Green Financial Advice Limited
Bective House,
10 Bective Place,
London, SW15 2PZ

Tel: 0800 170 7400
Email: info@iangreen.com
Web: www.iangreen.com

FACTSHEET

Who wants to be a millionaire?

Getting there could be easier than you think – but you'll need to start young

Parents could make their baby an adult millionaire by starting a pension pot when they are born. Children born this year could become millionaires by their 43rd birthday if their families contribute to a pension for the first 18 years of their lives[1].

The analysis found that parents or grandparents contributing £2,880 per year (£3,600 after tax relief) until their children turn 18 years old could create a pot of £1,021,837 by 2061. The figure assumes a total contribution of £51,840, a growth rate of 8% per annum, and is net of product charges.

SUBSTANTIAL POT OF CASH

This assumed growth rate may seem high, but data from Moneyfacts, the comparison website, showed that average returns from pension funds were 10.5% in 2017 and have seen double-digit growth for six consecutive years.

While lower growth rates reduce the return, they would still leave children with a substantial pot of cash to help them retire. Average growth rates of 2% and 5% mean that, by the time the child reaches its 55th birthday (2073), they would have a pot of £171,086 and £668,592 respectively.

LOVED ONE'S PENSION

On an average 5% growth rate, the child would be a millionaire by the time they retire in 2083 (65 years old), with a pension pot of £1,089,067. By the same milestone, a growth rate of 8% would create a pension pot of £5,555,260.

Previous research found that very few people would consider contributing to a loved one's pension – only 2% of over-55s said they would support a relative by putting money into a pension fund. By contrast, 68% said they would leave their family an estate when they pass away, compared with 34% who would help their family with ongoing gifts of any kind.

COMPOUNDING INTEREST

Despite its obvious advantages, contributing to a family member's pension is one of the last thoughts to cross the majority of people's minds. Yet, provided growth rates remain at current levels, it could make a millionaire of a child born today by the time they hit middle age from a relatively modest £51,840 over 18 years. It's the power of compounding interest in action.

One of the biggest obstacles to passing on wealth tends to be the parents or grandparents worrying that their younger family members will 'waste' the money on frivolous purchases. But pension contributions guarantee that their children won't be able to use the proceeds until they are of pensionable age.

TAX-EFFICIENT SAVINGS

If they don't want to exert that amount of control, they can look at other ways too. Junior ISAs offer tax-efficient savings until a child is 18, albeit with no tax relief. However, if they want to be very specific about what their money pays for, discretionary trusts are another option, keeping it vague about who benefits and in what capacity.

For most parents, saving regularly is an integral part of securing their child's financial future. Making regular contributions to a child's pension may not seem like the obvious choice. However, given the flexible nature of pensions and the tax relief offered by the Government, they can provide a very simple way of securing children's financial future in retirement. ■

MAKING THE MOST OF RETIREMENT SAVINGS

Saving for a child today is a wonderful gift for their future. There's no time like the present to take steps towards making the most of retirement savings for your children. To discuss your options, please contact us.

Source data

[1] Figures taken from Brewin Dolphin's 'Mind the generation gap' research, which included a detailed survey of 11,000 people.