

Whatever happened to the Child Trust Fund? The abandonment of universal savings for UK children

S. McKay¹  | L. Tian² | A. Lymer²

¹School of Social and Political Sciences,
University of Lincoln, Lincoln, UK

²Centre for Personal Financial Wellbeing,
Aston University, Birmingham, UK

Correspondence

S. McKay, School of Social and Political
Sciences, University of Lincoln, Lincoln, UK.
Email: smckay@lincoln.ac.uk

Abstract

Child development accounts (CDAs) provide subsidised savings accounts for children to help meet life course needs. While now largely forgotten, the Child Trust Fund was an innovative savings scheme for UK children that sought to generate a capital sum when they turned 18. The first children to receive these funds reached this point in late 2020 so it is timely to review the impact of this national scheme, which by 2022 had £10 bn saved in it. We consider how far the Child Trust Fund led to higher levels of savings for those children who were eligible for it and whether there is any evidence it created a savings habit in young people and their parents. We use six waves of longitudinal ONS Wealth and Assets Survey data. While we find a small effect on savings, with children from better-off families benefiting the most, there is little evidence of a meaningful effect on savings habits. Nonetheless, the policy's impact on generating even small amounts of savings could be important, especially as most children in the UK have no savings. The study offers policy recommendations to support children's savings in the UK, based on the significant example of asset-based welfare policy that the CTF provides.

KEYWORDS

asset-based welfare, child development accounts, child trust fund, children's savings, savings, savings habit

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1 | INTRODUCTION

1.1 | Background: Child development accounts

In this paper, we examine the effect of the UK's Child Trust Fund (CTF) on the level of children's saving since 2003 and the extent to which the CTF met its original policy ambitions.

Sherraden (1991) stressed the importance of assets in addition to incomes in the lives and development of lower income families. The possible significance of a policy directed at children has long been recognised, and was one of nine recommendations made by Boshara (2003). Since that point, child development accounts (CDAs) have developed as subsidised savings accounts to help people accumulate assets for life course needs. Intuitively there are clear advantages of starting young with saving, potentially affecting whole families (Loke & Sherraden, 2009).

In 2010, *Children and Youth Services Review* set out the state of knowledge (Sherraden et al., 2010) whilst within the decade Sherraden et al. (2018) were able to point to national schemes having been implemented in Singapore, Korea, Israel and Canada, and 4 state-wide schemes in the US, in addition to the UK's CTF. Moreover, there are policies in smaller localities, including schemes subject to random assignment and other kinds of rigorous evaluation designs (such as SEED for Oklahoma Kids Nam et al., 2013).

Research to date has generally shown positive effects from the creation of CDAs. Using longitudinal data, Elliott and Beverly (2011) suggest that they have a positive effect on increasing savings, and emphasise savings for college, with similar conclusions about college access expectations found by Sherraden et al. (2018) from experimental data. This positive effect on orientations to education has also been found in studies of developing countries, including Uganda (Curley et al., 2010). More recent research has emphasised how financial knowledge can enhance the benefits of new financial products (Huang et al., 2015).

Turning to the UK, the CTF was innovative, but is now largely neglected by researchers and policy commentators. CTF was introduced under New Labour in 2005 with the first money from accounts being withdrawn from September 2020. As such, it is one of the earliest policies internationally to reach fruition. It emphasised children gaining an asset at age 18, without restriction on its use. Initial plans for government top-ups, and linked financial education, were not realised in practice.

In the next section, we consider its development, then look at its effects.

1.2 | The UK's child trust fund

The Child Trust Fund was outlined in the Labour Party's 2001 manifesto (it gained office in 1997), prompted by think-tank contributions (e.g., Kelly & Lissauer, 2000). Whilst the policy was not described in great detail, the manifesto did set out that:

All newly born children will have an interest-bearing Child Trust Fund set up in their name with an initial endowment from the government, with more for poorer children. The endowment will be locked until the child reaches adulthood. All the next generation will have the backing of a real financial asset to invest in learning, buying a home or setting up a business. [Labour Party manifesto 2001, <http://labourmanifesto.com/2001/2001-labour-manifesto.shtml>].

There was a consultation on the principles in April 2001 (Treasury, 2001a) with further details on implementation following in November (Treasury, 2001b). Detailed proposals followed (Treasury, 2003). The policy was launched in 2005, generating interest in other countries in the topic of 'asset-based welfare', though Emerson and Wakefield (2001) felt that the rationale for the underlying policy had not really been addressed in this process. Finlayson (2008) argued that the policy seemed to shift from providing an asset, to better financial literacy as the

key goal. Inevitably there were therefore multiple, not particularly clearly defined and fairly broadly targeted, objectives for this policy – to help develop understanding of saving activity, aid the forming of a ‘savings habit’, provide a source of capital to young adults, and to improve financial literacy (Child Trust Funds Bill, 2004).

The CTF set up universal savings accounts for children born from September 2002 onwards. There was an initial payment of £250, doubled to £500 for some poorer families,¹ with the expectation of further payments from government at age 7 and 11, with family members also able to contribute funds. The money would then be made available to the children when they turned 18. The policy was described as having ‘led the world’ (Prabhakar, 2009: 75). From 2009 to 2011, the Welsh government added £50 at age 5 (£100 if lower income).

However, the 2010 Conservative-Liberal Democrat Coalition Government in the UK ended new funds and government payments into CTFs in January 2011. By this point 6.3 million accounts for eligible children had been opened into which £2 billion of government funds had been paid (NAO, 2023:7). They were replaced by an alternative CDA product called ‘Junior ISAs’, but without government contributions, and requiring active steps by parents to set up and maintain them. Hence, we may now characterise the overall CTF policy design (see Figure 1). Looking at the situation in 2023 (the grey vertical block), all CTF account-holders are aged 12 or older, with the final disbursements to the last eligible cohort occurring in 2028. As at June 2022, some £10.48 billion was invested in such accounts (HMRC, 2022), with an average value of £1900.

2 | RESEARCH QUESTIONS

There was not one particular objective of the CTF: different policy actors placed emphasis on different elements. However, we look to trace two particular policy outcomes: the creation of a savings habit; generating an asset for

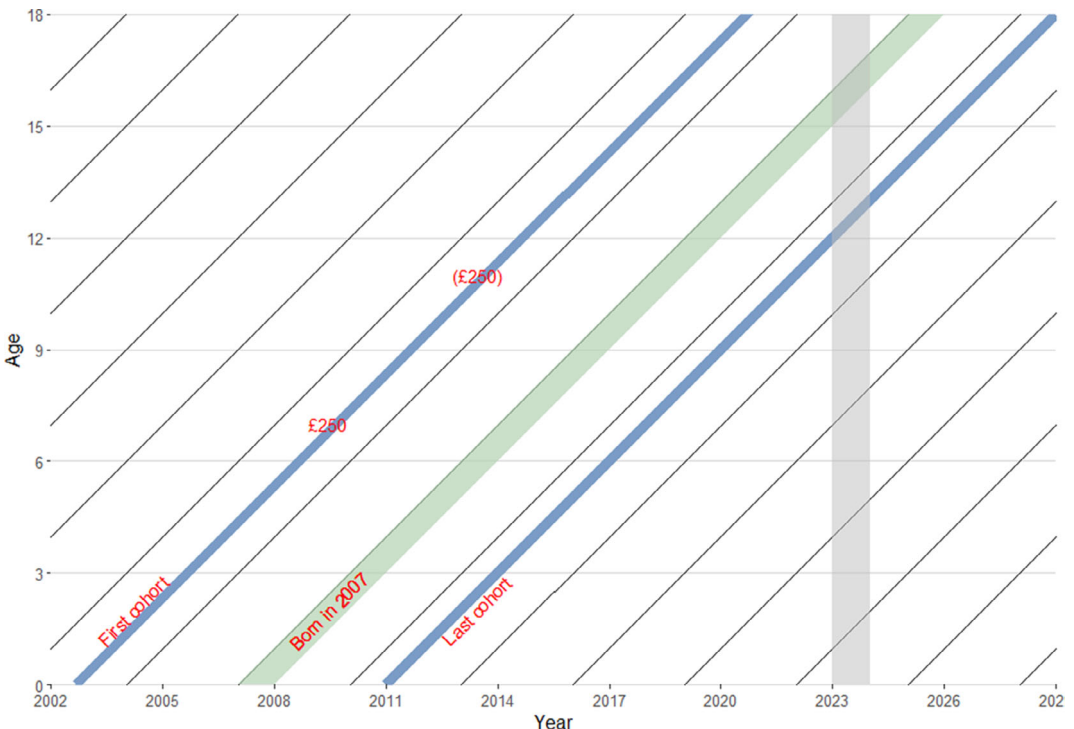


FIGURE 1 Design of the UK's Child Trust Fund [Lexis diagram]. [Colour figure can be viewed at wileyonlinelibrary.com]

children on reaching the age of 18. There are essentially four research questions on which we provide evidence towards examining these objectives -

1. **General saving.** Why parents think that saving for children is a good idea.
2. The **processes** involved with the CTF accounts:
 - a. *Awareness.* Which parents, with eligible children, are aware and unaware of the existence of CTF accounts.
 - b. *Opening accounts.* How many opened them themselves rather than taking the default option.
 - c. *Who contributed* towards those accounts, over and above the level of government contribution.
3. **Amounts saved.** Did the Child Trust Fund (CTF) lead to more savings for the children affected, or did it just affect how parents saved?
4. **Effects on other children.** How did the existence of the CTF affect levels of savings for non-eligible children in the same families as those with at least one CTF-eligible child.

Results on parts (1)–(3) are generally positive in US research on the scheme in Oklahoma (SEED OK), using RCT methods (Nam et al., 2013). We also consider more broadly whether the policy helped to equalise the financial assets of young people, rather than reinforcing existing inequalities. Qualitative research has also tended to provide positive results about CDAs at particular life stages (e.g., Sherraden et al., 2013).

3 | DATA AND METHODS

3.1 | Data

The data analysed is from the Wealth and Assets Survey for Great Britain, conducted by the Office for National Statistics (ONS, 2020). This is a large-scale longitudinal study, with six rounds of data collection available (a seventh added in 2022). Wave 1 covered approximately 30,000 households during July 2006 to June 2008, with follow-up surveys carrying on continuously from this date. It is unusual to have such high-quality data on wealth. The WAS questionnaire collects information at both household and individual levels. We reorganised the data so that the children become the units of analysis, with each child matched to information on their parents and the household. The sample includes 60,540 child-year observations from 30,172 individual children (see Table A1).

In each wave, there are questions about savings that have been made for children. CTF-relevant questions cover:

- How much is in his/her Child Trust Fund / Who opened the account / The type of account / Who has made contributions in the last few years.

There are also behavioural questions regarding parents' reaction to having such accounts, covering families with different eligibility for their children, 'has the existence of this account stimulated you to save any more for your other children who do not have such an account?'

3.2 | Statistical approach

We model the total amount of savings for each child. We are particularly interested in whether the CTF affected that overall level of saving, over and above the extent of the original government endowment. We develop regression models based on this (Equation 1).

$$\text{Ch_Saved}_{i,t} = \beta_0 + \beta_1 * \text{CTF}_{\text{eligibility}_i} + \beta_2 * X_{i,t} + \beta_3 * Z_{i,t} + \gamma * \text{Year_dummies} + \delta * \text{Region_dummies} + \varphi_i + \varepsilon_{i,t}, \quad (i = 1, \dots, N; t = 1, 2, \dots, 6) \quad (1)$$

Our dependent variable is the amount saved ($\text{Ch_Saved}_{i,t}$) for each child i at survey year t . We winsorize this variable at the 1% and 99% tails to avoid the effects of outliers. Our key independent variable is eligibility for CTF ($\text{CTF}_{\text{eligibility}_i}$), which equals 1 if the child is eligible for CTF and 0 otherwise. This variable is constant over time for each child and the data includes both eligible and non-eligible children.

$X_{i,t}$ denotes a set of control variables relating to the child, including their age and gender. $Z_{i,t}$ denotes a set of variables relating to the wider family and parents, including their marital status, education, employment status, number of dependent children and adults in the household, housing tenure, household financial wealth and annual income, person who makes financial decisions, whether the household has heavy debt burdens and whether they received debt advice. Control variables were selected based on the literature on household savings. Definitions of all the variables appear in the Appendix B (Table A2), with descriptive statistics reported in Table A3.

We also include year and regional dummies. φ_i represents the time-invariant individual-specific component (i.e., unobserved heterogeneity). Finally, $\varepsilon_{i,t}$ represents an idiosyncratic error term.

4 | RESULTS

4.1 | General saving: Reasons for saving for children

Prior savings research suggested that having a clear motivation for saving is likely to lead to more sustained saving (Fisher & Anong, 2012; Sherraden et al., 2013). Therefore, we analyse details of why children ‘should’ have savings or investments to explore the extent clear motivations exist in relation to saving for children in this dataset.

Six out of ten parents indicated that paying for higher or further education was one of their most important reasons for developing savings for their children (see Figure 2). This is likely to be a higher proportion than will eventually go on to study at degree level.² A similar proportion suggested having savings was ‘for the future’ without offering more specific information on how they might be used. Just under half (44.5%) mentioned saving for a house deposit, with around one in four suggesting driving lessons or enabling a vehicle purchase.

Parents with annual household income at the 75th percentile are notably more likely to save to pay for housing (55.7%) or vehicles (32.8%) – see Figure 3. However, saving without having a declared purpose is more prevalent among the 25th percentile than in higher income groups. Saving for a holiday, however, is significantly higher in the 75th percentile group (17.6%). Interestingly, saving to cover for crises or emergency needs is most prevalent among middle earners.

4.2 | Account processes

In this section, we consider the process of establishing and using CTF accounts, including if families with eligible children are aware that their children have such accounts. We then consider whether they took active steps to open such accounts and made any financial contributions.

Those remaining in the ONS survey over time might develop knowledge of the CTF, even if they were previously unaware. Therefore, we only look at possession of CTF accounts for the first time that each child appears in the survey to reduce the impact of this potential bias. As Table 1 shows, around 85% of those who were eligible for a CTF said that they had such an account. Very few parents – less than one in 200 (0.4%) – believed they had an account despite being ineligible for it. More recent surveys show a much lower ‘recall’ of having such

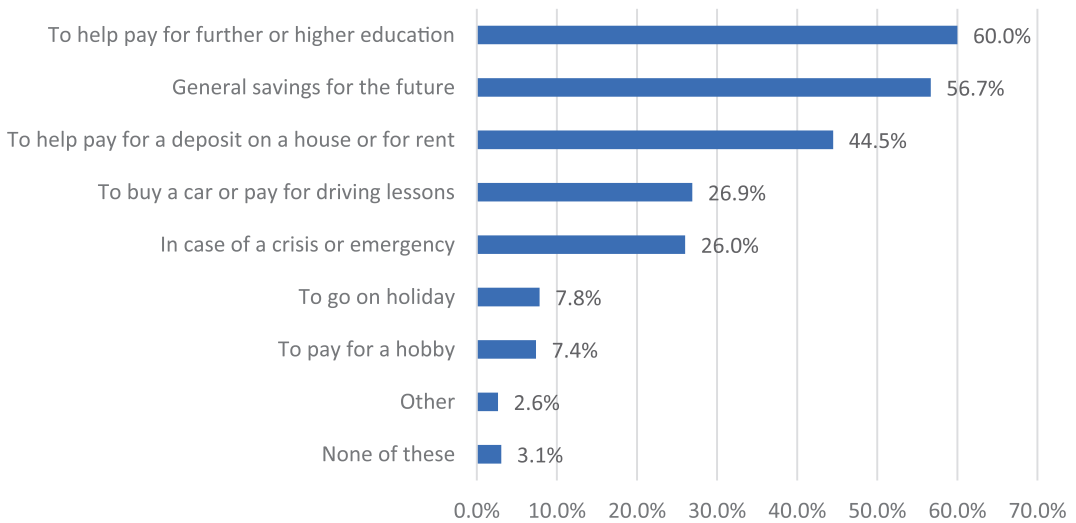


FIGURE 2 Most important reasons for children to have savings, according to parents. [Colour figure can be viewed at wileyonlinelibrary.com]

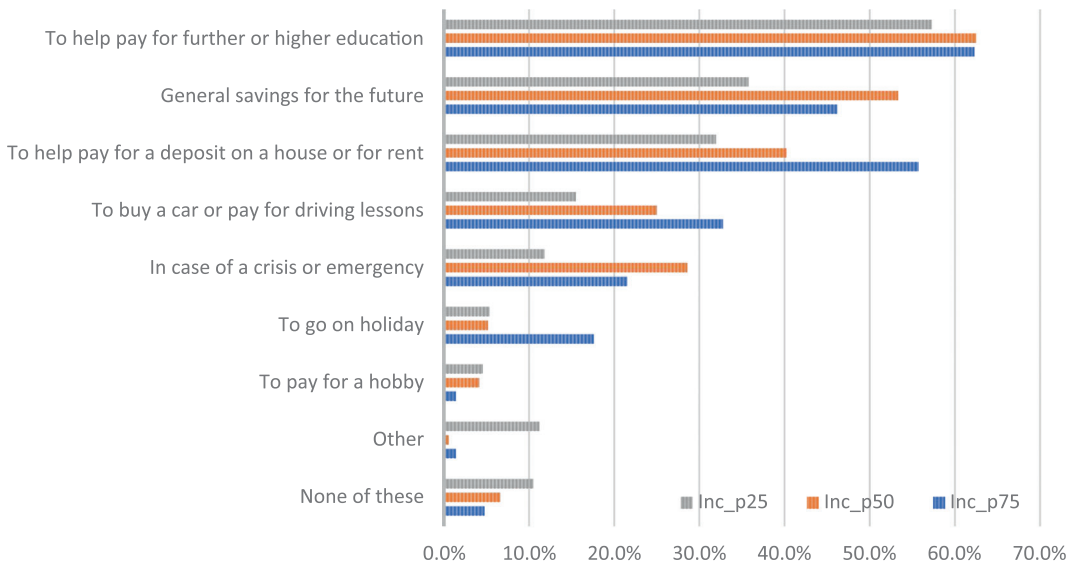


FIGURE 3 Most important reasons for children to have savings (by income quartiles). [Colour figure can be viewed at wileyonlinelibrary.com]

accounts – perhaps to be expected as the time increases between the creation of such accounts and the conduct of the survey.

Also detailed in Table 1, we consider whether parents actively opened accounts (rather than letting the default option occur where the Government opened the account for them with the seed funding) and whether they made subsequent additions to the money in the accounts. There was some evidence that those without educational qualifications were less likely to be aware of the existence of their child's CTF account. Notably, however, the gender of the child and income group of the family unit make little difference (i.e., the differences are insignificant) to knowledge of the existence of an account at the first interview point.

TABLE 1 CTF account by eligibility.

Outcome: Base: Source:	(1) Has CTF account CTF-eligible First interview	(2) Opened account Has CTF Last interview	(3) Has contributed Has CTF Last interview
All	85	73	27
N adults in household			
1	86	66	21
2	85	76	29
3+	79	71	21
Education status of parent (highest)			
Degree+	86	80	35
Other	87	70	22
None	68	64	12
Unclear	74	66	13
Gender of child			
Female	84	75	26
Male	85	73	27
Income group			
Low	82	68	17
Medium	85	71	26
High	87	81	35
N dependent children			
1	85	70	32
2	85	78	29
3	85	71	23
4+	77	66	12

Note: This table displays the percentage of children (1) who has CTF account, (2) whose guardians opened CTF account by themselves, and (3) whose guardians ever contributed to the account in each column, respectively. Percentages are calculated against the base group (see the title of each column) for the whole subgroup, and then breakdown by the socio-economic groups.

Source: Analysis of Wealth and Assets Survey.

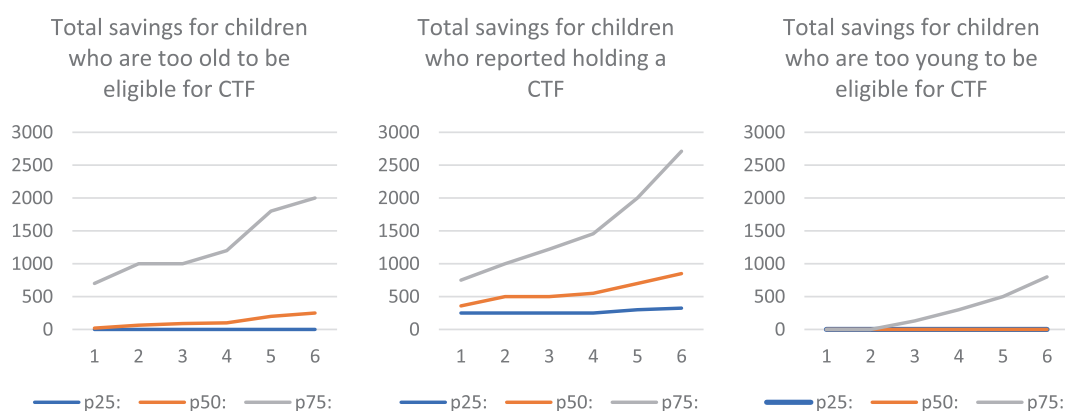
Further analysis found that 73% of the survey parents said that they opened the account. This is consistent with official HMRC data on CTFs that suggested the 70% of parents opened an account, with the other 30% opened by HMRC (HM Revenue and Customs, 2013a: Table 2). Families with relatively higher socio-economic status were more likely to have opened the CTF accounts by themselves – 80% among graduates, 81% of those in the top third of earnings. A recent report by the National Audit Office corroborates these results (NAO, 2023:7), finding 28% of accounts 2005–2012 directly set up by HMRC compared with 27% in our data.

Around three in ten (27%) said they have made additional contributions either themselves, or where this has come from families or friends in the last two years.³ As we show Table 1, there was a close link between relatively advantaged situations and providing additional payments into CTF accounts. These were made by the over one-third (35%) of families with a graduate parent, compared with a small minority (12%) of those without academic qualifications. Over one-third (35%) of those in the top third of earnings made such contributions, compared with only half of that number (17%) among those on lower incomes. There was also a clear association between larger families and being less likely to have made such contributions.

TABLE 2 Child savings by CTF eligibility (and survey wave). Amounts saved for each child (£).

Wave of survey	Lower quartile		Median		Upper quartile	
	CTF-elig	Others	CTF-elig	Others	CTF-elig	Others
1	£60	0	£280	£18	£654	£600
2	£250	0	£350	£63	£883	£900
3	£250	0	£500	£40	£1100	£1000
4	£250	0	£500	0	£1300	£800
5	£250	0	£600	0	£2000	£1000
6	£250	0	£700	0	£2500	£1000

Note: Base: all dependent children in WAS waves 1–6 surveys.

**FIGURE 4** Building up savings over time: median and quartiles (by wave of survey). [Colour figure can be viewed at wileyonlinelibrary.com]

4.3 | Amounts saved for CTF-eligible children

4.3.1 | Descriptive statistics

In Table 2 we show amounts of savings at different points in the distribution of children's saving, across the six waves of the Wealth and Assets surveys. Perhaps the most striking feature is that the median level of children's savings, for those not eligible for CTFs, is generally zero. Most parents, absent the CTF, do not make savings for their children.

For the CTF population, the bottom 25% quoted savings of £250, or equivalent to the initial endowment provided by government. By wave 6 the median value was around £700, showing some combination of growth in assets and additional contributions by parents, guardians or family members.

The figures for the CTF eligible (middle panel) and for either those too old (left panel) or those too young (right panel) to be eligible for a CTF are shown in Figure 4. Unsurprisingly, those who were too young to be eligible for CTF hold much lower savings compared with the other two groups as they have had less time to accumulate value. While for those who are too old to be eligible for CTF, the total savings are still lower than the CTF group. In essence, the bottom quarter of the CTF group had done little (or actually nothing) to add to the government contribution by 2016–2018. Although, the amount of CTF would have increased over time in reality due to asset growth,

TABLE 3 Regression models of amount of savings (in £1000).

Variables	(1) Coeffs.	(2) Confidence Intervals
CTF_eligibility	0.426***	(0.374:0.478)
Age of child (ref = 15-19)		
0-4	-0.987***	(-1.069:-0.904)
5-9	-0.405***	(-0.478:-0.332)
10-14	-0.233***	(-0.295:-0.170)
Male	-0.017	(-0.059:0.026)
Parents' marital status (ref = married)		
Cohabiting	-0.118**	(-0.205:-0.030)
Single	-0.236***	(-0.374:-0.099)
Divorced/separated/widowed and other	-0.115	(-0.232:0.001)
Parents highest education (ref = Degree and above)		
Other qualifications	-0.360***	(-0.427:-0.293)
No qualifications	-0.492***	(-0.599:-0.385)
Missing	-0.651**	(-1.112:-0.191)
Parents employment (ref = both employed)		
Employed and Inactive	0.061	(-0.010:0.133)
Either self-employed	0.193***	(0.114:0.272)
Both inactive	0.039	(-0.050:0.127)
Missing	0.310	(-0.167:0.786)
Children in household (ref = 2)		
1	0.106***	(0.045:0.166)
3	-0.184***	(-0.255:-0.113)
4+	-0.341***	(-0.454:-0.229)
N adults in household (ref = 2)		
1	0.358***	(0.256:0.460)
3+	-0.117***	(-0.179:-0.055)
Housing tenure (ref = own outright)		
Own with mortgage	-0.666***	(-0.761:-0.571)
Renter	-1.236***	(-1.348:-1.124)
Net financial assets	0.006***	(0.006:0.006)
Household earnings	0.004***	(0.004:0.005)
Financial say (ref = both)		
Final_say_father only	-0.094**	(-0.164:-0.023)
Final_say_mother only	-0.041	(-0.111:0.030)
Missing	-0.076*	(-0.138:-0.014)
Heavy debt burden	-0.242***	(-0.316:-0.169)
Received debt advice	0.088	(-0.004:0.179)
GOR (ref = London)		
North-East	0.070	(-0.115:0.255)
North-West	-0.125	(-0.264:0.015)

(Continues)

TABLE 3 (Continued)

Variables	(1) Coeffs.	(2) Confidence Intervals
Yorkshire/Humber	−0.002	(−0.149:0.145)
East Midlands	−0.043	(−0.195:0.109)
West Midlands	−0.051	(−0.200:0.099)
East	0.091	(−0.055:0.237)
South-East	0.073	(−0.059:0.204)
South-West	0.087	(−0.069:0.242)
Wales	−0.050	(−0.233:0.132)
Scotland	−0.235**	(−0.391:−0.079)
Constant	2.453***	(2.267:2.639)
Year dummies	Yes	
Observations	60,540	
Groups	18,078	
Chi ² -test	18,379	
Prob > Chi ²	0	

Note: This table reports the coefficients from the multilevel mixed-effects linear models. The dependent variable is the amount of total savings for children (in £1000). Individual- and household-level random intercepts are included in all the estimations. Confidence intervals based on standard errors clustering within households are reported in parentheses *** $p < 0.001$, ** $p < 0.01$, * $p < 0.05$.

this appears not to be reflected in the responses of those reporting in this quartile. This may suggest they have lost touch with the value of this pot of savings for their children (despite fund managers being required to make reasonable efforts to stay in touch with them and report on changing values over time). At the median, there may have been some growth, perhaps reflecting asset growth, but also they are more likely to be recognised at least by this group as they report increased values over time. Among the top quarter of accounts, we did see quite considerable increases in value, pushing towards a value of £2000 or more for the top quarter of accounts by 2016–2018.

4.3.2 | Amounts saved – Regression results

The use of descriptive statistics can only take us so far in our understanding. To go further we need to control for several variables all at once to consider the separate effect – if any – on savings of having been in the eligible range for a CTF account. We estimated a mixed-effects linear model that controls for a wide range of variables to capture persisting characteristics of children and their families, as well as a set of year and regional dummy variables. Child savings, household wealth and income (all in £1000) are deflated using CPI, taking 2002 as the base year, to account for the increase in nominal values due to inflation. Coefficients obtained from estimating these three models are reported in Table 3.

We find a significantly positive association between eligibility for CTF and total children's savings even after controlling for a wide range of individual and household level variables. The estimates reveal that, holding other factors fixed, children in the eligible age range and dates for CTF accounts tend to have savings around £426 higher than those who were not eligible. These positive results are at odds with HMRC commissioned research in 2010 which did not find any statistically significant effect on savings levels (Kempson, et al., 2011), which may relate to their much smaller sample size ($N < 130$ non-CTF savers), or their preference to only look at savers.

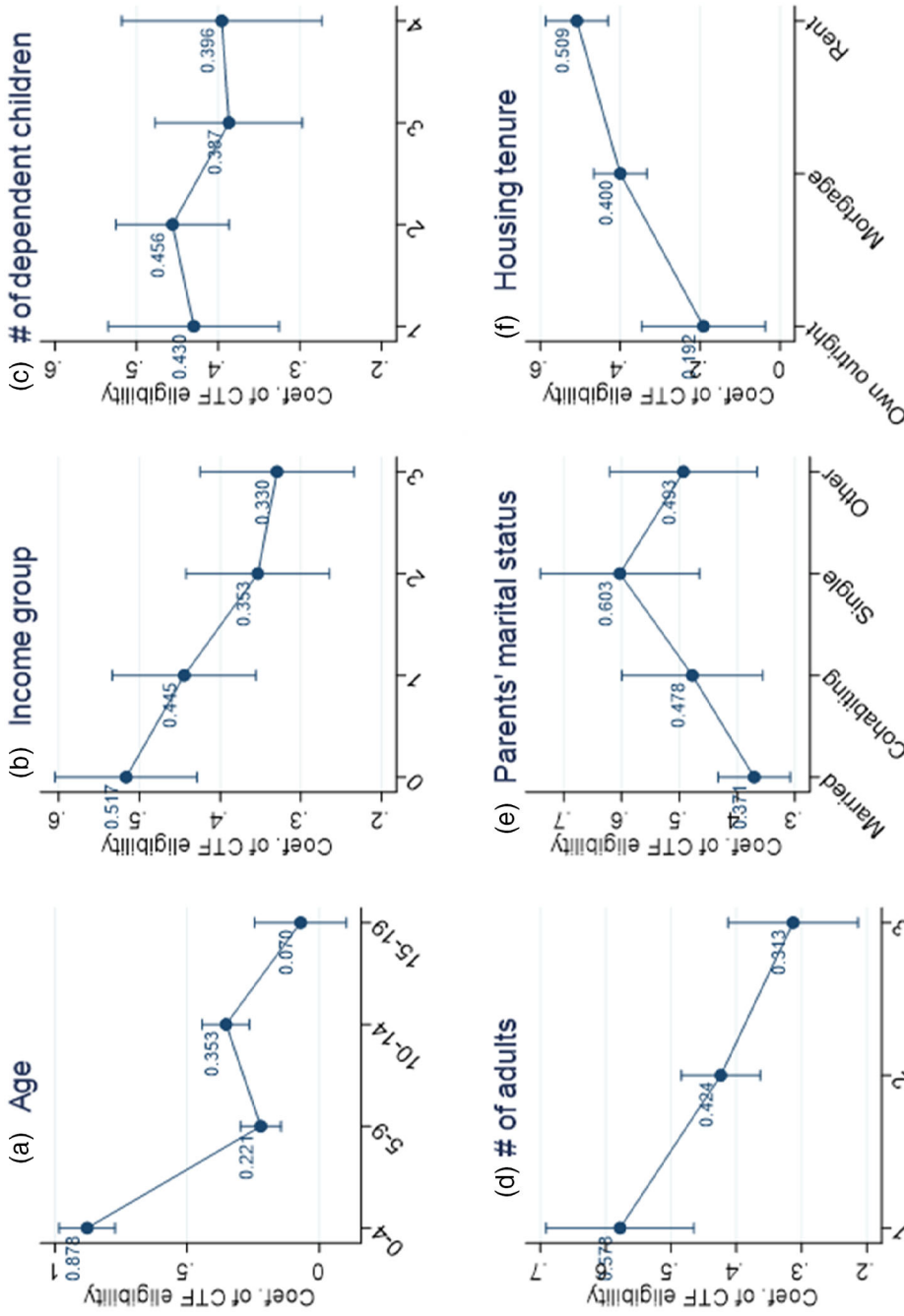


FIGURE 5 Coefficients of CTF eligibility for subgroups. [Colour figure can be viewed at wileyonlinelibrary.com]

Focusing on the control variables related to the socio-demographics of the children and the family, we observe that -

- Those aged 0–4, 5–9, or 10–14 tend to have savings that are around £987, £405, or £233 lower, respectively, than those aged 15–19, other things being equal.
- A child whose parents are married or have higher qualifications tend to have a higher level of savings compared to other children.
- Children with at least one self-employed parent have £193 more savings than children with employed parent(s).
- Compared to a child from a two-child family, a child from a family with three or more children tend to have at least £184 less in saving, or £106 more in saving if she/he is the single child.
- Children from a family with only one adult tend to have £358 more in saving compared with a two-adult family, but £117 less if the family has at least three adults.
- Compared to families that own their house outright, children from families that own the property with mortgage have £666 less savings, and children from families that rent their properties have £1236 less savings.

We observe strong associations between financial wealth and income of the family and the savings for children. Children from a family with a heavy debt burden tend to have £242 less savings. Whilst we noted the extra funds in Wales during 2009–2011, overall savings in Wales were not statistically distinct from the rest of the sample. In bivariate analysis, children's savings in Wales are lower than in England, perhaps reflecting lower incomes.

4.3.3 | Heterogeneity analysis: CTF And savings for different groups of children

Next, we explore whether CTF encourages savings among different groups. To this end, we break down the sample according to age, family income quartiles, household composition, parents' marital status and housing tenure. Coefficients of CTF eligibility are plotted for each subgroup in Figure 5. CTF- eligibility encourage the savings for children aged between 0–4 the most, with £878 higher in savings compared to children in the same age group but not eligible for the CTF (Panel a). The effect of CTF on children's saving is the weakest for children aged 15–19 (Coefficient = 0.070).

CTF encouraged savings for children the most for less well-off families- the coefficient of the eligibility for the CTF are significantly higher for children whose family incomes are in the lowest quartile compared to the top quartile (Panel b).

We do not find the CTF affects children who have more or fewer siblings differently (Panel c), but it did help children with single parents/guardians the most in terms of savings (£578 higher in savings), compared to up to £424 (£313) for children from families with two (three and more) adults (Panel d).

This is also reflected by the stronger associations between the eligibility for the CTF and children's saving that we find for children whose parent is single, where the eligibility for the CTF increases children's savings by £603. However, CTF increases the savings for a child with married parents by only £317 (Panel e).

We also find the eligibility for the CTF encourage the savings for children the most for children whose families are private renters by about £509, compared to outright owners by £192 and mortgagees by £400 (Panel f).

In contrast, in a set of analyses not detailed here, we find no evidence that the associations between the eligibility for the CTF varies by the parents' educational attainment, whether the family has heavy debt burden or ever sought for debt advice, who make the financial decisions, or whether the parents are rainy day savers.

4.4 | How savings for other children were affected by CTF

Lastly, we consider how the presence of the CTF might affect saving for other children within the same family, who were born either too soon or too late to be eligible for the CTF. We expect that parents generally want to treat their

children equally – though US evidence finds more equality in bequests than in lifetime gifts, the latter relating to children's incomes (McGarry, 1999). Should parents save the same amount for each child, regardless of the government contribution, or should they save more for those children who missed out on the CTF to compensate them for not being eligible to the government contribution their siblings got? Assuming, of course, that they have the resources to do so.

Parents were directly asked if the existence of the CTF '*stimulated you to save any more for your other children who do not have such an account*'. In their most recent interviews, some 88% of parents said it had made no difference. Overall, it seems that some children were just lucky to have benefitted from the policy, and parents did not adjust their behaviour regarding other children (panel c, Figure 5). Moreover, this is entirely consistent with our analysis of amounts saved into CTFs, which show that many parents did not add to the level of the government contributions that were made into accounts.

5 | DISCUSSION

5.1 | Main results

Asset-based welfare policies have become more than prominent in the past decades. As one of the pioneer universal progressive asset-based policies in the world (Loke & Sherraden, 2009), the CTF initiated significant debate on the design, implementation and the possible impact(s) of the policy when it was launched.

As stated in the course of the various consultation papers and Parliamentary debates by the Government at the time (Emmerson & Wakefield, 2001; Treasury, 2001a,b, 2003), the CTF scheme was designed

“...to help people to understand the benefits of saving and investing; to encourage parents and children to develop the savings habit; to ensure that all children have a financial asset at the start of their adult life; and to build on financial education and help people to make better financial choices throughout their lives.” (Child Trust Funds Bill, 2004).

This was therefore an ambitious project, as it was not only a universal saving policy that aims to benefit all children, but also targeted greater resources at those children who needed it most. Importantly, it also sought to create a 'wrapper' of financial skills development support to provide a context into which these funds would be made available as the recipient reached the age of eighteen.

Among the four objectives of the CTF scheme, the fourth is yet to be assessed, since the first wave of CTF accounts turned matured and accessible only on 1 September 2020. However, our analysis, by exploring our four chosen research questions, does shed some light on two of the other three objectives namely, whether the CTF has made material differences in children's saving, and whether or not it contributed to reducing wealth inequality in providing them with a meaningful asset at the age of eighteen.

Our analyses show that the CTF scheme has helped families to build up savings for eligible children, though in very limited amounts. Children who are eligible for CTF, controlling for other factors, have £426 more saved for them on average compared to children not eligible. Considering the £250 initial contribution (with a £250 supplemental contribution for children in low-income families) and £250 further contribution from the government at age 7, such an improvement (£426) in the total savings seems only a small amount. Focusing on children's savings over time, most non-CTF-eligible families do not have any savings for children, while the bottom quarter of the CTF-eligible at least had the initial £250 available. In a system where most children do not have any savings, perhaps even a small amount of savings could be an important benefit.

A key research question set for this work was to explore the impact the CTF may have had on inequality. As revealed by our data (see Table 2), the gap in children's saving between the lower quartile and the upper quartile of the

saving distribution increased substantially over time, from about £600 in the first wave of the WAS survey (2006–2008) to as much as £2250 by the sixth wave of the WAS (2016–2018). During the same period, the gap in savings between the eligible and non-eligible families increased from the initial endowment to £1500 (Table 2). In addition, higher income families were better placed to save into the CTF than lower income families. Administrative data shows that the average annual contribution into the account was £321 for better-off children, compared to £188 for children from low-income families (HM Revenue and Customs, 2013b).

Notwithstanding, we find the CTF scheme to be more meaningful (as a percentage of overall savings) for more disadvantaged families. For children from families at the bottom quartile of household income, the eligibility for CTF is related to £517 higher savings for the children, compared to only £330 for children with a household income at the upper quartile. The CTF was also more effective in boosting the savings for children from single-parent families and families that rent their homes.

This represents a rather complex overall picture. Children from poorer families gained from the policy, and most would have had zero savings without it. However, as is common with tax-privileged savings, the greatest benefits went to those from better-off families (Gregory et al., 2022).

A prerequisite of getting the most advantage of CTF (particularly in respect of the objective to support development of a savings habit) is to be aware of the existence of such a scheme in the first place and continuing to engage with it. However, in our sample, around 15% of the families with eligible children were unaware of the CTF when they were interviewed for the first time. The concern on the ability of the scheme to attract lower-income families raised in various debates proved to be true (e.g., Wikeley, 2004), as we find the evidence in our research shows that the proportion of families who are unaware of their eligibility is indeed relatively higher (18%) among the bottom one-third of household income.

Even among families aware of their eligibility for the CTF scheme, a widening gap in saving amounts exists between accounts opened by a child's guardians and those opened by default by the government. In the six rounds of the WAS (undertaken between 2006 and 2018), among the families in the bottom quartile of household income, the average amount of savings in CTF accounts opened by guardians (£1376) were more than doubled the amount in CTF accounts opened by HMRC (£610).

This provides statistical support to Prabhakar's propositions (Prabhakar, 2010) regarding the non-opening problem of CTF accounts that, rather than being a rational decision based on the cost and benefits of opening an account, parents often felt overwhelmed by a complex financial choice. As a result, they were only passively involved at the very beginning of the process of asset building for the children, and it is not surprising to see that they were therefore less likely to make further contributions to the CTF account. In our WAS sample, only 15% of the CTF accounts opened by HMRC received further private contributions, compared with twice this level (30%) of the accounts opened by the guardians.

5.2 | Policy implications

The scrapping of CTF in 2010 was attributed to the scheme's cost. However, the lack of follow through on the wider contextual objectives for CTF could also be a key factor in its cessation as it is clear these wider objectives were not being evidenced as the scheme was operating. Whether this was due to overreach in terms of governmental ability to deliver this 'wrapper' or due to changed political priorities that made delivery more difficult to achieve, remains uncertain.

The design objectives related to improving understanding of savings and investing and of improving financial literacy in young people were not the primary focus of this study. This paper looked to focus primarily on developing a savings habit and reducing inequality by creating an asset for 18 year olds. Hence, we limit our policy related comments to these areas.

5.2.1 | Developing a savings habit

The COVID pandemic has highlighted that for many, engaging in savings is not a regular habit, as adults or children, and many have little in the way of savings to give them financial resilience (McKay et al., 2022). Consequently, the objective of equipping young people with experience in managing a savings account during their early years was a valuable goal at the time.

The UK's CTF scheme has not significantly impacted children's financial experiences, as many parents did not actively engage with or even remember the scheme. Thus, policy efforts must be redirected. Notably, financial education was incorporated into the UK secondary education curriculum during the CTF scheme's operation. However, a 2016 parliamentary report (UK Government All Party Parliamentary Group on Financial Education for Young People) on its impact revealed that the potential interlinking of these commonly focused policies was also not delivered on.

Despite missing opportunities to progress this objective meaningfully, the latest personal financial wellbeing strategy of the UK Government, for delivery by 2030 (Money and Pension Service, 2020), has prioritised supporting parents and young people around saving. The 'Future Foundations' key pillar of this strategy, and the related work that has been undertaken by the Money and Pension Service (MaPS) around children and habit forming in relation to savings, has rejuvenated this objective at national level. With suitable support, meaningful change can still be brought about through this new focus. Schemes, such as those recently undertaken in Wales in conjunction with MaPS and connected to this revised national strategy, to explore further how parents can be best aided to be instrumental in talking about money and savings to their children, could be important towards achieving this aim (see the Talk Learn Do scheme – <https://maps.org.uk/talk-learn-do/>).

5.2.2 | Reducing inequality

The CTF policy aimed to promote equitable asset distribution by providing a modest government-funded asset for 18-year-olds, augmented by further government and parental support, and long-term investment growth. Amid robust market growth during its inception, this approach seemed likely to effectively contribute to young people's first independent steps, impacting inequality for the majority who would otherwise have had nothing. With limited government cost, this policy could have been a rare instance of a savings policy with long-term benefits for many, not just a few.

Our evidence however, suggests this scheme has not achieved this outcome over its life to date. Government contributions to CTF pots generally ceased after initial amounts, preventing many from receiving a second 'promised' payment. Moreover, insufficient parental engagement with the schemes, both in terms of tracking progress with children and actively contributing, hindered the intended objectives.

The financial crisis of 2007–2009 likely affected the growth of limited funds, as they were invested during a period of substantial market losses, resulting in smaller amounts at vesting than likely were anticipated by those promoting the scheme for young, income-earning savers. Additionally, recent market volatility due to COVID and the cost-of-living crisis may impact current schemes as they approach vesting in the near future.

Sums at vesting for many therefore are at best modest and not materially life changing for almost anyone who wasn't already likely to have been so privileged by birth already. The key benefits of this savings policy (not unusually- Gregory et al., 2022) have landed on those who needed this support the least with limited impact on inequality.

Several key lessons for future policy development therefore can be drawn from this national level 'experiment' with asset based welfare. These include the need to better address targeting of policy benefits, to see through on the required wrapper to support the context of delivery, and a longer-term political will to stick with commitments made, are all key to the success of such policies.

6 | CONCLUSIONS

The creation of CTFs in the UK provided an opportunity for an internationally significant exploration of the potential of a specific approach to CDAs. Four design objectives for this policy were set at its outset: we explore two of these. Our results indicate modest impacts at best, making it difficult to say, that these objectives have been well met with the operation of the CTF scheme, particularly when only a limited number have so far vested.

Outside of the CTF scheme, most British parents do not open specific accounts for their children to create savings for them – it is a ‘minority sport’, dominated by the better-off. Lower income families rarely have savings of their own, so unsurprisingly most do not have savings set aside for children. This is the context into which CTFs were introduced and we find limited evidence this CDA policy introduction, as it was implemented in the UK at least, has made material differences to this position to date.

CTF appears to have made a small difference in sums saved for eligible children, perhaps £200 over likely sums saved for CTF-ineligible siblings. This is particularly important for lower income families where differences to savings levels for children pre and post CTF are the most significant in absolute money terms. However, it also appears to be the case that those in the lower income quartile are the most likely to have lost touch with their CTF and not actively engaged with it as contributors or even in terms of its developing value over time – shown by their reporting of values only of £250 unchanging over the 6 waves of the WAS. As such, it is likely these sums will be a welcome, albeit limited, windfall when they vest and are accessed.

Further research will be needed to follow what actually happens to these funds, to see what difference, if anything material, they make for the recipients. A recent NAO report illustrates however, that many had not accessed their accounts even when they could do so. They report that only 175,000 of the 320,000 18 year olds (i.e., 55%) had claimed and withdrawn or re-invested £376 million of funds 7 months after they started to be eligible to so do (by April 2021), so 45% of all vesting accounts were untouched – although this had dropped further to 27% of accounts by August 2022 (NAO 2023:9) perhaps due to a national advertising campaign the Government created targeted at eligible 18 year olds.

Further research might address objective one: determining whether or not these funds created any material impact on understanding of the value of saving and investing for eligible children. However, our evidence of the limited engagement with these policies by those who would not already be likely to see the value in saving for their children and so already would have been likely to do it, suggests this is also not likely to have had the desired effect.

ACKNOWLEDGMENTS

Participants at the 2021 Social Policy Association conference, and the 2022 ONS/UK Data Service event on Family Finances surveys, provided helpful feedback.

DATA AVAILABILITY STATEMENT

Data freely available for academic use from the UK Data Service. See <https://beta.ukdataservice.ac.uk/datacatalogue/studies/study?id=7215>.

ORCID

S. McKay  <https://orcid.org/0000-0002-5080-8417>

ENDNOTES

¹ In total 2.2 million children (representing 36% of all accounts opened) received additional government payments after the initial opening sums due to the income status of their family or where, for example, such children were receiving specific benefits.

- ² According to data from the Universities and Colleges Admissions Service (UCAS), the overall entry rates into higher education has seen a continuous increase from 22.8% in 2006 to 36.3% in 2020. See <https://www.ucas.com/data-and-analysis/undergraduate-statistics-and-reports/ucas-undergraduate-sector-level-end-cycle-data-resources-2020>.
- ³ It is hard to make a direct comparison with HMRC's administrative data on this characteristic of CTF growth, which only relates to pre-2013, although at that point of reporting around two in ten (21%) of accounts had received such additional contributions (HMRC, 2013b: 2).

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Base: first wave of appearance in survey, 21,071 responses in total.

APPENDIX A: Structure of the sample

TABLE A1 Structure of the sample.

Panel A: Number of children covered in each wave of WAS		
Wave	N	Percent
1	16,129	26.72
2	9983	16.6
3	10,342	17.02
4	9326	15.35
5	8332	13.72
6	6428	10.58
Total	60,540	100
Panel B: Number of records per child		
N records	N children	
1	15,144	
2	6904	
3	3831	
4	2190	
5	1283	
6	820	
Total	30,172	

TABLE A2 Variable definitions.

Variable	Definition
Ch_Saved	Families' savings for the child. Adjusted using CPI, taking 2002 as the base year.
Eligible_ctf	1 if the child is eligible for CTF, 0 otherwise.
Age dummies	Children in four age groups.
Male	1 = male, 0 = female.
Parents' marital status	Four categories: married, cohabiting, single and divorced/separated/widowed.
Parents' highest qualification	Three categories: degree and above, other qualifications, no qualifications and "missing".
Parents' Employment	Five categories: both employed, employed and inactive, either self-employed, both inactive and "missing".
Number of dependent children in household	
Number of adults in household	
Housing tenure	Categories: own outright, own with mortgage, and renter.
Net financial assets	Net household financial wealth in £1000. Deflated to 2002 GBP.
Household earnings	Annual household earnings in £1000. Deflated to 2002 GBP.
Financial say	Parent who has the final say on financial decisions: both parents, father, mother, and "missing".

(Continues)

TABLE A2 (Continued)

Variable	Definition
Heavy debt burden	1 if the family reported heavy debt burden, 0 otherwise.
Received debt advice	1 if the family received debt advice, 0 otherwise.
HH_runout	1 if both of the parents ever run out of money at the end of the week/month, 0 otherwise.
HH_rainyday	1 if the family save for rainy days, 0 otherwise.
GOR	Government Office Region.

APPENDIX B: Selection of variables

Educational attainment is closely associated with financial literacy, whilst various studies find that financially literate individuals are more likely to have precautionary savings and emergency funds (Lusardi et al., 2011). Liu et al. (2019) also find that professional financial advice is associated with higher levels of saving. Married couples exhibit higher saving ratios and accumulate more assets (Wilmoth & Koso, 2002). Seguino and Floro (2003) suggest that household saving is also influenced by the relevant bargaining power of females and males in the household: rising with increased bargaining power of women. Therefore, we controlled for household financial decision-making in our specifications. Having children generally depresses saving behaviour due to the costs associated with parenthood and a potential loss of income if parents reduce working hours or exit the labour market (Ginn & MacIntyre, 2013; Ricketts et al., 2013). We also control for the households financial wealth and income, as studies find that saving and saving rates increase with household wealth (e.g., De Nardi & Fella, 2017; Saez & Zucman, 2016) and income (Fisher et al., 2015). Additionally, we control for the offspring's age and gender, region and year.

APPENDIX C: Descriptive statistics

Children's savings, household net financial wealth and household earnings are CPI-adjusted to 2002 GBP. "N/A" denotes that data were not collected in that wave.

TABLE A3 Descriptive statistics.

	Overall	Wave-1	Wave-2	Wave-3	Wave-4	Wave-5	Wave-6
Eligible_CTF	0.449	0.343	0.459	0.530	0.465	0.481	0.505
Children's savings (£000)	1.491	0.966	1.269	1.493	1.618	1.971	2.344
Age							
0–4	0.251	0.269	0.246	0.252	0.247	0.240	0.228
5–9	0.307	0.273	0.267	0.324	0.334	0.337	0.348
10–14	0.290	0.284	0.294	0.295	0.288	0.289	0.296
15–19	0.153	0.174	0.194	0.128	0.132	0.135	0.127
Male	0.511	0.512	0.508	0.513	0.511	0.507	0.514
Marital_status							
Married	0.641	0.625	0.638	0.639	0.643	0.654	0.666
Cohabiting	0.122	0.108	0.116	0.122	0.133	0.132	0.138
Single	0.104	0.107	0.100	0.110	0.104	0.103	0.099

TABLE A3 (Continued)

	Overall	Wave-1	Wave-2	Wave-3	Wave-4	Wave-5	Wave-6
Other	0.133	0.159	0.146	0.130	0.120	0.111	0.097
Parents' highest qualification							
Degree and above	0.373	0.305	0.356	0.356	0.404	0.434	0.472
Other degree	0.527	0.569	0.559	0.525	0.505	0.486	0.457
No qualification	0.081	0.098	0.071	0.102	0.071	0.063	0.060
Missing	0.019	0.028	0.014	0.016	0.020	0.018	0.012
Parents' employment							
Both employed	0.499	0.463	0.496	0.502	0.512	0.527	0.538
Employed + inactive	0.166	0.169	0.162	0.171	0.172	0.163	0.153
Either self-employed	0.168	0.158	0.167	0.162	0.167	0.177	0.188
Both inactive	0.149	0.181	0.160	0.151	0.133	0.118	0.112
Missing	0.018	0.029	0.015	0.014	0.016	0.015	0.009
N dependent children							
1	0.243	0.252	0.235	0.243	0.244	0.239	0.234
2	0.458	0.440	0.464	0.459	0.465	0.458	0.482
3	0.204	0.206	0.203	0.205	0.195	0.212	0.206
4+	0.095	0.102	0.097	0.093	0.096	0.091	0.078
N adults							
1	0.142	0.161	0.151	0.144	0.132	0.125	0.118
2	0.605	0.589	0.603	0.608	0.619	0.608	0.620
3+	0.252	0.249	0.246	0.248	0.249	0.268	0.262
Housing Tenure							
Own outright	0.093	0.087	0.093	0.090	0.096	0.098	0.106
Mortgage	0.567	0.563	0.580	0.573	0.568	0.557	0.561
Rent	0.339	0.350	0.327	0.337	0.336	0.345	0.333
Financial say							
Father only	0.117	0.086	0.152	0.153	0.072	0.134	0.129
Mother only	0.250	0.223	0.273	0.279	0.208	0.271	0.268
Both	0.391	0.227	0.496	0.497	0.237	0.517	0.531
Missing	0.242	0.464	0.079	0.072	0.483	0.078	0.072
HH net financial wealth (£000)	40.140	38.745	43.360	41.232	44.757	46.482	58.156
HH earnings (£000)	0.094	29.198	35.103	41.717	45.099	48.997	54.206
Heavy debt burden	0.058	0.103	0.092	0.042	0.082	0.148	0.112
Received debt advice	0.131	0.102	0.061	0.067	0.035	0.018	0.012
Both parents ran out of money	0.285	0.177	0.155	N/A	N/A	0.084	0.078
Save for rainy days	0.251	N/A	0.290	0.272	0.279	0.288	0.302
N	60,540	16,129	9983	10,342	9326	8332	6428