

How to plan your children's education goals in an uncertain world

Planning for a child's education in an uncertain and complex environment is tough. Be flexible in your planning and keep topping up your SIPs with surpluses to stay ahead

Vishal Dhawan | May 9, 2022 | 06.09 AM IST.



I remember first coming across the concept of a VUCA world — a world riddled with Volatility, Uncertainty, Complexity and Ambiguity — in an annual general meeting commentary by a large, listed FMCG company. As I researched the concept further, I learnt that the VUCA concept was used exhaustively during the end of the Cold War by the US army. The term found its way into management and leadership as well.

And, it reflects the challenges most parents face in planning the education of their children. The VUCA questions that parents need to ask include:

What kind of programme will be ideal for my child: a national board like CBSE / ICSE or a state board or an international curriculum?

Which field of education would my child choose: medicine, law, engineering, creative arts, or will becoming a chef be the career of choice for him/her?

Till what stage would we as parents like to support the child's education, and how much can we really afford to spend without compromising on our other goals, like retirement?

Would my child want to pursue higher education in India or overseas?

In addition to these questions, the inability of the child to decide what he or she wishes to do, and the parents of today rightfully not wanting to force a decision, has meant that planning for education needs to adapt constantly. So, how does one really plan for education goals in a VUCA world?

Define the education goals as best you can

Having well-defined and conservative goals — that is, planning for the more expensive education option so that you do not run short — and a well-drafted investment strategy may help you ignore near-term uncertainty. In a VUCA kind of environment, one should reassess education goals constantly to see if they are becoming clearer, getting impacted or remain largely unchanged.

Build resilience through diversification

Investment portfolios should be well-diversified across asset classes and geographies, to cover for various risks, including currency risks, as international education could get more expensive if the rupee depreciates against the currency of the geography your child wishes to study in.

Your children's tuition fees can get you income-tax benefits

Appropriate hedges should also be maintained to keep damages limited in case there are black-swan events — unpredictable events that have severe consequences, such as the ongoing Covid pandemic. This may mean that one may not be able to participate in thematic opportunities and therefore have to compromise on some alpha generation opportunities (opportunities to generate returns on an investment that are well above the benchmark). One should ideally manage education goals in a relatively stable fashion, using index and low-cost equity strategies for education goals that are some time away, and debt/fixed-income oriented strategies for goals that are closer.

Have some spare resources handy for rapid action

It is often said that cash is king, because, with spare resources, one can benefit from high market volatility by buying in when things are cheap. Also, if your goals are in the near future and the market environment is not favourable, then the surplus liquidity can be used as a bridging arrangement. One might have to compromise on available investment opportunities, as liquid allocations might yield subdued returns at times, but viewed from a broader perspective, this is advisable for VUCA goals.

Keep a back-up plan ready

During times of extreme volatility or black swan events, your original plan may not be workable. At such times, having a plan B ready is always desirable. Plan B may include deferring some discretionary financial goals or taking on some leverage to bridge the gap — such as an education loan — though you ideally would not have wanted to take that route.

Invest more and keep your eyes open

At times, you need to improvise your plan. And that may include staying ahead of your targets in terms of funding by accelerating contributions from incremental earnings such as pay raises/bonuses, or windfall business income. You might also want to look at education at a new-age college in India that offers the same benefits as an overseas education.

Embrace flexibility and avoid products that have a rigid construct

Many child education products, such as child insurance policies, have payouts at pre-defined frequencies or ages. However, it is challenging to estimate when exactly the monies will be needed for education and what amount will be needed. A flexible construct without lock-ins or pre-determined payouts will be invaluable to cope with such uncertainty.

Seeking professional help for education goal planning from education counsellors and financial advisors is another strategy you can adopt to cope with a VUCA world.

Vishal Dhawan is a certified financial planner and founder of Plan Ahead Wealth Advisors, a SEBI registered investment advisory firm.
