Saving for your children’s future?

Discover how investment companies can help
School fees, university, a deposit for their first flat? Let alone thinking about a pension. The financial demands facing you and your children have never been greater.

That’s why it’s important to start planning early and make the most from your savings and investments. And why investment companies, with their long-term track record, could be an excellent way to give your children a head start in life.

**New to investment companies?**
Read ‘A guide to getting started’ to learn the basics

Available at www.theaic.co.uk or by calling 0800 707 707
Introduction

With all the financial demands being placed on our children today, it’s no wonder that so many parents and grandparents are thinking about how they can help.

Although the sums involved can seem daunting at first, if you start early enough you have time on your side. Investing some money for your children over the long-term – either as a lump sum or on a regular basis – can help to spread the cost and build a nest egg that can make a real difference to their futures.

This guide explains why you should consider investment companies as part of a long-term investment portfolio for your children. It looks at the different ways you can save and some issues you should think about before investing.

Remember that investment companies are long-term investments which put your money at risk. You should not invest money that you cannot afford to lose.

AIC research estimates that average graduate debt could rise to £53,000

Time on your side
Investing early can make a real difference to a child’s future
Why should you consider investment companies?

Whether you’re planning to invest a little or a lot, investment companies offer plenty of attractions to help give a child a good start.

Long-term performance
The sooner you start, the more you can spread the cost and the longer your money has to grow. You could be investing for 10 years or more. Investment companies can be more risky, particularly in the short-term, but often outperform in the long-term.

A wider choice of investments
Investment companies offer a wider choice of investments. This can help you choose a level of risk that you are happy with, or to build a balanced portfolio over time.
Easy-to-build savings plans
In the early years, you are likely to have many other demands on your money. However, you can still make a start by putting small sums aside on a regular basis. Saving on a regular basis not only helps to spread the cost over time, it also helps to smooth out some of the ups and downs in the market.

Many investment companies are available through savings schemes and Junior ISAs run by their managers.

Flexibility
Investment company saving schemes and Junior ISAs are flexible. You can increase or decrease, or start and stop your contributions, at any time.

From little acorns
Investment company saving schemes start from as little as £20 a month.
Ways to save

There are a number of different ways you can invest for your children. Some schemes are run by the managers of investment companies but there are also independent providers, such as online brokers, who also offer access to investment companies.

Saving scheme or children’s saving scheme
Young children can’t hold shares in their own name, so instead you can set up a savings scheme on their behalf. You can choose to hold investment company shares:

• In a ‘designated account’
  This means that you hold the shares in your own name, but designate them as being for your children. One advantage is that you keep control of the shares, and can decide when you hand them over to your children. You can also access the investments if you need to in an emergency.

• In a ‘bare trust’
  This is a simple form of trust which can be set up easily and quickly. The shares are legally held for the benefit of your children and so you have no entitlement to the income or proceeds. You cannot change your mind and will eventually have to hand the shares over to your children. You should also make sure you understand the tax consequences (see Things to consider).

If you want to have more control over what your children can do with the money, you could consider setting up a more formal trust. You should take legal advice before considering this option, and you will need to pay a solicitor for their time.

Smart move
Getting your children started in the pensions habit early could really pay off in the long-term
**Junior ISA**
A Junior ISA is a special savings account for children with tax benefits. The main features are:

- It is tax free. Your children won't have to pay income tax on any dividends or capital gains tax when the shares are sold.
- Family and friends can contribute up to £4,080 each year.
- The investments in the account belong to your children and they will not be able to access this until they are 18.
- When they turn 18, the account will be converted into an adult ISA and can continue to grow tax free.

**Born 1 September 2002 to 2 January 2011?**
If any of your children were born from 1 September 2002 to 2 January 2011, then, instead of a Junior ISA, they will have a Child Trust Fund. This is very similar to a Junior ISA. Although no new Child Trust Funds can be set up, you can still contribute to them. Alternatively, you can transfer your Child Trust Fund to a Junior ISA.

**Child's pension**
It may seem odd to think about a pension when they are still so young, but research shows that many people leave starting a pension too late. Getting your children started in the pensions habit early could really pay off in the long-term. As the money will be locked away until they are at least 55, it will be invested for the very long-term, which is where investment companies’ track record is so strong.

If, later in life, your children don’t have access to a good company pension scheme (for example, because they are self-employed), they will have a pension account ready and waiting for them to contribute to, with your contributions giving them a head start.

You can pay in up to £2,880 each year on behalf of a child with the government adding up to £720 in tax relief, making £3,600 in total. You can pay in more, but you won’t get tax relief on the extra contributions.
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Things to consider

Before you invest, asking yourself a few simple questions can help you make the right investment choices:

When do you need to access the money?
Some of the ways you can invest for a child involve tying up the money until they are 18. So they won’t be suitable, say, for school fees planning or if you might need the money in an emergency.

How much control do you want?
Depending on how you invest, you may be required to hand over the investments to your children, at which point they can spend the money as they choose. If you want more control (e.g. to delay when they can access the money, and/or for what purposes etc), then you may be better off with a ‘designated account’ or a more formal trust drawn up by a solicitor.

How much risk do you want to take?
Generally, the longer the period you are investing over, the more risk you can take on, as your investments have time to recover from any setbacks in the short-term. Investment companies are primarily intended as long-term investments. You should be prepared to hold them for at least 5 years, and preferably 10 or more.

If you are likely to need the money in the near future, or cannot afford to lose the money, you should not invest in investment companies.

Where to start?
If you are making your first investments for a child, you will probably want to start with a generalist investment company which invests in a wide range of different sectors. Some of the oldest, and most popular, investments companies can provide easy access to the stock market, and are often very cost effective.
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Need advice?
You should speak to an independent financial adviser

Will tax be payable?
If you invest in investment companies via a ‘designated account’, then the shares remain yours and you will be taxed on the income and capital gains in the normal way.

If you put investment company shares into a ‘bare trust’, then they are held for the benefit of your children, who have their own income and capital gains tax annual allowances to reduce any tax liability.

However, if you make investments on behalf of a child which generate an income of £100 (gross) or more a year, the income will be deemed to be yours and you may have to pay income tax on it. This does not apply to contributions to a Junior ISA or Child Trust fund, nor if the money was given by a grandparent, friend or other relation of the child.

If you decide to make a gift to your children you should make sure you understand the Inheritance Tax implications. To learn more on this, and other tax issues, you can either visit HM Revenue and Customs’ website (www.hmrc.gov.uk) or speak to a financial adviser.

Do you need advice?
Investing for your children can be complicated. You should consider taking independent financial and legal advice if you are not sure about how to invest, what type of investments might be suitable and the tax consequences.
Key things to remember

• Investment companies may be an option worth considering for your children, as you may be investing over a long period of time, meaning you can take on more risk in the hope of better returns.

• Investment companies are primarily intended as long-term investments. You should be prepared to hold them for at least 5 years, and preferably 10 or more.

• Investment companies are accessible and flexible as you can invest small lump sums or regularly, and change the amounts you invest at any time.

• You can invest in a number of different ways, including saving schemes, Junior ISAs and even a pension.

• You need to think carefully about when you might need the money, how much control you want over it and how much risk you are prepared to take.

• With investment companies, your income and capital is at risk and may fall as well as rise. You may not get back the full amount invested, and for higher risk investment companies, you may get back nothing at all.

• If you are uncertain about whether, or which, investment companies might be suitable for investing for your children, how you should invest and the tax implications, you should take financial advice.

Don’t forget
You can invest in a number of different ways, including saving schemes, Junior ISAs and even a pension.

The right balance
Investment companies can help you build a balanced portfolio for better long-term returns.
Visit the AIC website for news, statistics and comment on investment companies

www.theaic.co.uk