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Savings for Children

By Karen Barrett, Chief Executive of Unbiased.co.uk

Becoming a parent is a life-changing experience and on top of the initial expenses such as nappies, baby equipment and childcare, there is the issue of long-term financial planning for your child. There are plenty of options available to ensure you are financially prepared for your child's upbringing, and even help them take a step into adulthood with some savings under their belt.

Here are some of the savings and investment products that can help.

Child Trust Funds (CTFs)

All children born on or after 1 September 2002 are eligible for a £250 voucher from the government to open a CTF account (or £500 for families that qualify for full Child Tax Credit, the additional amount paid directly into the CTF account) Family, friends and the child themselves can contribute up to £1,200 tax-free a year in total into the account.

You may also be eligible for an extra contribution of £250 when the child is 7 years of age.

There are three main types of CTFs:

Savings accounts

A savings account for your child's CTF offers the opportunity to save money for your child in a savings account that is easy to understand and manage. The CTF savings account money earns interest. A big benefit is that the money is secure but do be aware that it might not grow as much as it would if it was invested in shares.

This money will be invested for a long time – at least until the child is 18 years of age. Savings accounts do not usually perform as well as money invested in shares over the long term, especially when inflation is taken into account.

Investing in the stock market

These CTF accounts invest your child's money by buying shares in companies. When those companies do well and the shares go up in value, they make money. Poor performance of shares in some years can be made up for by good performance in others, and over a long time period the stock market's value tends to rise more than it falls.

However, you must remember that shares can go down as well as up and past performance is not a guarantee of how shares will perform in the future.

Stakeholder accounts

Stakeholder CTF accounts invest in shares in a number of companies and there are rules to be followed if the CTF is to remain a Stakeholder account.

Once your child is 13, money in the account starts to be moved to lower risk investments or assets, such as cash. Providers will consider how well shares are performing to decide how much to move over into safer assets and how quickly. This should protect the value of the Stakeholder CTF from stock market losses as the child approaches its 18th birthday.

There can be additional investments of at least £10 once the account is open and the total charge on the stakeholder account is no more than 1.5% a year. The stakeholder account is the one HM Revenue & Customs will open if you don't use the voucher before it expires.

There are many other savings and investment options open to you to save for your child's future. Choosing between the stock market, the many collective investment schemes, National Savings and bank/building society accounts can be bewildering.

Before deciding which savings and investment vehicle suits your needs most, talk to an Independent Financial Adviser (IFA) who can help you find the best route for you. To find an IFA in your area who specialises in savings and investment advice, log on to www.unbiased.co.uk