

SAVING FOR YOUR CHILDREN'S EDUCATION

The birth of a child is one of the most important events in the life of every parent. After nine months of waiting, welcoming a newborn is one of the happiest moments in one's life. However, the joy to be parents is often accompanied by serious thoughts regarding the financial future of the child. Raising children and securing their future by providing them with sound financial backing is an extremely tough and integral part of parenthood. One of the biggest worries of farsighted parents is how to fund their children's university education costs.

WHY DO YOU NEED TO SAVE?

Unless you want your child to graduate with millions of rupees worth loan on his head, you should start planning early. The cost of higher education is increasing year after year and that is why it is important to start planning for your child's education as soon as possible, because the earlier you begin, the more time you allow your money to grow. In fact, it is wise to start saving as soon as your child is born as this helps to create a nest egg for the future and will prevent you from facing any kind of frustration in trying to contract big loans from financial institutions or from having to sell your house in order to pay for their tertiary education.

HOW MUCH MONEY WILL BE NEEDED?

The next question that comes to a parent's mind is how much money will be needed for the tertiary education of their kids. Of course, this will depend on whether they would study in Mauritius or abroad.

The table below shows *estimated costs* of tertiary education for a 4 year course in the year 2013.

	MAURITIUS	AUSTRALIA	UK	MALAYSIA
COURSE FEE	80,000	2,800,000	3,200,000	1,600,000
ACCOMODATION	-	960,000	1,600,000	350,000
POCKET MONEY	96,000	600,000	800,000	400,000
AIR TICKET	-	140,000	120,000	100,000
TOTAL	176,000	4,500,000	5,720,000	2,500,000

The cost of a 4-year course at the University of Mauritius in 2013 was Rs 80,000 approximately and when you add the pocket money of Rs 2,000 monthly, the cost amounted to Rs 176,000. In United Kingdom a 4 year course in pharmacology at the Kent University was Rs 5.7 million including pocket money and air fare for one return trip to Mauritius per year. Of course the costs will differ in respect of the field of study chosen and the destination. In 20 years' time, considering a very conservative increase rate of 4% per annum, the figures will reach approximately Rs 385,000 for Mauritius, Rs 5 million for Malaysia, Rs 10 million for Australia and Rs 12 million for the UK. And this is for only one child. If you are going to have two kids you should be prepared to set aside twice the amount. Many of my clients have opted for local universities, stating the good level of our tertiary institutions and close proximity to their children as reasons. But deep down, they know that the main reason is the high cost of foreign universities which is not easy to afford.

WHERE TO INVEST THE MONEY?

As most parents will confirm, finding a lump sum of this value for foreign university is very difficult. This is why they should start saving as much as they can as soon as they can. Over long periods of time – thanks to the magic of compound interest – even small amounts saved can create a significant fund which can help partly to bear the cost of higher education. To meet the university costs of two children in local university, an ordinary endowment policy of around Rs 3,500 monthly over a period of 20 years should be enough. With bank interest rates currently at low levels, parents look for alternatives where their money will earn higher returns. The ordinary endowment policies which are marketed by insurance companies are an obvious choice with a higher bonus rate and other benefits like death cover and guaranteed maturity value.

However, this is not exactly the best way to grow your money, especially if you are planning to send your children abroad. You should then forget endowment policy as you will have to save an unrealistic amount of Rs 50,000 monthly to reach a pot of Rs 24 million in 20 years of time. In fact, you should then consider taking a diversified portfolio approach like subscribing to an education plan link with investment as it will be a better option for you.

WHAT IS AN EDUCATION PLAN LINK WITH INVESTMENT?

Despite the current economic turmoil, I strongly believe that parents with a time horizon of 15 years or more should consider subscribing to an educational plan link with investment, which historically has managed to produce better returns than both bank interest and endowment policy over longer periods. It offers not only a professionally-managed investment cum-protection platform but also provide an entry point into the equity markets. As opposed to endowment policies, an educational plan link with investment is a good savings scheme for those investors looking for a long term investment instrument that offers transparency and flexibility. Indeed, it offers a range of fund options with different asset allocations to meet the requirements of parents with different risk appetite. By spreading the

investment across different asset classes, parents can create a diversified portfolio where the loss on a certain asset class can be compensated by the profits made on another. Additionally, education plans link with investment offer policyholders the option to switch between funds, so that they can manage their portfolio asset allocation effectively. Using switches, parents can move their investments between various asset classes like cash, bond and equity fund, depending on their risk appetite. Moreover, to give parents peace of mind, the plans provide for the payment of a minimum guaranteed amount at maturity so that in a worst case scenario, they are sure to obtain their capital plus an additional amount as interest. Based on a reasonable 8% annualized return, a monthly investment of Rs 5,000 over a period of 20 years will reap a maturity value of Rs 2.5 million approximately. Of course, this amount of money might still be not enough but that at least is a step ahead.

GET STARTED EARLY

How much money you are saving is as important as how soon you begin saving. As mentioned, compound interest will work for you and the longer you invest, the more it will grow. Take a look at these examples illustrating the power of compounding over time:

- Begin investing Rs 5,000 each month when your child is 10 in an account that earns 8% annually. This would result in a pot of over Rs 700,000 by the time he/she is 20.
Total money invested: Rs 600,000
- Begin investing Rs 2,000 each month when your child is 6 in an account that earns 8% annually. This would result in a pot of over Rs 475,000 by the time he/ she is 20.
Total money invested: Rs 336,000.
- Begin investing Rs 1,000 monthly when your child is born in an account that earns 8% annually. This would result in a pot of over Rs 465,000 by the time he/ she is 20.
Total money invested: Rs 240,000.

As you can see, if you begin investing the soonest, you will benefit immensely in the sense that you are going to pay a relatively low monthly premium (Rs 1,000 as shown above) and still get more or less the same lump amount (Rs 475,000) as you will get if you invest when your child has reached his 6th birthday but with twice the amount (Rs 2,000 monthly).

As the cost of tertiary education is expected to continue increasing each year, parents need to have a proactive approach so that they are financially ready when their children are ready. They should generally assume some investment risk to reap potentially better returns on their capital. Selecting the best investment vehicle is crucial so that whatever happens in the future, you are sure that your children will still have the means to pursue some of their goals in life.

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