FINTOR
YOUR FINANCIAL MENTOR

Kids
Education

Kids Education

A new child in your life is an incredible time period for joy and reflection on the miracle of parenthood. However with such a rewarding life event comes the need for careful financial consideration regarding child rearing and education costs to ensure your child has the best start to life.

Costs associated with having a child!

We all know that starting a family is a magical time however it is also a very expensive time as well. Currently for a very modest lifestyle a parent can expect to spend anywhere between $5,000 to $10,000 for the first year of their baby's life for baby food, clothing, prams and toys.

If you decide to have a baby via the private health care system this will also add an additional $7,392 on average for an uncomplicated pregnancy.

The impact of these costs can also be magnified by reduced income should one or both parents decide not to work or extend maternity leave with reduced pay.

Education Matters!

We all know providing a quality education for your child is extremely important, however you may be surprised at just how quickly these costs can add up and what additional options and government support is available.

The costs of child care can vary across states and providers, although on average these costs work out to $102.25 per day and are generally entered into when your baby is at Childcare between the ages of 6 months of age to 3 years.

Pre School (kindergarten)

Pre School (kindergarten) is the next stage in your child's education and is entered into when your child is between the ages of 3-5 years of age. A government subsidy allows up to 15 hours of funded kindergarten tuition per week and kindergarten fees general are around $450 per term or $1,800 per annum before other ancillary costs.

Primary & High School fees

Primary and High school fees for a child between the ages of 5-18 range from a few thousand dollars a year, to over $25,000 per child at elite private schools before other additional costs such as school uniforms, laptops, excursions and tutors which can have a significant financial impact on a family.

For this reason it is common for parents to send their children to a government or lower fee catholic school in the primary school years and then to a more elite school for high school years.

It is for these reason it's incredibly important to have a financial plan ready for your child(s) regarding their education and where you would like to send them and how much you are prepared to pay.

The Cost of Education

Okay so overall how much are we talking?

The Australian Scholarship Group has estimated that a child born after 2017 could have total education costs of up to $68,613 for government education and $487,093 for a private education over their schooling life. Given this must be paid for with post tax dollars it can mean the investment into your childs education is an extremely expensive exercise. Therefore, considering an appropriate plan is of paramount importance.

Well surely this is possible right?

Absolutely! People start families all the time and it is an incredible and rewarding time period with the right planning and investment strategy. The secret, like most things, is planning up front for the road ahead.

With planning and the right investment strategy your ideal family lifestyle may be more within your reach than you could have ever possibly imagined!

Saving For Education

Clearly there is a need to save for these upcoming costs and this can be achieved via number of ways.

Bank Account

The most common way is to place surplus monies into a bank or other at-call accounts. This has numerous benefits including low fees, being readily accessible and the option to add additional monies at any time.

However it's important to remember these monies don't negate the effects of inflation, income and interest earned is fully assessable for tax purposes.

Insurance/ Investment Bonds

These options offer tax paid investments that enables investors to save for significant life events and the invested monies must be invested for a maturity date of around 10 years. The tax payable will be exempt as any taxation is payable at the life company level.

These investments have the benefit of earnings being capped at 30% tax which may be lower than the parent's marginal tax rate and have no impact on their tax return unless it's withdrawn within the first 10 years after which they can be withdrawn tax free.

There are however limits on the additional contributions which can be made with limits of 125% of the previous year's contributions and no discount for potential capital gains.

Direct Shares

Direct Shares generally are more suited to a long-term investment (5 plus years) and allow for a range of tax concessions, ability to hedge against inflation, usually have high levels of liquidity and can be held in the name of the parent or as a trustee of a child trust.

The main disadvantages of direct shares is the need to closely monitor market movements, the longer time frame normally required to manage volatility and the diversification options are usually limited to Australian based companies.

Managed Funds

Managed Funds can provide access to conservative or growth based investments. a General rule is the higher the expected return the greater the risk. Managed Funds allow for a range of investment choice to suit time horizon and your tollerance for risk. Taxation concessions from franking credits, capital gain discounts and tax-free distributions may also be made available.

These advantages are offset by the monies being subject to market risk and volatility which normally require a longer time frame. These funds can't be held directly in the name of the child without being subject to minors' tax.

Saving for Education

Additional Mortgage Repayments

This strategy works by making additional payments on the home mortgage or offset account and can be used as a low risk savings strategy. It is important to investigate that a redraw facility is available and what limitations may apply. Additional monies are then drawn against the mortgage to pay for school fees upon the commencement of the tution.

The downside of this strategy is the monies earned within the “savings plan” don’t earn any interest as it’s simply paying off a mortgage and therefore may not result in as a much net wealth accumulated if an alternative strategy had been taken.

Debt Recycling

Fintor believes Debt Recycling is not about borrowing more, but managing your debt effectively!

Debt Recycling in its simplest form is a strategy whereby if you repay $1.00 of your mortgage, you then borrow another $1.00 to invest. The $1.00 investment then earns income and growth. These earnings can then be re-invested to provide compounded returns or withdrawn and paid into your home loan as additional repayments.

Effectively, the strategy creates other income soures to help you reduce your personal debt faster and gain access to increased tax deductions. Debt Recycling converts the interest associated with your personal non-deductable debt into tax deductable interest as the borrrowings are now used for investment purposes.

Where most go wrong when implementing a Gearing or Debt Recycling strategy is they borrow more than they currently owe! They do this because they want to buy the investment all at once or have their heart set on an investment property that is most likely not suitable to their financial position.

This creates additional risk (borrowing) and has the potential to create additional stress and losses. If the dollar for dollar position is kept, Wthe risk associated with the strategy is similar to that before the strategy started as you’re carrying the same risk (loans). It is important to note that a Debt Recycling strategy maintains the risk level (debt position) you hold today, until such a point that you choose to sell the investment portfolio. You must be comfortable with the amount you owe on your home today!

Calculating Your Investment

Calculating exactly how much you'll need!

Firstly, you'll need to decide on the level of education you wish to provide for your child and to which stage of their Schooling you are willing to fund. Most parents elect to fund their child(s) education until the end of year 12 but the reality is that their Tafe or University qualification are in most part what will provide them access to their chosen careers. In relative terms, Tafe and university are the cheaper forms of education, particularly when compared to Private tuition fees.

The level & stage of Schooling you're willing to fund!

The level of education (Public, Semi-Private or Private) will ascertain the cost structures of the education you wish to provide. Whereas the Stage of schooling and what level will be applied will determine the time-period (length) of that cost and what will need to be spent and therefore saved. For example, most parents wishing to send their children to Semi- Private or Private will most likely consider Public school until their children either reaches year 7 or year 9 which lowers the cost of sending their child to Private school for their complete schooling life.

Creating your saving plan

Creating a savings plan to afford your child's education is easier than you think and does not need to reach a level of savings that completely covers their tuition at the point of entry. For example, most Semi-Private or Private schools offer payment plans allowing you to spread the cost out past your child finishing their education. The issue with these solutions is the interest charged on that payment plan.
Our Question to you is; why don't we reverse this situation? If you are able to investigate the relative cost of the school which you would like your child(s) to attend or a set on providing a Secondary Private education why not spread that cost out over the first 18 years of your child's life and use compounding interest to pay for part of that education!

For example, a private secondary school charging $25,000.00 per annum is equivalent to $480.00 per week. Over 6 years this is $150,000.00. Spread out over 18 years the $150,000 reduces to $8,333.33 OR $160.00 per week. This cost can further be reduced with a suitable saving and investment plans and this is where our advice can really help!

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GET IN TOUCH!

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