

## **University Planning for Cross Border Families in China**

*By Anthony Noto, CFA and Kelly Li, CTA*

*"Economists report that a college education adds many thousands of dollars to a man's lifetime income--which he then spends sending his son to college." –Bill Vaughan*

Kidding aside, there is more than enough evidence that shows graduating from university substantially increases one's lifetime earning potential. When the time comes for your child to attend university, most would like to have the resources to afford their child's school of choice, regardless of where they are accepted or what financial aid is offered.

At the same time, the cost for a university education is high and continues to rise faster than general inflation. In 2010, Ivy League schools in the USA will cost just under \$50,000 a year. With an escalating price tag, this goal requires serious planning. There are too many pieces in the puzzle to offer a plan or strategy that fits every family; however, here are a few essential things to consider when deciding how to approach this goal.

### **Investments**

Ideally, your savings should at least keep up with the rate at which university expenses are increasing. With interest rates around the world near their lows, stocks generally offer a better chance to keep pace with rising costs over time.

Since kids typically start university right after high school, a specific amount of money will be required at a specific time. You need to be cautious with stocks in this type of situation, as a declining stock market at the wrong time could create a significant shortfall. To lower the risk of this happening, families should move their university savings to more conservative investments as their child's starting date gets closer. By the time kids are entering university, little to no money should remain in stocks.

### **Currency Risk**

Cross border families may have to deal with currency risk. For example, if your income is paid in Chinese RMB, and your child plans to attend school in Australia, an appreciating Australian dollar could make the school bill more expensive than you expect. The investments you choose now can decrease this type of risk. In this example, the family could reduce their currency risk by investing a higher percentage of their savings in Australian assets.

### **Taxes and Fees**

There are many different ways to save for this goal, and each option has its own unique requirements, limitations, costs, and tax considerations. Tax treatment of an investment depends on which countries consider you subject to their taxes, as well as current tax laws. Some expatriates are not taxed on assets held abroad while living abroad. In cases like this, a brokerage account in Hong Kong can offer favorable opportunities from a number of perspectives.

Be careful with complicated strategies, and be able to understand and add up all the expenses that the investment contains. If your financial advisor works for commissions, be aware that what's best for you and what's best for them may not be the same thing.

### **Chinese Tax Breaks**

Finding a way to save for university expenses can feel even more challenging when spending lots of money on pre-school and K-12 education costs in China. Fortunately, China offers tax breaks for foreigners sending their children to school here. 'Reasonable allowances' paid to foreigners in relation to child education costs in China are non-taxable for individual income tax purposes. To take advantage of this benefit, details need to be coordinated with the tax bureau.

#### ***How old will you be when your youngest child finishes university?***

No matter where you live, kids grow up fast, and determining the best way to prepare for university expenses depends on a number of factors. Inflation, currency risk, taxes and fees are a few important factors to consider, and your unique circumstances add to the list. When dealing with limited funds, it is important to balance your goals (for example, retirement and university expenses) and recognize trade-offs while there is still time to make a conscious decision.

First analyze your options, and then you will be in a better position to make some decisions. As with other aspects of investing, the earlier you start saving for your children's university education, the better chance you have of reaching this goal.

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