

Planning for the rising costs of education

Most parents agree that a good education can be key to giving children the best start in life. However, if you want to send your children to a fee-paying school then you should be prepared for a serious financial commitment. Research by Wesleyan has shown that it can cost in the region of £600 000 to educate two children privately and send them on to a 3-year university degree. According to the Independent Schools Census carried out in January 2010, school fees rose by an average of 4% last year which means they are outpacing inflation.

You do not want to find yourself in a position where you have to remove children from school because you can no longer afford to pay the fees, so you should plan how you can cover the costs over the long term.

Planning ahead

Before you decide how you want to plan paying for school fees there are some factors that you should consider:

- Explore whether there are any bursaries, grants or scholarships available to help fund your child's education. More details should be available from the school or local authority.
- If you already have a portfolio of assets and investments, review them to see if they will cover all the costs. You may want to make additional contributions to increase their worth or even seek new investment opportunities. If you commit to new investments make sure you consider their maturity date so that they release funding at the times when you need to pay school fees.

Savings options

Some parents will find it a strain to pay education fees continuously from regular, taxed income and prefer to save over a longer period. So once you have considered your current position, think about the savings options available to you.

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Individual savings accounts

Putting money into an individual savings account (ISA) can be a smart option as your savings will grow free of income and capital gains tax. The current allowance is £10 200 of which up to £5100 can be invested in a cash ISA, which is best used for money you will require in the shorter term – 5 years or less. The remainder of your allowance (or all of it if you prefer) can go into a stocks and shares ISA, designed for medium- to long-term savings.

Various types of investments can be held in a stocks and shares ISA and which you choose will depend 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. An alternative is unit trust ISAs; a choice of funds is available which invest in things like UK and overseas shares, fixed interest securities and property. Your investment in these funds will fluctuate in value in line with the underlying investments.

According to figures from Wesleyan, two parents making full use of their stocks and shares ISA allowance could build a nest egg of £254 000* over 10 years – a tidy sum to pay for school fees.

Other investments

If you have the capital available you could invest a lump sum of money. A wise investment could ensure that future fees can be covered from the returns. You should speak to your financial consultant to find a tax-efficient and flexible approach that suits your needs.

For longer term savings, direct investment in unit trusts is another alternative. This can be a tax-efficient option because investors can use their annual capital gains allowance of up to £10 100 to make tax-free withdrawals. Capital gains tax is now paid at the rate of 28% for higher and additional rate taxpayers and 18% for all others. These rates are still below the equivalent tax rates on income which means that generating investment returns

*Assumes an underlying investment growth of 7% based on 2010/2011 ISA limits.

in the form of capital growth rather than income can be beneficial. You should talk to your financial consultant as this is a complex area.

There are other investment options available according to your timescale and attitude to risk. Your attitude to risk will be a key factor in helping you to decide what type of financial planning to undertake. If you are a cautious investor you might want to choose funds with a safer but probably lower return. More speculative investors might consider higher-risk options.

Trust planning

You could also consider a regular savings plans that can be put into trust for your children. This could help with inheritance tax planning and give you peace of mind that, should anything happen to you, the funds are safely earmarked for their education and are in the hands of people you trust to use them as you intended.

If you are in the fortunate position of having parents who can help, they can make tax-efficient contributions to the education of their grandchildren while minimizing inheritance tax liability on their own estates.

Finally it is worth thinking about how you would continue to pay fees if your personal circumstances change, for example if you are sick, made redundant or die. You might want to ensure your payments are suitably protected to cover you in the event of such unforeseen circumstances.

Conclusions

There are many ways in which money can be put aside to help pay the costs of your children's education. Every family will have different requirements so it makes sense to take professional advice from a financial consultant who has a good understanding of the subject and of your own needs. The sooner you start saving the better prepared you will be to cover these costs. **BJHM**

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