

Investing in your child's future



*Financial
planning for
your child's education*

Nicola Field

Foreword by Pam Walkley, Editor, *Money* magazine

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Also by Nicola Field

*Baby or Bust: financial planning for new parents and
parents-to-be*

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Writing a book is like a major renovation project. Both are hard work, both call for a healthy dose of patience from everyone in the family and both are equally rewarding. The key difference is that manuscripts have a completion date.

It's ironic that *Investing in Your Child's Future* was written from our turn-of-the-century schoolhouse in the New South Wales Hunter Valley. Built in 1913, we still unearth old rulers and inkwells in the course of our home improvements — artifacts that serve as a powerful reminder of the enduring nature of education.

Combining motherhood with writing a book amid a substantial renovation project (one that will hopefully be completed before humans colonise Mars) is a three-way juggling act, and one I could only have managed with the help of my family. Special thanks to my rapidly growing brood — Alex, Chris and Kate — who helped out in lots of little ways, and to my better half Michael, for his enduring patience and support. My thanks also to Robyn Terrell who so generously gave her time to entertain baby Nicholas while I bunkered down in the office.

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wonder if they've made the right decision for their child, and with a bit of research, planning and thought, at least we can say we gave it our best shot.

Foreword

Australian families have plenty to contend with when it comes to money matters, and during my nine years at the helm of *Money* magazine I have received thousands of letters from readers asking for help with all sorts of financial issues. One of the recurring requests is from parents looking for ways to meet the costs of their child's education.

There is no doubt that paying for schooling can be a financial challenge — especially at a time when housing costs and fuel prices are rising, and we are being urged to set money aside to fund our retirement. It all adds up to a significant drain on the family budget. My own children are adults now, so we no longer face the burden of education expenses, but I can certainly sympathise with parents battling to pay school costs to give their children a good head start in life.

With the benefit of experience I can also say that providing your children with an education that brings out their best is one of the greatest gifts you can ever give them.

Yet it is certainly not an easy task, and rather than sympathy, families are looking for sensible, easy-to-understand advice on managing the costs of education. Fortunately, this is just what *Investing in Your Child's Future* is all about — simple, effective strategies for saving and investing discussed in straightforward language.

There is no single answer to meeting the costs of schooling. However, by adopting the long-term approach that Nicola Field recommends, parents can plan ahead and prepare for school costs while still enjoying those precious years when their children are young.

Investing in Your Child's Future is essential reading for parents struggling with, or just beginning to think about how they are going to pay for, education expenses. It is also a

great book to share with other families — take it along to dance class, to soccer training or to piano practice. If you are interested in paying for a decent education for your children, chances are other parents you know will be too.

Pam Walkley

Editor, *Money* magazine

Sydney

April 2008

Preface

Parents are made of tough stuff. We have to be — how else would we cope with those nine nail-biting months of pregnancy and the nerve-racking prospect of labour? And just when we think the worst of the worry is behind us we dedicate ourselves to the patience and toil of raising our children from newborn to preschooler.

However, our real resilience often comes when the kids head off to school. In order to meet a growing mountain of school costs, many parents, and even grandparents, are sacrificing their own lifestyle to give their sons and daughters a sound education. It may mean driving a clapped-out car rather than the latest showroom head-turner or downgrading annual holidays from a trip to the Costa del Sol to a few nights at the Costa-not-a-lot. But we do it all without as much as a backward glance.

The trouble is, sacrifice alone may not be sufficient to meet today's — and tomorrow's — school costs. As a growing number of families leave the public system in favour of private schools, parents across the board are faced with mounting education bills — costs that occur again year after year. And for some families it doesn't end with high school. Many parents and grandparents are also keen to help fund their child's tertiary education.

Simply hoping it will all work out is no plan of action. Indeed, this sort of approach can see parents lumbered with increasing high-interest debt, all in the name of trying to help out the kids. Yet a private school education does not mean that both parents have to work themselves into the ground, leaving little time or energy to have fun with their children. The solution to meeting the costs of education lies in careful planning and taking a long-term approach.

This book is designed to help parents shape those plans — from choosing the appropriate school and school system to

laying the foundations of a saving regime that can go a long way towards meeting the costs of education. Of course, all families are different, and *Investing in Your Child's Future* is designed to provide an overview and food for thought. So if you are looking for personal financial advice, you will need to consult a financial planner.

I invite you to read this book and, as much as possible, share your thoughts and decisions on schooling with your children — after all it is their future that you are planning.

Simply by picking up this book and turning the pages you are showing that you care about your child's education, and from one parent to another, I wish you all the best in the journey of investing for your child's future.

Nicola Field

Hunter Valley, NSW

April 2008

Chapter 1

Education – never more important than today

Parenthood is shaped by many milestones: the first time your newborn sleeps through the night, baby's first steps and first words, and even toilet training. All are memorable achievements, but they pale in comparison to that first day at school. It's a much-anticipated occasion that calls for a stiff upper lip and a giant box of tissues to wipe away the tears. And that's just for parents!

I can easily recall my oldest son's first day at school. Brimming with anticipation and excitement, Alexander marched full-steam ahead into the school hall to meet his 'buddy' — a year 6 student who had undergone a rigorous training regime in preparation for the occasion.

With his one-size-too-big school shirt, oversized backpack and shiny new shoes, Alex looked every inch the newcomer. Yet he trotted off with his buddy without so much as a backward glance at his mother, who by now had a big fat tear rolling down her cheek — actually several tears, welling into pools of mascara. Anybody watching would have thought a panda bear was giving him up for adoption.

As I shuffled off to join the other emotionally charged parents for 'tea n' tissues' at a local cafe, I realised part of me wanted to whisk my little boy away — not just back home, but back in time to share all the things we had enjoyed together over the preceding five years. Things like picnics with mothers' group, mornings at playgroup and playtime in the park after shopping. However, I knew

instinctively that Alex's years as a preschooler were over. And judging by his delight at entering 'big school', my son was clearly ready to move onwards and upwards in the world and take those important first steps towards independence.

Parents are often urged to make the most of those precious preschool years, and it is good advice because the relatively short period of time between birth and kindergarten passes remarkably quickly. Sure, there are days when it can't come soon enough. But once the school bell rings and the classroom beckons, there is no turning back the clock — not for your child and not for parents who may have left their financial plans too late.

You see, while being a significant social milestone, the day our children start school also marks a milestone of a very different kind. It's the start of a long journey of cash outflows, and irrespective of the school your child attends — from the most elite right through to the local public school — parents face a whole raft of education costs that can extend all the way through to your child's early 20s.

The cost of educating our children has been estimated by a range of experts, and while each result varies according to the assumptions involved, the common thread is that parents often underestimate the size of the final tab. Research in 2006 showed that about half of those parents who were planning to send their children to private schools believed the total education bill would be about \$150 000. According to some estimates, however, this is well short of the mark, with the actual cost of a private school education amounting to as much as \$270 000.¹ By any objective measure, the shortfall of about \$120 000 is significant. And as you'll see in later chapters, these estimates, while high, are not unreasonable.

When you consider the amount of money involved, it becomes clear that the tears you wipe away on that first

day of school may not just be your child's. The cost to parents can be eye-wateringly high. That's not to say it's impossible to give your child a decent education. Indeed, this book is designed to help you navigate a path through the maze of choices that make up today's education system, as well as to look at ways to foot the bill without too much sacrifice to family life.

Before I delve deeper into the financial side of schooling, let's take a look at why education has become such a hot topic among Australian parents when little more than a generation ago, attending the local public school was, for so many of us, the unquestioned norm.

Why is education important?

Money prestige, success — these are all things we would like for ourselves, and as parents, we want even better for our children. Perhaps this explains why we place so much store in providing our kids with the best education we can afford. Education is a lasting legacy, and there's no doubt that the school — and school system — we choose for our children goes a long way towards shaping their future.

It's not really surprising that our school days wield such a powerful influence. After all, in an average lifespan of 80 years, we spend nearly 13 of those at school — that's 5 per cent of our total life. Add an extra three or four years for university or TAFE study, and we're looking at education comprising a massive 20 per cent of our lifetime. However, education does more than absorb our youth; these days it's all about results. And while the issue of what is a 'good' education is open to debate, what is less arguable is the fact that education delivers proven long-term benefits.

Lower unemployment

The federal government's *Australian Jobs* report regularly confirms that higher education levels provide greater employment prospects. In 2007 this report noted that better educated Australians are considerably less likely to experience the trauma and financial hardship of job loss. Average unemployment rates fall dramatically as education levels rise — from 8.6 per cent among those whose education finished at age 16, through to just 2.4 per cent for degree holders.²

Higher income

A higher level of education can also boost our lifetime earning power. No surprises there. After all, the whole point of enduring several years as a cash-strapped apprentice or uni student is long-term financial gain. Though the same *Australian Jobs 2007* report points out that it is indeed possible for unskilled workers to earn a strong income, it may involve dangerous or difficult work conditions or unusual hours. Ultimately, the report concludes, 'skilled occupations generally attract the best pay and conditions'.

A more comfortable retirement

The pluses of education extend all the way to the other end of life's spectrum — retirement. According to the Citibank Retirement Index (November 2007), our level of education is a key predictor of how we are likely to fare in retirement. In 2007, for example, the index found that university-educated Australians aged 55 years or over enjoy a retirement income averaging approximately \$2693 per month. Those with a trade or TAFE qualification live on about \$1980 each month, while retirees whose education did not extend past high school get by on just \$1646 per month — a massive \$1000 less each month than their tertiary-qualified peers.



However, education involves more than learning for earning. The influence of schooling is far more profound — potentially shaping our children’s values and morals; forming the basis of friendships and associations that may last a lifetime; and providing experiences, both positive and negative, that will be remembered for a lifetime.

The upshot of all this is that education in the 21st century involves considerably more than the three Rs — reading, (w)riting and (a)rithmetic. Indeed, there are plenty of factors parents need to weigh when they select the schools their children will attend. Parents have always wanted the best for their children, but the dilemma over schooling is in many ways a relatively modern-day phenomenon.

The trend from private to public ... and back again

In some respects our preference for schools has come full circle — from private to public, and back to private again. Much to the envy of many of today’s children, youngsters in colonial Australia often didn’t attend school. Some were educated by their parents or by a governess if the family was sufficiently wealthy. Many of our early schools were ‘private’ in the sense that they were run by individuals or churches. It wasn’t until the mid 1800s that a formal system of schools was established in Australia.

The prevailing economic factors of the time, including the financial need to send children to work from an age as young as seven, often saw student numbers dwindle by the time many were old enough to attend secondary school. Indeed, school attendance didn’t become compulsory for Australian children until 1939, and high school enrolment didn’t really take off until the 1950s and 1960s when our economic prosperity also picked up. At about this time, the

number of public high schools expanded at a rapid pace, and our state and territory governments became the chief providers of both primary and secondary education, as they still are today.

By the early 1960s, the baby boom and higher rates of secondary school participation were putting a burden on the Catholic school system, which was simultaneously struggling with the declining growth of religious orders (meaning there were fewer brothers and nuns to do the teaching). Faced with increasingly stiff competition from government schools, the Catholic system's share of enrolments fell, and continued to do so, right up until the mid 1970s. It wasn't just the Catholic system that suffered. Such was the strength of public schools, the private sector as a whole saw enrolments fall from about 23 per cent of Australian kids in the mid 1960s to 21 per cent over the course of the following decade.³

It's no secret that student numbers in the non-government sector have blossomed. The much-needed shot in the arm came from the federal government in the late 1960s, when it provided additional funding for private schools. Until this point, the only significant support by the Commonwealth came in the form of personal tax breaks, including the tax deductibility of private school fees. These tax breaks were later replaced by a rebate — a perk that was gradually phased out in the mid 1980s (though even today donations to school building funds are tax deductible).

While state governments have always footed most of the education tab, the additional funding from Canberra had a key effect in reviving the fortunes of the private school system. Today, almost one in three Australian children attend a private school.⁴

While our system of schools has changed, so too has the nature of education. In the days when I was at high school (... don't ask), years 11 and 12 were largely the reserve of

students who intended to move on to tertiary study. The available subjects typically reflected this, being largely theoretical studies such as economics, physics and history. These days, increasing numbers of students — approximately 75 per cent — go on to complete the final two years of high school.⁵ Recognising that not all of these students will head off to uni, secondary schools in the new millennium offer a far wider choice of study options including vocational and technical education.

Schools may change, but not the value of education

If your child is in her infancy (or even just a ‘twinkle’ in your eye), there is a good chance the school system will undergo further changes another five, 10 or 15 years down the track. And that’s a good thing. It makes sense for schools to adjust to the needs of the society they serve. That said, I don’t see the trend of placing a high value on education diminishing in the slightest. Nor should it. But rather than simply sending the small fry to the nearest public school, parents are faced with the dilemma of which school, from myriad options, their children should attend.

At the heart of this quandary is a range of attitudes to education that vary between families. We all value different aspects of education to differing degrees, and what is important to one family will be less so for another. I put this to the test by asking a number of mums and dads about why they believed education — and their choice of school — was so important for their children. Here are just a few of the responses:

Education is really about choices later in life. When we are young, many of us don’t really know what we are going to do far into the future. I believe that a good

education from a reputable school opens up the options when career decisions are finally being made. It is easier to achieve a higher level of education the first time around than to realise later in life that you need extra qualifications and then have to fit mature-age study into an already busy schedule.

Peter (44), father of two

I believe education is the only social equaliser our society has. A good education gives you the opportunity to do anything regardless of your background or economic circumstances.

Bernadette (49), mother of two

To me, education is more about happiness and nurture. No school is productive if a child is unhappy in that environment. Ultimately, education provides a good grounding for our children's future.

Anne (40), mother of three

Education is about bringing out the best in our children. It shouldn't just involve academic experiences. A good education broadens our children's social and cultural outlook and inspires them with self-confidence and self-belief. All schools have the potential to do this, but unfortunately we are often judged according to the school we attended, rather than what we learned from the school.

Michael (37), father of one

The value of education is indisputable. It truly is an investment in our children's future. However, what defines a 'good' education is less clear-cut. Academic results are only part of the equation. Discipline, values, extracurricular activities, family ties, geographic proximity, breadth of subjects and depth of resources are just a few of the reasons people opt to send their child to a particular school.

Additionally, families with special needs children will have particular concerns of their own.

Yet, the ability to choose between options is ultimately tied to our ability to meet the costs associated with the school of our choice.

A snapshot of the costs

In chapter 2, I'll be looking in more detail at the issues you should consider when deciding on a particular school. The key point is that your ability to take advantage of many of these options relies on your capacity to meet the associated expenses.

Let me stress that the public school system is by no means a consolation prize — nor should it be regarded as such. It's also worth remembering that most Australian children still attend government schools. But with a bit of planning, you can select the school that you believe is best for your child from a broad range of schools.

Having the means to comfortably pay for a wide choice of educational opportunities is a plus on many levels. Financial stress can drive families apart, and it's no surprise that money issues and the need to work long hours to make ends meet consistently rate highly among the factors that put a cloud over family life. If family life is marred by parents who are constantly at loggerheads about affording school fees, there may be little gain in sending your child to an expensive private school.

In fact, this is just what could be happening in many Australian homes. Government figures show that only about one in four children attending independent schools come from families earning a high income, dispelling the myth that private education is only for the wealthy.⁶ Not surprisingly, research by BankWest found that more than half of Australian parents who send their children to private