

# Save some for later

Think it's impossible to save for your child's future?  
Think again: there are many simple tricks to help you on your way

WORDS KATE HENNESSY

**N**EST EGG. It's a lovely little phrase when you think about it, the kind of phrase you might find in a Dr Seuss book. The kind of phrase a small child would warm to or even understand. And the kind of phrase that turns grown-ups cold and fills them with the dread of hard work, long hours and too many years of sacrifice. In fact, is it even possible to achieve?

As dreary as the sacrifice sounds, a nest egg is exactly what most parents desperately want for their family – for tertiary education costs, a dream family holiday or simply as a back-up in times of need.

The best savings path will differ for every family but when setting out on the journey there are two questions all parents should answer. How much can you realistically save? And what you are saving for? A task on the duller side compared to flicking through baby name books, especially if personal finance is not your strength or you assume you'll have little spare. But take heart. There are plenty of ways most parents can put a little or a lot aside. And, like your baby, once you see it start to grow there are many thrilling rewards.

## Wailing wallet

We all know babies are costly. From the instant that stick blushes pink and a pregnancy is confirmed, several costs converge with conspiratorial speed. It's well documented, but let's race through the checklist.

First, there are the extra costs associated with being pregnant. There are doctors and specialists, maternity wear, special vitamins, birthing classes and hospital fees. Barely back in your pocket, your wallet is whipped out again to cover the cot, pram, change table, high-chair,

bath, baby sling, car seat and nappy dispenser. Following that comes the sobering realisation that certain essentials (think house, car, holiday) might need to be, well, larger.

These financial outlays collide with another stark reality: the loss of one person's income. Journalist and father-of-two, Josh Gliddon, says he and his wife Deanne struggled to scale back their lifestyle to fit one income. "We'd been on two steadily-rising incomes for 10 years. It was a big shock to face 12 months with a 50 per cent cut."

Combine all these factors and you have a powerful case for saving from week one of pregnancy, says Justine Davies, author of *How To Afford A Baby*. "Practice living on one income for a month before you leave work," encourages Davies. "It is great motivation to start saving!"

## Get the picture

Before making savings decisions, prospective parents should draw up a written budget. After all, it's difficult to save – or even responsibly manage your finances – until you know what you are working with. A budget addresses the fundamentals – how much is coming in (income), how much is going out (expenses) and how much remains (potential savings). Factor in the loss of one income for a full year, even if the primary caretaker plans to return to work after six months. If you do return early, you will find some exciting use for the extra money, points out Davies.

Be aware that the exercise may prove alarming for families who discover their expenses are more than their income. Your horror may subside, however, when you hear you are among 50 per cent of Australians, according to Davies' research. Still, continue with your budget as it's crucial in highlighting those areas where cuts could be made and savings achieved.

Lauren Newlands, financial analyst at financial services research firm Cannex, says honesty is the key. "It's





## 7 SIMPLE QUESTIONS TO ASK YOURSELF

### 1. How much you can realistically save?

Consider credit card and mortgage debt, loss of income, pregnancy and baby costs, insurance and private health cover, and keeping some money available for emergencies.

### 2. Are your savings goals for your children long-term?

I.e. are they for tertiary education costs, coming-of-age payments or helping your kids buy a house.

### 3. Are your savings goals for your children short-term?

I.e. are they for childcare costs, a family holiday, a pool for emergencies, birthdays or Christmases.

### 4. What government money is available to you?

5. Do you have a lump sum? If so, how much? (Don't forget maternity payments such as the baby bonus.)

### 6. Do you have access to the internet and are you happy managing an account online?

### 7. Are you anticipating footing the cost of private education?

similar to a diet," she says. "Don't promise to eat nothing but rye bread and apples because you won't stick to it. Allocate money where it's needed or else you'll be disappointed when it fails."

When your budget is complete, track your expenses to make sure you are sticking to it. "It's time-consuming but will ensure you're accountable to yourself," Newlands says. "The upside? No nasty surprise when your credit card bill arrives at the end of the month!"

Paying off 'bad debt' is also a priority. No matter how brilliantly crafted your savings plan is, ignoring bad debt will work at cross purposes. "I have seen people earn six per cent on their savings and pay 15% interest on their credit card debt, effectively taking one step forward and two steps back," laments Newlands.

Next in the cross-hairs: insurance and a will. Does it never end? Marissa Yates, senior financial planner at Commonwealth Financial Planning, says asking new parents about insurance is one of her top five questions. "Life insurance, trauma insurance and income protection are all important considerations," she says.

Before children it was easy to breeze past these measures, mumbling something about "doing it later". But without an up-to-date will and personal insurance, misadventure could threaten your family's well-intentioned savings and wipe out that coveted nest egg.

## Locking it away: your options

**Basic savings accounts** are easy to administer and have low or no bank fees. Conversely, they offer low or no interest. Mother-of-one Brooke Costello opened a basic account when her son Luke was born, deposited the baby bonus payment and regularly adds birthday cheques and other gift money. Although Brooke can withdraw the

money if necessary, the account is in Luke's name which is useful when he receives cheques from family members.

"I was tempted to absorb the cash into my own bank account, but figured I'd have little to show for it," Brooke explains. "I didn't care about interest but I didn't want Luke's account to be eroded by fees because I knew it would be low volume. When he's older I'd like him to save his pocket money or paid employment money there."

**Online savings accounts** have limited features and only offer online administration to account holders. However, they have a higher rate of interest than normal transaction accounts and can be opened with as little as \$1, ideal for those with no lump sum.

"It means parents can start somewhere and benefit from compound interest as the savings stack up," says Cannex's Newlands. "They can access the money in emergencies but there's no ATM access so it's not too easy to withdraw."

Since all financial institutions offer online savings accounts, it's also easy to shop around. Cannex recommends you consider fees and minimum balance requirements, how often interest is paid (the more frequently, the better) and if interest is paid on the entire balance or just a portion.

**Junior saver accounts** generally require minimum monthly deposits and have strict terms and conditions. If you stick to the conditions, Junior accounts can pay excellent bonus interest rates of up to 10 per cent, however parents should investigate the maximum age for children and the maximum deposit amount.

"It teaches kids good savings habits," says Newlands. "It also demonstrates a good savings history for building a case for credit in the future – everything helps."

## 7 WAYS TO SAVE EVERY DAY

1. Hold a baby shower to let loved ones support you by offering gifts for the new arrival.
2. Beg, borrow and buy second-hand or 'pre-loved' baby items.
3. Eat lunch and dinner at home. Consider making and freezing your own baby food.
4. Reduce grocery costs by planning a menu and buying specials and bulk goods. Try Aldi! ([www.aldi.com.au](http://www.aldi.com.au))
5. Organise a babysitting circle to minimise costs when you go out; this can really help you save.
6. Try home brand baby products such as nappies and dummies – they may work brilliantly.
7. Visit local libraries for new toys and books, or keep your own 'fresh' by hiding batches away and then bringing them back out!

**Term deposits** require a lump sum to establish and lock money away for an allocated term. Higher interest is paid for longer terms. The lump sum varies, but it's usually between \$1,000 and \$5,000.

Term deposits are suitable for parents with longer-term savings goals and less suitable for those with no spare emergency funds. The baby bonus (currently \$4,187) is a ready-made opening lump sum for some parents. Alternately, parents who need the bonus for other baby costs could start with an online savings account and switch to a term deposit once the lump sum is raised.

Tempted to use the bonus for the newest nursery gear? Davies suggests you consider borrowing or buying second-hand instead. "Weddings and babies are the two most emotionally-charged events people spend money on," she says. "The product sellers can really hit you hard. But that extra money could mean another month of maternity leave, or be invested for long-term gain."

**Education funds** are specific savings funds to cover the cost of your children's schooling. A survey by not-for-profit organisation Australian Scholarships Group (ASG) presents a strong argument for saving in advance. The survey estimates that average education costs for a child starting preschool in 2007 is \$100,000 for public schools and up to \$346,000 for private education.

When other more immediate pleasures beckon, a specific savings goal, such as your children's education, can help you resist financial temptation. Most financial institutions offer education funds, or other accounts or bonds that will suit this purpose.

**Managed funds** allow you to pool your money with others in an investment portfolio. Benefits include diversification, the expertise of a professional fund manager and potentially high dividends. More risk-averse parents might be spooked by the risk of zero or negative returns, so should consider a managed fund with a 'no negative return' policy. Shop around to match your 'risk profile' with that of the fund and take note of fees.

Directly investing in shares is another good long-term savings option but requires lots of research. Since time is often scarce for parents of young children, see a financial advisor before choosing.

## Surprising savings

Remember that airlines charge full price, or close to it, for children over two. If you can manage to squeeze it in, fly when they are just under two – at least the potentially harrowing experience will be free! Also, book holidays in off-peak periods before your children reach school age and it's no longer possible.

Look at your due date. Can you take a year's maternity leave in one financial year rather than across two financial years? If so, this could increase your family assistance entitlements by several thousand dollars, says Davies, because they are based on income in a given financial year.

Place tax-deductible family expenses, such as donations, in the name of the highest income earner. "A \$1,000 donation will net a \$150 refund for someone on a 15% marginal tax rate and \$400 refund for someone on a 40% marginal tax rate," says Davies.

You may be classed as a low income earner while on maternity leave, meaning you may classify for the government's 'superannuation co-contribution'. If you contribute to your super fund through this scheme, the government will match each dollar with \$1.50 up to \$1,500.

## Petty cash

Is it even vaguely possible that some savings might come easily? Well, yes. The laissez faire consumerism and free-wheeling partying of life before children may be over but many new parents find it easy to let it go once their baby arrives. Thankfully, tightening the purse strings can be accompanied by less desire for 'trivial' things.

"I used to get my hair and nails done which seems like a waste of money now," says Brooke Costello. "Clothes and going out just don't seem as interesting... but I do find myself reading Babies Galore catalogues!" For Josh Gliddon and wife Deanne, becoming parents sparked a deeper philosophical change. "We became interested in a less acquisitive approach to life," says Josh.

Davies experienced a similar shift. "I was very career-focused before children and wanted my own business by the time I was 35. Then I realised the quality of life of my child and my family was what mattered was to me. That flowed through to my spending habits. I don't buy things so thoughtlessly any more!" ■

## RESOURCES

### FURTHER READING

- *How To Afford A Baby* by Justine Davies, ABC Books, \$27.95.
- *Understanding Money*, free handbook, order on 1800 236 235.

### USEFUL ORGANISATIONS

- **Family Assistance Office** 136 150; [www.familyassist.gov.au](http://www.familyassist.gov.au).
- **Financial Literacy Foundation** [www.understandingmoney.gov.au](http://www.understandingmoney.gov.au).
- **Commonwealth Financial Counselling** [www.facs.gov.au](http://www.facs.gov.au).

### USEFUL WEBSITES

- [www.cannex.com.au](http://www.cannex.com.au) Independent consumer finance advice.
- [www.moneymanager.com.au](http://www.moneymanager.com.au) Step by step personal finance guides.
- [www.asg.com.au](http://www.asg.com.au) Features a calculator for future education costs.
- [www.simplesavings.com.au](http://www.simplesavings.com.au) Savings tips with a 'baby bills' section.
- For all government payments pre-November 2007 election see [www.familyassist.gov.au/internet/fao/fao1.nsf/content/payments](http://www.familyassist.gov.au/internet/fao/fao1.nsf/content/payments)