

Financially supporting your grown-up children

At this time of year, many parents are concerned about how they are going to fund their child's school or university education. However, paying for children does not always stop once they graduate.

Of 100 doctors asked by Wesleyan Assurance Society, 81 anticipated having to financially support their children after the age of 21 years, with the average age they expect to still be paying for them being 26 years. The average amount that doctors expect to contribute to their children during their 20s is around £15 000, with almost 40% saying they expect it to be more than £20 000.

With figures like this, it is clear that if you intend to still financially support your children in some capacity once they finish their education, it is important to make sure you have the finances in place.

Forward planning

Three quarters of parents said they expect to help pay for a deposit on a car for their grown-up children, and 70% imagined contributing to the cost of a wedding. Nearly a fifth even thought they would still have to pay for their children's holidays.

In reality it is almost impossible to know how much your children will need in their 20s, and when they will need it. Some may not need any support at all while others may find themselves struggling with debt or the increasing cost of living once they graduate. Because of this, you may want to keep your money easily accessible for if and when the need for help does arise.

If you do anticipate that you will still have to support your children as they get older, there are a number of savings and investment options.

Individual savings accounts

The foundation to your plans should be tax-efficient savings, with any spare cash being put into an individual savings account (ISA). A key benefit of an ISA is

that you do not pay income or capital gains tax on any growth your money makes, as you might with other savings products.

There are two different types of ISA: cash ISAs are ideal for money you will need access to in the short term, while stocks and shares ISAs are generally more suitable for medium- to long-term saving.

Because of their tax-efficient nature there are limits to how much you can invest in an ISA each year – for 2013/14, the ISA allowance is £11 520. The full allowance can be invested into a stocks and shares ISA, or up to half into a cash ISA, with the remainder in a stocks and shares ISA.

Alternative investments

You may decide to start saving for your grown-up children while they are still young, in which case you may be looking at long-term share, or equity-based, investments.

Unit trusts can be a tax-efficient option because you can use your annual capital gains tax exempt amount, which allows you to make a certain amount of gains each year before you have to pay tax. For 2013–14, this means you can make gains of up to £10 900 free of capital gains tax.

When investing in shares you should be prepared to leave your money in for at least 5 years. Barclays Capital Equity Gilt Study 2013 shows that if shares are held for 10 years, there is a 90% probability of them outperforming cash. However, past performance is not a guide to future performance.

Putting an investment into a trust

Saving into a trust will protect and earmark investments for your children during your life and even after you die. They can provide financial security for your children and are a good way to earmark investments for their use after graduation, or whenever you see fit.

Preparing for inheritance tax

The Wesleyan survey showed more than a third (38%) of doctors wanted to give money to their children while they were

still alive rather than gift it as inheritance, while 16% would do it to avoid inheritance tax.

Inheritance tax is one of the few taxes with which you can have some control over how much you pay. It is payable if your estate, which includes property, savings and investments, is valued over the current nil rate band threshold of £325 000. The tax is payable at 40% on anything over this amount. Gifting money to your children is one of the simplest ways to decrease the size of your estate and reduce your inheritance tax liability.

There are limits to how much you can give away each year. You can make gifts of up to £3000 each tax year, which will be free from inheritance tax when you die. Any unused part of this exemption can be carried forward to the next tax year. You are also allowed to make unlimited regular gifts out of your income, provided the remaining income is sufficient to maintain your normal standard of living.

Lump sum gifts of more than £3000 can be made during your lifetime. However, if you die within 7 years of the gift being made, it will still count as part of your estate. If you survive 7 years, the gift will fall outside of your estate.

Because of the rules and complexities about inheritance tax planning, it is important to take expert advice as early as you can.

Conclusions

As well as having to continue providing for your children after they reach 21 years of age, you may also be facing strains on your own finances, such as changes to pensions and the cost of care for yourself in later life. With financial pressures from all sides, it is important to have a clear savings plan in place to help support your children and yourself.

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.

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