Can children’s savings accounts programmes build wealth?

What the UK Child Trust Fund programme can tell us

Wealth is a critical component of economic well-being, but in today’s economy, key assets such as home ownership have become inaccessible for millions of people, blocking them from the tools to build that wealth. Recognising the need to create better pathways to wealth-building, policymakers and private sector leaders across the US and UK have tested several ideas that aim to directly and universally support families in developing financial assets. By ensuring all children have “start-up capital for life,” an amount large enough at birth to eventually become a meaningful amount for wealth accumulation by adulthood, these programmes can give families a stake in the economy, promote financial resilience, and directly address wealth gaps.

One of the most compelling ideas is children’s savings accounts, or **early wealth building accounts**, which have the goal of providing children with seeded accounts (either universally, or focused on lower-earning families) that can grow significant balances by early adulthood. These accounts have been proposed and tested for decades, and early evidence is promising on several important measures of financial well-being.

In the US, no programme has been around long enough, or provided investable sums of money at birth, to allow for a robust evaluation of how these accounts affect the life chances and social mobility of recipients.

The opportunity – a program in the UK, started almost 20 years ago, can provide us with real-time insights on the impact of early wealth building accounts

In the UK, Child Trust Funds (CTFs) were implemented in 2005 – but made available to children born since September 1, 2002 – and remained in place until 2010 (and in limited cases beyond). From 2020 until 2029, around 55,000 young people gain access to their accounts every month. This provides a unique and valuable opportunity to study the impact of children’s savings accounts once young people reach adulthood and consider the role that new initiatives could play in supporting life-long financial security on both sides of the Atlantic.

Here are the basics of the policy: the UK’s Labour government introduced Child Trust Funds in September 2002 as part of a broader policy of ‘asset-based welfare.’ These long-term tax-free savings accounts were provided to all newborn children to ensure this cohort of young people had start-up capital for asset purchases when they reached adulthood. The state directly contributed an initial deposit of at least £250 (accounting for inflation in the UK, this is equivalent to £420, or $533, today) – with higher sums for lower-income households. Growth in the account and income from it, which becomes accessible at age 18, are tax-free. In 2011 this policy was revoked and from January of that year, no further accounts were allocated.

The first accounts reached maturity in 2020, providing us with a window of opportunity to robustly evaluate their impact. According to HM Revenue & Customs' **Annual Savings Statistics**, as of April 2022 528,000 18-year-olds (55% of all with access to matured accounts) had either withdrawn or re-invested from their matured CTFs, with an average market value of £2,370 (roughly equivalent to $3,022) per account. This average payout is larger than that of almost all early wealth building programmes in the US. Still, £943 million (about $1.2 billion) was left in matured accounts that had not been claimed.

Next steps

The CTF programme started 20 years ago, and we are just now beginning to get more valuable data about the programme as young people reach the age when they can access funds. For funders, researchers, and practitioners intrigued by the promise of early wealth building accounts, learning more about this programme is essential.

Sharing this information has tremendous value to both US and UK audiences. Increased awareness of the CTF programme will ground existing policy discussions in the US in a real-world example, allowing policymakers and practitioners to design more effective programmes and improve existing ones based on the lessons learned from a larger, national programme. In the UK, these findings will establish the efficacy of this form of asset-based support, in comparison to other welfare interventions, providing a valuable evidence base for future policy.

What could that look like in practice? As a first step, we envision a 20-year retrospective on CTFs that illuminates the key lessons from this programme for US and UK audiences. This would include:

Programme impact learnings:

- A summary of the known main statistics around access and usage, and a summary of existing published evaluation activity around CTFs.
- Gathering perceptions from participants – including the actual use, or planned use, of the money for those who have accessed it.
- Understanding more about use cases and building a foundation for further research.
- Potentially, quantitative analysis using administrative data from CTFs merged with other large-scale data sets.

Operational and administrative learnings:

- Reflections from those involved in the policy development on what worked well and what they might have done differently.
- Understanding the issues from the perspectives of CTF providers, a particularly important component as the US thinks through the role of the private sector in these accounts.

A 20-year Retrospective on Child Trust Funds would supply crucial evidence to an already promising idea, giving policymakers and practitioners even more tools to develop effective wealth-building programmes at scale. It would also set the stage for an even more in-depth understanding of the lessons the UK's Child Trust Fund Programme could bring to a broader audience. If you're interested in supporting this important work and would like to know more, please get in touch with:

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About Nest Insight

Nest Insight is a public-benefit research and innovation centre. Our mission is to find ways to support people to be financially secure, both today and into retirement. We conduct rigorous, cutting-edge research, working collaboratively with industry and academic partners to understand the financial challenges facing low- and moderate-income households. We use these data-driven insights to identify and test practical, real-world solutions. Our findings are shared widely and freely so that people around the world can benefit from our work. To find out more, visit: **nestinsight.org.uk**

About Aspen FSP

The Aspen Institute Financial Security Program's (FSP) mission is to illuminate and solve the most critical financial challenges facing American households and to make financial security for all a top national priority. We aim for nothing less than a more inclusive economy with reduced wealth inequality and shared prosperity. We believe that transformational change requires innovation, trust, leadership, and entrepreneurial thinking. FSP galvanizes a diverse set of leaders across the public, private, and nonprofit sectors to solve the most critical financial challenges. We do this through deep, deliberate private and public dialogues and by elevating evidence-based research and solutions that will strengthen the financial health and security of financially vulnerable Americans. To learn more, visit **AspenFSP.org**, join our mailing list at **http://bit.ly/fspnewsletter**, and follow @AspenFSP on Twitter.

About Aspen FSP and Nest Insight's partnership

Since 2018, Aspen FSP and Nest Insight have been collaborating to help solve the next generation of retirement challenges. The partnership has enabled an exchange of ideas and learnings on how the UK and US retirement and broader financial well-being systems can be improved for low- to- moderate households.

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