Saving for a brainy day

How to put two children through university

When Annette Preston and James Coley went to college, they studied part time and the fees were paid by their employer. If their two daughters go to university, it will cost more than £100,000. The couple contacted us for advice on how to pay for it after reading our feature on the subject in July.

How much will they pay?

Annette, 47, and James, 52, want to invest £600 a month over 12 years for Sophie, 11, and Charlotte, 8. We asked an independent financial adviser (IFA) to recommend options. Our IFA calculated the likely total cost without gap years and with the younger girl graduating in 2019 as £136,000 in London and £118,000 elsewhere. This assumes costs will grow by 5 per cent a year.

The couple's money would have to grow by an unrealistic 12 per cent a year (after charges and taxes) if the girls studied in London, or a more realistic 8 per cent elsewhere. Our IFA recommends the girls take low-interest student loans (£71,000 by the time they've both finished college). This leaves £65,000 to pay if the girls study in London, £59,000 elsewhere.

What our expert recommends

If the couple's £600 a month made 5 per cent after tax a year, it would meet this within seven years in London, six elsewhere. If they invested for the full 12 years they would have £45,000 spare to pay towards the cost of the student loans. Our IFA suggests the following combination:

- a high-interest cash account such as Best Buy Bradford & Bingley Internet Saver (6.4 per cent for a minimum £1 investment) or Chelsea Building Society's Call Direct 30 account (6.4 per cent for £250 minimum)
- cash Isa Best Buys from Kent Reliance (6.21 per cent) and National Savings & Investments (6.3 per cent)
- fixed-interest securities
- equity interest shares (in big companies with strong track records). Shares with a high yield still give income from the shares, even if the market is flat. F&C Stewardship Income funds, described as 'ethical', and the Jupiter Income Fund were recommended for the income they'd be expected to give and because the couple were comfortable with the level of risk. These could be held in an Isa, as the couple's yearly investment would be within the £7,200 allowance, making the most of any profit tax-free.

The couple were impressed with the help they were given by our expert and have decided to instruct an IFA to get further advice. The website www.unbiased.co.uk has a list of IFAs.


Annette and James with their two daughters

PHOTOGRAPHY SIMON WRIGHT

Checklist

Our top tips to help you make the most of your savings, whatever the age of your children

Babies Those born after 1 September 2002 receive two £250 child trust fund (CTF) vouchers, one after birth and the other at age seven. Their value rises to £500 for children in families whose annual income is not more than £14,495. Up to £1,200 a year can be invested in a CTF.

Youngsters Children don't pay tax on interest unless they exceed their personal allowance (£5,225 for 2007-08). If you're looking after your child's savings, fill in HM Customs & Revenue form R85 to avoid excess tax.

Teenagers A child can demand access to investments held under what is called a bare trust when the child reaches 18 in most of the UK (or 16 in Scotland). At 16, they can open a tax-exempt cash Isa and save up to £3,600 a year, from 2008.

Parents Under the '£100 rule', if the money you give your child earns more than £100 in interest, the whole lot gets taxed as yours. Certain products, such as CTFs, are exempt.

Grandparents Friends and other family are not subject to the £100 rule, which is intended to stop parents avoiding income tax.

Have you had a problem with tax or your tax office? If so, please get in touch with Ian Robinson at helpwanted@which.co.uk