

Saving for your children's future

Most parents want to give their children some financial support as they grow up, such as helping them through university or contributing to the deposit for their first home.

Just as you would give careful consideration to your own investments and savings goals, similar thoughts should be given as to how you will save for your children's needs.

Choosing the right savings products

Depending on what your saving objectives are you will need to consider the advantages and disadvantages of each savings product.

Deposit account

Bank deposit accounts are useful if you want easy access to the money and if you are saving over short periods of time. This can make them popular options for parents who want to provide somewhere for their children to keep their pocket money. However, if you are saving for the long-term, there is a greater chance that inflation will erode the spending power of cash deposits, therefore you may wish to consider an alternative investment approach.

Child trust funds and junior individual savings accounts

Child trust funds are long-term savings and investment accounts for children. They were created by the previous government and allowed savings accounts to be set up for children born between 1 September 2002 and 2 January 2011. They were superseded by the introduction of junior individual savings accounts in November 2011.

While no new child trust funds are allowed to be opened, the accounts still exist and parents can continue to contribute a maximum of £3600 a year to them. The money in a child's child trust fund

account can only be accessed by the child on reaching 18 years of age.

Junior individual savings accounts are only available to UK children under the age of 18 years who do not already have a child trust fund account. The total amount that can be paid into a junior individual savings account is £3600 each tax year and this will rise in line with inflation from 2013. Your child can have both a cash and a stocks and shares junior individual savings account at any one time, and the total amount paid in can be invested in any proportion between the individual savings accounts. At the age of 18 years the junior individual savings account will be converted in an 'adult' individual savings account and the child will get full access to the investment.

Investment income and growth within the junior individual savings account is free of personal income and capital gains tax but, unlike the child trust fund, these do not benefit from any government subscriptions.

The current rules do not allow junior individual savings accounts to be merged with child trust funds, although from 1 November 2011 the child trust fund annual subscription limit rose to £3600 per year to bring them into line with junior individual savings account levels.

Individual saving accounts

While junior individual savings accounts are relatively easy to set up, and have the advantage that family and friends can pay into them, they may not be suitable in all cases. In particular, this applies if you are saving to pay for school fees, as the money can only be accessed by the child at 18 years of age.

You may want to retain complete control of the investment and access to the funds. In this instance, an individual investment product in your own name could be the best option, such as an 'adult' individual savings account. The individual savings account allowance for this tax year is £11 280, of which half (£5640) can be invested in a cash individual savings account, or the full amount into a stocks and shares individual savings account.

Stakeholder pensions

Stakeholder pension plans and personal pension plans can also provide a useful means of saving for a child or grandchild. The pension is taken out in the name of the child, who will become responsible for it when he/she turns 18 years of age, although the child is not obliged to continue contributing to it.

While the child has no earnings, the maximum contribution that can be made on a child's behalf is £3600 gross a year. Any contributions made by a parent, grandparent or friend are paid net of basic rate tax relief. Assuming that the maximum amount is put in this would result in a net payment of £2880. The tax relief would then be added to the account, bringing the annual contribution to £3600.

The main advantage of funding pensions for children is that potentially they will have a substantial amount saved by the time they reach retirement. However, while the child will be given a head start with his/her pension savings, this must be weighed up against the fact that the funds cannot be accessed until the child reaches the age of 55 years.

Conclusions

Before investing for your child, you need to consider:

- The level of access to the investment required for both yourself and the child
- The level of control you require
- How you wish to invest, e.g. regular payments or lump sum investments
- How much investment risk you are willing to take
- The tax treatment of the investment.

Once you have considered these, decide how much you can afford to save, and review the available savings products to choose the best options. Take professional advice from a financial adviser as early as you can to ensure you are on track to achieve your – and your child's – objectives. **BJHM**

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

Wesleyan Medical Sickness provides specialist financial advice for doctors
Telephone: 0808 100 1884
Website www.wesleyanmedicalsickness.co.uk