Teachers Financial Planning

Children and financial planning

A guide to financial considerations when having a child

Having a child is one of the biggest emotional, logistical and financial commitments you can undertake.

Research by the Centre for Economics and Business Research estimates that the cost of raising a child to the age 21 is almost £230,000.

This figure is an average: some parents will spend more and others less. Whatever your decisions, with careful financial planning you can provide for your child or children in the way you wish.

Before

If you are planning to have a child in the next few years there are steps you can take now to make sure your finances don't take an unexpected dip. As with all aspects of financial planning it's about balancing your present needs with what you want in the future.

4 things to consider:

1. Is owning your own home before the birth of your offspring a priority?
2. Do you have some easily accessible savings to pay for one-off purchases such as a pushchair or nursery furniture?
3. Will a child affect your ability to achieve other existing financial goals?
4. Should you consider putting off planned purchases such as a car or adjusting your pension contributions to increase your disposable income?

First year

If both parents work full-time, the first year of your child's life is likely to have the most noticeable impact on your finances.

Statutory maternity leave and pay

There is a difference between how much time you can take off work after having a baby and how long you will get paid.

Statutory maternity leave is 52 weeks and all employees (those not classed as 'workers', contractors or the self-employed) are eligible regardless of how long they have worked for their employer or how many hours they do.

Mothers can get statutory maternity pay for up to 39 weeks and it usually starts when you begin maternity leave.

Pay is split in the following way:

The first 6 weeks: 90% of average weekly earnings (before tax)

The next 33 weeks: £139.58 or 90% of average weekly earnings (whichever is lower).

To qualify you must earn at least £112 a week on average and have worked for your employer continuously for at least 26 weeks up to the 15th week before the week of your due date.

Fathers and partners can take up to 2 weeks off after the birth or adoption of their child. Speak to us about eligibility and pay during paternity leave.

Your employer may offer more than the statutory amount through a company maternity scheme.

750 Mandarin Court Warrington
Cheshire WA1 1GG
08452 696990 info@teachersfp.co.uk

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Shared parental leave and pay

Parents of children born or adopted on or after 5 April 2015 can split parental leave and pay until the child's first birthday.

Under the new rules:

- the mother takes the first 2 weeks off
- parents can choose how to divide the remaining 50 weeks.

Statutory shared parental pay is £139.58 a week or 90% of your average weekly earnings (whichever is lower) for 39 weeks.

If your child was born or adopted before 5 April 2015, you may be eligible for additional paternity leave and pay. Speak to us if this affects you.

Childcare

The Family and Childcare Trust estimates that it costs more than £6,000 a year for 25 hours a week of nursery care for a child under 2. However, there is help for parents to pay for childcare.

Free childcare

The government provides 570 hours of free childcare a year for 3 to 4 year-olds in England. This usually equates to 15 hours a week for 38 weeks a year. In addition, some 2 year-olds are eligible.

Childcare schemes

Some employers offer help towards the cost of childcare with various schemes.

You don't have to pay tax and national insurance on childcare vouchers, childcare your employer arranges or workplace nurseries.

You do, however, have to pay tax and national insurance on money your employer gives you to pay for childcare or school fees your employer pays directly.

Saving for the future

The birth of a child is time to start thinking about how you might want to help them financially in the future.

Children's savings accounts

You can start saving on behalf of your child using an easy-access or regular savings account.

Like adults, children have an annual tax-free allowance of £10,600. As most children don't earn money, their allowance is applied to income from savings and investments.

Fill in an R85 form when you open an account in your child's name to make sure they don't pay tax they aren't liable for. You can reclaim any tax paid by mistake using an R40 form.

However, if you give your child money and it earns more than £100 in interest in a year (or £200 if both parents give money), all of the income will be taxed as if it is yours.

Junior ISAs

Junior ISAs work in roughly the same way as adult ISAs. The savings limit for 2015/16 is £4,080 and this amount can be split across cash and stocks and shares. Children with Child Trust Funds (CTF) cannot invest in a Junior ISA at the same time, although it now possible to transfer a CTF to a Junior ISA and then make contributions.

Parents can manage and pay into the account but the money belongs to the child. Junior ISAs automatically turn into adult ISAs when the child turns 18 and the child gains full access to the account.

Trusts

Trusts can be used to pass assets on to children.

Bare trusts are often used to pass assets to young people. The beneficiary has the right to all the capital and income once they turn 18.

Discretionary trusts allow trustees to make decisions about how to use the income (and sometimes the capital) from a trust. This could include:

- what gets paid and to which beneficiary
- frequency of payments.

Preparing for the unexpected

Make sure you have a valid and up-to-date will that reflects your wishes. Be sure to include legal guardians for any children under 18 and consider how you want any inheritance for minors to be controlled.

You could also consider taking out a protection product to help your loved ones if anything happens to you.

Contact us to discuss financial planning.