The Child Trust Fund and Children's Savings in the UK

Stephen McKay and Lin Tian**[presenting], Andy Lymer***

* University of Lincoln, Lincoln, United Kingdom

** Aston University, Birmingham, United Kingdom

The Child Trust Fund – Background

- Various existing ideas about lump sums given at adulthood (e.g. Thomas Paine and Condorcet)
- ‘Asset-based welfare’ (Sherraden, 1990s)
- Labour Party’s 2001 manifesto, “All the next generation will have the backing of a real financial asset to invest in learning, buying a home or setting up a business.”
- “the Child Trust Fund … tied into financial education delivered through the school curriculum, would help develop the saving habit in future generations”. (HMT, 2001)
- So, something of a shift from asset to habit (Finlayson, 2008).
  - – one of the more radical changes tried by New Labour (McKay and Rowlingson, 2008)
  - UK ‘led the world’ (Prabhakar 2009: 75).

The Child Trust Fund – Design

£250 payment made at birth by government
£500 for lower income families – 'progressive universalism'

- Later government payments anticipated at age 7 and 11

Parents and wider family could add up to £1,200 a year to accounts, in a tax-advantaged manner.
[18 x £1,200 = £21,600]

Money available at age 18 for any purpose.

1st Sep 2002

Start birth date to be eligible for a CTF

6st April 2005

When the CTF was **introduced**

2nd Jan 2011

- When the government **stopped** offering CTF accounts
- Replaced by *Junior ISAs*

1st Sep 2020

The first children with a CTF **turned 18**

Research questions

- **Prerequisite**:
  - Reasons for saving for children, awareness of CTF
- **Timeline**
  - Opening accounts, adding to accounts, amounts saved
- **Inequality**
  - How these vary across groups
- **Family context**
  - Effect on saving for other children in same family

Data

- ONS *Wealth & Assets Survey*, first 6 waves from 2006/08 to 2016/18
- Converted into a child-level longitudinal study.
- Dependent children aged up to 18.

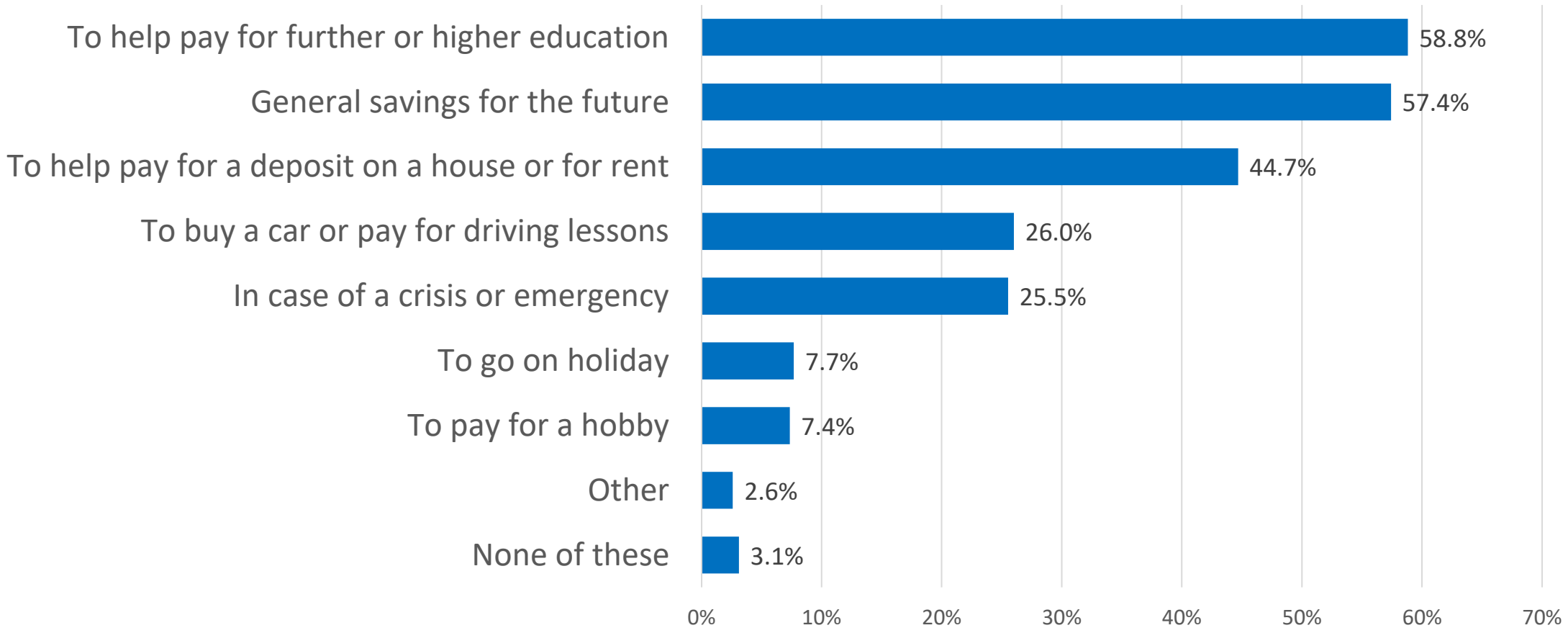
Panel A: Number of children covered in each wave

Wave	N of obs.	Percent
1	16,129	26.72
2	9,983	16.6
3	10,342	17.02
4	9,326	15.35
5	8,332	13.72
6	6,428	10.58
Total	**60,540**	100

Panel B: Number of data records per child

N of records	N of child
1	**15,144**
2	6,904
3	3,831
4	2,190
5	1,283
6	**820**
Total	**30,172**

What do you think are the most important reasons for your child(ren) to have savings or investments? (Results from original WAS data)



Account behaviour

Around 15% of the eligible group seem to be unaware of the accounts [other sources, like FRS, suggest rather more]

- And account-tracing issues for Government are significant

Around 70% opened accounts, with 30% HMRC default

- 80 per cent of those with graduate parent(s), and 81 percent of those in top third of earnings opened accounts.
- No gendered difference.

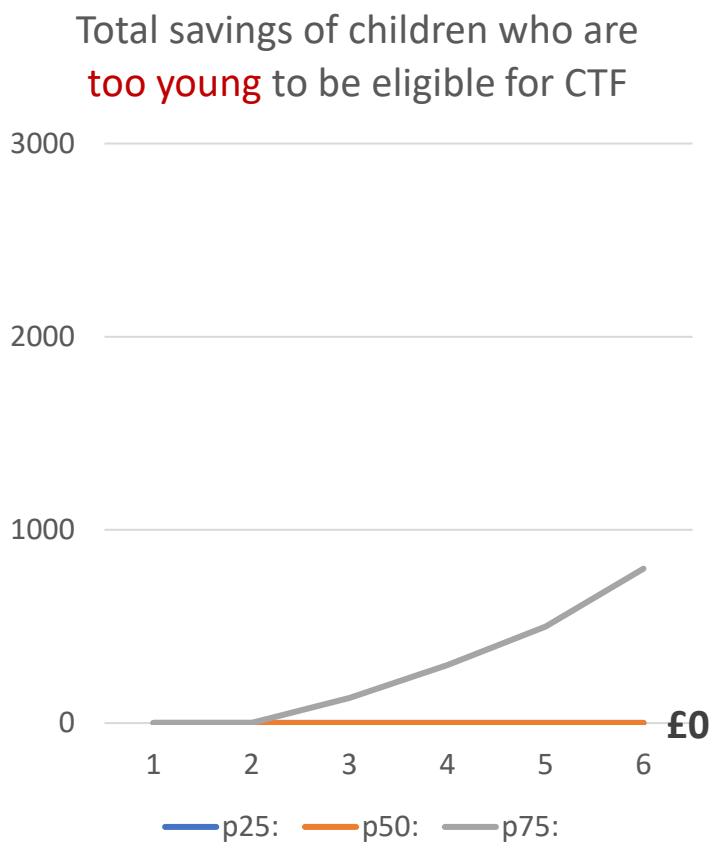
Account behaviour

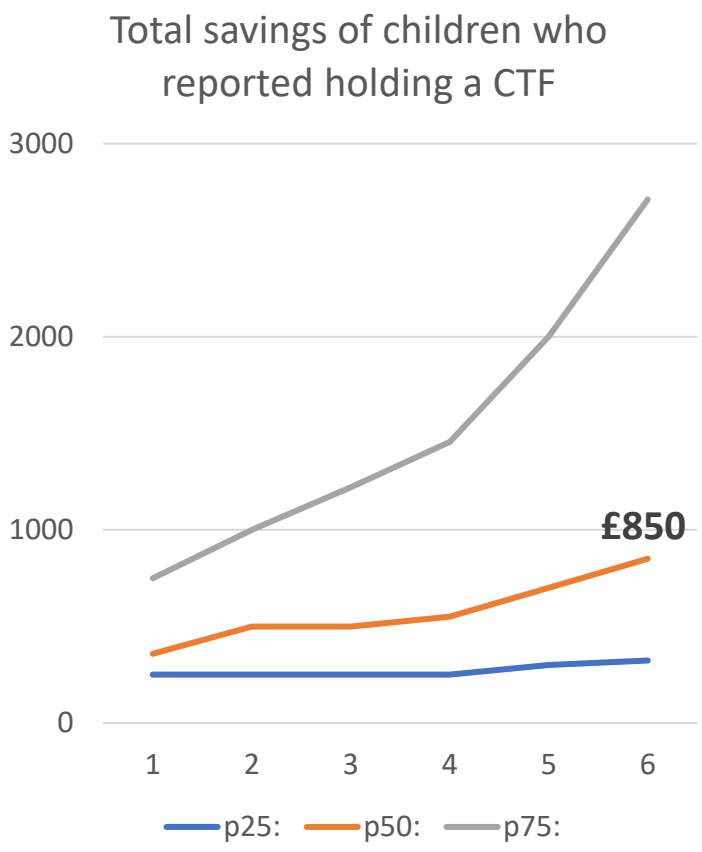
27% made contributions in the previous 2 years.

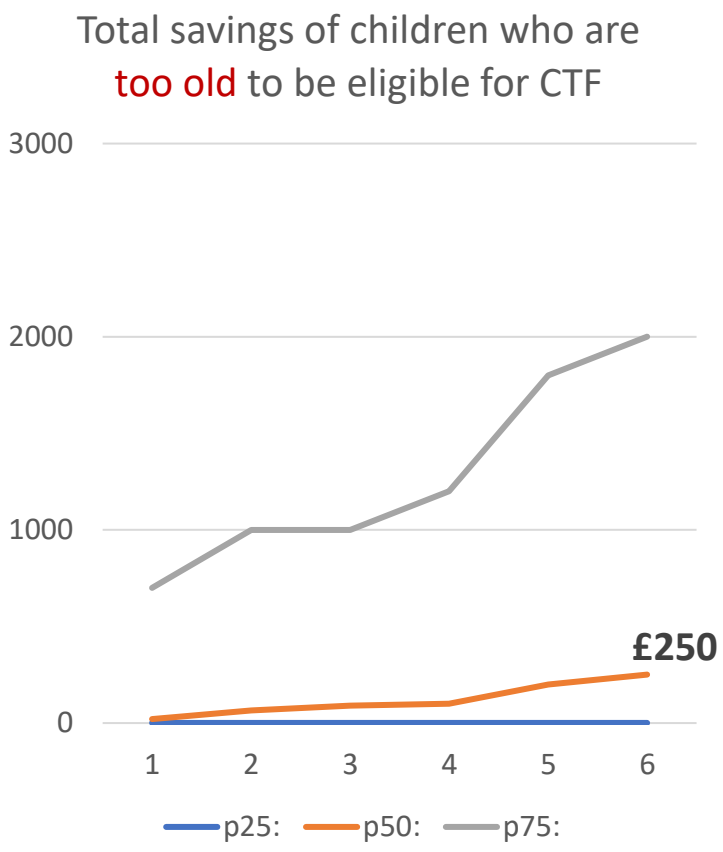
- 35 per cent in the top third of earnings made such contributions, compared with 17 per cent among those on lower incomes.
- No gendered difference.

Only 12% say that CTF affected saving for other family members, including CTF-ineligible children.

Levels of saving for different CTF-eligibility







Estimation results- key variables

Baseline model:

- Multilevel mixed-effects linear model.
- Controlling for child's age and gender. Parents' marital status, education, employment status, # of dependent children and adults, housing tenure, household financial wealth and annual income (deflated), heavy debt burden (yes/no), year and regional dummies.

Additional results:

CTF boosts child savings the most for children

- aged between 0 to 4,
- have single parent,
- or from families with low incomes.

Baseline results

Variables	Effect on savings level
CTF eligible	**+£426**
Compared to married parents	
Cohabiting	-£118
Single	-£236
Divorced/separated/widowed/other	-£115 (insignificant)
Compared to graduates	
Other qualifications	-£360
No qualifications	-£492
Compared to outright owners	
Mortgage	-£666
Renter	-£1,236
Compared to two dependent children	
1	+£106
3	-£184
4+	-£341
Heavy debt burden	-£242

Conclusions

Richer and better educated families more likely to save, and to save more.

Though CTF is more meaningful (as a percentage of overall savings) for more disadvantaged families.

- Not unusual for tax advantaged savings accounts (ISAs, pensions, etc).
- (and could use other vehicles like adult ISAs)

In an environment where many children have zero savings, the CTF at least ensures a minimum level (at age 18)

Amounts look unlikely to be life-changing for vast majority of 18 year-olds (use of CTF accounts should be researched in due course …)

Not entirely clear which aims are most important for the CTF

- Need to better address targeting of policy benefits
- The lack of follow through on the wider contextual support plans for CTF may also be a key factor in its limited success

Thanks for attending!