How do you deal with rising foreign education costs?

- SMITHA HARI

Executive Summary: *Education costs abroad have witnessed an exorbitant increase over the past couple of decades. Changes in exchange rates can make foreign education even more expensive. It is important to plan for this goal well in advance. Estimating the corpus needed, saving regularly on a monthly basis, reviewing the portfolio regularly and having sufficient insurance cover in place can help in achieving the goal.*

Indians have always valued a foreign degree. International universities, especially those in the US have for long been a preferred choice for parents to send their children. However, most parents do not consider the prohibitive growth in the cost of such foreign education.

According to Bloomberg, college costs have gone up by more than 500% in the US since 1985. This is a whopping increase compared to the rise in costs of other essentials. To put it in perspective, medical costs have risen by 286% and the consumer price index has gone up by 121% during the same period. Add to this increase, the change in exchange rates over the years, and you will realise that financing a foreign education cannot be taken lightly.

It is critical to plan well ahead for such expensive goals. Here are some quick pointers on how to plan for rising foreign education costs.

- **Estimate the corpus needed:** The first step is to estimate how much corpus you would need to fund your child's foreign education. Estimate the cost in today's value. Then apply an inflation factor on this cost (based on historical trends in the foreign country) till the period of the goal. Do not forget to consider the depreciation of the rupee vis-à-vis the dollar. When you arrive at the corpus needed, work backwards to find out how much you would need to save on a monthly basis to reach to that corpus.
- **Start saving in mutual fund Systematic Investment Plans (SIPs):** Diversified equity mutual funds give the best returns over the long term. If your child's education is more than 3 years away, then it would be best to start investing in equity mutual funds, as this is the best bet against inflation. Split the amount needed to be invested monthly across 2 funds.
- **Review performance of invested portfolio:** Once the monthly investment is in place, it is essential to periodically review the performance of the chosen funds. Funds' performance, ratings and reviews change over the years, and it is very important not to be stuck with a bad fund. If the fund you have initially invested in has started performing badly after a few years, it would be wise to do a systematic withdrawal and start a SIP with a better performing fund.
- **De-risk the portfolio when close to the goal date:** When you near the year of the foreign education (say 2-3 years away), it is recommended to de-risk the portfolio by shifting the investment to safer avenues like a fixed deposit or a debt mutual fund. This can be done by a

systematic withdrawal plan rather than transferring a lumpsum. De-risking can help in protecting the corpus from volatile movements in the equity markets, if any.

- **Have sufficient insurance cover in place:** Last, but definitely not the least is to have a sufficient life cover in place. When the amount of life cover needed is calculated, the existing goals and commitments should also be considered. Funding the child's foreign education is an important goal, not only in terms of the amount, but also for the child's career. This should not be compromised if something untoward happens to the earning member in the family. An insurance cover which covers this risk can be used for funding the education.

The author can be reached at smitha@gettingyourich.com