Institute for Public Policy Research

Challenging ideas for a fairer future

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The Child Trust Fund: politics, policy and delivery

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Context (1): Why do assets matter?

- Equal opportunities
  - Assets as a springboard
- Financial security
  - Low income families suffer from more risk
  - One-off ‘lumpy’ expenditures create bigger holes in low-income budgets
- Enabling people to look to the long term
  - Increasing people’s autonomy
  - Increasing people’s ability to take productive risks

Context (2): The asset effect

Empirical evidence for an 'asset-effect':

- Those with savings at age 23 are less likely to be ill or unemployed at 33 controlling for other factors (Bynner 2002)
- Homeowners are more likely to successfully negotiate stressful events like job loss (Page-Adams and Vosler 1996)
- Those with assets at 18 are more likely to start their own business (Blanchflower and Oswald 1998)

(This is the subject of ongoing ippr research.)

Context (3): Wealth inequality

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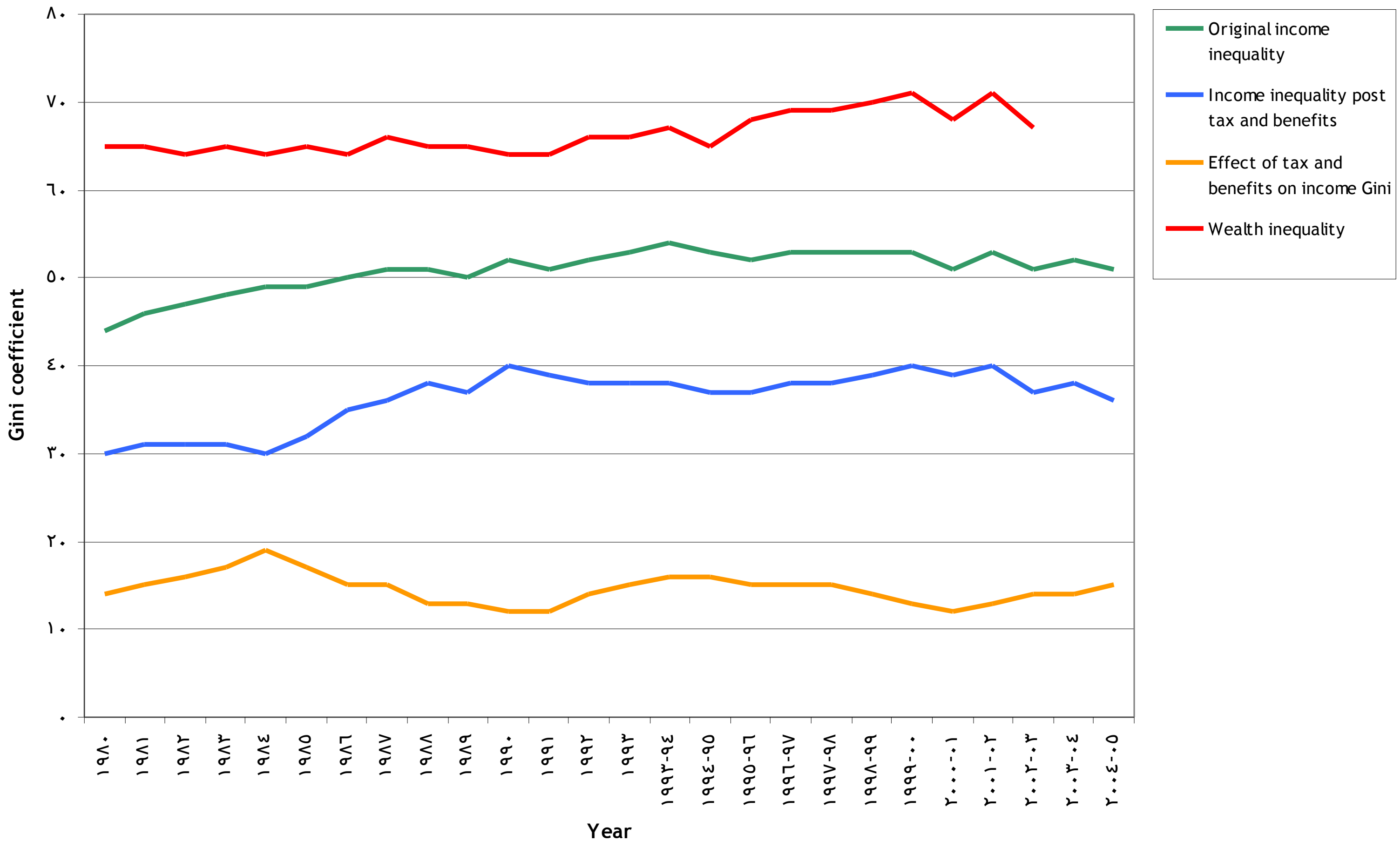
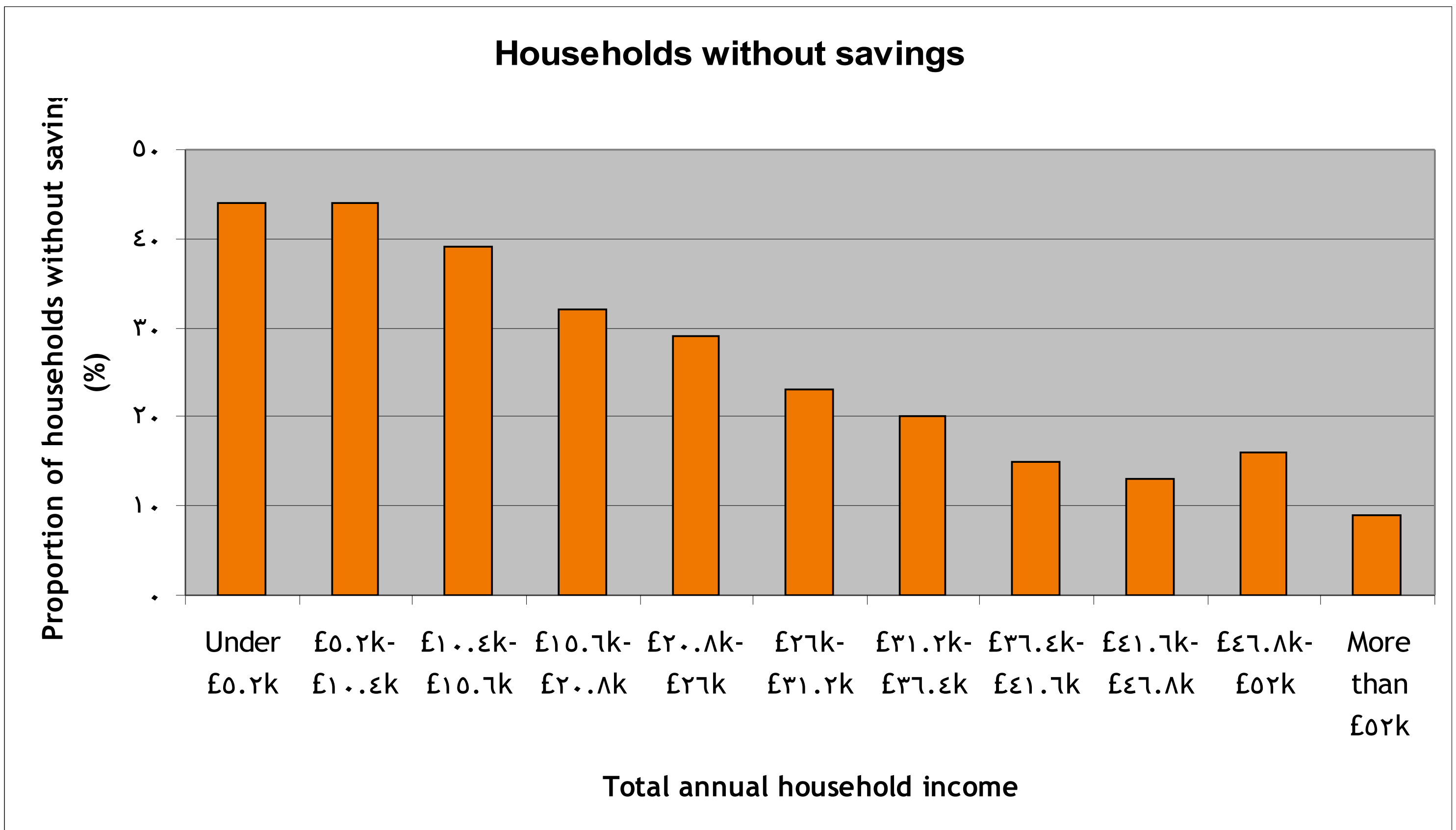
Wealth inequality twice that of post-tax income inequality…



Context (4): Savings

Almost half of poor households have no savings



Politics and policy (1)

- In 2000 kicked off preparation for 2001 manifesto, search for new ideas in No 10
- IPPR's work on *Ownership for All,* drawing on IDAs, Michael Sherraden's work in the US, proposals for matched pension contributions
- 4th pillar of the welfare state – income, services, employment…assets
- Champion – Sec of State for Education, David Blunkett MP, commissioned research
- No public constituency of support

Politics and Policy (2)

Different options:

- Children’s account – based on IDA – matched savings skewed to poorer families
- Individual Savings Accounts – matched savings
- Housing equity
- Restricted purposes for funds/open
- Linkage to financial education and literacy
- upfront bonus for current generation – long lead-in

Politics and Policy (3)

- June 2000 – ippr publishes *Ownership for All*
- April 2001 – publication of *Savings and Assets for All* by PM, Chancellor, Alistair Darling and David Blunkett, month before Election
- Positive response in the press

- Children's charities and poverty lobby broadly happy, but concerns about diverting resources from more immediate needs and very poorest
- Middle Britain
- Parents and grandparents
- Financial sector
- Strong rights and responsibility message

Politics and Policy (4): Child Trust Fund

- All children born in the UK since September 2002 entitled to a £250 voucher
- 'Progressive universalism': children from low-income families (household income <c£14k) receive extra £250, looked after children an annual sum of £100
- Unused vouchers automatically converted into accounts after one year
- Up to £1,200 can be saved each year – interest accumulates tax-free
- Extra government deposit at age 7 (£250 or £500
- Financial education in schools
- Impact so far: early days so only really possible to look at saving attitudes and patterns

Delivery (1)

5 years from idea to delivery

- November 2001 – second round of government consultations
- August 2002 – first round of SG pilots launches
- May 2004 – CTF bill passed in Parliament
- March 2005 – second round of SG pilots launches
- January 2005 – first CTF vouchers sent to parents
- **April 2005 - first CTF accounts are opened**
- **March 2008 - Treasury announces roll out of SG**

Delivery: the accounts

- 46 providers, 78 distributors
- Three types of account: cash-based, share-based and stakeholder (share-based with lower-risk lifestyling and max management charge set by govt)
- All distributors obliged to offer stakeholder account
- Most providers are building societies or mutuals

Is time running out for you to choose a Child Trust Fund account?

It's important to check the expiry date on your Child Trust Fund voucher. Because, if you don't use it in time, you'll miss out on choosing a Child Trust Fund account for your child (instead, the Government will open a stakeholder account and choose a provider for you).

You can move the account later but if you want to make the choice yourself, don't wait. The sooner you open an account, the sooner your child's money could start to grow. Remember, if you choose a savings account it may not increase as much as an account with shares in it, but the value of shares may go down as well as up.

If you have lost your voucher or would like a new list of Child Trust Fund providers, call 0845 302 1470. For more help choosing an account, visit ctfhelp.com

www.ctfhelp.com

HM Revenue & Customs

Child Trust Fund
What will yours grow into?

Need help choosing a Child Trust Fund account? Use our handy online toolkit.

We all want to make the best decisions for our children but sometimes we need a little help. So we've designed a simple online toolkit which contains a step-by-step guide to help you choose an account and a list of Child Trust Fund providers.

We've also put together some answers to questions you may have.

When deciding on an account, remember: a savings account may not increase as much as an account with shares in it, but the value of shares can go down as well as up.

Whichever account you choose, you can always change it at a later date.

For more help choosing a Child Trust Fund account for your child, visit www.ctfhelp.com

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What will yours grow into?

Impact: Children's savings pre CTF

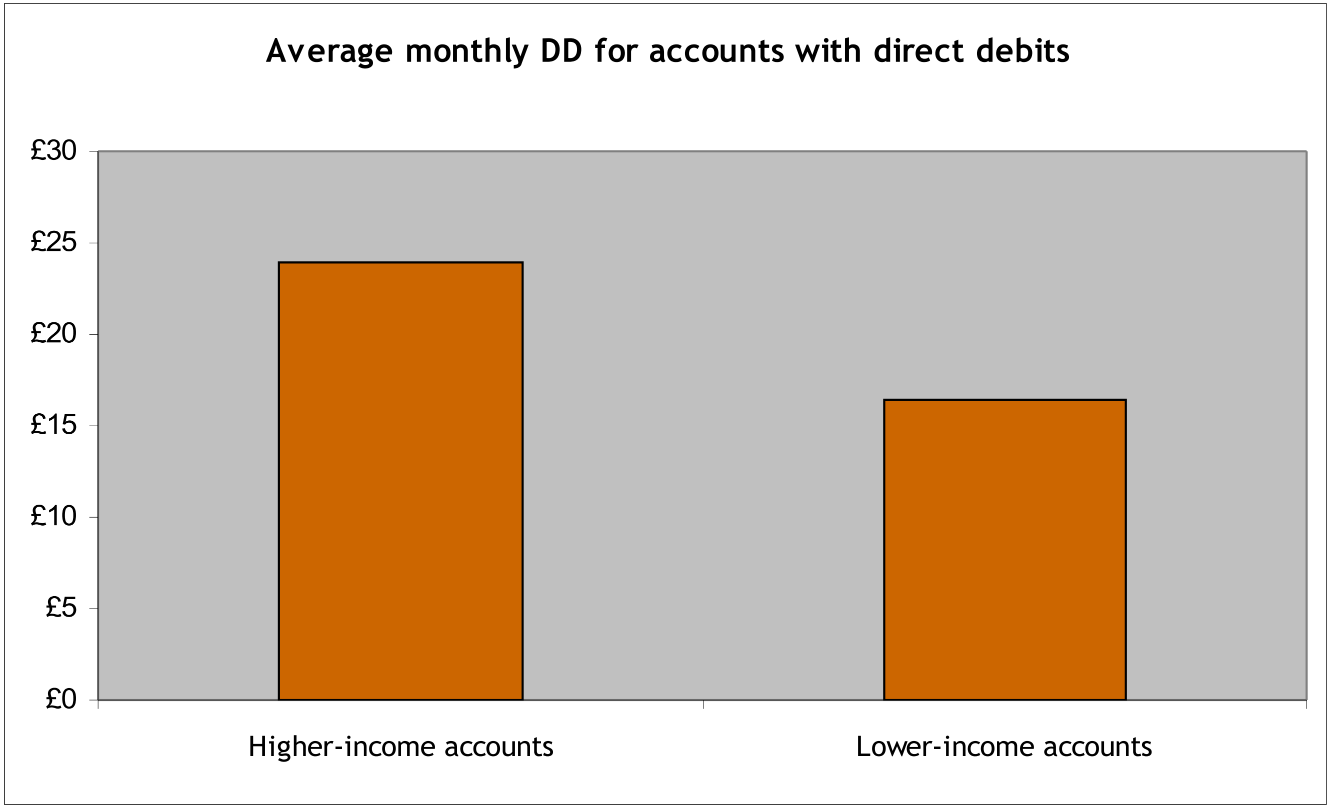
- 69 per cent of children had some form of savings account (avg £420) – but only 50% of those in households with monthly incomes < £1000 (avg £257) compared to 80% in households >£2000 (avg £500
- 43% of children had had savings put into their account over the last year (avg £180)
- Fewer children had long-term investments and savings (about 10 per cent of children's accounts were long term)

Impact of CTF on saving

- 75% active take up of first year vouchers before their expiry in September 2007
- Saving into all accounts:
  - HMRC figs (2007): 1 in 4 has received additional deposit(s) on top of govt funds
  - Industry data (2007): 1 in 4 accounts receiving monthly contributions by direct debit. Avg monthly amount for accounts in receipt £21.20
- How does this break down by income?
  - HMRC figs (2007): 28% of £250 (‘higher-income’) accounts had had received additional deposit, but only 15% of £500 (‘lower-income’) accounts
  - 28% of £250 accounts had received more than £300, only 11% of £500 accounts

Impact: Monthly saving by income

- ippr survey of 3 providers, 38% market share in May 2006 (74.6% high-income, 24.4% low-income)
- 33% of higher-income accounts had monthly direct debits, 19% of lower-income accounts



Parental attitudes (1)

- Focus groups with 58 parents with children eligible for CTFs (Prabhakar 2006)
- Parents recognise importance of making additional contributions to CTF
- Parents seem to prefer CTF with its explicitly saving element to universal £10k grant at age 18 or to increase in child benefit of £5-10 a week
- Main barriers to uptake:
  - Overwhelming amount of complex information about different providers and kinds of account
  - Uncertainty about what kind of account to choose
  - Lack of time in first year of a baby's life

Parental attitudes (2)

‘And now, when her birthday comes I’ve said to the godparents, I don’t want any more toys or clothes. I’ve given them the account and told them to do what they want. And that’s it.’

‘Because I’m not good at saving money but I’ve had that incentive to start saving for it and so I’ve started saving for it. Somebody’s helped me out by putting an amount in an account for them, I’m not just going to leave that account.’

Prabhakar (2006)

Policy challenges: engagement

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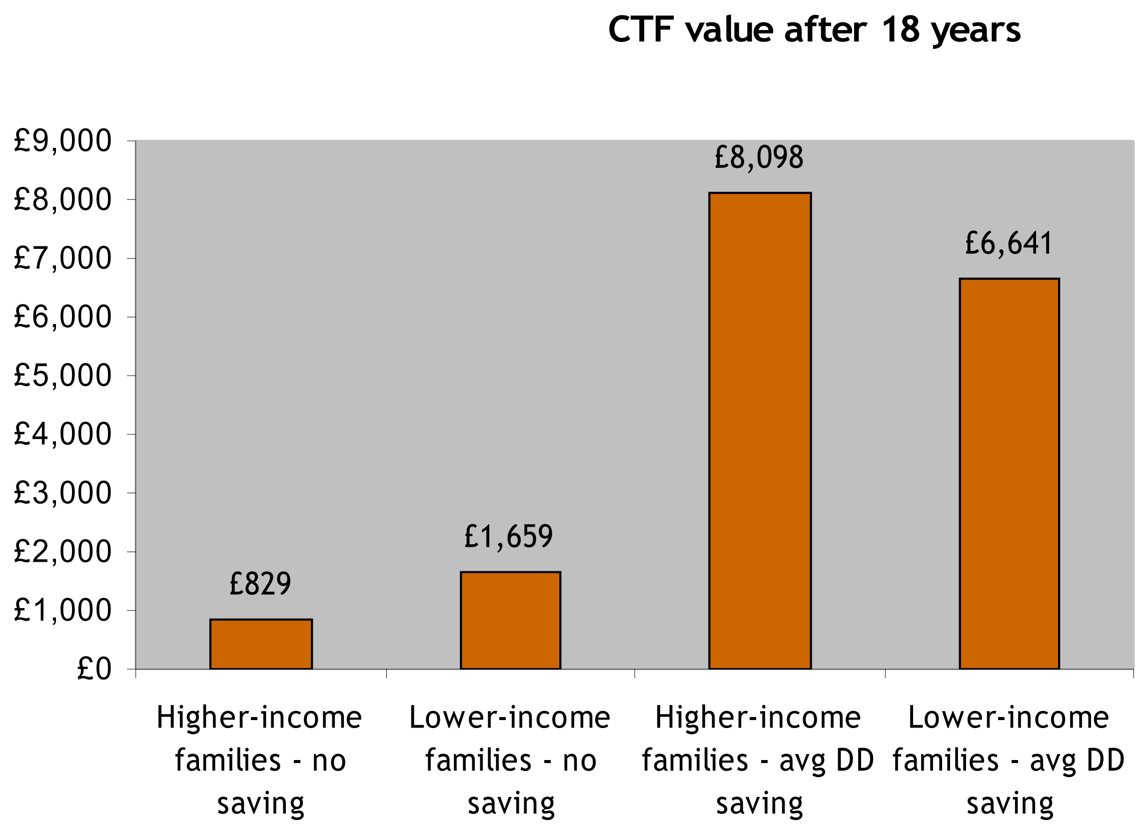
- Engaging parents who didn't use their vouchers (1 in 4 on avg, 1 in 3 for £250 accounts)
  - Only 1% of accounts automatically opened by govt after 1 year have attracted additional deposits
  - Improving communication and information about CTFs when vouchers issued
  - Engaging parents through their child's financial education at school and at the time of top-ups at age 7 (and possibly 11 and 14?)
  - Engaging harder-to-reach parents through schools, community services and other children's services

Policy challenges: financial education and responsible use

- Govt has committed to CTFs playing a role in financial education of children at school
- But as these children grow up, will need to be a shift in emphasis to advice on use
- Focus group evidence with young people suggests they would take substantial sums at 18 seriously (most popular uses in order: HE, buying a car, starting a business, saving for a deposit on a house)

Policy challenges: inequality (1)



Graph shows CTF values at 18 assuming high income and low income monthly savings rates found in ippr 2006 provider survey

Policy challenges: inequality (2)

- Have we got the balance between progressive and universal right?
- Previous ippr research has recommended that later top-ups should be more progressive, with more for high income and less for low income families
- Caveats:
  - CTF will highlight *existing* inequality more than it adds to inequality
  - We are interested in relative rather than absolute inequality: £1,700 for a child from low-income families may make more of a difference than £8,000 for a child from a high-income family

The bigger picture

- Asset-based welfare is a complement to, not a replacement for, the welfare state (cf countries like Singapore)
- CTFs need to link into broader savings policy – ISAs, pensions, Saving Gateway
  - Govt has announced CTFs will roll into ISAs on maturity
  - Links with the Saving Gateway need to be explored for lower-income families – eg option to transfer balances into child's CTF, CTF rolling into SG for eligible 18 year olds to get them saving

Building public engagement

- Impact weak in terms of public perceptions
- Not yet public ownership
- Yet to yield financial benefits – lead-in time
- Impact of financial turmoil?
- Importance of developing public support alongside policy development

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