

Save to learn: Issues and solutions



Whether you choose to send your child to a fee-paying or non-fee-paying school, education is an expensive business. Regardless of fees, there are uniforms and sport kits to buy, trips to pay for and perhaps music lessons or other extra-curricular activities that do not come for free.

Listed below are some of the suggestions offered by **Skipton Financial Services Ltd**, a subsidiary of **Skipton Building Society**, on the things you should be thinking about now for your children's future education:

- It is essential to build a realistic idea of what a child's educational costs may be. Ideally this should include a choice of schools, which will enable you to take current fees and extrapolate them forward at a reasonable growth rate to take account of inflation.
- If an exact school is not known, the Independent Schools Yearbook may be a useful publication. This gives the fees charged by public schools throughout the country.
- Once an estimate of the amount of fees required in each year of your child's education is established, it is important to decide if some kind of saving is required to provide all or part of the educational fee funding. If specific saving is required a number of factors should be taken into account:
 - How much is required? - You will have established your target amount required and you can now, assuming certain growth rates, decide how much needs to be saved. This is a fairly inexact science as assumed growth rates, as the name states, are assumed. Somewhat obviously, the lower the assumed growth rate, the more likely it is that the target is going to be achieved.
 - How long will your child's education be? - If a lifetime of education is to be funded it is likely that the first year of fees to the last year of fees could be as much as 20 years apart. Therefore the pre-funding of these years of fees is likely to be placed in vastly differing assets.

Funding for something 20 years in the future means that, depending on your attitude to risk, it is possible to place the entire amount saved initially into equities. In contrast, when funding for a fee payable in less than five years, it is highly likely no equities should be held.

As the event which is being saved for grows near, a re-positioning of the portfolio will be required to take note of the proximity of the requirement of the funds and it must be ensured these funds may be easily accessed.

- Are there any charges involved? - Some savings vehicles have generally higher charges than others and these should be carefully considered prior to any commitment. For

example, charges on savings endowments, which are often used to provide lump sums for school fees, can be an expensive option.

- Will the investment be taxed? - If possible, the most tax efficient savings vehicles available should be used. For example, each parent has an ISA allowance (currently a maximum of £7,000 each per annum) which could be used. Alternatively the most beneficial taxable environment should be considered.
- How much flexibility is needed? - Any arrangement should be flexible. Your child could turn the tables on you and become a brilliant scientist or doctor, requiring a five or six year stay at university. It is important considerable 'fat' is built into any scheme to enable any unexpected increase to be catered for.
- Should a trust be considered? - Often money, especially from grandparents, is placed into trust for children and can be used for educational purposes. This however brings a number of further considerations:
 - Access must be highly controlled. A trust which allows access by the child at 18 would be possibly deemed unsuitable as, once allowed access, they may spend all the hard saved money put aside for fees in their first week at university. Therefore it is imperative that the trustees are able to retain control past the 18th birthday.
 - Choice of trustees could be parents and/or grandparents who can tightly control any spending.
 - Inheritance tax is dependent on the type of trust used; as long as the settlor does not benefit, there may be considerable inheritance tax benefits to a trust fund. This could save up to 40% of the value placed in the fund, giving a useful discount on the overall cost of educational fees to the family.

A visit to a financial adviser will help ensure that all these issues are addressed and considered properly. Visit any Skipton branch, where one of our advisers will be able to help you draw up a plan to manage your finances and set realistic targets. We can offer both Skipton Building Society investment products as well as free advice from an independent financial adviser, from Skipton Financial Services Ltd, with access to a range of providers' products. Alternatively, call us on 08457 171777 to find out more.