

STANLIB

# The perfect tax-free savings account?

This year, there was a great deal of excitement among retail investors with the launch of tax-free savings accounts in the market. *finweek* looks at the advantages of one such savings account.

**W**hen tax-free savings accounts (TFSA) were launched by government earlier this year, there was a flurry of activity in the market, with the banks and certain life insurers bringing their products to market quite quickly. These were launched as part of government's ongoing reforms in the financial services sector, with the aim of incentivising more people to save for their future. It remains our firm belief that a bank TFSA product is not a worthwhile investment for anyone with an investment horizon longer than three years. TFSA's have a natural long-term horizon associated with them as there are contribution limits and a lifetime limit associated with them. In order to get the maximum benefit from this product, investors will have to be invested for the long term (at least 10 years).

## Choosing the right product

We were also cautious not to simply offer these initial products to our clients. Investors have until February 2016 to decide what product to choose in order to use this year's contribution allowance.

Our main concern was that an incorrect choice of product could result in investors changing products, thereby losing out in terms of their lifetime contribution limit.

For example, if an investor invested R10 000 into a bank TFSA product, and subsequently moved those funds to a more suitable growth-orientated product, it would be counted as a R20 000 contribution for the current tax year.

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**0.4%**  
per annum.



An ideal TFSA is one that is well priced and offers clients access to a wide range of funds, which allows them to implement a suitable strategy over time.

We were pleased when Stanlib announced the launch of its linked investment TFSA product. The product is costed at an admin fee of 0.2% per annum plus VAT. The product also allows the investor access to a wide range of funds from top asset managers, including Coronation, Foord, Prudential, Satrix and Investec in addition to Stanlib's own range of funds.

## Bigger option

An important feature of the Stanlib product is that it allows investors to combine active and passive investments in their portfolio to help mitigate asset management fees. One could combine an active manager like Prudential with a passive manager like Satrix and get a moderate risk portfolio at a total cost of less than 0.4% per annum. Many of the existing product offerings force investors to choose between active and passive management, which is not ideal.

Unlike many others, the Stanlib product does not offer preferential pricing for the use of internal funds. This is an important feature as the product is not complicated by differentiated pricing strategies. Investors are then able to hold their manager accountable without worrying about cost implications.

There is also a broad enough range of funds available for investors with differing risk profiles.

So a very conservative investor would be able to access cash as well as enhanced cash funds, which have delivered better than cash returns with minimal additional risk. High-risk investors, on the other hand, can access offshore index trackers in addition to other asset classes such as equities and listed property.



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## Broadly accessible

Stanlib's product is also more broadly accessible as the minimum monthly investment is R500 and the minimum lump sum is R10 000. **Given that the group of people who will benefit the most from TFSA investments is investors below the age of 30, the lower minimum is a significant positive** for the Stanlib product.

In the final analysis, the Stanlib-linked investments tax-free savings plan ticks all the right boxes from the perspective

of a long-term investor who is serious about taking advantage of the considerable benefits TFSA's offer. The market is waiting to see what industry gorillas Allan Gray and Coronation bring to the market, if and when they launch a TFSA, but the bar has been set very high. ■

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