

Invest now – to give your child a golden future



ENVIABLE: Junior cash Isa rates are far higher than the adult equivalent

JUNIOR Isas are a great way to save for a child's future – the Isa wrapper means there will never be any tax to pay on interest or investment returns.

They are similar to the Isas offered to adults, except that the Junior Isa contribution limit for this tax year and next is £9,000, as opposed to £20,000 for adults. There is, however, a nice quirk for those who are aged 16 or 17. They can have both a Junior Isa and a cash Isa – in effect a combined contribution limit of £29,000.

Parents and guardians can open a Junior Isa for their child from birth. The child can take control of the account when they are 16, but cannot withdraw money until they turn 18.

As with adult Isas, you can choose between cash Isas, stocks and shares Isas or a mix of the two within the total contribution limit.

If you are looking for a cash Junior Isa you need to consider the interest rate on offer, any minimum deposit requirements, whether you can transfer in other Junior Isas or Child Trust Funds, and how you want to manage the account.

While interest rates have plummeted for adult Isa savers, rates on Junior Isas remain competitive. The best rate is 2.95 per cent a year from Coventry Building Society. This account has no minimum deposit level and accepts transfers from other Junior Isas and Child Trust Funds. It can be opened and managed in branch, by post or over the phone.

The next best rate is 2.5 per cent from Bath, Darlington and Dudley building societies. All three can be opened and managed in branch or by post. None has a minimum deposit level and all accept transfers from other cash Junior Isas, but Bath does not allow transfers from Child Trust Funds or stocks and shares Isas.

If you want an online account, the highest rate on offer is 2.25 per cent from Tesco Bank. It has no minimum deposit requirement and accepts transfers from cash Junior Isas and Child Trust Funds, but not from stocks and shares Junior Isas.

Interest rates on Junior Isas may be better than their adult counterparts but, given that you are likely to be putting aside money for many years,

By Ruth Jackson-Kirby

you could enjoy better growth in a stocks and shares Junior Isa.

'There are more than twice as many cash Junior Isas as there are stocks and shares ones, and if your child is going to turn 18 within a few years of you opening a Junior Isa, then cash is probably a better option,' says Sarah Pennells, head of financial capability at life insurance firm Royal London.

'But if you're opening a Junior Isa and have ten or more years before it can be cashed in, stocks and shares can generate a higher return, though this isn't guaranteed. You could get back less than you paid in.'

Historically, the stock market outperforms cash over the long term. For example, five years ago the best cash Junior Isa was paying 3.25 per cent. If you had put in £4,000 at the time it would now be worth about £4,700. By contrast, the FTSE 250 Index has generated an annual average return of about 5.7 per cent over the past five years. So, £4,000 invested in a FTSE250 tracker would be worth about £5,300, before fees.

THERE is no shortage of choice when it comes to stocks and shares Junior Isas. All the big investment platforms – AJ Bell, Interactive Investor and Hargreaves Lansdown – offer them. To find the best one for you, consider how you want to invest.

You can opt for one where the individual investments are chosen for you or an account where you can pick your own. If you do the latter, look at how much investment choice a provider offers, then compare fees. High fees can have a significant impact on the overall growth of the Junior Isa, so it is worth shopping around.

Vanguard offers one of the most competitively priced Junior Isas. Its ready-made portfolio comes with a 0.15 per cent annual platform charge and a 0.22 per cent annual fund management charge. But it offers just 74 funds to choose from. Charles Stanley Direct has more than 1,500 funds to choose from with a 0.35 per cent a

year platform charge. Hargreaves Lansdown offers an even bigger choice and its Junior Isa can be managed online. It has an annual platform fee of 0.45 per cent a year plus the underlying cost of the investments.

And save the planet too

MANY children are determined to help protect the planet by fighting climate change. By choosing to invest their Junior Isa in funds and companies that don't damage the planet you can help improve the world too.

Last year, the Big Exchange was co-founded by The Big Issue, offering a Junior Isa where the underlying investment funds only invest in companies that make a positive difference to the environment and society. You can choose from a ready-made

bundle of funds or select your own. Its annual platform fee is 0.25 per cent with underlying funds costing a further 0.8 to 1.8 per cent a year.

Alternatively, robo-adviser Nutmeg offers ten socially responsible portfolios, invested in companies, bonds and funds with high environmental, social and governance standards. A socially-responsible Junior Isa with Nutmeg will cost 0.75 per cent a year in platform fees with the average fund costing 0.26 per cent a year.

1 ISA

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