Business Standard

# Inflation can impact higher studies abroad

**Education inflation abroad is high and the depreciation of the rupee can also set you back**

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*Representational image*

Over the past 15 years, one of the biggest shifts that has occurred in peoples' financial goals is the desire to send children abroad for higher education. It has been spurred, in recent years, by a number of factors: Increased international exposure, proliferation of international schools in India, the brutal domestic competition for the best institutions for higher studies and significantly higher disposable incomes. Achieving this goal, however, requires a lot of planning and disciplined investment, given the humongous costs involved.

**How much will it cost?**

The starting point is to estimate correctly how much it will cost. The amount needed for foreign education depends on both the type of programme and the location of the university. While estimating the amount, remember that covering tuition fees only is not enough. You also need to factor in other costs such as living expenses, medical costs, registration costs, books, supplies, travel costs for child and parents, among other things. Living on or off campus can make a huge difference in terms of costs (the latter can be cheaper as you have more options).

The average tuition fee in the US is currently $31,000 a year for an undergraduate programme. It can go up to $55,000, depending on choice of programme and university. In addition, living expenses can cost an additional amount of $20,000 per annum. All put together, an undergraduate programme could end up costing you between $200,000 and $300,000 per child. Assuming you have two children, costs would be double. In the other geographies that Indians tend to consider, such as the UK and Australia, the overall costs could be a little lower.

When children are younger, most parents do not have a good estimate of how much they will require for this goal. Ideally, one should plan for a higher expense and be overfunded, rather than be underfunded.

**Don't underestimate inflation**

Most people believe that inflation rates overseas are not very high and, hence, tend to underestimate the impact it could have on this long-term goal. While this may hold true for general inflation, globally education inflation tends to be much higher than general inflation. Education inflation in the US, for example, is currently between 4-5 per cent per annum, down from the 6-7 per cent per annum that it used to be, but is still enough to lead to doubling of education costs every 12-15 years.

In addition, the impact of exchange rate movement also needs to be factored in. As you can see from the table, the Indian rupee has typically depreciated by 2-5 per cent per annum vis-a-vis the US dollar for years. Thus, if you are planning to fund your child's overseas education goal by creating an Indian portfolio, the total inflation will be a combination of education inflation and exchange rate depreciation.

**How to save for this goal**

Using a combination of the estimated cost of the education today, the total inflation, and the number of years before this money is required, the total corpus needed can be estimated. The good news is that not all this money is likely to be required together, so a year wise amount can be arrived at. Accordingly, a portfolio investment strategy will need to be developed. The portfolio rate of return estimations will depend on the asset allocation strategy pursued, which in turn will depend on the person's level of risk tolerance, historical returns across multiple asset classes, and the number of years before the funds are required.

**RUPEE VS DOLLAR**

| Period (years) | ₹/$ | Change (%)* |
|---|---|---|
| 1 | 66.7 | 2.0 |
| 5 | 51.9 | -4.5 |
| 10 | 39.5 | -4.9 |
| 15 | 48.4 | -2.0 |
| 20 | 36.2 | -2.9 |
| 25 | 28.4 | -3.3 |

*Annualised; data as of October 6, 2017
Source: Bloomberg

Based on these estimates, the amount to be invested each year can be arrived at. Most investors tend to be overwhelmed by some of these big numbers. Hence, it is important that they are broken down into smaller amounts such as the monthly savings required. You will also need to enhance your monthly investment amount over a period of time.

Investors saving for the overseas education goal can invest in a domestic portfolio, wherein the investments are in Indian rupees and, hence, exposed to the rupee depreciation risk. The alternative is to save towards this goal in the currency of end use using the Liberalised Remittance Scheme (LRS) that allows investors to invest globally in different currencies. One option is to invest in international mutual funds and exchange-traded funds or ETFs (say, US-based fund you would invest in using the US dollar). International funds and ETFs available from Indian fund houses are another option, but here the choice available to you is limited. A combination of both domestic and international investments as a part of the savings strategy, is ideal one.

**Mistakes to avoid**

There are a few common mistakes that people commit when planning for their children's foreign education goal. The first is that many people use investment-cum-insurance products. While risk planning is a critical part of planning for this goal, it is a good idea to cover risks by buying a separate term life insurance cover and create a separate investment portfolio. Many investors tend to use child insurance plans to save for education. We would recommend they separate investments and insurance, as flexibility in investing towards this goal is very critical. After all, you will never be able to accurately project when the money will be required and how much. The choice of course, etc, will only be known at a point in the future. Insurance plans may not provide you the desired liquidity.

While planning for children's education, many parents don't save and invest adequately for their own retirement. Converting this dream to reality is wonderful, but it is a terrible idea to compromise your own retirement. Keep your children informed about how you wish to support their overseas education, and what they might need to do themselves, for example, aim for a scholarship, take a loan, etc. The earlier you talk to children about this, the more likely it is that they themselves will focus on how this can happen.

Finally, prepare beyond the numbers. As parents, you will need to deal with the empty nest syndrome if your children study overseas and then decide not to return. For non-working parents, this can be stressful, so begin a career or find a hobby beyond your children. In addition, do budget for those extra foreign trips to keep in touch with your children living abroad.

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