Investing in your children

They're our future and we love them, but raising children is a costly business. Reports and research put the bill at anywhere between £180,000 and over £300,000. So how are we to meet these ever-rising financial demands? Clare Sturges investigates.

Very few of us would ever sit down and tot up the cost of raising a child before conception. If we did, it's quite possible we'd never venture into the act of parenting at all.

Depending on which report you believe, for the amount of money it takes to raise a child to the age of 21, you could sail around the world on the QE2 eight times, eat at the Ivy restaurant three times a week, or invest and be millionaires within 20 years.

Some research suggests the costs involved are more modest – you don't have to clothe your kids in Gucci and feed them caviar – but what's clear in all cases is that we need to be financially prepared if we're to give our children the best possible start in life. Let's take a look at the figures.

IT ALL ADDS UP

Research conducted for the UK's largest friendly society LV= suggests that the cost of raising a child has gone up an inflation-busting 4% since January 2009, and is up 43% over the seven years since 2003.

It found that feeding, clothing and educating our children is the greatest expense – with parents typically shelling out £9,610 a year on these things alone. LV= puts the total cost of raising children to the age of 21 at £201,809... and that doesn't include private school fees.

A similar survey for financial services provider Liverpool Victoria conducted in 2006 estimated that a child costs its parents £23.50 a day. It placed childcare and education as the most expensive factors, averaging around £50,000 a year.

Other surveys by London Magazine and insurance giant AXA in 2002 and 2003 put the total cost at a staggering £300,000 – and that's not including special events like school holidays, hobbies and extra lessons. The cost differs depending on your location in the country, with outer London being predictably the most expensive place to raise a family and Yorkshire and Humber being the least.

So, a great deal of the cost of raising children depends not just on geography, but on decisions about their childcare and education, how many extra-curricular activities to do and how willing we are to submit to buying branded goodies that are (apparently) absolute must-haves. It's a given that we want to grant them the best start in life: to be happy, successful and accepted by their peers, and not to be denied opportunities.

What all these surveys indicate is that there is a great deal of benefit in putting away regular amounts of money to cover the cost of raising children. Mike Rogers, Chief Executive of LV= says: "Every parent knows how expensive it is to raise a little one and we don't begrudge a penny of it. But I suspect many new and prospective mums and dads will be a bit shocked to see the potential financial burden ahead of them."

PROVIDING FOR YOUR CHILDREN'S FUTURE

So it's clear that raising a family requires careful financial planning – for example, thinking about whether to invest a lump sum or a regular premium, the time scale, risk profile and tax considerations.

Numerous products are available to meet your needs, including children's bank accounts, National Savings and Investments (NS&I) Children's Bonus Bonds, bare trusts, individual savings accounts (ISAs), unit trusts and open-ended investment companies (OEICs).

Speaking to your independent financial adviser can be useful. They'll help you to analyse your position, think about how you feel about risk, and define your needs and objectives. The key is investing your money in such a way that

it is accessible at the right times, in the right amounts... and that you have some contingency.

There are a number of bank accounts for children, which often have an attractive interest rate. This is because they're usually held for a relatively short period of time. Investing in cash in this way is low risk and it's great if you're not concerned about inflation.

If the interest accrued on a children's bank account during a tax year is less than the child's personal allowance of £6,475 (in 2010/2011), then there shouldn't be any tax to pay.

As well as this, you can gift a child as much money as you like. But be aware that, as a parent or step-parent, if the money you give your child earns more than £100 interest a year, this interest will be taxed as if it were your own. The £100 interest limit doesn't apply to grandparents and other adults who give money to your children, so if a significant gift is to be >

Few of us would ever sit down and tot up the cost of raising a child.

KEY FINDINGS

- The high cost of starting a family has increased the cultural shift away from households having just one working parent. More women are working – 70 per cent of mothers will be working in 2010.
- Fathers' roles are set to change dramatically over the next decade; this change follows the shift in women's roles since the 1950s.
- With the breakdown of the nuclear family, the whole family – siblings, aunts, uncles and grandparents – is to be important in securing the wellbeing of children in the future.

When a child reaches 16, they can open a tax-free cash ISA. And at 18, your child can invest in stocks and shares ISAs.

5 WAYS TO SAVE FOR YOUR CHILD'S FUTURE

1. Bank accounts for children
2. NS&I Children's Bonus Bonds
3. Bare trusts
4. Tax-free ISAs
5. Unit trusts and OEICs

made, it may be best to come from them.

NS&I is an executive agency of the Chancellor of the Exchequer, best known for Premium Bonds. It runs Children's Bonus Bonds – where you can invest up to £3,000 tax-free for a child under the age of 16 for up to five years, with a guaranteed bonus. The savings are 100% protected because NS&I is backed by HM Treasury.

Another tax-efficient method investing for your children is to ring-fence assets in a Bare Trust arrangement. This is where an investment is held by an adult for a child until they reach age 18, when they can access the assets. It's often used by parents and grandparents who wish to put some money aside for when their children reach maturity.

Although the adult is the named holder of the investment, only the named beneficiary (your child) has any entitlement to the investment. Any income is taxed as part of the child's taxable income and any capital gains as part of the child's capital gains. There's no additional cost to investing your money in this way.

When a child reaches 16, they can open a tax-free cash ISA. And at 18, your child can invest in stocks and shares ISAs, which is higher risk but can offer better potential returns. These investments have been popular because they mean you don't pay income or capital gains tax on any interest earned. But

CHANGING TRENDS IN FAMILY LIFE

Mothers have been at the forefront of social change over the last few decades as they're moved in unprecedented numbers into paid work.

According to a report from the Family and Parenting Institute in November 2009, over the next decade it will be men. The fact that more women are working opens up more opportunities than ever before for men to get involved in family life.

interest rate levels for cash ISAs have been low recently and many people are disappointed with their performance.

If you're looking for higher potential returns, gilts and corporate bonds held within an ISA are also tax-free and may offer stronger performance.

Unit trusts and OEICs are forms of collective investments where investors' money is put into one pot to allow a wider investment spread. Because of economies if scale, this way of investing often costs less to administer than an individual portfolio.

These investments are considered to be medium to long term, meaning at least 5–10 years. They allow you to weather ups and downs in the markets and to make full use of your children's capital gains (£10,100) and tax allowances (£6,475).

It's possible to invest in unit trusts and OEICs tax-free up to the ISA limit and take advantage of all the tax-efficient savings available to you. If you choose to invest in a unit trust or OEIC as an ISA, you can continue to make contributions even if you've used up your ISA allowance for the year. It just means you won't get the same tax benefits as with an ISA.

THE SCHOOL YEARS

A first-class education is one of the most valuable gifts a parent or grandparent can give to children. It's also one of the biggest financial commitments a family makes.

According to the Private School Directory, which lists over 2,500 preparatory and senior schools in the UK, junior fees can be from anywhere up to £2,500 a year (day) to up to £4,000 (boarding). And senior fees can reach from anywhere up to £3,500 a year (day) to as much as £5,600 (boarding).

The good news is that inflation over the years of education plays a major part in creating the daunting figures needed to fund preparatory and senior school. So the projected cost in today's money may be substantially lower. In other words, investment growth may match or exceed inflation over the period your children are in school and help you meet these costs.

GETTING TO UNI: TO BUY OR NOT TO BUY?

Heading off to university is another exciting and formative time. Your children are setting out on their journey into adulthood, perhaps living away from home for the first time.

LV='s research shows that the cost of raising a child peaks during the university years, when parents could face paying out a whopping £13,677 a year. That includes a first car, fees and living costs for a three-year undergraduate degree.

Many parents are weighing up the cost of accommodation with actually buying a house and acting as a landlord to their child and other students. The decision may depend largely on the capital you have available for a mortgage and fees, and the level of commitment you're willing to make.

After all, students don't have a great reputation for home maintenance. Although renting a room or a flat for your child gives you no return on your investment, it does mean you don't have the responsibility for maintenance and midnight phonecalls when anything goes wrong.

However, if you opt to buy you will have a saleable asset after the three years hard study is up. You can choose to continue to let and receive a rental income on it, or sell up if house prices have risen. It's a sizeable risk though, as you could find yourself in a position of negative equity where you owe more than your house is worth and fewer options open to you.

THE LIKELY COSTS OF RAISING A CHILD

First year

With a full-time nanny: £25,940

Without a nanny: £5,140

Ages 2-5

With a part-time nanny and nursery: £47,008

Without a nanny: £21,248

Ages 5-11

With a part-time nanny and private day school: £121,560

Without childcare: £75,162

Ages 11-18

Including private day school: £98,224

Ages 18-21

Including University fees and living expenses: £25,125

Source: London Magazine survey as at January 2002

MAKING THE MOST OF YOUR ADVISER

It can all appear rather daunting from the outset, and that's where the guidance of an independent financial adviser (IFA) can be really useful. They'll take you through a process to help calculate how much you're going to need in the future, when and how, and look at ways in which you can meet your savings goals on a monthly or yearly basis.

You'll be encouraged to look with fresh eyes at your situation – thinking broadly about any potential changes. This could include things like an inheritance, whether your extended family can contribute, whether you're expecting a promotion at work, an increase or decrease in earnings, and how your working status may change, for example mothers returning to work.

One of the most important and revealing stages of the advice session is risk profiling. This assesses your risk tolerance and facilitates a discussion about your investment expectations.

Nicola Mould, Managing Director of Lansdown Place, explains: "At Lansdown Place, we use a system of profiling that gets to the heart of how people feel about risk. It's a really insightful tool that enables us to make choices about asset allocation that reflect people's true risk tolerance and achieve their investment objectives. It's all about knowing you and helping to meet your needs."

It's a complex, interesting process that provides you with real figures and projections that account for inflation and any escalations. You get a clear plan that accounts for urgent, medium-term and long-term investment, and plenty of information about the products that might suit you.

Not all financial advice firms offer products from across the market; some are tied to certain providers. Lansdown Place is not tied to any company and can access the whole of the market in every area we offer advice, from unit trusts to income protection. So you get access to the best opportunities the market has to offer.

PROTECTING THEIR INTERESTS

One last thought – and it's not one many of us are keen to dwell on – but life often throws up unexpected circumstances that may affect your family. It's worth asking about protecting your situation so that if anything happens to you, your family is taken care of and there is some continuity. You should look into income protection, including death, disability and critical illness cover, and be sure to have made a will – giving consideration to trustees and guardians for your children.

By being aware of and planning for the real costs of raising your children, we're so much better prepared to meet the financial demands it places on us. Implementing a savings strategy now means that time will be on your side. The peace of mind you gain from knowing you can confidently provide for your children – and for any unforeseen events – outweighs all the cruise trips and fancy meals in the world, no matter how appealing.

The cost of raising a child peaks during the university years.

To find out more about investing for your children call Lansdown Place on 0845 30 50 222 and quote 'Lansdown Links Magazine' to book your session.