AT 25, MICK WAS SAVING FOR HIS DAUGHTER'S RETIREMENT

Secure

Do you want to help your children get through university, buy a house or even retire in comfort? Best start saving now

Start saving early and you can help your child or grandchild afford some of the most important things in life. But saving for your child means making choices. You could open a savings account, invest in shares, top up the government's child trust fund or even set up a pension. We pick a path through the money maze.

The government adds 28 per cent tax relief right away

Mick Roberts *30, property developer*

By the age of 12, many children will have saved some money in a piggy bank, but how many will have their own pension?

Shelley Roberts has, thanks to forward-thinking dad, Mick.

Mick, pictured above with Shelley and wife Tara, 32, started the stakeholder pension with CIS in June 2001, when Shelley was just seven, shortly after the government introduced the scheme. So far he's paid in about £1,600, which has grown to £2,400 despite the stock market turmoil of recent years. Mick says it's the best investment because the government adds 28 per cent tax relief straightaway. Shelley, who is on the books of several modelling agencies, puts some of the money she earns into her pension. Mick says: 'She sees it grow – even though she knows she's not getting it back till she's 55.'

Paying into a pension for your children might sound extreme but it's one way to ease worries about their future. Pay £50 a month into a stakeholder pension from the day your child is born, and it could be worth about £19,000 in today's money by the time they're 18. (This assumes the fund makes 4.5 per cent a year above inflation with a 1 per cent annual charge, a reasonable estimate of what you might expect.) Even if you stop paying in at that point, the fund will reach £69,000 by age 55 (or £97,000 by age 65) in today's money. This sum alone wouldn't fund a comfortable old age, but it shows the power of investing over the long term.

Pension rules mean the money is locked up until age 55. Even then, only a quarter can be taken tax-free – the rest is taxable income when taken.

Mick has promised he will match whatever Shelley pays in once she's 18. He says: 'This will give her the incentive to keep paying into it, unless she becomes a pop star, when she can pay for my pension!'

CHILD TRUST FUNDS

Child trust funds (CTFs) are the main plank of government plans to ensure young people come of age with money to their names.

Every child born on or after September 2002 gets a state voucher worth at least £250, with at least another £250 added at age seven. This must be invested in a CTF account, and parents, family and friends can top it up by up to £1,200 a year.

You can invest your voucher in a cash, stakeholder or shares CTF. Once you've put money into a CTF, you can switch accounts but you can't take it out. The choice of which CTF you go for will depend largely on how much risk you're prepared to take.

Whichever type you choose, your child gets control of the money when they're 18, when the CTF ends. The government has said CTF money can then be converted to an Isa and would get the same tax breaks.

Cash CTFs

Cash CTFs are savings accounts that pay tax-free interest. And your contributions can only increase in value, so there's little risk.

We tracked cash CTFs from 6 April 2005 to 1 September 2006. See the table, right. Most have turned an initial £250 voucher into about £268, with Britannia BS and Ipswich BS coming top. Britannia BS's CTF did well because of a bonus you get for the first two years. After this, based on current rates, it would slip down the table. If you're adding to the government voucher, Nation-

PHOTOGRAPHY LU JEFFERY

their future

wide BS and Leeds BS also do well because of bonuses. Top-paying cash CTFs pay about 6 per cent, including bonuses, which beats cash Isas and children's savings accounts. You can switch cash CTFs without penalty to chase best rates. Check www.which.co.uk and 'Money Monitor' for Best Buys.

Shares-based CTFs

The other two types of CTF are stakeholder and shares CTFs. Both involve investing in shares. If the stock market does well, your child's investment should rise but there's also a chance it could fall. As with a stocks and shares Isa, dividends come with 10 per cent tax deducted, but you pay no other tax.

Stakeholder CTFs are lower risk than full-blooded shares CTFs because, when your child reaches 13, the stakeholder fund gradually switches to safer investments.

Watch the fees

Stakeholder CTFs can charge management fees of up to 1.5 per cent of the fund value a year – and most do. So, even if their growth averages 7 per cent a year, after charges they're unlikely to beat the best cash CTFs. Also, although stakeholder CTFs gradually switch to safer investments from age 13, they don't have to cut charges. So you may pay high charges for low returns.

We advise picking a cash or shares-based CTF that charges 1 per cent or less a year. Any that charge more are likely to be poor value – stakeholder or not.

Shares CTFs come in two types. With the first you get the choice of a limited range of funds. But with 'self-select' shares CTFs, you choose from hundreds and even pick individual company shares.

We advise picking a cash CTF or a shares-based CTF that charges 1 per cent or less

We've analysed the first type. These easily outperformed cash accounts from 6 April 2005 to 1 September 2006. This reflects stock market growth over the period but there is no guarantee this will continue.

OTHER INVESTMENT CHOICES

Outside of child trust funds, you have a number of different options. There are special issues about tax and control of the money, but your choice will again depend on how much risk you're prepared to take.

Savings accounts

This is the low-risk option. You know the money invested can't be lost. Most banks and building societies run children's savings

CLAIM TAX BACK

Most children shouldn't be paying any tax because they have their own tax allowance. They can earn up to £5,035 in income and £8,800 in capital gains before tax for 2006-07.

You can claim a refund if your child is paying tax on savings. Complete form R40 from your tax office or at www.hmrc.gov.uk. Better still, fill out form R85 so that interest gets paid gross. You can find an R85 at banks, building societies, tax offices or enquiry centres, or www.hmrc.gov.uk

CASH-BASED CHILD TRUST FUNDS

	VALUE OF £250 VOUCHER (£)	VALUE OF £250 VOUCHER PLUS £50 A MONTH (£)	CURRENT INTEREST RATE (%)	CURRENT BONUS (%)
BRITANNIA BUILDING SOCIETY	271.28	1,157.31	5	1.25[a]
IPSWICH BUILDING SOCIETY	270.80	1,153.82	5.9	n/a
HANLEY ECONOMIC BUILDING SOCIETY[b]	269.71	1,151.38	6	n/a
SKIPTON BUILDING SOCIETY	268.16	1,127.15	5.3	n/a
FURNESS BUILDING SOCIETY	267.86	1,146.49	5.25	n/a
NATIONWIDE BUILDING SOCIETY	267.09	1,153.74	5	1[c]
LEEDS BUILDING SOCIETY	266.72	1,153.74	4.75	1.25[d]

a Paid for first two years only **b** This is available in the Stoke-on-Trent area only **c** If £240+ paid into account during the year (excluding government voucher) **d** Paid for first two birthdays if £600+ a year is paid into the account

Using the table

The table shows the value of a £250 CTF voucher on 1 September 2006, assuming it had been invested on 6 April 2005. We also show the value if you had paid in an extra £50 on the first of the month (including 1 September 2006). The table also gives the current interest rate and bonus details (correct at 24 October 2006).

If you give your child money that makes them £100 a year, the whole lot gets taxed as yours

accounts – many with good interest rates. The Yorkshire BS One Day account pays 5.15 per cent. See 'Money Monitor', p38, for Best Buys. Most children receive this interest without tax deducted but see 'Parental gifts: tax headache', below.

You don't have to save in the child's name. You can save money yourself, through a tax-free cash Isa, for example, and decide when the child gets access. Children can't open a cash ISA themselves until they're 16.

Shares-based investment

Investing for children can be a 20-year project. So you should consider share-based investments, which have beaten savings accounts over that period.

Investing in individual company shares is too risky for most people. The safer route is through funds like investment and unit trusts, where you pool your money with other savers in many different companies.

You don't have to invest a lump sum. Most such groups offer saving schemes – starting at around £10 a month for unit trusts and £25 for investment trusts. Most unit trusts initially charge about 5 per cent, plus 1.5 per cent in annual fees. Investment trusts charge slightly less. Funds that track the stock market have lower fees.

Take independent financial advice if you're not confident about making investment choices. See 'Advisers investigated', *Which?*, September 2006, p20, for more.

'With university costs these days, we're happy to help Amy along'

Whose purse strings?

Children can't hold investment and unit trusts themselves. You hold the funds for them in a designated account – with such trusts you fill in a simple form making you the legal owner while the income and capital gains count as the child's for tax purposes. As with a child trust fund, the child can get the cash at 18.

If you want to stop the child getting the money at 18, your major options are to set up an 'accumulation and maintenance' trust, or a 'discretionary' trust. These trusts can be expensive to set up and maintain, so consult a solicitor about the tax position. More details from the Society of Trust and Estate Practitioners (www.step.org).

Alternatively, you can just save money in your name. With stocks and shares Isas, you're exempt from capital gains tax and pay only 10 per cent tax on dividends.

Checklist

Three ways to save for children...plus tax-back tips

■ Child trust fund You can top up the government voucher by £1,200 a year. Once money is invested, it can't be taken out. The child gets control at age 18. Look for a cash or shares-based CTF with charges of 1 per cent or less. If you don't invest the voucher within a year, the government will put it in a stakeholder CTF for you.

■ Other investments Consider shares-based schemes such as unit and investment trusts – especially for a baby or young child. Many trusts run children's saving schemes. If you don't want the child to get the cash at 18, you must set up a complex trust or keep the money in your name.

■ Stakeholder pension Parents can set this up for a child. Contributions get basic-rate tax relief, even though most children don't pay tax. The child can't get the money until age 55.

■ Tax Fill in form R85 to avoid children having to pay tax on interest. Tax rules stop parents moving their own investments into a child's name to avoid tax.

SAVING TO GIVE THEIR GRANDDAUGHTER A GOOD UNIVERSITY EDUCATION

Wolfgang and Pat Slessenger *70s, retired headmaster, and retired teacher*

Wolfgang and Pat have been saving for their granddaughter Amy's university costs since she was born. Because they are planning mid to long term, they've combined safe investments with riskier, share-based choices. National Savings & Investments Children's Bonus Bonds, bought for birthdays and Christmas, get rolled over into new bonds when the old ones mature. And for the past five years the Slessengers have been paying £20 a month into the M&G Index Tracker Fund, which has low charges. The money is held in a designated account for Amy, who is now 11.

Wolfgang says: 'We have a little to spare, and with university costs these days we're happy to help Amy along a bit.'

Parental gifts: tax headache

Parents can't avoid tax by transferring their own assets into their child's name. If you give your child money that makes them more than £100 a year, the whole lot gets taxed as yours. Your child can receive up to £200 tax-free income this way – £100 from mum and £100 from dad.

The '£100 rule' excludes certain investments including National Savings & Investments Children's Bonus Bonds, CTFs, stakeholder pensions and gifts from other relatives, such as grandparents. Keep such gifts in separate accounts if you can, or keep written proof they aren't parental gifts.

Contacts

Britannia BS 0800 132304
www.britannia.co.uk

Furness BS0800 220568
www.furnessbs.co.uk

Hanley Economic BS
0800 542 8790
www.thehanley.co.uk

Ipswich BS
0845 230 8686
www.ibs.co.uk

Leeds BS
0113 225 7777
www.leeds-holbeck.co.uk

Nationwide BS
0800 302010
www.nationwide.co.uk

Skipton BS
0845 850 1700
www.skipton.co.uk

Society of Trust and Estate Practitioners
020 7838 4885
www.step.org

PHOTOGRAPHY NEWS TEAM INTERNATIONAL