

Child Trust Fund – the facts

What is a Child Trust Fund?

The government introduced the Child Trust Fund (CTF) to encourage people to invest for their children's future. Every eligible child is given a £250 voucher when their parents register for Child Benefit, which must be used to open a Child Trust Fund account on their behalf. The money cannot be withdrawn by anyone except the child, and then only once they reach 18.

Is every child eligible?

Any child born on or after 1 September 2002, resident in the UK, and whose parent or guardian receives Child Benefit on their behalf, should be eligible for a CTF. This includes Crown servants living abroad who are treated as though they live in the UK for tax purposes.

The parent or guardian in receipt of Child Benefit will usually be the Registered Contact for the child's CTF and will be able to manage the account on their behalf until the child reaches age 16.

Are there different types of CTF account?

Yes – one type of stakeholder account, and two types of non-stakeholder account are available. A child can have only one CTF account at a time, but the type of account - or the provider - can be changed at any time at the request of the Registered Contact (or the child once they reach 16).

Stakeholder accounts

Although investment in this type of CTF account is linked to shares, it's designed to be suitable for less-experienced investors and must meet certain requirements set by the government:

- It must be possible to gradually move the investment into lower risk assets (such as cash or government bonds) from the child's 13th birthday. This is designed to limit the effect of possible falling shares prices on the value of the account as their 18th birthday approaches, and is often referred to as 'lifestyling'.
- The minimum payment which the provider accepts into the CTF account must not be more than £10.
- The provider's total yearly charges must not be more than 1.5% of the account's value.

Non-stakeholder accounts

Shares-based: This type of account usually involves investment linked to the stock market, and can offer a range of investment fund choices from a variety of fund managers, or direct investment in company shares.

- It's the most flexible option as you can choose the type and range of shares to invest in (for example, just one company or type of business).
- The provider's charges can be higher than for a stakeholder CTF.

contd. . .

For more info see thechildrensmutual.co.uk or contact us . . .

Consolidated Communications

Elspeth Rothwell Tel: 020 7781 2366 Mob: 07811 375998 E: pressoffice@thechildrensmutual.co.uk
Katie Donlan Tel: 020 7781 2376 Mob: 07980 928560 E: pressoffice@thechildrensmutual.co.uk

The Children's Mutual PR Managers

Wendy Roberts Tel: 01892 775337 E: wendy.roberts@thechildrensmutual.co.uk
Stephanie Quantick Tel: 01892 775348 E: stephanie.quantick@thechildrensmutual.co.uk

The Children's Mutual is a trading name of the Tunbridge Wells Equitable Group, which includes Tunbridge Wells Equitable Investments Company Limited. **Baby Bond**® is a registered trade mark of Tunbridge Wells Equitable Friendly Society.

Child Trust Fund – the facts *contd.*

- There is no requirement for switching to lower-risk investments from age 13.
- With this type of account there could be a better chance of getting a good return, but the risk of losing money can also be higher.

Cash: This is sometimes also called a 'savings account'.

- Over an 18-year period it is likely to grow the least, as it doesn't tap into the growth potential of shares. It works in much the same way as a normal cash deposit account – except there's no access to the money until the child is 18.
- It offers the security of being certain that the child will get back the full amount that has been paid in.
- The interest added over 18 years may not keep up with inflation, which will reduce the buying power of the money paid in.

Who decides where the CTF is invested?

Once a parent or guardian receives the child's voucher from the government they can choose who to invest it with. There is a list of HM Revenue & Customs approved CTF providers on their website at www.childtrustfund.gov.uk.

If the voucher has still not been invested 12 months after it was issued, HMRC will open an account for the child with a provider who offers Stakeholder CTFs. However, the Registered Contact can change the type of account, or move it to another provider, at any time thereafter.

It is not usually necessary for the actual voucher to be sent to the CTF provider along with the application (although some providers have yet to update their systems to allow for this, so applicants should check). This has simplified the process considerably, especially for those applying online.

How much does the government contribute?

Every eligible child is sent a £250 voucher shortly after he or she is registered for Child Benefit. If the child's family is receiving Child Tax Credit at the highest rate, the child will receive a further £250 from the government after the end of the tax year in which their CTF is opened. The government will make a second contribution of £250 (or £500 if the family is still receiving the highest rate of Child Tax Credit) when the child is seven.

Additional government contributions – special circumstances

Dependent on the child's circumstances, health, or location, they may be eligible for additional government contributions. For example, the government has recently announced that, from April 2010, it will contribute an extra £100 each year into the accounts of all disabled children, with severely disabled children receiving £200 a year. This is in recognition of the fact that disabled children are likely to have greater financial needs in their adult life.

The Department for Children, Schools and Families (DCSF), has announced that it will be making extra payments to the accounts of children in the care of local authorities. For more details see www.hmrc.gov.uk/ctf/ctflbulletin8.htm.

And the Welsh Assembly Government has made a commitment to introduce a Welsh top-up to the Child Trust Funds of all eligible children in Wales. For more details see <http://wales.gov.uk/topics/housingandcommunity/regeneration/debt/ctf/ctfip/?lang=en>.

contd. . .

Child Trust Fund – the facts *contd.*

How much can be invested in addition to the government contributions?

Anyone can pay into a child's fund, but total contributions between all payers cannot exceed £1,200 a year, birthday to birthday.

How are CTFs treated for tax purposes?

All investment growth is completely free from personal tax.

Can money be withdrawn at any time?

Regardless of who has made the contribution(s), no money can normally be withdrawn from the account except by the child once they reach 18.

What happens when the child turns 18?

Once the child reaches 18 the account will no longer be a CTF account, and they will have to decide what to do with the money. They can withdraw it, or decide to carry on investing some or all of it by moving the money to another type of account. The government has said that it will allow CTF funds to be rolled over into an Individual Savings Account on maturity, without affecting the account-holder's ISA allowance for that tax year.

For more information, see www.childtrustfund.gov.uk or contact The Children's Mutual.