School Fee planning: a comprehensive guide for parents

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We all want the best for our children, and for many parents this means paying for a private school education.

According to research (IFS, Private education policy forum), former private school students have significantly better reading and maths scores than those who attended state schools, twice as many obtain degrees from a Russell Group University and they have a much higher probability of achieving high paying managerial jobs after they graduate.

For many parents therefore, a private education for their children is not so much an expense but an investment in their future. especially as the government continues to underfund state schools . Typically, we find parents send their children to a state primary school but then switch to a private school for year 7 and beyond, when the child reaches the age of 11 to reduce the total cost.

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Understanding school fees in the UK

According to the Independent schools council average fees for day pupils are £15,654 per year, and for Boarders this is £37,032 per year. Fees however vary on the type of school,. Its' location and of course the age of the child. In London however day-school fees can easily reach £24,000 per year , while the top boarding schools can cost above £45,000.

Labour has stated that if it comes into power it intends to apply VAT (20%) to private school fees as they are currently exempt. This does not necessarily mean the fees would rise by the same amount as some of the increase could be borne by the school but some of the expense will certainly be passed on.

Since 2008, School fees have risen more than 1.6 times the inflation in consumer prices (FT). They represent a significant expense and can drastically reduce a family's after-tax disposable income.

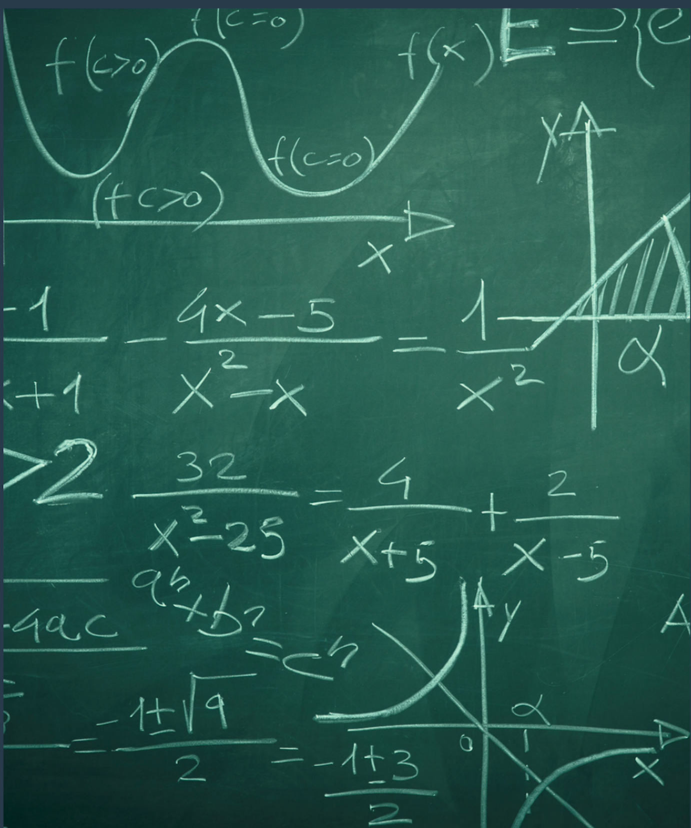
Scholarships and Bursaries

It's always worth exploring scholarships and bursaries that might be available. Scholarships are usually awarded based on a child's academic, sporting, or artistic prowess. Bursaries, on the other hand, are means-tested and awarded based on financial need.

Start planning early

The key to affording school fees is to start planning as early as possible. Ideally, you should start setting aside money as soon as your child is born, or even before. The earlier you start, the more time you have to accumulate a fund for education costs. A financial planner can help incorporate future school expenses into an overall plan with the use of financial forecasting software , using a set of reasoned assumptions.

The plan will then (if necessary) recommend how much needs to be set aside on a regular basis so that there are enough resources to meet future needs. This can be done through regular savings, investments, or a combination of both.



Consider the example of a couple who plan to send their child currently aged three to a private secondary school. Assuming fees continue to rise by 3.9% a year , by the time the child is ready to start school at 11, in 8 years the UK average day school fee would reach £21,259 per year.

By starting a plan now saving £10,000 per year and assuming they were able to generate a return of 5% per year on average of their savings this could potentially amass a savings pot of above £100,000 when the child is ready to start secondary school. This could be drawn down and used to top up any portion of the fees that is paid of out of regular income

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Savings and Investments

A good starting point is to consider a tax-efficient savings product like an ISA. A couple can potentially save up to £40,000 every year and capital gains and income are tax free. Whether this is a Cash or Stocks & Shares ISA ultimately depends on the time horizon, but also your risk tolerance and capacity. Short term liquidity where drawdown is needed in the next three years should be in cash, whereas a ten year horizon could be invested in a portfolio more weighted towards equities.

Other tax free cash products such as National Savings premium bonds could also be considered. Cash has certainly become a much more attractive asset class given the higher rates on offer right now after the Bank of England base rate rises.

Junior ISAs are more suitable for university rather than school fees as funds cannot be accessed until the child turns 18. The annual allowance currently is £9,000 but parents should be aware though that any money placed within a Junior ISA belongs to the child to spend as they see fit when they become adults.

Grandparents and Estate Planning Strategies

If the childrens' grandparents are fortunate enough to have significant assets it may be worth considering estate planning as a means of meeting school fees.

There are a number of ways that grandparents can gift tax efficiently. For example provided the gifts are under the annual £3,000 gift allowance per grandparent there will be no Inheritance Tax liability.

Grandparents could also look to take advantage of another important IHT exemption called the "gifting out of normal expenditure" rule. This states that any income that is surplus to their needs can be gifted and leaves their estate straightaway. This would need to be set up carefully and documented .

Finally trusts can be an effective gifting strategy. In a bare trust, assets are held by a trustee (the grandparent) for the benefit of the beneficiary (the grandchild). Any income from the trust is taxed as if it belongs to the grandchild meaning that they can take advantage of the grandchild’s full personal tax and other allowances. The trustees can use the assets in the trust including any income to pay for the grandchild’s school fees. If the grandparent survives seven years after setting up the trust, the value of the gift is not subject to Inheritance tax.

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The role of protection in school fee planning

Protection or Insurance plays a pivotal role in school fee planning, offering a protective shield against life's uncertainties.

If a parent or guardian becomes seriously ill or passes away, insurance policies such as income protection insurance or life insurance can ensure continued payment of school fees, thereby preventing any educational disruption. Income protection insurance provides regular payments if illness or injury prevents you from working, while life insurance offers a lump sum or regular income to dependents upon your death.

Some insurers even offer specific school fee insurance plans. Above all, having these protective measures in place grants parents peace of mind, knowing that their child's education is safeguarded, regardless of future uncertainties. As always, professional advice is crucial when selecting insurance cover to suit your particular circumstances..

Borrowing

Using offset mortgages or remortgaging your property are also common ways of raising the cash for fees, although recent interest rate rises have made these strategies much more expensive . Wealthier clients, who wish to avoid selling assets and triggering tax liabilities can also borrow against their portfolios (Lombard Loans). These are subject to minimum loan sizes though

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Final Thoughts

Planning for school fees can seem daunting, but with the right guidance and a well-thought-out plan, it's entirely achievable. It's crucial also to ensure your plan needs regular monitoring (annually at the very least) to ensure you remain on track Remember, everyone's circumstances are unique, so it's crucial to seek professional advice tailored to your needs.

At Thera Wealth Management , we can help guide you through the maze of school fee planning, helping to ensure that you're well-prepared for the financial commitment that lies ahead.

If you're beginning to think about school fees or if you're already paying them and want to make sure your plan is still on track, don't hesitate to get in touch. Education is the greatest gift you can give to your child, and with careful financial planning, it can be a gift that doesn't break the bank.

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