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Child Trust Fund

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Repository Citation
Griffin, Christopher L. Jr., "Child Trust Fund" (2010). *Faculty Publications*. 1554.
https://scholarship.law.wm.edu/facpubs/1554

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Helmut K. Anheier, Stefan Toepler, Regina List (Eds).

International Encyclopedia of Civil Society

Volume 1

A–C

With 40 Figures and 44 Tables

Springer

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Library of Congress Control Number: 2009937022

ISBN: 978-0-387-93994-0

This publication is available also as:
Electronic publication under ISBN: 978-0-387-93996-4 and
Print and electronic bundle under ISBN: 978-0-387-93997-1

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Printed on acid free paper SPIN: 12609567 2109SPi– 5 4 3 2

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Introduction

The Child Trust Fund (CTF) is an entitlement as well as a savings and investment account made available to all qualified children born in the United Kingdom on or after 2002. In practice, CTFs may take the form of: (1) traditional savings accounts; (2) stock market investments; or (3) "stakeholder accounts" with diversified portfolios regulated by the government to diminish risks from market fluctuations. Accounts may be opened either by the child's parent(s) or the government if a parent fails to complete the stated requirements.

Brief History

Gavin Kelly and Rachel Lissauer of the Institute for Public Policy Research (IPPR) published "Ownership for All" in 2000, the document which first recommended establishing CTFs. Kelly and Lissauer suggested creating a universal "Opportunity Fund" that would provide an endowment of £1,000 to each UK citizen, payable at birth or at age eighteen. After the report's release, the IPPR coordinated a seminar in September 2000 at the Prime Minister's office bringing together government officials and experts on asset-based welfare schemes. This meeting launched the political campaign to introduce CTFs.

After soliciting consultation through two April 2001 reports, "Saving and Assets for All" and "Delivering Saving and Assets," Parliament enacted legislation in May 2004 establishing the CTF as a birthright for all children born on or after September 1, 2002 and residing in the

United Kingdom. Even though the first accounts were activated in April 2005, children born between 2002 and 2005 still had access to CTFs. Then Chancellor of the Exchequer Gordon Brown amended the scheme in March 2006 so that all children who qualify for the CTF would receive an additional payment of £250 at age seven, whereas that children from households with incomes less than a fixed threshold (£15,575 in 2008) would receive £500 at the same time.

Mission

As stated in the Explanatory Notes accompanying the Child Trust Funds Act, the policy objectives of the CTF are "[to] help people understand the benefits of saving and investing; [to] encourage parents and children to develop the saving habit and engage with financial institutions; [to] ensure that in [the] future all children have a financial asset at the start of adult life; [to] and build on financial education to help people make better financial choices throughout their lives."

Activities

Between September 2002 and April 2007, almost 3.2 million CTF accounts were opened. In the 2006–2007 fiscal year, the average contribution to parent-opened accounts was about £260; the average level rose to £280 for the 2007–2008 fiscal year. About one third of these parent-opened accounts received an additional nongovernment contribution. Regional government offices have made almost identical average donations to CTFs, although the average share of accounts with such investments was about 25%.

The government remains involved in refining CTF design and coverage. For example, a consultation period initiated in 2007 sought to determine whether dropping the requirement that parents physically transfer payment vouchers to account providers (e.g., commercial banks, building societies, and investment managers) would increase efficiency and coverage. When parents fail to remit the initial voucher after twelve months, the government still establishes a Revenue Allocated Account (RAA) on the child's behalf. Empirical evidence suggests that RAAs receive lower average parental contributions; thus, waiving the remittal requirement might increase parental participation and overall saving. Suggestions that the government make additional payments upon enrollment in secondary school have been raised but not enacted.

Structure and Governance

Unlike many other forms of social security in the industrialized world, the CTF involves minimal government oversight and participation. The UK government sends the initial £250 voucher to a child's "benefit claimant," most often a parent. The claimant then activates a CTF account on the child's behalf through a chosen financial services provider. Anyone may make payments to the child's account as long as total contributions do not exceed £1,200 per year. The CTF account holder may not manage his or her funds until age 16, and only upon turning 18 may the child withdraw assets (although exceptions exist for terminally ill or deceased persons). CTF balances, for which all income and gains are tax-exempt, may be used at the discretion of the account holder upon withdrawal.

Funding

As noted in the history and structure of the CTF, initial funding for the fund comes from the government, and subsequent investments may come from the government or the child's family and friends. The Exchequer projects that government costs associated with maintaining staff, information technology infrastructure, and legal expenses will reach £360 million in 2010 and £510 million by 2012.

Major Accomplishments

In addition to the rising parental contribution statistics cited above, the CTF's marketing campaign has achieved significant strides in educating the British public. As of April 2008, 97% of eligible parents surveyed were aware of the CTF, and 88% knew that interest earned on the accounts would be tax-free. The government also has strengthened efforts to ensure that "looked after children" (those in the custody of local authorities and foster families) have accounts opened and managed while separated from their parents.

Cross-References

▸ Stakeholder Society

References/Further Readings

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