The BANK of MUM & DAD

The right (and wrong) way to help out

We all want to give our kids the best possible start in life. But in today's uncertain economic climate, it's hard to know exactly what to do for the best. In this special report, Good Housekeeping looks into some of your most pressing dilemmas

It's quite likely your parents saw you as an independent adult from the day you turned 21 or brought home your first pay cheque, whichever came first. But that was in the days before half of all young people continued into further education... before five-figure student loans... before house prices went through the roof... and in the days when their own retirement date was set in stone rather than the moveable feast it is now.

Now many certainties are gone and navigating a path through the minefield that is the 21st century economy requires a more pragmatic and flexible approach. Consider that in a recent poll* parents of 18 to 30 year olds estimated they would be shelling out an extra £43,000 in

- university tuition fees
- help with rent
- help buying a first car
- help with a house deposit
- gap year handouts

And with the rise this year of tuition fees to £9000 a year, that figure will only increase.

So, should you support them – and what's the best way to go about it – or are they better off standing on their own two feet? Here at Good Housekeeping we believe no one should compromise their own retirement plans in order to support their grown-up kids. They have their whole working lives ahead of them. You inevitably have a much shorter time to ensure you can provide for yourself when you can no longer work. But within those parameters there's a lot you can do to launch them into financially secure adulthood.

THEY COST *HOW* MUCH?

(Survey by Coventry Building Society on what 1,000 parents of 18 to 30-year-olds shell out)

- First car: **£2,334**
- Gap year: **£896**
- University fees: **£10,772**
- Rent: **£8,415**
- House deposit: **£9,831**
- Wedding: **£6,903**
- Presents/handouts/pocket money: **£4,041**

* COVENTRY BUILDING SOCIETY

Home alone

Q I can't envisage how my children, who are in their 20s, are ever going to get on the housing ladder. I'd like to help them out but I'm not sure if I can afford it.

A The average first time property deposit starts at a whopping £37,000. Saving up a sum like this is incredibly difficult and not-surprisingly The Bank of Mum and Dad currently helps 80% of home-buyers to buy their first place**. But don't panic. House prices are becoming more affordable with each passing year and are currently back at 2006 levels, so this may not be a permanent state of affairs. If The Bank of Mum and Dad are in a position to boost the deposit pot, then remember you can give away £3,000 per year tax-free. But unless you can genuinely spare the lump sum needed, it may make more sense for your kids to save all or part of it for themselves. If you have the room – and you all get on well – then living at home (paying you an agreed sum for their keep!) will allow them to save more. Another alternative is to consider acting as guarantor on their mortgage. For this, your income will be taken into account and as a strategy it's not without risks as you'll become liable for the entire loan if your child can't keep up the payments. Hmm! The Good Housekeeping view is choose your mortgage lender wisely and treat this strictly as last resort.

MYTH BUSTER
You don't need to make big sacrifices to send your child to uni.

FIRST AID
49% of parents are helping kids over the age of 25 with the basic costs of living***

MORE HOUSING SMARTS

- Help them work out how much they can afford and how much they need to save, find a good financial advisor at www.unbiased.co.uk
- Compare mortgage deals at www.charcol.co.uk
- Check out guarantor mortgages at www.firstrungnow.com/mortgage-advice.aspx

Q We are finding it a real struggle to manage financially at the moment and feel guilty that we can't put money aside for our children. What should we do?

A It's incredibly difficult to set aside cash with the demands of everyday expenditure. Just when you think you've got your finances ticking along nicely, a school trip comes along or the boiler blows up! The golden rule here is: you must put yourself first. Don't even think about handing cash over to the kids until your own finances are sorted. Look at it this way – if you're nursing an outstanding credit card balance of 18% interest, there's no point saving into a Junior ISA with 3% interest. Get your finances in shape and only then consider setting money aside for your kids:

✓ Start by cutting back on your spending. Switch your gas, electricity, broadband, home and mobile phone suppliers to save money, using sites like www.moneysupermarket.com and www.energyhelpline.com.

✓ Pay off any unsecured loans or credit card debts. Then build up a cash reserve for emergencies of around 3-6 month's salary.

✓ It's essential you protect your life with life assurance and consider other valuable forms of protection to cover illness and redundancy.

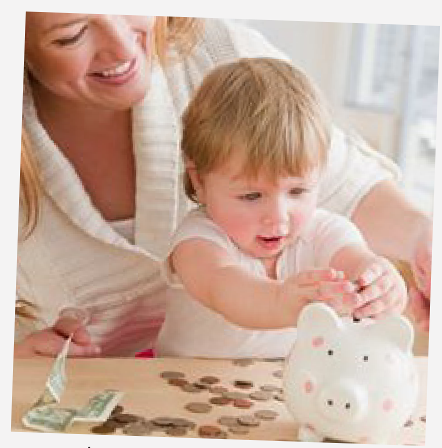
✓ Make or update your will.

✓ Save towards providing an income in retirement.

GO SOLO?
Only one in five parents** now sees a child's 18th birthday as marking their financial independence

Q Pocket money never seems to hit the sides of the piggy bank in our house. How can I bring up savers rather than spenders?

A Lead by example! Encouraging your children to save will make a real difference to their adult lives, but they are most likely to learn good habits from you. Talk openly about money and involve the kids in everyday spending. Try giving them paid jobs around the house. Open an easy-access savings account and get them to deposit pocket money and birthday money. Use websites such as www.moneyfacts.co.uk to check the best rates on children's savings accounts. Make sure you have the interest paid gross on those accounts, too. Complete form R85 (available from your bank or building society) to get interest paid without tax being deducted. Encouraging your children to save now will make a real difference to how they cope with money in their adult lives.



Early start

Q What's the best way of giving a bit of money to my nieces and nephews for their birthdays, ideally something that will grow?

A Great idea! They'll thank you for money invested when they're older. For lump sums, consider National Savings & Investment (NS&I) products, such as the Government-backed Children's Bonus Bonds (www.nsandi.com). These are tax-free 5-year fixed-term savings. Also, don't forget Premium bonds (from NS&I) –these are a great present idea for under 16s from parents, guardians and grandparents because they provide the opportunity to win tax-free prizes from £25 to £1m. There's no certainty of a prize but the bonds can be cashed in at any time. The minimum investment is £100, or £50 using a standing order up to a £30k limit.

* *LEGAL & GENERAL. *** ENGAGE MUTUAL ASSURANCE

MORE EDUCATED MOVES

- Living at home and attending a local uni. reduces living expenses dramatically.
- Some companies offer apprenticeships with universities and some local councils sponsor students.
- Student loans are also available for part-time degrees so your child can supplement their income by working.
- Your child may be eligible for a bursary or scholarship scheme which can help with fees and accommodation. The university website will have details.
- Read more at www.sutdent finance-yourfuture.direct.gov.uk and www.moneysavingexpert.com/students.

Q I want a savings account for my children that the family can all put money into but that they can't take anything out of until they're 18. What's the answer?

A Junior ISAs- these took over from the Child Trust Fund- are the easiest option. A child is allowed to save up to £3,600 a year in cash or stocks & shares Junior ISAs. All contributions are deemed to be a gift to the child. The kids can only get their hands on the money when they turn 18. Visit www.moneysavingexpert.com for JISA best buys.

If your children already hold a Child Trust Fund (if anyone was born 1 September 2002 to 2 January 2011)....these will continue, tax-free, until the children are 18. Like Junior ISAs, you can add contributions of up to £3,600 a year.

If you'd like to use money saved on their behalf and earmark it for specific expenditures when they hit 18, then set up an ISA in YOUR name not theirs (this way they won't be able to spend it all on a holiday!). Depending on how old they are now, look at stocks and shares ISAs for longer-term savings. For instance, if the Bank of Mum & Dad could put £30 per month into a stocks and shares ISA, you could build a nest egg for your kids of £10,600 over eighteen years (at 5% interest), according to Moneywise.co.uk.

Q My daughter has been given a generous lump sum by her grandmother. Where will it be safest until she needs it?

A If you're already using your own ISA allowance and are happy to tie up a pot of money for at least 5 years, you could consider unit trusts and life assurance-based investment products. They're quite easy to set up and often prove strong investments. Get advice from a financial adviser who specialises in these investments (www.unbiased.co.uk). Or you could put the money in trust. This can be a useful inheritance tax planning tool. You could even save into a pension for her!

Q Our son is off to uni this autumn - which is great - but I hate the idea of him being saddled with debt so young. Should we lend him the money he needs?

A It may sound counter-intuitive but probably not! Yes, fees are rising and from this September universities will be able to charge up to £9,000 a year but for the first time undergraduate tuition fees will be automatically paid for by the student loan companies. Your son will only start paying back his loan (through income tax) once he's earning more than £21,000, probably at least three years hence. He'll pay 9% of anything he earns above that threshold. And during that time the Bank of Mum & Dad could benefit from those savings – or at least you could invest them where you choose. If he hasn't repaid the whole loan 30 years after graduation, the debt is written off. Consumer champion Martin Lewis, head of the Independent Student Finance Taskforce says it's helpful to see student loans as more of a graduate tax. The amount repaid increases with earnings, it doesn't go on credit files and won't affect his ability to get a mortgage.

WISE MOVE?
68% of parents who gave money to their children had to dip into savings****

Safe savings

HOW WE MANAGE – THE PARENTS' STORY

'It's good to start them saving young'

Sharon Greenwood-Mercer, 45, from Buckinghamshire, believes in giving her children Angus, 9 and Savannah, 14 a financial helping hand. 'My parents saved for me when I was growing up, so it seems right for me to do the same. We set up children's savings accounts when they were born and add their child benefit plus birthday and Christmas money. Grandparents and godparents have also invested cash in bonds for them. When they reach 18, the proceeds will either go towards university fees or a first car. We're happy to add money from our own savings to help them out, too. Angus is a particularly good saver. He's saving his £3 weekly pocket money towards a new netbook.'

'I didn't realise university would be so expensive and can't see how parents who haven't saved can afford to help their kids.'

Karen Garner, 48, from Kent, has two part-time jobs and uses cash ISAs to fund her daughter's further education. 'Our eldest, Kate, 18 is studying American studies at Canterbury Christ Church University. She has a fee loan and maintenance loan which covers 90% of her rent but my husband and I have paid her rent deposit and give her a monthly sum for living costs. Kate also has a US trip this year as part of her course which we'll fund from a maturing policy. Kate is contributing by working part-time, too. Her attitude is this is a one-time opportunity and she intends to repay her loans. I've always considered my money is for my children and I will happily repeat the process for our daughter Olivia.'

WORDS: SARAH JAGGER. ****SCOTTISH WIDOWS