

International Education Requires Prudent Financial Planning

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As the costs of overseas education soar, an increasing number of middle-class Indonesians are prioritising sending their children abroad for university, even going as far as spending a high proportion of their retirement savings. The pursuit of a global perspective, enhanced foreign-language skills, and better career opportunities drives parents to view this as a crucial investment for their families' future.

Since the end of the Asian financial crisis in 1997, Indonesia's economy has experienced robust growth, lifting incomes and reducing poverty. Today, the middle class is at least 52 million strong, representing 20 percent of the population, and continues to expand, according to World Bank Data. The government aims to elevate the middle-class to 80 percent by 2045, making it the backbone of Indonesia's economy and transforming the country into a high-income nation.

Despite the high costs and limited access to financial aid or scholarships, the ambitions of these increasingly affluent middle-class families for international education remain strong. Parents believe that an international education can broaden their children's horizons, improve independence, and even reshape their way of thinking as they come of age. The experience promises more than academic knowledge; it includes developing soft skills like interpersonal capabilities and creative problem-solving.

Affluent Indonesian families tend to follow their emotions and believe that investing in their children's education is a great way to help them get established for whatever the world has in store for them. In the future, children will not be limited to employment in their hometown, but will have more options for work and life.

Australia and Singapore are the prime destinations in Asia Pacific for these educational pursuits. HSBC's Global Quality of Life Report 2024 found that Australia ranks within the top five preferred education destinations for students from Hong Kong, Singapore, mainland China, Malaysia, the UAE, and Indonesia. Similarly, Singapore emerges as a top choice among those from mainland China, India, Indonesia, Malaysia, and Taiwan.

Affordability may not be the top concern for many wealthy families, but the costs do bear noting. While the cost of university education alone has increased 169 percent since 1980 – according to a report analysing data from the US Census, Bureau of Labor Statistics, and National Center for Education Statistics.

HSBC's survey shows that a three or four-year degree program in popular study destinations such as the US, UK, Australia, and Canada can cost between \$192,000 and \$256,000 per child, potentially consuming up to 66 percent of parents' retirement savings, adding to the burden. And this has not yet included inflation and the rising costs of living in housing, food, transport, health insurance, airfares, and other expenses which are a sizeable chunk of the overall cost. For example, international students in Australia face living costs of at least AU\$20,400 per year.¹

The financial implications of unpreparedness regarding these trends are considerable. Many Indonesians could face hardships in retirement due to depleted savings. Emotional stress on parents and family dynamics can also be substantial. According to HSBC's survey, 75 percent of respondents in Indonesia have an education savings plan for their children, 61 percent hope for scholarships, and 19 percent would even consider selling assets to fund their child's education.

¹ <https://www.hsbc.com.hk/loans/send-your-child-to-study-abroad/>

To navigate these challenges, comprehensive planning that can provide for the needs of both the student and the family supporting them is key. Early financial planning can help parents manage the rising cost of education and limit the strain on family finances.

Having goals is a good way to focus on the things that are important to when setting a budget for studying abroad. Consider all expenses—tuition, accommodation, living costs, and travel. This holistic view helps plan savings, payments, and cash flow before and during overseas study, facilitating smoother financial management. Engaging in open conversations about funding sources within the family is crucial.

With the goals clearly identified, paying into savings accounts on the first of every month with a standing instruction and watch savings grow. If any of the investments are not performing, sound decisions can be made in time. It's important to understand the difference in currencies, exchange rates, and have a basic knowledge of the target country's economic system.

Ingraining a sense of financial responsibility in children early on is also essential. Opening a bank account and letting them manage their own expenses teaches personal finance basics and prepares them for living independently. Parents can also transfer allowances in real-time with online and mobile banking for convenience and quick responses to potential emergencies. Additionally, enhancing financial literacy to guard against scams is critical.

Planning a child's education can be stressful at the best of times. Adding the complications of sending them to a foreign country with a different language and culture, and that stress increases substantially. It is crucial for parents to remain connected and attentive to their children's feelings of homesickness or anxiety, and securing comprehensive insurance before departure ensures that health needs and unexpected circumstances are well covered.

Looking ahead, Southeast Asian students are increasingly considering study destinations within Asia. Countries like Japan and South Korea are becoming popular with students from Vietnam, Indonesia, and Malaysia. One in eight of the top 200 universities in the Times Higher Education World University Ranking is now in Asia, with countries like China, Japan, and Singapore setting substantial targets for foreign students.

Education remains one of society's greatest opportunities. Planning overseas education can entail a lot of detail and uncertainty, but having a comprehensive plan in place can ensure the end result is a worthwhile goal that families will surely continue to seek in increasing numbers.
