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MERCURY
WEALTH MANAGEMENT

Back to school: How to build a nest egg to fund your children's education

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Time passes quickly, and before you know it, your child's first steps or first words have become their first day at school. You'll want to do all you can to set them up for a successful future, but it can be challenging to know where to begin.

You might need to prepare financially to meet private school fees, provide help with university accommodation or living costs, or simply give your child a financial safety net as they begin adult life.

Whatever your goals, building a dedicated nest egg could help you support those you love most without affecting progress towards your own long-term objectives.

This guide explores:

- The education costs you may need to plan for
- Why starting early could make your goals more manageable
- How cash savings and investments could support various time frames
- How grandparents could help fund education costs
- Why planning for education costs should fit into your wider financial plan.

Education costs can start earlier and last longer than you expect

Private school fees and the associated costs of education are rising

Education costs could begin long before university. During school years, you may need to budget for:

- Uniform and shoes
- Sports equipment
- Music lessons or sports clubs
- School trips
- Tutoring
- Technology such as laptops
- Travel.

These costs may increase as your child gets older, with secondary school trips becoming more expensive or sports equipment becoming increasingly specialist.

If you're considering private education, you may have to pay a significant sum. According to the Independent Schools Council (24 June 2026), the average termly fee for a day school in 2026 was £6,226, rising to £14,980 for boarders.

For reference, fees were up by about 4% in 2026 compared to 2025. This could be partly due to the government's decision to charge 20% VAT on private school and boarding fees from 1 January 2025.

These fees may continue to rise, making it more important than ever to factor them into your long-term plans.

Higher or further education might mean providing years of additional support.

Planning ahead could prove invaluable if you want to fund potentially decades of education, particularly if you need to support more than one child.

University could cost your child upwards of £70,000

There's a good chance that you already know how expensive university can be.

Data from Save the Student (8 June 2026) reveals that the standard cost of tuition for students in the UK for the 2026/27 academic year is about £9,790.

While living costs are more challenging to calculate, the same source states that your children could need roughly £13,704 to live on each year.

Over the course of a three-year degree, the combination of tuition and living costs could add up to at least £70,482.

Even though your children can apply for government loans to help them pay for higher education, this money might still be insufficient to cover living costs each month.

As such, you may wish to provide some additional support, such as covering their accommodation fees or subsidising their weekly spending.

DID YOU KNOW?

University students receive an average of £146 per month from their parents.

Source: The National Student Money Survey (17 September 2025)

Starting to save early could make funding education more manageable

The earlier you begin saving for your loved one's education costs, the more time you'll have to build a fund gradually.

Planning ahead is made easier by the fact that the timing of education expenses is usually predictable. For example, you know that a child is likely to start secondary school at 11, require exam support at 16, or begin university at 18.

Planning for these milestones could help you spread the costs instead of trying to find large sums at short notice.

Starting early can also give you greater flexibility.

If you have very young grandchildren and you're saving for costs that are more than 10 years away, you may feel comfortable investing some of the money for potential long-term growth.

If the costs are only a year or two away, holding cash may be more appropriate.

Having time on your side could also allow you to adjust your plans as circumstances change.

For example, you may start by saving for university costs but later decide to use some of the money for school fees, tutoring, or to help fund a gap year.

THE BENEFITS OF REGULAR SAVING

Saving regularly is effective because it turns a large future cost into a more manageable one.

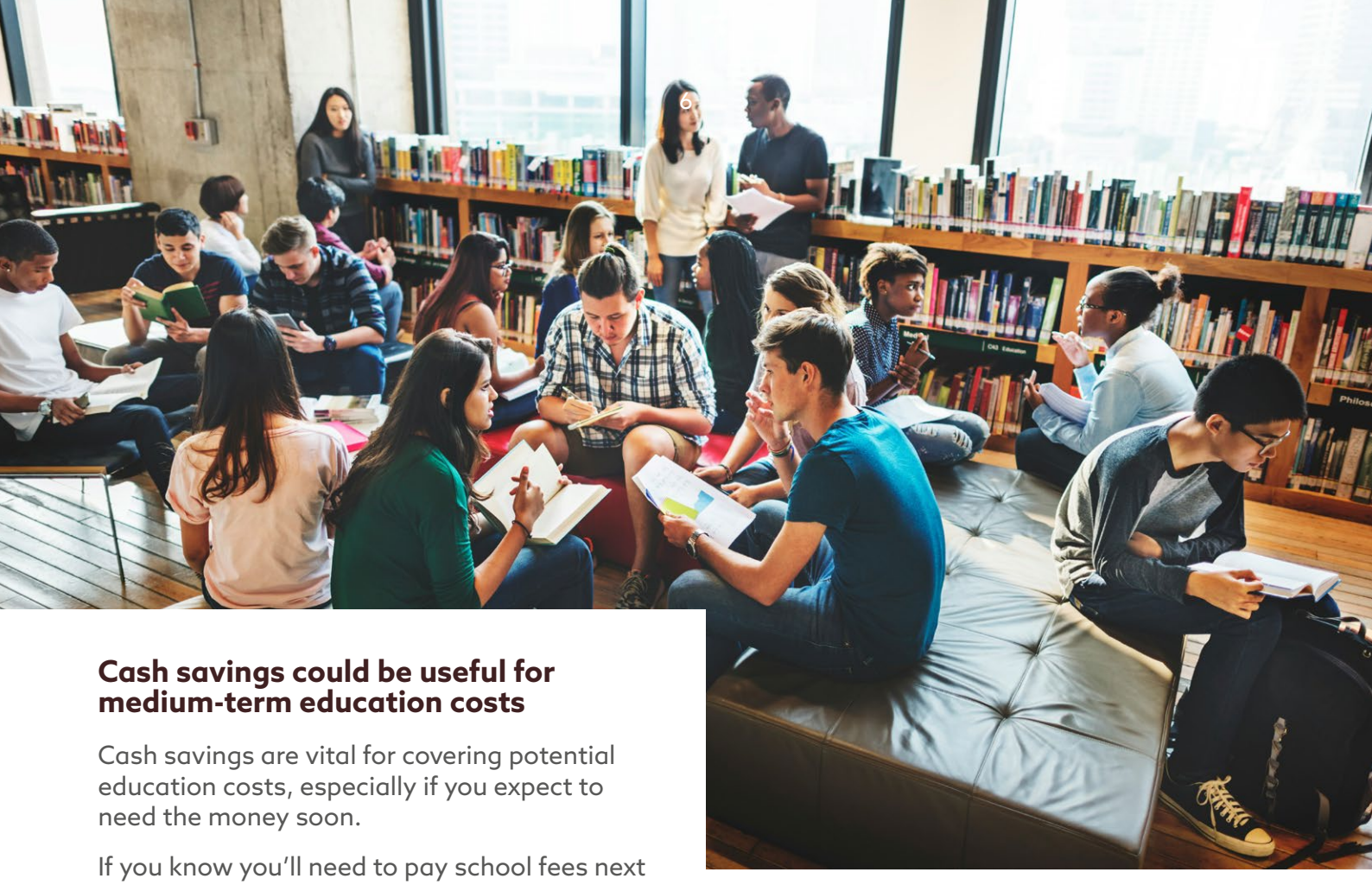
For instance, if you saved:

- £100 a month for 18 years, you would have £21,600
- £250 a month for 18 years, you would have £54,000
- £500 a month for 18 years, you'd have £108,000.

Better yet, you could further bolster your child's education fund through interest or investment growth.

Alternatively, your child may decide to become an apprentice or take a different route entirely. If so, you can reassess how to use the money you've set aside.

Ultimately, building a fund early could give you more options further down the line.



Cash savings could be useful for medium-term education costs

Cash savings are vital for covering potential education costs, especially if you expect to need the money soon.

If you know you'll need to pay school fees next term or help with university rent soon, cash could offer certainty and peace of mind.

This is because you can usually access the money quickly and don't need to worry about liquidating investments during market volatility.

However, it's important to remember that cash isn't entirely free from risk.

When inflation is higher than the interest rate you earn on your bank account holdings, the purchasing power of your wealth could gradually decrease in real terms.

An inflation calculator from the Bank of England (17 June 2026) states that goods and services costing £10,000 in 2016 would cost just over £14,000 in May 2026.

Your savings would have needed to grow by more than 41% over that period to maintain the same purchasing power.

This is why holding savings earmarked for your child's education entirely in cash over the long term could leave you at risk of falling behind rising living costs.

BE AWARE THE £100 RULE FOR CHILDREN'S SAVINGS

Children can usually earn interest on savings without paying tax, provided their total income doesn't exceed their available allowances.

However, HMRC states that if a child receives more than £100 of interest in a tax year from money given by a parent, the parent may need to pay tax on all the interest if it exceeds their Personal Savings Allowance.

This rule applies separately to each parent, but it typically doesn't apply to money given by grandparents, other relatives, or friends. This rule also applies to gifts made into bare trusts for the benefit of a child.

This rule does not apply to savings held in a Junior ISA (JISA) or Child Trust Fund.

Long-term investing could help your money to grow

If you're saving for education costs that are several years away, it might be wise to consider investing.

Investments have the potential to grow above the rate of inflation over the long term.

However, it's vital to remember that investing carries risk. The value of your investments can fall as well as rise, and you may get back less than you invested.

This is why it's worth thinking carefully about your investing time frame.

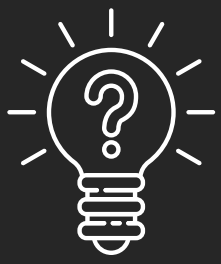
If your child is young and the money – for university or school fees, for example – won't be needed for 10 or 15 years, you have more time to weather periods of short-term market volatility.

If you will require the money in the next year or two, large market movements could have a more significant effect on your plans.

You may also want to consider adjusting your investment approach as your child's start date nears. For instance, you might invest for growth when your child is young, then gradually move some of the wealth into lower-risk assets or cash as the time to pay fees approaches. This could reduce the chance that a sudden market downturn affects assets you need soon.

Rather than relying on a single company, asset class, or location, it can be prudent to diversify your money across various investments. This can reduce the impact of a downturn if one area performs poorly, although it can't remove risk entirely.

DID YOU KNOW?



Returns on investments could outperform the growth of cash savings over the long term.

According to Barclays (15 July 2026), £20,000 in 2006 would have risen to:

- £123,660 in 2026 if you'd invested in global equities – total growth of 518%
- £25,590 in 2026 if you'd held it as cash savings – total growth of 28%.

This is based on Bloomberg and Bank of England data and uses the MSCI All Country World Index (GBP) to represent global equities, and the UK Sterling three-month deposit rate to represent cash savings.

However, keep in mind that past performance is not a reliable indicator of future performance.

Choosing the right type of account matters

Before building a nest egg to cover your child or grandchild's future education costs, it's important to consider where you should hold the money.

The right account will depend on several factors, including:

- Who is contributing
- Who will control the money
- When you'll need the money
- Whether you want growth or stability
- How much flexibility you require.

Here are five options you might want to consider.

1. Junior ISAs

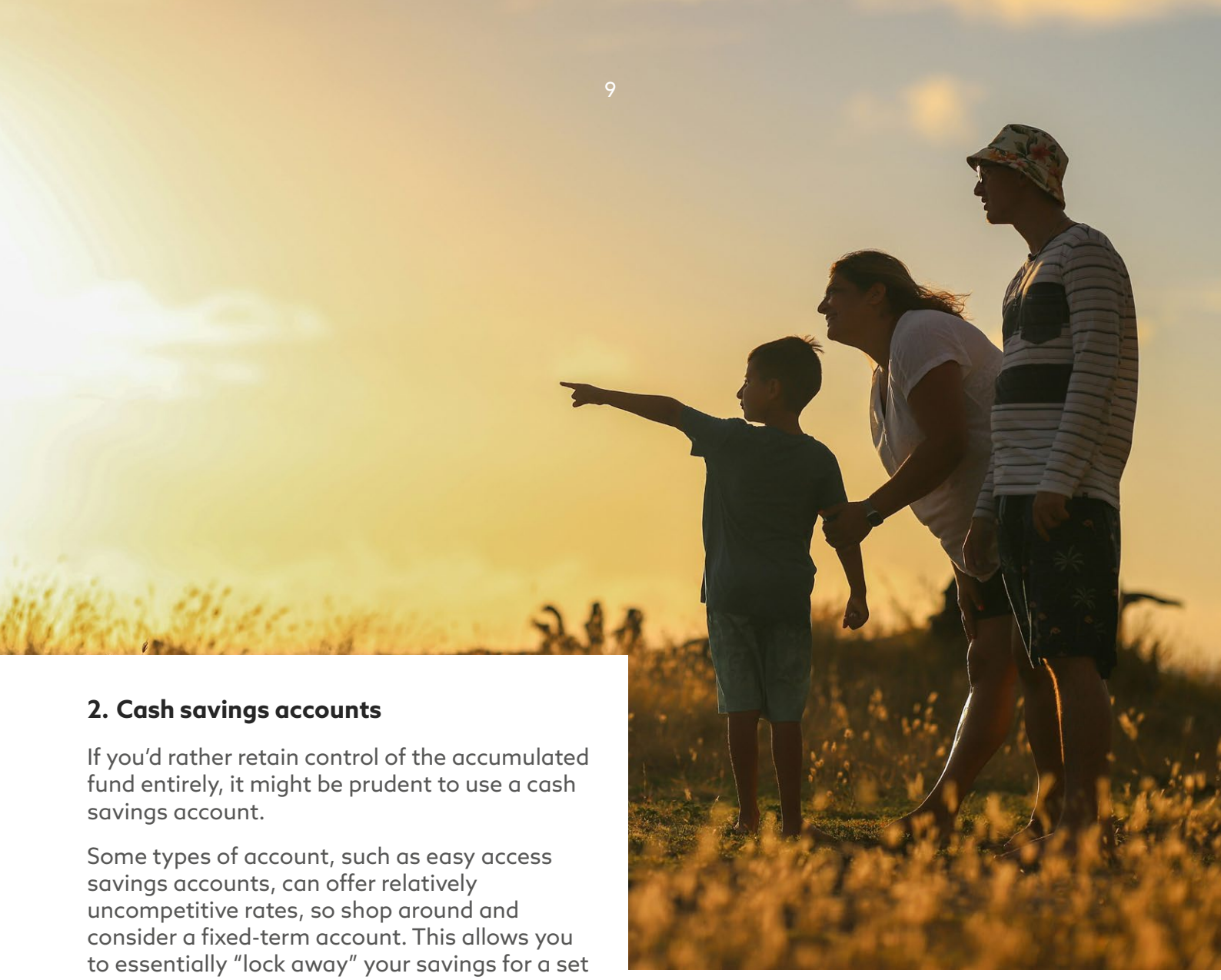
A Junior Individual Savings Account (JISA) is a tax-efficient account that allows you to save or invest on your child's behalf. The interest or investment returns generated in a JISA will not be liable for tax.

Parents and guardians can open a JISA, but other interested parties, such as grandparents, can typically contribute to it.

For the 2026/27 tax year, the JISA allowance stands at £9,000, and a child can hold a maximum of one Cash JISA and one Stocks and Shares JISA at any time. The child can manage the account from age 16, but cannot make withdrawals until the age of 18 (except in the case of terminal illness). Once the child turns 18, the JISA becomes a standard adult ISA.

Pro: JISAs may be useful for university costs or to provide financial stability in early adulthood.

Con: They may not be suitable if you wish to retain control over how the money is used.



2. Cash savings accounts

If you'd rather retain control of the accumulated fund entirely, it might be prudent to use a cash savings account.

Some types of account, such as easy access savings accounts, can offer relatively uncompetitive rates, so shop around and consider a fixed-term account. This allows you to essentially "lock away" your savings for a set period of time – such as three or five years – in exchange for higher interest rates.

Pro: If you know when you will need the money to fund a child's or grandchild's education, you could align your fixed-rate account to this date and lock in a competitive rate that hopefully outpaces inflation.

Con: As discussed throughout this guide, cash often struggles to maintain spending power against the rate of inflation over the long term.

3. General Investment Accounts

A General Investment Account (GIA) may be useful if ISA or JISA allowances have been used up, or you simply wish to invest larger sums.

Pro: The money held in a GIA is usually easily accessible and can be withdrawn without penalty at any time.

Con: The funds may be subject to Income Tax, Dividend Tax, and Capital Gains Tax depending on your circumstances.

4. Bare trusts

A bare trust can allow you to set money aside for a child, with trustees managing it until the child becomes entitled to the funds.

The child will normally be entitled to the trust assets at 18 in England and Wales, or 16 in Scotland. However, the trustee may be able to access the fund before this point, so long as the withdrawal is for the benefit of the child.

Gifts made to bare trusts are usually treated as potentially exempt transfers. There will be no immediate Inheritance Tax (IHT) charge, and they can escape IHT altogether provided the settlor survives the gift by seven years.

As with a JISA, your child can generally decide how they use the money once they have access to it.

Pro: Bare trusts may be useful for grandparents who wish to contribute towards education costs.

Con: Trusts can be incredibly complex, so they're not usually suitable unless you gain professional advice.

5. Discretionary trusts

A discretionary trust could offer more control over how and when funds are distributed. This may be useful for larger gifts, blended families, or situations where you don't want a child to receive full control at 18.

Lifetime gifts into discretionary trusts are chargeable lifetime transfers. IHT may be charged at the lifetime rate of 20% on the amount above the settlor's nil -ate band.

Again, professional advice is essential before setting one up.

Pro: As the settlor of a trust, you can stipulate when and how beneficiaries can access the assets held in a trust.

Con: Just remember that discretionary trusts tend to involve more administration and tax complexity. They may also be subject to charges when money enters, leaves, or remains in the trust.

Grandparents could help fund education planning

Contributing to a child's education could allow grandparents to witness the benefits of their support during their lifetimes.

It can also reduce pressure on parents and help a child access opportunities that might otherwise be unavailable.

If you're a grandparent, you could:

- Make regular contributions to a JISA
- Give lump sums at different stages of a child's life
- Regularly contribute to education costs.

Moreover, gifting could allow them to limit the value of their estate, which could be beneficial for Inheritance Tax (IHT) purposes.

Gifting options for grandparents

The annual exemption allows an individual to give away up to £3,000 each tax year without it forming part of their estate in 2026/27.

Any unused gifting exemption can be carried forward for one year.

Grandparents may also be able to make regular gifts from their surplus income. These can potentially fall outside the estate immediately, provided they meet certain conditions.

The gifts must form part of a regular pattern, be made from income rather than capital, and not affect the gift-giver's standard of living.

While these gifts can be significant, it's important for grandparents to take care not to give away more than they can afford.

They may still need to fund retirement, potential later-life care costs, or other unexpected expenses. A gift that seems affordable today could become an issue if their circumstances change.

POTENTIALLY EXEMPT TRANSFERS COULD FALL OUTSIDE AN ESTATE

Grandparents wishing to give gifts that exceed their allowances and exemptions can do so, but the gift will be classed as a "potentially exempt transfer" (PET).

There isn't a limit on the amount you can gift during your lifetime, but the final tax treatment depends on how long you survive after making the gift.

The rate of Inheritance Tax is typically measured on a sliding scale known as "taper relief":

- 40% if fewer than three years have passed
- 32% between three and four years
- 24% between four and five years
- 16% between five and six years
- 8% between six and seven years
- 0% after seven years.

Just note that taper relief applies to the tax due, not the value of the transfer, which can make PETs complex.

Remember that taper relief only applies to gifts in excess of the nil-rate band. It follows that, if no tax is payable on the transfer because it does not exceed the nil-rate band (after cumulation), there can be no relief.

Education funding should be incorporated into your financial plan

It's entirely natural to want to give your children and grandchildren the best start in life, but it's essential to think carefully about your own financial security.

Before committing to paying school fees or offering university support, you may need to consider aspects of your own finances, including:

- Mortgage repayments
- Retirement saving
- Emergency funds
- Protection costs
- Later-life care planning
- Your own lifestyle goals.

The power of cashflow modelling

You may be able to afford private school fees now while you're working full-time, but not if one parent wishes to reduce their hours or retire earlier than expected.

Similarly, grandparents may want to fund university costs for several grandchildren, but they also need to consider whether this could affect their own income or ability to fund future care needs.

This is where cashflow modelling may be beneficial.

A financial planner can use sophisticated software to model the effect of education costs on your financial situation.

This could help you understand whether your plans are affordable, how much you need to save, and how different scenarios might affect your position.

Ultimately, this could help you make informed decisions while reducing the risk of overcommitting to an education fund.

7 QUESTIONS TO ASK BEFORE YOU START SAVING

Before you commit to building an education fund, you may want to ask yourself:

1. What costs do I want to cover?
2. When will my loved one need the money?
3. How much can I afford to save regularly?
4. Should I hold the money in cash, investments, or both?
5. Who should control the funds?
6. Are grandparents likely to contribute?
7. What happens if my child chooses a different education or career path?

Financial advice could help you build your child's education fund

Planning for future education costs involves many moving parts. You may need to balance short-term school costs with long-term university planning, choose suitable accounts, and ensure that saving doesn't affect your own financial security.

This is why you may benefit from working with a financial planner. They could support you by:

- Estimating the likely cost of your child's education
- Calculating how much you may need to save or invest
- Choosing suitable accounts
- Investing in a way that suits your time frame and attitude to risk
- Helping grandparents contribute tax-efficiently
- Using cashflow modelling to assess affordability.

Regular reviews are also essential, as your child's plans may change, education costs might rise, or your own circumstances may shift.

Get in touch

Building a nest egg for your child's education could give your loved ones more choice and confidence when important costs arise.

If you'd like to understand how planning for education might fit into your wider financial plans, please get in touch to find out how we could help.

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Please note: This guide is for general information only and does not constitute advice. The information is aimed at retail clients only.

All information is correct at the time of writing (July 2026) and is subject to change in the future.

Please do not act based on anything you might read in this article. All contents are based on our understanding of HMRC legislation, which is subject to change.

A pension is a long-term investment not normally accessible until 55 (57 from April 2028). The fund value may fluctuate and can go down, which would have an impact on the level of pension benefits available. Past performance is not a reliable indicator of future performance.

The tax implications of pension withdrawals will be based on your individual circumstances. Thresholds, percentage rates, and tax legislation may change in subsequent Finance Acts.

The value of your investments (and any income from them) can go down as well as up, and you may not get back the full amount you invested. Past performance is not a reliable indicator of future performance.

Investments should be considered over the longer term and should fit in with your overall attitude to risk and financial circumstances.

The Financial Conduct Authority does not regulate estate planning, cashflow planning, trusts, or tax planning.

Your home may be repossessed if you do not keep up repayments on your mortgage.