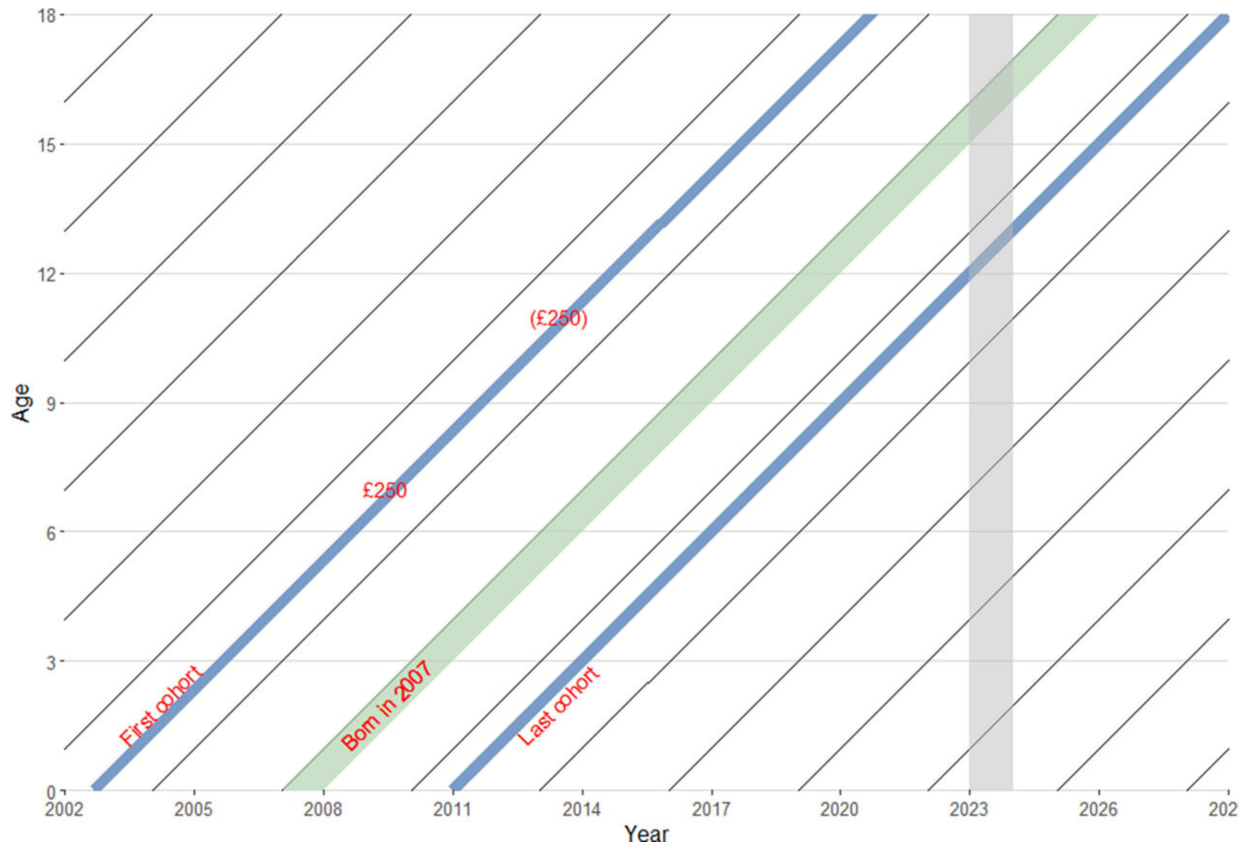
Impact of Child Trust Funds in the UK 'a missed opportunity,' researchers say

September 20 2023



Design of the UK's Child Trust Fund [Lexis diagram]. Credit: Aston University

Researchers from Aston and Lincoln Universities have conducted a comprehensive study to evaluate the effectiveness of Child Trust Funds (CTFs) in the United Kingdom.

Connected with UK Savings Week (18—24 September) it highlights how developing children's savings remains an area in need of further improvement if it is to play any part in improving the UK's financial resilience long term—a key part of the current UK Personal Financial Wellbeing strategy.

The findings from the Centre for Personal Financial Wellbeing at Aston University provide insights into the impact of this large scale, national savings scheme seeking to develop children's savings and the potential for asset-based welfare policies.

Researchers say this was one of the biggest experiments of its type, exploring how a country could make a sea change in how the next generation can be helped to develop their saving behavior—a critical issue of financial resilience for all nations that the COVID pandemic has exposed.

The Child Trust Funds program was an initiative introduced in 2002 under the Labour government aimed at generating a capital sum for UK children when they turn 18 from a pot of at least £250 given to all children at birth. This sum, and any other savings that parents and others also contributed, was to be invested for them to grow into a fund they could draw on as they turned 18. The program reached a significant milestone in late 2020 when the first cohort reached adulthood.

The research shows that by 2022, £10bn had been saved in CTFs in more than six million accounts. £2bn of this was the original funds input by the UK Government. The program was ceased for children born after 2011 and no new Government money has been applied to these funds since this time, significantly curtailing the impact of this program.

The research explored whether there was evidence that the program met its two primary goals: higher levels of savings for eligible children than would otherwise have been likely to occur and helping to instill an improved savings habit in both young people as fund recipients and their parents.

Professor Andy Lymer, director of the Centre for Personal Financial Wellbeing at Aston University, said, "While the Child Trust Fund has shown modest positive impacts on savings for eligible children, it would be challenging to claim that the initial exciting design objectives and potential have been achieved. This is arguably therefore a real missed opportunity to have material effect on savings and savings related behavior in the next generation."

"We found a small increase in saved sums on average, potentially amounting to around £200 more than the average savings for CTF-ineligible siblings—although some got lots more than this from this program, with average pot sizes by April 2022 being just over £2,000."

"The study however highlighted that a considerable portion of accounts remained untouched, with 27% of eligible accounts remaining unclaimed by August 2022 (latest data available), despite a targeted national advertising campaign aimed at eligible 18-year-olds to remind them they have accounts that may have been forgotten about."

"This means that continued effort is going to be needed annually by in the financial services sector managing these funds, and the Government more generally, to make sure these funds get connected with the owners of these funds as they turn 18 to make sure these funds can have at least some positive impact on their recipients' lives hopefully."

Professor Steve McKay, distinguished professor in social research in the College of Social Science at the University of Lincoln and a co-author of the report, said, "The results indicated there was a small positive effect on savings on average, but that the benefits were primarily associated with children from more affluent families who were able to continue to add to the children's funds creating extra compounding growth."

"Furthermore, it illustrated that while net extra savings were created for most account holders over their ineligible siblings, the study shows that parents aren't compensating for their siblings in other savings."

"There was very limited evidence of a meaningful impact on creating savings habit overall, for children or parents. In fact, many parents had forgotten or lost track of the accounts over years and so their children had little idea these even existed."

"Recognizing the importance of even modest savings for many families, particularly considering that a majority of children in the UK have no savings at all, the research calls for a revisit of the principles on which this program was founded. It suggests we urgently need to revisit how we can effectively help children develop savings, and effective savings habit, with and without government support—particularly those least likely to develop it via other means."

More information: S. McKay et al, Whatever happened to the Child Trust Fund? The abandonment of universal savings for UK children, *Social Policy & Administration* (2023). DOI: 10.1111/spol.12941

Provided by Aston University