African Bank Ltd press release

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Is it necessary to save for schooling? You do the maths …

With many parents waiting anxiously to hear if their children have been placed in Grade 1 and Grade 8 in 2021, the other nagging worry is cost of schooling. Many parents do not realise that the cost of schooling their children can directly impact the quality of retirement they will have, long after the children are all out of the house and earning their own money.

There are only two realities about the cost of education and retirement, says Neil Thompson, Head of Product and Customer Value Proposition at African Bank.

“The first is that if you do not save for school uniforms, school fees and all the dozens of extras, this money will have to come out of your monthly cash flow which, in turn, limits what you can put away for your own retirement.

“However, if you do have a savings fund to cover these expenses, you have the freedom to put any extra money you have towards your own retirement goals,” he explains.

3 other significant reasons to save money for the cost of educating your child:

1. Matric is no longer a guarantee of finding a job. In order to compete in today’s challenging job market, your child will need some form of tertiary education, which is not cheap.
2. Thousands of university students never complete their studies because of financial difficulties.
3. A child who is well educated stands a better chance of finding a job and becoming financially independent sooner in life. They could perhaps even help you financially in your retirement years.

When is the best time to start saving for your child’s schooling?

Thompson says the answer is as early as possible.

“Twelve years of school may seem like an eternity, but it goes by very quickly. So, if you have a child who is going to Grade One or even Grade Seven next year, open a savings account and immediately start contributing each month.

“If you start saving today, rather than trying to pay for uniform and school fees out of your monthly income, your savings could cover most of the cost of schooling. With this covered, you have peace of mind that you have money to put into your own retirement fund.”

Thompson reiterates that those who start saving later on in life will significantly reduce their ability to invest in their own retirement as any extra money will have to go directly towards schooling.

"Without adequate planning and provision for the costs of putting a child through school, parents' good intentions of saving for their own retirement can quickly spiral out of control, and their dreams quickly lost due to a lack of money," says Thompson.

He advises parents who are serious about growing their money to look for a flexible savings account. This type of account means your money is not tied up for lengthy periods and that you still have access to your savings while earning interest.

"You can have the best savings plan and intentions with your bank account but be disappointed down the line when your efforts have not yielded good results," Thompson says. "This is why one of the most important factors to success when saving money is the compound interest, so make sure the savings account you choose offers the best interest rate."

While Covid-19 has had an unprecedented effect on consumers' finances across the world, Thompson reiterates that hard times should not deter savings efforts.

"The beauty of a savings account is that only a small deposit is required each month, not thousands. Think about it this way - if you put R200 into your savings account each month by the end of the year you will have R2 400, plus interest earned.

"Imagine how empowering it would be to withdraw your savings and go and enrol your child in school, buy their school uniform or pay off debt … and have money to put towards your own retirement goals!" he concludes.

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