Compiled by Stuart Wemyss

Property OR PRIVATE SCHOOL?

Victim of World War II, Anne Frank once wrote "parents can only give good advice or put them on the right paths, but the final forming of a person's character lies in their own hands". It begs the question, how much influence does parenting and schooling really have? The decision of whether to send your children to a public or private school is sometimes a difficult one for many parents. I'm about to make it even more difficult!

It is important to be very clear right from the start. The sole aim for this article is to be thought provoking. I am not passing judgment or telling you what is right or wrong. I simply want to get you thinking.

COST OF EDUCATION

A private school education can cost over $20,000 per year (for years 7 to 12) per student. Primary school fees often range from $7,000 to $10,000. These fees are paid from after tax dollars so a parent on the highest marginal rate needs to earn an extra $37,000 pre-tax to pay for one child's secondary education. A complete private school education can cost more than $180,000 (or $336,000 in pre-tax earnings). I am sure you'll agree that this is quite a commitment – even for your average high income earning dentist!

THE COMPARISON

So what else could you do with this education money? Invest of course. I believe that it's critical for every child to receive a comprehensive financial education. Now more than ever this is necessary. These days' young adults need to be more financial savvy than they have ever been because consumerism and debt have joined forces. You can go to Harvey Norman and furnish your whole house with "nothing to pay for 24 months!" No one is necessarily going to tell you if it's a good idea or not. Even in the midst of a credit crisis, credit is still a lot easier to get than it was 20, 30 or 40 years ago. For the naive or non-financial savvy, it's easy to commit financial suicide. Part of a child's education is to teach them how to manage money, make money work for them and teach them to invest.

As such, perhaps another opportunity (instead of private education) would be to invest the money (on behalf of your child) you would have otherwise spent on private education. Incentivise them to contribute more into their investments. That is, the more they put in the more you'll put in.

I compared two scenarios. The first scenario involved sending a child to a private school from year 1 to year 12. The second scenario involved sending the child to a public school (and incurring a lower cost of say $2,000 per year) and diverting the income otherwise spent on private school into a property investment (but this could be any investment of course). I have tried to match after tax income in both scenarios, i.e. so that the parents are left with the same amount of after tax income in each scenario – to compare apples with apples. To come up with a meaningful answer I assumed that all properties are sold when the child finished year 12 and Capital Gains Tax is paid. The end result is that the child would end up with $837,000 of cash in their bank account when they finish school. That's a whopping $623,000 in today's dollars, i.e. after eliminating inflation which is certainly enough money to buy their first home and a new car without any debt. In addition, you have hopefully given your child a very valuable bit of financial education along the way. That is, invest in quality assets for the long-term. This is a head start that I'd bet many of us would have appreciated.

I have been very conservative with the assumptions used in this analysis. For example, I used a long- term interest rate of 7% (which is 2% higher than the current rate). I have used a rental yield of 3.5% (which is about 1% lower than the current yield). However, based on where we are now with very low interest rates and higher rental yields, you can get a lot more bang for your buck (as investment properties don't drain much income from your pockets). In fact, investment properties (from a cash flow perspective) are the most affordable they have ever been but that's another article for another day.

Even more interesting would be to encourage your child to continue their financial education and hold onto the investment properties. My forecasts show that the portfolio still produces a small cash flow loss in years 13 and 14. However, from years 15 and onwards, i.e. while they are probably at university, the portfolio produces a positive cash flow which is going to supplement income. If they hold onto these investments for a total of 30 years, i.e., until they are approximately 35 years of age, and then sell them, they will be left with over $4 million of cash in the bank in today's dollars. That is more than enough money to retire on. Imagine getting your child in a position where they can retire when they are 35! Importantly, maybe they wouldn't retire but instead they would have the flexibility to not work if they didn't want to. Selfishly, it means they would be in a financial position to look after you. What an amazing outcome!

However, is helping your children retire at 35 years of age a good thing or do Generation Y and Generation Z (children born after 2001) already have it too easy? I think the answer to this one lies in the financial education you provide. If they are educated about investing and they have made personal sacrifices, i.e. they need to contribute their income or do jobs around the house they hopefully won't take it for granted. They need to earn the right to the benefits arising from investing.

BUT...

Some people have said that an education is priceless. There are many social benefits of a formal and robust education. How we act, our thoughts and beliefs are all influenced by our education. Can you put a price on these things? Probably not!

I am not for a second suggesting that a private school education is a waste of money. Part of my schooling was undertaken at a well-respected private school so I have seen the benefits first hand. However, what you should think about is the opportunity cost. What opportunity are you giving up by sending your child to a private school (like investing) and is it worthwhile? I would swap my private education for $4 million in the bank in a flash. However, there's probably no right or wrong answer.

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