Cube Advice CONSULTING

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How to save for your Child's Education!!!

IS IT BEST FOR YOU TO PUT ASIDE A MONTHLY CONTRIBUTION TO A SAVINGS ACCOUNT, TAKE OUT AN ENDOWMENT, A UNIT TRUST OR AN EDUCATION POLICY (OR ANY OTHER OPTIONS)?

Géral van Jaarsveld, Director of Cube Advice Consulting's responds:

People are increasingly recognising the importance of a good education and are also aware of its escalating costs.

Education inflation historically runs at about 3% per year above the inflation (CPI) figure, so the cost of education is generally increasing at a more rapid pace than our salaries.

It is important to know that a money market fund provides returns close to inflation, but more important to consider investments exposed to growth assets e g equities and property that should provide returns well above inflation and education inflation.

These typically are available in balanced funds or growth funds, which can be accessed via education policies and unit trusts.

Saving need not be restricted to a bank account.

Cash in the bank is good for a rainy day but may not be the most effective vehicle for longer-term goals, given that in the current low-interest rate environment the return on cash barely matches inflation over time.

A savings plan requires taking the appropriate risk to deliver long-term inflation-beating returns.

Unit trusts and investment policies provide ideal vehicles to use as part of an education savings plan, depending on your savings behaviour and requirements.

• An Endowment offer a fixed term of 5 – 10 year ……..
• Unit trusts offer many benefits if you require flexibility and early access to your money.
• The benefit of an education policy is that you have a more structured savings plan, with limited access during the first half of the term.
However, it has the added advantages of value in the full term, access to leading asset managers, benefits for your child on your death or disability and access to funds that offer guarantees on your savings.

That takes us to how much you should be saving for your child's education.

Most children are ready for school at age seven. If your child is born today, you will be required to save R3 800 per month to send your child to private school and university to do a three-year business degree.

This is if you increase your premium with education inflation every year.

Remember that your salary may go up every year with inflation too. However, if you keep your premiums level, you will be required to save R8 100/m.

If you plan to send your child to public school and university to do a three-year business degree and you increase your premium with education inflation, you will only be required to save R1 500/m.

If however you keep your premium level without increasing it yearly as your salary goes up, you will be required to save R3 200/m.

So to summarise the answer to the reader's question:

1. Education inflation is higher than education and a money market account won't have good enough returns to keep up with it.
2. A bank account is not a good option because interest rates are low and you may get returns below inflation.
3. Look at growth assets through balanced funds to grow your savings by more than inflation to keep up with school fees .
4. Look at a unit trust or endowment, depending on your needs.
5. Speak to a financial adviser who can assess your requirements and look at our calculators to see how much you should be saving each month if you want to invest in unit trusts or in an education policy.

Do not hesitate to contact us if you require any additional information or any clarity on your current portfolio :

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