For your child's sake

WHEN it comes to financial planning for a child's education, the most affordable way is to start saving early. There are many dedicated insurance products for children but this route is generally not recommended by financial planners. "Such offerings find favour because of the emotional value attached to such investments," says Amit Suri, a Delhi-based financial planner.

Children's plans are also available through the mutual fund route. "Most of these schemes are not recommended due to their erratic track records and low assets under management," says Nikhil Naik, managing director of Naik Wealth, a Mumbai-based investment advisory firm.

Then there are products such as 'Kotak Starkid facility' which allow investors to choose across three schemes offered by the fund house — Kotak 30, Kotak Opportunities Fund or Kotak TaxSaver, in the name of the child and further enjoy free insurance to the extent of unpaid SIP instalments. The catch is you have to commit to the fund house till the extent of the SIP period. "Open-ended diversified equity funds make great sense when it comes to building corpus for goals such as a child's education," says Mr Naik. The best feature of such funds is the opportunity it gives the investor to correct his mistakes and realign asset allocation.

Invest Early

Higher education in the fields of medicine, engineering or courses in overseas institutions can be exceptionally high 15 years from now. A degree in medicine which costs a parent around Rs 10 lakh today will cost Rs 28.54 lakh in 18 years if inflation were a modest 6%. Accumulating savings of this magnitude might appear a herculean task, but can be achieved if parents start early. If you invest Rs 4,500 every month in a mix of investments that earn a portfolio return of 11%, this will generate savings of around Rs 28 lakh. The returns on bank deposits will simply not be enough as inflation and taxes will eat into the returns. Moreover, in the very long term, interest rates on term deposits are expected to decline.

Choose Growth

Given the high costs, lower liquidity and lower transparency levels, of late, ULIP child plans are not recommended by financial planners. Child plans by mutual fund houses too are not recommended since the track record of such schemes are erratic and they have very low assets under management. There is also a charge on early exit under most of these funds. Child plans by mutual funds are largely balanced funds but are not comparable to regular balanced funds as the allocations are different.

SIPs Are Safe

Another option is to start by investing 100% of your funds, in diversified equity mutual funds with a good track record. If you start at your child's infancy and have 18 years in hand, three or four good diversified equity funds SIP are good starting point. Over a period of time, the funds will accumulate in healthy corpus.

Switch In Time

In the last three years, the money should move out of equities and get into safer short-term debt mutual funds, or even fixed deposits.

HOW MUCH SHOULD ONE INVEST?

Rate of interest (%)

TIME FRAME (Yrs)	10%	12%	15%	20%
5	64,569	61,222	56,450	49,136
10	24,409	21,735	18,167	13,295
15	12,064	10,008	7,479	4,481
18	8,326	6,598	4,585	2,413

The above chart gives you how much money you should contribute per month to build a fund of Rs 50 Lakhs – the cost of education in future. For example, if you have to create a corpus of Rs 50 lakh in 5 years at 10% rate of return, you have to invest Rs 64,596 per month

THE COST OF EDUCATION IN FUTURE

EXPENSES (In Rs Lakh)

TIME FRAME (Yrs)	10	15	20	25
5	13.38	20.07	26.76	33.46
10	17.91	26.86	35.82	44.77
15	23.97	35.95	47.93	59.91
18	28.54	42.82	57.09	71.36

The above chart tells you how much you have to pay to reach your goals in future. For example, a course that costs Rs 10 lakh today will cost Rs 13.38 lakh after 5 years at 6% inflation