

Commission on Poverty (CoP)
Task Force on Children and Youth

Promoting Child Development -
Child Development Fund as a Model

PURPOSE

This paper examines the relevant overseas experience of Child Development Fund, and proposes a few pointers to facilitate consideration of its applicability in Hong Kong as a model to promote healthy and balanced development of children and youth, and to reduce the risk of intergenerational poverty.

BACKGROUND

2. Children and youth are the hopes of our future. Ensuring healthy and balanced growth of the younger generation, especially those from disadvantaged background, is one of the work priorities of the Commission on Poverty (CoP). The CoP Task Force on Children and Youth is tasked to examine existing policies and measures, and to formulate policy recommendations which help reduce risks of intergenerational poverty, including the applicability of Child Development Fund in Hong Kong.

CHILD DEVELOPMENT FUND – OVERSEAS EXPERIENCE

3. Child Development Fund as a mainstream/national programme is a relatively recent development, with the U.K. and the U.S. being the most prominent examples. The U.K. Government announced the plan in 2003 and set up Child Trust Fund (“CTF”) in 2005. The U.S. moved the American Saving for Personal Investment, Retirement and Education Act (ASPIRE Act) in 2004 which proposes the establishment of Kids Investment and Development Savings Account (“KIDS Account”). The key features of the programmes in the U.K., the U.S., Canada and Taiwan are at **Annex A**. A comparison table is at **Annex B** for Members’ reference. The ensuing paragraphs (paragraph 4 - 8) summarise the development of Child Development Fund overseas.

What is Child Development Fund?

4. Contrary to some public misconceptions, Child Development Fund should *not* be understood merely as another fund or public programme to render immediate support services for children and youth. They represent rather a *new approach* in encouraging *long-term investment in children*, i.e. to nurture saving habits and to improve financial literacy among the younger generation and their families, including those from low-income families, and to cultivate *self-responsibility* and *shared responsibility* on the development of children among family and community networks.
5. The key features of the U.K. and U.S. models include -
- (a) The amount of initial contribution from the Government is relatively small (e.g. initial endowment of £ 250/US\$500 in the U.K./U.S. for all born after a certain date with additional, limited supplement for low-income families). Growth of the fund will mainly rely on investment returns and private contribution from the children's parents, family and friends as well as from matching contributions from the private sector.
 - (b) The amount of funding saved¹ cannot be used before the children reach 18 years old, and is intended for their start in the society as adults. While there is no restriction on the specific use of money in the U.K., the money can only be used for certain purposes in the U.S. (e.g. post-secondary education, home purchase).

Asset-based Policy

6. Child Development Funds are heavily influenced by the wider development of asset-based policy since the 1990s², premised on the limitations of passive income support and means-tested public assistance programmes in encouraging self-reliance. Asset-based policy, albeit being a rather recent measure, is gaining increasing political importance, with the introduction of different individual accounts (accounts for kids/families, accounts for specific purposes like education, housing, retirement etc.) to encourage individuals to build assets and human capital for their own future.

¹ Some US estimate suggests that assuming modest but steady contributions, a typical low-income, low-wealth kid could have about US\$20,000 by age 18.

² Sherraden (1991) - Asset-based welfare theory. His speech on asset-based policy and the Child Trust Fund is available at http://gwbweb.wustl.edu/csd/Publications/2002/UK_speech2002.pdf

Bottom-up Development & Community Support

7. It is noteworthy that the national programmes adopted in the U.K. and the U.S. were jump-started by the community, including experience of NGOs, private foundations and/or local financial institutions running smaller-scale programmes. For instance, in the U.S. the Corporation for Enterprise Development (CFED), a nonprofit organization devoted to expand economic opportunity for the disadvantaged, started the pilot savings schemes “American Dream Demonstrations in 1996”. The Government steps in defining the policy paradigm, mainstreaming successful programmes, regulating them and providing legal backup of tax incentives to encourage savings. However, such programmes do not necessarily have to involve government contribution and legal backup, as in the case of the pilots in Taipei city (see Annex A).

8. In addition, since the key objective is to nurture a healthy sense of financial management, the Fund is accompanied by a number of supportive initiatives from the community. For instance, financial institutions and NGOs would contribute financial and human resources to raise awareness of the benefits of savings, as well as to encourage savings through financial inducement. Schools also contribute by incorporating personal financial management education in mainstream curriculum.

RELEVANCE OF OVERSEAS EXPERIENCE TO HONG KONG

9. Child Development Fund receives popular community and political support in overseas countries, as it encourages asset-building *for the future instead of immediate consumption* and reliance on public assistance. It also fosters shared responsibility and multi-party engagement among family, government, NGOs and the private sector. Such asset-based social policy is perceived to benefit value education of children the most, by instilling at an early stage a sense of positive attitude and self-responsibility as well as a willingness to delay gratification among the younger generation, hence strengthening the psychological safeguard against intergenerational poverty.

10. There are a number of issues we need to consider in applying/adapting the concept of Child Development Fund in Hong Kong.

(i) Policy Objectives

11. Overseas model of Child Development Fund is essentially a long-term

process in cultivating savings behaviours and an attitude of self-responsibility for children. Hence, the funds will not be deployed until the children reach adulthood. In other words, it would *not* fulfill the immediate developmental needs of children from disadvantaged background. A key pillar of the overseas model is shared responsibility among the family, other community players and the government instead of major reliance on the latter. If we are to follow overseas practice, we need to consider if -

- (a) there is resolve among key stakeholders, including the parents and the children themselves, to resist the temptation of deploying the funds for the development of the children well before the children reach adulthood; and
- (b) there is consensus and support for the Fund to be the magnet of multi-stakeholders' contributions to ensure that the intended objectives can be achieved (re. paragraph 8 above).

(ii) Relationship with Existing Services

12. In considering establishing Child Development Fund in Hong Kong, we need to take into account the relationship with existing services and to avoid duplication of current efforts. As discussed in previous meetings, the Government has already put in place a wide range of services and support to meet the needs of children and youth at different stages of development, viz. early childhood, education, participation in extra-curricular activities, employment and training (see **Annex C**). There is also an abundance of funds available both from the Government and other community sources in supporting worthwhile projects to promote child development and continuing education beyond the free, compulsory stage, though projects using an asset-based approach are not very common. In considering possible application to Hong Kong, we need to consider whether we should follow the U.K. practice of free deployment of the Fund or the U.S. practice of specifying usages; and if the latter, what are the needs/gaps that should be addressed through the Child Development Fund.

(iii) Universal or Targeted

13. As discussed at previous Task Force meeting, universal programmes for children and youth, supplemented by specific measures for target needy groups, would be more desirable in terms of social inclusiveness and reduced labeling. The U.S. and the U.K. have adopted a universal programme with supplement for low-income families, whereas the programme in Canada and the pilots in Taipei city are targeted at youth from low-income families (though the Taipei pilot is of a voluntary nature with a strong

community flavour).

14. A pertinent contextual consideration must also be pointed out. Child Development Fund in the U.K. and the U.S. was introduced in face of a falling national savings rate and this partly explains its universal nature covering all children born after a certain date. Hong Kong's savings rate mirrors more the Asian ethos and are high in comparison with the West.

ADVICE SOUGHT

15. The Administration is committed to ensuring the sound, healthy and balanced development of children and youth. We also agree on the need for measures to address the needs of those from disadvantaged background. Hence, the Administration adopts a positive attitude to any proposals for reducing risks of intergenerational poverty that are apt for local circumstances and stand a good chance of attaining the designed objective. In respect of Child Development Fund in Hong Kong, in considering if we should follow practice in other countries, Members are invited to offer views on -

- (a) the policy objectives of such an initiative and the conditions for achieving such (paragraphs 9 and 11);
- (b) its relationship with existing services (paragraph 12); and
- (c) whether such programme should be universal or targeted (paragraphs 13 –14).

Pending details of any scheme which Members may favour, practical implications such as agency set-up and legislation, if any, would need to be considered.

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Child Development Fund - Key Features

U.K. – Child Trust Fund

Purpose

The Child Trust Fund (CTF), established by the Child Trust Funds Act 2004, is a long-term savings and investment account for children. Since 6 April 2005, CTF accounts are available for every child born on or after 1 September 2002. The main objectives of CTF are (i) to ensure that children will have assets/savings of their own to start their adult life at the age of 18; (ii) to encourage savings; and (iii) to help children understand personal finance (financial education is a key part of CTF).

Contributions

Government will make an initial endowment of £250 to children when they were born. An additional £250 will be paid to children in low-income families (those eligible for full Child Tax Credit). Government will make a further payment of £250 at age 7; children from low-income families will receive £500. Private contributions from parents, family and friends are tax free, with a cap of up to a total of £1200 a year. Income arising on the money and investment in a CTF account is exempt from tax.

Use of money

Money can only be taken out by the child when reaching the age of 18. There will be no restriction on how they use the money in their CTF accounts.

Management

HM Revenue & Customs pays and administers the programme. A person with parental responsibility of the child will open the CTF account in one of the approved financial services providers. The account is managed by that person until the child is 16. When children reach 16, they will manage their own CTF accounts.

U.S. – KIDS Account

Purpose

Similar to the UK, the KIDS Account is also a long-term savings and investment plan for children with a view to encouraging savings, promoting financial literacy, and expanding opportunities for young adults. Pending passage of the American Saving for Personal Investment, Retirement and Education Act (ASPIRE Act), every child born after 31 December 2006 will have a KIDS Account opened automatically.

Contributions

Government will automatically transfer an initial contribution of US\$500 to an account when opened for newborns. Children from families with household income below the national median income will receive an additional contribution up to \$500. Private contributions (up to \$1000 annually) will be after-tax and can come from any source. There will be a one to one dollar matching contribution from the Government on private contributions up to the first \$500 on an annual basis. Each accountholder will have to repay the initial seed of \$500 contribution beginning at age 30. Earning on contributions to KIDS Account will be tax-free.

Use of money

No withdrawals can be made until the accountholder reaches the age of 18. The money can only be used for investment-related purposes, namely post-secondary education, home purchase and retirement.

Management

The KIDS Account Fund will be governed by the KIDS Account Fund Board under the Treasury. Parents and legal guardians will serve as account custodians and make investment decisions until the accountholder reaches the age of 18. A minimum balance equal to the Government initial contribution is required to be kept in the KIDS Account at all times until retirement age in order to maintain the account as a savings platform for retirement security.

Canada – Canada Learning Bond***Purpose***

Canada Learning Bond (CLB) is essentially an education savings plan designed to help low-income parents save for their children's post secondary education. Children born after 31 December 2003 in low-income families (those entitled to the National Child Benefit Supplement) will be benefited.

Contributions

CLB will provide \$500 to eligible children, followed by up to \$100 CLB instalments until they reach 15 in each year. Private contributions can be made by parents, family or friends. The Government will make a matching contribution up to 40 cents for every dollar, up to the first \$500. Interest on the savings will be tax-free.

Use of money

The money can only be used for education purpose, such as paying for full-time or part-time studies in an apprenticeship programme, a trade school, college or university. If the money is not used until the accountholder reaches the age of 26, the CLB is returned to the Government whereas the private contributions will be given back to the accountholder.

Management

Parents or guardians are required to open a Registered Education Savings Plan (RESP) through an approved financial institution.

Taipei City – Individual Development Account (出人頭地帳戶發展專案)

Purpose

Individual Development Account (IDA)¹ is a three-year (from 2003-2006) pilot savings project of the Taipei city for young people aged 16-23 from low-income families (for around 100 participants only)². It aims at encouraging the younger generation to save for their education or career development.

Contributions

IDA is on voluntary basis. There is no contribution from the Government. Money mainly comes from the monthly private contribution from accountholders. The minimum savings amount per month is NT\$2000 and the maximum amount is NT\$4000. There will be a one-to-one dollar matching contribution on the total saving amount after three years. The matching contribution is provided by a charity fund³.

Use of money

Money can only be used for pursuing higher education or career development. Accountholders can withdraw money from their accounts subject to specified withdrawal limits. Accountholders also have to submit a proposal on how to use the money within the first year after joining the scheme.

Management

All accountholders are required to open an account in Taipei Bank.

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¹ It is based on the Family Development Account (家庭帳戶發展專案), another pilot saving project for the working poor carried out in Taipei from 2000-2003. While the operation is largely the same, money in FDA was used for first-home purchase, pursuing higher education and starting business.

² According to the figures provided by the 台北市政府社會局, there are 85 people joining the scheme as at 31.12.2004.

³ A total amount of NT\$14,400,000 is provided by 台北銀行公益慈善基金

Child Development Fund – Summary Table of Key Features

Country/City	<i>UK</i>	<i>US</i>	<i>Canada</i>	<i>Taipei</i>
Asset-building Programme	Child Trust Fund	Kids Investment and Development Savings (KIDS) Account	Canada Learning Bond	Individual Development Account (出人頭地帳戶發展專案)
Commencement year	2005 by the Child Trust Funds Act 2004	Enacting legislation – ASPIRE Act 2005 was introduced in 2005	2004 by the Canada Education Savings Act	From 2003-2006
Nature	Savings and investment	Savings and investment	Savings	Savings
Target	Every child born on or after 1.9.2002	Every child born after 31.12.2006	Only child born after 31.12.2003 and from low-income families	Youth aged 16-23 from low-income families (On voluntary basis)
Key objectives	<ul style="list-style-type: none"> • To encourage savings; • To expand opportunities for young adults; & • To improve financial literacy of children 	Same as the UK	<ul style="list-style-type: none"> • To save for children’s post-secondary education 	Similar to the UK
Government initial endowment	<p style="text-align: center;">✓</p> (£ 250 when born) (£ 250 when 7 years old)	<p style="text-align: center;">✓</p> (US\$500)	<p style="text-align: center;">✓</p> (Can\$500)	✗

Country/City	<i>UK</i>	<i>US</i>	<i>Canada</i>	<i>Taipei</i>
Supplemental contribution for children from low-income families	✓ (£ 250/ twice)	✓ (Up to US\$500/once)	✓ (Can\$100/ 15 times)	✗
Matching contribution	✗	✓	✓	✓
Private contribution	✓ (Annual cap: £ 1200)	✓ (Annual cap: \$1000)	✓	✓ (Compulsory: NT\$2000- NT\$4000 per month)
Restriction on use	✗	Post-secondary education, home purchase and retirement	Post-secondary education	Post-secondary education and career development
Account management	Approved financial institutions	Board of Directors under the Treasury	Approved financial institutions	Appointed bank
Financial education	✓	✓	✗	✓

**PROMOTING CHILD DEVELOPMENT
EXISTING MEASURES**

Since its establishment in May 2005, the CoP Task Force on Children and Youth has been considering the effective means to reduce the risk of intergenerational poverty. While noting that material support is important, Members considered that access to development opportunities is key to helping children especially those from disadvantaged background to move up the social ladder and lift themselves from poverty. Members observed that various programmes are already in place to address the development needs of children at different stages¹.

(i) Early childhood developmental needs

2. With an emphasis on early identification and early intervention of problems, the pilot Comprehensive Child Development Service (CCDS) was launched since July 2005. CCDS is a community-based programme which aims at augmenting the existing universal service in our Maternal and Child Health Centres through better alignment of the delivery of health, education and social services. The varied needs of children aged 0 to 5 and their families are identified at an early stage, so that appropriate and timely services could be provided for them. The progress of the pilot implementation is so far encouraging, witnessing enhanced collaboration and interface between the different sectors and increased client accessibility to services. Additional resources has been allocated to improve the pilot service of CCDS, and subject to a review of the pilot service in the third quarter of 2006, extend the service in the other communities in phases.

(ii) Education needs

3. Education is of paramount importance to promoting personal development and capacity enhancement. Over the years, the Administration has been investing substantial resources in meeting the education needs of children and youth. The Government also ensures that no children would be deprived of education for lack of means. Financial assistance under various means-tested schemes administered by the Student Financial Assistance Agency (SFAA) in the form of travel subsidy, textbook assistance, tuition fee remission and public examinations fee remission is available for primary and secondary students in need. Eligible full-time local students of

¹ For further details, please refer to CoP TFCY Paper 1/2005 on “An Overview of Existing Services for Children and Youth Relevant to Intergenerational Poverty”(www.cop.gov.hk)

publicly-funded and self-financing programmes at post-secondary level may apply for financial assistance in the form of grants and/or low-interest loans to cover tuition fees, academic and living expenses, where applicable. The Administration will continue to consider areas to further improve education quality and affordability especially for the poor.

(iii) Employment and training needs

4. The Administration has been proactive in catering for the training and employment needs of youth, including the non-engaged youths (NEYS). For example, the Career Oriented Curriculum (COC), programmes of the Vocational Training Council, the Youth Pre-employment Training Programme (YPTP) and the Youth Work Experience and Training Scheme (YWETS) are the major initiatives of the Administration in expanding the training and employment opportunities for young people². The Continuing Education Fund (CEF) also subsidizes adults with learning aspirations to pursue continuing education and training courses.

(iv) Other development needs

5. Apart from the provision of school education and training, the Administration is committed to providing children and youth with sufficient opportunities for quality development and enhancement in diverse areas with a view to enabling them to face future challenges of academic/career pursuits. The School-based After-school Learning and Support Programmes provide more support to disadvantaged students in enhancing their learning effectiveness, both in terms of academic studies and outside classroom learning experience. Other government bureaux and departments such as the Home Affairs Bureau, Home Affairs Department and Social Welfare Department are also working closely with relevant agencies and district NGOs in providing different development programmes to nurture and promote the balanced growth of young people³. The new funding for strengthening the district-based approach in poverty alleviation will also support projects aiming at preventing and tackling intergenerational poverty⁴.

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2 For further details, please refer to CoP Paper 17/2005 on “Training and Employment Opportunities for Youth”(www.cop.gov.hk)

3 For further details, please refer to CoP Paper 12/2005 on “Intergenerational Poverty” (www.cop.gov.hk)

4 For further details, please refer to CoP TFDA Paper 1/2006 on “Additional Funding for Districts on Sustainable Poverty Alleviation Initiatives” (www.cop.gov.hk)