Delivering Saving and Assets

Appendix: Consultation Responses

November 2001

HM TREASURY

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- there was also some support for grossing up of contributions on a stakeholder or personal private pension model;
- nine respondents felt that there should be no tax incentives, typically because these would not be well targeted at those on lower incomes.

Investment options

A7 Should the CTF offer the option of different investment strategies, or should it offer only one, risk-averse, investment option?

- 41 respondents addressed this question. Of these:
- the vast majority felt that there should be an element of investment choice, with that choice including some exposure to equities;
- specific suggestions included index-tracking collective investment funds, actively managed funds, and time related investment strategies, moving assets from higher to lower-risk investments with the approach of maturity;
- six respondents suggested a with-profits investment option;
- other alternatives included long-term savings bonds, endowment policies and National Savings bonds;
- only five felt that there should be a single risk-averse investment option.

A8 What role is there for private sector financial services providers and mutual societies in delivering the bundle of services (deposit capability, investment management, advice and information) that could make up a CTF account?

- 33 respondents addressed this question. Of these:
- all felt that there was a potential role for the private sector;
- 14 felt that there was a role for the private sector, but did not elaborate further;
- 19 argued for a role for the private sector, and provided further detail, ranging from detailed specification of what this role might involve, to more general principles for defining private sector involvement;
- there was, however, very little consensus on this issue, with very few suggestions being made by more than a handful of respondents.

Access to funds

A9 At what age should young adults gain access to their CTF assets?

- 39 respondents addressed this question. Of these:
- 28 felt that access should be at age 18;
- six argued for age 21;
- other suggestions, made by a handful of respondents, were for earlier (age 16) or later (age 25) access;
- some respondents also suggested that the precise age of access should depend on other factors, such as the use to which assets are to be put to, or whether the recipient goes into tertiary education.

A10 Should parents have access to any additional contributions they have made into their children's CTF?

- 39 respondents addressed this question. Of these:
- 26 argued for no parental access;
- four argued for unlimited parental access;
- nine suggested that some access should be provided, either limited to a fixed amount or permitted only in exceptional circumstances.

A11 Should the assets in a matured fund have restrictions placed upon their use?

- 31 respondents addressed this question. Of these:
- 15 argued against restrictions;
- seven respondents suggested a hybrid system, with restrictions for access at immediate maturity (e.g. at age 18), but with these restrictions being lifted at later ages (e.g. from age 21);
- nine argued in favour of restrictions.

Financial education

A12 What would be the best way to build in financial education into a CTF, especially bearing in mind the objective of using it to develop young people's saving habits?

- 40 respondents addressed this question. Of these:
- the most popular suggestion was to connect financial education in the CTF to the school curriculum, with 24 respondents making this suggestion;
- other suggestions for using public sector initiatives included Sure Start and the Connexions service, provision of information through the Inland Revenue or the Department of Work and Pensions, and the use of NHS services for parental education;
- the most frequently proffered suggestion for involvement from financial services providers and other financial organisations was the provision of internet-based tuition modules, suggested by 14 respondents.

A13 Could community service or other activities be rewarded through small bonuses paid into the fund?

- 32 respondents addressed this question. Of these:
- 13 respondents felt that community service credits should not be built into the CTF;
- the remaining 19 respondents felt that some community service rewards could be implemented, although many also raised practical difficulties.

RESULTS OF CONSULTATION – SAVING GATEWAY

A14 There were fewer responses to the consultation on the Saving Gateway (SG) than for the Child Trust Fund. Of the 51 respondents to the consultation as a whole, 12 did not respond to the Saving Gateway consultation. A detailed breakdown of the responses from those who did respond to the Saving Gateway proposal follows.

Targeting

AI5 What is the appropriate mechanism for targeting eligibility to the SG in order to ensure that all those who would benefit from stronger incentives to save are reached?

- 27 respondents addressed this question. Of these:
- 14 argued for an eligibility "passport" either from an existing benefit or from receipt of a tax credit such as the Working Families' Tax Credit;
- the remainder of responses suggested some alternative form of income test, either through a direct measurement of income, or via the tax system.

Matching incentives

AI6 Is matching the best way to deliver non-tax based incentives to save to lower-income households?

- 34 respondents addressed this question. Of these:
- almost all (31) were in favour of matching as an effective incentive for saving;
- the remaining three responses raised concerns about matching incentives.

AI7 At what level should a matching rate be set? Should the level be fixed or vary according to income?

- 24 respondents addressed this question. Of these:
- 12 argued for a fixed level of matching, with the majority of these opting for a fixed 1:1 matching level;
- 11 argued for a level of matching that varied with the SG participants' income level;
- three respondents argued for a match level that varied with the amount saved, so that the more the participant saved, the lower the level of match received would be.

Developing a saving habit

AI8 What is the best way of structuring the incentives in the SG to ensure that the saving habit is encouraged?

- 25 respondents addressed this question, with almost as many different ideas as there were responses. Some of the more common suggestions included:
- rolling-up the matched element of the SG into a single lump-sum payment to be paid at the end of a pre-determined "saving period", e.g. quarterly or annual;
- providing an additional bonus for savings that remain in the account over an entire saving period.

AI9 At what level should limits on contributions which are matched be set? Should the limit be set on a monthly or annual basis?

- 30 respondents addressed this question. Of these:
- 19 argued for monthly limits and 11 for an annual limit;
- 13 declined to address the issue of the exact level of contribution limits;
- proposals for the level of the contribution limit varied from £10 per month (£120 per annum) to £125 per month (£1,500 per annum).

Duration **A20** **For what period of time should the SG run?**

- 32 respondents addressed this question. Of these:
- 24 called for a period of between three and five years;
- suggested variations on this time period included offering participants the option to choose the lifetime of their SG account, and having the account run on a three-year rolling basis to allow savers to apply for more than one SG in their lifetime;
- five respondents argued that there should be no time limit on the lifetime of the Saving Gateway.

Access and flexibility **A21** **Before the account matures, should savers have instant access to all funds – including matching funds – in the SG, or just to their own contributions?**

- 28 respondents addressed this question. Of these:
- almost half (13) argued that savers should be able to access their own savings, but not any matching contributions;
- a further five respondents argued that access to savers' contributions should be limited to specific "emergency" or rainy-day eventualities;
- seven responses called for access to savers' own contributions to be conditional on loss of any matching contributions from the Government;
- two respondents felt that there should be no access at all to assets saved in the SG, while one argued for unlimited access to all assets, including the Government match;
- a number of respondents also suggested access in the form of borrowing against assets, in the same model as credit union accounts.

A22 **How best could the Saving Gateway be integrated with existing savings vehicles such as ISAs and stakeholder pensions?**

- 29 respondents addressed this question. Of these:
- 13 called for an exemption of SG assets at maturity from annual limits for stakeholder pensions or ISAs;
- four argued that an additional financial incentive over and above Government matching should be offered to participants transferring their SG assets at maturity into an alternative mainstream saving vehicle;
- a more radical suggestion was that the SG be built on existing ISA systems infrastructure, so that the account could automatically convert to an ISA at maturity.

Investment options **A23** **Should a SG offer the possibility of different investment strategies?**

- 33 respondents addressed this question. Of these:
- 18 argued that asset allocation in the SG should be limited to cash deposits;
- the remaining respondents argued for a wide range of possible investment options for participants, from index-tracking equity funds to with-profits insurance funds, with varying degrees of choice for SG participants.

A24 What role would there be for private sector financial services providers and mutual societies in delivering a SG?

- 30 respondents addressed this question. Of these:
- almost all saw at least some role for private sector financial services providers, although there were different views on which types of providers would most likely be involved;
- banks and building societies were the most often cited potential providers;
- other suggestions included National Savings or the Universal Bank, partnerships between financial service providers and local community groups, and the possibility of a single provider running the SG on a nationwide basis.

Financial Education

A25 What would be the best method of delivering financial education through the SG?

- 29 respondents addressed this question. Most respondents came up with a number of suggestions, the most frequently mentioned of which were as follows:
- ten respondents mentioned the role of the FSA in providing financial education, through its consumer help line, decision trees and consumer education forum, and felt that the FSA could be used to provide some generic information on saving and the SG in particular;
- six respondents suggested using the workplace as an effective channel for financial education, with suggestions from seminars to workplace financial advisors to corporate co-branded SG schemes with payroll deduction;
- a number of existing Government initiatives, such as the New Deal, Connexions service, the DfES adult literacy initiative and the DTI consumer advice network were mentioned;
- many respondents also raised the importance of locally-based public services in providing financial information and education – including public libraries, Benefit Agency offices, Job Centres, and post offices;
- non-governmental local services that could be used included credit unions, community groups and Citizens' Advice Bureaux;
- for private sector financial services providers, remote distribution channels such as the internet, interactive TV, third generation mobile phones and even promotional videos were the most popular methods discussed;
- five respondents also mentioned the importance of using regular statements as an instructional tool in helping provide people with the understanding required to get the most out of their SG accounts.