

ASSET-BASED WELFARE POLICY IN THE UK:

FINDINGS FROM THE CHILD TRUST FUND AND SAVING GATEWAY INITIATIVES

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While traditional anti-poverty efforts have focused on maintaining a social safety net to protect the poor, there is a growing recognition that economic well-being hinges on a household's ability to accumulate a wide range of assets. The value of assets is based not only on the economic security they provide but in how they enable people to make productive investments in their future. This approach has contributed to a wide range of policy proposals designed to help households build assets, including matched savings accounts, children's accounts, and accessible saving plans. Since 2000, the United Kingdom has begun implementing a number of asset-based welfare policies. Specifically, the Child Trust Fund and Saving Gateway Initiatives are generating valuable insights which may be used to develop policy innovations. The Child Trust Fund provides a \$500 savings account for every child born in the UK and, with over two million accounts to date, it represents the most developed children's savings account system in the world. The Saving Gateway is a large demonstration program designed to test the impact of matched savings incentives on the savings behavior of lower income families. This paper describes these efforts, analyzes the initial wave of data and research produced, and assesses the policy implications of these recent findings to date.

THE RISE OF ASSET-BASED WELFARE POLICY IN THE UK

The concept that low-income persons should be assisted in building assets is a relatively new idea in social policy circles. Historically, income has been used as a proxy for consumption and thus has been the standard measure of poverty. Anti-poverty efforts have traditionally focused on providing cash and cash-like support to facilitate consumption and access to support services. But while income and consumption are essential to well-being, they do not in and of themselves improve long-term prospects. Michael Sherraden explored an alternative approach in his 1991 book *Assets and the Poor*, which focused on ways that social development occurs through asset accumulation and investment.¹

Sherraden observed that "Few people have ever spent their way out of poverty. Those who escape do so through saving and investing for long-term goals."² He went on to explore the theoretical implications of this observation, constructing what it would mean to employ an assets framework in developing social policy. The value of assets is based not only on the economic security they provide but also in how they enable people to make investments in their future and exert a stake in the broader society that income alone cannot provide. Furthermore, wealth can serve as a vital indicator of access to life chances and

¹ Sherraden (1991).

² Sherraden (1991).

savings can create the ability to seize opportunities when they arise or weather unexpected income fluctuations. Another aspect of the assets approach to social policy is the theoretical proposition that holding assets changes behavior and affects the manner in which people think about and plan for the future.

One major impetus for Sherraden's work was the recognition that families with lower incomes and fewer resources were offered a dearth of asset building opportunities and even faced savings disincentives if they needed to access temporary government assistance programs. Sherraden proposed creating Individual Development Accounts (IDAs), matched savings accounts that could help households with fewer resources build up savings and eventually be used to make asset purchases. This idea and the focus on the potential role of assets in social policy led to increased interest among policymakers as to the prospect of saving by people with low incomes and few resources. Several prominent, national foundations teamed with community-based organizations to model and evaluate the IDA proposal. In 1998, Federal policymakers passed the Assets for Independence Act, which authorized a five-year, \$125 million IDA demonstration project.³

The interest of researchers was also piqued, especially regarding an examination of the extent of asset effects. In a 2001 review of the literature on the effect of asset holding, Scanlon and Page-Adams found that much of the research focused on the impacts of homeownership, and other studies focused on assets in the form of savings, net worth, or small business ownership. Their initial assessment of recent research was that taken together, financial and property assets appear to have positive effects on economic security, household stability, physical health, educational attainment, and civic involvement.⁴

This growing body of research, along with Sherraden's initial exploration of the potential of an assets framework to inform social policy, gained the attention of policy analysts and researchers in the UK beginning in the late 1990s. Initial discussions of policy options to promote asset-based welfare took hold within think tank environments. Two papers, both published in 2000, proposed promoting asset building through public policy, highlighting the potential of opening savings accounts for every child at birth.⁵ The Institute of Public Policy Research (ippr), a left-of-center think tank sympathetic to the Labour government, followed up their paper by organizing a seminar at No. 10 Downing Street on Opportunities and Assets. This seminar helped develop the proposals for asset-based welfare that would be introduced by the Labour government in the spring of 2001. At the same time, a preliminary analysis designed to examine the effect of assets on life chances in the UK was published, which used longitudinal data derived from the National Child Development Study. It found a "persistent effect of assets on a number of outcomes, which were impervious to a wide range of controls," and "the assets effect was sustained, with employment, psychological health, belief in the political system and values, all appearing to be enhanced by assets."⁶

In April 2001, Prime Minister Tony Blair and Chancellor Gordon Brown launched a policy consultation entitled *Savings and Assets for All*.⁷ It included two main initiatives—the Child Trust Fund and Saving Gateway—to extend the benefits of savings and asset ownership more widely. These proposals were included in the Labour Party's platform for the 2001 national election, which they won handily, electing Tony Blair to a second term.

Asset-based welfare represents a new departure in British income maintenance policy and the **Child Trust Fund** and **Saving Gateway** are the two most relevant expression of this effort. The policy development process which led to these two proposals was significant in that it was characterized by

³ Cramer (2006).

⁴ Scanlon and Adams (2001).

⁵ Kelly, Gavin and Lissauer Rachel (2000) and LeGrand, Julian and Nissan, David (2000).

⁶ Bynner and Despotidou (2001).

⁷ HM Treasury (2001a).

strong support among a relatively few number of senior members of government and influential policy advocates. There was no broad consensus or wide-spread demand for these ideas. Rather, a small group of advisors and proponents with access to senior political staff initiated interest in this approach. This interest was picked up by senior advisors and Cabinet Ministers simultaneously. In fact, the initial announcement of the Child Trust Fund was made at a press conference attended by Prime Minister Tony Blair, Chancellor Gordon Brown, and Education Secretary David Blunkett, which was a rare occurrence; one that signified substantial interest in the policy but also the top-down nature of support for the effort. Policy consultations were held in 2001, allowing for input among key stakeholders, but little public recognition of the proposals occurred until they were implemented in subsequent years.

CHILD TRUST FUND

The Child Trust Fund (CTF) proposal emerged from the consultation process as a universal account, opened to all children at birth, with an endowment provided by the government. The proposal was described by the government as an example of universal progressivism since every newborn was to receive an endowment and those living in families with lower incomes would receive a larger amount. As it has been implemented, every child born after September 1, 2002 has been issued a voucher worth £250⁸ which can be used to start their account. Once the account is opened, money can be deposited into these accounts but no withdrawals can be made until the accountholder reaches the age of 18.

This basic structure is designed to meet four primary objectives, which include:

- Ensuring children have savings when they enter adulthood;
- Promoting the savings habit;
- Teaching children about the benefits of saving;
- Furthering understanding of personal finance.

CTF vouchers are issued by HM Revenue & Customs to parents or persons with parental responsibilities after they are signed up for the Child Benefit, which is a tax-free monthly payment to anyone bringing up a child or young person. The Child Benefit is not affected by income or savings, and it has a near universal take-up rate. These vouchers are taken to designated financial providers who have agreed to offer CTF accounts. Children who live in families receiving the Child Tax Credit (CTC), which typically goes to households with incomes in the lower third, will get an additional £250 deposited into their account.⁹ If the voucher is not redeemed within one year of issue, the government will automatically open an account in the name of the child and notify their parent or legal guardian.

The legal guardian who opens the account serves as a “registered contact” for the account until the accountholder turns 16 years of age. At that point, they become responsible for the management of their account even though they cannot make withdrawals until they turn 18. Earnings on the account are tax-free. Contributions can come from any source but there is a limit on annual contributions of £1,200 (approximately \$2,400). The government has committed to making top-up contributions when the accountholder turns 7 and is considering another contribution at age 14. Additional consideration is being given to making further contributions to the accounts of “looked after” children, referring to children in foster care.

Providers of CTF accounts are required to offer a standard product, called a stakeholder account, which invests in a diversified stock portfolio and conforms to specified rules that are designed to reduce risk,

⁸ £250 is equal to about \$500. For the purposes of this analysis, British pounds are converted to U.S. dollars at a rate of 1:2, which (unfortunately for U.S. tourists) approximates the fluctuating exchange rate over this period.

⁹ The Child Tax Credit income threshold is currently £14,495 for 2007 and 2008, roughly equal to \$28,000. This covers approximately 30% of households each year.

such as lifecycle investing. These accounts are charged annual administrative fees but there is a fee cap of 1.5%. This fee cap is a unique feature of the CTF and one not replicated yet in the U.S. Values in stakeholder accounts can fluctuate according to the underlying performance of the fund investments. Additional choices include savings accounts which guarantee the initial deposit and a nominal return.

The CTF stakeholder accounts, which are equity-based, are serving as the default option when vouchers are not redeemed within a year of being issued. There are also non-stakeholder account options but these accounts are not protected by the stakeholder standards, and have only been marketed to families that want a higher degree of choice. Provisions are in place for accountholders to switch providers. When accountholders reach the age of 18, they will be able to access funds in their accounts. There are no use restrictions on the funds of any kind and no taxes on deposits or earnings will be due. Accountholders will have the option of rolling over their CTF account into other savings products.

The Experience to Date

The CTF is still a relatively new policy initiative, but one that is gaining public acceptance. Vouchers were first issued to all eligible children at the beginning of 2005. Children born prior to 2005 but after the 2002 commencement date, called the transition period, were given vouchers worth more than the £250 to reflect the growth that would have occurred if they had been issued and invested earlier. In March of 2006, the Chancellor announced all children eligible for the Child Trust Fund will receive a further Child Trust Fund payment at age 7 of £250, with children from lower-income families receiving £500. The decision to add these top-up payments to the CTF accounts represents the government extending its commitment to the CTF effort. To date, no formal evaluation has been performed. A baseline survey was published in 2006 to provide information on the extent and nature of saving for and by dependent children prior to the introduction of the CTF.¹⁰ The government is monitoring and releasing data and financial providers are evaluating their data, much of which is proprietary.

Statistics provided by HM Revenue and Customs indicate that through June 2007, 3.3 million CTF vouchers have been issued. Table I distinguishes between *expired vouchers* and *live vouchers*. Vouchers are live for the first 12 months after they are issued. Of the 3.3 million vouchers issued through June 2007, 765,000 remained live and 2.562 million were expired, meaning they were either redeemed to open accounts or were automatically used to open accounts 12 months after issue. The CTF experience to date shows that 75% of live vouchers were redeemed before they expired and the default account was opened automatically. This rate fluctuates slightly over each period, but little is known yet as to why vouchers are not redeemed or whether or nor this population is significantly different from the population that redeems them. Twenty-nine percent of CTF children (over 774,000 children) had been identified as entitled to the supplemental payment since they were receiving the Child Tax Credit.¹¹ This was in line with government projections as to the take-up rate of this supplemental payment.

Table I: Child Trust Fund Summary Statistics
Through June 2007

Vouchers Issued	3.3 million
Expired Vouchers	2.56 million
Live Vouchers	0.756 million
Percent of Accounts Opened by Parents	75%
Default Account Rate	25%
Percent of Families Receiving Additional Payment	29%

Source: HMRC (2007).

¹⁰ Kempson (2006).

¹¹ HMCR (2007). Child Trust Fund Statistical Report 2007.

In October of 2007, HM Revenue and Customs published the second Child Trust Fund Statistical Report, which covered the first two years of operation since vouchers were issued. This report includes account data for all accounts opened from the inception of the program to April 2007.¹² As of this date, the value of assets held in these accounts was £1.324 billion (approximately \$2.6 billion). This means that the average balance (mean) was approximately \$981. This would include the newest and the oldest accounts as well as those that received the initial supplemental.

The report contained information on the type of accounts that were opened: 76% were stakeholder accounts and 24% were non-stakeholder accounts, including 18% which were cash accounts. The average balance (mean) held in each of these account types differed. Cash accounts which are the most securely invested averaged \$942, stakeholder accounts which are invested broadly in the market averaged \$982, and non-stakeholder accounts which can be invested with greater latitude averaged \$1,030. The government has actively sought to promote the stakeholder option, since it combines the security of diversified investment with the potential for gains which have historically accrued to overall market despite risk of short term fluctuations. Over the past year the number of stakeholder accounts opened has increased from 74% to 76%.¹³

The report reflected a growth in the number of CTF providers, which are the financial service providers that open accounts. The number grew from 31 in April 2005 to 40 in April 2006. In the last year, four additional firms have signed up with the program as providers, signaling a growing interest in the program among financial service providers.¹⁴

Beginning in 2006, the Child Trust Fund office initiated a marketing campaign focused on targeting new parents to build awareness of the policy and offer support in opening accounts. This effort included media advertising, mailings, and a government-sponsored Child Trust Fund Week held in January 2007. This led to a doubling of the visits to the CTF website, which had averaged just over 20,000 visits per month prior to December 2006. For the first three months of 2007, visits to the website have averaged over 40,000 per month. Research was also conducted among parents in February 2007 that revealed a high degree of awareness of the program and its most basic parameters as reflected in table II.

Table II: Survey of Eligible Parents

Awareness of program	98%
Knew they would be sent a voucher automatically	73%
Knew the initial amount is £250	88%
Knew earnings were tax-free	88%
Knew money can be withdrawn after 18	78%
Knew there were no restrictions on uses after 18	75%

Source: HMRC (2007).

Other information contained in the report focused on the overall costs for administering and implementing the CTF. The main costs are to cover the payments, which are forecast to cost £240 million (\$480 million) each year, rising to £490 million (\$980 million) each year once the payments to 7 years olds begin in 2011. Administrative costs initially averaged £37 million (\$74 million) over the first three years but these are expected to decrease to £15 million (\$30 million) beginning in 2008.

¹² HMCR (2007). Child Trust Fund Statistical Report 2007.

¹³ HMCR (2007). Child Trust Fund Statistical Report 2007.

¹⁴ HMCR (2007). Child Trust Fund Statistical Report 2007.

Initial Distributional Analysis

In October 2007, HMRC also released the first Detailed Distributional Analysis of CTF data. It covered the annual provider returns up until April 2007 and it has been linked to Child Benefit and New Tax Credit data. The release of this data represents the first opportunity to examine how the general public has responded to the policy in terms of account opening rates, contributions, and market values, and how this response has varied according to family characteristics such as household income, geography, and family composition. This is initial data for a new policy, so there are some concerns that initial trends will change course, but this first cut perspective will serve as a baseline for understanding how the policy unfolds over time.

Since this is an ongoing policy, one which issues about 60,000 new vouchers a month, we need to clarify the time frame. The figures presented below are based on Child Trust Fund, Child Benefit, and New Tax Credit administrative data. Voucher status information covers the period up until September 5, 2007 and CTF contribution and account balance information is taken from the provider returns as of April 5th, 2007.¹⁵ The total sample of accounts considered in this analysis is 2.414 million. Of these accounts, many are relatively new and thus not experienced any seasoning. The analysis does not distinguish by cohort; so for example, an account for a child born at the end of 2002 is lumped together with an account of a child born in 2006.

Contributions

Almost a quarter of children have had additional money saved into their accounts, and three-quarters of accounts had no additional contributions made to CTF accounts.

Table IV: Percentage of Accounts Receiving Additional Contributions

No Additional Contributions Made	76%
Additional Contributions Made	24%

Source: Author calculations of HMRC (2007) data.

Of those that had additional contributions made to their accounts, there has been a wide distribution in the size of these contributions. Given the long term nature of this policy, it is uncertain if these patterns will change but the table below offers an indication of the distribution of contributions.

Table V: Contribution Levels for those Accounts Receiving Contributions

Under \$200	31%
Between \$200 and \$600	43%
Between \$600 and \$2,400	21%
Over \$2,400	5%

Source: Author calculations of HMRC (2007) data.

For the roughly one-third of families that received the additional payment based on their income eligibility, 85% made no additional contribution to their CTF accounts, which is a higher rate than the general population. Of those that did make contributions, the amount of those contributions varied widely. These percentages, presented below, reflect lower contribution rates than the other two-thirds of

¹⁵ CTF accounts are for eligible children born on or after September 1, 2002. The following analysis is based on those born on or before April 5, 2006 and that have had an account opened by April 5, 2007. A small proportion of children born during this period are excluded from the analysis because their parents opened accounts after April 5, 2007 or because HMRC had not yet allocated an account for them by April 5, 2007.

the population that did not receive the additional benefits, but a sizeable number of accounts did receive modest contributions.

Table VI: Contribution Levels for Accounts with Additional Payments that Received Contributions

Under \$200	45%
Between \$200 and \$600	44%
Between \$600 and \$2,400	11%
Over \$2,400	0.1%

Source: Author calculations of HMRC (2007) data.

Market Value

The market values of CTF accounts for the analysis period vary, but the majority of accounts have accrued market values that exceed \$600.

Table VII: Child Trust Fund Market Values

Under \$600	31%
Between \$600 and \$1,200	48%
Between \$1,200 and \$2,000	15%
Over \$2,000	6%

Source: Author calculations of HMRC (2007) data.

For those accounts that received the additional payment, the distribution is somewhat different. This reflects that these supplemental payments have the potential to even out long-term market value prospects.

Table VIII: Child Trust Fund Market Values for Accounts Receiving and Not Receiving Additional Payment

	Additional Payment	No Additional Payment
Under \$600	3%	43%
Between \$600 and \$1,200	66%	40%
Between \$1,200 and \$2,000	28%	9%
Over \$2,000	3%	7%

Source: Author calculations of HMRC (2007) data.

Household Income

Lower income households had a slightly higher percentage holding the default stakeholder accounts, compared to the general population. For households with incomes over \$40,000, 75% held stakeholder accounts and this does not decline significantly even as household income rises.

Accounts that are opened as defaults after the vouchers expire after 12 months have very low additional contributions made to them during the analysis period. Only 2% of these accounts have received additional contributions. When parents open stakeholder accounts, the contribution rates are higher, even for accounts with lower incomes. For example, 28% of households with incomes between \$10,440 and \$20,000 made additional contributions to the stakeholder accounts that they opened compared to 24% of accounts that have received contributions overall. When parents that open stakeholder accounts have incomes closer to the median, this contribution rate is higher (32%). Higher income families do have higher contribution rates: 43% of stakeholder accounts opened by families with incomes over \$80,000 have received contributions.

Contribution rates and levels appear to be linked to whether or not the accounts are opened by parents and legal guardians or are opened by default. Higher incomes are associated with lower default opening, but the range is modest. While the overall default rate is 25%, it is 16% for families earning between \$40,000 and \$60,000 and falls to 9% for families earning over \$100,000.

Another recent finding concerns the families that opened non-stakeholder accounts, which amounts to about 20% of the total sample. These accounts have much higher contribution rates, a trend which holds across all income ranges. For instance, 41% of accounts had contributions made to them for children in families with incomes between \$10,440 and \$20,000; this rate rose to 50% for accounts in households earning over \$100,000.

Table IX: Household Income Distributions by Contribution and by Account Type

	<u>Household Income Lower Limits</u>						
	<u>Under \$10.4</u>	<u>\$10.4</u>	<u>\$20K</u>	<u>\$40K</u>	<u>\$60K</u>	<u>\$80K</u>	<u>\$100K</u>
<i>Stakeholder Account Contributions</i>							
None	79%	72%	71%	68%	62%	58%	55%
Under \$200	9%	11%	12%	12%	11%	11%	10%
\$200–\$600	9%	13%	14%	17%	20%	21%	22%
\$600–\$2,400	2%	3%	3%	4%	6%	8%	11%
Over \$2,400	0%	0%	0%	1%	1%	1%	2%
<i>Non-Stakeholder Account Contributions</i>							
None	62%	59%	57%	57%	55%	52%	50%
Under \$200	9%	7%	8%	7%	7%	5%	4%
\$200–\$600	15%	17%	16%	16%	17%	17%	18%
\$600–\$2,400	11%	14%	14%	16%	17%	20%	22%
Over\$2,400	3%	4%	4%	4%	4%	5%	6%

Source: HMRC (2007).

Firm Data

The aggregate of account data for individual firms will provide another means to assess the impact of the policy. Beyond government data, the experience of individual firms participating in the program will be a valuable source of information as the CTF experience unfolds. David White, chief executive of The Children's Mutual, is reporting that his firm, which previously specialized in children’s savings, has seen a doubling in the number of parents saving long-term for their children, and many parents - and the wider family - are also contributing lump sums. The average monthly payment has increased by 50% from £15 pre-CTF to £23. White has said that “There is now clear evidence that the CTF is acting as catalyst for many parents to think about long-term savings for their children.”¹⁶

Although much of this firm-level data will be proprietary, the level of participation of firms with the CTF policy will be important to observe in the years ahead. Firms have committed to providing basic account-level data to the government, which will be used to continue to provide a distributional analysis of the CTF experience.

Government Reaction

The CTF policy has continued to attract support of key policymakers in the UK. Prime Minister Gordon Brown was an initial advocate of the policy when he was in charge of Treasury and has signaled ongoing support. One of his top advisors, Ed Ball wrote the forward to the First Statistical Report, released in September 2006, saying “CTF is a groundbreaking initiative” and is “at the heart of the

¹⁶ Sascha Hutchinson (2006). “1.5 Million Child Trust Funds Opened,” *This is Money*. March 2, 2006

Government's efforts to promote opportunity, helping all families regardless of their background and ensuring their children get the best start in life."¹⁷ The Tory party has expressed support for the program, signaling that the CTF is an embedding policy that should be expected to survive a change in government as well as a change in prime ministers. Still, a number of fundamental questions remain unanswered which will need to be addressed in order to better understand how the CTF fits into larger asset-based welfare policy discussions over the long term. These include:

- Who is saving?
- How much are they saving?
- Will this spur financial education?
- What will they do with the money when 18?

Saving Gateway

The Saving Gateway is a two-stage demonstration program designed to test the impact of providing lower-income working families access to a matched savings account.¹⁸ Inspired by Sherraden's Individual Development Account idea, Saving Gateway participants would receive larger savings matches when they made deposits to their accounts.

Saving Gateway Pilot 1

The initial pilot (SG1) was established in August 2002 at five sites across England.¹⁹ In four of the sites, local nonprofit organizations, already partnering with the government in delivering the Community Financial and Learning Initiative (CFLI) program, agreed to recruit participants and provide oversight of the matched savings accounts. In the final site, the participants were selected by the Department for Work and Pensions who were identified through the tax record and offered the opportunity to open a Saving Gateway account at a local bank branch.

The first accounts were opened between August 2002 and July 2003. The demonstration lasted for 18 months, with accounts maturing between December 2003 and November 2004. The parameters of the initial pilot were quite straightforward. Qualifying participants must be working Britons who were eligible for the Working Tax Credit (i.e. earned less than £11,000 per annum or £15,000 per annum if they had a child or disability) or were currently out of work and receiving some form of government assistance. Eligibility was also limited to those between the ages of 16 and 65 (60 for women).

Participants were required to open the account with an initial deposit of at least 1 pound. Participants were permitted to save no more than £25 per month. Deposits made to the account were matched on a £1:£1 basis at the end of the demonstration (highest account balance was matched in a lump sum at the end of the 18 months). Individuals were permitted to save no more than a total of £375 in the account, which would generate £750 if garnering the maximum government match.

This first Saving Gateway pilot incorporated a number of evaluation tools throughout the process, including questionnaires administered at both the beginning and end of the demonstration, face-to-face and phone interviews, and a control group both at the beginning and end of the demonstration. Also, a database of account transactions was monitored for all 1,478 participants in this pilot.

¹⁷ HMRC (2006). Statistical Report of the Child Trust Fund.

¹⁸ Outlined in Delivering Savings and Assets (2001) <http://www.hm-treasury.gov.uk/media/1/E/36.pdf>

¹⁹ http://www.hm-treasury.gov.uk/media/0/A/Incentives_to_save.pdf.

Results indicate that SG1 participants saved an average of £16.14 per month over the 18 months of the demonstration.²⁰ At maturity the average (mean) account balance of all SG1 participants was £282; the median, however was £375, which was the maximum amount allowed.²¹ So, while there were a number of small account balances, more than half of all participants saved the maximum permitted, and collected the full government match. Total deposits accrued to approximately £417,000.²²

Saving Gateway Pilot 2

With the initial pilot of the Saving Gateway demonstrating that low-income Britons can and will save when given an account and an incentive, the Chancellor of the Exchequer inaugurated a second pilot (SG2) in December 2004 to answer more complex questions related to design and implementation.²³

The SG2 pilot was sufficiently larger than the previous demonstration, with nearly 22,000 accounts in 6 sites throughout England, and provided an opportunity to test alternative match rates, contributions limits, effect of an initial endowment, and the impact of financial education. Furthermore, the eligibility criteria were expanded to include workers earning up to £25,000 a year (or £50,000 a year for families). The match rate in the second demonstration varied by site, with a range of £0.20:£1 to the £1:£1 match of the first demonstration. In addition, the total amount of money that could be saved in the account, and thereby eligible to be matched, varied by site, from £25 per month (as used in the first demonstration) to £125 per month. Participants were also offered a range of basic financial education services.

The evaluation of SG2 found that the pilots were successful in generating savings for among the 22,000 participants. Average monthly savings levels almost doubled.²⁴ In total, participants saved around £15 million which triggered a total match of over £5 million. Savings responses did vary but the conclusion of the evaluators was that the program encouraged some lower income participants to save regularly and to reduce other expenditures in order to save.²⁵

Comparing the savings outcomes across various sites with different match rates and contribution limits produced a number of interesting findings. Analysis of the transaction data showed that almost all (92%) of the account holders placed money in their accounts after the first month in which they were open.²⁶ Seven-in-ten made a contribution in at least 16 of the 18 months of the demonstration.²⁷ The median amount saved was equal to the contribution limit set in five of the six sites, meaning that many people were able to take full advantage of the incentives offered.²⁸ Sixty-five percent of those who accrued the maximum match in their account placed further funds in their GS2 account after reaching the match limit.²⁹

The evaluation also found that holding the contribution limit constant, there appears to be no real effect of an increased match on savings rate.³⁰ This finding suggests that the match level is not as important as the overall contribution limit to incentivize saving. Significantly, the evaluation concluded that participants experienced an improved attitude toward savings. This was most pronounced among those who had little savings or no prior experience saving. These attitudinal changes reflected a sense of achievement, especially among those new to saving – and in turn lead to an increased sense of security,

²⁰ Kempson et al. (2005).

²¹ Kempson et al. (2005).

²² Kempson et al. (2005).

²³ http://www.hm-treasury.gov.uk/media/7/0/savings_gateway_evaluation_report.pdf

²⁴ Department of Education and Skills, HM Treasury (2007).

²⁵ Department of Education and Skills, HM Treasury (2007).

²⁶ Department of Education and Skills, HM Treasury (2007).

²⁷ Department of Education and Skills, HM Treasury (2007).

²⁸ Department of Education and Skills, HM Treasury (2007).

²⁹ Department of Education and Skills, HM Treasury (2007).

³⁰ Department of Education and Skills, HM Treasury (2007).

a finding remarked upon by government leaders as reinforcing their interest in promoting asset-based welfare.³¹

POLICY IMPLICATIONS

In the UK, asset-based welfare policy has gained attention in recent years. The promotion of saving and asset-accumulation has become an important aspect of Labour government policy, particularly in relation to lower-income households. Both the Child Trust Fund and Saving Gateway pilot were among the initial manifestations of this policy, serving different roles. While the Child Trust Fund (CTF) has been introduced as a way of promoting asset-accumulation among young people, Saving Gateway was designed to test the prospects of matched savings accounts as a means to promote savings. To gain a full appreciation of the government's social policy strategy, these efforts should be considered along side other policy initiatives, including programs to promote financial capability, social inclusion, and eliminate child poverty, which collectively comprise a broad social policy agenda.

The Labour government has made a strong effort to link access to financial services to issues of social justice. They have identified limited access to bank accounts as a major social problem which needs to be solved, and subsequently have made this a centerpiece of their financial inclusion agenda, which in turn is connected to the wider objectives of increasing opportunity and increasing fairness. Ed Balls, Economic Secretary to the Treasury, summed up these objectives by saying, "The Government wants everyone to have access to appropriate financial products, the information and capability to prevent avoidable financial difficulty, and access to sources of advice if they find themselves in distress."³² In this context, the rise of asset-based welfare policy in the UK and the concern for those without asset holdings cannot be distinguished from policy efforts designed to promote savings, which include policies promoted by the Labour Government to improve the environment for saving, providing adequate incentives to save, and empowering individuals and households to make appropriate financial decisions.³³

One of the most notable observations of the government's response to the initial findings of the Child Trust Fund and Saving Gateway programs is that they remain committed to building upon and expanding these policies as a central means of meeting these broader social policy goals. For example, in addition to the government committing to provide "top-up" payments to the Child Trust Fund accounts for 7 year olds, they are also considering doing so when children reach the age of 14 or to children in their foster care system. If these proposals are enacted upon, they would represent an increasing investment in the policy. The government also recently announced plans to promote CTF by increasing parental involvement and financial education. A £11.5 million package for personal finance education in schools will be made available from 2008-2011 and will be used to revise curriculum guidance on financial capability, use Child Trust Fund as a learning tool, and ensure teachers are given instruction to teach financial education.

While the first distributional analysis of the CTF, released in October 2007, has produced a number of relevant findings, it is too soon to assess what impact they will have on policy discussions. It is expected that much attention among policy analysts will focus on the third-quarter of accounts that have not received additional contributions beyond the initial government investments as well as the higher contributions made by higher income households. It appears unlikely that these results will impede the plans of the Labour government to continue to support the CTF policy.

³¹ Balls (2007).

³² Balls (2007).

³³ Balls (2007).

Expanding the Saving Gateway program is also under active consideration by the Labour government, now led by Prime Minister Gordon Brown. Although there was concern back in 2001 about whether the budget cost would be too high to provide wide access to matched savings accounts, the concept had significant initial support of political leaders. This was reflected in the rollout of SG2—a pilot much larger than it needed to be to produce significant research findings. The government has considered the pilot a success, highlighting that although saving responses varied, the pilot encouraged some lower income participants to save regularly and generate positive attitudes to saving; in turn, they have announced plans to build upon the findings of the pilot in some capacity in the near future.³⁴

These recent developments, for both CTF and SG, indicate that these new programs have cleared initial hurdles and are likely to become further embedded as policy efforts.

It appears they have done so because the Labour government continues to see the need to promote asset-based welfare policies in tandem with a savings strategy. Notably, this has occurred without any widespread political demand for policy action on these fronts by the general public. This may change as more people and parents benefit from the programs over time. There has been broader political support, as reflected by the Tory Party's support of the Child Trust Fund effort.

Several of the policy design features incorporated into these efforts appear to be quite promising. This includes the concept of matching contributions to savings accounts. Participants in the Saving Gateway appear to have found the direct match easier to understand and more motivating than interest rate percentages or the prospects of indirect tax credits. The structure of the match appears to matter as well. Higher match rates had a small effect on take-up rates, demonstrating that lower match rates may be a more cost effective way to get people to save. The monthly contribution limit (match cap) appears to send an important signal to potential savers, serving as a target which savers strived to achieve. These findings reinforced research conducted in the U.S. which focused on match savings in Individual Development Accounts.³⁵

Similarly, the CTF's use of defaults represents a promising path for future policy innovations. The default opening of an account after the 12-month voucher period expires means that all children are included in the policy even if they are not ready to make contributions to these accounts. The stakeholder option has proven to be popular with parents, reflecting that many are comfortable with fewer investment choices. Even though these accounts are held by private financial service providers, the stakeholder accounts provide many valuable features of savings plans, including diversified investments and life cycle investing.

However, the relative newness and unprecedented nature of both efforts leaves many questions unanswered. For instance, there may be an interactive effect among the set of these policies which in turn will impact long-term outcomes. Growing up with a CTF account may lead to higher degrees of financial education. For adults, increased access to savings incentives, savings accounts, and more appropriate financial advice may change savings behavior. This reflects that there are many ongoing opportunities to learn, particularly regarding the long-term impacts of children's savings accounts on savings behavior, financial education, and financial choices as well as the effectiveness and impact of matched savings accounts. These general questions will need to be addressed at the same time as they are applied to various subgroups. At a basic level, there are uncertainties about what makes people save and what distinguishes savers from non-savers. Still, it is highly revealing that expanding these policies did not require the UK government to wait until all of these questions were evaluated and settled before deciding to build upon them further. That, in and of itself, reflects the rise of an assets perspective. This perspective is informing current social policy efforts in the UK and looks as if it will continue to do so in the years ahead.

³⁴ Balls (2007).

³⁵ Schreiner and Sherraden (2007).

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