RESEARCH PAPER 03/90
12 DECEMBER 2003

Child Trust Funds Bill

Bill 1 of 2003-04

The Government is to create a Child Trust Fund or 'baby bond' which will take the form of a financial endowment (of £250, or £500 for children from lower-income families) payable to each child at birth. The invested endowment, with any additional contributions, will build up into a sum which the child can access at 18. All children born from September 2002 will be entitled to an endowment but the accounts in which the endowments are to be invested will not become available until 2005.

This note summarises the development of this proposal which is intended to encourage a savings habit among the young while giving them a financial asset to help in adulthood.

The legislation applies to the whole of the United Kingdom.

Timothy Edmonds

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ISSN 1368-8456

Summary of main points

The Child Trust Fund Bill, which will have its second reading on Monday 15 December, creates a Child Trust Fund or 'baby bond' which will take the form of a financial endowment payable to every child at birth. The invested endowment, with any additional contributions, will build up into a sum which the child can use at the age of eighteen.

The stated policy objectives of the legislation are to:

- Help people understand the benefits of saving and investing;
- Encourage parents and children to develop the savings 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.

The idea was first announced in April 2001 and formally launched in the 2003 Budget. The Chancellor stated that all children born from September 2002 would receive a Government endowment on birth of either £250 or £500. The Government's contribution will be highest for children from lower income households, in line with the policy aim of 'progressive universalism'.

Under the legislation, additional contributions can be made into the fund by friends and family, subject to an annual maximum of £1,000. The fund cannot be used until the child turns eighteen but, at that point, there will be no restrictions on its use. A decision is still awaited on any staged additional contributions by the Government. The contents of the Child Trust Fund will accrue tax-free.

While the idea of a Fund has been welcomed in many quarters, including some welfare organisations and the financial services sector, the scheme raises questions about the effectiveness of tackling current inequalities through long-term asset-based projects rather than by simply increasing current benefits. Concerns have also been expressed about its complexity and the potential for the redistributive elements to be overshadowed by the scope for voluntary additional contributions, which will be more affordable to wealthier families. Lastly, the potential providers of these accounts have yet to be convinced that they can do so profitably at the cost levels that the Government has indicated it would like to see.

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I Introduction

In this Bill, the Government has set out plans to create a Child Trust Fund or 'baby bond' which will take the form of a financial endowment payable to every child at birth. The invested endowment, with any additional contributions, would build up into a sum which the child could access once they reach eighteen years old.

The idea was first announced in April 2001 and since then the Government has worked to develop its details. The scheme was formally launched in the 2003 Budget. The Chancellor reported that all children born from September 2002 would receive a Government endowment on birth of between £250 and £500. The Government's contribution will be highest for children from lower income households, in line with the policy aim of 'progressive universalism'. It hopes the fund will instil an early saving habit in children while building a financial asset to help them when they start their adult lives.

II Background

A. Consultations Begin

In a document which accompanied the 2000 *Pre-Budget Report*, the Government set out its policy on further encouraging savings.[1] It concluded that more work could be done to encourage saving among those on moderate and lower incomes:

> The Government is helping people into work, raising in-work incomes and helping people to save. Savings have a crucial role to play in people's lives – providing them with independence, security and comfort.
>
> These benefits create an incentive for people to save. But the Government has a role to play too. The Government has been tackling some of the factors that may have discouraged people to save in the past, such as low rates of return, inaccessible and complex financial products and a lack of confidence in financial providers and advisers.
>
> The Government has a clear strategy for promoting saving by creating the right environment and the right incentives and by providing information and education to help people make the right saving choices. In the future, the Government will take further steps to help savers, particularly those on low or moderate earnings.[2]

Over the next few months, there was increasing speculation that the Government would introduce a savings scheme specifically for children, which would be available for all

[1] *Helping People to Save The Modernisation of Britain's Tax and Benefit System,* Number Seven, HM Treasury, November 2000

[2] Ibid., p 25

children and to which the Government would contribute financially. The following article describes a seminar held by the Institute for Public Policy Research in January 2001:

> A scheme to pay a large lump sum into a savings account for children at birth or in their teens will be included in Labour's next manifesto, David Blunkett, the Education and Employment Secretary, indicated yesterday. He disclosed that the Government was considering setting up "baby bonds" or individual development accounts where the State pays a sum of, say, £1,000 to every child. Under models that are already established in the United States, the State then matches any subsequent payments into the account made by poorer families by two or three times the amount. The savings can usually be withdrawn only to pay for approved expenditure such as buying a house, training or starting a business. A model drawn up by the Institute for Public Policy Research (IPPR) is being studied by the Department for Education and Employment.
>
> The £1billion-a-year programme would apportion £1,000 to every newborn baby and would match saving contributions on a ratio of 3-1 for lower-income families. A second IPPR option is to give a lump sum to young adults when they reach 18 and match the individual's contributions rather than those of their parents. Speaking at an IPPR seminar on asset building yesterday, Mr Blunkett said that measures were needed to address the gap between the haves and have-nots. The rise in house ownership could exacerbate the disparity, he said. "If someone inherits a two-bedroom terraced house in London from their aunt or uncle, that could be worth between £150,000 and £200,000, the equivalent to a reasonable win on the National Lottery," he said. "Unless we address this we will clearly be limiting the ability of some people to earn their way out of poverty."[3]

In April 2001, at a press conference attended by the Prime Minister, the Chancellor and the Secretaries of State for Education and Social Security, Government proposals for the 'Child Trust Fund', and a related matched savings scheme for those on lower incomes, the 'Savings Gateway', were set out. The Prime Minister said:

> We are committed to extending opportunity to all. All our children - especially the most disadvantaged - should have the chance of a proper start in life. Getting people into the savings habit, and making sure children have a real financial springboard, is a vital part of that. Piece by piece, we are dismantling the barriers - no matter what they are - which hold people back.[4]

A consultation document launched the same day provided more details of the proposed scheme.[5]

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3 "US style 'baby bonds' planned", *Times*, 12 January 2001

4 HM Treasury press release 53/01, *'New proposals to tackle child poverty and open opportunities to all'*, 26 April 2001

5 HM Treasury, *Saving and Assets for All: The Modernisation of Britain's Tax and Benefit System*, Number Eight, April 2001

The consultation document sought views on many elements of the proposed scheme including whether there should be a tax incentive for additional contributions into the scheme and whether children should be able to boost the value of their funds by carrying out voluntary activities.[6] The consultation paper promised further documents on the proposal in the autumn of 2001.

A commitment also appeared in the Labour Party's 2001 general election manifesto:

> Our aim is to put more wealth in the hands of more people. That is why we will keep mortgage rates as low as possible, ensure competition keeps down household bills, support savings and share ownership, and create a new Child Trust Fund for every child at birth to invest for when they reach adulthood.[7]

B. Consultations take shape

The promised new documents appeared with the *Pre-Budget Report* at the end of November 2001. In it, the Treasury said:

> 5.62 As well as supporting saving, the Government also wants to spread the benefit of asset-ownership to all. The Child Trust Fund (CTF) is a proposal for a universal account, with endowments paid to all children at birth and at ages 5, 11 and 16, with children from the poorest families receiving the most help. Parents, family, friends, and children themselves would be able to make their own contributions to the account and benefit from targeted and relevant financial education.
>
> 5.63 *Delivering Saving and Assets*, sets out the full range of responses to the Government's proposals and provides answers to the specific questions raised by the consultation. It also consults on two detailed proposals for delivering the CTF:
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> - an open-market model, in which the CTF would be delivered by financial service providers, like ISAs and stakeholder pensions; and
>
> - a preferred panel model, with a more limited number of providers offering the CTF in partnership with the Government.
>
> 5.64 The Government encourages and looks forward to continued input into the development of these initiatives.[8]

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6 An announcement on whether there will be additional incentives to contribute was expected in summer 2003 but as yet, no announcement has been made. Voluntary activities will not earn additional credits: *Delivering savings and assets,* November 2001, para 3.21.

7 Labour Party General Election Manifesto, 2001 p10

8 Pre-Budget Report 2001, paras 5.62-4

A consultation document, *Delivering Savings and Assets*, published with the *Pre-Budget Report* summarised a number of policy decisions which had been taken on the Fund at that stage:

- Centrally managed set-up process, linked to Child Benefit systems.
- Progressive endowment at birth, with additional Government top-ups at ages five, eleven and sixteen.
- Additional contributions – up to an annual limit –payable by parents, other family and friends, and children, with growth exempt from tax.
- Investment of assets in a wide range of vehicles, including equities.
- No access to assets, including additional contributions, until account maturity.
- Maturity of account at age eighteen.
- No restrictions to be placed on use of assets at maturity.
- Financial education to be fully integrated into Child Trust Fund account through financial services providers, school curriculum and other providers.
- Further consultation on role of providers of financial services in delivery of Child Trust Fund accounts.[9]

C. Consultation on the delivery mechanism

The next round of consultation, which started in November 2001, did not look at the financial limits - either the size of the 'endowment' which the Government would pay into the fund, or the annual limit on additional contributions. Instead, it concentrated on the question of how the fund would be managed for both parents and beneficiary.

Two choices were considered: in one option, there would be a limited number of providers (between five and ten) each with a licence from the Government which would last for a limited period. With a small number of providers, new parents could receive more information on how to set up the accounts including details of or links to specific providers. The alternative option would allow any financial services company to offer the

[9] *Delivering Saving and Assets: The Modernisation of Britain's Tax and Benefit System*, HM Treasury, November 2001
http://www.hm-treasury.gov.uk/mediastore/otherfiles/delivering_savings.pdf

accounts subject to meeting Government-set conditions for entering the market. This option would allow more competition.

By this point, it appeared that the Government was keen to design the scheme in a way which would encourage maximum take-up and minimise complexity. Examples of this thinking were the decision that there would be no restriction on how the assets could be used when the fund matured on the child's eighteenth birthday, and the decision not to allow funds to be withdrawn before the child was eighteen. Both proposals had arguments in their favour but would have required complex legislation to secure the intended aims.

The consultation closed on 28 February 2002 and in April 2002 the Government indicated that future decisions would be made in the context of broader spending allocations and that the next announcement would be as part of preparations for Budget 2003.[10]

1. Open market Option: Pre Budget Report 2002

In the *Pre-Budget Report 2002*, the Government announced that it had decided to opt for the 'open market' option, in which any provider who met the specified standards would be able to offer a Child Trust Fund product.[11] It noted, however, that choosing that option still allowed the possibility of having a default provider for parents who did not wish to make the choice themselves:

> **5.58** Following the consultation process the Government has decided, on balance, in favour of open market provision. Existing open market provision with product regulation has succeeded in delivering high quality and efficiently priced products, as evidenced by ISAs and stakeholder pensions. The open market approach would also maximise the scope for a variety of providers to enter the CTF market - from high-street banks and building societies through to friendly societies - thereby allowing families to build on their existing relationships with national and local providers. While an open market could generate more complex choices for consumers, it would still be compatible with providing a default option for parents who do not wish to choose between many competing providers. The specification of product rules and provision of information and education would further limit the risk that parents are forced into making inappropriate choices.[12]

Further consultations were still to take place on a wide range of details, including how much money would be paid to children and in what stages:

> 5.59 The Government will now consult with key stakeholders on the detailed implementation of the Child Trust Fund, including the structure and value of endowments, consumer protection, fund investment options, and methods of

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[10] Budget Red Book 2002, para 5.65
[11] HM Treasury, *Pre-Budget Report*, Cm 5664, 27 November 2002, p 6
[12] Ibid, para 5.58

> delivering financial information, education and advice. The Government will also consider the relationship between the CTF and the suite of 'stakeholder' investment products recommended by the Sandler review and described below.[13]

In June 2001, the Government announced the appointment of Ron Sandler, former CEO of Lloyd's of London and Chief Operating Officer of Nat West Group, to conduct an independent review into the long-term retail savings industry including life insurance. The review's remit was to "identify the competitive forces and incentives which drive the industries concerned, in particular in relation to their approaches to investment, and, where necessary, to suggest policy responses to ensure that consumers and the investment needs of the economy are well-served".[14]

His conclusions, published in *Medium and long-term savings in the UK*, had recommended the introduction of simple, low-cost investment products with controlled levels of risk for which the emphasis would be on regulating the product itself rather than the sales process.[15] In February 2003, the Treasury consulted on the features of three possible 'Sandler' products: a unitised or mutual fund, a with-profits fund and a pension product.[16] In the consultation, it also asked whether the Child Trust Fund should be subject to similar specifications and whether there should be an explicit link between 'Sandler' products and Child Trust Fund accounts:

> 135. The Government believes there are strong attractions to providing a benchmark approach for the CTF. Through time, all consumers with children, down to the least financially sophisticated, will be 'buying' this product (in terms of choosing a provider and making an investment choice). There would therefore be arguments for limiting charges for both annual management and for switching providers.
>
> 136. There would also be arguments for limiting the scope of investment choices, although it would be important to provide a range as all consumers will be involved and some – particularly those from very low income families – might be particularly risk averse, while others may favour higher risk products. With this in mind, there might be arguments for allowing both "stakeholder" and 'non-stakeholder" CTFs, with the stakeholder version being the default option and having appropriate investment restrictions (thereby benefiting from a lighter touch sales regime).

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13 HM Treasury, *Pre-Budget Report*, 27 November 2002, para 5.59
14 HM Treasury, *Productivity in the UK: Enterprise and the Productivity Challenge*, July 2001 p 30; HM Treasury press notice 67/01, 18 June 2001
15 July 2002
16 HM Treasury, *Proposed product specifications for Sandler "stakeholder" products*, February 2003

> 137. As an alternative it would be possible to support a benchmarked CTF, sold through a Sandler-type sales regime, without any connection being drawn by the Government with the other Sandler suite products.[17]

D. Official launch: Budget 2003

The Child Trust Fund was officially 'launched' in the 2003 Budget. The Chancellor announced that an endowment under the Child Trust Fund would be provided to all children born from September 2002. The date was chosen to align entitlement with the school year, so that all pupils within a school year would be equally entitled.

Making the announcement, the Chancellor said:

> The child trust fund symbolises the difference between those who believe in modernising the welfare state and those who wish it to wither away. At age 18, on the basis of historic rates of return, the child trust fund will accumulate assets that will enable all young people to have more of the choices that were once available only to some. This shows what we mean by putting power, wealth and opportunity in the hands of the many and not the few.[18]

While all children born from September 2002 will receive an endowment, it will be paid at two levels. The initial endowment is to be £250 for most children, but 'children from low-income families who also qualify for the full Child Tax Credit' will receive a higher payment of £500.[19] The Government expects that roughly one third of children will be entitled to the higher sum. The Treasury is currently forecasting that the scheme will cost around £230 million per year: 700,000 children are born each year.

Other people, including the child's family and friends, will be able to make additional payments into a trust fund up to an annual maximum of £1,000.

The actual accounts in which to invest child trust funds will not become available until 2005.

III The Detailed Proposals

The Treasury produced detailed proposals on 28 October 2003 as to how the funds will operate and provided some detail on the key 'difficult' issues.[20] These proposals divide conveniently between those affecting the entitlement and treatment of the child and those

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[17] HM Treasury, *Proposed product specifications for Sandler "stakeholder" products*, February 2003, paras 134-7

[18] HC Deb 9 April 2003 c286

[19] HM Treasury press release, *Strengthening the saving habit of future generations*, Budget press notice PN 03, 9 April 2003

[20] HM Treasury & Inland Revenue, *Detailed Proposals for Child Trust Funds,* October 2003.

that affect the provider of the account. The following section draws heavily on this document. References to the relevant sections of the bill are shown where relevant. Other provisions will be effected by Order.

A. Entitlement & issues linked to the child

Linking entitlement to the child benefit system has these advantages:

- new parents are familiar with child benefit;
- child benefit reaches virtually all children in the UK; and
- there will not need to be a separate claim for a CTF account.

Where a person is entitled to child benefit for a child, and that child was born on or after 1 September 2002 and lives in the UK then the child will be eligible for a CTF account (clause 2 (1)(a)). There will be no need to make a special separate claim for the CTF – the notice of the child benefit award will automatically trigger the issue of the CTF voucher.

It should be noted however, that if a parent or guardian chooses not to claim child benefit the child will not be eligible for a CTF account.

a. Children in care

If a child benefit award is made for a child before they go into care then they will be eligible for a CTF account in the usual way (clause 2 (1)(b)). But where a child goes into care either soon after birth or soon after arriving in the UK, and would otherwise be the subject of a child benefit claim, the CTF legislation will allow the Inland Revenue to open a stakeholder CTF account on their behalf (clause 6).

Adoptive parents are entitled to claim child benefit and will therefore receive the CTF voucher to open an account on behalf of the child.

Where a child is looked after in a fostering, residential or other placement where it is not possible to claim child benefit the arrangements for children in care will apply. Under informal foster arrangements the person with whom the child is living is entitled to claim child benefit and the child will thus be eligible for a CTF account (clause 5).

b. Overseas arrangements

Children of Crown Servants posted overseas, such as members of the armed forces and civil servants, are eligible for child benefit by virtue of the child benefit legislation. This means that these children will be eligible for CTF accounts. However, when families return to the UK or move here from overseas the child will only become eligible for a CTF account once an award of child benefit is made (clause 2 (4)). The rate of endowment paid will be the rate for the year in which child benefit is awarded following the move to the UK.

Where a child leaves the UK at some point after a CTF account has been opened for them, no action will be taken to close the account. No further Government payments will be made into the CTF account if the child is not living in the UK at the relevant time such as the seventh birthday. However, any income or gains on investments made in the account before the child left the UK will continue to be exempt from UK tax in the usual way. If children return to live in the UK any subsequent Government endowments will be paid into the account if a child benefit award is in place for that child.

c. Additional endowments

In addition to the £250 received by all children eligible for a CTF account, a second endowment of £250 will be paid to children if they are part of a household receiving Child Tax Credit (CTC), with a household income below the CTC threshold (currently £13,230), when they are first eligible for a CTF account. The importance therefore of claiming any CTC entitlement is increased by this legislation as it will act as an automatic passport for eligibility to the higher rate endowment (clause 9).

As with the initial endowment families will not be required to claim the additional endowment. The Inland Revenue will pay additional endowments automatically into the accounts of eligible children. The Inland Revenue will write to the child benefit claimant telling them about this payment.

The government expect that around a third of children will receive this additional endowment. Although children who enter the care system soon after birth before child benefit has been awarded and the CTF voucher has been issued will not be able to qualify in the usual way for the additional endowment, the Government has said that it will ensure that children who are in care are not disadvantaged in this respect.

d. Age related endowments

As well as the initial and additional endowments, the Government will make a further payment into children's CTF accounts for their seventh birthday (clause 10). As with the initial endowments the payments will be progressive – a flat rate payment to all children and an additional payment to children in families on lower incomes.

The first payments will be due in 2009; amounts will be determined nearer the time. As well as helping the accounts to grow, these age-related payments are designed to remind children, and their parents, of the CTF account and encourage additional saving by family and friends.

The Inland Revenue will make special arrangements with local authorities to ensure that looked after children do not miss out on age-related payments.

e. Children born between September 2002 and September 2005

Although accounts will not be available until 2005, children born from 1 September 2002 will be eligible for CTF accounts. Since CTC was not available before 6 April 2003 it cannot be used to identify entitlement to the additional endowment (which will be based on households having finalised awards of CTC when the child first falls within the ordinary eligibility rules for CTF) for children born in the period from 1 September 2002 to 5 April 2003 (clause 9 (9)).

The Government intend to deal with these children in two ways. Firstly a child born between 1 September 2002 and 6 April 2003 living in a household with a finalised award to CTC and below the £13,230 income threshold in 2003-2004 will be entitled to the additional endowment. Secondly, the Government will use information held about other benefits in payment at the time the child first falls within the CTF eligibility rules (Working Families Tax Credit, Disabled Person's Tax Credit, Income Support and Job Seekers Allowance) to establish the family's eligibility (clause 17).

There are a number of information issues that are relevant to the bill. Clause 16 gives the Treasury power to make regulations requiring local authorities and those responsible for children in care to provide the information necessary to determine basic entitlement and entitlement to higher awards. Clause 17 of the bill allows information to be shared amongst government departments as it impinges upon the determination of CTF entitlement. Specifically government departments will be required to give to the Inland Revenue relevant data such that the Revenue can accurately calculate additional contributions.

Although children born from 1 September 2002 are eligible for CTF accounts, the accounts themselves will not be available until April 2005. This means that for these children there will be less time for their CTF account to grow in value before maturity. The CTF vouchers issued to children born before the operational date in 2005 will have a higher value than the standard voucher to recognise this fact. The additional amounts will be set out in regulations.

B. Information about the account

a. CTF providers

The CTF market will operate in a similar way to the market for Individual Savings Accounts (ISAs). Any firm with the relevant FSA authorisation will be able to enter the market by application to the Inland Revenue, subject to meeting the requirements of the CTF regulations. CTF providers will be audited by the Inland Revenue on a regular basis to ensure that they have maintained their FSA authorisation, and that they are correctly operating CTF procedures. Clause 15 gives the Treasury wide powers to require information from account providers.

The Government hopes that a wide range of providers – including banks, brokers, building societies, friendly societies, investment managers and life insurers – will offer CTF accounts. The CTF is also likely to be offered via a range of distribution channels, such as providers' local branches, direct marketing, the internet and sales by 'retailers' of different descriptions. For tax purposes, the income and gains made on CTF accounts provided by insurance companies and friendly societies will be tax free (clause 14) and for overall tax computation of the profits of such companies, ISAs and CTF accounts are ring fenced, such that profits on ISAs can be offset against losses on CTF accounts, or vice versa.

It will be possible to transfer a CTF account to another CTF provider at any time and there will be no restriction on the number of transfers that can be made. People can transfer if they feel the returns that they have been receiving over time are poor and believe that other providers may offer better returns.

b. Opening an account

The Government wants to make opening a CTF account as simple as possible, which is why the claim for child benefit will be the trigger for the issue of a CTF voucher. Almost all eligible parents claim child benefit very shortly after having a baby and CTF will be able to build on the quick take-up of this system.

The CTF voucher will be issued to the child benefit claimant automatically by the Inland Revenue around the same time as the notice confirming the award of child benefit.

The parent or guardian will have to give the voucher to the provider they have chosen. They will also need to choose whether to open a stakeholder CTF account or one of the other types of account available. Once the account has been opened, the Inland Revenue will ensure that the initial endowment of £250 is paid in to the account. Further Government payments will be paid into the account automatically and a letter issued to the child benefit claimant for the child to inform them of the payment.

c. Types of Account

Providers can offer a range of CTF accounts to suit different needs. The CTF will be a “wrapper” in a similar way to the ISA i.e. the CTF can be wrapped around a variety of products such as cash, unit trust or life insurance products.

The Government will require all providers to offer a stakeholder CTF account which will follow the principles of Sandler stakeholder investment products – simple, low cost, accessible and risk-controlled. As the initial contribution in a CTF account stays invested for 18 years and there is no access to the money until the child reaches 18, this account should be considered as a long-term investment. The Government has said that it wants all families to benefit from the potential higher returns that might be achieved through equity investments (shares in companies) while appreciating that with any investment in equities there is a risk of a loss in value. However, this risk will be reduced (although not completely eliminated) by the investment being long term and measures to control the degree of risk.

Funds in CTF accounts will, like pensions, be of necessity invested for a long period. In view of this, it is appropriate for the stakeholder CTF account to follow a similar approach to the proposed risk controls for the Sandler Stakeholder Pension, rather than the Sandler medium term product (which caps equity and property exposure at 60%). So CTF accounts will be able to invest heavily in equities at some stages, but will balance the risk with less exposure at other times. This sort of risk control is often called ‘lifestyling’.

The stakeholder CTF account should be designed to spread assets between stocks and asset classes to balance risk and return with regard to the expected maturity of the investment. A lifestyling approach should be taken, where the proportion of less risky investments should increase as the stakeholder CTF account reaches maturity. The form of lifestyling will not be prescribed but providers will be expected to follow a principles-based approach, as envisaged for the Sandler Stakeholder Pension.

Providers will be required to manage the investment appropriately for the needs of the account holder. Unless otherwise notified by the investor, the presumption should be that the account holder will want to close the account at 18 or move the funds to a cash account; the account should therefore gradually be shifted from equities to investments such as gilts or cash as age 18 approaches. If the account holder indicates that he or she wants to continue investing the CTF funds in another equities-based product at age 18 there will be no need to move the funds out of equities.

As a long term investment, the stakeholder CTF account aims at being suitable for most families, enabling them to benefit from the higher returns on equities over the long term while controlling the risks of stock market investments.

Since part of the objective of the CTF is to improve public knowledge of financial services the Government has to recognise the diversity of preferences among the population. Different attitudes towards risk and return, and different religious, social or ethical beliefs, may mean that the stakeholder CTF account is not suitable for everyone. For instance, some consumers prefer to invest in ethical funds or investments compatible with their religious beliefs and the Government would welcome CTF providers including such products in their range (see comments below made during Treasury committee hearing). To cater for this, providers will be able to offer a range of investment choices (including cash, bonds and alternative equity investments) in addition to the stakeholder account. The guidelines for the types of investments eligible for CTF accounts will be based on ISA regulations. Like the ISA, the CTF will technically be a wrapper for a variety of investments.

Where the Inland Revenue has opened an account, for example for children in care, the accounts will always be the stakeholder CTF accounts. There will be a list of providers offering these accounts (it will not be compulsory for providers to take on Revenue-allocated accounts, raising the whole question about whether the providers will shun those accounts where cross selling looks unlikely – again raised during Treasury committee questions) and the Inland Revenue will ask those providers in turn to open an account for the child.

The Inland Revenue will not manage these accounts but will write to the child benefit claimant to inform them that an account has been opened, that it is a stakeholder CTF account, and that someone with parental responsibility can take on the management of the account at any point. The account can be moved to another provider, or other type of account, free of charge (although there may be some costs in effecting the transfer, as in the case where shares are sold).

IV Reaction to the proposed scheme

1. Institute for Fiscal Studies

The Institute of Fiscal Studies, in its Green Budget for 2002, questioned whether the Child Trust Fund - and its sister proposal the Saving Gateway - would prove an effective means of targeting help to those who need it.[21]

One issue raised by the IFS is the means-tested element of the Child Trust Fund. The policy combines the type of tax reliefs found in the Individual Savings Account with an incentive to save in the form of a Government contribution to the fund. The Government’s contributions will be in inverse relation to the wealth of the child’s family. That is, children from families with lesser means will receive a higher contribution than those from better-off families. The tax relief is likely to benefit children from richer families to a greater degree since they are likely to be able to save more into their children’s funds. That regressive element is however set off by the progressive feature of the means-tested Government contributions. The IFS has queried whether the progressive feature is sufficiently valuable to justify the scheme as a whole:

> The problem with attempting to equalise opportunity by having a means-tested element of the Child Trust Fund is that the targeting achieved might not be very accurate. It seems likely that the largest part of the means-tested element of the government’s contribution will be paid at the time when the child is born.[22] Evidence published in a recent IFS Commentary[23] suggests that a means test conducted at this time might not accurately capture how well off a child’s family will be throughout the child’s upbringing. It is difficult to argue that family income at a child’s birth significantly limits opportunities in early adulthood in a way that is better corrected by giving an asset to the child rather than by supplementing family income or by giving the child financial assistance at age 18 that depends on circumstances at that time.
>
> Having the means test at birth determine the size of the largest chunk of the fund would also create certain anomalies. For example, two siblings born a year or two apart could have very differently sized funds simply because the family’s circumstances had changed a little. This could seem unfair to the children.
>
> Means testing of contributions to the Child Trust Fund would more accurately capture family income throughout the child’s upbringing if means-tested contributions were paid regularly during the early part of the child’s life. On the other hand, the extra payments and means testing would add to the administrative

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[21] These comments were made before some details of the proposal had been decided.

[22] Chapter 5 of HM Treasury, *Saving and Assets for All, The Modernisation of Britain’s Tax and Benefit System no. 8*, London, 2001.

[23] C. Emmerson and M. Wakefield, The Saving Gateway and the Child Trust Fund: *Is Asset-Based Welfare ‘Well Fair?’*, Commentary no. 85, Institute for Fiscal Studies, London, 2001 (www.ifs.org.uk/pensions/abw.pdf), pages 34–8 of which discuss these issues in much more detail.

> costs of the policy. The scheme as currently envisaged does not necessarily offer the best solution to this trade-off between administrative cost and accurate targeting. If it is enacted, then it is possible that the means testing will add to administrative costs without successfully targeting the policy towards those that the government wants to help the most.[24]

Overall the IFS concludes by suggesting that more work should have been done on whether the policy as a whole was appropriate before considering how to implement it:

> it is not clear that children from low-income families will be better supported by being provided with an asset that grows through their childhood, rather than by targeted increases in financial support to their families or by targeted education spending. Prior to considering design issues, it would have been useful to have had a stage of the consultation process that invited comments on whether the new policy direction that is asset-based welfare is a good one to take.[25]

2. City reaction

The reaction of the financial services sector to the proposals has been mixed. On the one hand the industry can see that there is a potentially very large market to be tapped into: both as the receipt for the trust funds and also as an opportunity for cross - selling other products linked to children (savings for school or university fees, for example).

On the other hand, however, the financial institutions have not been entirely enthusiastic, not least because the crucial subject of the fees they can charge for running the accounts has not been decided. In the detailed proposals guide the Government talks about the accounts being run at low cost, but, that they should be actively managed in the sense that they should follow 'lifestyle' principles and be managed accordingly. For example, in the run up to the child's 18th birthday an increasing proportion should be invested in cash to 'lock-in' the gains made over 18 years.

Representatives of the savings industry gave evidence to the Treasury sub committee on 19 November 2003.[26] They made the following comments:

> **Q Chairman:**Not surprisingly, the financial services industry seems to be a strong supporter of Child Trust Funds. How big an opportunity is this for the industry?
> ***Ms Segars*** [Head of pensions and savings at the Association of British Insurers.]: We do see this as being potentially a good opportunity and a good way of ensuring that young people can build up a pool of assets and can have the

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24 'The Child Trust Fund' in *IFS Green Budget 2002* para 7.2 , available at http://www1.ifs.org.uk/gbfiles/gb2002.shtml

25 Ibid. para 7.3

26 Unpublished uncorrected evidence, Treasury Sub Committee, November 2003. The transcript is not yet an approved formal record of these proceedings. Neither Members nor witnesses have had the opportunity to correct the record. It will be published in corrected form as HC 1284-i – iii, 2002-03

> opportunities which that affords them. So potentially it does offer many opportunities; however, that will depend on some vital details of the products being got right. Of course, many of these details we do not know at the moment but they include, obviously, the price cap, the sales regime and the advice regime that goes with that. Unless those things are got right, there may not be a sufficient number of providers in market.
>
> **Q.Chairman** Mr Mullen,. do you want to add to that?
> ***Mr Mullen:*** [Chief executive of the British Bankers' Association]: Yes, I will. I will not re-cover that which Joanne has said, but we agree entirely with that which she has said. I would look at the Child Trust Fund, from the banking perspective, as a continuation, a continuum, of what we have been doing with government in finding common cause around the universal bank. The introduction of the basic bank account - if you would state that as being the family working capital and the introduction of lower income families to a bank account in the use of their working capital - in introducing more than six million people into banking has been an enormous success. That will extend and increase with the universal bank. When we are looking at medium to long-term capital requirements, then the Child Trust Fund is a continuum of that initiative. The concept is excellent but, as Joanne stressed, the devil will be in the detail. It is the implementation that is the issue, I think.

When asked whether the argument that the scheme will encourage savings one witness said:

> ***Mr White*** [Chief Executive The Children's Mutual]: Perhaps I can answer that, Chairman. There is a permanent balancing act, just like being a parent, between trying to provide for today and trying to provide for tomorrow. That applies to all families and all sorts of different groups will lobby for how money that is available should be diverted. In our experience, the difference between the market that is for savings for children and the adult savings market, is that even people who do not have a propensity to save for themselves will try to find a way to save for their children. Perhaps I can give you an example. Of people who come to us to save for their children in our Baby Bonds®, who do not come through the advised route, some 20% of them have household income below £15,000 a year; a third of them have household income below £20,000 a year. That means we are managing to reach those people, because very often it is people at the lowest end of the income scale who can see that having an asset will make the biggest difference to their children.

When asked about the costs of entering the market and whether it was likely to be profitable the responses were mixed:

> **Q Chairman:** Mr Fletcher, how keen will the Norwich Union be to provide accounts for the lower income families?
> ***Mr Fletcher*** [Director of Distribution Strategy Norwich Union]: Provided that the economics make it viable for us to manufacture the products and distribute them, we would be very keen to do it….

> I think the success or otherwise of this initiative will very much hinge on whether there is a joined-up approach that picks off the thorny problem of where should the price cap be set and the overall promotion of the need to save. I think that is much wider than just the issues pertaining to the Child Trust Fund.
>
> **Q Chairman:** Is there not a risk that the size of the endowment, whether it is £250 or £500 for lower income families, will be an effective way of screening accounts and you will avoid those that are likely to be less profitable?
> ***Mr Fletcher:*** I think it would be correct to say that a lot of accounts that just contain £250 to us would be quite a challenge to write that business and provide the return that we require ultimately for our shareholders. If we saw that the market was going to develop in that way, I think we would choose not to enter the Child Trust Fund arena.
> ***Mr White:*** Chairman, may I add to that. I would come back to my central point, which is that people even at the lowest end of the income scale do want to save for their children. One of the advantages of the Child Trust Fund and the way it is proposed that it is structured, is that it will be easier than currently for other members of the family to be involved. There may well be a grandparent or a godparent or another member of the family who can help out a family when they are not able to save for themselves. Also I think it is important to realise that things can change over 18 years. People's circumstances can change quite significantly over 18 years.

Talking specifically about costs and how they could be reduced one witness said:

> ***Mr Mullen:*** The economies of scale will be very important in the implementation of this. One of the biggest costs that the industry will face or that the industry needs to deal with - and this is a debate and discussion that we must have with government - is the cost of advice. This is probably the largest cost. At the moment, with the advice regime that we have with the FSA you are talking about a minimum of 20 minutes up to one hour of advice time in selling a product. The Government will be putting out an information pack on the Child Trust Funds and the contents of that information pack and the way in which it sets out the amount of advice that can be drawn from the pack will be extremely important. There, if you can reduce the amount of face-to-face advice and increase the amount of knowledge and information that is contained in the pack, that will be important.

Specifically the lenders thought that an administrative price cap of 1% (the rumoured preferred rate of the government) of the amounts invested would be too low to encourage their entry into the market:

> **Q Mr McFall:** ….You make it clear in your submission that "... the charge cap applicable to these products has yet to be made, and, as such, it is not possible for Norwich Union to decide whether to participate in this market."
> ***Mr Fletcher:*** Yes, it is the cap and the regulatory environment within which the product will sit; that is, the sales or conduct of business environment within which the product will sit. Because that will have a direct impact on the operation and the costs of distributing the product. I think, equally, there are points on which we still seek clarity around the actual administration of the business.

> Things like the use of vouchers could, under certain scenarios, be quite an expensive way to administer this business. That, again, will lead back to the need for an adequate price cap to enable us to generate the required rate of return to attract the capital.
>
> **Q Mr McFall:** So at 1% you would not enter the market.
> ***Mr Fletcher:*** I think it is very unlikely that at 1% we would be able to.
>
> **Q Mr McFall:** At 2% would you enter the market?
> ***Mr Fletcher:*** Without having the wider detail that I have already explained, I think it is difficult to be definitive about the level of price cap we can do it at.
>
> **Q Mr McFall:** Could I ask others on the price cap of 1%.
> ***Mr White:*** We have set our current charges out in our submission. We feel that if we are able to charge around that level, which is broadly around the 2% mark, we would be able to carry on what we are doing now, and that is serving people right across the socio-economic scale.
>
> **Q Mr McFall:** But 1% would be detrimental.
> ***Mr White:*** I think it will. If the charge cap on the Child Trust Funds were reduced as low as 1%, so the current market would need to go as low as 1%, I am not sure, in our view, there would be any providers in the market at all. I think the danger would be, at best, that you would force people to cherry-pick at the rich end of the market in order that they feel they could cover their costs, and, therefore, the lower income groups would be left out. That is the danger of low price caps.

The institutions appeared to not to have been prepared for certain questions and issues that have been raised with respect to products linked to children, and which, if they became important, might harm the sales of the product, in particular the question of ethical investment.

> **Q Mr McFall:** I will put one question to all of you: Given we are dealing with children here, is it not important that the issue of ethical investment is paramount in your decisions? It is no good just to sit back in this particular one. I am looking for a clear answer from you. Do ethics matter in this? Are you going to have an ethical policy on this? Norwich Union were very fuzzy there. Would you like to expand on that?
> ***Mr Fletcher:*** Yes, certainly. I think ethics are right at the core of all of the business interests that are represented here today. I think it is an interesting question, I suppose illustrated by the point David [David White, Children's Mutual] made about what is socially responsible: What is an ethical investment? People have different views. As I say, I personally do not have a firm view because I have not given it much thought in this context.
>
> **Q Mr McFall:** So you would be quite happy to invest in tobacco companies, then, Norwich Union. It would not really matter to you what your investments were? We have seen the debate where the Co-Op introduced ethical investments. The Co-Op recently announced their Fair Trade products: their coffee, their

beverages, all contain the Fair Trade products. That is a start of ethical behaviour. Is Norwich Union going to take this on board?

Mr Fletcher: I feel like you are questioning the ethics of Norwich Union, which, given the ----

Q Mr McFall: No, this is to the future, because you are dealing with children.
Mr Fletcher: Yes. As I say, I think it is a matter of personal choice. I do not personally have a view on it. I am not aware -----

Q Mr McFall: So I can take from that that Norwich Union does not have any ethics, then?
Mr Fletcher: No, Norwich Union does have ethics.

Q Mr McFall: If you could explain it to me, it would help. David?
Mr White: We are investigating socially responsible and ethical funds. We are investigating funds for specific religious denominations. We want to give people choice. Yes, I think ethics will become more and more important, so it will be more and more important that we give people the choice.

Q Mr McFall: Do you think some in the ABI and the BBA would consider that as well when we are dealing with children?
Mr Mullen: It is quite clear that it is at the forefront of some of our members' thinking.

Further responses by the witnesses highlighted other issues, such as divorce, which could raise the cost of administering the funds, as there could be multiple contributors to the schemes if the named adult remarried once or even twice. Administrative costs were touched upon later by another witness:

Ms Segars: It is extremely time-consuming and costly. If we are looking at a 1% charge cap, and all the providers can raise on an endowment of £250 is £2.50, by the time you have written to the parents, phoned them, written to them again, written to them again, written to them again, phoned them and then you have to cancel the account, you have spent your £2.50 and more. That really is our concern and it seems to us that there really ought to be much simpler methods of being able to take the vouchers out of circulation. There seems to be no reason why the vouchers have to be returned and retained by the providers.

Q Mr Ruffley: What do you think the Government is on? Why do they make things so difficult? It seems a shambles.
Ms Segars: The Government are clearly concerned about the vouchers being used and reused. Fraud, I guess you would call it. It seems to us that in these high-tech days there ought to be a way of taking the vouchers out of circulation.

Q Mr Ruffley: Providers are going to have extra costs, which is going to be counterproductive in getting this thing off the ground. It is going to be more difficult for parents, though, is it not?

> ***Ms Segars:*** That is absolutely right. We would prefer to spend the money that we have within the charge cap that is allowed to market the schemes, to encourage more contributions in and so on and so forth, and spend it on productive things that meet the Government's objectives.

Lastly, the issue of risk and the type of product on offer was raised by one member of the committee:

> **Q Norman Lamb:** Could I first go back to what you, Ian Mullen, were saying earlier about the important issue of advice to the people taking out these products. The FSA is reported this morning as having doubts over light-touch investments in the Sandler basket of products generally. We were hearing from Treasury and revenue officials last week that they very much hoped that people across the income range would be taking out equity-based products rather than cash-based products. Do you have a concern that this will work? I realise companies are concerned that they will be left holding the baby in terms of accusations of mis-selling - I am sorry, "holding the baby" is rather an inappropriate comment! Do you have concerns that this all stacks up and that it will actually work? Do you share the concerns of the FSA on this?
> ***Mr Mullen:*** It is a very difficult subject, in so far as you have heard Callum McCartney say, I think, that there is no such thing as a riskless investment. The expertise that the professionals can bring to the considerations of investments will affect the profitability and, therefore, one would imagine, the diminution of risk. But the other side of it is that you have the appetite of the customer, as to what their risk appetite is. It is contemplated within Sandler, as you are well aware, that you can design a product in such a way that the risk would be contained to allow less advice to be required and therefore the customer would be adequately protected, given the light-touch advice.
>
> I would say, as a financier, that that really depends on major cardinal decisions. Are you going to put the capital at risk, the principal. If you put that capital or principal at risk in any way, then clearly the risk is heightened. If you have an equity investment, then, with the few exceptions that test the rule, you have a heightened risk. If it is a bond or a fixed income instrument and it is kept to maturity, then the investment risk is the risk of the company issuing the bond and that is governed by or has a rating agency that will classify, a respected classification of an investment grade bond. Your risk is on the principal and very, very small on the interest, so therefore there you have more of a "less risky product". But it is the case that over tens, if not hundreds of years, a riskless return has hovered around the three to 3½%, and we can see that that figure obtains today. If people are looking for a return, discounting inflation, then if they want a return of more than 3½%, of course it is the risk that comes with it.

Interestingly, the illustrative figures used in the Treasury's detailed document assume a real rate of return of 7%, implying a considerably higher degree of risk than that thought to be 'riskless' by the industry.

3. Political & NGO reaction

Replying to the Budget in April 2003, the then leader of the Conservative Party, Iain Duncan-Smith, said:

> Today, after two years and three consultations, reannouncements and re-reannouncements, the Chancellor decided to announce his child trust fund again. We have more overcomplicated proposals that will do little to help future long-term saving, but they will extend means-testing to even more people. There is only one thing to say about this little scheme of the Chancellor's … 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.[27]

The Liberal Democrat spokesman, David Laws described the CTF as:

> The Government proposals on Baby Bonds are a gimmick which will have little real benefit when looked at alongside plans to massively increase the level of student fees. "Children will be given money by the taxpayer which the wiser will use to reduce university costs but some may be tempted to blow it at 18 on a good holiday or a good party.
>
> "The Baby Bonds policy should be scrapped and the annual £250m savings ploughed into early year's education, so that all children, regardless of their economic position, are well prepared to face the future.[28]

Martin Barnes of the Child Poverty Action Group welcomed the proposal but pointed to what he regarded as more urgent priorities for families:

> We welcome the child trust fund and the higher payment for poorer families, but recognise that many families will feel that this is jam tomorrow rather than help today. This is however an important step in tackling the gross inequality of wealth in this country.
>
> We are disappointed that the discredited social fund remains unreformed. The social fund, intended to help the poorest and most vulnerable, does not work and continues to leave many families without adequate support.[29]

In their response to the November 2003 *Pre Budget Report* the CPAG reiterated the reservations they had about the policy:

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[27] HC Deb 9 April 2003 c291

[28] To be found at Liberal Democratic website:
http://www.libdems.org.uk/index.cfm/page.homepage/section.home/article.5660

[29] CPAG press release, *Much to welcome in Budget but pressure now on to meet child poverty target*, 9 April 2003

> 'We support the principle of providing a financial asset for all young people but there are more pressing and urgent priorities for improving support for children living in poverty today. Reform of the cash-limited social fund, intended to help vulnerable families meet essential lump sum costs, is long overdue.
>
> 'Income poverty means that many families are struggling with debt and going without essential needs. Saving for the future is not possible when it is difficult for families to adequately feed and clothe their children today.'[30]

Will Paxton of the IPPR, which is an advocate of asset-based welfare schemes, welcomed the announcement:

> The financial buffer that middle class families can offer their children allows them to protect their privileged position in society. Improving people’s income alone will not lead the poor to have the opportunity to fulfil their full potential. To do this the government also needs to build up their wealth and this is exactly what the Child Trust Fund will do.
>
> The Child Trust Fund will increase opportunities, help young people manage the transition into independent adulthood and improve financial literacy.[31]

A feature of comment on the scheme is that, though well intentioned, the main beneficiaries will be those people who are most likely to save now already for their children and who will simply be able to use it as a convenient tax break.

An article in the *Mail on Sunday* is typical of recent comment:

> THE Government's flagship 'baby bond' scheme, which aims to help the less well-off save for their children, is set to become a tax break for the wealthy worth nearly £40,000 for each child, MPs will claim this week.
>
> Financial Secretary Ruth Kelly has been summoned to appear before the Treasury Select Committee on Wednesday to face a barrage of criticism over the proposed Child Trust Fund. She was called after MPs heard of alarming evidence pointing to 'very serious flaws in what was obviously a well-intentioned idea'.
> …
>
> The committee heard that a low income family, investing the £500 in a safe account, but making no extra contributions, would see their bond increase to only £911 in 18 years. A middleclass family investing the £250 in a more sophisticated way and contributing £40 a month would see it increase to £14,000.

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30 Printed at : http://www.cpag.org.uk

31 IPPR press release, *Child Trust Fund given the green light*, 9 April 2003

> A wealthy family paying the maximum £100 a month in investments such as the stock market and bonds would build up a fund worth just under £40,000.
>
> This would prove hugely embarrassing to the Treasury, which has already faced similar criticism over its stakeholder pension scheme, designed to encourage pension provision for poorer people. It has been enthusiastically embraced as a tax break for, among others, company directors' wives and children.[32]

Under the current tax rules parents can contribute money, tax free, for their child's benefit by the use of a trust or settlement. Since the people who do this are those who are the most likely to want to do so in future and who have the resources to do so, the CTF will simply be another, potentially more valuable means of providing for their children.

A basic summary of the way trust income is liable to tax is given in *Tolley's Tax Essentials: Direct Taxes 2003-04*. This comments on the fact that income from a bare trust (see below), set up by a parent for their child, and may be taxed as the child's income rather than the parent's, if it does not exceed an annual £100 limit:

> **Trust or settlement?**
> A 'settlement' is sometimes referred to as a trust, implying that they share the same meaning. However, a settlement can include any disposition, trust, covenant, agreement, arrangement or transfer of assets. The settlements legislation can apply if an individual enters into an arrangement to divert income to someone else, resulting in a tax saving. If those arrangements are bounteous, or uncommercial, or not at arm's length, or (for gifts between spouses) wholly or substantially a right to income, the settlements rules can apply to cancel the income tax advantage.
>
> **Trust income**
> A trust broadly arises when assets are transferred to trustees, who hold them on behalf of one or more beneficiaries. A trust is usually created by a written document, possibly during an individual's lifetime or perhaps by a will upon death.
>
> Trust income may be treated as the settlor's for income tax purposes where:
> - the settlor (or spouse) retains an interest in the settled property (for example, as trust beneficiaries); or
> - an unmarried child of the settlor who is under the age of 18 receives settlement income (to the extent that the income exceeds £100 for a particular child); or
> - capital sums (eg loans) are paid by the trustees to the settlor (or spouse). Such amounts may be treated as the settlor's income for the year, within certain limits.
>
> …

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32 Baby bond perk for middle class, *Mail on Sunday*, 30 November 2003

Bare trusts

A bare trustee holds the trust property as its legal owner, but the beneficiary is absolutely entitled to the trust property, including any income or gains arising. The beneficiary is therefore taxable on the trust income, notwithstanding that the trustees may retain that income (for example, in the case of a bare trust for a minor, until the age of 18). However, where a parent creates a bare trust for an unmarried minor child, the trust income is treated as the parent's, subject to the £100 limit mentioned above. This applies to settlements made, or property added to existing settlements, after 8 March 1999 (otherwise, if the income is accumulated within the settlement while the child is unmarried and under 18, the normal bare trust treatment applies).

In addition, where settlement income has previously been accumulated (and treated as income of the settlor's child), if it is subsequently paid whilst the child is still unmarried and under 18, the income is treated as the settlor's for tax purposes, subject to the normal £100 threshold. [33]

A further, serious, concern that has been expressed is that recipients who were already in receipt of means tested state benefits before they were 18 might lose some of those benefits when they became 18 and were suddenly in receipt of a large capital sum.

Obviously, circumstances are unique to the individual concerned, and the rules on entitlement are likely to change over the period but, if one assumes that the value of the fund is £1,000 then, on current reckoning, the impact is quite low.

A lump sum of £1,000 would not in itself affect entitlement to any of the principal means-tested benefits (Income Support, income-based Jobseeker's Allowance, Housing Benefit and Council Tax Benefit), since only capital above £3,000 results in a reduction in benefit. It could however affect entitlement to Social Fund grants and loans.

Community Care Grants and Budgeting Loans are reduced by any capital a person has above £500. The rules governing eligibility for Crisis Loans are less specific, but a person must be without sufficient resources to meet their immediate short-term needs.

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[33] under ss 660A-660G, 677 of the *Income and Corporation Taxes Act (ICTA) 1988.* source: *Tolley's Tax Essentials: Direct Taxes 2003-04* p 100

V Useful statistics

Illustrative projections for fund growth
Nominal rate of return 7%; Inflation 2.5%

Initial endowment	£250	£500
Value of fund at year 18 in real terms		
No additional savings	£456	£911
Additional savings of:		
£5 per month	£2,198	£2,654
£10 per month	£3,941	£4,397
£15 per month	£5,684	£6,140
£20 per month	£7,427	£7,883
£40 per month	£14,399	£14,854

Source: HM Treasury, *Detailed Proposals for the Child Trust Fund, 28 October 2003*

Value of initial sum invested for 18 years
Illustrations of different real interest rates

£ @ todays prices

Initial fund	1%	2%	3%	4%	5%	6%	7%	8%
250	299	357	426	506	602	714	845	999
500	598	714	851	1,013	1,203	1,427	1,690	1,998
750	897	1,071	1,277	1,519	1,805	2,141	2,535	2,997
1,000	1,196	1,428	1,702	2,026	2,407	2,854	3,380	3,996
1,250	1,495	1,785	2,128	2,532	3,008	3,568	4,225	4,995
1,500	1,794	2,142	2,554	3,039	3,610	4,282	5,070	5,994

Source: Library calculations

VI The Bill

The Child Trust Funds Bill (Bill 1) was introduced on 27 November 2003. The main sections of the bill are; the main qualifying features (clauses 1- 7), contributions to the fund (clauses 8 – 12), their tax treatment/exemption (clauses 13 and 14). The remainder of the bill deals with information from the account providers and about the child, penalties for false claims and the establishment of an appeals process.

Full explanatory notes are published with the bill and where possible clauses are highlighted with reference to the *Detailed Proposals* document in section III of this Paper. Most of the details of the scheme will be dealt with in future regulations and financial rulebook measures. These are not yet available but the Government's intentions are again made clear in Section III.

The financial effects of the legislation are set at £235 million per annum, however, it excludes the cost of the additional government endowments, that are payable when the child is seven, but the size of which has yet to be determined. Also excluded is the one off IT costs of setting up the administrative system to run the fund in conjunction with the child benefit system.