

## Investors see value in TFSAs

### Industry reports speedy pickup of new savings accounts

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Canada's newest investment product, the innovative tax-free savings account, seems to be finding quick popularity among the broadest range of Canadians.

While the statistics are not yet in, anecdotal evidence suggests TFSAs are finding favour with Canadians.

Moreover, the use to which these TFSAs -- introduced on Jan. 1 -- are being put is living up to their billing as a product that can meet the needs of almost anyone over the age of 18.

At RBC Direct Investing in Toronto, for example, Donna Nelson, vice-president of strategy, says more than two per cent of her company's clients opened TFSAs in the first two weeks of January--an impressive number considering RBC Direct Investing is one of Canada's leading online brokerages.

Individual financial advisers are reporting the same speedy response.

"I have seen what has to be a very fast take-up among my clients. They have quickly seen the value TFSAs offer," says Ottawabased David Phipps, a financial adviser with Assante Capital Management Ltd.

That value comes from their ability to allow anyone over the age of 18 to open an account, place in it up to the maximum of \$5,000 a year and then watch as interest and in-come from gains in those investments accumulate tax-free.

Money can be withdrawn at any time without penalty, but replacing it must wait until the following calendar year.

So what are people placing in TFSAs?

At RBC Direct Investing, that seems to vary with age, Nelson says. She sees young investors putting money into a TFSA rather than an RRSP.

"We believe they are using this as their long-term savings plan until the day when their salaries rise and the higher tax bracket that will put them in means an RRSP makes more sense for tax savings," she says.

For those in the 31-to-50 age group, the new TFSAs have become a valued extra investment vehicle for a wide range of savings goals, such as short-to-medium-term objectives plus extra money set aside for retirement.

For those nearing or well into retirement, the new accounts have become a welcome vehicle to continue setting aside money to fund their future needs.

"We have those who still have significant income at age 71, and while an RRSP has

to be turned into a registered retirement income fund the TFSA continues to offer tax-free savings," Nelson says.

Phipps says his clients are mainly focused on filling TFSAs with fixed-income products such as guaranteed investment certificates or money market funds.

He says many clients prefer to keep equities and mutual funds in non-registered accounts because of the lower tax rates on dividends and capital gain.

"I think the focus on fixed income is, in part, because of the relatively small amount right now," he says.

"With a limit of \$5,000 in the first year, fixed income makes sense. I think that will likely change as time goes by, however."

The point he makes is that in 10 years, today's relatively humble \$5,000 TFSA could hold \$50,000 plus all that tax-free income.

"At that stage I think people will start treating TFSAs almost as self-directed savings plans and broadening their scope into balanced portfolios."

Both investment professionals have also seen signs that some canny investors are using TFSAs as a way to slowly re-enter the equities market, especially young investors with a lengthy time frame to take advantage of inevitable gains.

"Equities and mutual funds are now priced at historic lows," Nelson says. "Some analysts are predicting markets may rise by 20 per cent by the end of the year.

"What these investors see is a chance to invest at market lows, generally using direct investment accounts where commission structure is supremely affordable. A \$5,000 investment now could mean a \$1,000 gain by the end of 2009."

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