

Working Papers

**Building Assets from Birth:
A Comparison of the Policies and Proposals on
Children Savings Accounts
in Singapore, the United Kingdom, Canada,
Korea, and the United States.**

Vernon Loke and Michael Sherraden

Working Paper No. 06-14

2006



Center for Social Development

 **Washington**
WASHINGTON · UNIVERSITY · IN · ST · LOUIS
George Warren Brown School of Social Work

**Building Assets from Birth:
A Comparison of the Policies and Proposals on
Children Savings Accounts
in Singapore, the United Kingdom, Canada, Korea, and the
United States**

Vernon Loke
Research Associate, Center for Social Development
Washington University in St. Louis

Michael Sherraden, PhD
Benjamin E. Youngdahl Professor of Social Development
Director, Center for Social Development
Washington University in St. Louis

Working Paper No. 06-14

2006

Center for Social Development
George Warren Brown School of Social Work
Washington University
One Brookings Drive
Campus Box 1196
St. Louis, MO 63130
tel 314-935-7433
fax 314-935-8661
e-mail: csd@gwbmail.wustl.edu
<http://gwbweb.wustl.edu/csd>

Abstract

**Building Assets from Birth:
A Comparison of the Policies and Proposals on Children Savings Accounts
in Singapore, the United Kingdom, Canada, Korea, and the United States**

Holding assets is increasingly acknowledged as yielding positive effects and enhancing opportunities. In *Assets and the Poor*, Sherraden proposed that Individual Development Accounts (IDAs) should be opened for every person from birth in order to provide them with the lifetime potential to accumulate assets and to experience the effects of assets from a young age. A few countries have recently implemented or are proposing policies that build assets for every child starting from birth. Among these countries are Singapore, the United Kingdom, Canada, Korea, and the United States. The purposes and strategies adopted by each country are distinctive. This paper provides an overview of the Children Savings Account policies and proposals in these five countries and explicates some of their key elements.

**Building Assets from Birth:
A Comparison of the Policies and Proposals on Children Savings Accounts
in Singapore, the United Kingdom, Canada, Korea, and the United States**

Holding assets, in addition to spending income for consumption, is increasingly acknowledged as yielding positive effects and enhancing opportunities (New America Foundation, 2005; Paxton, 2001). Income support has been the social policy instrument of choice for increasing the well-being of the populace. In *Assets and the Poor*, Sherraden (1991) suggested that the way out of poverty is not through consumption alone but through the accumulation of assets, and that having assets will lead to positive outcomes for individuals and families. Sherraden proposed that Individual Development Accounts (IDAs) should be opened for every person from birth to provide them with the lifetime potential to accumulate assets and to experience the effects of assets from a young age. The concept of social welfare through asset accumulation has emerged as a growing discussion among social scientists and policy-makers around the world.

A few countries have recently implemented or are proposing policies that build assets for every child starting from birth. Among the countries that already have some form of national Children Savings Account (CSA) policy are Singapore, the United Kingdom, and Canada. The United States has legislation on CSA moving through Congress at present. And, in August 2006, the South Korean government announced a proposal to implement Child Development Accounts to cover up to 50 percent of all newborns by 2010.

The purposes and strategies adopted by each country are different. This paper provides an overview of the Children Savings Account policies in these countries and explicates some of their key elements.

Overview of Children Savings Account Policies

Singapore

Asset-based policies are the mainstay of welfare provision in Singapore, where the comprehensive cradle-to-grave asset building policy is highly innovative. Beginning at birth to age 6, each child benefits from the Baby Bonus scheme; from ages 6 to 16, there is the Edusave account; between the ages of 6 and 18, there is the Post-Secondary Education Account. Unused balances in these three accounts are then rolled over to the Central Provident Fund (CPF)¹ account that follows the account holder into retirement.

Presently, Singapore has three universal asset-building programs targeted at children, beginning at birth to age eighteen. Probably the first universal child asset building program in the world (Curley & Sherraden, 2000), Singapore's Edusave Scheme benefits school children between the ages of 6 and 16 with the objective of maximizing and equalizing educational opportunities for them (Goh, 1990). Implemented in 1993,

¹ The Central Provident Fund is a savings account that every employed person contributes to, with matched contributions from employers. The savings, while primarily meant for retirement, are used for certain medical expenses, and for a variety of asset-building purposes such as the purchase of homes, investments, life insurance, as well as for tertiary educational expenses. More information on the Central Provident Fund is available at <http://www.cpf.gov.sg>.

each child can expect to receive S\$4,000 (US\$2,530) during their 10 years in school in their interest-earning Edusave accounts (Goh, 1993). The funds in Edusave accounts are used only for enrichment programs for the children (Singapore Ministry of Education, 2005b). In 2005, the government contributed between S\$160 to S\$200 (US\$100 to US\$125) to each child's Edusave account that had been automatically opened (Singapore Ministry of Education, 2005a). Unused Edusave account balances are transferred to the child's Post-Secondary Education (PSE) account when the child reaches the age of 16 years or when he/she leaves secondary school, whichever is later.

In addition to the annual contributions, the Edusave Scheme provides unrestricted incentive rewards of between S\$50 to S\$500 (US\$31 to US\$311) annually to students who perform well or make good progress in their academic work or co-curricular activities through the Edusave Scholarships and through the means-tested Edusave Bursaries for children from lower income families. To ensure that no promising child is deprived of an independent school education (equivalent to private school education in the United States) due to economic reasons, the top performing students in these schools have their fees paid by the Edusave Scheme as well. The Edusave Scheme is funded by the interest earned from a S\$5 billion Edusave Endowment Fund established from government contributions (Singapore Ministry of Education, 2004).

In 2001, the Singapore government introduced the Baby Bonus Scheme as part of the government's overall effort to increase fertility rates and create a total environment conducive to raising a family. The Baby Bonus Scheme, refined and expanded in 2004,

and further enhanced in 2005, is comprised of two tiers. The first tier consists of an unrestricted cash gift from the government of S\$3,000 (US\$1,875) for the first and second child, and S\$6,000 (US\$3,750) for the third and fourth child. This cash gift is deposited directly into a savings account. The second tier consists of a Children Development Account (CDA) for the second to fourth child. Families can save into these interest-earning CDAs over a period of six years and have their contributions matched 1-to-1 up to the cap of S\$6,000 (US\$3,750) for the second child and a cap of S\$12,000 (US\$7,500) each for the third and fourth child (Singapore Ministry of Community Development Youth and Sports, 2006). According to then Prime Minister Goh Chok Tong, the matching contribution is an important feature of the scheme because it recognizes that the primary responsibility for providing for the child lies with the parents (Goh, 2000).

Overall, under the Baby Bonus Scheme, the first child receives S\$3,000 (US\$1,875), the second child receives up to S\$9,000 (US\$5,625), and the third and fourth children receive up to S\$18,000 (US\$11,250).² Funds in the CDAs may be used from birth to age 6 for expenses related to childcare, preschool, special education or early intervention programs, and medical insurance. Unutilized account balances in the child's CDA are transferred to the child's Post-Secondary Education (PSE) account once the child enters primary school.

² The Baby Bonus Scheme is a pro-natal policy aimed at encouraging families to have more children—in particular, their second and third children. The policy has been criticized for the differential treatment of

The Post-Secondary Education (PSE) account was implemented in 2005 as part of the government's commitment to support families in investing in further education for their children, and to encourage every Singaporean to complete post-secondary education. Monies left over from both the Children Development Account and the Edusave Account are transferred to the PSE account, which currently earns an interest of 2.5 percent (compared to less than 0.3 percent at commercial banks). Families can contribute into the PSE accounts when the account holder is between the ages of 6 and 18. These contributions also attract a government match for the savings, capped at a combined government contribution to the PSE and CDA accounts of S\$6,000 for the second child, and S\$12,000 for the third and fourth child. Funds in the PSE account can be used for post-secondary education expenses, and unutilized balances are transferred to the account holder's Central Provident Fund (CPF) accounts (Singapore Ministry of Education, 2005c).

United Kingdom

In the United Kingdom, the Child Trust Fund was implemented in April 2005 as a new long-term savings and investment account for children born on or after September 1, 2002. The policy objectives of the CTF are to help people understand the benefits of saving and investing, encourage parents and children to develop the saving habit and engage with financial institutions, ensure that in future all children have a financial asset

each child based on birth order. For example, see Sherraden's (2001) comments on the scheme when it was initiated.

at the start of adult life, and build on financial education to help people make better financial choices throughout their lives (U.K. Parliament, 2004).

Under the Child Trust Fund (CTF), the government makes an initial contribution of £250 (US\$430) in the form of a voucher which can only be invested in Child Trust Fund accounts. A supplemental £250 is paid into the CTF accounts of children from lower income families. An additional top-up to the CTF accounts has been announced at the child's seventh birthday, and plans for another payment when children turn eleven are being discussed. Parents, family, and friends can contribute up to a total of £1,200 per year to a CTF account. Income from investments in a CTF account is exempt from tax. Funds in the CTF account can be withdrawn by the child only after reaching the age of 18. There is no restriction on use of the money in a CTF account after withdrawal.

There are presently three types of CTF accounts: savings, stakeholder, and shares. There are over 70 different providers and distributors to choose from. The safest and simplest option is to deposit the voucher into an interest-earning savings account. Alternatively, stakeholder accounts which invest in a pool or fund made up of a variety of company shares may be opened. These stakeholder accounts are more risky as returns are not guaranteed. In addition, they are subjected to a management fee of no more than 1.5 percent a year. Finally, shares accounts are share-based investments in equities. Meant for more experienced investors, these accounts have the highest risks and no cap on annual management charges.

Canada

The Canada Education Savings Program (CESP) administers two federal programs, the Canada Education Savings Grant (CESG) and the Canada Learning Bond (CLB). Both are designed to provide financial incentives to encourage saving for post-secondary education. Both programs use the Registered Education Savings Plan (RESP), a tax-deferred savings vehicle, as the investment vehicle to achieve savings for a child's post-secondary education.

The Canadian government provides a savings match on the annual contributions to a RESP for each child up to age 17 through the Canada Education Savings Grant (CESG). CESG pays 20 percent on the first C\$2,000 or less contributed to a RESP per child per year. To help lower income families increase their savings, families with annual net incomes of C\$35,000 or less receive an additional 20 percent grant on the first C\$500 contributed to a RESP, while families with net annual incomes between C\$35,000 to C\$75,000 receive an additional 10 percent grant on the first C\$500 contributed. The total CESG amounts paid (additional and basic grants) are subject to a C\$500 (US\$446) annual cap and a C\$7,200 (US\$6,430) lifetime limit (Human Resources and Skills Development Canada, 2006a).

The Canada Learning Bond (CLB) is a government entitlement to help modest-income families save for their child's post-secondary education. Announced in 2004 and implemented in July 2005, the Canada Learning Bond provides an initial entitlement of C\$500 (US\$446) to a child's RESP if he or she is born after December 31, 2003, and the

family is eligible for the National Child Benefit Supplement. In addition, as long as the family continues to receive the National Child Benefit Supplement, the child will get an extra annual payment of C\$100 (US\$89) for up to 15 years. The lifetime limit of the Canada Learning Bond per child is C\$2,000 (US\$1,786). An additional C\$25 is paid with the first C\$500 bond to help families cover the cost of opening a RESP. If the eligible family or child does not open a RESP by the time the child turns 21, the CLB entitlements will be forfeited (Human Resources and Skills Development Canada, 2006b).

Monies accumulated in the RESPs from private contributions, the Canada Education Savings Grant, and the Canada Learning Bond can be withdrawn without penalty for qualified post-secondary educational expenses, or transferred to another child (without the Canada Learning Bond monies). However, if the savings in the RESPs are not used for post-secondary educational purposes, all monies received through the Canada Education Savings Grant and the Canada Learning Bond must be returned to the Canadian Government (Human Resources and Skills Development Canada, 2006c).

Korea

The Korean Ministry of Health and Welfare announced in August 2006 a proposal to implement Child Development Accounts (CDAs) for children. Starting in January 2007 and rolled out in phases, savings in these CDAs could be accessed by children at age 18 for education, housing, or micro-enterprise start-up. It is envisioned

that CDAs would help narrow the gap between the rich and poor and will help boost national economic growth (Han, Kim, & Zou, 2006).

Child Development Accounts initially would target in 2007, its first year of operation, the 37,000 children who are either orphans or institutionalized. Expanding in 2008, it would include all children born into low-income families. In 2009, children of all the working poor would be included in the program. By 2010, the government intends for the program to cover all children born into low- and middle-income households, encompassing approximately 50 percent of all Korean newborns.

As an incentive to save, the proposal provides a 1:1 savings match of up to 30,000 won (US\$30) by the government for deposits made into the CDAs each month. In addition, to help institutionalized children and orphans begin accumulating assets, the proposal calls for a 60,000 won (US\$60) monthly deposit into the CDAs of these children, with 30,000 won (US\$30) funded by organizational sponsors and another 30,000 won (US\$30) in match dollars by the government. Starting in 2010, the Korean government plans to provide matched deposits twice, 200,000 won (US\$200) at birth and another 200,000 won (US\$200) at age seven.

United States

The America Saving for Personal Investment, Retirement, and Education Act (ASPIRE Act) aims to encourage savings, promote financial literacy, and expand opportunities for young adults by establishing a Kids Investment and Development

(KIDS) account for every child born after December 31, 2006. First introduced in 2004 in the 108th Congress, and subsequently reintroduced in the 109th Congress in 2005, the bill would establish the KIDS Account Fund within the Department of the Treasury and endow every child with a one-time US\$500 contribution into the KIDS account, opened automatically. Children in households earning below the national median income would be eligible for a supplemental contribution of up to US\$500, as well as additional matching funds for private contributions saved in the account. The annual dollar-for-dollar matches would be capped at the first US\$500 contributed in the Senate version of the bill, and the first US\$1,000 contributed in the House version of the bill. The Senate bill would phase out this match for accountholders with household incomes between 100 percent and 105 percent of the national median adjusted gross income (AGI) while the House bill would phase out the match at household incomes between 100 percent and 200 percent of the national median AGI.

Private, voluntary after-tax contributions could be made to each account until the accountholder reaches the age of 18. These contributions would be capped at US\$1,000 annually in the Senate bill and at US\$2,000 annually in the House bill. A range of investment options, similar to those offered by the Thrift Savings Plan – including a government securities fund, a fixed income investment fund, and a common stock fund – would be made available to the accountholders and their custodians. No withdrawals could be made from a KIDS account until the accountholder reached the age of 18, at which time, their KIDS account would be treated in the same manner as a Roth IRA and governed by the same compliance and distribution rules. These rules would permit

withdrawals without penalty for select pre-retirement uses, including first-time home purchase and post-secondary education. However, a minimum balance equal to the amount of the automatic initial contribution, initially US\$500, would have to be maintained until retirement age. The initial contribution would also have to be repaid when the accountholder reached the age of 30.

Key Elements of CSA Policies and Proposals

Purpose of CSA policies

Success in today's economy increasingly depends on the ability to accumulate a wide range of assets, not merely a steady income. A combination of both income and assets can provide the means to take advantage of opportunities. Obtaining an education, owning a home, and building a stock of financial investments are essential elements of economic security and well-being, providing a basis for family and community development (New America Foundation, 2005).

A common objective that runs through the Children's Savings Account policies and proposals in Singapore, the United Kingdom, Canada, Korea, and the United States is that of establishing a long-term saving and investment account for every child starting at birth or near birth. This is to ensure that each child will own a pool of resources growing up that could help them get started in life as a young adult. For the UK's Child Trust Fund, the main focus is accumulation of financial assets for adulthood so that each person starts adult life with at least modest pool of resources. Korea's proposed Child

Development Accounts have a similar focus, targeting those in the bottom half of the economy. In the case of the Canada Education Saving Program, the objective for saving is to help pay for post-secondary educational expenses incurred as young adults. Also focused on having financial resources for adulthood, KIDS accounts in the United States would enable account holders to acquire further assets and post-secondary education after turning 18, and to save for retirement.

Somewhat in contrast, Singapore's asset-based program for children is focused primarily on building financial, educational, and human capital assets of accountholders as they are growing up, in addition to helping them get started in life as a young adult. Funds accumulated in the Children Development Accounts (CDA), Edusave, and Post-Secondary Education (PSE) accounts can be utilized at various stages of the accountholder's childhood to meet educational and developmental needs. The Edusave Scheme, like the CLB, is also different from the CTF accounts, KIDS accounts, CDAs, and PSE accounts in that there is no active savings or investment component by the accountholders. Nevertheless, the various asset-based programs for children in Singapore do have elements of long-term asset building because any unutilized balances are rolled over to the Central Provident Fund – Singapore's main instrument for building assets in adulthood into retirement. Also, the Baby Bonus Scheme is part of the government pro-natal policy to increase fertility rates. Thus, the purposes of Singapore's policies are more complex.

Inclusiveness

The Canada Education Savings Program, the Singapore Baby Bonus Scheme, the Child Trust Fund in the United Kingdom, and proposed KIDS accounts in the United States are potentially universally available to every child. However, they differ in the extent to which they are inclusive. Child Development Accounts in Korea, as currently proposed, would be targeted toward low- and middle-income households.

In the case of the Canada Education Savings Program, not all eligible children benefit from the program. Families have to open Registered Education Savings Plan (RESP) accounts in order to benefit from the Canada Education Savings Grant and the Canada Learning Bond. A formative evaluation of the Canada Education Savings Grant (CESG) program in 2003 found that lower income families participated at a lower rate than those from the higher income groups. The share of RESP contributing households for families with pre-tax incomes of below C\$20,000 for the period 1998 to 2001 was only 8.6 percent, even though they comprised 33.6 percent of all households. Lower incomes and lower educational levels were also associated with lower awareness of the CESGs among non-subscribers (Human Resources Development Canada, 2003). In addition, unless a RESP account is opened before an eligible child's 21st birthday, any Canada Learning Bond entitlements for that child are forfeited.

For the Singapore Baby Bonus scheme, with the underlying pro-natal and family planning objectives, not every child is eligible for the scheme. To discourage families from having more than four children at the expense of quality family life, only the first to

the fourth child of a family are eligible for the scheme. In addition, to encourage families to have more than one child and in recognition of the heavier financial burden of having more children, the second to fourth birth-order child are eligible for the Children Development Accounts, with the third and fourth birth-order child having twice the quantum of benefits compared to the second birth-order child.

Based on the birth data released by the Singapore Department of Statistics, about 1.6 percent of children born since 2002 are excluded from the Baby Bonus scheme because they are of the fifth birth order or higher. In addition, about 46 percent of the children would not benefit from the matched savings through the CDA or PSE account as they are either of the first birth order, or of the fifth birth order or higher (Singapore Department of Statistics, 2006). Recent refinements to the Baby Bonus Scheme also suggest that lower income families are participating at lower rates than higher income families. Preliminary data from the Singapore Ministry of Community Development, Youth and Sports indicate that less than 45 percent of eligible children from families with self-reported monthly household incomes of S\$1,000 or less have contributions made into their CDAs. This compares to over 80 percent among eligible children from higher income families (personal communication, August 27, 2006).

In the United Kingdom, while Child Trust Fund vouchers are automatically sent to the families when Child Benefits are claimed, the UK Treasury estimates that some 2 percent of all eligible families do not claim Child Benefits. Based on birth data from the Office for National Statistics, Halifax Finances Services estimates that almost 50,000

children born since September 2002 have failed to receive Child Trust Fund cash from the government, amounting to some £16.5 million (Financial Times Adviser, 2006). A survey of the five largest CTF providers also found lower-income parents tend to save less than higher-income parents, both in frequency and amount of deposits. Only 19 percent of lower-income accounts attracted regular monthly contributions compared to 33 percent of higher-income accounts. On average, lower-income accounts also saved £5 less (Sodha, 2006). In addition, few ethical or religious based investment options are available. Those with ethical or religious sensitivities may find investment choices severely restricted or absent altogether.

Although details are not yet available, Korea's proposed Child Development Accounts might potentially cover all children in the bottom half of the income distribution. As with the United Kingdom's Child Trust Fund, the completeness of coverage will depend on guidelines and procedures for opening accounts.

The ASPIRE Act in the United States proposes that every child born from 2007 onwards have a KIDS account automatically opened for them when they are issued a Social Security number, and hence this would appear the most inclusive of the various policies discussed. However, children of illegal immigrants, as well as those who fail to apply for a Social Security number, may still be excluded.

Progressivity

The Child Trust Fund, the ASPIRE Act, Korea's Child Development Accounts, and the Canada Education Savings Program have progressive elements built into the policies. For the Child Trust Fund, lower income families receive an additional £250 at birth and at age 7. In the Canada Education Savings Program, modest income families receive additional grants under the Canada Education Savings Grant, while low income families are eligible for the Canada Learning Bond with an additional C\$500 initial entitlement and an annual C\$100 entitlement for up to 15 years. Child Development Accounts in Korea are targeted to lower income households. And, in the ASPIRE Act, it is proposed that lower income families receive a supplemental US\$500 contribution into the KIDS accounts as well as a savings match for private contributions into these accounts subject to a match cap.

The CSA programs in Singapore, with the exception of the Edusave Scheme, do not incorporate progressive elements. It should be mentioned, however, that many other asset-based policies target low income families in Singapore.³ In addition, a recent survey found that the lowest quintile income earners in Singapore have, on average, S\$188,000 (US\$117,000) in assets. A majority of these lowest-income families are homeowners (Lee, 2005).

³ One example of an anti-poverty asset-based policy is the Home Ownership Plus Education (HOPE) scheme whereby eligible low-income families receive grants of up to S\$100,000 (US\$62,500) to help them purchase homes, obtain post-secondary education and job skills, and pay for children's educational expenses.

Facilitating Structures and Incentives

Studies of Individual Development Accounts in the American Dream Demonstration have shown that low-income families can save when the appropriate structures and incentives are in place (Schreiner, Clancy, & Sherraden, 2002). The schemes in Canada, Singapore, the United Kingdom and the United States all have structures that facilitate the opening of accounts and incentives to encourage the subsequent contributions into these accounts. The proposed Korean policy is not yet well clarified in this regard, except that some matching deposits would be included.

For example, in Singapore parents can apply to join the Baby Bonus scheme at the same time that the birth of their child is registered, with a Children Development Account automatically opened for each eligible child. In the United Kingdom, Child Trust Fund vouchers are automatically sent out to all eligible children after the Child Benefit has been awarded for the families to open CTF accounts with private providers. If no CTF accounts are opened within 12 months of the voucher issue, Inland Revenue will open a stakeholder CTF account for the child by default. In Canada, the Canada Learning Bond provides C\$25 to help cover the cost of opening Registered Education Savings Plan accounts. As for the United States, infants would have their KIDS accounts automatically opened for them when they are issued a Social Security number.

Among the incentives to encourage private contributions into the children's accounts are tax exemptions for capital gains and interest for the Canadian, British, and

American policies,⁴ higher than market interest rates for the Singapore schemes, and matched savings in the Canadian and Singaporean programs, with the former having both annual and lifetime match caps. The U.S. ASPIRE Act and Korean Child Development Accounts similarly propose a savings match for lower income families to encourage additional contributions into the accounts.

Children Development Accounts in Singapore originally had an annual as well as a lifetime cap on the amount of contribution that could be matched. This annual cap also acted as the savings target that had to be reached in order to reap the full benefits of the matching. However, many low income families were unable to save up to the annual caps, and hence failed to receive the maximum amount of government matching possible. To help these families benefit fully from the scheme, the Singapore government removed the annual caps so that lower income families have greater flexibility both in terms of timing and amount of savings. Taking a somewhat different approach, the Canadian government, opted to allow a portion of the unused, unmatched caps to be rolled over to the following year.

Investment Options and Capital Growth

The schemes in Singapore presently do not have any investment options for funds held in the various accounts; all are treated as cash deposits. As for the Child Trust Fund in the United Kingdom, the three types of CTF accounts are held entirely in the private

⁴ Tax-exemption does not apply for the Singapore schemes as capital gains and interest are tax exempt. In addition, about 70 percent of the population is exempt from paying income tax.

sector. Account custodians choose among the investment options from more than 70 different providers and distributors. Choosing the most suitable investment option may prove taxing for many parents (BBC News, 2005). In fact, a recent survey by Family Investments found that the sheer number of options available and the fear of making the wrong choice have been partially responsible for parents failing to invest their Child Trust Fund vouchers (Myfinances.co.uk, 2006). The same may be said of Canada's Registered Education Savings Plan, which is also managed by a myriad of private providers and have a multitude of investment options.

In terms of capital growth, the Singapore schemes earn either market or higher than market interest rates for the deposits held in the various accounts. Child Trust Fund accounts holders enjoyed investment gains as high as 54.6 percent for equity-based investment trusts, and 4 percent for cash deposit accounts (The Times, 2006). Of course, depending on the year, equity-based investments can also be negative.

The related topics of range of investment choices and total annual fees are not taken up here. Needless to say, however, it is important in long-term investments to keep fees low. In this regard, allowable annual investment charges of 1.5 percent or even higher in the United Kingdom's Child Trust Fund are undesirable.

Account Uses

Funds in the United Kingdom's Child Trust Fund cannot be withdrawn until the account holder turns 18, and there are no restrictions on how funds in the CTF accounts

are used once withdrawn. Funds in the Canadian Registered Education Savings Plan, however, can only be used without penalty for post-secondary education. As for KIDS accounts, funds in these accounts could only be withdrawn after the account holder turns 18 for qualified uses such as first-time home purchase or for post-secondary educational expenses. The proposed Child Development Accounts in Korea would allow similar uses after age 18.

Funds in the accounts of the various schemes in Singapore also have restrictions on use. However, unlike the RESP and KIDS accounts, the focus is to facilitate development of both financial and non-financial assets during childhood. By allowing withdrawals during childhood, accountholders have greater access to educational and enrichment opportunities that build non-financial assets early on in life, which in turn may increase ability to accumulate greater wealth and income in the adult years. The phased nature of the accounts spanning different age groups also ensures that there are adequate funds saved for each stage of childhood, and that all the savings are not be depleted within a single stage.

Conclusion

The Children Savings Account policies in Canada, Singapore, and the United Kingdom, while still in early stages, already have an impact on long-term savings for children. As of December 31, 2005, the total number of Registered Education Savings

Plan accounts opened in Canada since the program's inception in 1998 was 2.7 million. According to Marc Lebrun, Acting Director General of the Canada Education Savings Program, only 700,000 accounts opened prior to the launch of the Canada Education Savings Grant (personal communication, February 14, 2006).

In the United Kingdom, 75% of the 1.7 million CTF transitional vouchers issued to eligible children born before the scheme began (known as transitional period) were used to open investment accounts before their expiration. In total, assets worth over £682 million are held in these 1.3 million CTF accounts opened by parents (HM Revenue and Customs, 2006).

With regard to long term savings for children, David White, the CEO of The Children's Mutual, one of the biggest CTF providers, states that families are saving 333 percent more now with CTF than they had previously (personal communication, February 7, 2006). Engage Mutual, another CTF provider, has reported that around 50 percent of parents with stakeholder accounts are choosing to top-up their accounts with additional contributions, and 65 percent of respondents in a survey agreed that the CTF will encourage them to save for their children's future (Engage Mutual, 2005). A survey by Family Investments also found that 50 percent of parents plan to top-up their children's CTF accounts, with nearly two-thirds saving on average £19 per month or about £200 per year (Press Association, 2006).

Of course, more can be done to increase the levels of inclusiveness, participation, and savings in the various schemes. Lower participation and savings have been found to be associated with lower income levels. Awareness has also been found to be associated with income levels. To help lower income families benefit more from Children's Savings Accounts, policies have to go beyond being universally available and progressive. Automatic enrollments and deposits seem highly desirable. Additionally, communication and publicity materials should be tailored to reach out to those from the lower income groups.

Table 1: Comparison of Children Savings Accounts

	Baby Bonus Scheme (Singapore)	Child Trust Fund (United Kingdom)	Canada Education Saving Program (Canada)	Proposed Child Development Accounts (Korea)	Proposed KIDS Accounts (United States)
Purposes	<ul style="list-style-type: none"> • Increase fertility rates (pronatal policy) • Support families in raising children • Maximize opportunities for children 	<ul style="list-style-type: none"> • Help people understand the benefits of saving and investing • Encourage parents and children to develop the saving habit and engage with financial institutions • Ensure that in future all children have a financial asset at the start of adult life • Build on financial education to help people make better financial choices throughout their lives 	<ul style="list-style-type: none"> • Encourage savings for post-secondary education for the Canada Education Savings Grant (CESG) • Kick-start savings for post-secondary education among low to modest income families for the Canada Learning Bond (CLB) 	<ul style="list-style-type: none"> • To address the growing division between the rich and the poor • To boost national economic growth 	<ul style="list-style-type: none"> • Encourage savings • Promote financial literacy • Expand opportunities for young adults
Target Age	Birth to age 6	Birth to age 18	Birth to age 17 (CESG) Birth to age 21 (CLB)	Birth to age 18	Birth to age 18
Opening of Accounts	Application at the same time as registration of birth of child. Child Development Accounts automatically opened for 2 nd to 4 th child born on or after Aug 1, 2001	CTF vouchers automatically sent to eligible children born on or after September 1, 2002, once Child Benefits are awarded. Custodians open accounts with private providers, or accept default in which accounts are automatically opened.	Families would have to open Registered Education Savings Plans (RESP) and apply separately for the CESGs and CLB	Policy is not yet clarified in this regard	KIDS accounts automatically opened for every child issued with a Social Security number born after December 31, 2006

Table 1: Comparison of Children Savings Accounts (continued)

	Baby Bonus Scheme (Singapore)	Child Trust Fund (United Kingdom)	Canada Education Saving Program (Canada)	Proposed Child Development Accounts (Korea)	Proposed KIDS Accounts (United States)
Benefits	<ul style="list-style-type: none"> • Cash gifts of S\$3,000 (US\$1,875) for 1st and 2nd child, and S\$6,000 (US\$3,750) for the 3rd and 4th child • Matched co-savings of S\$6,000 (US\$3,750) for the 2nd child, and S\$12,000 (US\$7,500) for the 3rd and 4th child • Unused balances transferred to account holder's Central Provident Fund account 	<ul style="list-style-type: none"> • £250 (US\$430) initial contribution • £250 (US\$430) supplemental contribution for low income families • Unmatched private contributions of up to £1,200 (US\$2,060) per year • Additional top-ups planned when the child reaches the ages of 7 and 11 • Earnings tax-free 	<ul style="list-style-type: none"> • Savings match of 20 percent on the first C\$2,000 contributed to the RESP (CESG) subject to a annual cap of C\$500 and a lifetime cap of C\$7,200 • Initial contribution of C\$500 and an annual payment of C\$100 for up to 15 years and a lifetime limit of C\$2000 for eligible modest income families (CLB) 	<ul style="list-style-type: none"> • Matched savings of up to 30,000 won (US\$30) per month • Starting in 2010, matched deposits of 200,000 won (US\$200) at birth and at age 7 	<ul style="list-style-type: none"> • US\$500 initial contribution. • Up to US\$500 supplementary contribution for children from low income families • Matched savings of up to US\$500 (Senate) or US\$1,000 (House) per year for eligible children from low income families up to age 18 • Private contributions up to US\$1,000 (Senate) or US\$2,000 (House) per year • Earnings tax-exempt
Progressive Elements	No progressive elements	Supplementary contributions for children from low income families	Additional grants of up to 20 percent for the first C\$500 contributed to the RESP under the CESG and eligibility for the CLB	Children from lower income families targeted for the scheme	Supplementary contributions and matched savings for children from lower income families
Withdrawals and Use of Funds	Funds can be withdrawn before age 6 for childcare, preschool, special education, early intervention, and medical insurance expenses incurred by the account holder or a sibling	Withdrawal permitted only when account holder turns 18. No restriction on use of funds	Funds can be withdrawn for qualified post-secondary educational expenses or transferred to another child for the same purpose	Withdrawal permitted only when account holder turns 18 for education, housing, and micro-enterprise start-up	Withdrawal permitted only after account holder turns 18. Funds restricted for use according to Roth IRA compliance and distribution rules. Use of funds for first-time home purchase and post-secondary education permitted without penalty

References

- BBC News. (2005, Apr 6). Q & A: Choosing a Child Trust Fund. Retrieved Jan 20, 2006, from news.bbc.co.uk/go/pr/fr/-/1/hi/business/4391751.stm
- Curley, J., & Sherraden, M. (2000). Policy lessons from Children's Allowances for Children's Savings Accounts. *Child Welfare*, 79(6), 661-687.
- Engage Mutual. (2005). Engagement Paper - Submission to the Treasury Sub-Committee evidence session: Child Trust Fund. Retrieved Aug 1, 2006, from <http://www.engagemutual.com/res/press/downloads/TSC-CTFs-Nov-05.pdf>
- Financial Times Adviser. (2006, May 25.). Parents passing up £16.5m in CTF cash. Retrieved May 29, 2006, from <http://ftadviser.com/default.aspx?m=11173&amid=96527>
- Goh, C. T. (1990). Prime Minister's New Year Message 1991. Retrieved Aug 1, 2006, from <http://stars.nhb.gov.sg/public/viewPDF.jsp?pdfno=gct19901231.pdf>
- Goh, C. T. (1993). Speech in parliament on Tuesday, 9 March 1993. Retrieved Aug 1, 2006, from <http://stars.nhb.gov.sg/public/viewPDF.jsp?pdfno=gct19930309.pdf>
- Goh, C. T. (2000). Prime Minister's National Day Rally 2000 speech. Retrieved Jan 3, 2006, from <http://stars.nhb.gov.sg/data/pdfdoc/2000082001.htm>
- Han, C. H., Kim, Y., & Zou, L. (2006). Global Assets Announcement: Child Development Accounts proposed in South Korea. Retrieved August 29, 2006, from http://gwbweb.wustl.edu/csd/Publications/2006/Korea_CDA_8-29-06.pdf
- HM Revenue and Customs. (2006). *Child Trust Fund statistical report 2006*. Retrieved from <http://www.hmrc.gov.uk/ctf/statistical-report-2006.pdf>.
- Human Resources and Skills Development Canada. (2006a). The Canada Education Savings Grant. Retrieved May 31, 2006, from http://www.hrsdc.gc.ca/asp/gateway.asp?hr=en/hip/lld/cesg/publicsection/canada_education_savings_grant_general.shtml&hs=cgs
- Human Resources and Skills Development Canada. (2006b). The Canada Learning Bond (CLB). Retrieved May 31, 2006, from http://www.hrsdc.gc.ca/asp/gateway.asp?hr=en/hip/lld/cesg/publicsection/CESP/Canada_Learning_Bond_General.shtml&hs=cgs
- Human Resources and Skills Development Canada. (2006c). Registered Education Savings Plan - Frequently Asked Questions. Retrieved May 31, 2006, from http://www.hrsdc.gc.ca/asp/gateway.asp?hr=en/hip/lld/cesg/publicsection/CESP/RESP_FAQs.shtml&hs=cgs
- Human Resources Development Canada. (2003). *Formative Evaluation of the Canada Education Savings Grant Program: Evaluation and Data Development*, Human Resources Development Canada.
- Lee, H. L. (2005). Prime Minister's National Day Rally 2005 Speech. Retrieved Jan 3, 2006, from <http://app.sprinter.gov.sg/data/pr/2005082102.htm>
- MyFinances.co.uk. (2006, May 2). Tyranny of choice holds back child trust funds. Retrieved May 4, 2006, from [http://www.myfinances.co.uk/news/savings/child-savings-account/tyranny-choice-holds-back-child-trust-funds-\\$417479.htm](http://www.myfinances.co.uk/news/savings/child-savings-account/tyranny-choice-holds-back-child-trust-funds-$417479.htm)

- New America Foundation. (2005). The America Saving for Personal Investment, Retirement, and Education Act - Questions and Answers. Retrieved Jan 3, 2006, from http://www.assetbuilding.org/AssetBuilding/Download_Docs/Doc_File_1247_1.pdf
- Paxton, W. (2001). The asset-effect: an overview. In J. Bynner & W. Paxton (Eds.), *The Asset Effect*. London: IPPR.
- Press Association. (2006, Apr 29). Only 50% top up child trust funds. Retrieved May 1, 2006, from <http://www.guardian.co.uk/uklatest/story/0,,-5788051,00.html>
- Schreiner, M., Clancy, M., & Sherraden, M. (2002). *Saving Performance in the American Dream Demonstration - A National Demonstration of Individual Development Accounts*. St Louis: Center for Social Development.
- Sherraden, M. (1991). *Assets and the poor : a new American welfare policy*. Armonk, N.Y. : M.E. Sharpe.
- Sherraden, M. (2001). Singapore Announces "Baby Bonus" and Children's Development Accounts. Retrieved Jan 4, 2006, from <http://gwbweb.wustl.edu/csd/News/SingaporeCDA.pdf>
- Singapore Department of Statistics. (2006). *Yearbook of Statistics Singapore, 2005*. Retrieved. from <http://www.singstat.gov.sg/pdtsvc/pubn/yos.html>.
- Singapore Ministry of Community Development Youth and Sports. (2006). Children Development Co-Savings (Baby Bonus) Scheme. Retrieved Aug 1, 2006, from <http://www.babybonus.gov.sg/>
- Singapore Ministry of Education. (2004). The Edusave Scheme. Retrieved Aug 1, 2006, from <http://www1.moe.edu.sg/edusave.htm>
- Singapore Ministry of Education. (2005a). Education Endowment Scheme - Annual Report for financial year 2004/2005. Retrieved Aug 1, 2006, from <http://www.moe.gov.sg/finance/edusave/report/EdusaveAnnualReport2004.pdf>
- Singapore Ministry of Education. (2005b). The Edusave Scheme Fact Sheet. Retrieved Jan 3, 2006, from http://www.moe.gov.sg/corporate/edusave_factsheet.pdf
- Singapore Ministry of Education. (2005c). POST-SECONDARY EDUCATION ACCOUNT: Additional support for Singaporeans to pursue further education.
- Sodha, S. (2006). *Lessons from Across the Atlantic: Asset-building in the UK*. Paper presented at the 2006 Assets Learning Conference—A Lifetime of Assets., Phoenix, Arizona.
- The Times. (2006, Apr 15). Are you a winner with your Child Trust Fund choice. Retrieved Apr 15, 2006, from <http://business.timesonline.co.uk/article/0,,9554-2133214,00.html>
- U.K. Parliament. (2004). *Explanatory notes to Child Trust Funds Act*. Retrieved Jan 4 2006 from www.opsi.gov.uk/acts/en2004/2004en06.htm.