Saving for school

If you still plan to send your child to a fee-paying school despite the recession, it’s a good idea to start putting money aside as soon as you can. Mark Blakeman explains how.

As the recession continues to bite, private schools are being hit hard. Some reports suggest that over 50 schools have already closed, merged or been taken over. It’s a worrying time for pupils and parents alike, with one mother likening the closure of her daughter’s school to “a bereavement”. Equally difficult would be the prospect of removing your child from school if you could no longer afford to pay the fees, which this year have shown an average rise of 5.9 per cent, according to the Independent Schools Census.

If you plan to send your children to a fee-paying school, the key is to start putting money aside as soon as you can. You might be surprised to know that, according to our research it can cost almost half a million pounds to educate two children privately if you could no longer afford to pay the fees.

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Planning ahead

Before you decide how you want to plan paying for school fees, there are a number of factors that you should take into consideration.

• It’s worth exploring whether there are any bursaries, grants or scholarships available to assist you in funding your child’s education. More details should be available from the school or 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 to ensure that they release funding to coincide with the times when you need to pay the school fees.

Savings options

Once you’ve considered your current position, you need to think about the options available to you. Some parents will find it a strain to pay education fees continuously from regular, taxed incomes and prefer to spread a portion of the costs over a longer period.

Individual Savings Accounts (ISAs)

A tax efficient savings option is to use your ISA allowance, which currently stands at £7,200. ISAs allow your savings to grow free of income tax. Investments can either be made in lump sums or as regular savings, starting at around £20 per month.

Up to £5,600 of your ISA allowance can be invested in a Cash ISA. This is an ideal home for money that you will require in five years or less. The remaining part of the allowance could go into a stocks and shares ISA, designed for medium to long term saving.

Alternatively, you can invest the whole of the allowance into a stocks and shares ISA. There are various types 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.

A popular alternative is unit trusts ISA. 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.

It’s worth remembering that, from April next year, the annual ISA investment limit will be increased to £10,000, of which up to £5,100 can be placed in a cash ISA. Those 50 and over will be able to benefit from these new allowances from 6 October this year.

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 option. This can also be a tax efficient option because investors can use their annual capital gains allowance of up to £10,100 to make tax-free withdrawals. With capital gains tax standing at 18 per cent, compared to income tax at 40 per cent, generating income through capital growth can be beneficial but talk to your financial consultant as this is a complex area.

It’s also worth considering a regular savings plan that can be put into discretionary trusts for children. Managed funds can be used which spread the investment risk across shares, fixed interests and property.

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, lower return. More speculative investors might consider higher-risk options.

Trust planning

If you’re in the fortunate position of having parents who can help, they can make tax-efficient contributions to the education of their grandchildren whilst minimising Inheritance Tax liabilities on their estates. If this could be of benefit to your family talk to your financial consultant to get more information.

Finally it’s 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 unforeseen circumstances.

Take professional advice

There are many ways in which money can be put aside to help pay the costs of your child’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.

Mark Blakeman

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