

What your child's education will cost

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Cape Town - Education inflation is surpassing general inflation, making it even more important to start saving now for your children's education.

The Old Mutual Savings and Investment Monitor showed that 54% of South African parents say they do not know what the future cost of education will be, and that only 40% are saving for their children's education.

"This is alarming when you consider that a good education can end up costing hundreds of thousands of rands," said Sinenhlanhla Nzama, investments marketing actuary at Old Mutual.

"Our stats showed that people are tightening their belts and education is one of the main areas where budgets are cut."

The lowdown on costs

Nzama said that the tough reality is that in 2014, one year's education could cost between R23 000 and R42 000, depending on the level (primary school, high school, university) and type (private, public) of education.

A 2033 forecast will see you spending between R118 600 and R215 500 for one year's education.

If your child is starting grade R this year, the combined cost of education is expected to be R950 800 for public schools and R2.2m for private. This includes primary school, high school and a three year university qualification.

Empower yourself with information

"Whether you are new parents, a single parent or an established family, the key is to start saving early," said Nzama.

The later you start saving, the more you will need to save per month.

For example, you need to save about R460 a month for university tuition (excluding accommodation, books and travelling costs) if your child is born in 2014.

However, this is about R870 (close to double) if your child is already 10 years old.

These monthly savings will also need to be boosted by 9% a year going forward, to keep up with education inflation.

Investment vehicles to save for education

Unit trusts

Many people choose unit trusts for long-term investments as there is a lot of choice as well as funds that specifically focus on beating the inflation rate by a certain percentage.

This is important, because education inflation is higher than normal inflation.

"Unit trust investments are ideal for people who require flexibility and access to the funds; however, you must be disciplined and avoid the temptation of dipping into your child's funds," said Nzama.

Savings policies

These are fixed for a certain period of time, say five to 15 years, depending on when your child will go to school or university.

You can either pay fixed monthly premiums or make a lump sum payment into the policy.

You have limited access to the savings and generally have your savings invested in a wider range of the leading unit trust funds of your choice.

You can also choose to invest in some of the available life funds that offer minimum guarantees. These life funds are available only from life assurance companies.

Many policies offer a protection of premiums in the event of the death or disability of a parent.

This means if you were to die or be disabled and unable to work, the insurance company will pay the premiums for the remaining period.

Fundisa

This is a government initiative enabling you to save towards an accredited qualification at either a public college or university.



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This is a government initiative enabling you to save towards an accredited qualification at either a public college or university.

You are paid an annual bonus on the investment, which can be up to 25% of the money you save annually up to a maximum of R600 per child.

If you save R100 a month (R1 200 a year), you will get another R300 a year.

To receive the maximum bonus of R600, you have to save R2 400 a year. The bonus can only be used by the learner. You can withdraw your own money, but will then lose the bonus.

"Start early, even if it's a small amount each month - it will always go a long way in the future after some investment growth," said Nzama.

It is always a good idea to speak to an independent financial adviser, who will help you choose the right product for your needs and also give advice on how much you should save.

"This will put you on the right track to securing a good education for your children," said Nzama.

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