# Intergenerational Finance – The Bank of Mum & Dad

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There is much talk these days of the older generation helping out children and grandchildren. Much of this talk revolves around the generation of capital lump sums to help with deposits for property purchase, the so called 'Bank of Mum & Dad'.

However have you ever considered the use of spare income to help out the next generations? If you genuinely have spare taxable income after paying for the full costs of your normal lifestyle that spare income can be given away and be immediately exempt for inheritance tax purposes.

Whilst you might use this income to help pay school/ university fees or perhaps to subsidise mortgage payments for your children and grandchildren have you ever considered investing into a pension for them?

An example would be a 25 year old perhaps just starting their first job and looking to retire at age 65 would like an income in retirement of £25,000 p.a. which, when you allow for inflation, will be £67,127 p.a. by the time they reach 65. If they start a pension immediately they will need to save £1,960 p.m. to achieve their goal. This is unachievable for most young people.

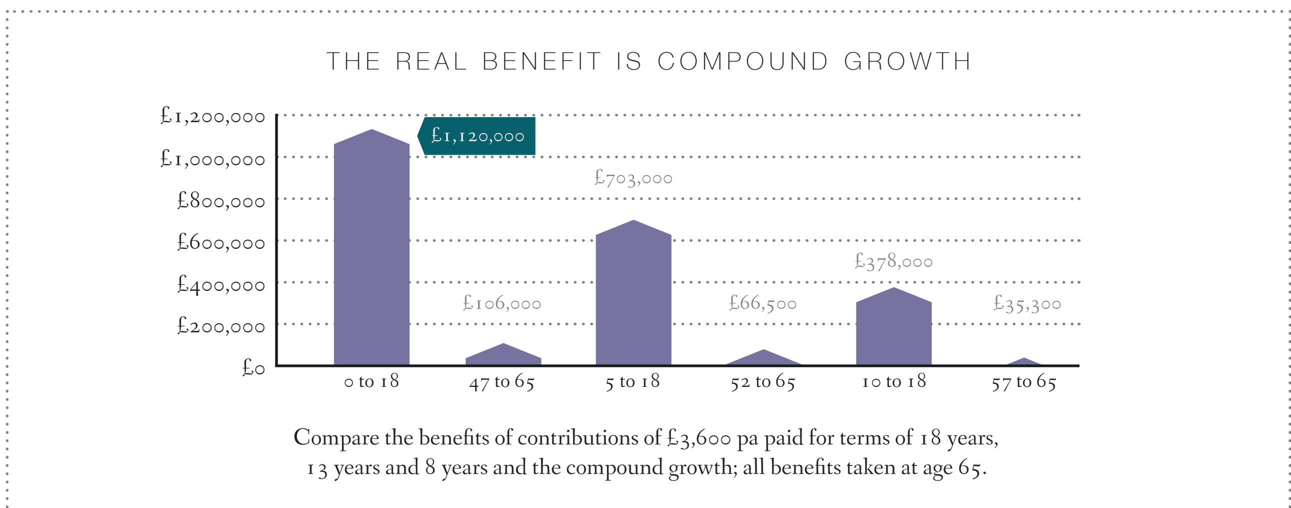
If this 25 year old was your child or grandchild and you started the pension for them when they were born or during their childhood and paid contributions on their behalf the effect of compounded growth will be potentially of enormous benefit to that family member.

The following table shows the effect of investing for the first 18 years of a child's life compared to the result if that child doesn't get round to contributing to pension until say age 47 when perhaps the mortgage is paid off.

The table also shows the benefit of investing from age 5 to 18 compared to their starting to save at age 52 and investing for the child from age 10 to 18 compared to their starting to save at age 57.

The monies can't be accessed under present rules until age 55 and you can therefore be sure that your contributions will help secure their future and not risk the money being used for other purposes.

The value of an investment with St. James's Place will be directly linked to the performance of the funds you select and the value can therefore go down as well as up. You may get back less than you invested.




Compare the benefits of contributions of £3,600 pa paid for terms of 18 years, 13 years and 8 years and the compound growth; all benefits taken at age 65.

The annual assumed growth in the investment is 7% each year. These figures are only examples and are not guaranteed – they are not minimum or maximum amounts. What you will get back depends on how your investment grows and on the tax treatment of the investment. You could get back less than the amount invested. Annual contributions are paid on the member's birthday and on each anniversary. Figures at earlier ages assume contributions are paid for 18, 13 and 8 years, contributions then stop and the fund is left to grow until age 65.