MONEY

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PENSIONS NOT CARS HAVE GIVEN ACTRESS CLELIA MURPHY A SENSE OF SECURITY
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Educate yourself on the cost of going to school

Some financial planning now can help to spread the cost of educating your children and save you money in the long term, *writes Linda Daly*

Be realistic and establish the actual cost of educating your children; a Zurich survey has found a disparity between what parents think they will have to pay and the actual figure

Emily Bermingham's 12-year-old daughter Maggie starts secondary school at the end of August. Bermingham, who has two other primary age children, is sending Maggie to a fee-paying school in south Dublin at a cost of €3,900 per year.

"It has an excellent academic reputation and she's an academic child. Even though she will have to commute, I wanted to send her to a school that could bring out the best in her," she said.

The move from primary to secondary school has involved a big jump in costs. As well as the annual fee to attend the school, Bermingham has had to purchase an iPad with ebooks through Wriggle, the school's provider, at a cost of €900.

Maggie's uniform, which would have cost less than €100 in primary school has jumped to €300 in first year. That's €5,100 before school stationery fees and extracurricular activities are paid.

"It is a shock to the system. We haven't yet jumped in fully to the year, so I'm expecting further costs," said Bermingham, who has already put in applications for her other two daughters to attend the school when the time comes.

"For me, it's worth the spend. A good education is the biggest gift I can give them and I feel we would spend the €3,900 fees on holidays abroad or outings if we weren't spending it on school. This fee isn't out of our reach for now."

Her costs are not the highest compared with those of other fee-paying schools around Ireland. The High School in Rathgar has set fees at €5,900 for the 2017/2018 academic year. For St Gerard's in Bray, Co Wicklow the cost was €7,055 in 2016/2017. Day pupils at St Columba's in Dublin 16 pay €8,000, but for boarders it can cost anywhere from just under €19,000 to more than €27,000. Schools tend to do deals for families.

School costs

Even if you are not forking out money for private education, putting your child through the school system is a costly business. The government may provide a free pre-school year scheme but after that parents bear the majority of costs.

The 2017 Barnardos' school costs survey, released last week, showed the average cost for a child at senior infants is €355 compared with €800 for a first year pupil, up from 2016 when the figures were €340 and €775 respectively. These cover basic costs, including clothing, footwear, books, stationery, classroom resources and voluntary contributions.

Just 10% of respondents sent their primary age children to fee-paying schools. This figure jumped to 19% for those with secondary age children. June Tinsley, Barnardos' head of advocacy, said the expectation that parents will "prop up the educational system" is unfair.

The survey of more than 1,800 parents, found over 45% of them went without something else or cut back on essentials to fund school costs. But Tinsley said it's not just low-income families feeling the pinch.

"This issue continues to affect so many, not just low-income families. Year on year, parents are overburdened and stressed as they sacrifice so many things to get their children ready for school. Education is a right – but it's not a right if you have to pay for it," said Tinsley.

> School and college fees will go up in line with inflation so if the savings aren't at least doing the same, you're not really achieving the goal of paying for fees

Going to university

While most undergraduates don't have to pay tuition fees under the government's free fees initiative, a student contribution of €3,000 is payable. That's just the start. Dublin Institute of Technology's 11th annual cost of living guide, released at the start of July, found third-level students living at home should budget €6,789 for each year at college, compared with €11,766 for those in rented accommodation. Costs include everything from rent to utilities, food, social life and clothes.

There is no tax relief for primary and secondary education. Parents of third level students can claim tax relief on tuition fees for undergraduate and postgraduate courses but only if they are paid in full. You cannot claim relief on the student contribution. Tax relief at a standard rate of 20% is available on postgraduate fees, which range from €4,000 for degrees up to €30,000 for MBAs.

Plan ahead

There are things parents can do to soften the blow of putting their children through the system. Frank Conway of Moneywhizz, the financial education resource, said parents should establish the costs and plan long term. "You need to think ahead to what your education costs will likely be and plan accordingly."

The latest Zurich cost of education survey, released last month, found a large disparity between what parents think they will have to pay and the actual cost.

"Parents think the annual cost of education for primary school is €425, but the actual figure is €766 per year," it said.

Parents sending children to secondary school believe it costs them €1,273 but the actual cost is €1,629 per year per child.

Unlike Barnardos, Zurich includes extracurricular activities and lunches.

Jonathan Daly, head of retail at Zurich Life, said parents must be realistic. "It drives the need for parents to plan. Have the money to do it rather than get into borrowing money," he said.

Borrowing for school

The Irish League of Credit Unions, which released its 2017 back to school survey in July, found that after monthly income, savings are the preferred method of funding school costs. However, 29% of parents said they would borrow, with the average amount €345, down from €357 in 2016.

Many credit unions advertise back-to-school loans. Link Credit Union in Cavan says if you borrow €500 at a rate of 10.5% APR, you could repay €10 a week.

Conway said the ability to get loans could be affected by changes to the Central Credit Register. Since June 30, credit unions have to provide information on clients and on loans of €500 or more.

"Where some amount of borrowing is needed, it is important to maintain a good credit record all along. A poor record will likely result in a rejection."

Conway said budgeting can help. "This is the never ending must-do. Maybe there are ways to increase income – such as rent a room at €14,000 max per year – to bring in some extra cash if needed. Have Med1 forms been submitted? Every penny counts," said Conway.

Invest for success

With interest rates on savings so low at present, parents should consider investing in long-term plans to fund education.

"School and college fees will go up in line with inflation, so if the savings aren't at least doing the same, you're not really achieving the goal, which is paying for fees. You probably need to get 3% a year return to match inflation," said Dave Quinn, managing director of Investwise.

Quinn said it's never too early to start saving for your child's education. "If you have a 10-year plan, then invest in a good medium-risk, diversified portfolio with a monthly direct debit and keep the management fees as low as possible."

Daly said parents should look out for flexible plans that give them access to their savings whenever they want it without incurring penalties. He pointed to Zurich's Prisma's range of multi-asset and fully diversified funds. Educating yourself on investment fees could save you money in the long run, he said.

MARKET MOVER
DONIE O'BRIEN

Donie O'Brien is head of quant portfolio management at Irish Life Investment Managers, which has more than €65bn of assets under management.

He is the lead portfolio manager for the Global Low Volatility Active Equity Fund, which recently passed its three-year history since launching in July 2014. It has grown to more than €2.1bn in assets. The fund is a component of the Irish Life multi-asset portfolios range of funds, and is also available in Canada through affiliate companies in the Great-West Lifeco group, to which Irish Life belongs.

Investment philosophy

The Global Low Volatility Active Equity Fund aims to achieve equity market returns over the long run. This means there is lower volatility and downside protection during significant market corrections such as the dotcom crash (2000-3) and the global financial crisis (2007-9).

The fund uses a systematic investment approach, which sees it target lower risk stocks with attractive valuations and strong balance sheets. "These stocks have been seen to have more stable returns than the market by losing less when markets fall," said O'Brien.

He added that valuation is a major focus of the fund, and it has always had a lower price-to-earnings multiple than the broad equity market. In contrast, many other low volatility approaches have seen valuations grow more expensive over recent years; there has been significant buying of stocks with low volatility even if their fundamentals appear stretched.

Performance

The fund has delivered a strong return of 39.5% since inception to end June 2017, compared with 37.6% for the broad global equity market. The market corrections of early 2016 and around the Brexit announcement in June last year were a good opportunity for the fund to deliver on its downside protection objectives, according to O'Brien.

"We sought to build a fund where investors can remain in equities and achieve a smoother journey over a full market cycle, and this is precisely what has occurred over the past three years," he said.

Buying and selling

The fund is focused on overweight defensive sectors such as utilities and consumer staples and underweight higher-risk cyclical sectors such as technology and financials. Its top overweight holding is US pharma company Gilead Sciences, which accounts for 1.3% of the portfolio.

"The stock ticks a lot of boxes in our quantitative selection criteria, with low volatility, low price to earnings and good profitability characteristics, " said O'Brien, *pictured*.

One recent sell was Swedish firm Ericsson. "Its price had increased 20% since it was purchased, making its valuation less attractive versus peers," said O'Brien. The fund made a timely exit, selling in May 2017 prior to a fall in Ericsson's price.

Outlook

O'Brien said uncertainties exist in the market around Central Bank actions, Brexit negotiations and ultimate policy announcements under the new Trump administration in the US.

"Our strategy has tended to deliver more stable returns during similar environments of uncertainty in the past," he said.

Gary Connolly

Making investment decisions is not the time for DIY

Domestiphobia could variously be described as the exaggerated, inexplicable and/or irrational fear of chores relating to the household or family.

Example: A fear of driving too close to junction 4 on the M50 – given its proximity to the turn-off for homewares superstore Ikea – could be described as a mild case of domestiphobia.

I find the pre-purchase routine of a trip to Ikea to be tortuous – but once at home I'm quite the allen key fan and rarely shirk my flat-pack responsibilities.

Ikea discovered something important years ago: the very act of putting effort into the creation of something adds to our perceived value of that something. People have a strong, internalised notion that effort equates to quality. It even has a name – the Ikea effect – provided by behavioural economist Dan Ariely.

In four studies in which consumers assembled Ikea boxes, folded origami and built sets of Lego, Ariely demonstrated a clear increase in valuation of self-made products.

Probably the best example of this was with the Betty Crocker brand of instant cake mix in America.

Some years ago it was experiencing sluggish sales and realised its customers were feeling a bit guilty, as all they had to do was simply add water to the recipe. It decided to make the process of cake making a "bit more complicated". It changed its recipe so that it required the addition of an egg, and customers loved it. The slightly "complicated" process made them feel that they were contributing something to the end product.

This is interesting on a number of fronts. First, economic orthodoxy dictates that we should place more value on items that spare us work. As we increasingly identify ourselves as money-rich and time-poor, we should be prepared to spend more of the former to save the latter. This is just one of many aspects of economic orthodoxy that jars with the reality.

Secondly, the Ikea effect has particular relevance to the investment world, but it's a bit of double-edged sword.

I've long argued with financial advisers with whom I work that getting a client to buy into the process is important in terms of engendering commitment. After all, casual commitments to a process invite equally casual reversals when the going gets tough, so it is important to commit properly to a plan.

This works well for those aspects of the investment process over which we can exercise genuine control – the planning piece. But what about those aspects of investing where we don't have control?

Here, there is no guarantee that more effort equals higher returns. It's likely that the relationship is reversed – more effort will reduce value. The dangers are most acute for those seeking to go the investment route alone.

Seemingly more so now than ever, the DIY attitude has become widespread across many activities. People are taking on projects themselves that historically have been handled by professionals. Whether it's planning a holiday, building a tree house, or self-diagnosing a rash, there's a YouTube video or online forum for everything.

Now imagine what the impact might be if you manage your own investments. A wonky bookcase is one thing, but an unstable portfolio is quite a bit more serious. The trouble here relates to the timescale of feedback. If you build a flat-pack bookcase and it rocks from side to side, you have instant feedback that your process was faulty. Equally so for the cake that fails to rise or the rash that continues to spread.

Now think of how frequent the feedback on your investment portfolio is? You may think it's very frequent – after all, stock market-based investments are marked to market daily But this feedback may not be so relevant.

The stock market follows what investor Howard Marks refers to as a pendulum-like swing between overpriced and underpriced, reflecting periods of euphoria and depression. The relevant feedback on a stock portfolio is arguably extremely infrequent as the pendulum spends most of the time moving away from each end.

You won't know whether your investment portfolio is working or not for a period of years. Just think of how many mistakes you can make in this time before recognising it.

Not all phobias are bad: a fear of making solo investment decisions is quite rational. For the vast majority of us, the simplest and best solution is to seek external advice in relation to investing.

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