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MONEY BOX LIVE

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LEWIS: Hello. For the first time the Junior ISA deadline is approaching rapidly. Children under 18 who are too young or too old to get Child Trust Fund accounts can now have a Junior ISA opened. You can put up to £3,600 into one each tax year, so if your child is the right age and you haven't opened one, you have a very short time to do so by Thursday 5th April if you want to get the money in for this tax year. The same is true of course of Child Trust Funds for children who have them. They're the children born 1st September 2002 to 2nd January 2011. The annual amount that you can put in is also now £3,600 and this year's allowance ends again on 5th April. So if you and your family are fortunate enough to be able to put that much away for children or grandchildren, now is the time to think about it. Perhaps though you want to save up for children outside these two schemes, perhaps in a standard savings account. Do you want to use it to teach the child about managing money or do you want to keep control of it yourself, perhaps well beyond the age of 18 till you think they'll use it sensibly? And I've been talking about savings, but of course savings and investing are both possible. Which is better for children and at what age? Whatever your question though, you can call Money Box Live now: 03700 100 444. And with me today to answer your questions: Christine Ross, who's a certified financial planner at SG Hambros; Claire Francis is Editor at the comparison website Moneysupermarket.com; and Saran Allott-Davey is a chartered financial planner and she runs Heron House Financial Management in Monmouthshire. Our first question is from Lucy in Southampton. Lucy Hogan, your question?

LUCY: Good afternoon, Mr Lewis. Thank you very much for taking my call.

LEWIS: That's okay. What's the question?

LUCY: I have a grandson, which is just 3 years old, and I really want to find out if we can … His parents have actually started a Child Trust Fund and I want to find out if we can do the same or is it only one trust fund that can be done? And the other question is which one would be more beneficial? Is it with the parents to carry on doing it or the grandparents starting a new one and then actually cancel theirs?

LEWIS: Okay.

LUCY: And if there is any other way we can help a grandchild. And also I just heard again that you said that there is a Junior ISA. Can we do a Junior ISA running along at the same time as a Child Trust Fund? That's two definite different things - his parents doing one and the grandparents doing the other?

LEWIS: Okay Lucy, I think you've just about covered the whole topic there. So let's start with Christine Ross.

ROSS: Well first of all, Lucy, as your grandson already has a Child Trust Fund, he can't have a Junior ISA. We've all been discussing why these aren't just all put into one account, but you can save the same amount - up to £3,600 a year - in the trust fund. So certainly if the parents aren't maximising that limit, then you can certainly add to it. If the child's parents are putting the maximum, then you can save in another way. And there's one particularly useful thing about being a grandparent (apart from all the normal benefits) and that is that where parents save into something that's not a tax free account, not a Child Trust Fund or a Junior ISA, parents are limited on how much interest can be earned by their child tax free. It's £100 per year interest per parent. Whereas with a grandparent it's possible to give within reason as much as you want and the child can earn interest tax free up to their personal tax allowance, which is just the same as adults - it's just under £7,500. So if you were to look at an ordinary savings account, it's more beneficial being the donor as a grandparent than as a parent.

LEWIS: Okay, well …

LUCY: What would that account be called if the grandparents were to open that?

ROSS: It could be just an ord… First of all, it's easier to use the Child Trust Fund first if the rates are good simply because that's automatically tax free. Otherwise you could use any account. And in order for the interest to be tax free, it's possible to fill in a very simple form at the bank or building society or via an online provider called an R85. It's just a small form provided by the Revenue, the taxman, to ensure that interest is paid tax free.

LEWIS: And Lucy, can I ask you just briefly. Is the Child Trust Fund, do you know, a savings account or is it invested in stocks and shares?

LUCY: It actually says value … It must be because I'm looking and it must be actually on… Oh dear, I'm sorry … It might be stock and shares. Yes money with shares. I'm not quite sure.

LEWIS: Okay, alright, well …

LUCY: It's called actually a Child Trust Fund Account. It is with a reputable bank. I can't find anything there which tells me what it is.

LEWIS: Okay, well it's probably more likely to be a cash account. And Saran Allott-Davey, you can only have one or the other with a Child Trust Fund, can't you? It's got to be either cash or it's got to be in stocks and shares?

ALLOTT-DAVEY: Yes, that's right, unlike the Junior ISA which will give more flexibility. And the point that I would make, Lucy, is if you're investing for your grandchild who's just 3 years old, then there's probably an investment timeframe, I suspect, of at least 15 years before he's going to spend this money. And almost all deposit based accounts will give you a return below inflation, so you're almost guaranteed if you leave your money on deposit that the money will be worth less at the end than it is now, which doesn't seem to be a great investment to most of us, I'm sure. So I really think where you have a long investment timeframe like this, it's worth considering using an investment which is outside of the Child Trust Fund in this instance for you, but which allows you to invest in shares and perhaps in a mixed bag of investments that will at least give a reasonable chance of growth above inflation.

LEWIS: Yes, you're careful to use the phrase "reasonable chance" because of course there's no guarantee. It could perform far worse than a cash account, couldn't it?

ALLOTT-DAVEY: It could indeed, but we know with a cash account it's going to be worth less at the end than at the beginning, so it doesn't really seem to be a good route to go.

LEWIS: Depends what the rate of inflation is. But the Bank of England tells us it's going to fall. Whether you believe that of course is another matter. And Claire Francis, cash accounts either in a Child Trust Fund or out of it, what are the sort of best rates you can get now?

FRANCIS: Well if you want to do a cash account … I mean as a grandparent, quite often grandparents want to give monthly and regularly, and that's where the best interest rates are available - on cash accounts. Halifax has got a kid's regular saver account that's paying 6% for 12 months and the minimum deposit is £10 a month. So that's a really nice account if you want to put something away each month. Other than that, if you just want an account, an easy access one that you can put money into as and when, Northern Rock's Little Rock Instant Access Account is paying 3.02%. So they're two examples there.

LEWIS: Right, so that's the sort of rate you can get, isn't it?

FRANCIS: Yeah.

LEWIS: Lucy, thanks for your call. I hope we've helped deal with at least some of what you wanted. You seemed to have covered almost every base there, but thanks very much for your call. Suzanne's next in Finchley. Suzanne?

SUZANNE: Hello, hi. Afternoon. My question is my son is 11½. I opened an investment fund for him when he was 4 with the idea of trying to save a regular amount in stocks and shares to give him, hopefully, enough money to have as a deposit for a house or something or a flat when he's older. And to do that, I put in roughly what I was being given as child benefit, which has been difficult at times but there was a long-term aim. Now at the moment it's in this Henderson Global Investment Trust and they've just written to me to say that … I think how it's set up, his initials are on it - so, as I understand it, he can't get his hands on it till he's 18. But obviously this is not a tax free thing. So now the ISAs have come about, what I'm wondering is whether it would be a good idea to move it into an ISA or some of it into an ISA?

LEWIS: Okay and you say it's invested. What are the fees?

SUZANNE: Well I've just had a letter. I'm always getting letters and I'm not that brilliant at them. Just had a letter about one of the three funds to say that the Absolute Returns Fund, the fees are going to go up from 1.20 to 1.25 at the end of April because they're restructuring the fund. And I mean you know that's quite a jump really.

LEWIS: That's a bit of a jump. And this is not in the Child Trust Fund, is it, because your son was born before 1st September 2002 from what you say?

SUZANNE: Yes, it's just a straightforward …

LEWIS: It's a straightforward one, okay. So you could transfer it into a Junior ISA.

Christine Ross, just explain. I mean Suzanne's obviously done this, but just explain how you set up this kind of account for a child who can't own shares themselves directly.

ROSS: You can set up accounts on a regular savings basis with investment trusts, which are really investment companies. Can be cheaper sometimes. Or a unit trust. There's all sorts of collective investment schemes which are really portfolios of investments run by a professional manager.

LEWIS: They're in your name, but with the child's initials on?

ROSS: They're in the contributor's name - parent, grandparent, whoever's going to set it up - and normally there's a space for just simply a designation, as they call it, so it identifies that it's for a particular minor because a minor can't give any signature for anything before they're 18. They don't need to know about it, but at 18 it does legally become theirs. What I'm thinking about here is that where you have an investment fund as opposed to a child having a personal income tax allowance, if perhaps it wasn't a parental contribution, children have capital gains allowances also and if you don't actually sell and potentially buy back investments for children over the term, then they could have a capital gains tax bill potentially depending on just how much has been saved over the period when they get to 18. So there's a little bit of good housekeeping that needs to be done along the way.

LEWIS: Right, if there's a significant amount. I think there might be if child benefit … It could be a couple of … Well it depends. One child, I suppose it's about £1500 a year. Saran?

ALLOTT-DAVEY: Yes the capital gains tax exemption this year is £10,600, I believe, and so if it at maturity is not going to deliver a return greater than that, then there wouldn't be any capital gains tax to pay. So probably on the amounts we're talking about, it's okay, but it is, as you say, great housekeeping to just keep on top of that because it would be a great shame to pay a big capital gains tax bill at the end unnecessarily.

LEWIS: Quite a shock for an 18 year old.

ALLOTT-DAVEY: Absolutely, yeah.

SUZANNE: It might be more than £10,000 though because it's standing at over £9,000 now.

ALLOTT-DAVEY: It's the gain that's taxable.

SUZANNE: Oh I see.

ALLOTT-DAVEY: So what would happen at maturity is that the provider would confirm to you the amount of contributions that you've made, and provided the overall gain wasn't in excess of the capital gains tax allowance then your son could surrender it. Sorry, you said child - I don't know whether it's son or daughter - but they could surrender it without any capital gains tax as long as it didn't exceed the annual exemption.

LEWIS: And can I ask you just one thing about charges because I've talked about this not so much with this kind of fund, but with Child Trust Funds and Junior ISAs. The charges on the stocks and shares versions do seem to be quite high. My traditional question is why do they want to take all this money off children? I mean why are they so high?

ALLOTT-DAVEY: I think traditionally we do have quite high fees on these funds and this one is fairly typical because the average fee on a managed style fund such as this is probably anywhere from about 1% to 1.5%.

LEWIS: And that's the management charge because of course there are other expenses on top of that, aren't there?

ALLOTT-DAVEY: Indeed, indeed there are. And so we touched on the subject of investment trusts earlier and they often are considerably better value in my opinion.

LEWIS: And how about Suzanne moving this into a Junior ISA?

ALLOTT-DAVEY: I think we'd need to be really careful about upfront charges because upfront charges can be anywhere from 0.5% on an investment trust up to 5% on an investment fund. And I suspect that there's very little tax being paid on this anyway because the interest on it is unlikely I think to be more than £100 per annum and, therefore, we'll really only have the capital gains tax to worry about, which is, as we've already said, is probably not going to be an issue here. So I wouldn't want to incur a lot of upfront fees to move it to save some tax when actually there's not much tax being deducted anyway.

LEWIS: Okay. Suzanne, I hope that helps. Thanks very much for your call. And before moving onto the next call, I'm just going to go back to this question of Child Trust Funds and Junior ISAs because we have a couple of emails here. Chris has a son who was born just when Child Trust Funds were being closed. He's actually got one, but he wants a Junior ISA. And he really thinks he'd be much better off moving it into a Junior ISA. And we've had another one from Lucy making similar points - that they're in Child Trust Funds, both their daughters, and want - daughter and son, I beg your pardon, Lucy - daughter and son, and again she'd rather have a Junior ISA. But the rules are absolute, aren't they, Christine? What are they?

ROSS: They are absolute in the sense that if your child was born within the dates we stated, so from 1st September 2002 to 2nd January 2011, you have a Child Trust Fund and the government has made a donation. There won't be anymore and that's your vehicle in which you can save. Now they've harmonised these, so they've made the amounts the same, but it's always a product of marketing. We normally find that ISA rates are more attractive than some of the general savings rates because institutions regard this money as a sticky. It doesn't seem to have filtered through to all of these accounts just at the moment and some people have complained that actually the Junior ISAs weren't as attractive because not many institutions came to market.

LEWIS: So it has to be for any individual child. It is one or the other.

ALLOTT-DAVEY: It's one or the other.

LEWIS: Claire Francis?

FRANCIS: Yeah it is and I think we might see the rules change you know in the next few years because …

LEWIS: Well there's a budget next week. You never know, do you?

FRANCIS: It could be as early as next week because it does seem … I think it doesn't necessarily affect those who have got Child Trust Funds that are invested in stocks and shares. But I think for the cash accounts, obviously where's the incentive for the providers to keep offering competitive rates because they're not trying to attract new customers? So I think it's the children whose money is invested in cash accounts where they could further down the line lose out. At the moment the rates are pretty on par, but …

LEWIS: And of course it's worth pointing out that if your particular account has gone down in the rate it's paying, you can actually move it. You can't have more than one, but you can move the whole lot to a new account with a new provider and get a better rate.

FRANCIS: Yes, absolutely, you can transfer it without losing the status on it.

LEWIS: Okay, well thanks for those emails Lucy and Chris. I'm afraid if you've got Junior ISAs or Child Trust Funds, you're stuck with them at the moment. The next call is Paul who's in Enfield. Paul, your question?

PAUL: Good afternoon. Thank you for taking my call. I've listened for a long time, but it's the first time I've had the opportunity to call. It's in relation to sums of money that I have for my children. They were left to them by my sister. It's through myself, so it's nothing really official in terms of what is done, but we have £8,700 for each of them and I just want to see what's the most financially prudent way I can invest this money for them. The idea is for them to take it at 18. That's what I'm thinking a the moment.

LEWIS: Right and you're happy for them to have it at 18?

PAUL: Well that's the other thing. I didn't want to do it definitively because I didn't want them let's say to rush out and buy a car or something. I wanted them to use it sensibly. So whether at that age we could pick something that would slowly freeze the money maybe for university or for probably more legitimate expenses going forward.

LEWIS: We've had an awful lot of worried parents and grandparents who are not quite sure what the children will be like at 18. And I think from what you said to us earlier, they both have Child Trust Funds, don't they?

PAUL: They're that age …

LEWIS: *(over)* But obviously that would be too much …

PAUL: *(over)* I mean I haven't contributed any to the Child Trust Fund other than what was there originally and they haven't done financially well, so I would be best doing that.

LEWIS: *(over)* Okay, Saran Allott-Davey, what would you recommend?

ALLOTT-DAVEY: Paul, you say the Child Trust Funds haven't done terribly well so far. Can you recall what they're invested in?

PAUL: It's …

ALLOTT-DAVEY: Is it a cash fund or is it an investment fund?

PAUL: No it's an investment fund, investment fund.

ALLOTT-DAVEY: It's an investment fund, okay. I think again, coming back to the point I made earlier about timeframe, because you're going to be investing for quite a long time here, then I think it is worth considering investing the money rather than just leaving it on cash deposit accounts where you're probably not going to beat inflation. And so funds that I particularly like and I think are good for these sort of long timeframes, there's the 7IM range of funds and they run a basket of funds. This is a low cost range of funds because the underlying holdings are all passive investments, so they're tracking various markets. And they have a fund called the Balanced Fund - or the Moderately Adventurous Fund if you want to take a little more risk - and that I think would be a good and suitable holding for a long-term investment for children.

LEWIS: And given the ages, that's for either 10 or 12 years depending.

ALLOTT-DAVEY: Yeah exactly, yeah quite. And an alternative to that would be to consider an investment trust, and something like the Alliance Trust, which is a good broad based general investment trust which invests in global companies throughout the world, would also I think be suitable in this situation.

LEWIS: But Paul's already had the experience of the Child Trust Funds doing what he says is not very well. I mean I said it before, but there is always a chance that any investment may go down, mayn't it? There's no guarantees here.

ALLOTT-DAVEY: There is indeed a chance that they can go down and in fact most investors will have experienced that over the last 10 years. *(laughs)*

LEWIS: Well all of them actually at some point.

ALLOTT-DAVEY: Indeed. But I think the one thing that you can manage with investments is your timing back out of them. And I think a lot of us talk about the best time to invest in markets, and that's very difficult to see and to predict. But when you've made a decent return and you're some years off the point when you need to cash in, you know that is the time to shift into something like a deposit account where you can sort of bank your savings if you like when you have the luxury of timing rather than waiting right up until the moment it's needed.

LEWIS: And Claire Francis, we talked about investments. There is the alternative of course of savings. If you're going to tie money up - and in this case you could have a sort of 5 year bond and another 5 year bond - you can get reasonable rates at the moment, can't you?

FRANCIS: Yeah you can actually. I mean Yorkshire Bank's got a 5 year children's savings bond that's paying 4.25% and the minimum deposit on that is £50, so obviously in this case we've got … And that's a lump sum. They're designed for lump sum investments, so you could put each of your children's allow… you know the amount that they've got in that. It's locked away for 5 years, so you can't touch it during that time, and then when the bond matures then you can decide again where to move it onto.

LEWIS: Yes and of course always fill in that form R85 to make sure that there's no tax deducted automatically.

FRANCIS: Absolutely.

LEWIS: Paul, is that helpful? Has that answered some of your questions?

PAUL: Just the one point actually.

LEWIS: Quickly if you would.

PAUL: If I do it in their name, it's their investment, and at 18 do they automatically take complete charge of it?

ROSS: They do take complete charge. That is the rule. A clever way perhaps to do it is that when they're 17, maybe just time it correctly that you do another 5 year investment. I have recommended that in the past. A more complicated way is to actually set up a family trust. You'd need to talk to a lawyer. It can be expensive, but if you had family as trustees then you may cut the cost a bit.

LEWIS: Yes, okay. So that's going a bit beyond investment advice, Christine. Thanks very much.

ROSS: Yes. *(laughs)*

LEWIS: How to avoid your children having their money at 18. And let me just raise a couple of emails on that very subject because Sara says that her baby's not even born yet, it's due in April, and Sara says that she doesn't want it automatically to revert to the child at 16, 18 or 21, but they do want it in their name. She just wants to make sure that they're going to be sensible, I suppose, at that time. And I just wondered how would you go about that? Saran?

ALLOTT-DAVEY: Yes most solicitors will draft a discretionary trust document for you and, as Christine just mentioned, if family act as trustees it needn't be an expensive thing to either set up or to run and that will give you control over the timing of when investments are paid out. And I would usually recommend that for larger sums perhaps of above £10,000.

LEWIS: Okay. And as I sometimes say, if you really don't trust them put it in a pension and they can't get it till they're 55. Okay, thank you for your email Sara. We'll go now to Tony in Cardiff. Tony, your question?

TONY: Hi. I've listened tentatively. *(laughs)* No, I've listened very carefully to what's been said and I still believe that Child Trust Funds and Junior ISAs are lacklustre, and it was my belief that you cannot transfer money from a CTF or a Junior ISA into any other form of investment.

LEWIS: Well that's true. Once it's been started - until the child's 18, I don't think you can. So just very briefly because we've got a couple of more calls to squeeze in.

TONY: Okay. So I went down the line as a grandparent of a designated fund, a designated account, and I would carefully monitor that account and if capital gains appeared to be going over £10,600 (as it currently stands) I would bed and breakfast.

LEWIS: Okay so sell it one day and buy it back the next to realise the gain. That kind of account, Saran, what seems to be suggested here is that you leave aside all these government schemes and actually invest it yourself as loving granddad for your grandchild.

ALLOTT-DAVEY: Yes indeed and that's a perfectly sensible way of doing it and it does mean that you don't have to worry about the restrictions of perhaps the limited choice that is available if you use Child Trust Funds and Junior ISAs. So I think there's a lot of merit in taking Tony's approach.

LEWIS: You've got to have the confidence that Tony clearly has though to manage it, manage the investments, make the decisions on behalf of your grandchild to make sure that you really do get the best return.

ALLOTT-DAVEY: Yes but you really have to take that decision anyway. Whether you use the wrapper of a Junior ISA or a Child Trust Fund or it's unwrapped, you've still got to try and make good investment decisions about what investments you actually put inside the wrapper.

LEWIS: So thanks Tony. I think that's a vote of confidence in your technique. Thanks very much for your call. Jan now in Harrow in Middlesex. Jan?

JAN: Hi. I'd just like to know if it's possible to open a savings account for my grandchild. She lives abroad and I'd like the account to be in her name.

LEWIS: Right, okay. Well this has been the source of some discussion here before the programme. We've had a number of claims and I have got definitive answers now. But Christine Ross, you were talking to us earlier and I think you've got it right anyway, so do tell us what the ansswer is.

ROSS: Essentially if an individual - a grandparent for example -, is setting up an account for a minor, most institutions won't actually ask where the minor lives because you are the source of the funds because their main concern is that they know where the money came from. They have an obligation - anti-money laundering rules it comes under the title of - and as long as that is the case and you can provide identification, you're designating the account for a child but you actually are the trustee and the operator of the account. I have heard instances where some banks have said no, but in the main you should be able as the child is non-resident, they're not a UK taxpayer, they've got nearly £7,500 of personal allowance. You fill in the R85 form, as I mentioned earlier, to ensure that interest is paid gross. And as long as the interest doesn't exceed the £7,500 a year - that'd be an awful lot of money going in for that to happen - then that should be fine. If that doesn't work and it really depends - I've heard Nationwide are particularly friendly here - but if that doesn't work then you can use the offshore bank of you know a major UK banking name, but of course you lose a lot of protection because you haven't got the UK compensation scheme and on top of which some offshore rates are a little bit lacklustre compared with UK competition really in the high street.

LEWIS: Jan, stay with us because we've got another caller, Bruce in Tyne and Wear, who I think has got a similar question. You've had a bad experience here.

BRUCE: Well my wife and I have two grandchildren living in San Francisco age 3 and 5. We put money regularly into a Halifax regular saver, but after a year it was then transferred into a nominated account paying a derisory rate of interest. So I kind of feel that I'm stuck with this account. Are there any better accounts and can I get out of this account, do you think?

LEWIS: Right. And you've not had any problems with the fact that your children are abroad?

BRUCE: Yes, that's right.

LEWIS: Sorry, have you had problems with the fact your children are abroad or not?

BRUCE: No not at all.

LEWIS: No. Okay, right, good. So okay again investing for children abroad, though no problems there. So Claire Francis?

FRANCIS: Yeah with the regular savers accounts what usually is the case is that during the year … There are usually 12 months terms on them and during that year you can't usually access the money. But once the term ends, as you say it's moved into a nominated account. At that point though, that money's free for you to move - or it should be - so what you could do is consider … We spoke earlier to one of the callers about perhaps considering a fixed rate account because now you've built up a lump sum you could open a 5 year fixed rate bond for your grandchildren and perhaps move the lump sum into that. Yorkshire Bank's got one paying 4.25% and then you could always start another regular saver if you wanted to start building up a lump sum again.

LEWIS: Okay. Well thanks for that. And I've just got a statement here from the Revenue just confirming that grandparents cannot open and operate accounts for non-UK resident grandchildren as long as the beneficial owner is the grandparent. *Can*. Sorry, did I say cannot? I beg your pardon. The grandparent can open and operate an account for a non-UK resident grandchild and it can be registered for growth interest as well, though there's a different form if they're abroad called R105 they say here. But anyway. But we do know that Halifax - and that's why I was asking Bruce earlier

- that the children do have to be resident in the UK to have any current retail savings account, which is a change of policy since last year.

ALLOTT-DAVEY: But I think in this point it's not the child that has the savings account actually. It's the grandparents and that's how you get around it.

LEWIS: There's obviously been some confusion. Tom, if you're very, very quick, we'll try and answer your question.

TOM: Hi there. Yeah it's just a quick question. I'm basically on a low income family at the moment - approximately £80 a month I'll be paying into a child ISA or an account or something like that. And I was wondering which one would be best suited for something so low quantity?

LEWIS: Okay, I'm going to have to stop you. Claire, in five seconds.

FRANCIS: Child ISA. The best one at the moment is Halifax, which is paying 6% if you have any savings with Halifax, so you only get 3% otherwise. Apart from that, Nationwide is paying 3.25%.

LEWIS: Okay, I'm going to stop it there because we have to go. Christine Ross of Hambros, thank you; Claire Francis from Moneysupermarket; and Sarah Allott-Davey. Thanks to all of you for all your calls and emails. I'm back on Saturday and Vincent Duggleby's here next week this time, Money Box Live, and Budget Call next Thursday - finding out what George Osborne really said in the Budget.