



Parents vote for child pensions

If you've ever wished that you started saving for your retirement earlier in life, now's your chance to make sure your children don't make the same mistake. From the moment he or she is born, you can start to build a pension fund for your child – or for somebody else's child for that matter.

There is a growing list of benefits in taking this approach, which explains why around 60,000 children now have pension plans, according to HMRC. And with the Government phasing out higher rate tax relief for those earning over £180,000 on their own pension contributions from April 2011, funding a pension for your young ones can be an attractive option because while children pay no tax, you can claim relief on the contributions you make to their pensions.

Give a little, get a lot

The most compelling reason to start early is to benefit from the effects of compound interest. Making a monthly payment of £200 for a child up until the age of 18 will yield a pension fund of around £1m, assuming an annual investment return of 6%.

Like all personal pensions, children's pensions are tax-efficient. Under current tax law the Government will add 25% to your contributions, which means that the maximum £3,600 annual investment will cost you £2,880. There's no capital gains tax to pay on your investment growth, and the £2,880 is below the £3,000 annual gift limit for inheritance tax, which removes the money from your estate for tax purposes.

The only real downside in all of this is that the money you invest won't be available until your child reaches 55 years of age – you are definitely in it for the long term!

Savings head start

The financial arguments for setting up a pension for your child are compelling. Workplace pensions are likely to be more modest than today's final salary schemes, and it's probable that people will be retired for longer.

If you found it hard to put money away when you started work, spare a thought for today's generation... With student loans to repay and the days of the 100% mortgage long gone, it will be even more difficult for them to justify putting aside long-term savings. Apart from building up a valuable pension fund, having a personal pension scheme already in place that they can easily contribute to when they start work may encourage them to actively manage their own finances a little earlier in life.

If you'd like more advice about the pension options for your children (or grandchildren, nephews or nieces), call 01635 551333 and speak to Neil Buckingham or Stuart Collings.