

Preventing a run on the 'Bank of Mum and Dad'

Every parent knows that having children is an expensive business. What you might not realize is how long that expense will last.

A survey of Wesleyan customers showed that three quarters of those with children under the age of 21 years said they expected to support them financially into their 20s and beyond.

This article looks at some of the potential costs facing the 'Bank of Mum and Dad' over the years, as well as some of the savings and investment options available to parents to help ease the burden.

Saving for school

Calculations based on figures from the Independent Schools Council show that the cost of private education for day students is now more than £200 000* for children starting school at 5 years and finishing at 18 years. This is clearly a lot of money, but parents who would like their children to go to private school can make it more affordable by saving regular amounts each month from the child's birth.

If on the birth of their child, parents started saving £10 923 per year – or £910 per month – in a savings account paying interest at 3% gross per annum, they would build up enough money to cover the cost of private day school private education, as detailed above.

University fees

Three years of university could also be a costly expense. According to student website Push.co.uk, those who began their studies last autumn could face total debts of £53 400 on graduation. This includes tuition fees and general costs. If your child decides to follow you into medicine, the cost will be considerably more.

Our research shows that more than two thirds of Wesleyan customers asked were already saving specifically for their children's university fees (Figure 1). However, many also said they would expect to pay

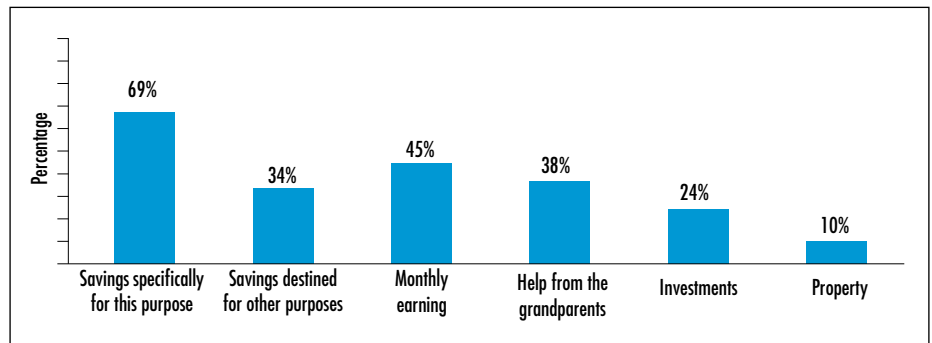


Figure 1. Ways in which Wesleyan customers anticipate funding the costs of university.

out of their own monthly earnings, and 38% said they will have to ask the child's grandparents to help pay towards university education.

Plan ahead

If you intend to provide financial help to your children, then it is important to start planning your finances as soon as you can. However, before you decide where to invest your money, there are a number of considerations to be aware of.

When will you need to access the funds?

It is important that the money you put aside is available when you need it. For example, if you are saving for university costs, then the money can be locked away until the child starts his/her degree. However, if you are saving for school fees then you will need the money sooner and on a more regular basis.

How do you want to access the funds?

When you cash in an investment you might want to take the whole amount as a lump sum if, for example, you are saving to help your adult child with a deposit on a house or to help pay for a wedding. However, school fees will need to be paid regularly between the ages of 5 and 18 years.

*Private school fees calculations based on current average annual fee for day fee day schools (2012) of £11 082, with an annual inflation in fees of 4.9% applied for the life of the child's education up to and including A-levels. 4.9% is the average rate of fee increase reported by the Independent Schools Council in its annual census based on a survey conducted in January 2012.

Are you using tax-efficient savings?

Individual savings accounts allow your savings to grow free of capital gains and income tax, while providing easy access. There are two different types of individual savings account: cash individual savings accounts are ideal for money you will need in 5 years or less, while stocks and shares individual savings accounts are designed for medium- to long-term saving. The individual savings account allowance for 2013/14 is £11 520, of which half can be put into a cash individual savings account.

Do you want the child to have access to the money at a certain age or would you like more flexibility?

You may decide that you would like full control over how and when the child gets access to the investments you have made for him/her. Saving into a trust would protect and earmark investments for your children during your life and even after you die. They can provide financial security for your children at various stages of their life and are a good way to earmark investments for different purposes.

Conclusions

However you intend to provide for your child's future, talk to a financial adviser who will be able to explain the savings and investment options that are best suited to your own circumstances. **BJHM**

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

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