African Bank Limited press release

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Saving to educate your children? – get the most out of your money

July is savings month and there is no greater gift that you can give your child than the gift of a secure education. We all want to give our children the very best, however, ensuring that you give your child a quality education costs money – and it is often the kind of money that most of us simply do not have. For this reason, it is important to ensure that you really get the most out of your money and start saving as early as possible.

Mellony Ramalho, African Bank's Group Executive: Sales, Branch Network, says parents always have the best intentions, with most of us vowing to put away a certain amount of money every month into a savings account meant for our kids. Global research by HSBC, points out that 72% of parents of pre-primary school children think they will fund their children's future university costs through savings. "Despite this," she says, "life can often get in the way, resulting in you having to dip into your savings in order to pay for emergencies such as visits to the doctor or car repairs. Then, out of nowhere, your kids are 18 and ready to attend university, only there is now very little money available to pay for it. This is the main reason why young adults have to take out often expensive student loans and why most of them have the additional responsibility to pay off these loans over an extended period of time." The global research shows that more than a quarter of parents actually end up taking out a loan and spend on average 6.7 years repaying the debt.

If you don't want this to happen, it is imperative to start planning for your child's future sooner rather than later – preferably even from birth. The reality is that education costs generally carry higher inflation increases, and that, coupled with the growing list of extras parents often have to pay for, makes it almost impossible to pay for education without a savings cushion in place.

Ramalho says, "This has prompted many families to look at alternate ways to secure their children's futures. Rather than a high-risk investment, many people are favouring more stable investment options like insurance policies, special savings products, unit trusts and other long-term investments that have historically yielded good returns."

The best way in which to invest for your child's future is to invest funds in fixed deposit. The interest rate is definitely higher than what you would receive if you simply set some cash aside in a basic savings account.

A fixed deposit is a term commitment product in which you would invest a lump sum, once off, to earn compound interest and leave it to grow over time. So if you already have a lump sum, a fixed deposit would be a good product to choose to earn maximum growth which is guaranteed since the interest rate is fixed for the duration of the investment and will not change with changing market conditions. Additional deposits cannot be made into a fixed deposit after the initial deposit. The rate offered is based on the term, the longer you invest, the higher the rate. The rate is not dependent on the balance but it is important to remember that the money cannot be touched until the selected time period has elapsed.

Ramalho says another popular option these days to earn maximum interest and growth over 12 months, guaranteed, is a tax-free investment account. “The best rate you can get is 8,67% if you shop around. So, to put this into context, let’s say your son wants to become a doctor or an engineer when he grows up. If you as parents simply put away R500 from the time he was born each month, this will grow your savings to R309 287.24 over the next 20 years and assure your son a bright future – tax free.”

A tax-free investment account in South Africa allows you to get your full investment return, up to R33 000 per annum and R500 000 over your lifetime, without being taxed on any of the growth you have earned. “This product was enabled by the National Treasury to encourage and allow every person the opportunity to grow their money, without ever having to worry about being taxed,” she says. You can either invest a lump sum into a tax-free account or add additional savings deposits at any time.

“At African Bank, for example, investors will enjoy guaranteed returns and it is hassle-free, fee-free and you will receive the highest growth on your investment.” Ramalho explains that instead of the traditional 7-, 32- and 90-day notice, the Tax-Free Investment account has a one-day notice period, but can only be accessed every year during the anniversary month of the account being opened, this speaks to encouraging longer term saving. In addition, you can build your savings by making as many deposits as you like and there is no limit to the term of your Tax-Free Investment account. There is no minimum opening balance and you can even deposit as little as R50.00 to open an account.

“Once you have decided on a preferred savings plan, it is worth shopping around before you invest your money. It is a good idea to choose a bank that you trust and that has a great reputation with regard to interest rates and guaranteed returns. Ultimately, saving for your child’s future is a straight-forward process as long as you do your research and keep your investment consistent,” concludes Ramalho.

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