FINANCE UPDATES
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CAN YOU AFFORD TO START A FAMILY?

The full costs of raising children surprise many.

Moving out of your parents' home for the first time, stepping onto the property ladder, getting married, and deciding to start a family are each big life events.

You'll likely crunch some numbers when considering any of them but when it comes to starting a family, it's more opaque, more emotive and more expensive.

It's been said that "wait until you can afford children and you will never have any", but with good planning and goals to work towards it can be done.

Even if you don't hit every financial milestone you set yourself, simply understanding what is involved and striving towards your milestones will stand you in good stead.

COSTS OF RAISING A CHILD IN THE UK

Studies into the cost of raising children only take you so far, as everyone's circumstances are different.

The Child Poverty Action Group estimates the cost of raising a child from ages 0-18 at £150,753 for a couple (£183,335 for a single parent), while insurance company LV= concludes that from 0-21 it is £229,251.

The thought of the full cost up to adulthood before you have even begun seems remote, so what about that first year? LV= said it costs around £11,500, which may be spent on things like car seats, prams, furniture and lots of nappies.

For what it is worth, the average breakdown of the main cost areas over the span of childhood from LV= is:

- £74,319 on education
- £67,586 on childcare and babysitting
- £19,517 on food
- £10,942 on clothing
- £9,377 on hobbies and toys.

So how can you get ready for such expenditure when you have not experienced anything like it before? We'll now take a look at some of the main areas to consider, and how some good financial planning can help.

PLANNING FOR THE DISRUPTION

Everything changes when you have your first child, and let's start by thinking about your career(s), home and transport.

First, are you and your partner in **stable employment**? If so, how will future childcare impact that? Will one or both of you drop down to part-time, or will you have the resources (either family or financial) to fully or partially pay for childcare?

Also, what kind of **parental benefits** do your employers offer? There are a range of statutory benefits, including maternity and paternity leave, the option to share parental leave, and unpaid parental leave that gives you a legal right to time off, some of which also comes with statutory pay.

But unless your employer has their own generous pay benefits, there could be a drastic hit to your finances as you enjoy your entitlement to time off.

For example, **statutory maternity pay** is paid for 39 weeks. While the first six weeks are paid at 90% of average earnings, the remainder is paid at £151.97 or 90% of earnings, whichever is lower. That represents a significant drop-off for many households. Two weeks' statutory paternity pay is also paid at just £151.97 per week.

So, just as you begin to face extra costs, you might experience a temporary drop in income. Some money put aside specifically for this is advisable.

Most families will qualify for **child benefit**. This is paid every four weeks and is currently worth £21.15 a week for a first child and £14 for subsequent children up until they are approaching adulthood. Not much, but a little help.

If you or your partner earn over £50,000, you will have to pay tax of 1% of the annual child benefit amount for every additional £100 you earn between £50,000 and £60,000.

Other big areas to consider include whether you need to move house and/or buy a bigger car. These are big decisions in their own right and will be better realised with long-term budgeting.

CHILDCARE & EDUCATION

Childcare costs can come as a big surprise to new parents. When a child is old enough to go to nursery, it can easily cost £250 a week for a full-time place.

Their first years in nursery are likely to be the worst, financially. There is a tax-free childcare scheme worth up to £2,000 a year. Helpful, but most families will still bear the brunt of the costs.

However, at ages three and four, prior to primary school, most working parents will qualify for up to 30 hours of free childcare for 38 weeks of the year – equivalent to school term times.

This is in addition to the tax-free childcare and is a relatively valuable benefit, so worth positioning yourself to claim it.

Childcare costs will diminish for many once primary schooling starts, but it will still persist in other forms – from after-school clubs to nannies. The tax-free scheme can be used beyond nursery to help out with this.

Education is another matter.

If you are considering private education, thought will need to go into how it will be funded, whether that be from income, savings and investments or family support, for instance.

Subs and equipment for sports and recreational clubs can add up to a surprising amount too, regardless of whether schooling is state or private.

It's a long way off but you might also be considering planning for support into tertiary education, such as university, to ease the pressure of tuition fees and student loans.

PROTECTION

The need for protection insurances becomes more important when starting a family.

There are a wide range of products to cover differing scenarios. These include paying off a mortgage should you or your partner die, paying out a lump sum if you are diagnosed with a critical illness, or protecting your income should you be unable to work. You may also want to consider private health insurance to fast-track medical treatment for you and your family.

What's right for you will depend on your priorities, circumstances and budget, but a good protection strategy will give you peace of mind that your family will be taken care of should disaster strike.

LONG-TERM FINANCES

One final point: do not be distracted from your long-term financial goals.

There may be times when short-term needs take precedence, but don't forget your pension and provision for later in life. Making use of ISAs and pension allowances early on is valuable because of the long-term effects of compound growth.

While ISA allowances are lost if unused, pension allowances can only be carried forward for three years before being lost, and longer-term investment has a better chance of growth.

The Junior ISA is good to have on your radar, too, should you or family members wish to tuck a little away for your offspring. This currently allows for up to £9,000 a year to be invested tax free, only accessible when your child turns 18.

Get in touch for a family-friendly financial review.