AMALIAWEALTH

Amalia Wealth Guide

To

Education Funding

Introduction

When you have a family, you are probably looking forward to giving your children the tools to have a wonderful and successful future. In particular, you may be interested in providing financial support for them to go to college or university. Unfortunately, the costs of post-secondary education can be quite large, and many families find it impossible to take on these costs when it is time for their children to head off to school.

This matter can often be quite complex for international people; they may wish to send their children to university back in their home country – but beware, often the fees are higher for these children, as state subsidies may only be available for children whose parents have a recent and established pattern of paying social security there.

In Europe, you should consider the trend that more and more children are attending university. Therefore the "free" education that the parents received may require fees to be paid by future generations. The UK is a good example of this; fees for tuition are increasing rapidly, and state subsidies are falling. In France and Spain, subsidised places have been strictly limited, and many parents face the full costs of paying for a private university.

By investing early in your child's education, you can help to ensure that they can go to the college or university of their choice.

You may be wondering why you should start saving for your child's college or university education when they haven't even started to talk or walk yet! Well, the costs of education are already quite expensive and in the future, you can be sure that the price of tuition will only increase.

Also, don't forget that post-secondary education has a lot of hidden costs, including: room and board, books, transportation and equipment. This can greatly increase the real costs for your child's post-secondary education.

There are a few steps for you to undertake when it comes to forming savings plans for college or university:

Know When to Start

It is probably going to take you at least fifteen years to save up enough money to pay for your child's education. So if your child is going to head off to college or university when they are eighteen, you should probably start saving by the time they hit their third birthday. Some savings plans take longer, while a few options pay off sooner.

A recent survey found that, for most students, university tuition fees are not the main problem when it comes to deterring high calibre students from achieving their educational goals. More students and their families were put off by the potential debts that would be incurred from the ever-rising accommodation and utility costs, travel, expenses, books, equipment and lifestyle costs.

Leaving university under a mountain of debt that will engulf finances for many years is not an attractive prospect and as a result students are opting for cheaper, shorter courses closer to home. Quite simply, these children are not being afforded choice, freedom or the ability to fulfil their potential.

So how can you ensure that as parents, you are not the financial barrier that will restrict your child?

Making a Financial Plan

Planning is essential when it comes to saving money for post-secondary education. Here are some tips to keep in mind for your plan:

Identify how much money you will need for tuition costs for your child to study for four years.

Budget for essentials, like books, room and board and transportation.
An example financial plan for each child might be:

Costs for tuition	=	€5,000pa
Living expenses	=	€9,000pa
Total	=	€14,000pa
Total for four years	=	€56,000
Inflation adjusted at 3% pa over 15 years	=	€87,248

Depending on your assumptions of risk and growth, funding this may require monthly savings of more than €250 per month, or a one off investment of more than €21,000. An experienced financial planner will be able to help you prepare your own bespoke plan.

Consider the type of investments you will need to make in order to meet this financial requirement. You may wish to save regularly to build up a fund, or invest a larger single payment which will grow to cover the costs.

In the early years, you are probably best off finding medium to aggressive risk investments that will provide good returns. Avoid low-interest savings accounts.

Monitor your investments regularly. Even though you don't need the money for 15 years or so, it is necessary to make sure that your investments are providing some type of return. Adjust your investment portfolio when necessary. You should then begin to shift your investments to reduce risk as your child approaches college age. This will ensure that you won't lose any of the money that you have worked so hard to save.

Another factor to consider is who should own the investment. Putting it in the name of the child could be more tax efficient, and also help you separate this money from your other finances. It is very important to understand that doing this means that your 18 year old child will have full legal ownership and access to these funds, and as a parent, it may not be easy to control the way in which the money is spent.

It is often safer for the parent to keep ownership of the investment, they can then ensure that the education fund is really spent on education!

Taking Stock of Your Situation

We have looked at some of the issues you need to consider to plan for education costs. You may need to speak to a financial advisor about your options. Before you do, however, it is a good idea to be clear about what your position is and what you want to achieve.

Choosing a Financial Advisor

The advisor you choose should both be authorised to provide advice on the type of product that you require and have regular recent experience of doing so.

Consider what you want from your discussions: do you want a particular product or do you want advice on your wider financial situation? If considering an advisor, ask how independent they are and what links they have to providers of financial products.

If you are speaking to an advisor at your bank, or one employed by an insurance company, you should be aware that their advice is limited to a small number of products, and they are not obliged to inform you about how competitive their products are.

Always check that your advisor is qualified and authorised – if they are not, you are not protected.

Paying for Financial Advice

There are different ways that you might be charged for financial advice.

If you pay by fee you will pay for the advice whether or not you buy a product. Normally you will then receive discounts on products, or rebates of some of the charges.

If you pay by commission you do not pay anything for the advice up front, but if you buy a product the advisor will receive part of the costs of that product, either in a lump sum or over the time for which you hold the investment.

Ask your advisor how you will be charged and what the typical cost is.

Buying Without Advice

It is possible to buy some financial products without receiving any advice. You should only do this if you are confident you know about what you need and what is available. If the product turns out to be unsuitable, you will have less cause for complaint than if advice had been provided. International clients should be particularly cautious about buying investments without full knowledge of the legal and taxation consequences which could effect them if the product is taken to other countries.