

Investing for education amidst the uncertainty of a pandemic - How to overcome the growing cost of education, today

18 March 2021: The COVID-19 pandemic has added a layer of complexity when it comes to investing for education.

“The pandemic has understandably brought more of a focus on the short term for many parents, who have been juggling work, household chores as well as home-schooling, not knowing what the next month entails. Many parents, who typically pay school fees upfront at the beginning of the year to qualify for a discount, may now be considering whether they should continue this strategy, given the uncertainty of school openings and closures thanks to the pandemic,” explains Saleem Sunday, head of group savings at Allan Gray. “Others may have parked their education saving and investing goals in response to other more immediate priorities.”

However, he cautions that applying short-term thinking to investing for education, may have consequences.

“Investing for education is a long-term financial goal that should not be impacted by events in the short-term. The pandemic is not going to be around forever and there is hope now that vaccine

programmes are getting underway,” says Sunday. “If your goal is to educate your children, then you are going to have to pay your school and or tertiary education fees in one way or another.”

Sunday adds that relying purely on your salary to finance your children’s education is becoming increasingly difficult, and that parents should consider investing for education to relieve the future pressure.

Why your salary might not be enough

Sunday explains that the problem with relying on your salary for education costs, is that the cost of education grows at a higher rate than the average salary (and inflation in general). Over time, this difference effectively means that more and more of your salary will have to be set aside for your children’s education. While your children are still young, your salary is like the hare speeding away at the start of the race, but over time the tortoise of education inflation slowly catches up. In some instances, by the time your children are at university, education could take up - the bulk of the combined salary of two parents. Two or more children can be prohibitively expensive to maintain if you take a wait-and-pay approach to funding their education.

Investing can help you over the long term

The growth you earn on an investment can significantly lower the impact of education costs on your budget.

There are many investment accounts and policies you can use to save for your child's education, including education policies, unit trusts, tax-free investment accounts and endowments. It is important to research the various options available, comparing costs, restrictions, expected returns and other product features and benefits. "In a world of escalating education inflation, we are better off investing a little each month than not investing at all. It really is true that every little bit helps – so rather than worrying about the fact that you are not saving enough, overcome this barrier and get started Sunday says. "Invest all you can today to decrease the pressure of the growing cost of education on your budget, and to empower your children with more options in the future."

Credit – avoid it if you can

Sunday says the repercussions of not investing for the long term may be that you are forced to use credit to finance your children's education. Although the power of compound interest works in your favour when you invest, the same mechanism works against you when you borrow and makes credit the most expensive option – especially if you are making use of an unsecured personal loan.

"As always, aligning your goals and timeframes with your product choices is an important component of making sure your decisions are fit for purpose. Consulting with a financial adviser may be the best first step to making the right plan and using the right tools," concludes Sunday.

If you are a parent and need help with where to start when investing for your child's education, consider signing up for Allan Gray's free education series, which is packed with helpful information, here: https://www.allangray.co.za/saving-for-education/?utm_source=ag_insights&utm_medium=banner