

# Saving for school fees and university costs

**F**ew parents consider how much it will cost when they decide to start a family. That's probably how it should be. Having children should not be a financial decision. And yet, once you do have them, it would be irresponsible not to start planning for the future costs that will arise.

If you expect to send your children to fee-paying schools, the sooner you can start putting money aside the better. According to the 2007 Independent Schools Council Census ([www.isc.co.uk/publications](http://www.isc.co.uk/publications)), average fees for day pupils around the country currently range from £2648 per term in the North of England to £3529 in Greater London, while average boarding fees start at £6432 per term in East Anglia rising to £7514 in the West Midlands.

Attending university does not come cheap these days either. The National Union of Students estimates that the annual cost of attending a university outside London, including tuition fees, is £12 619, while in London the cost rises to £14 613. Student loans do not cover the full cost which means that many students now have to work and borrow money from other sources. The NUS predicts student loan debt could total £27 615 for present day students.

With these costs in mind, most parents need to get down to serious saving as early as possible. Making maximum use of the most tax-efficient methods of saving available should be your main priority.

## Child trust funds

If you have children who were born since 1 September 2002, your first step should be to make full use of the Child Trust Fund. You should have received vouchers worth at least £250 to invest in a tax free account on your child's behalf. Another £250 will be paid by the Government on his or her seventh birthday. You can add up to £1200 per year to the account that will also grow tax free.

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How much Child Trust Funds will be worth by the time the child is 18 years old and is allowed to withdraw the money will depend on the type of account chosen and how much is added. Cash and share accounts are available. Historically, over longer periods, shares have produced better returns than cash. Shares can fall as well as rise in value but holding cash is not completely risk free either. Inflation can erode the buying power of your cash if the interest rate you receive is not high enough.

Adding extra savings to a Child Trust Fund will make a big difference to the final amount. One option for parents is to save their Child Benefit, currently £18.10 per week (for 2007–08) for the first child and £12.10 per week for subsequent children.

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Over 18 years this money will make a significant difference to the final amount. (To find out how much the Child Trust Fund may be worth with and without added savings, visit [www.childtrustfund.gov.uk](http://www.childtrustfund.gov.uk).)

## Individual savings accounts

The next tax-efficient savings option is to use your own individual savings account (ISA) allowances. Each adult can save up to £7000 a year in an ISA where savings can grow virtually free of tax. Investments can be made in lump sums or as regular savings starting at around £20 per month. Different investment options are available according to your timescale and attitude to risk.

Up to £3000 of the ISA allowance can be invested in a mini-cash ISA – a bank or building society savings account which pays tax-free interest. Cash ISAs are an ideal home for money required in 5 years or less. The remaining £4000 of the allowance can go into a stocks and shares mini ISA. Alternatively the whole £7000 can be invested into a stocks and shares maxi ISA. These ISAs are designed for medium- to long-term saving.

Various types of stocks and shares ISAs are available depending on your attitude to risk. For more cautious investors there are with-profits ISAs which invest in a mixture of shares, fixed interest securities and property. Regular bonuses are added in order to smooth out investment returns. The other popular alternative is unit trust ISAs. A choice of funds is available which invest in the UK or overseas shares, fixed interest or property. Your investment in these funds will fluctuate in value in line with the underlying investments.

## Low-risk savings

Once your annual ISA allowances have been used, further low risk savings could go into National Savings & Investments Index Linked Savings Certificates which run for 3- and 5-year periods. Up to £15 000 can be invested in each issue. Returns on these certificates are linked to inflation and are tax free.

## Longer-term savings

For longer term savings, direct investment in unit trusts is another option. This can also be tax efficient because investors can use their annual capital gains allowance of up to £9200 (for 2007/08) to make tax-free withdrawals.

Another form of long-term savings worth considering is unit-linked regular savings plans that can be put into discretionary trusts for children. Managed funds can be used which spread the investment risk across shares, fixed interest and property. Trusts can be also useful for inheritance tax planning. Money can be passed on to children but as it is held within a trust, the trustees can maintain control over how the money is spent.

## Conclusions

There are many ways in which money can be put aside to help pay the costs of children's schooling and university education. The sooner you start saving the more significant that help will be. **BJHM**

The above information does not constitute financial advice. For further information please speak to your financial adviser.