



CPAG's submission to the Treasury  
Sub-Committee evidence session:  
Child trust funds

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## 1. Summary

- The child trust fund (CTF) will benefit some lower income households, however those families who are at greatest risk of living in severe and persistent poverty also face greater barriers to contributing to the CTF. Children who would benefit most from having savings and assets may derive least financial advantage from the scheme.
- CTF will not assist in the eradication of child poverty because it is available only to young people when they reach the age of 18. The CTF offers no increase to the incomes of poor families whilst their children are actually growing up. Access to their CTF when they are 18 will not redress educational disadvantages, stigma or social exclusion experienced during childhood.
- Income adequacy is an essential pre-requisite for the accumulation of assets, but there is little in the new scheme to help low income families save for the future.
- For families on very low incomes, attempts to save will further sap inadequate incomes – potentially at the expense of essential spending on children - and may draw them into debt. Furthermore, low-income families could be actively excluded from many financial services because high levels of debt may result in a low credit score and/or because products are not advertised in poorer areas.
- Poorer children who move in and out of poverty but fall just above the threshold for an additional endowment, and whose parents cannot make extra contributions, will receive least when they reach 18.
- Given the marked disparities between beneficiaries of the CTF in higher and lower income families, it is unlikely to redress inequality or increase social mobility.
- Asset-based welfare policy should be explicitly redistributive. The state must ensure that both inputs and outcomes are pro-poor. And yet the research base on the efficacy of asset welfare is poor compared to other forms of spending. It is important that the Government monitors saving rates and fund growth amongst poor and socially excluded families, and the impact this has on their current income and wealth levels.

## 2. Introduction

**The intention of this submission is to provide a broad policy critique from a child poverty perspective. Our specific recommendations and a full briefing on the child trust fund can be downloaded from CPAG's website, [http://www.cpag.org.uk/info/briefings\\_policy/Child Trust Fund CPAG briefing paper.doc](http://www.cpag.org.uk/info/briefings_policy/Child_Trust_Fund_CPAG_briefing_paper.doc)**

1. As an organisation campaigning to eradicate child poverty CPAG recognises the importance that the child trust fund (CTF) holds within Government policy <sup>i</sup> and welcomes the progressive element within the endowments.
2. CPAG agrees that, in an increasingly affluent society it is wholly unacceptable that low income families and their children are excluded from the accumulation of capital and from the sense of financial security and social and educational aspiration that assets provide. For the UK's future social and economic success it is crucial life chances are improved for the poorest children and that the UK should become a more socially mobile society.
3. However, we have reservations about a scheme which we fear will not improve the financial position of children living in poverty whilst they are children – a key driver of lower aspirations.
4. The Government has improved the financial situation for lower income families but there is a long way yet to go before day-to-day incomes are sufficient for a scheme like the CTF to work in the interests of the poorest families. A secure and adequate income is an essential prerequisite for the accumulation of savings.
5. CPAG is concerned that families who are at greatest risk of living in severe and persistent poverty – who would benefit most from having savings and assets – may be unable to contribute to the CTF.

## 3. Child poverty

6. The current Government has done much to raise the profile of poverty and to develop and implement policy to tackle it. Policies have reduced the child poverty rate, yet latest official figures show that 3.5 million children – 28 per cent – lived in a low income household in 2003/04.<sup>ii</sup> The Government accepts that living in poverty is associated with both a poorer experience of childhood and poorer outcomes. Tackling child poverty must be the primary policy concern.
7. CPAG would like to emphasise that, although the CTF is being presented as part of the Government's strategy to eradicate child poverty <sup>iii</sup> it will not benefit children; it is for people aged 18. We are concerned that asset based welfare may be an unhelpful distraction from crucial consideration of income adequacy.
8. Further progress on the reduction of child poverty can only be attained if the incomes of the poorest families and their children are increased by improving the value of employment and increasing financial support for children and their parents.<sup>iv</sup>

9. Although CTF will benefit some lower income households, families who are at greatest risk of living in severe and persistent poverty are the least likely to be able to make additional contributions to the CTF. Private contributions of £1,200 per year will quickly overtake the £250 top up aimed at the poorest.
10. Ongoing problems with the administration of tax credits, and the much publicised inadequacies of the Social Fund <sup>v</sup> continue to blight families' lives. CPAG believes that it would be more appropriate and more effective to divert additional funds and administrative time and energies to improving elements of provision that are designed to support low income families rather than on a scheme which may disproportionately benefit higher income families.<sup>vi</sup>

#### 4. Asset-based welfare – an equitable system?

11. The research base on the efficacy of asset welfare is poor compared to other forms of spending. <sup>vii</sup> It is important that the Government monitors saving rates and fund growth amongst poor and socially excluded families, and the impact this has on their current income levels. Asset-based welfare policy should be explicitly redistributive. The state must ensure that both inputs and outcomes are pro-poor.
12. Although the Government will provide additional endowments with more for poorer families, in order to get the most out of the CTF families will have to take maximum advantage of the opportunities to top up their child's fund.
13. It is not clear that the CTF will facilitate social mobility. It may create wealth disparities which will compound financial, social and educational inequalities and may exacerbate problems with 'transmitted' disadvantage and low social mobility when children reach 18.
14. All investments carry a financial risk that better-off families may be better able to cope with, but may prove devastating for low income families who do not have any financial security nets. Lower income families may not avail themselves of potentially profitable but risky schemes.
15. The availability of equity based schemes varies. Low-income families who are already excluded from financial services which are usually directed at more profitable customers, may be excluded from the best CTF schemes because of a poor credit score, or products not being advertised in poorer areas.

#### 5. Income adequacy

16. There is a direct link between inadequate incomes and a low accumulation of financial assets. And yet the Government states that it might be more beneficial to invest in asset-based welfare than increase income support or child tax credit, on the grounds that assets have an 'independent effect on individuals' life chances and attitudes, above and beyond such factors as their social class background of educational achievement.'<sup>viii</sup> However, as discussed above, this finding has been questioned by research published by the Department for Work and Pensions <sup>ix</sup> which suggests that income inadequacy currently acts as a powerful barrier to equality of opportunity.
17. Although income adequacy is an essential pre-requisite for the accumulation of assets, there is little in the new scheme to help low income families save for the

future. Indeed, for families on very low incomes, attempts to save will further sap inadequate incomes and may draw families into debt. People living in low income households cannot, and should not be expected to save out of incomes that are already too low to live on.

## 6. Saving on a low income

18. There are not only serious differentials in potential financial outcomes from the CTF, but the process of saving places a disproportionate burden upon parents from different income levels. Although the maximum contribution of £1,200 constitutes a significant proportion of income in households reliant upon income support, richer children are more likely than poorer children to have relatives – such as grandparents – who are in a position to contribute to their CTF without incurring major financial hardships; poorer children tend not to have rich grandparents.
19. The poorest children may actually be damaged if their parents attempt to save out of inadequate incomes, leaving less to spend on them throughout their childhood. It may sap resources for current and ongoing family needs, which could have a negative impact on children's health and levels of social inclusion in the short term and upon educational outcomes in the long term. It runs counter to policy to eradicate child poverty.

## 7. Inequality and social mobility

20. The Government argues that the CTF will help to promote 'inter-generational mobility – extending to the children of lower-income families the opportunities that might be taken for granted up the income ladder' <sup>x</sup> We fear that, for some families the CTF may consolidate or exacerbate existing financial inequalities.
21. The main financial beneficiaries of the CTF will almost certainly be better-off families for whom the accumulation of assets – be they stocks and shares or housing – is already more common. Such families need little incentive to save, nor are they short of the finances necessary to do so. There will also be disparities amongst low-income families, some of whom may have relatives who can contribute, others who will not.
22. The poorest and most disadvantaged children – who would derive particular advantages from having access to savings and assets when they become 18, but whose parents cannot contribute to the CTF - will find themselves significantly worse off relative to their peer group when they receive their CTF. We are also concerned that the CTF may be targeted when a child reaches 18 (for example for university top up fees or rental deposits) which raises the question of what happens to those whose funds are worth less than the typical value.

## 8. Social stigma and financial education

23. The Government argues that 'the CTF could also be used to link into broader social concerns such as civic responsibility, community service or educational achievement.' <sup>xi</sup> It believes the CTF will be particularly effective in boosting aspirations amongst poorer children who are severely disadvantaged by social and financial exclusion. However, if poorer children are aware that their CTF is

doing significantly worse than their richer school friends, it may have a negative impact on their self-esteem, their educational attainment levels and generate lower expectations of themselves generally. It could lead to children being stigmatised and bullied in schools – particularly if teachers discuss CTFs insensitively as part of 'financial education' and children compare how their CTF is doing in both the classroom and playground.

## About CPAG

CPAG is the leading charity campaigning for the abolition of poverty among children and young people in the UK and for the improvement of the lives of low income families. CPAG aims to: raise awareness of the extent, nature and impact of poverty; bring about positive income policy changes for families with children in poverty; and enable those eligible for benefits and tax credits to have access to their full entitlement.

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<sup>i</sup> Child Poverty Review, (HM Treasury, 2004, para. 4.40

<sup>ii</sup> National Statistics, Households below average incomes an analysis of the income distribution 1994/5 – 2003/04, Department for Work and Pensions, 2005

<sup>iii</sup> Child Poverty Review, HM Treasury, 2004, para 4.40

<sup>iv</sup> Steps towards this are detailed in CPAG, Ten steps to a society free of child poverty, 2005

<sup>v</sup> See for example Howard, M, Lump Sums Roles for the Social Fund in Ending Child Poverty, (Child Poverty Action Group, Family Welfare Association and One Parent Families, 2003); see also a recent National Audit Office analysis, NAO, Helping those in financial hardship: the running of the Social Fund, HC 179 Session 2004-2005, January 2005.

<sup>vi</sup> See Haurant, 'Child trust funds 'will benefit better off' in The Guardian, 15 December, 2003 'Child trust funds ... may in fact be of most use to well-off parents, MPs concluded today.'

<sup>vii</sup> See, for example, Stephen McKay and Elaine Kempson, *Savings and life events*, DWP research report 194, 2003. This report 'investigated how the level of savings affects people's later living standards and opportunities', and considered the 'asset effect' identified, for example, by J Brynner and W Paxton (*The asset effect*, Institute for Public Policy Research, 2001). The researchers 'found no reliable effects of assets on life outcomes', p. 63.

<sup>viii</sup> Emmerson, C., Wakfield, M. The Saving Gateway and the Child trust fund: Is Asset-based welfare 'well fair'? Institute for Fiscal Studies, Commentary 85, 2001 p10.

<sup>ix</sup> Stephen McKay and Elaine Kempson, *Savings and life events* (DWP research report 194, 2003)

<sup>x</sup> *Savings and Assets for All*, HM Treasury, 2001, p1.

<sup>xi</sup> *Savings and Assets for all*, HM Treasury, 2001, p19