The Biggest Mistake Parents Make in a Child's Education Planning

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Sam and Vivian welcomed their first child in 1990. They were completed besotted with cute little Jude. While Vivian decided to take a career time out to be a homemaker, Sam diligently built his business to provide for the family. Sam ploughed most of the profits back into the business and also bought a piece of property, which he intended to sell, to fund Jude's university fees.

Over the years, Jude excelled in his studies. He set a goal to pursue a medical degree in the UK after completing high school. Unfortunately the timing of studying abroad coincided with the Global Financial Crisis 2008. That year Sam's business faced severe cash flow issues, hence he was forced to sell the investment property to rescue his business. With little money left, Sam was crushed by an overwhelming sense of guilt that he was unable to finance Jude's overseas education. Jude eventually gave up his medical dreams and enrolled on a health science course assigned by the local public university.

It is the cherished aspiration of every parent to fulfill their child's dreams. How would you feel if you were in Sam's shoes?

Do you agree that a child's education is an essential,nd non-negotiable aspect that cannot be delayed or compromised? It represents one of the most substantial financial commitments in the lives of every parent.

If financial constraints were not a concern, where would you send your child for their studies?

Country of Study	Cost of Today (Child's age 2)	Cost in 17 years time
MALAYSIA	RM 81,000	RM 116,000
SINGAPORE	rm 358,000	RM 580,000
AUSTRALIA	RM 593,000	RM 1,185,000
UK	RM 732,000	RM 2,625,000
USA	RM 1,355,000	RM 2,668,000

Reference: https://www.ocbc.com.my/personal-banking/lifegoals/education/planner/index.html

The top five international education destinations for Malaysian students are Australia, the United Kingdom, the United States, Singapore and New Zealand. Studying abroad greatly enhances a student's personal, academic and professional development. Many renowned educational institutions around the world offer exceptional academic programs, innovative teaching methods and cutting-edge research facilities. Living in a foreign country away from familiar surroundings and support systems, accelerates the transformation of a teenager into a young adult in terms of personal growth and independence. It is evident that children become more self-reliant, adaptable and open-minded as they navigate new challenges, foster new friendships and develop a stronger sense of self.

Building a global network of friends and professionals from various backgrounds opens doors to international career opportunities and a broader understanding of industries worldwide. Furthermore, employers often value international experience and cultural competence gained through studying abroad. It demonstrates adaptability, cross-cultural communication skills and a willingness to step outside one's comfort zone, which can make a candidate stand out in a competitive job market.

Parents may also enjoy the icing on the cake by having the opportunity to visit their children overseas and immerse themselves in the local culture, going beyond a mere sightseeing trip and truly experiencing the destination.

How do parents then adequately prepare for the education fund?

There are only two ways of funding an education: (i) start saving money early and earn interest on it, or (ii) take up a study loan later and repay with hefty interest. Prudent parents proactively prepare for this inevitable life event by engaging in early and consistent savings.

While there are various avenues for saving and investing, it is crucial to consider the following three factors:

1.Security of a child's education savings

Ensuring the security of a child's education savings is of paramount importance. One approach is to allocate a substantial portion of funds into financial instruments that provide capital protection. This can involve investing in low-risk options such as fixed price unit trust funds, government savings scheme, fixed deposits or education-specific savings plans that guarantee the preservation of the principal amount. Some investments offer the potential of higher non-guaranteed return. Parents may also consider allocating a smaller portion of these to the portfolio.

It is essential to have insurance coverage to provide ongoing financial support for your child's education, regardless of unforeseen circumstances. Life insurance acts as a safety net, ensuring that funding for education remains intact even if the parent's income is disrupted due to illness or demise. Parents would not want their child to be left stranded overseas if misfortune befalls them.

2.Flexibility to withdraw the savings at a predetermined time

Many Asian parents lean towards property investment as their main source of child education funding. An income-yielding property is a good asset; however it is difficult to liquidate in times of need. It may take up to six months to a few years to dispose of the property at a desirable price. This sort of asset is good for long term planning with no definite end date, such as retirement. We can always opt to extend our retirement age but a child's education cannot be postponed.

On the contrary, by selecting a financial instrument that allows withdrawal at a predetermined time, parents can have peace of mind knowing that they can access the saved funds as planned, regardless of any volatility in the financial markets.

This ensures that parents have control over accessing the funds when needed, without being dependent on favorable market conditions.

3.Considering inflation and foreign currency exchange rate in the target savings amount

When planning for a child's education savings, parents must take into account the impact of inflation and foreign currency exchange rates. These factors significantly contribute to the cost of education. The savings goal must anticipate the rise in prices over the saving period.

If the child's education is planned to be pursued in a foreign country, the fluctuations in foreign currency exchange rates can make education cost more or less expensive in the local currency. Factoring in potential currency exchange rate changes helps in determining the required savings amount in the local currency to meet the education expenses. Alternatively, parents may also accumulate money in a structured savings plan with foreign currency denominations.

Why is investing early is the best way to afford education?

Peter and Jane are classmates. Jane's parents started investing RM 1,000 per month when she was 1 year old; whereas Peter's parents procrastinated on saving for his education. When Peter was 10 years old, his father suddenly realized the urgency of saving money. He then decided to save RM 2,500 per month for the next 8 years. To his surprise, Peter ended up with RM 80,000 less than Jane, despite saving an additional RM 1,500 per month. Saving more in a shorter duration does not necessarily beat the outcome of saving less over a longer duration. The difference of RM 80,000 is the cost of delay.

	Peter	Jane
Parents start savings at age	10	1
Monthly investment amount	RM 2,500	RM 1,000
Contribution period	8 years	18 years
Annual interest rate	6%	6%
Total invested	RM 240,000	RM 216,000
Total investment value when the child is 19 years old	**RM 308,606.71**	**RM 389,289.96**

Education is the most valuable gift parents can give to their child.

The biggest mistake in child education planning lies in having no savings and lacking any form of guarantee within the savings. Effective financial planning empowers a child to have the freedom of choosing his desired university and course.

Every family's financial situation is unique. I recommend that parents consult a financial advisor and develop a comprehensive savings strategy tailored to your child's needs. If your child is exceptionally talented and secures a scholarship, the saved funds will give them a remarkable head start in building their adult life. Otherwise an idle education fund is a big fortune to supplement your own retirement.

A penny saved is a penny earned. Happy saving!