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Banks dominating retail TFSA market

Posted: December 11, 2009, 4:51 PM by Jonathan\_Chevreau

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You have to hand it to Canada's banks: they've grabbed the TFSA ball and run hard with it this year. So much so that they have captured almost 80% of the market, according to Investor Economics Inc. They've left full-service brokerage firms in the dust with a paltry 10%, while lagging up the rear are discount brokerages, at 8%, and financial advisors,

at 4%.

Among the banks, just glancing at ads in our own paper, it's the Bank of Montreal that has really seized the opportunity for Tax Free Savings Accounts. I was unable to attend because of a clashing engagement but earlier this week, BMO Capital Markets chief economist Sherry Cooper [pictured above] released a TFSA report at a roundtable event. There was nothing startling in it beyond the conclusion cited in earlier surveys that Canadians still remain woefully unaware of the investment options associated with them.

#### 94% of bank TFSAs are in low-interest-paying vehicles

Thus far, investors are proving to be extremely conservative about how they're investing their TFSA funds. BMO says a whopping 94% of assets held in bank TFSAs are in savings accounts or term deposits. I suppose the two go together: customers of big Canadian banks and conservative investment tendencies. According to Investor Economics' October poll, 21% of households have opened a plan, with 3.6 million accounts holding \$12.4 billion in assets. They are most popular among older Canadians, most of them baby boomers: 29% of TFSAs are in homes headed by someone aged 55 to 64.

BMO says many savers seem unaware they can invest TFSA contributions in stocks, bonds, equity mutual funds, ETFs or other vehicles. Those would be the vehicles recommended by the brokerages and advisors that do not appear to have flocked to the TFSA yet.

#### TFSAs doubly compelling for low-income earners or members of DB pension plans

BMO says younger people may want to give the nod to the TFSA ahead of the RRSP if they have to choose between them, waiting until they're in a higher tax bracket before contributing to the RRSP.

Others that can benefit from the TFSA are low-income individuals: unlike the RRSP, which bases contribution limits on 18% of earned income, anyone 18 or over gets \$5,000 of TFSA contribution room regardless of how much or how little was earned the prior year.

Another group they should appeal to are those with good Defined Benefit pension plans, who because of the Pension Adjustment get very limited RRSP room. The PA has no impact on TFSA contribution room.

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### Retroactive TFSA contribution room: we all should get lifetime limit of \$235,000 or more

But TFSAs are really for everyone. I regard them as a "no-brainer." Even the BMO report headlines the fact they are a "real winner." I've written before that the TFSAs are a magnificent tax break and younger people should be especially glad they came along when they did.

As for the older boomers, it's a case of better late than never. True, as Mercer's actuary Malcolm Hamilton [pictured, right] and CARP have argued in [this blog](#) and elsewhere, it would be a wonderful thing if the Government made TFSA contribution room retroactive to our 18<sup>th</sup> birthdays. That would be fair, so everyone would have roughly \$235,000 in lifetime TFSA contributions (from 18 to 65, and more if beyond. There is no age limit on TFSA contributions, unlike RRSPs).



But we won't hold our breath waiting for Ottawa to give us that tax break. They're headed in the opposite direction with the tax grab known as the HST. In the meantime, as Fred Kirby and other advisors have argued here and elsewhere, it behooves older boomers to grow their TFSAs as aggressively as possible.

And that means NOT investing in the low-interest GICs and deposit instruments that most bank TFSA customers choose, but more aggressively in growth (i.e. equity) vehicles. At some point in the future, when interest rates rise, the proceeds would be reinvested in inflation-linked Real Return Bonds.

For the TFSA report, click [here](#).

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Jonathan\_Chevreau From HN: Not surprised. The last time I talked to my guy at RBC Dominion Securities they hadn't even figured out what fees they were going to charge on these.

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