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Child Trust Funds

Summary

Child Trust Funds (CTFs) are a form of tax-free savings account that were available to children born between 1 September 2002 and 2 January 2011.

The government contributed towards these funds which become available for beneficiaries to withdraw from their 18th birthday.

Over the course of the scheme, 6.3 million accounts were opened, and the government paid £2.0 billion into CTFs. As of April 2023, the market value of Child Trust Funds either not yet matured, or matured but unclaimed, stood at £9.0 billion.

Access issues

Beneficiaries of CTFs started to turn 18 in September 2020, and from then it has become apparent that many are either not aware they have a CTF or are unable to access their CTF.

This is partly because:

- HMRC set up many CTFs on behalf of children without their family's awareness
- There were problems with how CTF providers kept in contact with children or parents/guardians throughout childhood
- Some beneficiaries do not know the identity of their provider as their CTF was sold to a different financial institution

The National Audit Office reported that as of April 2021, 45% of matured CTFs had not been claimed.

Another issue is that some parents and carers have had difficulty accessing CTFs on behalf of young people lacking mental capacity.

Scrutiny and government action

These issues and others have been the focus of investigations by the National Audit Office and the Commons Public Accounts Committee.

The government outlined its steps to address these issues in its response to the committee's report published in September 2023. It said it was confident that its current strategies are sufficient and proportionate to reunite beneficiaries with CTFs.

It also said it would re-evaluate the scheme, following criticism that it has not met its original policy objectives to help young people develop saving habits, understand the benefits of saving, and make better financial decisions.

1 Background

1.1 What are Child Trust Funds?

Child Trust Funds (CTF) are a form of tax-free savings account that were available to children born between 1 September 2002 and 2 January 2011.[1] Parents and others could save into these accounts on behalf of children like any normal savings account, but the government also paid into the account.

1.2 How were they opened?

Shortly after child benefit was awarded, HMRC would issue a voucher to the parents or carers of eligible children so they could open a CTF. These could be stocks and shares accounts or cash accounts.[2]

If they didn't open a CTF within 12 months, HMRC would open a CTF account for the child on their behalf. Around 1.7 million (28%) of the total 6.3 million accounts were set up in this way.[3]

When a child's account was opened it would be credited with a payment from the government. The value of these payments changed over time, as detailed below.

1.3 What payments did the government make into Child Trust Funds?

Between 2005 and 2012 the government paid just over £2 billion into CTFs. This reflects the cash value at the time, rather than a value adjusted for inflation.[4]

Main payment

Children born on or after 1 September 2002 received £250, with an additional £250 paid to children in low-income households or in the care of the local

1 Gov.uk, Child Trust Fund (accessed 17 September 2024)
2 National Audit Office, Investigation into Child Trust Funds, 14 March 2023, p14
3 As above, p7
4 As above, p20

authority.[5] Around a third of children were entitled to the low-income payment over the course of the scheme.[6] Children who qualified for these additional payments were more likely to have had a CTF set up on their behalf by HMRC, rather than by a parent or carer.

In 2010 the Coalition Government amended the regulations to reduce this payment, so that children who became eligible on or after 3 August 2010 received £50, or £100 if they were in a low-income household or in the care of a local authority.[7]

The government then brought forward legislation that abolished new CTFs, and children born on or after 3 January 2011 were not entitled to any government payment.[8]

Instead, the government introduced junior ISAs which provided tax-free savings for children.[9]

Age seven payment

Between 1 September 2009 and 31 July 2010, children who turned seven also received an additional £250 (or £500 if looked after or in households with qualifying benefits).[10]

This was abolished for children turning seven from 1 August 2010.[11]

Additional payments

Some additional payments were made to children receiving disability living allowance between 2009 and 2011 and to children in the care of a local authority between 2008 and 2011.[12]

1.4 Statistics

As of April 2024, HMRC said there were 4.2 million open CTFs, of which:

5 As the scheme was introduced in 2005 but backdated to 2002, children born between 1 September 2002 and 5 April 2005 received slightly more than £250 and £500, to reflect growth in the amounts invested. These amounts are laid out in The Child Trust Fund Regulations 2004, section 7.

6 HMRC, Child Trust Fund Statistical Report 2011 (pdf), p7

7 Explanatory Memorandum to The Child Trust Funds (Amendment No. 3) Regulations 2010 No.1894, para 7.5-7.6

8 Explanatory notes to the Savings Accounts and Health in Pregnancy Grant Act 2010, section 1

9 Gov.uk, Junior Individual Savings Accounts (ISA) (accessed 17 September 2024)

10 National Audit Office, Investigation into Child Trust Funds, 14 March 2023, p19

11 Explanatory Memorandum to The Child Trust Funds (Amendment No. 3) Regulations 2010 No.1894, para 7.3

12 National Audit Office, Investigation into Child Trust Funds, 14 March 2023, p19

- 3.5 million have not yet matured (their beneficiary is not yet an adult)
- 670,000 had matured but not been claimed
- 1.2 million have matured and were either claimed or automatically transferred to an ISA.[13] [14]

These figures sum to less than the 6.3 million accounts originally opened, as some CTFs were actively transferred to Junior ISAs before they were matured. HMRC doesn't publish any more details on the status of these accounts, or the value of funds held within them.

However, this means that of the maximum 2.8 million CTFs that could have matured, around a quarter (670,000) have matured and not been claimed.

In total, as of April 2024, the market value of Child Trust Funds not yet matured stood at £7.6 billion.[15] This includes all money deposited and interest accrued, not just the value of the government's contribution.

Funds worth £3.3 billion had matured and were either claimed by the beneficiary or transferred automatically to a junior ISA. HMRC doesn't publish the split between these two outcomes.

Funds worth £1.4 billion had matured and were continuing as a CTF.

1.5 Policy background, contemporary reaction, and appraisal

When legislation was passed to introduce Child Trust Funds the scheme's stated policy objectives were to:

- help people understand the benefits of saving and investing;
- encourage parents and children to develop the saving habit and engage with financial institutions;
- ensure that in future all children have a financial asset at the start of adult life; and
- build on financial education to help people make better financial choices throughout their lives.[16]

13 HMRC, Child Trust Fund tables: September 2024, table 1a-1d, 19 September 2024
14 HMRC, Commentary for Annual savings statistics: September 2024, 19 September 2024
15 As above
16 Explanatory notes to the Child Trust Funds Act 2004, para 5

The Library Briefing on Child Trust Funds & Junior ISA transferability goes into the contemporary discussion of the policy in detail.

Some of the criticism towards the policy came from research institute, the Institute for Fiscal Studies (IFS) around the additional payments for lower-income households.[17]

The IFS said that household finances may change considerably between a child's birth and them turning 18 and so suggested that a policy which awarded higher payments to children based on their household finances at the age of 18, or throughout their childhood, would be more equitable than a policy which awarded higher payments to children in poorer households at the time of their birth.

The Child Poverty Action Group welcomed the policy but noted that it did little to help families facing poverty at the time.[18]

The then Leader of the Opposition, Sir Iain Duncan Smith said "all the money that the Chancellor is offering to those children will have to go towards paying their tuition fees or their top-up fees", referring to increases in university fees enacted by the Labour government.[19]

When CTFs were scrapped by the Coalition Government, children's charity Barnardo's were conditionally supportive of the cut, provided the money saved was invested in the poorest children. It referenced the fact that, as a universal benefit, CTFs had benefited the richest families as well as the poorest.

Appraisal of the scheme

In 2010 HMRC evaluated the effectiveness of the scheme, finding that CTFs had increased the average amount saved for children living in non=home-owning households by around £600, and that CTFs appeared to have led some parents to open savings accounts for older siblings who did not benefit from a CTF.[20]

However, it found the scheme did not have a statistically significant effect on the rate of savings for children overall.

With respect to helping children understand the benefits of saving and helping them make better financial decisions later in life, the evaluation noted that, at the time it was conducted, CTF beneficiaries were, at most,

17 Institute for Fiscal Studies, The Saving Gateway and the Child Trust Fund: Is Asset-Based Welfare 'Well Fair?', 1 October 2001, p37

18 Child Poverty Action Group, "Much to welcome in Budget but pressure now on to meet child poverty target", 9 April 2003

19 HC Deb 9 April 2003, vol 403 c291

20 National Audit Office, Investigation into Child Trust Funds, 14 March 2023, p23

seven years old. As such it said it was "perhaps too early to observe any effects on this."[21]

In 2023, researchers from Aston and Lincoln Universities found that the scheme led to a small positive effect on average savings, though there was little evidence of the scheme creating savings habits overall.[22]

The researchers noted how many families had forgotten about the accounts, lost track of them, or not engaged with them over the years.

In 2020, when the first CTFs matured, the IFS wrote:

> in the absence of CTFs many young people have no, or very low levels of, financial wealth and therefore the policy will have made a substantial difference to the distribution of financial wealth of those aged 18.[23]

It added that, fortuitously, the CTF was particularly well timed as it will help the spending power of young adults particularly affected by the Covid-19 pandemic.

The government has committed to re-evaluating the scheme (see section 2.3).

21 Kempson, E. and others, The Child Trust Fund: Findings from the wave 2 evaluation, January 2011, p66
22 Aston University, "Impact of Child Trust Funds in the UK 'a missed opportunity'", 20 September 2023
23 Institute for Fiscal Studies, Coming of age: Labour's Child Trust Funds, 31 August 2020

2 Issues with access and government action

Children with Child Trust Funds (CTFs) can manage them from the age of 16 and withdraw funds from the age of 18.[24] This means that the first children took full control of their CTFs in September 2020, and funds will continue to mature until 2029.

As beneficiaries have become eligible to withdraw their funds, various issues doing so have become apparent.

These were investigated in reports published in 2023 by the National Audit Office and the Commons Public Accounts Committee. Key points from these reports have been reproduced below.

2.1 Difficulties accessing accounts

Two interlinked problems with claiming of Child Trust Funds are a lack of awareness from beneficiaries that they have a CTF, and difficulty accessing their CTF for those who are aware.

This may be because a beneficiary does not know with which provider their CTF was established, they have lost documentation about their CTF, or because their CTF was transferred to another provider.

Relatively low claim rates have been attributed to these problems. The National Audit Office (NAO) reported that as of April 2021, 45% of matured Child Trust Funds had not been claimed.[25] As mentioned in section 1.4, the claim rate appears to have increased since.

Some of these account holders may have actively decided to keep their money sitting in their CTF and face no issues with accessing their CTF, but this figure does indicate a widespread issue with access.

The NAO said the risk is greater for children and young adults from low-income families, who were more likely to have their accounts set up by HMRC, rather than by their parent.

It also cited a March 2019 YouGov survey which found that one in six parents of children aged 8 to 16 were not aware of the CTF scheme. Among those who had used a voucher to open a CTF for their child, one in five did not know which CTF provider held their child's CTF. It would be expected that

24 Gov.uk, Child Trust Fund (accessed 17 September 2024)

25 National Audit Office, Investigation into Child Trust Funds, 14 March 2023, p31

awareness would be lower still among parents whose child's CTF was set up by HMRC on their behalf.

The Public Accounts Committee also expressed concern that account providers, which often earn a management fee from CTFs, were not sufficiently incentivised to help reunite beneficiaries with their CTF.[26]

What's being done?

The government said that the primary responsibility for communicating with account holders lies with the CTF account provider. These providers are required to write to children on their 10th, 15th and 17th birthday, though there is anecdotal evidence of account details being lost due to communications being sent to old addresses.

However, the government has taken an increased role in trying to raise awareness of CTFs.

In 2019, HMRC started to inform 15-year-olds they may have a CTF in the letter it sends notifying them of their National Insurance number.

The Public Accounts Committee said HMRC increased its communications since 2018, running a social media communications campaign, and generating press and media coverage of its CTF-finding service.[27]

In addition to HMRC's service, the Share Foundation, which manages CTFs for children in care, also offers a tracing tool, available to all potential beneficiaries over 16.

Finally, some CTFs were converted into Junior ISAs either before or after maturation. My Lost Account, a partnership between banks, building societies and National Savings & Investments, offers a general bank account tracing service which may be of use in these cases.

In response to a parliamentary question in February 2024, the government says HMRC engages with the industry, other departments, organisations including the Money and Pensions Service and youth charities to improve awareness of CTFs.[28]

It added its current plans will reunite most accounts with their owners but that it would monitor how many matured accounts remain open and judge when it is appropriate to intervene in other ways.

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[26] Public Accounts Committee, Child Trust Funds, 26 July 2023, HC 1231 | 2022-23, p5

[27] As above, p10

[28] PQ HL2166 [on Child Trust Fund], 2 February 2024

Public Accounts Committee recommendations

The Public Accounts Committee recommended HMRC should do more to find and contact people who had not claimed their CTF, and ensure providers are incentivised to establish contact with CTF beneficiaries.[29]

In September 2023 the government agreed with both recommendations and said it had implemented them.

With respect to the first recommendation, the government laid out how it was engaging to raise awareness, how it had developed a communications plan to target young people whose CTF had or was about to mature, and that while it considered its plans sufficient, it would explore further ways it can help with account tracing.

On provider incentives, the government said it meets regularly with providers and would use these meetings to encourage them to further act to trace and engage with account holders.

It said the Financial Conduct Authority's consumer duty rules require firms to act to deliver good outcomes for retail customers and provide products and services which offer fair value.

2.2 Difficulties accessing accounts on behalf of young people lacking mental capacity

The Ministry of Justice (MoJ) has estimated that between 63,000 and 126,000 young people may not have the mental capacity to manage their CTF when it matures.[30]

To withdraw the money, family members in England and Wales ordinarily must get legal authority to do so by applying for a deputyship order from the Court of Protection.[31]

The process in Scotland and Northern Ireland is similar, though in Scotland, where the matured CTF is a cash account, rather than a stocks and shares account, obtaining access requires an application to the Office of the Public Guardian rather than the courts.

Some families have reported finding the deputyship application process difficult and onerous and there have been calls to make the process easier.

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29 Government response to the Public Accounts Committee report on Child Trust Funds, 24 September 2023, HC 1231 | 2022-23, p30-32

30 National Audit Office, Investigation into Child Trust Funds, 14 March 2023, p10

31 Government response to the Public Accounts Committee report on Child Trust Funds, 24 September 2023, HC 1231 | 2022-23

The government has made the point that the owners of these matured CTFs are vulnerable adults, and the law needs to protect their interests.[32]

The Public Accounts Committee recommended the government should set out what steps the MoJ and equivalents in the other parts of the UK were doing to help the families of young people who lack mental capacity.

What's being done?

Court fee support

In England and Wales, people applying to the Court of Protection for deputyship will not pay a fee (currently £408) to gain access to a CTF if they apply before their child turns 18 and their child either has savings of less than £4,250 or a monthly income less than £1,420.[33]

When an application is put in after a child turns 18 or they have savings and/or income above these levels, parents/carers can apply for a fee waiver which is at the court's discretion.

The policy was introduced by the government in December 2020 which said its intention was that no one who needs to apply to the Court of Protection, solely to access a CTF will pay fees.[34]

In Scotland, since February 2021 the Scottish Government has waived the £97 fee to apply to the Office of the Public Guardian for access to a mature cash CTF. The UK Government has said that where the matured CTF is a stocks and shares account, "in the vast majority of situations" legal aid would cover applications to access these funds. [35]

In Northern Ireland, someone making an equivalent application to access funds may have their court fees waived on the grounds of hardship.[36]

The NI Department of Justice shared data with the Library saying that as of August 2023 the Office of Care and Protection (OCP) in the High Court had received six applications for control of a young person's assets, where the only asset was a CTF. Of these, four were eligible for remission from court fees. The department did not have statistics on applications to the OCP where the young person had assets beside a CTF.

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32 Public Accounts Committee, Child Trust Funds, 26 July 2023, HC 1231 | 2022-23, p12

33 HM Courts & Tribunals Service, "Notes on completing the application for help with fees (COP44B)", updated 8 February 2024

34 Ministry of Justice, "Child Trust Fund court fees waived for parents", 1 December 2020

35 Government response to the Public Accounts Committee report on Child Trust Funds, 24 September 2023, HC 1231 | 2022-23, p32-34

36 NI Department of Justice, "Accessing a Child Trust Fund for a young person lacking capacity" (accessed 27 September 2024)

Other measures

In November 2021, the MoJ consulted on a "Small Payments Scheme" that would allow families and carers of adults without capacity to access funds up to £2,500 without applying to the Court of Protection. It decided against doing so and instead focused on improving the Court of Protection process.

From January 2023 the government digitised applications to the Court of Protection which it says has reduced processing times from 26 weeks to 8 weeks.

In June 2023 it launched a new guide for parents and carers on their rights and responsibilities under the Mental Capacity Act, including a toolkit on how to access CTFs.[37]

It dismissed the suggestion that the Department for Work and Pensions' appointee system for providing social security benefits might be used to provide CTF monies.[38]

Aside from government action, the NAO has said that at the end of 2020, some CTF providers, at their own risk, started to allow carers of young people without capacity to access funds up to £5,000 without legal authority. The MoJ has said that such an approach circumvents the Mental Capacity Act and does not have consistent or formal safeguards for vulnerable individuals. [39]

2.3 Other Public Accounts Committee recommendations

The Public Accounts Committee made some other recommendations, briefly outlined below along with the then government's response, though this may not reflect the views of the current government.[40]

Recommendation 4a: Delivering the policy's objectives

The committee recommended the government ensure the "most is made" from the scheme noting the policy objectives have not been achieved.

The government disagreed with the need to achieve the policy objectives, saying it believed that its policy framework of supporting people of all ages and incomes to save money is the right one.

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37 Ministry of Justice, Making financial decisions for young people who lack capacity, 9 June 2023
38 PQ HL2166 [on Child Trust Fund: Mental Capacity], 6 June 2023
39 National Audit Office, Investigation into Child Trust Funds, 14 March 2023, p10
40 Government response to the Public Accounts Committee report on Child Trust Funds, 24 September 2023, HC 1231 | 2022-23

It noted how existing ISA products enabled all people to make tax-free savings, and that the financial education aspects of the CTF policy objectives were being delivered via, among other things, the National Curriculum.

Recommendation 4b: Risk-assessing other programmes

The committee recommended the government assess whether similar issues are likely to affect other tax-free savings accounts.

The government agreed, noting it undertakes on-going operational evaluation of the CTF scheme and that improvements to the operating model for ISA products which means they should be more traceable than CTFs.

Recommendation 5a: Improving CTF data

The committee recommended HMRC should improve the timeliness and quality of its data and statistics.

The government agreed, noting it had restarted annual statistical releases and was actively chasing CTF providers which were late submitting returns. It said data for the 2023/24 tax year would be published in the summer of 2024, though this was not published until September 2024.

Recommendation 5b: Using better data to improve young people's awareness of their accounts

The committee recommended HMRC should use this improved understanding of the status of CTFs through better data collection to improve young people's awareness and management of their accounts.

The government agreed, saying it had reviewed its strategy for raising awareness and the ability to trace CTFs and was confident what HMRC was doing was sufficient and proportionate.

It said it would monitor the level of unclaimed accounts to judge whether it was appropriate to act further.

Recommendation 6: Scheme evaluation

The committee recommended HMRC should evaluate the scheme to understand what it has achieved, and how similar schemes may deliver benefit in future.

The government agreed, setting a target date of summer 2025. This marked a change from when the National Audit Office published its investigation in March 2023, in which it said the government had no plans to re-evaluate the

CTF scheme to supplement its learning from an evaluation in 2011 (see section 1.5 above).[41] .

[41] National Audit Office, Investigation into Child Trust Funds, 14 March 2023, p10

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