

Saving to educate your child

Escalating education costs requires a savings plan

Education is becoming an increasingly large financial burden for households. There is no such thing as free education - even public schools are charging fees as high as R15 000 a year, and that is before you have bought school books and uniforms.

Figures from Liberty Life Product Development and Support show that, in order to give your child an education at a government school and then three years of tertiary education, you would need to have R400 000 set aside. For a household with a take-home pay of R20 000 a month and two children, education costs would be equal to nearly four years of income. If you decided to educate your child at a private school, that price tag rises to R1 million.

It is becoming increasingly difficult to pay for your children's education with just your monthly salary. Most families need to have some form of savings to provide for education.

Choosing the right savings plan

The vehicle you choose to save into will depend on when you want to withdraw the money. For example, if you are only planning on drawing from the education fund after five years then you can choose a slightly more aggressive investment that will include equities (shares).

You could also choose an investment guarantee which allows you to take more risk but which guarantees your capital, so you know that the funds will be available when you need them.

Once you start to draw from the investment to pay school fees, you could move the investment to an absolute return portfolio, which aims to outperform inflation over the medium term so that it keeps up with the increasing costs of school fees.

Fundisa: low-cost saving for tertiary education

A very low-risk, low-cost way to save for your child's tertiary education is to invest through Fundisa. This is a joint initiative between Government and the unit trust industry.

Government tops up your annual savings by 25% up to a maximum of R600 a year. So, for every R40 that you contribute to the Fundisa Fund each year, the government will contribute an additional R10. This means you are guaranteed a 25% return *before* the growth in the underlying investment, which is in fixed interest instruments (cash and bonds). Because the bonus is restricted to R600, the optimal monthly investment into this fund is R200. However, even if you saved R400 a month, you would still be guaranteed an annual return of 12.5%. There is no other product in the market that can guarantee these returns.

For more information:

Speak to your financial adviser

Go to http://www.stanlib.com/SBIC/Frontdoor_02_07/0,2354,20204040_28877177_0,00.html

Contact the call centre on 0860 FUNDISA (0860 386 3472).

Fundisa accounts can be opened at any Standard Bank branch

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