



ILLUSTRATION: SUDHIR SHETTY

# Planning right for your little one



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Most of us have been part of family conversations that go, “When I was young, everything was so cheap” with multiple examples thrown in ranging from food items to petrol prices. The absolute changes in values are very significant, but when you put them down in numbers, the changes are mostly in line with inflation over the years. However, costs of education and health care have gone up at a significantly faster pace than other products.

Over the last 15 years we have been working with clients and their families on setting and monitoring their financial goals. One of the biggest shifts that we have noticed with respect to financial goals is the desire and dream to ensure that children get access to international education—either overseas or in institutions that offer international curriculums in India.

The shift to the dream of an “international” education has been driven by a combination of factors.

activities, living expenses, medical costs, books, supplies and travel cost of the child and parents. Living on or off campus could make a huge difference in costs too.

## IMPACT OF TOTAL INFLATION, NOT JUST EDUCATION INFLATION

Since planning for education is usually a long-term goal, considering the right inflation rate is important as most people underestimate inflation rates and its compounding impact.

While that is probably true for general inflation, education inflation globally does tend to be much higher than general inflation.

Education inflation in the US, for example, is currently between 4% and 5% per annum, down from 6-7% per annum that it used to be, but still high enough that education costs double in 12-15 years. In addition, the exchange rate movement will also need to be factored in.

## HOW YOU CAN SAVE FOR THIS GOAL

Using a combination of the estimated cost of the education today, the total inflation and the number of years

These include increased international exposure due to foreign travel for work and vacations, the proliferation of international schools over the last few years that have an experiential learning system rather than rote learning, the brutal competition domestically for the best institutions for higher studies, and of course, the significantly higher disposable incomes driven by salaries that are at global standards, as well as the increase in double income families.

#### **HOW MUCH MONEY DO YOU NEED FOR IT?**

The starting point to achieve this objective is to estimate the cost of education accurately. The cost will depend on the type of the course and the location of the educational institution. While estimating the amount, remember that factoring in only tuition fees is not enough. You should also consider other costs such as extra-curricular

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 with a robust asset allocation will need to be developed in light of risk tolerance and historical returns of various asset classes.

Based on these estimations, you can arrive at an investment amount. While most investors tend to be overwhelmed by some of these numbers, it is important that the numbers are broken down into smaller amounts like monthly savings amounts and then increased over a period of time. Like most other goals, a high quality education goal(s) can be achieved, with the right planning, discipline and execution.

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