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Money Matters with Nimi...

How are you funding your child's education?

"Education is a human right with immense power to transform. On its foundation rests the cornerstones of freedom, democracy and sustainable human development." - Kofi Annan

As parents and guardians, it is our greatest desire to give our children and wards the best possible start in life. The most powerful way to secure a child's future is to educate them as this opens doors to many opportunities.

For the vast majority of parents, funding your children's education ranks as one of the largest expenses you will ever face. By some estimates, educational costs increase by between 10% and 15% each year. If sound investments are not made early, covering such costs later can jeopardize your financial situation. It must thus be carefully planned and prepared for.

Time matters; paying school fees on an ad-hoc basis without any advance planning will cause huge financial strain unless you have significant income and savings. When your child is young, you have the benefit of time to select investments that offer the benefits of compounding and the prospect of higher returns that have the potential to outpace inflation and increases in education costs.

What are your options? Once you have an idea of the type of educational future you would like for your child, don't feel pressured to send your child to the most expensive school; it is not necessarily the best for your child. The most suitable choice largely depends on your own unique family circumstances and goals. This will be determined by factors such as your income and savings, your child's age and ability, how soon you will need the funds, and the amount you wish to save.

In order to accumulate enough money to finance your child's education, you need to not only start early, but to invest fairly aggressively. Where you have a very long time frame, you can afford to take more risk.

Think long term. The stock market is generally regarded as a strong option for long-term investing; stocks have historically outperformed other investments over the long term; in the short-term they can be volatile. If your plan is to put money away for your child for say, ten years and more, then it is well worth considering investing directly in a professionally managed portfolio of blue chip stocks or an equity mutual fund.

Mutual funds are pooled investments in a wide range of shares. They offer diversification and are easy to liquidate when you need cash. Your fund choice will typically depend on factors such as child's age, your risk tolerance, and ultimate financial goal.

As your child gets closer to starting college, say two to three years before they are due to start, the less risk you can afford to take because preservation of capital takes precedence over earning a high rate of return. If you leave the money in the stock market until just before you need for school fees, you may be forced to sell stocks at a loss.

It makes sense to begin to shift your money into more conservative investments reducing your exposure to market volatility. The shift may be to lower-risk bonds and money market accounts that present a safer option.

Carefully considered real estate investing is an outstanding asset class that over time provides three main sources of funding; you can sell the property, earn rental income to pay school fees and other costs, or borrow against a property.

If you own property that has appreciated in value, you may be eligible to borrow a percentage of your equity, which is the difference between the market value of your property and the outstanding mortgage loan. Be cautious about going into debt to fund your child's education; interest expenses significantly increase the education costs; interest rates are comparable to other borrowing options. Consider this option only where you have the capacity to service the loan comfortably, because if you default, you could lose the property.

Scholarships and grants are a source of funding that parents often overlook. From your child's earliest years you ought to have identified a unique skill or talent in a particular area; technology, music, drama, sports or they may be exceptionally gifted academically making them eligible to compete for a scholarship or grant. Identify and nurture their talent but at the same time, don't push too hard as you might be demanding a performance level beyond your child's ability; this can lead to anxiety, or even depression.

Scholarships and grants may have strings attached, such as maintaining a certain standard of performance or being tied to a particular field of study. Estimates show that scholarships and grants often cover less than half of all costs so you must still come up with the difference.

Have you considered an educational savings plan? Leading insurance companies in Nigeria offer Educational Savings Plans that help parents avoid the sudden huge expenses that come from inadequate planning. An Education Protection Plan ensures the continuation of a child's education should their sponsor become critically ill, disabled or die.

An Educational Trust is another option; it is simply a trust established with the sole purpose of providing funding for education. At the appropriate time, distributions or withdrawals can be made from the Trust to fund the education of beneficiaries.

Some private schools allow you to pre-pay school fees several years in advance. The allure of this plan is that by paying today you lock in costs and don't have to worry about not being able to afford rising costs in the future. A disadvantage, however, is that by tying down your funds, you forfeit the opportunity to invest the money yourself which is in fact what the school is going to do with it.

Don't neglect your retirement plans. Whilst your child's education is one of your greatest priorities, do not jeopardize your own financial security. Maintaining your own financial independence is key to your children's stability as well as yours. Try not to be tempted to withdraw money from your retirement savings account other than for your retirement.

Encourage your children to earn. For many families, it is the norm that children contribute towards their own education costs with part time jobs. It is important to teach economic responsibility at a young age and such income can supplement whatever you are able to provide for their personal expenses. By encouraging your children to contribute to at least a part of their expenses, they will be gaining financial independence.

With disciplined, regular investing spread over many years, you should be able to accumulate a significant sum in your child's education fund. Review your portfolio periodically; and certainly at least once a year to ensure that it still meets with your objectives.

As with any other investment goal, time is of the utmost importance; the sooner you start, the better. The key is to start early, contribute regularly, and invest wisely. Do remember that all investing comes with a degree of risk; it is thus important to seek professional advice before you invest.

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Nimi Akinkugbe has extensive experience in private wealth management. She seeks to empower people regarding their finances and offers frank, practical insights to create a greater awareness and understanding of personal finance.

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