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Case study on the impact of IOE research that underpinned the Child Trust Fund scheme

November 2011

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Why this research is highly significant

This case study focuses on 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 is a long-term tax-free savings initiative for UK children born between September 1, 2002 and January 2, 2011. Its designers aimed to ensure that every young person had some savings at the age of 18. They also hoped to encourage children to become savers and gain an understanding of personal finance.

The scheme, which has been described as "arguably the most innovative social policy implemented under the post-1997 Labour governments" (Prabhakar 2010), was scrapped by the coalition Government in January 2011. However, it has left a very substantial legacy – in the form of nest eggs that will benefit 5 million children. From 2020 it is estimated that 18-year-olds covered by the scheme will inherit a combined sum of £2.5 billion.[1]

Background

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."[2]

Just over 10 years ago, however, 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. He also contended that assets change people's perspectives: "While incomes feed people's stomachs, assets change their heads" (Sherraden 1991).

The IPPR's proposals might not have been adopted, however, without the evidence supplied by the IOE research featured in this case study. John Bynner, assisted by Sofia Despotidou, analysed data produced by the National Child Development Study and found that having even very modest savings at age 23 had a range of beneficial economic, social and health effects 10 years later (Bynner and Despotidou 2001). This helped to persuade Labour ministers to proceed with the trust fund scheme.

This initiative was promised in the Labour Party's 2001 election manifesto and was eventually launched in January 2005. Under the original scheme all children born after September 2002

Who conducted this research?

The research was carried out by Professor John Bynner, the then director of the Centre for Longitudinal Studies, Institute of Education, University of London. He was supported by research officer Sofia Despotidou.

Who provided the funding?

The Department for Education and Employment funded the research. It paid the Institute of Education £8,985 for the five-week analysis of data gathered by the National Child Development Study, which is following the lives of a cohort of British people born in one week in March 1958.

received a voucher[3] which their parents could use to start a savings account that their child would not be able to access until the age of 18[4]. All families initially received a £250 voucher, while children from low-income households qualified for an extra £250.

The Labour government subsequently decided to pay another £250 into trust fund accounts at age 7. The oldest children in the scheme – those who turned seven between September 1, 2009, and July 31, 2010 – received that extra payment. Children in low-income families also got a further £250 on their seventh birthday. However, the coalition Government ended all age 7 payments after July 31, 2010. The birth payment of £250 was reduced to £50 after August 3, 2010. The scheme was then closed to children born after January 2, 2011 as part of the Government's spending cuts.[5]

How the study was conducted

Research questions

John Bynner set out to answer two principal questions:

1. Do assets (savings, investments and inheritance) acquired by the age of 23 predict outcomes at age 33, taking account of earlier circumstances, achievements[6] and personality factors?[7]
2. Does the size of the asset matter (is there a threshold level of asset that can affect a person's wellbeing and behaviour)?

Research method

Bynner and Despotidou analysed data gathered on 11,400 members of the National Child Development Study, which is managed by the Centre for Longitudinal Studies[8], Institute of Education. 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.

The researchers considered whether asset-holding had affected a range of occupational, health, citizenship and family outcomes at age 33. Among the outcomes examined were:

- years in full-time employment; years unemployed; years at home (mainly women caring for families); self-employed[9] or not

at age 33
- marital stability; general health status; smoking/non-smoking
- inclination to vote; interest in politics; degree of political cynicism
- number of books a cohort member's first child had access to; how often they read to their child.

First stage of research: The statistical analysis[10] began with examining the individual impacts of different types of assets – savings, investments and inheritance. 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[11], they were not as impressive as the savings effects. The researchers therefore focused particularly on savings. These had a persistent relationship with all the outcomes tested that was independent of the cohort members' circumstances at birth, such as their family's social class, and the ages that their father and mother left full-time education.

Second stage: They then considered other outcomes that could conceivably be affected by assets, such as parenting,[12] and examined the value of the asset needed for a positive effect to be observed.

Third stage: Finally, the researchers reverted to looking at the effects of savings and investments separately, again attempting to ensure that the apparent asset effect was not simply masking a more fundamental cause, such as social class. They did this by including other data on home ownership and earnings at age 33.

What the research discovered

Perhaps unsurprisingly, the study found that people with savings seemed to have better life chances and be happier than those without assets. 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 money that people had, the more likely they were to be happy, and the less likely they were to be unemployed. They found that this was not the case.

What seemed to matter most was that a person had modest savings of about £200 at 23 (note that these figures relate to savings in 1981 – this equates to about £600 today). For example, men with less than £200 savings were much more likely to experience unemployment than those with more savings, even when other factors were taken into consideration. Moreover, above the £200 threshold the amount of assets held 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. With women, savings of only £100 to £200 were associated with reduced chances of being unemployed. Men's belief in the work ethic – but not women's – was also positively related to savings.

Men's general health was positively associated with assets too. However, there appeared to be no asset effect on women's health once qualifications, earnings and home ownership were considered. People with assets at age 23 were less likely to be smokers at 33. There also appeared to be an association between depression and savings, and rough thresholds could again be identified. The risk of depression among men dropped as savings increased from £200 to £1,400, but the very wealthy appeared to be more depressed. For women, the picture was less clear, but those with savings of £100 or more were at less risk of becoming depressed.

Men and women with savings at 23 were also less likely to experience marital breakdown by 33. Those with assets were most likely to be anti-racist

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and to have trust in the political system. However, the amount of assets a person had at 23 appeared to have no effect on their inclination to vote[13] and their parenting behaviour[14].

The study's conclusions

The researchers argued that several conclusions could be drawn from these results. First, assets appear to protect against unemployment and poor physical and mental wellbeing. The size of asset, once a threshold of a few hundred pounds has been reached, does not seem to matter as much as having it. This suggests that the benefit of assets may be as much psychological as economic. It is possible that having savings, as opposed to being in debt 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 most important result of all to emerge from the research.

Dissemination

John Bynner was called to a meeting at the No 10 Strategy Unit in early 2000 to answer questions about his research. Gavin Kelly, the principal architect of the trust fund policy, 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.[15]

The project's impact

The IOE research influenced the Westminster politicians and policy advisers who initiated the trust fund scheme. It has also helped to shape policy thinking on asset-based welfare in other countries.

Influence on UK government thinking

Gavin Kelly, the policy's chief designer, was research director at the IPPR when the proposals were originally mooted. He underlined 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.[16]

"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."

Six years earlier, in another Radio 4 interview[17], David Blunkett, the former Education Secretary, had also confirmed that the research had a significant impact on Ministers' 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[18] in which he expanded on his thinking about asset-based welfare.

"There was a clear failure to see how a fairer and wider distribution of assets could underpin our social justice aspirations and renew engagement with our democracy. That has now begun to change. During my period as Secretary of State for Education and Employment, I commissioned longitudinal research[19] which provided powerful evidence for the importance of asset ownership. It showed that people with assets, such as savings and investments, are less likely to be unemployed or suffer poor mental or physical health, and are more likely to be politically aware."

The impact of the Bynner research on government thinking had, however, been acknowledged as early as 2001 – in *Savings and Assets for All*[20], a green paper which sought agreement on the broad principles behind the Child Trust Fund 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".

Influence on other UK policy thinking

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[21] chaired by Alan Milburn MP, who subsequently became the coalition Government's 'social mobility tsar'.

"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."

Overseas influence

Policy-makers and think tanks from countries including the United States, France and New Zealand have shown interest in learning from the UK's baby bonds 'experience' (Prabhakar, Lloyd and Mulheirn 2010). Some of the documents that have emerged from these deliberations refer to the findings of the IOE study (Bennett et al 2008). The first major Canadian book on asset-based policy (Robson and Nares, 2006) also contains the following passage:

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

"… 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.'" (Bynner and Despotidou 2001)

The IOE research is also referred to in reports on assets-based policies prepared for international organisations such as the World Bank (Sherraden 2006), the European Commission (Hubert 2010) and the Organisation for Economic Co-operation and Development (Mendelson 2007).

Coda

Critics of the Child Trust Fund scheme have argued that it is too expensive -- the projected cost in 2011/12 was £520 million.[22] It is not only the cost of the scheme that has triggered debate, however. The very idea of an asset-effect remains controversial (Prabhakar 2009). Some have questioned whether it was really assets which caused the changes in behaviour and the different outcomes that Bynner identified. It can be argued, for example, that good health allows people to accumulate assets, rather than the other way round.

The research evidence on this issue is relatively scant and somewhat contradictory. Although some studies back the existence of an asset-effect (Sherraden 2002), other research contests these findings (McKay and Kempson 2003). However, recently published research at the London School of Economics, building on John Bynner's work, found faults in McKay and Kempson's study. This new research, which also used data from the National Child Development Study, concluded that there is an asset effect (McKnight 2011). It found that assets have positive effects on wages, employment prospects, general health and in reducing malaise. These assets do not generally need to be larger than £600 (the equivalent of £200 in 1981).

This debate is likely to continue but two things are not disputed. First, the research by John Bynner and Sofia Despotidou played a crucial role in the Blair government's decision to introduce the Child Trust Fund. Secondly, millions of children have benefited materially from the scheme. We will now have to wait until the nest eggs begin to hatch in 2020 before we can begin to assess the full extent of the advantages that these savings will confer on them.

Further Reading

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SHERRADEN, M. (2006) *Schemes to Boost Small Savings: Lessons and Directions*,
Presented at a conference, "Access to finance: building inclusive financial systems",
World Bank, Washington, DC, May 30-31, 2006.

Notes

1 COLLINSON, P., "Scrapping child trust funds would only benefit the well-off, say analysts", the *Guardian*, May 22, 2010.

2 WILLIAMS, Z.,"Why we cannot afford to raid the Child Trust Fund piggy bank", the *Guardian*, May 2, 2010.

3 The voucher was issued after a parent had registered for child benefit

4 Young people with CTF accounts will, however, be encouraged to manage their fund themselves from age 16. For more information on how these accounts operate see http://www.direct.gov.uk/en/MoneyTaxAndBenefits/ChildBenefitandChildTrustFund/ChildTrustFund/index.htm

5 The Child Trust Fund was terminated by the Savings Accounts and Health in Pregnancy Grant Act 2010. The Government has, however, announced that from November 1, 2011, Junior ISAs will be available for those families with children who miss out on a Child Trust Fund account, including those born before the scheme was introduced. These savings will also be locked in until a young person turns 18. The Government also announced earlier this year that it would fund a new system of savings accounts for children in care.

6 The researchers took into consideration cohort members' highest qualification, maths ability at age 11 and the age at which they left full-time education.

7 The analysis also included information on their attitudes to education at 16.

8 The Centre for Longitudinal Studies is an Economic and Social Research Council (ESRC) Resource Centre. It provides support and facilities for researchers using the three internationally-renowned birth cohort studies: the NCDS, the 1970 British Cohort Study and the Millennium Cohort Study. CLS also conducts research using the birth cohort study data, with a special interest in family life and parenting, family economics, youth life course transitions and basic skills. The Centre is supported by a consortium of funders led by the ESRC.

9 'Self-employed' was sub-divided into manual and non-manual.

10 The multivariate statistical technique of Ordinary Least Squares regression was used. The unstandardised regression coefficients estimated by the technique give the proportional increase in each dependent variable (outcome) for a single unit change in each explanatory variable (assets and controls).

11 Men with investments were less likely to have been unemployed and more likely to be self-employed. They were also more likely to rate themselves as generally healthy and to have a strong interest in politics. Women with investments tended to have a strong interest in politics and were less likely than other women to express political cynicism.

12 Parenting behaviour was measured in a sub-sample of 1,700 cohort members at age 37.

13 For both men and women it was investments, rather than savings, that were the more powerful predictor of interest in politics.

14 Parenting was more strongly related to a person's qualifications.

15 The full text of John Bynner's Downing Street presentation can be found at http://www.smith-institute.org.uk/file/PensionsSavingsandAssets.pdf

16 The Class Ceiling (Episode 2), broadcast on BBC Radio 4, September 8, 2011.

17 David Blunkett was interviewed by Stephanie Flanders for Radio 4's *Analysis* programme, "The Asset Effect", broadcast on August 18, 2005.

18 "Civil renewal: a new agenda", the CSV Edith Kahn Memorial Lecture, June 11, 2003.

19 The footnotes to the lecture make it clear that David Blunkett was referring to the Bynner research.

20 HM Treasury (2001a). Savings and assets for all: the modernisation of Britain's tax and benefit system, Number eight. London: HM Treasury.

21 Cabinet Office (2009: "Unleashing Aspiration: The Final Report of the Panel on Fair Access to the Professions". London: Cabinet Office.

22 Speech by the Chief Secretary to the Treasury, David Laws MP, May 24, 2010 http://www.hm-treasury.gov.uk/press_06_10.htm