aic The Association of Investment Companies

Saving for your children's future?

Discover how investment trusts can help

www.theaic.co.uk

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 of your savings and investments. And why investment trusts, with their long-term track record, could be an excellent way to give your children a head start in life.

New to investment trusts?
Read 'A guide to getting started' to learn the basics

Available at www.theaic.co.uk or by calling 020 7282 5555

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 you will have time on your side. Investing for your children over the long term – either with 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 financial futures.

This guide explains why you should consider investment trusts 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 trusts are long-term investments which put your money at risk. You should not invest money that you cannot afford to lose.

The average student owes £45,600 on graduation, according to the Student Loans Company

Time on your side
Investing early can make a real difference to a child's future

Why should you consider investment trusts?

Whether you are planning to invest a lot or a little, investment trusts offer plenty of benefits which should help you save effectively for your child.

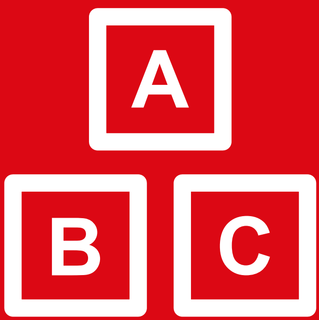
Long-term performance

The sooner you start, the more you can spread the cost and the longer your money has to grow. You could be investing for ten years or more. Investment trusts can be risky in the short term, but often perform strongly over the long term.

A wider choice of investments

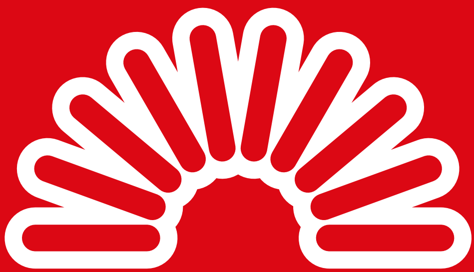
Investment trusts offer a wider choice of investments. This can help you choose a level of risk that you are happy with, or to build a balanced and diversified portfolio over time.

From little acorns
You can invest in investment trusts from as little as £50 a month



Regular saving

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. You can invest in investment trusts through online platforms, a convenient way to buy and hold several different investments in one place. You can find out more about the different platforms in the 'Invest & engage' section of the AIC website.



Flexibility

Saving with investment trusts is flexible. You can increase or decrease, or start and stop your contributions, at any time.

Ways to save

There are a number of different ways you can invest for your children. Most online platforms offer access to investment trusts and will accept regular savings from as little as £50 a month. These platforms offer a simple and convenient way to buy and hold several different investments in one place.

How to save for your children

Children under 18 can't hold shares in their own name, so instead you can set up an account on their behalf. You can choose to hold investment trust shares in various different ways, depending on your preference.

- **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.

You can find out more about online platforms, which provide a way to buy and hold and sell investment trusts as well as other investments, on the AIC website

Smart move
Introducing your children to the savings habit early could really pay off in the long term

Junior ISA

A Junior ISA (JISA) is a special savings account for children with tax benefits. JISAs allow you to save using two main types of investments:

- **Cash**
  This includes bank and building society savings accounts and National Savings. These provide a very safe home for your money but can offer limited income and growth prospects.
- **Stocks and shares**
  This includes collective funds such as investment trusts, unit trusts and other similar funds. These are more risky, but can offer the chance of better returns over the long term. If you cannot afford to lose the money you put into a JISA, or think you might need your money quickly, you should probably stick with cash savings accounts – you cannot make withdrawals from JISAs until the child turns 18 unless they are terminally ill.

The main features are:

- JISAs are 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 £9,000 each year. Children can have one cash and one 'stocks and shares' JISA at the same time, but this does not affect the limit – the £9,000 must be split between them.
- The investments in the account belong to your children. They can take control of the account when they are 16, but they will not be able to access the investments until they are 18.
- When they turn 18, the account will be converted into an adult ISA and can continue to grow tax free.

Child's pension

It may seem odd to think about a pension when your children are still so young, but research shows that many people leave starting a pension until too late. Getting your children into the pensions habit early could really pay off in the long term. As the money will be locked away until they are at least 57, it will be invested for the very long term, which is where investment trusts' 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 tax year on behalf of a child with the government adding up to £720 in tax relief, making £3,600 in total. The investments are free from UK income and capital gains taxes.

Children 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.

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, or for what purpose), 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 short-term setbacks. Investment trusts are primarily intended as long-term investments. You should be prepared to hold them for at least five years, and preferably ten 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 trusts.

Where to start?

If you are making your first investments for a child, you may want to start with an investment trust that invests in a range of sectors, spreading your risk, perhaps one that invests in global or UK shares. Some of the oldest, and most popular, investment trusts can provide easy access to the stock market, and are often very cost effective.

Need advice?
You should speak to an independent 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

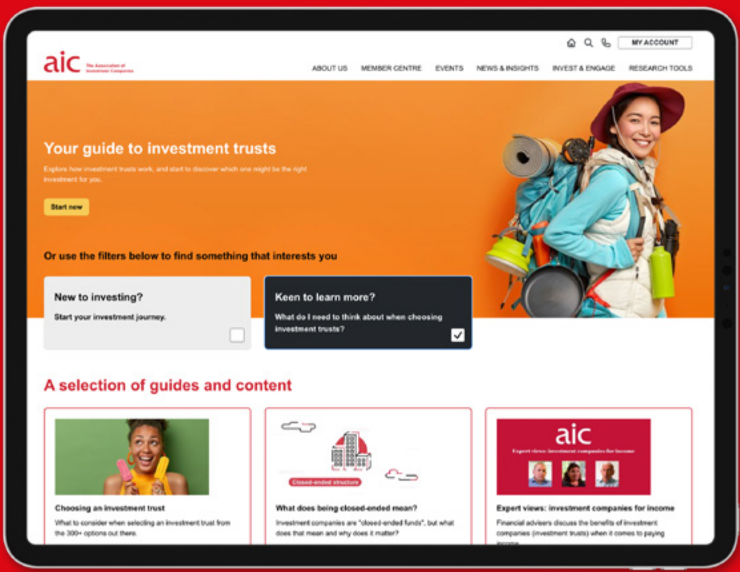
- Investment trusts may be an option worth considering for your children, as you may be investing over a long period of time, meaning you can take on more risk in the hope of better returns.
- Investment trusts are primarily intended as long-term investments. You should be prepared to hold them for at least five years, and preferably ten or more.
- Investment trusts are accessible and flexible. You can invest small lump sums or invest on a regular basis, say, every month. You are free to change the amounts you invest – or stop altogether – at any time.
- You can invest tax-efficiently in a Junior ISA or 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 trusts, 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 trusts, you may get back nothing at all.
- If you are uncertain about whether, or which, investment trusts 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 Junior ISAs or even a pension

The right balance
Investment trusts can help you build a balanced portfolio for better long-term returns

Visit the AIC website to find out more about saving for children with investment trusts

www.theaic.co.uk



Association of Investment Companies

24 Chiswell Street
London EC1Y 4YY

Telephone 020 7282 5555
enquiries@theaic.co.uk
www.theaic.co.uk

August 2024

Issued by the Association of Investment Companies.