aforementioned payments in either a bank or provident fund account until 1.6.2017 through the National Insurance Institute's website, failing which a fixed interest, unlinked savings plan shall be opened in your name with the same bank into which child allowance has been paid for you. Should the bank into which the child allowance has been paid for you not appear in the list of banks selected by the Ministry of Finance, the savings plan shall be opened in another bank of the National Insurance Institute's choosing.

Please note, that should the balance of your savings account not be withdrawn until you reach the age of 21, a further grant of 500 NIS shall be deposited therein.