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A Savings Account for Every Child Born in Israel: Recommendations for Program Implementation

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Background

Israel has the highest poverty rate (20%) among countries in the Organization for Economic Cooperation and Development,[1] and it is among the top five for growing income inequality.[2] One out of every four Israeli children regularly experiences hunger, and just under two thirds of families are forced to skip needed medical treatments or medications in order to pay bills.[3] Low- and middle-income (LMI) families that have income but no assets live from paycheck to paycheck, vulnerable to unexpected financial shocks.[4] Although various efforts are underway to alleviate the immediate effects of poverty, Israel has need of policies to help families build wealth and improve income over the long run.

Assets enable families to develop and maintain long-term economic security. Assets also empower families to make timely investments (e.g., in homes, businesses, and education), to achieve upward mobility, and to pass on wealth to future generations. Child Development Accounts (CDAs) represent one strategy for building the assets of families, particularly of LMI families. Although CDAs have been implemented in many contexts and features vary in minor ways, the initial proposal was to provide every newborn with an automatically opened account, to seed that account with a substantial initial deposit, and to offer progressive financial incentives that encourage contributions by the families of beneficiaries.[5] By beginning efforts early—for example, by starting a CDA for a child at birth—families maximize the length of time over which savings can grow and interest can accrue. Moreover, an account opened early follows the beneficiary through life, serving as a reminder that the family should invest money for the child's future as the child grows.[6] Although income, spending allowances, and other social-welfare policies address short-term needs, assets and wealth, especially when families begin to accumulate them at the earliest opportunity, can provide economic security and financial capability over a lifetime.[7] As wealth builds in Israel's LMI households, the poverty rate will decrease.

In a multiparty effort to create equal opportunities for every child born in Israel and to narrow income gaps for the next generation, [8] the Knesset, Israel's national legislature, passed legislation in November 2015 that authorizes the development of and funding for long-term savings accounts for all newborns. Every baby born to an insured resident of Israel on or after January 1, 2017, will have an account established for his or her benefit.

Legislative Summary

In 2010, Isaac Herzog, then Israel's minister of social affairs, collaborated with partners from the Center for Social Development (CSD) at Washington University in St. Louis to draft a plan for a national CDA program. This plan was inspired by the model and preliminary results from CSD's SEED for Oklahoma Kids (SEED OK) experiment, a large-scale policy test of CDAs. The experiment began in 2007, and evidence shows that the tested intervention exemplifies a fully inclusive asset-building policy; findings also indicate that CDAs must be universal (available to all children), open automatically, and have a sizable initial deposit if they are to achieve financial inclusion and enable asset accumulation.[9]

As the leader of the opposition (the Zionist Union alliance), Herzog first proposed the CDA program to the Knesset in 2010, and he resubmitted it several times before the legislation was enacted 2015. In May

2015, Herzog persuaded over 80 members of the Knesset to endorse his bill and reached an agreement with the governing coalition. In July 2015, the bill was incorporated into the budget as a compromise between the ultraorthodox Shas party, which sought to raise the monthly child allowance, and other coalition members, who did not want to do so. Rather than raising the child allowance, the parties agreed to a compromise: The funds would instead be used to establish CDAs for newborns in Israel and to provide additional deposits of funds for the accounts.

In August 2015, the nation's cabinet approved a budget that included the provision to create a CDA for every child born to an insured resident of Israel. Three months later, the Knesset sealed the accounts into law.[10]

As of January 1, 2017, every eligible newborn will receive a CDA registered in his or her name. The state's deposits to the accounts will supplement Israel's child allowance, which provides regular payments to families with children, and savings in the accounts will be exempt from liens on the property of the parents. Although funding for the accounts will come from the National Insurance Institute (NII), the current law does not specify a program manager. In addition to determining the administrative rules and guidelines, the Knesset and respective ministries will identify the program manager and the entity that will hold the accounts.

Over and above the regular child allowance, every child born to an insured resident of Israel will receive a monthly deposit of 50 shekels (approximately $13.20) for a total of 600 shekels each year. Israel has approximately 2.7 million children under the age of 18; although the law provides accounts only for newborns, if all 2.7 million children received 600 shekels a year, the annual cost would approach 1.62 billion shekels. When the child turns 18, he or she will be able to withdraw the money, which may only be used to buy a home, start a business, go to school, or get married. In its way, each of these uses facilitates the accumulation of assets. If the beneficiary does not access the funds until he or she is 21, there are no restrictions on how they may be used. In March 2016, the Ministry of Finance announced that parents may choose to deposit an additional 50 shekels from the child allowance into their child's account.

Policy Recommendations for Program Implementation

1. Restrict the accounts for asset-building purposes
2. Ensure that the accounts are progressive
3. Use an existing infrastructure for account administration
4. Integrate the accounts into school curriculums
5. Create a public campaign

Recommendations for Program Implementation

Despite passage of the legislation for opening and funding the children's accounts, the Knesset, the Ministry of Finance, and the NII have yet to determine many details. In addition to the administrative details noted above (rules and procedures, the program manager, and the entity that will hold the accounts, they have yet to specify how the accounts will be structured, the parameters for parents or other guardians to make deposits into the accounts, the purposes for which funds may be used, and for how long the accounts can be used. Thus, it is critical that the Knesset, the Ministry of Finance, and the NII carefully consider all the factors that go into making a children's savings account program effective and beneficial for Israeli families.

Research from CSD has identified the pillars of an effective and comprehensive children's savings account program. The following program implementation recommendations are based on that research.

Recommendation 1

Restrict Access to Funds in the Accounts So That They Can Be Used Only for Asset-Building Purposes

Why. The law states that the child may withdraw money from the account for specified purposes when he or she turns 18, but there is no restriction on the use of the funds if the beneficiary does not access them until he or she turns 21. These provisions are problematic because they are not consistent with the program's asset-building goals. Most 18-year-olds in Israel are not able to purchase a home, start a business, get married, or pursue postsecondary education. Many enter the Israeli military to complete a required period of service. Further, because no rules restrict how the beneficiary may use funds withdrawn when he or she reaches age 21, it is likely that many will use the money to vacation after meeting their service obligations.

How. Israeli men and women would only be eligible to withdraw funds from their account after reaching the age of 21.[11] The account holder would only be permitted to use the funds for the aforementioned asset-building purposes, for the purchase of a car, or for home repairs (as some Individual Development Account programs allow in the United States).

Related examples from international CDA demonstrations. There are several examples of limitations on the use of funds held in CDAs:

» The CDA program in South Korea only permits withdrawals for education, housing, and microenterprise start-up. The funds may be accessed when the account holder turns 18.[12]

» Under the Canada Education Saving Program, funds may only be withdrawn for qualified expenses related to postsecondary education.[13]

» In the United States, Maine's Harold Alfond College Challenge is the largest statewide CDA program, enrolling all newborns in the state's 529 college savings plan.[14] The funds within the account can only be used for postsecondary education.

Recommendation 2

Ensure That the Accounts Are Progressive

Why. Two policy goals of the new law are to create equal opportunity for all Israeli children and to narrow wealth gaps for the next generation. If the accounts are to achieve those goals, they must be progressive. Private-market asset-building infrastructure favors the already advantaged, but the disadvantaged lack the resources to participate or benefit. Progressive accounts enable asset building by LMI families that likely would otherwise lack the money to open an investment account and accumulate wealth. Evidence from SEED OK indicates that initiatives will strongly favor advantaged children if they rely on family savings.[15]

How. Expand the law to provide additional deposits into the CDAs for children from low-income families. These deposits should be made at certain milestones in the child's life—for example, when the child enters kindergarten or first grade, sixth grade, and tenth grade. Additional deposits should be available for children in families that are enrolled in or meet the qualifications for an antipoverty program administered by the NII and/or the Ministry of Social Affairs and Social Services. Findings from CSD research show that such additional deposits are the preferred method for making the accounts progressive because automatic, targeted, benchmark deposits have a greater effect on the assets of disadvantaged families than a savings match does.[16]

Related examples from international CDA demonstrations. Two examples illustrate ways to ensure progressivity:

» The Post-Secondary Education Account program in Singapore transfers a greater initial contribution to lower wealth households and makes subsequent contributions to the accounts.[17]

» The Canada Learning Bond provides an initial entitlement to a child's Registered Education Savings Plan if his or her family is eligible for the country's National Child Benefit Supplement.[18]

Recommendation 3

Use an Existing Infrastructure for Account Administration

Why. The new law directs Israel's Ministry of Finance to issue a tender for financial institutions that wish to compete for the right to administer the universal CDAs. However, findings from CSD research suggest that a government agency should control the accounts and that centralized accounting is optimal; such a structure positions the program to achieve economies of scale. Under that centralized structure, the whole population is covered through one entity and fees from larger, more profitable accounts offset the costs of administering smaller, less profitable accounts.[19] If Israel chooses to decentralize the administration of the CDAs and allow multiple financial institutions to service the accounts, the fees will most likely be higher than they would under a centralized system, and the value of the principal deposit will suffer because of the higher fees.

How. By modifying the existing infrastructure for the child allowance, the NII could positioned itself to effectively manage the CDA initiative and hold the accounts. Further, direct oversight by NII would control costs so that savings in the CDAs would not be subject to high or varying fees that a financial institution might impose. However, Israel should outsource the portfolio management or the accounting functions if the NII is not positioned to manage the investment of funds in the accounts or to act as the record keeper for the accounts. This is the model used in the United States for almost all 529 college savings plans, which are tax-advantaged investment plans administered by states.[20] In sum, the Israeli government may outsource certain duties to private companies chosen through a competitive bidding process, but it should oversee the overall administration of the program.

Related examples from international CDA demonstrations. In the United States, Maine and Nevada use their state's 529 plan as the infrastructure for a CDA program. In each state, the treasurer's office oversees the accounts.[21] By managing the CDAs within the 529 plans, the states limit each account's exposure to rates and fees.

Recommendation 4

Integrate the Accounts into School Curricula

Why. Under the new law, beneficiaries will be eligible to access the money in their CDA when they turn 18 but will have an incentive to wait until they turn 21. Because the funds will be considerable, it is important that young adults be financially literate by the time they become eligible to withdraw from the accounts. Thus, Israeli schools should implement financial education curricula. Schools are an ideal context for delivering such education: (1) They are accessible regardless of family income and serve the most children above the age of six, (2) they employ teachers who are apt to be impactful financial educators, and (3) they already have a mission to educate.[22]

Financial education is most effective when introduced at a teachable moment. Children are especially prone to become engaged if their financial education is experiential. They will more successfully apply their knowledge (in this case, maintaining an account and making wise financial decisions when they become an adult) if they see its relevance firsthand.[23] Further, evidence shows that there is a positive association between the number of hours of financial education and the amount of funds deposited to savings.[24] In summary, the more financial education children receive about their CDAs, the greater the likelihood that they will contribute to their accounts and the greater the likely savings.

How. Israeli schools should introduce financial education in the early grades and continue it through high school. The government should establish a nationwide financial education curriculum for students and should educate teachers on the importance of familiarizing their students with their accounts. Teachers should reference the children's savings accounts in their math classes, showing how continued deposits will grow with interest to become a large sum of money one day. Further, the CDA initiative's administrators should make the financial education experiential for the students by involving them in managing their accounts (e.g., planned trips to the bank during the school day).

Related example from an international CDA demonstration. Kindergarten to College (K2C), a private-public initiative that opens and seeds savings accounts for all kindergartners in the San Francisco (California) Unified School District, provides a list of teacher resources on its website. These include planners, lessons, content connections, family engagement materials, and general program information.[25] Further, K2C partnered with a local community organization to lead a K2C Bank Field Trip for a group of parents and students from an elementary school in the city. At the bank, students made their first contributions to their K2C savings accounts. José Cisneros, San Francisco's treasurer, maintains awareness of the accounts by visiting local elementary schools to congratulate the students of the month and presenting each with a K2C scholarship.

Recommendation 5

Create a Public Campaign

Why. The benefits of involving community institutions in a CDA campaign are numerous. A successful CDA program should include all related community stakeholders: places of worship, professional societies, and local businesses. Involving such institutions fosters the broad sense that the community has an ownership stake in the program. Moreover, an engaged community will want to see its children benefit from the CDA program, become successful adults, and eventually make their own positive contributions. A public campaign that raises awareness will boost contributions to the accounts, thereby increasing the savings available to children: More awareness means more savings and a greater likelihood that those savings will be adequate to meet the needs for which they are intended.

How. An effective public campaign around CDAs will require the involvement of a myriad of community stakeholders. For example, the government should hold and manage the accounts, families and community groups should contribute funds to the accounts, schools should encourage education around the accounts, and businesses and faith groups should advertise about the accounts. The campaign should educate all families about the program benefits and rules. Anecdotal evidence from the Promise Indiana initiative suggests that schools are the key mechanism for heightening awareness among all parents, caregivers, and children. Schools should also be used to channel communication to families.

Related example from an international CDA demonstration. Promise Indiana, an initiative led by a nonprofit organization, galvanizes local community and family involvement to provide CDAs and assets for children. The initiative uses the state's 529 college savings plan as the infrastructure for its CDAs. Promise Indiana maximizes awareness of and support for the CDA program by engaging schools, parents, caregivers, teachers, businesses, and faith groups to contribute to accounts opened for children in the community. The initiative promotes Career and College Discovery lessons at both public and private schools. Children learn about future postsecondary opportunities made possible by their community and their 529 plan.[26]

Conclusion

The law authorizing a national CDA initiative in Israel is a historic feat for the nation and its people. In January 2017, all Israeli newborns will begin life at the same starting line—with a savings account and deposit. The assets in those accounts will open doors to future opportunities for economic mobility and security. Evidence from CDA programs throughout the world shows the positive impacts of an account established for a child's benefit. However, research also indicates that the most effective CDA programs prescribe savings for asset-building purposes, adapt an existing infrastructure for account administration, include progressive features, are integrated into school curricula, and heighten awareness through public campaigns. To substantially narrow the existing wealth gaps for Israel's next generation, the implementation recommendations offered here should be incorporated as the policy evolves.

End Notes

1. Organization for Economic Cooperation and Development (2015b).

2. Organization for Economic Cooperation and Development (2015a).

3. Latet Organization (2014).

4. Boshara (2003).

5. Beverly, Clancy, and Sherraden (2015).

6. Zhan and Grinstein-Weiss (2007).

7. Schreiner et al. (2005).

8. Only babies born to an insured resident of Israel are eligible to have an account.

9. Beverly, Clancy, Huang, and Sherraden (2015).

10. Levush (2016); see also Economic Improvement Law (2015); National Insurance Law (1995, chap. 6).

11. This recommendation is consistent with state school and service requirements, which make it difficult for youth under age 21 to use the funds for the specified asset-building purposes. According to the organization Nefesh B'Nefesh (n.d.), the earliest an Israeli citizen may enter its military, the Israel Defense Forces, is at the age of 18. The earliest he or she can complete service requirements varies depending on sex. If she chooses to enlist at 18, a single Israeli woman may be done with her military service by age 20, as she is required to serve 24 months. Married women are automatically exempt from service. Married men must serve at least 24 months (until age 20); single men are required to serve 36 months (until age 21).

12. Loke and Sherraden (2009).

13. Loke and Sherraden (2009).

14. Clancy and Sherraden (2014).

15. Beverly, Clancy, and Sherraden (2014).

16. Clancy, Sherraden, and Beverly (2015).

17. Loke and Sherraden (2009).

18. Loke and Sherraden (2009).

19. Clancy, Sherraden, and Beverly (2015).

20. Clancy et al. (2015); Clancy, Orszag, and Sherraden (2004).

21. Clancy and Sherraden (2014); see also the websites for the Harold Alfond College Challenge (https://www.500forbaby.org/) and Nevada College Kickstart (http://collegekickstart.nv.gov/).

22. Sherraden, Johnson, Guo, and Elliott (2011).

23. Sherraden et al. (2011).

24. Sherraden (2002).

25. See https://mysavingsaccount.com/k2c/en/ProgramResources.html.

26. See the Promise Indiana website: http://www.promiseindiana.org/.

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