FINANCIAL FOCUS

PAVEY GROUP NEWSLETTER

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PAVEY group

Financial futures

Building a nest egg for when children need it

The prospect of a child leaving home is scary enough for parents – and then there's money to think about. Even if they get a student loan or find work, how will they be able to afford their first car or home? Parents and family often do what they can to help give children a financial leg up, with many choosing to set aside money for their future during their childhood.

When you consider the rising costs associated with your child growing up, there's no doubt it makes sense to consider saving to give them a head start with their future. Whether this is with university tuition fees in mind or simply to help with the costs of buying a first car or home, saving regularly can help to build a nest egg for them when they need it.

HIGHER SAVINGS

In a survey of 2,000 UK adults conducted for M&G in October 2016, almost half (48%) said they had saved or invested money for a child or grandchild under the age of 18 in the last five years. The most common form of saving, according to the survey, has been into children's bank savings accounts, despite interest rates on cash savings being near record lows.

14% of parents and grandparents reported that they had used another vehicle for child savings: the Junior Individual Savings Account (ISA). The advantage of ISAs is that any returns will be exempt from personal taxation. This will not necessarily be the case for other types of account.

LONGER TERM

Junior ISAs can hold stocks and shares as well as cash savings. Given that the money is tied up until their 18th birthday, taking a long-term approach – and potentially accepting some degree of investment risk – could allow the child's money to grow more than it could if kept in cash.

Given the large costs young adults can face – from university to buying a home, or even getting married – any additional returns that you could generate on your children's savings will be valuable.

FURTHER EDUCATION

Two in five (40%) of those who have saved or invested for their child or grandchild said they don't mind how the money is ultimately spent, but most would prefer it to be spent in a certain way. More than one in three (35%) said they hoped it would help cover the costs of further education.

However, once children reach 18, they'll usually be able to draw on their savings and be able to use them as they see fit – a disconcerting prospect for any parents and grandparents who fear their hard-earned money will be frittered away.

FINANCIAL RESPONSIBILITY

Confidence in the financial responsibility of young adults could certainly be greater. One in three of our survey respondents (32%) said they would be more likely to save for their child or grandchild if they knew the child understood how to manage money responsibly.

Others take a harder line: 17% said they would be more inclined to save for a child if they decided how it's spent, and 22% would if the money could only be tapped at 21, not 18.

SAVE OR INVEST

For grandparents, a simple change in government policy could help. Currently, only parents or guardians can open a Junior ISA for a child. The survey found that 31% of grandparents would be more likely to save or invest for their grandchildren if they could open an account such as a Junior ISA themselves.

When you're thinking about investing through an ISA, it's important to remember that ISA tax rules may change in the future. The tax advantages of investing through an ISA will also depend on your personal circumstances. ■

Source data:
Opinium survey of 2,000 UK adults, conducted for M&G October 2016

WONDERFUL GIFT FOR THE FUTURE

Saving for a child today is a wonderful gift for their future. Not only can they start their adult lives with some savings in hand, but getting them involved early with saving also helps them learn important lessons about money. If you would like to look at the options available, please contact us.

STOCKS AND SHARES WITHIN A JUNIOR ISA DO NOT INCLUDE THE SAME SECURITY OF CAPITAL WHICH IS AFFORDED WITH CASH WITHIN A JUNIOR ISA.

INFORMATION IS BASED ON OUR CURRENT UNDERSTANDING OF TAXATION LEGISLATION AND REGULATIONS. ANY LEVELS AND BASES OF, AND RELIEFS FROM, TAXATION ARE SUBJECT TO CHANGE.

THE VALUE OF INVESTMENTS AND INCOME FROM THEM MAY GO DOWN. YOU MAY NOT GET BACK THE ORIGINAL AMOUNT INVESTED.

PAST PERFORMANCE IS NOT A RELIABLE INDICATOR OF FUTURE PERFORMANCE.

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Forgotten pensions

Out of sight, out of mind

The extent to which pension policies are being forgotten has been revealed in research from Aviva. A survey of almost ten thousand people who hold a pension has revealed that just under one in eight (13%) admitted they have at least one pension that they had forgotten about[1]. This is equal to more than 2.5 million pension policies currently sitting in the back of people's minds[2].

MISPLACED PENSION POT

Among those with a forgotten pension, the majority believe they have misplaced one pot (77%), although 17% think they have forgotten about two and 6% have forgotten three or more.

According to Government figures, there is an estimated £400m in unclaimed pension savings[3]. At the same time, almost three in five (59%) UK adults are worried about not having enough money to last them in retirement[4].

ANNUAL STATEMENT

Most pension schemes of which you've been a member must send you a statement each year. These statements include an estimate of the retirement income that the pension pot may generate when you reach retirement.

If you're no longer receiving these statements – perhaps because of changes of address – then to track down the pension there are three bodies to contact: the pension provider, your former employer if it was a workplace pension, or the Pension Tracing Service.

BOOST TO RETIREMENT

Although tracking down a lost pension can provide a valuable boost to retirement income, those who delay could receive a smaller amount than expected. Forgotten pensions may have been subject to charges and not invested in the best way suited to the policyholder, making it worth less than it would have been if it was actively managed.

The research revealed the lack of engagement around pensions. More than a quarter of savers (28%) admitted to never reviewing their retirement savings, while almost a fifth (19%) of those with a pension said they review it less than once every 5 years[5].

FUND CHOICES

Since the introduction of the Pensions Act 2008, every employer in the UK must put certain staff into a pension and contribute to it – this is called 'automatic enrolment'. Since the introduction of automatic enrolment, the number of pension savers who are unaware of their fund choices or have never reviewed them has risen to almost 1.5 million people or 15% of private sector employees, up from 9% at the start of 2013[6].

It's also important to be aware of the potential consequences of having a number of different pension pots with small amounts of money in each. It's likely that there will still be charges taken out of those pots for their management and administration and that can have implications if you are no longer contributing into them. ■

ACHIEVE YOUR RETIREMENT GOALS

Regardless of the life stage you have arrived at, it is important to receive expert and professional advice on your pension plans and requirements. For more information about how we could help you achieve your retirement goals – please speak to us.

A PENSION IS A LONG-TERM INVESTMENT. THE FUND VALUE MAY FLUCTUATE AND CAN GO DOWN, WHICH WOULD HAVE AN IMPACT ON THE LEVEL OF PENSION BENEFITS AVAILABLE.

YOUR PENSION INCOME COULD ALSO BE AFFECTED BY INTEREST RATES AT THE TIME YOU TAKE BENEFITS. TAX IMPLICATIONS OF PENSION WITHDRAWALS WILL BE BASED ON YOUR INDIVIDUAL CIRCUMSTANCES, TAX LEGISLATION AND REGULATIONS WHICH ARE SUBJECT TO CHANGE IN THE FUTURE.

Source data:

[1] YouGov survey of 9,910 people in the UK (Jan-Dec 2015) who hold a pension carried out on behalf of Friends Life, now part of the Aviva group
[2] ABI Key Facts 2015 says there are 20.8m individual pension policies in force. 13% of 20.8m = 2.7m
[3] DWP: https://www.gov.uk/government/news/new-pension-tracing-service-website-launched
[4] Research conducted for Aviva by Censuswide, with 2002 General Consumers aged 18+ in GB between 30th September and 5th October 2016. The survey was conducted from a random sample of UK adults.
[5] YouGov survey of 9,498 people in the UK carried out on behalf of Friends Life, now part of the Aviva Group
[6] Aviva's latest Working Lives Report and analysis of data from the Office for National Statistics (ONS).

To arrange a complimentary consultation or review, please contact our Independent Financial Advisers on 01803 652030 .