THE FREE PRESS JOURNAL SINCE 1928

Planning for child’s international education

— By Shalini Dhawan | Jul 02, 2016 11:31 am

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Shalini Dhawan gives tips on how one can save and plan for their kid’s education abroad.

In a conversation with a friend recently, the discussion veered towards how middle aged parents (me included) are concerned about providing the best for their children, be it health, international education, lifestyle, etc. Amongst all this, what I also found in this conversation, is that many parents in their pursuit of providing the ‘best’ are trading off on goals such as their own retirement. So, the moot question therefore is therefore “How can you afford an international education for your child without trading off on your own retirement?” Here is what you can do:

Understand your child’s study interests and then gauge the costs

Often as parents we tend to follow the herd and start planning for our children to become doctors or engineers. Maybe the interests of your child lie in arts, or academics, or sports or business. Understand your child’s field of interest and then gauge the costs of an international education in that field. Do not forget to add in ancillary costs such as stay, extra tuition and transportation.

Examples of some costs are – a two years MBA course in Australia would cost around Rs. 40-45 lakhs, whereas a similar course in the US would cost around Rs. 80 lakhs. A Masters in Engineering course would cost you around Rs 60 lakhs. The costs mentioned are just for estimation and include course fee and living expenses.

Remember the silent devils – inflation and exchange rate

Once we know the cost and starting acting on the plans for saving, the next step is to understand that these costs will grow with time, which means that Rs. 10 lakhs required today would be approximately Rs. 18 lakhs requirement in five years time. This is because inflation on education is much higher than consumer inflation. Inflation and our country’s economy also affects the currency exchange rate, so bear that in mind as well.

Start saving for each child now

Once costs are estimated, the best time to start is now. Remember the earlier you start saving the more years your money gets to compound and grow. Also do not forget to make separate estimates and plans for each of your children.

Investing for your goals

Once you understand the savings that have to be done, the next is to invest these savings wisely. By now, you would already have a fair understanding that for generating reasonable corpus for your child’s education, you would have to look at inflation beating assets or at least a mix of growth and conservative assets. Arrive at a mix of such assets which are well diversified.

Some options that can be evaluated are

Sukanya Samridhi Yojna – this could be used if you have a girl child who is younger than 10 years. The minimum contribution per year is Rs. 1,000 and maximum is Rs. 1.50 lakhs. You get some tax benefits under Sec 80C for this investment. The attractive part is that the maturity amount is tax exempt. The current rate is 8.60% which is not fixed and may change every quarter. If you invest Rs. 1.50 lakhs each year (assuming your child is 9 years old), you will have approximately Rs. 30 lakhs when she turns 21(@8.60% p.a.)

Diversified mutual funds – these are the diversified equity mutual fund schemes available in the Indian investment market today and can be used effectively to continuous and systematically invest on a monthly / quarterly basis for your child's education. Of course these come with varying degrees of risk and therefore return, depending on the style of portfolios that they invest in.

Child care plans from mutual funds – These normally have a lockin period which is either till the time the child turns 18 years or 3 years from the date of allotment whichever is later. These can have different portfolio types such as balanced funds (55-60% into equity and the rest in debt) or like monthly income plans (with around 80% allocation towards debt and the rest in equity). These plans are usually suited in cases where you would like to have a lock in. These schemes encourage discipline as they come with an exit load of usually 3 years thereby discouraging use of those funds for unintended purposes.

International mutual fund schemes – In order to diversify the exchange rate and currency risk you could add international funds to your investment portfolio. As these move in line with international markets they add diversification and some hedge to the currency risk that exists in creation of a corpus for international education.

Self-funding and external funding your child's education – education loans

Depending on your decision to fully or part fund your child's education, you may also explore education loans. Loan providers today offer liberal loans, of course subject to parents' meeting the underwriting norms of the provider. The loan usually covers the tuition fees. It also covers expenses such as living expenses, hostel expenses, examination fees, purchase of books / laptops and even one way travel fare.

As would be the case for a loan, parents would need to provide collateral which could be a residential flat, non agricultural land, FDs etc. Usually parents would be asked to be the co-borrower, although it could be anyone who has blood relation with the applicant. During the course, there could be a moratorium or the interest component will have to be paid. The indicative loan rates are around 11.75%-12.5% p.a. depending on the course/institution etc. The tenure of the education loan consists of duration of study plus grace period after study and repayment period. The loan tenure is decided based the repayment capacity of the customer, future prospects of the loan, age of the co applicant, etc.

Continuous review and rebalance

Once invested your corpus has to be reviewed at regular intervals. In the start you may start with a higher allocation towards equity and may reduce that as you approach your goal. Shifting your assets towards more conservative assets as you approach your goal is suggested for corpus protection. The reduction in growth assets should be in line with the number of years to your goal. Do not be too aggressive or too conservative. Being too aggressive can erode your capital whilst being too conservative will lead to underfunded goals.

Parents' life insurance

Last but not the least, as a parent a lot depends on your actions. A pure term cover covering the income earning parent's life is highly suggested. In case of the parent's absence, this goal of your family for an international education should still be accomplished. A term insurance cover ensures just that and is highly recommended.

Remember someone once said, "The distance between your dreams and reality is called action" and your action towards this goal can turn your goals into your child's reality.

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