

Growing interest

Opening a savings account as a child can help people build disciplined financial skills for life.

By Elinore Marrel

It's all very well for children to have a piggy bank but the next step on the road to riches may be a bank account specially designed for them.

The chief executive officer of InfoChoice, Shaun Cornelius, says children's saver accounts are a great way to encourage parents and children to build savings for things like education and travel.

"Several accounts reward regular monthly deposits by offering a higher saving rate. Bankwest has won awards for its Kids' Bonus Saver Account... these types of accounts are available to children under 15 years of age and operated by an adult."

The head of financial planning of the Australia's Institute of Chartered Accountants, Hugh Elyv, says one of the real benefits of savings accounts for children is that it may offset what is recognised at central government level as "a general lack of financial literacy among Australians".

He says it's possible to tell someone what to do and to show them how to do it but getting them to actually do it is the crucial third step in learning a lesson. "By getting children to save and put

BONUS SAVERS FOR KIDS

HIGHEST POSSIBLE RATE

BIG 5 BANKS	%
ANZ	3.36
BankWest	7.00
CBA	3.76
Nab	3.10
Westpac	5.45

TOP 5 SMALL INSTITUTIONS

Comm. CPS Aust	Bonus Saver Account	2.00
Bank of Cyprus	Junior smart saver	2.75
Gateway CU	Dollero Junior Saver	2.00
Suncorp	Kids Savings Account	4.75
IMB	Zoo Account	3.00

COMPANIES MAY APPLY TO QUALIFY FOR THE BONUS SOURCE: INFOCHOICE

money in their account, that will have much more impact," he says.

Parents should begin by clearly identifying the account's purpose, which could be education or travel, Elyv says. They should also check the account's true interest rate, he says. Some accounts have two levels, with the higher level only applying when certain conditions are met.

Many of the bonus saver accounts encourage a disciplined approach to saving by rewarding regular monthly deposits and limiting the number of withdrawals.

It pays to teach the merits of putting a little aside

Sydney accountant Simone Bird opened a bank account for her oldest son, Oliver, before he could even walk.

Her father would give Oliver, now 5, gifts of money for his savings account.

Chinese relatives also gave young Oliver gifts of money for birthdays and the Chinese new year celebrations.

Her youngest son, Archie, now 2, has also had an account of his own since he was a baby and benefited similarly. "It's important that they

learn about money," Bird says. "Ollie is already starting to covet Star Wars toys. His birthday and Christmas lists are already years in advance.

"If he can get the idea that he can put the money away in his piggy bank, he can buy some of the things he'd like."

Their accounts are not just swelling with gifts from relatives. Bird direct-credits \$10 a month into each of her children's accounts, as their ANZ children's accounts earn



For example, the Bankwest Kids' Bonus Saver Account has a 7 per cent bonus interest rate, which is paid each month when \$25-\$50 is deposited and no withdrawals are made.

There are no account fees. The account offers parents access to funds via phone and online banking.

However, Elyv says parents should remember that inflation may well move the goalposts for them. "If they want to save for a bike in two years, the bike might cost \$100 now but in two years it might be \$120."

bonus interest if regular deposits are made.

"With the accounts, it's more for when they turn 18 and whether it's for a new car or helping them to set up house if they move out, or an overseas trip at the end of school, they have a chance of doing it," she says.

She expects them to get jobs when they are teenagers but doesn't want so much pressure put on them that it interferes with school or other important areas of their lives.

Parents also need to know how the earnings from interest rates are taxed.

The chief executive of AccountantKus, Adrian Raftery, says parents should be aware there are limits to the amount of money they can deposit in their children's accounts. This is designed to stop people from putting their money in their children's names in order to avoid tax.

Children can earn \$416 a year in interest tax-free.

"If children earn over that amount - which happened a lot in the early 1990s when savings accounts were paying 16 per cent themselves - they are taxed at the highest marginal tax rate, being 45 per cent."

Raftery advises parents to look out for high interest, security and no fees associated with the account.

"Don't fall for those education funds without checking the implied interest rate because I have found them to be pretty low in the past."

Children's accounts are good for disciplined saving and restricting access, Raftery says. He also advises children should get their own tax file number. If their account earnings from interest will exceed \$416, a child can get a tax file number at any age.