Orchid Financial Services Ltd

Saving for your child

A guide to preparing for your child's future.

As any parent knows, having a child is both a life-changing event and a huge financial commitment.

The overall cost of raising a child has even been estimated to be more expensive than buying the average house, at £231,843 according to research from LV= in 2016.

Such a figure seems daunting, but saving for the long term can lighten the burden of expenses as your child grows up, such as funding university fees or helping them save for a first home.

Getting your child involved and aware of their savings early on can also prepare them for managing their own money in the future.

The options available for children's savings have seen some changes in recent years.

After National Savings and Investments (NS&I) introduced a new Junior ISA in August 2017, while scrapping their offer of children's bonds, you might be wondering which saving method is the most worthwhile.

How you make this decision depends on a variety of factors.

Do you want to save for the long term or the short term? How much money do you want to put away, and how much control do you want to maintain over it?

With a number of options available, it's worth looking into the different ways of saving for your child's future, to find out what works best for you.

Bonds

Children's bonds are now closed to new applicants, although they are still renewable if you already have an account.

When your account reaches the end of its five-year term you'll have the option to renew it or cash it in, as long as your child is under 16.

Premium bonds from NS&I are an alternative option, which can be bought for a child, grandchild or great grandchild.

The parent or guardian nominated on the application looks after the bonds until the child's 16th birthday.

You can put money in, and take it out, whenever you want – but any interest paid is decided by a monthly draw where you have the chance to win from £25 to £1 million tax-free.

You can save up to £50,000 into premium bonds, and the money you put in is completely safe as the bonds are backed by the Treasury, not a bank.

The main downside is there are no guaranteed returns, as premium bonds don't pay any interest unless you win.

You'll also need to invest a minimum of £100 or £50 for standing orders.

Children's savings accounts

Savings accounts for children are usually simple and safe cash accounts, which pay some interest.

As they often require a commitment to regular payments, they can be a good way to get your kids into the habit of saving.

You can set up an account with just £1 on behalf of an under-18, and they can manage it themselves from the age of seven.

Children's accounts usually come in one of two types:

Easy or instant access accounts allow you or your child to withdraw or pay in cash any time.

This is ideal for giving your child a place to save their pocket money. However, the extra flexibility usually means a lower interest rate.

Regular accounts tend to have higher interest rates, but it's harder to withdraw money as they're designed to encourage regular saving. If you miss the monthly minimum payments, the interest rate might be reduced.

It's worth keeping in mind that if you give your child money that gains more than £100 in interest in the tax year, it will be taxed as if it's your personal income.

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This rule only applies to money given by parents – so grandparents, relatives and friends can give as much as they like.

However, other tax implications could apply, so it's important to take other circumstances into account and it may be worth seeking professional advice.

Junior ISAs

If you're looking for a more tax-efficient option for the long term, you could consider opening a Junior ISA – and with the limit on savings rising in April 2018, you'll soon be able to put slightly more money away.

Junior ISAs are for children who are under 18 and living in the UK, and can only be opened by a parent or someone with parental responsibility.

Anyone can pay into the account, but you can only open one Junior ISA in your child's name at any given time.

You can save up to £4,128 in 2017/18 without being taxed on interest on these savings.

This limit will increase to £4,260 from 6 April 2018.

The child can take control of the account when they turn 16, but can't withdraw money until they're 18, at which point the account automatically converts to an adult cash ISA.

Junior ISAs come in two types. Your child can have one or both types, but the limit still applies to the total amount in both.

With a **cash Junior ISA**, the return you get is based on the interest rate.

A **stocks and shares Junior ISA** allows you to invest in funds, stocks and shares. The return you get is based on the performance of your investment, which can go both up and down in value.

If you opt for a stocks and shares Junior ISA, make sure you understand your appetite for risk and consider taking expert advice before you choose which funds to invest in.

Junior SIPPs

Another option to save for your child's future is to start putting money towards their pension.

In a Junior Self-Invested Personal Pension, you can save up to £3,600 per tax year for each child. This includes 20% tax relief (up to £720), meaning you'll only have to pay in £2,880.

The account will become property of the child when they turn 18, but benefits can then only be taken from age 55, as in a normal Self-Invested Personal Pension.

Trusts

Trusts can be set up by parents or grandparents for a child under the age of 18.

You can appoint a trustee or a group of trustees, who will manage the assets within the trust according to the deed, which sets out how the trust should be managed.

There are four types of trust that can be set up for a child:

Bare trusts are held in the name of a trustee, who has possession of the assets until the beneficiary turns 18 (or 16 in Scotland). At this point, the beneficiary is entitled to everything in the trust.

Interest in possession trusts pass all income generated by trust assets to one beneficiary as it arises (minus any expenses).

The beneficiary has no automatic claim on the assets held, while another beneficiary is entitled to the capital value of the trust assets when the income entitlement for the other beneficiary ends.

Discretionary trusts allow trustees to make certain decisions about how to use the trust income, and sometimes the capital.

Trustees can control how often income payments are made to beneficiaries, and can attach conditions of payment.

Accumulation trusts let trustees accumulate income within the trust and add it to the trust's capital. In some cases, they may be able to pay income out.

Different types of trust are subject to different tax treatments.

Contact us to discuss financial planning for your family.