

UNDER-RATED | Make savings accounts count

A little effort pays significant returns

Smart Money Editor **ANTHONY KEANE** finds out how you can get the best bang for your buck with cash in the bank.

SAVINGS accounts have traditionally been the simplest place for investors to put their money, but there are still several financial traps for the uneducated or uninterested.

The biggest potential pitfall is missing out on easy, no-risk investment returns.

Many investors still keep thousands of dollars sitting in everyday transaction accounts and cheque accounts earning interest as low as 0.1 per cent a year. When for costs they can be making more than 7 per cent on their money.

Common excuses include "I don't want to pay tax on it" and "I don't want to affect my pension," but neither of these make financial sense.

"Over the years I have run into lots of people with money who say they don't want to pay tax or lose pension. When you sit down with them you can come up with a far superior financial outcome," Community CPS Australia chief executive Kevin Bengier said.

The tax argument makes no sense because most workers pay tax at 30c in the dollar and retirees usually pay less than that. So earning \$1000 of bank interest and paying \$300 in tax still leaves them with \$700 - much more than they would get if they earned just a few dollars in interest.

As for pensions, cash in the bank is deemed to earn at least 3.5 per cent a year for the Centrelink income test and counts towards the asset test. Whether the interest rate is 0.1 per cent or 7.1 per cent.

Smart retirees have embraced term deposits and the new online savings accounts, which have money at-call and have no

fees for transferring cash back to a transaction account. These people are currently earning much more than Centrelink assesses them to be earning.

Bourke Shaw Financial Services principal Lawrence Orlando said financial institutions were now offering "bells and whistles" to get deposits, diluting the interest they paid and dropping fees.

Consumer website infochoice.com.au says the best rates for at-call cash at the moment are in the online account sector, with both Westpac and Members Equity Bank offering 7.5 per cent per annum.

For people willing to lock their money away for a while, term deposits can be even higher. Infochoice says term deposit costs are paying more than 8 per cent a year in interest.

Infochoice general manager Denis Orrock said people looking at a term deposit should be mindful that interest rates were still rising, and if they took out a term deposit of six months or a year they might earn less money than was possible.

"You might want to avoid locking yourself in at more than three months," Mr Orrock said. He said it was important to shop around and examine different deposit account products.

"You need to understand the terms and conditions of the product you are moving in to. Some high yield accounts have twists - some require a monthly deposit and no withdrawals."

It is also a good idea to compare rates between different account providers. While BankWest pays 7.5 per cent on its standard online account, Westpac pays just 5.25 per cent.

Mr Bengier said people should make sure they were depositing money with an approved deposit taking institution such as a bank

or credit union and beware of offers of high interest from supposed cash investments.

"There are horror stories of people going for a couple of extra per cent and losing everything," he said.

As a rule, the interest you receive should close to the Reserve Bank cash rate, which is 7 per cent at the moment. "With anything too far above that, be careful. With anything too far below, look around and get a rate closer to the RBA cash rate."

Marinis Financial Group financial strategist Theo Marmis said one of the biggest barriers to success with savings accounts was a lack of motivation and interest.

"Who looks at it closely? People think they will get around to it one day," he said. "If you ask, you might realise you are getting half of nothing."

Adelaide Bank general manager said for those with a home loan, a mortgage offset account was often a good place to hold surplus cash. "You are getting the rate that your mortgage is at," he said. "If your mortgage rate is 8 per cent or more you can be getting that sort of return on your money, albeit you don't get an interest cheque on it."

It's another form of savings and investment. Mr Orlando said depositing extra cash into a 100 per cent interest offset account earned a pre-tax return of more than 11 per cent and an after-tax return equivalent to a person's home loan interest rate. "It is highly unlikely that you could obtain an after tax return as high as this from other investments with the same level of risk, such as term deposits, cash management accounts or high yield savings accounts," he said.

A TALE OF TWO CASH ACCOUNTS

Barry is semi-retired and has \$50,000 sitting safely in a cheque account at the bank. The account earns just 0.1 per cent interest a year. Barry will earn \$50 a year from his investment. If we assume he is on the typical 30 per cent tax rate, he will earn a paltry \$35 a year after-tax on his \$50,000 investment.

Julie also has \$50,000 sitting in the bank, but she has done some research and found an online account that pays a 7.5 per cent annual interest rate. That means she earns \$3750 of extra income a year. Even after deducting tax at 30 per cent, she still has an after-tax income from the savings account of \$2625.

Balancing rates brings benefits

HELENA Young, right, thinks recent rises in deposit account interest rates have been "brilliant".

With a fixed home loan that protects her from mortgage rate rises, Mrs Young has been enjoying rising interest payments from her Community CPS Australia online savings account.

"It's more as an investment, but it's easy to access so if I need to take money out I can, and it's a competitive rate," she said.

Mrs Young, 47, of Morphet Vale, prefers cash over higher risk investments.

"It's more secure and you are guaranteed to make that. I have heard a lot of shares have gone down," she said.



HOT DEPOSIT RATES

Online savings accounts	Rate
BankWest	7.5%
Members Equity Bank	7.5%
St George Bank	7.25%
Suncorp	6.9%
HSBC	6.85%
AMP	6.8%
NAB	6.8%

Term deposits (180-day \$5000+)

BankWest	6.15%
RaboPlus	7.9%
ING Direct	7.85%
ANZ	7.6%
Savings & Loans	7.4%
Members Equity Bank	7.25%
Adelaide Bank	6.75%

Source: infochoice.com.au