
Savings and Asset-Based Policy in the UK: Observations for Canada



February 2004

SEDI 

Table of Contents

ACKNOWLEDGEMENTS	1
EXECUTIVE SUMMARY	2
INTRODUCTION	5
PROGRAMS STUDIED	6
THE CHILD TRUST FUND	6
THE SAVING GATEWAY	7
MAIN OBSERVATIONS	10
FINANCIAL SERVICES	10
POLITICAL SUPPORT	11
CONTEXT	11
RESEARCH AND EVIDENCE	12
THE ROLE OF THE VOLUNTARY SECTOR	13
CONCLUSIONS FOR CANADA	14
FINANCIAL INCLUSION	14
POLITICAL LEADERSHIP	15
A NEW SOCIAL POLICY ARCHITECTURE.....	15
PROGRESSIVE UNIVERSALISM	15
EVIDENCE-BASED POLICY-MAKING	16
APPENDIX A: LIST OF MEETINGS	17

Acknowledgements

SEDI gratefully acknowledges the financial support of the Government of Canada through Human Resources and Skills Development Canada. We also acknowledge the Government's support through the participation of senior management from (the former) Human Resources Development Canada.

We thank our colleagues at the Institute for Public Policy Research in the UK for organizing this series of meetings and for providing logistical support to members of the study tour. We look forward to continuing the on-going partnership between SEDI and IPPR

Finally we gratefully acknowledge the contributions of the diverse range of contacts we met with while in London and thank them each for their generosity of time and expertise.

Executive Summary

This report presents the major findings from a November 2003 review of savings and asset-based welfare policy in the United Kingdom. SEDI (Social and Enterprise Development Innovations) initiated and took part in a three-day study tour to gather information that will inform the development of asset-building policy and practice in Canada.

SEDI proposed this series of meetings between Canadian and British representatives to increase awareness and understanding of UK asset-based welfare as a broad approach to public policy. The UK is currently in the process of implementing two ambitious savings programs, the Saving Gateway and the Child Trust Fund. The Saving Gateway is a demonstration project of matched savings accounts similar in many ways to the Canadian *learn\$ave* project. The Child Trust Fund is a universal program aimed at increasing family savings for children and is of particular interest to SEDI as we continue to explore options for children's savings accounts in Canada. SEDI was joined in these meetings by three senior officials from the (former) department of Human Resources Development Canada and by two members of the US-based New America Foundation. A complete list of the meetings is included at Appendix A.

The Child Trust Fund (CTF) was announced by the British government in its April 2003 budget as part of the government's strategy for saving and asset ownership. Available to all children living in the UK and born after September 1, 2002, the program will provide an endowment locked-in until the child is 18 years of age. The initial endowment is £250 (roughly CAD\$600). Children of low and moderate income families will also be eligible for an additional endowment of £250.

The CTF endowments will be paid through a voucher issued to a parent or guardian. The voucher can be redeemed for deposit at any eligible CTF account provider. Family and friends are encouraged to contribute up to £1,200 (roughly CAD\$2,900) annually to the CTF. Eligible CTF providers will be required to provide low-cost, low-risk "stakeholder" account options to CTF account holders, based on similar "stakeholder accounts" established for private pension savings accounts. The service charges on CTF accounts will be limited in keeping with a precedent set by limits on charges for pension savings accounts. Measures to ensure consumer financial education are also expected.

HM Treasury estimates that roughly 700,000 children in the UK will receive the CTF each year. The cost of the government endowment is projected at £235 Million (roughly CAD\$571 Million) annually. No cost estimates for the program implementation, administration or financial literacy strategy are available. Legislation to enable the CTF has been introduced in Parliament and is currently at its Third Reading in the House of Commons. The first CTF vouchers are forecast to be issued in April 2005.

The Saving Gateway (SG). The Saving Gateway was launched in August 2002 as a series of pilot projects in five communities across England (East London, East Manchester, Cumbria, Cambridgeshire and Hull). The program is part of the government's broad savings and asset strategy and is targeted specifically to low-income adults whom the government believes might otherwise have difficulty beginning a regular savings habit. The SG is a short-term intervention, aiming to increase personal savings over an 18-month period.

The SG is a matched savings account similar, in some respects, to the matched savings Individual Development Account programs across North America. Eligible project participants open a savings account with a financial institution and have the deposits in that account matched at a fixed rate (£1 for £1) to a maximum ceiling of £375 in available matching funds. Eligibility is limited to those 16 years of age and older (who are not in school), living

within a pilot catchment area and are considered to be on low-income. All accounts are opened at participating branches of Halifax bank, one of Britain's largest banks.

The SG also has important differences to North American IDA programs. First, there are no restrictions on how the account funds, including the matching funds, can be spent. Second, North American programs typically require some participation in financial education to receive the matching credits. The SG pilots are delivered in four sites by local organizations that are also delivering financial services training as part of the Department of Education's Community Finance and Learning Initiative. However while some SG participants voluntarily seek financial education, participation in the financial training services is NOT a condition for participation in the SG (nor vice versa). Third, IDA programs generally do not deposit the matching funds into the accountholder's own IDA. Instead, an accountholder will apply to receive a portion or all of the matching funds they are entitled to and the funds are then transferred directly by the IDA program to the vendor of the eligible product or service being purchased. In the SG, accountholders will receive a lump sum amount at the end of the 18-month project period. Finally, IDA programs generally penalize withdrawals of personal deposits from the IDA account by proportionally reducing the eligible matching funds and some do not permit any withdrawals of personal funds. In the SG, personal funds can be withdrawn at any time and the total amount of matching funds an accountholder will receive is calculated on the basis of the highest account balance at anytime during the project.

Main observations

- The government, voluntary sector and industry representatives we met with all agreed that in shaping the role of the financial services sector, the objective should be to have a broad range of high quality services and products available for both the CTF and SG. However, concerns have been expressed by industry and the voluntary sector alike about the likelihood of meeting this objective. The primary issue appears to be limits on service fees. At least one industry representative told us that the 1% cap set as a precedent for stakeholder pension products was too low to enable the industry to generate a profit in light of the expected administrative and marketing burden.
- Political support at the most senior levels of government was critical to the announcement of both the CTF and the SG. Unlike many other initiatives, there was no broad consensus or wide-spread demand for either initiative among the traditional group of stakeholders in the public policy process. Both initiatives came out of recommendations from a very small group of advisors and advocates with access to the most senior political staff and members of the British Cabinet. At least one person contacted noted that the initial announcement of the CTF was delivered in a press conference by the Prime Minister, the Chancellor, the Education Secretary and the Social Security Secretary, an event likely unprecedented in British politics. In fact the government's announcement came very quickly and without much advance planning or analysis through the usual policy-making channels.
- Context is usually an important aspect for any policy dialogue. Shaping the policy and political issue, shapes the response. But as at least one source we met with noted, the CTF has been in many ways a policy response in search of an issue. The initial proposals for the CTF and SG came from outside government from policy researchers who viewed them as examples of asset-based welfare. The very earliest UK government discussion papers also adopted the concept of asset-based welfare, framing it as the third pillar of the Labour government's welfare strategy: income, services and assets. Since that time, the CTF, at least, has been linked in political discourse to a wide range of government priorities from eradicating child poverty, to increasing intergenerational mobility and enhancing social inclusion.
- What is also notable about the UK example is the compromise between the universal approach to social policy favoured in many European countries and the targeted approach favoured in the US and Canada. What is emerging in the UK instead, through the universal but tiered child benefit system and the CTF, is a

model of “progressive universalism”. In this model attempts are made to achieve both horizontal equity objectives (including stakeholding) and vertical equity objectives by designing programs that provide some benefit to all citizens but progressively more benefit to those who are more disadvantaged

- Research and evidence have so far played only a modest role in the government’s proposals and the development of both the CTF and the SG. At the time of the Ministerial announcement, there was little if any available research in the UK to suggest that savings and assets have positive and important impacts on well-being. The existence of asset-based programs in other countries, particularly the US, was useful to advocates of the CTF and SG in the UK. Contacts we met with also expressed strong interest in the Canadian *learn\$ave* project and the results it will begin generating in the months and years ahead.
- In the UK, representatives of the voluntary sector told SEDI that outside a handful of national advocacy organizations and four organizations participating the SG pilots, there is little if any awareness of the CTF or SG. If proposals to involve the sector in delivering the financial literacy component of the CTF are adopted and if the current model of the SG is expanded to more communities, the knowledge and capacity of the voluntary sector in the UK could have a critical influence on the development of asset-based initiatives in that country.

Conclusions for Canada

- Financial inclusion is a precondition to any successful asset-building strategy. Financial services are necessarily a part of any account-based program like the CTF, SG or IDAs. Low-income Canadians need both accessible and affordable choices in financial products and services *and* adequate knowledge to make informed choices and decisions as consumers of financial services and participants in public programs. This is particularly true in Canada where mainstream consumer financial services and products are far less regulated (for example in terms of capping service fees on savings products) than in the UK.
- Political leadership in Canada, as in the UK, will be critical to the adoption of a more comprehensive and inclusive approach to social policy that includes asset-building. We share a parliamentary system with Britain that relies heavily on political will to effect policy change. However, any Canadian politician with the leadership and vision to make a firm commitment to asset-based policy can look forward to greater and pre-existing support among non-government stakeholders than their UK colleagues.
- Crafting a new social policy architecture is the goal of an ambitious project lead by many of the best minds in Canada’s social policy community. The new architecture will need new methods. Asset-building methods (in their full range) lend themselves well to a more integrated approach to social policy.
- Progressive universalism, in which all citizens are entitled to some benefit but the benefit is distributed in a progressive way, would enable policy-makers to meet both horizontal and vertical equity objectives. Policy-makers should take a larger view of social policy and ask two questions:
 - 1) Whether, taken as a whole, a set of social programs is offering some benefit to all citizens and contributing to stakeholding objectives and horizontal equity.
 - 2) Whether a set of social programs is offering progressively greater benefit to more disadvantaged target groups.
- Evidence-based policy-making could be a major contribution of the Canadian asset-building field. By investing in a broader asset-building policy research agenda, Canada has an opportunity to contribute and provide leadership internationally in this new and rapidly evolving field.

Introduction

This report presents the major findings from a November 2003 review of savings and asset-based welfare policy in the United Kingdom. SEDI (Social and Enterprise Development Innovations) initiated and took part in a three-day study tour to gather information that may inform the development of asset-building policy and practice in Canada. SEDI is a national charitable organization dedicated to enabling poor, unemployed and under-employed people to become self-sufficient. We take a variety of leading-edge social and economic approaches to achieving this goal in areas such as social innovation, policy development, project management, information exchange, capacity building, public education and research.

For the past 10 years, SEDI has lead the development of the asset-building field in Canada – an innovative new approach to addressing poverty by providing access to savings and assets as well as income support. The goal of our asset-building work is to contribute to poverty alleviation through creating an enabled environment for savings and asset-building by low-income Canadians. Our approach to asset-building recognizes the value of savings and assets over the entire life-cycle and the compatibility of income support and asset-building policies. SEDI also believes that community-based organizations have a critical role to play in serving disadvantaged groups and contributing to the policy development process.

Governments at all levels in Canada have signalled their interest in asset-building through support for research and pilot projects, regulatory changes and support for policy development. There have already been more than 10 local projects delivering asset-based programs to low-income Canadians in addition to a major national demonstration of Individual Development Accounts (IDAs) for learning. The largest project of its kind in the world, *learn\$ave* is testing the impacts of a matched savings incentive and financial literacy on the education participation and well-being of low-income adult Canadians. SEDI is currently laying the groundwork for further demonstrations of asset-building models to support affordable homeownership, increased access to affordable and appropriate rental housing for those living in a transitional housing situation and children's savings accounts. We are also engaged in a multi-year asset-building policy research agenda that will significantly advance and broaden the scope of asset-building policy discussion in Canada.

SEDI's activity in the asset-building field has always been informed by our international networks, particularly in the United States and United Kingdom. SEDI has participated in international discussions on asset-building at the OECD and the World Economic Forum and co-hosted the first-ever international conference on IDAs and asset-building. We work in partnership with leading organizations in the US and the UK, including the Corporation for Enterprise Development (CFED), the New America Foundation and the Institute for Public Policy Research (IPPR).

SEDI proposed this series of meetings between Canadian and British representatives to increase awareness and understanding of UK asset-based welfare as a broad approach to public policy. The UK is currently in the process of implementing two ambitious savings programs, the Saving Gateway and the Child Trust Fund. The Saving Gateway is a demonstration project of matched savings accounts similar in many ways to the Canadian *learn\$ave* project. The Child Trust Fund is a universal program aimed at increasing family savings for children and is of particular interest to SEDI as we continue to explore options for children's savings accounts in Canada.

With support from the (former) department of Human Resources Development Canada, SEDI's UK partner, IPPR organized a series of meetings in London with representatives of the UK government, non-profit, academic and financial services sectors to discuss various aspects of the Child Trust Fund and asset-based welfare as it has been crafted in the UK. The study tour also included a site visit to one of five Saving Gateway pilot sites. SEDI was joined in these meetings by three senior officials from the (former) department of Human Resources Development Canada and by two members of the US-based New America Foundation. A complete list of the meetings is included at Appendix A.

Programs Studied

The Child Trust Fund

The Child Trust Fund (CTF) was announced by the British government in its April 2003 budget as part of the government's "strategy for saving and asset ownership"¹. Available to all children living in the UK and born after September 1, 2002, the program will provide an endowment locked-in until the child is 18 years of age. The initial endowment is £250 (roughly CAD\$600) payable to all children receiving the universal Child Benefit² and who would therefore have a unique Child Benefit reference number. Low and moderate income families with children who receive the Child Tax Credit for the tax year in which the CTF is claimed will also be eligible for an additional endowment of £250.³ Treasury officials estimate that roughly one third of British children will be eligible for this additional amount, however there is almost no historical administrative data on the Child Tax Credit against which to evaluate this estimate. No separate claim for the CTF needs to be made provided that a family applies for the Child Benefit.

The value of the endowments was informed by three factors. First, the state of the UK fiscal framework at the time of the April 2003. Second, the desire to set the endowment at a level just sufficient to encourage additional savings by families and friends. Third, the desire to set the endowment at a level that would appear substantial relative to average savings and assets held by youth at the age of majority (generally very low or negative).⁴

The CTF endowments will be paid through a voucher issued to a parent or guardian. The voucher can be redeemed for deposit at any eligible CTF account provider. The public funds are then transferred automatically to the CTF provider, not to the accountholder or beneficiary. If no account is opened within 12 months of the issue of the voucher, Inland Revenue will deposit the funds into a default low-cost, low-risk CTF account held at a rotating list of eligible CTF providers. Ownership of the accounts will rest with the parent or guardian until the child reaches the age of majority (age 18 in England and Wales, age 16 in Scotland) but the funds cannot be withdrawn until the beneficiary is 18 years of age. At that time, the beneficiary can use the funds as they see fit, without restrictions on the use.

Family and friends are encouraged to contribute up to £1,200 (roughly CAD\$2,900) annually (on the child's birthday not the tax year) to the CTF. Income and gains earned in the CTF will be exempt from both income tax and capital gain tax, however no tax credit will be issued for the additional amounts contributed to the CTF. CTF amounts are also expected to be exempt from means-tests for welfare or employment benefits a parent or guardian may receive, however at the time of this report, Treasury officials could not confirm a blanket exemption. When the CTF account matures on a child's 18 birthday, not tax on the funds is due but the total value will be included in the means-tests for any benefits the beneficiary may apply for. It is expected that once the CTF account matures a beneficiary will transfer the funds to another tax-benefited savings account, otherwise the account will be subject to normal tax rules.

¹ HM Treasury (2003) "Savings: Child Trust Fund", available on-line at http://www.hm-treasury.gov.uk/topics/topics_savings/topics_savings_trustfund.cfm?

² The Child Benefit is a universal payment made to the parent or guardian of all children aged between 0 – 16 and 16 – 18 (inclusive) if in full time education. Administered by the UK Inland Revenue Service, the Benefit reaches an estimated 98% of children in the UK (Source: personal communication, HM Treasury official).

³ The Child Tax Credit is an income-tested benefit, comparable in some respects to the Canada Child Tax Credit and National Child Benefit. Introduced in April 2002, the government reports that the Child Tax Credit reaches 4.6 million British families (source: HM Treasury, "Family Issues", available on-line at http://www.hm-treasury.gov.uk/topics/topics_family/topics_family_index.cfm). The Child Tax Credit is significantly different from the CCTB/NCB in that the income cut-offs for eligibility are much higher. The claw-back starts at £13,230 (roughly CAD\$32,000) and is only fully clawed back at £58,000 (roughly CAD\$140,000). Contrast this to the CCTB which is reduced for families earning more than CAD\$21,529 and fully phased out for families with 1 or 2 children and a family income of CAD\$80,250. The even more targeted NCB is clawed-back starting at family incomes more than \$21,529 and is eliminated for those with up to 3 children once the family income exceeds CAD\$33,000 (source: Canada Customs and Revenue Agency, "Canada Child Tax Benefit", available on-line at <http://www.ccra-adrc.gc.ca/benefits/childbenefit-e.html>).

⁴ Source: Personal communication, HM Treasury officials, November 2003.

Eligible CTF providers will be required to provide low-cost, low-risk “stakeholder” account options to CTF account holders, based on similar “stakeholder accounts” established for private pension savings accounts. The service charges on CTF accounts will be limited in keeping with a precedent set by limits on charges for pension savings accounts. At the time of this report, the UK government was still engaged in a consultation process to establish the service charge limit and to determine whether such a limit would apply to all CTF accounts or only to the “stakeholder accounts”. The limit set by regulations on the pension savings accounts is 1% annually on the total value of the account. In addition to regulations on the services charges, CTF providers will also be required to meet annual and bi-monthly reporting requirements to Inland Revenue and to issue annual statements to CTF account holders.

Measures to ensure consumer financial education are also expected. The Financial Service Authority (FSA), the government body responsible for regulating the UK financial services sector, is developing industry guidelines for disclosure by CTF providers during the sales process. The FSA will also be responsible for implementing a government-sponsored financial education strategy tied to the CTF. The aims of the strategy will be both to ensure that parents and guardians are adequately informed as account owners and to engage CTF beneficiaries in financial literacy training provided through the school curriculum systems in each England, Scotland and Wales.

HM Treasury estimates that roughly 700,000 children in the UK will receive the CTF each year. The cost of the government endowment is projected at £235 Million (roughly CAD\$571 Million) annually. No estimates for the program implementation, administration or financial literacy strategy are available. Estimates of the value to beneficiaries of CTF accounts have been developed by HM Treasury. Assuming an annual rate of return of 7% and annual inflation of 2.5%, the funds available at maturity to CTF beneficiaries range from £456 (roughly CAD\$1,100), if no additional funds are added to a £250 endowment, to £14,854 (roughly CAD\$36,000), assuming monthly contributions of £40 (roughly CAD\$97) over 18 years.

Legislation to enable the CTF has been introduced in Parliament and is currently at Third Reading in the House of Commons. The first CTF vouchers are forecast to be issued in April 2005.

The government has signalled its desire to add to the CTF at specific points in a child's life (for example, at age 7), however the details of this additional contribution have not been finalized.

HM Treasury officials have not released any indicators for success in the CTF. They did volunteer that plans are in place to collect information on savings for children in the current market in order to compare growth following the implementation of the Child Trust Fund.

The Saving Gateway

The Saving Gateway (SG) was launched in August 2002 as a series of pilot projects in five communities across England (East London, East Manchester, Cumbria, Cambridgeshire and Hull). The program is part of the government's broad savings and asset strategy and is targeted specifically to low-income adults whom the government believes might otherwise have difficulty beginning a regular savings habit. The SG is a short-term intervention, aiming to increase personal savings over an 18-month period with the hope that this will lead to sustained regular saving after the end of the project. Unlike the full-scale, universal CTF, the SG was introduced as a series of pilots to evaluate options for the delivery and real costs in advance of a national program. The government is clear however, that it intends to further develop the Gateway program, based on the results of the interim evaluation (released in late 2004) and the final evaluation (expected in 2005). The evaluation is funded by HM Treasury and is conducted by a team of researchers at the Personal Finance Research Centre of the University of Bristol.

The SG is a matched savings account similar, in some respects, to the matched savings Individual Development Account programs across North America. Eligible project participants open a savings account with a financial institution and have the deposits in that account matched at a fixed rate (£1 for £1) to a maximum ceiling of £375 in available matching funds. This ceiling is based on a 100% match on maximum monthly deposits of £25 over 18 months, factoring in three months of non-saving. Deposits are matched for the duration of the project so it would be possible to earn the maximum available match of £375 by saving £20.83 in each of the 18 months. Eligibility is limited to those 16 years of age and older (who are not in school), living within a pilot catchment area and are considered to be on low-income. For the SG pilot, income limits on eligibility was set at £11,000 for single persons and £15,000 for households (regardless of household size or community size). Accountholders receive regular (quarterly) statements on their account to help them monitor their own saving and also the matching funds they have earned to date. All accounts are opened at participating branches of Halifax Bank, one of Britain's largest banks. While other financial service providers were invited by HM Treasury to take part in the SG, only Halifax Bank expressed interest and ultimately was approved as the only provider of SG accounts for the pilot projects. The SG accounts are based on an existing Halifax banking product ("Liquid Gold" savings account). Accountholders receive a passbook to make deposits or withdrawals, pay no fees on the accounts but do not earn any interest on their deposits.

The SG also has important differences to North American IDA programs. First, there are no restrictions on how the account funds, including the matching funds, can be spent. North American programs typically limit the use of matching funds to a menu of uses including (one or more of) education, skills training, microenterprise development, homeownership or renovation, children's education, transportation or tools related to employability and retirement savings. The SG funds can be used for these or any other purpose, without restriction. Second, North American programs typically require some participation in financial education to receive the matching credits. The SG pilots are delivered in four sites by local organizations that are also delivering financial services training as part of the Department of Education's Community Finance and Learning Initiative. However, while some SG participants voluntarily seek financial education, participation in the financial training services is NOT a condition for participation in the SG (nor vice versa). The fifth pilot site is managed directly by a financial institution (Halifax Bank) that does not participate in the Community Finance and Learning Initiative. Third, IDA programs generally do not deposit the matching funds into the accountholder's own IDA. Instead, an accountholder will apply to receive a portion or all of the matching funds they are entitled to and the funds are then transferred directly by the IDA program to the vendor of the eligible product or service being purchased. In the SG, accountholders will receive a lump sum amount at the end of the 18-month project period. They are then responsible for spending or re-investing the funds as they decide. Finally, IDA programs generally penalize withdrawals of personal deposits from the IDA account by proportionally reducing the eligible matching funds and some do not permit withdrawals of personal funds. In the SG, personal funds can be withdrawn at any time and the total amount of matching funds an accountholder will receive is calculated on the basis of the highest account balance at anytime during the project.

The interim evaluation of the SG has found that:⁵

- 1,478 SG accounts have been opened by participants during the eligible program period (August 2002 to May 31, 2003) across the five program sites who each had a recruitment target of 300 (1,500 accounts total). Only data on accountholders is collected and used in the evaluation so little is known about drop-off or characteristics of non-participants. Anecdotally, staff at the Toynbee Hall project site, told SEDI that close to 400 individuals had applied to the local project and that of these roughly 60 had been accepted as eligible participants but had never opened an account. The same site had exceeded their recruitment target by 20 accounts.

⁵ Kempson, Elaine, Stephen McKay and Sharron Collard (2003) "Evaluation of the CFLI and Saving Gateway Pilot Projects: Interim report on the Saving Gateway pilot project", Personal Finance Research Centre, University of Bristol.

- Compared to the eligible population (estimated by the evaluation team at 25% of the entire British population), SG accountholders tend to be younger (in their 30's), female, single parents, social housing tenants, to be working part-time or receiving public benefits, to have lower-incomes and are less likely to have an existing bank account.
- Recruitment was weak during the first month of the program, steady during the following 5 months and then relatively strong towards the end of the eligible pilot period. Word of mouth was found to be the most effective recruitment strategy. Some program participants reported being initially sceptical of the legitimacy of the offer as "too good to be true". All of these findings are consistent with evaluations of North American IDA programs.
- The financial incentive offered by the SG was overwhelmingly reported by accountholders as the major reason for applying to the program. Participants also reported that it was very important that the service was provided through a trusted local organization and that the support and encouragement they received in opening the account was critical. Limited physical access to a participating branch and negative perceptions of mainstream financial service providers were the two main reasons given for the reliance on the local organization. The evaluators note that this is consistent with findings from their earlier research on the role of trusted local organizations in increasing financial inclusion and participation among unbanked or underbanked groups.
- Accountholders were asked whether or not tax relief on a savings account would increase their interest in participating in a savings program. Only a handful responded positively and the majority of accountholders reported that this would have no influence at all on their saving decisions because they had little or no tax liability to begin with, would not save large enough amounts to generate significant tax relief, or because they did not understand how the system of tax relief works. This is a critical finding regarding the delivery mechanisms best suited to low-income populations and suggests that the tax-based mechanisms favoured by middle and upper-income savers may not be suitable.
- Accountholders were asked what types of restrictions on SG accounts they would find acceptable in a national scheme. The most common responses were that the eligible savings period be extended to three years from 18 months, that withdrawals of personal deposits be restricted during the lifetime of the account and that no restrictions on the use of the funds be put in place.
- Nearly half of SG accountholders reported that the availability of financial literacy training was an important component of the program, however the evaluators note that the majority of these respondents indicated it was only "fairly" important. Project staff found that the take-up of the financial literacy training services funded through the Community Finance Learning Initiative was lower than expected. They reported that many of the accountholders entered the SG program with more financial knowledge than other low-income clients.
- As of August 2003, SG accountholders had saved a total of £150,000. The average SG account balance was £101 and average monthly savings were £15.78 (or 63% of the eligible maximum £25). Accountholders were saving in 74% of the months since their account was opened, a finding that is much higher than the average in US IDA research (48%) but only slightly higher than the interim results from the Canadian *learn\$ave* project (69%).
- When asked about the source of their savings in the SG, accountholders generally fell into one of three groups. Roughly one third reported that at least some of the deposits were from money they would have saved informally or formally even without the SG account. Another third of accountholders reported that the deposits were out of regular income and constituted money they would otherwise not have saved. A final third reported that they were cutting back on expenses in order to make deposits to their SG account. While no restrictions were placed on the source of the deposits, only 2% of accountholders reported borrowing money to deposit into their SG account.

Main Observations

Financial Services

Financial services in the UK are much more heavily regulated than in Canada. The British government regulates service fees on all consumer savings products delivered by British financial institutions. Major reforms to the financial services industry were introduced following the Sandler Review of retail savings in the UK⁶ in order to respond to a perception that the market competition was not adequately meeting the needs or adequately protecting the interests of British consumers, particularly those with private pension savings. As a result, the initiatives introduced as part of the government's savings and asset agenda (including the CTF and SG) could be significantly impacted by the financial service industry's willingness to participate.

The government, voluntary sector and industry representatives we met with all agreed that in shaping the role of the financial services sector, the objective should be to have a broad range of high quality services and products available for both the CTF and SG. However, concerns have been expressed by industry and the voluntary sector alike about the likelihood of meeting this objective. The primary issue appears to be limits on service fees. At least one industry representative told us that the 1% cap set as a precedent for stakeholder pension products was too low to enable the industry to generate a profit in light of the expected administrative and marketing burden. However, to preserve market share, pension industry leaders complied with the cap. Based on that example, HM Treasury has argued that it would be hard-pressed to accept a higher service fee cap for the CTF. The cap could be placed as an annual service fee, a one-time entry fee or charged as a management fee over the lifetime of the CTF account. HM Treasury and the Financial Services Authority are still waiting for the results of a consultant's report on this issue.

Members of the voluntary sector are also concerned about the impact of service fees and industry buy-in. At least one representative we spoke with noted that a lower service fee could reduce the number of providers and therefore consumer choice. The same representative noted that even with a higher service fee, most major banks are unlikely to make efforts to reach low-income families who are expected to have smaller CTF account balances. They had made proposals to HM Treasury for a limited number of private sector providers with the management and marketing outsourced by government to a non-profit organization acting as a sort of large-scale co-operative. The proposal was met with negative reaction by both the financial services industry who want greater flexibility and by HM Treasury who were reportedly reluctant to take on such an ambitious role in the management of the CTF account system.

The issue of service fees is closely related to the level of service that the government expects financial institutions to provide to consumers. While no final details have yet been released, there is an expectation that FSA will set a relatively rigorous set of guidelines for informing consumers during the selling process of a CTF product. Industry representatives have argued that this will require significant investments of staff time, driving up the cost of delivery and lowering profit. Here again, low-income families (with potentially greater needs for consumer information) are expected by industry and the voluntary sector to be on the losing end as industry either withdraws from the CTF altogether or concentrates on more profitable higher-income families.

Members of the voluntary sector have argued for a system that would supplement any guidelines on the selling process with a national financial literacy strategy delivered by non-profit and non-government organizations. The proposal was under development at the time of our meetings but would include government funding to existing

⁶ See http://www.hm-treasury.gov.uk/documents/financial_services/savings/fin_sav_sand.cfm

community organizations (such as local Citizen's Advice Bureaus and local public health offices) who already work with low-income clients on a regular basis. The funding would be used to provide financial education services aimed at increasing awareness of the CTF and basic understanding of the program and related banking information before a low-income family enters the private sector market to select a specific investment product.

Political Support

Political support at the most senior levels of government was critical to the announcement of both the CTF and the SG. Unlike many other initiatives, there was no broad consensus or wide-spread demand for either initiative among the traditional group of stakeholders in the public policy process. Both initiatives came out of recommendations from a very small group of advisors and advocates with access to the most senior political staff and members of the British Cabinet. At least one person we spoke with noted that the initial announcement of the CTF was delivered in a press conference by the Prime Minister, the Chancellor, the Education Secretary and the Social Security Secretary, an event likely unprecedented in British politics. In fact the government's announcement came very quickly and without much advance planning or analysis through the usual policy-making channels.

In general it would be safe to categorize both the CTF and SG as very 'top-down' initiatives that have at least initially been met with varying degrees of resistance or complete inaction within the bureaucracy charged with implementing them. There has been neither a groundswell of support or criticism from the broader community of stakeholders including parliamentarians, the voluntary sector, the media and the general public. According to the sources we spoke with, there have been no public opinion polls on either initiative. Consultations on the CTF and SG were held in the Spring of 2001 and again later that Fall through the release of two consultation papers. This was done according to a well-used model of consultation in the UK and the government heard largely from a customary and small pool of stakeholders. Details of the proposed design and implementation of the CTF have also been released (with some notable caveats and details still pending) but again response outside a small pool of interested parties has been limited.

Context

Context is usually an important aspect for any policy dialogue. Shaping the policy and political issue, shapes the response. But as at least one source we met with noted, the CTF has been in many ways a policy response in search of an issue. The initial proposals for the CTF and SG came from outside government from policy researchers who viewed them as examples of asset-based welfare. Conceptually, the proposals were rooted in a desire to redesign a welfare state so that it would provide more than income support, but also opportunities to build assets for all citizens, on the basis that assets are as important to welfare as income. The very earliest UK government discussion papers also adopted the concept of asset-based welfare, framing it as the third pillar of the Labour government's welfare strategy: income, services and assets.

Since that time, the CTF has been linked in political discourse to a wide range of government priorities from eradicating child poverty, to increasing intergenerational mobility, to enhancing social inclusion. The introduction of the CTF alongside planned reforms to Britain's post-secondary education system has more recently lead to proposals to limit or at least encourage the use of CTF funds to pay for university and college tuition fees expected to be introduced for the first time for most British students. At the outset of the CTF, internal debates were held about whether the initiative should be targeted or universal and whether it should include a financial incentive to encourage saving. Early on the desire for simplicity in the design lead to the current plan to make it a universal measure and to eliminate matching incentives in favour of a somewhat more generous initial endowment. The final shape of the CTF as a universal endowment now lends itself to the context of the stakeholding arguments discussed by academics in the US and UK. Whereas Michael Sherraden's original

proposals for asset-based welfare argued that they should be targeted to those who are income and asset-poor, stakeholding arguments suggest that a universal endowment builds social cohesion and civic engagement by creating a common platform for all citizens.

What is also notable about the UK example is the compromise between the universal approach to social policy favoured in many European countries and the targeted approach favoured in the US and Canada. What is emerging in the UK through the universal but tiered child benefit system and the CTF, is a model of “progressive universalism”. In this model attempts are made to achieve both horizontal equity objectives (including stakeholding) and vertical equity objectives by designing programs that provide some benefit to all citizens but progressively more benefit to those who are more disadvantaged.

The SG meanwhile, has evolved contextually as an initiative aimed at increasing personal saving and participation in the financial mainstream among low-income persons in the UK. This is a subtle but important distinction from asset-based welfare since the underlying objective is not necessarily to encourage the accumulation of assets but to encourage a regular behaviour of saving, regardless of the use of the funds. Asset-building and personal savings are not necessarily mutually exclusive objectives. In fact, it could be argued that there are at least three distinguishable types of need for savings and assets: (1) personal saving in liquid assets for financial security (rainy day saving), (2) the accumulation and maintenance of larger assets such as education or homeownership whether through endowment or medium-term saving for asset purchases, and (3) long-term savings for retirement. Initiatives such as IDAs, the CTF and SG may be unfairly characterized as unsuccessful or misdirected if they do not identify the appropriate level of need they are attempting to address.

Research and Evidence

Research and evidence have so far played only a modest role in the government’s proposals and the development of both the CTF and the SG. At the time of the Ministerial announcement, there was little if any available research in the UK to suggest that savings and assets have positive and important impacts on well-being. A study by John Bynner was quickly assembled and published by the Institute for Public Policy Research to contribute at least some evidence. That study examined data from an existing longitudinal study of a cohort of British adults and concluded that assets do in fact have a positive and independent effect on well-being in adulthood. Since the release of the study there have been serious questions about its methodological soundness. A new team of researchers at the London School of Economics is now attempting to bolster the results by returning to the original data with a more rigorous methodological approach. Their early results suggest that the presence of assets has a positive impact on earnings from employment that is even greater than the impact of one additional year of formal education.⁷

The existence of asset-based programs in other countries was useful to advocates of the CTF and SG in the UK. Despite significant differences in the program design, public policy commitment and development of the field of practice (the UK has almost no field of practice for delivering asset-based programs but a strong policy commitment from government, the US has a strong field of practice but very weak policy commitment from government), examples of Individual Development Accounts (IDAs) in practice proved an important selling point for decision makers within the UK government. Contacts we met with also expressed strong interest in the Canadian *learn\$ave* project and the results it will begin generating in the months and years ahead.

⁷ Abigail McKnight, Toyota Research Fellow, London School of Economics, personal communication.

The Role of the Voluntary Sector

The role of the voluntary sector in the CTF and SG is also notable when compared to the experience in the US and Canada. As mentioned earlier, the US asset-building field has enjoyed a strong field of practice among voluntary sector organizations with experience in serving low-income populations. By best estimates, there are more than 500 IDA projects across the US and nearly all are run by non-profit community-based organizations with funding cobbled together from philanthropic, private and government sources. In Canada, the IDA field now includes roughly a dozen projects across the country, again run by voluntary sector organizations. Of notable difference in Canada has been the significant investment of federal funds to support the sector in delivering the largest demonstration of IDAs in the world.

In the UK, representatives of the voluntary sector told SEDI that outside a handful of national advocacy organizations and four organizations participating the SG pilots, there is little if any awareness of the CTF or SG. If proposals to involve the sector in delivering the financial literacy component of the CTF are adopted and if the current model of the SG is expanded to more communities, the knowledge and capacity of the voluntary sector in the UK could have a critical influence on the development of asset-based initiatives in that country. The experience so far in Canada and the US suggests that voluntary organizations may require significant investments of technical expertise and support as they adjust to the demands of delivering asset-based programs. Without organizational commitment and expertise, many asset-based programs in the US and Canada have struggled to get started or to sustain themselves.

Conclusions for Canada

Financial Inclusion

Financial inclusion is a precondition to any successful asset-building strategy. Financial services are necessarily a part of any account-based program like the CTF, SG or IDAs. Low-income Canadians need both accessible and affordable choices in financial products and services *and* adequate knowledge to make informed choices and decisions as consumers of financial services and participants in public programs. This is particularly true in Canada where mainstream consumer financial services and products are far less regulated (for example in terms of capping service fees on savings products) than in the UK.

Research on financial exclusion conducted by a team of researchers in Winnipeg, suggests that low-income Canadians are increasingly dependent on fringe financial services such as cheque-cashing outlets and pawn shops. Not only do these service providers charge exorbitant annualised interest rates (over 675% for some types of services), fringe financial services meet only the immediate financial need; these services do not address longer-term financial needs of their clients such as savings and building a positive credit rating⁸.

Financial literacy – defined in its broadest sense as the ability to understand information about financial matters (such as banking, credit, saving and investing) – is widely recognized as a predictor of how well a person, regardless of income, is able to manage his or her financial affairs. This includes participation in registered private savings plans and financial incentives such as a new learning bond proposed by the Government of Canada. Although all Canadians can benefit from this knowledge, only 20% of Canadians are confident in their financial knowledge.⁹ Higher income Canadians currently have access to expert financial advice and planning through an industry of personal financial advisors. However, given the legitimate profit motive of the sector, these services are delivered at a cost to the consumer and are designed to meet the needs of consumers with strong attachment to the mainstream banking industry and a higher level of savings and assets. Low-income Canadians cannot afford these increasingly important services. Basic literacy, numeracy and participation in mainstream financial services may also impact the ability of low income Canadians to access the financial advice currently provided by industry.

In addition to introducing incentives for saving and building assets, policy-makers will need a broader strategy to tackle financial exclusion and addressing non-financial barriers to participation in asset-building programs. Such a strategy should be flexible enough to meet what is expected to be a wide range of need for financial information (from basic program information to more in-depth counselling and training) and should include a range of delivery options suited to the target population. Trusted community-based organizations with the experience to work with disadvantaged groups must play a significant role in this strategy, a fact confirmed by research on the SG and by anecdotal evidence in Canada. Participation in any in-depth financial literacy training associated with a publicly-funded asset-building program should be voluntary, recognizing that low-income Canadians are the best judges of their own information needs. However, options for broader consumer education and earlier consumer education (for example through public school curricula) as in the UK should be explored.

⁸ Buckland, Jerry and Thibault Martin (2003), "The Rise of Fringe Financial Services in Winnipeg's North End", manuscript.

⁹ Canadian Securities Institute, Investor Profiles, 1994 found that 22% consider themselves in this category. Toronto Stock Exchange, Canadian Shareowners Study, 1996 placed 10% in this group. Angus Reid Group (for the OSC), 1998 – 18% agreed with this statement. Cited by Nancy Stow, Executive Director of the Investor Education Fund in remarks to Ontario Securities Commission, April 22, 2002.

Political Leadership

Political leadership in Canada, as in the UK, will be critical to the adoption of a more comprehensive approach to social policy that includes asset-building. Many good policy ideas (for example a national child care strategy) have died not for lack of evidence or funding but for lack of political will. We share a parliamentary system with Britain that relies heavily on political will to effect policy change. However, any Canadian politician with the leadership and vision to make a firm commitment to asset-based policy can look forward to greater and pre-existing support among non-government stakeholders than their UK colleagues. There are growing numbers of voluntary and private sector organizations interested in asset-building and a growing community of IDA practice across Canada. What is needed is good public policy to give a framework within which this activity can be sustained and grow.

A New Social Policy Architecture

Crafting a new social policy architecture is the goal of an ambitious project lead by many of the best minds in Canada's social policy community. In response to long-standing evidence supporting societal change, the policy community has recognized the need for a new framework for social policy that better reflects current thinking and current priorities. The project also provides an opportunity to add substance to many of the recent "big ideas" in Canadian social policy such as *social inclusion*, *human capital* and *social investment* and to move beyond discourse into action. The new architecture will need new methods, such as asset-building methods (in their full range), which will lend themselves well to a more integrated approach to social policy.

Progressive Universalism

Progressive universalism and stakeholding are two concepts underlying social policy in the UK that are worthy of further consideration for Canada. Canada has generally lost its appetite for universal social programs with a few major exceptions (ie: health care). Governments in the last 15 years have shifted away from universal social programs (like the universal federal baby bonus) to more targeted initiatives (like the Canada Child Tax Credit). At the same time Canada's asset-building programs (ie: RRSPs and the Canada Education Savings Grant) are universal in name only and actually, by their structural design, largely exclude low-income Canadians. Progressive universalism, in which all citizens are entitled to some benefit but the benefit is distributed in a progressive way, would enable policy-makers to meet both horizontal and vertical equity objectives. Stakeholding, in which all citizens feel some sense of inclusion by virtue of their citizenship and participation in common institutions, is an expected benefit of the CTF and is a worthwhile policy objective given the attention paid to social inclusion and cohesion in recent years.

This does not necessarily require a return to costly and blunt universal policy instruments. But neither would it argue in favour of continued two-tiered social policy in which low-income Canadians are served through a patchwork of targeted initiatives and higher income Canadians benefit overwhelmingly from universal programs. Instead, policy-makers should take a larger view of social policy and ask two questions:

1. Whether, taken as a whole, a set of social programs is offering some benefit to all citizens and contributing to stakeholding objectives and horizontal equity.
2. Whether a set of social programs is offering progressively greater benefit to more disadvantaged target groups.

Evidence-Based Policy-Making

Evidence-based policy-making could be a major contribution of the Canadian asset-building field. By investing in a broader asset-building policy research agenda, Canada has an opportunity to contribute, and even lead internationally in this field. There has been some research in the US but it has not been well connected to the policy-making process as of yet. The opposite has been true in the UK where the policy has so far largely out-paced the available evidence.

In Canada the *learn\$ave* project is starting to yield some important data on the impact of providing savings incentives to low-income adults. Governments at all levels have expressed a strong interest in the outcomes of the project and it is expected it will inform future policy decision-making. Interim results from the project may also inform two new savings incentives recently proposed in Alberta (as a universal RESP bond to all children born in 2005 and thereafter) and in the latest Speech from the Throne (a proposed new learning bond targeted to low-income families with children).

There are at least four major areas for future research to inform asset-building policy in Canada and abroad:

- 1) Research on other applications of IDA and similar matched-savings methods. SEDI has already proposed two pilots projects to research IDAs for homeownership and Independent Living Accounts (ILAs) for affordable rental accommodation for people living in transitional or supportive housing.
- 2) Research on other asset-building methods other than IDAs. This would include endowment or bond-based models and cooperative or shared assets.
- 3) Research on the impact of assets and savings and better methods to track asset-holding in Canada. Unlike the UK and US national statistical agencies, Statistics Canada does not regularly collect information on the savings, assets and net worth of Canadians. Furthermore, while there are on-going discussions on measures of *low-income* and income poverty, there have been as yet no efforts to create a measure of *low-assets* and asset poverty. Statistics Canada should, as a priority, begin including measures of savings, assets and net worth in its regular surveys of household finances.
- 4) Research on how to apply the appropriate asset-building methods to different levels of savings needs. As discussed earlier in this report, SEDI's discussions in the UK suggested that there is a need to distinguish between policies aimed at meeting short-term, medium-term and long-term savings and asset-building objectives. Policy-makers will need information on how to match the range of available asset-building methods to the appropriate level of intervention.

Appendix A: List of Meetings

<i>November 4, 2003</i>	
Sue Regan, Associate Director, Social Policy Will Paxton, Research Fellow, Social Justice Peter Robinson, Senior Economist	Institute for Public Policy Research
Mick Fletcher, Research Manager	Learning and Skills Development Agency
Abigail McKnight, Toyota Research Fellow Julian Le Grand, Co-Director (CASE), Professor and special advisor	STICERD, London School of Economics STICERD, London School of Economics and Prime Minister's Office
Carey Oppenheim, Senior Policy Advisor Gavin Kelly, Senior Policy Advisor	Prime Minister's Policy Unit Prime Minister's Strategy Unit
Elaine Kempson, Director and Professorial Research Fellow	Personal Finance Research Centre, University of Bristol
<i>November 5, 2003</i>	
Mostaque Ahmed, Head of Savings Branch Julie Tam, Assistant Economist Antonia Wade, Policy Analyst Catherine Nalty, Policy Advisor	Pension and Savings Branch, HM Treasury Inland Revenue
Gill Hind, Manager of Consumer Education Tony Hebert Samantha Mitchell David White, Chief Executive	Financial Service Authority Association of British Insurers British Bankers' Association The Children's Mutual
<i>November 6, 2003</i>	
Kate Green, Director Mary MacLeod, Chief Executive	One Parent Families National Family and Parenting Institute
Faith Reynolds, SAFE Co-ordinator	Toynbee Hall

For more information or to obtain copies of this report please contact:



1110 Finch Avenue West, Suite 406
Toronto, ON, M3J 2T2
Phone: 416.665.2828
Fax: 416.665.1661
E-mail: info@sedi.org

Or visit our website at:

www.**SEDI**.org