HM Treasury

Child Trust Fund:

response to consultation

December 2013

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Contents

1 Introduction

1.1 In Budget 2013 the Government announced that it would consult on allowing the transfer of savings from Child Trust Fund (CTF) accounts into Junior ISAs.

Background to CTF

1.2 The CTF is a tax-advantaged savings account for children. Although new CTFs can no longer be opened, subscriptions to the existing 6.1 million CTFs can still be made. The value of the CTF market has seen steady growth since it was created. Currently, around 70 providers manage the £4.8 billion of CTF funds. Savings held in a CTF are locked-in until the account matures when the account holder turns 18. From 2020, over 700,000 CTFs will mature each year, at which point they will be permitted to roll into 'adult' ISAs outside of normal subscription limits.

1.3 When the CTF closed to new eligibility in 2011 due to its cost, the Junior ISA was introduced as a broadly similar tax-advantaged successor account. The main differences between the accounts are:

- whilst Junior ISAs are optional to open, all children eligible[1] for CTF had one opened on their behalf, either by someone with parental responsibility or by HM Revenue and Customs (HMRC);
- Junior ISAs do not receive government contributions (apart from accounts held by certain looked after children), whereas most CTFs received around £250 in government endowments[2]; and
- whilst only cash or stocks and shares Junior ISAs are available, there is an additional third option of a stakeholder[3] account provided for in CTF legislation. Almost 80 per cent of CTFs, including all those opened by HMRC for eligible children, are stakeholder accounts.

1.4 Since the Junior ISA was launched in November 2011, over 300,000 accounts have been opened and in excess of £550 million deposited.

1.5 CTF holding children are ineligible to open a Junior ISA.

Background to the consultation

1.6 The Government wants to support parents by ensuring that there continues to be a clear, simple, attractive and tax-advantaged way to save for children.

[1] A child is eligible for a CTF if they were born between 1 September 2002 and 2 January 2011 and live in the UK (and are not subject to any immigration restrictions). Their parent must also have received Child Benefit for the child before 4 January 2011 (unless they were in the care of a local authority before 3 April 2011, or if their parent received family benefit from another European Union country in which they worked before 4 January 2011).

[2] Initially, all CTFs were opened with a £250 Government contribution and looked after children, certain disabled children or those in lower income households received additional payments. These contributions were repeated in the child's seventh year. In 2010, the Government scrapped the year seven payments and reduced the initial contribution to £50.

[3] Stakeholder CTFs are stocks and shares accounts subject to additional Government rules designed to protect account holders: Funds must be invested in a number of companies and must usually be moved to lower risk investments from when the child reaches 13. Fees chargeable on these accounts are also capped at 1.5 per cent of the fund value.

1.7 In 2011, the Government announced that once the Junior ISA had been established, it would consider the future of existing CTFs, including whether CTFs and Junior ISAs should be more closely aligned. As the Junior ISA is now a well-established saving brand for children, the Government decided the time was right to launch the consultation.

1.8 On 14 May the Government opened a consultation that asked key questions around whether transfers of funds from CTF to Junior ISA should be allowed on a voluntary basis (i.e. at the request of the registered contacts for accounts, usually the account holder's parents). It also asked whether a merger of CTF into Junior ISA could be preferable.

1.9 The consultation was open for 12 weeks before closing on 6 August 2013.

1.10 The Government received 761 responses to the consultation, from both individuals and interested organisations, including account providers, fund managers and account administrators. During the consultation, HM Treasury also met with a range of organisations, including regulatory bodies, CTF and Junior ISA providers, and their representatives, as well as a leading consumer group. A list of the organisations that responded is provided in Annex A.

1.11 The aim of this document is to summarise the responses received, and to set out the Government's response. The Government is grateful to all those who contributed their views during the consultation process.

Aim of the consultation

1.12 The aim of the consultation was to gather views on whether it should be possible to transfer funds held in a CTF to a Junior ISA. The Government also welcomed views and evidence on its proposals for how transfers should take place.

1.13 As was made clear in the consultation document, the Government believes that for reasons of simplicity and fairness in terms of the distribution of tax advantages, a child should not be entitled to hold both a CTF and a Junior ISA. It therefore proposed not to consider any options which would allow a child to hold both types of account concurrently.

1.14 In addition, the Government also stated in the consultation document that it would not be reconsidering its decision to end new CTF eligibility from 2011, given that the resumption of new CTF eligibility (and the associated Government payments to accounts) remains unaffordable. Therefore, the consultation did not consider whether any child who is currently ineligible for a CTF should be entitled to hold such an account, or whether funds held in a child's Junior ISA should be transferable to a CTF.

1.15 Chapters 2 to 4 summarise the responses received to the questions posed in the consultation document, together with the Government's response. Chapter 5 addresses other points made during the consultation.

Next steps

1.16 The Government has carefully considered all of the responses to this consultation. It has noted the support for allowing the transfer of savings from CTFs to Junior ISAs as well as the uncertainty about the impact of any change on the wider CTF market. It has also noted the concerns of those not supportive of the proposal.

1.17 On balance, the Government believes that on the principle of fairness, the proposal laid out in the consultation document should be implemented. Therefore, the transfer of savings from a CTF to a Junior ISA should be permitted at the request of the registered contact for the CTF. Given the uncertainty about the impact that this change will have on the wider CTF market, the

Government also believes, as outlined in the consultation document, that when taking legislative powers to allow voluntary transfers, it should also provide scope for further intervention in the CTF market in case this is required at a later date.

1.18 The Government therefore intends to take this forward at the earliest opportunity subject to finding a suitable legislative vehicle. The timetable for implementation of the change will be determined by the legislative process and it is difficult at present to estimate when this legislation will come into effect. However we hope that the first transfers will be possible by April 2015.

2 Allowing transfers

2.1 This chapter addresses the primary question of the consultation on whether transfers from CTFs to Junior ISAs should be permitted.

Question 1

Do respondents believe that the transfer of funds from a CTF to a Junior ISA should be permitted?

Responses received

2.2 All 761 respondents answered this question. 41 of the responses were from organisations and the rest were from private individuals, comprised mainly of parents and grandparents of CTF holding children.

2.3 An overwhelming majority of respondents (751) were in favour of allowing transfers.

From organisations

2.4 The organisations that responded were mainly CTF providers, Junior ISA providers and organisations representing their interests. Responses were also received from a number of asset management companies and organisations representing the interests of consumers.

2.5 33 of the organisations stated that they would be in favour of allowing transfers, with the majority using the opportunity to state that they support consumer choice. A further three respondents offered no opinion on the question of transfers but instead two wished to register their support for any measures supporting children's savings whilst the other flagged that a high volume of cash account transfers could require an amendment to the electronic cash ISA transfer system. Four CTF providers, who in total represent a sizeable share of the CTF market (some of which also offer Junior ISA), together with a representative body for account providers, explicitly disagreed with the proposal that CTF funds should be transferable to Junior ISA, stating that they were not convinced that there was sufficient demand for transfers or that the Junior ISA would better serve the interests of their many CTF holders. These providers also highlighted that they have had few complaints about their CTFs or enquiries from customers seeking to transfer to Junior ISA.

From private individuals

2.6 A range of private individuals responded to this question, mainly parents or grandparents of CTF holders. Some identified themselves as people who subscribe the full available amount (currently £3,720) to their child's CTF each year. Others said that they had stopped making contributions, and some said that they have never contributed to their child's account. A number of parents identified their children as having a Revenue Allocated Account (RAA).[1]

2.7 Of the 720 responses that were received from private individuals, only one was not in favour of making available the opportunity to transfer CTF savings to a Junior ISA, suggesting that children with CTFs had benefited from a Government contribution and so should not be able to enjoy the benefits offered by Junior ISA as well.

2.8 The general sentiment from parents who responded was that they would like to open a Junior ISA for their child but were not overly concerned about how this could happen.

2.9 No parents responded to say that they were content with CTF or that they intended to retain their child's account as a CTF, if it became possible to transfer funds to Junior ISA. One individual suggested that CTF should not be scrapped, but instead, if the cost of maintaining accounts with small balances was becoming problematic for providers, then a minimum contribution requirement could be introduced.

2.10 It should be noted that there are around 6.1 million CTF accounts and only 720 individuals responded to the consultation.

The Government's response

2.11 The Government plans to implement its proposal to allow the transfer of savings from a CTF to a Junior ISA. It is doing so as it believes that children with CTFs should not be prohibited from opening a Junior ISA if it would better suit their long term interests. This is a sentiment that appears to be shared by the vast majority of consultation respondents.

2.12 The Government has noted the suggestion from some CTF providers that, in their experience, there is limited demand from account holders for any change to the current position. However, the Government has decided to take action on this matter because it believes that parents of CTF holders should be free to transfer their child's funds to a Junior ISA if they feel this would suit their child better.

[1] Revenue Allocated Accounts (RAAs) are accounts opened for children by HM Revenue and Customs (HMRC). HMRC opened an RAA for a child if their parents had not opened one on their behalf using their CTF voucher.

3 Impact of transfers on the CTF market

3.1 This chapter addresses the questions in the consultation concerning the workability of the Government's proposal to allow transfers and the potential impact on the CTF market.

Question 2

Would allowing CTF funds to be transferred to Junior ISA have any significant impact upon the viability of the wider CTF market, including on the availability of suitable CTF products for children whose funds remain with CTF?

Question 3

Would the proposal to allow voluntary transfers provide a workable basis to allow the transfer of funds from CTF to Junior ISA?

Question 4

What would be the impact of allowing voluntary transfers from CTF to Junior ISA, including one-off or ongoing costs and benefits for account holders and providers?

Responses received

3.2 A common theme that emerged in responses from account providers, and most other responding organisations, was that it is difficult to estimate how many registered contacts would choose to move their accounts if voluntary transfers were permitted. This in turn makes it difficult to estimate how significant an impact on the viability of the CTF market voluntary transfers would have or how high the costs involved with transfers would be.

On the viability of the market

3.3 On the question of whether voluntary transfers, as per the Government's proposal, would affect the viability of the CTF market, the majority of parents of CTF holders responding said they felt it was already unviable. They suggested that, in their experience, the market was characterised by high charges, poor returns, difficulties in transferring between providers and account type, a poor choice of investment funds and an apparent lack of active fund management.

3.4 A number of individuals complained that their children's savings are "stuck" in stakeholder or stocks and shares CTFs that are performing poorly, are ill-managed and subject to high fees. Many of these people expressed their feeling that even the 1.5 per cent stakeholder fee is too high when their money is invested in basic tracker funds. These individuals said that they have been unable to transfer their children's CTFs to other providers, or to other account types, and as a result are seeing the money that they have invested into their children's accounts erode away. One respondent also questioned why the regulator has not done more to protect the interests of CTF account holders given what they regarded as a lack of competition in the market.

3.5 A number of respondents registered their concern that if the Government were to allow voluntary transfers, the account holders remaining with CTF could face reduced choice and service levels. This was thought to be particularly concerning if account holders were to remain with CTF simply because their parents were not aware of the option to transfer or were not aware of the potential implications of not doing so.

3.6 The majority of organisations responding suggested that allowing voluntary transfers could have a detrimental effect on the viability of the CTF market, particularly if the higher value CTFs were "cherry-picked" by Junior ISA providers. There was some suggestion that changes could be made to the CTF rules to mitigate this impact, such as removing the requirement to 'lifestyle' CTF stakeholder accounts. It was suggested that the removal of 'lifestyling' would result in reduced costs to providers and could produce improved growth for account holders, particularly given the Government's announcement that amounts held in CTFs can be rolled into an ISA outside normal subscription limits on maturity. However, for many, the removal of 'lifestyling' would result in the loss of a valuable protection.

3.7 By contrast, there were some organisations and individuals who felt that voluntary transfers, and the prospect of rollover to an ISA when the CTF matured, could improve competition in the CTF market by encouraging CTF providers to make extra efforts to retain their existing customers. Others felt that in order to effectively stimulate competition in the CTF market by permitting transfers it would be necessary to also allow transfers from Junior ISAs to CTFs.

On the workability of the Government's proposals for the transfer process

3.8 The consultation proposed to allow the registered contact for a CTF to instruct their provider to transfer all of the funds held in their child's CTF to a Junior ISA. Under this proposal, it was anticipated that the process would be managed between providers in broadly the same way as existing transfers within the CTF or Junior ISA markets. It was proposed that:

- any transfers of funds should take place within current timescales available for CTF and Junior ISA transfers (15 working days for cash accounts, 30 days for non-cash accounts);
- a CTF provider could not refuse a request to transfer funds to Junior ISA (subject to the appropriate authorisation and transfer instructions) but it would be for a Junior ISA provider to determine whether they wish to accept the funds;
- funds held in a CTF could only be transferred to a Junior ISA in their entirety, following which the CTF must be closed;
- HMRC will not require the CTF provider to report the transfer, but the Junior ISA provider must report the new account in the normal way, as part of their normal ISA information return to HMRC; and
- Junior ISA providers must enable the registered contact for the account to be aware of the terms and conditions under which the Junior ISA will be offered, including any differences from the terms and conditions available under CTF. Funds transferred to Junior ISA will become subject to the normal Junior ISA rules, including those concerning subscription years and the Markets in Financial Instruments Directive (MiFID).

3.9 The majority of respondents who addressed this question agreed that the Government's proposal would provide a workable basis for transfers.

3.10 However, a number raised questions about the advice that would be available to individuals considering a transfer. It was suggested that all CTF holders should be advised of their right to transfer funds. Some respondents argued that there was a risk that the transfer of funds from a stakeholder CTF to a Junior ISA could lead to customer detriment in some cases, given that this could involve the removal of stakeholder features and protections.

3.11 Questions were raised around how the different subscription years for CTF and Junior ISA would be reconciled when funds are transferred. At present, CTF subscription years are linked to an account holder's birthday, while Junior ISA subscription years operate according to the tax year (6 April to 5 April). A risk was identified that movement from one basis for a subscription year to another at transfer could lead to customer confusion, possible oversubscription in the year of transfer and additional information burdens for account providers. A number of suggestions were made to address this risk, including aligning the subscription years for both accounts, or allowing any CTF subscriptions made within the tax year of transfer to be disregarded for the purposes of the Junior ISA subscription limit.

3.12 Some respondents argued for CTF and Junior ISA to be brought into line with each other more generally, by not only applying the same subscription year, but by amending the CTF rules on account management after the account holder turns 16 to match the Junior ISA rules.

3.13 A number of respondents argued for measures to counter any potential "cherry-picking" of the most attractive CTF accounts by Junior ISA providers, including by allowing CTF providers to charge a receiving Junior ISA provider for reasonable costs of transfer, or by preventing Junior ISA providers refusing an account transfer on the grounds of account value or operating minimum subscription requirements in relation to transferred accounts.

On the likely costs and benefits of voluntary transfers

3.14 In terms of the costs and benefits that would be associated with voluntary transfers, those parents who supported transferability felt that their child would be able to enjoy better returns, lower charges and more choice (of provider and fund) if they were able to transfer to Junior ISA. However, there was some concern that CTF providers would impose transfer out fees, or that many of the most attractive Junior ISA products would not be available to many CTF account holders, given the imposition of minimum subscription or balance requirements within the terms and conditions of these Junior ISAs.

3.15 Numerous individuals stated that being able to transfer their child's CTF to a Junior ISA would have the benefit of enabling all of their children to have the same type of account. These respondents were concerned by the significant differences in the performance of one (grand)child's CTF when compared to another (grand)child's Junior ISA, seeing this as incongruent with their desire to treat their (grand)children equally.

3.16 It was also noted by some individuals and organisations that there could be benefits, in terms of improving financial education and financial planning, if all children had access to a Junior ISA due to the obvious similarities with the 'adult' ISA.

3.17 The main costs highlighted by CTF providers were around processing transfer requests, but other costs, such as the cost of customer communications, the loss of income due to transfers out and the costs that would be involved in customer retention activity were also highlighted. In particular, it was pointed out that many CTF providers do not operate automated transfer systems and would need to consider developing these, or employing additional staff, to deal with a high level of transfers. The level of these costs would depend upon the level of transfers from CTF to Junior ISA.

The Government's response

Transfers to Junior ISA

3.18 The Government intends to allow funds held in CTF accounts to be transferred to a Junior ISAs at the request of the registered contact for the account. It proposes that the arrangements for transfer will broadly be those set in the consultation document, and will work with CTF and Junior ISA providers to further develop these arrangements.

3.19 Opting to transfer from a CTF to a Junior ISA will mean electing to sign up to a different set of account terms and conditions. These differences will be particularly pronounced when transferring out of a stakeholder CTF as no statutory equivalent exists in the Junior ISA market. If a voluntary transfer takes place without regulated advice being given then it is considered by the FCA to be 'execution-only' business as the customer has decided not to take advice. In these circumstances, whilst there are rules covering product disclosure, the risk of making a poor decision might be considered to be only partly mitigated by FCA regulation given that the decision is one that the customer has taken without having taken regulated financial advice.

3.20 The Government will provide information on the HMRC and Money Advice Service websites that highlights some of the differences between account types. Registered contacts instigating a transfer should be made aware that they will be agreeing to different terms and conditions and will be provided with a Key Facts document on their new Junior ISA product from the new provider.

3.21 One change which will affect all CTF holders transferring to Junior ISA (regardless of account type) will be the move from a subscription year linked to their child's birthday (CTF) to a subscription year linked to the tax year (Junior ISA). The Government will consider how best to ensure that no account holder misses out on being able to save their full annual allowance in the year of their transfer.

Remaining CTF market

3.22 Some parents will of course elect to remain with CTF and so the Government wants to ensure that these children have access to attractive CTF accounts.

3.23 Where a parent is unhappy with their CTF provider the Government encourages them to raise any issues in the first instance with the provider in question. If their complaint is not resolved satisfactorily within eight weeks they can contact the Financial Ombudsman Service. The Financial Ombudsman Service is an impartial and independent organisation that looks at cases on an individual case by case basis. Typically, the ombudsman cannot judge whether commercially set rates are fair, but can judge whether the communication and conduct of firms in their dealings with consumers is fair and reasonable.

3.24 Parents encountering barriers preventing them from transferring their funds to another CTF provider are reminded that any provider offering a stakeholder account is legally obliged to accept the transfer of any CTF seeking to transfer into that stakeholder account.

3.25 The CTF market was regulated by the Financial Services Authority (FSA) until April 2013 at which time conduct regulation became the remit of the Financial Conduct Authority (FCA). Whilst the FSA had a consumer protection objective, and had a focus on treating customers fairly, it did not have a duty to promote effective competition. The FCA now has this new duty which gives it more ability to act in areas where competition is not seen to be effective. In such cases, the FCA directs its resources on those markets where potential consumer detriment is judged to be greatest.

Further intervention

3.26 There will inevitably be instances where parents do not actively make a decision on whether to transfer their child's account to Junior ISA or not, perhaps because they are not aware of the opportunity or implications of doing so. A number of respondents expressed concerned that some of the children in question might lose out as a result of no active decision being made. In a worst case scenario, there is a chance that the impact of transfers out of the CTF market will affect market viability, but that some parents will still not be aware that they should request a transfer to another CTF provider who is performing better, or to request a transfer to the Junior ISA market. The Government therefore proposes to take powers in legislation to allow for further intervention in the market if required, so that it can react appropriately should there be any significant impact upon CTF market viability.

3.27 It was suggested that amendments to the stakeholder CTF account protections that make them cheaper to run could be made to mitigate any detrimental impact that a large transfer out of CTF accounts might have on the market. Although the Government has no plans at present to make any changes to the CTF stakeholder rules it will engage with CTF providers to address any concerns around the continuing attractiveness or viability of the account. The Government will however bring the CTF rules in relation to account management after the account holder reaches 16 in line with those for Junior ISA. This will allow a registered contact to continue to manage a CTF where the account holder chooses not to assume this responsibility when they reach 16.

3.28 It was also suggested that imposing a fee on Junior ISA providers accepting transfers in could also limit any detrimental impact on the CTF market caused by allowing voluntary transfers. However, the Government does not believe a fee should be imposed as it will make accepting the transfer of CTF funds unattractive for Junior ISA providers, and could therefore reduce choice for account holders.

3.29 The Government acknowledges that some CTF holders might not be in a position to meet the minimum subscription or balance requirements required by some Junior ISA products. However, the Government believes that there are sufficient Junior ISA products in the market to meet the needs of all account holders and parents who want an account – regardless of their income level or the frequency with which they can subscribe to the account.

3.30 The Government is aware that whilst the approach proposed in the consultation document for allowing voluntary transfers was generally thought to be workable, further engagement is required with industry to overcome any operational challenges.

4 Basis for transfers and legislation

4.1 This chapter looks at the questions posed in the consultation that focused on the basis upon which transfers should be permitted.

Question 5

If the Government proceeds with changes to the current rules on transferability, do respondents agree that its proposal to allow the transfer of funds on a voluntary basis is the best course of action?

Question 6

Are there any circumstances under which a merger of CTF into Junior ISA would be preferable?

Question 7

Do respondents agree with the approach to legislate to allow voluntary transfers in the first instance, but also to provide scope for further intervention at a later date, should this prove necessary as a result of developments in the CTF market?

Responses received

On voluntary transfers

4.2 The majority of individuals agreed with the Government's proposal to allow transfers on a voluntary basis. However, there was some suggestion that this would only be the best approach if all registered contacts were kept well informed of changes and their options. In addition, some of those agreeing with the proposal stated that they would in fact prefer a merger of CTF into Junior ISA but would be happy with voluntary transfers if that was the only feasible option.

4.3 The majority of organisations, including both CTF and Junior ISA providers, also agreed with the proposal to allow voluntary transfers stating that it would be the best course of action in the first instance as it would maximise choice for CTF holders and their parents. However, as touched upon in the previous chapter, there was concern that, in the absence of financial advice, some parents of stakeholder CTF-holding children would transfer to Junior ISA without appreciating that in doing so they could be forgoing the protections that stakeholder accounts offer.

4.4 There was also some suggestion from a small number of respondents that providers should also have the option to voluntarily convert their book of CTFs into Junior ISAs.

On the possibility of a merger

4.5 Of those individuals that explicitly disagreed with the proposal to allow voluntary transfers, they did so on the grounds that they felt a merger would be preferable. The following reasons were suggested for why:

- it would reduce complexity;
- it would end the perceived two-tier system operating in the children's savings market;
- it would allow all children, not just those with proactive or financially astute parents to "escape their CTF"; and
- it seems inevitable given the closure of CTF to new account eligibility.

4.6 However, many of the providers that responded (some of who offer both CTF and Junior ISA) argued that the loss of the stakeholder protection for account holders and the significant provider costs and operational difficulties would far outweigh any benefits associated with a merger. In particular, it was noted that there are more than 6 million CTFs and around 300,000 Junior ISAs, meaning that any merger would require the development of significant new Junior ISA capacity. It was pointed out that number of CTF providers do not currently offer Junior ISA, so, in the case of a merger, a new provider would be required to take on their accounts.

4.7 Two thirds of the organisations responding said that they could see potential circumstances in which a merger might be preferable, for example, if there was a reduction in the availability of attractive CTF products or providers in the future. However, this was not widely thought to be a likely outcome of allowing transfers on a voluntary basis. It was generally felt that the cost and operational difficulties of merger would be far greater for providers than those associated with voluntary transfers.

4.8 Nine of the 33 organisations that responded to question 5 disagreed completely and favoured the introduction of a merger immediately. These nine organisations were diverse and included both Junior ISA and CTF providers as well as others. One consumer group favoured an immediate merger of cash CTF into cash Junior ISAs and stocks and shares CTFs into stocks and shares Junior ISAs but were keen for the stakeholder CTF to be maintained as a separate entity. That consumer group, as well as some providers offering both CTF and Junior ISA, were in agreement that a stakeholder CTF may be more suitable for many children than a Junior ISA.

On the plans for legislation

4.9 The overwhelming majority of both individuals and organisations agreed that if the Government were to legislate to allow voluntary transfers, it should leave scope for further intervention at a later date, in case it were to prove necessary. It was broadly felt that this sounded like a sensible approach, given the uncertainty around the impact of voluntary transfers on the CTF market.

4.10 However, around a fifth of individuals responding to question 7 stated their opposition to this proposal. Largely, these respondents used the opportunity to reiterate that a merger of CTF into Junior ISA would be their preferred option. A number voiced their concern that the proposal represented an unnecessary intermediate step towards, in their view, a much needed merger, and leave "unsophisticated savers locked into uncompetitive products".

4.11 The organisations that disagreed with this approach did so for a range of reasons: some felt it was a sign of the Government drawing out what they saw as an inevitable decline of the CTF market, some felt it would create uncertainty and others felt that further intervention would simply be unnecessary.

4.12 A common theme emerging from providers, whether they favoured voluntary transfers or a merger, was that the Government should give the industry sufficient time to put systems in place to cope with the transfer process before making changes, and should consult again on any further changes in this area.

The Government's response

4.13 In line with the views of the majority of consultation respondents, the Government has decided not to merge the CTF into the Junior ISA at present. Instead it will permit the voluntary transfer of savings from CTF to Junior ISA where requested by the registered contact. Under the voluntary transfer proposal, the Government will not be permitting providers to voluntarily convert their book of CTFs into Junior ISAs without the consent of registered contacts for the relevant CTFs.

4.14 As mentioned previously, the Government will provide information on the HMRC and Money Advice Service websites to keep parents informed of the opportunity to transfer to Junior ISA. In addition, the Government expects that there will be an increase in the level of marketing by CTF and Junior ISA providers as they compete to either retain or attract customers. This in itself should raise awareness of the ability to make a transfer.

4.15 However, the Government will be taking powers in legislation that will enable further intervention in the CTF market at a later date, should this become necessary. A number of options will be considered in these circumstances, including a merger of accounts. The Government believes that this is a prudent approach given the uncertainty around the potential impact that allowing voluntary transfers might have on the market.

4.16 Another uncertainty of allowing voluntary transfers is whether there will be a detrimental impact on the interest rates offered on Junior ISAs if there is a relatively large influx of cash from the CTF market. It is also unclear what the impact will be on fees charged on Junior ISAs if there were to be a large influx of non cash accounts from CTF. Consequently, the Government believes that it is prudent to allow voluntary transfers and observe any market impacts before contemplating a merger, which by its very nature, would bring even more cash and even more accounts into the Junior ISA market.

4.17 The Government acknowledges the view of some respondents that a merger of accounts may be preferable. However, it believes that the parents of CTF account holders are best placed to decide whether their child has a CTF or Junior ISA. The Government wants to ensure that all account holders can get the best deal possible and at this time does not believe that a merger is the best way of doing this. Instead, it plans to monitor the CTF and Junior ISA markets and will consider intervening further if it appears that account holders are unable to access attractive accounts. The Government will engage with CTF and Junior ISA industries to come up with a sensible plan for implementing a merger in the event it is required.

4.18 Furthermore, the Government wants those people wishing to make a transfer to be able to do so as soon as possible and believes that allowing transfers on a voluntary basis is the best way of ensuring this.

5 Other issues

5.1 Although the consultation asked seven questions, it also stated that the Government would welcome any views within the scope of the consultation. This chapter explores some of the other views that were expressed in response to the consultation.

Responses received

Access to account funds

5.2 A common issue raised by individuals was the current rule that allows CTF account holders full access to their accounts from their eighteenth birthday.

5.3 A number of respondents used the consultation to voice their opinion that they do not believe the funds should be accessible to account holders at 18, with some suggesting that the age should be raised to 21, or to the "point at which parents felt access would be suitable". Others suggested that if account holders wanted to make withdrawals from the account after they turn 18, parents should have to sign to say that they permit the withdrawal.

Reinvesting CTF savings in non Junior ISA products

5.4 Some respondents suggested that it should be possible to transfer CTF savings into products other than Junior ISAs. Transferring the funds to NS&I was suggested as a means of "benefiting the taxpayer/the Revenue". Another suggestion put forward was around investing the savings into bare trusts, an account type similar in many respects to a Junior ISA but without the tax-advantaged wrapper.

The Government's response

5.5 Some consultation responses may have reflected a degree of confusion around the existing CTF and Junior ISA rules, with some parents stating that they would prefer to open a Junior ISA for their CTF-holding child because funds held in a CTF become accessible to account holders when they turn 18.

5.6 For clarification, Junior ISAs and CTFs are subject to the same rules around an account holder's access to funds. Both CTF and Junior ISA holders have access to their funds once they turn 18. Friends and family making contributions to accounts should be aware that in doing so they are locking funds away until the account holder is 18, at which point the account holder will be free to use the funds as they wish. This has always been the case with CTFs and Junior ISAs. The Government has no plans to change the rules in this area, although as set out in the consultation document, it will legislate to allow funds held in a CTF on maturity to roll into an ISA outside the normal subscription limits.

5.7 On the topic of transferring CTF savings to alternative products besides the Junior ISA, the Government believes that due to the obvious similarities between the CTF and Junior ISA, transfers should only be permitted from a CTF to a Junior ISA. As contributions to CTFs would have been made on the assumption that funds would be retained in the CTF until the account holder turns 18, the Government wants to ensure that they remain invested in as similar a product as possible. In addition, only allowing CTF funds to be transferred to a Junior ISA (and not other savings products) ensures that these funds will continue to benefit from identical tax advantages.

A List of respondents

A.1 Only organisations that responded are listed here; there were additionally 720 responses from private individuals.

AJ Bell

Association of British Credit Unions Limited

Association of British Insurers

Association of Financial Mutuals

Association of Investment Companies

Association of Private Client Investment Managers and Stockbrokers

AXA Wealth

Bacs Payment Schemes Limited

Barclays

Bloomsbury Wealth

British Bankers Association

Brooks Macdonald Asset Management

Building Society Association

Capita Life and Pensions Services

Chelsea Financial Services

Children in Scotland

Dowgate Capital Stockbrokers

Family Investments

Foreign and Colonial Management Limited

Foresters

Hargreaves Lansdown

Healthy Investment

International Financial Data Services

Investment Managers Association

Just Us Financial Solutions

Legal & General

M&G

Mazars Financial Planning

Nationwide

Nucleus

Personal Finance Education Group

Rathbone Brothers

Royal Bank of Scotland

Scottish Friendly Association

Sheffield Mutual

St. James's Place Group

TISA

The Children's ISA Limited

The Share Centre

The Share Foundation

Which?

HM Treasury contacts

This document can be downloaded from www.gov.uk

If you require this information in another language, format or have general enquiries about HM Treasury and its work, contact:

Correspondence Team
HM Treasury
1 Horse Guards Road
London
SW1A 2HQ

Tel: 020 7270 5000

E-mail: public.enquiries@hm-treasury.gov.uk

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