HM Revenue & Customs

PFRC
PERSONAL • FINANCE • RESEARCH • CENTRE

Saving for children:

A baseline survey at the inception of the Child Trust Fund

Elaine Kempson, Adele Atkinson
and Sharon Collard

Personal Finance Research Centre
University of Bristol

September 2006

HM Revenue & Customs Research Report 18

Published September 2006

© Crown copyright 2006.

Copyright in the typographical arrangement and design rests with the crown. This publication may be reproduced free of charge in any format or medium provided that it is reproduced accurately and not used in a misleading context. The material must be acknowledged as Crown copyright with the title and source of the publication specified.

The views expressed in this report are those of the authors' and do not necessarily represent those of HM Revenue & Customs.

Published by HM Revenue & Customs

www.hmrc.gov.uk

Table of Contents

Acknowledgements .... **vii**
Glossary .... **viii**
Executive Summary .... **ix**
1 Introduction **1**
1.1 The Child Trust Fund scheme 1
1.2 Child Trust Fund accounts 2
1.3 About the research 3
1.4 This report 3
2 Children's savings and investments **5**
2.1 Levels of investment and account-holding by children 5
2.2 Children's savings accounts 8
2.3 Life insurance for children 13
2.4 Children's investments 14
3 Variations in account holding by family characteristics **17**
3.1 Influence of child and family circumstances on children's investments and account-holding 17
3.2 Influence of family economic circumstances 19
3.3 Influence of parents' attitude to saving and propensity to save 20
3.4 Influence of parents' propensity to borrow 23
3.5 What explains children's account-holding and sums of money saved? 24
4 Patterns of saving for children in previous 12 months **29**
4.1 Levels of saving for children in the previous 12 months 29
4.2 Regional variations 30
4.3 Influence of child and family characteristics and circumstances 31
4.4 Influence of family economic circumstances 34
4.5 Influence of parents' propensity to save 36
4.6 Influence of parents' propensity to borrow 38
4.7 What explains the level of saving for children? 38
4.8 Withdrawals from children's accounts 39
5 Patterns of saving by children and young people **44**
5.1 Children and young people's income 44
5.2 Spending by children and young people 49
5.3 How children and young people had learnt about managing money 51
5.4 Encouragement of children and young people to save 55
5.5 Children and young people's approaches to saving 56
5.6 Saving by children and young people 58
5.7 Children who had saved nothing 65
5.8 What children and young people would do with a cash gift 65
5.9 Levels of financial capability among young people 65
6 Child Trust Fund accounts **71**
6.1 What is the Child Trust Fund? 71
6.2 Overview of the CTF market 72
6.3 A typology of providers and distributors 74
6.4 The providers of CTF accounts 75
6.5 The distributors of CTF accounts 77
6.6 Types of CTF accounts 77
6.7 Promotion and marketing of CTF accounts 79
6.8 The account-opening process 81

7 Choosing and opening a CTF account 83
7.1 Overview of CTF account opening 84
7.2 Sources of information about the CTF scheme 84
7.3 Levels of knowledge about the CTF scheme 85
7.4 Views about the terms and conditions of CTF accounts 86
7.5 What types of CTF have parents chosen to open? 89
7.6 How well-informed were parents about the different types of CTF? 90
7.7 Choosing a CTF account 92
7.8 Opening a CTF account 98
7.9 Why had parents not opened accounts? 99
8 Saving in a Child Trust Fund account 105
8.1 Overall expectations about saving in the Child Trust Fund 105
8.2 Which children do parents expect will have money added to their CTF accounts? 106
8.3 Which children do parents expect will have money paid into their CTF account regularly? 107
8.4 Which children do parents expect will have the largest sums paid into their accounts? 107
8.5 Parents' own saving into Child Trust Fund accounts 112
8.6 Saving in Child Trust Fund accounts by others 115
8.7 How parents would like Child Trust Fund savings used 116
8.8 Overall impact of the Child Trust Fund on saving for eligible children 119
8.9 Impact of the Child Trust Fund on saving for other children 121
9 References 123

Tables

Table 2.1 Type of account by number of types of account held 6
Table 2.2 Children's savings and investments by country 8
Table 2.3 Who paid money in by monthly income 11
Table 2.4 Why money was being saved by type of saving or investment 12
Table 2.5 Does the child know about her/his savings account? 12
Table 3.1 Children's savings and investments by family circumstances 18
Table 3.2 Children's savings and investments by family economic circumstances. 20
Table 3.3 Children's savings and investments by parent's propensity to save and borrow 21
Table 3.4 Parents' attitudes to saving 22
Table 3.5 Children's savings and investments by parents' attitudes to saving 22
Table 3.6 Regression model of the likelihood of children having a savings account or investment. 25
Table 3.7 Model of amount in child's savings or investment account 27
Table 4.1 Additional saving for children in the last 12 months and amount added to savings in previous 12 months by region 30
Table 4.2 Additional saving for children in last 12 months and amount added to savings in the previous 12 months by family circumstances 31
Table 4.3 Additional saving for children in the last 12 months and amount added to savings in previous 12 months by family economic circumstances. 34
Table 4.4 Additional saving for children in the last 12 months and amount added to savings in previous 12 months by parent's propensity to save and borrow 37
Table 4.5 Has any money been saved for children with accounts in past 12 months? 41

Table 4.6 Has any money been withdrawn in the last 12 months by parents who reported that their child had at least one savings account? 42
Table 5.1 Income received by children and young people 45
Table 5.2 Sources from which children and young people had found out about managing money 53
Table 5.3 Child's approach to saving by age (survey of parents)........................ 56
Table 5.4 Children's saving in money boxes and savings accounts (survey of parents) 60
Table 7.1 Whether or not parents had opened a CTF account at the time of the survey interview 84
Table 7.2 Use of the government's information booklet 84
Table 7.3 Parents' views of Child Trust Fund endowment amounts 87
Table 7.4 Parents' views of the age at which children can manage and access their Child Trust Fund account 88
Table 7.5 What types of CTF accounts had parents decided to open?............... 89
Table 7.6 Saving into Child Trust Fund accounts by type of savings products used by parents 94
Table 7.7 Attitudes to choosing savings/investments by type of CTF chosen..... 95
Table 7.8 Regression model of the likelihood of a Child Trust Fund account having been opened for a child 101
Table 8.1 Anticipated payments into Child Trust Fund accounts 108
Table 8.2 Likelihood of money being added to the Child Trust Fund account in next 12 months 111
Table 8.3 Anticipated saving into Child Trust Fund accounts by type of savings products used by parents 113
Table 8.4 How parents will encourage child to use money saved in the Child Trust Fund, compared with use of other types of saving................... 117
Table 8.5 How parents will encourage child to use the money saved in the CTF account by whether they expect to add money themselves 118
Table 8.6 What young people (aged 17) would do with money in CTF if they had just turned 18... 119
Table 8.7 Effect of Child Trust Fund on saving for ineligible children................ 122

Figures

Figure 2.1 Level of investment and account-holding by children............................ 6
Figure 2.2 Variations in type of saving or investment by age of child..................... 7
Figure 2.3 Total amounts in children's savings and investments 7
Figure 4.1 Who paid money into child's savings in the previous 12 months by age of child 33
Figure 4.2 How parents had spent withdrawals from children's savings 40
Figure 5.1 Main purchases mentioned by children (aged 7 to 10) who ever had any money (Multiple responses were allowed)................................. 50
Figure 5.2 Main purchases mentioned by young people (aged 11 to 17) who ever had any money (Multiple responses were allowed)........................... 50
Figure 5.3 Child's approach to saving by age (surveys of adults, children and young people).. 57
Figure 5.4 Parents reporting of amount held in child's money box..................... 61
Figure 5.5 Saving in money box – reasons for saving by children and young people... 63
Figure 5.6 Proportion of children saving into an account in the last year (parental reporting) 64
Figure 5.7 Total amount deposited in a savings account by those saving any money in past 12 months (survey of young people)............................ 64

Figure 5.8 Knowledge of saving products amongst young people 67
Figure 5.9 Awareness of savings and investment types by family circumstance (survey of young people) 68
Figure 5.10 Proportion of young people who felt that there was a risk of losing the money investment by product type and age (survey of young people) 68
Figure 5.11 Proportion of young people who felt that there was a risk of losing the money investment by product type and school money management lessons (survey of young people) 69
Figure 5.12 How confident about choosing best type of savings account without help by age (survey of young people) 70
Figure 7.1 Level of knowledge about the CTF scheme 86
Figure 7.2 Reasons for deciding which type of CTF to open 93
Figure 7.3 Types of provider chosen by parents who had not yet opened a CTF account 96
Figure 8.1 Respondents anticipating regular payments into CTF from parents or other adult by family characteristics 107
Figure 8.2 Total amount thought likely to be paid into CTF by parents and other adults over next 12 months 109
Figure 8.3 How parents who intend to add money to CTF will find the money to pay in by household income 114
Figure 8.4 The impact of limited access on saving into the CTF account 115
Figure 8.5 Typology of intentions to save in Child Trust Fund and saving in previous 12 months 120

Acknowledgements

We would like to thank Andrea Collier and Stephen Pearson of HM Revenue and Customs, who were responsible for liaison and ensuring the efficient running of this project. We would also like to thank the following people:

Bruce Hayward, Ken Seeds and Carrie Harding (BMRB) and Nick Smith (The Research Partnership), who worked with us on the surveys.

Sara Davies, Gerry Gibbs, Kate Thorne and Sally Taylor, who carried out the qualitative interviews.

Our particular thanks are due to everyone who gave up their time to take part in the research.

Glossary

CTF	Child Trust Fund
HMRC	Her Majesty’s Revenue & Customs
IFA	Independent Financial Adviser
ISA	Individual Savings Account
NS&I	National Savings and Investments
OEIC	Open Ended Investment Company
PEP	Personal Equity Plan
TESSA	Tax Exempt Special Savings Account

Executive Summary

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.

1 Introduction

Rich or poor, most parents aspire to save for their children. But the fall in income and increase in expenditure that accompany the birth of a new child can make this difficult. Consequently, children from poorer or larger families are less likely to have savings than those who are better-off.

In its consultation paper *Helping People to Save*, published in November 2000, the Government highlighted the importance of savings in providing people with independence throughout their lives; security if things go wrong; and comfort in old age. It also identified the need for incentives to encourage saving, especially among those on lower incomes.

Later consultation papers (*Saving and assets for all*, April 2001; *Delivering saving and assets*, November 2001) developed the concept of asset-accumulation as a means of extending opportunity to all young people, regardless of their families' circumstances. This could include 'helping them to pay for lifelong learning, or by providing them with money in a savings account that they can call on when starting a family, buying a house, or in times of special need' (HM Treasury, April 2001, p.1). The Government believes that, in the longer term, asset-holding may result in benefits such as higher earnings, lower unemployment and better life-chances (ibid).

Government efforts to encourage saving and asset-accumulation have led to a range of policy initiatives, including Individual Savings Accounts and Stakeholder Pensions. These seem to have had a more limited impact among lower-income consumers than might have been hoped (Collard, 2001; Association of British Insurers 2002; Institute for Public Policy Research, 2003).

More recently, attention has turned to other ways of encouraging people to save and develop a 'strong saving habit' (HM Treasury, April 2001). The Saving Gateway, a savings scheme for people on low or modest incomes, was first piloted in five areas of England between 2002 and 2004. The Saving Gateway offers matched funding from the Government as an incentive to save. The pilot evaluation showed that this had a significant impact on levels of saving by those who took part. A second much larger pilot scheme began in 2005.

The Government has introduced the Child Trust Fund (CTF) as a way of promoting asset-accumulation among young people. Detailed proposals for the scheme were published in October 2003 and the Child Trust Fund Act was passed in May 2004.

1.1 The Child Trust Fund scheme

The CTF initiative is '*an ambitious and pioneering programme'* (Treasury Committee, 2003) which aims to:

- Help people understand the benefits of saving and investing;
- Encourage parents and children to develop the savings habit and engage with financial institutions;

- Ensure that in future all children have a financial asset at the start of their adult life to invest in their futures; and
- Build on financial education to help people make better financial choices throughout their lives (HM Treasury/Inland Revenue, 2003).

CTF accounts have been available from April 2005 to children born on or after 1 September 2002. Entitlement is linked to the receipt of Child Benefit, so parents do not have to go through a separate application process. All eligible children receive an initial endowment from the Government of £250 (in the form of a voucher). Children in families who are in receipt of Child Tax Credit and with incomes below the Child Tax Credit threshold (currently £14,155) receive an additional £250. It is anticipated that around a third of children will receive this extra endowment. Children born between September 2002 and April 2005 will also receive a higher initial endowment to compensate for lost growth in their CTF accounts for the period up to when accounts became available. There will be a further Government payment of £250 at the age of seven, again with an additional £250 for children living in low-income families.

To encourage saving for children, parents, family, friends and children themselves can contribute up to £1,200 a year into the CTF account. All income and gains are exempt from personal tax. The money accumulated in a CTF account cannot be taken out until the child reaches the age of 18. There are no restrictions on how this money can be spent.

Depending on the amount of the Government endowments and the additional contributions made into the account, the estimated value of the CTF account after 18 years ranges from around £850 to over £30,000.

1.2 Child Trust Fund accounts

A CTF voucher can only be used to open a CTF account with a provider approved by HM Revenue and Customs; it cannot be added to an existing savings or investment account. There are three types of CTF account, Stakeholder, general equity-based accounts, and savings accounts. As the aim of the CTF scheme is to encourage saving and investment over the long-term, all financial services providers that enter the CTF market must offer access to an equity-based Stakeholder account, which invests in stocks and shares but has controls on risk and a cap on charges, and which should provide a better rate of return than an ordinary deposit account.

As well as Stakeholder accounts, financial services providers can also offer both CTF savings (deposit) accounts and other equity-based accounts, which do not have to meet the Stakeholder criteria.

At the time of the research the CTF market comprised 38 government-approved CTF providers, including banks and building societies, friendly societies, credit unions, stockbrokers and investment firms. In addition, there are over 70 organisations involved in the distribution of CTF accounts on behalf of approved providers, which include not only financial institutions but also large retailers, firms of independent financial advisers, and charities.

1.3 About the research

This report is based on research commissioned by HM Revenue and Customs with two purposes in mind. First, it was designed to provide baseline information on the extent and nature of saving for and by dependent children aged 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 4,314 parents of children aged up to 18 for whom Child Benefit was payable (chapters 2, 3 and 4).
- A linked survey of 1,491 young people aged 11-17 whose parents had already been interviewed (chapter 5).
- A separate suite of questions on a Children's Omnibus with 1,025 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.

All survey fieldwork and data preparation was undertaken by BMRB. Staff at the Personal Finance Research Centre at the University of Bristol were responsible for all data analysis and reporting.

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

- A booster sample of 1,071 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 50 of these 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, including details of the products on offer (chapter 5).
- Depth interviews with 16 CTF providers, six distributors and representatives of six trade associations (chapter 6). These explored their views and experiences of the CTF, including (where appropriate) 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 of the scheme and their decision not to enter the market at the present time.

All qualitative research was undertaken by staff at the Personal Finance Research Centre, who were also responsible for all data analysis and reporting.

1.4 This report

This report begins by providing baseline information on the extent and nature of saving by and for children. Chapter 2 looks at the extent to which children and young people had either a savings account or some form of investment. Chapter 3 describes how account holding varies across children in different circumstances. This is followed by Chapter 4 which focuses on saving for children and young people over the previous 12 months. All draw on the survey of parents.

Chapter 5 looks at saving by children and young people themselves, using information from the survey of young people and the Children's Omnibus as well as

the survey of parents. These first five chapters combine to provide the baseline information on the extent and nature of saving for and by children.

Chapter 6 marks a shift to the CTF and provides an overview of the products on offer to parents receiving vouchers from the Government. This is based on the review of the CTF market as well as the depth interviews with providers, distributors, trade associations and companies that had decided not to offer a CTF account.

Chapter 7 recounts parents' early experiences of the CTF, looking at their knowledge and views of the CTF, how they had approached the choice of CTF account and their experiences of opening one.

The report concludes with Chapter 8 which explores parents' intentions with regard to saving in their child's CTF account and how they would like to see their child spend this money when they reach 18 and have access to it. These last two chapters draw primarily on the booster survey of parents with children eligible for a CTF account and the follow-up qualitative interviews.

In most chapters the discussion begins by describing the findings from the data, highlighting important differences by characteristics and circumstances. Multivariate analysis is then used where appropriate to test the statistical significance of the relationships described.

2 Children's savings and investments

In this chapter we look at the overall levels of children's[1] savings account and investment holding and the amounts of money they had saved or invested for them. This shows that seven in ten children had some money saved or invested for them and that simple deposit accounts were by far the most common. Only a minority of children had other types of savings or investment. On average, children had £420 saved or invested for them, although there was a wide variation in the amounts.

We then look in turn at children's savings accounts, life insurance policies opened for them and investments taken out on their behalf.

Two thirds of children had a savings account of some kind and, on the whole, children were very young when these accounts had been opened. Consequently, four in ten of all children had a savings account by the time they were one. In most cases, parents had chosen which type of account to open and had also paid money in at the time of opening. In half of cases someone else had also made a contribution to the opening deposit – most frequently this was grandparents. Most parents said that the money in their child's savings account was for their child's future generally; other purposes were much less common. The majority of children knew about their accounts and held them in their own name, although this did not mean that they necessarily had free access to the money that had been saved.

Fewer than one in ten children had money saved for them in an insurance policy and most of these policies were due to mature when the child was aged 18 or older. Unlike money saved in a savings account, the money put into life insurance policies was often intended for specific purposes such as further or higher education, to buy a car or to set up home.

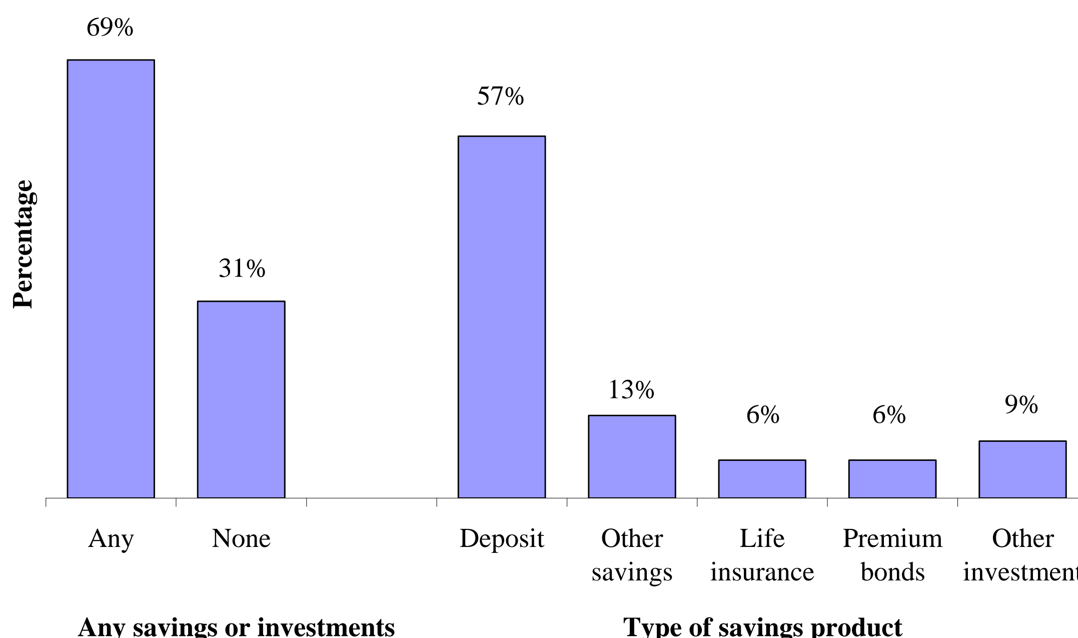
Only a minority of children had other forms of investment, the most common of which was Premium Bonds. Again most of these had been taken out before the child reached the age of one. In contrast to savings accounts, rather more investments had been taken out by grandparents or other relatives, consequently parents were less likely to have contributed to the sum originally invested. Children were also less likely to know about their investments than their savings accounts. Once again the main purpose of the money invested was for the child's future generally.

2.1 Levels of investment and account-holding by children

Almost seven in ten (69 per cent) of children had either a savings account or some form of investment, although not all of these were in their own name. Most common, by far, were deposit accounts with a bank or building society (57 per cent). Investment accounts, Premium Bonds and other types of savings account were held by only a minority (Figure 2.1).

[1] This includes all dependent children and young people aged under 18.

Figure 2.1 Level of investment and account-holding by children



About half (47 per cent) of all children had only one savings account or investment; two in ten (17 per cent) had two, and only four per cent had three or more. If children had only one type of savings account or investment, it was most commonly a deposit account with a bank or building society; the next most common was another type of savings product, such as a National Savings and Investment account (NS&I) or an ISA . Very few children had life insurance, Premium Bonds or investment accounts (Table 2.1, column 1).

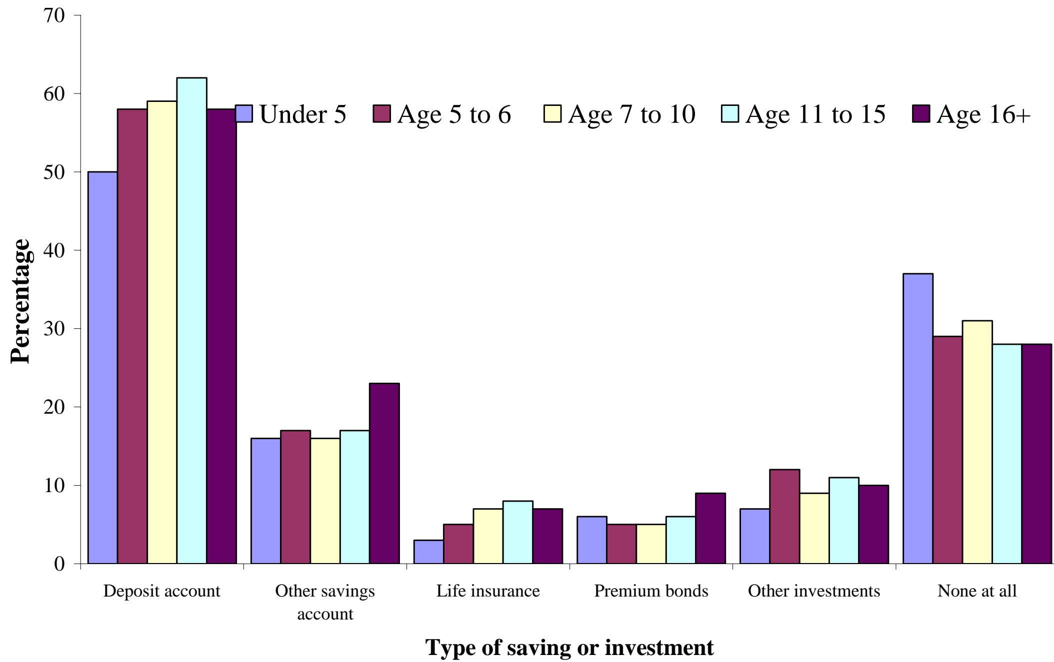
In contrast, children with three types of account were most likely to have a deposit account, some other types of savings account and investments. Life insurance remained relatively uncommon (Table 2.1, column 3).

Table 2.1 Type of account by number of types of account held

			Cell percentages
Type of account held	**Number of types of account**		
	one	**two**	**three +**
Deposit	83	91	95
Other savings account	11	34	63
Life insurance	2	22	34
Premium bonds	1	21	51
Other investments	2	32	66
Weighted base	***1,982***	***716***	***712***

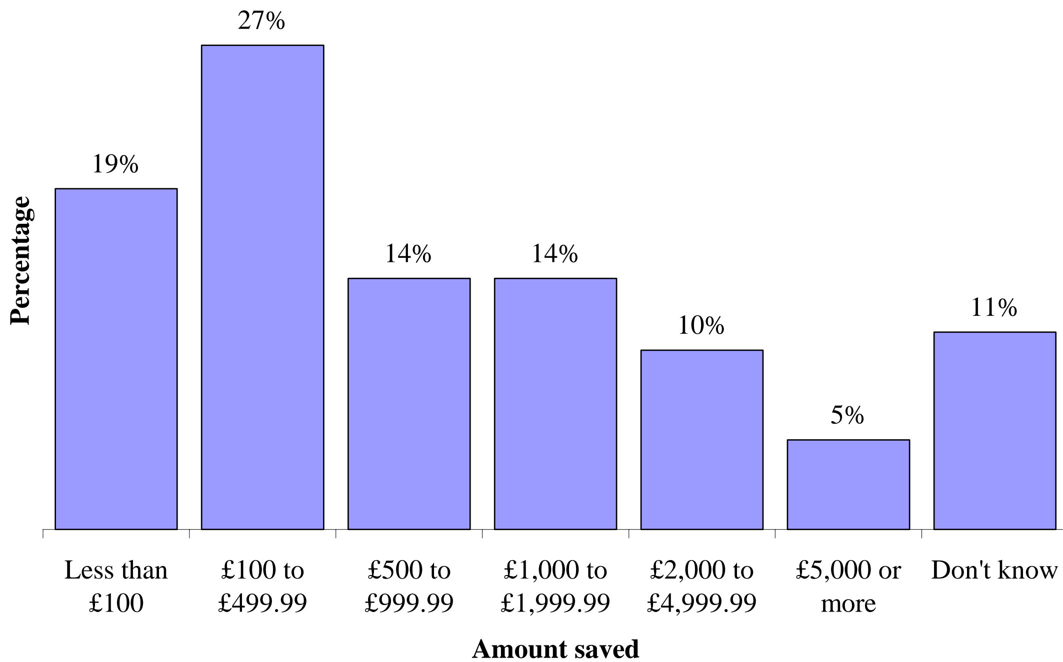
There was very little variation in the types of savings held by age of the child, as can be seen in Figure 2.2. Deposit account holdings increased most noticeably with age until age 15, whilst the percentage holding other savings accounts increased very little until age 16.

Figure 2.2 Variations in type of saving or investment by age of child



The average (median[2]) total amount that children with accounts had saved or invested for them was £420. There was, as might be expected, a wide variation in the amounts. So, while two in ten (19 per cent) of children and young people had less than £100, a similar proportion (15 per cent) had more than £2,000 (Figure 2.3).

Figure 2.3 Total amounts in children's savings and investments



[2] When discussing averages we use medians to avoid the influence of extreme values. Any variations to this general rule are indicated.

There were only small differences in levels of savings and investment account-holding across the UK (Table 2.2). Children in England had the highest levels of account-holding (69 per cent); their peers in Northern Ireland had the lowest, followed by children in Scotland . As we show in the next chapter, living in Scotland did reduce the likelihood of a child having an account, when other factors were controlled. Living in Northern Ireland did not. There were, however, rather greater differences in the average amounts that they had, in total, in their accounts. The largest amounts were held by children and young people in Northern Ireland (£481) and England (£450). Those living in Scotland and Wales had much less money saved or invested for them (£329 and £300 respectively)(Table 2.2).

Table 2.2 Children's savings and investments by country

	Percentage with a savings account or investment (%)	*Weighted base*	Median amount In savings (£)	*Weighted base*
All	***68***	***4,314***	***420***	***2,548***
Country				
England	69	*3,620*	450	*1,787*
Wales	66	*211*	300	*137*
Scotland	64	*336*	329	*396*
Northern Ireland	63	*147*	481	*122*

2.2 Children's savings accounts

Altogether two thirds (64 per cent) of children had a savings account of some kind, although these were not necessarily in their own name. Around half (51 per cent) had one account only; 12 per cent had two accounts and a very small number (two per cent) had three or more. The average (median) amount in their savings accounts was £400.

The great majority of children with any savings had a deposit account. Other types of savings account were not very common but included NS&I savings accounts (nine per cent of all children) and cash ISAs (four per cent). In Northern Ireland, 21 per cent of children with an account had a savings account with a credit union; in the rest of the United Kingdom it was less than one per cent.

Four providers accounted for six in ten (59 per cent) of accounts (HBOS, Nationwide, Post Office/NS&I and Abbey). If the big four high street banks (HSBC, Lloyds TSB, Barclays and Royal Bank of Scotland/NatWest) are included the proportion increases to more than eight in ten (84 per cent).

As access to the money saved in a Child Trust Fund (CTF) account will not be possible until the child reaches 18, we were interested to see how many accounts opened for children had any form of limited access. In fact hardly any did. Just five per cent of accounts required at least 60 days notice of withdrawals without the interest rate being reduced; two per cent had a restriction on the number of withdrawals to one or two a year or the interest rate would be reduced; and three per cent paid an annual bonus if no withdrawals were made during the year.

2.2.1 Who chose the account and why

In most cases, the child's parent had chosen the type of account to open. In three in ten cases (28 per cent) it was a joint decision by both parents. In cases where one parent was responsible for making the decision, mothers played a greater role than fathers (51 per cent compared with 10 per cent). A minority of accounts (14 per cent) had been chosen by grandparents.

Parents were asked to say in their own words, why they had chosen the account they did and they gave three main explanations. Almost four in ten (38 per cent) cited ease of access; three in ten (30 per cent) that it was an account created especially for children and a quarter (24 per cent) said it paid the highest interest at the time. The interest rate was of particular concern to better-off parents. Looking at the income extremes, 31 per cent of parents with monthly family incomes of £3,000 or more had considered the interest rate, compared with 19 per cent of those whose incomes were less than £1,000.

Hardly any parents said they had chosen a savings account because the money was not at risk due to changes in the stock market (six per cent) or because it offered tax advantages (one per cent).

2.2.2 Whose name the account was in and why?

Most (90 per cent) of the children with a savings account had one in their own name, although two in ten (22 per cent) had an account that was in their mother's name, and a small number in either their father's (seven per cent) or grandparent's name (three per cent)[3]. On the whole, the younger the child was the more likely they were to have an account in someone else's name. Cash ISAs, in particular, had usually been opened in a parent's or someone else's name[4].

Looked at another way, three quarters (73 per cent) of all children's savings accounts were in their own name. The remainder (27 per cent) were in someone else's.

There were two main reasons why so many accounts had been opened in the child's name. Most parents said, in their own words, it was either because the money belonged to the child (57 per cent) or because they wanted to ensure that the child would have the money when they were older (43 per cent). Other explanations were very rare. Small numbers of parents had put it in the child's name for tax reasons (five per cent) or to help the child learn how to manage their own money (three per cent)[5].

Turning now to the minority of accounts that had been opened in someone else's name, the majority (76 per cent) of parents said it was because the child was too young to have it in their own name. Other explanations were very rare and included the parents who wanted control over the money themselves (five per cent); those who found it more convenient to have the account in their name (two per cent) and a very small number who did not want the child to know about the savings account

[3] Note percentages total more than 100 per cent as 23 per cent of children had more than one account
[4] Children aged under 16 cannot have an ISA in their own name, although the 16 and 17 year olds in this survey could do so.
[5] Note percentages total more than 100 per cent as parents could give more than one reason.

(one per cent). Others (eight per cent) said it had not occurred to them to put it in the child's name.

2.2.3 Age of child at account opening

On the whole, children's accounts were opened when they were very young. Almost half (46 per cent) of children with an account had it opened for them when they were born and a further 13 per cent had one that was opened before their first birthday[6]. If we include children with no account at all, this means that 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 accounts that had been opened at birth. Looking just at children who had at least one account, those least likely to have one that had been opened when they were born include those living:

- in families with net incomes below £1,500 a month (38 per cent);
- in families with no adult earning a wage (28 per cent);
- in lone parent families (31 per cent);
- with three or more siblings (35 per cent); or
- in local authority or housing association housing (29 and 26 per cent respectively).

As we show in the following chapter these are the groups of children who were least likely to have a savings or investment account at all, suggesting that inequalities in savings provision start from birth.

There were also some differences across the UK. Children were most likely to have accounts opened at birth in England (47 per cent) and Scotland (44 per cent); least likely in Northern Ireland (39 per cent) and Wales (40 per cent). It should, however, be noted that children in Northern Ireland and Wales had caught up by the time they reached their first birthday.

2.2.4 Money paid in at account opening

In most cases (69 per cent) the child's parents had paid money into the account when it was opened and in half (48 per cent) someone else had deposited money. Most commonly (52 per cent) it was only the parents who had paid money in; in three in ten cases (31 per cent) the opening deposit had been made solely by someone other than the child's parents. Fewer than two in ten children (17 per cent) had money deposited by both their parents *and* someone else.

Looking in more detail at who else had contributed money shows that it was most often grandparents (37 per cent). Others included other relatives (14 per cent) and, in a small number of cases, godparents (four per cent). Children themselves had rarely (five per cent) paid money into the account when it was opened – which is, perhaps to be expected when so many accounts were opened at birth. On the whole, the older children were when the account was opened the more likely they were to have contributed towards the opening deposit. As one might expect, very few under-fives were said to have paid money into the account themselves. In the five to eight age group, eight per cent of children had contributed money, increasing to 20 per

[6] This may understate the extent of account-holding as 10 per cent of children covered by the study had still not reached their first birthday

cent of children who were aged nine or over when the account was opened. Beyond the age of nine, however, the proportion did not increase systematically with age.

If we look at the poorest groups of children we see that they were slightly less likely to have had money paid into their accounts by anyone other than their parents (Table 2.3). Those least likely to have money contributed by others included: children in lone parent families; with three or more siblings; with no adult earners in the family, and living in local authority or housing association rented property.

Table 2.3 Who paid money in by monthly income

						Cell Percentages
	Respondent	**Child**	**Grandparent**	**Godparent**	**Other relative**	**Other non-relative**
Household income (£ per month)*						
Up to £999	74	5	38	4	12	3
£1,000-£1,499	78	8	39	1	16	4
£1,500-£1,999	75	5	43	4	18	5
£2,000-£2,999	77	6	43	5	16	6
£3,000+	78	7	43	4	17	5

*before housing costs

2.2.5 What the money was being saved for

Parents of children with a savings account were asked to say in their own words what the money was being saved for. On the whole it was for non-specific reasons.

The most common response was that the money was intended for the child's future generally (65 per cent). A quarter (23 per cent) said it was for the child to spend how they wished. Where parents gave a specific purpose for saving money in a savings account it was most often to support their child through further or higher education or to buy a car or motorbike (Table 2.4, column 1).

Parents in different circumstances gave remarkably similar responses. The most notable exception was the extent to which parents were saving to support their child through higher or further education. This was quite strongly related to income, ranging from one in ten (11 per cent) of parents in families with incomes below £1,000 a month to more than twice that number (23 per cent) among parents with monthly incomes in excess of £3,000.

Just nine per cent of families with no adult being in paid employment and eight per cent of local authority tenants said that money was saved for the child's education. In contrast, the proportion in lone parent families and families with large numbers of children (13 per cent and 14 per cent respectively) was only just below the average (16 per cent).

Table 2.4 Why money was being saved by type of saving or investment

			Column percentages
	Savings accounts	**Life insurance**	**Investments**
Child's future generally	*65*	37	59
For child to spend as she/he likes	*23*	10	14
Pay for further/higher education	*16*	33	17
Buy car/motorbike	*8*	13	7
Holiday/travelling	*4*	1	1
Driving lessons	*4*	4	3
To buy/set up a home	*3*	7	5
To re-invest/keep as savings	*	9	4
Weighted base (all with account)	***2,818***	***252***	**624**

** Number too small for analysis*
Note: percentages do not add up to 100 per cent as only the main responses have been included, and respondents may have given more than one response.

As might be expected, parents in Scotland, where students do not have to contribute towards fees if they attend a Scottish university, were almost half as likely to say that the money was being saved for education purposes (nine per cent) as parents in England (17 per cent). Less easy to explain are the low proportion in Wales (eight per cent) or the very high proportion in Northern Ireland (19 per cent).

2.2.6 Children's access to money saved for them in savings accounts

In the majority of cases (73 per cent) children and young people with accounts knew about their savings accounts and where they did not it was mainly because they were too young (Table 2.5). So, while 17 per cent of under fives did know about their savings account, the proportion rose steeply with age. Consequently nine in ten (90 per cent) of children aged between seven and 11 knew about at least one of their accounts, rising still further to just about all (99 per cent) of those aged 16 or over. Only a very small number (three per cent) of parents had decided not to tell their children about their accounts (Table 2.5). Previous research suggests that this was because they did not want to be pestered for the money (Kempson and Taylor, 2004).

Table 2.5 Does the child know about her/his savings account?

					Row percentages	
	Yes	**No, too young**	**No, decided not to tell child**	**No, other reason**	**Don't know**	***Weighted base***
All	***73***	***26***	***3***	***3***	***1***	***2,818***
Age of child						
Up to 4	17	84	1	1	*	*648*
5-6	66	34	3	6	2	*325*
7-10	90	10	4	3	1	*650*
11-15	96	1	4	3	2	*901*
16+	99	-	2	2	-	*294*

** Numbers too small for analysis, - less than one per cent*
Note row percentages do not add up to 100 per cent as some children had more than one account

Although most children and young people knew about their savings accounts this did not mean that they had free access to the money in them. About half (53 per cent) of parents said that they did not allow their child to withdraw money from their account even though they knew about it. A further 16 per cent said that it would depend on the circumstances.

If we take into account the children who had an account but knew nothing about it, only 30 per cent of children and young people had access to the money in at least one of their accounts. As might be expected, access increased steeply with age, especially as children entered their teens. Under the age of five, only two per cent of children had access to money in their account(s). This increased to two in ten (18 per cent) among the seven-to-eleven year olds. It then jumped to half (50 per cent) of 11 to 15's and three quarters (77 per cent) of those aged 16 or over.

We asked parents at what age their child had, or would be, given access to the money in their savings account. One in ten (11 per cent) said that they had not yet decided and a similar number (10 per cent) said that they would do so when they considered their child was old or mature enough, but did not put an age on this. Only a minority (21 per cent) said at age 18 or over although a further 15 per cent said at age 16 or 17. Putting this together it would seem that around half (46 per cent) of children with accounts had to wait for access to their money until their parents considered them mature enough.

Interestingly, there was no link between family income and either whether the child knew about the account or was able to withdraw money from it.

2.3 Life insurance for children

A minority (six per cent) of children and young people had money saved for them in a life insurance policy. Traditionally life insurance has been a relatively popular way of saving for children in low-to-middle income households, with agents selling policies and collecting premiums in the family home. The decline in home sales, however, means that it is now better-off children who are most likely to have a life insurance policy. Even so, they were not at all common. Around eight per cent of children living in families with monthly incomes of £2,000 or more had a life insurance policy – twice the proportion (four per cent) found among those whose families received less than £1,500 a month.

There were no significant differences in the level of policy-holding across the UK and, because the numbers were so small, it has not been possible to report further on regional variations.

In the great majority (95 per cent) of cases, parents had chosen the type of policy to take out; grandparents had done so in most other instances. Where parents had themselves chosen the policy, we asked why they had decided to take out life insurance rather than saving or investing the money in some other way. From the replies it seemed that few had actually weighed up the alternatives. The three most common explanations were to protect the child's future (39 per cent); that it seemed like a good idea at the time (29 per cent) and that their own parents had done the same thing for them (nine per cent).

In contrast to savings accounts, only half (50 per cent) of life insurance policies that were intended to benefit children were actually in the child's own name. Just as

commonly the policy was in their parents' name (52 per cent) – and mainly in their mother's name only (35 per cent). A small number (eight per cent) had the policy in their father's name, and a similar number in both parents' names (nine per cent). A very small number of children's policies were in a grandparent's (two per cent) or other relative's name (one per cent).

As with savings accounts, parents said that policies had been put in the child's name either so that they would have access to the money when they were older (62 per cent of all policies in the child's name) or because they considered it to be the child's money (26 per cent). On the other hand, the most common reason for *not* putting it in the child's name was that they were too young and the policy had to be in the parent's name (56 per cent).

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), although it should be pointed out that 14 per cent of parents did not know when it would mature.

Unlike money saved in savings accounts (or, as we shall see later, investments) money put in life insurance policies was more often intended for quite specific purposes. In particular, a third (33 per cent) of parents said that the money was being put away to finance further or higher education, 13 per cent said it was to buy a car or motorbike and seven per cent to help them buy or set up a home (Table 2.4, column 2).

2.4 Children's investments

A minority (14 per cent) of children had investments of some kind; the majority of these (12 per cent) had only one investment and only a very small number (two per cent) two or more.

Most common were Premium Bonds (six per cent); indeed, a third of all children with investments only had Premium Bonds. NS&I bonds or certificates were second in popularity (four per cent). Small numbers of children had stocks and shares (two per cent) or savings bonds with a bank, building society or insurance company (two per cent). No other type of investment was held by one per cent or more of children. Taken together with the information on savings accounts, it seems that adults are inclined to take the safe option when it comes to saving for children.

2.4.1 Who chose the investment and why

In contrast to savings accounts, many investments had been chosen by someone other than the parent. Four in ten (39 per cent) had been selected by grandparents and a further one in ten (10 per cent) by other relatives. Only half (52 per cent) of children with investments had ones that had been selected by their parents. There were, however, some interesting differences between different types of investment. While parents had played the major part in selecting stocks and shares or savings bonds; grandparents were mainly instrumental in the choice of Premium Bonds and parents and grandparents played equal roles when it came to the selection of NS&I bonds.

Where parents *had* chosen the type of investment they were asked why they had selected the one they did, in preference to investing the money in some other way.

The most common response was that it gave a better return than other investments (51 per cent); next in popularity was the fact that others in the family already had money invested in this way (16 per cent). On the whole Premium Bonds were most commonly selected because others in the family already had them; while all other types of investment had been mainly selected because of the expected return.

2.4.2 Whose name the investment was in and why

The majority of children (81 per cent) with investments had them in their own name; most of the rest were in their parents' names. NS&I bonds, Premium Bonds and savings bonds with banks or building societies were most often in the child's name (94 per cent, 89 per cent and 88 per cent respectively); it was much less common for other forms of investment to be in the child's name (60 per cent).

Like other types of account, investments had been put in the child's name either so that they would have access to the money when they were older (47 per cent) or because it was considered to be the child's money (44 per cent). The main reason why a minority of investments had *not* been put in the child's name was that it could only be taken out by an adult (72 per cent).

2.4.3 Age of child when investment taken out and initial investment

Half (48 per cent) of all investments had been acquired at or close to the child's birth and a further 13 per cent before they reached the age of one. On the whole, Premium Bonds were opened earlier in the child's life than other investments – 73 per cent were opened before the child reached their first birthday.

Looking at all investments *other than Premium Bonds*[7], we see that parents (47 per cent) and grandparents (34 per cent) were the two main groups that contributed money initially. A range of other people had paid money in, including other relatives (six per cent), god parents and other non-relatives (three per cent each) and children themselves (two per cent).

2.4.4 Money held in children's investments

The average (median) amount that had been invested on behalf of children was £300 and was rather lower for Premium Bonds (£100) than it was for other types of investment (£600).

Only four in ten children (44 per cent) were said to know about the money invested for them, although a broadly similar number (37 per cent) had not been told because they were considered too young. In one in ten cases (nine per cent) parents had taken a conscious decision not to tell children about their investments and in a similar number of (11 per cent) children had not been told for other reasons. As might be expected, the proportion considered too young fell steeply with the child's age. So while very few (two per cent) of children aged under five knew about their investments, this rose to about four in ten (39 per cent) among those aged between seven and ten and to the majority (81 per cent) of children who were 16 or over.

[7] We have omitted Premium Bonds from this analysis as this question appeared to have been misinterpreted by some parents, who said that no-one had contributed any money.

As with money in savings accounts the most common reason why money had been invested for children was for the child's future generally (59 per cent) (Table 2.4). Other fairly common reasons were to help meet the costs of higher or further education (17 per cent) and for the child to spend how they wish (14 per cent).

3 Variations in account holding by family characteristics

This chapter looks at the variations among children in different circumstances with regards to both the level of saving and investment holdings and the sums of money involved. To make the text more readable we use the terms 'account' and 'account-holding' throughout to refer to all types of savings and investments, including life insurance. When we refer to sums of money we use the word 'saved' to encompass both savings and investments but not, in this case, the value of life insurance policies.

Both account-holding and the amounts saved varied widely between children in different circumstances, with household incomes having a particularly large effect. It was also clear that 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.

There was also a strong link between parental savings and savings for children; children were more likely to have a savings account or investment if their parents had savings themselves and held positive attitudes towards saving. Children whose parents' credit commitments were considered a heavy burden were less likely than average to have savings.

We also report the results of multivariate regression analysis, which was used to help us to identify the characteristics of families that were most important in explaining differences in levels of savings. The results showed that parental savings behaviour was the most influential factor in predicting whether a child had an account or investment, but that the age of the child and the number of siblings they had and their parents' attitudes to saving were much more significant when predicting the amount in savings amongst children with an account or investment.

3.1 Influence of child and family circumstances on children's investments and account-holding

Boys and girls had the same level of investment and savings account-holding and similar types of products but boys had slightly more money in them (£450 compared with £400) (Table 3.1).

Table 3.1 Children's savings and investments by family circumstances

	Percentage with an account (%)	*Weighted base*	Median amount in account (£)	*Weighted base*
All	***68***	***4,314***	***420***	***2,548***
Gender				
Male	69	*2,172*	450	*1,293*
Female	68	*2,142*	400	*1,255*
Lone Parent	50	*1,144*	173	*471*
Two Parents	75	*3,165*	500	*2,077*
Age of Child				
Under 5	62	*1,099*	400	*614*
5-6	71	*485*	500	*307*
7-10	68	*986*	434	*585*
11-15	72	*1,310*	350	*795*
16-17	70	*434*	699	*247*
Number of Siblings				
0	72	*966*	500	*605*
1	74	*1,960*	500	*1,271*
2	64	*923*	306	*502*
3+	44	*465*	200	*170*

As we saw in Chapter 2, children had acquired a savings or investment account when very young – indeed a high proportion of accounts of all kinds were opened when the child was born. Consequently, around six in ten (62 per cent)[8] of children aged under five had an account (Table 3.1). This rose to seven in ten (71 per cent) of five and six-year-olds and remained steady thereafter. The range of types of accounts did not, however, differ significantly by age. Even among young people aged over 16 deposit accounts still predominated and other types of account were fairly uncommon. The sums of money children and young people had in savings did vary with age but not in any consistent way (Table 3.1).

Family circumstances played an important role in account-holding (Table 3.1). Half (50 per cent) of children and young people living in lone parent families had either a savings or investment account, compared with three quarters (75 per cent) of their peers in two parent families. Moreover, even among those who *did* have an account, the sums of money saved were lower, on average, in lone parent families (£173 compared with £500 in two-parent families).

There was little difference in account-holding between only-children [9] and those with just one brother or sister, but levels of account-holding fell in larger families and were well under half (44 per cent) among children with three or more siblings. Furthermore, children with more siblings had smaller amounts of money saved. So while only-

[8]Fieldwork for the survey was delayed by the general election; consequently some parents had opened a CTF account by the time they were interviewed. The parents of 10 per cent of children aged under five said both that they had opened a CTF account and that their child had only one account. The level of general account-holding reported amongst this age group is therefore over-stated.

[9] 'Only-child' refers to children who had no siblings living at home at the time of the interview.

children and those with one sibling had £500 in their accounts and investments on average, this fell to £306 if a child had two siblings and £200 if they had three or more (Table 3.1).

Most parents with two or more children (80 per cent) felt that it was important to save the same amount for each child. This varied little by the number of children they had. Eighty-two per cent of parents with two children felt this way; 79 per cent of those with three and 75 per cent of those who have four or more. Savings behaviour largely reflected these attitudes. Among families with more than one child all the children had an account in 59 per cent of families; while none did in 25 per cent of families. In the remaining 16 per cent of families some children had an account, while others did not.

3.2 Influence of family economic circumstances

Family economic circumstances had a large effect on children's account-holding. There was a strong link between income and both account-holding and amounts held in savings that was evident whether we considered income before or after housing costs (Table 3.2 on page 20). Nine in ten (88 per cent) of children living in the wealthiest families (with monthly net incomes of more than £3,000) had an account or investment product, with an average of £800 saved for them. At the opposite end of the income spectrum (families whose incomes were below £1,000 a month) only half of children had savings accounts or investments and those that did had an average of £257 saved for them.

The links between children's account-holding and the number of earners in a household were even more marked than those related to income. The majority (85 per cent) of children who had two parents in waged employment had an account, compared with two thirds (67 per cent) of those with one parent earning and just a third (34 per cent) of children living in a workless family (Table 3.2). Likewise, among those with accounts, the fewer parents they had in paid work, the less money they had saved or invested and the less likely they were to have anything other than a deposit account. Children with two parents earning a wage had £600 in savings and investment accounts whilst on average, those with just one parent in employment had £350 and those with none at all had just £79.

Children had very low levels of savings if they lived in a family in receipt of Income Support (£80 saved) or Incapacity Benefit (£152 saved). Those living in low-waged families receiving Working Tax Credit had below-average amounts in savings (£269 saved).

The link with housing tenure reflected variations by economic circumstances (Table 3.2). The highest levels of overall account-holding, diversity of accounts and sums of money saved were found among children and young people whose parents were home owners, regardless of whether they owned it outright or were buying it on a mortgage; the lowest were found among tenants of all kinds. For example eight in ten (81 per cent) of children whose parents were homeowners had at least one savings or investment account, and an average of £553 saved. In contrast children whose parents were local authority tenants had half the rate of account-holding (41 per cent) and just £80 saved for them.

Table 3.2 Children's savings and investments by family economic circumstances

	Percentage with an account (%)	*Weighted base*	Median amount in account (£)	*Weighted base*
All	***68***	***4,314***	***420***	***2,548***
Net household income (£ per month) *				
Up to £999	50	*1,111*	257	*446*
£1,000-£1,499	57	*679*	300	*333*
£1,500-£1,999	69	*863*	319	*506*
£2,000-£2,999	83	*1,079*	500	*786*
£3,000+	88	*581*	800	*477*
Number of earners				
0	34	*840*	79	*225*
1	67	*1,541*	350	*866*
2	85	*1,922*	600	*1,456*
Housing tenure				
Owner	81	*2,843*	553	*2,044*
Private tenant	46	*266*	200	*107*
Social tenant	41	*1,109*	80	*361*

* Before housing costs

3.3 Influence of parents' attitude to saving and propensity to save

There was a very strong link between parental saving and whether or not their children had a savings or investment account (Table 3.3). More than three quarters (78 per cent) of children whose parents had money saved had an account of some kind, compared with about a quarter (27 per cent) of those whose parents did not have any savings. There was a similar influence on the range of types of account children had and the total amount of money they had saved or invested. So, if their parents also had an account, children had an average of £500 saved for them; if their parents did not have one, they had only £114 (Table 3.3).

There was also a link between children's savings and investments and the sums of money their parents had saved. Three quarters (77 per cent) of parents with less than £200 saved or invested themselves reported that their child also had an account. This increased to 94 per cent of children whose parents had over £10,000 saved or invested.

There was a similar association between the amounts children and their parents had saved. So the proportion of children with less than £500 saved was twice as high if their parents had less than £100 than it was if their parents had more than £10,000.

Table 3.3 Children's savings and investments by parent's propensity to save and borrow

	Percentage (%)	*Weighted base*	Median amount (£)	*Weighted base*
All	***68***	***4,314***	***420***	***2,548***
Parent has savings account				
Yes	78	*3,400*	500	*2,308*
No	27	*644*	114	*139*
Parent uses credit[10]				
Yes	68	*2,748*	306	*1,643*
No	69	*1,490*	700	*877*
Burden of credit (credit users only)				
Not a burden	73	*1,342*	400	*874*
Somewhat of a burden	68	*949*	300	*563*
A heavy burden	52	*447*	157	*203*

3.3.1 Parents' attitudes to saving for children

All parents were presented with four attitude statements to gauge their views on saving for children (Table 3.4). The great majority of them (84 per cent) agreed that they would like to save for their child but could not afford to do so; while only a very small number (three per cent) said there was no need to do so as others saved for their child. Just under half (44 per cent) said that saving for their child was a low priority at the moment, with an equal number disagreeing with this statement. About a quarter (27 per cent) agreed that it was more important to buy children the things they want than to save money for them – but far more (45 per cent) did not agree with this point of view.

There was a strong link between parents' attitudes to saving for children and both levels of account-holding and the sums of money their children had saved or invested for them (Table 3.5). As might be expected, children were less likely to have an account and, if they did, had a lot less money saved if their parents agreed that they would like to save but could not afford it; that they currently gave saving for children a low priority; or that they felt it was more important to buy children things they want than to save money for them. We saw above that only a small number of parents agreed with the statement that they did not need to save for their child as others put money away for them, but in these cases their children had almost twice as much in their accounts on average as those whose parent said that other people did not save any money (£700 saved).

[10] This identifies whether parents had unsecured credit commitments (such as an overdraft or bank loan) at the time of the interview.

Table 3.4 Parents' attitudes to saving

				Row percentages
	Agree	Neither	Disagree	*Weighted base*
Attitudes to saving for children				
Would like to save for child but can't afford it	84	8	9	*4,314*
Not necessary as others save for child	3	5	92	*4,314*
More important to buy child things they want	27	28	45	*4,314*
Saving for child is low priority at the moment	44	16	42	*4,314*
Attitudes to saving generally				
Was encouraged to save as a child	62	8	30	*4,314*
Always ensure have money for a rainy day	53	14	33	*4,314*
Impulsive and buys things can't afford	21	9	70	*4,314*
A saver not a spender	28	34	38	*4,314*
Tends to live for today	29	14	57	*4,314*
Doesn't know enough about saving products	49	16	35	*4,314*
Financial Firms only interested in people with well paid jobs	52	25	23	*4,314*

Table 3.5 Children's savings and investments by parents' attitudes to saving

	Percentage with an account (%)		Average (median) amount in account (£)	
	Agree	Disagree	Agree	Disagree
Attitudes to saving for children				
Would like to save for child but can't afford it	66	74	350	904
Not necessary as others save for child	74	69	700	411
More important to buy child things they want	47	79	243	600
Saving for child is low priority at the moment	54	82	229	664
Attitudes to saving generally				
Was encouraged to save as a child	73	58	500	250
Always ensure have money for a rainy day	78	56	600	200
Impulsive and buys things can't afford	58	72	300	500
A saver not a spender	76	60	654	285
Tends to live for today	53	76	200	600
Doesn't know enough about saving products	60	79	315	500
Financial Firms only interested in people with well-paid jobs	63	77	355	500

3.3.2 Parents' attitudes to saving generally

Parents were also read a series of statements relating to their own propensity to save and, again, asked to say whether they agreed or disagreed with them (again see Table 3.4). A majority (62 per cent) of parents said that they had been encouraged to save as a child and half (53 per cent) said they always ensure that they have money for a rainy day. In fact, there was a high degree of overlap between these so that three quarters (73 per cent) of people who described

themselves as rainy day savers had been encouraged to save as children – suggesting that patterns of saving tend to start early in life.

A much smaller number of parents (28 per cent) agreed that they would describe themselves as a saver rather than a spender. The majority (78 per cent) of those who described themselves as savers also said they had been encouraged to save as a child.

Again there was a link between the amounts children had in savings and their parents' attitudes to saving (Table 3.5). In general, children were more likely to have an account and had much more money for them if their parents were, themselves, encouraged to save as a child (73 per cent had an account with an average of £500 saved); if their parents always tried to save money for a rainy day (78 per cent; £600); or if they described themselves as a 'saver not a spender' (76 per cent; £654). On the other hand, they were less likely to have an account and had a lot less money saved for them if their parents described themselves as impulsive and likely to buy things they could not afford (58 per cent; £300); or said that they 'lived for today and let tomorrow take care of itself' (53 per cent; £200) (Table 3.5).

Children's savings were also lower if they had parents who might be considered to be less confident about using financial services. These included parents who agreed that they did not know enough about savings and investment products to choose ones that met their needs (60 per cent reported their children had an account, with an average of £315 saved) or felt that financial firms are only interested in people with well-paid jobs (63 per cent; £355).

3.4 Influence of parents' propensity to borrow

Parents' attitudes to borrowing had little effect either on the likelihood of their child having an account or on the amount of money saved for them. The links to borrowing *behaviour* were more interesting.

Whether parents owed any money in unsecured credit or not had no influence at all either on the likelihood of their children having a savings or investment account (Table 3.3) or the types of account they had. On the other hand, it did affect the amount their children had saved if they had an account: credit users' children had, on average £306 in savings or investments; non-users' children had more than twice that amount (£700).

Among the credit users, the sums of money parents owed did not have a particularly large effect on children's savings, but the more parents owed, the more likely their children were to have an account and the more money that they had in it. Just over six in ten children (63 per cent) whose parents owed less than £500 had an account, with an average of £320 in it. This rose to seven in ten (73 per cent) of children whose parent owed £10,000 or more and these children had £400 saved for them. At first sight this seems unexpected, but is almost certainly because the amount of money owed by parents was linked to their income. So the larger sums of money were owed by better-off parents. This was borne out by the multivariate analysis (Tables 3.6 and 3.7)

Among the parents who owed money currently, a far stronger link existed between children's savings and the extent to which their parents reported that their borrowing was a burden (Table 3.3). Three quarters (73 per cent) of children whose parents

said their borrowing was not a burden at all had either a savings or investment account and, on average, they had £400 saved in it. This compares with half (52 per cent) of children whose parent's borrowing was a heavy burden, who had just £157 in their accounts.

3.5 What explains children's account-holding and sums of money saved?

As we have seen above, a number of factors are associated with the likelihood of a child having an account and/or the amounts of money they have saved. But some of these factors are related to one another and it is not easy to tell which ones are the most important. For example, most social tenants have family incomes that are a good deal lower than those of home owners. So we do not know whether their lower levels of account-holding can be explained by their incomes or whether housing tenure itself also plays a part. To disentangle these effects we have used multivariate analysis which assesses the impact of each factor in turn, independently of the effect of all other factors in the model.

3.5.1 What explains account-holding?

Table 3.6 gives the results of the multivariate analysis to assess the likelihood of a child having a savings or investment account. First (model 1), we looked at key factors that earlier analysis suggested were associated with different levels of account-holding. This showed that six main factors explained whether children had an account (shown on the table by a double asterisk): family income, child's age, family size, housing tenure, whether parents have savings and the burden of parents' borrowing.

The largest influence by far was living in a family of savers. All other things being equal, children whose parents also saved were three and a half times as likely to have a savings or investment as children whose parents were not savers.

Living in a better-off family increased the chances of a child having an account. Compared with children whose families had net monthly incomes below £1,000, those with family incomes of between £2,000 and £3,000 were 1.8 times as likely to have an account; and children in the highest income families (more than £3,000 a month) had 2.3 times the likelihood.

Children whose parents owned their home were 2.4 times as likely to have an account as those whose parents were social tenants – even when we controlled for family income and other factors.

Children in smaller families also had increased chances of account-holding. Compared with their peers with two or more siblings, children with only one brother or sister were 1.8 times as likely to have a savings or investment account; and those with none at all were twice as likely.

Parental borrowing also had an effect. If a child's parents reported unsecured borrowing that was a heavy burden their chances of having an account were lower (0.7 times) than they were if their parent had borrowed no money at all.

Table 3.6 Regression model of the likelihood of children having a savings account or investment.[11]

	Model 1		Model 2	
	Significance	**Odds ratio**	**Significance**	**Odds ratio**
Intercept	0.000		0.000	
Attitude to saving				
Not a low priority			0.000	1.832**
Income before housing costs				
£3,000+	0.000	2.252**	0.000	1.873**
£2,000-£2,999	0.000	1.838**	0.000	1.672**
£1,500-£1,999	0.045	1.265*	0.102	1.222
£1,000-£1,499	0.854	1.021	0.823	0.974
Up to £999 (Comparison group)				
Age of child				
1-4	0.001	0.646**	0.000	0.536**
5-6	0.940	0.986	0.591	0.903
7-10	0.740	1.053	0.984	1.003
11-15	0.514	1.097	0.545	1.092
16+ (Comparison group)				
Lone parent	0.291	0.900	0.596	0.946
Two parents (Comparison group)				
Number of siblings				
0	0.000	2.237**	0.000	2.065**
1	0.000	1.867**	0.000	1.799**
2+ (Comparison group)				
Country				
Northern Ireland	0.114	0.770	0.175	0.790
Wales	0.444	0.886	0.340	0.856
Scotland	0.029	0.809*	0.015	0.783*
England (Comparison group)				
Gender of child				
Male	0.995	1.000	0.833	1.016
Female (Comparison group)				
Housing tenure				
Owner	0.000	2.447**	0.000	2.211**
Private tenant	0.420	1.114	0.772	1.041
Social tenant (Comparison group)				
Do parents have savings?				
Yes	0.000	3.478**	0.000	3.089**
No (Comparison group)				
Burden of credit				
Heavy burden	0.007	0.710**	0.043	0.767*
Somewhat of a burden	0.563	0.943	0.832	0.978
Not a problem	0.834	0.981	0.802	0.976
Doesn't borrow (Comparison group)				
Valid N		**4,223**		**4,196**
R^2		**0.29**		**0.35**

*** significant at 1% * significant at 5%*

[11] Readers without a statistical background should look at the odds ratio columns; the values that are asterisked are statistically significant and the more stars they have the more significant they are. The figures give the increased (greater than 1.000) or decreased (less than 1.000) odds of children in the category having as savings account or investment.

It might have been expected that as children get older they are more likely to have an account. In fact, the effect of age was not nearly as strong as this. Children aged under five had two thirds the likelihood of account-holding as those aged 16 or 17. But other than this age played no effect at all once other factors such as family income and number of siblings were taken into account.

In addition to these six main factors, if a child lived in Scotland they were less likely to have an account, but this was at a much lower level of statistical significance. Compared with children in similar circumstances in England, those living in Scotland had a slightly lower likelihood (0.8) of having an account. Living in Wales or Northern Ireland had no statistically significant effect.

A second model was run which included parents' attitudes to saving for children (based on a score derived from factor analysis of the attitude statements reported above) (Table 3.6, model 2). This showed that where parents gave a higher priority to saving their child was almost twice as likely (1.8) to have an account. It also slightly reduced the effects on account-holding of parental saving, family income, housing tenure, number of siblings and child's age and reduced the level of statistical significance of the burden of borrowing.

3.5.2 What explains the amount of money children have saved or invested?

A second set of models was run to assess the factors that influence the amount of money children have saved. In this case the models were restricted to children who had between £1 and £10,000 saved for them but again two separate models were run; one excluding and the other including parents' attitudes to saving (Table 3.7).

On the whole, the factors that were important were similar to those that influenced account-holding: family income, housing tenure, number of siblings, burden of parents' borrowing and child's age were all highly statistically significant. On the other hand, whether parents had savings of their own was much less significant (at the five per cent level only) and had a smaller effect than it had on account-holding.

Taking model three (excluding parents' attitude to saving) first, children in the most well-off families (family income £3,000 or more a month) had, on average, £516 more in their accounts than children in the poorest ones (less than £1,000 a month). But interestingly, intermediate levels of income had no statistically significant effect.

Likewise, children whose parents were home owners had £452 more saved than their peers in social rented housing – even when income and other factors were taken into account.

Again we find that children in larger families had smaller amounts saved. Compared with those who had two or more bothers or sisters, children with only one sibling had £226 more saved and those with none at all had an extra £335 in savings. The age of the child had a significant effect, and, on the whole, the younger children were, the less they had saved.

Credit use by parents, whether a burden or not, reduced the amounts children had saved, and the greater the burden of the borrowing the less children had in their accounts. So, children whose parents had borrowed money but did not see it as a burden had £272 less in savings than children whose parents were not credit users. The difference was even greater - £500 less - if the parents considered their borrowing either somewhat of a burden or a heavy burden.

Table 3.7 Model of amount in child's savings or investment account

	Model 3		Model 4	
	Significance	**Coefficient**	**Significance**	**Coefficient**
Intercept	0.000	666.46**	0.000	721.03**
Attitude to saving				
Not a low priority			0.000	298.85**
Income before housing costs				
£3,000+	0.000	516.48**	0.000	459.61**
£2,000-£2,999	0.125	145.07	0.142	134.33
£1,500-£1,999	0.709	-36.45	0.811	-22.66
£1,000-£1,499	0.871	-16.89	0.714	-36.57
Up to £999 (Comparison group)				
Age of child				
1-4	0.000	-539.53**	0.000	-645.23**
5-6	0.049	-266.07*	0.019	-305.82*
7-10	0.001	-370.19**	0.000	-404.92**
11-15	0.005	-295.83**	0.002	-311.11**
16+ (Comparison group)				
Lone parent	0.224	-106.61	0.388	-73.19
Two parents (Comparison group)				
Number of siblings				
0	0.000	335.37**	0.000	303.17**
1	0.001	225.78**	0.002	207.06**
2+ (Comparison group)				
Country				
Northern Ireland	0.785	-35.91	0.631	-60.85
Wales	0.261	139.61	0.196	156.60
Scotland	0.106	-125.60	0.064	-139.43
England (Comparison group)				
Gender of child				
Male	0.979	-1.46	0.800	13.86
Female (Comparison group)				
Housing tenure				
Owner	0.000	451.55**	0.000	425.61**
Private tenant	0.127	208.36	0.129	199.49
Social tenant (Comparison group)				
Do parents have savings?				
Yes	0.013	259.00*	0.113	160.32
No (Comparison group)				
Burden of credit				
Heavy burden	0.000	-491.30**	0.000	-391.67**
Somewhat of a burden	0.000	-500.97**	0.000	-447.99**
Not a problem	0.000	-272.08**	0.000	-244.36**
Doesn't know (Comparison group)				
Valid N		**2,373**		**2,365**
R^2		**0.10**		**0.14**

*** significant at 1% * significant at 5%*
Base: All children with a savings or investment account and between £1 and £10,000 saved

As we have just seen, if parents saved themselves, children were three and a half times as likely to have an account. The influence on the amounts saved was much less marked – increasing it by £259 on average – and the effect was less significant statistically.

Again we re-ran the model, including parents' attitude to saving (Table 3.7, model 4). As before, this factor was significant in its own right and also reduced the effect of other factors including family income, housing tenure, number of siblings and credit use. On the other hand, it increased the effects of age slightly. Including this variable also meant that savings account-holding by parents no longer had a statistically significant effect. This is in contrast to the finding on account-holding where parental saving continued to have a large effect.

4 Patterns of saving for children in previous 12 months

In the previous chapters we described levels of savings and investments amongst children. This chapter looks specifically at recent saving for children, showing that only a subset of those with savings or investments had had money added to them in the 12 months prior to the interview. As in the previous chapter we use the term ‘saving’ to encompass payments into savings accounts and investments. Deviations from this are highlighted.

Parents were the people most likely to have made a deposit into their child’s savings account or investment in the last year, although grandparents and others had also sometimes made deposits. The amounts being paid in typically increased with the age of the child, but the likelihood of either parents or grandparents paying into an account or investment *decreased* with age.

Mirroring the results of the previous chapter, we found that children in large families, those living with lone parents and those in lower income households were less likely to have received any additional savings, and had received less money overall. Those with parents who saved or whose parents had a positive attitude towards saving were considerably more likely to have extra money paid into their accounts.

We anticipated that there would be a link between parents’ use of consumer credit and savings for children. However as we discuss in the later sections of this chapter, there was very little indication that credit use *per se* was associated with additional savings, although the burden of credit commitments clearly was.

We also report the results of further regression analysis which, as in the previous chapter, indicated the importance of parents’ own saving behaviour in explaining saving for children. We also found that family size and age of the child were particularly important explanatory variables, while living in a lone parent family was not, when household income was taken into account.

In the final section of this chapter we consider a rather different aspect of savings, namely withdrawals. This shows that some parents had used their children’s savings account as a convenient place to save up to meet specific or general expenses, usually related to the child themselves. However, this behaviour reduced the older the child was.

4.1 Levels of saving for children in the previous 12 months

Half of all children (49 per cent) had received further payments into a savings account or investment product since it was opened and only slightly fewer (43 per cent) had had deposits made in the previous year. This seems to indicate that if families *do* make additional payments into children’s savings they do so at least once a year.

Moreover, most children's accounts and investments were in fairly active use; in the previous year money had been added to the savings of two thirds (66 per cent) of account holders. The average (median) amount saved for them during this period was less than £200 (£180) but one in five had received deposits of at least £500. The money paid into children's savings in the previous 12 months came from a variety of sources, but most commonly from parents. Eight in ten children (81 per cent) had deposits made by their parents; one in five (20 per cent) by grandparents and 15 per cent by some other adult (including godparents, friends and other relatives). Only eight per cent of children had topped up their own savings and, as we discuss in section 4.3, this was linked to the age of the child.

Where money had been saved for children in the past year it was most commonly paid into a deposit or other savings account (91 per cent). In 13 per cent of cases at least some of the money had been paid into a life insurance policy; seven per cent into investments and just two per cent into Premium Bonds.

4.2 Regional variations

On the whole there was little variation across the United Kingdom in the level of saving in the previous year (Table 4.1). The proportion of children who had had money saved for them in England, Wales and Scotland differed by no more than one percentage point of the UK average of 43 per cent. It was, however, a good deal lower in Northern Ireland (35 per cent).

Table 4.1 Additional saving for children in the last 12 months and amount added to savings in previous 12 months by region

	Percentage (%)	*Weighted base*	Median amount (£)	*Weighted base*
All	***43***	***4,314***	***180***	***1,623***
England	44	*3,620*	180	*1,381*
Wales	43	*211*	154	*80*
Scotland	42	*337*	153	*114*
Northern Ireland	35	*146*	179	*47**

* Caution: small base

Among those receiving additional savings during the previous year, children living in Wales and Scotland had the smallest amounts saved for them (£154 and £153 respectively); those in England and Northern Ireland had slightly larger sums (£180 and £179) (Table 4.1).

Parents had more commonly contributed to these deposits in Northern Ireland (91 per cent) and Wales (88 per cent) than was the case in Scotland (85 per cent) or England (80 per cent). Children in Northern Ireland were also more likely to pay into their own savings than their peers elsewhere in the United Kingdom (11 per cent compared with a UK average of just eight per cent). In contrast, deposits by grandparents were most often made in England (21 per cent) and Scotland (19 per cent); they were lower in Wales (16 per cent) and Northern Ireland (10 per cent). It is important, however, to take these findings in context and to remember that we also found that fewer children in Northern Ireland had any extra money saved for them during the previous 12 months.

There was little regional variation in the types of accounts into which money was saved. Families in Wales were most likely to have topped up children's deposit or other savings accounts, although the variations across country were not large – ranging from 88 per cent of families in Northern Ireland putting some of the additional money into a savings account, to 92 per cent of those in Wales. Children from Northern Ireland were more likely than average to have had money paid into a life insurance policy (21 per cent compared with the UK average of 13 per cent), but were only half as likely to have had money paid into investments (just three percent compared with the UK average of seven per cent).

4.3 Influence of child and family characteristics and circumstances

There was no indication that either parents or the wider family treated girls and boys differently when it came to recent additions to saving or investments on their behalf (Table 4.2). Girls and boys were equally likely to have additional payments made into savings accounts and investments, and had identical amounts of money added over the previous 12 months.

Table 4.2 Additional saving for children in last 12 months and amount added to savings in the previous 12 months by family circumstances

	Percentage (%)	*Weighted base*	Median amount (£)	*Weighted base*
All	***43***	***4,314***	***180***	***1,623***
Gender				
Male	45	*2,172*	180	*852*
Female	42	*2,142*	180	*771*
Lone parent	26	*1,144*	144	*257*
Two parents	50	*3,165*	180	*1,367*
Age of child				
Under 5	46	*1,099*	200	*461*
5-6	48	*486*	150	*216*
7-10	44	*986*	120	*376*
11-15	41	*1,310*	160	*453*
16-17	33	*434*	250	*117*
Number of siblings				
0	49	*966*	250	*417*
1	49	*1,960*	170	*832*
2	37	*923*	120	*294*
3+	22	*465*	120	*79*

4.3.1 Age

Whilst half (48 per cent) of children aged between five and six had received additional savings in the previous 12 months, this fell to a third (33 per cent) of children aged 16 or 17 (Table 4.2).

The average (median) amount added also varied noticeably by the age of the child. It was highest for the under fives and over 16s (£200 and £250 respectively) and lowest for the seven to ten year olds (£120) (Table 4.2).

Just eight per cent of those children whose savings had been topped up had been given at least £1,000 in the previous 12 months. Such large amounts were more common amongst the youngest children, aged under seven (10 per cent), and the oldest ones, aged 16 and above (17 per cent). In comparison, just one in twenty (five per cent) seven to 15 year olds whose savings and investments had increased had received an additional £1,000. This almost certainly reflects the increased likelihood that older children save some of their own earned income (see Chapter 5). Increasing levels of financial independence among this older age group are also indicated by the finding that the proportion of parents who did not know how much money had been paid into their child's savings was highest amongst parents of young adults aged 16 or 17 (12 per cent compared with eight per cent of parents of under fives and five per cent of those with five to seven year olds).

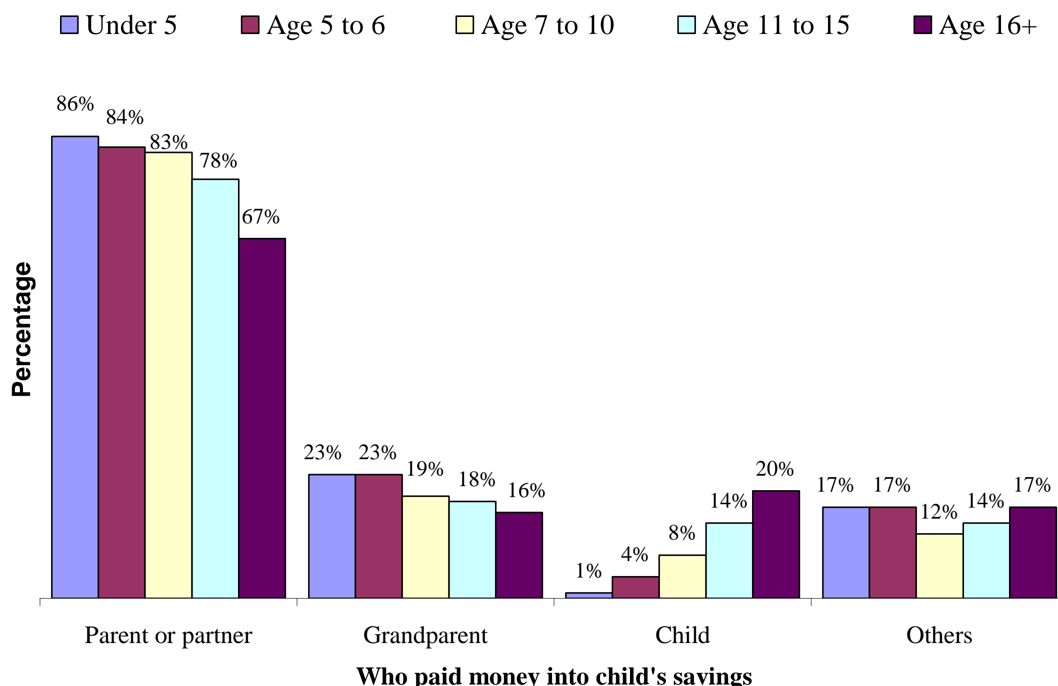
Parents of older children were less likely to have contributed to the additional money being saved or invested. Whilst 86 per cent of the parents of children under five years old reported being responsible for some of the additional savings over the last 12 months the proportion dropped by almost 20 percentage points amongst young people aged 16 or 17 (67 per cent) (Figure 4.1). Grandparents were also less likely to make contributions for older children. Almost a quarter of children under the age of seven (23 per cent) had received additional savings from grandparents, but this proportion dropped to less than a fifth among young adults aged 16 to 17 (16 per cent). These young adults were, however, most likely to be contributing to their own savings; one in five of those whose savings had been added to in the previous year had made a deposit themselves. This proportion fell the younger the child was, so that only one in a hundred (one per cent) of under-fives had added money to their own account (Figure 4.1).

4.3.2 Family size

We saw in Chapter 3 that both the level of account-holding and the total sums saved were influenced by family size. The same was also true of deposits over the previous year. Half (49 per cent) of children with either no siblings or only one brother or sister had had additional payments made into their savings in the previous 12 months. This fell to fewer than four in ten (37 per cent) of children with two siblings and two in ten (22 per cent) of those with three or more (Table 4.2).

Moreover, children with three or more siblings were also likely to have smaller sums of money saved for them – just £120 on average (median). In contrast, only-children averaged £250 in extra savings over the course of the year (Table 4.2). Whilst at least £1,000 had been saved in the last year for one in ten only-children (11 per cent) the same amount was saved for just one in fifty (two per cent) of children from large families (with three or more siblings). It should be noted, however, that parents with several children were also more likely to report that they did not know how much money was saved for a particular child.

Figure 4.1 Who paid money into child's savings in the previous 12 months by age of child



One explanation for the lower overall levels of additional saving for children in larger families is that fewer people were saving for the child. On the whole, grandparents of children from large families were much less likely to pay any money into the savings over a 12 month period. Grandparents had saved money for just over one in ten children with three or more siblings (12 per cent) – half the proportion among children in smaller families (21 per cent). Similarly, children in the largest families were also less likely to pay any money in themselves (five per cent compared with an average of eight per cent). In contrast, the number of children did not have nearly such a large effect on parental contributions (78 per cent for children with three or more siblings compared with an average of 81 per cent).

4.3.3 Lone parent families

Children in lone parent families were only half as likely to have received additional savings in the last 12 months as their counterparts in two parent households. Furthermore, those children in lone parent households whose savings had increased received almost £40 less than their peers, on average (£144 compared with £180 for children in two parent households) (Table 4.2).

As we have noted above, one possible reason for lower overall levels of additional saving for children in larger families is that fewer people are making deposits. We also found this to be the case for children in lone parent households: only 11 per cent received additional savings from people other than parents and grandparents in the last 12 months compared with 16 per cent of those in two parent families. However, there were no differences in the proportions receiving additional payments from their parents and grandparents, or in the proportions saving for themselves.

In contrast with large families, children in lone parent households were significantly *more* likely than their counterparts to have had money paid into life insurance

policies (16 per cent compared with 12 per cent). There was little difference in the propensity to pay into other savings or investment products.

4.4 Influence of family economic circumstances

Children in households with the highest incomes were far more likely than average to have had money paid into their savings in the previous year. Just over a quarter (27 per cent) of children with household incomes (before housing costs) of less than £1,000 a month had received additional savings compared with almost two thirds (64 per cent) of those with household incomes above £3,000 (Table 4.3). Taking housing costs into consideration did not change this pattern.

In general, household income impacted less on the amount of money being deposited than might have been expected. The median amounts deposited for children in households with incomes of up to £999 a month were £120 and this rose to £165 among those with household incomes of £2,000 to £2,999 (Table 4.3). They then, however, jumped considerably to £250 for children living in households with the highest monthly incomes (£3,000 and over). Moreover children in the highest income families were more than three times as likely to have had over £1,000 added to their account in the previous 12 months as those living in the poorest households (less than £1,000 a month) (14 per cent and four per cent respectively).

Table 4.3 Additional saving for children in the last 12 months and amount added to savings in previous 12 months by family economic circumstances

	Percentage (%)	*Base (weighted)*	Median amount (£)	*Base (weighted)*
All	***43***	***4,314***	***180***	***1,623***
Net household income (£ per month)**				
Up to £999	27	*1,111*	120	*238*
£1,000-£1,499	32	*679*	150	*196*
£1,500-£1,999	43	*863*	150	*322*
£2,000-£2,999	56	*1,079*	165	*527*
£3,000+	64	*582*	250	*340*
Number of earners				
0	15	*840*	80	*100*
1	40	*1542*	180	*536*
2	59	*1,922*	192	*985*
Housing tenure				
Owner	54	*2,854*	200	*1,362*
Private tenant	29	*347*	140	*86*
Social tenant	19	*1,110*	95	*175*

** Before housing costs

In contrast, the choice of whether to add to savings or investments varied little by income. There was also very little variation by income in either the proportions of children receiving deposits from parents or grandparents or the proportion making deposits themselves.

4.4.1 Number of earners

Similar relationships were found between additional savings and the number of earners, as between additional savings and household income. For example, six in ten children (59 per cent) in households with two earners had received additional payments into their savings in the last year, compared with four in ten children (40 per cent) in households with one earner (Table 4.3). In contrast, just 15 per cent of children with savings who lived in workless households had received additional deposits in the previous 12 months.

We noted above that the average amount added to savings only changed significantly at the highest levels of income. Looking at the number of earners we see that there was little difference between children living with one or two earners, but that children in workless households received much lower levels of additional savings than their peers (Table 4.3). So, whilst children's savings in two earner households increased by just over £190 on average in the previous 12 months, and those in households with one earner received an additional £180, children in households where no-one worked received less than half this amount, at just £80.

Children in households with two earners were five times more likely to have had over £1,000 added in the preceding 12 months in households with two earners (10 per cent) than in workless households (two per cent). Conversely, more than four in ten (44 per cent) of children in workless households who had been given additional savings in the last 12 months received less than £100, compared with 24 per cent of households with two workers, and 26 per cent of households with one worker. Parents in workless households also appeared to be less focused on their children's savings: almost twice as many parents said that they did not know how much had been saved for their children (16 per cent compared with nine per cent of those in households with at least one worker).

The variations in the proportions of family members paying money into children's accounts by number of earners were generally small, again reflecting the variations by income. The most notable difference was that only 74 per cent of parents in workless households had saved for their children compared with 83 per cent of parents in households with one worker (and 81 per cent of parents in households with two workers).

Children from workless households were far less likely to add to their own savings during the course of the year. Just three per cent had done so, compared with nine per cent of children in families with two workers. We discuss saving by children in more detail in the following chapter.

The number of earners in a household had little bearing on the type of savings or investment products that money had been paid into in the preceding 12 months. The only noticeable exception was that just three per cent of children in workless households received additional payments into any investment products other than life insurance or premium bonds, compared with an average of seven per cent.

4.4.2 Housing tenure

There was a strong association between parents' housing tenure and additional savings for their children, again reflecting the variations by income discussed above. More than half of the children living in owner occupied housing had received additional savings deposits in the last 12 months (55 per cent if the parent had a

mortgage and 52 per cent if the parent owned the home outright). Conversely, just two in ten children (19 per cent) living in social housing had had further money added to their savings or investments. Children living in private rented accommodation were more likely to have received additional savings (29 per cent) (Table 4.3).

Amongst those children whose savings had been topped up, only those living in local authority housing had received less than an £100 in the previous year (£95 on average). In contrast, children whose parents owned their home outright received an additional £200 in savings over the same 12 months period (Table 4.3). In fact, children whose parents were owner occupiers were more than seven times as likely to receive more than £1,000 (15 per cent compared with two per cent) as those renting from the local authority).

Housing tenure had relatively little effect on the level of saving by parents; around eight in ten children that had received additional savings deposits had been given some of the money by their parents. The main exception was those living in housing association accommodation, who were significantly less likely to have received any additional savings from their parents in the last year (68 per cent). These children were more likely to receive additional savings from grandparents (32 per cent, compared with an average of 20 per cent).

4.5 Influence of parents' propensity to save

It is reasonable to assume that parents' attitudes to saving will impact on the likelihood and level of recent saving for children. One of the ways in which we were able to investigate this was to ask parents to tell us how much they agreed with each of four attitude statements. The statements used were: 'I would like to save for my child(ren) but I can't afford to at the moment'; 'I don't feel it's necessary to save for my child(ren) because other people are saving for them'; 'I think it's more important to buy my child(ren) the things they want than to save for them' and 'Saving for my child(ren) is a low priority for me at the moment'.

We gave each respondent a score ranging from 1 to 5 in relation to their responses. As a result of this we found that, on average, children who had had money added to their savings in the last 12 months had parents with a more positive attitude towards the idea of saving for children. However, the difference was not large; scores averaged 3.59 compared with 3.04 amongst those who had not received additional savings.

We found that attitude to savings was also positively associated with the amount of savings added in the past 12 months. It is important to consider what this might mean. We assume that parents who feel saving is a high priority will pay more money into savings, but we should also bear in mind that those without the means to save large sums for their children might not feel that they can claim saving to be such a high priority.

It appears that parental attitude may also impact on the type of savings product that they invest in for their children. Parents were found to be slightly more positive about saving for children if their children's Premium Bond holding or other investments had increased, than if additional savings had been paid into deposit accounts (3.8, 3.7 and 3.6 respectively). This almost certainly reflects the fact that these types of accounts were usually held *in addition* to deposit accounts and that the number of types of account a child had was strongly associated with parental attitudes to saving.

4.5.1 Parents' savings

Parents' attitudes to saving can also be inferred from their own saving behaviour. We found strong associations between parents with savings and recent additions to children's savings. For example, just over one in ten (12 per cent) children without savings had received any additional deposits to existing savings products in the last year, compared with more than half of those whose parents had no savings (51 per cent) (Table 4.4).

Children with parents who had money saved also received almost twice as much in additional deposits as their peers with parents who had none (£180 and £100 respectively) (Table 4.4). Children were more likely to receive less than £100 (35 per cent compared with 25 per cent) if their parents had no savings, and only one quarter as likely to receive at least £500 (five per cent compared with 20 per cent). Parents without savings were also more than twice as likely to report that they did not know how much money had been saved for their children, perhaps indicating that they were less interested in savings generally (19 per cent compared with nine per cent of parents with savings).

Table 4.4 Additional saving for children in the last 12 months and amount added to savings in previous 12 months by parent's propensity to save and borrow

	Percentage (%)	*Weighted base*	Median amount (£)	*Weighted base*
All	***43***	***4,314***	***180***	***1,623***
Parent has savings account				
Yes	51	*3,400*	180	*1,512*
No	12	*644*	100	*62*
Parent uses credit				
Yes	42	*2,748*	156	*1,015*
No	45	*1,490*	200	*588*
Burden of credit (credit users only)				
Not a burden	49	*1,342*	160	*570*
Somewhat of a burden	40	*949*	150	*337*
A heavy burden	27	*447*	159	*105*

Parents without savings were less likely to add anything to their children's savings themselves (70 per cent compared with an average of 81 per cent). However, we found that grandparents were *more* likely to add money to children's savings if the parents did not have savings of their own (26 per cent compared with an average of 20 per cent). It is interesting that some grandparents appear to be compensating for a lack of savings for this reason, but that this is not apparent when the low level of saving is a result of family income or financial circumstances (see above).

Almost all the children who had received additional life insurance payments in the last 12 months had parents with savings (just three per cent had parents who did not).

4.6 Influence of parents' propensity to borrow

Whilst the vast majority of the parents surveyed had access to a current account, almost one in ten (nine per cent) responded that neither they nor their partner had such an account. Where this was the case, children were less likely to have money paid into any savings or investments they had. Notably, 14 per cent of the children with a savings account or investments who had not received additional savings in the previous year had parents who did not have a current account.

4.6.1 Credit use

Most parents used credit and it did not appear to impact on the likelihood of children receiving top-ups to their savings. The impact was noticeable, however, on the *total amount* added to savings in the last 12 months. Children with parents who had no credit commitments received almost £50 more than those with parents who were using credit (£200 and £156 respectively) (Table 4.4).

In contrast, there was no clear link between saving for children and the amount their parents had borrowed. On the other hand, the propensity to add to savings was much more clearly associated with the burden that borrowing placed on families. Only a quarter (27 per cent) of children whose parents reported that their borrowing was a heavy burden had received additional savings over the course of the year. Conversely, half (49 per cent) of those children with parents who said that their borrowing was not a problem had been given additional savings in the previous 12 months. Interestingly though, children who did receive additional deposits, received similar amounts regardless of the burden of borrowing on their parents. So those with parents whose borrowing was a heavy burden received an average of £159, just £1 less than those with parents who did not see their borrowing as a problem (£160) (Table 4.4).

A third of parents (34 per cent) who reported that their children's savings had not been increased agreed with the statement 'buying on credit is never a good idea, you should save up or pay cash', compared with 28 per cent of those who said someone had saved for their child in the last year. This indicates that a sizeable minority of parents who are anti-borrowing may also be reluctant savers.

4.7 What explains the level of saving for children?

We have used multivariate analysis to consider the relationship between the characteristics and circumstances of families and the likelihood that someone will save (Table 4.5, page 41). The first model in Table 4.5 takes into account only characteristics and circumstances, whilst the second model also includes an attitude measure, created from the results of factor analysis[12] on a range of attitude statements. The results of the regressions indicate that neither the gender of the child nor the country of residence make any statistically significant difference to the likelihood of making additional savings for children once other factors are taken into account. This suggests that the small variations across countries described in section 4.2 above can be accounted for by the observed difference in characteristics

[12] Factor analysis is a data reduction technique that can give each respondent a single score based on answers to specific questions that are identified as statistically similar.

and circumstances of the parents within these countries, rather than by any other country specific factor.

The analyses reported in Table 4.5 (page 41) indicate that even after taking into account factors such as income and the age of the child, only-children were more than twice as likely to have received additional savings in the previous year as those with two or more siblings. Children with parents who were buying their home or owned it outright were also twice as likely to have received additional savings as those who lived in social housing, given other characteristics.

Additional savings were more likely for younger children than for those aged 16 and above, and three times more likely if the parents were savers.

There was a statistically significant relationship between additional savings for children and the burden of debt. Children whose parents reported that their debt was a heavy burden were only half as likely to have received additional savings over the previous 12 months as children with parents who did not borrow, holding other factors constant.

Children in households with incomes of £3,000 or more were almost twice as likely to have received additional savings in the last 12 months as those with less than £1,000 a month, taking into account other characteristics. Even children in families with a monthly income of £2,000 or more (before housing costs were taken into consideration) were significantly more likely to have received additional savings than those with family incomes of less than £1,000, given other characteristics.

Even after taking into account factors such as the number of children and the household income, children in two parent families were more likely to have received additional savings than those in lone parent families, although the likelihood was not dramatically different. However, it is interesting that once attitudes were taken into account (as in the second model reported in Table 4.5) children in lone parent households were no less likely to have received additional savings than their peers. It also appears that attitude to saving had an impact on those parents who felt that their debt was somewhat of a burden, as this became far less significant once attitudes were taken into account.

4.8 Withdrawals from children's accounts

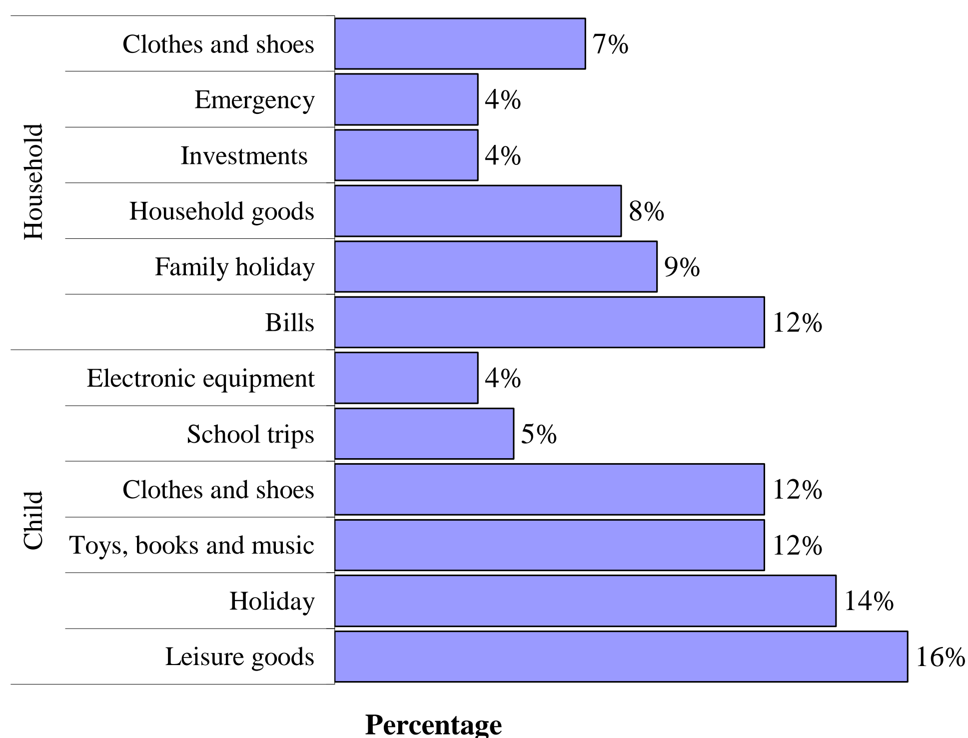
Almost half of the children with savings had had money withdrawn from their savings or investments at some point according to parents (42 per cent). Most commonly, parents made withdrawals: 39 per cent of parents surveyed had taken some money out of their children's savings. In addition the parents' responses indicated that more than a quarter of children (28 per cent) had withdrawn some money from their own savings at some point in the past; this increased to 45 per cent of 16 and 17 year olds and 40 per cent of children from large families who had three or more siblings.

A similar pattern emerged in relation to withdrawals in the last year. In over a third of cases (35 per cent) parents had taken out some money in the previous 12 months, and in almost a third of cases children had done so (32 per cent). This changed sharply with age; parents indicated that almost three quarters of 16 to 18 year olds (73 per cent) had withdrawn some of their own savings in the previous 12 months, but only seven per cent of these parents had withdrawn money from the teenagers accounts in the same time period.

Children with three or more siblings were considerably more likely than average to have taken money out of their account during the preceding 12 months (56 per cent compared with an average of 32 per cent).

Parents who reported taking some money from their child's account in the previous 12 months generally spent it on items for the child, or used it to cover child-specific expenses such as school trips. However, more than one in ten (12 per cent) had withdrawn money to pay bills or day-to-day expenses and seven per cent had taken out money to buy clothes and shoes for someone other than the child (Figure 4.2).

Figure 4.2 How parents had spent withdrawals from children's savings



4.8.1 Factors that increase the likelihood of withdrawing money

Table 4.6 (page 42) reports the likelihood of a parent withdrawing money from a child's account, based on multivariate analyses. As in Table 4.5, the first model considers characteristics and circumstances whilst the second one also includes a measure of attitude. It is clear from these results that the likelihood that parents had withdrawn money from their child's account was associated with the age of the child, rather than the household income. The only other factor that appeared to be associated with parental withdrawal was the burden of debt; those parents who reported a heavy burden of debt were twice as likely to withdraw money from their child's account as parents who did not borrow. The results were consistent across the two models, and indicate that attitude was not significantly associated with the propensity to take money out of a child's account. In other words, whilst parental attitude influenced whether money was paid *into* an account, it did not seem to affect whether money was withdrawn.

Table 4.5 Has any money been saved for children with accounts in past 12 months?

	Model 1		Model 2	
	Significance	**Odds ratio**	**Significance**	**Odds ratio**
Intercept	0.000		0.000	
Factor 1 factor score				
Saving not a low priority			0.000	1.963**
Income before housing costs				
£3,000+	0.000	1.970**	0.000	1.654**
£2,000-£2,999	0.000	1.712**	0.000	1.584**
£1,500-£1,999	0.092	1.211	0.110	1.209
£1,000-£1,499	0.452	1.092	0.707	1.047
Up to £999 (Comparison group)				
Age of child				
Up to 5	0.000	1.937**	0.000	1.586**
5-6	0.000	2.090**	0.000	1.893**
7-10	0.000	1.986**	0.000	1.844**
11-15	0.000	1.586**	0.001	1.532**
16+ (Comparison group)				
Lone parent	0.028	0.802*	0.068	0.825
Two parents (Comparison group)				
Number of siblings				
0	0.000	2.174**	0.000	2.020**
1	0.000	1.734**	0.000	1.684**
2+ (Comparison group)				
Country				
Northern Ireland	0.066	0.745	0.050	0.716
Wales	0.990	0.998	0.851	0.971
Scotland	0.630	0.957	0.577	0.949
England (Comparison group)				
Gender of child				
Male	0.553	1.041	0.404	1.062
Female (Comparison group)				
Housing tenure				
Owner	0.000	2.251**	0.000	1.981**
Private tenant	0.058	1.320	0.218	1.209
Social tenant (Comparison group)				
Do parents have savings?				
Yes	0.000	3.045**	0.000	2.539**
No (Comparison group)				
Burden of credit				
Heavy burden	0.000	0.593**	0.004	0.673**
Somewhat of a burden	0.006	0.771**	0.100	0.852
Not a problem	0.745	0.973	0.824	1.019
Doesn't borrow (Comparison group)				
Valid N		**4,223**		**4,196**
R^2		**0.23**		**0.31**

*** significant at 1% * significant at 5%*

Table 4.6 Has any money been withdrawn in the last 12 months by parents who reported that their child had at least one savings account?

	Model 1		Model 2	
	Significance	**Odds ratio**	**Significance**	**Odds ratio**
Intercept	0.000		0.000	
Factor 1 factor score				
Saving not a low priority			0.056	1.165
Income before housing costs				
£3,000+	0.079	1.571	0.108	1.513
£2,000-£2,999	0.435	1.203	0.463	1.190
£1,500-£1,999	0.558	1.150	0.610	1.130
£1,000-£1,499	0.794	1.068	0.826	1.057
Up to £999 (Comparison group)				
Age of child				
Up to 5	0.000	4.824**	0.000	5.308**
5-6	0.000	7.698**	0.000	8.811**
7-10	0.000	4.659**	0.000	5.309**
11-15	0.002	3.432**	0.002	3.948**
16+ (Comparison group)				
Lone parent	0.342	1.218	0.327	1.226
Two parents (Comparison group)				
Number of siblings				
0	0.066	1.445	0.081	1.419
1	0.074	1.375	0.088	1.357
2+ (Comparison group)				
Country				
Northern Ireland	0.025	0.315*	0.024	0.311*
Wales	0.864	0.950	0.893	0.961
Scotland	0.695	0.931	0.711	0.935
England (Comparison group)				
Gender of child				
Male	0.253	0.857	0.268	0.861
Female (Comparison group)				
Housing tenure				
Owner	0.902	0.973	0.812	0.949
Private tenant	0.507	0.807	0.491	0.800
Social tenant (Comparison group)				
Do parents have savings?				
Yes	0.405	0.824	0.376	0.810
No (Comparison group)				
Burden of credit				
Heavy burden	0.004	2.012**	0.001	2.208**
Somewhat of a burden	0.041	1.468*	0.022	1.545*
Not a problem	0.108	1.314	0.076	1.354
Doesn't borrow (Comparison group)				
Valid N		**2,818**		**2,805**
R^2		**0.05**		**0.05**

*** significant at 1% * significant at 5%*

We might conclude from these results that some parents use the savings accounts of children (and especially those aged under 11) to *save up* for things that the children need or want in the short term, rather than as a means of building up a lump sum for when the child reaches adulthood. These parents withdrew the money as required, irrespective of their own income. We can see from the results that, after the age of five, as the children get older parents were less likely to access their children's savings, given other characteristics. Additional statistical tests indicated that this was not related to whether or not the child was earning.

There are other possible reasons why parents may have withdrawn money from their children's savings. It may be that parents used their child's account for convenience; it could also be that parents were using their child's savings simply to try and make ends meet. The fact that parents who were feeling the pressure of debt were more likely to withdraw money indicates that *regardless of income*, some parents may simply be unable to meet their commitments without access to their children's deposits. Moreover, as Figure 4.2 indicates 12 per cent of parents had withdrawn money from their child's account to pay bills and four per cent to meet the costs of emergency spending.

5 Patterns of saving by children and young people

In this chapter we describe the patterns of income, spending and saving by children and young people themselves and bring together information collected in three surveys[13]. For the most part this chapter draws on the survey of parents, as this covers children of all ages. We do, however, discuss the replies given by 'young people' (aged 11 to 17), or 'children' (aged seven to ten) where they differ from those given by parents. We rely on children's own accounts of how they spent their money and how they learnt about managing money.

The great majority of children and young people had some money of their own and many of these had a regular source of income. Despite this, only just over half of them had saved any money in the past 12 months and most of these had put money into a money box. Very few had paid money into a savings or investment account.

We also look at the spending habits of children and young people, at their attitudes to money and to saving and how they had found out about money management. Children and young people were asked how they had learnt about money, the personal finance education they had received at school and who (if anyone) had encouraged them to save. This showed that most children and young people had learnt about money management and saving from their parents. Only a minority reported having had lessons at school.

5.1 Children and young people's income

Children and young people had three sources of money. Most (87 per cent) were given money as a gift on special occasions, such as birthdays or Christmas. A significant number (49 per cent) were given regular sums as pocket money, sometimes in return for doing household chores. And some (12 per cent; mainly those in their teens) earned a regular income from paid work outside the home (Table 5.1).

Overall, nine in ten parents (91 per cent) reported that their children had received some money over the past 12 months, but the likelihood was clearly associated with the age of the child (see Table 5.1 column 1). While just about all (98 per cent) parents of 16 and 17 year olds who were still dependent on them financially said their children had received some money, this fell to three quarters (77 per cent) of parents with very young children (under the age of five).

[13] These include the survey of 4,314 parents that was the main source for chapters 2 and 3; a linked survey of 1,491 young people aged between 11 and 17 and still dependent financially on their parents, whose parents were also interviewed; and a separate omnibus survey of 1,025 children aged between seven and ten.

Table 5.1 Income received by children and young people

	Percentage receiving income (%)					Median received (£ monthly)		
Adult survey	**Any income**	**Gifts**	**Pocket money**	**Earnings**	***Weighted base***	**Gifts**	**Pocket money**	**Earnings**
All	***91***	***87***	***49***	***12***	***4,314***	***40***	***22***	***100***
Gender								
Male	91	88	49	13	*2,172*	50	22	86
Female	90	86	49	11	*2,142*	40	22	130
Lone parent	88	82	50	11	*1,143*	40	22	130
Two-parent	92	89	49	12	*3,166*	40	20	91
Age of child								
Up to 5	77	75	12	0.2	*1,099*	30	4	-
5-6	90	84	44	1.2	*486*	30	9	-
7-10	96	91	64	1.2	*986*	40	11	-
11-15	98	94	72	19	*1,310*	50	22	56
16-17	98	92	46	57	*434*	80	43	195
Number of siblings								
0	90	85	47	14	*965*	50	22	130
1	92	90	49	11	*1,960*	40	20	87
2	91	87	51	12	*923*	40	15	69
3+	87	82	52	10	*464*	30	22	*
Net household income (£ per month)**								
Up to £999	84	79	44	8	*1,111*	40	22	85
£1,000-£1,499	90	85	52	17	*679*	40	22	93
£1,500-£1,999	93	89	46	10	*863*	40	20	108
£2,000-£2,999	95	93	53	15	*1,079*	50	20	86
£3,000+	95	94	54	14	*581*	50	17	130
Number of earners								
0	81	74	44	6	*840*	55	22	*
1	91	87	47	11	*1,541*	45	22	94
2	96	93	53	15	*1,922*	50	20	100
Housing tenure								
Owner	94	92	51	14	*2,855*	50	20	100
Private tenant	86	81	44	7	*347*	40	22	*
Social tenant	84	78	48	7	*1,110*	40	22	130
Parent has savings account								
Yes	93	90	51	13	*3,400*	45	20	95
No	81	73	44	5	*645*	39	22	*
Parent uses credit								
Yes	92	89	49	12	*2,748*	40	22	90
No	89	85	50	12	*1,489*	40	22	108
Burden of credit (credit users only)								
Not a burden	94	91	53	13	*1,342*	50	22	87
Somewhat	92	87	47	13	*949*	40	20	108
Heavy burden	89	86	44	7	*447*	40	22	*
Country								
England	91	87	49	12	*3,619*	40	20	102
Wales	95	88	50	13	*211*	50	22	*
Scotland	93	88	52	13	*336*	50	22	*
N Ireland	93	91	47	12	*147*	50	22	*

**Before housing costs
- Less than one per cent
* Number too small for analysis

The proportion of children and young people with an income of their own also rose with both household income and the number of earners in the household (Table 5.1, column 1). There was a reasonably strong link with housing tenure – with fewer children living in socially rented housing receiving money than children whose parents owned their home. Children and young people were a good deal more likely to get money of their own if their parents had savings than they were if their parents had no money put by (Table 5.1, column 1).

Regional variations, however, were quite small and not statistically significant, as were the influence of the number of siblings a child had and whether they lived in a two-parent or lone-parent family (Table 5.1, column 1).

5.1.1 Money as gifts

The majority (87 per cent) of children and young people received cash gifts on special occasions (Table 5.1, column 2). According to parents, most (85 per cent) had received money on their birthday, and three quarters (76 per cent) had been given money at Christmas. A small number (three per cent) had received money to mark other religious festivals, and one in six (16 per cent) had been given cash on other occasions (such as when relatives visited them).

The proportion receiving gifts increased with the child's age, with household income and with the number of earners in their family (Table 5.1, column 2). Children and young people were, however, less likely to have received cash gifts if they lived in a lone parent family, had three or more siblings, lived in rented accommodation or their parents had no savings (Table 5.1, column 2).

Parents were also asked how much their child had received *in total* the last time money was given to them as a present. The average (median) amount received by those getting cash gifts was £40, but this was strongly linked to the age of the child (Table 5.1, column 6). Children aged six and under had received £30 on average, and the amount increased with age, with 16 to 17 year olds receiving £80 on average. This almost certainly reflects an increase in the number of people giving money in lieu of presents as well as the size of gifts given to young people as they approach adulthood.

As with the receipt of gifts, the amounts received as gifts by children and young people increased with their household income and the number of earners in the household (Table 5.1, column 6). They were also higher if their parent owned rather than rented their home and if their parents had savings.

Children and young people had been given less money the more brothers and sisters they had; while girls had received smaller sums than boys (a fact that was confirmed by the young people we interviewed – younger children were not asked) (Table 5.1, column 6).

Although there was little difference across the UK in the proportion of children receiving a cash gift, those living in England had been given rather less money than children living elsewhere in the UK (Table 5.1, column 6).

5.1.2 Regular income

In general, children and young people received most of their regular income in the form of pocket money. The relatively large amounts received by some, however, were partly due to money they earned outside the home.

Parents reported that over half (54 per cent) of children and young people received money regularly, either in the form of pocket money, or from paid work. As might be expected the proportion rose steeply with age, so while around one in ten (12 per cent) of under fives had a regular income of their own, eight in ten 16 to 17 year olds did (80 per cent).

Children and young people with a regular income received £22 per month on average (median), and this, too, was strongly associated with age, with a particularly large jump among young people aged 16 to 17. So, over half (56 per cent) of all young people with a regular income were getting more than £100 a month, according to their parents, and the average (median) amount they received was £134. In contrast, half (49 per cent) of parents with children under the age of five who received regular money, said they received less than five pounds a month, with an average (median) of just £4.

Pocket money

Half of parents (49 per cent) said that their children were given regular pocket money. On the whole, the older children were the more likely they were to get pocket money – but only up to the age of 16. So around one in ten (12 per cent) of the under fives had pocket money, rising to seven in ten young people (72 per cent) aged 11 to 15. It then fell so that under half (46 per cent) of 16 and 17 year olds still dependent on their parents financially received pocket money (Table 5.1, column 3).

There was little variation in the proportion of children and young people getting pocket money across the four countries in the UK (Table 5.1, column 3). Nor was it influenced to a large extent by their circumstances (Table 5.1, column 3). The link with income was remarkably small, although children in the lowest income group (with net household incomes of less than £1,000 a month) *were* less likely to be given pocket money than their peers living in better-off families. Even so, more than four in ten (44 per cent) of the poorest children got regular pocket money (Table 5.1, column 3).

The average (median) amount received by children and young people whose parents said they were given regular pocket money was £22 a month, although there was wide variation in the actual amounts. Three in ten (29 per cent) got less than £25, while a quarter (24 per cent) were given more than £100.

The amounts varied considerably by age, but this time with no drop after the age of 16. So, whilst below-average numbers of financially dependent 16 to 17 year olds were given pocket money, the average (median) amount they received each month was £43 according to the parents surveyed. In contrast, the average amount of pocket money received by 11 to 15 year olds was almost half this amount (£22) and younger children got less still (Table 5.1, column 6).

Unlike the value of cash gifts, average amounts of pocket money varied very little with the family circumstances of children and young people. Interestingly though, the average amounts appeared to *decrease* slightly with rising household income (Table 5.1, column 6). Children living in the highest income households received £5 a month *less* than those in the lowest income households (£17 compared with £22).

This is almost certainly explained by the fact that poorer children were expected to cover more of their own expenditure with their pocket money than those who were better-off – as we discuss below.

The young people (aged 11 and over) we interviewed largely confirmed the information that their parents had given about their pocket money. There was a very high degree of consensus about whether they were given any pocket money and eight in ten (81 per cent) of young people agreed with the amount their parents said they were given. Those who disagreed were twice as likely to say they got less than their parents reported as they were to say they got more (13 per cent compared with seven per cent).

We cannot compare the replies of children (aged seven to ten) directly with those of their own parents, only with those given by other parents of children of their age. This shows that slightly more of the children said that they received pocket money (69 per cent, compared with 64 per cent of parents), although they reported similar average amounts (£11 a month).

Earned income

As might be expected, earned income was much less common than pocket money and was strongly linked to the child's age (Table 5.1, column 4). Overall, just over one in ten (12 per cent) of children and young people were said to be earning money. But this was largely concentrated among the over 11s. Two in ten (19 per cent) of young people aged 11 to 15 were reported to have an earned income, rising to six in ten (57 per cent) of young people aged 16 to 17 who were still dependent on their parent financially. In contrast, fewer than one per cent of children aged under 11 earned any money outside the home.

Contrary to expectations, young people from the poorest families with no earners were *less* likely to have paid work outside the home than those whose parents were better off or had two parents earning a wage (Table 5.1, column 4). Those whose parents carried credit commitments that were a heavy burden were also less likely to have earned incomes than others (Table 5.1, column 4). These findings are difficult to explain but do, nonetheless, suggest that young people do not supplement household incomes where money is tight or where there are no adults in paid employment.

There was no difference in the proportion of young people earning money outside the home across the four countries of the UK nor was there a significant difference in the proportions of boys and girls with earnings (Table 5.1, column 4)

On average, the small number of young people who earned an income outside the home received on average (median) £100 a month in wages. Again the actual amounts varied widely; 15 per cent of young people earned less than £25 a month, while 23 per cent earned more than £250.

The sums of money earned were a good deal lower for young people aged 11 to 15 than they were among the financially dependent 16 and 17 year olds (£56 compared with £195 a month) (Table 5.1, column 8). Girls appeared to earn more than boys (£130 compared with £86) and the amounts declined the more siblings a young person had. Links with household income were not, however, clear cut – possibly because the number of young people earning a wage was so small. For the same reason it is not possible to report any reliable findings about how earnings varied with other family circumstances or across the four countries in the UK (Table 5.1, column 8).

As with pocket money, we checked what young people said about their earnings against the information that their parents had given us. Again there was a very high degree of consensus about whether they earned any money at all and almost eight in ten (77 per cent) also agreed about the sums of money earned. Where they disagreed with their parents about the amount they earned they were just as likely to say they earned more as to say that they earned less.

5.2 Spending by children and young people

We asked the children and young people we interviewed how they spent the money they had received as gifts, pocket money or earnings. Here there were some large differences between children and young people.

Children aged seven to ten

Half (51 per cent) of children (aged seven to ten) said that they spent their money on sweets and 'treats' such as fizzy drinks and ice cream; and a similar proportion (46 per cent) that they bought toys (Figure 5.1). Computer games were also popular (30 per cent) as were books, DVDs, clothes and magazines. Patterns of spending varied with the age of the child. As children got older, the proportion buying toys reduced; while spending on computer games, DVDs, clothes and CDs increased.

Even amongst seven to ten year olds there were some marked differences between boys and girls (see Figure 5.1). Areas where girls were much more likely to spend their money included clothes (27 per cent, compared with four per cent of boys), jewellery (17 per cent compared with almost no boys) and fashion accessories (15 per cent compared with one per cent). Girls also more often spent money on CDs, books, magazines, art materials and presents. In contrast, boys were more inclined to spend their money on computer games (50 per cent compared with just four per cent of girls), sport and toys.

On the whole, there were few differences in the spending patterns of children in different financial circumstances, except that those living in low-to-middle income households (net monthly incomes between £1,000 and £1,999) were the ones most likely to have spent their own money on clothes (19 per cent).

Young people aged 11 to 17

In contrast to children, the main area of spending for young people (aged 11 to 17) was clothes (52 per cent) (Figure 5.2). Other important areas of expenditure included CDs, 'going out' and (like children) computer games. As might be expected, they were less likely than children to have spent money on sweets or toys. Rather fewer had also spent money on books (seven per cent compared with 19 per cent of children aged seven to ten). And while spending on computer games and DVDs had increased with age up to the age of ten, they then declined in importance as young people entered their teens.

Again, there were some interesting differences in patterns of spending by age and gender. The older these young people were, the wider the range of things they spent money on – reflecting the larger amounts of money they had at their disposal. Older teenagers were also more likely to spend money on clothes, CDs and 'going out', while those in their early teens were more likely to spend money on computer games.

Figure 5.1 Main purchases mentioned by children (aged 7 to 10) who ever had any money (Multiple responses were allowed).

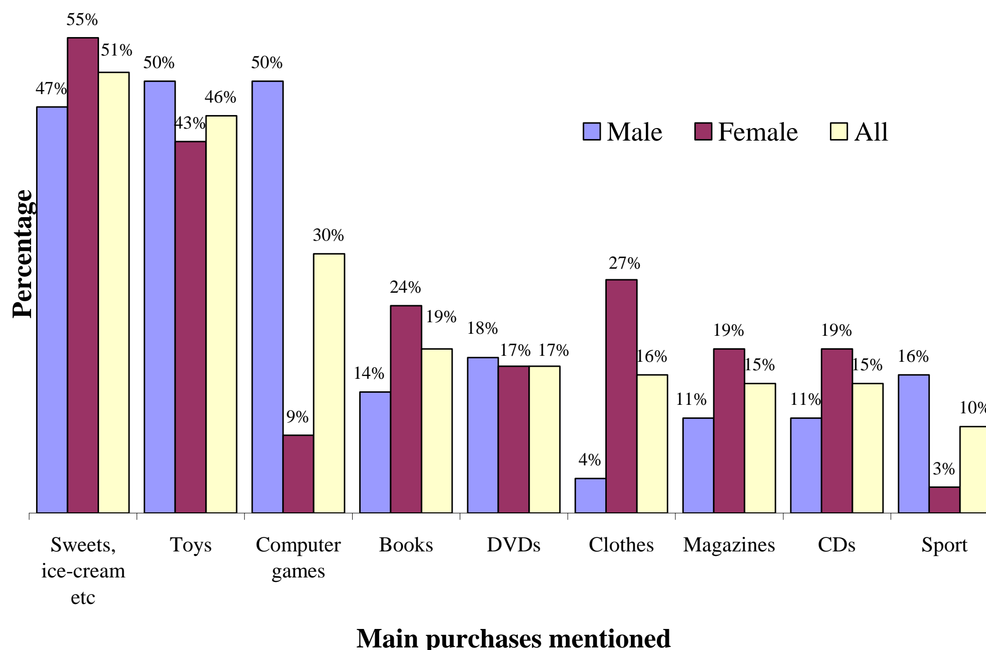
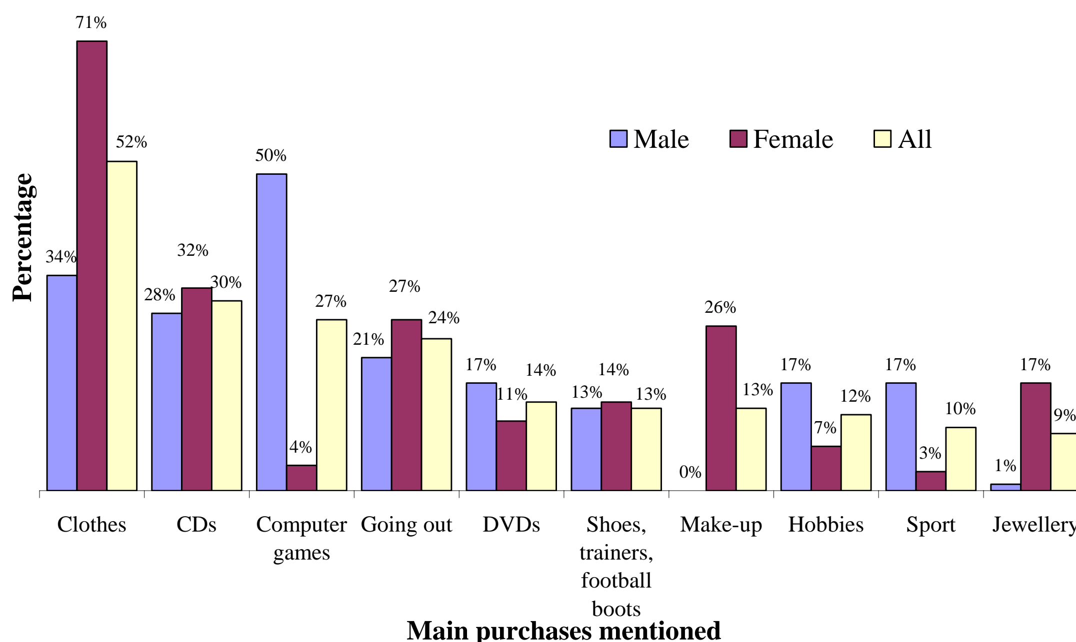


Figure 5.2 Main purchases mentioned by young people (aged 11 to 17) who ever had any money (Multiple responses were allowed).



Young women were particularly likely to spend money on clothes (71 per cent compared with 34 per cent of young men) and, not unexpectedly, on make-up and jewellery (Figure 5.2). In contrast computer games were the main area of expenditure for young men (50 per cent compared with four per cent for young women) and more of them had spent money on sports and hobbies than had young women their age.

As with children, patterns of spending of young people were generally remarkably similar regardless of how well-off their family was. However, young people in low-to-middle income families (with monthly household incomes between £1,000 and £1,999) were again the most likely to have spent their own money on clothing (59 per cent).

5.3 How children and young people had learnt about managing money

Parents were asked whether they talked to their children about looking after their money and almost six in ten (57 per cent) of all parents said that they did. As might be expected, this rose very steeply with the child's age. Only a minority (17 per cent) said they talked to under fives about money, jumping to over half (55 per cent) of parents of five to six year olds. The proportion then rose steadily to eight in ten (80 per cent) of parents of young people aged 16 to 17.

The poorest parents (with net monthly incomes of less than £1,000) were least likely to say that they talked to their children about looking after their money (just 44 per cent did so). This may well be because their children were also the least likely to have any regular income of their own, as we discuss below.

Parents were far more likely to talk to children who had a regular income about looking after their money. So three-quarters (75 per cent) of parents whose children received regular pocket money did so, compared with only four in ten (39 per cent) of those whose children did not. Where children had *earnings* of their own, the proportion was higher still (81 per cent). The amount received in pocket money did not have an influence, but the sums of money earned did. Young people whose parents had talked to them about looking after their money earned an average (median) of £103 a month, compared with £89 among those whose parents had not.

Parents with savings were more likely to talk to their children about taking care of their money (60 per cent) than those who did not (42 per cent). There were also some modest regional variations, with Scottish parents more likely to have talked to their children about this than parents elsewhere in the UK. Almost two thirds (63 per cent) had done so, compared with 54 per cent in Northern Ireland, 56 per cent in England and 57 per cent in Wales. Other factors, however, did not seem to be associated with parents' propensity to discuss money matters with their children.

5.3.1 How children and young people say they had found out about looking after their money

The children and young people surveyed were asked not only whether their parents had talked to them about looking after their money, but also more generally about how they had found out about '*looking after your money, savings accounts and so on*'. Without doubt, parents played the biggest role in teaching children and young people about money matters.

Most of the children (84 per cent) and young people (82 per cent) surveyed for this report said they had found out about managing their money from their parents[14]. And over half of the remainder said that their parents *did* talk to them about looking after their money (57 per cent of children; 54 per cent of young people). This proportion was the same for boys and girls and varied very little by age. It was also broadly similar across England, Wales and Northern Ireland, but below average for young people in Scotland (Table 5.2).

Parental influence on young people (aged 11 to 17) was greater if their parents saved (86 per cent) than it was if they did not (72 per cent) – we do not have comparable information for children. But household income had a rather smaller effect; young people living in households with net monthly incomes of £2,000 or more were more likely to say their parents had discussed money management with them than were young people living in households with lower incomes (88 per cent compared with 80 per cent). The effect of income was even less pronounced among children aged seven to ten (87 per cent compared with 84 per cent). This finding needs to be set in context, though, as previous research has shown that children and young people in poorer families have a greater awareness of day-to-day money management, while those who are better off are much more aware of using financial services but know much less about things like bill-payment and budgeting (Loumidis and Middleton, 2000).

Among children aged seven to ten, parents were the main source of information (84 per cent) (Table 5.2). Only 13 per cent said they had learnt about looking after money at school. School was more commonly mentioned by young people of secondary school age, a quarter (25 per cent) of whom said that they had found out about managing money in this way (Table 5.2). The proportion among the 11 and 12 year olds was low (18 per cent). Three in ten young people (30 per cent) aged 13 to 17 said that school had played a part in providing them with information about managing their money. This accords with other research, which showed that, with regards to financial education, parents had a far greater influence than school lessons (Thomas, 2004).

On the whole, other sources of information were less important than parents and school (Table 5.2). One point of note was the greater influence of magazines and newspapers (11 per cent) and the internet (13 per cent) among 17 year olds, perhaps indicating that some were beginning to seek information actively, or at least become sufficiently interested to read about and discuss financial matters as they approached adulthood.

5.3.2 Personal finance education at school

The children and young people were also asked directly whether they had ever had any lessons relating to looking after money at school. Despite personal finance education being an element (albeit on a voluntary basis) of the education curriculum in each of the countries within the UK, when asked directly just 28 per cent of children aged between seven and ten (approximately Key Stage 2) said that they had been taught about looking after money at school: one in ten (ten per cent) said they had lessons currently; while two in ten (18 per cent) reported having had them in the past. They were not asked how frequent their lessons were.

[14] Although parents were present at 78 per cent of interviews with young people, their presence had no effect on the proportion of children who gave parents as their main source.

Table 5.2 Sources from which children and young people had found out about managing money

									Cell percentages	
	Parent	**School lesson**	**Other relatives**	**TV/ Radio**	**Friends**	**News-papers**	**Web/ internet**	**Other**	**Don't know**	***Weighted base***
Children (7-10)										
All	***84***	***13***	***14***	***2***	***9***	***1***	***1***	***1***	***7***	***1,025***
Country*										
England	84	13	14	2	9	1	1	1	7	*895*
Scotland	84	10	13	3	6	3	2	-	7	*88*
Young People (11-17)										
All	***82***	***25***	***18***	***16***	***13***	***8***	***5***	***2***	***6***	***1,491***
Age										
11-12	82	18	20	14	11	6	3	1	7	*456*
13-14	83	29	17	17	11	7	4	1	6	*438*
15-16	84	28	18	16	16	9	5	3	5	*432*
17-18	86	29	18	16	15	13	11	6	3	*165*
Country										
England	84	25	19	16	13	8	5	2	6	*1,248*
Wales	82	20	9	12	15	6	6	-	12	*74*
Scotland	79	25	11	16	10	6	6	2	7	*118*
N Ireland	86	33	16	8	17	9	-	3	5	*51*

* Numbers in Wales and Northern Ireland too small for analysis
** No interviews were held in Northern Ireland for children aged between seven and ten
- Less than one per cent

The situation was slightly different among young people of secondary school age, four in ten (36 per cent) of whom said that they had ever had any lessons at school. Three in ten (29 per cent) had had them in the past and fewer than one in ten (eight per cent) said that they were currently being taught about money. The numbers ever having lessons increased slightly with age - from 34 per cent of 11 to 14 year olds (approximately Key Stage 3) to 39 per cent of 15 and 16 year olds (Key Stage 4) and 41 per cent of those aged 17. This increase was entirely accounted for by variations in the proportions that had had lessons in the past.

Moreover, half (52 per cent) of young people of secondary school age who reported that they had had any lessons said that they had occurred less than once a term[15]. Only a quarter of them (24 per cent) said that they had weekly lessons; the rest (22 per cent) that they had them less frequently but at least once a term. Putting this together shows that fewer than two in ten (16 per cent) of young people had received lessons at least once a term.

Regional differences

Looking across the UK, the proportion of young people of secondary school age who said they had received personal finance education lessons was highest in Northern Ireland (54 per cent) and lowest in Wales (22 per cent)[16]. The proportions for England and Scotland were about average for the UK. In fact, Northern Ireland has a more integrated approach to financial education than Wales (where it is only

[15] This question was not asked of children aged seven to ten.

[16] The numbers were small but significance tests indicate that the difference is probably not due to chance. It was not, however, possible to report any country differences in the frequency of lessons, their content or children's views of them.

explicitly mentioned under Personal and Social Education), and this may explain the difference.

No such differences across the UK were apparent for younger children (aged between seven and ten).

What children had been taught at school
Primary school age children at Key Stage 2 said that they had mainly been taught about saving (59 per cent of all children who had had lessons); lessons on budgeting were less common (35 per cent).

Saving was an equally important part of the curriculum in secondary schools (62 per cent of all young people who had had lessons); while budgeting was covered more often than in primary schools (42 per cent). Indeed the number of young people reporting lessons on budgeting increased from four in ten (38 per cent) of those aged 11 to 14 (Key Stage 3) to just under half (47 per cent) of those who were older.

Fewer than one in ten children or young people (eight per cent) mentioned learning about *any* financial topic besides savings and budgeting. The range of other topics covered seemed to increase as children and young people got older. It could be that as children get older their lessons become more wide-ranging. An alternative explanation is that older children will have had more years at school in which to cover topics besides savings.

On the whole, the topics children and young people said had been covered in school did not vary greatly whether they came from poorer or better-off families. Among the young people (aged 11 to 17), however, saving was more likely to be covered if they lived in a lower-income rather than a more affluent family. More than seven in ten (71 per cent) young people from families with net incomes of less than £1,000 a month had been taught about saving, compared with fewer than six in ten (55 per cent) of those whose families had incomes of £2,000 or more a month.

How interesting were the lessons?
Encouragingly, most children (72 per cent) and young people (60 per cent) who said that they had had lessons on personal finance had found them interesting. There was a steady decline in the proportions finding lessons interesting between the ages of seven and 16 (from 78 per cent to 60 per cent) and then a sudden drop to just 43 per cent of 17 year olds who reported that they had found their financial education lessons interesting.

Of particular note in the context of the CTF is the fact that young people were more likely to find lessons interesting if they had a savings account of their own. Over half of young people of secondary school age with a savings account rated personal financial education as interesting (56 per cent) compared with just 45 per cent of those who did not have their own account.

The same was also true for young people if:
- they had a regular income of their own (61 per cent compared with 54 per cent if they did not),
- they said that they saved money into a money box (63 per cent compared with 55 per cent if they did not),
- their parents, themselves, had savings (61 per cent compared with 54 per cent if they did not), or
- their parents talked to them about looking after their money (63 per cent compared with 49 per cent if they did not).

We did not, generally, find similar effects among younger children (aged between seven and ten). They were no more likely to find lessons interesting if they received pocket money, had a savings account or had saved money into a money box in the past 12 months.

5.4 Encouragement of children and young people to save

Six in ten (62 per cent) parents said that their child had been encouraged to save and almost all of these (60 per cent of all parents) said they or their partner had personally encouraged their child to do so. The only other group to have played any significant role in this respect was grandparents, who had encouraged one in ten (nine per cent) of all children and young people to save.

The proportion of parents saying their child had received encouragement to save increased steeply with the age of their child - from three in ten (29 per cent) parents of under-fives to nearly eight in ten (77 per cent) parents of young people aged 16 or 17.

There was also a fairly strong link between encouragement and household income – rising from 55 per cent of parents with net household incomes of less than £1,000 a month to 68 per cent of those receiving £2,000 or more a month. And parents who owned their home were more likely to encourage their children to save (66 per cent) than those who rented either in the private sector (52 per cent) or from a local authority or housing association (53 per cent). As we might expect, there was also a particularly strong association with parents' propensity to save. Parents who had savings themselves were one and a half times as likely to encourage their children to do the same as non-savers (65 per cent compared with 45 per cent).

Again, there was a strong association with whether or not their child had a regular income of their own. So the parents of eight in ten (79 per cent) children and young people who received regular pocket money had encouraged them to save. This compares with just over four in ten (45 per cent) parents whose children got no pocket money. The amount of pocket money, however, did not make a difference. Likewise parents were more likely to encourage children and young people with earnings of their own to save (83 per cent) than they were if their child did not do any paid work outside the home (59 per cent). In this case, the sums of money were also important; the average (median) amounts earned by those encouraged to save were £108 a month, compared with £87 earned by those who were not.

5.4.1 Young people's perspective

Young people largely agreed with their parents[17]. Three-quarters (77 per cent) of young people (aged 11 to 17) said they had been encouraged to save. (75 per cent of parents of this age group said the same). Most of these young people (68 per cent overall) told us that it was their mother who had been responsible for encouraging them to save; rather fewer (43 per cent) named their father and a minority (14 per cent) their grandparents.

[17] Children aged between seven and eleven were not asked this question

The proportion of young people reporting that their mother had encouraged them to save was largely the same regardless of their circumstances. Young people living in lone parent households, however, were much less likely to say they had been encouraged to save by their (usually absent) father. Just two in ten (21 per cent) reported that their father had encouraged them, compared with half (51 per cent) of those living with both parents. Fathers were also less likely to have encouraged young people where parents, themselves, did not save (28 per cent).

It was possible to compare the replies given by young people directly with those of their parents and this showed a measure of disagreement that cannot be detected from the aggregate figures. One in ten (nine per cent) young people said that they had *not* been encouraged to save, when their parents reported otherwise – suggesting that the encouragement had had little impact. A similar proportion (11 per cent) said they *had* received encouragement even though their parents believed they had had none. In fact, further analysis showed that many of them had been encouraged to save by someone other than the parent being interviewed.

5.5 Children and young people's approaches to saving

Parents were asked to describe their child's approach to saving. A third (33 per cent) of parents felt that their children saved without prompting; two in ten (19 per cent) said they needed encouragement; while just over one in ten (13 per cent) said they either had to be 'nagged' or told to save. The remainder (32 per cent) said their child never saved (Table 5.3).

These proportions varied by the age of the child. A large proportion (57 per cent) of the under fives were not saving at all (Table 5.3). Above that age, the older children were the less likely their parents were to say that they merely needed encouraging to save and the more likely they were to say they needed nagging to do so.

Table 5.3 Child's approach to saving by age (survey of parents)

						Column percentages
	Under 5	**5-6**	**7-10**	**11-15**	**16-17**	**All**
Saves without prompting	15	35	41	40	35	33
Needs encouragement	12	24	27	19	17	19
Has to be nagged	-	3	5	8	13	6
Has to be told to save	6	7	6	8	6	7
Never saves	57	28	20	24	26	32
Don't know	9	4	1	1	2	3
Weighted base	***1,099***	***485***	***986***	***1,310***	***434***	***4,314***

- Less than one per cent

Parents' own saving behaviour also played a role. Parents who saved more commonly said that their children saved without prompting (35 per cent) or when encouraged (21 per cent) than did those who were non-savers themselves (22 per cent and 14 per cent respectively). On the other hand, non-saving parents were almost twice as likely to say that their child never saved at all (53 per cent compared with 28 per cent).

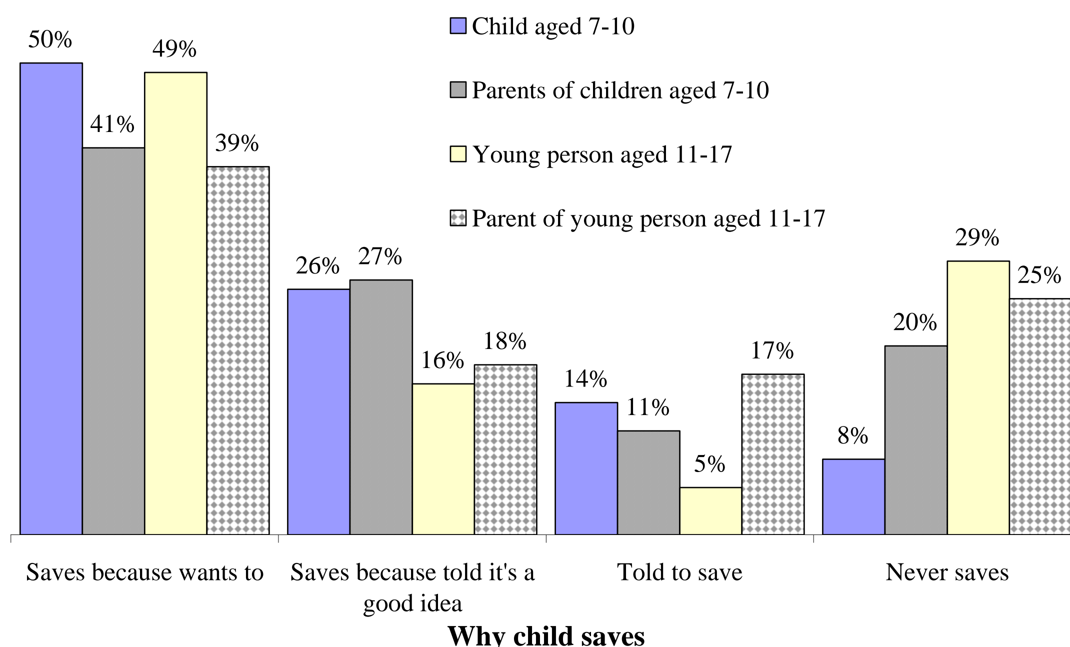
5.5.1 Children and young people's perspectives

Compared with parents' views of children's saving motivations, both children and young people, themselves, were rather more likely to say that they saved of their own accord, but for different reasons. Children were inclined to under-report not saving at all; while young people under-reported the extent to which they had to be told to save.

Half (50 per cent) of children (aged seven to ten) said they saved because they wanted to – compared with just four in ten (41 per cent) of parents saying this about other children this age (Figure 5.3). A quarter (26 per cent) of children said they had been told it was a 'good idea', while just 14 per cent said they saved because their parents told them to do so. Only eight per cent of children said they never saved – far fewer than the 20 per cent reported by parents.

Likewise, half (49 per cent) of young people aged 11 or over said they saved because they wanted to – rather more than the number whose parents said they saved unprompted (39 per cent) (Figure 5.3). Fewer than two in ten young people (16 per cent) said that they saved because they were told '*it's a good idea*' – a similar proportion as parents said they saved when they were encouraged to do so (18 per cent). On the other hand, just five per cent of young people admitted they saved only because they were told to, while more than three times as many parents (17 per cent) said that they had to nag or tell them to save. The proportion of young people saying that they had to be told to save varied little by age – consequently it was the 16 and 17 year olds whose views least coincided with parents.

Figure 5.3 Child's approach to saving by age (surveys of adults, children and young people)



Again it is interesting to compare the replies given by young people directly with the views expressed by their parents. On the whole, where parents said that their child saved without prompting, the young people themselves agreed (84 per cent said that they saved because they wanted to). But six in ten (57 per cent) young people

whose parents said that they needed encouragement to save believed that they did so of their own accord, as did half (50 per cent) of the young people whose parents said that they needed nagging or had to be told to do so. In fact only two in ten (21 per cent) of young people who needed to be persuaded in this way acknowledged the fact. We cannot say whether this represents two rather different perspectives of reality or whether young people wanted to impress the interviewer that they were more committed to saving than was actually the case.

Young people who said they saved either in a money box or a savings account were also asked about their *reasons* for saving. Just over half (55 per cent) said they saved with no particular purpose in mind; the remainder (43 per cent) only put money away to save up for something they wanted to buy. Young people in Scotland and Northern Ireland were most inclined to save even when they had nothing in particular they wanted to buy (62 per cent and 64 per cent respectively). In Wales the percentage was just 49 per cent. And those whose parents saved were also more inclined to save without a specific purpose (57 per cent) than those whose parents were non-savers (46 per cent). Other characteristics of the young person were not correlated with their reasons for saving.

5.6 Saving by children and young people

Although nine in ten parents (91 per cent) reported that their children received some money, rather fewer (56 per cent) told us that their children had saved any money in the last year. Moreover, saving at home in a money box (55 per cent) was much more common than putting money into a savings or investment account (four per cent). In other words, only one in five (21 per cent) of children and young people who had a savings or investment account had added any money to it in the previous 12 months.

5.6.1 Saving in a money box

As we note above, over half (55 per cent) of the parents surveyed reported that their child had saved some money in a money box in the last year. Scottish parents more often said their children had added money to their money box than parents elsewhere in the UK; six in ten (60 per cent) had done so in the previous 12 months (Table 5.4, column 1).

Money box-saving was most popular with younger children. According to parents, seven in ten (71 per cent) children aged between five and ten had saved in a money box in the past 12 months, declining to four in ten (38 per cent) of 16 and 17 year olds (Table 5.4, column 1).

Boys and girls were equally likely to have saved, but the more brothers and sisters they had, the less likely they were to have put money into a money box (Table 5.4, column 1).

There was also a link with family financial circumstances. Parents of fewer than half (47 per cent) of children and young people living in the lowest-income households said they had saved in a money box, rising to six in ten (63 per cent) of those in the highest income bracket (Table 5.4, column 1). Children in workless households were far less likely to save in a money box than average – just 36 per cent compared with almost two-thirds (63 per cent) of children with two parents earning a wage. This link

with family finances was reflected in differences by housing tenure (Table 5.4, column 1).

Children and young people were far less likely to save at home if their parents had no savings. Whilst six in ten (60 per cent) parents who were savers said their child had put money into their money box, only 35 per cent of parents who were non-savers said the same (Table 5.4). There were no clear links with parents' credit use *per se*, although the small number of children whose parents said they had credit commitments that were a heavy burden were less likely to have saved (48 per cent) (Table 5.4, column 1).

So far we have concentrated primarily on children and young people's family characteristics and circumstances. We also found that if children and young people had money of their own, their parents were more likely to report that they had saved into a money box (64 per cent compared with 45 per cent of those reporting that their child had no regular income). The difference was greater for children and young people getting pocket money (66 per cent/ 45 per cent) than it was for those with earnings (57 per cent/ 55 per cent), but this can be explained by the age variations noted above.

Children and young people themselves were asked directly whether they *ever* saved in a money box. Their replies largely corroborated those given by parents. Just over half (54 per cent) of young people aged 11-17 said they did so – almost the same proportion reported by their parents (53 per cent). Younger children (aged between seven and ten), however, slightly over-stated their level of saving (83 per cent, compared with 70 per cent reported by parents of children this age).

Again it was possible to compare directly the replies given by young people and their parents, bearing in mind that the young people were telling us whether they *ever* saved into a money box and their parents whether they had done so in the past 12 months. In eight out of ten instances (78 per cent) they gave the same reply. In the remaining cases, seven per cent were young people who said they did not save, when their parents believed they did; 13 per cent were young people who said they had put money into a money box while their parents reported that they had not done so in the past 12 months. The remaining two per cent were instances where parents did not know whether their child saved this way or not.

The amounts children and young people had in their money boxes
Two in ten parents (20 per cent) had no idea how much their children currently had in their money boxes – a proportion that rose steeply with their child's age so that four in ten (37 per cent) of parents of 16 and 17 year olds were unable to tell us the amount (Figure 5.4).

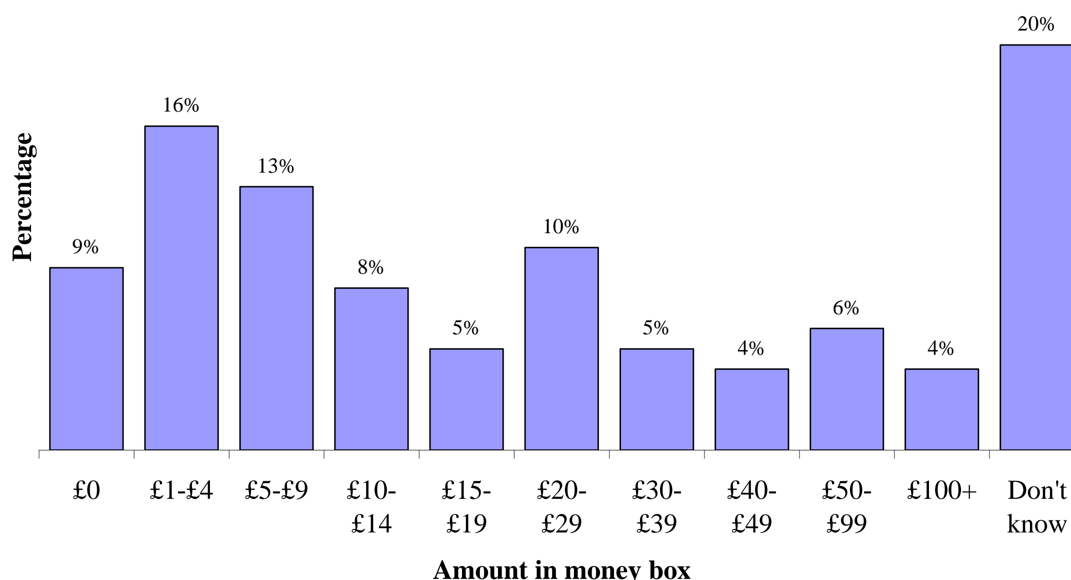
According to parents who were able to give an amount, their children currently had an average (median) of £10 in their money box. But this average hid a wide range of actual amounts. One in ten (nine per cent) of those with children who had saved in a money box thought that, currently, their child's money box was empty and a further 16 per cent believed it contained less than £5. At the other extreme, just under one in twenty (four per cent) thought they had at least £100 saved up (Figure 5.4).

Table 5.4 Children's saving in money boxes and savings accounts (survey of parents)

	Money box		% saving in an account	Not saving at all	***Weighted base***
	Saving %	**Median amount £**			
All	***55***	***10***	***4***	***44***	***4,314***
Gender					
Male	56	10	4	43	*2,172*
Female	55	8	4	44	*2,142*
Lone parent	47	5	2	53	*1,143*
Two-parent	59	10	4	40	*3,166*
Age of child					
Up to 5	39	8	1	61	*1,099*
5-6	71	7	2	29	*486*
7-10	70	10	4	29	*986*
11-15	58	10	6	41	*1,310*
16-17	38	10	7	58	*434*
Number of siblings					
0	55	10	4	44	*965*
1	60	10	4	39	*1,960*
2	53	7	3	47	*923*
3+	43	9	1	56	*464*
Net household income*					
Up to £999	47	6	2	52	*1,111*
£1,000-£1,499	50	10	3	49	*679*
£1,500-£1,999	58	8	3	41	*863*
£2,000-£2,999	61	10	5	38	*1,079*
£3,000+	63	15	6	36	*581*
Number of earners					
0	36	5	-	62	*840*
1	56	10	3	44	*1,541*
2	63	10	5	36	*1,922*
Housing tenure					
Owner	61	10	5	38	*2,855*
Private tenant	48	7	1	54	*347*
Social tenant	43	5	-	57	*1,110*
Parent has savings account					
Yes	60	10	4	39	*3,400*
No	35	5	1	65	*645*
Parent uses credit					
Yes	56	10	3	43	*2,748*
No	55	10	4	44	*1,489*
Burden of credit (credit users only)					
Not a burden	59	10	3	41	*1,342*
Somewhat a burden	56	10	4	43	*949*
A heavy burden	48	5	1	52	*447*
Country					
England	55	10	4	44	*3,619*
Wales	56	7	4	43	*211*
Scotland	60	12	3	39	*336*
Northern Ireland	55	20	4	43	*147*

** Before housing costs (£ per month)*
- Less than one per cent

Figure 5.4 Parents reporting of amount held in child's money box



Although youngest children were said to have the smallest amounts, variations by age were slight (Table 5.4, column 2). Under-fives had an average of £8; five and six year olds had £7; while all children and young people aged eight or over had £10. We also know from the children and young people we interviewed, how much they, themselves, believed they had saved in their money boxes. The amounts they quoted were virtually identical to those given by parents.

Links with income were somewhat greater, so that children living in households with a net monthly income of more than £3,000 were reported to have three times as much in their money boxes as those in households getting less than £1,000 a month (£15 compared with £6) (Table 5.4, column 2).

In general, variations in the amounts parents said had been saved up by children and young people in different circumstances mirrored those relating to whether they saved into a money box at all. So amounts were particularly low if children lived with a lone parent (£5), lived in a home rented from a local authority or housing association (£5); had no adult earners in their family (£5) or had parents with no savings of their own (£5) (Table 5.4, column 2).

Parents in Northern Ireland said that their children had £20 in their money boxes – twice the UK average. In contrast, children living in Wales were reported to have only £7 (Table 5.4, column 2).

The source of money box savings

Half of parents with children who saved at home said that the money they saved came from pocket money (53 per cent), a third said it had been a gift (32 per cent) and a minority of parents said that the money had been earned either for jobs around the home (13 per cent) or for paid work outside the home (nine per cent). Just two per cent reported that money came from grandparents.

More than one in ten parents (14 per cent) noted that some of the money saved at home was 'loose change', which could have come from a variety of sources. Interestingly, parents of children up to the age of five were more likely to give this response than parents of other age groups (33 per cent did so), perhaps suggesting that they occasionally gave coins to their younger children, rather than regular amounts of pocket money.

In general, the children and young people corroborated the information given by parents about the source of the money they had saved in a money box.

What children and young people said they did with the money in their money box

We asked children and young people what they usually did with the money they put in their money box.

Among the children aged between seven and ten, two in ten (23 per cent) said they spent all the money they put in their money box, while a similar proportion (20 per cent) said they saved it all. The rest (57 per cent) said they spent some and saved the rest. Young people (aged 11 to 17) were slightly less likely to say they would save all the money they put into a money box (16 per cent) and more inclined to spend it all (28 per cent). Again the majority (55 per cent) intended to spend some and save the rest.

A quarter (27 per cent) of the children who were saving at least some of the money they put into their money box had no specific plans for it (Figure 5.5). The most common specific reasons for saving were to buy toys (15 per cent), or computer games (15 per cent). One in ten (ten per cent) were saving money for a holiday and a similar proportion (eight per cent) to buy presents.

Young people, in contrast, more commonly had no specific plans for the money they had saved in a money box (43 per cent). Again holidays were one of the more common purposes for saving (12 per cent), followed by clothes (seven per cent, but 12 per cent among girls), computer games (six per cent – 11 per cent among boys) and hobbies (five per cent).

5.6.2 Saving in a savings or investment account in the previous 12 months

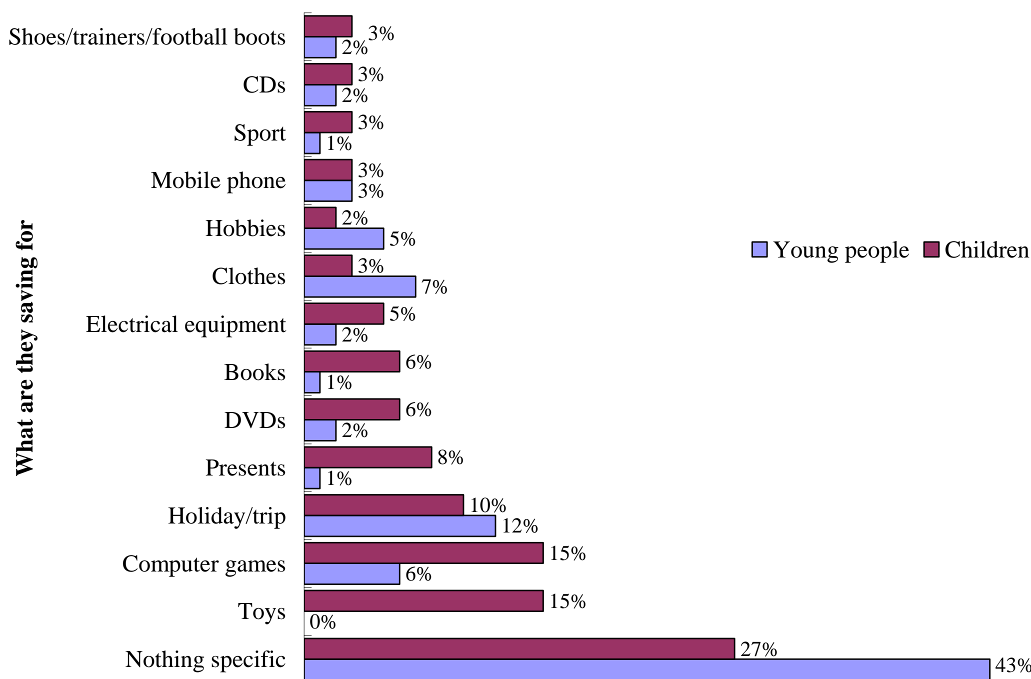
Very few parents (four per cent) said that their children had paid money into a savings account in the past year (see Table 5.4, column 3), even though half of them had one. This increased only slightly to seven per cent amongst parents of young people aged 16 or 17.

Parents of children and young people with savings typically reported that their child had started saving at seven or eight years old (21 per cent). In all, 50 per cent of children and young people had started saving before they reached their ninth birthday.

There was considerable discrepancy between the proportions of children and young people saying they had paid into an account in the last year, and the proportion of parents reporting the same thing. Three in ten children aged seven to ten (31 per cent) and a similar proportion of young people aged 11 to 17 (30 per cent) said they had saved something in an account in the previous 12 months, whilst just four per cent of all parents reported the same thing. It may be that they felt that they had been saving for themselves if they paid in cheques and cash given to them by

parents or others; while parents may have seen this as their own contribution, or that of the person who provided the money.

Figure 5.5 Saving in money box – reasons for saving by children and young people



Amounts young people said they had saved in an account

There were wide variations in the sums of money young people said they had saved in the past 12 months (children were not asked this question). Four in ten (38 per cent) young people who had saved in the past year said they had deposited less than £100, whilst almost a fifth (17 per cent) said they had added over £500 to their accounts (Figure 5.7). The older children were, the larger the sums of money they said they had deposited, so that approaching half (45 per cent) of 16 to 17 year olds said they had paid more than £500 into their accounts.

Source of money paid into an account by young people

The money paid into savings accounts by young people was most likely to have been received as a present (58 per cent), although over a third (35 per cent) of recent savers said some money had come from their pocket money, and almost four in ten from their earnings (38 per cent).

Withdrawals and how young people said they spent their savings

Half of the young people who had at least one savings account reported that they had withdrawn money in the last year. This was spent in much the same way as money that had been spent immediately. Over a third (37 per cent) of the young people who had drawn money out of their savings account had spent some or all of it on clothes. Three in ten (29 per cent) had spent it on going out, and a further 14 per cent had drawn some money out of their savings to spend whilst on holiday.

Figure 5.6 Proportion of children saving into an account in the last year (parental reporting)

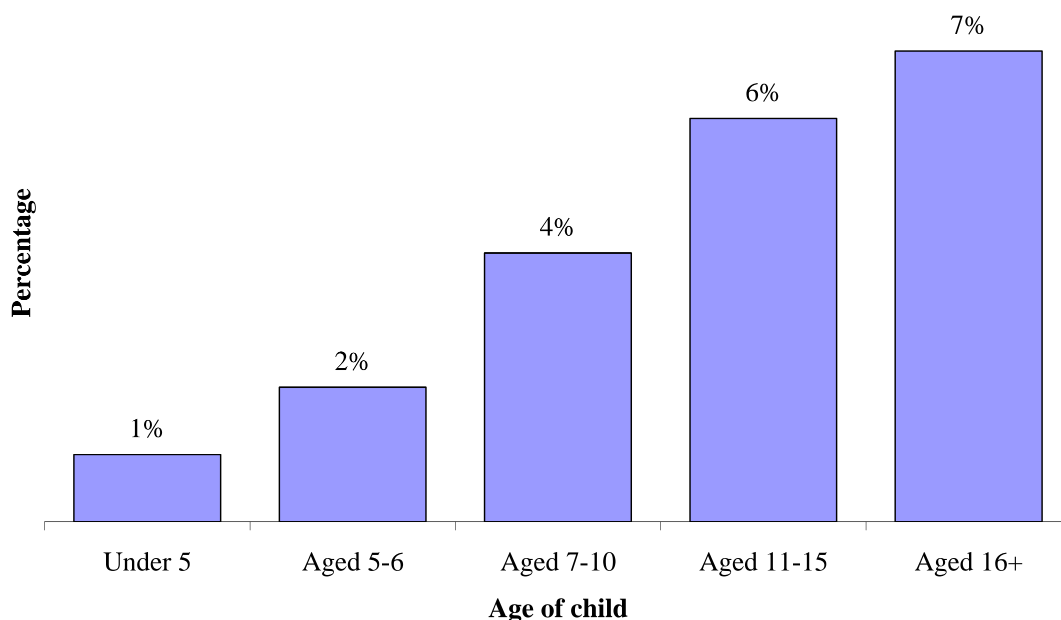
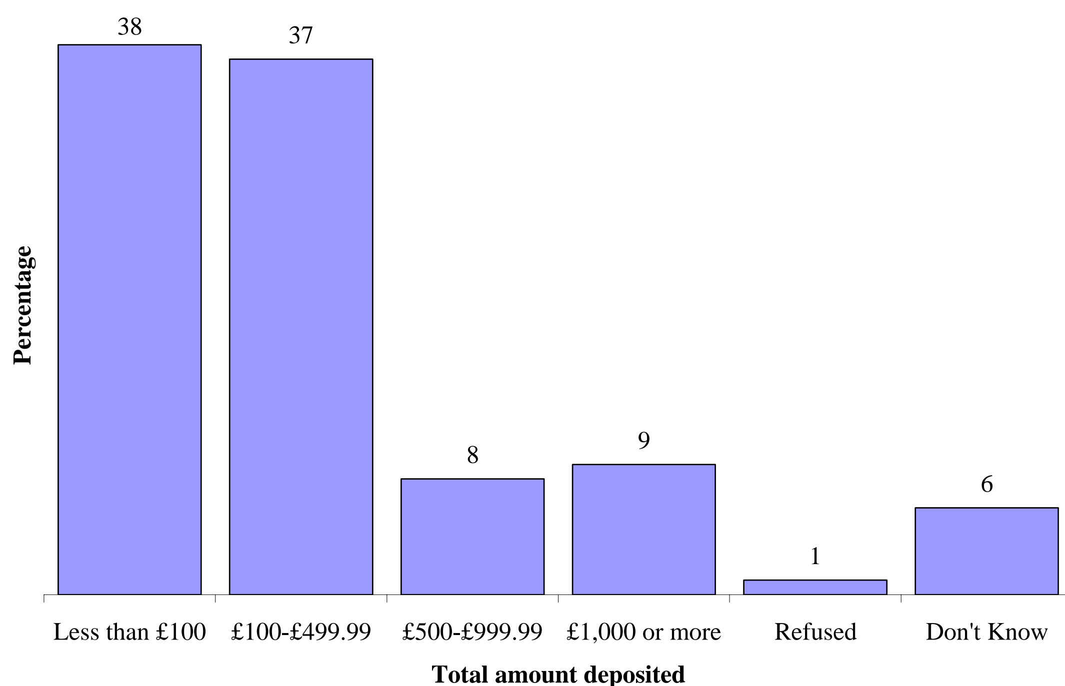


Figure 5.7 Total amount deposited in a savings account by those saving any money in past 12 months (survey of young people)



How young people chose to spend their savings was related to gender – just like their general spending. So, girls were twice as likely as boys to say they had spent some of their savings on clothes (54 per cent compared with 22 per cent). In contrast, boys were much more likely to have withdrawn money for computer games (27 per cent, compared with three per cent of girls), sports (12 per cent; three per cent) or hobbies (18 per cent; seven per cent).

5.7 Children who had saved nothing

More than four in ten parents (44 per cent) reported that their children had received some money in the past 12 months but had saved nothing in either a money box or a savings account. This varied widely with the age of the child (Table 5.4, column 4). So six in ten children (61 per cent) under the age of five had saved nothing, but this fell to three in ten (29 per cent) of children aged between five and ten. The proportion then rose to four in ten (41 per cent) of 11 to 15 year olds and six in ten (58 per cent) of young people aged 16 or 17.

Lone parents were particularly likely to say that their children had saved nothing in the last 12 months (53 per cent) as were parents of children with three or more siblings (56 per cent) (Table 5.4, column 4). Other parents who were likely to say that their child was not saving included those living in social rented housing (57 per cent), private tenants (54 per cent), those in households with no wage earner (62 per cent) and parents who did not save themselves (65 per cent).

Reasons given by children and young people for not saving
Compared with the replies given by parents about children their age, rather fewer children (17 per cent) and young people (28 per cent) who had received some money in the past 12 months reported that they did not save any of it.

More than four in ten of these children (41 per cent) and young people (44 per cent) said that this was because they preferred to spend what they had. Over a third (37 per cent of children; 35 per cent of young people) said that they did not have a particular reason for not saving, but only two in ten (16 per cent of children; 20 per cent of young people) said that they did not have enough money to save.

5.8 What children and young people would do with a cash gift

Children and young people were asked what they might do if they were given a surprise gift of £20 for those aged seven to ten and £100 for the young people aged 11 to 17.

It is encouraging that eight in ten children and young people (84 per cent and 79 per cent respectively) said they would save at least some of the money, including 31 per cent of children and 12 per cent of young people who responded that they would save it all. Only a minority (15 per cent of children; 21 per cent of young people) said they would spend the entire sum.

These percentages varied very little, irrespective of either their own or their parents' income.

5.9 Levels of financial capability among young people

The survey did not set out to measure financial capability of children and young people, but it did explore two key areas amongst young people aged 11 to 17: their budgeting ability and their knowledge of saving products. As we have seen, these were also key areas for the financial education they received in school.

5.9.1 Money management skills

The ability to manage money and live within their means was not high. The great majority (96 per cent) of young people aged 11 to 17 had some income of their own. But only a third (31 per cent) said that they never ran short of money, and a further 12 per cent said that they only did so less than once a month. That leaves just over half of them (53 per cent) who regularly ran short, with a quarter (24 per cent) doing so every week.

While half (50 per cent) of those who ran out of money had to wait until they got their next pocket money or wages, four in ten (42 per cent) were given extra money by their parents and five per cent were given money by someone else. Only a minority (17 per cent) had to earn any additional money they needed.

There seemed to be little difference in money management abilities between boys and girls or between young people of different ages. Nor was there a clear association with the amount of regular income young people got. Young people were, however, more likely to report that they never ran out of money if their parents saved (33 per cent, compared with just 18 per cent of those with parents who did not save), or they saved themselves (34 per cent, compared with 18 per cent who did not save either in a money box or savings account).

The ability to make ends meet varied with young people's family income and also with the number of earners in their family. So while 44 per cent of young people living in families with net incomes of more than £3,000 regularly ran short of money, this rose to 47 per cent of young people whose families received between £2,000 and £3,000 and to 56 per cent if the family income was less than £2,000. Likewise the more earners there were in a young person's family the less likely they were to run out of money. Just over four in ten (44 per cent) young people with two parents in work ran short, compared with nearly six in ten (57 per cent) of their peers with one parent in work and more than six in ten (64 per cent) if there were no earners in their family.

As we have seen, young people in low-income families were more likely to spend money on essential items such as clothing or shoes and this might well account for their lower ability to make ends meet. Certainly, young people who had to buy clothing or footwear themselves were more likely to run out of money regularly than those who did not (55 per cent compared with 49 per cent).

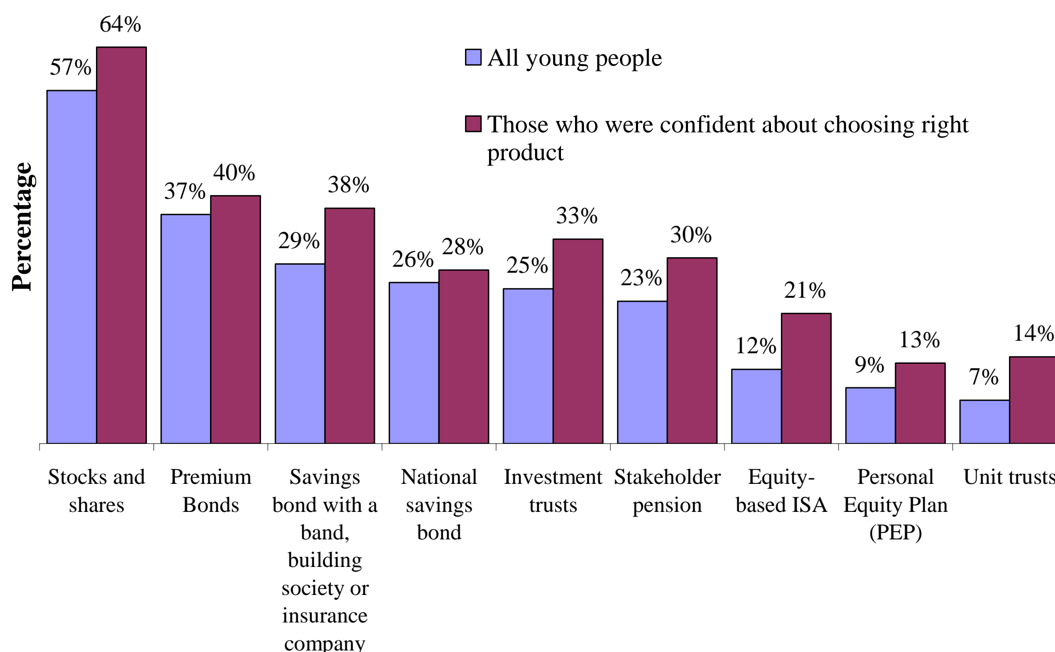
In addition, we combined those young people who said they never ran out of money with those who reported that they ran out infrequently (less often than 'most months'). This identifies 43 per cent who never, or rarely, ran out of money and correspondingly 57 per cent who did run out of money. This has enabled us to look for variations in the likelihood of running out of money by the type of money management information that the young people had received. It indicates that there is little additional impact from any particular kind of money management information at this age, but that those who thought that they had not received any information were managing less well than others.

5.9.2 Knowledge of saving products

Three questions were asked of young people aged 11 to 17 to assess their knowledge of saving products. First they were asked *which, if any, of these types of investments have you heard of?* They were then given a list of products as shown in

the left hand bars of Figure 5.8. Over half of the young people (57 per cent) reported that they had heard of stocks and shares and 37 per cent had heard of Premium Bonds, but just seven per cent said they had heard of unit trusts. A quarter (24 per cent) said they had not heard of any of these investments.

Figure 5.8 Knowledge of saving products amongst young people



It is likely that some young people may have over-claimed their levels of awareness, but it is nevertheless noticeable that reported awareness increased steeply with age. So, while four in ten (38 per cent) young people aged 11 or 12 had heard of none of them, only a little more than one in ten (12 per cent) of 17 year olds said the same. And awareness of almost all types of product increased with age, with the exception of unit trusts, where awareness was universally very low.

There was also a strong link with family income, with young people from better-off families having the highest levels of awareness (Figure 5.9). Two in ten (19 per cent) of young people with two parents earning an income and even fewer (14 per cent) of those with family incomes in excess of £3,000 a month had heard of none of the investments. This rose to four in ten (40 per cent) of young people growing up in households with no adult earners and three in ten (30 per cent) of those with family incomes below £1,000 a month. Levels of awareness were also higher if young people's parents saved (22 per cent of whom had heard of none of the investments) than if they did not (36 per cent).

Secondly, young people were asked to identify with which of four savings and investment products 'there is a risk that people might lose the money they put in'. The four products were an equity-based ISA, a deposit account with a bank or building society, stocks and shares and a cash-based ISA. In fact a third (32 per cent) of them said they did not know and a further 12 per cent said none.

Half (49 per cent) correctly answered that money was at risk if invested in stocks and shares, but only a very small number (six per cent) knew that it was also at risk in an equity ISA. On the other hand, few said that money was at risk in either a deposit account (six per cent) or a cash ISA (four per cent). It is very likely that some young

people guessed the answers, which might explain why some of those (15 per cent) who correctly identified the risk of an equity ISA also thought that a cash ISA was risky.

Figure 5.9 Awareness of savings and investment types by family circumstance (survey of young people)

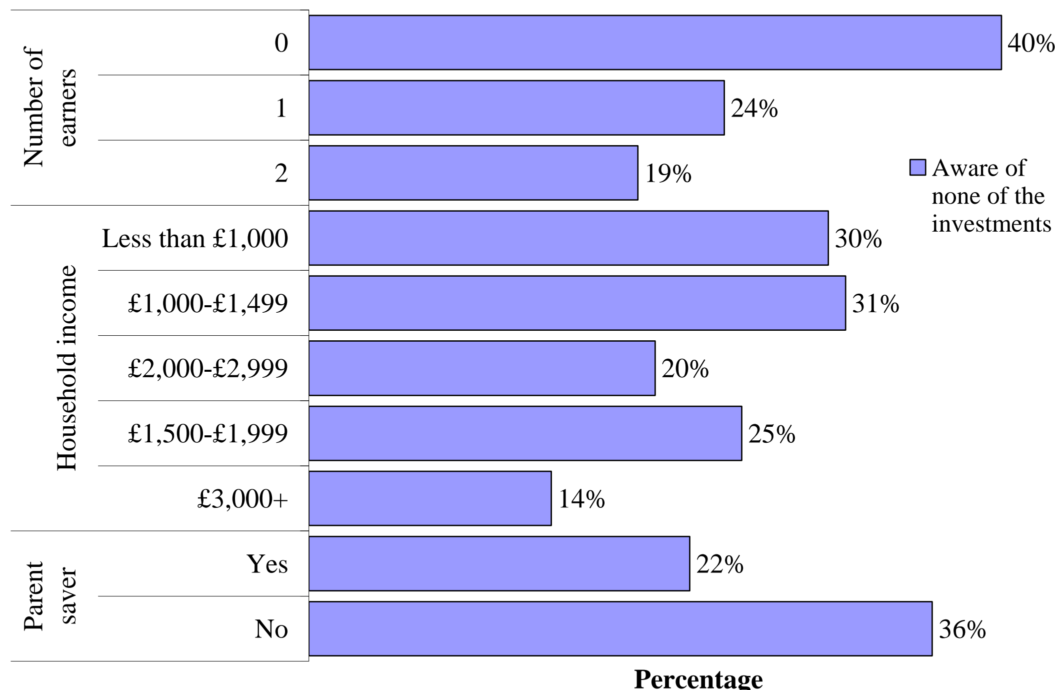
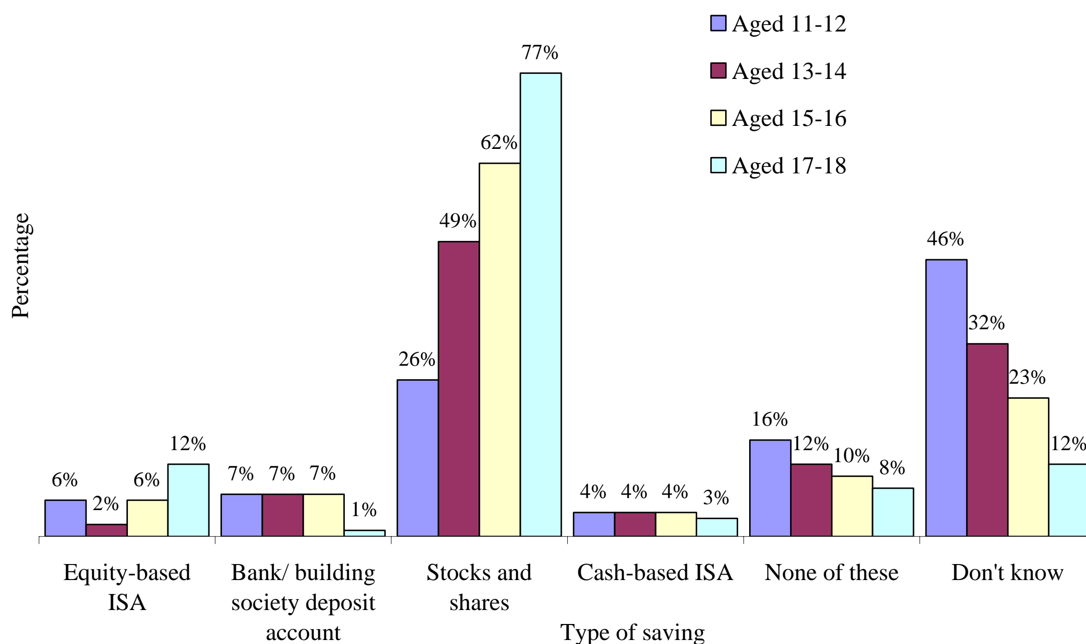


Figure 5.10 Proportion of young people who felt that there was a risk of losing the money investment by product type and age (survey of young people)



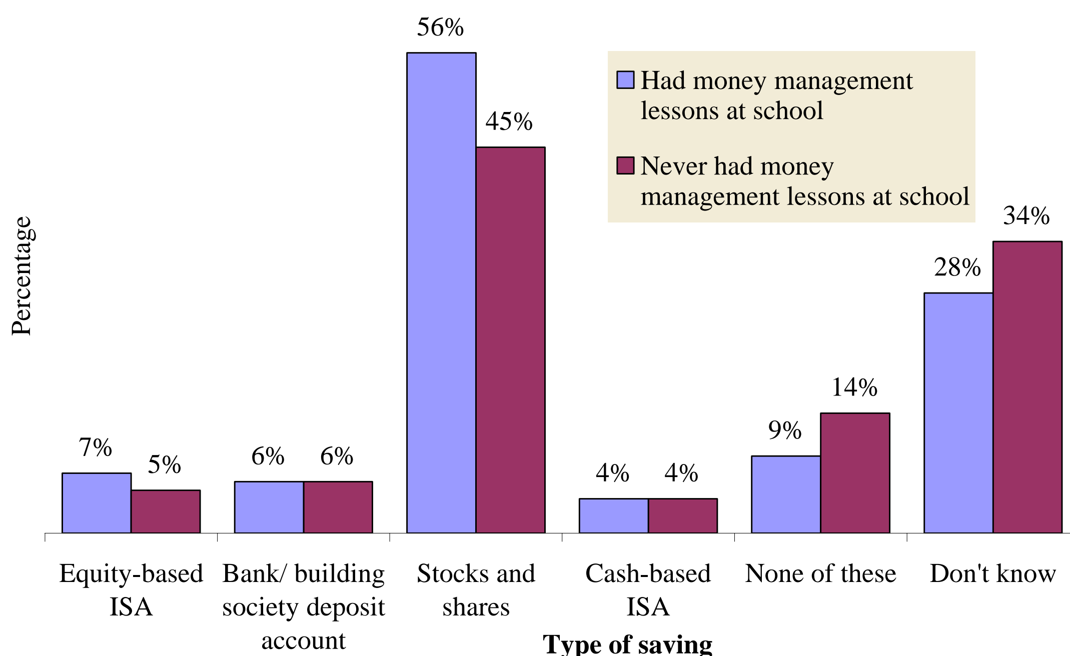
Again knowledge increased steeply with age (Figure 5.10). Nearly half (46 per cent) of 11 and 12 year olds said they did not know which type of investment carried a risk and almost two in ten (16 per cent) said they believed none of them did. At the other end of the age range, a little over one in ten (12 per cent) 17 year olds said they did not know which carried a risk and fewer than one in ten (eight per cent) said none.

In general awareness of the risk associated with particular products also increased with age. Three quarters (77 per cent) of 17 year olds knew that money was at risk if invested in stocks and shares compared with a quarter (26 per cent) of young people aged 11 or 12. Although knowledge of the risk associated with investing in an equity ISA was more widespread among the oldest teenagers, still only 12 per cent of 17 year olds were aware of it, compared with six per cent of those who were younger.

Awareness also increased with family income. Although the proportions who said they did not know which investments carried a risk did not vary in this way, the proportion saying that neither stocks and shares nor equity ISAs carried a risk rose from six per cent of young people with family incomes in excess of £3,000 a month to 17 per cent of those whose families got less than £1,000.

We found some improvement in knowledge of risk amongst young people who had received money management lessons. They were better able to identify that stocks and shares were potentially risky, and less likely to feel unable to answer the question. They were also less likely to answer that none of the investments had any risk to the money invested.

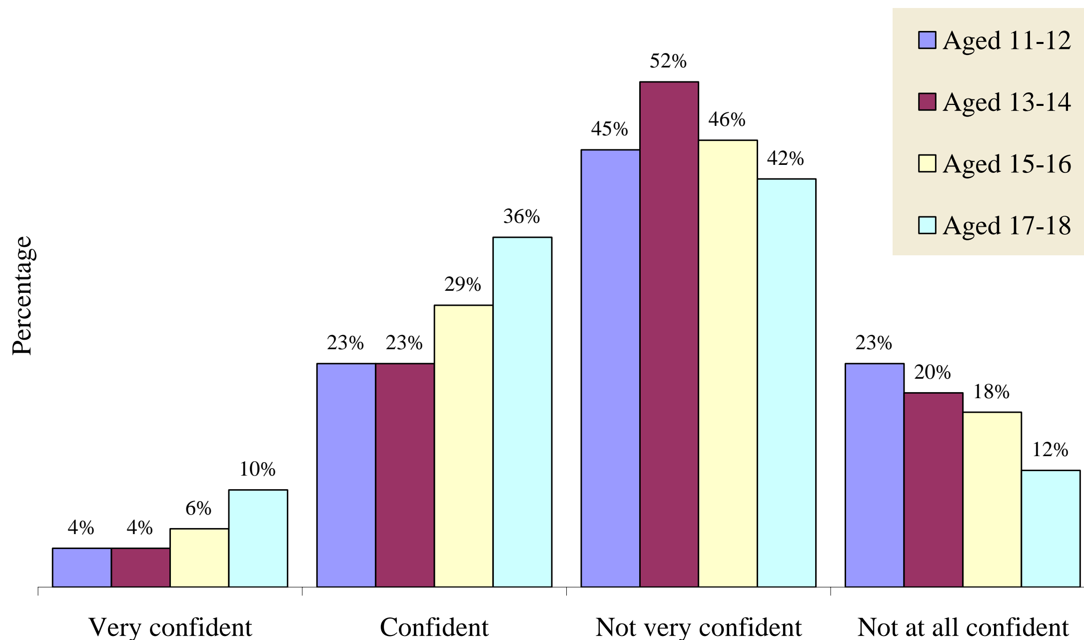
Figure 5.11 Proportion of young people who felt that there was a risk of losing the money investment by product type and school money management lessons (survey of young people)



Finally, young people were asked how confident they would be about choosing the best type of savings account without any help. A minority (31 per cent) of young people said that they would feel confident. Half (47 per cent) said that they were not

very confident and two in ten (20 per cent) were not confident at all. Like knowledge, levels of confidence increased with age.

Figure 5.12 How confident about choosing best type of savings account without help by age (survey of young people)



Awareness of different types of investment was still quite low amongst the more confident young people, as can be seen from the right hand bars of Figure 5.8, above. However, there was noticeably more awareness of unit trusts amongst these young people (14 per cent had heard of unit trusts, compared with seven per cent of all the young people surveyed) and equity-based ISAs (21 per cent compared with 12 per cent). Yet even amongst this group, two in ten (21 per cent) had heard of none of the investments listed. Moreover, while nearly six in ten (58 per cent) were aware that investing in stocks and shares involved a risk to capital, only five per cent were aware that the same risk was associated with equity ISAs.

6 Child Trust Fund accounts

The Child Trust Fund (CTF) is available to children born on or after 1 September 2002. Entitlement is linked to the award of Child Benefit and parents of eligible children automatically receive a voucher worth £250, which they can use to open a CTF account. The voucher can only be used to open a CTF account with an approved CTF provider; it cannot be added to an existing savings or investment account.

This chapter draws on the review of CTF products and the depth interviews with CTF providers and distributors, trade associations and companies not involved in the provision of CTF to provide an overview of the nascent CTF market. At the time of the depth interviews (October-November 2005), the CTF market was less than a year old and comprised nearly 40 approved CTF providers and over 70 organisations involved in the distribution of accounts through a range of channels. It looks in detail at the make-up of the market – the companies involved and their reasons for entering the market. The chapter also examines the features of the Child Trust Fund accounts that are available to parents and how the CTF is being marketed and promoted, both by the government and those organisations involved in providing and distributing accounts. The final section outlines the account-opening process from the perspective of providers and distributors.

6.1 What is the Child Trust Fund?

The Child Trust Fund (CTF) is a tax-efficient savings ‘wrapper’, like an Individual Savings Account. A Stakeholder version of the CTF is available which forms part of the Sandler suite of products - simple, price-controlled and regulated medium and long-term savings and investment products that can be sold through a simplified sales process (HM Treasury and Department for Work and Pensions, February 2003). All financial services providers who decide to market CTF accounts must offer access to a Stakeholder account, which invests in stocks and shares but has controls on risk (see Box 6.1). Like other stakeholder financial products, there is a cap on the charges that can be levied – for CTF stakeholder accounts it is 1.5 per cent per annum[18].

Alongside Stakeholder accounts, financial services providers can also offer cash-based CTF savings accounts and other equity-based accounts, which do not have to meet the Stakeholder criteria. Parents (and children once they reach the age of 16) can switch between CTF providers and accounts without incurring financial penalties.

Financial services companies have to be approved by HM Revenue and Customs to provide CTF accounts, and also have to have the appropriate permissions from the FSA. Approved providers can also make CTF accounts available to customers through other organisations, known as distributors. Moreover, approved providers may distribute some types of CTF account on behalf of other providers – in other words, they act as both providers *and* distributors of the CTF.

[18] The charge cap is calculated daily, weekly or monthly.

Box 6.1 Main features of the Stakeholder Child Trust Fund account

- Money deposited in a Stakeholder Child Trust Fund account is invested in stocks and shares. Unlike other equity-based accounts, however, the risks are reduced by having a list of qualifying investments, investing the money in a number of companies rather than just one (diversification), and 'lifestyling', whereby money in the account starts to be moved to lower risk investments or assets once the child reaches the age of 13. The Registered Contact (i.e. the person named on the application form) can choose to opt out of lifestyling.
- Once the account has been opened, providers must accept a minimum contribution of £10 and they can accept less if they wish.
- Providers have to accept payment by direct debit, standing order, direct credit and cheque.
- The annual management charge is capped at 1.5 per cent of the fund's value. There may be other charges associated with dealing in the underlying investments.
- If a Child Trust Fund account is not opened by the expiry date on the voucher (parents have 12 months to use the voucher), HM Revenue and Customs will open a Stakeholder account for the child by default.

6.2 Overview of the CTF market

At the time of the research (October-November 2005), the CTF market was less than a year old and comprises 38 approved providers, including building societies (11), friendly societies (10), stockbroking or investment firms (8), banks (6), a credit union and two mutual life companies.

As well as nearly 40 approved providers, there are over 70 organisations involved in the distribution of CTF accounts on behalf of approved providers, including building societies (29), IFA firms (13), banks (11) and retailers (8). Other organisations involved as distributors include insurance companies, brokers, friendly societies, and charities. As we discuss in section 6.4, however, the distinction between providers and distributors is blurred by the fact that some providers not only offer their own CTF accounts but also distribute other types of accounts on behalf of other providers.

At this early stage, we do not know what types of companies have the largest share of the CTF market. Mutual financial instutitions[19] ('mutuals') such as building societies and friendly societies, however, dominate the market in terms of numbers of providers and distributors. They not only play an important role as CTF providers in their own right, but several of the larger friendly societies have also established extensive distribution networks for their CTF products (see section 6.4).

Mutuals have traditionally played an important role in the childrens savings market and, for many, the CTF will be a natural extension of their existing product range. Among friendly societies, the CTF is likely to overshadow the existing tax-exempt children's savings plans that they offer, not least because it has the added benefits of government endowments and a higher ceiling on contributions. As one of the people interviewed in depth commented:

[19] A mutual financial institution is run in the interests of its members, and is not listed on the stock market or owned externally. In the UK, mutual financial institutions include building societies, friendly societies and credit unions.

I think most friendly societies saw that if you wanted to remain in that business then embracing the CTF was a good idea.

At the end of 2005, almost two-thirds of building societies were offering CTF accounts. Some (generally larger) building societies manufacture their own CTF accounts. Many others (generally smaller societies) distribute accounts produced by approved CTF providers.

Among members of the Association of Friendly Societies, nearly a quarter are involved in the delivery of the CTF, mostly as account providers. They include four of the five largest friendly societies that operate on a national basis, along with some smaller societies that tend to operate either in particular geographical areas or draw their membership from a particular group of people, for example communications workers.

At the time of the research, only one credit union was an approved CTF provider. Others, however, can act as CTF distributors through an arrangement brokered by the Association of British Credit Unions Limited (ABCUL), the main credit union trade association.

After the mutuals, the main providers of CTF accounts are high street banks and stockbroking/asset management companies. All but one of the major UK banking groups are involved in the delivery of the CTF[20], and the approved providers include several of the large high street banks (Abbey, HBOS, HSBC, Royal Bank of Scotland). Banks are also an important distribution channel for CTF because of their large branch networks, and 11 banks currently act as account distributors on behalf of an approved provider.

On the whole, stockbroking companies have not traditionally offered children's savings and investments. They are, however, involved in the provision of other tax-efficient savings products such as PEPs and ISAs. As we discuss in greater detail below, these firms are predominantly focused on the provision of non-Stakeholder equity-based CTF accounts, aimed at parents on higher incomes who want the flexibility to select their own investment funds.

Only one investment company (F&C Asset Management plc) is currently involved in the direct provision of CTF accounts. Many others, however, are involved in producing and managing the investment funds such as unit trusts and open-ended investments companies (OEICs) that underlie equity-based CTF accounts.

Insurance companies[21] are notable by their limited presence in the market. At the time of the research, none of the large insurance firms is involved in the direct provision of accounts, and only two are involved in the distribution of the CTF. There may be several possible explanations for this. First, insurance companies may be deterred from entering the market because they generally lack a presence on the high street and most no longer have a direct salesforce. Second, few of the big insurance companies offer savings and investments for children. In common with other sectors of the financial services industry (such as the collective or pooled

[20] The major British banking groups are Abbey, Alliance and Leicester, Barclays, Bradford and Bingley, HBOS, HSBC Bank, Lloyds TSB, Northern Rock plc and Royal Bank of Scotland. At the time of the research, Northern Rock plc was not involved in the CTF market.
[21] This refers to public limited companies only; it does not include insurance companies that are constituted in other ways, for example as friendly societies.

investment market[22]), many of them increasingly focus on products for the older, 'mass affluent' market.

> *We have focused more recently on the 45-plus market, and what we primarily have is bonds and pensions products…[with] larger, single premiums.*

In other words, the CTF would not sit easily with their existing product range.

6.3 A typology of providers and distributors

Across the range of organisations that were interviewed in depth[23], there was a general consensus that the CTF would generate little, if any, income for providers and distributors, at least in the short term. In the medium to long term, the key to profitability, it was widely agreed, was to foster high volumes of business along with additional contributions by parents and others.

> *…if all we ever got was Government money then it would be very hard to see how to make this a commercially sensible exercise…It only becomes commercially sensible if a certain percentage top up by a certain amount.*

But, as the interviews indicated, income generation was not the only motivation for being involved in this new market. Organisations seemed to fall into one of three groups with regard to their involvement in the CTF market. The first group is made up of providers that view the CTF as a market opportunity. The second group offers CTF as a way of retaining existing customers, while the third views CTF as a means of attracting new customers.

6.3.1 CTF as a market opportunity

Organisations that view CTF as a market opportunity primarily aim to offer accounts as cost-effectively as possible, in order to at least break even. There seem to be two ways of achieving this – by becoming a mass market operator, or by targeting better-off parents.

At present, the mass market operators mainly comprise the larger friendly societies, that have sought high volume business through partnership arrangements with a range of organisations, including banks, building societies, retailers and others. They generally seek to encourage parents and others to make additional contributions using devices such as gift cards. They are likely to have invested heavily in developing the necessary infrastructure to deliver the CTF, and to carry out a fair amount of promotional activity (the promotion and marketing of CTF products is considered in detail later in the chapter).

In contrast to the mass market operators, stockbroking firms involved in the provision of CTF specifically target better-off parents who are likely to contribute the maximum allowed every year, typically in a lump sum – thereby reducing the costs of administration. Moreover, where the CTF sits alongside existing tax-efficient investment products, the set-up costs are kept fairly low as well. As with other products that they offer, promotion and marketing activity tends to be kept to a

[22] Collective or pooled investments include unit trusts, investment trusts and OEICs.
[23] See Technical Appendix for details

minimum and customer acquisition is generally through word-of-mouth recommendation or favourable coverage in the specialist financial press.

6.3.2 Customer retention

Among the second group, the CTF is regarded as a means of customer retention. Most (rightly or wrongly) view it as a '*loss leader*', but they offer CTF accounts in order to retain their existing customers and to avoid any reputational damage that might be caused by turning a customer away.

> *…it's probably saved us from getting customers who come in and feel that they've had a poor experience, like we've rejected their child if you like, by saying we don't do [CTF accounts] rather than having a positive uplift from having the product available and it meaning that clients take up further opportunities with us.*

This group is made up of both CTF providers and distributors, and mainly comprises high street banks and larger building societies. It also includes retailers who consider that they *should* offer the CTF, where the crossover between their customer base and the eligible population is large. The range of promotional activities carried out by this group seems to vary widely – from costly campaigns at the time of the launch to no promotional activity at all.

6.3.3 Customer attraction

The key motivation for involvement in the CTF for the third group is customer attraction – they want to attract new, often younger, customers, in the form of parents of eligible children.

> *…the sole business reason behind offering the Child Trust Fund was one of trying to gain new customers to the [company name] of an age group traditionally lower than our average age…*

They may also be keen to try and retain CTF account-holders as customers once they reach 18. Among the organisations interviewed in depth, this group mainly consisted of mutuals, both large and small, who were approved providers. They all carried out some form of promotional activity, the extent of which seemed to depend on their size and their target market.

6.4 The providers of CTF accounts

As outlined above, at the time of the research nearly 40 financial services companies have been approved as CTF providers by the government. These approved providers fall into three groups in terms of their role in the market.

The first group is made up mainly of banks, friendly societies and stockbroking firms (13 in total) that manufacture their own CTF accounts and market them directly to their customers, for example through their existing branch networks. Five of these providers (three banks, a friendly society and a mutual life company), only offer a Stakeholder CTF account. A further six (three friendly societies and three stockbroking firms) offer a choice between a Stakeholder account and a non-

Stakeholder equity account. The remaining two CTF providers (a high street bank and a large building society) give parents a choice between a Stakeholder account and a savings account.

The second group not only provide their own CTF accounts directly to customers, but also distribute these accounts through other organisations as well. There are currently four main providers that operate in this way - all of them large friendly societies. The Children's Mutual has the largest number of distribution partners – at the time of the research, its Stakeholder CTF account was available from around 30 organisations[24]. Family Investments and Liverpool Victoria each have around 15 distribution partners, while engage Mutual Assurance[25] works with around 10 partners[26]. In contrast to Family Investments and engage Mutual Assurance, which both only offer a Stakeholder CTF account, Liverpool Victoria also has a non-Stakeholder equity CTF account which is available through all of its distribution partners.

A further four providers (two banks, a friendly society and an investment company) each have a far smaller number of distribution partners, generally only one or two[27]. Three of these only have a Stakeholder CTF account available to customers. The fourth also offers a non-Stakeholder equity CTF account.

The third and largest group comprises 17 approved providers that all produce their own non-Stakeholder CTF accounts, that are marketed directly to their customers. In order to comply with the regulations, however, they must also offer a Stakeholder CTF account, and they do this by acting as a distribution partner for another approved provider.

The bulk of this group comprises mutuals (10 building societies, a credit union and a mutual life company) that produce their own non-Stakeholder savings CTF account. All but one of them work with a single approved provider to distribute a standard Stakeholder CTF account[28]. In a rather different arrangement, one of the smaller building societies sources Stakeholder CTF accounts (and non-Stakeholder equity CTF accounts) from the whole of the market, through the IFA arm of its business.

The remainder of this group is made up of four stockbroking firms and a friendly society, which produce their own non-Stakeholder equity CTF accounts that they offer directly to their customers. Like the other mutuals in this group, the friendly society has a partnership arrangement with a single provider to distribute its Stakeholder CTF account. In contrast, the stockbroking firms are not linked to a specific provider, but instead seem to signpost customers to one that offers Stakeholder accounts if necessary. Given that their target market is better-off parents who want to make their own investment selections, the need to signpost in this way is likely to be an infrequent occurrence.

---

[24] The Children's Mutual also offers a non-Stakeholder stocks and shares account, which is available through independent financial advisers
[25] engage Mutual Assurance also trades as childtrustfund.com
[26] The information about distribution partnerships comes from a combination of desk research and information provided on the Government's CTF website, www.childtrustfund.gov.uk. Please note that this information only refers to the number of partnership organisations that providers were working with; it was not possible to calculate the number of high street outlets that this represents.
[27] This includes HBOS Financial Services, part of the HBOS Group, which only distributes CTF accounts within the group, to Bank of Scotland and Halifax plc
[28] One building society also distributes the non-Stakeholder account produced by the same provider.

6.5 The distributors of CTF accounts

As we saw earlier, there is an extensive range of organisations that do not produce their own CTF accounts but simply distribute CTF accounts on behalf of approved providers. The largest group of distributors (over a third of the total number) is made up of building societies, many of which are fairly small in size. The next biggest group (around a fifth) comprises firms of independent financial advisors[29]. In terms of volumes of customers, however, the main distribution channels are banks and retailers, including high-steet retailers aimed at prospective and new parents, large supermarket chains and the Post Office.

The majority of distributors work with a single approved provider and, as descibed above, this will generally be one of the four large friendly societies that specialise in distributing their CTF accounts through other organisations. Distributors typically promote the CTF 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.

In most cases, the distributors act as introducers for the standard Stakeholder CTF account manufactured by the provider they are partnered with. In some instances, however, the CTF account is tailored to meet the particular requirements of the distributor. A handful of organisations, mostly building societies, act as introducers for non-Stakeholder equity accounts as well as Stakeholder CTF accounts from the same provider.

Distributors that work with a single provider are generally paid commission for each CTF account that is opened. The structure and level of commission varies both within and between providers, but usually comprises an initial amount (such as a proportion of the first year's regular contributions) plus a proportion of the total value of the fund.

In contrast to this general pattern, a small number of organisations (9) do not have links with any particular CTF provider, but rather act as distributors for Stakeholder and non-Stakeholder equity CTF accounts from different approved providers. Most of these are firms of independent financial advisers and, as with any other financial product, they are paid commission by the individual CTF providers whose accounts they sell.

6.6 Types of CTF accounts

As noted above, there are three types of CTF account. All providers and distributors operating in the CTF market must provide access to a Stakeholder account, which invests in stocks and shares but has controls on risk and a cap on charges (see Box 6.1). The other two types of CTF account are equity accounts and deposit-based savings accounts, which do not have to meet the Stakeholder criteria set by the government.

[29] This includes firms such as solicitors and accountants that offer independent financial advice

6.6.1 Stakeholder accounts

At the time of the research, 21 of the 38 approved providers manufacture their own Stakeholder CTF accounts. And, at first glance, there is little to choose between them.

Of the Stakeholder CTF accounts available, three currently seem to offer annual management charges lower than the statutory 1.5 per cent cap, ranging from around 1.1 per cent to 1.45 per cent. And five accounts allow regular contributions that are less than the £10 monthly minimum set by the government – two of these accept regular payments of £1 per month, two accept £5 per month, and one has no minimum amount.

Government regulations[30] also set out the types of investments that qualify for Stakeholder CTF accounts. Among the current providers, the most common investments for Stakeholder CTF accounts are unit trusts and OEICs. Moreover, where the account offers investment in unit trusts, this tends to be in the form of tracker funds, which follow one of the major share indexes, such as the FTSE 100 index (referred to as passive fund management). A small number of providers offer access to funds that are actively managed.

In addition, two Stakeholder CTF accounts have been developed for niche markets. The first is a Shari'a CTF account developed by The Children's Mutual, which complies with Islamic principles in terms of the types of companies in which money is invested. Money placed in the Shari'a account is invested in the FTSE Global Islamic Index, and the investments are approved and overseen by a Shari'a Advisory Board.

The second is an ethical CTF account, distributed exclusively by CIS Policyholder Services (part of the Co-operative Group of businesses), which invests in the FTSE4Good Tracker Trust. This is currently the only CTF account specifically branded as an ethical investment.

6.6.2 Equity accounts

Non-Stakeholder CTF equity accounts are manufactured by 14 of the approved providers. Not surprisingly, these include all eight stockbrokers/investment companies as well as several friendly societies (6).

CTF equity accounts divide into two main types – those that only offer a limited range of funds for investors to pick from, and 'self-select' accounts, where the choice of funds is far greater. One or two providers offer both types of account.

Most of the providers that offer a limited range of funds are friendly societies that invest the money in with-profits funds such as bonds or life assurance policies. The remainder either offer investors a choice of unit-linked funds; of OEICs; or of investment trusts. The annual management charges for these types of accounts range from 0.75 per cent to 1.50 per cent, depending on the fund. Most also have an initial set-up charge as well.

All the providers that offer self-select CTF accounts are stockbroking firms, and their target market is clearly the more experienced investor. Investors have a wide choice

[30] The CTFs Regulations 2004, Statutory Instruments 2004, No. 1450

of funds to choose from and can also buy shares directly as well. Annual charges generally apply where money is invested in funds. Where investors are buying and selling shares directly, there are stockbroking charges as well, usually expressed as a proportion of the value of the shares.

6.6.3 Savings accounts

CTF savings accounts are equivalent to an ordinary deposit account with a variable interest rate - except that the interest is tax-free. This type of CTF account is currently produced by 14 approved providers, which are mainly building societies (11), but also include a high street bank, a credit union and a mutual life company. They are only available directly from these providers.

At the time of the research (October-November 2005), seven of the 14 providers offered a bonus on top of the ordinary interest rate, generally an extra one per cent or 1.25 per cent per annum. This tends to be conditional on a certain amount of money being paid into the account each year, or on the account being opened before a certain date. In most cases, the bonus applies for a limited period, typically two years from account opening.

The depth interviews with CTF providers and trade association representatives revealed rather mixed views about the savings account option. Those involved in offering savings-based CTF accounts felt that these were more suitable for the inexperienced small investors who generally made up their customer base. For some, this was underpinned by a desire to retain customers who would otherwise go elsewhere for a savings account.

> *I think partly it was to do with our customer base, in that we know that our customers aren't particularly experienced investors, and whilst we want to encourage them into [investing], we don't want to lose a lot of our existing customers because they would only be able to take out a Stakeholder Child Trust Fund, where they would normally want to open a cash Child Trust Fund… we didn't want to lose those customers over to our competitors just because we couldn't offer what they had.*

Others, however, voiced concerns about the appropriateness of investing in a CTF account over the longer term.

> *… if you look at the 18 year period, which is quite a normal period for pensions savings or endowment savings, very few of those funds are ever invested in cash, they're normally invested in the stockmarket or property or something like that… all the actuarial evidence we have says the actual risk is twice as great of not getting as good a return if you put it in cash as if you put it in a Stakeholder, for instance.*

6.7 Promotion and marketing of CTF accounts

The CTF scheme was officially launched in January/February 2005, accompanied by a government advertising campaign including TV, radio and press advertisements. Although the CTF scheme did not become fully operational until April 2005, CTF vouchers started to be sent out to parents of eligible children born since September 2002 shortly before the official launch. Information packs were sent out a few days

before the voucher, and contained information about the types of CTF accounts and the providers and distributors that offered them.

Subsequent government advertising campaigns were run during the course of 2005, to maintain awareness of the CTF scheme and remind parents to open their child's CTF account.

An official CTF website was also established to support the initiative (www.childtrustfund.gov.uk), providing information about eligibility, types of accounts, and lists of providers and distributors who offer them (including links through to the providers' websites). An online toolkit to help people choose a suitable CTF account was added to the site in autumn 2005.

6.7.1 Promotion and marketing by providers and distributors

Among the CTF providers and distributors that were interviewed in depth, there was a general feeling that the amount of promotion and marketing they could carry out was constrained by the low level of charges for the product. Reflecting this, they have tended to focus on cost-effective marketing methods such as direct mailing (both to existing customers and using commercial mailing lists) and the provision of in-store or in-branch information and promotional materials such as leaflets, information packs and posters.

A small number had placed advertisements in national newspapers or magazines and a handful talked about having a 'big launch' for the CTF. In both instances, these tended to be larger providers or distributors that were keen to retain their existing customers or to attract new customers. Other less common types of marketing activities included exhibiting at specialist parent and baby events and providing information as part of more generic marketing materials. One provider also promoted the CTF through its direct saleforce.

None of the providers or distributors we interviewed had carried out any television or national radio advertising. In part, this may be due to the cost involved, but it could also have been deemed unnecessary given the government's own media campaign. Several mentioned, however, that they had received positive media coverage through their public relations activities.

A few companies that were interviewed had not carried out any promotion or marketing around the CTF. Two of these were stockbroking firms involved in the provision of non-Stakeholder equity CTF accounts to better-off parents, that largely relied on word-of-mouth recommendations for all their business. The third was a bank which had entered a distribution agreement with one of the main providers as a '*defensive measure'* so that its staff could offer customers a Stakeholder CTF information pack if they asked for it. Consequently, it did not promote the availability of the account at all.

> *… we don't actively promote the Child Trust Fund, the packs aren't on display…. if a customer comes in saying 'I've heard about this thing called a Child Trust Fund' we're able to give them something rather than them going to a competitor, but it's not something that we would actively market at all.*

Almost all the CTF providers (and many of their distribution partners) have some information about the CTF accounts they offer on their website. Indeed, one or two have set up dedicated websites for the CTF, separate from their main site. In some

cases, parents and others can download application forms or apply for a CTF account online. The use of 'weblinks' is also common – both as a marketing tool to route people from other websites and to direct people from the website of a CTF distributor to the site of the main provider. Several providers who were interviewed also mentioned that they had received a significant number of enquiries through the link from the government's website to their own website.

6.7.2 Incentives to open CTF accounts

The use of incentives to encourage parents to open a CTF account with a particular provider seems to be mainly limited to the larger distributors that operate in the market, such as chain stores and high street banks. In some cases, the incentive only applies when the parent agrees to make a regular contribution to the account. Several providers also make gift cards available to encourage friends and family members to contribute to the child's CTF account.

There appears to be two types of incentive to encourage parents to open CTF accounts. The first, used by retailers, is money-off vouchers or gift vouchers that can be used in-store. These tend to have conditions attached to them. One large retailer, for example, offers parents a gift voucher worth £15 to spend on clothing in the store if they open a CTF account online; if they open a CTF account by telephone, they receive a £10 gift voucher. Similarly, another high street retailer offers money-off vouchers to those who open a CTF account that can be spent on certain product lines within the store.

The second type of incentive is a free gift. A number of banks, for example, have given away soft toys to parents who have either asked for a CTF application pack or opened a CTF account through the bank. These tend to be have been offered for a limited period following the launch of the initiative.

Among the providers and distributors interviewed in depth, only a small number of providers operated incentive schemes for staff in relation to the number of CTF accounts they sold or opened. This is perhaps not surprising, given their general views about the profitability of the CTF product. In the case of two large mutual organisations, CTF accounts were included as part of a broader incentive scheme based on the overall volume of products sold. Staff employed by another large friendly society were given targets specifically related to the CTF, such as converting telephone enquiries into applications. Finally, as mentioned above, one of the smaller building societies offers Stakeholder and non-Stakeholder accounts from the whole of the market, through its team of independent financial advisers. These IFAs are salaried but receive commission from the companies whose products they sell, whether it be a CTF account or some other form of investment.

6.8 The account-opening process

The interviews with providers and distributors indicate that most CTF accounts are opened through remote channels – typically by post, but also by telephone and online.

Banks and building societies mainly distribute CTF application packs through their branch networks. Other providers and distributors, such as friendly societies and stockbrokers, generally send out CTF application packs in response to telephone or

online enquiries. The application form is then filled in by parents and returned by post or to the branch. In some cases, applications can be made over the phone or online.

Although not mentioned by any of the companies we interviewed, there is a basic advice regime that can be used in the sale of Stakeholder products, including Stakeholder CTF accounts. This is a simplified advice process in which advisers are expected to establish the basic suitability of a product for the client. The FSA requires these advisers to be competent to perform their role, but does not expect them to have the formal qualifications that are required of financial intermediaries who sell other regulated products.

Apart from one or two companies that sold equity-based CTF accounts through a regulated advice process, most CTF accounts were opened on an execution-only basis – in other words, while staff could give generic information and guidance about CTF accounts, they could not advise a parent which account to open.

The general view among the providers and distributors was that parents' knowledge about CTF and the types of accounts available was variable at best, and that many would have benefited from advice..

> *We've had people thinking they could cash the vouchers, we've had people thinking they could pay it into an existing children's account with us.*

Only a few felt that CTF customers were well-informed, and these were generally companies that targeted better-off parents to invest in self-select stocks and shares accounts. Choosing this type of CTF account, they felt, implied at least some knowledge of the stock market.

7 Choosing and opening a CTF account

Unlike the preceding chapters, this chapter focuses only on those parents who had children eligible for the Child Trust Fund (CTF)[31]. Drawing on the survey data (collected during the period March-August 2005, shortly after the official launch of the CTF scheme) and the follow-up qualitative interviews with parents (which were conducted in October-November 2005), it explores in detail how parents went about choosing and opening a Child Trust Fund account.

According to the survey data, most had either opened an account already or, more commonly, planned to do so. Only a few parents did not intend to open an account.

On the whole, parents made their decisions from a fairly low knowledge base. The survey data indicates that although most had at least looked at the government's information booklet, awareness about the key features of the scheme was patchy. Parents' knowledge about the different types of CTF accounts was also low.

The survey indicates that decisions around the *type* of CTF account were largely driven by parents' attitude to risk. So, while some were prepared to invest in Stakeholder or equity CTF accounts to get a better return, others were mainly concerned about the security of their children's savings, leading them to open a savings CTF account.

As we saw in the last chapter, in terms of selecting a Child Trust Fund provider, parents have a large range of organisations to choose from. According to the survey data, they tended to favour financial institutions with which they already had a relationship, or organisations that were familiar to them. The follow-up qualitative interviews indicate that this tended to be the case even when they had shopped around between providers. The qualitative interviews also show that parents who had opened a CTF account found the application process extremely quick and easy. Most filled in the application form themselves and posted it back to their chosen provider.

The last section of the chapter explores why some parents had not opened an account. Multivariate analysis of the survey data indicated that whether or not parents had saved for their children in the past 12 months was closely associated with the likelihood of opening a CTF account. The qualitative interviews provide additional insights, suggesting that some parents were struggling to decide what to do for the best. Lack of time and other demands could also cause delay.

[31] The survey included 1,071 parents with children who were eligible for the Child Trust Fund (CTF). The data has been weighted to take into account this large proportion of young children as well as over-sampling in Wales, Scotland and Northern Ireland, making an effective weighted sample of 500 respondents. This should be kept in mind when interpreting the data presented in tables.

7.1 Overview of CTF account opening

The survey data indicates that almost all the parents of eligible sampled children (95 per cent) had received their Child Trust Fund (CTF) vouchers by the time they were interviewed. Around four in ten parents (38 per cent) had opened a CTF account by this time, and most of the rest (61 per cent) reported that they planned to open one (Table 7.1). Only a handful of people in the survey said they had no intention of using the voucher to open a CTF account (Table 7.1). This was because they felt it would be unfair on their other non-eligible children; because they were not in a position to add any money to the account; or because they did not really understand how the CTF worked.

Table 7.1 Whether or not parents had opened a CTF account at the time of the survey interview

	Column percentages
Yes, already opened a CTF account	38
No, but intend to open a CTF account	61
No, and do not intend to open a CTF account	1
Weighted base	***500***

Among the parents who had not yet opened a CTF account but planned to do so, many had already made at least some of the decisions necessary to open an account. This is discussed in detail in section 7.7.

7.2 Sources of information about the CTF scheme

At the time of the survey interview, most parents of eligible sampled children had received the information booklet that was sent out by the (then) Inland Revenue in advance of the CTF vouchers. And most of them had at least glanced through the booklet, with four in ten (42 per cent) reading it carefully. On the whole, they found it useful in terms of gaining an understanding of the scheme (Table 7.2). Only a small proportion of parents (nine per cent) had not looked at the booklet at all (Table 7.2), and these tended to be people who had not yet opened an account.

Table 7.2 Use of the government's information booklet

	Column percentages
Have you read the information booklet?	**All parents of eligible sampled children**
Read the booklet in detail	42
Glanced at it, but not read it carefully	49
Not looked at it at all	9
Weighted base	***471***
How useful was it in helping you to understand the CTF?	**All parents who had read the information booklet**
Very useful	37
Fairly useful	54
Not at all useful	5
Don't know	4
Weighted base	***428***

The follow-up qualitative interviews also indicated that views about the booklet were generally positive. Most parents who had read the booklet considered it to be well laid-out, easy to understand and informative, particularly in terms of explaining the different options and types of CTF account that are available.

> *I think it's a very good thing, it just gives you impartial information… this is the account, this is what it is about, this is how it works… it's not biased in any shape or form… it wasn't too much information all at once* (Savings CTF account opened)

Most parents who took part in the qualitative research said that they had read the booklet before opening a CTF account.

Negative opinions expressed by parents in the depth interviews generally hinged on the fact that the booklet did not give them all the information they required. In some cases, parents felt it lacked information about the companies that offered CTF accounts. One parent wanted clearer information about the charges levied on accounts, while another wanted to know if she could pay the voucher into an existing savings account.

Some parents who had not read the booklet said they did not remember receiving it. Others simply had not had time to read through it. A few were put off because they thought it looked too long and complex.

The survey data showed that use of other government sources of information about the scheme was low. A small number of parents (five per cent) had been in direct contact with HM Revenue and Customs via the CTF helpline. And even fewer (three per cent) said they had visited or used the government's CTF website. In both cases, users generally found these sources of information helpful.

As we go on to discuss (section 7.7.2), the most common source of information used by parents to shop around for an account was the product literature produced by providers and distributors. Other sources of information were only used by a small number of people, and included financial websites, newspapers, talking to friends and family, and seeking professional advice.

7.3 Levels of knowledge about the CTF scheme

Although most parents had at least looked at the information booklet provided by the government, their knowledge about the key features of the CTF scheme was patchy. As the CTF scheme had only recently been launched when the survey and follow-up qualitative interviews with parents were carried out, it seems reasonable to assume that this will improve over time, as the CTF becomes more established.

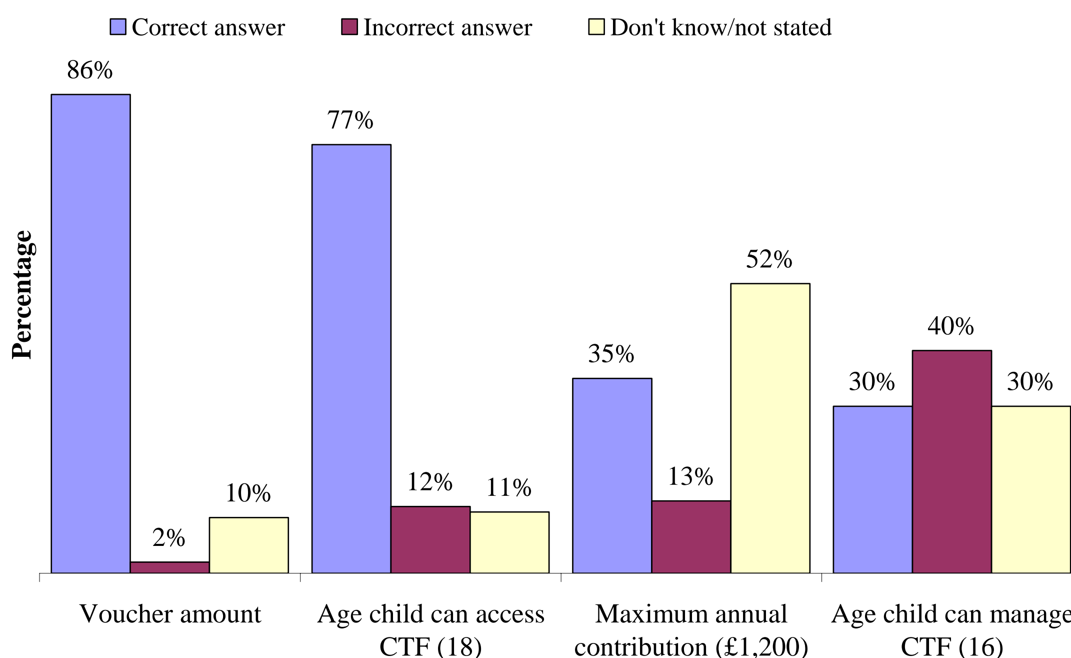
Given that most parents had already received their voucher, it was not surprising that they had generally known to expect around £250. Even so, one in ten parents (nine per cent) in receipt of a voucher were unable to say how much it was worth (Figure 7.1).

Around three-quarters of parents (77 per cent) correctly answered that children can only access the money in their CTF account once they reach the age of 18. The rest either did not know (11 per cent) or gave an incorrect response (12 per cent) – usually age 16 (Figure 7.1).

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 CTF accounts were much lower. Only a third of parents (35 per cent) answered that the annual limit on additional contributions was £1,200. Most of the rest did not know (52 per cent), while the remainder (13 per cent) gave the wrong amount (Figure 7.1).

Similarly, most parents did not know that children can manage their own CTF account from the age of 16. Four in ten (40 per cent) gave an incorrect response (usually age 18), while a further three in ten (30 per cent) did not know. The remainder (30 per cent) gave the correct answer (Figure 7.1).

Figure 7.1 Level of knowledge about the CTF scheme



Overall, around one in ten parents (12 per cent) gave correct answers to all the questions about the key features of the CTF scheme. Parents who said they had read the government's information booklet in detail generally had higher than average levels of knowledge about the scheme – but the differences were not statistically significant.

7.4 Views about the terms and conditions of CTF accounts

In the survey, parents were asked for their views about various aspects of the CTF scheme[32], including the amount of the initial endowment and the proposed additional endowment when the child reached the age of 7; the maximum annual contribution of £1,200; and the fact that the child could manage the account themselves from the age of 16, and access the money at the age of 18. On the whole, they were broadly in favour of these terms and conditions. There was some concern, however, about the child being able to manage their own Child Trust Fund from the age of 16.

[32] Parents were told the correct answer if they did not know or had answered incorrectly in the questions asking about knowledge of the scheme.

7.4.1 Initial and additional endowments

Around three-quarters of parents felt that both the initial endowment of £250 and the proposed endowment of £250 when the child reached the age of 7 were about right. Most of the rest thought the amount was too low (Table 7.3)

Low-income families will also receive an additional £250 on top of each of these endowments and, again, around seven in ten parents agreed that this was about the right amount (Table 7.3). The remainder divided about equally into those who thought it was too low and those who considered it to be too high (Table 7.3).

As we might expect, parents living in the types of families that are most likely to benefit from these additional amounts (such as lone parents and those with household incomes of less than £1,00 per month) were more inclined to say it was about the right amount, but the differences were not statistically significant.

Table 7.3 Parents' views of Child Trust Fund endowment amounts

	Column percentages
	All parents of eligible sampled children
Initial endowment of £250	
About right	76
Too high	2
Too low	15
Don't know or refused	7
Proposed £250 top-up at age 7	
About right	73
Too high	3
Too low	19
Don't know or refused	4
Extra £250 for low-income families on top of initial endowment	
About right	69
Too high	14
Too low	10
Don't know or refused	7
Extra £250 for low-income families on top of proposed additional endowment at age 7	
About right	67
Too high	13
Too low	14
Don't know or refused	5
Weighted base	***500***

7.4.2 Maximum annual contribution of £1,200

When told what it was, most parents (65 per cent) considered £1,200 to be an appropriate maximum level for annual contributions to a Child Trust Fund account. Around one in ten (12 per cent) thought this was too high and a similar proportion (15 per cent) felt it was too low. Parents who were rather better-off or who had savings

themselves were more likely to think the limit was too low, but the differences were not statistically significant.

7.4.3 Age at which children can manage the account and access the funds

Parents were much more divided about the age at which children can have control of their CTF account. Around half (49 per cent) thought that 16 was about the right age for children to be able to take over the management of their account. But just as many (48 per cent) considered children to be too young at 16 to have this responsibility. Hardly any parents thought that children should have control of their CTF account at a younger age (Table 7.4)

Most parents (74 per cent) were happy with their child being able to access the money in their Child Trust Fund account when they reached 18 (Table 7.4). Even so, around a quarter (23 per cent) considered this to be too young.

Table 7.4 Parents' views of the age at which children can manage and access their Child Trust Fund account

	Column percentages
	All parents of eligible sampled children
Child can manage CTF from age 16	
About right age	49
Too young	48
Too old	1
Don't know or refused	2
Child can access CTF money at age 18	
About right age	74
Too young	23
Too old	2
Don't know or refused	1
Weighted base	***500***

The qualitative interviews indicated that parents generally held positive views about the CTF scheme, particularly if they had already opened an account.

> *…it gives you a kick up the backside I suppose, and gives you an amount that you think, 'Yes, that child's got a start, let's keep adding to it'…I think it's a good idea.* (Savings CTF account opened)

Several parents (some of whom had already opened accounts and others who had not) voiced their concerns about the child having access to their CTF account at the age of 18. Their main fear was that, at 18, their child would not be mature enough to use the money in a responsible way.

> *…it wouldn't bother me at all if they put some limits on the money, like it will go for education and training, it will go towards a down payment on a house, or whatever. You know, I think there will be a lot of fabulous gap years coming.* (Equity CTF account opened)

As we see in section 7.9, however, this had not generally deterred parents from opening an account.

7.5 What types of CTF have parents chosen to open?

As we saw in the previous chapter, all approved providers have to offer access to a Stakeholder CTF account. Moreover, almost all the organisations that are acting solely as distributors for the CTF *only* offer Stakeholder accounts.

Figures published by the Building Societies Association (BSA) indicate that around 295,000 CTF savings accounts were opened during the period April-November 2005 (BSA, 2006). In other words, savings accounts represented a quarter (25 per cent) of all CTF accounts opened over that time.

The survey data indicates that CTF savings accounts were by far the most popular type of account among parents. Overall, half (51 per cent) of parents said they had decided to open a savings account with their CTF voucher; two in ten parents (20 per cent) said they had already done so. In contrast, Stakeholder CTF accounts lagged quite some way behind, with around two in ten people (19 per cent) reporting that they had chosen this type of account. Around one in ten parents (12 per cent) said they had taken out a Stakeholder CTF account (Table 7.5).

Moreover, around one in ten parents (12 per cent) said that they had opened a savings account, when the company they had chosen did not offer this type of CTF account, but usually only a Stakeholder CTF account.

Table 7.5 What types of CTF accounts had parents decided to open?

	Column percentages
	Parents of eligible sampled children
Decided to open a savings account	51
Already opened a savings account	*20*
Decided to open a Stakeholder account	19
Already opened a Stakeholder account	*12*
Decided to open an equity account	9
Already opened an equity account	*4*
Not yet decided or don't know	21
Already opened a CTF account but don't know what type	*2*
Weighted base	***471***

A minority of parents (nine per cent) reported that they had opted for an equity-based stocks and shares CTF account. A small number (four per cent) had actually opened this type of account prior to being interviewed (Table 7.5).

Finally, around two in ten parents (21 per cent) had not yet decided or did not know what type of CTF account they wanted to open for their child (Table 7.5). This

included a small number of people who had deposited their voucher in an account but did not know what type of CTF account they had opened.

7.6 How well-informed were parents about the different types of CTF?

As we saw in the previous chapter, the CTF providers and distributors who were interviewed in depth felt that parents' knowledge about CTF was generally fairly low. This view was confirmed by the survey data which, as mentioned earlier, was collected shortly after the CTF scheme was officially launched. Levels of knowledge about annual charges, risks to capital and the potential returns for the three different types of CTF account were generally low among people who had opened or intended to open an account. They were especially low among those who had not yet decided the type of account they wanted to open and, to a lesser extent, among those parents who had chosen to open a savings account.

7.6.1 Annual charges

In common with all savings and investments, there are charges for running CTF accounts. As outlined in Chapter 6, annual charges apply to Stakeholder CTF accounts and non-Stakeholder equity accounts. There are also costs associated with the running of savings accounts, but these are taken into account in the rate of interest that is paid on savings, rather than being expressed as a charge.

Overall, seven in ten parents (71 per cent) either did not know which of the three types of CTF account carried an annual charge or thought that none of them did. This figure was higher (83 per cent) among parents who had not yet decided the type of CTF account they wanted to open.

Knowledge of annual charges was, however, higher among parents who had decided to take out equity-based CTF accounts. So, while only two in ten parents overall (20 per cent) thought there was an annual charge for Stakeholder CTF accounts, this rose to four in ten (40 per cent) of those who had decided to open this type of account. The picture was very similar in relation to non-Stakeholder equity CTF accounts.

The majority of parents (94 per cent) did not think there was an annual charge for a CTF savings account, and this probably reflects the greater familiarity with savings accounts across the population as a whole.

7.6.2 Risk to capital

Any CTF account that invests in shares carries the risk that some or all of the money deposited (the capital) may be lost if the companies do not perform well and the share price drops[33]. As outlined in Chapter 6, however, Stakeholder CTF accounts follow rules to reduce the risk of investing in shares and of the investment reducing in value in the short-term.

[33] Although there is no risk that the money deposited in a savings account will be lost in this way, it is wrong to think of savings accounts as being 'risk-free'. In particular, there is a risk that inflation will erode the real value of savings over time.

Overall, around four in ten parents (43 per cent) were unable to identify which types of CTF account carried a risk to capital. Only around a third (34 per cent) thought there was any risk to capital with a Stakeholder CTF account, and a very similar proportion (35 per cent) considered equity CTF accounts to bear this type of risk.

Levels of knowledge about capital risk were, however, considerably higher among those who had chosen to open some form of equity-based account. Among the small proportion of parents who had decided to open a non-Stakeholder equity CTF account, two-thirds knew that their capital was at risk with this type of account; four in ten were aware that Stakeholder CTF accounts also carried a capital risk. There was a similar pattern among parents who had chosen a Stakeholder account - over half (54 per cent) seemed aware of the capital risk involved in their choice of account, and about the same number (55 per cent) identified non-Stakeholder equity CTF accounts as risky.

Savings accounts were generally considered not to carry any risk to capital and, as we go on to see, this was their main attraction. It is worth noting, however, that around one in ten people (10 per cent) who had decided to open a CTF savings account thought there *was* a risk to capital with this type of account.

7.6.3 Potential returns on investment

The CTF account is a long-term investment – apart from exceptional circumstances (the terminal illness of the child), the money invested in it cannot be accessed for eighteen years. It is generally accepted that, over this length of time, money invested in shares will usually out-perform money deposited in a savings account. As the government information booklet states, over the long term '*accounts that invest in shares almost always produce a better return than savings accounts*' (Inland Revenue, CTF6, page 6).

Around half of parents (47 per cent) did not know which of the three types of CTF account was likely to produce the highest return after 18 years. This rose to nearly seven in ten (68 per cent) of parents who had not yet decided the type of account they were going to open.

Only around two in ten parents (18 per cent) thought that investing in a Stakeholder CTF account would produce the highest return over the lifetime of the account. This figure rose slightly (to 24 per cent) in relation to equity CTF accounts. Around one in ten (12 per cent) considered that they would get the highest return from a savings CTF account.

As with knowledge about capital risk, though, parents who had decided to open a CTF account that invested in shares demonstrated a greater awareness of rates of return. So, of the small proportion who had chosen a non-Stakeholder equity CTF account, around six in ten considered that this type of account would give the highest return over the long term. This was true of four in ten parents who had decided upon a Stakeholder CTF account. As we discuss below, the rate of return tended to be the deciding factor among parents who chose equity-based accounts.

The picture was very different among those who had opted for a CTF savings account – only two in ten of them (18 per cent) considered that this type of account would give the best return over 18 years. This suggests that they had not considered the likely rate of return when making their decision - indeed, over half (54

per cent) of parents who had chosen a savings CTF account admitted that they did not know which type of account would give the best return. As we see below, other factors seemed to be more important to them than the return on their investment.

7.7 Choosing a CTF account

Around four in ten parents (38 per cent) had already opened a CTF account when they took part in the survey. A further three in ten (28 per cent) had decided the type of CTF account they wanted to open and the company they wanted to open it with, but had not yet got round to depositing their voucher. This section focuses on these two groups of parents.

The remainder who had not opened a CTF account were split into those who had some idea about what they were going to do but had not made a final decision, and those who had not thought about it at all. The reasons why these parents had not yet opened an account are explored in detail later in the chapter (section 7.9).

The findings from the survey indicate that the level of risk that parents were prepared to take with their children's savings was an important factor in deciding the type of CTF account to open, and the desire to choose a less risky investment was the most common reason for selecting a savings account. (As noted above, however, some parents mistakenly thought they had taken out a savings account, when in fact they probably had a Stakeholder account.) In contrast, those who decided to open a Stakeholder or other equity CTF account generally wanted to get a better rate of return on their investment than they would with a deposit account and were prepared to take some risk to achieve this.

In terms of choice of provider, the survey shows that this was largely driven by familiarity. Consequently, most parents decided to open a CTF account with a bank, building society or other financial institution that they already had a relationship with. The follow-up qualitative interviews with parents indicate that this was true even when they had shopped around to compare what was on offer.

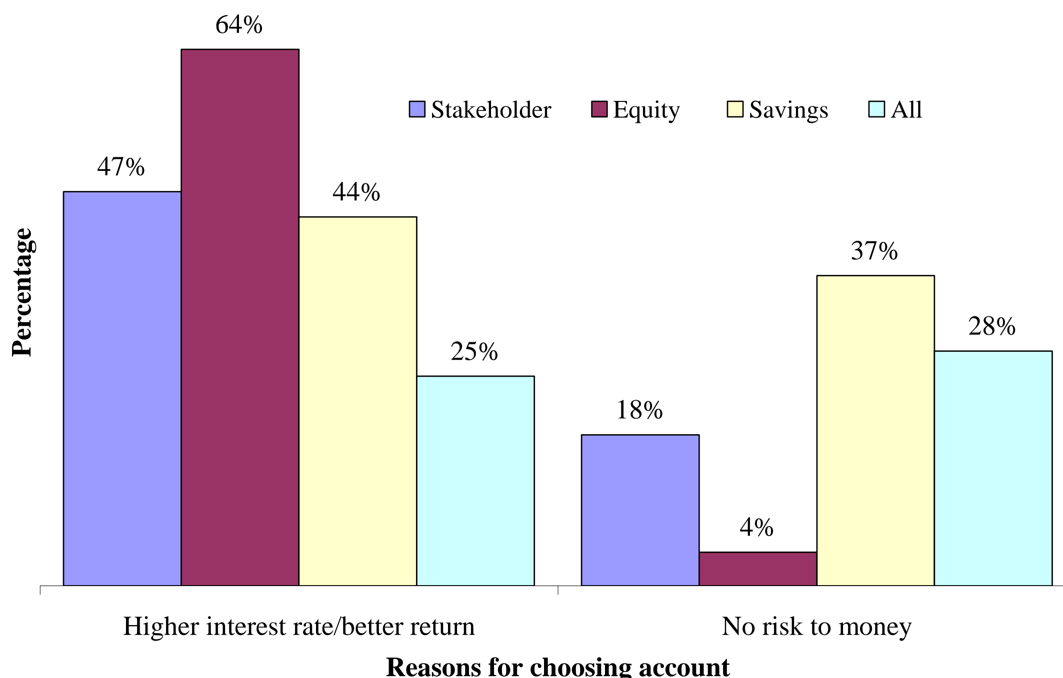
Findings from the qualitative interview with parents also indicate that most parents made their decisions without seeking any advice. A small number, however, sought help and guidance either from friends or family or from a professional adviser.

7.7.1 Deciding the type of CTF to open

When it came to making a decision about what type of CTF account to open, two inter-related factors seemed to be important to parents – level of risk and possible returns. The survey data indicates that these factors varied in importance depending on the type of account chosen.

For parents who had decided to open a savings CTF account, the main concern seemed to be the security of their children's savings. Four in ten of these parents (37 per cent) said they had chosen a savings account because they weren't prepared to take any risk with the money invested, or they did not want an account that was linked to the stockmarket, compared with around three in ten (28 per cent) overall, and this was by far the most common reason given for opening a savings account (Figure 7.2).

Figure 7.2 Reasons for deciding which type of CTF to open



As we might expect, parents who decided to open a CTF savings account were rather more risk-averse than was the case generally, with half (50 per cent) reporting that they were only prepared to accept a low level of risk[34] in relation to long-term savings, compared with four in ten people (39 per cent) overall. Reflecting this, parents who only held cash savings were most likely to opt for a savings CTF account, and least likely to choose an equity-based one (Table 7.6). Although they were drawn from across the income range, parents who had chosen a CTF savings account were somewhat under-represented among the higher earners (with gross household incomes of £2,000 per month or more).

As we saw above, some (but by no means all) of the parents who chose equity-based CTF accounts did so in the knowledge that this would produce the best return over 18 years. And, when asked directly, achieving a higher rate of return on their investment was the most common reason why parents had chosen equity-based accounts, cited by six in ten of those who had chosen an equity account and half of those who had selected a Stakeholder CTF account (Figure 7.2).

In addition, awareness of the risk to capital involved in equity-based investments was fairly high among parents who chose equity or Stakeholder CTF accounts, as outlined above. In keeping with this, these parents were more prepared to accept a higher level of risk on their investments in order to get a better rate of return. So, seven in ten (72 per cent) of those who had decided to open a Stakeholder account were prepared to accept a medium level of risk, compared with five in ten people (49 per cent) generally. While the small number who had selected a stocks and shares account were three times more likely than average to say they would take a high risk when it came to their long-term savings (26 per cent compared with nine per cent overall).

[34] People's attitude to risk in relation to long-term saving was measured on a scale of one to five, with one being prepared to take a low level of risk and five a high level. Here, a low level of risk is equal to a score of 1, medium 2 or 3, and high 4 or 5.

Again, there was a strong relationship between existing product-holding and the type of CTF account that parents chose. As a result, the Stakeholder account was much more popular among parents who already had some kind of equity investment than it was with other parents - 34 per cent chose this option compared with just 19 per cent of all respondents with an eligible child (Table 7.6). In addition, parents with an ISA were more likely than average to choose either a Stakeholder or an equity CTF account, perhaps indicating a greater awareness of the potential gains from these kinds of investments.

Table 7.6 Saving into Child Trust Fund accounts by type of savings products used by parents

				Column percentages
	Parent has cash savings product and no equity product (Deposit account, cash ISA/TESSA)	**Parent has equity savings product (Stocks and shares, equity ISA/PEP)**	**Parent has tax free savings account (ISA)**	**Total**
Type of CTF opened/intending opening				
Savings/deposit	55	31	40	51
Equity	7	20	15	9
Stakeholder	18	34	30	19
Don't know	6	4	5	5
Not decided	14	10	10	15
Weighted base	***218***	***116***	***148***	***497***

As we might expect, higher earners (with gross household incomes of £2,000 per month or more) were over-represented among the parents who had decided to take out some form of equity-based CTF account.

The survey data indicates that general levels of confidence in choosing savings and investment products were an important factor in deciding the type of CTF account to open. Overall, around half of parents (50 per cent) felt that they did not know enough about savings and investments to choose suitable products. Parents who had decided to open a Stakeholder or an equity-based CTF generally felt better equipped to make these sorts of decisions than was the case generally (Table 7.7).

Table 7.7 Attitudes to choosing savings/investments by type of CTF chosen

					Column percentage
I don't know enough about savings or investments to choose ones suitable to my circumstances	**Savings account**	**Equity**	**Stakeholder**	**Not decided or don't know**	**All parents of eligible sampled children**
Agree	53	24	32	71	50
Neither agree nor disagree	15	16	19	8	14
Disagree	31	58	50	20	35
Refused or don't know	2	2	0	1	1
Weighted base	***254***	***45****	***95***	***101***	***495***

* Caution: small base, although the unweighted base is approximately double the weighted one

The follow-up qualitative interviews with parents provided further details about how decisions about the type of CTF account were reached[35].

For parents who had chosen to open a Stakeholder CTF account, the decision was largely driven by a desire to achieve better returns than they would get by depositing the money in a savings CTF account. A few mentioned that it represented a 'middle option' between a savings account and the more risky non-Stakeholder equity account.

> *…normally with stocks and shares you can lose the money, which you can on this one [Stakeholder] but when it gets to a certain point they freeze the money.* (CTF account not yet opened)

Most of these parents had decided upon the type of CTF account they wanted themselves, without seeking any advice. Two parents, however, had been unsure or confused about the type of account they should open. Consequently, they decided to open a Stakeholder account on the recommendation of someone else – in one case a family member, in the other a financial adviser.

The main concern of parents who had chosen a savings CTF account was to select the safest option for their child's money.

> *I chose the savings one… maybe in the future we're going to add money to it, and I wasn't prepared to gamble with my children's money… I thought, 'I'll stick to the safe option'.* (Savings CTF account opened)

Some also mentioned that they were wary of investing in the stockmarket, as they had no experience of doing so.

> *[We chose a savings account] because then we knew exactly where it was, what it was doing… we're not into shares and things, we don't understand all that.* (Savings CTF account opened)

These parents generally made their decisions unaided. Despite their cautious attitude to saving and investing, however, several parents who thought they had

[35] This is based on the qualitative interviews with parents who had already opened CTF accounts, along with four parents who had not yet opened accounts but had made definite decisions about the type of CTF account and the provider they wanted to open it with.

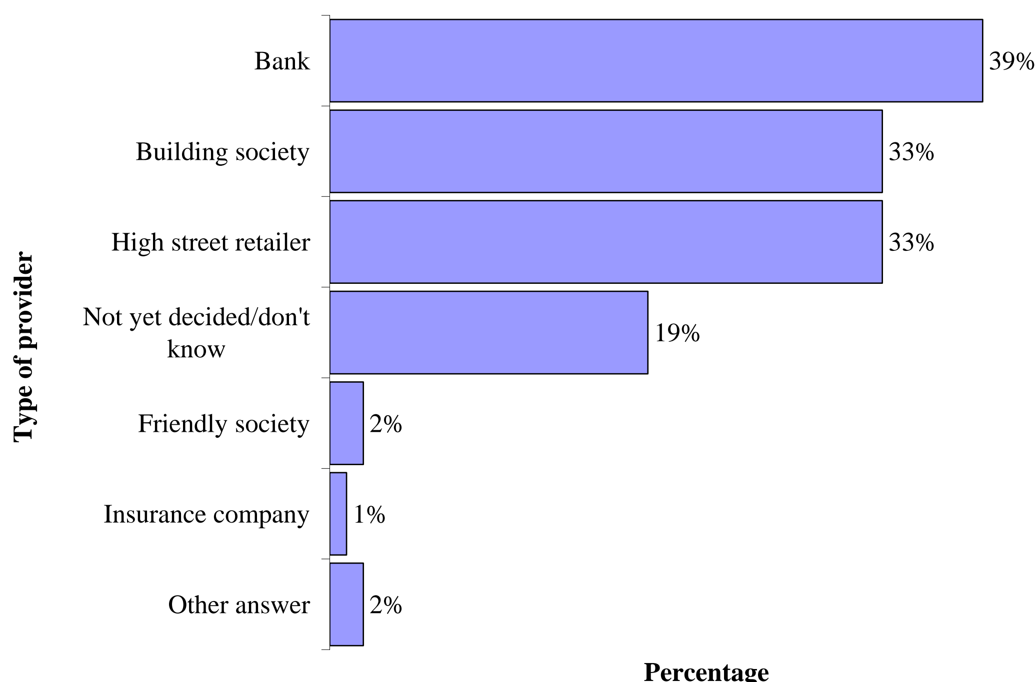
opened savings CTF accounts had in fact chosen a provider that only offered a Stakeholder account.

The small number of parents who had chosen to open non-Stakeholder equity CTFs generally based their decision on the fact that, over the longer-term, investing in the stockmarket was likely to give them a better return. Indeed, all of them had previous investment experience. The ability to choose from a wide range of funds was also mentioned. These parents had generally not considered any other type of CTF account, nor had they sought any advice.

7.7.2 Deciding on a CTF provider

According to the survey data, most parents of eligible children who had not yet opened a CTF account (81 per cent) had nonetheless decided the *type of provider* they wanted to open an account with, and this was usually a bank or building society (Figure 7.3).

Figure 7.3 Types of provider chosen by parents who had not yet opened a CTF account



Six in ten parents who had not yet opened a CTF account (64 per cent) had chosen the *particular company* they wanted to open an account with.

The survey data indicates that an existing relationship with a company was by far the most common reason for choosing to open a CTF account with that company. As a result, half of parents (54 per cent) who had opened a CTF account already or had decided on the provider they wanted to open one with, said they had selected their CTF provider based on the fact that they already had an account with them. Around one in ten (13 per cent) said it was because another child in the family had an account with the same provider. Other factors, such as the offer of incentives, made little impact on people's choices.

The follow-up depth interviews[36] indicate that, more often than not, parents had not shopped around between companies to compare what was on offer before choosing the CTF account they wanted to open. Where some comparison had been undertaken, product literature from providers was the most common source of information used.

A number of parents (generally those who had chosen non-Stakeholder equity CTF accounts) felt it would have been useful to have a summary comparing the products offered by all the different providers.

> *… to get something that was on one sheet, that just listed everything in a matrix… to be able to see and compare [accounts] really quickly.* (Equity CTF account opened)

> *It's just frustrating that you had to sit down and trawl through the different addresses of each provider, ring them up to get the information and then go through all the information they sent you and pick out the bits you needed to know.* (Equity CTF account opened)

A small number of people (all of whom selected non-Stakeholder equity CTF accounts) had shopped around online, using financial information websites and company websites. Articles in the financial pages of newspapers, the government's CTF website and talking to family or friends were also mentioned by a handful of people in the qualitative research.

But regardless of whether or not they had compared different providers and distributors, for the most part parents stuck with companies that they knew and trusted, and this held true across all types of CTF account. For a small number of parents, this meant choosing a well-known brand, usually a large retailer.

> *I think it's down to [supermarket] being a reputable company, one that everybody knows about. So I thought probably in terms of that they're as good as anyone else really.* (Stakeholder CTF account opened)

More commonly, however, it meant that they or a member of their family had an account or other financial product with the company they chose.

> *I just took the easiest choice, used my own bank.* (Stakeholder CTF account opened)

The reassurance of choosing a familiar provider was often combined with a desire to keep the family's finances in one place, as a matter of ease and convenience. This was particularly the case among parents who had chosen to open a savings CTF account.

> *…we just went with the [bank] where everything else is, so that we could go and sort out two or three things at the same place… when you've got children you tend to only have time to go to one place.* (Savings CTF account opened)

A few of the parents interviewed in depth had, however, based their choice of provider on something other than familiarity, such as the recommendation of a friend

[36] This is based on the qualitative interviews with parents who had already opened CTF accounts, along with four parents who had not yet opened accounts but had made definite decisions about the type of CTF account and the provider they wanted to open it with.

or relative or the fact that a particular company offered similar accounts for non-eligible children. Even so, they had usually not shopped around.

7.8 Opening a CTF account

Once they had decided the CTF account they wanted to open, the qualitative interviews indicate that parents fell into three groups of roughly equal size in terms of the speed with which they opened an account. The first group had opened an account soon after receiving the voucher. They found the decision-making process straightforward, usually choosing to open a CTF account with a provider they already had dealings with. Most of them did not bother to check what other providers offered. In terms of the type of CTF account, they either selected a savings account as a safe option or chose a Stakeholder on the recommendation of someone else.

The second group had opened a CTF account within a month or two of receiving the voucher. Like the first group, making the necessary decisions had been relatively easy. The slight delay in opening an account seemed to be down to one of two factors – either they had taken time to shop around and compare what accounts were available or, more commonly, they had been too busy with other things to open it sooner.

> *I'd been too busy with life and it wasn't a priority… I had the best of intentions but I had other stuff to do. I never really got round to it.* (Stakeholder CTF account opened)

The third group was very similar to the second, except that it had taken them rather longer to deposit their voucher - generally between three and six months. Again, this was not generally because they had difficulty in reaching a decision about the CTF account to open. Instead, like the second group, they had simply not got round to it or it had taken them time to look into the various accounts on offer.

> *We opened it in August and it arrived about April… We were just deciding which investment account to go for really, just checking them out… It took time.* (Equity CTF account opened)

7.8.1 The account-opening process

As noted previously in chapter 6, most CTF accounts are opened remotely, either by post, phone or online.

The experience of parents interviewed in depth who had opened a CTF account was in keeping with this. Only a handful had filled in an application form face-to-face with a member of staff, in each case a savings account with a bank or building society. The rest had all completed the form themselves - including several people who thought they were opening a savings account but in fact had applied for a Stakeholder CTF account. The most common pattern was for parents to either telephone for an application pack or to pick one up at a branch or in-store, complete the form at home and then post it back to the CTF provider. A small number had downloaded an application form from the company's website or completed an application over the phone. One or two people mentioned that a customer adviser had run through the account options with them before they completed the application form.

The application process was regarded by almost all parents who were interviewed in the qualitative research as very quick and easy. The application form was straightforward to complete, and several people mentioned that their applications were processed quickly, usually within a couple of weeks.

> *We did it over the phone, it was very straightforward, I just phoned up, she talked me through it, I sent the voucher away… I go the confirmation document through about a week later. It was really easy.* (Stakeholder CTF account opened)

> *…no ID was required, I just went in and gave my child's details and they opened it there and then, it took a couple of minutes.* (Savings CTF account opened)

Only a few people had any complaints, which were related to seemingly unnecessary delays in the process.

7.9 Why had parents not opened accounts?

As noted above, the survey data indicates that some people had decided the type of CTF account they wanted and the provider they wanted to open it with, but had just not got round to it. Others had not yet reached all the decisions that would enable them to open an account, and this is the group that we are particularly interested in here.

From the survey data, we can identify certain groups of parents who are rather *less* likely to have opened a CTF account:

- Parents living in households with no earners (30 per cent had opened an account, compared with 42 per cent of two-earner households);
- Social tenants (34 per cent had opened an account, compared with 40 per cent of owner-occupiers);
- Lone parents (33 per cent had opened an account, compared with 39 per cent of two-parent families);
- Parents with three or more children (30 per cent had opened an account, compared with 41 per cent with only one child); and
- Parents who found their credit commitments to be a heavy burden (26 per cent had opened an account compared with 41 per cent who felt their borrowing was not a problem).

Parents living in Wales, however, were *more* likely to have opened a CTF account for their eligible child than elsewhere in the UK (52 per cent compared with an average of 38 per cent).

In addition, parents' attitudes and behaviour in relation to saving and (to a lesser extent) borrowing seemed to have an effect. Parents who did not feel confident about choosing savings and investment products were less likely to have opened a CTF account, as were parents who did not have any savings (31 per cent compared with 41 per cent who did have savings).

Linked to this, children who already had a savings or investment account were twice as likely to have a CTF account as those who did not (47 per cent, compared with 23 per cent respectively). Similarly, parents who had saved money for their children in

the past 12 months were much more likely to have opened a CTF account than those who had not (47 per cent compared with 30 per cent respectively). Views about the CTF scheme also seemed to be linked to account opening, so that 37 per cent of parents who held negative views about the scheme had opened a CTF account, compared to 47 per cent with more positive opinions.

Multivariate analysis was carried out to identify which of these factors was most associated with the likelihood of parents opening a CTF account. The results indicated that only saving for children in the last year was highly significant. So, parents who had saved for their children in the past 12 months were 1.9 times as likely to have opened a CTF account as those who had saved nothing. Other factors were also statistically significant, but only at a lower level of significance, including the fact that parents held positive views about saving for children, and about the CTF scheme itself. None of these had a large effect, however (Table 7.8).

Taken together, therefore, these factors only seem to provide a partial explanation of why some parents had opened accounts and others had not[37]. This suggests that there are additional reasons why parents had not opened CTF accounts which are not captured in the statistical model.

As the following sections go on to explore, the qualitative interviews build on from this to provide some further insights into why parents had not opened CTF accounts yet. They suggest that it was largely driven by the difficulties people faced in making the necessary decisions. Lack of time and the demands of family life could also delay the process.

7.9.1 Difficulty making decisions

Most of the parents interviewed in depth who had not yet opened a CTF account seemed to be struggling to make the necessary decisions. They had generally received their vouchers at least five months prior to the interview, and in some cases up to 10 months before.

Anxious to do the best for their children, some were having particular difficulty choosing a company, while others found it hard to select the type of CTF account they wanted. A small number had problems with both. Consequently, the main thing that parents wanted was some advice or guidance to choose a CTF account, preferably delivered face-to-face.

> *I mean if someone says to me, I've read them all and this is best, I would just believe them and trust them and do it, you know, I just kind of think, oh the hassle of trying to decide.* (CTF account not opened)

A small number had already sought professional advice, but their experiences were less than satisfactory - they either came away feeling more confused than ever or simply did not receive the help they wanted.

[37] This lack of explanatory power is denoted by the low R^2 value.

Table 7.8 Regression model of the likelihood of a Child Trust Fund account having been opened for a child

	Significance	Odds ratio
Intercept	.000	
Attitude to saving		
Not a low priority	.045	1.173*
Income before housing costs		
£3,000+	.745	1.101
£2,000-£2,999	.503	1.212
£1,500-£1,999	.989	1.004
£1,000-£1,499	.304	0.752
Up to £999 (Comparison group)		
One or two parent family?		
Lone parent	.624	1.117
Two parents (Comparison group)		
Number of siblings		
0	.087	1.440
1	.077	1.458
2+ (Comparison group)		
Country		
Northern Ireland	.492	0.770
Wales	.032	1.963*
Scotland	.289	0.816
England (Comparison group)		
Gender of child		
Male	.231	1.193
Female (Comparison group)		
Housing tenure		
Owner	.136	0.712
Private tenant	.212	0.733
Social tenant (Comparison group)		
Do parents have savings?		
Yes	.340	1.223
No (Comparison group)		
Burden of credit		
Heavy burden	.021	0.522
Somewhat of a burden	.633	0.907
Not a problem	.322	1.188
Doesn't borrow (Comparison group)		
Views about CTF scheme		
Positive views	.15*	1.765*
Negative views (Comparison group)		
Saved for child in last 12 months?		
Yes	.000	1.957**
No (Comparison group)		
Valid N		**1,071**
R^2		**0.11**

*** Significant at 1%, * Significant at 5%*

A few parents went further than just wanting advice – they thought it would be better if the government automatically opened an account for them, a view echoed by a number of parents who had already opened an account. In fact, the government does allocate accounts automatically if a CTF voucher is not deposited within 12 months (see section 7.9.3).

Finally, some parents questioned why they could not simply deposit the voucher in their child's existing savings account.

Deciding on the type of CTF

As mentioned earlier, the survey data indicates that around half of parents overall (50 per cent) felt that they did not know enough about savings and investments to choose suitable products. This rose to seven in ten parents (71 per cent) who had yet to decide on the type of CTF account to open (Table 7.7).

Among the parents interviewed in depth who had yet to decide what account to open, the biggest stumbling block to deciding on the type of CTF account was confusion or uncertainty about the options available to them. While this could sometimes be attributed to the fact that parents had not read the government information booklet, an equal number of parents were still unsure about the types of account after reading it.

Faced with this dilemma, some parents thought they would probably open a savings CTF account, as this was seen as the safest option. As we saw above, familiarity with this type of account was an important factor as well (section 7.7.1). Others were thinking about opening a Stakeholder CTF account, but were uncertain about the risk involved. Several parents were not sure what they would do.

> *… we're not entirely sure where to put it… we keep putting it off because we don't really know where to start.* (CTF account not opened)

A few planned to ask about their options when they went to open a CTF account with their chosen provider, typically a high street bank or building society.

Deciding on a CTF provider

The main hurdle in terms of selecting a provider was simply the number of companies there was to choose from. As a result, parents sometimes felt overwhelmed by the amount of information they would have to digest in order to come to a decision, and the time that this would involve. A few parents mentioned that they did not recognise many of the company names.

> *I think the main reason for me dragging my heels on the whole thing is having to decide which [company], you know, I mean I'll almost probably just pick any old name out of the hat.* (CTF account not opened)

Even so, the depth interviews indicate that most parents who had not yet opened an account had at least given some thought to the provider they would choose. Like those who had already made their decision, this tended to revolve around familiarity – they would either open a CTF account with a bank or building society they already had an account with, or choose a well-established organisation, such as a high street bank or the Post Office. A few people planned to make their final decision based on the recommendation of a financial adviser.

Some parents, however, had no idea which provider to choose. Again, it was clear that what they really wanted was some guidance about the best option, or for someone to recommend a company to them.

> *I think if they could have recommended somebody… rather than saying, 'Here's a list of 50 you can choose from', an independent source to come in and say, these are the most beneficial or popular.* (CTF account not opened)

7.9.2 Other reasons for not opening an account

Alongside difficulties choosing a CTF product, lack of time - to find out more about the possible options, to discuss them with a partner or to read the product literature – was the most common reason for the delay in opening an account. Some parents had just not got around to making a final decision, put off by the amount of effort they felt it involved or the fact that it had not been their choice to open an account.

For others, the CTF was simply a low priority compared to other events in their lives, such as the poor health of a family member or the prospect of a drop in household income.

For a small number of parents, difficulties making decisions were compounded by uncertainty about opening and operating an account. Even though they said they had read the government's information booklet, two parents remained unclear about whether or not they had to make regular contributions to the account, something neither of them could afford to do. A third was unsure about the documents she would be required to produce to open an account.

A few parents had decided what CTF account to open, and were now either waiting for a convenient time to go to the bank or building society to complete the application form, or had the application form at home but had not got round to filling it in.

7.9.3 Revenue-allocated accounts

If parents do not open a CTF account by the expiry date on the voucher (12 months from the issue date), HM Revenue and Customs will arrange for a provider to open a Stakeholder CTF account for the child instead. At the time of writing (December 2005), there are 11 providers approved to set up these Revenue-allocated Stakeholder CTF accounts. If parents are unhappy with the account that has been opened on behalf of their child, they can switch to another provider. The first Revenue-allocated accounts will be opened from March 2006.

In the qualitative interviews, parents who had not yet opened a CTF account were asked about their awareness and views 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. This perception was common both amongst those respondents who had read the information booklet and those who had not.

The rest knew that the government would open a CTF account on their child's behalf if they did not deposit the voucher themselves. A few mentioned that this would be a Stakeholder account. Almost all this group had read the government's information booklet.

On the whole, parents were supportive of the idea of Revenue-allocated CTF accounts. The general view was that it was better that the government opened an account than that the child lost the money.

> *I suppose they give you long enough to do your own thing, but if you don't take action and do something about it, then I suppose it's in the child's best interest for them to go on ahead and do it.* (CTF account not opened)

But, when it came to their own children, they usually wanted to choose a CTF account themselves, either because they felt it was their responsibility and they would act in their child's best interests, or because they didn't want a Stakeholder CTF account.

As mentioned above, however, a few people who had not yet opened a CTF account would have preferred the government to automatically open one on their child's behalf, without waiting for the voucher to expire. In their view, this would be much quicker and easier.

> *It sounds a hell of a lot easier, why didn't they just do that in the first place?* (CTF account not opened)

8 Saving in a Child Trust Fund account

Like the previous chapter this one focuses on just those parents who had children who were eligible for the Child Trust Fund (CTF)[38]. Unlike other chapters in the report, it is forward looking and is, therefore, based on parents' expectations and intentions regarding saving in the CTF. Moreover these intentions were expressed shortly after the CTF vouchers had been received. This is important to bear in mind as circumstances can change and parents may not realise their intentions.

According to the survey data, although three-quarters of parents said that they thought that money would be added to their child's CTF account, only half expected money to be deposited in the next 12 months. On average, they expected £240 to be paid in over the forthcoming year. In the sections that follow we look at variations in the proportions of parents expecting money to be added and the sums of money involved, showing that they were very different from the patterns described in relation to general savings. There was no clear difference in the proportion of parents expecting to add money in the next 12 months when compared by household income, number of earners, the burden of debt or parent's own saving behaviour. The most important factor seemed to be parents' attitude to saving for their child. Other factors that had an influence included whether any money had been saved for the child in the past 12 months and whether parents were deterred by not having access to the money until the child reached 18. The number of siblings a child had was also associated with the expected likelihood of additional saving into the CTF account. As we have reported before, this was motivated by the strong desire of most parents to treat their children equally.

We also report who else might contribute to children's CTF accounts, and how parents thought they would like the CTF money to be used. In general the purposes were quite different from those relating to money that children in general have in either savings accounts or investments.

Finally, we consider whether the savings will be in addition to money that might have been saved in the absence of the CTF and how it might impact on parents' saving for any other children they might have. Both show that, if parents stick to their intentions, the CTF would increase the level of saving for children.

8.1 Overall expectations about saving in the Child Trust Fund

Assuming that parents act on their intentions, the survey data indicates that around three-quarters (77 per cent) of children with CTF accounts may have money added

[38] The survey included 1,071 parents with children who were eligible for the Child Trust Fund (CTF), but has been weighted to take account of the booster samples, making an effective (weighted) sample of 500 respondents. This should be kept in mind when interpreting the data presented in tables.

to the initial Government endowment. Seven in ten (70 per cent) of parents expected to add money themselves and 44 per cent expected others to do so.

But when asked how much money they thought might be added in the next twelve months, only half (48 per cent) of parents were able to say how much it would be. The average (median) amount of money they thought was likely to be added to CTF accounts was £240.

It is worth repeating that a strong intention to save should not be seen as an indication of actual future saving habits. Nevertheless, as we show later in this chapter, it is likely that the CTF *will* increase the level of saving – both for eligible children and also for their older brothers and sisters.

8.2 Which children do parents expect will have money added to their CTF accounts?

The proportion of children that parents thought would have money added to their CTF accounts varied little by the child's family characteristics or financial circumstances, including household incomes, the number of earners in a household and housing tenure (Table 8.1). There was also no link with changes to household income over the previous three years or parents' subjective view of whether they were better or worse off financially than a year ago. Neither the age nor level of education of their parents influenced the likelihood of money being added. It was also unaffected by whether their parents themselves saved or their level of confidence about choosing savings and investment products. These findings stand in contrast to existing saving for children (reported in Chapter 4) where most of these factors played an important role. However, as the bases were small the findings should be treated with some caution – as we see later, multivariate analysis found that they were not significant when other factors were taken into account.

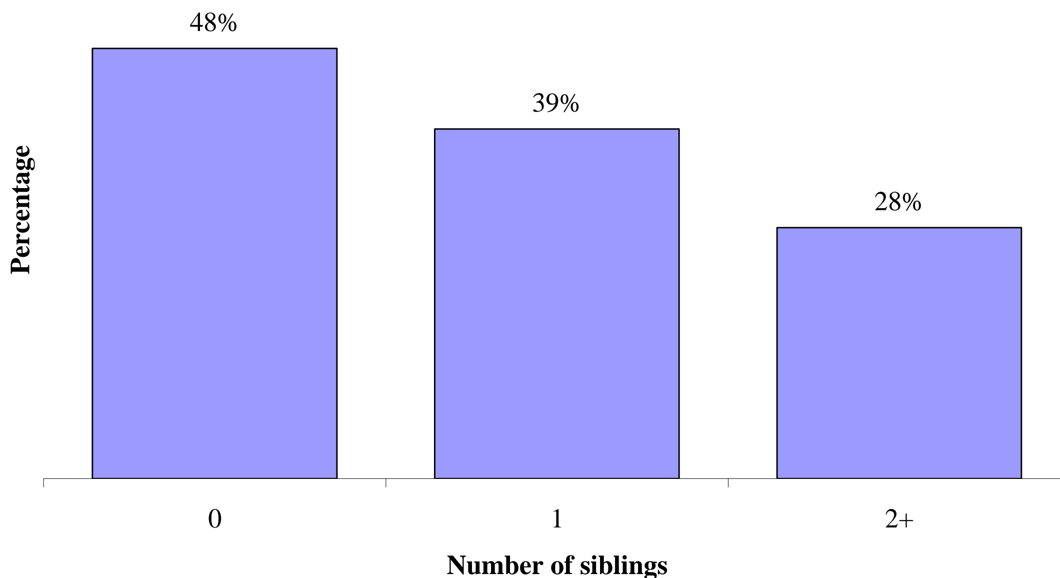
Children living in a lone parent family were slightly more likely than those living with two parents to have payments into their CTF account (80 compared with 76 per cent) (Table 8.1). Those with parents who owed money in unsecured credit also had a higher expected likelihood of deposits being made than those whose parents owed nothing (80 compared with 73 per cent). Neither finding, however, was statistically significant. The extent to which parents reported their borrowing a burden had no clear effect (Table 8.1).

The number of siblings a child had had the biggest effect on the expectation that money would be paid into a CTF account. So while 84 per cent of children with no brothers or sisters seem likely to have further money deposited for them, this dropped to 73 per cent of children with one sibling and fell further still – to 69 per cent – if they had two or more (Table 8.1). As we saw in Chapter 3, parents with more than one child expressed a strong desire to treat all children equally when it came to saving for them. Indeed, when we ran a regression analysis (Table 8.2) the number of siblings a child had was one of the small number of variables that were significant in predicting the likelihood of money being added to their CTF account. The results indicate that compared with children with two or more siblings those with none appear to be more than one and a half times as likely to have money paid into their account, all other factors being equal. When considering the implications of this finding, it is important to bear in mind the fact that family size is not static; some of these children will eventually have additional siblings.

8.3 Which children do parents expect will have money paid into their CTF account regularly?

Almost four in ten (38 per cent) of parents who had opened or intended to open a CTF account thought that they would add money to the child's CTF account regularly; at least once a month. This increased to 41 per cent of parents anticipating that somebody would make regular payments, whether themselves or another adult. Broadly the same conclusions applied to anticipated variations in regular saving into the CTF account as were reported above. For the most part, children in different family or financial circumstances had an equal chance of money being paid into their CTF account regularly. Again, the factor with the most marked effect on the expectation of regular saving was the number of siblings a child had. So half (48 per cent) of children with no brothers or sisters seem likely to have money paid in regularly by their parents or another adult, compared with 28 per cent of those with two or more siblings (Figure 8.1).

Figure 8.1 Respondents anticipating regular payments into CTF from parents or other adult by family characteristics



8.4 Which children do parents expect will have the largest sums paid into their accounts?

Although there was very little variation in the expectation of children from different circumstances having any money added to their CTF accounts in the next 12 months, the sums of money involved did vary quite considerably.

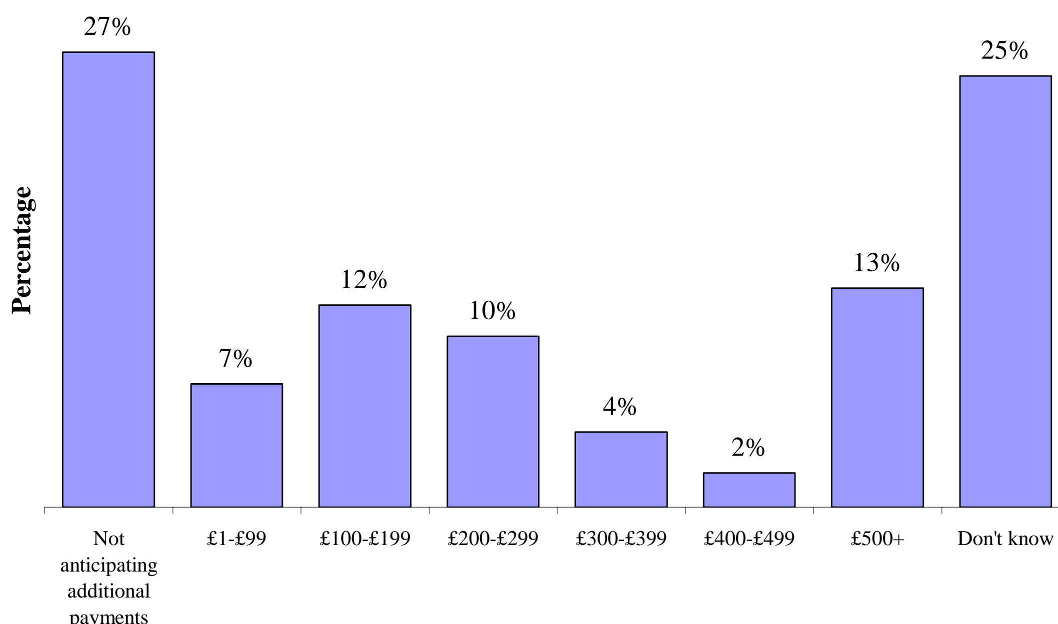
Table 8.1 Anticipated payments into Child Trust Fund accounts

	Percentage contributing to CTF						Amount		
	Any	***Parents***	***Others***	**None**	**Don't Know**	***Weighted base***	**Median amount (£)**	**Don't know (%)**	***Weighted base***
All	*77*	*70*	*44*	*16*	*7*	*495*	*240*	*34*	*372*
Gender									
Male	77	71	46	16	7	*258*	240	34	*193*
Female	78	70	43	16	6	*237*	222	33	*179*
Lone parents	80	75	52	15	5	*107*	200	38	*84*
Two parents	76	69	41	17	7	*387*	240	33	*289*
Number of siblings									
0	84	79	51	11	5	*202*	248	31	*166*
1	73	64	41	20	7	*194*	240	34	*138*
2+	69	63	38	19	11	*98*	153	37	*67*
Net household income **									
Up to £999	74	69	47	17	10	143	221	39	103
£1,000-£1,999	78	71	44	16	7	167	240	38	128
£2,000-£2,999	79	70	44	15	6	117	240	29	91
£3,000+	77	72	43	20	3	67	300	21	51[a]
Number of earners									
0	76	69	49	17	7	107	160	42	78
1	79	71	43	14	7	186	240	33	144
2	76	70	42	18	6	201	240	30	149
Housing tenure									
Owner	76	69	43	16	7	231	240	30	231
Private tenant	80	74	46	14	6	48	217	*	36[a]
Social tenant	77	70	48	15	7	118	193	45	86
Parent has savings account									
Yes	76	69	44	16	7	*381*	240	31	*285*
No	76	69	50	20	4	*75*	203	45	*56*
Parent uses credit									
Yes	80	73	46	15	5	*309*	240	32	*242*
No	73	67	41	19	8	*179*	240	37	*128*
Burden of credit ***									
Not a problem	82	76	45	13	5	*159*	240	28	*126*
Somewhat a burden	76	70	47	17	6	*102*	196	36	*78*
A heavy burden	83	71	54	15	3	*47*	200	-	*37*[a]

* Number too small for analysis
** Before housing costs (£ per month)
- Less than one per cent
*** Credit users only
[a] Caution: small base, although the unweighted base is approximately double the weighted one

Altogether about half (48 per cent) of parents were able to say how much they thought might be added to their child's CTF account in the next 12 months. The average (median) was £240, but the amounts varied widely. At one extreme, seven per cent of all parents with eligible children expected less than £100 to be added; at the other extreme, 13 per cent expected £500 or more to be paid in (Figure 8.2). Just three per cent said they expected the maximum of £1,200 to be added. Again, it should be remembered that all these findings are based on the intentions of parents soon after the CTF had been set up, and should not be used to draw firm conclusions about their future behaviour.

Figure 8.2 Total amount thought likely to be paid into CTF by parents and other adults over next 12 months



In general, average anticipated levels of contributions in the next 12 months were lower in lone parent families (£200) than in two parent families (£240). They were also a good deal lower in larger families (Table 8.1). Children with no brothers or sisters were likely to have an expected average of £248 paid into their accounts, compared with £240 if they have one sibling, £153 if they had two, and £130 if they had three or more.

There was a strong link with the financial circumstances of a child's family. Children with at least one parent in paid employment were expected to have more money paid in to their CTF account than those living in workless households (£240 compared with £160) (Table 8.1). Likewise, parents who own their home expect more money to be paid into their children's CTF accounts than their peers who rent their home from a local authority or housing association (£240 compared with £193) (Table 8.1).

Looking at household income shows that children living in households with incomes below £2,000 a month were likely to have less paid in than those whose parents have incomes above this amount (Table 8.1). Children in the highest income families (with household incomes of £3,000 or more a month) were twice as likely as all other children to be expected to have more than £500 paid into their CTF

accounts (29 per cent compared with 14 per cent) and to have the maximum paid in during the first year (23 per cent compared with 12 per cent).

Parents' propensity to save and borrow also impact on the amounts that seem likely to be saved in children's CTF accounts (Table 8.1). Parents expected to pay more money in if they had savings themselves and if they had unsecured borrowing – but only if that borrowing was not a burden (Table 8.1).

It is also worth noting that the types of parents (described above) who reported the smallest anticipated deposits in the CTF were the same as those who most commonly had no idea how much would be added.

8.4.1 What explains whether money was expected to be added to Child Trust Fund accounts?

Again we carried out multivariate analysis to identify the factors most associated with the expectation that money would be added to a CTF account in the next 12 months[39] (Table 8.2). Unlike similar analysis of overall account-holding (Chapter 3) and recent contributions to children's savings and investments (Chapter 4) this analysis did not produce such clear cut results. Only one factor – parents' attitude to saving for their child - was highly significant, but this only increased the odds of parents expecting money to be added to the CTF account by a small amount. Parents with positive views about saving for children were 1.3 times as likely to expect money to be added to their child's CTF account in the next 12 months.

Other factors that were significant – but at a lower level of significance - included the number of siblings a child had, whether their parents were deterred by limited access to money saved in the CTF account and whether any money had been saved for the child in the past 12 months. So only-children (or first children) were expected to be 1.6 times as likely to have money saved in their CTF as those with two or more brothers or sisters. They were also 1.6 times *less* likely to have money added if their parents were deterred by limited access and 1.4 times less likely if any money had been saved for them in another account in the past year.

There were two findings that are not easily explained. First children whose parents had credit commitments they considered a heavy burden were expected to be 1.7 times as likely to have money added as those whose parents owed no money in consumer credit. Secondly, compared with children living in social rented housing those living in a private rented home were 1.7 times as likely to have money paid in but those whose parents were owner occupiers had the same likelihood. Both findings were, however, only significant at the lower level.

Importantly, all other factors being equal, income did not seem to have an effect and nor did changes in income. There was no variation between countries in the UK. There was also no difference in the likelihood of money being added whether or not parents had already opened an account – suggesting that parents initial indecision will not influence the sums of money paid into CTF account based on current intentions

[39] We tested two models, one of parents' reporting of whether money was likely to be added to the CTF, and a second model of those expecting money to be added in the next 12 months. These gave broadly similar results, but the second model produced clearer effects and explained more of the variance. Only the second model is reported here.

Table 8.2 Likelihood of money being added to the Child Trust Fund account in next 12 months[40]

	Significance	Odds ratio
Intercept	0.029	
Attitude to saving		
Not a low priority	0.000**	1.373
Income before housing costs		
£3,000+	0.775	1.086
£2,000-£2,999	0.653	0.882
£1,500-£1,999	0.905	1.035
£1,000-£1,499	0.286	0.756
Up to £999 (Comparison group)		
Lone parent	0.260	1.274
Two parents (Comparison group)		
Number of siblings		
0	0.015*	1.630
1	0.853	1.038
2+ (Comparison group)		
Country		
Northern Ireland	0.261	1.477
Wales	0.232	1.452
Scotland	0.600	0.909
England (Comparison group)		
Gender of child		
Male	0.397	0.887
Female (Comparison group)		
Housing tenure		
Owner	0.142	1.376
Private tenant	0.016*	1.745
Social tenant (Comparison group)		
Do parents have savings?		
Yes	0.888	1.028
No (Comparison group)		
Burden of credit		
Heavy burden	0.026*	1.734
Somewhat of a burden	0.432	1.168
Not a problem	0.077	1.354
Doesn't borrow (Comparison group)		
Whether has opened CTF account		
No	0.288	0.852
Yes (Comparison group)		
Any rise in income		
Yes	0.115	1.240
No (Comparison group)		
Any fall in income		
Yes	0.502	1.115
No (Comparison group)		

*** Significant at 1%, * Significant at 5%*

continued overleaf

[40] Readers without a statistical background should look at the odds ratio columns; the values that are asterisked are statistically significant and the more stars they have the more significant they are. The figures give the increased (greater than 1.000) or decreased (less than 1.000) odds of children in the category having money added to their Child Trust Fund accounts relative to the comparison group

Table 8.2 Likelihood of money being added to the Child Trust Fund account in next 12 months *(continued from previous page)*

	Significance	Odds ratio
Better or worse off than last year		
Better off	0.058	1.418
Same	0.600	1.096
Worse off (Comparison group)		
Deterred by limited CTF access		
Yes	0.044*	0.618
No (Comparison group)		
Saved for child last year		
Yes	0.026*	0.690
No (Comparison group)		
Valid N		**908**
R^2		**0.11**

*** Significant at 1%, * Significant at 5%*

There are two possible explanations of the lack of clear-cut effects. Either the expectation of money being added to CTF accounts was being influenced by factors not included in the models[41], or there was little systematic variation in the propensity to add money to accounts. The second interpretation might indicate an initial enthusiasm which, given time, might wane.

8.5 Parents' own saving into Child Trust Fund accounts

Seven in ten parents (70 per cent) said that they, themselves, expected to save money in their child's CTF account. Four in ten (38 per cent) said they anticipated saving regularly every month – paying in an average (median) of £240 over the next 12 months. About two in ten (20 per cent) expected to make an average of three deposits over the next 12 months, totalling £200. The remaining one in ten (12 per cent) said they hoped to pay some money in occasionally but did not know either when or how much it was likely to be.

The qualitative interviews showed that it was uncommon for families to have already paid money into the CTF account. Most of those who had paid money in had set up monthly direct debits – for amounts ranging from £10 to £50. A handful of others intended setting up a direct debit but had not got round to doing so. One of the fifty parents interviewed had paid in the maximum of £1,200 as a lump sum, but did not intend doing so next year.

Parents interviewed in depth generally told us that they intended making only occasional deposits – most commonly because that was all that could be afforded at present. Some said they preferred to pay most of the money saved for the child into another savings account in the child's name because they wanted some savings that were easily accessible. They saw the CTF as a 'nice extra' that they would top up from time-to-time.

[41] As the qualitative interviews with parents focused mainly on choosing and opening an account, rather than saving into it, they do not provide any additional insight into other factors that might have had an impact.

I will put in Christmas money and birthday money [into the CTF], if I've some spare I will just put it in. I won't have a guaranteed amount a month…She has a savings account of her own, which we put all her savings in…it just means you've got it there, because in the Child Trust Fund if I save the money and I take that money and I put it in the Child Trust Fund I can't ever get it back.

There was little evidence from the qualitative interviews of parents being deterred from making deposits because they would have no control over how their child would spend the CTF money when they reached 18. Only one parent said this would dissuade them from making more than occasional deposits – although many more expressed concerns about how their child might spend the money.

The survey indicated that the characteristics of parents who were most likely to pay money in and to make the largest deposits mirrored those reported in the previous section for any additions to CTF accounts. They are not, therefore, reported in detail.

In addition to looking at the influence of whether parents had *any* money in savings accounts or investments themselves, we also looked at the effect of the *types* of accounts parents held. There was, however, almost no variation in the number of parents who intended to add money to their child's CTF account (
Table 8.3).

Most (69 per cent) of the parents intending to save in the CTF account said they would find the money from their current income. Two in ten (18 per cent) said they anticipated paying in money other people give them specifically to save for their child and one in ten (nine per cent) expect to save money that others give to the child that would otherwise have been spent. Only a very small number (three per cent) said they would transfer money into the CTF account from another savings account held either in the child's or the parent's name.

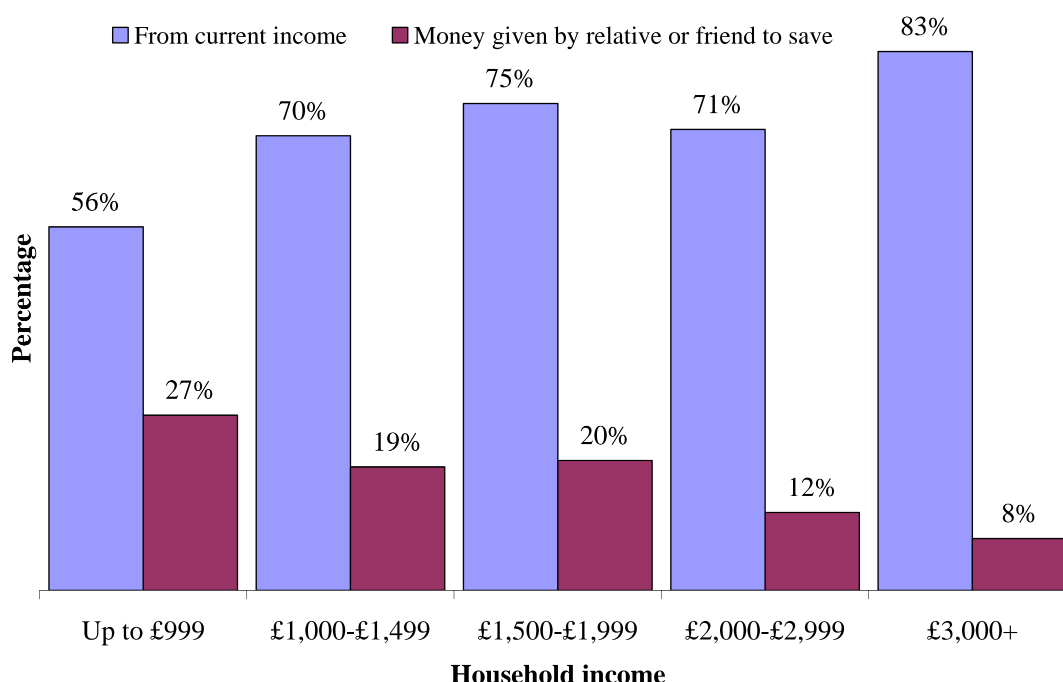
Table 8.3 Anticipated saving into Child Trust Fund accounts by type of savings products used by parents

				Column percentage
	Parent has cash savings product and no equity product (Deposit account, cash ISA/TESSA)	**Parent has equity savings product (Stocks and shares, equity ISA/PEP)**	**Parent has tax free savings account (ISA)**	**Total**
Will parents add money to CTF account				
Yes	69	69	70	70
No	22	22	19	21
Don't know	9	9	11	9
Weighted base	***218***	***116***	***148***	***497***

The better-off parents were, the more commonly they said they would find the money from their current income (Figure 8.3). Conversely, the lower their household income the more likely they were to say they would pay in money given to the child by others.

In fact, just under four in ten of all parents (37 per cent) said they expected the money they would pay in themselves to include money given to the child either for their birthday or at Christmas or an equivalent religious festival. The proportion was far higher among parents who anticipated making only occasional deposits (54 per cent) than it was among those who expected to pay money in at least once a month (22 per cent).

Figure 8.3 How parents who intend to add money to CTF will find the money to pay in by household income



8.5.1 Parents not expecting to save any money into a CTF

Turning now to the reasons why some parents said they would not be paying money into the CTF account in the next 12 months, it was clear that affordability was the main explanation they offered. Four in ten (43 per cent) said that they had no spare money or could not afford to pay money in. A further quarter (26 per cent) said they would put money into another account instead; while nine per cent were deterred by lack of access to the money until the child reached 18. No other reason was cited by more than a small number of parents.

The follow-up qualitative interviews indicated that most parents hoped to contribute to their child's CTF account in the future, even if they were not in a position to do so at the current time. In some cases this was due to the loss of the mother's earned income following the birth of a child.

> *I'm not working at the moment and maybe when the kids are a little bit older I'll go back to work, so then we'd be in a better position to put money into it.*

Some parents were more equivocal – they were unsure whether or not they would put money into the account and again this was mainly an issue of affordability. A handful of parents said that they did not intend to contribute to their child's CTF account at all.

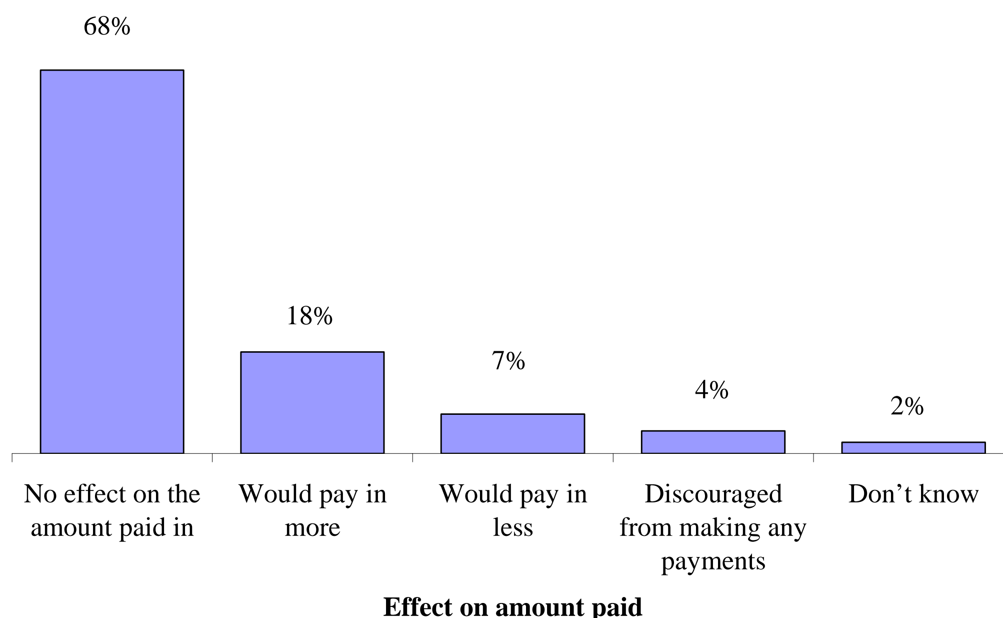
8.5.2 The impact of limited access

Since most existing parental saving for children is into accounts without limited access, it might be expected that some parents, at least, would be deterred from paying money into a CTF account, where the money cannot be accessed until the child reaches 18. When asked directly, seven in ten (68 per cent) of all parents said it would have no effect on the amount of money they would pay in. Two in ten (18 per cent) said they would pay in more and just one in ten said they would either pay in less (seven per cent) or be discouraged from paying any money in at all (four per cent) (Figure 8.4). There was no obvious link with income.

Parents who said they expected to pay money into the CTF account were twice as likely to say the limited access made them feel encouraged to pay more money in than those who did not expect to make any contributions (21 per cent, compared with 12 per cent). They were also less than half as likely (eight per cent compared with 19 per cent) to anticipate paying in less or nothing at all.

This effect was greater on parents who expected to add money regularly than it was on those who anticipated making occasional contributions. Among those who expected to make regular contribution, 22 per cent felt encouraged to save more money in the CTF account and only seven per cent to pay in less. Fewer (17 per cent) of those anticipating making only occasional deposits thought they would save more money and a larger proportion (12 per cent) thought they would save less.

Figure 8.4 The impact of limited access on saving into the CTF account[42]



8.6 Saving in Child Trust Fund accounts by others

We also asked parents whether they expected anyone other than themselves to add money to their child’s CTF account. Just over four in ten (44 per cent) said that they did, a similar number (36 per cent) said they did not and two in ten (19 per cent) did

[42] Percentages do not sum to100 because of rounding.

not know whether anyone else would pay money in or not. On average, parents expected two (1.8) other people to add money to the CTF account. Broadly similar proportions expected just one person (17 per cent), two people (14 per cent) and three or more people (13 per cent) to pay money in.

Most commonly, grandparents were expected to make a contribution (37 per cent) and to a far less extent other relatives (12 per cent). Godparents were only expected to contribute in three per cent of cases. It is worth noting that more grandparents were thought likely to save in the CTF account than were actually saving already for children.

There was little variation by income in either the proportion of children parents thought would have money paid into their CTF account by others or who would be likely to pay money into them. But while half (51 per cent) of children with no siblings would have money paid in by someone other than their parents this fell to four in ten (40 per cent) if they had any brothers or sisters - regardless of how many they had. There was also a small decline in the average number of people who might add to the account from 1.8 to 1.5 and a related decrease in the incidence of grandparents, other relatives and godparents doing so.

Among those who did expect others to contribute, only a quarter (23 per cent) thought the contributions would be regular, the rest anticipated only occasional deposits. Many parents did not know how much others were likely to add (38 per cent of those expecting regular contributions; 51 per cent if they would be occasional). Where parents *were* able to give an amount, the average (median) they thought might be added in the next 12 months was, again, £240.

8.7 How parents would like Child Trust Fund savings used

Parents were asked what they will 'encourage their child to do with their CTF money when they reach 18' (Table 8.4). About half (46 per cent) would like the money put towards the costs of further or higher education and a quarter for it to be used for the child's future generally (27 per cent) or retained as savings or investments (25 per cent). Sizeable minorities would like the child to put the money towards buying or setting up home (18 per cent) or to either buy a car or motorbike (16 per cent) or pay for driving lessons (13 per cent) with it. Hardly any will encourage their child to use their CTF savings for holidays or travelling or leave them to spend it how they wish.

In fact, these responses stand in sharp contrast to those parents in general gave about how they would like their children to use any savings or investments they had[43]. Here, as we saw in Chapter 2, many more saw other savings and investments as being either for the child's future generally or for the child to spend as they wished (Table 8.4). Correspondingly fewer wanted the money put towards education, setting up home, or buying a car or learning to drive. The one form of saving that came closest to the CTF was life insurance, where money was also generally not intended to be accessed until the child reaches their late teens (Table 8.4).

[43] The numbers of Child Trust Fund eligible children with life insurance or other investments was too small to compare intended uses of Child Trust Fund savings directly. Instead we have compared them with the replies parents gave for use of savings and investments for children of all ages. It should be noted, however, that there was little difference by age, except that as children got older parents were less likely to say the money was being saved for their future generally and more likely to say it was the child to spend how they wished.

We explored whether parents in different circumstances varied in the way that they would encourage their children to use their CTF money. On the whole parents shared the same aspirations and any variation that existed was fairly subtle.

Table 8.4 How parents will encourage child to use money saved in the Child Trust Fund, compared with use of other types of saving

				Column percentages
	CTF	**Savings accounts**	**Life insurance**	**Investments**
Pay for further/higher education	46	16	33	17
Childs future generally	27	65	37	59
To re-invest/keep as savings	25	-	9	4
To buy/set up a home	18	3	7	5
Buy car/motorbike	16	8	13	7
Driving lessons	13	4	4	3
For child to spend as she/he likes	7	23	10	14
Holidays/travelling	6	4	1	1
Weighted base	***500***	***2,818***	***252***	***624***

- Less than one per cent
Note: percentages do not add up to 100 per cent as parents were able to give more than one response

8.7.1 The impact of family circumstances and characteristics

On the whole, family characteristics and circumstances had remarkably little effect on how parents of eligible children would like them to use any money saved into their CTF account.

In general, poorer parents were most inclined to want the CTF money spent on driving lessons. So two in ten (19 per cent) of all parents with net incomes below £1,500 a month said that they would like the money to be spent this way and this proportion fell steeply to just five per cent of those with net monthly incomes of £3,000 or more. Likewise, lone parents were more than twice as likely as parents living with a partner to say they wanted the money spent on driving lessons (22 per cent compared with 10 per cent). Consequently the desire to have the money spent on driving lessons was twice as high among parents in workless households as it was in households where both parents worked (22 per cent compared with 9 per cent).

The only other area where family economic circumstances played a part was on retaining the CTF money in savings. So 28 per cent of parents in two-earner households said they would like their child to continue to save any money in their CTF account when they reached 18, and this fell to 20 per cent of parents in one-earner households and 23 per cent of those in workless households. These results were, however, only statistically significant at the 10 per cent level.

There were two areas where parents had different aspirations for boys and girls – buying a car and retaining the money in savings. While 19 per cent of parents of boys would like them to spend the money in their CTF account on a car, the same was said by just 12 per cent of parents of girls. Likewise parents were more likely to want boys to keep the money in savings after they reached the age of 18 than they were to want girls to do this (28 per cent compared with 21 per cent). Again, though,

the results relating to keeping the money in savings were only statistically significant at the 10 per cent level.

If parents, themselves had savings they were more likely to want their child to continue to save the money in their CTF account after their eighteenth birthday (26 per cent compared with 17 per cent) and less likely to want it spent on driving lessons (11 per cent compared with 11 per cent). In both cases these results were only statistically significant at the 10 per cent level.

Finally, parents with three or more children were significantly less likely to want their eligible child to continue to save their CTF money than parents with fewer children (14 per cent compared with 27 per cent).

There were no statistically significant differences either across the four countries of the UK or across housing tenures. Likewise, levels of credit use (including whether parents considered their borrowing a burden) did not affect how parents would like their children to use the money saved in their CTF account.

Interestingly, there were also no statistically significant differences between families in different circumstances in the proportions wanting the CTF money spent either on higher or further education, or on buying or setting up home; nor in the proportions saying their child would be free to spend the money as they wished.

8.7.2 The impact of anticipated parental contributions

We also investigated if parents' views on how they would like the CTF savings used varied by whether or not they, themselves, expected to contribute any money to their child's CTF account in the next 12 months (Table 8.5). Again any differences were fairly small. Parents who did intend adding money to the CTF account were more inclined to want the money put towards specific purposes, including education, setting up home or buying a car. On the other hand, parents who did *not* think they would pay any money in were rather more likely to give non-specific replies such as the child's future generally or for the child to spend the money however they like.

Table 8.5 How parents will encourage child to use the money saved in the CTF account by whether they expect to add money themselves

			Column percentages
	All	**Yes, will add money**	**No, won't add money**
Pay for further/higher education	46	48	43
Childs future generally	27	25	31
To re-invest/keep as savings	25	26	24
To buy/set up a home	18	20	16
Buy car/motorbike	16	17	14
Driving lessons	13	13	13
For child to spend as she/he likes	7	7	7
Weighted base	***495***	***347***	***104***

Note: percentages do not add up to 100 per cent as parents were able to give more than one response

As we saw in Chapter 7, the majority of parents (74 per cent) thought that 18 was about the right age for their child to have access to the CTF money – most of the rest (23 per cent) thought it was too young. It is interesting, therefore, to compare how parents will encourage their children to use the CTF money with what today's 17 year olds would do with £1,000 and £10,000 if they had it – bearing in mind that more children eligible for a CTF account should have financial education at school to help them decide how to use their funds.

It is clear that the majority (68 per cent) of today's 17 year olds would be inclined to save at least some of the CTF money if they were to have access to £10,000 at age 18. Even if the sum was only £1,000, still half of them (52 per cent) would save some or all of it (Table 8.6). They would be less inclined to put it towards the costs of further or higher education than parents with children who are eligible for the CTF. In part, this will be because many of them do not anticipate continuing their education and in part because they expect parents and/or student loans to meet the costs. If they received £10,000, almost two in ten young people (17 per cent) would put it towards setting up of buying a home – much the same proportion as among parents. On the other hand, rather more young people would spend the CTF money on a car than parents might want - but not by a large margin - although hardly any would spend it on driving lessons (perhaps because they expect their parents or others to meet this expense).

Table 8.6 What young people (aged 17) would do with money in CTF if they had just turned 18

	If had £1,000 in CTF (%)	If had £10,000 in CTF (%)
Spend some/save some	26	56
Put towards/use to buy a car	24	29
Save it all	26	12
Put towards cost of university/college	26	27
Put towards/use to buy a house	4	17
Spend it all	6	1
Weighted base	***165***	***165***

Note: Percentages do not add up to 100% as young people were able to give more than one response.
Note: Only responses above five per cent noted in table.

8.8 Overall impact of the Child Trust Fund on saving for eligible children

When asked directly, half (48 per cent) of all parents said that the CTF endowments will encourage them to save more money for their child than they would otherwise have done. This was far higher among lower-income families than it was among those who were better-off. Well over half (56 per cent) of parents with net household incomes of less than £1,000 said they expected to save more and just over a third (36 per cent) said they definitely would not. At the other extreme – parents with net incomes in excess of £3,000 a month – these proportions were almost reversed. Only four in ten (41 per cent) said they would save more while well over half (56 per cent) said they definitely would not.

At the outset of the CTF, eligible children were aged up to two and a half by the time their parents received the vouchers. This meant that, in the survey, six in ten (60 per

cent) of the parents with an eligible child had already opened another account for them and, in many cases (46 per cent), money had been saved into these accounts in the past 12 months. Using this and the information parents gave us about the likelihood of money being added to CTF accounts we can assess the extent to which the CTF might encourage additional saving.

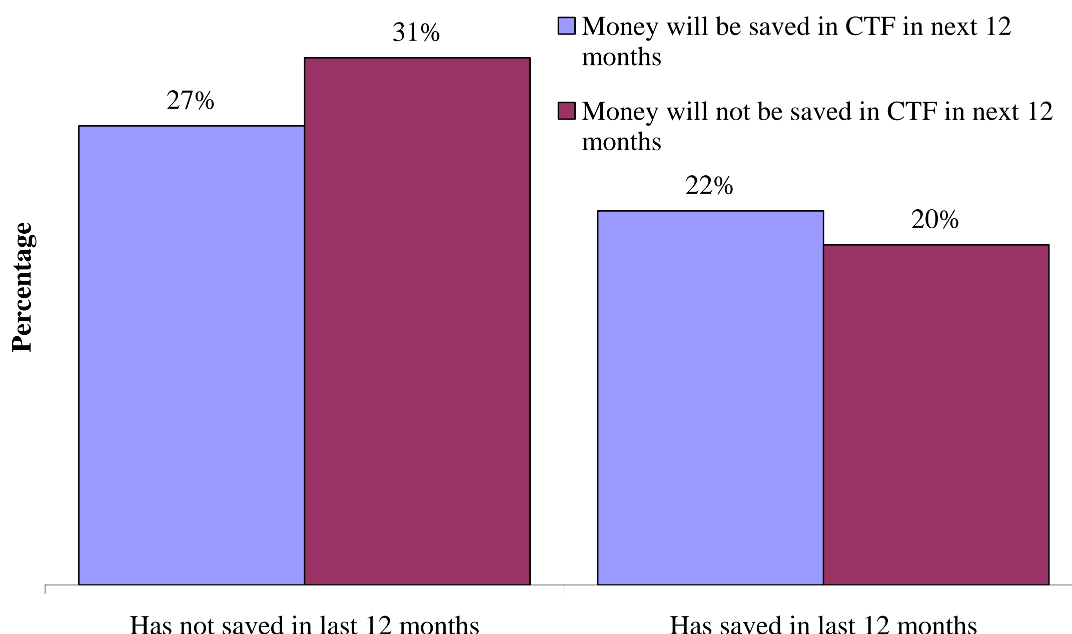
Figure 8.5 shows that about three in ten children (27 per cent) had not had any money saved for them in the previous 12 months but their parents *did* anticipate money being added to their CTF account over the next 12 months.

A further two in ten children (22 per cent) had had money paid into an account for them in the previous year and their parents also expected money to be added to the CTF account in the forthcoming year. Moreover, very few of these parents (six per cent of all eligible for the CTF) expected to reduce the amount they regularly saved elsewhere in order to make regular (monthly) contributions to the CTF account.

Two in ten parents (20 per cent) did not expect any money to be added to the CTF account in the forthcoming year, although money had been paid into other savings accounts for the child in the previous 12 months. The depth interviews suggest that that many of these could not afford to contribute to both and they had chosen to continue to pay any money they had into an account where, if they needed to, they could access it in the short or medium term.

That leaves three in ten children (31 per cent) for whom no money had been saved in the past year and none was expected to be saved in the next one either.

Figure 8.5 Typology of intentions to save in Child Trust Fund and saving in previous 12 months



It is also interesting to compare the sums of money involved when they are averaged across all children eligible for the CTF. In the previous 12 months an average

(mean[44]) of £196 was saved; on average parents anticipated that £204 would be saved in the CTF account alone in the next 12 months.

In other words, if parents are true to their intentions, the CTF should achieve its aim of increasing the sums of money saved for children. At the same time, however, it could also widen the disparity in the sums of money saved. As we saw above, some affluent children (whose parents have incomes of more than £3,000 a month) will have very large pots of money when they reach 18.

8.9 Impact of the Child Trust Fund on saving for other children

One in ten children eligible for the CTF (11 per cent) also had a brother or sister who was eligible. Where this was the case, and parents anticipated paying money into their CTF account, they expected the same amount of money to be added to each of their CTF accounts in nine in ten (88 per cent) instances.

Where eligible children had older siblings that were not eligible for the CTF (and 50 per cent had) we asked parents if they intended to give them the same amount as the eligible child had received from the Government as an initial endowment and also whether they would save the same amounts for them in the next 12 months. The results showed that most parents will try to treat all their children equally.

Half of parents (50 per cent) expected to give older, ineligible, children the equivalent to the CTF endowment. This proportion was higher for children in two parent families than in lone parent ones; with one sibling rather than two or more; whose parents were home owners rather than social tenants, or who lived in higher-income households, with two earners (Table 8.7).

Moreover, three quarters (77 per cent) of the parents who planned to save into the CTF account also said they would add the same amount to their ineligible children's accounts. This was slightly higher if there was only one ineligible child than where there were two or more; it was also slightly higher for home owners than tenants (of all kinds) and increased a little with income (Table 8.7).

This analysis, too, suggests that, if parents stick to their intentions, the CTF should increase the level of saving for all children in the UK.

[44] Medians would not be appropriate when averaging across all parents, whether they saved or not.

Table 8.7 Effect of Child Trust Fund on saving for ineligible children

	Will give same as initial endowment (%)	*Base (weighted)*	Will give same amount In next 12 months (%)	*Base (Weighted)*
All	50	***250***	77	***160***
Number of siblings				
1	54	***154***	80	***101***
2+	45	***96***	71	***59***
Lone parent	40	***47***	*	***31***
Two parents	53	***202***	79	***130***
Housing tenure				
Owner	52	***163***	80	***103***
Tenant	42	***64***	71	***55***
Number of earners				
0	47	***55***	*	***35***
1	48	***98***	80	***65***
2	56	***95***	78	***60***
Net household income				
Up to £1,000	45	***64***	*	***39***
£1,000-£2,000	48	***90***	76	***59***
Over £2,000	57	***96***	81	***63***

* Number too small for analysis
* Note: it is important to use this table with caution as many of the bases are small, although the unweighted bases are approximately double the weighted ones

9 References

Association of British Insurers (2002) *Stakeholder pensions – closing the savings gap?* London: Association of British Insurers.

Building Societies Association (2006) Press release *Child Trust Fund: No sign of sales pick up*, 24 January 2006, www.bsa.org.uk

Coles, A (2005) *Mutuality: where are we now?* Feature article, July 2005, www.bsa.org.uk

Collard, S. (2001) *Consumers in the financial market: Financial Services Consumer Panel annual survey of consumers 2000*. London: Financial Services Authority.

HM Treasury (November 2001) *Delivering* s*avings and assets: the modernisation of Britain's tax and benefit system, Number nine*. London: HM Treasury.

HM Treasury (April 2001) *Savings and assets for all: the modernisation of Britain's tax and benefit system, Number eight*. London: HM Treasury.

HM Treasury (November 2000) *Helping people to save*. London: HM Treasury.

HM Treasury/DWP (2003) *Government response to the consultation on Sandler 'stakeholder' product specifications*. London: HM Treasury.

HM Treasury/Inland Revenue (2003) *Detailed proposals for the Child Trust Fund*. London: HM Treasury

Inland Revenue (undated) *Child Trust Fund: What will yours grow into?* Information Booklet CTF6

Institute for Public Policy Research (2003) *Tax efficient saving: the effectiveness of ISAs*. London: Institute for Public Policy Research.

Kempson, E. and Taylor, S. (2004) *Views of the Child Trust Fund: qualitative research with parents, grandparents and young people*. (Unpublished research for Barclays Bank)

Loumidis, J. and Middleton, S. (2000) *A cycle of disadvantage? Financial exclusion in childhood: implications for consumer education of research carried out by the Centre for Research in Social Policy* (FSA Consumer Research Report 4). London: Financial Services Authority.

Thomas, L. (2004) *Evaluation of the pfeg Excellence and Access programme.* Brunel University.

Treasury Committee (2003) *Child Trust Funds (Second report of session 2003-04).* London: The Stationery Office Limited.