



MFP News January 2011

Best wishes for 2011!

I hope that you have included your finances in your New Year resolutions.....

I thought one of the benefits of living in Yorkshire would be the mild winters and the glorious summers. Here's hoping for a glorious summer.

As I've been doing the budgeting for the Mowatt family household over Xmas, I thought I would cover budgeting as well as the subject of University Fees Planning.

Budgeting

Some people are naturally good at this but for the rest of us it can be a bit of a chore. Understanding your budget is the foundation of good financial planning.

The discipline of budgeting should not be underestimated. Whether the purpose is to make sure you cut your cloth to fit your income or to create space within your budget to save for the future, the impact can be significant.

Now there is no point reinventing the wheel. Personally I have developed my own spreadsheet to do my budgeting but there are a few options which can be found online, two of which I've highlighted below:

Martin Lewis' moneysavingexpert.com site has a very good budgeting tool as well as loads of help with how to bring your expenditure down. If you have the determination to get into the detail I would recommend this tool:

<http://www.moneysavingexpert.com/banking/Budget-planning>

The Money Made Clear site from the Consumer Financial Education Body also has an online budget planner:

http://www.moneymadeclear.org.uk/tools/budget_planner.html

If you have a go at developing a budget please let me have your feedback on what works or what doesn't work.

University Fees Planning

With all the protests against the proposed changes to tuition fees before Xmas, I thought it would be useful to take a financial planning slant on what it might mean. Commonly, at a certain stage of life, University Fees would be one of the goals in a financial plan.

Firstly looking at what is happening with tuition fees.

The vote which took place in parliament will allow universities to charge up to £9,000 per year, raising the cap from its current level of £3,290. Universities wanting to charge more than £6,000 would have to undertake measures, such as offering bursaries, summer schools and outreach programmes, to encourage students from poorer backgrounds to apply.

The government will continue to loan students the money for fees. The threshold at which graduates have to start paying their loans back would be raised from £15,000 to £21,000. On 8 December, the government announced this threshold would rise annually with inflation - not just every five years, as had been planned.

Each month graduates would pay back 9% of their income above that threshold.

The subsidised interest rate at which the repayments are made - currently 1.5% - will be raised. Under a "progressive tapering" system, the interest rate will rise from 0 for incomes of £21,000, to 3% plus inflation (RPI) for incomes above £41,000.

If the debt is not cleared 30 years after graduation, it will be wiped out.

Maintenance grants will rise from £2,906 to £3,250 for students from households earning less than £25,000.

But partial grants will only be available to students from households with incomes of £42,000, instead of the current cut-off point of £50,000.

In terms of paying back the loans early, the rules have not yet been set on this. However, David Willetts, the Universities Minister, has said it is "important" that higher earners are "not able unfairly to buy themselves out" of the system by paying their loans back early.

It will be possible, finances permitting, to pay the university fees up front, avoiding accruing any debt at all.

What does all this mean for financial planning? Well of course it depends to what extent you would like to support your offspring in pursuing their further education. Quite often I have come across parents who would like to pay for their student's education but from a financial perspective it is efficient to take out the student loans. One approach is to plan for your children's education but decide tactically how best to pay off the loans at the time. This might mean giving your child the money to pay off the loan but allowing them to use this money in a more advantageous way, for example as a deposit on a house and to repay the loan through the system.

Looking at one child who is at university for 3 years what would be a reasonable target:

Tuition fees: £18,000 assuming £6,000 per annum

Living costs: £22,200 based on £7,400 per annum from the most recent Nat West Student Living survey.

For planning purpose this would suggest a target of £40,000 to £50,000 allowing a bit of leeway. Of course London is more expensive and a 4 year course would be another £13,000.

There will be various ways of saving for university fees but one option would be to use your annual ISA allowance to build up a fund to meet your university fees planning target.

Finally the links below will take you to some of my blog entries over the last month:

Individual Savings Account limits:

<http://www.mowattfp.co.uk/blog.php?kat=2010/12/individual-savings-account-limits.html>

New Annuity Rules:

<http://www.mowattfp.co.uk/blog.php?kat=2010/12/new-annuity-rules.html>

Compensation limits:

<http://www.mowattfp.co.uk/blog.php?kat=2010/12/compensation-limits.html>

Best wishes,

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