Brandon Johnson
Communications Manager

AUGUST 2018

# Investing for your children

A financial kick-start is one of the best gifts you can give your child as they enter the big, scary, exciting world of adulthood. If your child is still relatively young – say, eight years old or younger – you still have about 10 years on your side before they leave school and start needing "proper money".

They might need money for any number of reasons, from paying for their studiesto buying their first car or even starting their own business. Each of these requires a fair amount of capital.

Determining now how much money they might need is a good first step in deciding what type of fund you intend to invest in on their behalf. It may also help to teach your child to use the money responsibly. After all, knowing that they'll receive a lump sum to invest in their future might well influence their decisions now – and hopefully – prevent them from irresponsible spending.

Speak to your financial adviser and consider factors like: how long you need to invest for (i.e. your time horizon), your investment goal and your risk tolerance. A simple savings account won't grow over time as much as, say, a unit trust that holds equities, bonds or a mix of both. Compounding returns really kick in over the long term, and in this case you have a decade's worth of growth to look forward to. An investment on behalf of a young child should be treated like a medium- to long-term investment, with a risk profile to match.

## TAKE THE TAX BREAK

Tax-free investments are an excellent way to save for your child's future as the growth within the investment is free of all local tax on interest, dividends and capital gains. There are some drawbacks though. The maximum amount that the government allows you to contribute to a tax-free investment is R33,000 per tax year and R500,000 over the course of your (or in this case, your child's) lifetime. If you exceed these limits, SARS will levy a penalty of 40% on the excess amount. Another potential restriction is that investments made in your child's name will count towards his or her annual and lifetime limits. This is an important factor to consider as your child might want to make use of the product when they're older, and may be disappointed to find that his or her limits have been reduced by previous contributions.

If you prefer to keep your child's tax-free investment limits intact and are willing to forgo the tax benefits, investing in a regular unit trust in your child's name might be a better option. Not only do you have a much wider range of investments to choose from, you also have the flexibility to withdraw from the investment at any stage without any penalties and you are not restricted in terms of how much you contribute (although you should keep in mind that contributions in excess of R100,000 are liable for donations tax).

## DON'T FORGET ABOUT YOURSELF

Whatever investment option you choose for your child, remember to make your own financial future a priority. This may sound selfish, but there's wisdom to it. It may reduce the lump sum they get to spend when they're 18 or 21, but it will also save them from having their 85-year-old parent (that's you!) moving into their spare room when your money runs out.

Speak to your financial adviser to see what your options are when it comes to investing or invest online now yourself. If you need more information, feel free to contact our Client Services Team on 0860 105 775 or email us at query@prudential.co.za