

Counting the cost of education

Every parent would like to give their children the best start in life. Part of that may be to send them to private school or help them through university. But with those costs, as well as the general expenditure of bringing them up, it can get expensive.

According to the 2013 Independent Schools Council Survey, day school fees are currently an average of £11 505 a year, a 3.9% increase on last year. Wesleyan has calculated that if the average day school fees increase by the same amount each year, it could cost almost £200 000 to put your child through private education until the age of 18 years.

If your children decide to go to university, then the costs will continue to increase, especially with the maximum £9000 tuition fee that is now in place. With living expenses, it is estimated that students could graduate with debts of more than £40 000. If your children decide to follow you into a career in medicine, then they could face debts of £70 000.

Even without education costs, the cost of bringing up a child can be as much as £150 000, according to the Child Poverty Action Group, so it is clear some careful financial planning is needed to help ease the burden.

Plan ahead

While the basic costs of looking after a child will likely be absorbed into your day-to-day expenditure, paying for school and higher education will need more careful planning and the sooner you can start this, the better.

Review any assets or investment portfolios you may have to see if they will cover the predicted costs. This will help you determine whether you need to make additional contributions or seek new investment opportunities.

Wesleyan Medical Sickness provides specialist financial advice for doctors
Telephone: 0808 100 1884
Website www.wesleyanmedicalsickness.co.uk

Smart saving

With any investments you make, it is important to make sure you have access to the funds when you need them. If you are saving for school fees, you will need the money on a regular basis, while funds for university costs can be locked away for a longer period of time.

An individual savings account will allow your money to grow free of capital gains and income tax, while providing easy access. 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.

Because of their tax-efficient nature, there are limits to how much you can save into an individual savings account each

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year. Currently this is £11 520, of which up to half (£5760) can 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.

Alternative investments

If you have the capital available, you may decide to invest a one-off cash lump sum. 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 allowance, which allows them to make a certain amount of gains each year before they have to pay tax. For the 2013–14 tax year this is £10 900.

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.

Protecting your children's future

It is important to consider whether you would still be able to pay fees if your personal circumstances change, for example, if you were to suffer an illness or be 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 that you protect your income to cover you in the event of unforeseen circumstances.

Income protection policies will pay you a regular tax-free income, typically up to 50% of your pre-incapacity level. Most plans pay out until you return to work, are no longer suffering from a loss of earnings (such as if you start receiving your pension), you reach the maximum age for the policy, or you die.

If something unexpected were to happen to you, you may also want to make sure the funds you have allocated for your children's education remain in place solely for their use.

By having a regular savings plan that is put into trust, the funds would be safely earmarked for school and university costs and will be supervised by people you trust to use them as you intended.

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 exploring 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.