

<b>Institution: Institute of Education</b>
<b>Unit of Assessment: 25</b>
<b>Title of case study: Child Trust Fund: the study that helped to deliver baby bonds</b>
<b>1. Summary of the impact</b> (indicative maximum 100 words)

This case study focuses on IOE research that played a pivotal role in the establishment of the last Labour government's Child Trust Fund, the world's first universal children's savings scheme. The fund benefits UK children born between 2002 and 2011. Its designers aimed to ensure that every young person had some savings at age 18. The scheme was scrapped by the coalition government in January 2011 and replaced with Junior ISAs. However, it has left a very substantial legacy – in the form of nest eggs for six million children that will hatch when they reach their 18<sup>th</sup> birthday. Between 2020 and 2029, they will gain access to funds that had already amounted to £4.8 billion by May 2013<sup>1</sup>.

<b>2. Underpinning research</b> (indicative maximum 500 words)
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**Context:** Thomas Paine, author of *The Rights of Man*, proposed what can be seen as the original forerunner of the Child Trust Fund. In *Agrarian Justice*, a pamphlet published in 1797, he called for a national fund, provided through inheritance tax, which would pay £15 to every 21-year-old in England. Two hundred years later, in 1989, Julian Le Grand of the London School of Economics revived the idea. He summed up his proposal in one sentence: "You take the wealth of one generation, use it to fertilise the wealth of the next". Just over 13 years ago the Institute for Public Policy Research (IPPR) developed a related model that was more politically palatable - 'baby bonds' that the government would give to each child at birth. The thinking behind this scheme came partly from the United States where Michael Sherraden, of the University of Michigan, had been advocating 'asset-based welfare'. His argument was that the poor can build significant assets with the right jump start. It was then evidence supplied by Professor John Bynner and research officer Sofia Despotidou of the IOE that helped to convince the Blair government that they should establish the Child Trust Fund scheme. At the time of the research, Bynner was director of the Centre for Longitudinal Studies at the IOE. He is now an Emeritus Professor of Social Sciences in Education at the IOE.

**Key findings:** Bynner and Despotidou discovered that having even very modest savings at age 23 had a very wide range of beneficial economic, social and health effects 10 years later – see references **R1** & **R2**. Perhaps unsurprisingly, the study also found that people with savings seemed to be happier than those with no assets.

**Threshold sum:** Another key finding was, however, much less predictable. The researchers had thought that the more savings a young adult had, the stronger the asset effect would be, in other words, the more likely they were to be happy, and the less likely they were to be unemployed. Instead, they found that what seemed to matter most was that a person had modest savings at age 23 (£200 in 1981 – the equivalent of about £600 today). The amount of savings that men held above the £200 threshold appeared to have no bearing on the likelihood of being unemployed. There was a similar, though weaker, association between women's savings at 23 and unemployment at 33.

**Health:** Men's health was also positively associated with savings but there appeared to be no savings effect on women's health once other factors were considered. There also seemed to be an association between depression and savings, and approximate thresholds for men and women could again be identified.

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<sup>1</sup> Although young people cannot touch the money until the age of 18 they will gain control over how it is invested at age 16.

**Impact case study (REF3b)**

Marriage and attitudes: Men and women with savings at 23 were less likely to experience marital breakdown by 33. Those with savings were also most likely to be anti-racist and to trust the political system.

Psychological benefits: The researchers concluded that savings appear to protect against poor mental wellbeing. The amount of savings, once a threshold has been reached, does not seem to matter. This suggests that the benefit of savings may be as much psychological as economic. It is possible that having savings during the early twenties provides a degree of confidence, and feeling of self-worth, that underpins some of the effects identified. Conversely, being in debt at this age has negative effects on a person's wellbeing. This is perhaps the study's most important result.

**Research methods**: Bynner and Despotidou analysed data on 11,400 young adults taking part in the National Child Development Study (NCDS), which is following a cohort of British people born in one week in March 1958. At the time of their research (1999-2000) the cohort had been surveyed at birth, and ages 7, 11, 16, 23 and 33. The research related information on savings, any investments or inheritance (over £500) – collected during the age 23 interview – to outcomes at 33.

First stage: The researchers examined the individual impacts of different types of assets – savings, investments and inheritance (the multivariate statistical technique of Ordinary Least Squares regression was used). More than four in five cohort members (82%) had savings at age 23, whereas only just over one in ten had investments (11%) or an inheritance (12%). Although investments and inheritance had evident effects, they were not as impressive as the savings effects. The researchers therefore focused particularly on savings.

Second stage: They then considered other outcomes that could conceivably be affected by savings, and the amount needed for a positive effect to be observed.

Third stage: Finally, the researchers reverted to examining the effects of savings and investments separately, again attempting to ensure that the apparent asset effect was not masking a more fundamental cause, such as social class.

**3. References to the research** (indicative maximum of six references)

R1: Bynner, J. & Despotidou, S. (2000) Effects of Assets on Life Chances. London: Centre for Longitudinal Studies, Institute for Education.

R2: Bynner, J. & Paxton, W. (2001) The Asset-effect. London: IPPR.

R3: McKnight, A. (2011) Estimates of the asset-effect: the search for a causal effect of assets on adult health and employment outcomes, CASE paper 149, Centre for Analysis of Social Exclusion (London School of Economics).

**Grants**: The Department for Education and Employment funded the research. It paid the IOE £8,985 for the analysis of data gathered by the NCDS. Bynner was the grant-holder. The research was carried out in 2000 and 2001.

**Indicators of quality**

**IQ1**: The two key research papers that Bynner co-authored in 2000 and 2001 (**R1& R2**) have been cited repeatedly in international analyses of the asset effect (see 'Overseas influence', Section 4 of this case study).

**IQ2**: Although critics of 'baby bonds' have questioned whether a small amount of savings can have the claimed benefits, the LSE study (**R3**), which also used NCDS data, echoed Bynner's findings. It found that savings have positive effects on wages, job prospects, general health and in reducing malaise. The LSE research also endorsed Bynner's conclusion that savings do not generally need to be large to have positive significant effects.

<b>4. Details of the impact</b> (indicative maximum 750 words)
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**Beneficiaries and dates of benefit:** The six million UK children with Child Trust Fund accounts are its main beneficiaries. Between 2020 and 2029 they will gain access to funds that had already amounted to £4.8 bn by May 2013<sup>2</sup>. Arguably, parents also benefit as they can currently (from April 6, 2013) put up to £3,720 of tax-free savings into these accounts on their children's behalf. Under the original scheme all children born on or after September 1, 2002 received a voucher which their parents could use to start a savings account that their child could not touch until the age of 18. All families initially received a £250 voucher, while children from low-income households qualified for an extra £250. The Labour government later decided to pay another £250 into fund accounts at age 7 (this applied between September 1, 2009 and July 31, 2010). Those in low-income families got a further £250 at age 7. The scheme was closed to children who were born after January 2, 2011.

**Reach and significance:** Bynner and Despotidou's findings helped to persuade Labour ministers to proceed with the trust fund scheme. This initiative was included in Labour's 2001 election manifesto and was eventually launched in January 2005. The IOE research influenced the politicians and policy advisers who initiated the scheme. It has also helped to shape policy thinking on asset-based welfare in other countries. As the following evidence demonstrates, the study has had two important types of impact which can be categorised<sup>3</sup> as 'instrumental' (influencing policy and/or practice) and 'conceptual' (enhancing general understanding and informing debate).

**Instrumental impact:**

Bynner discussed his findings with government policy advisers at a No. 10 Strategy Unit meeting in early 2000. Gavin Kelly, of the IPPR, the policy's principal architect, attended this meeting, as did key advisers from the Prime Minister's Office. Bynner also gave a presentation on his research to the Savings and Assets for All seminar held at 11 Downing Street on July 18, 2001.

*Influence on Gavin Kelly:* Ten years later Kelly reflected on the importance of the IOE research in persuading the government to launch 'baby bonds' in a BBC Radio 4 interview with *Guardian* journalist Polly Toynbee in September 2011 – see impact source **S1**. *"It was a rather idealistic notion in some ways, that Britain would be a very different and better country if every young person grew up knowing that when they come of age that they would have something behind them to let them get a decent start in life. We also did it though because we had hard, hard evidence that this intuition actually was real. We did a big study with the Institute of Education looking at what happened to those young adults who started off in life with a small capital sum, a pot of assets if you like, at their disposal compared to those who didn't ... It was a very powerful effect and one which was much more powerful than frankly we had expected to find and so we were driven on by that finding -- and by what we saw happening more generally in terms of asset inequality".*

*Impact on ministers' thinking:* Six years earlier, in another Radio 4 interview (**S2**), David Blunkett, the former Education Secretary, had also confirmed that the research had a significant impact on government thinking. *"We were absolutely staggered by the difference that having some assets, some stake, made to individuals, not just in terms of that start in life as adults at the age of 18 but throughout life, a difference obviously in terms of security and stability, but also actually their willingness to engage with life. That stake transforms not only their interest in themselves, in employment, in education but aspiration for their children, a willingness to participate in wider community events, all those things materially affected by whether someone has a stake, and it doesn't have to be a massive stake".* David Blunkett also testified to the importance of the IOE research in helping to shape the scheme in a 2003 lecture (**S3**) in which he expanded on his thinking about asset-based welfare.

<sup>2</sup> HM Treasury consultation on allowing the transfer of savings from a CTF to a Junior ISA (2013) [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/198726/child\\_trust\\_fund\\_consultation\\_on\\_allowing\\_the\\_transfer\\_of\\_savings\\_from\\_a\\_ctf\\_to\\_a\\_junior\\_isa\\_140513.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/198726/child_trust_fund_consultation_on_allowing_the_transfer_of_savings_from_a_ctf_to_a_junior_isa_140513.pdf) See page 7, para 2.2.

<sup>3</sup> Using Evidence: How Research can Inform Public Services (Nutley, S., Walter, I., Davis, H. 2007)

**Impact case study (REF3b)**

*Green Paper*: The impact of the research on government thinking had, however, been acknowledged as early as 2001 – in *Savings and assets for all* (S4), a Green Paper which sought agreement on the broad principles behind the scheme. This document referred to the IOE study and said: “... this powerful new evidence suggests that having access to at least limited financial assets can have a marked impact on people’s economic and social wellbeing”.

**Conceptual impact:**

*Social mobility report*: John Bynner’s findings have also been cited in high-profile policy documents such as *Unleashing aspiration*, the 2009 report of the panel on fair access to the professions chaired by Alan Milburn MP, who subsequently became the coalition Government’s ‘social mobility tsar’. His report notes: “*There is good evidence, for example, that access to moderate amounts of financial capital at an early age can have major impacts on later life outcomes: a small amount of capital (between £300 and £600) at age 23 is associated with better outcomes later in life*” (S5).

*Overseas influence*: Policy-makers and think tanks from countries including the USA, France, Germany, New Zealand and Brazil have shown interest in learning from the UK’s baby bonds ‘experience’. Some of the documents that have emerged from their deliberations refer to the findings of the IOE study (S6). The New America Foundation referred to the IOE research in its testimony to a US Senate sub-committee that investigated ways of building assets for low income families in 2005. The Foundation reported that: “... *work in the United Kingdom ... 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’.*” (S7). The same statement appeared in the first major Canadian book on asset-based policy (S8). The IOE research is also referred to in reports on assets-based policies prepared for international bodies such as the World Bank (S9), the European Commission (S10) and the Organisation for Economic Co-operation and Development.

**5. Sources to corroborate the impact<sup>4</sup> (indicative maximum of 10 references)**

- S1: *The Class Ceiling* (Episode 2), broadcast on BBC Radio 4, September 8, 2011  
<http://www.bbc.co.uk/programmes/b014629m> (35 mins into broadcast)
- S2: David Blunkett was interviewed by Stephanie Flanders for Radio 4’s *Analysis* programme, ‘The Asset Effect’, broadcast on August 18, 2005.  
[http://news.bbc.co.uk/nol/shared/spl/hi/programmes/analysis/transcripts/18\\_08\\_05.txt](http://news.bbc.co.uk/nol/shared/spl/hi/programmes/analysis/transcripts/18_08_05.txt)
- S3: ‘Civil renewal: a new agenda’, CSV Edith Kahn Memorial Lecture, June 11, 2003.
- S4: HM Treasury (2001a) *Savings and assets for all: the modernisation of Britain’s tax and benefit system*, Number eight. London: HM Treasury.  
[http://www.revenuebenefits.org.uk/pdf/savings\\_and\\_assets\\_for\\_all.pdf](http://www.revenuebenefits.org.uk/pdf/savings_and_assets_for_all.pdf)
- S5: Cabinet Office (2009) *Unleashing Aspiration: The Final Report of the Panel on Fair Access to the Professions*. London: Cabinet Office.  
<http://webarchive.nationalarchives.gov.uk/+http://www.cabinetoffice.gov.uk/media/227102/fair-access.pdf>
- S6: Bennett, J., Quezada, E.C., Lawton, K. & Perun, P. (2008) *The UK Child Trust Fund: A Successful Launch*, IPPR and the Initiative on Financial Security at the Aspen Institute.  
<http://www.ippr.org/publication/55/1649/the-uk-child-trust-fund-a-successful-launch>
- S7: Testimony of the New America Foundation to sub-committee of US Senate Committee on Finance, April 28, 2005. <http://www.finance.senate.gov/imo/media/doc/rbtest042805.pdf>
- S8: Robson, J. & Nares, P. (2006) *Wealth and Wellbeing/Ownership and Opportunity: New Directions in Social Policy for Canada*, SEDI. <http://www.sedi.org/DataReqV2-unified/sedi-IDA/Assets%20Book%20English%20Version.pdf>
- S9: Sherraden, M. (2006) ‘Schemes to Boost Small Savings: Lessons and Directions’, Presented at a World Bank conference, Washington, DC, May 30-31, 2006.
- S10: Hubert, A. (2010) *Empowering People, Driving Change: Social Innovation in the European Union*. Bureau of European Policy Advisers.  
[http://ec.europa.eu/bepa/pdf/publications\\_pdf/social\\_innovation.pdf](http://ec.europa.eu/bepa/pdf/publications_pdf/social_innovation.pdf)

<sup>4</sup> All web links accessed 11/10/13