



Prudential Investment Managers

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How to invest for an overseas tertiary education

ARTICLE SUMMARY

There are many reasons why you may want to send your children overseas to study. There are many excellent institutions of higher learning outside of South Africa, plus they can, experience another culture and get a global perspective on life. Overseas study forges mature adults and – importantly – establishes a global network for future job prospects. There's no denying that studying overseas is a luxury expense that needs to be planned well in advance. Read on to find out how.

Do your homework and start early

As with any significant goal, you need to plan well in advance and have time on your hands. First, make a list of all the universities you'd consider sending your child to and find out what the fees are now. To get an idea of what the fees will be in 18 years' time, you'll need to increase the current tuition amount by an inflationary figure (3% is usually a safe bet). For example, Harvard's annual tuition including room and board is currently just over US\$67,000.

Assuming an inflation rate of 3% over the next 18 years, the cost of one year's tuition at Harvard in 2036 should be just over US\$114,000.

Invest offshore

Good financial planning involves aligning assets with future liabilities, and as you'll need foreign currency to pay tuition, it makes good sense to invest offshore. This will protect your investment from emerging market risks such as a depreciating rand.

There are broadly two ways to invest offshore:

1. Invest directly in foreign-domiciled funds

When investing in a foreign-domiciled fund you'll need to convert your rands into the base currency of your chosen fund (e.g. US dollars) and then transfer the money into the fund's offshore bank account. The South African Reserve Bank allows individuals to send up to R10 million offshore every year, provided you obtain a tax clearance certificate from SARS (a tax clearance certificate is not required if the total amount transferred offshore for the year is less than R1 million). One of the advantages of investing directly offshore is that withdrawals are paid in foreign currency into an offshore bank account, instead of being converted into rands and brought back into South Africa.

2. Invest indirectly in rand-denominated foreign funds

Rand-denominated foreign funds allow you to invest indirectly into offshore assets without having to convert your rands into a foreign currency. One of the main benefits of this approach is that the investment minimums are typically far lower than foreign-domiciled funds – thereby allowing you the same level of access to offshore markets but at a much lower cost. When you sell units, the redeemed amount is paid in rands into your local bank account. This means that you'll still need to go through the exchange control requirements to pay for your child's overseas tuition.

Depending on which option best suits your needs, Prudential's range of global funds are a great way to get exposure to offshore markets, either in US dollars or in rands. You can find out more about them via the Offshore Funds section of our website.

Think big

An overseas education is a privilege earned through careful planning and investing. As always, the earlier you start, the better, as you'll benefit from compound growth within funds geared for long-term growth. The true reward, however, will come after your children have graduated.

Prudential has an array of investment options to assist you in giving your children the educational gift of a lifetime. To find out more, speak to your financial adviser or contact our client services team on **0860 105 775** or query@prudential.co.za.

<https://www.prudential.co.za/insights/articlesreleases/how-to-invest-for-an-overseas-tertiary-education/>