Discovery *Your Money Matters* Podcast Series
EP9 – How Life Insurance can help to Secure your Child's Education with Kashmeera Kanji and Claire van Wyk

<u>Overall Intro</u>
Bruce Whitfield [00:00:00] Managing money and knowing what is good for your financial wellbeing at every stage of life is a skill. It's a skill that every person needs. Managing money well means having an adequate level of protection, more savings than debt, and knowing how the choices we make can either make us or break us. Of course, we're all human. So, in Your Money Matters, a podcast brought to you by Discovery, I unpack practical aspects on banking, life insurance, investments and more in discussion with experts. Join me for these interesting conversations and hear how small things we do can take us to greater levels of financial security and more of life's rewards.

Episode intro
Bruce Whitfield [00:00:43] This episode is all about how to effectively fund your children's education in the event something goes wrong in your life. For parents, or even prospective parents, the accumulative costs involved in providing a sufficient education is enough to set your heart racing to a near dangerous point. In short – it's *a lot* for anyone's budget and it adds up over the years. So, when we all want the very best for our children; how then can we sufficiently plan for a myriad of risks that can derail our best laid plans? Is that even possible? How does this impact a child's education prospects?

Bruce Whitfield [00:01:16] There can be nothing more concerning for any parent than the prospect of children's education being compromised in the event of death or disability; and protective cover is available for parents to continue funding their children's education when they are unable to. Let's talk, today, to Claire van Wyk, who is a Discovery financial adviser and to Kashmeera Kanji, who's a Discovery Life Senior Risk Specialist. Kashmeera, give me a sense of it, if you would, in terms of the risk that families face when parents can no longer do the work that they were doing to fund their children's education, either through injury, illness or death.

Kashmeera Kanji [00:02:00] Thanks, Bruce. And the first thing is that we know a country only prospers if the children prosper and the children are able to make a difference in the future. So, education is one of those key metrics by which we measure the prosperity of a country or the ability that a country has to prosper. And if we look at the general household surveys that are done in South Africa, they found that between 30 and 40% of children who start in grade one obtain a matric at the end of their schooling career. So, we've got a significant number of children who are dropping out of school. And one of the main reasons behind that level of dropout is that a breadwinner dies or the breadwinner is significantly impaired so that they cannot earn an income to support the educational dreams and aspirations of that child. So, that in itself is a problem. If you then add on to that, it's the burden of debt. So, what ends up happening is a lot of these children have to take out student loans to finish off their education, particularly tertiary education, in order to achieve their dreams and aspirations. And those student loans have increased dramatically over the past couple of years. So, if we just look at a 10-year period from issuing about three billion rand in loans to children, through NSFAS, they're now issuing just over 12 billion rand in loans. So, it's grown a significant amount over that time. And that means that students are starting off their careers with a large amount of debt. So, if the average degree costs about, let's call it R150 000, a three-year degree, basic; that means that the debt plus interest is borderline about R200 000 when that child finishes their studies. And that could easily have funded a vehicle to enable themselves or maybe a deposit on a home or something more significant, as opposed to paying off these massive amounts of debt that they've incurred. And that is really the essence behind ensuring that you protect your child and their dreams, and their aspirations, and even your household from the burden of debt, and the burden of not being able to pursue any careers that that child wants to pursue because something tragic has happened within that household.

Bruce Whitfield [00:04:16] Claire van Wyk, how often do you sit with your clients? And they say, 'well, I've got life cover, I don't need to worry about this. I mean, that's what the life covers for.'

Claire van Wyk [00:04:27] I actually, much like Kashmeera, have a heart after education, especially for parents that run into financial situations caused by death, severe illness and/or disability. And it's definitely number two on my agenda, when I start doing a financial analysis for a family. It is a significant focus as a financial adviser that I pay attention to: what are we going to do if something goes wrong with you as the breadwinner or even in the family structure itself? So even if it's not the breadwinner, if it is a spouse who is not working and something such as a dread disease or a disability occurs, it has a family impact on the finances. So, I tend to focus on the family as a whole when it comes to education. But that's from a risk point of view. What I also focus on is before we start assessing only the risk, I start speaking to families on what is this cost going to be? Are we going to focus on pre-primary, primary, high school and university savings, or are we just going to focus towards tertiary education and the savings element there? So, that is how I approach the concepts of education and the risk of education.

Bruce Whitfield [00:05:54] OK, so when it comes to people sort of responding to this idea that actually you need to insure education separately because nobody knows when the truck is going to hit. And, there could be R5 or 10 million worth of the mortgage debt,. The cost of education on top of that means that in many cases the life insurance is going to be wiped out on paying those debts, long before the children's future is even considered.

Claire van Wyk [00:06:22] 100% agree with you, Bruce. We do certainly have products especially that have been brought out to cover unquantifiable costs of the education future, if you want to put it that way. We do have the Global Education Benefit, which has been tailored to cover the costs if you die, should you get a dread disease, as I mentioned, or become disabled and you don't have to stress too much as a family, or even as a financial adviser, about working out the costs to include it in the capital that you insure for life cover and disability and dread disease. So, there are products that can be selected specifically to be able to alleviate the risk of this on a family.

Bruce Whitfield [00:07:11] Explain to me how. Take me through the how.

Claire van Wyk [00:07:13] Right. So Discovery have a product. It's called a Global Education Benefit. It covers two elements. The first element is the risk element. It's the element of should you die, education is covered through to a tertiary level. Should you become disabled, education is covered through to the same tertiary level, as well as a dread disease. So, that's a risk element of the Global Education Protector. And we then at Discovery, have the product which is geared should you not die, become disabled or get a dread disease, that will be able to assist you with the funding of up to 100% of your child's tertiary education. So you win either way, and...

Bruce Whitfield [00:08:00] ...Hold on a second, this is insurance. Nobody wins. Explain to me, please, the second part of this, because this sounds a little bit too good to be true.

Claire van Wyk [00:08:10] So, let me use an example. Should your child be born today and you sign up for the Global Education Benefit, for each year that you are engaged or have this on your policy. We will allocate a percentage out of a hundred towards an amount, which is the education factor that we give at that point in time that will pay towards your education. So let me simplify this. We, each year, based on your Vitality status, allocate a percentage, which is then added up at the age of eighteen or when your child goes to university; and depending on the age of entry into this product, we will then fund a three year, a two year or one year of tertiary education.

Bruce Whitfield [00:08:59] Okay, no, no, that explains it. So it's almost like a cashback sort of system, if you like. You haven't claimed on this, you've been paying the premiums, you have contributed X amount, and therefore the benefit is Y or Z.

Claire van Wyk [00:09:13] 100%. It is a form of cash back. It is a university pre-funder, as we've put it down there. You can get a lot more paid out based on your wellness and your personal engagements in your health with Discovery Vitality. So, if you're a higher engaged client or parent, you're actually using your health to increase the amounts of money that we can pay out of this towards education. So for me, I know you said you don't win in insurance, but to me, this is a win-win. If you engage in your own health, we're going to help pay for education, a tertiary education for your child through this product.

Bruce Whitfield [00:09:53] Simply put, I mean, it again, goes to the whole Vitality concept of: you're removing a lot of the risk from the insurer by being healthy. If you are a victim of bad luck, then that's where the insurance kicks in. You've done your bit to try to maintain your health, so therefore there is a reward mechanism built in.

Kashmeera Kanji [00:10:14] I'm going to take that one, because you said something that maybe I'd like to add onto, so insurance is generally thought of as you cannot win. You know, you're always a loser in some space. But actually with the Discovery product, I think you are able to win. So it's not only there for you on the really bad days, the day the truck hits you; it's also there for you on every single one of your good days so that every single good day in your life, every single healthy meal that you've bought, every single healthy gym work out that you've done, every single good thing that you've done to change your health and to be a healthier person contributes towards this, as you call it, a cash back - or we call it a payback that we give to you. And then over and above that, we've structured into our Education Protector the ability to fund tertiary education. So, you will still get your payback. But over and above that, we're able to use a parent's engagement in health and wellness to dictate how much of that child's tertiary education will be funded by the benefit. So, it's almost as if there's no downside here. That conundrum of, should I be saving for my child's tertiary education or should I be paying a premium towards a product that protects that education should anything happen to me? That conundrum disappears because you've got a single risk product that does both of those things for you. And that is a Win-Win in my eyes.

Bruce Whitfield [00:11:39] What would happen if the child was to be disabled, if the child was to die before going to university, is there a life component built into this whereby that payback functions?

Kashmeera Kanji [00:11:53] So the Global Education Protector, Bruce, we need to remember, is basically insuring the parent - so it doesn't insure the child. Insurance for children sits outside in a very different product, which we call the Child Protector Benefit. The parent is actually the main life assured under the Global Education Protector – so, any event on their parent's life is what triggers a payment. Whereas your Child Protector Benefit, if there's any event on the child's life that would then trigger benefits. So, two very different benefits; but both come together very nicely to protect a child holistically.

Bruce Whitfield [00:12:28] And for parents who assume their child is a prodigy and a genius, and their child has absolutely no intention of going to tertiary education. They've got an entrepreneurial bent and they've been selling beads in the school playground since they were seven. Well, then that's just the parent has over-insured themselves, and under that circumstance, there's no way of saying, 'well, my kid didn't go to university or didn't go to any kind of college, didn't get any tertiary qualification, could I have some money back, please?'

Kashmeera Kanji [00:12:54] Absolutely. So we factored in a way to take into account the achievements of children and how to reward that. So, if a child achieves a bursary or receives a bursary; even if a claim is made, we provide a bursary cashback benefit that is in place in the way of providing a monetary payout as a reward for excelling - for being the best bead maker in the playground, that kind of thing. So, all of that is built into the product.

Bruce Whitfield [00:13:18] Give me a sense of it, Claire in terms of... because tuition is just one element of the cost of education. We see it in South Africa, NSFAS contributions, for example, where kids are getting the tuition covered but they can't afford to eat. How do you cover that conundrum, particularly in a very expensive world? And we come from a currency environment which isn't necessarily all that robust. How does this help in terms of lifestyle costs and just simply the cost of living while enjoying the benefits of the education?

Claire van Wyk [00:13:52] Bruce, if we look at the risk element of the Global Education Protector, it is designed to assist with the tuition and residence fees. In addition to it, it covers and can assist with uniform, stationary, textbooks, transport, school and technology - Technology being one of the biggest elements that we need to focus on; because that is the unquantifiable cost escalation in education.

Bruce Whitfield [00:14:21] Okay, so again, it takes a holistic view once again, because those costs can be absolutely prohibitive, particularly if one parent is at home and the child has gone off to go and study elsewhere. And there just isn't the support network that perhaps would be at home. For parents looking for this kind of cover in the environment that we're in - this COVID-19 environment - the advantages of having this in place when it comes to a major life changing event, Kashmeera, I mean, we all try to mitigate risk all the time. Just give me a sense of it.

Kashmeera Kanji [00:14:54] Hmm. Bruce, it's a good question. I think one of the very early claims that we saw, very sad claim indeed, was a claim for a mother with quite a number of children and the death on that life. So, the mom's death triggered a Global Education Protector for those children. One of the earlier impacts of COVID-19 that we saw is that the death of a breadwinner means that all the children in that household could potentially not be able to go to school. And gone are the days of those discussions where we pick the brightest child and we pick, the one with the brightest future. And we decide, okay, that one will go to varsity. We don't think that way anymore. Each and every child deserves that chance and that dream of, of pursuing something that they think could make a difference in this world. And so the Global Education Protector on the back of COVID-19, I think, is such an important part of the risk protection that you need to have in place, because any dread disease and, you know, we keep saying dread disease, but a cancer, a heart attack, any of these big events that we speak about so casually could completely derail the funding towards education. And I think that has been an important part of the planning, because we know that COVID-19 is not just a respiratory condition. It's a multi-body system virus. It affects multiple body systems at various different levels. And so you're not just limited to, oh, I might have a severe lung infection that could derail my finances for a little while. You're actually talking about long term, long lasting effects that could derail financial planning. And so, you're absolutely right on the back of COVID-19, considering, if you have funding available for your child's education, should be top of the list.

Bruce Whitfield [00:16:37] Can one buy domestic and international aspects of this Claire? Because for many people, the premium that might be required to insure little Johnny gets a Harvard education is going to be a little bit more demanding than getting Johnny the UCT or University of Pretoria education, for example.

Claire van Wyk [00:16:56] Bruce, if you've got the risk element and you understand it, we have built into this product the ability to enjoy an international tertiary education, should you indeed qualify for or be accepted for an international tertiary education.

Bruce Whitfield [00:17:13] Oh okay, so it's a case of - you can either do it domestically or globally. I look at my own children. Of course they qualify for anything because the children are geniuses. But that is the risk of being a parent, I suppose. Do parents get it when you have these conversations with them, Claire, do they sort of sit there, the lights come on? What sort of conversations are you having with parents?

Claire van Wyk [00:17:33] Bruce, to be honest, I think parents really do get this. I enforce or impress on the elements of your life legacy is what you leave behind for your children, and that in particular is an education. And if you are able to secure a child's education, it is the best thing, I think, you can do for them. So, the lights generally are on about it. But most families are more worried about the cost element of how am I going to save and how am I going to cover the risk factor on it. So, when we brought out the Global Education Protector, where we in effect are able to kill two birds with one stone, we are able to use that money for an and/or situation, which I think is very proactive in the insurance space and it's very proactive in the planning stages or planning phase of education for a family. So, I think there's a lot more focus on education. I think a lot more people are becoming aware of it, mainly because we start talking about the debt that students are leaving university with. I've got a student who walked out with a half a million debt attached her name before she even started working. And that is one big mountain you have to climb over. So, I've even started advising families to start considering - before they have kids, how are they going to save and plan for their child's education? As weird as that sounds, but that's where we are in the planning and the needs analysis phase of it. So, I don't think the lights have never really gone on. I think they've always been on, but it's been an expensive affair, whereas now we've managed to make it affordable to be able to do the risk element, as well as to save through the university pre-funder and engagements in your Vitality to make it make a lot of sense to you.

Bruce Whitfield [00:19:29] I can think of no better contraceptive than the discussion about costs and children up front. I think you are doing your duty, Claire, in terms of global population control and de-risking the planet because - yoh - the costs of having kids certainly would drive one over the edge. I mean, Kashmeera here is the risk: not only do you leave your kids at the risk of not getting an education, but they may go and get that education, but they go into their work lives on a financial back foot. And you didn't set out for this to happen. You worked hard. You didn't intend to be crushed by the bus, but you were. And the kids are left to fend for themselves. And that wasn't the plan, was it?

Kashmeera Kanji [00:20:17] No, it's never the plan, Bruce. And, you know, one of my COVID-19 readings for this year was your book, *The Upside of Down*; and, you know, you mentioned that it's a robust mindset that keeps people successful. And, you know, successful people know that adversity is not something that announces itself. It comes unannounced, it's unexpected, and it turns your life upside down. And if you were a forward thinker, you would have planned for that day. And that's exactly what a product like this does, is it plans for the day that may or may not happen; but even if it doesn't happen, there's a sweetener at the end of it all to know that, OK, all my good days have counted and I can maybe boost my retirement savings a little bit because my child's education is pretty much funded by this product. So, absolutely, we don't plan for it, but we should be.

Bruce Whitfield [00:21:10] With that unsolicited punt for my book... Kashmeera Kanji, thank you very much, Claire van Wyk, who's a Discovery Financial Advisor. Thank you very much. It's all about cover for education and covering the future.

Episode outro

Bruce Whitfield [00:21:25] If you're at this stage of life where giving your children the best possible opportunity for a good education is part of your financial planning, this type of option may be in your best interests. As you've heard, it's not entirely too good to be true. It is possible to make funding education part of your overall financial plan, despite the kinds of events that could compromise your best efforts and intensions. There are ways to make it happen, and these can be within your means too.

To better understand how comprehensive life insurance cover can, not only protect you and your family, but also adapt to suit your ever-changing needs, head to the 'Covering what you care about' section on the Discovery Magazine's Smart Money hub at discovery.co.za. Here, you'll find a wealth of resources to strengthen your financial footing in the most protective of ways.

You can also visit discovery.co.za for more details on this particular offering and other related Life cover benefits, or chat directly to a Discovery certified financial adviser.

Overall outro

Bruce Whitfield [00:22:22] Thank you for listening to this episode of Your Money Matters, brought to you by Discovery. Share the podcast and join the conversation on social media with the #YourMoneyMatters, and Tag @Discovery_SA. You can subscribe to the Discovery podcast channel, Discovery South Africa on your favourite podcast app or visit discovery.co.za to listen to all our shows.

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