

Back to school investments

With the start of the academic year, many parents' minds are focused on the rising cost of putting their children through school and university.

According to the 2012 Independent Schools Council survey, school fees are currently an average of £13 788 a year, and have risen by 14% in the past 3 years. This means, based on current fees, to put two children through private education from the ages of 5 to 18 years, could end up costing more than £350 000, so it is important to plan carefully to ensure you have enough funds in place to cover it.

If your children decide to go to university then the expense will continue, especially with many universities now charging the maximum £9000 a year for course tuition fees. With living expenses, this means that, according to the independent university guide push.co.uk, the average debt on graduation for students starting this autumn will be £53 400, compared with £26 100 for those who started in 2011. If your children decide to follow you into medicine, the British Medical Association estimates their debts on graduation could be as high as £70 000.

Forward planning

These figures make it clear that if you do have children and intend to pay for their education, the sooner you start planning your finances, the better.

If you are unable to pay education costs from your regular income, then you may decide to turn to any assets or investment portfolios you have. Review them to see if they will cover the predicted costs, and decide whether you need to make additional contributions or seek new investment opportunities.

With investments, it is important to consider their maturity date to make sure

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you have access to the funds at the times you need to pay school fees.

Clever saving

There are a number of options that will allow your savings to grow while allowing you to access them when you need to pay fees.

One option is an individual savings account. These allow your savings to grow free of capital gains and income tax, while providing easy access. However, there are limits to how much you can save into them each year. Currently this is £11 280, with half (£5640) allowed to be invested into a cash individual savings account with the rest into stocks and shares, or alternatively the full amount can be placed into a stocks and shares individual savings account. A cash individual savings account is best if you will need to access the money in the short term, while stocks and shares individual savings accounts are designed for medium- to long-term savings.

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If two parents used their full stocks and shares individual savings account allowance over 10 years, assuming individual savings account allowances increase in line with the consumer price index rate of inflation of 2%, and if the underlying investment grew by 5% each year, it is estimated they could build up a nest egg of almost £260 000 that could be used towards school and university fees.

Alternative investments

If you have the capital available, you may decide to invest a one-off lump sum of money. Invested in the right way, future fees could be covered from the returns.

For regular, longer term savings, there is the option of direct investment in unit trusts. This can be a tax-efficient option because investors can use their annual capital gains tax exempt amount, which allows them to make a certain amount of gains

each year before they have to pay tax. For 2012–13, this means they can make gains of up to £10 600 free of capital gains tax.

Protecting your children's future

A regular savings plan that is put into trust is a good way to ensure your children are still able to attend private school or university in the event that anything happens to you.

The funds would be safely earmarked for their education and are supervised by people you trust to use them as you intended.

You may also want to consider how you would continue to pay fees if your personal circumstances change, for example, if you suffer an illness or are made redundant. If your children are forced to leave their private schools suddenly, it could be a big upheaval for them, so you may want to ensure your payments are suitably protected to cover you in the event of unforeseen circumstances.

Finally, if you have parents who can help, they too can make tax-efficient contributions to the education of their grandchildren while minimizing any inheritance tax liability on their own estates. However, reducing inheritance tax liabilities can be a complex area, so it is important that they and you take expert advice.

Conclusions

Putting your children through private education and university is undoubtedly a big financial commitment. As well as savings and investments, it may also be worthwhile to explore whether schools have any bursaries, grants or scholarships available to help with the cost. These details should be available from the schools themselves or the local education authority.

Whatever you decide to do, it is best to take professional advice from a financial consultant to ensure your financial commitments match your personal circumstances. **BJHM**

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