



Repositioning education as a major life event

2016 White Paper

Foreword



Over the last 40 years, ASG has taken great joy in watching children and their families excel and succeed in life through education.

We know that education and learning changes and enriches lives. Education is the foundation on which we build the rest of our lives, making it one of the most critical investments that families, communities and governments can make.

With every year, ASG has seen the value of education increase and the role it plays as our lives evolve. No longer is education part of the linear journey from childhood to adolescence; it is a companion we must meet, and travel with, throughout the majority of adulthood too.

However, education is not the only aspect of our lives to have increased in value over the last 40 years. The cost of living, property prices and cost of education have all risen¹, in many cases far above the growth in income for Australian families.

While education is unanimously acknowledged as an important aspect of our lives and nation building, it has not been given the same focus, priority or resources as other life events such as purchasing property, getting married, having children and saving for retirement, among other life events.

Slower to move too has been a government led response to prepare and support individuals and families to meet the growing challenges relating to the cost of education.

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ASG has undertaken this white paper, and the research supporting it, to better understand parental attitudes towards saving for education and to create a nationwide conversation to reposition education as a major life event.

While some life events are out of our control, managing the cost of education can be planned for. Australians have embraced the concept of lifelong education, but must now embrace a new mindset regarding the role of education as a financial priority.

As a nation we need to have a mature conversation about how we can encourage and support parents and individuals plan and save for education as a major life event and investment; and not just as another component of the household cost budget.

John Velegrinis
Chief Executive Officer, ASG

¹ ABS:<http://www.abs.gov.au/ausstats/abs@.nsf/mf/6345.0/>



➔ Executive summary

ASG is pleased to produce this white paper and raise discussion about recognising and repositioning education as a major life event.

There are many major events and milestones which people experience and celebrate throughout life. Through this white paper ASG seeks to understand where education fits in and looks more pointedly at people's behaviours and attitudes towards education in comparison to other life events.

ASG conducted research with parents across Australia to determine the relative importance of saving for education in comparison with other major life events.

The results show that while education is considered to be very important by families, there is a gap between this perceived importance and how families are planning, prioritising and saving for future education costs.

The research also indicates that parents would welcome more assistance from the Australian government to help boost their savings for future education costs to support lifelong education.

As part of our investigation, ASG has furthermore reviewed education policies from around the globe and the merits of supporting or incentivising education saving schemes with tax benefits.

A summary of ASG's key points and recommendations raised in this white paper are as follows:

- Ninety three per cent of Australian parents believe it is important to save for education; yet prioritisation of savings and actions taken often show a different picture.
- Of those parents saving for education, 36 per cent are saving for primary education, 37 for secondary school and 34 per cent for post-secondary education.
- A high percentage of parents find the concept of a dedicated education savings plan appealing.
- While parents consider saving for education to be important, there is widespread agreement that they would like more financial resources to assist them in supporting their children's lifelong learning.
- Eighty five per cent² of parents agree the government should help them pay for their children's education. There is also strong support for a co-contribution education savings scheme, similar to long standing programs in Canada and the U.S.A.

- Most incentives that support saving for major life events have been geared towards encouraging Australians to invest in their superannuation and retirement savings, which have been supported with attractive tax benefits.
- In comparison, recent education policies by the government have been quite controversial including the federal government's lack of commitment in funding the Gonski school model and re-evaluating higher education reforms in Australia.
- Steps that the federal government could consider to support families to save for their children's education include:
 - Ensuring the taxation regime is always conducive to supporting saving for education as a major life event.
 - Introducing a government co-contribution scheme to assist parents and families willing to plan and save for their children's education.

There are similar successful partnerships in Canada and the U.S.A. between education scholarship providers and the government that encourage families to save for their children's education.

- Broadening the self education expense deduction to cater for people wanting to change careers. Currently self education expenses are deductible when the course someone is undertaking has sufficient connection to their current employment and improves the specific skills or knowledge they require in their role.³



➔ What is a major life event?

A life event is a very important moment in someone's life, such as marriage, the birth of a child, or the death of a family member.⁴

A life event could be anticipated or unanticipated and encompass a whole range of events or causes such as a personal injury or illness, change in financial state, retirement, funding a child's education or any need for further education in adult life (e.g. to pursue a career change).

Despite their differences, all life events share the common characteristic of great potential to cause a variety of emotions from joy and comfort to stress and disruption.

However, being able to anticipate, prepare for and navigate our way through life events and the availability of external and internal resources (e.g. money, a sense of optimism and hope, family support or access to appropriate services and support through organisations) are proven means to successfully manage these critical milestones for individuals, their families and society.

² ASG Survey (March 2016)

³ ATO: <https://www.ato.gov.au/Individuals/Income-and-deductions/Deductions-you-can-claim/Self-education-expenses/>

⁴ The Cambridge Dictionary: <http://dictionary.cambridge.org/dictionary/english/life-event>



Education as a major life event

Along with saving for retirement and buying a house, education is one of life's major events and a critical investment parents, families and communities make.

Australian families are particularly concerned about giving their children the best education. There are significant and wide ranging benefits such as enhanced skills, higher employment opportunities and income, improved social status and access to networks. In the past few decades research has supported that education is central to the moral fulfilment of individuals and the wellbeing of society, revealing that education also helps to improve their overall health and promotes active citizenship⁵.

Education also benefits society in many different ways: competencies, skills and knowledge enable individuals to make a worthwhile contribution to the economy, facilitating a better functioning society and enhanced productivity. Through education, people are also more aware of the world they live in and their impact on it in social, economic, cultural and ecological ways. Education is a fundamental pillar of nation building.

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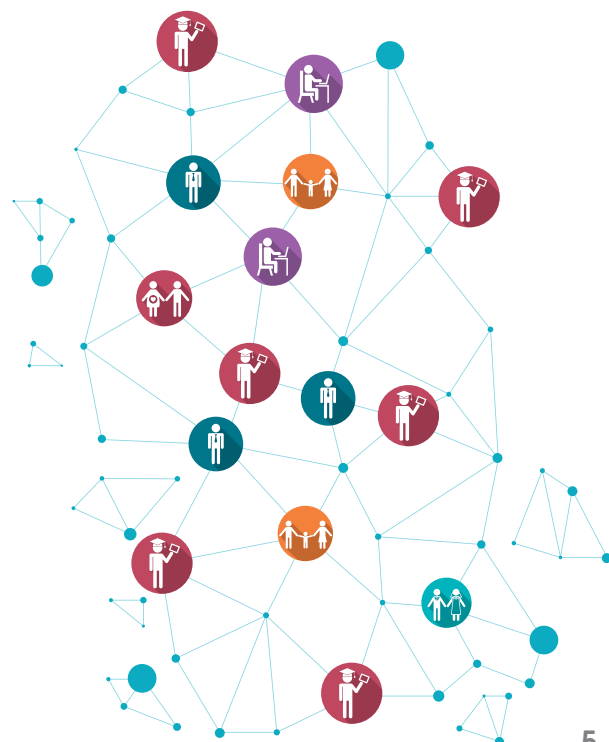
For both individuals and families, education is a major life event that is predictable and one that can be planned for.

Education has become a constant and ongoing aspect in our lives. It is no longer something we acquire once in our youth, but rather something that is linked to many parts of our lives.

In generations past, society's traditional life cycle view of education was quite linear and consisted of school, higher education, career, some re-training and then retirement. Education was, and to some extent still is, seen as something you do in the early stages of life; following which you get a job; you buy a house and then you start a family.

Today's contemporary and future oriented view reflects the expectations and attitudes of younger generations, who typically expect major career changes on a regular and ongoing basis during their lives.

As a result, we are beginning to view education and learning as a continuous experience that includes: school, higher education, international experience, vocational training, professional training, post graduate study, all of which will take place alongside professional and personal milestones such as setting up a business, undertaking a major career change (on more than one occasion), and possibly buying a house and having children.



⁵ OECD: Education Indicators in Focus-2013/1 <https://www.oecd.org/edu/skills-beyond-school/educationindicatorsinfocus.htm>

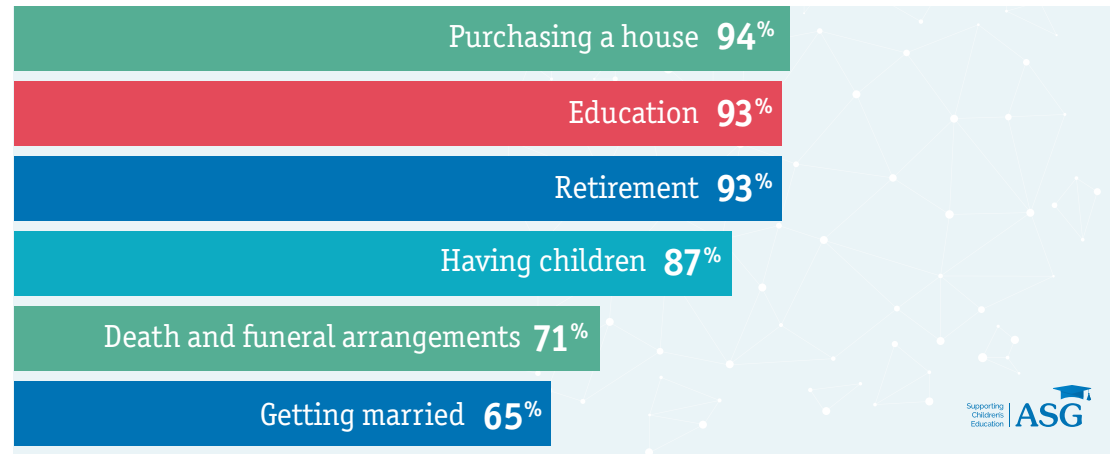
Where does education rank in major life events?

Over the period 2008 to 2016, the cost of education has been at the forefront of conversations from Parliament House to the family dinner table.

Research undertaken by ASG with 1000 parents in March 2016 showed that 93 per cent of Australian parents believe that it is important to save for education. However, other major life events also rated highly. Ninety four per cent of parents agree that saving to buy a house is important; 93 per cent believe that saving for retirement is important and 87 per cent believe that saving to have children is important.

Importance of saving for major life events

Prompted mentions (Very important / Fairly important)

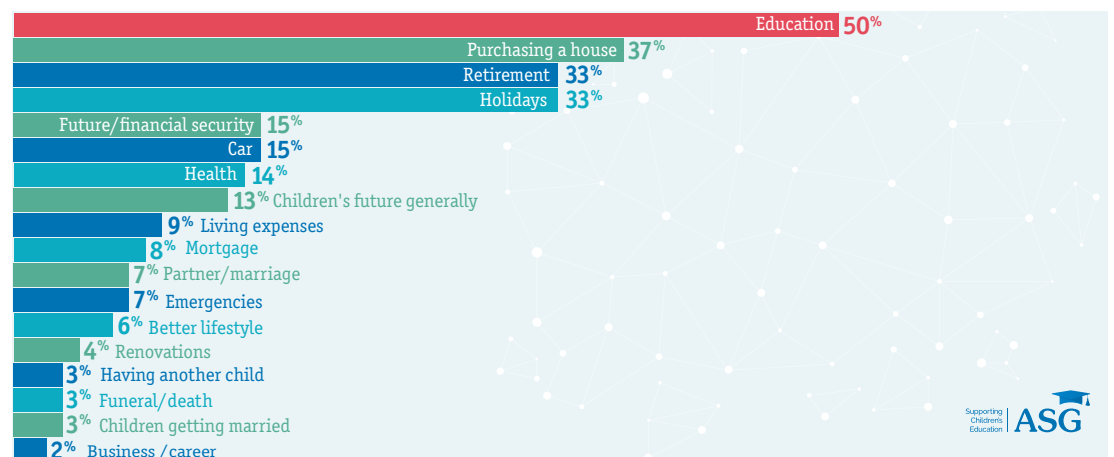


When asked to name three of the most important life events to save for, 50 per cent of parents spontaneously named education, with 36 per cent specifically mentioning their children's education as a concern. More than one third of parents (37 per cent) claimed that purchasing a house was one of the events they were most concerned about saving for.

Other major life events rated as important by parents included retirement (33 per cent), holidays (33 per cent), financial security (15 per cent), car (15 per cent), health (14 per cent), and children's future generally (13 per cent).

Life events most concerned about saving for

Spontaneous mentions



Perceptions vs reality when it comes to saving for education

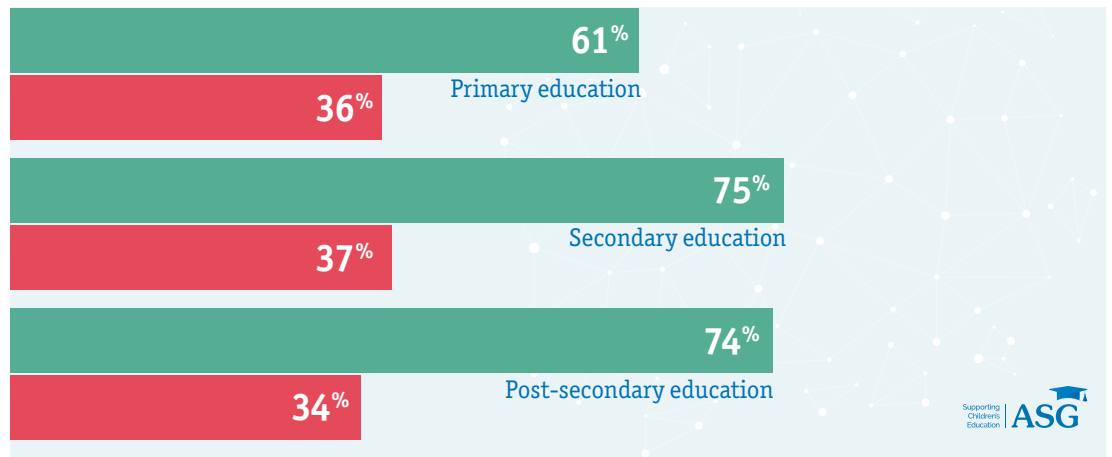
Many parents consider the decisions they make around their children's education as among the most important, which will forever shape their children's lives.

Parents also have high aspirations that their children will develop into the best people they can be, find their true passions, make informed decisions as mature and responsible adults and enjoy their learning experiences throughout life.

However, saving for education is not easy, especially during a time when salaries and wages are continuously falling behind the growing cost of health, child care and education⁶; all of which are important components of raising children. In addition, according to the Australian Bureau of Statistics (ABS) the costs associated with education have been rising more than twice the headline rate of inflation over the past 10 years, thus increasing the cost of education in real terms over the period. This is impacting individuals and families at the user level, but also governments which experience a continuing pressure on budgets.

Interest in education savings plan vs education stage being saved for

■ Find concept of education savings plan appealing ■ Currently save for children's education



ASG's survey of parental attitudes towards saving for education revealed that 36 per cent save for their children's primary education, 37 per cent for secondary education, and 34 per cent of respondents indicated they were saving for their children's post-secondary education.

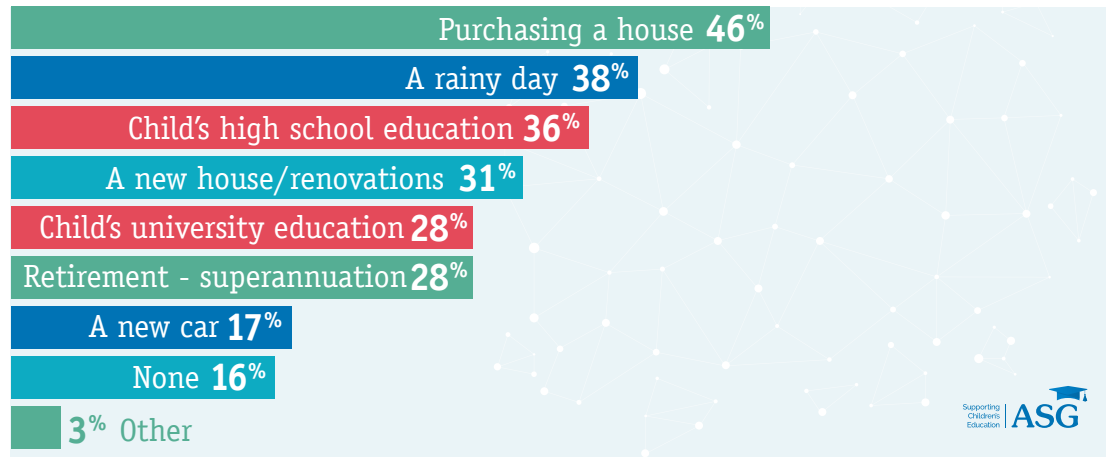
Sixty one per cent of parents found the concept of an education savings plan for primary education appealing. This feeling grew as children progress through school and increases to 75 and 74 per cent respectively for secondary and post-secondary education.

⁶ ABS: <http://www.abs.gov.au/ausstats/abs@.nsf/mf/6401.0>

As one would expect, families save for a range of life events, both pre and post the retirement phase, including holidays, renovations, a new car and education.

In another survey of parents conducted by ASG, saving for a holiday was the highest financial priority at 46 per cent, followed by saving for a 'rainy day' to weather the storm of financially tough times at 38 per cent, and saving for a child's high school education came in third at 36 per cent. Saving for a child's university education was the fifth highest priority alongside saving for one's retirement.

I regularly save for



Interestingly, while saving for high school and university education ranked third and fifth respectively, one third of respondents indicated they would dip into their savings for a 'rainy day' for this purpose if required and that holiday savings would be the second most likely source of funding when under financial strain.

However, when respondents were asked about prioritising their financial obligations, the top three concerns were paying off the mortgage, groceries and bills.

While a high proportion of parents felt saving for education is important (93 per cent), many did not actively save because at present it is not recognised as a major life event that needs to be planned for.

This significant gap between perception and reality could be due to a variety of factors, including competing financial interests for those on modest incomes, who after meeting their fixed costs, may only have a small amount of money to spread across other expenses.

While it is important to put food on the table and pay the electricity bills, education savings should also be treated as a fixed cost and given the same importance as paying off the mortgage or planning for retirement.

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Some parents may also perceive that their children are too young and they can hold-off saving for education until their children reach secondary school, with the belief that they will have enough money to pay for expenses such as school fees, school uniforms, extra-curricular activities and transport as they come up. While they acknowledge savings is important, some parents may also feel that a public education is 'free' and that they can save for something else.

There is another explanation: education is becoming harder to save for and pay for. Charlie Nelson, a statistician and economic analyst from foreseechange says:

“The cost of education has been growing faster than wages for decades, but the gap has increased over the past six years. The gap between the growth rate of the education component of the consumer price index and that of the hourly wage index averaged 1.5 per cent each year between 1999 and 2009. That gap increased to 2.6 per cent between 2010 and 2015.

In addition, the return on savings has decreased. Between 1999 and 2013, the average interest rate on a three month term deposit in a bank was 3.81 per cent. That decreased to an average of 2.54 per cent in 2014 and 2015 and is still falling.”



Parental perceptions of saving for education

“Education for my children was significantly up there with home ownership and my own career because I appreciate the fact that without an education, your children and your grandchildren’s progression in society or the community is hampered. So to give them the opportunity to be educated is huge and a significant life goal.”

Ian Spurway has a son who is about to finish Year 12. He started saving for Tate’s education in the first few years of primary school.

“Both my wife and I have multiple post graduate degrees and we envisage our children will have at least one degree each, and that’s where it’s going to get really expensive. We could absorb those costs if there were no other expenses around, but that’s not the reality.”

Paul Preobrajensky hopes to send his boys to a Catholic high school.

“The cost of living in today’s society makes it increasingly difficult to prepare for our children’s future.”

Anonymous.



The rise and rise of education costs

In the last decade education costs have risen at more than double the rate of inflation according to the Australian Bureau of Statistics.

In ASG's annual survey on the cost of education, Australian parents say that the cost of education in all education sectors (public, independent and private) continues to increase significantly. For a child born in 2016, parents could pay up to half a million dollars for a private school education from kindergarten to year 12.⁸

The 2016 ASG Planning for University Index, which looks at the total cost of a university education reveals students can expect to pay about 32 per cent more in the next decade. For students who live away from home they can expect living costs to increase by 23 per cent by 2026. Regional students must also factor in accommodation costs which can significantly increase the total cost of their university education. For example, a five year veterinary science degree could cost \$83,000 more for a regional student in comparison to a student living in the family home. By 2026, total course and living costs for a three year photography degree could cost about \$25,000 more, and a student studying medicine could expect to pay an additional \$62,000, ending up with a total bill of just over \$300,000. These rising costs also put considerable strain on family budgets with 58 per cent of students relying on their parents for financial support during university.

The cost data⁸ reflects that education gets more expensive as children reach specific milestones along their education journey. Accumulated savings are most needed during the final years of secondary education when education expenses are at the highest, and when parents have multiple children in secondary and post-secondary education at the same time. With the rising cost of private schooling and university courses, the burden on parents is likely to increase in coming years.

For all but the wealthiest parents, there will be no one solution and funding the rising costs of education may require a combination of specific savings and a pay slip to pay slip approach.



Government policy and education as a major life event

Regardless of which political party is at the helm of Australian politics, education policy has always been a major bone of contention and is increasingly a concern for successive governments and the nation due to the fiscal pressure on budgets.

Despite education being a key strategic pillar and central policy element, especially during election campaigns, how much emphasis have governments put on education spending? What policies or initiatives, if any, have been introduced to help support parents and families with the financial costs of education to ensure lifelong learning and produce better outcomes for society and the economy?

Other than education funds such as those operated by friendly societies like ASG, which qualify as scholarship plans under Australian taxation law, very little support has been given to parental initiatives to save for their children's education. There has been no significant attempt through the use of policy initiatives to instil a savings habit specifically for education.

Over 20 years ago Australia also made a significant 'once in a generation' policy shift with respect to retirement savings with the introduction of universal superannuation. On top of compulsory superannuation payments made on behalf of employers, which currently stands at 9.5 per cent, people have also been encouraged to make voluntary contributions and supplement their compulsory contributions by diverting their wages through salary sacrifice arrangements.

⁸ ASG Planning for Education Index

These tax incentives have been extremely successful in amending a historical mindset that it was the sole responsibility of government to fund retirement incomes and has resulted in \$2.05 trillion of superannuation assets at the end of the March 2015 quarter¹⁰, a new record according to the Association of Superannuation Funds Australia.

Government support has also been geared towards helping Australians buy their first property. The first home owner grant scheme was introduced in July 2000 to offset the effect of the GST on home ownership and housing affordability. Under the scheme, a one-off grant is payable to first home owners who satisfy all the eligibility criteria. It is a national scheme funded by the states and territories and administered under their own legislation. The scheme has been expanded to include new homes, existing homes and renovations.

In comparison, recent education policies by the government have been quite controversial, including the federal government's lack of commitment in funding the Gonski school model and the uncertainty around the higher education reforms in Australia. However, in the 2016 federal budget the government announced \$1.2 billion in extra funding for schools over three years from 2018, but this funding is conditional on state and territory governments maintaining student funding levels.

While the federal government has deferred its higher education reforms until January 2018, it released a discussion paper alongside the 2016 budget which addresses innovation, fairness and excellence in Australian higher education.

Recommendations made in the discussion paper such as introducing a household income test for HELP payments represent a significant ideological shift in government and societal thinking: from a position which focuses on and supports the common good to a user pays individual responsibility model in education, health and social service areas.

While ASG accepts that education cannot be free, we believe all Australians deserve equal access to education regardless of wealth, status and capability. There is also a real concern that the ongoing discussions on higher education reforms create financial uncertainty for students and their families and a lack in confidence in being able to plan for their future education or their careers.

In March 2016, an ASG survey¹¹ of about 1000 university and TAFE students from around Australia found that many students face a considerable degree of uncertainty regarding the cost of higher education. More than half of the students surveyed were either concerned or very concerned about being able to afford their course and living expenses.

The survey also revealed uncertainty around proposed fee deregulation with 75 per cent of students indicating they would think twice about continuing their higher education studies. As students are the key to nation building, innovation and driving our economy forward, it is concerning that this uncertainty over costs could stop them from pursuing higher education and hold them back from gaining vital skills and knowledge they need to excel and contribute to Australia's growth.

¹⁰ Super Guide: <http://www.superguide.com.au/boost-your-superannuation/liberals-sg-lisc>

¹¹ ASG Higher Education Student Survey

Support for education's status as a major life event

There are a number of other factors that work against the sacrifice that Australian parents make in planning and saving for their children's education.

In a survey ASG conducted with parents in March 2016, families confirmed they are feeling increasingly constrained trying to meet the costs of education.

The majority of parents (85 per cent) agreed with the premise that 'The government should help parents pay for their children's education'. Ninety one per cent of parents would like tax benefits on education savings with 53 per cent finding the idea very appealing. A co-contribution savings scheme also appealed to 91 per cent of parents with 56 per cent finding the idea very appealing.

There are similar successful partnerships¹² in Canada between education scholarship providers and the government that encourage families to save for their children's education. In 1998, the Canada Education Savings Grant (CESG) was introduced to help families grow their children's education savings with a registered education savings plan (RESP). For every \$10 families save, the government adds \$2 until a maximum contribution of \$500 is reached each school year.

A co-contribution savings scheme also appealed to 91 per cent of parents with 56 per cent finding the idea very appealing

The CESG is not means tested and families on lower incomes may be eligible for further savings' support. The grant is available until children turn 17 and they can withdraw the money at the end of the calendar year to help pay for their part-time or full-time post-secondary education.

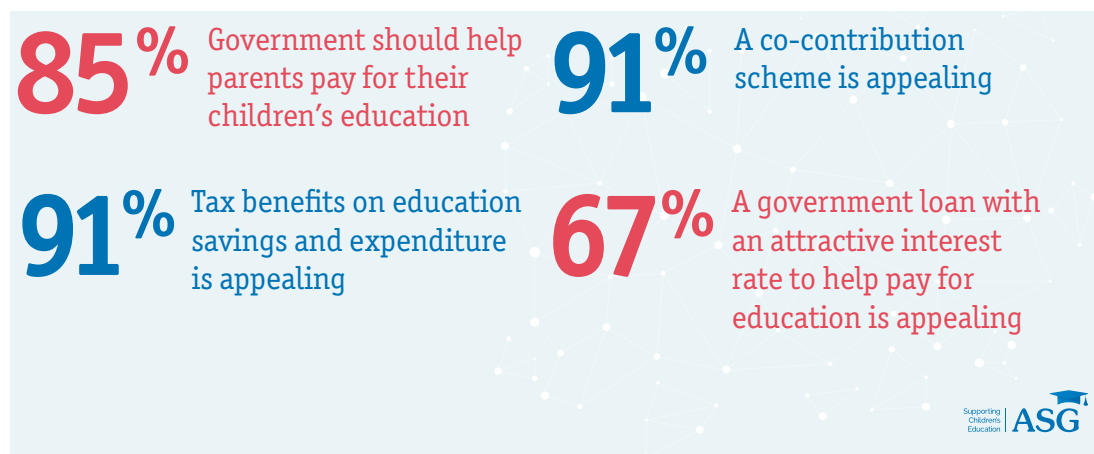
By 2013, almost 50 per cent of Canadian families were receiving CESP benefits, with nearly \$3 billion available to help students fund their post-secondary education. Between 1999 and 2012 the number of high-income families who had RESPs increased from 11.5 per cent to 63.8 per cent. The up-take for families in the lowest income bracket (\$0 to \$24,999) grew fourfold in 2012. Families with RESPs cited the government's financial support as the main reason for subscribing.

Similarly, in America planning for post-secondary education is also encouraged through college funds. Most common are the 529 plans, which are tax advantaged savings plans consisting of two types; prepaid plans and savings plans. Established in 1996, all 50 states sponsor at least one type of 529 plan and offer income tax or other benefits, such as matching grants for investing in a 529 plan.

Prepaid plans allow college savers to purchase units or credits at participating colleges and universities at current tuition rates to be used in the future for tuition and, in some cases, room and board. Earnings on 529 accounts are exempt from federal taxes and in most states, state tax. However, students attract a penalty on earnings if the money withdrawn is not used for specific college expenses¹³.

These examples of co-contribution savings schemes indicate Australia is almost 20 years behind and needs to 'catch-up' to further encourage parents to save for future education costs. These schemes have

Parents' views on government assistance for education costs



¹² Government of Canada: http://www.esdc.gc.ca/en/reports/evaluations/2015/canada_education_savings_program.page

¹³ How stuff works: <http://money.howstuffworks.com/personal-finance/college-planning/financial-aid/5294.htm>

been positively embraced as families and governments acknowledge the rising cost of education and the difficulty in finding these available funds against competing financial pressures.

These examples also demonstrate the power of the right incentives to drive the right outcomes and mindsets.

ASG believes that there is a strong opportunity for the federal government to recognise and treat education as a major life event in a manner similar to the way retirement is viewed and treated in policies and government outcomes.

These examples of co-contribution savings schemes indicate Australia is almost 20 years behind and needs to 'catch-up' to further encourage parents to save for future education costs.

Charlie Nelson, a statistician and economic analyst from foreseechange says, "Saving for retirement via superannuation or other vehicles provides people with higher income in retirement and reduces the amount of the age pension that the government will pay in the future. Such saving is good for the individual and reduces government deficits which benefits all taxpayers. Gradual increases in the age of retirement provides the same benefits plus increases the productive capacity of the nation.

Saving for education also benefits the individual through higher potential income and benefits the nation by increasing productivity. It is in the national interest to encourage saving for education."

Steps that the federal government could consider to support families to save for their children's education include:

1. Enable the taxation regime to support saving for education. The taxation regime seems, albeit inadvertently, punitive and sometimes deters parents from saving for their children's education. For example, the Australian taxation regime, which applies a 66 per cent tax on education benefits paid to minors. Improving the tax regime on education savings plans could attract new savings on the part of families, thereby reducing the strain on government revenue.

It is a sound means of addressing the existing tax imbalance that is consistent with the government's support for individual responsibility and self determination and a reduced reliance on welfare.

2. Introduce a government co-contribution scheme to assist parents and families willing to plan and save for their children's education. There are similar successful partnerships in Canada and the U.S.A. between education scholarship providers and the government that encourage families to save for their children's education.
3. Broaden the self education expense deduction to cater for people wanting to change careers. Currently self education expenses are deductible when the course someone is undertaking has sufficient connection to their current employment and improves the specific skills or knowledge they require in their role.¹⁴

Deductions cannot be claimed for a course which does not have a sufficient connection to an individual's current employment even though it may be generally related to it or enables them to gain new employment. Broadening these eligibility criteria provides a financial incentive and fosters a positive culture for lifelong learning in an era where employees are changing their careers about five times before they retire.¹⁵

¹⁴ ATO: <https://www.ato.gov.au/Individuals/Income-and-deductions/Deductions-you-can-claim/Self-education-expenses/>

¹⁵ mccrindle: <http://mccrindle.com.au/the-mccrindle-blog/job-mobility-in-australia>



Conclusion

Parents and individuals acknowledge the importance of education in their lives and that of their children. People also understand that the government cannot pay for everything and that some responsibility needs to reside at an individual level.

While many parents and individuals make considerable sacrifices to plan and save for education, more support is required from government to encourage active participation through well considered policy that looks at education holistically; tax changes that take into account the flow-on impacts on individuals and parents, and the introduction of new saving schemes for education similar to those that have been successful in countries like Canada and the U.S.A.

ASG hopes that this white paper has highlighted some important issues to help Australia and Australians reposition and appropriately recognise education as a major life event. It is also hoped that this white paper will be the catalyst for robust conversations between policy makers and other stakeholders to develop solutions that will give education the importance and status it deserves as a major life event and assist Australians in their pursuit for lifelong learning and education.

About ASG

ASG is a member owned organisation with more than 90,000 members and is the largest provider of education scholarship plans in Australia and New Zealand.

Since our inception in 1974, we have supported the education journey of more than 530,000 children, and more than \$2.5 billion in education benefits and scholarship payments have been returned to members and their children.

Our members also enjoy ongoing support from a range of tools and information designed to further their child's academic, social and emotional development. From parenting information to career planning tools, these resources provide advice on children of all ages—from early childhood to post-secondary.

ASG's financial products in Australia are its education funds, which qualify under the *Tax Act* as scholarship plans:

- » Pathway Education Fund (PEF) assists families to save for the cost of education at all learning stages, offering flexibility around contributions and access to funds.
- » The Education Fund (TEF) assists with basic secondary and post-secondary education costs.
- » The Supplementary Education Program (SEP) assists those who have specific education goals in mind, such as private schooling, or those who want to plan more comprehensively for their child's future education.

As well as

- » ASG School Plan, an annual school fee payment service that spreads school fees out into manageable monthly or fortnightly instalments.

ASG's education resources include:

- » A range of online resources, e-guides and articles to support children's education.
- » Educational resources such as Michael Grose's *Parentingideas Club* and Professor Joseph Sparling's *LearningGames*® which have been offered in partnership with experts in parenting and early childhood development.
- » Discounts on educational products such as ABC Reading Eggs, ABC Mathseeds and ASG books.

ASG is incorporated as an unlisted public company under the *Corporations Act 2011* and registered as a friendly society under the *Life Insurance Act 1995*.

ASG's mission

Our mission is to support the education needs of all individuals—from children to adults at any stage of their lives.

ASG supports individuals to fulfill their education and lifelong learning goals.

We achieve our mission by:

- providing financial products to help offset the cost of education and learning.
- providing a range of educational resources to support education and learning.
- representing members' interests by advocating for the importance of education and learning in nation building.



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