

The increasing cost of education

A good education can provide children with the best start in life. Many parents are attracted by the promise of smaller class sizes and higher academic standards offered by private schools. Private education is a significant financial commitment, however, especially if children then decide to go on to further education. Figures from Wesleyan Medical Sickness show that it can cost almost £350 000 to educate two children privately from the ages of 5 to 18 years. This is exclusive of boarding costs and extras which might include uniform, books and school trips. With the Independent Schools Council Census showing an average fee rise of 4.5% in 2011, this is an escalating cost and one which you will need to plan carefully to cover.

Further education, further cost

The average predicted debt on leaving university for UK students is £26 100 for those starting their course this year. This could rise to £53 400 for 2012 entrants and for students in England the projected average is £59 100.

If your children follow you and study medicine, the final costs will be considerably more. The British Medical Association estimate that medical students could graduate with debts of at least £70 000.

Plan ahead

These are quite startling figures but they highlight the need to start planning your finances well in advance. There are a few things you should consider before you start making plans.

To help with school costs, explore whether there are any bursaries, grants or scholarships available. Details should be available from individual schools or the local education authority.

If you already have a portfolio of assets and investments, you should review these and consider 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.

Think about how much risk you are prepared to take with your money.

Saving for school

Some parents may find it a burden to pay education fees continuously from their regular income and instead prefer to save over a longer period. There are a number of options available that will allow your savings to grow and allow you to access them when you need to pay fees.

For example, putting money into an individual savings account allows your savings to grow free of capital gains and income tax and provides easy access. The current individual savings account allowance is £10 680, of which £5340 can be in a cash individual savings account. A cash individual savings account is best used for money you will require in the shorter term. The remainder of your allowance, or all if you prefer, can go into a stocks and shares individual savings account, which is designed for medium to long-term savings.

Various types of investments can be held in a stocks and shares individual savings account and which you choose will depend on your attitude to risk. For more cautious investors with profits individual savings accounts 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 individual savings accounts; a choice of funds is available and your investment in these funds will fluctuate in value in line with the underlying investments.

According to figures from Wesleyan Medical Sickness parents both making full use of their stocks and shares individual savings account allowance could build up a lump sum of £266 000 in 10 years if the underlying investment grew by 7% each year – a tidy nest egg to pay for school fees.

Other investments

If you have the capital available you could invest a lump sum of money – wise investment could ensure that future fees can be covered from the returns.

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 exempt amount of up to £10 600 to make withdrawals free of capital gains tax. This is now paid at the rate of 28% for higher and additional rate taxpayers and 18% for all others. These are still below the equivalent tax rates on income which means that generating investment returns 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.

Other investment options are available depending on how long you plan to hold the investment for and your attitude to risk.

Trust planning

You could also consider a regular savings plan 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 any inheritance tax liability on their own estates. If this could be of benefit to your family talk to your financial consultant to get more information.

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

Putting your children through private school and university is a substantial financial commitment. Every family will have different needs and it is best to take professional advice from a financial consultant as early as you can. **BJHM**

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

Wesleyan Medical Sickness provides specialist financial advice for doctors
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