HM Revenue
& Customs

‘Lifestyling’ of Child Trust Funds

Consultation document

Publication date: 21 September 2015

Closing date
for comments: 14 December 2015

Subject of this consultation:	The requirement that stakeholder Child Trust Funds should be subject to ‘lifestyling’: an investment strategy that increases the proportion of less risky investments held in an account as it approaches maturity.
Scope of this consultation:	This consultation is designed to gather views and evidence about the costs and benefits of lifestyling for Child Trust Fund account holders and providers. It also seeks views on the potential consequences of removing the requirement that stakeholder Child Trust Funds should be subject to lifestyling.
Who should read this:	HM Revenue and Customs (HMRC) welcomes responses from the widest possible range of individuals and organisations with an interest in the Child Trust Fund, or children’s savings more generally. This includes Child Trust Fund holders and their parents, providers of these accounts, representative groups for children, and other individuals or organisations concerned with promoting financial awareness and capacity among children. Account providers and other interested groups are therefore encouraged to make their customers, members and other potential respondents aware of this consultation, and of how they can participate.
Duration:	The consultation opens on 21 September 2015 and closes on 14 December 2015.
Lead official:	Helen Williams.
How to respond or enquire about this consultation:	Responses should be sent by email to: savings.audit@hmrc.gsi.gov.uk or by post to: Lifestyling Consultation, HM Revenue and Customs, Room G63, 100 Parliament Street, London, SW1A 2BQ Enquiries can be made to the email and postal address above.
Additional ways to be involved:	As the issues are largely technical, it is expected that those wishing to respond will do so in writing or electronically. HMRC will also consider requests for meetings as part of this consultation. Any such requests should be made to the email or postal address above.
After the consultation:	A summary of responses will be published following the consultation. This will set out the next steps, including any proposed changes to the current lifestyling requirements.
Getting to this stage:	On 22 July 2014, the Government announced that it would consult on the lifestyling requirements for stakeholder Child Trust Funds.
Previous engagement:	HMRC has discussed lifestyling with a number of Child Trust Fund providers and other interested groups. However, this is the first stage of formal consultation on this issue.

Contents

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Introduction

Background

1.1. In 2004, Child Trust Fund (CTF) accounts were established as a way of encouraging saving for children, and enabling account holders to have access to a financial asset when they become adults. Most children living in the UK and born between 1 September 2002 and 2 January 2011 hold a CTF, and each account contains funds contributed by government.

1.2. Usually, withdrawals cannot be made from a CTF until it matures, when the account holder reaches 18. However, account holders and their parents can transfer CTFs to different providers and between different types of CTF – and since April 2015 it has been possible to transfer CTF funds to a Junior ISA.

1.3. As at April 2012, more than 6 million children held a CTF account. Around three-quarters of CTFs are stakeholder accounts. These are stocks and shares accounts containing ‘stakeholder’ features and protections set out in legislation. One such feature is the requirement that stakeholder CTFs must usually be subject to ‘lifestyling’ – a process designed to manage risk and volatility in account investments as the CTF approaches maturity.

1.4. 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. This means that CTF providers should start lifestyling some of their accounts by 2017-18 at the latest.

Aims and scope of this consultation

1.5. The Government wishes to ensure that children and families have access to suitable tax-advantaged savings products that meet their needs.

1.6. In 2013, HM Treasury consulted on whether it should be possible to transfer CTF savings to a Junior ISA. In the course of that consultation, a number of respondents questioned the value of lifestyling for many CTF holders, and expressed concerns about the future costs of this process for account providers.

1.7. In order to explore these issues further, on 22 July 2014 the Financial Secretary to the Treasury announced that the Government would consult on the application of lifestyling to CTF stakeholder accounts.

1.8. This consultation is designed to gather views and evidence about the costs and benefits of lifestyling for CTF account holders and providers. It also seeks views on the potential consequences of removing the requirement that stakeholder CTFs should be subject to lifestyling.

1.9. Details of how to respond to this consultation can be found in Chapter 5.

After this consultation

1.10. A summary of responses will be published following this consultation. This will set out the next steps, including any proposed changes to the current lifestyling requirements.

2. ‘Lifestyling’ and Child Trust Funds

Stakeholder CTF accounts

2.1. The Government’s latest published figures (covering the year 2012) show that there are around 4.8 million stakeholder CTF accounts, which together hold assets of in excess of £3.6 billion. Further statistics on CTF can be found at https://www.gov.uk/government/collections/child-trust-fund-statistics

2.2. Stakeholder CTFs are stocks and shares accounts containing special features and protections set out in legislation that ensure these accounts remain simple, low cost and risk-controlled. These features include capped account fees, restrictions on the type of investments that can be held and rules around the minimum payment that may be made to an account.

2.3. Stakeholder CTFs must also be subject to a lifestyling process, unless the registered contact for the account (usually a parent of the account holder) instructs the account provider otherwise.

What is lifestyling?

2.4. Lifestyling is defined in CTF legislation as follows:

> *‘…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.’*

Lifestyling and the design of stakeholder CTF account features

2.5. In its document ‘Detailed proposals for the Child Trust Fund’ (published by HM Treasury and Inland Revenue in 2003) the then Government said:

> *‘The stakeholder CTF account should be designed to spread assets between stocks and asset classes to balance risk and return with regard to the expected maturity of the investment. A lifestyling approach should be taken, where the proportion of less risky investments should increase as the stakeholder CTF account reaches maturity. The form of lifestyling will not be prescribed but providers will be expected to follow a principles-based approach...*

> *Providers will be required to manage the investment appropriately for the needs of the account holder. Unless otherwise notified by the investor, the presumption should be that the account holder will want to close the account at 18 or move the funds to a cash account; the account should therefore gradually be shifted from equities to investments such as gilts or cash as age 18 approaches. If the account holder indicates that he or she wants to continue investing the CTF funds in another equities-based product at age 18 there will be no need to move the funds out of equities.'*

2.6. Lifestyling is one of several features of stakeholder CTF accounts that are designed to enable account holders to benefit from the higher potential returns available from non-cash investments over the long term, while also controlling some of the risks associated with non-cash investment. Lifestyling also responds to a presumption that many CTF holders will choose to close their account and access their funds as soon as this becomes possible, after they reach 18 years of age.

The costs and benefits of lifestyling

2.7. Under the current rules, lifestyling is expected to be underway by 2017-18 for up to 327,000 accounts. In April 2012, the average market value of a CTF account was approximately £800, so the accounts subject to lifestyling in 2017-18 could hold upwards of £250 million. Thereafter, CTF account providers may need to commence lifestyling for up to 622,000 additional accounts per year, as each account holder reaches 15 years of age. CTF legislation does not set out prescriptive requirements on how account providers should implement lifestyling, and we understand that many providers are currently considering how to carry out this process.

2.8. Since the establishment of lifestyling requirements for stakeholder CTFs, there have been a number of major developments in the market for tax-advantaged saving for children. For example, new eligibility for CTFs ended in 2011, meaning that no new accounts are expected to be opened in the future. The Government has also introduced the Junior ISA and given CTF holders and their parents the choice of transferring CTF savings to this account. Other developments that may impact upon the relevance and value of lifestyling for CTF account holders are set out in further detail below.

2.9. In the light of some of these developments, a number of account providers have expressed concerns about future uncertainties and challenges within the CTF market. It has been argued that measures to reduce the costs of offering CTF accounts should be considered, to help ensure that this account remains attractive to a broad range of financial institutions.

2.10. Lifestyling could involve costs for CTF providers, for example where they have to adopt new systems and processes or make changes to investment strategies. The Government believes that such costs will be justified if lifestyling delivers appropriate benefits and necessary safeguards for CTF holders. However, in order to strike the appropriate balance on this issue, the Government would welcome further evidence of the costs and benefits of lifestyling for CTF account holders and providers.

Question 1 - What are the costs, benefits and other impacts of lifestyling for CTF account holders and providers? Views on the assessment of impacts set out in Chapter 3 of this document would be welcome.

Lifestyling and post-CTF savings options

2.11. As set out above, one of the reasons for establishing lifestyling as a feature of stakeholder CTFs was the presumption that, on maturity, young adults will want to close their account or move savings to a cash account. The Government wishes to encourage saving beyond the maturity of a CTF, and has made clear its intention to allow savings and investments held in a CTF at account maturity to be rolled into an 'adult' ISA, without counting against the normal ISA subscription limit.

2.12. This will increase opportunities for young adults to hold non-cash assets in a tax-advantaged account following the maturity of a CTF, and will support longer-term saving. It does, however, raise questions about the benefits of lifestyling for a CTF holder who intends to roll their non-cash savings into an ISA when they reach 18. In such cases, lifestyling could impose unnecessary changes to an investment strategy that might lead to lower returns being achieved, as the proportion of less risky investments held in the account is increased. While it is possible to opt-out of lifestyling, it is not clear how many account holders or registered contacts are aware of this option, or how many are likely to take it up.

Consistency between CTF and Junior ISA

2.13. Some respondents to the Government's 2013 consultation on the transfer of savings from CTF to Junior ISA questioned the continued relevance of lifestyling, once such transfers became possible. Respondents pointed out that there is no lifestyling requirement for Junior ISA, and suggested that the lifestyling process could be undone or wasted where an account holder chooses to move their savings to a Junior ISA. Some questioned this lack of alignment between accounts, and suggested that the increased choice available to CTF holders over what type of account they have could reduce the need for lifestyling.

Lifestyling as an optional account feature within CTF terms and conditions

2.14. It is likely that the benefits of lifestyling for each individual will depend upon their own circumstances – and will therefore vary from account holder to account holder. While lifestyling may not suit all stakeholder CTF holders, it is likely that many could benefit. As well as considering the costs and benefits of lifestyling, the Government would also like to consider the extent to which lifestyling, or any similar process, would remain available to those who want this account feature, in the absence of a legislative requirement upon CTF providers to offer this. It is possible, for example, that in response to customer demand or regulatory considerations, some CTF providers may continue offering lifestyling within their account terms and conditions.

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? Please explain your answer.

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

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?

3. Assessment of Impacts

Summary of Impacts

Exchequer impact (£m)	2016-17	2017-18	2018-19	2019-20	2020-21
	neg	neg	neg	neg	neg
Economic impact	Changes to the current rules on the lifestyling of CTF accounts are not expected to have any significant economic impacts.				
Impact on individuals, households and families	Any impact upon CTF account holders will depend upon the detail of the change. The removal of the lifestyling requirement for stakeholder CTFs could affect the investment approach taken for up to 4.8 million stakeholder CTFs. The impact upon each account holder will depend upon their individual circumstances. Further analysis of potential impacts on individuals will be informed by responses to this consultation. The measure is not expected to impact on family formation, stability or breakdown.				
Equalities impacts	Any changes arising out of this consultation will apply to CTF accounts held by children between the ages of 15 and 18. Government payments to CTF accounts varied according to the income of an account holder's family, and whether a child had a disability. However, it is not expected that changes to the current lifestyling requirements will have any disproportionate impacts on groups with protected characteristics.				
Impact on businesses and Civil Society Organisations	Any changes arising from this consultation will impact around 50 account providers who offer stakeholder CTF accounts. The impact upon these CTF providers will depend upon the detail of the change. The removal of the requirement to lifestyle stakeholder CTFs could reduce future costs for account providers by eliminating the need to change investment strategy or develop new systems and processes. Further analysis of potential impacts will be informed by responses to this consultation.				
Impact on HMRC or other public sector delivery organisations	No impact is expected				
Other impacts	<u>Small and micro business assessment</u>: the impact upon small businesses is not expected to differ significantly from the impact upon other businesses, as set out above. Other impacts have been considered and none identified.				

4. Summary of Consultation Questions

1. What are the costs, benefits and other impacts of lifestyling for CTF account holders and providers? Views on the assessment of impacts set out in Chapter 3 of this document would be welcome.

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? Please explain your answer.

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

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?

5. The Consultation Process

This consultation is being conducted in line with the Tax Consultation Framework. There are 5 stages to tax policy development:

Stage 1 Setting out objectives and identifying options.

Stage 2 Determining the best option and developing a framework for implementation including detailed policy design.

Stage 3 Drafting legislation to effect the proposed change.

Stage 4 Implementing and monitoring the change.

Stage 5 Reviewing and evaluating the change.

This consultation is taking place during stage 2 of the process. The purpose of the consultation is to gather views and evidence about the costs and benefits of lifestyling CTF accounts, and to seek further evidence on the consequences of removing the current legislative requirements in this area.

How to respond

Responses should be sent by 14 December 2015, by e-mail to savings.audit@hmrc.gsi.gov.uk or by post to: Lifestyling Consultation, HM Revenue and Customs, Room G63, 100 Parliament Street, London, SW1A 2BQ

A summary of the questions in this consultation is included at chapter 4.

Paper copies of this document or copies in Welsh and alternative formats (large print, audio and Braille) may be obtained free of charge from the above address. This document can also be accessed from HMRC Inside Government. All responses will be acknowledged, but it will not be possible to give substantive replies to individual representations.

When responding please say if you are a business, individual or representative body. In the case of representative bodies please provide information on the number and nature of people you represent.

Confidentiality

Information provided in response to this consultation, including personal information, may be published or disclosed in accordance with the access to information regimes. These are primarily the Freedom of Information Act 2000 (FOIA), the Data Protection Act 1998 (DPA) and the Environmental Information Regulations 2004.

If you want the information that you provide to be treated as confidential, please be aware that, under the FOIA, there is a statutory Code of Practice with which public authorities must comply and which deals with, amongst other things, obligations of confidence. In view of this it would be helpful if you could explain to us why you regard the information you have provided as confidential. If we receive a request for disclosure of the information we will take full account of your explanation, but we cannot give an assurance that confidentially can be maintained in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not, of itself, be regarded as binding on HM Revenue and Customs (HMRC).

HMRC will process your personal data in accordance with the DPA and in the majority of circumstances this will mean that your personal data will not be disclosed to third parties.

Consultation Principles

This consultation is being run in accordance with the Government's Consultation Principles.

The Consultation Principles are available on the Cabinet Office website: http://www.cabinetoffice.gov.uk/resource-library/consultation-principles-guidance

If you have any comments or complaints about the consultation process please contact:

John Pay, Consultation Coordinator, Budget Team, HM Revenue & Customs, 100 Parliament Street, London, SW1A 2BQ.

Email: hmrc-consultation.co-ordinator@hmrc.gsi.gov.uk

Please do not send responses to the consultation to this address.