Payments for Parents

Child Trust Fund

Choosing how to grow your child's £250 voucher

For more information:

Visit www.childtrustfund.gov.uk

To see what else you may be entitled to, visit www.direct.gov.uk/paymentsforparents

Telephone

Call the Child Trust Fund Helpline:

- In the UK **0845 302 1470**
- From abroad **00 441355 359 002**
- Welsh Helpline **0845 302 1489**

To speak to someone in another language, call **0845 302 1470** and you will be called back at a time that suits you.

Textphone 0845 366 7870

TEXT

(for those with speech or hearing difficulties)

Phone and Textphone lines open 8am to 8pm, 7 days a week, excluding 25th, 26th December and January 1st
Welsh Helpline open 8.30am to 5pm, Monday to Friday.

- Contact Child Trust Fund providers who will give full information about the CTF accounts they offer (see list enclosed).
- Speak to an Independent Financial Adviser (there may be a charge for this).
- Ask at voluntary organisations such as your local Citizens Advice Bureau.
- If you would like a copy of this booklet in large print, Braille, Welsh or audio form, call 0845 302 1470.

Don't Forget.

The sooner you open your child's Child Trust Fund account, the sooner it can start to grow.

HM Revenue & Customs

CTF6 (February 2010 Edition)

Contents

Five steps to getting your Child Trust Fund started

By following the five simple steps on the right you'll find it really easy to open an account.

Step 1. Use the voucher sent with this brochure to open an account

Step 2. Choose the type of Child Trust Fund account for your child

There are three types to choose from; Stakeholder accounts, Shares accounts and Savings accounts.

Step 3. Choose a Child Trust Fund provider

There are lots of providers to choose from including Banks, Building Societies, Credit Unions and Friendly Societies.

Step 4. Open your child's account with your chosen provider

Some providers allow you to open the account online or over the phone without the need to see the voucher itself. Otherwise you can ask your chosen provider for an application form and return it to them with the voucher if it is required.

Step 5. Start adding money to the account for your child's future

It's entirely up to you if and when you want to add money to the account. For example, you could contribute an amount every month. Contributions can be made by anyone, no matter how small the amount. By the time your child reaches 18, they could have a worthwhile amount to get them started in life.

You'll find more in-depth information on each of these steps in this brochure. Alternatively, visit our website at www.childtrustfund.gov.uk or call the helpline on 0845 302 1470.

Introducing the Child Trust Fund (CTF)

The CTF is a way to save money for your child over the long term. It's a type of savings and investment account with a unique benefit: the Government puts money into the CTF for your child's future.

Is my child eligible?

The CTF is for children born on or after 1st September 2002. If you have been awarded child benefit, and your child isn't subject to immigration control and lives in the UK, they are eligible for CTF and will automatically receive a £250 voucher to start the account.

How is my child's money kept safe?

The money in the CTF account belongs to your child and your child alone. It cannot be taken out until they turn 18, when they can decide how best to use the money.

How much will the Government pay into the Child Trust Fund?

Sent with this brochure is a £250 voucher to start the CTF account. Children from lower income families will receive an extra £250. There will be a further payment of £250 for children at age 7, with children from lower income families again receiving an extra £250.
From April 2010, children entitled to Disability Living Allowance will receive annual payments of £100, with severely disabled Children receiving £200 annually. Payments are made automatically; there is no need to claim them.

How can I help my child's Child Trust Fund grow?

Anyone can pay into your child's CTF account. Between all of you, you can pay in as much as £1,200 every year on top of any Government payments into your child's CTF account. Each payment year is based on the date of birth of your child, for example - if your child is born on 14th April 2010, you have until 13th April 2011 to pay in the maximum amount in that first year. You can continue to contribute up to £1,200 every year until your child turns 18.
But remember, you don't have to put extra money into the account when you open it so don't let this put you off getting started.

Will my benefits or tax credits be affected?

No. Money in your child's CTF account will not affect any benefits or tax credits you may receive.

Neither you nor your child will have to pay tax on money earned in a CTF account.

Your Child Trust Fund voucher

Your child's £250 voucher is sent with this brochure. If your household income is below £16,190 for 2010/11 an extra £250 will be paid directly into your child's Child Trust Fund account.

This will happen only after your Child Tax Credit Award has been finalised. To receive this extra payment you must claim Child Tax Credit no later than the date your CTF voucher expires.

What do I need to do with the voucher?

You will need to choose a CTF account for your child - see the next section, on page 6.

What happens if I don't use the voucher?

If you don't open an account by the expiry date shown on the voucher, we will arrange for a CTF provider (e.g. a bank, building society, supermarket, friendly society or credit union) to open an account for your child; the type of account will be a stakeholder account - see page 8 for further details. We will then send you a letter to tell you where the account has been opened and the CTF provider will send you an annual statement so you can see how the account is doing. But your child's money will still have missed a whole year's growth, which could make a difference to the amount your child will receive when they turn 18 (the age when they can use the money). So to make the most of the money, follow the steps on these pages, and open an account as soon as you can.

What should I do if I lose the voucher?

Visit www.childtrustfund.gov.uk and click on the link titled 'Need a replacement voucher?' Or call the Child Trust Fund helpline on 0845 302 1470 and you will be sent a replacement.

Although you don't have to put money into the account, anyone can contribute and even small regular contributions can make a big difference.

Choosing a Child Trust Fund account for your child

There are three different types of account, which are described below and on the following pages. You can choose an account that you think will be the best one for your child.

Who can open a Child Trust Fund account?

Although the CTF account will belong to your child, only a parent (aged 16 or over), or someone else with "parental responsibility for the child" (a legal term meaning someone with the rights and duties of a parent), can use the CTF voucher to open an account.

The person who opens the account will look after it until the child's 16th birthday, when the child may take control by applying to the CTF provider to become the registered contact.

What are the different types of Child Trust Fund account?

You can choose one of three types:

- Stakeholder account
- Shares account
- Savings account

The one you choose will depend on which you feel will give the money the best opportunity to grow and your attitude to different types of investment. If you change your mind you can transfer your child's money to another account type or provider at any time.

Is there anything else I should know before making a decision?

Yes, you need to bear in mind that this is a long-term account. The money cannot be taken out until your child is 18, although you are able to change the provider and type of CTF account at any time - see page 14.

When putting money away for a long time, accounts that invest in shares nearly always produce better returns than savings accounts, however this doesn't mean that shares always perform well year on year. If shares don't do well in one year, they usually make up for the shortfall with a better performance in other years.

Savings accounts aim to give back what has been paid into the account plus interest. The money is not affected by stock market performance but like all accounts is still exposed to the effects of inflation.

If you are not sure what type of account to choose for your child you might like to consider taking independent financial advice.

The sooner you open a Child Trust Fund account, the more time the money in it has to grow.

The different types of Child Trust Fund account

Remember, you have a choice of accounts for your child's CTF money. Below we describe the different types of account. Then on the following pages, the flow chart will help you decide which one you prefer. And if you later change your mind you can transfer your child's money to another account type or provider at any time.

Stakeholder accounts

Stakeholder accounts invest your child's money in shares in companies. When those shares do well, the account will grow. The Government has made certain rules for these accounts to simplify them and reduce the cost and risk of investing in them for the longer term.

The stakeholder account is the one the Government will open if you don't use the voucher before it expires.

Your child's money is not put into just one company, as they could lose out if that company does badly. The money is invested in a number of companies to reduce the risk.

Once your child is 13, money in the account starts to be moved from shares to investments that have less chance of reducing in value in the short term.

CTF providers will look at how well the shares are performing to decide how much to move into more secure investments and how quickly.

This means that although your child's money may benefit less if the stock market is performing well, the effect of any short-term losses is reduced as they approach their 18th birthday.

The total charge your CTF provider can make for running a stakeholder account is no more than 1.5 per cent a year - £1.50 for every £100 in the account. Some providers may choose to charge you less than 1.5 per cent a year.

Shares accounts

This type of account invests your child's money in shares - and other investments - but without the rules that apply to stakeholder accounts for reducing the risk when investing money for the longer term.

The charges on this type of account are not limited in the same way as stakeholder accounts. You should check how much these are with your chosen CTF provider.

Savings accounts

If you don't want to invest in shares, you could choose a savings account for your child. With this, your child will get back whatever has been put into the account, plus some interest. The account is not tied to the fortunes of the stock market, so for example if share prices were to fall the value of your CTF account would not decrease.

However, although your money earns interest in a savings account, it might not grow as much as it would if it was invested in shares.

CTF providers (for example the bank or building society holding your child's CTF account) will not explicitly charge you for the costs of running a savings account. Nevertheless, providers will cover their costs when deciding how much interest to pay you.

Are there Child Trust Fund accounts that meet ethical needs?

Yes. You can see which CTF providers offer ethical accounts, on the list on the CTF website at www.childtrustfund.gov.uk and included with this booklet.

These accounts have an investment policy, and will only invest money in companies that fit that policy, for example some ethical accounts only invest in companies that aim to protect the environment.

Are there Shari'a accounts for my child's CTF money?

Yes. You can see which CTF providers offer Islamic Shari'a accounts from the list on the CTF website at www.childtrustfund.gov.uk [and included with this booklet].

Shari'a accounts are based on Islamic values, as defined by the principles of Shari'a law, and will not invest in areas such as alcohol, tobacco and gambling.

There are three types of Child Trust Fund account: stakeholder accounts, shares accounts and savings accounts. Find out which one is right for you on the next page.

Which type of Child Trust Fund account for my child?

The chart below will help you decide between the three types of CTF account. The sooner you choose one, and open it, the sooner it could start to grow. Remember that if you later change your mind, you can transfer your child's money to another account type or provider at any time.

The Child Trust Fund (CTF) is a long-term investment. Choosing an account that invests in shares could mean your child's money grows to a larger sum. But you could get back less than you put in. How do you feel about this?

I am happy to invest in shares and take a higher risk if it means my child might get more at 18.

I'm a little unsure about shares, though I understand investing in them and taking some risk might mean my child gets more at 18.

I think shares are too risky. I'd rather invest in something with steady interest gains, even if it means my child might get less at 18.

Stakeholder account

- Invests in companies' shares.
- It grows if those shares do well.
- Historically, over an 18-year period, accounts that invest in shares almost always do better than savings accounts.
- Shares can fall as well as rise so you could get back less than the amount put in.
- Has to follow Government rules to help reduce the risk.
- Money has to be spread over a range of investments.
- When your child is 13, money is gradually moved to more secure investments.
- The total charge your CTF provider can make for running the account is no more than 1.5 per cent a year – no more than £1.50 for every £100 in the account.
- The CTF provider has to allow you to pay in amounts from as little as £10.

(See page 8 for further details)

Shares account

- Invests in companies' shares.
- It grows if those shares do well.
- Historically, over an 18-year period, accounts that invest in shares almost always do better than savings accounts.
- Shares can fall as well as rise so you could get back less than the amount put in.
- There are no rules to reduce the risk when investing for the longer term.
- There is no limit on the charges your CTF provider can make for running the account.

(See page 8 for further details)

Savings account

- Does not invest in shares: this is the cash option.
- At 18 your child will get back whatever has been put in, plus some interest.
- Your child might not get back as much as they could with an account that invests in shares.
- You will not see a charge on your child's statement. Your CTF provider will take their costs into consideration before setting the interest rate.

(See page 9 for further details)

Choosing a Child Trust Fund provider

Once you've chosen an account type for your child's CTF, you'll need to choose a provider. Providers include Banks, Building Societies, Supermarkets, Friendly Societies and Credit Unions.

The Government requires that each provider offers a stakeholder account, and some also offer the other types of account. Before choosing, you should:

- Take a look at the enclosed list of CTF providers and the accounts they offer. You can always find the most up-to-date version on our website www.childtrustfund.gov.uk
- Check charges made by CTF providers for running the account. The total charge on the stakeholder account is limited to 1.5 per cent per year, but charges for share accounts can be higher.
- Consider how much you or family and friends might want to pay into the account. Remember that you do not have to contribute. However, if you do decide to do so, note that all CTF providers must accept a minimum contribution of £10 into a stakeholder account, but they may require larger payments for other accounts.
- You might want to look at information from more than one CTF provider.

Opening a Child Trust Fund account

How do I open a CTF account?

Visit or contact the provider and ask to open your account. With some providers you don't have to fill in a paper form but can apply instead by phone or over the internet. Some providers will accept details from the voucher without needing to receive the voucher itself. Once you've applied for your account, you have a 14 day 'cooling-off' period before the account is opened and the voucher value collected by the provider.

You don't need to have an existing account with your chosen CTF provider, but they may require proof of your identity so please check beforehand.

I am a parent under 16 – can I open a Child Trust Fund account?

No, because by law under 16s cannot manage CTF accounts. Contact the CTF Helpline on 0845 302 1470 and we will open a stakeholder account for your child for you instead.

We will let you know where the account has been opened and the CTF provider will send you a statement so you can see how the account is doing.

When you are 16, you will be able to look after this account for your child. Then, if you decide to, you can change it to a different type of CTF account or to a different CTF provider.

Can I open a Child Trust Fund account for my other children who were born before September 2002?

No. CTF accounts can only be opened for eligible children born on or after 1st September 2002. But there are many other savings and investment accounts for children. You can find out more about these on our website www.childtrustfund.gov.uk or ask banks, building societies and other providers.

Important questions to ask your Child Trust Fund provider

How does someone add to the account and is there a minimum amount?

Are there charges for running this account and, if so, how much will I be charged in total?

Can I check the value of the account myself from time to time? And if so, how?

You can open a Child Trust Fund account in lots of different places. You'll find a list of CTF providers enclosed with this booklet.

Frequently asked questions

Will I have to pay tax on money in the Child Trust Fund account?

No, and neither will your child.

Will money in my child's Child Trust Fund account affect family benefits?

No. If you are eligible for family benefits or tax credits, you will continue to receive them, and money in your child's account will not affect the amount you receive.

Can I take money out of the Child Trust Fund account?

No. All the money in the account belongs to your child. Once they turn 18, they can decide how best to use their money.

Can I change the type of account or Child Trust Fund provider whenever I want?

Yes you can. There will be no charge for the transfer, but you may have to pay for any costs of buying and selling shares – so check with your CTF provider first.

When will my child take over the Child Trust Fund account?

When your child turns 16, they may apply to take control of the account by applying to the CTF provider to become the 'registered contact'. Then they can change the type of CTF account or the CTF provider if they wish.

How will I know how much money is in the Child Trust Fund account?

Each year, your chosen CTF provider will send out a statement – this will be around the time of your child's birthday.

The money in a Child Trust Fund account is locked away until your child turns 18. And there is no tax on any interest or gains.

Making further contributions

Can I pay money into the Child Trust Fund account?

Yes. The maximum amount that can be put into the account each year is £1,200. Government contributions do not count towards this limit. The start date for each year is your child's birthday, except in the first year when the start date is the day the account is opened, and the end date is the day before your child's next birthday. If you open an account close to your child's birthday, check with your provider to make sure you don't miss out on the first year's £1,200 limit.

Who can contribute?

Anyone can contribute. Grandparents, other family members, friends and your child can all put money into the CTF account. You can give them the account details if they want to pay money in directly.

Do I have to put money into the Child Trust Fund account?

No you don't have to, but the table below shows what a big difference even small, regular contributions can make. Think about the money you need for other things before deciding how much to save in the account. And remember that any money in your child's account is locked away and can only be touched by your child when they reach 18.

This table shows how your child's CTF account could grow over 18 years

Value of voucher	Contribution	Final amount
£250	£10 per month	£4,500
£250	£25 per month	£9,500
£250	£50 per month	£18,000

Please note the following

This table can only give you an idea of the final value. There is no guarantee that your child's CTF account will reach the value shown. The final value may be higher or lower. Values are rounded to the nearest £500. The final amounts include the effects of the further Government payments at age 7. The table assumes that your child's CTF account is a stakeholder account, with a management fee of 1.5% and a growth rate of 7% a year and assumes that shares are moved progressively to more secure investments from age 13 to 18.