



Investing in education: planning for school fees

For the growing number of parents opting for an independent education for their children, having a sound financial plan in place, well in advance, can be of benefit.

The average cost of sending a child to private day school today is £15,654 a year, whilst last year the average annual boarding fee was £37,032 (although, in both cases, charges vary depending on where in the UK you live and the level of schooling)[1]. School uniforms, extra-curricular activities and school trips can also add to costs and are therefore worth bearing in mind at the planning stage.

If you intend to pay fees directly out of your income— especially if you have more than one child – it is important to consider which sources of income it would be best for them to be drawn from, and building this into your plan.

The earlier you start to consider these questions, the more options you will be able to give yourself.

Fees planning

A good first step is to establish what you are aiming for.

Asking yourself questions such as: What sort of school would you like your child to go to? Do you want to fund their whole education or just senior school or A-levels? What fees do the schools you like charge now? Factoring in fee inflation, what might they charge in the future?

At this stage it is worth considering whether scholarships and bursaries might be available and whether your child might qualify for these. A third of pupils at independent schools pay reduced fees, according to the Independent Schools Council.

Some schools also offer a discount if you pay the fees in a lump sum upfront. In addition, there may be discounts for siblings of current students or for children of parents in the clergy or armed forces.

Sources of income

Once you know what you are aiming for, it is time to establish which sources of income you are going to draw on.

You may already have existing savings for your child's education in place, or you may be starting the process from scratch. Either way, it is important to employ the best way to invest these funds in order to ensure you are comfortable throughout your child's educational journey.

It makes sense to invest in as tax-efficient a way as possible using your Individual Savings Account (ISA) allowance. Each parent can invest up to £20,000 in an ISA in the 2023/24 tax year, or £40,000 in total for a couple. Funds can be withdrawn to pay school fees without worrying about tax – or having to declare them on your tax return.

As ever, getting the balance right between not taking too much risk and investing for growth is worth considering. Putting your savings to work in the stock market offers the potential for higher returns than leaving money in cash but is also higher risk. There is the danger that a stock market downturn just before school fees become due could deplete your savings pot and make it harder to pay the fees in the future.

As a general rule, it can be a good idea to take less risk with money the closer you are to the time you will need to spend it. As your child prepares to go to school it makes sense to hold a few years of fees in cash to give yourself peace of mind.

Banking on grandparents

Wider family members often play a significant role when it comes to school fees, either providing money upfront or boosting regular spending. If the money comes from a grandparent this can have the added benefit of helping to reduce the value of their estate for inheritance tax (IHT) purposes.

Regular gifts from income can be given away and ignored for IHT – as long as the gifts do not affect the giver's standard of living. You can also give away £3,000 each tax year and it will be immediately exempt from IHT. It is possible to make further lump sum gifts, but you have to survive for seven years after making the gift for your estate to get the full benefit.

Do the maths

However you intend to pay for school fees, planning ahead is always helpful. Having in place a plan that takes into account a holistic view of your finances – including your current and future income and outgoings – can help ensure a smooth process when it comes to financing your child's education.

[1] Independent Schools Council: ISC Census and Annual Report 2022, Fig 23

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