OLDMUTUAL WEALTH

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A PENSION FOR YOUR CHILD? SURELY THAT'S MAD...

Some people believe a pension could be a better way to provide long-term savings for your offspring.

It sounds odd. Why would you start a pension for a child? When your baby is born it's hard to imagine them as a greying pensioner. And anyway, Junior ISAs seem the more obvious vehicle for investing for your child's future.

Not necessarily. Contributing regular sums into a personal pension for your child could be a savvy way of providing for their future. Here's why:

- they can't blow the money in their teens and twenties
- they will only be able to access it from age 57 under new rules
- the contributions are boosted by tax relief at the basic rate of tax
- if you start early, the sums you need to pay in to provide them with a good pension are relatively small

What's best? Pension versus ISA

"Nowadays pensions are much more flexible and they are effectively a long-term savings vehicle," says Simonne Gnessen of Wise Monkey Financial Coaching in Sussex.

Parents looking for ways to invest for their child have the choice of a Junior ISA or a pension – or both. "The difference is that you receive tax relief on the way in with a pension, and tax relief on the way out with an ISA," says Gnessen. "The assets and funds that you can choose can be the same for both."

Whereas a pension is untouchable until your sweet son or daughter has matured, they can get their hands on an ISA at the rock 'n' roll age of 18.

"With a pension, the child won't be able to access it until age 57 under the new rules," says Lisa Conway-Hughes, independent financial adviser with Westminster Wealth Management. "For a generation that apparently does not understand delayed gratification, this might be a positive thing."

An additional benefit is that when the child comes to draw on the pension, they can take 25% as a tax-free lump sum.

Some more good reasons

By starting a pension when your child is young:

- you have the opportunity for compound growth over many years
- birthday gifts and money from grandparents and other relatives can be added
- you can involve them in investment decisions as they mature

"Allocating spare cash to your child's long-term planning via a pension in their name is a great idea," says Lisa Conway-Hughes.

"You will only be able to contribute £2,880 per year (£3,600 when it is grossed up by basic tax relief), so costs will have an effect on what is a relatively small annual sum."

So what's not to like?

Chiefly the risk that future governments might decide to change the rules on pensions and taxation, or delay the age at which pensioners can draw their funds. As a general rule, pension investments are linked to stocks and shares rather than deposit rates paid on cash, so the value of your fund may go up and down over the decades, but should provide your child with a substantial nest-egg in the long run.

A gift for the future

Given the cost of university education and rent, it will take today's younger generation many years to clear debt and get on the property ladder themselves. If you start a pension for them when they are still in nappies they might get round to thanking you for it by the time they have grown-up children of their own. Not so weird after all.

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Marianne Curphey writes on investment and personal finance for national magazines, newspapers and websites including BBC Worldwide, the Daily Telegraph, Sunday Telegraph, Times, Guardian and Observer. She is author of Family Resilience, a Centre for the Modern Family report published in June 2012. This report looks at what sustains and nurtures families – what makes individual members of a family more resilient to life's challenges and crises.