

Client Relationships the Big Win in TFSA Planning

BY MARK NOBLE

Advisors shouldn't expect to make a lot of money on the coming tax-free savings accounts (TFSAs), which launch next year, but a new study suggests it's imperative they be offered as a value-added service.

TFSA Market Assessment, a new research report from Harris/Decima, polled more than 2,500 Canadians nationwide to find out what they know about and how they will use TFSAs.

Overall, the study finds Cana-

dians are keen to use TFSAs; more than 50% of respondents will likely open one next year.

For financial product providers, this is an opportunity to expand their offerings for clients and cross-promote other products.

And for advisors, it's an opportunity to demonstrate value, because while Canadians seem interested, their knowledge of what TFSAs are and how they can be used is limited.

According to Harris/Decima, very few (only 3%) respondents claimed they know a "great deal" about the TFSA, 45% answered they "know only a little," and 40% said they have "absolutely no awareness."

Bob Murphy, senior vice-president of Harris/Decima, says while the initial \$5,000 maximum makes the margins on the effort of setting up a TFSA paltry, doing so can go a long way in building a stronger advisor-client relationship.

"A lot of people see themselves funding this from existing assets. There will be a lot of effort and expense in implementing the

product, so the short-term profit to loss is going to be awful," Murphy says. The win comes from the ability to strengthen client bonds.

In fact, Harris/Decima has created a profile for the consumers most committed in the TFSA intentions for 2009, known as Core Intenders. In general, Core Intenders have higher household incomes – 30% make more than \$100,000 a year, and 48% have more than \$100,000 in investable assets. In addition, roughly half (49%) use a professional financial advisor.

If advisors need any more incentive, they should note that affluent clients are the ones with the

most pent-up demand to utilize the TFSA. The study found 81% of respondents with more than \$1 million in assets were intending to maximize their contributions.

The key appeals for those intending to use the TFSA are tax-efficiency and flexibility. The fact that TFSA withdrawals are not taxed is an obvious benefit, and 64% of respondents found this "extremely appealing." But advisors also shouldn't overlook the flexibility aspect when pitching a TFSA, because the same proportion of respondents (64%) also found the fact they could withdraw from the TFSA at any time extremely appealing.

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Both aspects are perceived as advantages over an RRSP, and Harris/Decima expects there to be some cannibalization of RRSP contributions and a redirection of those funds to a TFSA. Harris/Decima found an "alarming number" (28%) of Canadians with an RRSP say they'll invest less in their RRSPs in order to save inside the TFSA. This emphasizes the need for clients to understand that while distinct, the two savings vehicles are likely best deployed in a complementary rather than competitive fashion.

Murphy says he was surprised by the number of seniors who dismiss the TFSA as having no benefit. "One of the things we found sort of surprising is that, in part, seniors didn't see this as applicable to their own needs... When you look at the opportunity for seniors, who are required to draw money from RRIFs and LIFFs, they may not need to spend all of that money. This allows them to park it in a more tax-efficient space. Although the return is negligible in the immediate term, any of those earnings in a TFSA will not affect their OAS. Many of them don't understand that."

It also appears investment in TFSAs will be by and large conservative. The study finds 87% of the respondents will leave the money in cash or a cash equivalent such as a GIC or high-interest savings account. Only 39% intend to put equity products inside the TFSA.

"It's fairly clear that in the short term, the easy spot to put this money is going to be high-interest savings accounts that are TFSA-structured," Murphy says.