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Will you be able to afford school fees in 2030?

Find the best way to invest your money now

It's a new school year and excited, possibly nervous Grade Ones are settling into the start of their education journey. As a parent, are you feeling prepared for the financial obligations the next 12 years will present?

Mellony Ramalho, African Bank's Group Executive: Sales, Branch Network, says paying for school fees has to be a priority for parents but can be daunting when you consider the escalating costs of education. "If we look at the official stats for the last five years, it shows that education inflation runs at approximately double current inflation rates. This means that if we have inflation of 4.5%, educations runs at 9%," she says.

Using a Government school's current annual fees as an example, Grade One in 2019 costs R32 890 and Grade 12 costs R41 200. Using 9.3% as the inflation rate, for the remaining 11 years of school, pares with a child in Grade One this year can expect to pay approximately R109 576 for their Grade 12 school year in 2030.

"In 11 years' time the fees would go up by more than double the current rate or 2,65 times. And if one compares that to Grade One rates it would in essence be 3.33 times the current rate," explains Ramalho.

She says with this in mind it is imperative to start planning for your child's future sooner rather than later. "The current economic climate is prompting many families to look at alternate ways to secure their children's futures. Rather than a high-risk investment, many people are favouring more stable investment options like insurance policies, special savings products, unit trusts and other long-term investments that have historically yielded good returns."

The best way in which to save for your child's future is to invest funds in a fixed deposit investment. She says these deposits can be quite flexible, allowing you to add money periodically. "The interest rate is definitely higher than what you would receive if you simply set some cash aside in a basic savings account. As your money grows, you will enjoy the benefit of compound interest and the growth of your money overtime will increase.

These fixed deposits work by holding a certain amount of money for you for a specific period of time (you can choose a time period between three and 60 months). However, it is important to note that the money cannot be touched until the selected time period has elapsed.

Ramalho says another investment worth looking at is a Tax-Free Investment account. “A Tax-Free Investment account in South Africa allows you to get your full investment return, up to R33 000 per annum and R500 000 over your lifetime, without being taxed on any of the growth you have earned. This product was enabled by the National Treasury to encourage and allow every person the opportunity to grow their money, without ever having to worry about being taxed,” she says.

“At African Bank for example, investors will enjoy guaranteed returns and it is hassle-free, fee-free and you are free to make deposits anytime into the account.” Ramalho explains that instead of the traditional 7-, 32- and 90-day notice, the Tax-Free Investment account has a one-day notice period, but can only be accessed every year during the anniversary month of the account being opened. This speaks to encouraging longer term saving. In addition, you can build your savings by making as many deposits as you like, to a maximum of R33 000 per annum, and there is no limit to the term of your Tax-Free Investment account. The minimum opening balance is R500.

“Once you have decided on a preferred savings plan, it is worth shopping around before you invest your money. It is a good idea to choose a bank that you trust and that has a great reputation with regard to interest rates and fixed deposits in general. Ultimately, saving for your child’s future is a straight-forward process as long as you do your research and keep your investment consistent,” concludes Ramalho.

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