



34 THE WEEKEND AUSTRALIAN, MARCH 5-6, 2016

## WEALTH

theaustralian.com.au/wealth Edited by James Kirby

# Education's \$500,000 challenge

The opportunity cost of private schools seems to be causing some parents to think again and the investment alternatives are quite appealing

JAMES GERRARD



Recent Australia Bureau of Statistics data show that the proportion of parents enrolling their children in private schools has dropped for the first time in decades. Why? Have ever-increasing school fees been a contributing factor?

Since 2009 average, fees at independent schools have risen by 4 per cent each year, Catholic school fees have risen by 6 per cent and government schools by 3 per cent.

There are exceptions. Between 2009 and 2016, two prominent private schools in NSW and Victoria increased tuition fees by 42 per cent and 53 per cent, which works out as an annual hike of 6 per cent and 7.6 per cent respectively — During the same period inflation — represented by the consumer price index — was just 2.5 per cent per year.

Geoff Newcombe, executive director of the Association of Independent Schools of NSW, says: "CPI is not a reliable indicator of the factors that contribute to the increasing cost of education provision. In addition to annual salary increases of around 2.5 per cent, which represent around 70-80 per cent of a school's running costs, there is a continual need to upgrade information technology, curriculum related costs, school maintenance and refurbishment, and ever-increasing compliance requirements."

Newcombe adds "parents also expect smaller class sizes which require additional teaching staff, plus a wide range of curricular and extra-curricular options such as sport, music and other activities".

Nevertheless, Natalie Mactier, chief executive at private education marketplace School Places, says school fees and annual increases can be a source of anxiety for parents. "Eighty per cent of parents we survey expect to make significant financial sacrifices to fund their children's private schooling." Paying for the ongoing cost of private schooling can mean that "both parents need to work fulltime and limit discretionary spending on items such as holidays or entertainment or stick to a strict budget to curb spending".

With school fees from most prestigious grammar schools in excess of \$30,000 a year for years 11 and 12, parents of three Rudi and Natasha Engelbrecht from Killara, NSW, decided against sending their children to private school and instead opted to settle in an area which fell into the catchment for two of the state's top performing non-selective public schools, Lindfield East Public School and Killara High School. The Engelbrechts looked at the private school fees but with three children felt that the costs would be prohibitive. They noted that they would "rather take the extra money" and expose their children to overseas travel and extra-curricular activities while also putting money aside for their children's university fees and future financial needs.

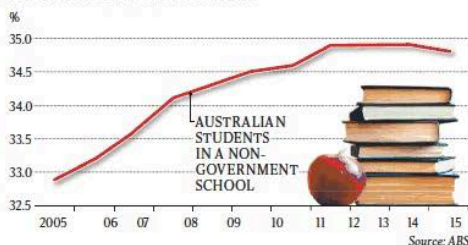
Mactier from School Places — which matches private school places with prospective customers —



STUART McEVROY

School Places chief Natalie Mactier says smaller class sizes and wider subject ranges are strengths of the private system

### Tide Turns For Private Schools



advises prospective parents to consider the "financial, social and lifestyle aspects of sending children to private schools".

Mactier noted some of the positives of private school as:

- Exposure to a wider range of subjects to give the child a varied education;
- Smaller class sizes that may mean the student gets more personalised attention, tailored to the child's individual learning needs or style;
- The opportunity to enjoy and get involved in creative or sporting pursuits that may not be available elsewhere, particularly if the school has a focus or strength in that area.

Newcombe agrees and adds "independent schools have a strong focus on quality teaching and learning and on meeting the specific needs of individual students to help ensure they can reach their potential".

However, the flip side of the

benefits are the financial costs. More than a third of parents surveyed by School Places who have children in private schools say they're worried about how they'll manage if fees keep increasing and almost one in 10 parents has reached the point where they are considering other school options because they are struggling to pay fees.

The surprise drop in enrolments at private schools after two decades of growth must surely indicate that some parents have come to the conclusion the fees are just not worth it.

But what if parents decide to send their children to public school but still put the money aside for investment that would have been spent on private school fees? Modelling conducted by Performance Property Advisory looks at this scenario and is based on the following assumptions:

- \$20,000 a year average school fees;

- 3 per cent annual interest on cash;
- 5 per cent annual interest on investment loans;
- 4 per cent annual rental return;
- 5 per cent annual property growth;
- 1.25 per cent annual property expenses;
- 2.5 per cent annual inflation on savings amount.

Ramon Mitchell, NSW director of consultant Performance Property Advisory, noted that "saving \$20,000 per year for five years would provide enough deposit to purchase a \$400,000 property and at the end of 13 years of schooling, the investment property would be worth about \$610,000 and the investment loan would be about \$90,000".

Reviewing the results of the modelling, Wayne Dive, a personal mortgage adviser at mortgage broker Smartline, said "if a family is disciplined and uses the money that would have gone to private schooling into an investment property, at the end of 13 years of schooling, the family could potentially give the child a property with equity in the ball park of \$520,000".

If you don't send your child to private school you could instead ultimately give them a gift of half a million dollars — enough to start anyone on the road of prosperity.

This equity could be used to help "springboard the child into the purchase of their own property once they are established in

the workforce", Dive said. In addition to the equity benefits, Mitchell noted that "the property would be providing an income stream of approximately \$12,500 per year at the end of 13 years which could be used to help the child pay for university fees or living costs".

Both Mitchell and Dive noted that the modelling was hypothetical and many variables could influence the outcome.

For parents who wish to enrol their children in private school, School Places stresses that it's never too late to enrol.

"We constantly get calls from parents who think they've left it too late but the bulk of our vacancies are for this year or next," Mactier said. "In total we have almost 7000 spots available all the way up to 2024."

Newcombe adds "about 10 per cent of independent schools would be considered high fee. The majority of independent schools charge fees between \$5000 to \$15,000 per year."

For those who wish to give private school a miss, there may be strong financial benefits if discipline and wise investing can be applied by investing in investments instead of school fees each year. But there is no right or wrong decision, it is whatever the parents feel is best for their children.

James Gerrard is the principal and director of independently owned Sydney financial planning firm [FinancialAdvisor.com.au](http://FinancialAdvisor.com.au)