Israel

Exchange rate: USD 1.00
equals 4.50 new shekels (ILS)

Regulatory Framework

2005: Control of Financial Services (Provident Funds) Law; provides for the authorization and supervision of pension management companies and provident fund management companies.

2005: Control of Financial Services (Insurance) Law; provides for the authorization and supervision of insurance and pension management companies.

2005: Control of Financial Services (Pension Counselling and Pension Marketing) Law; supervises the work of councillors in the field of pension.

1999: Income Tax Regulations Amendment No. 2; introduces plans implemented through nonsubsidized pension funds.

1997: Directives of the Supervisor of the Capital Market, Insurance, and Savings for the Establishment and Management of New Pension Funds; introduce plans implemented through subsidized pension funds, regulate their administration, and contain minimum requirements concerning benefits.

1964: Income Tax Regulations; provide for the approval and supervision of pension and provident funds, establish rules for the protection of rights.

Income Tax Ordinance; regulates the tax treatment of employee and employer contributions and benefits.

Different legal rules apply to pension funds first authorized before 1995 (known as old pension funds). These funds have not been permitted to accept new members since 1 January 1995, and are not covered in the following sections.

Plan Profile

Plan sponsors

Pension management companies and insurance companies may establish complementary pension plans and offer them to employers.

Employers may, on a voluntary basis, affiliate some or all of their employees to such a plan. The affiliation and the promise to make contributions may be based on agreements between employers and individual employees or on company or industry-wide collective agreements with trade unions.

The choice of the pension management company or insurance company to which the employee is to be affiliated is made by the employee. Employees have, depending on plan rules, considerable choice concerning the benefit package that provides different replacement rates for disability, survivor and old-age pensions.

Types of plans

Subsidized pension funds: Pension management companies may establish pension plans implemented through subsidized pension funds. These plans must provide old-age, disability, and survivor benefits and cover the part of the salary up to twice the national average salary. Pension plans implemented through subsidized pension funds may be defined benefit or defined contribution and must invest 30% of their assets in government bonds providing a guaranteed real rate of return (see section Asset management).

The establishment of subsidized pension funds is subject to the approval of the Commissioner of the Capital Market, Insurance, and Savings (CCMIS). In addition, tax approval must be obtained from the CCMIS for each tax year.

Subsidized pension funds must have at least 1,500 members within 2 years of their approval.

Nonsubsidized pension funds: Pension management companies may establish pension plans implemented through nonsubsidized pension funds. These plans must be defined contribution and

provide at least old-age benefits. There is no ceiling on covered salary and plans may be an alternative to a plan implemented through a subsidized fund or complementary to such a plan for the part of the salary exceeding twice the national average salary. Investment in government bonds providing a guaranteed real rate of return is not possible.

The establishment of nonsubsidized pension funds is subject to the approval of the CCMIS. In addition, tax approval must be obtained from the CCMIS for each tax year.

Nonsubsidized pension funds must have at least 1,500 members within 5 years of their approval.

Provident funds: Provident fund management companies and insurance companies may establish provident plans that are implemented through provident funds. Provident plans are defined contribution and provide one or several lump-sum payments at retirement. Disability and survivor benefits provision is voluntary and are not usually provided.

The establishment of provident funds is subject to the approval of the CCMIS. In addition, tax approval must be obtained from the CCMIS for each tax year.

Executive insurance: Insurance companies may establish plans (known as executive insurance plans) that are implemented through life insurance policies.

Insurance companies must obtain yearly tax approval for their life insurance policies from the CCMIS.

All plans: Participation is voluntary for covered employees. Additional voluntary contributions are prohibited.

Institutional Framework

Subsidized and nonsubsidized pension funds: Pension management companies (PMCs) manage the contribution and benefit administration.

PMCs must be established as limited joint-stock companies with the single business aim of establishing and managing pension plans and the corresponding funds.

PMCs must obtain an insurance company license from the Commissioner of the Capital Market, Insurance, and Savings (CCMIS). Minimum capital requirements apply.

Each PMC must be governed by a board of directors of which at least two members (known as public directors) must not be members of one of the plans established by the company. All directors and officers of the company must have adequate qualifications.

The board of directors may delegate its powers to committees consisting of at least three of its members. One member of each committee must be a public director.

The board of directors must appoint the following committees:

- Audit committee (of which all public directors must be members);
- Investment committee;
- Balance sheet committee to discuss and approve financial statements and actuarial reports.

Each PMC may establish one defined contribution plan, implemented through a subsidized fund, and one defined contribution plan, implemented through a nonsubsidized fund. PMCs must establish separate pension funds for each of their plans and maintain a separate bookkeeping and actuarial system for each fund.

Provident funds: Provident fund companies and insurance companies manage the contribution and benefit administration.

Provident fund companies and insurance companies must be licensed by the CCMIS.

Executive insurance: Insurance companies manage the contribution and benefit administration.

Insurance companies must be licensed by the CCMIS.

Coverage

All plans: Private- and public-sector employees.

Subsidized pension funds cover the part of the salary up to twice the national average salary.

There are no legal rules concerning discrimination in coverage. Employees with low salary or part-time employees are usually excluded.

Self-employed persons may affiliate voluntarily to a plan on a personal basis.

Subsidized pension funds: These plans cover the part of the salary up to twice the national average salary.

Financing / Investment

Sources of funds

Employee contributions

All plans: Employees are required to contribute.

Subsidized pension funds: The maximum contribution is 7% of the part of the salary up to twice the national average salary.

Nonsubsidized pension and provident funds and executive insurance: The maximum contribution is 7% of salary without ceiling.

Executive insurance: Employees must match their employer's contributions, up to a maximum of 5%.

Employer contributions

All plans: Employers are required to contribute.

Subsidized pension funds: The maximum contribution is 7.5% of the part of the salary up to twice the national average salary.

Nonsubsidized pension and provident funds and executive insurance: The maximum contribution is 7.5% of salary without ceiling.

Executive insurance: Employers may contribute a 2.5% of the salary in addition to the 7.5% limit above for contributions to purchase disability insurance for their employees.

Other sources of funds

All plans: None.

Methods of financing

All plans: Funded.

Asset management

Subsidized pension funds: The pension management company (PMC) manages fund assets.

Thirty per cent of net monthly accrual (i.e. monthly accrual less management fees plus interest) must be invested in earmarked government bonds that provide a guaranteed real rate of return of 4.86% and that are only issued to subsidized pension funds.

In addition, 70% of remaining total assets are invested in accordance with the instructions below concerning provident funds.

A subsidized pension fund is allowed to issue loans to members subject to the following conditions:

- Total loans must not exceed 5% of fund assets;
- The loan must not exceed 90% of the cash value of the member's accrued rights or accumulated capital;
- Members must not take a loan in the first 3 years of membership;
- The maximum term of the loan must be 5 years;
- The loan must bear interest no lower than the rate that the fund earns on its investments.

Nonsubsidized pension and provident funds: The PMC, and also the insurance company in the case of provident funds, manage the assets.

The assets in which pension funds can invest are classified into three groups with different investment risk. Of total assets invested:

- At least 50% must be in government bonds, treasury bills or short-term deposits (this requirement may be lowered to a minimum of 40% under certain circumstances);
- A maximum of 50% may be in tradable securities (e.g. shares or corporate bonds);
- A maximum of 30% may be in long-term index deposits, nontradable shares or corporate bonds, and real estate.

Nonsubsidized pension and provident funds are

allowed to issue loans to members subject to the following conditions:

- Total loans must not exceed 5% of fund assets;
- The loan must not exceed 50% of the cash value of the member's accrued rights or accumulated capital.

Executive insurance: The insurance company manages the assets.

Of total assets invested:

- At least 50% must be in government securities;
- A maximum of 50% may be in bonds traded on the Tel Aviv Stock Exchange;
- A maximum of 25% may be in deposits, loans, or nontradable bonds;
- A maximum of 15% may be in shares;
- A maximum of 15% may be in income-generating real estate.

Members may take a loan from the insurance company under conditions set out in the insurance company's regulations.

Benefit provisions

Acquisition and maintenance of rights

Waiting period

All plans: No legal rules.

Vesting rules

All plans: Employee contributions vest immediately.

Vesting of employer contributions depends on the agreements between employers and employees or trade unions (see section Plan sponsors) and there is no legally prescribed vesting period.

Preservation, portability, transferability

Subsidized and nonsubsidized pension funds: Upon termination of employment before retirement, members may either transform their accrued rights or accumulated capital into deferred pension rights or receive a withdrawal benefit equal to the vested employer and their own contributions less management fees. The contributions must be adjusted for the calculation of the withdrawal benefit:

- In line with the consumer price index (CPI) if membership lasted less than 5 years;
- In line with the CPI plus interest of 1.5% per year if membership lasted from 5 up to 15 years;
- In line with the CPI plus interest of 2% per year if membership lasted more than 15 years.

Preserved rights must be indexed to the CPI.

Provident funds: Upon termination of employment before retirement, members receive their own and the vested employer contributions as a lump sum.

Executive insurance: Upon termination of employment before retirement, the insurance policy may be partly or fully surrendered.

Retirement benefits

Benefit qualifying conditions

All plans: Benefits may be paid from age 67 (men) or age 60 (women).

Early retirement is allowed for men from age 60.

Benefit structure / formula

Subsidized pension funds: Defined benefit or defined contribution.

In the case of defined benefit plans, the old-age pension equals the sum of each year's product of the annual/monthly accrual rate and the member's covered salary during that year. The covered salary must not exceed twice the average national salary. Each year's product must be indexed to the Consumer Price Index from the relevant year to the date of retirement. The accrual rate depends on the benefit package chosen by the employee. An increased disability benefit will result in a lower accrual rate for the old-age pension.

In the case of defined contribution plans, the old-age pension is the product of the accrued amount accumulated by the member at retirement and a factor calculated based on the member's age at retirement, sex and date of birth, and yearly returns, mortality tables, etc.

Early retirement benefits are actuarially reduced.

Benefits must be paid as pensions, but retirees whose pension is less than the minimum pension regulated in the plan rules receive the cash value of their accrued rights or accumulated capital as a lump sum.

Twenty-five per cent of a maximum of 5 years' pension payments may be commuted to a lump sum provided that the reduced pension is not lower than the minimum pension defined in the plan rules.

If, at retirement, members have no spouse and no children younger than age 21, they may cease being covered for the risk of death and receive an increased old-age pension.

Nonsubsidized pension funds: Defined contribution.

There is no ceiling on covered salary.

The old-age pension is the product of the accrued amount accumulated by the member at retirement and a factor calculated based on the member's age at retirement, sex and date of birth, yearly returns, mortality tables, etc.

Provident funds: Defined contribution.

The retiree's accumulated capital is paid as a lump sum at retirement or as several lump sums of equal or different amounts.

Executive insurance: Defined contribution.

The retiree's accumulated capital may be paid as a lump sum at retirement or as an annuity according to the terms defined in the insurance policy.

Benefit adjustment

All plans: No legal rules.

Survivors

Subsidized pension funds: Survivor benefits must be provided according to plan rules.

If the total survivor pension is less than the minimum pension stipulated in the plan rules, survivors receive the cash value of the deceased member's accrued rights or accumulated capital as a lump sum.

If an old-age pensioner dies before having received 60 monthly pension payments, the fund must pay 100% of the member's old-age pension to the eligible survivors for the remainder of the 60 months.

If the old-age pensioner dies after having received 60 but before 120 monthly pension payments, or after 120 but before 180 monthly pension payments, the full pension continues to be paid for the remainder of the 120 months or 180 months respectively.

Nonsubsidized pension funds: The provision of survivor benefits is voluntary.

If survivor benefits are provided, the same rules apply as for subsidized pension funds.

Provident funds: The provision of survivor benefits is voluntary.

Survivor benefits are not usually provided. When provided, survivors receive the deceased member's accumulated capital as a lump sum.

Executive insurance: The provision of survivor benefits is voluntary.

Survivors usually receive a lump sum, the amount of which depends on the savings in the policy and the type of the policy.

Disability

Subsidized pension funds: Disability benefits must be provided.

Full disability benefits are payable to members with a reduced earnings capacity of at least 75% and partial disability benefits with a reduced earnings capacity of at least 25%.

Disability pensioners continue to accrue old-age benefits, but they are exempt from making contributions.

Nonsubsidized pension funds: The provision of disability benefits is voluntary.

If disability benefits are provided, the same rules as for subsidized pension funds apply.

Provident funds: Disability benefits are not provided.

Executive insurance: The provision of disability benefits is voluntary.

Employers may make additional voluntary contributions to provide for disability insurance for their employees (see section Sources of funds, Employer contributions).

If disability insurance is provided, a full disability pension usually of 75% of the disabled member's salary is paid after a waiting period of between 3 and 12 months.

Depending on the policy, disability pensioners may continue to accrue old-age benefits and be exempt from making contributions.

Some policies also provide disability benefits in the case of a partial loss of earnings capacity (i.e. reduction in earnings capacity of 50%).

Protection of Rights

Protection of Assets

Subsidized and nonsubsidized pension funds: Pension management companies must hold pension fund assets separate from their own assets.

Provident funds: Provident fund management companies must hold provident fund assets separate from their own assets. Insurance companies must hold insured assets separate from their own assets.

Executive insurance: Insurance companies must hold insured assets separate from their own assets.

Financial and Technical Requirements / Reporting

Subsidized and nonsubsidized pension funds: Pension management companies (PMCs) must, for each pension fund managed, prepare the following:

- Monthly financial statements including a cash flow report;
- Quarterly reports containing a list of assets and a rate of return report;
- Yearly reports containing audited financial statements and actuarial balance sheets prepared by the actuary.

PMCs must appoint an auditor and an actuary.

The Commissioner of the Capital Market, Insurance, and Savings (CCMIS) may make any remarks on deficiencies or request any clarifications.

Provident funds: Provident fund management companies must, for each provident fund managed, prepare:

- Monthly financial statements including a cash flow report;
- Quarterly reports containing a list of assets and a rate of return report;
- Yearly reports containing audited financial statements.

Provident fund management companies must appoint an auditor.

The CCMIS may make any remarks on deficiencies or request any clarifications.

Executive insurance: Financial and technical requirements and requirements for regular reporting to the CCMIS of insurance companies are defined in the legislation governing insurance companies.

Whistleblowing

All plans: No legal rules.

Standards for service providers

All plans: Auditors must be certified public accountants and hold a license from the Auditors' Council.

While the applicable legislation sets out detailed actuarial bases and methods that must be used, there are no legal rules concerning who is entitled to be an actuary. Actuaries appointed to carry out actuarial examinations are usually members of the Israel Actuarial Association.

Fees

Subsidized and nonsubsidized pension funds: Pension management companies (PMCs) may charge a maximum of 6% of contributions and a maximum of 0.5% of accumulated savings.

Provident funds: Provident fund management companies may charge a maximum of 2% of the asset value. The management fees that insurance companies may charge are defined in the legislation governing insurance companies.

Executive insurance: The management fees that insurance companies may charge are defined in the legislation governing insurance companies.

Winding up / Merger and acquisition

Subsidized and nonsubsidized pension funds: Plans must be wound up if the minimum membership requirements (see section Types of plans) are not fulfilled.

If all plans of a pension management company (PMC) fail to meet the minimum membership requirements, the management company's license is revoked and it must be wound up.

Provident funds: The winding up of provident plans and provident fund management companies is subject to legislation governing provident funds.

Executive insurance: The winding up of insurance companies is subject to legislation governing insurance companies.

Bankruptcy: Insolvency Insurance / Compensation Fund

Subsidized and nonsubsidized pension funds: As long as a pension plan has not reached the required minimum membership of 1,500 the pension management company (PMC) must reinsure disability and survivor benefits with an insurance company. The reinsurance policy must be submitted yearly to the Commissioner of the Capital Market, Insurance, and Savings (CCMIS) for approval.

All plans: There are no other requirements for plans to insure against financial loss, and no compensation fund exists.

Disclosure of information / Individual action

Subsidized and nonsubsidized pension funds: Members must be provided with an annual report including at least:

- A presentation of basic information and financial data concerning the member (e.g. contributions and accrued rights or accumulated capital);
- A statement of pension fund assets and investment performance including information on management fees;
- A form on which the member may update or correct personal information;
- Explanations of the information included in the report.

Provident funds: Provident fund management companies must provide members with an annual report regarding their accumulated capital. Insurance companies must disclose annually information on the insurance policy and surrender values to members.

Executive insurance: Insurance companies must disclose annually information on the insurance policy and surrender values to members.

All plans: Members may complain to a consumer ombudsman who is responsible for resolving disputes. The ombudsman investigates complaints and instructs the correction of deficiencies.

Other measures

All plans: None.

Tax Treatment

Taxation of employee contributions

All plans: Employees receive a tax credit of 25%, or 35% in case of subsidized pension funds, of their contributions provided that the contribution rate do not exceed 7% of the part of the salary up to the national average salary.

Taxation of employer contributions

Subsidized and nonsubsidized pension funds: Tax-exempt up to 7.5% of the part of the salary up to twice, or four times for nonsubsidized pension funds, the national average salary.

Provident funds: Tax-exempt up to 7.5% of the part of the salary up to the national average salary.

Executive insurance: In case of annuity type insurance policies, contributions are tax-exempt up to 7.5% of the part of the salary up to four times the national average salary.

In case of lump-sum type insurance policies, contributions are tax-exempt up to 7.5% of the part of the salary up to the national average salary.

Voluntary disability insurance contributions are tax-exempt.

Taxation of investment income

Subsidized and nonsubsidized pension funds: Tax-exempt.

Provident funds: Investment income is taxed at a rate of 20%.

Executive insurance: Tax-exempt in case of annuity type insurance policies. Taxed at a rate of 20% in case of lump-sum type insurance policies.

Taxation of benefits

Subsidized and nonsubsidized pension funds and executive insurance: 35% of the value of pension benefits is tax-exempt.

All plans: Lump-sum benefits are tax-exempt.

Regulatory and Supervisory Authorities

Commissioner of the Capital Market, Insurance, and Savings: Supervises pension management and insurance companies, subsidized and nonsubsidized pension funds and provident funds.

The Commission of the Capital Market, Insurance, and Savings (CCMIS) receives and verifies reports submitted by supervised entities and may carry out on-site inspections at any time.

The CCMIS is part of the Ministry of Finance.

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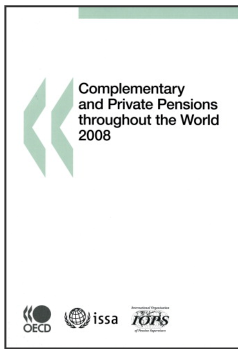

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