How well prepared are you?

Suneeti Ahuja Kohli / 6 September 2012

Back-to-school time is a reminder for parents that their children are a step closer to completing their secondary education and head off to university soon

Tuition fees for a four-year course at a university in the UK costs on an average around $112,000 — are you prepared? We don't mean to scare you but this is just a reminder. Two months of summer holidays are ending and it's time for students to head back to school once again — time for them to get their focus back on studies. Whether they start a fresh semester or resume one, September brings school students a step closer to completing their secondary education and prepare for university. More importantly, it is a reminder for you (parents) to be prepared to fund your child's university education, to review your investments or start building a nest egg, if you haven't started as yet.

College education, depending upon the course, can cost a lot compared with the monthly school fees that you currently pay. Systematic and regular savings, therefore, play a crucial role. It is prudent to start saving early and let compounding effect help you save enough by the time your little one is ready for college. "The cost of education keeps increasing over time and the only way to counter this is through savings and investing small amounts regularly," says Veer Sardesai, a certified financial planner based in India.

While education loans and scholarships are a great help, and can help with the burden of paying for our children's education, you should not solely rely on these. "You have to bear in mind that this (education loans) will lead to our children being in debt when they leave university, and in terms of scholarship this can limit the choice of university or course undertaken. Loans and scholarships help but we would recommend that they are not used as the cornerstone of funding, that they are used to supplement what you may have in place already. It is worth pointing out that if your child goes to a university outside of their country of residence they will be classified as foreign student, which means the fees could be higher and some loans and scholarships are not available," forewarns Ross Mills, Senior Associate at Holborn Assets.

Here are a few tips to help you plan better:

Get organised

Work backwards. Let's start with some homework before starting to invest. The first thing is knowing your child's interest and get an understanding on the type of courses he or she might wish to pursue after school. Once you know, next step is to browse through the websites of prospective colleges or universities to get a sense of how much the course fee is. Agreed, the fee will not be the same when your kid plans to join, but it will help you get things organised. "We need to understand that education inflation tends to be much higher than regular inflation and therefore, it becomes all the more important to start saving. Secondly, if education planning can start early, money can compound over a longer period. Thus, planning increases the probability of success," says Vishal Dhawan, a certified financial planner, based in India.

You build a nest egg for your child's education in several ways. You can either take the do-it-yourself approach and start investing yourself or get a financial planner to chalk out a plan for you.

Regular savings

There are two basic tenets of financial planning — goal setting and regular saving. Once you know you have to start saving for your child's education, it is wise to save a small amount every month through various financial instruments available. This way you won't have to worry when the need arises. "Saving regularly is very important and is the cornerstone of any financial advice that we give at Holborn. All of my clients that have children are currently saving into education plans specifically set up for university fees," says Mills.

DIY approach: If you are good at managing your finances, then doing it yourself might be a good way to start with by building a portfolio with instruments like recurring deposit, fixed deposits, equity investments, etc.

RDs and FDs: Let's start with a recurring account and invest a set amount every month. Recurring deposits (RD) here might not give you a lot of interest, but through disciplined saving, it can help you accrue funds for your goals. Secondly, if there is a windfall, you are more likely to put it in a fixed deposit (FD) rather than splurge. Remember, every penny saved can build a better future for your child. "You can fund for your child's further education through regular disciplined savings for a pre-determined period of time, which basically means you set aside a regular monthly amount for a determined period of time usually linked to the age of your child and when you expect them to go to university," says Mills.

Fixed income instruments: Bonds and sukuks can also be included in the portfolio. Regular investments in bonds can fetch you interest rates between 4.5 and 7 per cent per annum.

SIPs: Equities on the other hand are one of the best means to save for long-term goals such as a child's education. A systematic investment plan (SIP) takes away the challenge of timing the market and fetches good returns with the principle of cost averaging.

"Use long-term growth assets like equities for younger children and fixed income, if you are likely to need the funds soon. It is good to have a term life insurance plan to cover the risk to your life to supplement the equity or fixed income exposure," suggests Dhawan.

Take professional help

However, if financial language is Greek to you, getting a financial planner to plan your investments is the best way to move forward. "You should ensure that your financial advisor is suitably qualified, his/her company is regulated here, and get references for the advisor and the company he represents. Ensure that you are not coerced into any investments that you do not want, or more importantly, need. Read the small print before you sign anything and make sure you understand the charges of the investment and how much it will cost you to liquidate the investment," says Mills.

It is also worthwhile to make sure that your portfolio is diversified and is being managed in line with your expectations and your attitude to risk. Get regular reviews from your advisor to ensure that it stays on track to achieve the goals you have set.