FINANCE UPDATES
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Hampshire Hill
Independent Financial Advisers

PAYING FOR FURTHER EDUCATION

Careful planning to understand the costs.

Every parent wants to give their child the best start in life. Whether that's sending them to the best nursery, the best school, or the best university, an education is a long-term investment in their future.

All of these things come at a price and the finances can often need careful planning as both the parent and the student need to understand the financial costs.

For parents, the average cost of sending a child under the age of two to nursery full-time in 2021/22 is around £13,700. Oddly enough, the typical cost of sending a child to private school in 2019/20 was exactly the same, according to the Institute for Fiscal Studies.

A university degree course can, of course, be another substantial cost and that's before factoring in accommodation or living costs, which are high at the moment.

If you have several children who are showing academic promise, it can seem impossible to provide the kind of support they will need. So let's have a look at how investing in education can be more affordable than it first appears.

UNDERSTANDING THE REAL COSTS

Universities in England, Scotland and Northern Ireland can charge students up to £9,250 a year for undergraduate tuition. Over the course of a typical three-year university course, that amounts to £27,750 in tuition fees alone.

Fees for international students can start at £10,000 and peak at more than £38,000. Tuition fees for medical degrees, which are longer than the average three-year term, are even higher.

When you consider the costs of living, books, and providing a roof over their heads, that £27,750 total tuition fee figure could easily double.

Most university students obtain a loan from the Student Loans Company to automatically pay the tuition fees on their behalf. It also provides a means-tested living costs loan, meaning not every student is entitled to this additional type of support.

MANAGING STUDENT DEBT

Naturally, student loans will need to be repaid at some point, but they are not like other conventional loans. They are deducted from gross income once the student starts full-time employment and earns more than a certain threshold.

How much they pay depends on which plan the student is on. For example, repayments are calculated as 9% of earnings above £27,295 for students on plan two.

Let's say Anna is a graduate who earns £35,000 a year and is on a student loan repayment plan two. She is £7,205 above the threshold, and will repay 9% of that, or £648.45 a year. Her repayment plan can be written off 30 years after the April her first deduction was taken.

We can help find solutions that will make student debt easier to manage, which might be useful when it comes to helping your child get on the property ladder.

THREE POTENTIAL SOLUTIONS

Supporting your grown-up children through further education has the potential to seriously impact your own finances unless you take action. For that reason, the earlier you start planning, the easier it will be to manage the extra costs.

Stocks-and-shares junior ISA

Parents with spare income might even decide to invest in a junior ISA when their child is born, giving them at least 18 years to build up a decent sum.

This is an understandable way to get started seeing as low interest rates make saving cash unappealing, while rising inflation can reduce the value of those savings. Investing does, of course, carry more risk than holding cash.

Stocks-and-shares junior ISAs can be opened for any child under the age of 18 and parents or other relatives can contribute up to £9,000 a year in 2021/22.

Parents or guardians can open a junior ISA and manage the account on the child's behalf, although the money belongs to the child. The child can take charge of the account when they're 16, but they cannot withdraw the money until they turn 18.

As long as the money remains invested in this tax wrapper, the taxman will not be able to touch any savings or stock market growth that will go towards the university fund.

Endowment policy

You might also consider an endowment policy, which is a type of investment you take out with a life insurance company.

With these types of arrangements, you pay in money each month for a set period of time, and this money is invested. The policy will then pay you a lump sum at the end of the term, usually some time after 10 to 25 years.

Given the time it takes for the policy to mature, it's possible for parents to take out a policy when their child is born and see it mature by the time they start university.

The lump sum it provides can go a long way towards covering the extra costs involved with further education, such as accommodation or living costs.

Family trust fund

If your finances are sufficiently complicated, a family trust fund might be another option to consider. We can only recommend these and you will need to seek legal advice to prepare the trust to your requirements.

Broadly speaking, this involves you placing assets into trust for a beneficiary to gain from in the future. You would also need to appoint a trustee to manage the assets.

In the context of further education, you might put cash or investments into trust for your child (or children) to benefit from when they reach the age of 18. You will no longer own any assets you put into trust.

As the settlor of the trust, you could even make the rules which stipulate that your children can only benefit from this trust in the event they go to university.

DON'T FORGET YOUR PENSION

With many of us having children later in life, the costs of further education can arrive at a time when your priority might be saving for your retirement.

To ensure the most efficient solutions to invest in your child's education while continuing to save into your pension pot, speak to us and we can look at all the solutions to integrate into your wider financial plans.

Get in touch for a financial review.