African Bank Limited press release

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How to save for your child's education

It is no secret that with the cost of education constantly rising, we, as parents, are feeling panicked and desperate for a solution. 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.

Mellony Ramalho, African Bank executive for Insurance, 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. "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 sometimes expensive student loans and why most of them have the additional responsibility to pay off these loans over an extended period of time."

If you don't want this to happen, it is imperative to start planning for your child's future sooner rather than later.

Ramalho says, "The current economic climate is prompting 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 save for your child's future is to invest funds in fixed deposit. She says these deposits can be quite flexible, allowing you to add money periodically. "The interest rate is definitely higher than what you would receive if you simply set some cash aside in a basic savings account. The more money in the account, the higher the interest rate will be and the more the funds will grow over time.

These fixed deposits work by holding a certain amount for you for a specific amount of time (you can choose a time period between three and 60 months). However, it is important to note that the money cannot be touched until the selected time period has elapsed.

Ramalho says another investment worth looking at is a Tax Free Investment account. “A Tax Free Investment account in South Africa allows you to get your full investment return, up to R30 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.

“At African Bank for example, investors will enjoy guaranteed returns and it is hassle-free, fee-free and you are free to make deposits anytime into the account.” 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. The minimum opening balance is R500.

“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 fixed deposits in general. 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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