Research Office
Legislative Council Secretariat

Information Note

Child savings programmes in selected places

IN16/17-18

1. Introduction

1.1 In the past two decades, a number of places including Hong Kong have implemented asset-based social policy through child development account or other types of individual account programmes to encourage individuals to build assets and human capital for their future and promote their self-reliance. Child development account programmes involve the setting up of savings or investment accounts as early as from birth, allowing parents and children to accumulate assets over a specified period of time, being supplemented by public incentives and/or matching funds, for future uses such as education and healthcare.

1.2 Child development account programmes adopted in different places vary in their programme objectives, coverage and account features. In Hong Kong, the Child Development Fund ("CDF") is a target-specific programme introduced in 2008 to encourage children to plan for the future and cultivate positive attitudes with a view to reducing inter-generational poverty through the provision of mentoring and matching funds for saving. Contrary to Hong Kong, overseas places such as Singapore and the United Kingdom ("UK") have put in place a universal child development account programme with a broader coverage and scope aiming at building financial assets for children under the support of public funds.

1.3 Singapore's child development account programme is distinctive as it is linked with the participants' education and provident fund accounts to form a comprehensive asset-building system for Singaporeans from birth to old age. Despite the fact that the child development account programme in the UK was replaced by a tax-free savings account programme after six years of operation due to budget constraint of the government, the programme had commanded popularity among the public and instilled changes in the savings habits of the participating parents for accumulating assets for the future development of their children.

1.4 At the request of Dr Hon CHIANG Lai-wan, the Research Office has prepared this information note aiming to study the universal child development account programmes in Singapore and the UK, covering information on (a) programme objectives and coverage; (b) account features; (c) account administration and fund management; and (d) implementation experiences and outcomes. The salient features of the child development account programmes in Hong Kong, Singapore and the UK are summarized in the **Appendix**.

2. Child Development Fund in Hong Kong

2.1 In Hong Kong, the Government set up CDF in 2008 with the aim of helping children aged between 10 and 16 or students studying in Primary Four to Secondary Four from a disadvantaged background.[1] CDF funds projects operated by non-governmental organizations ("NGOs") and schools. Each project lasts for three years and comprises three components, namely personal development plan, targeted savings programme and mentorship programme. Through the CDF projects, eligible participants recruited by NGOs and schools concerned are encouraged to (a) plan for their future; (b) develop a savings habit; and (c) accumulate intangible assets such as positive attitude, personal resilience and social networks. The three components are designed to broaden participants' horizons, enhance their abilities and personal qualities as well as enrich their social experiences which are beneficial to their future development and help them build intangible assets for combating poverty.

Features of the targeted savings programme

2.2 Under a CDF project, participants are encouraged to set a savings target of HK$200 per month over a two-year period. Corporate and/or private donors, together with the Government, contribute to a 1:1:1 matching fund for the participants' savings. Each participant can accumulate up to a maximum sum of HK$14,400 over a two-year period (i.e. the participant,

[1] Families of the target participants are either (a) earning a household income less than 75% of the median monthly domestic household income; or (b) receiving Government financial assistances such as the Comprehensive Social Security Assistance, the Working Family Allowance or full grants from student finance schemes administered by the Student Finance Office.

the donor and the Government each contributes HK$4,800)[2] to implement their personal development plans under the guidance of their mentors upon completion of the targeted savings programme. In general, the monthly savings will be kept in a bank account either under the name of the CDF project operator concerned or under the name of the participant/parent. In any case, the CDF project operators may consider negotiating with the bank for bank account services that may streamline the monitoring of the savings.

Children participation and programme evaluation

2.3 Since the establishment of CDF in 2008, the Government has injected HK$900 million into the Fund aiming at supporting around 30 000 grassroots children. Up to date, seven batches of NGO-run projects and five batches of school-based projects have been rolled out. The number of beneficiaries was estimated to be over 17 000. Based on the government information as at March 2017, 97% of the participants in the completed projects could meet the target of saving HK$200 per month.[3]

2.4 The findings of a government-commissioned evaluation study completed in 2017 reflected that the CDF projects are effective in enhancing participants' ability in resource management and future planning. Comparing against the attitude and behaviour of a group of non-participants sampled for the study, the sampled CDF participants (a) displayed a greater motivation and pleasure in learning and studying; (b) had higher academic expectations and commitment to their goals; (c) were more likely to have a savings habit; and (d) had a more positive future orientation. Nonetheless, the study recommended conducting a longitudinal study among the CDF participants if possible, to shed light on the long-term effectiveness of CDF projects in easing inter-generational poverty.[4]

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2 For projects launched in or after 2016, Government's financial incentive has been adjusted from a fixed amount of HK$3,000 to a matching contribution of 1:1 up to HK$4,800 for each participant. However, if the participant saves less than HK$3,000 over the two-year targeted savings period, the Government will still provide a fixed amount of HK$3,000 special financial incentive.

3 The information was provided by the Social Welfare Department.

4 See Department of Social Work & Social Administration of the University of Hong Kong (2017).

Limitations about the Child Development Fund

2.5 Nonetheless, some stakeholders were concerned about the **limited number of children covered** under the CDF projects. According to the Government, about 172 000 children aged below 18 or 17.2% of children in this age cohort were in poverty in 2016 after policy intervention.[5] In the 10 years since CDF was established, only some 17 000 grassroots children had participated in CDF projects. There is concern that since the programme is voluntary in nature, the programme may benefit mainly children who are more eager to seek development opportunities, leaving out those who are more passive in orientation.[6] As such, there have been calls for expanding the coverage of CDF projects.[7]

2.6 Besides, some stakeholders are concerned about the **small amount of funds accumulated** under the targeted savings programme which was not sufficient for the participants to join longer-term personal development programmes and to help them ease poverty. There have also been views that the Government and the private sector should increase the level of matching contributions to increase the amount of savings under the CDF projects.[8]

2.7 In light of the limited children coverage and small amount of funds accumulated under the CDF projects, some stakeholders have **suggested setting up a universal long-term child development account programme in Hong Kong** for children to accumulate assets as early as from birth with contributions from the Government, families and other third parties, so that children can better prepare for their future, which helps promote upward mobility as well as inter-generational poverty alleviation.[9] Yet, some stakeholders have reservations about the suggestion since families with better financial resources might have already saved for their children using financial products in the private market and might not want to be bound by restrictions under a public savings account programme. Some stakeholders are also

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5 The poverty lines are set at 50% of the median monthly household income before taxation and social welfare transfer by household size. See Government of the Hong Kong Special Administrative Region (2017).

6 See 智經研究中心 (2017).

7 See Legislative Council Secretariat (2015), Minutes of Meeting of the Panel on Welfare Services of the Legislative Council (2015) and 星島日報 (2017).

8 See Minutes of Meeting of the Panel on Welfare Services of the Legislative Council (2015) and 有線新聞 (2017).

9 A motion on "Advocating the establishment of a 'baby fund' " was debated at the Legislative Council meeting of 14 June 2017.

critical of the proposal in view of the shortcomings of the current Mandatory Provident Fund System (e.g. high management fees) which has similar asset-building function.[10]

2.8 In response to the suggestion of setting up a universal long-term child development account programme, the Government held the view that providing children with a sum of money for future use irrespective of their financial background might not be the most effective way of encouraging children to prepare for the future, and is not an effective means of deploying public resources. The Government indicated that it had adopted a multi-faceted and target-specific approach in supporting child development in Hong Kong focusing on children from a disadvantaged background. This approach would ensure that limited public resources could be better used. Apart from CDF, the Government said that it has been supporting grassroots children to have equal opportunities of receiving quality education through various financial assistance schemes for students[11] and assistance programmes under the Community Care Fund ("CCF");[12] and there are other targeted policy measures to support future needs on aspects like housing and healthcare when the children grow up.[13]

3. Overview of the development of child development account programmes in overseas places

3.1 The development of child development account programmes around the world has been influenced by the wider development of asset-based policy since the 1990s, premised on the limitations of passive income support and means-tested public assistance programmes in encouraging self-reliance. An asset-based social welfare policy is guided in part by the concepts of saving, investment, and asset accumulation for the future, rather than entirely by the concepts of income and immediate consumption that guide income support programmes. The former could contribute to economic well-being and

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[10] See Official Records of Proceedings of the Legislative Council (2017).

[11] Examples of financial assistance schemes include the school textbook assistance scheme and the student travel subsidy scheme for primary and secondary students, and the financial assistance scheme for post-secondary students.

[12] Examples of assistance programmes under CCF include programmes for providing hostel subsidy for needy undergraduate students and increasing the academic expenses grant under the financial assistance scheme for post-secondary students.

[13] See Official Records of Proceedings of the Legislative Council (2017).

growth while the latter is more of social welfare. Asset-based policy can also be designed to improve life chances and instill behavioural and psychological changes among the participants, making them more **financially secured and future-oriented** through asset accumulation.[14]

3.2 Nonetheless, there have been concerns about the cost-efficiency of asset-based policy in view of **its higher administration costs** compared to other direct income support measures. Research studies on the effectiveness of asset-based policy have not fully evaluated their benefits against the costs involved. Another limitation of asset-based social policy is that **in the absence of government assistance**, requiring the poor to save out of their low incomes may come at the cost of meeting basic consumption needs and it **may not be an effective tool in tackling wealth inequalities**.[15]

3.3 In overseas places, there are various target-specific or universal child development account programmes adopted serving different policy objectives. Typical **target-specific programmes** are the Child Development Account programme in South Korea, and the Child and Youth Future Education and Development Account Programme in Taiwan, both of which are long-term initiatives targeted at **disadvantaged children**, as opposed to Hong Kong's CDF programme with a just three-year project span. **Universal programmes** feature universal coverage of all children for long-term asset accumulation, such as the Child Development Co-Savings (Baby Bonus) Scheme ("Co-Savings Scheme") in Singapore and the Child Trust Fund ("CTF") programme in the UK, as well as the Education Savings Programme in Canada mainly for children's education.

3.4 The following sections focus on studying the universal child development account programmes in Singapore and the UK with (a) a long horizon of asset accumulation starting from birth; (b) multi-purpose funds utilization; and (c) transferability to other asset-building accounts.

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[14] See Johnson, A. K. and Sherraden, M. (1992) and Center for Social Development of the Washington University in St. Louis (2016).

[15] See McCauley, C. (2011).

4. Child Development Co-Savings (Baby Bonus) Scheme in Singapore

4.1 The Singaporean government introduced the **Co-Savings Scheme** in April 2001 as part of the government's efforts with an aim to support the development of the Singaporean children and increase fertility rate. The Co-Savings Scheme is a universal scheme administered by the Ministry of Social and Family Development ("MSF"), covering all newborns and children up to age 12 who are Singapore citizens.[16] The Co-Savings Scheme is notably part of the comprehensive asset-building system with linkages to other asset-building accounts, such as the Post-Secondary Education Account ("PSEA") to support the long-term development of the Singaporean children.

Features of the Co-Savings Scheme

Generous initial and co-savings contributions of the government

4.2 The Co-Savings Scheme comprises two components, namely the **cash gift** and the **child development account ("CDA") benefits.**[17] Cash gift is offered to support parents' out-of-pocket caregiving costs for newborns. The amount of cash gift offered is S$8,000 (HK$46,100) for each of the first and second born child and S$10,000 (HK$57,600) for each of the third and subsequent born child. The benefit is deposited in the bank account of one of the parents.[18]

4.3 **CDA is a special interest-earning savings bank account** set up for parents to build up assets over a period of 12 years[19] for meeting their children's future needs. Upon account opening, the Singaporean government will make an initial **"First step" contribution** in an amount of

[16] No specific eligibility criterion is imposed on the citizenship status of parents participating in the Scheme. Notwithstanding this, a child born in Singapore only acquires Singapore citizenship if either the child's father or mother is a Singapore citizen and is lawfully married at the time of the child's birth. For a child born to unwed parents, his or her Singapore citizenship is granted only if his or her mother is a Singapore citizen.

[17] The cash gift is only provided to children born to lawfully married parents to encourage births within marriages. The CDA benefits are provided to all children, including those born to unwed parents, to support the growth and development of children.

[18] MSF has regularly reviewed the Co-Savings Scheme and enhanced its features to better support the development needs of the Singaporean children. Since 2015, MSF has increased the amount of the cash gift benefit by S$2,000 (HK$11,520) and extended the coverage to the fifth and subsequent child.

[19] The savings timeframe has been increased from six years to 12 years since January 2013 and applies to children born on or after 1 January 2006.

S$3,000 (HK$17,280).[20] Parents or any others can put savings in CDA of the child before he or she turns 13 to obtain government contributions up to the specified limit.[21] The current schedule of the CDA benefits committed by the government is shown in **Table 1**.

Table 1 – Schedule of the child development account benefits[(1)]

Birth order	Contributions by the government in CDA			Accumulated savings in CDA assuming parents contribute up to the matching cap[(2)] (D)=(A)+[(B)x2]
	"First step" benefit (A)	1:1 matching cap for the entire savings period (B)	Maximum contributions (C)=(A)+(B)	
First and second child	S$3,000 (HK$17,280)	Up to S$3,000 (HK$17,280)	Up to S$6,000 (HK$34,560)	S$9,000 (HK$51,840)
Third and fourth child		Up to S$9,000 (HK$51,840)	Up to S$12,000 (HK$69,120)	S$21,000 (HK$120,960)
Fifth and subsequent child		Up to S$15,000 (HK$86,400)	Up to S$18,000 (HK$103,680)	S$33,000 (HK$190,080)

Notes: (1) The Singaporean government enhanced the CDA benefits and introduced the "First step" benefit in March 2016. The schedule for the CDA benefits is valid for babies born on or after 24 March 2016.

(2) It is assumed that parents do not withdraw any savings, and interests earned on the savings and government top-ups are not included.

Source: Ministry of Social and Family Development (2017).

4.4 Based on the above schedule and assuming that parents have saved up to the maximum matching cap and have not spent any of the savings, the accumulated savings in a CDA of a first or second born child may reach **S$9,000 (HK$51,840)** without taking into consideration the interests earned and other ad-hoc government contributions.

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[20] Before introducing the "First step" contribution in March 2016, the Singaporean government only made matching contributions to CDA up to the specified limits. Under the new arrangement, the cap for matching contributions has been reduced and the maximum amount of CDA benefits has remained unchanged.

[21] A participant's CDA will be closed when he or she turns 13 and the account balance will be transferred to the participant's education account, PSEA. However, parents who have not saved up to the CDA matching cap can continue to save in PSEA for obtaining government co-contributions before the participant turns 18.

Take-up rates and contributions during 2001 to 2013

4.5 According to the Singaporean government's latest available information,[22] between 2001 and 2013, about **297 000 CDAs** had been opened with a **take-up rate** of 97% for the 2001 to 2005 birth cohorts and 95% for the 2006 to 2013 birth cohorts. **On parent contribution**, during the period, **48% of CDAs** for the first and second born children[23] have saved to matching cap;[24] and the Singaporean government has **co-contributed a total of S$1.4 billion (HK$8.68 billion) into CDAs**, representing an **average amount of co-contribution per account** of about **S$4,700 (HK$29,140)**.

Ad-hoc top-ups

4.6 Apart from the initial and co-contribution, the Singaporean government may also top-up CDAs as an ad-hoc measure to assist targeted groups of families when its fiscal position is strong. For example, in the 2015 Budget, the Singaporean government made a **top-up** to CDA of every child aged six years and below. The amount of top-up for each eligible child was **S$600 (HK$3,384)** for less well-off families measured by home value.[25] For children from better-off families, the top-up was halved to **S$300 (HK$1,692)**. The **total government contributions for the top-up in 2015 amounted to S$126 million (HK$711 million), benefitting around 230 000 children**.[26]

Uses of the accumulated savings for meeting education and healthcare needs

4.7 While the parents can flexibly withdraw and use the cash gift to pay for any type of expenses for their children, they cannot withdraw the funds accumulated in CDA in cash. Instead, parents can only use the funds in CDA through bank transfer for specified purposes: (a) education and healthcare expenses at approved institutions such as child care centres, kindergartens and special education schools registered with the Ministry of Education, hospitals and clinics, pharmacies and optical shops; or (b) buying government-approved medical insurance plans. Parents may also use the funds for the child's siblings to meet the above purposes.

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[22] See Ministry of Social and Family Development (2016a and 2016c).

[23] The children group refers to the 2006 to 2013 birth cohorts.

[24] For eligible CDA participants born before March 2016, the Co-Savings Scheme cap was set at S$6,000 (HK$34,560) and the first step benefit was not available.

[25] Home value is assessed in terms of estimated annual rent assuming the property is let out.

[26] See Singapore Government (2018).

4.8 According to the Singaporean government, for all CDAs opened between 2001 and 2013, a total of S$1.56 billion (HK$9.67 billion) was withdrawn and used on education services such as child care centre and kindergarten fees, representing 85% of the funds used during the period, while the rest was spent on healthcare related services.[27]

Linkage with other asset-building programmes for children's long-term development

4.9 A distinctive feature of the Co-Savings Scheme is its linkage with other universal asset-building programmes set up by the government to provide comprehensive support for the Singaporeans from birth to old age. Under the Co-Savings Scheme, **a participant's CDA will be closed when he or she turns 13**. **The account balance will be transferred to the child's interest-earning education account**, PSEA, which is managed by the Ministry of Education to help parents save for their children's post-secondary education and encourage Singaporeans to complete post-secondary education.[28, 29] According to MSF, CDAs for the first cohort born in 2006 with a savings timeframe of 12 years have not matured until 2019, so the relevant statistics on the transfer amount is yet available.

4.10 Under the **PSEA scheme**, parents who have not saved up to the CDA matching cap can continue to save in PSEA for obtaining government contributions before the child turns 18. In addition to parents' savings, the government may make **top-ups** to PSEAs of account holders aged 7-20 as ad-hoc measures to assist families in saving for their children's post-secondary education. Account balance in PSEA earns interest pegged to the Central Provident Fund ("CPF") ordinary account[30] which is 2.5% per annum currently. **Table 2** illustrates the projected amount of accumulated savings in PSEA assuming the CDF contributions shown in Table 1 are entirely transferred to PSEA for continued accumulation.

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27 See Ministry of Social and Family Development (2016b).

28 PSEA also links with the child's Edusave Account, another individual account set up by the government since 1993 for children to receive annual government contributions when they are between 7 and 16 to support payments for approved enrichment programmes. The unused funds in an Edusave Account will be transferred to PSEA when the account holder turns 17.

29 The Ministry of Education will automatically open PSEA for a child in the first year that the child is eligible for a government contribution in the form of top-up, or when the balance of the child's CDA or Edusave Account is transferred to PSEA.

30 CFP is a comprehensive social security system that enables working Singaporeans to set aside funds for retirement. The system also addresses the healthcare, home ownership and family protection needs of the Singaporeans. The CPF ordinary account is for accumulating savings for housing, insurance, investment and education purposes.

Table 2 – Projected accumulated savings in Post-Secondary Education Account

Birth order	CDA	PSEA
	Accumulated savings assuming parents contribute up to the matching cap[(1)]	**Projected savings in PSEA after eight-year compound growth at an annual interest rate of 2.5%[(2)]**
First and second child	S$9,000 (HK$51,840)	**S$10,965 (HK$63,200)**
Third and fourth child	S$21,000 (HK$120,960)	**S$25,586 (HK$147,400)**
Fifth and subsequent child	S$33,000 (HK$190,080)	**S$40,207 (HK$231,600)**

Notes: (1) It is assumed that parents do not withdraw any savings, and interests earned on the savings and government top-ups are not included (referring to Column D in Table 1).
(2) It is assumed that (a) parents have saved up to the CDA matching cap before the account is closed; (b) they do not withdraw any savings from PSEA within an eight-year period; and (c) government top-ups are not included.

Sources: Ministry of Social and Family Development (2017) and The Straits Times (2016c).

4.11 While there is no regular/fixed contribution committed by the government under PSEA, account savings is guaranteed with the CPF-pegged interest of 2.5% annually. Assuming that CDF savings of S$9,000 (HK$51,840) for the first born child is wholly transferred to PSEA when the child turns 13, the accumulated amount of savings in the PSEA when he turns 21 will reach **S$10,965 (HK$63,200)** [31] without taking into consideration other ad-hoc government contributions (Table 2). Any unused account balance in PSEA will be transferred to the account holder's **CPF ordinary account** or his or her sibling's existing PSEA **when the account holder turns 31**.

[31] As an illustration, the annual tuition fees for the publicly-funded undergraduate programmes on popular disciplines such as business and social sciences range from S$8,200 (HK$47,200) to S$13,050 (HK$75,200) in the 2018-2019 academic year.

PSEA ad-hoc top-ups

4.12 The Singaporean government has granted **five top-ups** to eligible Singaporeans' PSEAs, amounting to some S$1 billion (HK$5.64 billion) between 2008 and 2015.[32, 33] The amount of top-ups depended on the children's family wealth in terms of home value and their age. Those aged between 13 and 20 were given more. Based on the previous five rounds of top-ups, the cumulative amount of government contributions in PSEA might reach S$2,400 (HK$14,000), which is about 80% of the cost of polytechnic tuition fees for one year. As for utilization, it was reported in 2015 that more than half of the Singaporeans aged 17 to 25 had used their funds in PSEAs, mostly for paying university course fees.[34]

Administration of the Co-Savings Scheme

4.13 The Co-Savings Scheme is administered by MSF in accordance with the Child Development Co-Savings Act and related regulations under a **public-private partnership model**. MSF has appointed three banks as managing agents of CDA which offer bank accounts for parents to receive and accumulate CDA benefits from the government, accumulate their own contributions and make payments on approved types of spending. The account package offered by individual CDA banks slightly varies in terms of the interest rate on the account balance and additional benefits[35] offered. For example, one bank offers an annual interest rate of 2% on the CDA balance without imposing any deposit cap while another bank offers 2% per annum on the first S$36,000 (HK$207,360) deposited but 0.05% per annum on the remaining balance. Nonetheless, information on the administration costs incurred by MSF and the CDA banks for operating the Co-Savings Scheme is not available.[36]

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32 See Singapore Government (2018).

33 The first cohort of children born in 2006 with a savings timeframe of 12 years was not entitled to any previous PSEA top-ups and did not have any pre-existing PSEA account.

34 See The Straits Times (2015).

35 Additional benefits offered by the CDA banks include discounts at specific merchants, or rewards or discounts for buying specific insurance products.

36 In the 2018 budget, the Singaporean government has allocated about S$1 billion (HK$5.76 billion) for the operation of the Co-Savings Scheme and other schemes in support of marriage and parenthood covering the benefit contributions and administration costs. However, breakdown of the allocation by programmes and cost items is not available.

Implementation experiences and outcomes

Building up assets for meeting children's development needs

4.14 The Co-Savings Scheme in Singapore is part of a **coherent and integrated asset-building system** designed to meet asset-building needs of the Singaporeans at different life stages. These asset-based accounts are designed as a partnership between the government and citizens. While the government kick-starts the asset-building process with co-savings and top-ups, account holders build the assets in the accounts to capitalize on opportunities that arise.[37] Though the Co-Savings Scheme has not been effective in boosting the birth rate in Singapore as reflected by the decline of the total fertility rate[38] from 1.6 births per female in 2000 to 1.16 births per female in 2017,[39] it has contributed to asset building for the Singaporean children from birth. The high take-up rate of CDAs, active participation of parents in contributing to the accounts and usage of funds for healthcare and education of their children reflected that the asset-building programme has **gained popularity and helped support the long-term development of children**.

Additional support required for low-income families

4.15 Notwithstanding the high take-up rate of the programme, it is concerned that low-income families are less able to save in CDAs and thus less likely to benefit from the matching contributions of the government. While the Singaporean government does not track the household income of families with/without CDAs,[40] a study conducted among low-income parents in 2011 indicated that only about one-third of the sampled parents had saved in CDA and they were likely to have fewer children and relatively higher household income.[41] To address the issue of affordability among lower-income families,

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[37] See Center for Social Development of the Washington University in St. Louis (2015).

[38] Total fertility rate refers to the average number of live-births each female would have during her reproductive years if she were to experience the age-specific fertility rates prevailing in a given year.

[39] See Department of Statistics Singapore (2018).

[40] MSF had not tracked the household income of families who had yet to open CDAs or those who had reached the maximum co-savings cap for the 2006 to 2013 birth cohorts. See Ministry of Social and Family Development (2016c).

[41] The study suggested that low awareness of the Co-Savings Scheme and the requirement for the participants to open a CDA by themselves might be barriers for low-income families to participate in the programme. Besides, low-income families, particularly those with many children, might have been struggling to make ends meet and have lower capability to save. See Han, C. and Chia, A. (2012).

MSF has offered more top-up amount in its one-off measures, and supported community initiatives to help them kick start their CDA savings, e.g. co-contribution by CDA bank.[42]

5. Child Trust Fund in the United Kingdom

5.1 The Labour government in the UK introduced a **universal, long-term child development account programme, the CTF programme**, in April 2005 pursuant to the Child Trust Funds Act 2004. The programme targets at all children born on or after 1 September 2002 who are British citizens[43] and have received child benefit.[44] The policy objectives of the programme include: **(a) encouraging parents and children to develop a savings habit and engage with financial institutions; (b) ensuring that all children have a financial asset at the start of adult life; and (c) building on financial education to help people make better financial choices in their lives**. However, the CTF programme was replaced by a tax-free savings account programme, the Junior Individual Savings Account ("JISA") programme, in 2011 due to budget constraint of the government.[45]

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[42] A starter scheme offered by one of the CDA banks targets at families with monthly household income less than S$4,500 (HK$26,000). Parents need to deposit a minimum of S$50 (HK$290) over a 6-month period and the bank will contribute S$100 (HK$580) at the end of the period. The government will then match the total savings of S$150 (HK$870) in the child's CDA.

[43] No specific eligibility criterion is imposed on the citizenship status of parents receiving the CTF contributions of the government. Nonetheless, a child born in the UK will be a British citizen if the mother/father is a British citizen or can stay in the UK without any time restrictions. For a child born outside the UK, the eligibility of citizenship depends on when and where the child is born and the citizenship status of his or her parents.

[44] Child benefit is a non-means-tested cash benefit paid to parents or other persons who are responsible for bringing up a child.

[45] The CTF programme was closed to new entrants for children born after 3 January 2011 but existing accounts remain open for contributions and management purposes. Children ineligible for a CTF account may open a tax-free JISA.

Features of the CTF accounts

Two rounds of government contributions with supplemental contributions for children from low-income families

5.2 A CTF account is a **long-term tax-free savings and investment account**. After giving birth, parents were offered a government endowment contribution of £250 (HK$2,600) in the form of CTF voucher for opening a CTF account. Children from **low-income families were provided with a supplemental contribution** of **£250 (HK$2,600), totalling £500 (HK$5,200)**. If the parents did not open the account on their own, a CTF account would be opened by the government 12 months after issuance of the voucher and the parents would be notified. In 2003 when the CTF proposal was first introduced, the UK government made a projection on fund growth in 18 years based on the government's initial endowment. The illustration is given in **Table 3**. Depending on different scenarios of additional monthly savings made by parents, the hypothetical amount of accumulated savings ranged from £456 (HK$4,715) to £14,399 (HK$149,000) after 18-year horizon for an initial endowment of £250 (HK$2,600).[46]

Table 3 – Illustrative projections for fund growth in the Child Trust Fund accounts[1]

Amount of savings	Value of fund at year 18 in real terms	
	Initial endowment of £250 (HK$2,600)	Initial endowment of £500 (HK$5,200)
No additional savings	£456 (HK$4,715)	£911 (HK$9,420)
Additional savings of £10 (HK$103) per month	£3,941 (HK$40,750)	£4,397 (HK$45,500)
Additional savings of £20 (HK$206) per month	£7,427 (HK$76,800)	£7,883 (HK$81,500)
Additional savings of £40 (HK$412) per month	£14,399 (HK$149,000)	£14,854 (HK$153,600)

Note: (1) It was assumed that the nominal rate of return was 7% and the inflation rate is 2.5%.
Source: House of Commons Library (2003).

[46] As an illustration, the annual tuition fees for the publicly-funded undergraduate programmes in England generally range from £6,000 (HK$62,000) to £9,250 (HK$95,600), based on the websites of a sample of universities.

5.3 Apart from initial endowment, the UK government had committed to contributing another **£250 (HK$2,600)** to the CTF account when the child reached **seven years old**, and children from **low-income families were provided with a supplemental contribution** of **£250** (HK$2,600). However, due to budget constraint, since 1 August 2010, government contribution to the CTF accounts at age seven was stopped. Government endowment contribution at birth had been reduced markedly to £50 (HK$520) for general accounts and £100 (HK$1,040) for children in low-income families.

Account opening and government contributions during 2005-2011

5.4 Though the CTF programme now no longer accepts new enrolment, the accounts of children born between 1 September 2002 and 2 January 2011 ("eligible period") have continued in operation. According to the report issued by the UK government, between 2005 and 2011, **6.35 million CTF accounts were opened** for children born in the eligible period, of which 70% were opened by the parents upon receiving CTF voucher.[47]

5.5 During 2005-2011, the **UK government contributed a total of £2,023 million (HK$21 billion) to the CTF accounts**.[48] This represented an average government contribution of about **£319 (HK$3,300) per account**. Among the over six million accounts opened, **36% were entitled to supplemental government contributions** due to low family income.

Parent contribution and annual limit

5.6 As the CTF accounts are tax-free in which earned interest, dividend or capital gain is not subject to income tax, the UK government has set an annual limit on the contributions made by parents or third parties (i.e. non-government contribution). The annual limit valid before the abolition of the CTF programme in 2011 was £1,200 (HK$12,400).[49] Based on the latest available statistics, in 2011-2012, as a whole, about **21%** of CTF accounts received contributions from parents or third parties, and the average contribution was around **£314 (HK$3,250)** per account. For the accounts that received supplemental government contributions, about **11%** received

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[47] See HM Revenue & Customs (2013b).

[48] Ibid.

[49] The existing limit is £4,260 (HK$44,050) which is in line with that of JISA.

non-government contributions during the year and the average annual amount was **£202 (HK$2,100).** In the case of the higher-income counterparts, **27%** of them made an average annual contribution of **£342 (HK$3,500)**.[50]

Choices of accounts with varying risk levels for asset accumulation

5.7 Management of account assets rests with the financial services sector. There were three types of CTF accounts provided by CTF account service providers. Parents could choose one for asset accumulation depending on their risk attitude:

(a) **savings account** – an interest-earning cash deposit account;

(b) **stakeholder account** – investing in shares subject to the investment restrictions and statutory cap on management fee;[51] and

(c) **shares account** – investing in shares but there are no government rules governing investment and no statutory limit CTF account service providers may charge to account.

As at April 2012, about **75% of the assets were held in stakeholder accounts**, 17% in savings accounts and 8% in shares accounts. For the stakeholder accounts which were most popularly chosen, they were reportedly invested mainly in UK index-tracking investment funds.[52]

Asset size and average balance

5.8 The total value of assets held in CTF accounts amounted to £4,893 million (HK$50.6 billion) as at April 2012. On average, each CTF account had a **balance of about £800 (HK$8,300)**, up from about £400 (HK$4,150) as at April 2006.[53]

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[50] See HM Revenue & Customs (2013a).

[51] The investment restrictions and fee cap are set out in the Child Trust Funds Regulations 2004. For example, a stakeholder account is not allowed to invest directly in securities of an investment trust; and the annual management fee is capped at 1.5% of the value of the stakeholder account.

[52] See The Guardian (2015).

[53] See HM Revenue & Customs (2006a and 2013b).

Withdrawal at 18 years old for unrestricted uses and/or roll-over

5.9 The funds accumulated can only be withdrawn when the account holder **turns 18**[54] and the funds can be **used for any purpose**. The account holder can take control of a CTF account when he or she reaches 16. As the CTF accounts have not matured yet (the first batch of children reaching the age of 18 eligible for funds withdrawal is expected to be in 2020), information on how the funds in the CTF accounts are spent is not available. An evaluation study on the CTF programme released by the HM Revenue & Customs in 2011 reflected that parents would encourage their children to use the CTF funds for education (64% of the sampled parents), buying a car or motorbike (34%), paying upfront for a home (23%), or retaining the funds in savings (19%).[55]

5.10 If funds in a CTF account are not withdrawn at age 18, the balance will be **transferred to a tax-free individual savings account for adults ("ISA")**. The UK government introduced the ISA programme in 1999 to encourage savings and promote financial independence and security among the citizens. Compared with a CTF account, an ISA has a higher tax-free savings limit of £20,000 (HK$206,800) per year.

Administration of the CTF programme

5.11 The CTF accounts are provided and **administered by the account service providers approved by the tax authority**, HM Revenue & Customs. These account service providers are regulated under the CTF legislation and other relevant legislation governing the financial services sector. As at April 2015, there were 69 approved CTF account service providers in the UK, including banks, stockbroking and investment firms and credit unions. The service model takes advantage of the infrastructure and capacity of the financial services sector for easier and smoother roll out of the CTF programme.[56] While the accounts are managed by the private service providers, HM Revenue & Customs also involved in the CTF administration such as initial coupon issuance and government contribution, and the cost of administration was about £5 million (HK$51.7 million) a year.

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54 Funds in a CTF account can be withdrawn before the account holder turns 18 if he or she is having a terminal illness. The CTF account will be closed if the account holder dies and the funds in the account become part of the child's estate.

55 See HM Revenue & Customs (2011).

56 See Zichawo, W. et al. (2014).

Implementation experiences and outcomes

Stimulating effect on savings for children

5.12 The CTF programme has fared positively based on the evaluation of HM Revenue & Customs, which observed that following the introduction of CTF, there were increases in the level of active saving for CTF-eligible children and parents tended to have a **higher likelihood of saving regularly** for their children in CTF or other accounts. For **25% of parents, saving into CTF was an important part of their overall savings for their child**, and CTF appeared to have stimulated some parents to open a similar account for older siblings not eligible for CTF.[57]

Weaker capability of low-income families to save for their children

5.13 As with the case of Singapore, lack of affordability remained an issue of low-income parents saving for their children, as reflected by the government statistics that only 11% of CTF accounts eligible for supplemental government contributions received parent or third party contribution in 2011-2012, compared against 21% as a whole. The average amount of non-government contributions made into these accounts during the year was **£202 (HK$2,100)**, about 36% less than the overall average. Yet benefited by the supplemental contributions from the government, the average account balance of these accounts as at April 2012 was **£730 (HK$7,550)**, just about 9% lower than the overall average account balance.[58]

Heavy financial commitment of the government

5.14 Despite the high penetration of the CTF accounts and the positive impact of the programme on the savings, the Conservative-Liberal Democrat coalition government abolished the CTF programme in 2010 and replaced it with the JISA programme to reduce the government deficit. By abolishing the CTF programme, the UK government expects to save more than £500 million (HK$5.17 billion) a year. Abolishing the CTF programme was

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57 See HM Revenue & Customs (2011).

58 See HM Revenue & Customs (2013a).

considered a less undesirable policy option compared against cutting spending on social benefits, or public services such as pre-school education. However, opponents were concerned that social mobility of the youngsters, particularly those from a disadvantaged background, would be affected by abolishing the CTF programme.[59]

5.15 JISA is a tax-free savings and investment account offered to children aged under 18 who do not own a CTF account. Under JISA, parents can accumulate assets up to £4,260 (HK$44,050) per year but the government does not contribute to the account. Similar to the CTF account, the funds in a JISA cannot be withdrawn before the account holder turns 18 years old. In 2016-2017, there were about 794 000 active JISAs, up from 296 000 in 2012-2013.[60] According to the UK government, the estimated costs of the tax relief for both ISAs and JISAs in 2016-2017 together amounted to £2.7 billion (HK$ 27.9 billion).[61]

6. Concluding remarks

6.1 The child development account programmes adopted in Hong Kong and the selected overseas places vary in terms of their policy objectives, coverage and account features. CDF in Hong Kong is a target-specific programme focusing on assisting children from a disadvantaged background. Although evaluation of the programme indicates that CDF projects are effective in building children's intangible assets (e.g. enhancing their future planning ability, expanding their personal networks), there are views that the current coverage is too narrow and the amount of assets accumulated is not sufficient for longer-term development of the participants.

6.2 Both Singapore and the UK have adopted a long-term universal child development account programme for meeting different policy objectives. The Co-Savings Scheme in Singapore is part of a comprehensive asset-building system for supporting the healthcare, education and retirement needs of all Singaporeans, and is also an initiative to boost fertility rate. In the UK, the CTF programme has a maximum savings horizon of 18 years, seeking to encourage parents and children to develop a savings habit and ensure that all children have a financial asset at the start of adult life. Upon account

[59] See Institute for Fiscal Studies (2009) and The Guardian (2010).
[60] From April 2015, CTF account holders can transfer their funds in a CTF account to a JISA.
[61] See HM Revenue & Customs (2018b).

maturity at age 18, funds will either be withdrawn for any purpose or transferred to another adult tax-free savings account.

6.3 Although the impact of Singapore's Co-Savings Scheme on boosting the fertility rate is questionable, government co-contribution has indeed provided an incentive for parents to save for their children. Apart from matching contributions, the government has also made ad-hoc top-ups to CDAs when its fiscal position was strong. In both Singapore and the UK, asset accumulation is managed by the private sector. The former is confined to interest-earning savings bank accounts whereas the latter is characterized by three types of savings or investment accounts provided by the approved account service providers to match the risk profile of the parents.

6.4 For both Singapore and the UK, the first batch of accounts having a 12-year and 18-year savings timeframe respectively are still in the asset accumulation stage. However, there is a common observation that lower-income families are less affordable to make contributions. To address this, both governments have enhanced the support by means of higher top-ups/fixed contributions. Nonetheless, in the UK, the considerable financial resources required by the universal CTF programme rendered it unaffordable at time of high government deficit. As such, the programme was replaced by the tax-free JISA in 2011 with no more government contributions.

Prepared by Ivy CHENG
Research Office
Information Services Division
Legislative Council Secretariat
3 October 2018
Tel: 3919 3582

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Table – Child development account programmes in selected places

	Hong Kong	Singapore	The United Kingdom
A. Overview of the child development account programme			
Child development account programme	• Child Development Fund ("CDF").	• Child Development Co-Savings (Baby Bonus) Scheme ("Co-Savings Scheme"), comprising cash gift and child development account ("CDA") benefits.	• Child Trust Fund ("CTF").
Years of operation	• Since 2008.	• Since 2001.	• Between 2005 and 2011.
Policy objectives	• Encouraging children to develop a savings habit and accumulate intangible assets with a view to reducing inter-generational poverty.	• Supporting the development of children and increasing fertility rate.	• Instilling savings habits among parents and children; and ensuring all children have a financial asset at the start of adult life to invest in their future.
B. Salient features			
Target participants	• Children aged between 10 and 16 or students studying in Primary Four to Secondary Four from a disadvantaged background.	• All newborns and children up to 12 years old.	• All children born between 1 September 2002 and 2 January 2011.
Enrolment in the programme	• Participants join on a voluntary basis and are recruited by project operators.	• Registration by the parents.	• CTF account is opened by the parents or the government if the parents do not open the account on their own.
Nature of account	• Bank savings account.	• Bank savings account.	• Savings or investment account.
Length of savings period	• Two years.	• From birth to age 12.	• From birth up to 18 years old.

Table – Child development account programmes in selected places (cont'd)

	Hong Kong	Singapore	The United Kingdom
B1. Salient features - contribution			
Initial government contributions	• No.	• Cash gift benefit: ranges from S$8,000 (HK$46,100) to S$10,000 (HK$57,600). • CDA "First step" benefit: S$3,000 (HK$17,280).	• Initial £250 (HK$2,600) voucher; the amount is doubled for children from low-income families.
Government co-contributions	• 1:1 matching contribution up to HK$4,800 but no less than HK$3,000 over a two-year period.	• Matching contributions up to: (a) S$3,000 (HK$17,280) for the first and second child; (b) S$9,000 (HK$51,840) for the third and fourth child; and (c) S$15,000 (HK$86,400) for the fifth and subsequent child.	• No.
Other government contributions	• No.	• On ad-hoc basis depending on the fiscal position.	• £250 (HK$2,600) supplemental contribution at age seven; the amount is doubled for children from low-income families.
Non-government contributions	• 1:1 matching contribution from participants themselves and corporate or private donors.	• From parents or other third parties.	• From parents or other third parties.
Non-government contribution limit	• HK$4,800 for participants and corporate or private donors respectively over a two-year period.	• Not specified.	• £1,200 (HK$12,400) per year.

Table – Child development account programmes in selected places (cont'd)

	Hong Kong	Singapore	The United Kingdom
B2. Salient features – Funds withdrawal and utilization			
Withdrawal of funds	• After the two-year savings period.	• Cash gift benefit can be withdrawn in cash at any time. • Savings in CDA can be used for specified purposes at any time but cannot be withdrawn in cash.	• Upon turning 18 years old.
Use of funds	• For purposes laid down in the personal development plan of individual participants.	• For education and healthcare spending in approved institutions.	• No restriction on usage.
B3. Salient features – Account administration and management			
Account administration	• Savings are kept in bank accounts under the name of the CDF project operators or individual participants/parents.	• CDAs are managed by government-appointed banks.	• CTF accounts are administered by approved account service providers in the financial services sector.
Nature of investment	• Interest earning in savings accounts.	• Interest earning in savings accounts.	• Three types of savings vehicles: (a) stakeholder accounts (i.e. stocks and shares accounts governed by government rules); (b) shares accounts; and (c) savings accounts.
Return on savings/ investment	• Depending on the prevalent interest rates of the banks offering the savings accounts for the CDF project operators or participants/parents.	• About 2% per annum on the CDA balance depending on the offer of the CDA banks.	• Depending on the type of CTF accounts selected by the parents or the account holders; capital gains, interest and dividend are tax-deductible.
Transfer of assets to other asset-building programmes	• Not provided.	• Transfer of unused funds from CDA to PSEA when the participants turn 13, and from PSEA to the Central Provident Fund ordinary account when the participants turn 31.	• The unused funds in the CTF account can be transferred to the tax-free adult individual savings account.

Table – Child development account programmes in selected places (cont'd)

	Hong Kong	Singapore	The United Kingdom
C. Implementation experiences and outcomes			
Number of participants/accounts opened	• Estimated to be over 17 000 participants.	• Around 297 000 CDAs were opened between 2001 and 2013.	• 6.35 million CTF accounts were opened.
Amount of assets accumulated	• As at March 2017, 97% of the participants in the completed CDF projects managed to save HK$200 per month.	• For the 2006 to 2013 birth cohorts, 48% of CDAs for the first and second born children were saved to the maximum co-savings cap (i.e. S$6,000 (HK$34,560)).	• After about seven years of operation, £4,893 million (HK$50.6 billion) assets were accumulated with an average account balance of about £800 (HK$8,300).
Amount of funds committed/contributed by the government	• HK$900 million injection into CDF since 2008.	• S$1.4 billion (HK$8.68 billion) contributed into CDAs between 2001 and 2013.	• £2,023 million (HK$21 billion) contributed into CTF between 2005 and 2011.
Impacts of the programme	• Enhanced participants' ability in resource management and future planning; expanded their personal networks, and helped them develop a persistent savings habit.	• Helped finance children's education and healthcare expenses and ease parents' financial burden. • However, its impact on boosting birth rate is questionable.	• Positive impact on increasing the savings level and reinforcing the savings habit of parents.
Issues and concerns	• Limited number of participants covered and savings accumulated.	• Low-income families are less likely to benefit from the government's matching contributions.	• Low-income families were less likely to contribute. • High amount of resources commitment for the government, rendering it unaffordable at time of high government deficit.

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