Saving for children:

A baseline survey at the inception of the Child Trust Fund

Executive Summary

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Chapter 1: Introduction

The research was carried out between March 2005 and January 2006 when CTF was in its infancy. The research had two main aims. Firstly, to provide baseline information on the extent and nature of saving for and by dependent children under 18 when the CTF became operational. This has been obtained through three surveys, all of which were carried out face-to-face:

- A national survey of parents of children aged up to 18 for whom Child Benefit was payable (chapters 2, 3 and 4).
- A linked survey of young people aged 11-17 whose parents had already been interviewed (chapter 5).
- A separate suite of questions on a Children's Omnibus with children aged between 7 and 10 (chapter 5).

These surveys explored current patterns of saving by and for children, as well as looking at attitudes to saving and, among the children and young people, how they had learnt about money and saving.

Secondly, the research looked at various aspects of the CTF itself. This included:

- A booster sample of parents of children eligible for the CTF who were asked additional questions relating to the CTF in the national survey (chapters 7 and 8).
- Follow-up telephone depth interviews with some parents, which focussed primarily on their experiences and intentions with regard to account opening (see chapter 7).
- A review of providers and distributors of CTF account providers (chapter 5).
- Depth interviews with CTF providers, distributors and trade association. representatives (chapter 6). These explored their views and experiences of the CTF, including product development, promotion and marketing, and take-up of accounts by parents. We also interviewed three large financial institutions that had decided not to offer CTF accounts, to explore their views.

Chapter 2: Children's savings and investments

Chapter 2 describes both savings and investment holding among children and the sums of money involved.

- Almost seven in ten (69 per cent) of children had either a savings account or some form of investment. Most common were deposit accounts with a bank or building society (57 per cent).
- The average amount children with accounts had saved or invested for them was £420, although there was a wide variation in the amounts. Two in ten (19 per cent) had less than £100; while a similar proportion (15 per cent) had more than £2,000.

Savings accounts

- Two thirds (64 per cent) of children had a savings account and in most cases the child's parent had decided which account to open. Three main factors influenced the choice of account: ease of access; the fact that it was an account aimed at children; and the interest rate.

- Most (90 per cent) of the children with savings accounts had one in their own name and at least four in ten (39 per cent) of all children had a savings account by the time they were one. Children from poorer and larger families were much less likely to have had accounts opened for them when they were born.
- In seven in ten (69 per cent) cases, the child's parents had paid money into the account when it was opened and in half (48 per cent) someone else had made an initial deposit – usually the grandparents. Children from poorer and larger families were relatively unlikely to have money paid in by anyone other than their parents.
- Most (65 per cent) parents of children with a savings account said that the money was being saved for their child's future generally, and a quarter (23 per cent) for the child to spend how they wished. This varied little with family income or circumstances.
- The majority (73 per cent) of children with savings accounts knew about them, but only three in ten (30 per cent) were allowed by their parents to withdraw money from them. Around half (46 per cent) would have to wait for access to their money until their parents considered them mature enough.

Life insurance

- A small number (six per cent) of children had money saved for them in a life insurance policy. In the majority of cases (95 per cent) policies had been taken out by parents and only half (50 per cent) of them were in the child's name.
- The most common age at which policies were due to mature was 18 (45 per cent). Other common ages were 16 (16 per cent) and 21 (11 per cent); 14 per cent of parents did not know the maturity date. Unlike savings accounts or investments, money paid into life insurance policies was more often intended for specific purposes, including: higher or further education (33 per cent), to buy a car or motorbike (13 per cent) or to buy or set up a home (seven per cent).

Investments

- A minority (14 per cent) of children had investments of some kind, the two most common being Premium Bonds (six per cent) and National Savings and Investment bonds or certificates (four per cent). Only half (52 per cent) had been selected by parents; compared with savings accounts and life insurance they were much more likely to have been taken out by grandparents (39 per cent) or other relatives (10 per cent). Half (48 per cent) of investments had been acquired at, or close to the child's birth and the majority (81 per cent) of children with investments had them in their own name.
- The average amount invested was £300 and only four in ten children (44 per cent) knew that they had money invested for them. Most commonly money was invested for the child's future generally (59 per cent), for higher or further education (17 per cent) or for them to spend how they wished (14 per cent).

Chapter 3: Variations in account holding by family characteristics

Chapter 3 shows how both account-holding and the amounts saved varied widely between children in different circumstances.

- Household incomes had a particularly large effect: as income increased so did the likelihood of children having a savings account or investments and the amount saved.

- Children in larger families and those headed by a lone parent were less likely than their peers to hold an account and had less money saved for them.
- Parents' own saving behaviour was particularly strongly associated with account holding among children; children were more likely to have to have some form of savings or investment if their parents had savings themselves, and had a positive view of saving.
- The age of the child was one of the most important predictors of the amount of money saved. On the whole, the younger the child, the less likely they were to have any savings or investments and the less money they had saved.

Chapter 4: Patterns of saving for children in previous 12 months

This chapter focuses on recent saving for children. It begins by discussing the level of saving for children over the past 12 months, and then looks at the variations by family characteristics. It also considers the reasons for withdrawing money from children's savings accounts

Saving over the previous 12 months

- Two thirds (66 per cent) of those children with a savings account or investment received additional payments into their account in the previous 12 months. On average £180 was deposited into their accounts during this period, money which typically came from parents.
- The proportion of children receiving additional savings fell with age – reflecting an increased ability to save for themselves. The amount received however was highest among the under-fives (£200 on average) and the 16 to 17 year olds (£250).
- The number of siblings appeared to impact negatively on both the likelihood of receiving additional savings, and the amount received. Conversely, household income impacted far more on the proportions receiving savings than on the amount saved.
- Groups with below average proportions receiving additional savings over the last year also typically had fewer people making deposits for them. However, in most cases parents were equally likely to make deposits regardless of circumstances.
- Parents' own saving behaviour was strongly associated with recent saving for children. Conversely, credit use had little impact on the propensity to make additional deposits in a child's account.

Withdrawals from children's accounts

- Over a third (35 per cent) of parents had taken some money out of their child's account in the previous 12 months, and 32 per cent of children had done so.
- Most of the money withdrawn by parents was used to buy things for the child, but 12 per cent reported that they had taken money out of their child's account to pay for day-to-day expenses or household bills.

Chapter 5: Patterns of saving by children and young people

Chapter 5 explores access to money among children and young people and their spending and saving habits. It then looks at whether the children and young people learned about money, and if so, from whom.

Income

- Nine in ten (91 per cent) of children and young people had received pocket money, earned income or cash gifts over the past 12 months.
- Children and young people were more likely than average to have an income of their own if their parents had savings or owned their own home. The proportion also increased with the number of earners in the household.
- The proportions receiving various forms of income and the amount received increased with the age of the child. Only the proportion receiving pocket money decreased among 16 to 17 year olds and this was almost certainly due to the increased numbers with an earned income.

Spending

- There were noticeable differences in the way children and young people chose to spend their money. Half the children (51 per cent) aged between seven and ten who were interviewed said that they spent their money on sweets, while the young people aged between 11 and 17 were more likely to spend money on clothes (52 per cent).
- Gender also played an important role; girls of all ages were far more likely than boys to spend money on clothes, and boys were most likely to spend money on computer games – beating sweets even among those aged seven to ten.

Managing money

- Three quarters (75 per cent) of the parents who gave their children regular pocket money also talked to them about looking after their money. This compared with 39 per cent of those who did not give pocket money.
- Parents were also more likely to talk to their offspring about looking after their money once they were earning money themselves (81 per cent), or if the parents had savings (60 per cent).
- Children and young people were most likely to report that they had learned about looking after their money from their parents.
- Just 28 per cent of seven to ten year olds and 36 per cent of 11 to 17 year olds said that they had been taught about looking after their money at school.
- Young people of secondary school age were more likely to find money management lessons interesting if they had their own savings account (56 per cent compared with 45 per cent). Young children aged seven to ten tended to find such lessons interesting if they received pocket money, had a savings account or had saved money into a money box in the past 12 months.

Saving

- Parents were the main influence in terms of encouraging children and young people to save.
- Despite the fact that most children and young people had some money of their own, only just over half of them (56 per cent) had saved any money in the past 12 months and most of these had put money into a money box.
- Children and young people were far more likely to report that they had paid money into a savings account in the last year (31 per cent and 30 per cent

respectively) than the survey of adults would suggest. Just four per cent of parents reported that their child had saved anything in a savings account or investment in the previous 12 months.

Financial capability

- Over half (53 per cent) of the 11 to 17 year olds surveyed regularly ran short of money, but only half of them (50 per cent) had to wait until their next pocket money or wage payment was due – the rest were given additional money to help them make ends meet, usually by their parents.
- Half (49 per cent) of young people correctly answered that money was at risk if invested in stocks and shares, but only a small number (six per cent) knew that this applied to money invested in an equity ISA as well. Few said that money was at risk in either a deposit account or a cash ISA.
- Young people who had received money management lessons were better able to identify risk and less likely to feel unable to answer the question.

Chapter 6: Child Trust Fund accounts

Chapter 6 draws on a review of CTF products and depth interviews with CTF providers and distributors and their trade associations to provide an overview of the nascent CTF market.

Overview of the CTF market

- At the time of the research (October-November 2005) the CTF market was less than a year old and comprised 38 approved providers, including building societies, friendly societies, stockbroking and investment firms, banks, a credit union and two mutual life companies. In addition, there were over 70 organisations involved in the distribution of CTF accounts on behalf of approved providers, including building societies, IFA firms, banks and retailers.

CTF providers and distributors

- Approved providers fall into three groups in terms of their role in the market. The first group, mainly made up of banks, friendly societies and stockbroking firms, manufacture their own CTF accounts and market them directly to their customers. Some of these providers only offer a Stakeholder CTF account, while others offer a choice of accounts.
- The second group not only provide their own accounts directly to customers but also distribute these accounts through other organisations as well. There are currently around four main providers that operate in this way, all large friendly societies.
- The third and largest group all produce their own non-Stakeholder CTF accounts but, in order to comply with the regulations, offer a Stakeholder account by acting as a distribution partner for another approved provider. The bulk of this group comprises mutuals that produce their own non-Stakeholder savings account, and most of them work with a single approved provider to distribute a Stakeholder account.
- Among organisations that simply distribute CTF accounts, most work with a single approved provider to promote Stakeholder CTF accounts to their customers and provide application packs to interested parents. Once a parent has filled in the application form, they usually deal directly with the CTF provider.

Types of CTF accounts

- All financial services providers who decide to market CTF accounts must offer access to a Stakeholder account, which invests in stocks and shares but (among other things) has controls on risk and a cap on the charges that can be levied.
- Financial services providers can also offer savings CTF accounts and other equity-based accounts, which do not have to meet the Stakeholder criteria**.**
- There are two main types of non-Stakeholder equity accounts – those that only offer a limited range of funds for investors to pick from (mainly with-profits bonds), and 'self-select' accounts, where the choice of funds is far greater.
- CTF savings accounts are equivalent to an ordinary deposit account with a variable interest rate – except that the interest is tax-free. Building societies are the main providers of this type of CTF account.

Promotion and marketing of CTF accounts

- The CTF initiative was officially launched in January/February 2005, accompanied by a government advertising campaign. Further advertising campaigns were run during the course of 2005. An official CTF website was established to support the initiative, providing information for parents about eligibility, types of accounts and how to choose a suitable account, and lists of providers and distributors.
- Providers and distributors have mainly focused on cost-effective marketing methods such as direct mailing, and the provision of in-store or in-branch information and promotional materials. Most also provide information on their websites, and in some cases parents can download application forms or apply for an account online.
- Some CTF providers and distributors offer incentives to encourage parents to open an account, usually money-off vouchers, gift vouchers, or a free gift. Only a small number of providers operate incentive schemes for staff in relation to the number of CTF accounts they sell or open.

The account-opening process

- Most CTF accounts are opened through remote channels, typically by post but also by telephone and online.
- There is a basic advice regime that can be used in the sale of Stakeholder products, including Stakeholder CTF accounts. Providers and distributors, however, generally reported that CTF accounts were mostly opened on an execution-only basis – so while staff could give generic information and guidance about CTF accounts, they could not advise a parent which account to open.

Chapter 7: Choosing and opening a CTF account

Chapter 7 focuses solely on parents with children eligible for the CTF, drawing on the survey data and qualitative follow-up interviews with parents. It explores in detail how parents went about choosing and opening a CTF account and examines the reasons why some parents had not opened an account.

- Four in ten parents (38 per cent) had opened a CTF account by the time they were interviewed. Most of the rest (61 per cent) said they planned to open one. Indeed, many of them had already decided on the type of CTF and/or the company they wanted to open an account with. Only a handful of people in the survey said they had no intention of using the voucher to open an account.
- Most parents had received the CTF information booklet sent to them by HMRC, and had at least glanced through it; four in ten parents (42 per cent) had read it

carefully. On the whole, they found it useful in terms of gaining an understanding of the scheme.

Knowledge and views about the CTF scheme

- Parents' knowledge about the key features of the CTF scheme was patchy. While most parents (77 per cent) correctly answered that children can only access their CTF account once they reach the age of 18, levels of knowledge about the maximum amount that can be deposited in a CTF account each year and the age at which children can manage their own accounts were much lower.
- Only a third of parents (35 per cent) knew that the annual limit on additional contributions was £1,200, and a similar proportion (30 per cent) knew that children can manage their own CTF account from the age of 16.
- When asked their views about these terms and conditions, parents were broadly in favour of them. There was some concern, however, about children being able to manage their own CTF account from the age of 16.

The type of CTF account opened

- CTF savings accounts were the most popular type of account among parents. Half (51 per cent) said they had decided to open a savings account. Two in ten parents (20 per cent) had already done so.
- Around two in ten parents (19 per cent) had decided to open a Stakeholder CTF account, and one in ten (12 per cent) said they had already taken out one of these accounts.
- A minority of parents (nine per cent) said they had opted for a non-Stakeholder equity CTF account, and a small number (four per cent) had opened this type of account prior to being interviewed.
- Two in ten parents (21 per cent) had not yet decided or did not know what type of account they wanted to open for their child.
- Levels of knowledge about annual charges, risks to capital and the potential returns for the three types of CTF account were generally low. Parents who had chosen to open some form of equity-based account tended to be rather better-informed about these account features, but their levels of knowledge were still not great.

Making choices

- Two factors were important to parents when deciding what type of CTF account to open – level of risk and possible returns.
- For parents who had decided to open a savings account, the main concern was the security of their children's savings. Four in ten of these parents (37 per cent) said they had chosen a savings account because it was not linked to the stockmarket, compared with three in ten (28 per cent) of all parents that had opened a CTF account of some kind.
- Achieving a higher rate of return on their investment was the most common reason why parents had chosen equity-based accounts, and these parents were generally prepared to accept a higher level of risk to get a better return. The Stakeholder account was much more popular among parents who already had some type of equity investment than it was with other parents.
- In terms of choosing a CTF provider, the survey data indicates that having an existing relationship with a company was by far the most common reason for choosing to open a CTF account with that company. Half of parents (54 per cent) who had chosen their CTF provider said they had made their selection based on the fact that they already had an account with them. The follow-up depth interviews indicated that this was the case even when parents had shopped around to compare the accounts offered by different providers.

- The qualitative interviews found that most parents had filled in the CTF application form themselves, without any assistance. They found it straightforward to complete, and found the whole application process quick and easy.

Why had parents not opened accounts?

- From the survey data, certain groups of parents were identified who were rather less likely to have opened a CTF account, including: parents living in households with no earners; social tenants; lone parents; parents with three or more children, and parents who found their credit commitments a heavy burden.
- Multivariate analysis indicated that factors such as whether or not parents already saved for their children, whether or not parents held positive views about saving for children, and about the CTF scheme itself, provided a partial explanation about why some parents had opened account while others had not.
- The qualitative interviews provided further insights into why parents had not opened accounts yet. They suggest that it was largely driven by the difficulties that people faced in making the necessary decisions. Lack of time and the demands of family life could also delay the process.
- In the qualitative interviews, parents who had not yet opened an account were asked about their awareness of Revenue-allocated accounts. Most of them either did not know what happened if they failed to open an account, or thought that the voucher became invalid. On the whole, they were supportive of the idea of Revenue-allocated accounts. The general view was that it was better that the government opened an account than that the child lost the money.

Chapter 8: Saving in a CTF account

Chapter 8 is forward looking, in that it describes the future expectations and intentions of parents with regards saving in the CTF account. It concludes by considering the likely impact of the CTF on other forms of saving, both for the eligible child and for siblings.

Additional deposits into CTF

- Seven in ten (70 per cent) parents anticipated personally adding money to their child's CTF account. This varied little by parental or household characteristics.
- The likelihood that parents would add money to a CTF was, however, closely associated with the number of children they had. There was a strong desire to treat all children equally.
- The average total amount that parents thought they might add to their child's CTF account in the next 12 months was £240, but the amounts varied widely. Seven per cent expected that less than £100 would be added to the CTF account, while just three per cent thought the maximum amount (£1,200) would be deposited.
- Well-off parents anticipated paying money into the CTF from their current income, while less well-off parents were more likely to pay in money received from other people. In all, 37 per cent of parents expected that some of their deposits would actually be money received by the child on special occasions.

Use of CTF

- Almost half (46 per cent) of the parents surveyed would like the CTF to be put towards the cost of further or higher education. Just seven per cent anticipated that they would be happy for their child to spend it as they liked.

Impact on other savings

- Among low income households it was common for parents to believe that the CTF would encourage them to save more for their child (56 per cent).
- One in five (20 per cent) parents did not expect that money would be paid into the CTF account in the coming year, although money had been saved for their child elsewhere in the previous 12 months. From the depth interviews it seems that these parents preferred to have access to the money they put away for their child, should they need it.
- Half (50 per cent) of the parents with older children intended giving them savings equivalent to the CTF endowment.
- Three quarters (77 per cent) of those who planned to pay money into the CTF anticipated saving the same amount for their other children.