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1. Introduction

1.1. Around six million children hold a Child Trust Fund (CTF). An estimated three-quarters of these children have stakeholder accounts, which must have certain characteristics and features set out in CTF legislation. One such feature is ‘lifestyling’.

1.2. The Child Trust Funds Regulations 2004 (SI 2004/1450) define lifestyling as:

the process beginning from a date on or before the child is 15 years of age, or from when the account is opened, whichever is later, and continuing until the child is 18 years of age, by which the account provider, and any relevant person, adopts an investment strategy which aims progressively to minimise the variation or potential variation in capital value of the account caused by market conditions from time to time.

1.3. Unless the registered contact for the account (usually the parent of the account holder) has instructed otherwise, the process of lifestyling a stakeholder CTF must have started by the time the account holder reaches 15, and should continue until the account matures. CTF providers are therefore expected to have started lifestyling some of their accounts by 2017-18 at the latest.

1.4. Between 21 September and 14 December 2015, the government consulted on lifestyling of stakeholder CTFs. The purpose was to obtain views and evidence about the costs and benefits of this account feature, as well as the potential consequences of changing or removing the current legislative requirement in this area.

1.5. Nine written responses were received from CTF providers, administrators, other financial institutions and their representatives. A list of those who responded can be found at Annex A. The government is grateful to those who contributed their views.

1.6. Chapter 2 of this document summarises responses received to questions set out in the consultation document. Chapter 3 outlines the government’s response.

1.7. Some respondents raised issues that are outside the scope of this consultation, such as the potential for allowing bulk transfers of CTFs to Junior ISA and the arrangements for rolling maturing CTF funds into an ISA. While these issues are not dealt with in this summary, the government will explore the points made by respondents as appropriate with account providers and customer representatives.

Next steps

1.8. Having considered the responses to this consultation and other relevant factors, the government believes that the current legislative requirement concerning lifestyling of stakeholder CTFs is no longer necessary to ensure that children and families have access to suitable tax-advantaged savings products. It therefore proposes to remove the requirement that stakeholder CTFs must be subject to lifestyling. Legislation to amend the Child Trust Funds Regulations will be introduced to Parliament later this year.
2. Summary of responses

2.1. This Chapter summarises the main points raised in response to the consultation questions.

**Question 1 - What are the costs, benefits and other impacts of lifestyling for CTF account holders and providers?** Views on the assessment of impacts [provided in the consultation document]….would be welcome.

2.2. Most respondents identified additional costs for account providers, including those associated with the development of new account systems and investment strategies - as well as additional transaction fees that would arise as CTFs were moved progressively from equities. Account providers would also need to supply additional communications to customers, and might incur management charges if their lifestyling strategy requires them to place cash with another institution.

2.3. Most CTF providers that responded did not quantify the cost to them of lifestyling accounts. However, one estimated that lifestyling could involve a set-up cost of £1 million, and around £200,000 in running costs each year thereafter. It was argued that any increase in account costs would be particularly significant for smaller CTF providers.

2.4. Respondents argued that lifestyling would not impose any additional cost for account holders. However, it was suggested that CTF providers may seek to offset their own costs by making economies in the wider service and communications they offer customers.

2.5. Most respondents argued that lifestyling could adversely affect the growth and returns from a CTF, by requiring a switch towards less risky investments for at least three years before account maturity. This was seen as particularly unnecessary where an individual intends to continue saving and investing after their CTF matures. One respondent argued:

*For a consumer the cost of lifestyling can be significant, if measured by the impact of transferring from an investment to a cash based product…Whilst future returns are uncertain, an account holder is likely to see a lower return by utilising lifestyling; and if their CTF is then transferred to an adult ISA, this might be an unnecessary blip in the long-term nature of the product.*

2.6. By contrast, others acknowledged that lifestyling had the benefit of safeguarding accounts against stock market falls in the run-up to maturity, by de-risking the investments they hold.

2.7. Some respondents referred to research which suggested limited customer awareness and understanding of lifestyling. It was argued that many parents and account holders might feel unable to take a decision whether they wished this process to proceed. Respondents also raised the issue of customers who have lost touch with their CTF, or who had not responded to provider mail outs - including those whose mail had been returned to the provider marked ‘gone away’. There was concern that under the current rules, accounts may be subjected to lifestyling without parents or
account holders making a positive choice or receiving any provider communications on this issue.

2.8. A minority of respondents addressed the assessment of impacts in the consultation document. Of those who expressed a view, there was general agreement about the potential consequences of changes to the current lifestyling requirement. One respondent said:

*The impact will depend on whether a customer wishes to encash at age 18 or not but market movements over the period that lifestyling would have taken place mean that the value of a CTF at age 18 will be different (possibly higher or lower) than it would otherwise have been.*

**Question 2 - Should the current legislative requirement that stakeholder CTFs should be subject to lifestyling, unless the registered contact for the account instructs otherwise, be retained?**

2.9. One respondent supported retention of the current legislative requirement, arguing that lifestyling is one of the features that influenced some customers to choose a stakeholder account. It was also suggested that CTF lifestyling should always be available if a customer requests it, and that it should remain the default option for any customers an account provider is unable to contact.

2.10. By contrast, the majority of respondents favoured removal of the lifestyling requirement. Most argued that wider changes in the market for children’s savings meant that lifestyling would not meet the needs of customers. Rather than lifestyling being a positive choice made by customers, some respondents pointed to low levels of customer awareness of the feature, and were concerned that many would, in the words of one respondent, ‘drift into lifestyling without any knowledge that this is happening’.

2.11. Some respondents argued that a lifestyling requirement was unnecessary because parents and account holders can, if they wish, move CTF funds to low-risk investments at a time of their own choosing. One respondent pointed out:

*We now consider lifestyling to be less important for CTF account holders, as registered contacts have far more choice on how to invest the funds. Account holders can now transfer voluntarily to a less risky investment without the need for lifestyling, should they wish to do so.*

2.12. Some respondents also saw the government’s intention to allow CTF funds to be rolled over to an adult ISA on maturity as relevant to the question, as they believed this made it more likely that account holders will want to retain investments after their CTF has matured.

2.13. It was suggested that lifestyling could work to discourage long-term saving and investment after a CTF matures. One respondent argued:

*…[lifestyling] emphasises the ‘glide path’ towards the product maturity at the child’s 18th birthday. That increases the likelihood that the CTF will be encashed and, in many cases, spent….We believe it is worth emphasising the
longer term benefits of saving, including encashment at a point that is most beneficial to the holder – and lifestyling is not compatible with that benefit.

2.14. A number of respondents argued that since it is possible to transfer CTF funds to a Junior ISA, there was a benefit in more closely aligning the account rules of the two products to reduce the risk of customer misunderstanding. It was pointed out that there is no lifestyling requirement for Junior ISAs, and one respondent argued:

\[
\text{the lifestyling process could be undone or wasted where an account holder chooses to transfer to a Junior ISA. Given the move to alignment between the two products it seems inappropriate to require lifestyling in CTF only.}
\]

2.15. One respondent argued that the relatively low value of funds held in some CTFs might mean that lifestyling was less valuable for account holders, as it could reduce the potential for investment growth over the last years of the account.

**Question 3 - What would be the impact for CTF holders and providers if this legislative requirement were removed?**

2.16. Respondents who favoured removal of the lifestyling requirement anticipated that this would reduce CTF provider costs and have a positive impact for account holders. It would allow greater continuity of investment and avoid the need to move funds to potentially lower-yielding assets. It was also argued that this could promote more active management of CTF investments:

\[
\text{Removing the lifestyling element will encourage the investment manager to continue active management of the product, ultimately encouraging the child to continue a savings habit and build up savings for the future.}
\]

2.17. It was also suggested that the removal of the lifestyling requirement could help to ensure that CTF remained viable for account providers, so that customers could continue to receive a good standard of service.

2.18. Some account providers argued that many customers are not aware of lifestyling or do not understand the process. In addition, some providers expect that a large number of customers will retain their investments after their CTF matures, so may not wish to change or de-risk these investments. It was argued that these factors meant that many customers would not be concerned by the removal of lifestyling. It was also pointed out that customers who wished to de-risk investments could still do so in the absence of a lifestyling requirement, for example by transferring to a cash CTF or Junior ISA.

2.19. By contrast, a minority of respondents saw potential for a negative impact upon account holders. It was pointed out that not lifestyling an account would increase the account holder’s exposure to losses as their CTF approaches maturity. Concerns were also expressed about customer complaints if there was a change to account terms and conditions. CTF providers would face particular difficulties and costs tracing and contacting customers who have lost touch with their CTF, in order to notify them of changes to account terms and conditions. On this point, some respondents suggested a national awareness-raising campaign for CTF, alongside targeted efforts to contact people who have lost contact with their account.
Question 4 - Would some account providers continue to offer lifestyling or similar features as part of their CTF terms and conditions, in the absence of a legislative requirement to do so?

2.20. None of the account providers who responded indicated that they would offer a lifestyling process if there was no legislative requirement to do so.

2.21. One respondent suggested lifestyling should be available on an opt-in basis. However another disagreed, arguing that under such an arrangement providers would incur many of the same set-up expenses that they would face if lifestyling were to remain the default option.

2.22. Some respondents suggested that the removal of lifestyling would not lead to any reduction in customer choice, as it would still be open to account holders to voluntarily move their account to low-risk investments, or to a cash CTF or Junior ISA. One respondent pointed out:

   Where protection of account value is a concern account holders have the option of switching investments within the CTF or transferring to a cash CTF or cash Junior ISA. This allows for an individual decision to be made, at the right time for the account holder.

2.23. One provider referred to customer research which indicated that where CTF customers like the idea of de-risking account investments, a high proportion would prefer the freedom to choose where and when to move funds, rather than being subject to the current lifestyling requirement.

2.24. However, another respondent was concerned that, in the absence of a lifestyling requirement, account holders may not understand the need to transfer their account if they wished to de-risk their investments.
3. Government Response

3.1. This Chapter sets out the government’s response to the points raised in this consultation.

3.2. Having carefully considered the responses to this consultation and other relevant factors, the government intends to remove the current legislative requirement that stakeholder CTFs must be subject to lifestyling. It considers that developments in the market for tax-advantaged savings for children, including the increased choice available to account holders, mean that this requirement is no longer necessary to ensure children and families have access to suitable tax-advantaged savings products that meet their needs.

3.3. It also notes the potential benefits that could arise from the removal of this requirement, as identified by respondents to this consultation. These include the potential for this change to contribute to a long-term savings habit after CTF accounts mature.

3.4. The government carefully considered whether there should be a requirement upon providers to offer lifestyling of stakeholder CTFs on an opt-in basis, in order to maximise choice available to account holders. However, it notes that this option would require all stakeholder CTF providers to develop lifestyling functionality, possibly for a relatively small number of customers. The government is generally satisfied that – even without such a requirement – the market will continue to offer sufficient choice for parents and account holders who wish to de-risk CTF investments prior to maturity.

3.5. Any changes to the terms and conditions of a CTF to remove lifestyling will be subject to regulatory and other considerations in addition to those set out in CTF legislation. Alternatively, it will be open to CTF providers to retain this feature as part of their CTF account terms and conditions.

3.6. The government has also noted concerns raised by respondents about cases in which customers have lost touch with their CTFs, or where providers have been unable to contact account holders or their parents. HM Revenue and Customs offers a service that helps parents to trace their child’s CTF. This can be accessed at http://www.hmrc.gov.uk/tools/childtrustfundclaim/ctfaccount.htm. The government also proposes to further explore with account providers and customer representatives what industry-wide steps might be appropriate to address this issue.
Annex A: List of stakeholders consulted

The following organisations submitted responses:

Association of Finance Mutuals
HSBC Trust Company (UK) Limited
International Financial Data Services
Legal & General Group plc
OneFamily
The Royal Bank of Scotland Group
The Share Centre
Sheffield Mutual Society
TISA