Saving for Your Child's Education

There is no single best option for saving for our children's education and each family needs to weigh up the different options available, depending on their own financial circumstances.

If a family is paying off their mortgage, the best option may be to increase the repayments, especially if the mortgage can be paid off before the child starts tertiary studies. Once the mortgage is paid off then some of the money set aside for mortgage payments can be used for an education account for your children.

There are two main choices for savings:

- **scholarship funds**. Parents need to be clear what they are signing up for, such as what tertiary studies are covered and what will they get back if the child chooses not to go on to tertiary studies.
- opening a **savings account** for your child or children and managing the money for them. There can be tax advantages in opening the account in their name but it may be more difficult to control how the money is spent when they are older.

Advantages and Disadvantages of Scholarship Funds

Advantages

the funds are locked away so you can't be tempted to use the money for other purposes

the fund manager does all of the work to manage the money invested, working to maximise your investment returns

Disadvantages

you pay for the fund to be marketed to you and to be managed – it need not take a lot of time to manage regular savings to maximise returns

some funds are restrictive on what tertiary studies are covered. If your child decides not to go on to tertiary study you may only get your principal back without any interest.

How Much do I Need to Save

The average student in New Zealand borrows $10,000 a year on their student loan. While some will borrow much more than that for more expensive courses, the majority will borrow less than that. About two thirds of the money borrowed in 2003 was for study related costs and one third for living expenses.

What About Larger Families?

In larger families we suggest that families assist the eldest child or children and ask them to support the younger children financially as they enter into tertiary studies. It will depend on the spacing of your children and how many you have in terms of how the mechanics of this would work best. If you did not support a child financially and they had to take out a student loan the money would have to be repaid with interest so it is not unreasonable to ask your children to help the younger ones in your family. The youngest in the family could ‘repay’ their financial support by financially assisting their parents in their retirement.

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