

# The bank of mum and dad: saving for your children

If it were a normal business, the bank of mum and dad would probably be stretched to bursting point. On top of the everyday costs of bringing up children, the changing social and economic climate is putting increasing pressure on parents to make financial provision for their children well into adulthood.

Children face a number of significant financial hurdles that may require parental assistance. Going to university leaves the average final year medical student with a debt of over £20 000. Getting on the property ladder requires the average first-time buyer to put down a deposit of just under £32 000 and, according to the Council of Mortgage Lenders, 80% of first-time buyers rely on their parents for help. On top of this, your child might not be able to rely on a state pension.

Looking at these costs, the thought of helping your children out financially while also managing your own finances seems daunting. However, if you start planning early enough, there are a range of investments and options to help you support your child through the different stages of his/her life. This article considers some of these options.

## Getting the approach right

Before deciding on what type of investment to consider, you should ask yourself a number of questions to ensure that you make the right choice for your personal circumstances and that the money is available at the appropriate time:

- When will you need access to the funds? It is important that the money you put aside is available when you need it. For example, pension provision will be a long-term investment whereas funds for school fees will be needed sooner.
- How will you want to access the funds? Will you need the money invested as a lump sum, for example if you are saving to help with a deposit

on a house? Or would a regular income be more appropriate if perhaps you want to help out your child while at university?

- What is your attitude to risk? If you are investing for the longer term, you might feel comfortable taking a little more risk with your money accepting that, while there may be fluctuations in the value of the investment, the potential for growth is greater. However, for short-term investments you may opt for investments that bring lower levels of risk.
- How do you want to control your investment? Do you want full control of the funds or are you happy for your children to manage them?

## Investment options

Once you have considered these questions and decided on your preferences, you will be ready to examine some of the options available to you. Some choices could include:

### Child Trust Fund

One way of giving your child a head start as a young adult is through the Child Trust Fund. This is essentially a long-term savings and investment account for children born on or after 1 September 2002. They receive a £250 voucher from the government to start their account, which cannot be touched until they turn 18 years of age.

### Individual Savings Account

Individual savings accounts (ISAs) offer a tax-efficient savings option and give you flexibility in terms of accessing your money. By saving into your own ISA you can keep full control over the funds and decide where they are put to use.

There are different types of ISAs. Cash ISAs are an ideal home for money that you will require in 5 years or less, while stocks and shares ISAs are designed for medium to long-term saving. The current ISA allowance is £7200 for those aged under 50 years, of which up to £3600 can be invested in a cash ISA while the remainder, or the total allowance if you prefer, can be placed in a stocks and shares ISA.

From April 2010 the annual ISA allowance will increase to £10 200, of which up to £5100 can be placed in a cash ISA. Those who will be 50 years of age and over on 5 April 2010 can benefit from this increased allowance as of 6 October 2009.

It is worth remembering that while ISAs offer tax-efficient benefits they will form part of your estate if you die before the money is used which could have inheritance tax implications.

### Life insurance-based investments

Life insurance-based investments such as 'investment bonds' can also offer a useful means of investing for the benefit of your children. These usually allow partial withdrawals to be made and you can also set up regular withdrawals of your capital if you choose.

### Trusts

Trusts are a great way of protecting and earmarking investments for your children during your life and even after your death. They can be used to minimize any inheritance tax payable on your death and can provide control over how and when the money is used.

There are many different types of trusts which suit people in different circumstances. You should consider how the money within the trust is going to be invested.

## Conclusions

This gives a snapshot of some of the options available to help you provide for your child's future. There are alternative options, including cash-based investments and collective investments (such as unit trusts). It is also worth considering whether grandparents are in a position to help out. Making gifts for the benefit of their grandchildren will reduce the size of their estate and can help with their inheritance tax planning. You should discuss your options with a financial adviser to make sure you make the right decisions for your personal needs and circumstances. **BJHM**

The above information does not constitute financial advice. For further information please speak to your financial adviser.

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