YOUR MONEY SORTED

DON'T LET FEES SINK YOUR SAVINGS

Find the best option to optimise your long-term investments

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We may answer your questions in this column but won't reply personally.

THE big drawcard of a tax-free savings account (TFSA) is that you can save more because you're not paying tax (up to a certain amount) on it. It's a good long-term investment because the longer you save, the larger the tax benefit you receive. But be sure to consider TFSAs from various companies before choosing one, because fees can guzzle an unnecessary chunk of your savings.

TFSAs IN A NUTSHELL

The maximum tax-free contribution to a TFSA is R33 000 in a tax year (from 1 March to the end of February the following year). The lifetime tax-free contribution per person is R500 000 – meaning you'll be taxed for any amount over that in a lifetime.

If you're able to contribute R2 750 a month, it will take a little more than 15 years to reach the lifetime limit of R500 000.

You don't have to save this much – monthly or lump sum contributions differ according to the rules of a specific TFSA – just as long as you stay within the yearly or lifetime limits. None of the returns – be it from dividends, interest or capital gains – on this investment will be taxed.

Data provided by Sanlam Investments shows that if, for example, someone manages to save R2 750 monthly in a TFSA they stand to save about R100 000 more over a 16-year period than they would have if they'd invested in a similar but taxed product.*

*Calculated on a balanced portfolio that earns 10% a year for someone who falls in the 39% tax bracket.

GREEDY FEES

High fees can take a chunk out of your investment over time.

Financial institutions can and may charge a fee for the service of investing your money. The only fee prohibited when it comes to a TFSA is a performance fee. But other fees – such as management, inception and administration fees, as well as cash withdrawal fees – may be charged. The type and size of fees are up to the individual service provider.

It's important to note the fee size has no bearing on whether it's a good investment or not. Some firms, for example, charge only a small management fee.

Niki Giles of Sygnia Group says ideally the total fee on a TFSA should be no more than 1%, otherwise it takes too large a chunk of your total investment. You might think a 2% fee isn't much, but over 15 years that amounts to almost R200 000 in fees on your investment.

The table shows how fees can shrink the value of your investment over time.

EXAMPLES OF HOW FEES AFFECT YOUR INVESTMENT**

Fees	Total contribution	Fees (rand value)	Net worth of the investment after 15 years	Reduction in the investment's worth because of fees
0,00%	R500 000	R0	R1 228 473	0,00%
0,50%	R500 000	R51 660	R1 176 813	4,21%
1,00%	R500 000	R100 970	R1 127 502	8,22%
1,50%	R500 000	R148 038	R1 080 434	12,05%
2,00%	R500 000	R192 965	R1 035 507	15,71%
2,50%	R500 000	R235 849	R992 624	19,20%
3,00%	R500 000	R276 782	R951 690	22,53%

** This table is based on the assumption of: a monthly contribution of R2 750 over 15 years; 0% increase in the contribution amount; a real return of 5% and inflation of 6%
Source: Sygnia Group

Fees of more than 1% are commonly charged in the investment sector. According to the table if, for example, you pay a total of 1,5% in fees on your investment this will amount to R148 038 after a little more than 15 years – or 12,05% of your investment's value of R1,08 million.

YOUR RIGHTS

Fees have to be explained to you in clear and simple terms. You can ask a financial adviser to help you compare products and fees, or you can investigate them yourself on service providers' websites.

Details on their investment products are usually published on what they call fund fact sheets, Niki Giles of Sygnia Group says.

It's not difficult to open a TFSA – many investment firms let you do it on their website or app. You can also get a professional's advice and still open the investment yourself.

INVESTMENT GROWTH

The return on investment (by how much the cash value of your investment grows beyond your contributions) of a TFSA depends on the asset class in which it's invested. Examples of asset classes include cash, shares, property and government bonds.

It's best to choose a financial product in line with your savings goals. If you have lots of time over which to save, you probably also have time to ride out market fluctuations (when share values rise or fall) and so investing in shares might be for you, rather than a low-risk asset class such as cash.

A financial adviser can tell you which investment product gives the best results in the long run and whether it suits your goals.

GET MORE HELP

- The Financial Planning Institute of South Africa and the Financial Intermediaries Association (FIA) both list accredited financial advisers: fpi.co.za & fia.org.za.
- Find general investment information on the website of the Association for Savings & Investment SA (Asisa): asisa.org.za