

# EDUCATION SCHOLARSHIP FUNDS



WealthCreationAdvisors  
PlanAchieveHarmonise

## A Research Paper by Antoinette Mullins from Wealth Creation Advisors



I wanted to set funds aside for my daughter's education, but keeping the money in an offset account against my home, just meant too much temptation to me as we'd probably spend it.

I also ruled against repaying my home loan with the funds now and hoping in future my cash flow is good enough to fund her education – what if it's not? And this option makes it hard for grandparents to contribute towards her education. I could keep it in a bank account, but with most of these types of savings accounts offering a low cash interest rate, it meant my money was not working as hard as it could.

I could have a pure investment type account in her name or mine, but both of these options meant that any interest earned needed to be declared and with ongoing tax law changes for minors, I did not want to get on the ATO's bad side by getting anything wrong or even worse, dilute her education fund by paying high amounts of tax.

After further research into options, I discovered Education Scholarship Funds and decided that an investment with some tax benefits might be the best solution. The ATO have special rules for education investments, but only if the fund qualifies as a special fund.

Under the tax effective investment plans for education, there are only two, which qualifies as Scholarship Plans and receives the tax benefits from ATO.

## ASG THE EDUCATION FUND (TEF)

With TEF the earnings of the investments of all parents are pooled to benefit only the children who enter and successfully complete eligible tertiary education. Your contribution is based on the age of your nominated child when you enter TEF. Although you can access your contributions, it has restrictive conditions on access to the earnings and tax refunds of your investment. To get the maximum benefit, your child must study full-time for three years and satisfactorily complete each year of study. If the purpose of investment is for high school fees, or if your child elects a one- or two-year tertiary course, they only receive one or two years' worth of the benefit.

As this fund uses a pooled fund structure, you have no choice of investment options, limiting your control over the risk the fund takes, as well as the returns. TEF uses an investment strategy they describe as "conservative-balanced", which might not be suitable for everyone.

This type of fund, won't be suitable for school fees or part time, shorter courses, as you just don't receive enough of the tax benefits, which make these type of funds so attractive.

## LIFEPLAN'S EDUCATION INVESTMENT FUND

This is more flexible as you can access the entire account (your contributions + all earnings) for any reason at any time, but tax advantages are lost if you don't use the earnings on the fund for education expenses – these education expenses can be for any level, including high school, and any purpose as long as it has to do with education. For example text books, even dorm expenses. This is a more traditional investment as you can choose from 16 investment options from six different investment managers (cash, shares, property or bonds), therefore you control the amount of risk taken and can have potentially higher returns if you're willing to take on more risk, or invest in less risky options like full cash or bond funds.

The admin fees are on the higher side with Lifeplan, currently at 0.70% + investment fee, but the control offered may outweigh the cost if this is something that's important to you. With this fund there are other options: ease of management and ongoing statements showing the returns in comparison to market performance. The fund also makes it easy for others to contribute – a fact which her grandparents appreciated, as they could contribute to her education at special milestones like Christmas or her birthdays.

For withdrawal purposes and estate planning, Lifeplan also offered control as we could pass the investment over to a guardian if something happened to us – this meant that my daughter could still use the funds for her education with no taxes paid in the event of our death.

## FURTHER INFORMATION

You should download a Product Disclosure Statement from the company's website, which tells you more about these products so that you can make a decision on whether it is appropriate for you.

Read more about saving for your children's education & Scholarship Funds on the Choice Website, which helps consumers compare options in the market with no bias.

<http://www.choice.com.au/reviews-and-tests/money/investing/products/saving-for-your-childrens-education.aspx>

A financial adviser can help you set up the fund, as this might be cheaper than going to the fund manager directly. If you already have an adviser ask them for help in setting this up. If you do not have an adviser, contact our office to discuss how we can help you.

## GENERAL ADVICE WARNING

This advice may not be suitable to you because it contains general advice that has not been tailored to your personal circumstances. Please seek personal advice prior to acting on this information.

Before making a decision to acquire a financial product, you should obtain and read the Product Disclosure Statement (PDS) relating to that product. The Education Fund is issued by Australian Scholarship Group and they can be reached on 1800 648 945. Education Investment Fund is issued by Lifeplan and they can be reached on 13 29 39.

The information in this document reflects our understanding of existing legislation, proposed legislation, rulings etc. as at February 2015. In some cases the information has been provided to us by third parties. While it is believed the information is accurate and reliable, this is not guaranteed in any way.

Opinions constitute our judgement at the time of issue and are subject to change. Neither, the Licensee or any of the National Australia group of companies, nor their employees or directors give any warranty of accuracy, nor accept any responsibility for errors or omissions in this document.

Antoinette Mullins and Kevin (Pawan) Luthra from Wealth Creation Advisors, are Authorised Representative(s) of Apogee Financial Planning Limited ABN 28 056 426 932, an Australian Financial Services Licensee, Registered office at 105 –153 Miller St North Sydney NSW 2060 and a member of the National Australia group of companies.



**WealthCreationAdvisors**  
PlanAchieveHarmonise



**Pawan (Kevin) Luthra and  
Antoinette Mullins are  
Certified Financial Planners**