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 moving 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 during their 13-year period. A popular alternative is unit trust ISAs. A choice of funds is available which invest in the UK or overseas shares, fixed interests or property. Your investment in these funds will fluctuate in value in line with the underlying investments. There are other investment options available according to your attitude to risk. For more speculative 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.

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 income and prefer to spread a portion of the costs over a longer period. A tax efficient savings option to use your ISA allowance, which currently stands at £7,200, is to set up a ISA in trust for your children. Managed funds can be used which spread the investment risk across shares, fixed interests and property. 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.

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. Some parents might want to choose funds with a safer, lower return. More speculative investors might consider higher-risk options.

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.

Take professional advice

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.

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