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Group TFSAs: A Tentative Start

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While Tax-Free Savings Accounts (TFSAs) are a hit with individuals, their penetration has been modest with group benefit plans in the workplace.

A few weeks after the official launch of the TFSA, Conseiller.ca — a Montreal-based affiliate of Benefits Canada — asked half a dozen group benefit plan administrators to gauge how enthusiastic companies were about offering group TFSAs.

Some responses surprised us. La Capitale Financial Group, for example, has chosen to wait before presenting the group TFSA option to approximately 2,700 corporate clients. "We have not received any calls from employers about this. We are studying the situation before making a decision," says Johanne Gourgues, a spokesperson at La Capitale.

Manulife Financial has not found much up-take yet either. Certainly, employers have expressed interest, but many prefer to wait and see. "Presumably, plan sponsors are finishing their due diligence," says Nancy Campbell, director of marketing, group plans at Manulife Financial.

Aspects to monitor

With all the advantages to the TFSA, why the need for due diligence? There are several reasons. First, a group TFSA falls under the guidelines for Capital Accumulation Plans issued by the Joint Forum of Financial Market Regulators, says Campbell. If they are part of a program designed primarily to provide contributors with a retirement income, they must be promoted as such.

If employers tell their employees that they can use the TFSA for other purposes, such as short-term savings, this can create confusion. "Before they offer it, employers should consider whether the group TFSA will siphon away some of the contributions that members would normally have put toward their retirement plan," says Campbell.

On the other hand, employers must ensure that adding a group TFSA does not translate into extra costs for participants in the CAP. If it does, what is the impact on employees who choose not to contribute to the TFSA? Will they be "subsidizing" contributors? Nor should it be assumed that a group TFSA will appeal to all workers. If they can easily establish one at their bank or credit union, why they would open another account at work?

Obviously, if their employer contributes, it will be a sizable incentive. But survey respondents said that the majority of employers do not plan to contribute to a group TFSA, preferring instead to fund retirement plans or pay a portion of health benefits.

Still, by mid-February, some fifty employers in Canada had established a group TFSA in their benefit plans. But how popular is a group TFSA, and how do you implement it in the workplace?

Look for Ronald McKenzie's follow-up article tomorrow on BenefitsCanada.com.

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