THE FAMILY BUILDING SOCIETY

SAVINGS GUIDE

ABOUT THE AUTHOR

STEPHEN McDOWELL thinks he is pretty well qualified to write this booklet. For one thing he has been a journalist for 25 years, specialising in investment, and has written and edited extensively in the professional and national press both online and in old-fashioned newspapers and magazines.

Better than that, he lives in South London with his wife Lucy and two handfuls called Olivia, 11, and Theo, 9, Purdy the cat and a hamster called Fizzy. So it is fair to say he and Lucy have quite a lot of experience of trying to plan out their financial lives.

Other than shouting at the kids, Stephen likes to drive classic cars and cook.

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WHO EXACTLY IS THE FAMILY BUILDING SOCIETY?

THE FAMILY BUILDING SOCIETY WAS ESTABLISHED IN 2014 BY NATIONAL COUNTIES BUILDING SOCIETY, ONE OF THE OLDEST MUTUALS IN THE UK. THIS MEANS WE HAVE NO SHAREHOLDERS. WE OPERATE ON THE TRUSTED STRUCTURE OF USING THE DEPOSITS FROM SAVERS TO LOAN OUT AS MORTGAGES TO HOME OWNERS. TRADITIONALLY, THIS HAS MEANT WE CREATE GREAT VALUE AND GREAT SAFETY.

“WE'VE GATHERED TOGETHER A GREAT DEAL OF INFORMATION ABOUT FAMILY FINANCES IN THE UK AND WE FERVENTLY HOPE THAT THIS BOOKLET WILL HELP YOU TO UNDERSTAND SOME OF THEM AND ACT TO SMOOTH OUT THE BUMPS IN THE ROAD AHEAD”

We live in a very different, more complicated world in which we have to look after ourselves and our loved ones financially.

OK, yet we worry and we struggle and we continually ask ourselves if we have done the right thing. And then we worry about it some more.

The good news is there is one thing, traditionally, on which we have all relied and which has generally provided most of our life solutions. Our family.

The Family Building Society – offering over-arching solutions for the generations of your family

The Family Building Society is completely committed to the idea that with a bit of creativity and a lot of research and knowledge about you we can help you utilise your assets and tax allowances. We'll provide competitive products – and not just ours – to generate over-arching solutions across the generations of your family.

In doing so we've gathered together a great deal of information about family finances in the UK and we fervently hope that this booklet will help you to understand some of them and act to smooth out the bumps in the road ahead.

And, don't worry if words like tax efficiency worry you, turn you off or bore you into a coma. We'll explain it all and take away that pain.

What 'bumps in the road' are these, then? In a word – children. Either yours or your children's. The little blighters are at the very core of everything we do.

Parenthood is perhaps the mightiest challenge of them all – we occasionally make ourselves miserable with our desire to do our very best for the little bundles of joy, especially as they get older and turn into balls of seething hormones and attitude finally followed by settling down and having families of their own.

It's a nice romantic view of family life.

But here's a bald, and rather ugly statistic for you.

The cost of raising a British child in 2015 to the age of 21, according to the Centre for Economic and Business Research, is £229,251. The top cost from the research is, as you'd expect – education.

Educating a single child, without private school fees, up to university level costs over £74,000, says the annual report. That includes all the trips, uniforms and the "absolutely necessary, Daddy honestly" digital equipment.

Not only have they got to get on with their lives, clamber on the dual ladders of career and home ownership, but you want your life back too. It's time your nest was empty so you can enjoy the fruits of your labours and do it all before you are 55 and start to contemplate what you are going to do with that pension.

Pension? Well there's a whole different kettle of fiscal statements. Don't worry, we are not proposing to wander off into that particular minefield. Your pension is your pension – that's about your choices. The whole point of this story is about *their* choices – the little loves.

The challenges for today's young people

So anyway, even once that university education is behind them and they are in the market for the dreaded 'job', what will they need at 18 or 21 to set them up?

- A deposit for a home? Check
- A car so they can get out to interviews? Check
- To be as debt-free as possible so they're not crippled with a sense of hopelessness and despair? Check
- A white wedding your princess will be proud of? Check
- Increasingly younger people are setting up their own businesses as the traditional job market contracts. Perhaps they need a start there? Check
- A gap year (dread the thought)? Check

You could argue that the actual objective of your long-term savings is actually secondary to the choices you can create for the children – whether they want to go to university, don't learn to drive or waltz into a job that makes them happy straight from school, you could have a box on your checklist that says – as your teenage daughter might put it…"Whatever, yeah?".

"THE COST OF RAISING A BRITISH CHILD IN 2015 TO THE AGE OF 21, ACCORDING TO THE CENTRE FOR ECONOMIC AND BUSINESS RESEARCH, IS £229,251. THE TOP COST FROM THE RESEARCH IS, AS YOU'D EXPECT – EDUCATION"

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WHAT YOU NEED

Have goals

No-one can define your savings goals – only you can do that. The reason for this is that just as we are all different – so are our circumstances, desires and aspirations.

It is important to think about them and write them down. What is it you need to achieve for the children and by when? If you have a ten-year-old and you want to help with university you've got eight years. If it's a mortgage you want to repay so you can help the youngster with starting their own, then you have a little longer. If you want to help a toddler take larger strides into life then you have more time.

Get a horizon

It all helps with planning and since you have defined some goals you can treat them like any others, score, cheer and move on. It is important to be realistic – some goals are obvious, like if you want to help your child go to university. Some may be more obscure – perhaps the car or house deposit. Yet think about that and make a plan, even if it's not possible to be completely accurate. Bear in mind circumstances change.

The evil of inflation

You should consider when you are planning that the dreaded inflation will have an effect. A general rule of thumb is if you can increase the amount you save by 5 per cent each year, you will beat inflation over any time span.

To help you with your horizon planning there are plenty of inflation calculators to be found online and you may find the results quite startling. Here's one we recommend www.thisismoney.co.uk/money/bills/article-1633409/Historic-inflation-calculator-value-money-changed-1900.html

Be realistic in your savings plan

Forgive us if we sound as if we're handing your granny an egg-sucking kit here but it is worth making the point that budgeting is one thing but sacrificing yourself on the altar of altruism is another rather unattractive thing. Of course you could have your children riding around in a Bentley and paying their fees in cash but not if you haven't bought a new set of clothes in years and occasionally dine from a wheelie bin. Live your life and have a good time doing it, the money you plan to put aside should not be missed in the short term so treat yourself occasionally, this is about family life after all.

Risk and return

"Never was anything achieved without danger". Given the author of this famous quote was Niccolo Macciavelli, you may deem it a little extreme. What he really means is that risk is a good thing, without it we'd get nowhere.

You do however have to bear in mind that there have been some ups and downs. There is a risk, for example, that you are investing in the market at the wrong time.

The tried and trusted method of working this out is to examine your attitude to risk.

Balance

You may have heard of a financial services industry term called 'asset allocation'. In layman's terms this is called 'spreading the risk'.

It's common sense – don't expose yourself to a single market or entity because you are then entirely exposed to the behaviour of that instrument. Just like your grandmother used to say – don't put all your eggs in one basket – drop it and they all break.

Instead, taking into account the time horizon, goals and attitude to risk, you spread your investments over a number and variety of different risks in order to flatten the danger of over-exposure to a single incident or eventuality, like a stockmarket collapse. The investment industry terms it 'asset allocation' which essentially means they spread risk over a number of different asset classes like cash, major British or American shares, fixed interest investments like government bonds and even commodities like gold or oil. We don't suggest you go down this path because they are apparently the experts at the game of risk balance but it demonstrates that, one it is a necessary option and two it may not be as simple as it seems on the surface.

> "REGULAR PAYMENTS INTO MORE RISKY EQUITY-BASED (THAT'S STOCKMARKET) INVESTMENTS CAN HELP TO SMOOTH OUT THE PEAKS AND TROUGHS BECAUSE WHEN THE MARKET DIPS – AS IT INEVITABLY WILL – YOUR CASH WILL BUY MORE SHARES THAN IT WILL WHEN IT IS PEAKING"

Regular or lump sum investing

This is a sort of chicken-and-egg argument that occupies the financial services industry until the former comes home and the latter hard boils. Yet it is important to consider it, however briefly.

The answer to the question is shall I put in one lump sum or drip in monthly payments or shall I, wait for it...do both. In an ideal world you'd probably do both. But of course we don't live in an ideal world so, once again you have to examine your circumstances. If you should get your hands on a windfall, an inheritance say, then take the opportunity to invest it. If, like most people, you get a regular income then invest part of that.

By and large though, in most cases, particularly with cash or fixed-interest (a bond to you and I) investments you will maximise it by getting as much money in as early as possible so that it's earning from day one.

On the other hand, regular payments into more risky equity-based (that's stockmarket) investments can help to smooth out the peaks and troughs because when the market dips – as it inevitably will – your cash will buy more shares than it will when it is peaking.

Once again, though, it really all comes down to your personal circumstances and what makes you comfortable.

Tax-efficiency

We hear a great deal about this these days, much of it very angry. What exactly is tax-efficiency?

What it *isn't* is us suggesting you go out and set up, say, an obscure Bermuda-based investment scheme in which you loan back to yourself future gains and/or profits from your fiscal activities in the guise of numerous charitable donations, which themselves are invested and the gains lent back to the original company at a preferential rate of interest. Certainly not, because that would get you into hot water with the tax man and in turn the Daily Mail.

However, making your investments tax efficient is not only your right, it is your duty as a parent or grandparent. Why hand over cash to the taxman if he himself is telling you you don't have to?

We are talking here of course about Individual Savings Accounts (ISAs) and about your ability to use tax reliefs on your income, sometimes your partner's income and also your entitlement to pay certain sums of money into specialist accounts which are protected from the taxman both at source and at the point of redemption.

Don't worry, we'll explain more about this later on but for now, trust us – there are a great many people out there who are not using their allowances.

Financial Services Compensation Scheme (FSCS)

Finally, just before we get down to some nitty-gritty detail, it is important you know that everything we will suggest later on in this guide is protected by this independent but statutory organisation.

The FSCS is funded by a levy which all regulated firms pay and which is ring-fenced so can't be accessed until a claim is made.

It isn't going to happen but if we (or any other regulated financial firm) fails you can claim and they say they will aim to pay out within seven days of a bank or building society being declared as failed. The maximum limits the FSCS will pay out are, for cash deposits up to £85,000 per person per authorised firm, for investments they will pay out up to £50,000 invested, per person per authorised firm, for any company in default on or after 1 January 2010. There are other claims available for home finance (such as mortgage advice) and insurance.

As we say, it is a bit like a guard dog on a yoghurt diet – you're never going to need it and you hope you never have to but it is nice to know it's there.

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BUILDING SOCIETY SAVINGS ACCOUNTS

What kinds are there?

You may well think with a few flicks of your mouse in the relevant place that there are a bewildering array of building society accounts. And you'd be right.

Some degree of cash savings are an essential part of any financial planning exercise but you won't maximise the potential of your savings if you leave them all in cash, particularly in such a low interest rate environment as we've experienced for several years now. As a general rule of thumb, it is widely considered by experts to be that you should keep in easily-available cash savings enough money to cover three months' expenditure if the sky falls on your head.

And you would not be the first, or the last, to find it all a tad confusing but essentially there are three kinds of building society savings account:

- Cash NISA into which, from April 6 2015, you can save up to £15,240. This is an annual subscription limit that may vary in the future.
- Instant access, which means you can get your hands on your savings anytime you like. Your nest egg will attract an annual interest rate paid monthly.
- Restricted, or notice access. The longer the notice for withdrawing your cash the higher the amount of interest you'll be able to get.

Regular children's savings accounts

It is worth mentioning there are some providers out there who offer better rates but rely on regular payments, meaning if you miss a month you lose the rate.

An account can be started for as little as £1 and children can manage their own account once they reach age eight. This will come as a relief to most adults who find they need an eight-year-old to switch on the television these days.

In most cases, too, there are no access restrictions.

Bonus accounts

Building societies like people to keep their cash on deposits with them for as long as possible. It is, after all, their lifeblood as they then lend the deposit out again in the form of mortgages. It is over-simplifying a mutual – just like us – but essentially it really is how it works.

So, to encourage savers to keep their hands off their nest eggs as long as possible they will pay bonuses, quarterly or annually. Again the longer the time you leave your cash in, the higher the potential bonus will be.

It is usually in the region of 0.5 per cent above the headline rate and there are qualifying rates for it to get paid so make sure you know what they are and don't withdraw before your savings have qualified for that little bit extra.

An excellent website to visit if you still remain confused is the independent moneyfacts database of every available account in the country. You will be able to search for what is right for your preferences and circumstances.

You can find it at www.moneyfacts.co.uk

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What determines rates?

In short, interest rates are a balancing act every bit as potentially precarious as a high-wire performance. A building society has to balance what it can offer its lenders – i.e. all you people with cash deposits – and offer them a meaningful return on their money against what it can offer its borrowers – i.e. those who have its mortgages to buy their homes.

All the while it has to remain competitive in the context of the Bank of England's base rate which governs all inter-bank lending. So in very simple terms building societies don't have much room to manoeuvre with interest rates because they are duty bound to provide the best possible deal for their members as well as balance the books in the normal way.

Other savings options to consider

National Savings and Investments (NS&I)

It is probably worth mentioning the Government-backed savings scheme which has been beloved of every generation of saver since the Second World War. Hands up if you are over 40 and you had a few of these when you were a kid!

NS&I offer children's bonds with an initial minimum investment of £25 with a maximum investment of £3,000 per child per issue.

They are of course free of tax and pay a fixed rate of interest until the child is 16. It pays a lower annual rate plus a bonus at the end of each five-year term. So a bond bought in June 2014 matures in June 2019 at which point the bonus is added to the redemption value. Each bond will mature once it reaches its first five year anniversary on or after the child's 16th birthday.

They can be cashed in early but there will be a penalty equivalent to 90 days' interest.

They are strongly family-based because they must be bought by a parent in the child's name and only parents, guardians and grand or great-grand parents can invest.

They have been very strong traditionally and many NS&I products are much beloved of the British public, like Premium Bonds, largely because, since they are Government-backed there is as close a chance to zero as it is possible to be of a default. Also because they play to our love of winning a substantial prize, even if the odds are extremely low.

Another advantage is that a child can hold these as well as and on top of any other minor-based investment.

The downside however, is back to that ratio of risk versus return.

With almost zero risk your returns are not going to be impressive either.

The curse of legacy accounts.

All providers issue new products from time to time – some more than others – and each time the tendency is they issue it with an attention-grabbing interest rate.

This of course they do to attract the maximum amount of deposits and very often depositors with existing accounts are encouraged to switch into the new one. This is all very hunky-dory.

But what some providers are not so good at, however, is telling you that the interest rate on the old account will inevitably get reduced. So unless you were paying attention and switched your money over, or even to a new provider, the chances are you are now under the illusion your account is still paying the headline rate. It isn't, and if one was being cynical one could point out that it is in the interests of providers to keep large deposits earning almost nothing while they offer a market-busting rate elsewhere.

This happened a great deal ten years ago or so when providers all launched internet-based savings accounts.

By and large old accounts pay rubbish interest.

The good news is though – it's very easy now to keep an eye on what your savings are making – it takes a moment's online research. So if you find you are stuck in a legacy account do not hesitate to move your money.

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NISAS AND JUNIOR ISAS

> A NISA IS LIKE A BAG INTO WHICH YOU PUT SAVINGS AND INVESTMENTS AND INTO WHICH THE TAX-MAN CANNOT PUT HIS HANDS. THERE IS NO TAX ON PROFITS THOUGH THERE IS A 10 PER CENT TAX ON INCOME FROM DIVIDENDS IN A STOCKS AND SHARES ISA – BUT THAT IS STILL A FANTASTIC ADVANTAGE

What are the advantages?

Everyone loves the words 'tax-free' so hear this now – NISAs are fab.

Let's face it – this is the Government encouraging everyone to keep their own savings out of its own rapacious hands.

NISAs and Junior ISAs will probably form the centrepiece of many families' savings plans.

The best bit of all is they could not be much simpler.

A NISA is like a bag into which you put savings and investments and into which the tax-man cannot put his hands. There is no tax on profits though there is a 10 per cent tax on income from dividends in a stocks and shares ISA – but that is still a fantastic advantage especially for higher-rate tax-payers.

From 6 April 2014 to 1 July 2014 – the ISA allowance was £11,880 – and half could be held in cash or the whole lot in investments.

But from 6 April 2015 a new ISA limit of £15,240 came in with no limit on the proportion held in cash and investments. ISAs are now known as NISAs. Bear in mind though that you're only allowed one in each tax year.

That's over 15 grand a year you can put aside, tax-free.

Cash currently held outside a NISA can easily be transferred into one.

If you are holding shares that are not in a NISA and you want to put them inside one, and you should, you have to sell them and then rebuy through an ISA wrapper. Sadly, this means that any growth up to this point will be liable for tax .

Whatever you do, don't cash in anything that's already in an ISA or you will lose all the advantages.

There is no doubt that over the long term, despite the inherent risk, there is a very compelling amount of evidence that investment based in the stockmarket will outperform all others. Remember that, over the last 30 years, the FTSE 100 index of blue-chip shares has put on an average of more than 18 per cent a year. Not even property can compete with that.

> THERE IS NO DOUBT THAT OVER THE LONG TERM, DESPITE THE INHERENT RISK, THERE IS A VERY COMPELLING AMOUNT OF EVIDENCE THAT INVESTMENT BASED IN THE STOCKMARKET WILL OUTPERFORM ALL OTHERS

Incidentally they are nick-named blue chip because historically the biggest value chips in a casino were blue. Ironical then, that the fund management industry hates analogies with gambling. Just a thought.

It makes sense then that not only your long-term savings, but also your children's, should probably have a decent balance of high value shares and some cash in your joyful tax-free bag.

What are the rules?

OK, sorry about this – there's no fun way to write this. This is the dull stuff, but it is important so bear with us.

For adults from April 6 2015, really very straight-forward. As the rules of the ISA have been gradually liberalised by successive Governments, so have the instruments you can put in them. You can put them in any cash, any regulated UK fund or share listed on the London Stock Exchange or its junior index, the Alternative Investments Market (AIM). Again you are only allowed one NISA in each tax year.

Currently, exemptions include some insurance-based schemes, some company shares , i.e. unquoted, and units or shares in some collective schemes.

Other than that, as long as you are over 18 and live in the UK you have the opportunity to save over £15,000. Marvellous.

Children over 16 can hold a cash NISA, but cannot access the money until they are 18.

What about the children, then?

More good news here – though with some qualification.

The Junior ISA (JISA) was invented by the coalition Government from 3 January 2011. They were brought in to replace the previous administration's ill-fated attempt at creating a level playing field for children's savings – the Child Trust Fund (CTF).

The CTF was introduced in January 2005 for children born after 1 September 2002. Eligible children received a voucher for £250 to invest until they were 18.

"THERE ARE AN ARRAY OF CHARGES OUT THERE SO DO BE CAREFUL TO MAKE SURE YOU'RE GETTING A COMPETITIVE RATE. THE REASON FOR THIS IS THAT CHARGES, OVER TIME, NATURALLY REDUCE THE MAXIMUM OF YOUR INVESTMENT AND AFFECT THEIR FINAL PERFORMANCE"

The JISA rules then are:

- Only available to children born on or after 3 January 2011 or before 1 September 2002 and who weren't entitled to a CTF (a child was entitled to a CTF if they were born between 1 September 2002 and 2 January 2011).
- You can save up to £4,080.
- You can divide the annual allowance whichever way you want so all in cash, all in stocks and shares or any proportion of either.
- Your child can only hold a JISA with one provider. This doesn't mean to say that if you spot a better deal you can't transfer it – because you can and you should.
- Best of all your child cannot get their hands on their goodies until they turn 18 – though they can manage their own investments from the age of 16.

Intriguingly, it appears there's a small loophole in the rules which means when a child is 16 or 17, they get two ISA allowances – the JISA allowance plus the adult NISA allowance of £15,240.

Bear in mind that only a parent or guardian is legally entitled to open the account but there's no one to say who can pay into it.

Charges

Bad news: You will get charged an annual management fee for administering any fund and stocks and shares NISAs are no different. There are an array of charges out there so do be careful to make sure you're getting a competitive rate. The reason for this is that charges, over time, naturally reduce the maximum of your investment and affect their final performance. You should be able to find 0.5 per cent a year, though some providers will keep that lower in exchange for a flat fee (don't worry though there aren't any charges for cash NISAs).

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THE GOOD, THE BAD AND THE TAXMAN

WE AT THE FAMILY BUILDING SOCIETY HAVE DONE A GREAT DEAL OF RESEARCH ON WHAT YOUR CHOICES ARE WHEN IT COMES TO MANAGING AND, AT THE SAME TIME, MAXIMISING YOUR RELATIONSHIP WITH THE TAX RULES REGARDING SAVING AND INVESTING FOR YOUR FAMILY.

The first point to make is that children are taxable in the same way as adults with an annual income allowance, before the tax-man gets his hands on it, of £11,000 for the 2016/17 tax year. The upside of this is that if a child is making more than £11,000 in interest from non-ISA assets, you have almost certainly saved enough to set them on the road to a comfortable future.

Bear in mind that a coherent strategy of 'a little here and a little there' both maximises your tax efficiency AND helps to diversify and therefore spread your risk.

OK, so how does that all work, I hear you rightly ask.

Inheritance Tax and your options

Death and taxes, said Benjamin Franklin, are inevitable. Neither are desirable outcomes and leave a particularly unpleasant aftertaste when contemplated together.

The much-resented 'Death Duty' will affect around five per cent of estates in the UK and planning for minimising the impact of Inheritance Tax (IHT) on what you leave behind is important.

The rules are complicated but baldly, when you die the tax-man asseses what your estate is worth – and this means everything. Cash, investments, insurance policies, property, vehicles, artworks – the lot. They then deduct any debt, like an outstanding mortgage balance and so on and if the total estate exceeds more than £325,000 it will hand over 40 per cent of everything above that to HMRC – though your spouse or civil partner if they are the beneficiary, is exempt. Unless you are leaving 10 per cent of your estate to charity in which case it's reduced to 36 per cent.

The good news though, when it comes to passing wealth down to the family, is that there are small exemptions for gifts which are ideal for this purpose.

The first £3,000 of any gift in each tax year is ignored as a part of your estate and you can give away £250 as a gift to anyone you like and that all helps to knock the potential tax bill back a bit and keep a bit of cash out of the tax-man's hands.

You can also get what is known as 'taper relief' on much larger gifts – like your house – where the tax liability will gradually reduce to zero after seven years.

Friendly Societies

Friendly Societies are very often mistakenly viewed as rather fusty, old-fashioned things.

They've been around for centuries and may even have their origins with the Romans from the very simple premise that if a group of people paid into a mutual fund they could draw on that fund in times of need. That is why so many of them have rather charming names like Foresters, Cirencester or even Railway Engineman's.

They became very popular after they were enshrined by law in 1875 as you found tiny societies in towns and villages all over the country. By the close of the 19th century there were 27,000 of them.

Numbers began to fall in the 1940s after the Welfare State was nationalised and nowadays there are about 200 of them.

Happily, because so many of them have historic roots there are some Friendly Societies which have specialties that give them essentially unique tax loopholes .

Broadly, Friendly Societies can offer tax-free investments of modest contribution and usually centred around the family.

These products are often called children's savings plans or 'baby bonds' and they're basically an old style with-profits fund. This means the fund grows with bonus payments though the bonus isn't guaranteed.

This depends on all payments into the bond being made for the full term, which are usually 10 years in order to qualify for the tax-free benefit, or until the child reaches 18 or 21.

The great news is they're also available to anyone under 16 even if they have a Child Trust Fund or a Junior ISA.

The amounts you can pay in each month will vary but can be very small.

The drawback of with-profits based funds is that they can be unpredictable and relatively expensive. Again, remember that over time, even modest charges can have quite an effect on the potential growth of an investment.

Personal Savings Allowance

The Government will introduce a new Personal Savings Allowance from 6 April 2016. As a result, most people will no longer pay tax on their cash savings income.

Basic rate tax payers will enjoy an allowance of £1,000 and for higher rate tax payers the allowance will be £500. There is usually no allowance for additional rate tax payers.

From this date, all building societies and banks will pay interest gross on your savings accounts. In other words, they will stop deducting tax from the interest they pay on your savings.

However, you will still need to declare any income from savings interest over your Personal Savings Allowance through a self-assessment tax return. Contact HMRC for further information as the Family Building Society is unable to help you with this.

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OTHER OPTIONS FOR YOUR MONEY AND WHO TO TURN TO FOR ADVICE

Please note this chapter is intended as a guide which sets out some general principles and should not be taken as investment advice.

THERE'S NO SUCH THING AS A FREE LUNCH. HANDS UP IF YOU'VE HEARD THIS PHRASE BEFORE.

YOU MIGHT ARGUE TOO THAT IN THIS WORLD THERE IS NO SUCH THING, EITHER, AS FREE ADVICE. BESIDES, IF IT WAS FREE WOULD YOU REALLY WANT IT?

We all have to pay for expertise – lawyers, accountants, dentists and, yes, even estate agents – so it's no surprise that somewhere you will have to part company with some money to set yourself on the right road for investments.

All products come with a cost – they have to be administered and kept safe and at the end of the day a modest profit has to be made too.

Most products are quite simple and carry a straightforward fee, but all providers are required to be completely open about what they're charging you.

The key thing as we have already discussed, is to work out the impact of ongoing fees and charges on the eventual value of your investments over your time horizon. This is what the investment industry calls a Total Expense Ratio (TER). It is an important figure to bring into focus , so it's important you ask what is the TER on a product you're proposing to buy and compare it with similar ones. This is particularly important when investing for children because of the long time horizon – the longer the horizon the more impact charges will have on the final sum over that time.

If you have a very complex series of issues, perhaps involving yours and/or your partner's pension, as well as complex investment propositions, you really should seek proper advice because, to use another phrase you've heard before, a little knowledge can be a very dangerous thing.

Independent Financial Advisers (IFAs) are no longer allowed to accept commission from providers on investment products (though they can on non-investment advice like mortgage or protection products).

The hourly fee will usually be in the range of £75 to £200 an hour plus VAT.

For obvious reasons though, it really does make sense to arm yourself with enough information to ask informed questions. Also have at hand some information you've already thought about – like your time horizon, your goals and your attitude to risk.

IFAs can vary massively in experience and qualifications – hence the wide fee bracket – but happily there are plenty of places to find one near you. Visit www.unbiased.co.uk and www.vouchedfor.co.uk.

What level of service do you want?

There are in the investment industry, three levels of service to the customer – that's you – which can give you all the solutions – depending on what you're prepared to pay.

These are, from cheapest to most expensive – execution only, advisory and discretionary.

Execution only brokers

Almost exclusively internet based these days – execution only brokers will only buy or sell (execute) exactly what you order them to do so. It is illegal for them to give any kind of advice. This is by far the cheapest option if you want to buy any stock-market based investment like shares, or investment funds inside or outside an ISA. There are many available, a quick internet search away, and they're easily comparable for cost.

Charging structures vary depending on the frequency with which you trade or if you want to pay a quarterly fee for reduced dealing charges. There will be an annual administration fee for an ISA – probably about 0.5 per cent. It is easy to find an execution only broker for less than £10 per trade.

Advisory

Basically they are there to support your investment decisions and can guide or advise you into what their view of the best way to invest your money is. They cannot act unless you give them an instruction to do so. This service will come with an advisory fee and probably they will charge you much more for brokerage (the cost of buying and selling) than their execution only rivals.

Discretionary

You can tell a discretionary stockbroker because their literature will be on expensive paper and their head offices will be in Mayfair or the City of London and they will have Victorian watercolours on the walls. In essence, this is how it was done back in those old days we discussed right at the beginning of the booklet. At the outset of your relationship with a discretionary broker you will agree a mandate which outlines a broad investment strategy then you give them a sum of money, either annually or regularly, and they invest it for you without specific instructions. You don't need to do anything other than pay a great deal of money out of your invested cash to pay for the service.

Risk-rated strategy and asset allocation

It is worth repeating ourselves here. Spreading your investments over a series of different instruments flattens and narrows risk and makes everyone generally feel better.

Combine this with the attitude to risk you have as an individual. And remember, we are not talking about your attitude to your money, we are talking about the youngsters' future here and if you can't tread carefully with that; to be blunt, you would not have read this far.

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It is absolutely vital to find the right balance between safety and soaraway results and consider the structures we have examined above.

Only you can know what is right for your goals, dreams and aspirations but there is no doubt that you need to decide on a strategy and that the majority of your holdings should be in some form of tax-efficient, stock-market based vehicle.

There really is a bewildering array of funds within this world and some carry much greater risk than others. We're not going to get into that here because that's the role of advisers and at least another booklet in itself, but suffice to say that if you know what your attitude to risk is, there are definitely the right vehicles out there for you.

To help with your further research if you wish, there are easily-available places to go for help.

All investments have a historical performance which can easily be seen online and this is particularly prevalent when it comes to investment funds – they are called rating agencies and there are many of them. Here's two which are free to access for consumers, www.trustnet.net and www.morningstar.co.uk.

These businesses exist to examine in minute detail the performance of stock-market based investment funds by examining their historical behaviour and they rate funds with a system expressed in stars in exactly the same way as hotels and restaurants. It's pretty self-explanatory.

When you see an investment advertised it always carries with it what the Government calls a 'wealth warning' which contains the words 'past performance is no guarantee to future performance'. Well, no of course not, otherwise we would all have a crystal ball on our dashboard – but there is no better way in existence of giving us a guideline of how it might work in future and therefore a pipeline to peace of mind.

Conclusion

So now you understand all about what is available and what you can do to help provide for children and grandchildren.

We very much hope you have found this guide useful and that within these words are the answers to some or all of your questions. For help, guidance and a way to setting up a pathway for your children and grandchildren's success, you know where to find us.

We hope you'll be in touch.

The Family Building Society

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