CHILD TRUST FUNDS

Find out which funds you can trust to grow with your child

If you pay the maximum amount of £100 a month into our Best Buy cash account paying 6 per cent, your child could receive the tidy sum of £39,000 when they turn 18, if the interest rate stays the same

CTFs: the rules

- Children born on or after 1 September 2002 receive a voucher worth at least £250.
- Vouchers can be invested only in child trust fund (CTF) accounts.
- Parents, family and friends can top up the CTF by up to £1,200 a year.
- Once you've put money into a CTF account, you can't take it out again, but you can transfer it to another CTF account.
- Only your child can take out the money, and only once they reach the age of 18.

WHICH? EXTRA

For full details of all the child trust funds on offer, including rates and all fees, see www.which.co.uk/childtrustfunds

If you're still wondering where to invest your child trust fund (CTF) voucher, you're not alone. Although the scheme went live in April, recent figures show that around 70 per cent of vouchers still haven't been invested, which means thousands of children are missing out on valuable interest. With three different types of fund and more than 30 providers to choose from, it's a tricky decision. But we're here to help you make it.

CASH, SHARES OR STAKEHOLDER?

Parents can choose to pay their vouchers into one of three different types of CTF – cash accounts, stakeholder accounts and share-based accounts. So far, cash accounts have proved the most popular. These are essentially tax-free savings accounts. There's no risk involved – your child's fund can only increase in value. Our Best Buy (the Ipswich BS CTF account) currently offers the best interest rate.

Stakeholder and share-based accounts are riskier. With these, you put at least some of your child's money in stocks and shares. So if the stock market does well, your child's investment could grow rapidly, but the opposite could be equally true. Stakeholder accounts are designed to be less risky than share-based CTFs. When your child turns 13, the fund is 'lifestyled', which means it's gradually transferred to less risky investments such as government bonds. However, we're concerned that the charges on stakeholder accounts are too high (see opposite for more on this).

CASH CTFS

If you're unsure about exposing your child's money to the risks of the stock market, consider a cash CTF – at least for now. Currently the top account offers 6 per cent, which beats most cash Isas and children's savings accounts. These rates could go down, so you'll need to keep an eye on them (we'll give regular updates in 'Money Monitor' and on our Which? Extra website). But it's free to switch between CTF cash accounts, so you can keep chasing the best rate.

BEST BUY CASH ACCOUNTS

We've selected only one Best Buy cash account – the Ipswich Building Society's, which pays a high 6 per cent no matter how much you put in. There are other good accounts, some offering good rates in the short term and others offering better deals in the long term. The table, opposite, shows details of all the cash CTFs currently available. Choosing an

Other share options

Child trust fund vouchers can be paid only into CTF accounts. But if you want to invest money in shares, you can find better deals elsewhere.

Most of the funds offered as stakeholder and share-based CTFs are widely available with lower charges outside a CTF. However, the minimum amount you have to invest may be higher than with a CTF. You could get all the tax-free benefits of a CTF by opening the fund within a stocks and shares Isa.

Other money given to a child by parents, for example into a children's saving account, is tax free if it earns less than £100 in interest a year per parent. Money from family or friends is also tax-free if the interest it earns amounts to less than £4,895 in the current tax year (2005-2006).

CTF cash accounts

	Interest rate AER(%)[a]	Bonus	Return after 18 yrs (£)[b]
Ipswich BS	6		39,000
Nationwide BS	5	1% if £240 is paid in per year	39,000
Hanley Economic BS[c]	5.5		37,080
Yorkshire BS	5	0.5% if £200 is paid in per year	37,080
Furness BS	5.25		36,160
Skipton BS	5.25		36,160
Britannia BS	4.75	1.25% for 2 years	34,480
Leeds & Holbeck BS	4.75	1.25% for 2 yrs if £600 paid in per yr	34,480
Monmouthshire BS[d]	4.75	1.25% for 2 yrs if £250 paid in per yr	34,480
Abbey	4.25	1% until 04/06 plus 0.5% for balances over £750	34,420

Correct at: 12 July 2005
a Paid on balances of £250 **b** Our calculations assume an initial payment of £250 plus payments of £100 a month. They also assume the rate stays the same **c** Available only in Staffordshire
d Available only from branches

account with a good rate makes a big difference in the long run. As the table shows, your child could be £4,580 better off after 18 years with the Ipswich CTF than with the Abbey account, for example.

Even if you're still considering a stakeholder or a share-based account, put your money in our Best Buy cash account until you've made up your mind. Then you can transfer the fund later.

SHARE-BASED CTFs

Share-based CTFs are worth considering only if you're willing to take a risk with your child's fund.

There are two types of share-based account. The first, currently offered by eight providers, offers you access to a limited range of investment funds. You put your money into one or several of the funds on offer, switching between them whenever you like (although you may be charged for this). The table, overleaf, lists all the share-based CTF funds available from the providers offering a limited range of funds. It gives you an idea of how much you'll pay in charges and the funds' varying levels of risk. High risk funds have more potential for substantial growth, so the charges could be worthwhile. But the higher the risk, the higher the potential loss, too. The lower risk funds with high charges will have to work harder to be worthwhile.

The second type, currently offered by five providers, works on a 'self-select' basis, which essentially means you can choose from almost any fund you like from a huge range of providers and buy shares directly too, all within a CTF wrapper. The charges for these accounts vary enormously depending on what you go for and how frequently you move money around. Because of this, we can't give details of the self-select CTFs. You'll need to speak to the providers of these funds for this information. For details of the five providers, go to www.which.co.uk/childtrustfunds.

We recommend you take financial advice before you invest in any share-based CTFs.

PHOTOGRAPHY WINPENNY PHOTOGRAPHY, ALAMY

Stakeholder account charges are too high

Stakeholder funds are designed to be low-cost, risk-controlled funds. Most charge the maximum annual management charge of 1.5 per cent. This means they'll have to grow by 7.5 per cent a year just to match our best cash CTFs.

Cheaper funds

Some of the funds offered as stakeholder CTFs are available more cheaply outside a CTF. Take the Legal & General UK Index Trust, for example. This is a tracker fund that is simple for Legal & General to manage. It follows a list of companies known as an index. If the index goes up or down, the fund value does as well. It costs only 0.5 per cent a year in annual management charges and there are no upfront fees.

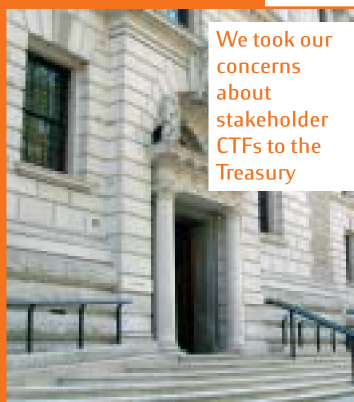
The Share Centre, which is offering this same fund as a stakeholder CTF for a charge of 1.5 per cent a year, told us that it has to charge more to cover 'stringent HM Revenue & Customs regulations'.

Government's response

We took our concerns about high stakeholder CTF charges to the Treasury. It told us: 'The stakeholder CTFs' risk controls and low overall charges mean they offer unprecedented access to the potential higher growth of shares and are great value for the vast majority of families.'

We disagree. Although stakeholder CTFs are a convenient way to invest in stocks and shares, their combination of high charges and low-risk funds means they're unlikely to match the return of the best cash CTFs.

We haven't shown a table detailing all



We took our concerns about stakeholder CTFs to the Treasury

of the stakeholder CTFs because of our concerns. But if you really want one, the cheapest options are currently the F&C Asset Management stakeholder account, which charges 1 per cent a year, and the Police Mutual stakeholder account, which charges 1.25 per cent a year.

Investing in shares

Brendan and Victoria Anglim have chosen to put two-year-old Erin's CTF voucher into shares. They decided against stakeholder accounts because they thought the charges were too high. Instead, they've opted for F&C's non-stakeholder CTF.

Brendan told us: 'We were drawn to F&C because of its low charges, but we couldn't decide which of its six funds on offer to go for. An independent financial adviser recommended we split our money between four of the funds and that we use F&C's two free switches a year to move the money around if we want.

'We plan to pay in the maximum £1,200 a year, and we're also paying into a savings account for Erin's four-year-old brother, Oscar. Once Erin turns 18 we're hoping that she'll let us pool her CTF with Oscar's money, so that we can split the total fund between them.'

Two-year-old Erin should receive a healthy nest egg when she turns 18

Share-based CTFs

	Fund charges		Charges		Risk rating
	Initial (%)	AMC (%)	One year (£)	Ten years (£)	
HIGH RISK					
F&C F&C Emerging Markets Investment Trust plc		1	21	1,390	6
F&C Graphite Enterprise Trust plc		1.5	23	1,520	6
F&C Witan Pacific Investment Trust plc		0.6	11	1,360	6
Redmayne-Bentley iShares MSCI		0.59	63	1,510	6
Redmayne-Bentley iShares FTSE/Xinhua China 25		0.74	66	780	6
F&C F&C Smaller Companies plc		0.42	11	720	5
The Children's Mutual European Ethical	5	1.5	90	2,300	5
The Children's Mutual US Growth	5	1.5	92	2,500	5
The Children's Mutual European Growth	5	1.5	92	2,510	5
The Children's Mutual Smaller Companies	5	1.5	90	2,370	5
Redmayne-Bentley iShares FTSE Eurofirst 80		0.4	61	1,170	5
Redmayne-Bentley iShares S&P 500		0.35	61	1,170	5
MEDIUM RISK					
The Children's Mutual Foundation Growth		1.5	14	1,430	4
The Children's Mutual Evergreen	5	1.5	90	2,330	4
The Children's Mutual World Growth Portfolio	5	1.5	92	2,540	4
The Children's Mutual UK Select Fund	4	1.5	75	2,190	4
The Share Centre Artemis UK Growth Fund	0.25	1.5	39	2,260	4
The Share Centre Jupiter Global Managed Fund	0.25	1.5	41	2,390	4
The Share Centre Legal & General UK Index Trust		0.5	18	1,090	4
Redmayne-Bentley iShares FTSE 100		0.35	61	1,170	4
Redmayne-Bentley iShares FTSE 250		0.4	61	1,170	4
F&C Foreign & Colonial Investment Trust plc		0.3	9	540	4
F&C F&C Capital and Income Investment Trust plc		0.4	12	740	3 to 4
The Children's Mutual Income Fund	5	1.5	90	2,310	3 to 4
Police Mutual Balanced Growth Fund		1.25	12	1,210	3
Liverpool Victoria With-Profits Fund	see[a]	1.24	105	1,350	3
Kingston Unity Friendly Society With Profits Fund		1.5	14	1,360	3
The Children's Mutual Managed Fund	4	1.5	75	2,200	3
Foresters Friendly Society With-profits fund		1.5	14	1,360	3
LOW RISK					
Police Mutual Cautious Managed Fund	1.5	1.5	37	1,690	2
The Children's Mutual Cautious Managed	3.5	1.25	67	2,040	2
The Children's Mutual Medium Term Fixed Interest	4	1	71	1,820	2
The Share Centre Close Escalator 100 Fund	0.25	1	29	1,660	2
Redmayne-Bentley iBOXX £ Corporate Bond		0.2	58	960	2

Rates correct at 1 July 2005 **a** £90 one-off charge

TABLE NOTES
We show all the share-based CTF providers that offer a limited range of funds.

Fund charges
We've shown two of the charges. Many funds have more – a full list is on Which? Extra. **Initial** Deducted from every payment you make. **AMC** The annual management charge is taken as a percentage of your fund.

Charges
An estimate of the total charges that you'd pay on the funds after one and ten years, assuming you invest a £250 voucher and £100 a month and the fund grows by 7 per cent a year.

Risk rating
We've rated the funds' level of risk against each other on a 1 to 6 scale - funds with a 6 are highest risk and those with 1 are lowest. This is only a general guide.