Helping parents with the Child Trust Fund

Workbook for practitioners

Produced with support from

citizens advice bureau

Toynbee Hall
Learning from local action
developing national solutions

Child Trust Fund

Welcome to 'Helping parents with the Child Trust Fund'

Using your practitioner's workbook

This workbook has been developed as a reference tool for practitioners, to help you give your clients information on the Child Trust Fund. It has been designed to help you make Child Trust Fund topics easily understandable, particularly when talking to less financially confident parents.

This workbook is not intended to be shown to the parents you work with - there is a parent worksheet for this (see below). But it will give you a higher level of background information so that you can answer their questions confidently.

Understanding the symbols in the workbook

Objective: this summarises the main information you should aim to get parents to understand from each section.

Exercise: if time allows, you may find these suggested exercises useful to get parents thinking about particular topics.

Key fact: these provide more detailed information which may help you answer specific questions from parents.

Bold words: these terms are listed in the 'jargon buster' on page 20, which provides straightforward explanations of more complex words or phrases.

Using the parent worksheet

Use the parent worksheet to introduce your clients to the Child Trust Fund. By going through the worksheet together, you will be able to discuss the information further and answer questions as they come up. You can then give the parents a copy of the worksheet to take away with them.

The information in these materials was put together with support from a number of not-for-profit and parent-facing organisations working in partnership with HM Revenue & Customs. HM Revenue & Customs would like to thank all partners for their contribution, and in particular Citizens Advice and Toynbee Hall for their role in creating the materials.

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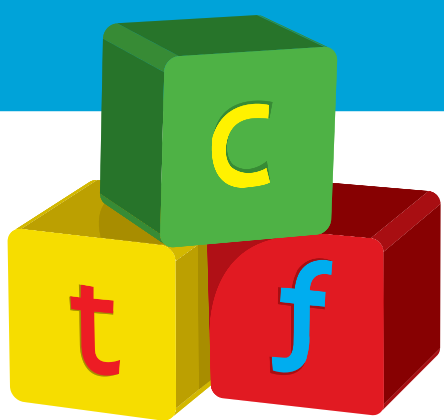


Do's and don'ts of advising parents

This workbook contains information about choosing a Child Trust Fund account.

You may find that parents you work with ask you where they should invest their voucher. Unless you are a licensed financial adviser, you should never give recommendations such as where to open an account or which type of account to open.

However, you can provide any of the factual information in this workbook to help parents make these decisions for themselves. The information on the next few pages will help you:

- **discuss with clients what's important to them – e.g. are they happy to manage the account over the phone or internet, or do they want to be able to visit a branch**

- **explain clearly the three types of Child Trust Fund account and the differences between them**

- **prepare parents for the process of opening their child's account**

Once they understand the options, most parents will be able to choose a Child Trust Fund account for themselves. In doing so, they will increase their confidence and their financial capability.

Introducing the Child Trust Fund

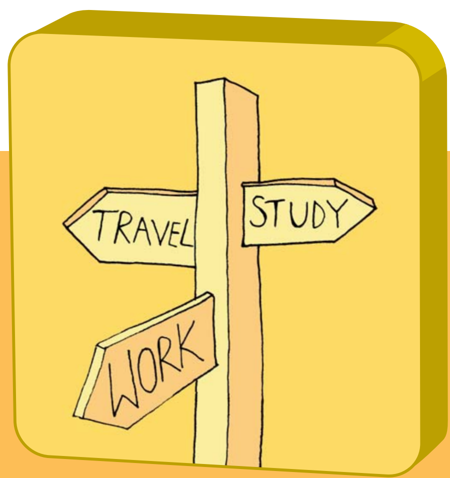
Objective: Helping parents gain a basic understanding of the Child Trust Fund

The Child Trust Fund is a way for parents, friends and family to save for a child's future.

The child gets the money when they are 18.

It could help them pay for driving lessons or training, or put a deposit down on a house.

Exercise: Get parents to think about what opportunities they would like their child to have at 18.



What do parents receive?

Objective: Helping parents understand their entitlement

Every new baby is entitled to £250 so that their parents can open a Child Trust Fund account for them. This is a special, long-term saving or investment account.

Babies in lower income families are entitled to an additional payment of £250, making £500 in total.

When the child is 7, they will receive a further £250 (£500 for lower income families).

Key fact: Every child born after 1 September 2002 is eligible, as long as:
- they are receiving Child Benefit
- they are living in the UK, and
- they are not subject to immigration controls

Key fact: The Child Trust Fund money won't affect parents' benefits or their savings limits, because it's in their child's name and is therefore the child's money.

Key fact: Neither parents nor child will pay tax on money in a Child Trust Fund account.

Key fact: Lower income families are those whose annual income is below £14,495 (the 2007/08 threshold for full Child Tax Credit). To check the CTC threshold for other years, go to **www.childtrustfund.gov.uk**

How do parents receive the money?

Objective: Helping parents understand/recognise the voucher

Once parents have been awarded Child Benefit, their child is automatically eligible for a Child Trust Fund account, with a £250 payment from the Government.

A voucher for £250 will be sent to the parent's address.

Parents need the voucher to open a special account called a Child Trust Fund account.

Key fact: If a parent has lost their voucher or has not received one, tell them to call the Child Trust Fund Helpline (or call on their behalf) on **0845 302 1470** (8am-8pm, 7 days a week). Parents can also request a replacement via the Child Trust Fund website - **www.childtrustfund.gov.uk**

Key fact: Each voucher has the child's name and date of birth plus a unique reference number printed on it. It cannot be used to open a Child Trust Fund account for another child. If the details on the voucher are incorrect, advise the parent to call the Helpline (see above). They will receive a new voucher with the correct details.

Key fact: If they are entitled to the additional £250 payment, this will be paid straight into their account by the Government after the end of the tax year (April).

Why can't parents just have the cash?

Objective: Helping parents understand the idea of saving money for their child's future

The money isn't for spending now - it's to give the child a 'nest egg' in the future.

The child gets the money when they turn 18.

It's a long-term savings account, so the money has lots of time to grow.

The money in the account belongs to the child.

It can't be accessed until the child is 18, so parents can be confident it will be there for them when they reach adulthood.

The benefits of saving for parents

Objective: Helping parents understand the value of saving money for their child's future and see that it's a possibility for them

It's not just the Government's money that can be paid into a Child Trust Fund account - parents can also make payments of their own money into it.

Other people can pay money into the account for the child too, such as grandparents, relatives, friends or the child themselves.

Adding to the money in the account will help give their child a larger amount at 18. Even small amounts like £5 will help. But remember, once money has been paid in, it cannot be taken out.

Key fact: All the money belongs to the child and can't be accessed by the parent. So if parents pay in their own money, they cannot take it back out again.

Key fact: A maximum of £1,200 can be saved each year (not counting the money from the Government at birth and age 7).

Exercise: Use the Desert Island activity (see below) to help parents explore the difference between essential and non-essential spending, and see how they could save a little each month.

The Desert Island activity: get parents to imagine they have survived a shipwreck and are now in a lifeboat making for a desert island. They need to throw some things overboard to keep afloat. From this list, which will they need most on the desert island and which could they throw out: sleeping bag, torch, rope, first aid kit, fish hook, water, food, matches, mobile phone, magazine, keys, cigarettes?

Important: remind parents that, in real life, saving comes second to rent, bills, food etc.

Choosing where to open a Child Trust Fund account

Objective: Helping parents start thinking about where they'd feel comfortable saving

Lots of places offer Child Trust Fund accounts, including Banks, Building Societies, **Friendly Societies** and some **Credit Unions**. These are known as '**Providers**'. A list of providers is available on the Child Trust Fund website **www.childtrustfund.gov.uk**

Other places, such as some high street shops, work with these providers to offer Child Trust Fund accounts in convenient locations. They will pass on the child's voucher to the provider to open the Child Trust Fund account. These are known as '**Distributors**'.

When choosing a provider, parents need to think about whether it's important to them to be able to visit a branch in person and pay in cash over the counter. If so, they need to find out which providers and distributors allow this, and how easy these would be to travel to. If their provider doesn't have branches, are they happy to pay by **direct debit** or send cheques through the post? They also need to find out what is the smallest payment they can make, e.g. £5 at a time, and whether there are any annual charges.

Remember: you should not be recommending a specific provider or distributor to parents.

Key fact: The parent who opens the Child Trust Fund account will be responsible for managing it. This includes keeping account statements safe and telling the provider if they move house.

Choosing which kind of Child Trust Fund account to open

Objective: Helping parents understand the differences between the accounts enough to start forming a preference

There are 3 different kinds of Child Trust Fund account:

1. **Stakeholder Accounts**
2. **Shares Accounts**
3. **Savings Accounts**

Not all providers offer all 3 kinds of account - parents will need to check whether their preferred provider offers their chosen kind of account.

The main difference between the 3 kinds of account is how the money is invested. (In addition to the information on the following pages, you'll find more detailed information in the Child Trust Fund booklet 'What will yours grow into?'.

About Stakeholder Accounts

Money in a Stakeholder Account grows by being invested in a range of companies' **shares**. When you own shares in a company you are a part-owner of the company, along with all the other shareholders.

If the companies do well the money will grow, but if they do badly, you may get back less money than you paid in.

However, Stakeholder Accounts have to follow additional rules to reduce the risk of investing in shares (and potentially losing the money you put in).

For example, when the child is 13 the money is moved from shares to investments that have less chance of reducing in value in the short-term.

If a parent is willing to take more risk than with the Savings Account, it may mean that their child gets more money at 18.

This is the kind of account the Government will open for the child if the parents don't use the voucher within a year.

Remember: it is important parents understand that the value of shares can fall as well as rise. This means they could get back less money than they put in.

About Shares Accounts

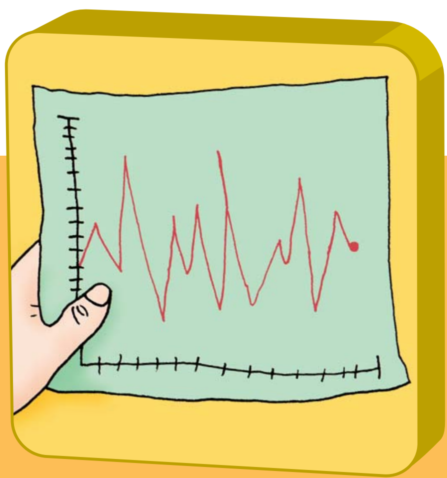
As with Stakeholder Accounts, money in a Shares Account grows by being invested in companies' shares and other investments.

If the companies do well the money will grow, but if they do badly you may get back less money than you paid in.

These accounts don't have to follow the additional Stakeholder rules to reduce the risk of investing in shares.

So they have the biggest risk of losing the money you put in. BUT they also offer the biggest potential growth.

If a parent is willing to take a higher risk than with a Stakeholder or Savings Account, it may mean that their child gets even more money at 18.



About Savings Accounts

This is the cash option, which doesn't invest in shares.

Money in a Savings Account grows by having a fixed amount of interest added to it.

The money is guaranteed to grow by a predetermined amount each year, known as **AER (Annual Equivalent Rate)**. So there is no risk of losing the money you put in.

The child will get back all of the saved money with interest. BUT the money may not grow as much as in other kinds of Child Trust Fund account.

Although the money is guaranteed to grow, it may not grow enough to keep up with inflation. This means that if the price of goods gets more expensive as the years go by, the money might not buy as much in the future as it does today.

Key fact: Interest is the extra money that Banks, Building Societies etc pay people who save money in one of their accounts.

Banks usually quote their interest rates as an AER, which means the amount of interest you will be paid if you save for a whole year. The AER is usually expressed as a percentage.

The higher the AER offered by the Bank, the more money parents will make by saving there.

Exercise: Take parents through an example of how percentages show an amount as part of 100. To work out a percentage of an amount, first divide the amount by 100 to find 1%. Then times the 1% figure by the number of percent you are looking for.

For example, to find 10% of £50:
Step 1: 50 divided by 100 = 0.5 (this is 1%)
Step 2: 0.5 times 10 = 5 (this is 10%)
So 10% of £50 is £5

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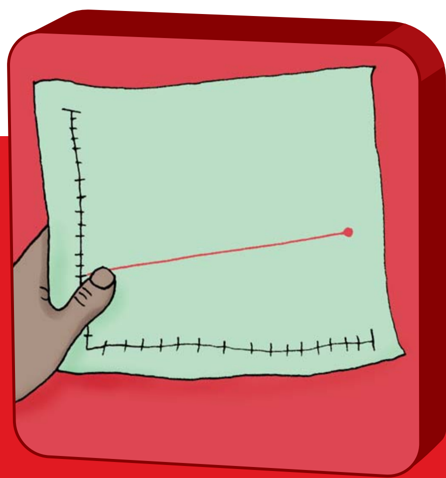

About Savings Accounts (continued)

Exercise: Parent wants to find out more? Avoid telling parent which provider or account to choose, but do:

- Use the Toolkit leaflet to explain the differences between the accounts in more depth.
- Advise parents to use the online toolkit for further help with choosing an account - **www.ctfhelp.com**
- Point parent towards the Child Trust Fund website **www.childtrustfund.gov.uk**
- Advise parent to call the Helpline on **0845 302 1470** if they want further general information. If English is not their first language and the parent would prefer to talk to someone in their own language, they can ask for an interpreter (or you can on their behalf). The Helpline will ask for the parent's telephone number, and they will call the parent back with an interpreter on the line.
- If you are with a client and they have a question that needs answering straight away, you can also call the **Adviser Priority Line** on **0845 302 1461**. Please note that the priority number is for when you need immediate help only and is not to be given out to parents. Clients should always be given the Child Trust Fund Helpline number to call.

Opening a Child Trust Fund account

Objective: Increasing parents' confidence about the process of opening an account

Child Trust Fund accounts can be opened at the Bank or Building Society, over the internet or telephone, or by post.

Most providers will require the parent to fill in a form or answer questions (name, address, date of birth).

Some providers only need to see the voucher for ID; others may require the parent to show additional ID (e.g. passport, utility bill or an original award letter confirming the parent's entitlement to benefits). The provider will keep the voucher, so parents must remember to take this along with them when they go to open a Child Trust Fund account. If a parent has lost their voucher or has not received one, tell them to call the Child Trust Fund helpline on **0845 302 1470**.

Key fact: There's no need for a credit check because Child Trust Fund accounts don't allow you to borrow money or go overdrawn.

Helping parents get information from providers

Objective: Helping parents ask questions and understand the answers when dealing with account providers and distributors

Once parents have decided which kind of Child Trust Fund account they would like to open for their child, they will need to find a provider or distributor offering an account which meets their needs.

Remember: although you cannot recommend a provider or an account to parents, there are lots of ways you can help them make the decision for themselves. The more familiar they are with the different options, the more confident they will feel about asking for information and understanding the answers.

Exercise: Try a role-play exercise with parents to help them gain confidence in getting the information they need from providers.

Give clients a copy of the 'QUESTIONS TO ASK' sheet. Then play the part of a member of Bank or Building Society staff and encourage the parent to ask you questions from the sheet.

What if a parent doesn't open a Child Trust Fund account within a year?

Objective: Ensuring parents understand what happens after one year

The voucher is valid for one year. If a parent does not use it to open an account within a year, it will expire. The Government will then open an account for them and put in £250. This account will be a Stakeholder Account: the one which invests in shares but has certain safeguards in place to protect the money.

However, some parents may prefer a Savings Account or a Shares Account. It is important that they understand that they will not get a Savings or Shares Account opened for them if they do not open it themselves.

The Government will write to the parent and tell them where their account has been opened.

Once this has happened, parents don't need to do anything with their voucher and can throw it away. However, parents are encouraged to become the registered contact (see 'Key fact' below).

Key fact: The registered contact for a Child Trust Fund account has responsibility for the account until the child reaches the age of 16 and takes over managing it. The registered contact will be sent regular statements about the account and is responsible for telling the provider if they change address.

Usually the person who opens the account on behalf of the child automatically becomes the registered contact. However, where the Government has opened an account, a parent or person with parental responsibility for the child can apply to become the registered contact.

Key fact: Child Trust Fund accounts opened by the Government on a child's behalf are sometimes referred to as '**Revenue Allocated Accounts**'.

What if parents aren't happy with their account?

Objective: Helping parents understand that they can change accounts

If a parent isn't happy with their Child Trust Fund account, they can move the money to a different Child Trust Fund account or a different provider at any time.

This applies whether they chose the account or the Government opened it for them.

If they want to stay with the same provider but change to a different kind of account, they should ask their provider how to move the money.

If they want to change provider, they should ask the new provider how to do it.

Child Trust Fund: special cases

What if a parent is under 16?
A parent who is under 16 years can't open a Child Trust Fund account. The parent should phone the **Child Trust Fund Helpline** on **0845 302 1470** and the Government will open an account for them. When the parent turns 16 they will be able to look after the account and make changes if they wish.

What if a parent needs a Shari'a compliant Child Trust Fund account?
Shari'a compliant Child Trust Fund accounts are available. A list of providers and accounts offered can be found on the Child Trust Fund website **www.childtrustfund.gov.uk**

What if they want an ethically-invested account?
Providers offering ethically-invested Child Trust Fund accounts are listed on the Child Trust Fund website **www.childtrustfund.gov.uk**

What if a child is terminally ill?
Terminally ill children who meet the criteria can have their money before they turn 18. See the section called 'Child Trust Fund Information for VCOs' at **www.childtrustfund.gov.u**k for more details.

What happens if a child dies?
The money in the child's Child Trust Fund account will go to whoever inherits the child's estate (any assets belonging to the child). This is usually the child's parents, or the husband or wife if the young person was married. See the section called 'Child Trust Fund Information for VCOs' at **www.childtrustfund.gov.uk** for more details.

What about looked-after children?
There are special arrangements to make sure looked-after children do not miss out on the Child Trust Fund. Many children start being looked after some time after Child Benefit has first been claimed for them. In those circumstances, they will get a Child Trust Fund voucher in the usual way. And usually the person who opened the account will be able to go on managing the account.

Where a child goes into care before Child Benefit has been awarded, the local authority will let the Child Trust Fund office know about this. The Child Trust Fund office will arrange for a Child Trust Fund provider to open an account for the child and write to the person with parental responsibility so they know about the account. Where there is a person with parental responsibility for the child, that person will be able to take on managing the account. Where there is no one with parental responsibility, the account will be looked after by the Official Solicitor until someone with parental responsibility comes forward. For more details, see the section called 'Child Trust Fund Information for VCOs' at **www.childtrustfund.gov.uk** for more details.

Jargon buster

Annual Equivalent Rate (AER): the interest you get from a savings account expressed in a standard way that takes into account not just how much you get but when you get it. Useful for comparing one account with another. The higher the AER, the better the deal! (See page 13 for more information.)

Annual Percentage Rate (APR): similar to AER, but used to describe the interest you will pay if you borrow money with a loan or credit card. But this time, the higher the APR the worse the deal!

Credit Union: a co-operative financial institution owned by its members, which offers low interest loans and promotes saving.

Direct Debit: another method of making regular payments automatically. Different from a **Standing Order** because instead of the bank sending the money for you, you allow the organisation you want to pay to take the money for themselves.

Distributor: an organisation which works with providers to offer Child Trust Fund accounts in convenient locations, such as some high street shops.

Friendly Society: a mutual organisation, which means that all the people who have investments in it are members. Friendly Societies offer a wide range of products, including savings, insurance and healthcare products, often tax-free.

Provider: a financial institution which offers Child Trust Fund accounts, such as Banks, Building Societies, Friendly Societies and some Credit Unions.

Revenue Allocated Account: the Child Trust Fund account that will be opened by the Government on behalf of a child if the child's parents do not open one for them within a year (see page 17 for more information).

Shares: a small amount of a company that you can buy, usually one of many thousands. If the company does well the value of your shares will go up and you can sell them for a profit. However, if the company doesn't do well the value of your shares will go down and you could lose money.

Standing Order: a method of making regular payments automatically. You instruct your bank to pay the money for you to a particular person, company or bank account. If the payment needs changing or stopping, it's your responsibility.

Parents with questions can contact:

Child Trust Fund Helpline **0845 302 1470** (offers a call-back translation service)
Welsh Helpline **0845 302 1489**
Textphone **0845 366 7870**

Child Trust Fund Office
Waterview Park
Mandarin Way
Washington
NE38 8QG

General enquiries about the Child Trust Fund only
ctf@hmrc.gov.uk

For general information on the Child Trust Fund, visit **www.childtrustfund.gov.uk**
For help in choosing an account, visit **www.ctfhelp.com**

Practitioners with questions can contact:

Child Trust Fund Helpline **0845 302 1470**
– for further information and resources for practitioners, visit **www.childtrustfund.gov.uk** and go to the 'Information for Voluntary and Community Organisations' section.

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