

The Daily Telegraph

26

YOUR MONEY ON TUESDAY



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Pump up the piggy bank

RUTH and Pat Parkinson, who live near Dundee, face three years during which both of their children will be attending a fee-paying school and are already making preparations.

Mrs Parkinson, 37, a nurse, has recently returned to work in order to dedicate her salary to building up a school fees fund. "One set of fees is just about doable, but two sets for three years will be impossible," she says.

The couple have been saving as and when they can for the past five years.

Eleven-year-old Josh starts at Dundee High School this term, while Sophie, nine, will join him in two years' time.

At the moment, Mrs Parkinson is saving £1,000 a month into a savings account with Skipton Building Society. She plans to invest in a one-year cash bond next year when she has more to put down.

"I have got an investment ISA as well, but at the moment it is worth less than I put into it five years ago. I need to know that we can pay the fees over those three years, so it needs to be low risk."

School fees: ease the pain

Whether you've planned ahead for your children's private education or it's a last-minute decision, there are ways to cut the costs, says Nina Montagu-Smith

As pupils return to school, many parents are now contemplating the next school fees bill. School fees rose by more than six per cent last year and as pressure on schools to prove they provide a public service grows, many may be forced to raise fees further to compensate for additional bursaries if they wish to maintain their charitable status. Whether you have fees to pay now or are planning ahead for the future, we guide you through the financial maze.

IF YOU NEED TO PAY FEES NOW

Help from the school

If you are struggling to pay the bill now, there are ways your school can help.

"Parents must have a dialogue with the school," says Jonathan Cook, of the Independent Schools' Bursars

Association. "If your child has special needs, the school may be able to help you get funding from a relevant charitable trust. Alternatively, it may means-test you and then see if it is able to close the gap."

You will have to show you have cut out all other luxury spending – holidays, a new car, even Sky TV packages. Schools generally prioritise cases where the child is mid-way through GCSEs or A-levels.

Many private schools will be open to negotiation if pupil numbers are dwindling as a result of the recession. Make sure you ask for a discount if you have more than one child at the same school.

If you are facing a hike in fees which

you cannot afford, rally the support of the Parent Teachers Association (www.nptn.org.uk), which has managed to arrange for fee increases to be reduced in several recent cases.

Borrow the money

If you have equity in your home, you could consider extending your mortgage to release money to pay fees. This is no long-term solution, and as lenders have become more reluctant to lend, it is not even an option for everyone. But if you have at least 20 per cent equity in your home, an "offset" mortgage, which allows you to keep your savings separate, but still counting as equity against the loan, or a "flexible" mortgage, which allows you to pay more now and borrow back money later, could be the way forward. Woolwich, for example, is charging a tracker rate currently 2.97 per cent per year on its offset mortgage, if you have at least 30 per cent equity in your home. See other best buys at moneysupermarket.co.uk.

CHILD STARTING SCHOOL NOW OR NEXT YEAR

Scholarships and bursaries

The Independent Schools Council estimates that one in three private school pupils receives some form of financial assistance from scholarships, bursaries or charitable trusts.

Most scholarships, awarded for sporting, musical or academic excellence, cover between 10 per cent and 25 per cent of the fees.

"The onus is shifting away from scholarships now, and towards bursaries which are means-tested," says Cook. Schools make their own judgments about a family's need for assistance – "it could be 100 per cent, it could be nothing," says Cook.

He explains that a school will place the children it admits into an order of priority, according to merit. Then it moves down the list examining the case of each family, giving out bursaries to those who need them most until the money runs out.

Famous schools such as Eton and Winchester have large endowment funds, often left to them in the wills of alumni, and can afford to be more generous.

Payment plans

Many schools now allow parents to pay fees on a monthly basis, which will at least help with budgeting if you are paying out of income. The availability of these is down to the individual school.

Save as you go: making regular monthly payments into a savings account is just one way to plan in advance for school fees

PLANNING IN ADVANCE

Paying fees early

If you can release a lump sum – perhaps from a mortgage or the tax-free lump sum from your pension if you are over 50 – many schools allow parents to pay future fees at today's prices, so you avoid a hike in future years.

"The terms may be attractive especially as schools look to shore up their finances," says Adrian Lowcock, senior adviser at financial advice group Bestinvest. "Discounts are offered in the region of three per cent to five per cent. You will have to call the school to ask."

You usually pay the fees five or 10 years in advance. If your child fails to get into the school, your money will be returned with some interest. "It's never going to be a great return, though," says Cook.

Investing a lump sum

If you are lucky enough to have generous relatives who want to help with school fees, there are some clever ways to make this as tax-efficient as possible.

"If you put cash, shares or assets into trust, the tax on any income from it can be charged as if the income was the children's own," says Andrew Diver, head of taxation at accountancy firm Beatons Group. "You therefore get the benefit of their personal allowance and lower rates of tax."

If you are paying £6,475 of school fees through a trust, it costs precisely that. But a higher-rate taxpayer would have to earn a gross income of £10,900 to fund the same fees.

Trusts can be set up inexpensively by a solicitor. "Trusts, and specifically school fee trusts, gain maximum tax efficiency when money is added by grandparents rather than parents," adds Diver. This is because of tax rules stating that when a parent gives money to a child, directly or indirectly through a trust, any income generated is treated if it is taxed on the parent if it exceeds £100 a year.

Regular savings

Cash bonds from banks and building societies, which usually require you to tie up your money for between one and five years, tend to offer higher rates of interest than other types of savings account. You can get 5.45 per cent annual interest on a five-year bond from West Bromwich Building Society at the moment. One-year bonds are paying up to around 3.8 per cent, while two-year bonds are paying up to 4.4 per cent. See best buys at www.moneyfacts.co.uk.

Buying a series of bonds, where one matures each year, can be a good way to budget and earn a good rate of interest.

Stock market investments

"Most parents will have a reasonably long investment horizon if they plan early," says Lowcock, who advises using up tax-efficient allowances such as the £7,200 you can currently save in individual savings accounts (ISAs) tax free. This rises to £10,200 next year. ISAs may hold cash or stock market assets such as shares and bonds. If you have time to plan ahead for fees, shares are proven to perform better than cash over the longer term, but you will have to take the risk that the value of your investment may fall. If you cannot afford to lose any of it, don't take the chance. If you invest in the stock market, it is wise to use up your ISA allowance on income-producing investments, and stick to investments geared towards capital growth for anything you hold outside an ISA.

Lowcock points out that everyone has a £10,100 capital gains tax (CGT) allowance each year to use up before they pay tax on capital gains.

Furthermore, CGT is charged at 18 per cent, while income tax is charged at 40 per cent at the highest rate – soon to be 50 per cent for very high earners.

If you are comfortable with stock market investments, Lowcock recommends that parents saving for school fees build up a portfolio of "absolute return" funds. These funds use methods of playing the stock market known as "shorting" and "going long" to increase returns. Because they are using a wide range of investment tools, the risk of the manager blowing the lot on one stock is lower. Recommended funds include Gartmore UK Absolute Return, which aims to return 10 per cent of capital per year; Blackrock UK Absolute Alpha; and BNP Paribas Stabiliser. If you want to consult a financial adviser, you can find one near you at www.unbiased.co.uk.

Corporate bonds, which are IOUs issued by companies to investors, are paying better rates of interest than cash at the moment. Again, if you can, shelter bond funds in an ISA to save on tax.

Lowcock recommends Legal & General Dynamic Bond fund which is paying an income of 4.3 per cent after basic-rate tax. Invesco Perpetual Corporate Bond, recommended, is paying 4.8 per cent.

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