PLANNING AND INVESTING FOR PRIVATE SCHOOL FEES

COMPLIMENTARY GUIDE

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INTRODUCTION

One in fifteen children in the UK now attend private school and ever-rising costs mean even quite affluent families face some *very* challenging numbers – even before university is taken into account.

In this guide, leading experts from the findaWEALTHMANAGER.com panel offer investment and financial planning tips for meeting private school fees, along with airing some of the trickier family issues that should also be front of mind.

> Education is not the filling of a pail but the lighting of a fire
>
> *William Butler Yeats*

IN THIS GUIDE ...

- Address rampant fee inflation amid rock-bottom rates
- Answer key planning questions
- Make tax-efficiencies top priority
- Examine the whole picture, and all the tricky questions
- Get (carefully) creative
- Your next steps

A high-quality education is arguably the most valuable gift a parent can give their child, and many will see private schooling as the only way to ensure their offspring meet their full potential and enter the world armed with the qualifications and cultivation they need to make a success of their lives.

It is a gift that is becoming increasingly costly to bestow, however, and an issue that drives a great many people to seek professional wealth advice. With an average age of 52, and up to a quarter requiring help with planning their family finances, the challenge of meeting educational fees is very close to our users' hearts. Each new school year, we see in spike in traffic caused by increasingly hefty bills hitting High Net Worth Individuals' doormats.

Address rampant fee inflation amid rock-bottom rates

Non-state education has always been a big financial commitment, but as any parent with a child already in private schooling can attest, fee inflation has become *rampant* in recent decades (in part due to the popularity of UK educational establishments among wealthy foreign parents).

As Christian Armbruester, Chief Executive of Blu Family Office, observes: “Private school fees are up 70% since 2004 - almost three times higher than the Consumer Price Index during the same period - and average annual tuition fees are now almost £15,000 per year. [Moreover, the most prestigious institutions like Eton and Harrow command close to £40,000 annually]. This means that even the wealthiest families are facing some very challenging numbers indeed – and they are being made even more so by historically low interest rates."

Christian Armbruester,
Chief Executive

> “Even the wealthiest families are facing some very challenging numbers indeed – and they are being made even more so by historically low interest rates.”

Conservatively, it will cost over £500,000 to privately educate just one child from reception through to university. However, putting your children through private education comfortably is achievable as long as you are proactive about making your wealth work as hard as it possibly can.

As with so much in wealth management, planning as early as possible is key to providing for your children’s education without undue financial strain. Here, the fact that waiting lists have to be joined several years in advance might actually be to your advantage.

Answer key planning questions

As Nicholas Michell, Wealth Manager at Canaccord Genuity Wealth Management, explains, parents can make a good start by answering some key questions, the first two being:

1) What are the fees for the school(s) you have chosen?

2) What is likely to be their rate of inflation?

School fee inflation averaged 4.5% a year over the past decade

Next is deciding which funding options best suit your family’s financial situation. As Michell points out, “paying as you go” from your regular income carries the worry that your earnings might not continue to cover the cost of fees, while in contrast pre-payment holds out security and very significant savings that might make it a prudent option for the cash-rich.

Answer key planning questions (cont.)

"If you could lock-in this year and pay in advance for the next 24 years it might cost you £223,060, rather than £489,750 if you were paying year by year, starting in 10 years' time," he notes. "However, there would then be the small but appreciable risk of the school going bust."

Given risk and cash flow considerations, many parents will prefer to base their strategy on long-term savings and/or a well-structured investment portfolio – particularly given the tax-efficiencies and potential for outperformance on offer. (If you invested your £223,060 rather than pre-paying fees and achieved 6% annualised growth, you'd end up with £399,465 after 10 years, for instance.)

Nicholas Michell,
Wealth Manager

"Given risk and cash flow considerations, many parents will prefer to base their strategy on long-term savings and/or a well-structured investment portfolio – particularly given the tax-efficiencies and potential for outperformance on offer."

Make tax-efficiencies top priority

As Simon Hoult, Financial Planner at independent financial advisory firm Punter Southall Financial Management (part of the Punter Southall Group, which includes Psigma Investment Management) points out, there is currently a dearth of financial products designed specifically for school fee planning.

Simon Hoult,
Financial Planner

This means parents need to maximise tax-efficiency by using all available allowances, while also ensuring that funds are readily available.

Premium Bonds and Income Bonds from National Savings & Investments are possible low-risk options that confer some tax advantages, explains Hoult (Children's Bonds were withdrawn from sale in September 2017). However, the starting point for family-wide tax-efficiencies should probably be a combination of cash ISAs for both parents along with a Junior ISA set up in their child's name.

"As well as their own annual ISA allowance of £20,000 each, parents can set up JISAs for children where a further £4,128 can be saved per child," he said. (An important caveat here is that child will become the legal owner of all JISA funds upon turning 18).

However, rock-bottom interest rates mean cash savings are unlikely to deliver the required return over the long term, failing to keep pace with core inflation, let alone the runaway rises in school fees.

Make tax-efficiencies top priority (cont.)

Therefore, our experts advise parents who can invest for a longer period of five years or more to explore the higher return potential and other tax-efficiencies available through an investment portfolio.

Importantly, ISAs can now hold the entirety of your annual savings allowance in stocks and shares, and you could grow a very significant pot indeed by engaging a wealth manager to target highly achievable yet attractive returns which would be free of tax.

“If you paid £1,666 into an ISA each month for the next ten years at an annualised growth rate of 6%, you’d create a £270,000 education fund,” calculates Michell. “If you continued to fund your ISA at the flat rate of £1,666 for the next 14 years, as well as drawing on the fund to pay the indexed school fees, you would end up with a fund of £342,828 for further education.” (Although this amount won’t be worth as much as it is today, the monthly payments into your ISA will also gradually become cheaper in real terms). The average graduation debt today stands at a weighty £50,000, making early moves to offset this burden a wise step for parents too.

Get (carefully) creative

But you don’t necessarily have to protect investments to fund private schooling within tax wrappers if you are already using these for other purposes. “ISAs aside, other allowances that can be used are the dividend allowance (currently £5,000 per individual) and the Capital Gains Tax exemption (currently £11,300 per individual),” explained Hoult.

“These allowances can be used by making direct investments into funds or equities where income and gains can be generated tax-free with careful planning and risk management.

> You can invest in the accumulation class of a fund (which reinvests dividend income rather than distributes it) and let the asset grow.

Digging deeper into how this might work with fund investing, Charles Calkin, Financial Planner at James Hambro & Co (sister company to James Hambro & Partners), explains:

"You can invest in the accumulation class of a fund (which reinvests dividend income rather than distributes it) and let the asset grow. You would then make use of your capital gains tax allowance of £11,300 each to ensure that when you withdraw the money (or move it into a lower-risk asset), you do not have to pay tax on any gains."

Charles Calkin, Financial Planner

Get (carefully) creative (cont.)

This tactic may involve splitting assets between both parents and carefully timing withdrawals and changes, warns Calkin. Yet our experts agree that creative – yet careful - thinking is the key to meeting mounting education costs.

Funds intended to defray your children's education will obviously be hugely important – and in time represent significant sums – so robust risk management is crucial. Yet with this in place, parents should not be afraid to think slightly "outside the box" to achieve the returns they need.

With banks and gilts (and foreign bonds) no longer able to provide safe, low-risk planning for the rising costs of tuition, Armbruester explains that his firm is now looking to the private lending markets to provide clients with safe, steady yields, for instance. Approached carefully, the risk-return profile of certain non-traditional assets can make them a very useful addition to parents' portfolios.

Examine the whole picture, and all the tricky questions

While often under-appreciated, one of the key ways a wealth manager adds value is by ensuring that you are taking on the right level of risk - in the right asset classes and instruments - to achieve your investment goals.

A professional adviser will also help you make a clear-sighted examination of your finances in the round, and help you address the many tricky and very often overlooked questions that should inform your decisions.

A major one is whether private is feasible for the entire education of all your children. A hybrid approach saving private for secondary level may be possible if high-quality junior schools are accessible, but this may then affect where you need to live (as will if they will board or not).

Another is whether you have made adequate insurance provision for private education to continue should you/your partner become ill or die. Consider how unwelcome further upheaval would be at an already extremely difficult time.

Finally, a financial adviser will also help you arrive at workable and fair solutions for the *whole* family. Private education is only possible for many families via the help of grandparents, which is in effect a way of passing wealth down the generations that could be a useful way to mitigate Inheritance Tax. However, like all the other issues, this needs to be carefully thought through.

"If you are funding the education of grandchildren, consider how it is done: it may be sensible to make the gifts to the grandchildren rather than the children because if you've given the money to a son or daughter and they get divorced, half of it could end up going to the spouse in the divorce settlement and not being used as you expected," observes Calkin.

Examine the whole picture, and all the tricky questions (cont.)

“Also, if you help pay for one set of grandchildren to be educated privately, what about the others? And how do you compensate any of your children who are childless? They could end up being penalised twice.”

As readers will by now appreciate, the apparently simple issue of sending your children to private school can actually be fraught with complexities. When and how to invest optimally are key questions, but so are wider ones around the whole family’s needs.

By all means, ask friends and colleagues for their advice, but consulting an objective, experienced third party will ensure no considerations are missed.

Privately educating one child costs an est. £500k

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“Demand value for money, as with all things. Do your research to make sure your children get the best and then plan thoroughly - and early - to get to where you need to be. The years will fly by and nobody wants school fees to be an unnecessary worry when enlisting a professional adviser could take that weight of your shoulders.”

Lee Goggin,
Co-Founder

As Lee Goggin, Co-Founder of findaWEALTHMANAGER.com, concludes:

“The private path is a heavy, long-term commitment and you must be sure that it is right for you and your child before you risk unsettling them and worrying yourself with unsustainable costs.

"Demand value for money, as with all things. Do your research to make sure your children get the best and then plan thoroughly - and early - to get to where you need to be. The years will fly by and nobody wants school fees to be an unnecessary worry when enlisting a professional adviser could take that weight off your shoulders."

NEXT STEPS

The leading firms represented by findaWEALTHMANAGER.com will help you ensure both the investment and financial planning sides of things are well taken care of – often with both services handled under one roof.

We take the time and complexity out of finding your ideal wealth manager. Whether you are new to wealth or looking to change, our full (no-cost) service gives you the facts and tools you need to secure the best deal for your money.

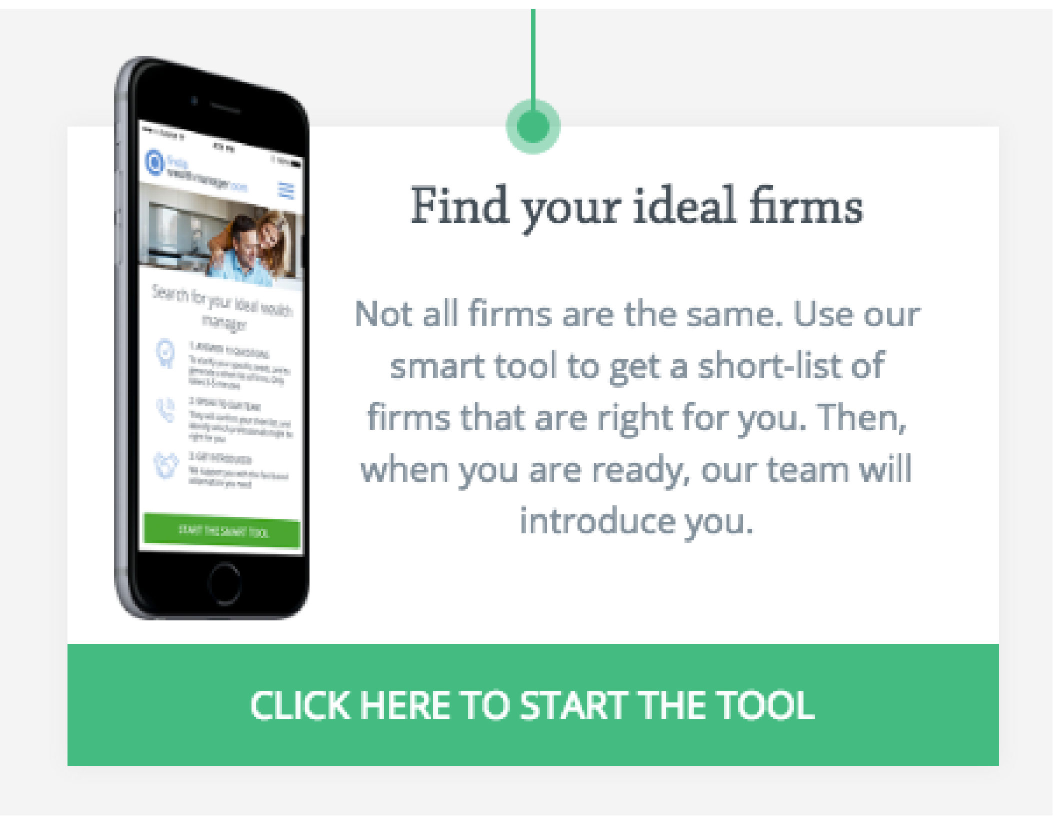
In three simple steps, you can take action to reach your wealth and tax planning goals.

Simply answer 15 questions using our online tool to confirm what you are looking for. The tool will then build a profile from your answers and use smart technology to match you to the firms on our panel. Your results are then generated and presented to you as a shortlist of highest-ranking firms.

At a time that is convenient, we will call you to confirm your shortlist and identify which professionals are best-placed to serve you. Relationship is important: we will identify someone that has the skills that you need, and someone that you can trust.

We support you with insight and information to secure the best deal to protect and grow your wealth; fees are always negotiable. We provide access to the information that will help you review and compare your options so you can make the right choice.

Try our smart online tool to create a shortlist of firms that are right for you.



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