

The top four mistakes to avoid when saving for education

14 Jan 2020: As parents, we all want the best for our children, and this often includes being able to give them the best education that we can afford. In the journey to saving for your children's education, it is oftentimes the small adjustments you make along the way that can mean the difference between having enough, or falling short, when the time comes to pay for education.

This is the view of Saleem Sunday, Head of Group Savings at Allan Gray, who says that the first step in avoiding critical mistakes in the journey to saving for your children's education, is shifting your mindset.

"Sometimes, the thought of saving for education is so daunting that it leads you to making avoidable investment mistakes or not making any investment decisions at all," says Sunday. "Shifting your mindset away from saving to match the total cost of education or not saving at all, to saving as much as possible, is the first step towards alleviating the impact education fees will have on your future salary. Understand that the more you save, the more freedom you have to choose from a wider variety of school options or to lessen the burden on your budget."

Below Sunday discusses what he believes are the top four common mistakes parents make when saving for education:

Mistake #1: Not doing your research

Saving without having researched the various investment products available to you, could cost you money in the long term.

"There are many investment accounts and policies you can use to save for your child's education. It is important to research the various options available, comparing costs, restrictions, expected returns and other product features and benefits," says Sunday. Make sure you choose a product that suits your needs to avoid unwanted fees or tax implications.

A few examples of products that are typically used for saving for education include education policies with insurers, endowments, tax-free savings accounts and unit trusts. Each product comes with its own pros and cons, and which one you choose will depend entirely on your own needs, personal circumstances and investment goals. Speak to a financial adviser to help you if you are uncertain as to which product would be right for you.

Mistake #2: Dipping into your child's education savings

Life doesn't always go as planned, which means that you may be tempted to dip into your child's education savings if the opportunity presents. You may think it will be easy to 'catch up' at a later stage with additional contributions. But doing this means you will miss out on the full power of compound interest.

"Time is an essential ingredient to successful investing. The sooner you start, the more time you have to make contributions and to benefit from the magic of compounding: earning returns today on the returns you earned yesterday."

Mistake #3: Not budgeting for the long term

According to Statistics South Africa, education inflation (the rate at which the cost of education increases each year) has averaged 10% over the past 15 years – that's 4% higher than general inflation.

Not budgeting or planning adequately for the rising cost of education, and not accounting for education inflation, may put a lot of pressure on your monthly budget.

Mistake #4: Using credit to fund education

It is not uncommon that parents turn to credit to fund their 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,” warns Sondag.

If you commit to a long-term savings plan when your child is born, it is less likely that you will find yourself in such a situation.

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