Education funding

As with anything worthwhile, education – and especially tertiary education – comes at a cost.

Back in the 70s and 80s, tuition fees were comparatively minimal, students could use their bursary to live on and holiday jobs were fairly easy to find. In most cases, students could graduate with little or no debt to pay off.

Now, that's all changed. Tertiary education has become an increasingly expensive proposition, and for many students it means graduating with a formidable debt – unless their family can help with funding.

For a growing number of people, helping to fund a child or grandchild's education is now a high priority. The question is how best to do it.

While there are a number of savings products available specifically for education funding, there are also other options. One is simply to designate part of your investment portfolio as an education fund.

Most investors have a range of investment goals, from short term (such as funding a holiday or car) through medium term (such as children's education), to the long-term goal of saving for retirement. They may decide to use a single-investment-portfolio approach or to use multiple standalone products to accommodate their various goals.

Running a single portfolio is certainly simpler and will mean less paperwork. Other advantages are that it allows greater control and enables you to design and follow an overall strategy to accommodate a range of investment objectives.

Investing in a specific education fund may mean you give up some of that control.

A few years ago, a New Zealand investment research house publicly expressed concern about one such product. First, it noted investors' funds were mostly invested in fixed interest, with little allocated to growth investments. This meant that – depending on the markets – investors would probably need to invest more to reach their goal, because of the slower rate of growth.

However, the researcher's greater concern was the structure of the investment product, which saw some investors, in effect, subsidising others. Because the product was structured as a scholarship or endowment, returns were earmarked for tertiary education only.

Therefore, investors whose children didn't end up enrolling for tertiary education received a lower return than those whose children did. While this arrangement may have been an attractive feature to some, others would feel they could not guarantee what their children would do in 10 to 15 years' time.

Before signing up for any long-term, contractual savings product, investors should seek professional advice to ensure it suits their objectives. Remember, one size doesn't always fit all.

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