Financial planning for your children

Akshay Dhand

Becoming a father can be one of the most rewarding experiences in life. However, it also comes with a big responsibility as one has to make sure that all the commitments associated with raising a family are met as they may arise in the future. The only way to ensure the same is through careful financial planning which, in fact, should start as soon as a child is born. This is because some of the future expenditures can be significant and unless planned for from the beginning, they may become difficult to meet. Starting early also has the advantage that the investments get sufficient time to grow, thereby, achieving the same corpus with lower contributions.

The first thing one should do from a financial planning/management perspective is to open a bank account for the child and make all the investments for the child through the same as it will help keep track of the savings which are being kept aside for this purpose. Another useful tip would be to deposit all the monetary gifts which a child receives in their account, effectively initiating the building up of a corpus for them from the very beginning. The other immediate activity which should be carried out is the reassessment of the amount of life insurance cover that one has and topping it up given the additional financial responsibilities that fatherhood brings.

Plan for major expenditures

Once these immediate steps have been completed, the bigger task of financial planning needs to be carried out to assess what would be the needs of the child as he/she grows up and what would be the best instruments to take care of the same.

As a minimum, one should consider planning for the major expenditures expected to be incurred in the future. These would include school/college fees and costs associated with higher studies, initial financial support to the child as he/she embarks on a career such as providing seed capital for business, helping with down payment for the first property etc as well as expenditure on marriage of the child. A starting point might be the typical expenditure that these events costs in current times and increasing with an assumed inflation rate till the point in time that they are expected to occur. It will be also important to allow for additional factors which may increase these expenditures such as the child opting for further studies abroad in more expensive countries as compared to India.

Once an estimate of these expenditures has been established, comes the task of assessing what instruments to choose to be able to meet these commitments.

Typically a range of asset classes can be looked at for this purpose such as equities, debt etc. and it is advisable to consider instruments which not only offer exposure to these asset classes but also provide features such as tax efficiency and protection.

For instance, Child Plans offered by life insurers may be better products compared to other saving plans as they offer the additional protection of premiums being funded by the insurance company in case the need arises.

In addition, Unit Linked Child Plans offer a range of funds providing exposure to various asset classes besides having additional tax benefits compared to other similar financial instruments like mutual funds.

Once the instruments have been chosen and appropriate amount of savings are being deposited in the same, it is important to monitor the performance of these instruments at reasonable intervals to ensure that they are on track to meet the desired outcomes. Further, the estimates of the required expenditures for which these investments are being made, themselves should be updated as the child grows, for new factors that may emerge. Both these revisions are necessary to ensure that as and when the need arises in the life of the child, these can be met with the investments which have been carried out.

I fully believe that once a parent, always a parent. Even after the child is married and settled in his/her career, although the father might think that his responsibilities are over, there are often expectations on providing legacy/gifts for grandchildren in the Indian society. While these could be argued to the least onerous of all the responsibilities, careful investments/savings for these would still be beneficial in that it will help to ensure that these can be comfortably met.

Overall, it is important for every father, in fact every parent, to consider the above aspects of the financial planning upon the arrival of the new family member. This will ensure that they have the peace of mind, knowing that the commitments expected of them by their family can be met with reasonable certainty, allowing the family to enjoy the quality of life together that they truly deserve.

(The writer is an Appointed Actuary at Canara HSBC OBC Life Insurance)