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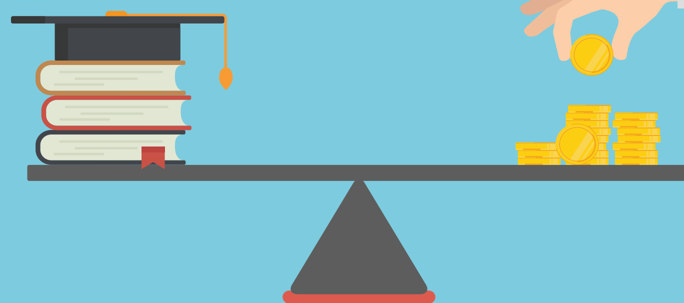

Funding your child's higher education

Preparing for the costs of university in the long and short term.

In July 2017, the Institute for Fiscal Studies estimated that the average student in England will graduate with a debt of £50,000 – an overwhelming figure for the many parents who want to see their children through university.

Almost everyone who's attended university or college will be familiar with the concept of seeking student finance or loans to assist with tuition fees and living costs, but most students need all the assistance they can get in 2018/19.

So what can you do you help save for your child's education and when should you start stashing away the cash to help them later in life?

Long-term planning: savings and gifts

Many parents start saving for university costs as soon as their child is born, or even earlier.

Even if these savings don't cover the entire cost of tuition and living at university, starting to put money away as early as possible can reduce the burden further down the line.

Savings accounts for children

Opening a savings account for your child can help them learn to save for themselves, as well as being a useful place to build up savings for later in their life.

Children's accounts are usually simple cash accounts, and can be set up on behalf of a child under 18.

There are easy-access options available which allow flexibility but these don't tend to offer the highest interest rates.

Instead, you may find a regular savings account is better suited to long-term saving for education costs. These usually place restrictions on withdrawals in return for higher interest rates.

For example, if you were to open an account with an interest rate of 4.5% as soon as your child is born, you could reach a target of £50,000 by the time they turn 18 by saving £165 every month.

The £100 rule

If you're contributing to your child's savings account, you'll need to watch out for a tax rule that applies to the interest.

If your child earns more than £100 in interest from money you have given them, it will count as part of your income, and the whole amount will be taxed at your rate of income tax.

This rule does not apply to money given by grandparents, other relatives or friends.

Junior ISAs

Parents can use their own ISA allowance, worth up to £20,000 in 2018/19, to save for their children's higher education, while there's also the option to open a Junior ISA (JISA) for a child under 18.

These allow you to save up to £4,260 free of tax in 2018/19, and are exempt from the £100 rule on children's savings.

Once your child turns 18, the account will change into a standard adult ISA. The money will then be theirs to withdraw and spend as they choose.

JISAs come in two types: cash and stocks and shares.

Cash

Like a normal savings account, the return you get on savings in a cash JISA is based on your interest rate. You won't have to pay any tax on the interest you earn.

However, with interest rates currently low, your savings are unlikely to see a lot of growth in this type of account.

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Stocks and shares

A stocks and shares account enables you to invest in funds, stocks and shares. The return you get is based on the performance of your investments, while any profits you make are tax-free.

As a long-term savings strategy this type of account can often provide a higher profit than cash accounts. This could make a big difference towards meeting your savings goal for university costs.

But like any investment the value in this account can go down as well as up in value, so make sure to seek expert financial advice and understand your appetite for risk before investing.

Trusts

A trust can be set up by parents or grandparents for a child under the age of 18.

Depending on the type of trust you set up, this can be a way to keep savings locked away until your child turns 18, and sometimes to maintain control over the way the money is used.

Trusts are also exempt from the £100 rule.

Gifts

Other family members, such as grandparents, may want to provide some support towards your child's education costs.

In some cases, they may need to consider whether the money they give will be affected by inheritance tax (IHT).

For instance, grandparents can make gifts of up to £3,000 a year without the risk of it being liable for IHT. Gifts worth more than this remain potentially liable to IHT for seven years.

Short-term planning: student loans

If your child is planning to start university at some point in the next few years, you'll have more immediate costs to consider.

With tuition fees as high as £9,250 a year as well as living costs to cover, most students will need to take out a loan for university.

You can apply for a loan through Student Finance in England, Wales and Northern Ireland, or through the Student Awards Agency for Scotland.

What kinds of loans are available?

Student loans are split into two types: **tuition** and **maintenance**

Tuition loans cover the fee for the course itself. The money is paid directly to the university or college each year.

Maintenance loans are paid to the student each term to cover the other costs of student life, such as food, rent, books and travel. The amount you get depends on your location and household income.

How are student loans repaid?

Once they've finished their course, students won't have to make any repayments until they are earning over a certain threshold.

For English and Welsh students, this threshold is currently £25,000 a year for students who started their course on or after September 2012.

For Scottish and Northern Irish students, the threshold is £18,330 a year.

Beyond these thresholds, 9% will be deducted from their salary to go towards paying off the debt.

The repayments are always based on earnings, so your child won't have to continue making them if they lose their job or if their income drops below the thresholds.

In addition, remaining debt will be written off completely a certain number of years after they graduate. This limit is 30 years in England and Wales, 35 in Scotland and 25 in Northern Ireland.

Different rules apply to those who started university earlier than 2012.

Can I pay upfront instead?

Understandably, most parents don't want their child to be burdened with a high level of debt early in their adulthood.

You may wish to pay for the costs of university yourself rather than have your child take out a loan.

It's possible to do so, but you should give careful thought to this decision.

As many graduates will not repay the entire sum before it is written off, you might end up spending money that your child would not have needed to pay in the first place.

On the other hand, if your child goes on to be a high earner, a higher level of interest will apply to their debt. This could mean they'll pay significantly more than the original fees.

In short, whether it's worth covering the costs yourself mostly depends on your child's future earnings – and it's not easy to predict this factor with certainty.

You may also need to consider whether your savings could be put to better use elsewhere, such as paying off existing debts or helping towards a deposit for your child's first home.

If you're not sure which option to take, it's best to consult an expert. We can help you make financial plans for your family's future.

Get in touch to discuss funding your child's education.

Important information

The way in which tax charges (or tax relief, as appropriate) are applied depends on individual circumstances and may be subject to future change. ISA eligibility also depends on individual circumstances

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