This document is intended for retail clients and consumers

Your guide to investing for children

Legal & General
INVESTMENT MANAGEMENT

Preparing for life's greatest adventure

Parenthood is arguably life's greatest adventure, presenting a unique set of challenges and rewards. From the early days, teaching children the ways of the world, through to their school years and beyond, being a mum or dad is a rollercoaster of emotions and experiences. But raising a youngster doesn't come cheap, as parents face a dizzying array of expenses. With so many financial hurdles to overcome, it'd be easy to panic. But the good news is that investing towards your child's future has never been simpler.

Why invest for children?

Whether you're just starting a family or already have a house full of grumpy teenagers, it's important to weigh up the short and long-term costs of raising children.

Things like:

- **Childcare**
- **School and college fees**
- **Day-to-day living costs**

Expenses can continue to mount even after your child has left home and officially become a grown-up. They may need help building a deposit for a house, or extra support if they plan to take their education to graduate level.

Some costs have risen over time. For example, state support for university students has become less generous in recent decades. With the economic picture still uncertain, planning ahead has never been so important.

Understanding your investment options

We all want our children to be happy, successful and financially secure when they grow up – whatever path they choose.

Over the course of this guide, we'll look at the existing financial support which is available to families – and the different ways parents can invest towards their children's future. From basic savings accounts through to Junior ISAs and the stock market, there are plenty of options available.

Budgeting for children: what support's available?

Careful budgeting is helpful for each stage of your child's development, with new things to think about every step of the way. Planning for a new-born is very different from supporting a school-age youngster, or a grown-up son or daughter who's left home.

As we'll see later, saving and investing can play a key role in your budgeting plans. But before weighing up your different investment options, it's also worth reviewing the financial help which the Government and your local council can provide.

Support for younger children

A range of benefits and allowances may be available from birth, including:

Statutory maternity or paternity pay. This gives new parents the chance to take extra leave following the birth of a child, while keeping their finances ticking over. And the recent launch of shared parental leave means couples now have more flexibility to split their time off work. Other potential sources of support can include maternity allowance and sure-start maternity grants.

Child benefit. This tops up the finances of parents from the birth of their child until age 16. You can also claim it till the age of 20, if your child stays in certain types of education or training. Just be aware that if your yearly income or that of your partner is over £50,000, you may face a tax charge when claiming child benefit.

Tax credits. Child or working tax credits may be available, if your income and employment status meet certain criteria.

Childcare assistance. Each year, children living in England aged three and four can receive 570 hours of free early education or childcare. This generally works out at 15 hours a week, over 38 weeks of the year. With some two-year-olds also eligible, it's well worth researching this carefully.

Extra support for school-age children

Moving beyond the early years, you could also be eligible for financial support when your child leaves the world of nursery care and goes to school.

The support on offer at this life stage could include free or discounted transport. Your youngster may be able to travel to school for free or at a cut price, depending on your income and where you live.

Help with university costs

New financial challenges can emerge once your child leaves school and moves on to higher education. Whether they need help with university fees or daily living costs, potential sources of support include:

Tuition fee loans. Higher education costs typically run into many thousands of pounds, so you may struggle to support your child alone. Thankfully, help is at hand.

If your son or daughter plans to head to university after leaving school, they can cover the costs of their tuition by taking out a loan.

Maintenance loans and grants. Along with tuition fees, your son or daughter will have to budget for day-to-day living costs while studying at university. Depending on your household income, they could receive a loan or a grant towards these expenses.

Disabled students' allowance. If your child has a disability, they may be eligible for this allowance while at university. It covers extra costs linked to their condition.

There is additional information on each of these subjects on the government's website.

Simply visit **www.gov.uk** and enter the topic you'd like more information on in the search box.

Saving for short and medium-term costs

Whether it's maternity pay or child benefit, the financial support offered by the state can boost your family's budget. But benefits, loans and allowances will only stretch so far.

Building a successful future for your son or daughter also requires a detailed saving plan – factoring in the expenses you'll face as they grow up. You can make a start on this by thinking about the short and medium term costs you'll encounter.

Planning for the early years

If you're expecting a baby, or have just welcomed a new arrival, it's never too early to start saving for your little one.

In the very early days, you'll need to pay for a cot, highchair and pram – possibly with a reduced income if you're taking time off work. And as the years go on, childcare and nursery fees may start adding up, along with clothing costs as your youngster jumps from one growth spurt to the next.

Covering school expenses

Things can get more expensive once your child goes to school.

As they progress through primary education, the costs of school uniforms, hobbies and transport can quickly mount up. And secondary school can be even trickier, as your child feels the need for flashy mobile phones, gadgets and driving lessons to keep up with their friends.

With so many short and medium-term costs to meet, an easy-access cash savings account could be an option during the early years of your child's life. Offering flexible withdrawals, these accounts allow you to regularly dip into your savings in order to cover one-off expenses.

Investing in your child's long-term future

Childhood may officially end at 18. But it's likely your son or daughter will need support well beyond that milestone.

Investing in your childs long-term future

You might have to stump up funds if they plan to take a gap year, learn to drive or start an apprenticeship. And with university an ever-popular option, tuition fees, accommodation and day-to-day living costs are other expenses to consider.

As your child moves into their twenties and beyond, their attention may turn to the housing market. Along with the initial deposit on a home, solicitor fees, stamp duty and renovations are among the areas where your support could prove vital.

These costs may seem bewildering at first – especially if your child is currently just a nipper. But by planning ahead, you could ultimately build a sizeable nest egg on their behalf. With that in mind, let's explore your long term saving and investment options.

You could save yourself, on behalf of a child, if you wanted to ensure any money was used for a specific purpose. However, don't forget that there are also specific products available to help with long term saving for children.

Junior ISAs
Offering a unique twist on traditional ISAs, these tax-efficient products are designed specifically with under-18s in mind. We'll look at them in detail a bit later on.

Child trust funds
Launched in 2005, these accounts aimed to encourage parents to save on behalf of their little ones. They could choose to make cash savings or invest money in the stock market.

Children were eligible as long as they were born between September 2002 and January 2011. The Government provided parents with a voucher to kick-start their saving habit.

In 2011, child trust funds were replaced with Junior ISAs and are no longer open to new entrants. But you can still stow away £9,000 during the 2020/2021 tax year if your youngster already has one. Any money you set aside belongs to your child and can't be accessed till they're 18. You don't pay tax on the returns your money makes, and other family members and friends can pay cash in.

Thanks to recent law changes, it's now possible to transfer a child trust fund to a Junior ISA, which is designed to be more flexible and lower-cost.

Children's savings accounts
In addition to Junior ISAs, a range of children's savings accounts are available to help parents build a nest egg for their little ones.

'Regular' accounts let you put away a specific amount of money on behalf of your child each month. Although these products often limit withdrawals, they aim to offer attractive interest rates in return.

If you can't commit to a set monthly deposit, easy-access children's accounts could be an option instead. You'll have more freedom over when you can make deposits and withdrawals, but the interest may not be as generous.

Premium bonds
Often popular with grandparents, premium bonds can be held as long term savings on behalf of a child until they turn 16. Rather than paying interest, they're entered into a prize draw each month, with any winnings tax-free.

Stock market investments
If you're willing to accept an element of risk, investing in shares could be another option as you lay the foundations for your child's long-term future.

You can access the stock market by hand-picking shares in individual companies, or through investment funds which make decisions on your behalf. But doing it yourself is generally more suited to seasoned investors, who have the time to carefully research different markets and companies in depth.

Shares may prove attractive if you're concerned about the eroding impact of low interest rates and inflation on your cash savings, since they have the potential to deliver stronger returns. On the flipside, share values can fall as well as rise and, unlike cash, you may get back less than you put in.

Exploring the potential benefits of Junior ISAs

Since their introduction in 1999, individual savings accounts (ISAs) have given us the opportunity to save and invest tax-efficiently. They've traditionally been aimed at adults, taking the form of either cash or stocks and shares accounts. But since 2011, there's been a new kid on the block in the form of Junior ISAs.

Junior ISAs in a nutshell

Originally designed as a replacement for child trust funds, Junior ISAs allow parents and guardians to save and invest on behalf of their youngsters up until the age of 18.

As with their adult counterparts, they fall into two categories:

1. Cash Junior ISAs – straightforward savings accounts where you gradually build up a nest egg using cash deposits. These accounts are low-risk, with interest rates influencing the returns you can achieve.

2. Stocks and shares Junior ISAs – accounts that allow you to place your child's money in a wide range of investments, such as stocks and bonds. While offering the potential for stronger returns, there's an element of risk to consider, since the value of any investments could go down as well as up.

Tax advantages

In terms of their tax treatment, junior products work in the same way as traditional ISAs.

Any interest which cash Junior ISAs earn is completely free of tax. And for stocks and shares accounts, no tax is due on the capital growth or income they deliver.

But just as with regular ISAs, bear in mind there's a limit on the amount you can save and invest during the 2020/2021 tax year. The current allowance is £9,000 which can be entirely saved in a cash Junior ISA, entirely invested in a stocks and shares account, or split between one of each.

Protecting your child's nest egg

You can open a Junior ISA on a child's behalf as long as you're their parent or legal guardian and they don't have a Child Trust Fund. They need to be under 18 and live in the UK.

Any money you put away belongs to your child, and the account is held in their name. But rest assured that this doesn't mean your hard-earned cash will simply be squandered on toys, computer games and gadgets at the first opportunity.

Instead, you'll be in charge of the account until your son or daughter turns 16. And even when they do gain control, they won't be able to access their nest egg till they're 18.

Key Risk

Past performance is not a guide to the future. The value of an investment and any income taken from it is not guaranteed and can go down as well as up, you may not get back the amount you originally invested.

Transferring a child trust fund

As we've mentioned, Junior ISAs replaced Child Trust Funds – which are no longer available to new entrants.

If you opened a Child Trust Fund under the old system, don't feel that you're stuck with it. Thanks to recent law changes, you now have the power to transfer it to a Junior ISA.

It's a simple process, just requiring a transfer form from the new provider to be filled in. Your transfer should normally be completed within 30 days.

But before making a transfer, look closely at the key differences between Junior ISAs and Child Trust Funds. Make sure you're comfortable with them before making the switch.

Gifting through a junior ISA

Although it's only parents and guardians who can open a Junior ISA, anyone can pay money in once an account is up and running. This means they can offer a handy way for grandparents to gift money to their grandchildren.

And because any money is locked away till the child turns 18, they can be safe in the knowledge that the cash they put in will definitely go to their grandson or granddaughter.

Choosing the right product for your child

As we've seen, there are a number of savings accounts and investment options out there – all designed to put your child's finances on the right track. But rather than rushing into any decision, it's vital to do your homework and choose the option which may be best suited to your circumstances. Before signing up for a product, run through the following checklist first.

Weigh up risks and returns

How much risk are you willing to take with your child's nest egg? That's the key question to answer right at the start of your saving journey.

You'll find each product has a specific degree of uncertainty attached to it, depending on its goals and main areas of focus, with those aiming for higher returns likelier to take bigger risks.

Cash savings accounts pose very little risk, since the returns they offer are determined by their interest rates. Inflation is perhaps the largest threat, as the value of your money will effectively fall in real terms if your interest rate fails to keep pace with it.

In contrast, products which invest money in financial markets have the potential to achieve greater returns, but they're riskier by nature. The value of your investments could fall as well as rise, meaning you may get back less than you put in.

With all this in mind, weighing up potential risks against returns is essential when building a savings pot for your little one.

Plan for different life stages

Whether putting together a nursery for a new-born baby or planning years in advance for university tuition fees, your saving targets might have a wide spread of deadlines.

It's useful to remember that certain products may be better-suited to certain life stages.

For example, a cash-based savings account could help you to prepare for the short-term costs of having children, such as clothing, a cot or a pram. But you'll have more options to choose from when planning for longer-term costs, with investment products like stocks and shares Junior ISAs designed to be held for many years.

Map out your short, medium and long-term saving targets right from the outset, along with your appetite for risk, as the length of these targets could influence the types of products which may be right for you.

Be aware of tax allowances

Depending on your financial circumstances, tax may be another issue to consider when saving towards your child's future.

As we've highlighted, any interest and investment returns generated by a Junior ISA will be free of capital gains and income tax. It pays to take full advantage of the tax-free allowance if you can, since any unused portion can't be rolled over into the next financial year.

But things can get a bit more complicated outside these products. If the money you save or invest for your child elsewhere generates returns of more than £100 a year, it'll be taxed as if it were yours. This rule doesn't apply to any money given by grandparents, other relatives or friends though.

Research lump sum and regular saving

Once you've decided on a certain type of product, you'll have to think carefully about your approach to saving. For instance, you could choose to make occasional lump sum deposits, as well as a series of smaller regular deposits.

By depositing a lump sum into a savings account, all of your money can start earning interest straight away. By the same token, if you choose to invest a lump sum in a financial market, you'll enjoy the full benefit if the value of your investment rises. Remember, the value of your investments can go down as well as up and you may get back less than you originally invested.

Then there's regular saving. By drip-feeding smaller amounts of cash into a savings account each month, you could build up a sizeable nest egg over time. And making investments on a regular basis may also offer advantages, smoothing out market ups and downs over the long term. Taking a little-and-often approach now might make a big difference in 18 years' time.

When building a savings pot, remember that you can combine both lump sum and regular deposits. For example, you might want to save a regular amount of money each month, but occasionally set aside a lump sum if your child receives a financial gift for their birthday or Christmas.

Regularly review your investments

Once their early years are out of the way, building a nest egg for your child can be a long-term work in progress.

Whether they include a Junior ISA which can't be accessed until the age of 18, or shares that require time to rise, you'll need to carefully review your investments at regular intervals.

It's not a case of simply signing up for a product and then forgetting all about it for a few years. Losing track of savings and investments could seriously damage your returns, by leaving you exposed to things like inflation, if investment performance is low.

For more information, head to our website to find other guides on investing and ISAs.

Learn more about investing for children

If you have any questions about Junior ISAs, we're happy to help.

To find out more

Visit www.legalandgeneral.com/jisa

Phone 0800 980 2691

Lines are open Monday to Friday 8.30am to 6.00pm.

We will record and monitor calls.

Here at Legal & General, we offer a range of stocks and shares Junior ISA options, giving you the chance to invest on behalf of your little one in a variety of investment funds. You can choose to pay in money as a lump sum, or make a series of regular deposits.

Withdrawals from Junior ISAs are not permitted until the child turns 18. Although our Junior ISAs don't have a fixed term, we suggest you take a medium to long term approach in order to maximise your chances of success. Ideally, this means committing your money for five years or longer.

The value of an investment may fall as well as rise and is not guaranteed. Your child may get back less than invested.

Past performance is not a guide to future performance.

Key Risk

Past performance is not a guide to the future. The value of an investment and any income taken from it is not guaranteed and can go down as well as up, you may not get back the amount you originally invested.

Notes

Key Risks

Past performance is not a guide to the future. The value of an investment and any income taken from it is not guaranteed and can go down as well as up, you may not get back the amount you originally invested.

Recommended investment period medium to long term, ideally five years or more.

Changes in exchange rates between currencies may cause the value of an investment and the level of any income to rise or fall.

PI-10732020 JISA

Legal & General
INVESTMENT MANAGEMENT