

CELEBRITY CHAT



Digging credit cards... the ABC's
Who's Been Sleeping in My House?
presenter Adam Ford.

Financial ancient history

What was your first job? I was 14 and it was a glorious summer job as a digger on an archaeological site at a castle in England.

What did you get paid? In those days, we were paid in cash at the end of the week. We queued up for our little brown envelopes, which, in my case, was stuffed with the princely sum of £25.

Are you a saver or a spender? I don't think I'm actively or deliberately either. What happens to the money I earn is a secret only known to the initiated of a very exclusive secret society. So exclusive that there is only one member, my wife ... I suppose I am a spender. I see something I need and I buy it.

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What's the best piece of investment advice you have heard? Plant more trees. I know I sound like a bit of a yoghurt weaver but, really, we better start investing in what we stand on, grow from and breathe in.

What's the best piece of investment advice you've actually acted upon? See above. And bought a house ... and paid off the mortgage as quickly as possible.

Credit Cards are: a) great; b) helpful; c) a poor investment; d) the work of the devil. B) helpful

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How to account for school fees

Paying for children's education can be a costly business but options are available for parents who want to ensure they get a head start on saving for the bills, writes **Sue Hoban**.

Many parents bracing for the inevitable post-Christmas influx of back-to-school bills might now be rueing the fact they didn't put money aside earlier to help take the sting out of rising education costs.

If you're one of them, you're not alone. The latest evidence suggests about 60 per cent of Australian families fail to make provision for future education costs and of those who do, most fall well short of the funding needed.

An obvious reason is that in the preschool period, many families are going to be stretched to the limit just trying to pay the rent or the mortgage, particularly if they lose their second income during the early child-rearing years.

Yet financial advisers such as James Gerrard, a partner at PSK Financial Services, contend that even small amounts set aside regularly can make a meaningful difference.

"It doesn't have to be a massive burden on their cash flow; it could be as little as \$100 a month and that will compound over a period until the child is ready to go to school and they need to draw down on some expenses," he says.

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bank account in a child's name – a potentially problematic option – many people just don't know what strategies are available to them. There are a few different ways to organise education savings. A popular and tax-neutral strategy is to make extra payments off the home loan to get ahead and then draw back down on it when the bills start coming in.

If, as a couple, you are on higher marginal tax rates, you might be better off with the tax-paid options of investment bonds or special education savings plans, where the issuer pays tax on the growth at a maximum of 30 per cent. Or you might prefer to rely on traditional investments, such as high-interest savings accounts, managed funds or direct investment in shares or property.

There is no single most tax-effective solution for everyone. Selecting the right one for your family will depend on a range of factors, such as your incomes and marginal tax rates, how much you can afford to put in, how long before you need the money, your saving discipline, investment experience and tolerance for risk.

Never too late

While it's advisable to start early to maximise the benefits of compound growth and allow more growth-focused investment choices, financial advisers insist it is never too late to start, particularly with rises in education costs continuing to outstrip inflation and wages beyond the school years.

The director of Navigare Wealth, Peter Alvarez, suggests that whatever strategy you adopt, investing for education should not be done in isolation; rather, it should always be considered as part of a holistic wealth-creation plan.

"It is going to be a lot more powerful if you can meet not just your education savings objectives but your other objectives at the same time; rather than trying to meet one but, really, failing in all the others that are maybe just as important

– or more important – in the overall scheme of things," he says.

Another factor to consider when deciding on an education savings strategy is in whose name the investment should be held. Since federal government changes six months ago, it has become even less advisable to put any sizeable investment in your child's name.

It used to be possible for minors to earn income up to \$3333 a year tax-free from sources such as dividends and interest. In a bid to avoid parents diverting income to children's names to avoid tax, this has been reduced to \$416 and any non-work income minors earn between \$417 and \$1307 attracts the penalty tax rate of 66 per cent, with 45 per cent applied beyond that – a trap grandparents inclined to put lump sums aside for future education should also be aware of.

In most cases, it's best to put the investment in the name of the lowest-earning family member, a non-working parent or even a grandparent.

Using your mortgage

The simplest method of setting money aside for education is to earmark a certain amount each month to pay off your home loan, then use an offset account or redraw facility from which to draw down later as the money is needed.

"When you do that, you are effectively generating a 6 or 7 per cent return because you are not paying that in interest on your home loan," Gerrard says. "The big advantage is the simplicity. There is no third company involved, so you also save on management and investment fees, and it's easy to understand and implement the strategy."

But a word of warning – be careful if you lack financial discipline. "That's the big negative here," Gerrard says. "You have to be disciplined, first to put that money away off the home loan each month and then not be tempted to redraw it for any other expenses."

Investment bonds

These are long-term managed investment products which, because of the time frame, can be an attractive vehicle for education saving.

Because earnings and capital gains are tax-paid at 30 per cent and are not included as part of your taxable income – providing they are held for the minimum 10-year period – they are worth considering if you are on higher marginal tax rates.

However, additional contributions cannot exceed 125 per cent of the previous year's deposit, otherwise the 10-year period restarts. Locking money away for this length of time to achieve a tax advantage may not appeal to everyone but it does reduce the likelihood you will be tempted to use the money for anything other than education.

The managing director of Eureka Financial Group, Greg Cook, says investment bonds are now a more attractive proposition than they were in the past.

"The products have got more competitive," he says. "They used to be old life insurance companies with fairly heavy management fees but they have got leaner and there is now a much wider range of investment options available."

Managed funds

This is a similar instrument to an investment bond, with similar fees and charges but without the restricted time frame – or concessional tax treatment. However, that won't be an issue if you are an average-income earner on a marginal tax rate of 31.5 per cent, including the Medicare levy, or you want to invest in the name of a non-working parent.

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Education savings plans

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The most prominent are offered by Lifeplan and the Australian Scholarship Group. But be aware that under the ASG model's foundation program, all earnings from the pooled funds are used to provide scholarship benefits to students who go on to post-secondary study. If your child does not, you will get back no more than the capital you put in. Make sure you do your research and check the experiences others have had with this option.

High-interest savings accounts

Setting up a dedicated education savings account is a good starting point if you are putting aside regular small amounts or trying to grow savings to the minimum level required for one of the managed investment options.

Like other traditional forms of investment, interest earnings will be taxed at your marginal rate but you will retain full control over your money. Online savings accounts, now paying about 6 per cent interest, have lower fees and charges and can be linked to a bank account to allow a regular transfer from your wages.

Gerrard says another option is BankWest's Kids' Bonus Saver account, which pays 10 per cent interest for the first 12 months. You only qualify for that if you maintain monthly deposits between \$25 and \$250 but the catch is that after 12 months, the rate drops back to 0.25 per cent.

"I recommend that parents make a calendar note every 12 months to go down to the bank, close the account and restart it again so they keep getting the 10 per cent," Gerrard says.

Direct investment

Creating your own investment portfolio of shares or property as a vehicle to save for education could suit if you are an experienced investor prepared to take a more hands-on approach, or if you get advice from a professional who deals in direct investment. It is potentially more risky than other options but, according to Alvarez, is more tax-effective for those who can invest enough to make it feasible.

"That's because you control the buying and selling and the realisation of any capital gains or losses," he says.

"You can choose not to buy and sell as often as funds that are managed by the institutions, therefore you are not going to be liable for capital gains tax as often."

Alvarez says setting up a sufficiently diversified portfolio of eight to 10 stocks would probably require a minimum initial outlay of \$40,000 to \$50,000.

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