Giving your child a quality education requires dedicated saving from when they are born

July is national savings month – a good time to seriously consider future needs

Given the ever-soaring costs of tertiary education that have recently been widely publicised, parents need to consider this inevitability and should be prepared to budget for the pre-funding of future school education, as this expenditure continues to meaningfully erode the monthly income of an increasing number of South African households.

Andrew Edwards, Wealth Management Consultant at leading financial advisory firm GTC, believes a growing number of parents are faced with steeper than expected costs related to primary and secondary education, whilst not having specifically saved for this priority expense.

"It should be a well-known fact that the cost of education – at public as well as private schools – is one of the biggest line items in modern families' budgets, as more parents aim to provide their children with the best foundation, before they embark on tertiary education," he says. "With July being national savings month in South Africa, now is a good time to begin planning for your children's future education needs."

Every year during July, the South African Savings Institute (SASI) conducts a national savings awareness campaign to raise awareness around key aspects of saving and the benefits of short, medium and long-term planning.

The statistics from the Organisation for Economic Co-operation and Development (OECD) on the labour market absorption rate in South Africa was 75,6% for tertiary qualified professionals as compared to 43.3% for the remainder of the population who do not have tertiary qualifications.

Edwards uses this example as to the non-negotiability of sound primary, secondary and tertiary education.

"Statistics such as these have been driving parents to ensure their children are armed with a relevant education from early in their lives, and this has led to a significant increase in the demand for quality education. However, while the majority of parents tend to focus on saving for post-school education, many are not considering the impact that school funding will have on their financial means."

He estimates the cost for a year of public primary schooling at approximately R20 000, rising to approximately R60 000 – R80 000 on average per year for a private primary school.

"For a child born in 2018, this means that parents would need approximately R35 000 per year by the time their offspring reaches Grade 1 at a public school, or R180 000 at a private school – considering the current education inflation rate."

Edwards estimates the current average annual cost for a public high school at approximately R40 000, rising to R130 000 – R150 000 at a private high school.

"For someone born in 2018 this means that by the time they leave primary school, a year of high school will cost the parents approximately R140 000 at a public school, or R450 000 for an average private school."

Given the extent of these costs and their potential to increase, Edwards urges parents to start saving and providing for school education as early as possible, to mitigate the impact on their household budgets. "As the country's middle class grows, a quality primary and secondary education is a priority for a growing number of families, and this should be provided for in their financial plans."

Edwards advises that based on these indicative numbers, parents will need capital reserves of approximately R255 000 by the time the child starts at Grade 1 to have the funding for seven years of primary schooling at a public institution. He further equates this to a requirement for a contractual investment of R2 500 per month with an envisaged return of 10% per year, from when the child is born until they reach school-going age.

For those aspiring to private primary school education, the capital required is indicatively R1 270 000 at Grade 1, requiring a monthly investment of R12 500 from a child's birth.

Separately and additionally, in order to fund five years of public secondary schooling for a child born in 2018, he calculates that families would require approximately R700 000 by 2031, again assuming a 10% compound return is achieved.

"Those parents who intend sending their 2018 new-borns to a private high school, would need to have saved approximately R2 250 000 by 2031, to fund five years of high school. All these assumptions are based on the prevailing educational inflation remaining at 10%," says Edwards.

Edwards acknowledges that these figures are for a lump sum that will be drawn from annually to fund the school fees and that no further payments would theoretically be required during the term of the investment (i.e. for the entire primary, or high school period). He equally concedes that this ideal scenario would almost always be combined with funding fees from prevailing earnings.

While these figures may appear eye-watering, he reminds parents of the power of compounding – provided they do thorough financial planning early on, following the advice of their professional financial advisors - and stick to their budgets.

"If parents get into a habit of saving diligently towards their children's education, this cost need not have such a debilitating impact on their disposable income by the time their children are of school-going age, and parents will be in a position to give their children more opportunities," he says.

There are a number of savings vehicles that are geared towards saving for education, though this need not be a complicated exercise.

"Over the last few years, the South African investment market has grown tremendously, with a wide range of unit trusts, exchange-traded funds and tax-free savings accounts now available to give parents increasing options to achieve long-term savings goals at a relatively low cost," says Edwards.

Aside from the impact of these costs on a budget, parents also need to consider the possibility (and statistical probability) of death or a disability, which could result in either or both of them not being around to facilitate this funding for their children.

“The majority of parents may be providing for these events through life cover or comprehensive disability cover, but they need to ensure this benefit is sufficient to cover the remainder of the children’s schooling, including the costs of tertiary education – whether this be local or international.”

Parents may also opt for specialised education protector insurance policies, which are designed to specifically cover the cost of the children’s education based on the type of school the children are enrolled in.

“The most important advice is that parents should start thinking about education goals for their children from birth, and that they are realistic about what this would cost. If this is provided for adequately, it will certainly assist in alleviating some of the budgetary constraints faced by most households,” he concludes.