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Ten ways to cut the cost of a private school education

Advice on scholarships, sibling discounts and how to negotiate
Lucy Warwick-Ching
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"If your children have already been born, you have left it too late to save," as the saying goes.

For those seeking to educate their children privately, the adage is pertinent: school fees have risen by more than a fifth since 2012, outstripping the rise in average earnings, says Lloyds Private Banking.

Many parents want to send their child to a private school "but increasing fees mean even those on higher salaries may struggle to afford it", says Sarah Deaves, private banking director at Lloyds.

Just seven per cent of British children go to fee-paying schools. The charges vary depending on where in the UK you live and the type of education you want. London has seen the biggest rise in fees, up by a quarter since 2012 to £16,560 a year, according to the Independent Schools Council.

"Independent schools are very diverse and of course fees vary," says Julie Robinson, ISC general secretary. A day school will cost on average £13,000 a year while a boarding school will be more than £32,000, she says.

Since school fees are paid from post-tax income, parents' salaries need to be high. Mum and dad also have to factor in an extra 10 per cent for outings, uniforms and music lessons.

Finance experts know that funding private education is a challenge. Here they give their tips to keep costs down.

Plan early

After buying a home, a child may be your largest expense, says Darius McDermott, managing director at Chelsea Financial Services. He says that if you choose a private education, "it can seem an unachievable goal — but if you plan ahead, it can be done".

The Lloyds study puts the average annual cost for a day pupil at £13,830 — up 21 per cent since 2012. Parents of children who left school this year will, on average, have paid £152,906 from reception until year 13. Over that time, fees have risen 67 per cent: in 2004, the average fee was £8,297.

To ease the financial burden, Mr McDermott suggests looking at how much you need to pay and when. How old are your children? Do you want to fund their whole education or just GCSEs and/or A-levels? Will you pay by the year or term? Find the schools you like and note their fees.

Cash is a poor savings vehicle, experts say. Interest rates are low and inflation is 3 per cent, so the value of your savings is falling. “Unless your child is within two to three years of going to private school, you need to look at higher-risk investments,” says Mr McDermott.

If you can save £550 a month as soon as a child is born then, with 5 per cent investment growth, you could have a £90,174 pot by the time they start secondary school, says Maike Currie, an investment director at Fidelity International. The later you leave it, she warns, the more you will have to save.

“If you have five to ten years or more until you need to access the money, it’s worth considering investing in funds with exposure to the stock market,” says Sarah Coles, an analyst at Hargreaves Lansdown. “Your investment will be at risk, but it has the potential to grow faster.”

Aim for tax efficiency

Parents should use their Individual Savings Account allowance, which lets each parent invest up to £20,000 this tax year. Your money grows in a tax-free environment and can be withdrawn to meet school fees without worrying about tax.

If you save £1,666.67 a month, and assuming 5 per cent annual growth, then in just over four years you could have a £90,000 pot to pay for education, says Ms Currie.

Mr McDermott says a Junior Isa will work if you start thinking early about university fees. This tax-efficient product allows parents, grandparents and family friends to invest in cash or shares on behalf of children. The money saved can only be withdrawn when the child reaches adulthood. It has an annual maximum investment of £4,128.

Invest with care

Experts advise caution over school-fee plans, which purport to mature and pay fees all in one go. These are typically structured as an endowment with some life cover, and the investment is tied up for up to ten years.

Such plans “offer few attractions in all but the most exceptional circumstances,” says Ms Coles. “They also may come with opaque charges and fees, and are less tax-efficient than an Isa”. A better option, she says, would be a unit trust or indextracking fund, many of which are cheap and money is readily accessible.

To maximise returns and reduce risk, experts advise holding a well-diversified portfolio, to include UK and international equities, fixed income and commercial property.

For anyone willing to accept more risk, venture-capital trusts may be worth a thought, says Mr McDermott. VCTs invest in small, often illiquid, companies in order to fuel their growth and realise gains for investors. They attract 30 per cent income tax relief, all dividends are free of income tax and all gains are free of capital gains tax providing the VCT is held for at least five years.

If you invest a lump sum of £100,000 you could reasonably expect 5 per cent annual dividends on some VCTs, says Mr McDermott. VCTs are, however, a high-risk investment: unless you have extra money to play with, experts say you should steer clear.

Bank on grandparents

Family members are often willing to boost regular savings for school fees or contribute a "starting pot". Grandparents can see it as a way to reduce the value of their estate for inheritance tax purposes. Regular gifts from income can be made free of inheritance tax, or lump sums, if the donor survives seven years after making the gift. They could use their annual gift exemption of £3,000.

Setting up a bare trust is another way grandparents can help, says Robert Brodrick, private client partner at Payne Hicks Beach. These are created when a gift is made into a designated investment account with the intention of creating a trust. The child is the beneficiary and there are usually two adult trustees.

"A gift to a bare trust will be exempt from IHT if the donor survives seven years," Mr Brodrick explains. "The grandparents can continue to contribute their annual IHT exemption [£3,000 per donor] and make gifts out of surplus income without any further IHT exposure."

The advantage of a bare trust created by grandparents is that any income or gains will be taxed in the grandchild's hands rather than the grandparents.

The other option could be a family partnership, where grandparents set up a family business and name the grandchildren as shareholders. Such partnerships pay special dividends, which can be used towards school fees.

That said, the set-up costs are high and tax advice will be needed. Svenja Keller, head of wealth planning at Killik, says they are best for much larger sums. "These are not really right for school fees," she warns. "School fees could be a consideration as part of a wider plan, but we are talking about a lot of wealth."

Ms Coles also advises: "The partnership would need to be carrying out a legitimate business in order to assure HM Revenue & Customs that it hadn't been set up for tax avoidance purposes."

Take a loan or remortgage

If you have left things till the last minute, the only option may be to take the money from your monthly income and reduce outgoings — or borrow.

"Personal loans are one option but it is not uncommon for parents to use offset mortgages or even remortgage their homes," says Mr McDermott. "With today's low mortgage rates, this may be a cheaper option than getting a loan."
He adds: "You will pay interest on any type of loan or mortgage, which means you will be paying a higher amount in the long term."

Older parents could also consider drawing a tax-free lump sum worth a quarter of their pension, but advisers say this may leave them at retirement.

Pay upfront

Some schools offer a discount if you pay the fees in a lump sum upfront. Private schools have charitable status, which means they can put the money into low-risk investments and avoid capital gains tax on any returns. There are restrictions as schools cannot pass on all the benefits of their tax-exempt status — in other words, the saving to the parent will never be as big as the benefit to the school. Some schools charge less if fees are paid termly rather than monthly.

Be pushy

Several schemes offer discounts for siblings of current students. "Having siblings close in age is a good idea but parents don't necessarily plan this far ahead," says Susan Hamlyn, director of The Good Schools Guide Education Consultants. There may also be reductions for the children of parents in the clergy or armed forces, as well as for teachers working in private education. You have to be pushy: schools do not advertise such offers.

Bursaries and scholarships

Criticism that the costs restrict access to private education has led some schools to do more to assist parents. More than a third of pupils have been helped with fees via bursaries and scholarships this year, says the ISC.

Ms Robinson, of the ISC, says: "Last year more than 5,700 pupils paid no fees at all. Parents should always approach the school to see if they might qualify for fee assistance."

Schools offer scholarships for pupils who have a talent in sport or academia. Scholarships at schools such as Eton, Rugby and Harrow reduce fees by about 10 per cent. However, some bring no fee reduction, only glory.

Bursaries are where the money is, say experts. Most bursaries top up scholarships for talented pupils but some go to needy pupils of modest ability. High-profile public schools have large endowment funds, often left to them in the wills of alumni, and can be more generous.

"A third of pupils at independent schools are receiving some sort of reduction in fees," says Ms Hamlyn at the Good Schools Guide consultancy. "This is obviously the savviest thing hardpressed parents can do."

Cheaper options

Select your school with care, says Ms Hamlyn. "Bryanston school [in Dorset] successfully reduced fees a year or so ago and has a vastly increased rate of applications. What Bryanston, which is an excellent school, did was risky but it's paying off for them," she says.

Parents may also consider schools such as those run by the Girls' Day School Trust, Cognita Schools associated with the City of London livery companies or local, no-frills schools.

Consider top state schools

If you cannot afford a private education for your children, look at your options. The state primary at the end of your road, for example, may excel in getting children into a local grammar school. Moving house to such an area may seem expensive but if the school continues to do well then your house is unlikely to see its value fall when you sell.

Some fee-paying schools have strong links to state schools. Bevington Primary School, London, has secured six free places for its pupils to go to Bales College, a nearby private secondary school, and two scholarships to Knightsbridge School, Chelsea.

Some parents go "state until 8" switching to the private system for secondary schooling. This can shave a third off the cost of an all-private education.

The ISC says there is a pick-up in pupil numbers in Year 7, when secondary education starts. The same applies to Year 9 to year 12, as pupils join a fee-paying school for their GCSEs, before returning to a state sixth-form college.

Other parents rely on private tutors or a few years at a preparatory school to try to get their children into state grammar schools, says Ms Hamlyn. Tutoring doesn't come cheap, though. In London, tutors charge an average £50 an hour.

Ms Hamlyn adds: "There is no hard and fast rule. It depends, first, on your child, second, on what schools are near to you and, third, on your finances at any given time."

What happened when my parents hit hard times

When parents decide on private schooling for their children, few imagine they could go bankrupt or fall ill. If a life-changing event occurs, however, parents can struggle to pay school fees.

This is what happened to Simon Caunt's mother and father. He was a student at Wellingborough School when their business hit difficulties. They were unable to pay for his final year.

Fortunately Simon, left, received a £3,000 grant from the School Fees Charitable Trust, which enabled him to finish his schooling.

The SFCT, funded by specialist insurance provider SFS Group, assists parents Unable to pay fees as a result of genuine, unforeseen hardship. "On balance, I would have got decent marks if I had to do my exams elsewhere," says Mr Caunt, who is 28 and a senior manager in insurance. "But it would have been a life-changing blow to leave my friends, teachers and sport teams I could have lost my whole support network."

He recently gave £3,000 to the trust, the sum he received in 2006, citing the huge difference it had made to his life.