A parent's guide to education fees planning

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Until recently, the problem of paying for education was one that concerned only the wealthy. These days it affects all parents and their student offspring. Many parents are already paying college and university fees, and this trend of rising fees and falling local authority grants is set to continue - until grants are abolished and replaced entirely by loans. School fees present an additional burden: it is estimated it costs more than £100,000 to fund a child through private education.

However, with a bit of forward planning and/or some good advice, you should find that providing your offspring with privately funded education is not a financial nightmare.

How much would I expect to pay for private tuition?

Independent school fees have in the past tended to rise faster than inflation. So just what figures are we dealing with?

Type of school	**Average fees per term**
Nursery (2-5)	£1607
Junior/prep (5-11/13)	
Day pupils at day schools	£2,640
Day pupils at boarding schools	£3,231
Boarders	£4,343
Senior (11/13-16)	
Day pupils at day schools	£2,963
Day pupils at boarding schools	£4,038
Boarders	£6,678
Sixth Form (16-18)	
Day pupils at day schools	£3,002
Day pupils at boarding schools	£4,443
Boarders	£7,177

The figures above are broad ranges: some schools will be lower or higher. Remember fees increase annually; the average rise in 2006/07 was 5.9%.
Source: Independent Schools Council

And this is before you buy them a stitch of uniform, or books, games equipment and other necessities. If a second child moves into private education, especially at the higher levels, you could see some hefty bills coming in.

Those with time on their hands

With the luxury of time, you can save now to fund future education fees.

An independent financial adviser (IFA) can suggest the best way to plan your finances to suit your individual circumstances, and can make sure they are arranged effectively.

Look at the wider picture as well and consider any windfalls you may get from an inheritance perhaps, or gifts from the children's grandparents, who are often more than happy to lend support if they can. If family members want to help, encourage them to seek independent financial advice to help save efficiently for when the child goes to senior school or university.

Finally, see if there is any way you can cut down your household expenditure to put away a few extra pounds each month. Even a regular investment of £100 a month can add up to a substantial school fees pot after four or five years.

Where to start

You should ensure that you are getting the best deal on your mortgage. For example, negotiate a better rate with your current lender, move to a more competitive rate elsewhere, or change the way you pay - by funding your mortgage from a current account for example to give you the opportunity to pay off more of the loan early on. Don't let a fee put you off visiting an IFA for advice, as you could save yourself thousands of pounds over the period of the mortgage.

Before your next insurance premiums are due for the house, the contents, the car or even a holiday, ring around to see if you can get a more competitive quote. This could save you substantial amounts of money.

Even by simply swapping to a better deal for your current account or switching to a lower credit card rate, the savings could really add up.

And remember to ensure your family can carry on paying for school fees even if you can't. Make sure you have enough insurance to cover the entire period of private education if you die or are unable to work. In addition, if you pay an extra premium, some schools arrange a block policy with specialist companies specifically to cover fees to protect the continuity of education in case you are made redundant, go bankrupt or are disabled through illness, injury or accident. Ask an IFA to advise you on what is most suitable.

What are the options for the money you save?

The main savings vehicles are collective investment vehicles - ISAs, OEICs, unit and investment trusts, investment bonds, National Savings and high-interest deposit accounts with building societies or banks - or a balanced mix of these. Make sure you keep your savings in as many tax-sheltered vehicles as possible.

And hold on to any Individual Savings Accounts (ISAs) for as long as you can. Once you have cashed them in, they cannot be replaced. Remember that you can change from one ISA provider to another and from fund to fund if you wish. ISA savers will be able to transfer money saved in their cash ISA to their stocks and shares ISA.

Try not to cash in an endowment policy in its early years for a quick funds fix. It will be worth very little. They are always best held to the end when you benefit from the full maturity value. If you really must cash it in, contact an IFA who can often get you a better price than if you surrender it to the insurance company who issued it.

Friendly Society Tax Exempt Savings Plans

These are investment products that are essentially the same as an endowment policy, but there is no tax to be paid at the maturity of the policy. The value of the 'with profits' version is that the plan should grow each year in line with the addition of bonuses. You can invest up to £25 a month, tax-free.

ISAs (Individual Savings Accounts)

Make use of all tax efficient opportunities. There are two types of Individual Savings Accounts, a cash ISA or a stocks and shares ISA. You can invest up to £7,200 in stocks and shares in the 2008/2009 tax year in an ISA. Up to £3,600 of this amount can be saved in cash with one provider. The remainder of the £7,200 can be invested in stocks and shares with the same or another provider.

Existing tax efficient investments

If you have invested previously in mini cash ISAs, TESSA-only ISAs (TOISAs) or the cash component of a maxi ISA, these will automatically from the start of the new tax year on 6th April 2008 become cash ISAs. You may have invested in mini stocks and shares ISAs and the stocks and shares component of a maxi ISA which will automatically become stocks and shares ISAs. All Personal Equity Plans (PEPs) will automatically become stocks and shares ISAs.

Collective Investments

These are investments where the value of your money invested can go down as well as up. They can carry a certain amount of risk and should be used for long-term planning of at least five years, not short-term growth. First use up your ISA allowance before investing outside the tax sheltered wrapper.

Unit trusts and OEICs are pooled funds where individuals buy units in a fund at a published price. The fund then buys assets in equities, bonds or cash within their investment remit and the fund is wholly reliant on the performance of the assets. The fund is open i.e. unlimited numbers of people can invest in the fund - the fund just issues more units and invests the money in more assets.

An investment trust is a company, which invests in other companies. Investment trusts are listed on the Stock Exchange, have an independent board of directors and a pool of shareholders like other public companies. An investment trust has a team of salaried staff or, more commonly, contracts the services of a specialist fund management company. There are many types of investment trusts including zero dividend preference shares.

OEICs are open-ended investment companies. Although an OEIC is structured along similar lines to a unit trust, it differs in having no bid/offer spread. This means buyers and sellers get the same, single price. Additionally, OEICs have an umbrella structure allowing numerous sub-funds investing in different types of assets, so the investor can switch more easily between different specialist areas.

National Savings and Investments

There are many types of national savings available suitable for different people e.g. Children's Bonus Bonds and Pensioner Bonds. As the rates of return change regularly, and the tax-treatment varies from product to product, one of the best places to get current information is at www.nsandi.com. Again an IFA can advise you as to which National Savings and Investments product is suitable for you.

Individual shares

Any investment in stocks and shares need a long enough lead-time to iron out any stock market volatility. Try to use up all your tax-free allowances by placing your shares in an ISA first.

Investment bonds

Investment bonds have no overt income. You can take 5% of your original investment for up to 20 years free of immediate tax until you cash them in. Then the 'chargeable gain' is divided by the number of years you have held the bond (called 'top slicing') and charged against your income tax rate at the time.

But there is no tax to pay unless you are a higher ratepayer, then you pay tax at 18%. As with most investments, the longer you hold them, the better your return is likely to be. Be aware, any investment period less than five years is unlikely to show you a decent profit.

The investment types listed above can be used for income or growth, or a combination of the two, according to your needs and time-scale. An IFA will suggest which type of investment is suitable for you.

Where to go for investment advice

There are endless sources of self-help information on financial issues such as guides, websites and financial magazines, however for independent, expert advice, you may prefer to talk to someone face to face. For details of local IFAs in your area call the IFA Promotion free phone on 0800 085 3250 or online at www.unbiased.co.uk.

Help, I've left it too late!

If you haven't built up enough funds in advance, the alternatives are to pay-as-you-go out of income while your child is at school, or borrow to repay later once they have left. Most people end up using a combination of methods, especially once two or more children reach secondary school, or begin to board.

Equity Release or loan?

If you own your home, then you may be able to release equity from its value. Alternatively you may need to borrow money as a secured or unsecured loan.
Either way, speak to an IFA who can help you take the most effective route.

Funding for university

University may seem a long way off, and the rules may have changed by the time your children are ready to go. But at present, grants are very limited so most students must depend on private help, bursaries or borrowing from the Student Loans Company (SLC).

The SLC runs two schemes with different borrowing limits and repayment terms for students to fund their own expenses.

The maximum student support loan a student may apply for depends on where they go to university, whether they still live at home and the level of parents' income. Parents must apply to their local educational authority for tuition fees.

A new Student Support Scheme runs in parallel with the regular Loan Scheme, operated by the Student Loans Company. For details ring the SLC free phone 0800 405 010 or log on to their website at www.slc.co.uk.

Other help

Look for bursaries and scholarships or 'comp' schemes arranged by most private schools to spread the fees. The bursar will discuss savings, which can include discounts on fees paid in advance or a cap on future increases in fees. Don't be afraid to ask for discounts if you put a second child through the same school.

Further information

For details of local IFAs who can advise you on a wide range of financial services, call the IFA Promotion free phone on 0800 085 3250 or click online at www.unbiased.co.uk .

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April 2008