Top tips for top-ups

Next steps for the Child Trust Fund

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Executive summary

The introduction of Child Trust Funds (CTFs) was a radical new policy, giving every baby capital as a right. It has been described as installing the plumbing for a new form of welfare state, leaving a new challenge: how to turn on the taps. How to ensure, in other words, that every young adult has the opportunities and security that come with a decent amount of wealth.

This document forms the ippr response to the Treasury's consultations on additional payments to Child Trust Funds. A consultation launched on 2 December 2004 asked for views on the correct size and ratio of progressivity of top-ups at age seven. A consultation launched on 16 March 2005 asked the same questions for top-ups at secondary-school age, and, in addition, asked at what age payments should be given.

To answer these questions about top-ups, we return to the original objectives of the CTF – promoting a savings habit, and providing independence, opportunities, and security – and consider how top-ups could contribute to these objectives   We also consider how top-ups could help promote active citizenship, which is an explicit government objective, and reduce wealth inequality, which is important for achieving other government goals.

These objectives take us to the following conclusions about the progressivity and timing of top-ups, and the potential to use government money to encourage private deposits.

Progressivity:

- Top-ups should get more progressive as children get older. The marginal benefits of asset ownership are far higher for those on lower incomes, and identifying who will be in need at 18 becomes easier as children get older.
- A new tier should be created, to focus payments on those who need them most. This could be defined by income to include children from the poorest 20 per cent of families.

Using government money to encourage deposits from other sources:

Some money should be reserved for leveraging in other funds. This could mean one or all of:
- Creating a "community fund" for local children in need. Donations into these funds by individuals, corporations, or local authorities (as corporate parent) would then be distributed amongst certain groups of children, such as looked-after children.
- Matching or otherwise encouraging donations in return for voluntary work, as part of the government's Youth Volunteering Framework, and its green paper, *Youth Matters*.
- Considering a limited match on savings for children from poorer families.

Timing:

- The payments at secondary school age should be given soon, but not immediately, after the start of the first academic year, if they are to prompt parental saving. Parents are most likely to respond when their income is increasing (and many return to work when their child reaches secondary school), but the very start of term is a crunch point when finances are tight.
- The payment at secondary school could be split between two different payments, if this acts as an extra reminder, and so prompts higher savings rates.

	Birth	Age 7	Age 12	Age 16	Leverage
Baseline					
Richest 60 per cent	250	250	250		
Second 20 per cent	500	500	500		
Poorest 20 per cent	500	500	500		
First priority: more progressivity					
Richest	250	200	150		
Middle	500	500	500		
Poorest	500	650	800		
Second priority: more progressivity and money for leverage at 16					
Richest	250	200	150		
Middle	500	400	300		300
Poorest	500	500	500		450
Third priority: More progressivity, money for leverage at 16, and two payments					
Richest	250	100	100	100	
Middle	500	250	250	250	250
Poorest	500	450	450	450	400

The consultations on timing, progressivity and size should not shut off wider debate about the CTF:

- The top-ups at age seven should be used as an opportunity to experiment with different forms of delivery, to see which have the most effect on parents' savings rates.
- Early thought should be put into structures for advice on how CTFs can be used responsibly.
- The language around CTFs could communicate more clearly the goals and values of the policy. This is important to safeguard its long-term future, and help entrench the values in public debate.

1 What should top-ups try to achieve?

The Government identified three key objectives of the Child Trust Fund (HM Treasury and Inland Revenue 2003: 1):

- *Independence and opportunities*: funds will "ensure that in future all children have a financial asset at the start of adult life to invest in their futures".
- *Security if things go wrong*: "in future all children will have the backing of a stock of financial assets at the start of their adult lives, helping to cushion the impact of unforeseen circumstances".
- *Promoting a savings habit*: CTFs will "help people understand the benefits of saving and investing" and "encourage parents and children to develop the savings habit and engage with financial institutions".

The wider literature on asset-based welfare suggests that CTFs could also contribute to two other government objectives: promoting active citizenship and reducing wealth inequality. These five objectives should shape the form that top-ups take.

Promoting active citizenship

Increasing voluntary and community engagement, especially amongst those at risk of social exclusion, was the sixth Home Office Public Service Agreement in the 2004 Spending Review (HM Treasury 2004a: 19), and the Chancellor has described his desire to make it a "national priority" to "engage a new generation of young people in serving their communities" (Brown 2004).

Savings and Assets for All (HM Treasury 2001a) suggested that a link could be made between CTFs and volunteering. This was later rejected in *Delivering Saving and Assets* (HM Treasury 2001b: 16), "to reduce the administrative burden, and to keep the policy objectives focused on saving and asset-accumulation". It is important to have well-focused policy objectives, but not to the extent that it undermines joined-up government.

Now that CTFs are more developed, the link between CTFs and volunteering should be reconsidered. There are three main reasons. The first is *philosophical*: both the right to a Child Trust Fund and the duty to be active in your community flow from a common principle, namely a strong conception of "citizenship". The rights and duties of citizenship are two sides of the same coin (see also White 2003).The CTF can be understood as giving each citizen a small stake in the national wealth as a matter of right, building on thinking originally expressed by Thomas Paine (1797). There are some natural resources in which we are all entitled to share: raw natural resources are "the common property of the natural race". Where private property has been adopted as a basis for economic life, this is legitimate only if all are guaranteed their share of this "natural inheritance" or an equivalent sum (see also Paxton *et al* forthcoming: Chapter One).

Second, on a more practical level, promotion of *volunteering* could benefit by being linked to CTFs. Rewards for volunteering might gain more public support if they were ear-marked for CTFs rather than immediate consumption. And, as argued by Stanley (2004), youth action has the potential to generate lifelong habits of civic engagement.

Third, public support for *CTFs* could in turn benefit by being linked to volunteering. The idea that government contributions are earned by recipients, through voluntary work or other means, would bind them tightly into a framework of rights and responsibilities. In other words, linking CTFs to volunteering would help to fulfil other government objectives (increasing saving, reducing wealth inequality and promoting equal opportunity) by strengthening support for the CTF.

Reducing wealth inequality

The government has already argued that asset-based policies should "*prevent* disadvantage by ensuring that children from lower-income households access the opportunities that flow from asset-ownership" (HM Treasury 2001a, 2). Reducing wealth inequality is an objective of government housing policy (HM Treasury and Office of the Deputy Prime Minister 2005: 2.21-2.22). To advance this objective, the CTF should be more explicitly egalitarian.

In discussing the correct progressivity and timing of top-ups, and the potential use of government money to secure wider buy-in, we refer to the objectives of the CTF as laid out above.

2 Progressivity: increase progressivity with age

This section argues that top-ups are considerably more important for those from low-income families, and should be made more progressive. Because later poverty is a stronger indicator of poverty in early adulthood, the ratio of progressivity should increase as children get older. To prevent an unacceptable cliff-edge of entitlement, and to ensure that money goes where it is needed most, there should be three tiers rather than two.

For security if things go wrong

For CTFs to act as a buffer, future top-ups must be focused in particular on children from poorer families. First, people on low incomes are more exposed to risks, and so have more need of a buffer. For example, if someone is low paid in one year, the probability of not working 12 months later is nearly three times greater than if they were not low paid (Stewart 1999: Table 2). The incidence of household fires is higher amongst lone parents and financially unstable households (ODPM 2004). And, if those on lower income can only afford lower-quality white goods, such as fridges, they are more likely to break down.

Second, coping mechanisms for dealing with risk are less robust for young people from low-income families. There is less access, for example, to parental wealth: data from the Family Resources Survey show that three quarters of children from the bottom two quintiles of the income distribution were from families reporting no financial wealth at all (Department for Work and Pensions 2005b). Similarly, those from social classes D and E are less likely to receive inheritances or lifetime gifts worth over £500, and much less likely to receive a more substantial one – even controlling for other factors (Rowlingson and McKay 2005). Weaker coping mechanisms make the impact of negative events longer-lasting, so that being working class roughly doubles the negative impact on living standards of events such as lone parenthood or unemployment (Taylor-Gooby 2001).

Boosting the “buffer” function of CTFs would have pay-offs for government in several areas. A financial buffer can help prevent the trigger events that cause poverty, such as losing a job or getting a divorce (See Walker 2005), and they can prevent short-term periods in poverty from causing longer-term ones.. The buffer function of assets can also help prevent financial shocks (such as a drop in income, or the need for a lumpy purchase such as fridge) from causing unsustainable debt spirals, contributing to the government strategy on over-indebtedness. And increasing the financial wealth of individuals generally increases their ability to take risk (Deaton 1992), allowing them to take advantage of risky opportunities such as starting a business.

For independence and opportunities

If we are aiming to increase independence and widen opportunities, rather than just improve security, we should still be increase progressivity. As mentioned above, children from low-income families have less family resources to draw on; crucially, this makes them less able to take advantage of different opportunities. To take homeownership as an example, survey data show how parents are likely to help their children with a purchase, and that this makes a substantial difference to later wealth holdings. A recent MORI survey showed that when parents owned their home, but had children aged 18-29 who did not, 77 per cent said they were willing to give help, 55 per cent said they were able, and, of those both willing and able, seven in ten said this financial support was likely to be given as a gift, and three in ten a loan (MORI Omnibus 2004). The effect on later wealth can be dramatic. An American study, tracking low-income renters and homeowners from 1984 to 1999, found that those who owned a home at the start of the period ended with an average net wealth 81 times greater than those who rented at the start of the period (Di et al 2001).

While any one type of investment in personal development could be subsidised by government, if desired, the advantage of CTFs is that they allow for the diversity of needs. For some, buying a car will make the difference between being able to find a job or not. For others, it will be education, or being able to afford the deposit to rent a flat. For those from the poorest families, CTFs will allow small but transformative investments that would not otherwise be possible.

Increase progressivity with age

Increasing progressivity as children age would ensure that government payments are better targeted on those who need them. If the top-ups are made too progressive, too early, there is a chance that some children who do not qualify for the progressive element may find their circumstances have deteriorated by the time they reach age 18. The relative priority of the objectives also shifts as children age: whereas CTFs can bring benefits in financial education and feelings of security before 18, independence and opportunities are only improved when the money is actually spent. For the sake of accurate targeting, it therefore makes sense to weight the progressivity towards the end, increasing it from the 2:1 ratio as children get older. We should, however, recognise a potential trade-off: if later payments feel more like a windfall than earlier ones, then the proportion of the money that is spent responsibly could decline. At this stage we can only speculate about how attitudes will vary according to when the top-up is made.

A new tier is needed as children get older

The first set of top-ups divides children into only two groups, with those in the poorer group receiving twice as much as the others. But a higher ratio of progressivity makes a single cliff-edge less tenable, as a £1 difference in income could lead to an unacceptably high difference in top-up. The fairest solution would be a sliding scale, but this would add too much complexity. Instead, a new tier could be created, so that children are divided into three groups rather than two. This section looks at where the third tier could fit into the distribution, and how it can be defined.

Currently, the progressive element of the CTF payment is received if a child's parents are eligible for maximum Child Tax Credit. This is equivalent to having a gross household income of less than £13,480 in 2004/05 or £13,910 in 2005/06. Assuming that this remains as one of the thresholds, where should the other one go? The two main options are to split the bottom group in half, or the top group in half. If we return to the arguments for progressivity, we see that the need is concentrated at the bottom, but quickly becomes less pressing by the middle, above the Child Tax Credit cut-off. This is especially true for arguments around financial inclusion and access to affordable credit – problems which are concentrated at the bottom fifth or two fifths of the income distribution. Splitting the bottom group in two, thereby creating a new tier for the poorest 20 per cent, would effectively identify those whose families find it extremely hard to save, and those for whom the risks identified above are greatest.

How could this group be defined? It might be suggested that we should look at receipt of "key benefits" - Jobseeker's Allowance, Incapacity Benefit, Severe Disablement Allowance, Disability Living Allowance, and Income Support. In February 2005, 20 per cent of children (0-16) and young adult dependents (16-18 and in full-time education) were in families claiming key benefits (Department for Work and Pensions 2005a: Table 7). This varied from 24 per cent in the North East to 13 per cent in the South East. Using this as a criterion for a new level of top-up would neatly separate those receiving a top-up into three groups: the bottom 20 per cent, in families on key benefits; the next 20 per cent, whose families receive the full claim for Child Tax Credit but not key benefits; and the rest, who would be unaffected.

But the use of benefit eligibility faces some important barriers. It goes against the grain of current social policy, by focusing on out-of-work benefits when the drive is to help people into work. And receipt of benefits gives only a snapshot of family circumstances, rather than the year-long summary given by annual income measures. This difference matters: in February 2005, 23 per cent of claimants had been claiming for less than one year (Department for Work and Pensions 2005a: Table 9). For the unemployed group, this figure was significantly higher, at 80 per cent, and for the sick/disabled group it was 15 per cent. Complications could also result from the fact that the data would be held by the Benefits Agency rather than HM Revenue and Customs, although linking the two databases should not prove impossible.

Instead, the new tier should be defined directly by income level. This has to be declared for the receipt of Child Tax Credits, so the only extra administration would be selecting those above and below a given level using data already held by HM Revenue and Customs. It would mean linking different computer systems, but although this would take effort it would not be impossible.Annual up-rating could be set in advance to include a set proportion of children, such as the lowest twenty per cent.

Table 1, below, shows for illustrative purposes the gross household income associated with each quintile of the children's income distribution. These figures have been provided by the Department for Work and Pensions, based on the Family Resources Survey 2003/4. They have been uprated to reflect earnings growth to 2005/06: annual earnings growth between 2003/4 and 2004/5 was 4 per cent (National Statistics), and this rate has been used again for the following year, as data are not yet available.

Based on these numbers, the poorest 20 per cent of children are in families with gross household income less than £17,604, and the poorest 40 per cent are in families with gross household income less than £26,800. This compares to the current threshold for qualifying for the £500 initial payment at birth, which is gross family earnings of less than £13,910 per annum in 2005/06. This definition of family earnings is the same used in the income tax system (HM Treasury 2002), and HM Treasury estimates that 40 per cent of children entitled to a Child Trust Fund fall below this threshold.

The difference between these figures and the Treasury ones are largely explained by different definitions of income: gross household income includes earnings from employment, pensions, and investment, but also benefits and tax credits, maintenance payments, income from educational grants and scholarships and the cash value of certain forms of benefits in kind, such as free school meals. The gross income definition is illustrative only, to give a sense of living standards.

Table 1: Income thresholds by quintile
Gross household income distribution for children uprated to 2005/06 earnings from 2003/04 figures (£)

Bottom quintile (Less than)	Second quintile			Middle quintile			Fourth quintile			Top quintile (More than)
17,604	17,604	-	26,800	26,800	-	37,149	37,149	-	52,953	52,953

Source: Calculations by the Department for Work and Pensions, based on the Family Resources Survey 2003/4
Figures have been inflated by 8.16 per cent to reflect two years' income growth.

Taking forward the creation of three tiers defined by income, the following options would cost the same as giving £250 to all children, and £500 for the poorest 40 per cent. All options give extra money for the poorest, but differ in where they take it from. To give a sense of what impact these changes would have, an extra £100 given at age seven would be worth £146 at 18; if given at 12, it would be worth £123; if at 16, £107. These assume 3.5 per cent real growth, based on 7 per cent nominal growth less 2 per cent inflation and 1.5 per cent management charges.

Table 2: Increasing progressivity – three options	
Current proposals	
Poorest 20%	500
Next 20%	500
Top 60%	250
Option A: More for the poorest, less for the richest	
Poorest 20%	650
Next 20%	500
Top 60%	200
Option B: More for the poorest and middle, less for the richest	
Poorest 20%	700
Next 20%	600
Top 60%	150
Option C: More for the poorest, less for the middle	
Poorest 20%	600
Next 20%	400
Top 60%	250

The arguments above suggest that the direction of redistribution compared to the baseline should be from the richest 60 per cent to the poorest 20 per cent – close to Option A in the table above. Increasing progressivity still further as children age implies a structure similar to the one below. This shows two top-ups, one made at age 7 and the other while the child is in secondary school, and retains cost neutrality compared to the baseline.

Table 3: First recommendation – increase progressivity

	Birth	Age 7	Secondary age
Baseline			
Richest 60 per cent	250	250	250
Poorest 40 per cent	500	500	500
+ more progressively			
Richest 60 per cent	250	200	150
Second 20 per cent	500	500	500
Poorest 20 per cent	500	650	800

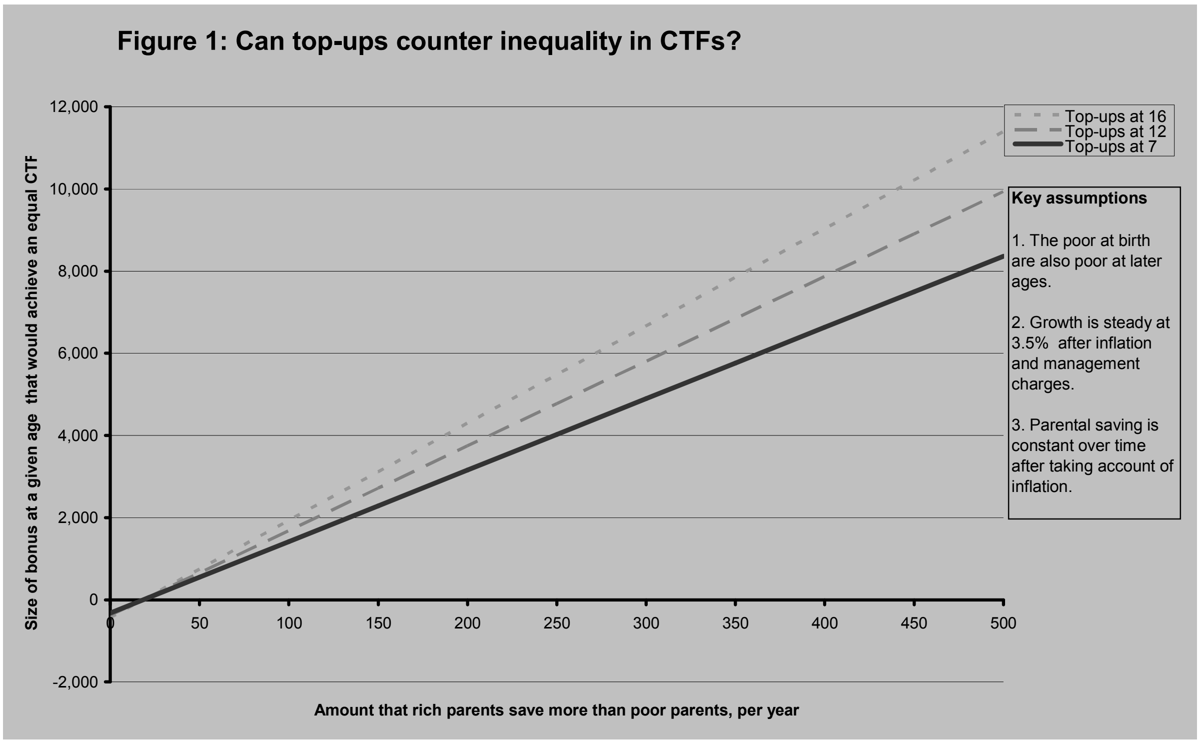
3 Size: the need to leverage in private savings

To reduce wealth inequality, top-ups alone are not enough

Top-ups make an important contribution to financial equality at 18. But the effect of CTFs on savings behaviour could be greater for wealthier parents than poorer ones, and a measure of strict financial inequality at 18 could then increase. Absolute equality should not be an objective – part of the difference would reflect saving by richer parents that would take place even without CTFs, and families should not be penalised for saving – but inequality on a very high scale could be seen as a threat to equal life chances.

At the extremes, an account with the maximum £1,200 annual saving could have a value 14 times greater than one that only receives the larger government top-ups: £500 government payments at birth, seven and 12 would be worth £2,270 if annual real growth is 3.5 per cent. If only £250 is given in payments at each age, but the parents save the maximum £1,200 per year, the account would be worth £31,570 at 18.

How should the government respond to this problem? Top-ups help, but even modest amounts of saving quickly outweigh any plausible level of top-up, as the graph below shows. If the child from the "rich" family receives just £10 per month more from his or her parents, then the "poor" child would achieve equality at 18 only with an additional top-up of £1,700 at age seven, £2,100 at 11, or £2,600 at 16.



Top-ups must therefore be combined with other measures. The government could consider creating local funds to channel donations to children in need; matching for savings; or matching for volunteering.

Community funds for the poorest children

One option would be to encourage philanthropic donations into the accounts of the poorest children, perhaps through the creation of local "community funds" that distribute money to, for example, children looked after by local authorities (see also Maxwell 2004). The funds could be kick-started by local authorities with central government money, fulfilling their role as corporate parent by making contributions to the CTFs of children in their care. Individuals and corporations would also be able to contribute, and any donations to the fund would be distributed annually to local children in need. These funds could be designated charities, so that donations to them would be tax-deductible - including for inheritance tax purposes. It is worth investigating whether diverting state expenditure from top-ups to, say, tax relief for donations to a community fund, would result in larger CTF values for the poorest children. We should be aware that if these funds are run at the local level, there may be regional disparities and asymmetries in how much these "community funds" attract.

Match family savings

A limited form of matching could be given for children from the poorest families. The rate of match could be relatively low, and with a low maximum, on the basis that payments would continue once inertia had been overcome. This would be similar to the match for payroll giving to charities, which has a maximum of £10 per month and lasts only 6 months. A match of £50 per year for the five years spent at secondary school, roughly equivalent to a single payment of £250, could have a greater effect on total account values if it encourages contributions from grandparents, godparents, and other friends and family.

Credits for volunteering

Previous suggestions for linking CTFs to active citizenship have included paying small bonuses into the fund in exchange for volunteering (HM Treasury 2001a), although as already noted these ideas were later rejected (HM Treasury 2001b). This is worth re-examining, not just because CTFs and volunteering would benefit from being linked together, and Child Trust Funds are now more developed than they were in 2001, but also because government policy on volunteering has changed since credits were last proposed. In *Youth Matters,* a DFES Green Paper, the Government proposed that local authorities and charitable organizations should reward young people for volunteering with credits on "Opportunity Cards" that they can spend on sports and other constructive activities (DFES 2005).

This framework could be linked to CTFs relatively easily: as well as giving credits to Opportunity Cards, relevant organisations could have the option to give credits direct to CTFs for young people aged 14-18 volunteering – or at least allow children the choice to put credits into their CTF. The Government could also consider matching these credits, with a low match rate and ceiling, in order to 'kick-start' these programmes (see Maxwell 2005).

Any match for volunteering could, if desired, be restricted to children from poorer families. More analysis is needed on how the distributional effects would be influenced by different take-up rates, on how the relevant organisations would respond, and on the logistical issues. But such ideas are worth exploring. It would be unfortunate for the government to commit to a certain top-up at secondary school without fully exploring whether the money could have more impact if used more creatively to leverage in money from other sources.

Effect on top-up sizes

Assuming cost neutrality overall, money for leveraging in private funds into the CTFs of poorer children at age 16 could be set aside by adjusting the top-ups in the following way:

Table 4 : Second recommendation – set aside money for leverage

	Birth	Age 7	Secondary school age	Leverage
Baseline				
Richest 60 per cent	250	250	250	
Poorest 40 per cent	500	500	500	
+ more progressivity				
Richest 60 per cent	250	200	150	
Second 20 per cent	500	500	500	
Poorest 20 per cent	500	650	800	
+ money for leverage at 16				
Richest 60 per cent	250	200	150	
Second 20 per cent	500	400	300	300
Poorest 20 per cent	500	500	500	450

4 Timing: the case for two top-ups at secondary school

To promote a savings habit, frequency matters more than size

In *Delivering Saving and Assets* (HM Treasury 2001b), the Government proposed top-ups at ages five, 11 and 16. The case for two top-ups at secondary school remains strong, even if this means that each one has to be smaller. Looking solely at promoting a savings habit, additional top-ups alone will not increase the financial incentive to save. Their contribution to this objective will be by acting as reminders, prompting parents and others to make contributions into an account that may otherwise be left dormant. This being so, the timing and delivery of top-ups could have a greater effect on savings behaviour than their size or progressivity. So, for top-ups to act as a reminder and a prompt for action, several smaller payments could have more effect than a single large one.

More frequent top-ups would also mean that the total size of government payments would better reflect family circumstances over childhood. The child's family circumstances are effectively sampled at a few key years when top-ups are made. Increasing the number of samples would increase the accuracy of the assessment.

Timing the top-ups to maximise engagement

When should top-ups be given? CTFs may have more effect on the financial education of children if the whole cohort receives its top-ups at the same time, rather than spread throughout the year on individual birthdays. Complementary education would feel more relevant if top-ups had just been received, and children and parents would be more likely to discuss CTFs if they all received vouchers at the same time. Although this would mean that there would be less time for the top-ups to grow for children born towards the start of the school year, this is no different than the payment of the progressive element of the first payment.

A single payment time might be found by asking when during secondary school it would have the greatest effect on the engagement and financial education of children, and (a different question) parents. Would children respond most if it was around the time of their first holiday or evening job? When they undertake work experience, around the age of 14? Or on a significant birthday, such as 16, when they are likely to receive more money from other sources and to be thinking about whether to save or spend? The timing of these events is so diverse that it would be difficult to find a point optimal for even a large minority. Given that the timing of financial education in schools can be arranged to fit the payment, particularly if the payment occurs at a certain point in the academic or calendar year rather than on a birthday, it would be more effective to time the payment to engage the parent, rather than the child.

When would this be? Saving is easiest when income is increasing (Sunstein and Thaler 2000), and many parents – especially lone parents – are likely to return to work just after their youngest child reaches secondary school. This suggests that soon after the start of secondary school is a time when parents may be relatively likely to start saving, if prompted.

But immediately after school starts is also a time when outgoings increase. The costs of starting school are significant for those on a low income: a low-cost uniform and PE kit for a secondary-school boy was found to cost £156.60 in 2002 (Family Welfare Association 2002). The 1999/2000 Family and Children Study showed that 13 per cent of all children aged 11 live in a family who said their children needed a school uniform but could not afford it, compared to an average across all ages of seven per cent (Howard 2003; see also Citizens Advice 2005).

Given the above, top-ups are most likely to encourage parents to save if they are given soon, but not immediately, after the start of the academic year – for example, in October of that year. If they are to be given on a birthday, then the twelfth birthday is preferable to the eleventh, as all children will be in secondary school so more parents are likely to be in work.

To conclude, there should be two top-ups while the child is at secondary school, in order to maximise the promotion of a savings habit, and they should be timed soon after the start of secondary school. Relating this to the previous recommendations produces a possible structure, below. Like previous suggestions, this is cost neutral compared to giving £250/£500 at two points.

Table 5 : Third recommendation – two payments at secondary school

	Birth	Age 7	Age 12	Age 16	Leverage
Baseline					
Richest 60 per cent	250	250	250		
Poorest 40 per cent	500	500	500		
+ more progressivity					
Richest 60 per cent	250	200	150		
Second 20 per cent	500	500	500		
Poorest 20 per cent	500	650	800		
+ money for leverage at 16					
Richest 60 per cent	250	200	150		
Second 20 per cent	500	400	300		300
Poorest 20 per cent	500	500	500		450
+ two payments					
Richest 60 per cent	250	100	100	100	
Second 20 per cent	500	250	250	250	250
Poorest 20 per cent	500	450	450	450	400

5 Other policy decisions

Debate on the future of Child Trust Funds should not be confined to the role of top-ups. Early thinking should take place about the form top-ups take, ways to encourage responsible use of the funds at maturity, and how to safeguard the long-term future of the policy.

The form of top-ups

It is worth remembering that the effect of top-ups on education and savings rates depends on more than just their rate and timing. It could also depend on the method of delivery: an automatic transfer from a government account to a CTF, resulting in one extra line on the annual statement, would do little to encourage parents to save. On the other hand, requiring some kind of response from parents would be unwise, given the slow response rate to the initial vouchers. However, the top-ups at age seven are an opportunity to experiment with different forms of delivery, to see which have the most effect on parents' savings rates. And the government could benefit from waiting for data on how savings rates change in response to top-ups before deciding on the timing and delivery of the top-ups at secondary school age.

Advice to encourage responsible use

Not putting restrictions on how CTFs are used was the right decision, both for practical reasons and to promote responsibility. But there are other measures that could help ensure that the funds are used responsibly. As well as general financial education, top-ups towards the end of secondary school could be accompanied by an interview with a personal adviser, perhaps a teacher or a Connexions career adviser. Alternatively, access to the CTF might be conditional upon attending such an interview. These ideas are explored more fully in Paxton and White (2006, forthcoming).

Using language that reinforces values

Ministers' speeches on CTFs have been powerful, with the Chancellor, for example, linking CTFs with the aspiration that "not just some, but all children have the best possible start in life… and all children in Britain have a stake in the wealth of the nation." (Brown 2005). Yet such language and values do not find an expression in much of the CTF literature for parents, nor in the official terms used to describe the policy. Even the name "Child Trust Funds" does nothing to suggest the values on which it is based – values such as equal opportunities, citizenship, community, and long-term investment for the future.

The language used to describe policy is important if progressive change is to be embedded. Evoking certain values can influence which are prioritised when settling debate. Lakoff (2004) analyses how choosing one term over another will evoke a different "frame", and these in turn decide how people think about the issue. He uses the example of "tax relief", which is used by the right in preference to "tax cuts": it introduces the frame that tax is an affliction from which we require relief, thereby making proposals to cut taxes more persuasive. Because frames are strengthened by familiarity, tying a policy to a particular one can also work as a "wedge", or a slippery slope. They widen the space within which an idea is accepted, and open the way to more ambitious applications.

These points become more important for a policy as long-term as CTFs. The course it takes in the future, and the way future citizens understand its objectives, will not depend on speeches made now or in the past few years, but, at least in part, on the values that are embedded in it and evoked by its descriptions. The neutral language around CTFs means that once the Government changes, the progressive ideology that accompanies CTFs could also be threatened. For values to be fully communicated to the public, they need to escape from the comment pages of newspapers to the everyday language in which the policy is described.

What can be done? It is too late to name CTFs in a way that communicates their purpose, such as the original ippr proposal, "Children's Opportunity Funds" (Kelly and Lissauer 2000). One option would be to name the top-ups in a way that communicates that the payment for all children is based on equal citizenship, while the one for children from poorer families is based on equal opportunities. This could mean calling them the "Citizen's payment" and "Fair opportunities payment", or something similar.

6 Conclusion: the future of Child Trust Funds

Bringing the conclusions together:

- Top-ups should become more progressive as children get older, and a new tier should be created to focus payments on those who need them most.
- The government should explore ways of leveraging in money from other sources, even if this means diverting some of the money from top-ups.
- The top-up at secondary school should be split between two different payments.

Below, we show how these might be achieved by rebalancing the current proposals. The recommendations are built up incrementally, starting with the changes that we consider to be the most important.

Table 6 : Prioritised recommendations for top-ups

	Birth	Age 7	Age 12	Age 16	Leverage
Baseline					
Richest 60 per cent	250	250	250		
Poorest 40 per cent	500	500	500		
+ more progressivity					
Richest 60 per cent	250	200	150		
Second 20 per cent	500	500	500		
Poorest 20 per cent	500	650	800		
+ money for leverage at 16					
Richest 60 per cent	250	200	150		
Second 20 per cent	500	400	300		300
Poorest 20 per cent	500	500	500		450
+ two payments					
Richest 60 per cent	250	100	100	100	
Second 20 per cent	500	250	250	250	250
Poorest 20 per cent	500	450	450	450	400

These should be combined with the other recommendations made in the text:

- On the timing of the payment at secondary school age: payments should be given soon, but not immediately, after the start of the first academic year.
- The top-ups at age seven should be used as an opportunity to experiment with different forms of delivery, to see which have the most effect on parents' savings rates.

- Encouraging extra donations into the accounts of the poorest children should be a priority. This could mean creating a community fund for local children in need; matching or otherwise encouraging donations in return for voluntary work, as part of the government's Youth Volunteering Framework; and/or considering a limited match on savings.

Child Trust Funds have the potential to transform how the current generation of toddlers enter adulthood: even a modest account will add a new sense of security, and open a set of opportunities previously restricted to those with wealthy and generous families. In establishing CTFs, the hardest work has been done. The plumbing is laid. The challenge now is to ensure that future top-ups and initiatives focus on those most in need. More progressivity, and ensuring that private funds flow into the accounts of children from very poor families, should be the next priorities.

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