

RIVKIN
WEALTH ADVISORS

**FUNDING
YOUR
CHILD'S
EDUCATION
WITHOUT
THE STRESS**



Are you prepared for the rising costs of your child's education?

Australia is the lucky country. We are known around the world for our laid-back lifestyle, beaches, diversity and giving everyone a fair go. At the heart of all our welfare and happiness is the family home and time spent with our loved ones. The embodiment of the Australian dream is centred on living comfortably and giving our children the best opportunity.

The catch is that our children's education quite often costs more than we anticipated, and without planning for the future the costs associated with educating a child can have unintended consequences. Education bonds can be a smart and efficient solution to funding education while minimizing stress.

Throughout the document we will be discussing a case study that features Gerard and Michelle and how they partnered with an advisor to plan for the children's educational expenses.

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Understanding Education Costs

Private education and independent schools require significant time and financial commitments from a family. Quite often the decision to send our children to an independent school begins at birth, as there is usually a waiting list of sometimes up to 10 years!

According to Futurity Investment Group, 46% of households are stressed out about mortgage repayments and keeping up with the cost of living [1].

In the same study, 85% of parents believe education is extremely or very important to their child thriving in life. However, at the same time, 85% of parents believe paying for their child's education has a negative impact on their household finances.

The irony of these findings is that often families go without buying things for themselves, sacrificing holidays and struggling to pay the bills.



Without proper planning and foresight, school fees and extra tuition can risk interfering with other means of wealth creation and our ultimate goals of a comfortable lifestyle and retirement.

Common things people underestimate when planning for our children's education include:

- 1** A lack of foresight on the total cost of education
- 2** Failing to explore the avenues to fund a child's education
- 3** Not understanding the total time commitment of private schooling

When considering these factors of your child's education, it's important to consider various costs that may arise. For example, one of the largest expenses will be tuition. It's important to consider where your child will likely go to school, what kind of school they might go to and therefore what kind of tuition expenses you can expect going forward.



[1] The Cost of Education – How The Cost of Living Impacts Families Seeking Quality Education – Futurity Investment Group 2024.

Looking at the Futurity Investment Group's research into the cost of education across Australia, parents can gauge their child's education needs over the long-term. This cost should be considered when creating a plan to fund your child's education.

The Cost of Education Across Australia*

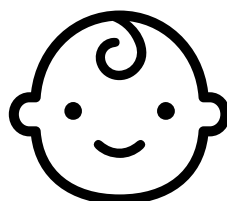
		Government	Catholic	Independent
National	Major Cities	\$92,170	\$195,074	\$316,944
	Regional	\$80,303	\$172,981	\$221,501
NSW	Major Cities	\$94,819	\$188,759	\$377,993
	Regional	\$87,762	\$167,695	\$231,118
VIC	Major Cities	\$108,879	\$194,826	\$324,559
	Regional	\$79,678	\$174,784	\$219,926
QLD	Major Cities	\$85,177	\$204,197	\$277,015
	Regional	\$72,670	\$163,552	\$208,164
WA	Major Cities	\$90,785	\$202,286	\$225,728
	Regional	\$74,979	\$175,413	\$209,847
SA	Major Cities	\$88,186	\$196,990	\$288,586
	Regional	\$86,677	\$166,086	\$252,068
ACT	-	\$81,564	\$208,871	\$290,910

*Combined tuition fees and ancillary costs over 13 years of schooling by state, location and sector: The Cost of Education – How The Cost of Living Impacts Families Seeking Quality Education – Futurity Investment Group 2024.

[1] The Cost of Education – How The Cost of Living Impacts Families Seeking Quality Education – Futurity Investment Group 2024.

Case Study

Gerald and Michelle have a young family and are based in Sydney's inner west. After their second child, Brad, was born, they began to consider the prospect of their first



child, Elise (4) starting school in the future and how they can afford it. After discussing their options, they decided their objective was to send both of their children to an independent high school. What they also considered was that school fee expenses exceed the inflation rate and is approximately 9% per year by the time the kids started school.

When sitting down with a financial planner, both Gerald and Michelle talked about their objective to fund a child's high schooling expense and were presented with these options. They decided to discuss investing in an education bond.

The Cost of Education in a Metro Australian Area[^]

	Government	Catholic	Independent
Tuition Fees	\$684	\$6,415	\$13,645
Necessities	\$862	\$1,298	\$3,099
Electronics	\$926	\$1,330	\$1,313
Extracurricular activities	\$1,161	\$1,659	\$4,265
Transport	\$452	\$745	\$1,062

What is an Education Bond?

Imagine having a scholarship fund for your kids where all payments towards their education are paid tax-free. An education bond has unique tax rulings as a 'scholarship plan' which gives it unique tax features that are not available through other saving or investment methods. These tax concessions are effectively passed onto you to help fund the education expenses of your children and may be an alternative to means education-related expenses.

Tax Benefits

The education bond's investment earnings are taxed at 30%. While this seems high, these tax earnings can be recovered where those earnings are used to pay eligible education expenses. The value of any tax recovered (referred to as the Education Tax Benefit) is added to the amount withdrawn from the Investor Earnings account, and the combined amount is paid as the education benefit.

Education Tax Benefit

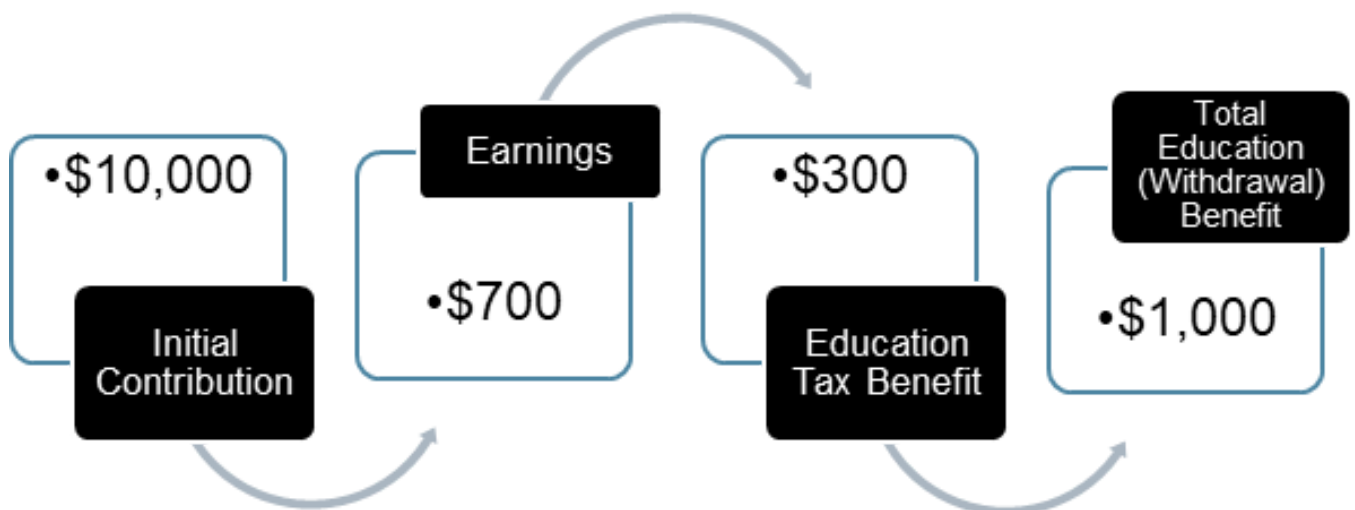
The education bond is designed to be a 'scholarship plan' as described in the income tax assessment act 1997. A Scholarship plan means a life insurance policy that:

(a) is issued by a friendly society for the sole purpose of providing benefits to help in the education of nominated beneficiaries ...

How it Works

Capital & Earnings Components

The capital component of the bond can be redeemed at any point in time. The earnings component is taxed at 30%, for any educational related expenses the tax on earnings is apportioned and rebated to the expense claimed as portrayed in the diagram below.



The 125% Rule

A key feature of these bonds is that you're eligible to contribute up to 125% of your previous year's contributions (i.e. year 1 = \$10,000; year 2 = \$12,500).

The 10-Year Rule

After a period of 10 years, the investor is eligible to withdraw the total balance of the bond tax-free and exempted from any capital gains.

What are the Trade-Offs?

Understand the Risks

It's important to keep in mind that the bond is taxed at a rate of 30% which might be greater than your individual tax rate. The benefit is realised for investors fall into the highest marginal tax bracket. There are also tax penalties on withdrawals that are unrelated to education expenses; and your capital could be locked away for up to 10 years. There are also Estate Planning Considerations as these bonds are separate to your Will.

Benefits	Risks
Tax Free Funding on Education Costs	Conditional Withdrawals
30% Tax Rate	10 Year Term
Range of investment options	Penalties on Early Withdrawals
Tax free withdrawals after 10 years (no CGT impost)	Subject to Market fluctuations
Protection of Assets (Estate Planning)	Fees and charges should be considered
Regular investments can be dialled up or down to suit family budget	Re-set period on 10 year ruling if amounts invested exceed 125% of previous year

Estate Planning Considerations

Asset Protection & Wealth Transfer

An education bond is a form of an insurance bond and does not form part of your estate. As a result, embedded into these bonds are 'Will-like' estate planning features that enable tax-effective distribution to the bonds estate nominee without the cost and complication of Wills and Estates.

If the bond owner were to pass away, the education bond also qualifies for testamentary status. Which means that if there were a withdrawal made from the earnings component of the bond, it can be distributed to the child at the adult marginal tax rates.

An additional feature is that the bond owner can also grant features that include guardianship and powers of attorney, where an independent party can assume control over the distributions if a bond holder were to pass. As it is an insurance policy, these bonds are also prevented from an asset being martialized in the event of a divorce, making the tax paid investment a useful tool in sheltering assets for the provision of a child's education, wealth transfer and creation.

Case Study Explained

Gerald and Michelle's objective is to send both of their children to an independent high school. What they also considered was that school fee expenses exceed the inflation rate and is approximately 10% per year by the time the kids started school. Their financial details are listed below:

Income	Expenses
Gerald Salary = \$180,000	Mortgage Repayments = \$72,000/a
Michelle Salary = \$70,000	Living Expenses = \$70,000 /a
	School Savings = \$10,000/a (interest rate of 7%)
	Initial Investment = \$30,000

The decided to invest an initial lump sum of \$30,000 and make yearly investments of \$10,000 from their cash flow. By the time both Brad and Elise started high school Gerald and Michele had invested sufficient capital to pay for the education fees. The bond was beneficial as the tax rate was less than Gerald's salary and the withdrawals were able to fund their respective child's high schooling costs.

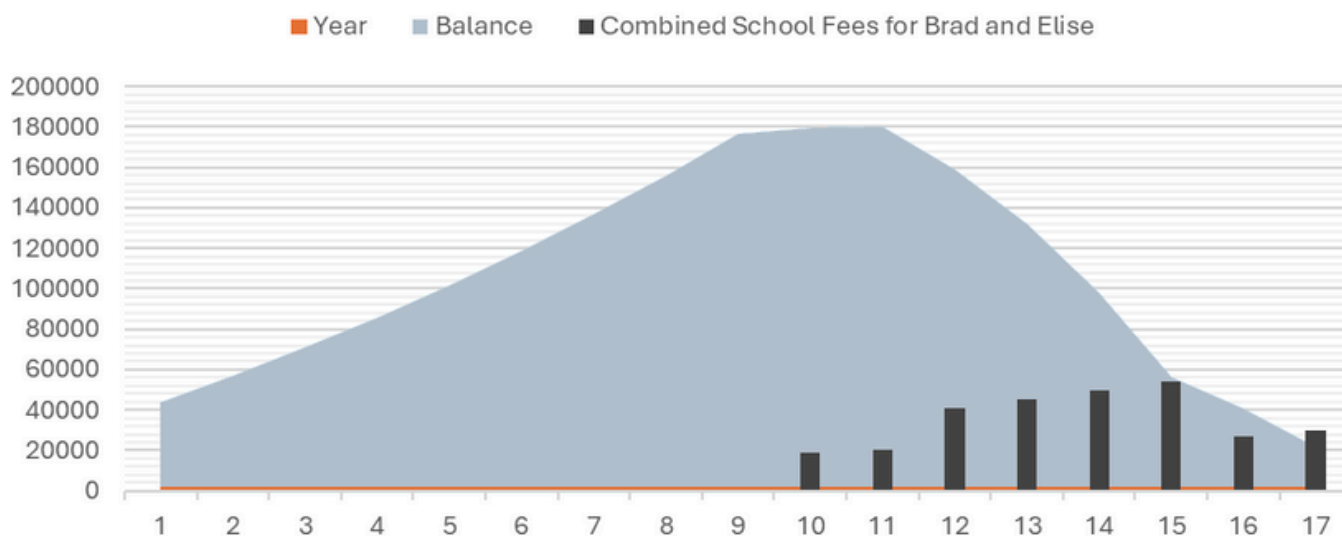
The eligible withdrawals for the education related expenses are shown below:

Expense	Cost
School Fees & Uniforms	\$12,000
School books & Devices	\$1,500
School Camps & Excursions	\$1,000
Extra Tuition Fees	\$2,000
Music Lessons	\$2,000
Total	\$18,500

NB: Should they choose, education related expenses also apply to pre-school, primary school, high school and even tertiary education. For the purpose of this case study we are only applying the logic to high school costs.

Value of Education Bond Over Time

The entire journey from having a young family and saving for their education to funding education expenses is displayed below:



By starting earlier and making small contributions sooner, Brad and Elise were able to reach their financial goals by the time their kids needed the funds for their education. An added benefit was that this investment freed up other parts of the household cash flow to create more opportunities such as investing in shares, extra contributions to their super, and going on nicer holidays while the kids were in high school.

What's the best financial strategy available to me?

Education bonds can pertain to a situation whether you are planning for a family, grandparent or guardian. Due to the nuances of how these bonds are structured it's best talking to a financial advisor as to how this could work for you.

Education Quiz

Can you fund your child's education?

1 = No

2 = Uncertain

3 = Yes

1 I am confident that my children will have their education funded when they need it.

1

2

3

2 How well do you understand the advantages of education bonds for funding education expenses?

1

2

3

3 Do you believe education bonds will remain a reliable option for funding education over time?

1

2

3

4 How confident are you that education bonds will provide the necessary funds for your child's education?

1

2

3

5 How confident are you in choosing the right education bond for your child's future education costs?

1

2

3

Scored under 15? **Contact us today for expert advice.**

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Ready to have a conversation?

Rivkin Wealth Advisors is committed to guiding you with the utmost professionalism and dedicated service as you navigate your financial journey. We look forward to partnering with you on this exciting path towards financial growth and stability.



Jock Evans, Financial Advisor

Jock Evans is a key member of our Wealth Advisor team. With over seven years of experience in the financial services industry, Jock specialises in creating tailored wealth management strategies and investment plans. Holding a Bachelor of Commerce and having studied Financial Planning and Economics at the postgraduate level, he is dedicated to helping clients understand the intricacies of their investments, empowering them to make well informed financial decisions.



Alex Galvin, Financial Advisor

Alex Gavin is a Senior Financial Advisor at Rivkin Wealth Advisors. He has over ten years of experience, focusing on helping clients create and preserve their wealth. Alex adopts a client-first approach to crafting prudent financial strategies that ensure his clients achieve their financial and lifestyle goals. He holds a Certified Financial Planner status and an Investment Management Analyst Certificate, as well as a Bachelor of Commerce and a Master of Financial Planning.

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How to Afford Your Child's Education

What's the best financial strategy available to me?

There's an old adage that there are many paths that lead to Rome; in other words there's more than one way to achieve your goal. In most cases we deal with funding out children's welfare and livelihood from our ordinary cashflow or savings.

Outside mortgage repayments, tuition fees and putting food on the table there are a number of incidentals that tend to get in the way of you getting ahead. These costs include: