

diversions

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Mom, dad, have a plan in place for your 'million dirham' baby

Saving for kids' education should start at birth – be prepared, it's going to cost a bomb!



64% of parents would be willing to get into debt to fund their child's university or college education



41% of parents think that funding their child's education is more important than contributing to their own retirement savings



70% of parents don't have a plan and are funding their child's education from day-to-day income

To minimise the impact of borrowing, start saving early and don't let your plans get derailed.

HSBC global report on education

Suneeti Ahuja-Kohli



It takes a village to educate a child today. A number of parents in the UAE, and around the world, are shelling out a sizeable chunk of their earnings to educate their children. In the emirates, this figure is close to a million dirhams from two years of preschool through three years at a university in the UK. That's according to a report by Zurich Middle East.

The report broadly captures all expenses to arrive at this figure but what's intriguing is that there is no word on whether such a steep 'investment' actually works well for children. Do they get repaid by receiving higher graduate wages down the line? But that's a moot point. Most parents willingly fund the education costs, even if it means putting their own retirement plans at stake.

Funding methodology

Through education plans? Not really. Around 70 per cent of parents surveyed fund their child's education from their day-to-day income. Palestine national Adla Abdullah, mother of four, agrees. "Three of my children are in college; two are studying medicine and the other is studying engineering. The youngest one is in school. We have taken loans to fund their tuition fees as our

combined salaries weren't enough. We initially invested in an education plan but couldn't keep up with the high premium and discontinued way before maturity," she says.

At 50, Adla isn't sure if she can repay the loans within 10 years. Retirement, though it lurks down the line, will have to wait. There isn't spare cash at the moment to set aside for their sunset years. No plans to hang up the boots as yet. Working life might just continue until the responsibilities are taken care of.

Investment in real estate has historically been a good investment, and might just offer better returns than professionally managed education plans, says Akshay Gupta, an Indian national, parent of a six month old. He invested in an apartment as soon as his son was born to cover college fees. "I feel communication with children and planned investments are key to a secure and financially stress-free future. We'll tell him to work hard and get a scholarship or grants to fund his studies, if need be. For his regular preschool and high school fee, I am relying on my monthly mutual fund investments."

In the last few decades, annual costs for graduate programmes in the US and the West have risen three times as fast as inflation, which has forced parents and students to take on more debt to pay for school. Clearly, the cost of a college degree has been going up much faster than people's incomes in many countries.

What funding route should parents take?

So how early should parents start to save? Vishal Dhawan, CEO, Plan Ahead Wealth Advisors,

suggests you plan as soon as kids are born, not at the point of filling out school forms, irrespective of which country you're in and where you plan to settle. The key is to start saving and enjoy the benefits of compounding.

Say for instance, you start squirrelling away Dh2,000 a month as soon as your child is born and put money in a bank fixed deposit that gives 3 per cent interest rate compounded annually. You save more than Dh130,000 by the time she turns 4. You can continue saving the same amount for 18 years and would have earned a corpus of more than Dh600,000 by the time of college.

Ideally, for long-term investments such as these, it is better to invest in assets that give higher returns – equities being one – and have a diversified portfolio. But before that, the first step is to estimate how much one needs to plan for, considering that education inflation in many geographies tends to be higher than general inflation. Having done that, calculate to ascertain how much to save each month.

"In case of expatriates, the currency in which you save may not be the currency in which you will incur the cost. For example, education in the UK is in pounds while the savings could be in dirhams, so the historical and future expectations of movement of the GBP vs the AED also needs to be factored in. Once you have a fair idea on the sum, depending on risk tolerance of the parents and the time available, a plan can be formulated," advises Dhawan.

Where to invest?

If you start early it is imperative to use equities as an instrument for investment. Hunting for a good financial advisor is key if you are uncomfortable

dabbling into markets on your own. Or you could look at good mutual funds. Compare mutual funds on various parameters including past performance, low expenses, and flexibility (as the monies may be required earlier than planned).

Buying just an education plan won't be enough. Instead go for a DIY approach. "Rather than using specific education plans, it may be a good idea to use pure vanilla investment products that have the features of low expenses, flexibility and a good track record. This should ideally be accompanied with a term plan to cover the risk of an early death impacting the plan."

Ideally, the portfolio should be a globally diversified one, and that's especially true for expatriates. But if you are in a conundrum about investing, we suggest mulling over a few points:

1. Where would you want your child to study after school?
2. Can you identify investment products on your own that offer flexibility, a good track record and are low on costs?
3. Know the succession laws of the place you are investing in.

No matter how much you earn, you can always build enough wealth for your children's education and your retirement. One goal doesn't have to play second fiddle to the other. Most working adults do not realise that they can earn far more from investing than they would from their paychecks in their lifetime. Set a goal and start investing.

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