How to Set your Children up for Life

Life is increasingly more expensive. As inflation continues to push up the cost of bills and everyday items, and interest rates hurt mortgage-payers, young people increasingly face an uphill battle to build a financially secure future.

If you are a parent with the means to support your children, there is no shortage of ways to help them start adult life on the right foot. The challenge is deciding which options make your money work the hardest.

The likes of bank savings accounts are obvious early choices for building a nest egg while children are young, but they may not necessarily offer the greatest returns in the long run.

There's also a balancing act to be done when considering paying for your child's university education. Paying their tuition fees upfront will free them from the burden of loan repayments, (assuming loans are available for the course/university/country of choice). However, as many of today's students won't ever pay off the full sum, your cash might be better spent elsewhere.

Early life savings

Even before they have children, many prospective parents begin thinking about the best way they can save to support them for later life.

Opening a savings plan allows parents, grandparents or guardians to pay into an account leaving the child with lump sum at say age 18, but bear in mind these do not tend to be very effective, if you leave it until your child is already a teenager when the plan starts. It is also important to consider plan charges, and you also need to remember investment returns can never be guaranteed.

Another popular option for Brits was historically investing in Premium Bonds offered by National Savings & Investments (NS&I).

As savings with NS&I are 100% government-backed they are a safe option for capital, but they do not offer a guaranteed return or interest and stats suggest Premium Bond wins are few and far between. (See here).

Furthermore, with rising interest rates finally being passed on to savers you may see a better return by putting the money in a high street children's savings account.

Many of these accounts are now offering rates over 5%, some that can be opened with a deposit as little as £1. However, with interest rates so high, as a parent you'll need to be careful that your child's savings interest doesn't land you with an unexpected tax bill.

Paying for university

As an example, in the UK, resident students can access a tuition fee loan of up to £9,250 a year to cover the cost of their course. Student loans operate differently to personal loans, and repayment terms are directly linked to the graduate's earnings, making them more like a tax.

Currently, the student repayment threshold is £25,000, so once a student has graduated and started earning over this amount, repayments of 9% of income above this threshold will kick in.

However, these loans come with steep interest payments, so high that many graduates will find they are making repayments for the whole of their working lives.

Any remaining loan that has not been repaid 40 years from when the graduate is due to start making repayments will be written off.

This begs the question - is it worth paying for your child's fees upfront? The answer isn't a simple one. While student loans do not impact a graduate's credit score and would not affect their ability to access credit, repayments may harm their financial wellbeing further down the line. For example, as interest rates rise, ongoing student loan repayments will limit a graduate's ability to acquire a mortgage. Lenders scrutinise applicants' monthly budget and ability to service the mortgage.

On the other hand, given many graduates will never fully repay their student loans, some may feel it is unwise to pay it off if it doesn't need to be.

But your options aren't just limited to paying the full fees upfront or nothing at all. One alternative is to put the equivalent amount of money in a savings account for your child to use as a lump sum later in life, either to pay off their student debt or for another purpose, such as a house deposit.

Paying for their first home

Helping your children on to the property ladder is popular with parents looking to give their offspring a financial boost.

By gifting your child the cash deposit for their first home you help them become homeowners, and by boosting their deposit, and therefore their equity in the property, you reduce the amount they'll need to borrow and may help to secure them a better mortgage rate.

An alternative is to provide them with a deposit loan. If you go down this route, it's a good idea to get a lawyer to draw up a loan agreement detailing a repayment plan and what happens in the event of a death or if you need the money back. Bear in mind, though, that this loan may impact on the lenders view about servicing the mortgage payments, in the same way as student loans mentioned above.

A guarantor mortgage involves you putting up either a significant sum of savings, or your own property, as collateral for your child's property.

If you were to opt for a joint mortgage with your child, everyone on the application form would need to meet the lending criteria and will be jointly liable for the mortgage payments for as long as the parties are named on the mortgage.

Again, it's a good idea to draw up a document that sets out who gets any profits from the home when it's time to sell, as joint tenants will jointly own 100% of the property.

For children who are buying with a friend or partner, using the money you've either loaned or gifted to make the purchase, it is worth ensuring your investment is protected if they later want to go their separate ways for whatever reason.

Helping with mortgage payments

Media have reported this year that increasing numbers of parents were stepping in to help their children pay more expensive mortgage repayments, or help with other everyday costs.

Few parents will be in a position to pay off their child's entire mortgage, but there are a few other options to help ease the strain. The first, as mentioned, is to regularly help with either mortgage costs or other outgoings. Alternatively, you might decide to provide money so your child can overpay their mortgage (keeping within their lender's restrictions).

This will increase the equity they have in their property, and means they may be able to secure a better rate should they remortgage. However, depending on the mortgage rate, in some cases it can make more sense to set the money aside instead.

Saving for your child's pension

As a parent, you could consider regular savings into a long-term investment to initiate their retirement planning.

Once they are old enough to make their own contribution, your child can top up the pot themselves. If your child doesn't plan to attend university, or has a part-time job during their studies, they can be encouraged to start saving for later in life.

Money for your grandchildren

The other way you can support your children is by helping them support their own. Putting money away for grandchildren can be a helpful way to share wealth with your family.

Many of the savings options available to parents are also available to grandparents wishing to put money away for future generations. British expats can also give up to

£3,000 to your grandchildren as part of your annual tax-free gifting allowance with no IHT implications.