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FINANCIAL PLANNING INSIGHTS

Research insights from the Canadian Foundation for Financial Planning™

September 2023

Table Of Contents

Leveraging Equity in Residential Property to provide Retirement Income

Executive Summary ... 5

Practice Notes ... 8

Reitrement Drawdown Choices: RRIF, TFSA and Non-registered Accounts

Executive Summary ... 21

Practice Notes ... 24

The Quality of Financial Advice: What influeneces client's recommendations?

Executive Summary ... 29

Practice Notes ... 33

Values & Priorities of Millennials in Canada

Executive Summary ... 39

Practice Notes ... 42

Identifying and Removing Psychological Barriers to Seeking Financial Advice

Executive Summary ... 48

Practice Notes ... 50

The Implementation Gap

Executive Summary ... 53

Practice Notes ... 56

Understanding the Importance of Risk for Financial Planning

Executive Summary ... 59

Practice Notes ... 61

Financial Wellness Study

Executive Summary ... 64

Practice Notes ... 67

Predicting a Person's Likelihood to Seek Professional Financial Help–Financial Stress & Self-Efficacy

Executive Summary ... 70

Practice Notes ... 71

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Leveraging Equity in Residential Property to provide Retirement Income

The FP Canada Research Foundation™ has funded new research conducted by the University of Lethbridge and West Virginia University. Titled, Leveraging Equity in Residential Property to Provide Retirement Income, the research investigates why only a small proportion of individuals leverage home equity release schemes (HERS) to fund shortfalls in retirement income. It examines how Canadians feel about accessing their wealth - and the knowledge, attitudes, and perspectives of professional financial planners when it comes to recommending HERS.

Executive Summary

Practice Notes

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Leveraging Equity in Residential Property to provide Retirement Income

Executive Summary

September 2023

Research conducted by:

Introduction

An aging Canadian population, mounting pressure on pension systems, and recent growth in housing prices have sparked interest in using the equity stored in residential housing to supplement retirement income.

The FP Canada Research Foundation funded research conducted by Vishaal Baulkaran from University of Lethbridge and Pawan Jain from Virginia Commonwealth University, to investigate why, despite reported familiarity with Home Equity Release Schemes (HERS), only a small proportion of individuals benefit from them to pay for financial hardships or to fund a shortfall in retirement income.

The research examines why the use of home equity in retirement remains low despite the fact that the asset typically represents the largest component of household wealth for those entering retirement, and despite the growing demand on retirement assets to provide income for longer retirement periods. It examines not only the technical aspects of HERS but also the impact of behavioural biases influencing their use. In doing so, the research investigates the views of Canadians regarding accessing this wealth and the knowledge, attitude, and perspectives of Canadian financial planners towards recommending these arrangements.

Background

- The problem of not having sufficient capital to fund retirement income is not new but can be further exacerbated if a large portion of retirees' assets are tied to a personal residence.
- The report investigates the obstacles faced by cash-poor, asset-rich homeowners in accessing equity built up in their homes, including both technical and emotional barriers. It examines seven equity release options and how such strategies can supplement retirement income.
- The report includes an assessment of the impacts of behavioural bias on the consideration and implementation of leveraging home equity from both the consumer and financial planner perspectives.
- Traditional retirement planning generally ignores wealth stored in home equity and focuses primarily on the use of other financial assets. However, for many households, particularly those with less wealth, home equity represents a much larger asset than retirement savings accounts.

- 1,200 Canadian consumers were surveyed to construct a sample of individuals spanning retirement planning phases, including those who are working and should consider retirement planning, individuals who are mid-career, and those who are closer to retirement or retired. The average age of the sample group was 54.
  - Almost half of the consumer group (49%) reported that they currently have a financial planner.
- Financial planners from across Canada were surveyed and nearly 500 responses were received by financial planners holding either QAFP® or CFP® certification. The average number of years worked as a financial planner in the participant group is 18 years.

Key Findings

- Canadian homeowners are generally willing to access home equity when faced with financial hardships, such as paying for care, nursing, or support services.
- Having equity release products recommended by a financial planner makes them more attractive to consumers.
- Emotionally charged homeowners—coupled with the complexity and costs associated with equity release products—avoid tapping into their home equity to fund their retirements.
- Although financial planners report they are comfortable providing advice about using HERS, their preferred recommendation to meet a client's need for extra income during retirement is to sell investments.
- Financial planners' personal behavioral biases, and a lack of understanding and knowledge of the HERS products, can translate into lower adoption of these products by their clients.
- Education and improved knowledge would correct and, in certain cases, adjust for the behavioral biases of homeowners towards utilizing their home equity.

Equity release schemes allow homeowners to transform wealth stored in their principal residence into liquid assets, thus taking advantage of equity accumulated over the years. In the research paper, seven home equity release schemes are explored.

Reverse Mortgage – This strategy is arguably the most-marketed HERS in North America. A typical reverse mortgage is a mortgage loan secured by a residential property. Reverse mortgages allow homeowners to access their home equity while deferring payment of the loan until they die, sell, or move out of the home. Homeowners receive a pension-like payment with no required mortgage payments.

Home Equity Line of Credit (HELOC) – This option involves opening a revolving line of credit to borrow funds to a maximum of 65% of the appraised value of the home, using it as collateral. A HELOC is very flexible, and homeowners are allowed to make interest-only payments. Cash inflows are not taxable and do not impact OAS or GIS income tests.

Second Mortgage (non-HELOC) – Used in combination with a first mortgage, homeowners can borrow up to 80% of the appraised value of their home minus any outstanding balance in their first mortgage. Borrowers are required to make payments on the second mortgage while continuing to pay down their first mortgage. A second mortgage may not be a suitable equity release method for funding retirement income. However, it may be suitable to meet emergency expenses.

Refinancing the Home – A similar approach to a second mortgage, homeowners can borrow up to 80% of their home's appraised value minus the balance of any existing mortgage. Although not suitable for producing retirement income in many cases, it may be a suitable option for unexpected or emergency expenses.

Selling and moving to smaller owner-occupied home (Downsizing) – This may be the most straightforward way for homeowners to release housing equity. The option is relatively easy to understand and to implement and allows homeowners to access the difference between the equity stored in their house and the equity stored in the new house.

Selling and moving to a rental dwelling (Downsizing) – A different method of downsizing which involves selling a home and moving to a rental home, apartment, or other dwelling. The approach releases the total net equity in the homeowner's residence but may create less financial security over time.

Selling and renting it back (Sale and Lease Back) – An approach for the homeowner who wants to extract their housing equity without having to move. The homeowner sells their home to a third party then leases it back from the purchaser at commercial rates, typically in the form of a lifetime lease.

Want more information?

Additional materials on this topic and other research projects are available for you to download at:

www.canadianfoundationforfinancialplanning.ca

Practice Notes

Research Paper

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Canadian Foundation for Financial Planning

Leveraging Equity in Residential Property to provide Retirement Income

Practice Notes

June 2023

Research conducted by:

These Practice Notes include information that financial planners can apply to their own practices and their interactions with clients.

Having greater awareness of HERS products and better understanding about how clients perceive using their home equity as a retirement income-generating asset will help financial planners make holistic recommendations which are more likely to fit client needs. Ultimately, if a recommendation doesn't satisfy a client's priorities, it may lead to challenges in the implementation stage and the planner's advice may be abandoned.

In addition to identifying a knowledge gap between homeowners and financial planners, the research concludes that bias is at play for both planners and their clients. This is not surprising as bias affects everyone. That said, since financial planners are held to high standards of professional responsibility, it is important to be aware of the potential impacts of bias to help ensure that the advice and recommendations planners provide are the most appropriate for their clients.

It's important to understand that Canadians are generally willing to access home equity to fund their retirement income, especially for covering the costs for care, nursing, or support services.

If the will is present but actual usage of HERS indicates otherwise, where is the disconnect?

Canadians were asked to select which HERS they are familiar with. Almost three quarters of participants are familiar with reverse mortgages, 72% with HELOC, 29% with the sell and downsize option, 8% with sell and lease back, and 5% with taking out a mortgage (for retirement income). Based on the results, Canadians are least familiar with selling and leasing back from the buyer or using a mortgage as an option to provide income during retirement. Given that Canadians are very familiar with reverse mortgages and HELOC, it may be that these products are well-marketed by providers with the result that perceived knowledge about these products appears high. In addition, although not an equity release option of focus, renting a portion of their home for income is very familiar to Canadians surveyed.

Despite having familiarity, the research finds that the number one reason that homeowners do not consider home equity release products to fund retirement is a lack of knowledge.

Recall that, of the survey responses from Canadians, almost half reported they currently have a financial planner. The researchers tested the financial literacy of financial planners with respect to HERS and found that, generally, planners are knowledgeable about how these strategies work and the technical rules that apply.

For example, the research reports:

- over 80% of financial planners surveyed are familiar with the HERS options presented, except for sell and rent where just 68% of financial planners reported being familiar with this option. The option they are most familiar with is HELOC (98%), followed by sell and downsize (94%), followed by refinancing the existing home (92%).
- although not in the top three for familiarity, the large majority of financial planners surveyed were able to select the correct answer for eight of nine financial literacy questions dealing with reverse mortgages.
- the same high level of technical knowledge applies for both "sell and rent" and "sell and downsize" strategies, both of which appear in the top three ranking of familiarity.
- HELOC and second-mortgage[1] strategies are slight outliers in that the literacy score was notably lower than the percentage of financial planners who self-reported a "high" or "extremely high" level of knowledge on these strategies despite both options ranking high for familiarity.

If half of Canadians surveyed are working with a financial planner and the literacy level of those financial planners is moderate to high, other factors must be impacting the fact that homeowners report lacking knowledge in these strategies.

To uncover these other factors, the researchers also examine how financial planners perceive the value of HERS, including the degree of risk involved relative to other approaches, and how the complexity of the product might affect their likelihood to recommend an equity release strategy.

Reverse Mortgage – 30% of financial planners "strongly disagree" to "somewhat disagree" that a reverse mortgage is a positive tool to improve retirement income compared to 42% of those who "strongly agree" to "somewhat agree" (28% were neutral). Just over half of the planners surveyed (52%) believe that the reverse mortgage option is not complicated to explain to the client. Only approximately 20% "strongly agree" to "somewhat agree" that the option is complicated to explain. This finding is not consistent with the result from the homeowner survey in which half of Canadians surveyed view a reverse mortgage as a complex product. In addition

to complexity, financial planners cited a perceived riskiness of reverse mortgage as influencing whether they might recommend a reverse mortgage to their clients.

HELOC – most financial planners view this option as a positive tool to improve their client's retirement security and income. Only approximately one-third of the financial planners view HELOC as harmful, risky, too complicated to explain, or too costly, with the result that they are less likely to recommend this as an option to fund retirement income. However, of the majority group who feel the option is a positive tool, only approximately one-third of them believe that their clients want to use this option. This is inconsistent with results from homeowners which show Canadians are very familiar with HELOCs, and it is the second choice of likely options used to fund retirement income.

Second Mortgage or Refinancing – most of the planners agree that this option is a positive tool to improve retirement income. In terms of whether a traditional mortgage strategy is harmful, the results are not clear. Of planners surveyed, 40% "agree" or "strongly agree" that it is harmful but 31% "somewhat" or "strongly disagree." Similar findings are observed for cost and risk where approximately one-third of planners feel these factors are not obstacles to using the strategy whereas another one-third do (with the remainder being neutral). The majority of planners agree that this option is not too complicated to explain to clients. However, many planners believe that their clients do not want to use a traditional mortgage to produce retirement income.

Sell and Downsize – financial planners seem to agree that sell and downsize is a positive tool to improve retirement security and income. Planners also agree that costs, potential harm, and riskiness as well as product complexity are not major impediments when utilizing the sell-and-downsize option to fund retirement income. Over 75% of planners agree that the option is not too risky for clients to use and even more (84%) agree that the option is not too complicated to explain to clients. Both these results are consistent with findings in the homeowner's portion of the survey.

Sell and Rent or Lease Back – most financial planners agree that the sell and rent option is a positive tool to improve clients' retirement security and income (with about one-third being neutral). Almost half of planners agree the option is not harmful to Canadians with one-third again being neutral. It is less clear if there is agreement that costs and complexity make the option difficult to explain to clients or to recommend, but a majority "agree" or "strongly agree" that clients are unwilling to use this option to fund retirement, and this is consistent with the consumer survey results.

In summary, financial planners appear to be very familiar with the various options available to leverage home equity to fund retirement income. Most of the sampled planners (69% rated 7–10) appear to be very comfortable in providing advice on utilizing home equity to fund retirement income.

Sell and downsize and HELOC are the most popular options to leverage home equity selected by both financial planners and Canadian homeowners. Consistent with the theoretical and empirical literature (including outside of Canada), factors such as risk and emotional attachment to the home emerged as important factors when selecting home equity release options. Surprisingly, bequest motives and costs are ranked at the bottom of the scale in terms of importance.

It stands to reason that financial planners have the knowledge and resources to provide Canadians with the knowledge about HERS that they report they are lacking, and which is reducing the utilization of these options. However, planners are reluctant to discuss certain options based on their complexity, risk or potential for harm, or costs associated with implementing the strategy. But the research also shows that planners may be avoiding discussing HERS due to the perception that their client will not be receptive. This is an important distinction.

Are Canadians that work with a financial planner more or less likely to use HERS?

Not surprisingly, the report confirms that Canadians working with a financial planner are better prepared for retirement as fewer are likely to exhaust all savings during retirement. The researchers find that 48% of Canadians working with a financial planner would consider using a home equity release product compared to 42% of consumers without a financial planner. Overall, 63% of Canadians agree or somewhat agree that home equity release products would be more appealing if they are recommended by a financial planner. The results are aligned with participants' perception that financial planner's knowledge of these products is very high.

However, looking a little deeper, the report finds that retired individuals are less likely to discuss home equity products with their financial advisor (43%) compared to individuals who have not yet retired. Only 28% of retired individuals have had discussions with their financial planner regarding using home equity to fund retirement.

The researchers then tested how financial planners rank various options to meet a need for extra income during retirement, including options other than home equity release options. Financial planners selected "sell investments" (53%) as the number one option to provide extra income during retirement. This is followed by "sell home and move into a smaller home" (downsizing) (20%), HELOC (13%), and other options (5%). Surprisingly, a reverse mortgage strategy is ranked sixth out of eight choices.

It is important to note that selling investments often has greater tax implications (capital gains) compared to a reverse mortgage strategy. However, a reverse mortgage does have various costs such as interest costs, home appraisal fees, legal fees, and potential prepayment penalties compared to selling investments. Similarly, options like a HELOC, selling and renting, selling, and downsizing, and traditional mortgages all have several costs and potential risks relative to selling investments. The costs of the various options versus the benefits can potentially explain why selling investments is ranked highly by financial planners.

As a result of perceptions held by financial planners, including believing that their clients will not be receptive to such strategies, emotionally charged homeowners—coupled with the complexity and costs associated with equity release schemes—avoid tapping into home equity to fund retirement. Canadians are most likely to utilize their savings, sell and downsize, and sell

investments to generate retirement income. Recommendations made by financial planners are closely aligned with their client's perceived solutions. For example, most financial planners recommend selling financial investments to fund planned or unplanned expenses. The clients also prefer tapping into financial investment accounts for these funding needs.

Human Behaviour and Bias

Another key focus of the research is how human behaviour and biases may be impacting the use of HERS from both the homeowner's and financial planner's perspectives.

Homeowners

Emotional Attachment

Overall, participants tend to view their home as providing a sense of belonging, safety, and comfort. Intuitively, residing in a house for a long period is likely to result in strong emotional attachment to that home. However, the majority of homeowners reported that they had lived in their home for 15 years or less. This implies some degree of emotional attachment will exist, but perhaps not as strong as might be generally perceived.

Another indicator of emotional attachment might be how likely a client is to want to stay in their home during retirement. The survey reveals that fewer than half of homeowners report they are likely to stay in the home where they are currently living.

Passing the family home to children or heirs is an alternative indication of strong attachment to one's home. The results on this point are consistent, with a relatively even split between those who would like to pass on their property to their children and those who are not likely to do so.

Overall, it appears that only approximately 35%–40% of homeowners have a strong emotional attachment to their home. A similar number of survey participants appear not to be strongly emotionally attached to their home and these individuals are likely to utilize equity in their home to fund retirement income if the need arises.

Mental Accounting

Mental accounting is a well-known behavioral bias where there is a tendency to mentally categorize financial assets into separate "accounts," and then assign the various accounts to specific purposes. The research survey asks homeowners to indicate their agreement with the statement, "I view my house as a separate asset from my retirement assets." Approximately 66% of participants displayed mental accounting behavioral bias—that is, accounting for the residential property as a separate asset from their retirement portfolio. For homeowners that work with a financial planner, an even higher percentage (76%) displayed this bias.

Recency Bias

Recency bias causes too much emphasis to be placed on the importance of recent experiences or newly learned information when trying to estimate future events. It is also called availability bias and can cause decision-making

to be emotionally weighted on recent events rather than rational outcomes. The survey asks participants to indicate their agreement that house prices will continue to increase regardless of underlying economic conditions. Approximately 67% of participants displayed recency bias and agreed. In addition, 79% of participants working with a financial planner displayed recency bias.

Overall, it appears that working with a financial planner might increase behavioral bias among Canadians.

Financial Planners

Everyone has unconscious biases and uses heuristics to make decisions. Financial planners are not an exception. It is important however, that planners maintain vigilance to understand which biases might arise in their work and how those biases might impact their decisions.

The researchers were able to uncover a number of key biases affecting financial planners broadly.

Mental Accounting

Financial planners with mental accounting bias will use arbitrary classifications to put different assets into distinct buckets, possibly leading to sub-optimal asset allocations. Financial planners susceptible to mental accounting bias might put their clients' residential property into a "safe" bucket and consequently might advise against using the home for funding retirement. Approximately 62% of financial planners displayed this bias.

Hindsight and Recency Bias

Similarly, a financial planner who displays hindsight bias perceives past events as somewhat foreseeable and inevitable. The reconstructive nature of human memory frequently contributes to this viewpoint. People do not have flawless memories when they reflect on the past; instead, they often "fill in the gaps" with things they want to believe. Financial planners with hindsight bias might fail to learn from the past, which can again lead to suboptimal advice when it comes to using home equity for retirement. This bias may work mutually with recency (availability) bias to either discount the past in favour of the most recent events or memories, or to support the biased view of the past.

Overconfidence Bias

A financial planner with overconfidence bias might tend to imagine their knowledge, insight, or other abilities to be greater than they are. The researchers tested the extent to which financial planners display overconfidence bias using several survey questions. Although male financial planners were noticeably more likely to display this bias, overall, the incidence of overconfidence bias appears to be relatively low.

Loss Aversion Bias and Disposition Effect

Loss aversion bias was assessed and found to be present in approximately one-third of financial planners. This bias overweighs the significance of a loss of something as compared to a gain of the same object. In a financial context, it can cause planners (and investors) to hold onto losing investments too long, hoping

they will come back or break-even. Of note is that urban-based financial planners were more likely to display this bias then rural-based planners. This bias might cause planners to avoid considering home equity release strategies in a timely manner that prevents retirement assets from reaching a critically low level.

Approximately one-third of financial planners also displayed the closely related behavioural bias known as the disposition effect. Investors displaying this bias tend to sell investments prematurely to lock in gains and hold on to losing investments too long in hopes of breaking even.

Other Biases

Two other biases were tested for and found to be negligible in impact. Gambler's fallacy, when an individual erroneously believes that a certain random event is less likely or more likely to happen based on the outcome of a previous event or series of events, was found to be present in approximately 11% of financial planners. Herding bias, the tendency to follow what others are doing, was present in only 7% of financial planners, although once again, male planners are more likely than female planners to display this bias.

What Can Planners Do?

To apply the findings of this research, financial planners can act in three ways:

1. Upgrade technical knowledge on home equity release products to ensure full understanding of the quantitative factors that make each option unique in its application.
2. Maintain heightened awareness of behavioral biases that might be impacting the likelihood of considering home equity release strategies within a retirement planning context and might be causing planners to discount the utility and value of HERS.
3. Conduct a rigorous strategy analysis process when considering potential retirement income options, to ensure that all quantitative and qualitative factors have been considered for the client's unique situation. The process also counteracts any tendency to short-cut a potential recommendation due to an unconscious behavioral bias.

The FP Canada Institute™ produces a guidance document for use in its Professional Education Program and Continuous Professional Development courses entitled, "Quantitative and Qualitative Consideration for Evaluating Financial Planning Strategies." The guidance provides the process by which a thorough strategy evaluation can be conducted for a single financial planning strategy on its own, or for comparing one strategy to another.

Download the PDF: Quantitative and Qualitative Consideration for Evaluating Financial Planning Strategies

For an illustration of this approach to strategy evaluation applied to the HERS studied in the research, see the Appendix to this report.

Conclusion

This report investigates the obstacles faced by cash-poor, asset-rich homeowners in accessing the equity built up in their homes.

A primary residence is an asset that typically represents the largest component of household wealth for those entering retirement and, despite growing demand on retirement assets to provide income for longer retirement periods, this asset is often underutilized as the use of home equity release strategies remains low.

Canadians are generally willing to access the equity in their homes when faced with financial hardships in retirement such as paying for care, nursing, or support services.

The perception of complexity associated with these products, a lack of knowledge on the options themselves and behavioral biases impacting both the client and financial planners are playing vital roles in lower adoption of HERS.

Having these strategies or products recommended by financial planners makes them more attractive to homeowners but, despite planners reporting a comfort with providing advice about HERS, their preferred recommendation to meet a client's need for additional income during retirement is to sell investments.

The results of this study suggest there may be a willingness to access home equity by future retirees and that there is less desire to bequeath assets to the next generation.

Financial planners should:

- improve their technical knowledge about home equity release products and strategies and then educate their clients about the options. As individual knowledge about the costs, benefits, and risks associated with home equity products increases, homeowners may be more comfortable utilizing these products to fund retirement income. Furthermore, education and knowledge would also correct and, in certain cases, adjust for the behavioral biases of both homeowners and financial planners.
- remain vigilant against bias impacting their willingness to consider HERS, and
- use a rigorous approach to strategy evaluation to not only help overcome biases but consider all quantitative and qualitative aspects of any release strategy being considered.

HERS are not suitable for every client, but for many they are a valid strategy. Financial planners who are closed-minded to HERS for their clients may be increasing risks to their client's financial security (by selling investments for example). Adapting the findings of this research into practice is valuable to both homeowners and planners because not doing so might lead to performing a suboptimal analysis of a client's holistic situation. Planners should by mindful not to leave this large asset untapped for lack of consideration and look for ways to ensure the client's complete financial asset picture is incorporated into their retirement income plan.

Appendix

Home Equity Release Strategies	**Eligibility for the strategy** The eligibility of the client to engage in the strategy.	**Impact on cash flow** The potential change to the client's overall discretionary spending level.	**Impact on taxation** Does the strategy increase or decrease overall tax levels currently and/or in the future.	**Cost of implementation** The costs to implement the strategy and if these costs are reasonable with respect to the client's goals.	**Risk exposure** The potential of the strategy to expose the client to risk in any area of their financial lives.	**Impact on achievement of other goals** The impact of the strategy on the client's ability to satisfy their goals holistically.
Sell and downsize	Must have clear title to current home and sufficient equity to purchase replacement home.	Must have clear title to current home and sufficient equity to purchase replacement home.	If principal residence, no income tax implications. Property tax may increase or decrease.	High-cost strategy with many fees, taxes and costs associated with selling, purchasing, and moving.	Low-risk strategy as equity remains with client in the new home.	Little or no impact since client controls where they live and net worth remains unchanged minus costs.
Sell and move to a rental dwelling	Must have clear title to current home and able to contract to rent.	Must have clear title to current home and able to contract to rent.	If principal residence, no income tax implications. Rent may be subject to sales tax.	Moderate-cost strategy with fees, taxes and costs associated with selling and moving. No purchase costs.	Risk of rent increases. Potential of rental agreement not being renewed. Investment risk on home proceeds. Building may not be maintained satisfactorily.	May impact estate goals due to reduced net worth over time. May impact financial goals if rent increases encroach on discretionary spending.
Sell and rent the home back (sale-and lease-back)	Must have clear title to current home and able to contract to lease.	Must have clear title to current home and able to contract to lease.	If principal residence, no income tax implications. Rent may be subject to sales tax.	Moderate-cost strategy with fees, taxes and costs associated with selling and moving. No purchase costs.	Risk of rent increases. Potential of lease not being renewed. Investment risk on home proceeds. Home may not be maintained satisfactorily.	May impact estate goals due to reduced net worth over time. May impact financial goals if rent increases encroach on discretionary spending.
Reverse mortgage	Must have or provide clear title. Must be client's principal residence and is not security on another loan. All owners must be 55 years of age or older.	Must have or provide clear title. Must be client's principal residence and is not security on another loan. All owners must be 55 years of age or older.	No tax implications. Cash inflows are not taxable and do not impact OAS or GIS. Continue to pay property tax.	Moderate-cost strategy. Home appraisal required. Legal advice fees, setup fees. Higher interest rates than other types of mortgages. Fees for prepayment.	Interest rate risk. Longevity risk if client reaches maximum loan ceiling. Client may be more likely to reduce home maintenance and upkeep. Client retains ownership.	May impact estate goals due to less capital in estate. Estate may not be settled when strategy must be wound up. Estate bequests can be moved up by receiving lump sum at inception.

Appendix *(Continued)*

Home Equity Release Strategies	Eligibility for the strategy The eligibility of the client to engage in the strategy.	Impact on cash flow The potential change to the client's overall discretionary spending level.	Impact on taxation Does the strategy increase or decrease overall tax levels currently and/or in the future.	Cost of implementation The costs to implement the strategy and if these costs are reasonable with respect to the client's goals.	Risk exposure The potential of the strategy to expose the client to risk in any area of their financial lives.	Impact on achievement of other goals The impact of the strategy on the client's ability to satisfy their goals holistically.
Home equity line of credit (HELOC)	Must have a minimum of 20% equity in home if combining with a mortgage product. Not available on all properties.	Must have a minimum of 20% equity in home if combining with a mortgage product. Not available on all properties.	No tax implications. Cash inflows are not taxable and do not impact OAS or GIS. Continue to pay property tax.	Moderate-cost strategy. Home appraisal required. Legal advice and setup fees. Lower interest rates than other mortgage strategies. Rates are usually variable. No prepayment penalty.	Interest rate risk. Discipline risk as capital repayment is not required (interest-only). Easy access may create over-spending. Client retains ownership. Is a demand loan – lender can demand full repayment anytime. Lender can seize home if payments are missed.	May impact estate goals due to less capital in estate. Possible to lose asset if seized to repay loan. Can impact other lending requirements if credit capacity limit is reached.
Second Mortgage (Non-HELOC)	No age restrictions but subject to income and credit history checks. If client is retired, may have difficulty meeting income requirements.	No age restrictions but subject to income and credit history checks. If client is retired, may have difficulty meeting income requirements.	No tax implications. Mortgage payments are not tax deductible. Client continues to pay property tax.	Moderate-cost strategy. Home appraisal and title search fees apply. Interest rates typically higher than HELOC but lower than unsecured debt. Prepayment penalties apply.	Interest rate risk. Prepayment penalty risk. The mortgage is a demand loan and lender can call for full payment. Payment is typically received as a lump sum which may result in investment risks if being used as a source of income.	May impact estate goals due to less capital in estate. Possible to lose asset if seized to repay loan. Can impact other lending requirements

Qualitative Factors

Home Equity Release Strategies	**Priorities** Does the strategy align with the client's goals?	**Values, attitudes, and preferences** Does the strategy fit the values and attitudes of the client? Does it align to their preferences?	**Financial knowledge and experience** Does the client possess financial knowledge and experience to feel comfortable implementing the strategy? To what degree is the involvement of others necessary?	**Motivation to change / acceptance level** Assess the strategy to determine the extent of change to the client's lifestyle and fit with their desires and concerns. Determine if there are key aspects of the strategy that may impact its acceptance to the client(s).
Sell and downsize	Best for clients who wish to change where they live and need less space to live in.	The strategy aligns best with clients who value home ownership without ongoing rent, lease, or loan payments. Fits clients who want to change their lifestyle.	Easy to understand and implement. Depends on third-party professionals to implement most of the strategy.	The strategy creates a large change in lifestyle which can be a deterrent to many. High emotional strain to downsizing which often involves leaving a familiar neighborhood where family or friends are located. Acceptance level high if home value forms part of estate plan.
Sell and move to a rental dwelling	Best for clients who wish to change where they live and need less space to live in. Works best with clients for whom home ownership is not a priority.	Suits clients who wish to do less maintenance and have fewer property-related tasks. Clients who value having as much time for themselves without concerns about taking care of a house. Client is not concerned about being subject to a landlord's authority.	Easy to understand and implement. Most of the implementation will involve third-party professionals.	This strategy involves a large shift in lifestyle and emotions around leaving a familiar home, neighbourhood, and friends. May be appealing if new location offers amenities not available in current home. Potential erosion of estate assets may be a negative.
Sell and rent the home back (sale-and lease-back)	Best when client priority is to stay in the home that they are used to, but cash is needed.	Suits clients who wish to do less maintenance and have fewer property-related tasks. Client is not concerned about being subject to a landlord's authority.	More complicated to understand if the lease has conditions. Most of the implementation will depend on third-party professionals.	Easier to accept since staying in current home and neighbourhood. No large shift in lifestyle required. May feel strange to pay rent for the same home. Potential erosion of estate value may be a negative.
Reverse mortgage	Best used with older clients whose priority is to stay in the home that they are used to, but cash is needed. Good when priority is cash flow witho ut principal repayments (low income).	Aligns with clients who value flexibility to receive income over time and prefer not to manage a lump sum. Best aligns with clients who value home ownership without ongoing loan payment requirements.	Requires more financial knowledge to understand. Depends on third-party professionals to implement.	Low acceptance if client doesn't understand the strategy – fear of losing their home. Low acceptance due to longevity risk, especially with younger clients. Motivation may be low where the home is a key estate plan asset. Low acceptance due to high interest rates. High acceptance since no payments are required.

Qualitative Factors *(Continued)*

Home Equity Release Strategies	**Priorities** Does the strategy align with the client's goals?	**Values, attitudes, and preferences** Does the strategy fit the values and attitudes of the client? Does it align to their preferences?	**Financial knowledge and experience** Does the client possess financial knowledge and experience to feel comfortable implementing the strategy? To what degree is the involvement of others necessary?	**Motivation to change / acceptance level** Assess the strategy to determine the extent of change to the client's lifestyle and fit with their desires and concerns. Determine if there are key aspects of the strategy that may impact its acceptance to the client(s).
Home equity line of credit (HELOC)	Good strategy when client priority is to stay in the home that they are used to, but cash is needed, especially if need is short-term.	Aligns when clients require flexible cash flow for everyday spending or when the need is short-term. Good when clients value ability to pay off the loan without penalty. Good for clients who prefer to stay in their own home.	Requires a moderate level of financial knowledge and experience to understand the strategy and to manage the easy access to credit. Depends on third-party professionals to implement.	Acceptance may be low if the debt may be carried a long time / inability to pay back. Motivation may be low where the home is a key estate plan asset. Low acceptance of interest rate risks and potential loss of asset.
Home equity line of credit (HELOC)	Best when client priority is to stay in the home that they are used to, and they already have a mortgage or other loan secured by their home, but cash is needed.	Good strategy where clients prefer a lump sum for a short-term need and prefer a defined repayment schedule to repay the debt.	Relatively easy to understand. Most implementation is carried out by third-party professionals.	Acceptance may be higher as a strategy a client is already familiar with. No large shift in lifestyle required. Motivation may be low where the home is a key estate plan asset. Motivation may be low where consistent income over a longer time is desired.

Want more information?

Additional materials on this topic and other research projects are available for you to download at:

www.canadianfoundationforfinancialplanning.ca

Executive Summary

Research Paper

Retirement Drawdown Choices

RRIF, TFSA and Non-registered Accounts

The FP Canada Research Foundation™ and Doug Chandler, an actuary specializing in retirement research, have released new research titled, Retirement Drawdown Choices: RRIF, TSFA, and Non-Registered Accounts. Carried out by Mr. Chandler, the research assesses the value of withdrawing more than required from an RRIF, and doing so at an earlier age. It delves into the value of accelerated withdrawal strategies - and examines whether it's possible to create a set of guidelines for planners called upon to advise clients on these types of strategies.

Executive Summary

Practice Notes

This research was funded and released by the FP Canada Research Foundation, now known as the Canadian Foundation for Financial Planning™

Visit our website:
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Retirement Drawdown Choices

RRIF, TFSA and Non-registered Accounts

Executive Summary

October 2022

Research conducted by:
Doug Chandler, FSA, FCIA

Canadian retirees often have investments in a Registered Retirement Income Fund (RRIF). They are required by income tax regulations to withdraw a minimum amount every year. They are permitted to withdraw more. But should they? Current taxes can be minimized by deferring RRIF withdrawals, but the long-term outcome depends on the taxes that will be paid in the future as well. The choice that will maximize future spendable funds depends on:

These factors include:

- the taxes they pay on a discretionary withdrawal in the current year;
- the taxes they will pay on investment income outside of a RRIF;
- the taxes they will pay in the future if funds are left in the RRIF; and
- the number of years until withdrawal is necessary.

Current tax rates and government benefit plans are known, but it is a challenge to assess the combined effect of the many income-tested benefits and tax credits. Other factors are unknown, since they depend on future returns on investments, longevity and other contingencies. Retirees are forced to make a choice without knowing for certain that a discretionary RRIF withdrawal will improve their long-term financial position.

In some cases, the choice will be clear while, in other cases, it will depend on individual priorities. Some individuals rely on their retirement savings to meet routine living expenses and will be swayed by the "ruin probability" (the chance of running out of money or being forced to reduce spending before they die). Others will focus on the expected value of their estate. By applying an actuarial model that captures and synthesizes the variability in investment returns and ages at death and the complexity of tax rates, we can shed light on both perspectives.

At the outset, it was intended that this research would determine if a manageable set of guidelines for financial planners who are called upon to advise clients on drawdown strategies could be articulated and outline what those "rules" would be. Once the full complexity of investment risks, longevity risks and Canada's morass of taxes, credits and income-tested benefits for seniors was taken into account, this research concluded that simple, single-scenario projections of the value of a drawdown strategy are unreliable and misleading.

Financial planners will need to continue to rely on a combination of professional judgment and financial models to guide their advice concerning drawdown strategies. It is often said that models should be as complicated as necessary, but no more so. By employing a complicated actuarial model to assess the drawdown decision problem, this research could help guide choices in model design. The research indicates that:

- consideration of sequence-of-returns risk in combination with the full range of potential ages at death can lead to different conclusions than analysis based on one or a small number of scenarios
- income-tested benefits that apply during an individual's lifetime but not to the taxation of an estate can sway decisions
- while the uneven pattern of effective tax rates contributes to some of the conclusions in this research, a perfect inventory of all the details of tax rates and jurisdictional differences may not be as important in models used to guide decisions
- accurate estimation of rates of investment return and sensitivity to variations in taxes based on different investment strategies, although important for other financial planning advice, may not be crucial to the choice of which type of investment account to draw down first

When RRIF withdrawals in excess of the minimum prescribed in the tax regulations (and in excess of the requirements for current spending) are invested in a non-registered account, taxes on non-registered investment income drag down any advantage attributable to tax brackets. Despite media stories highlighting opportunities to take advantage of differences in tax brackets, this research found that demonstrating added value can be quite difficult.

Different situations can give very different results. However, in general, the value of accelerated RRIF withdrawals may be overstated when an estimate of the average rate of return on investments is used without regard to variability. Advantages can disappear when investment returns are above average (because of extra taxes on non-registered investments) and when investment returns are below average (because the fund is exhausted before death and the anticipated high rates of taxation on estates never arise). In the analysis in this report, some opportunities that improve the average outcome come with increased risk of financial distress.

Accelerated RRIF withdrawals can also seem attractive for a couple, since tax rates are increased and government benefits are reduced after the death of a spouse. However, it is difficult to demonstrate that taking advantage of income splitting to avoid taxes on funds intended to support a surviving spouse will actually reduce the survivor's financial risk.

Added value from RRIF withdrawals is slightly easier to demonstrate when the excess withdrawals are used to fund Tax-Free Savings Account (TFSA) contributions, partly because taxes on investment income are avoided, but also because the Guaranteed Income Supplement (GIS) and other benefits targeting low-income seniors can offset the risk of below-average returns or an above-average payout period. This is clearly demonstrated in one case study. However, even with the apparent merits of a TFSA, a strategy of maximizing TFSA contributions in another case study fail to deliver the hoped-for results.

Want more information?

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Practice Notes

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Retirement Drawdown Choices

RRIF, TFSA and Non-registered Accounts

Practice Notes

October 2022

Research conducted by:
Doug Chandler, FSA, FCIA

Background

There are regular articles in mainstream press and finance publications on retirement drawdown strategies to help optimize income in retirement, specifically considering that individuals often reach retirement with different pools of assets, including both registered and non-registered investments.

Common asset drawdown strategies discussed in these articles include:

- drawing RRIF assets ahead of non-registered assets;
- drawing RRIF assets up to the top of the current tax bracket;
- proportionate withdrawals from registered and non-registered accounts;
- drawing registered assets to bridge the gap to deferred C/QPP benefits; and
- drawing down RRIF assets to maximize TFSA contributions.

Financial planners recently surveyed suggested that drawdown of RRIF assets up to the threshold of the client's current tax bracket each year was their top option for drawing down a client's retirement income to supplement their CPP and OAS income in the most tax-efficient way.

Research into asset drawdown strategies by Doug Chandler, an actuary specializing in Canadian retirement research and associate fellow of the National Institute on Ageing, provides clear evidence that the matter is more complex than is commonly understood. The research concludes that, "in general, the value of accelerated RRIF withdrawals may be overstated. Despite media stories highlighting opportunities to take advantage of differences in tax brackets, this research found that demonstrating added value can be quite difficult.[1] "

[1] *Retirement Drawdown Choices, RRIF, TFSA, Non-registered Accounts, Research by Doug Chandler, FSA, FCIA*

The key for financial planners is to consider each client's situation based on their specific circumstances, including their:

- Retirement and estate goals
- Spending
- Current and future effective tax rate(s) for an individual or couple
- Opportunities for income splitting
- Investment risks and returns
- Longevity
- TFSA room

While a recommendation for asset drawdown in a given year might be part of a multi-year drawdown strategy, it must be reviewed and reassessed annually. Changes in the above factors may lead to changes in recommended asset drawdown decisions year by year.

Based on the research by Mr. Chandler, it is important to exercise caution to help ensure that objectives like minimization of estate taxes or avoiding OAS recovery tax (clawback) does not trump the fundamental longevity of investment funds.

It is also key that you avoid rules of thumb and use your financial planning software to test and compare different scenarios based on your client's individual circumstances as they change from time to time.

Good Practice for Financial Planners

- Be aware of situations that may not require significant decumulation analysis due to their relative lack of complexity or flexibility for alternative actions, such as situations where the:
    - Client holds only non-registered assets
    - Client holds only locked-in pension assets
    - Client has significant surplus assets to meet their retirement and estate goals and cannot avoid being in the highest marginal tax brackets.
- Bemindful of situations that are complex, including situations where the:
    - Client has multiple pools of assets and sources of retirement income
    - Client will be subject to foreign taxation
    - Client is a current or potential future recipient of income-tested government benefits and can lose a federal or provincial credit or benefit by receiving additional income.

- Where your clients have multiple pools/sources of retirement income, take these steps:
  - Based on FP Canada Standards Council™ Standards of Professional Responsibility, Rules of Conduct, Rule 28, understand the functioning of your financial planning software and the assumptions built into the software that are key to your analysis of your client's retirement income situation
  - Determine the client's retirement and estate goals and expected longevity
  - Consider asset drawdown strategies to test, including some of the more common drawdown strategies referred to above
  - For each asset drawdown strategy, test the sensitivity of the strategy to different assumptions (i.e., mortality, variability of returns) and consider the impact of the strategy on the client's current effective tax rate, projected effective tax rate over the planning period, estate taxes and any potential impacts on income tested benefits.
  - Compare different asset drawdown strategies to assess which fits best with the client goals (given your client's situation) and optimizes the client's tax position over the planning period
  - Review and reassess the recommended strategy annually

As documented in Mr. Chandler's research, a single tax-optimized withdrawal strategy that may appear to add value for the client (i.e., results in a larger after-tax estate), may have the opposite outcome if the expected returns are lower than expected or if the client lives longer than expected. For this reason, Mr. Chandler's research used an actuarial approach which combined a stochastic model (Monte Carlo) on the expected returns and applied mortality tables to estimate the likelihood of death at every possible age. When you combine ALL of these possibilities and weight the average value of the after-tax estate by the probability of each age at death, you end up with an outcome inclusive of all return and longevity outcomes.

All software tools may not have this level of sophistication or these features may be avoided due to their complexity or the challenge of explaining what it means to clients.

For these reasons, it is incumbent on the financial planner to understand the features and any limitations of the software they are using. If planners are performing more traditional forecasts based on an expected return and life expectancy, scenario testing is required (as provided in the steps above).

Reminder:

FP Canada Standards Council™ Standards of Professional Responsibility

Rule 28 – Use of Technology

When relying of or using technology in the financial planning process, a Certificant:

a) Must take reasonable proactive steps to gain a general understanding of the methodologies underlying the technology that have a direct impact on financial planning projections and recommendations

b) Must have an understanding of the financial assumptions underlying the technology that have a direct impact on financial planning projections and recommendations

c) Must validate that the inputs and assumptions used are reasonable and appropriate based on the client's circumstances

d) Must validate that the outputs generated are reasonable and appropriate for the client before relying on them, or presenting the
final recommendations or strategies to the client. impact on financial planning projections and recommendations

Mr. Chandler and representatives from two financial planning software firms participated in a further discussion of this research and implications for practice in a video conversation. This video can be accessed at the following link: https://youtu.be/xzie-h5WvHc.

Want more information?

Additional materials on this topic and other research projects are available for you to download at:

www.canadianfoundationforfinancialplanning.ca

Executive Summary

Research Paper

The Quality of Financial Advice:

What influences client recommendations?

The FP Canada Research Foundation™ and HEC Montréal released new research, The Quality of Financial Advice: What Influences Client Recommendations. Authored by Philippe d'Astous, Irina Gemmo and Pierre-Carl Michaud, the research investigate the impact of human tendencies and bias on recommendations made by financial planners. It specifically focuses on the influence of familiarity bias, client gender, client involvement and compensation on planner advice and the inadvertent impacts of these biases and other human tendencies on recommendations to clients.

Executive Summary

Practice Notes

This research was funded and released by the FP Canada Research Foundation, now known as the Canadian Foundation for Financial Planning™

Visit our website:
www.canadianfoundationforfinancialplanning.ca

The Quality of Financial Advice:
What influences client recommendations?

Executive Summary

December 2022

Research conducted by:

Introduction

FP Canada Research Foundation™ funded research[1] conducted by Philippe d'Astous, Associate Professor, Department of Finance and Director, Financial Education Lab HEC Montréal, Irina Gemmo, Assistant Professor, Department of Finance, HEC Montréal, and Pierre-Carl Michaud, Professor Department of Finance and Scientific Director, Retirement and Savings Institute, HEC Montréal, to investigate the impact of human tendencies and bias on recommendations made by financial planners. HEC Montréal is an internationally renowned business school in Montréal, Quebec.

Anecdotal evidence suggests that when advising clients, planners may be impacted by a number of factors, including the type of firm they work for, their licensure and their own personal financial experience. This bias is termed familiarity bias. In psychology, familiarity bias refers to the phenomenon where people opt for more familiar options, even though these may result in less favourable outcomes than available alternatives. Planners, like other professionals, can be influenced by other types of biases and natural human tendencies as well.

In a financial planning context, bias can inadvertently lead to:

- Providing recommendations in areas where a client need may not exist; and
- Providing recommendations in one area to the detriment of other areas' needs.

The research project explored the degree to which the above outcomes may be realized, based on a large survey of financial planners with either the QAFP™ (Qualified Associate Financial Planner™), CFP® (Certified Financial Planner®), or Pl. fin. (planificateur financier)[2] designations. Survey responses were received from across Canada representing a broad diversity of age, gender, level of education, place of employment, and areas of financial planning specialization.

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1 *The full research, The Quality Of Financial Advice: What Influences Client Recommendations? is available at https://fpcanadaresearchfoundation.ca/media/2bvozpir/fpcanada-hec-en-the-quality-of-financial-advice-paper.pdf*

2 *Through Institut québécois de planification financière. https://www.iqpf.org/*

Background

The research carried out by the HEC Montréal team was designed to examine the impact of four main factors on planner recommendations:

- The degree of client involvement (where the client inquires about a product or solution);
- The gender of the client;
- The planner's compensation and how it relates to the recommendations made; and
- The extent to which planners recommended products they or their spouse owns, or which they are licensed to sell.

The planner survey presented eight client vignettes, and, for each vignette, it offered responses that were phrased as recommendations. The vignettes focused on four main areas: retirement, asset decumulation, long- term care and investment decisions. Some of the features of the vignettes, such as client gender, client involvement, planner compensation scheme, and product fees and characteristics were randomized. By varying these features, the researchers were able to weigh responses together with planner attributes to evaluate whether, and the extent to which, planner advice may have been influenced by their unique backgrounds and/or the client's gender or degree of involvement.

The research concludes that planners are more likely to recommend products they or their spouse own, or that they are licensed to sell. As well, as it pertains to investments, planners are more likely to recommend products that clients inquire about even when this type of solicitation is randomized across clients and options. Planners are systematically sensitive to the gender of the client even when gender is uninformative regarding which recommendation to make.

By pooling the answers to all scenarios together, the researchers could summarize across the different vignettes presented to respondents. The main results are provided below.

Product Familiarity (ownership by planner or spouse)

1. Planners are significantly more likely to recommend universal life insurance, mutual funds, annuities, segregated funds, and ETFs when they own the respective product themselves.
2. Planners have a higher propensity to recommend repaying a mortgage when they own real estate. Analogously, planners holding debt themselves were less likely to recommend repaying a mortgage.
3. Ownership of RRSPs, TFSAs, LTC insurance, and GICs does not have a material impact on the recommendation of these products.
4. The biggest impact of product familiarity on recommendations comes from annuity ownership and ETF ownership. Owning these products increases the propensity to recommend them to clients by 12.5 and 12.3 percentage points, respectively.
5. When considering unique planner characteristics, planners who identified as 'very impatient' have a higher propensity than their counterparts to recommend products that they own; planners who are compensated primarily based on assets under management are more likely to recommend a product owned by their spouses than planners who are compensated by salary.

Product Licensure

1. The effect of holding a license to sell annuities, universal life insurance or GICs on recommending such a product is insignificant.
2. Holding a license to sell mutual funds, segregated funds, long-term care insurance, or ETFs significantly increases the likelihood of recommending the respective products to clients.

Planner Compensation

1. Overall, planners are about 10 percentage points less likely to recommend a product when the vignette suggests they are compensated for it. (Since no real financial incentive actually existed in the survey scenarios, it is possible this statistic is lower than actual outcomes.)
2. Planners who receive a bonus based on sales in addition to their salary, and those compensated primarily based on assets under management or commissions, have a higher propensity to recommend a product they are licensed to sell than their colleagues who are compensated exclusively by salary.

Gender

1. As it pertains to savings and decumulation recommendations, planners are more sensitive to the gender of the client even when gender is uninformative regarding which recommendation to make.
2. In the decumulation vignette, planners are about 4% less likely to recommend mutual funds to a female client.

Client Involvement

1. A product inquiry made by the client only has a significant impact on recommendations when the solicited product is an ETF.
2. Planners are about 5% more likely to recommend any product the client asks about when they own the product themselves (moving to 5.8% when the planner's spouse owns the product).
3. When a client asks about a certain product, holding a license to sell a product increases the likelihood of recommending the respective product by up to 4.5%.

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Practice Notes

Research Paper

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The Quality of Financial Advice:
What influences client recommendations?

Practice Notes

December 2022

Research conducted by:

FP Canada Research Foundation™ funded research1 conducted by Philippe d'Astous, Associate Professor, Department of Finance and Director, Financial Education Lab HEC Montréal, Irina Gemmo, Assistant Professor, Department of Finance, HEC Montréal, and Pierre-Carl Michaud, Professor Department of Finance and Scientific Director, Retirement and Savings Institute, HEC Montréal, to investigate the impact of human tendencies and bias on recommendations made by financial planners.

The research concludes that bias is at play in the recommendations that financial planners provide to their clients. This is not surprising as bias affects everyone. That said, since financial planners are held to high standards of professional responsibility, it is important to be aware of the potential impacts of bias to help ensure that advice and recommendations to clients are the most appropriate for them. These practice notes outline practical steps professional financial planners can take to minimize the impact of bias on client recommendations and provide instructions for the use of a "professional validation tool" planners can use to check for the presence of bias in formulating client strategies.

All individuals are prone to bias. Planners are no different but should be vigilant as to the potential impacts of bias on their advice to clients.

Ultimately, if a recommendation doesn't satisfy your client's priorities, it may lead to challenges in the implementation stage and your advice may be abandoned.

Financial planners should always be mindful of how their own personal financial situation might inadvertently influence how they develop potential strategies to recommend to clients. For example, if you own a certain investment product, your spouse also owns the product and you are licensed to sell it, you need to be aware that familiarity bias is more likely to be active, especially if your client asks about that same product for themselves. Or suppose that you receive a sales bonus for a particular product—it is more likely that bias will influence your recommendations. Where a client demonstrates high interest in a product or service, that heightened interest may also influence your recommendations.

[1] *The full research, The Quality Of Financial Advice: What Influences Client Recommendations? is available at https://fpcanadaresearchfoundation.ca/media/2bvozpir/fpcanada-hec-en-the-quality-of-financial-advice-paper.pdf*

One method you may find helpful to check for the potential impact of bias is discussed in the FP Canada continuous professional development (CPD) course, “Validating Your Analysis”[2], focused on human behaviour tendencies. The course refers to a process called “Strategy Validation Testing” to help planners check for possible human bias or other human tendencies that may impact client recommendations.

The Validating Your Analysis course describes “Cognitive Effort Reduction,” a method your brain uses to help process large amounts of information, such as the information you gather during the discovery process. Instead of cataloguing and considering all the information, the human brain often relies on biases and other tendencies to mark certain information as more salient. For example, information that is repeated often by the client; is particularly emotional; or that is associated with a financial planning strategy you are more knowledgeable about, can implement yourself or have personal experience with, may be labelled as more salient. Your brain may focus on this information and avoid other information that may be equally relevant to the financial planning engagement. Further, once you’ve formed a potential idea or strategy, your brain looks for evidence to support it (this is known as “confirmation bias”).

As well, when bias is active, information that you have more comfort with or knowledge about might also be marked as important, while information that requires further effort to examine may be reduced in importance. To be clear, the presence of bias doesn’t mean the information your brain selects as important is the wrong information. Rather, the key is to be aware of the possibility that, unbeknownst to you, your brain may have overlooked information gathered during the discovery process and jumped too quickly to a solution.

Just because you may have been influenced by natural human biases or tendencies, you should not reject a recommendation – rather, you need to take a little extra time to make sure you got it right.

You can practice “strategy validation testing,” a process to make

STRATEGIES	FAMILIARITY BIASES			OTHER BIASES & TENDENCIES						TOTAL SCORE PER STRATEGY	POTENTIALLY DISQUALIFYING INFORMATION
	Planner Owns	Planner's Spouse Owns	Licensed to Sell Product	Client Involvement	Client Gender	Compensation	First/Last	Emotion	Frequency		
Strategy 1: ____	☐	☐	☐	☐	☐	☐	☐	☐	☐	0	____
Strategy 2: ____	☐	☐	☐	☐	☐	☐	☐	☐	☐	0	____
Strategy 3: ____	☐	☐	☐	☐	☐	☐	☐	☐	☐	0	____
TOTAL SCORE PER BIAS	0	0	0	0	0	0	0	0	0	0	

[2] *Get more information on enrolling for this course at* https://fpcanada.ca/planners/continuous-professional-development/AC3HFP *or read the detailed course description at* https://fpcanada.ca/docs/default-source/professional-practice/course-description.pdf%22

sure your bias is not undermining the quality of your analysis and the recommendations you make. The process can be undertaken using a table such as the one shown below, which is also available to FP Canada certificants through their FP Canada portal in the form of a digital tool. The strategy validation process involves three steps:

Step 1: For each strategy you identify for a client (which can be listed in the first column of the table), use the table to assess whether the strategy might have been the result of bias. Did the client ask about a certain product as a possible solution? Do you or your spouse own the same product the client asked about? Will your compensation be impacted by the strategy? Place a checkmark under each bias that may be at play for the strategy. If several checkmarks result meaning bias may have been more influential—you should not reject the strategy, but you should be more skeptical of it as a solution. Once a strategy has been identified as potentially being influenced by bias, it's important to complete the remaining steps.

As an example, ***imagine a scenario where a client shared an emotional story of a friend who suffered significant financial loss when his wife died suddenly at a time when they had infant children and a heavy debt load. The client referenced the story several times during your meeting with them and asked about insurance. The client has no insurance coverage and three young children. You may be inclined to put forward a strategy to purchase a high level of life insurance. In addition to the client's heavy focus on their friend's situation, both you and your spouse own permanent life insurance policies that are sufficient to protect your family and you are licensed to sell life insurance and are very knowledgeable about it.***

Step 2: Add up the checkmarks for a strategy and enter the result in the column "Total Score Per Strategy." The total score is a simple rating of how likely it is that biases were a contributing factor in putting forward the strategy as one that will inform your ultimate recommendation. Next, you can validate the strategy by examining the information you have from your discovery meeting. In the table, under the "Potentially Disqualifying Evidence" column, write down pieces of evidence that would cause you to rethink the strategy. Specifically, think to yourself: "If I discovered X, it would show that this strategy isn't appropriate for this client."

Once you have listed these pieces of potentially disqualifying evidence, the next step is to go back through your discovery notes and see whether you can find any trace of this evidence that you are looking for. As you survey your discovery notes, remember that your brain is more likely to accept information that fits with your strategy and discount information that does not. To overcome this tendency, you should be thorough in looking for information that may counter or otherwise disqualify your strategy, either partly or wholly.

...continuing the example *from above, use of the table will reveal that bias may play a significant role in formulating a strategy of purchasing a high level of life insurance. Client involvement is high given that the client asked about insurance and all three familiarity biases are present. However, in validating your strategy, you realize that the affordability of an insurance solution may cause you to re-think this solution. Imagine that a search of your discovery notes reveals evidence that the client's employment is unstable, and their cash flow is fragile.*

Step 3: As you search your discovery notes, write down information that is aligned with your strategy and information that is at odds with it. There are three possible outcomes:

- There is little disqualifying evidence and mostly supporting evidence. This would suggest that the strategy is wholly suitable for the client, and it should be analyzed as a possible recommendation.
- There is some disqualifying evidence and some supporting evidence. This means the strategy is partially suitable and other strategies should be considered before bringing a recommendation to the client.
- There is a lot of disqualifying evidence and little supporting evidence. This would indicate the strategy may not be suitable for the client and needs to be reconsidered. A bias may have been too influential, potentially causing you to jump too quickly to a potential solution.

This three-step process helps to minimize the risks associated with making recommendations that are unduly influenced by your natural biases or tendencies.

...continuing the example from above, there is a mix of disqualifying evidence and supporting evidence. The strategy is partially suitable. The amount of life insurance may need to be scaled back or the application postponed until affordability can be more certain.

In Conclusion

Financial planners who hold the Pl. Fin.[3] , QAFP™ or CFP® designation must adhere to the highest standards of competence, ethical behaviour and professionalism, meaning they must make only those recommendations that are both prudent and appropriate for the client. Readers can refer to the Canadian Financial Planning Definitions, Standards & Competencies for more information.

The research paper highlights that planner bias can be a factor in the recommendations that planners provide. To deliver the highest quality of advice to their clients, mitigate the potential undue influence of bias, and continue to adhere to their professional obligations, planners need to be aware of these factors, be mindful of how bias can influence the advice they provide, and take steps to help ensure that their recommendations are objective, appropriate, and in the client's best interests.

FP Canada™ certificants can also use the process of "strategy validation testing," including leveraging the digital tool provided by FP Canada, to help check for the presence of bias in the strategies they consider for a client. The process can provide increased confidence that the recommendations put forward are the most suitable based on the client's priorities and needs.

Want more information?

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Executive Summary

Research Paper

Values & Priorities of Millenials in Canada

The FP Canada Research Foundation™ and The Decision Lab released new research Values & Priorities of Millennials in Canada. Authored by Dr. Brooke Struck (Research Director, The Decision Lab) the research sheds light on the attitudes, perspectives and values of the generation that accounts for over a quarter of the Canadian population. The research unlocks insights that can help financial planners effectively engage with Millennial clients and drive

Executive Summary

Practice Notes

This research was funded and released by the FP Canada Research Foundation, now known as the Canadian Foundation for Financial Planning™

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Values & Priorities of Millennials in Canada

Executive Summary

November 2021

Research conducted by:

THE DECISION LAB

This report provides an in-depth profile of the financial experiences of Canadian Millennials. A distilled summary of the most pertinent findings is presented here. This material is not presented to answer questions about Millennial clients, but rather to help financial planners understand which questions to ask in order to really get to know their Millennial clients.

In general, the increase in indebtedness and the increasingly precarious finances of many Millennials are important drivers that help to understand broad patterns. Many Millennials are attempting to follow the recipe for success handed to them by their parents and wider society: get a good education, get a stable job, get married, buy a house, start a family, save, retire. However, Millennials have been met with notable challenges.

This highly educated cohort graduated with higher levels of debt than previous generations, and emerged into one of the hardest job markets in a century. Trying to fill the gap, many Millennials have turned to part-time and contract work, as well as the gig economy. These forms of employment create much more erratic income streams, leave workers vulnerable to shocks, and make it hard to pay down accumulated debt. Additionally, with the chronically low interest rates since the Great Recession, debt has become socially normalized.

This group of Millennials live with their parents longer, start their careers later, and defer traditional life milestones such as marriage, home ownership and childrearing. They have little savings and their appetite for risk is low because they do not know if or when they might need those savings to bridge gaps in cashflow. Accordingly, their savings do not grow quickly either, leaving them further behind in saving towards big goals such as home ownership and retirement.

They are anxious about their money and feel that their finances control their lives, rather than the other way around. They feel alienated from the traditional arc of “the good life:” the middle class dream of the middle of the 20th century. Feeling that the material trappings of that life might be beyond their reach, and not just temporarily, many Millennials are defining new markers of success, charting a course for themselves that looks quite different from the ideals of previous generations.

The increasing elusiveness of the middle class dream is having wider effects, even on consumer segments for whom that narrative is still quite accessible. For example, Millennials have shifted their focus away from material possessions (more characteristic of Boomers and Gen X) and towards experiences, ephemeral moments. Millennials also have a strong sense of social responsibility, seeking to have their purchasing decisions, employment, and investments reflect their values of equality, justice, and ecological responsibility. These are all pathways towards self-actualization.

Along with questioning the traditional markers of success, Millennials are also questioning the institutions (both economic and social) that were once considered the bulwark of society. Millennials are disillusioned with banks and other financial institutions, which they view as at the root of the Great Recession. Misalignment between actions and words—any perceived inauthenticity—is very salient for this generation, which prefers smaller, local, more grassroots organizations and businesses.

Their trusted sources of information are primarily their friends and family. They are also very comfortable in a digital environment. Active on social media (where they will also gather information to reach decisions), they engage effortlessly with new mobile technologies. Their experiences with platforms such as Uber have helped them grow accustomed to very smooth, effortless digital interactions. They are used to a digital ecosystem in which they—the consumer—are placed at the centre. They see an important place for human-delivered services, but their expectations about smooth delivery carry over from the digital ecosystem. So, they expect human service to be effortless also, and integrated into the digital ecosystem.

Finally, this generation has already begun inheriting the largest inter-generational wealth transfer in history. Early activity in this transfer can already be seen in inter vivos gifts—namely, gifts from parents to their children around the time when the children buy their first home. This trend is expected to accelerate and will have a huge impact on the distribution of wealth (and the life outcomes) within the Millennial generation.

In terms of delivering high-quality service to this cohort, planners should first and foremost be aware of the unique challenges this generation is facing and the different set of objectives they're looking to achieve with their money. Practically speaking, this includes probing for markers of professional and financial precarity, along with the downstream effects these dynamics can have on financial confidence and perceived financial control. It's important to start from a solid foundation of financial confidence and stability, before building towards bigger, longer-term goals.

Many of the supports traditionally available to long-term, permanent employees are not available to gig workers (and other temporary contractors), and so custom solutions may be required to ensure that workers are protected by a robust safety net. These solutions for financial management and risk & insurance planning are typically not the major focus of financial planning for older cohorts and wealthier consumer segments. Previously normal expectations are also being challenged, and planners should be ready to build recommendations to support renting (in place of homeownership) as well as progressive retirement (instead of transitioning into full retirement overnight). Planners will also need to take inheritance into more serious consideration than they do with other clients.

Finally, in supporting implementation, planners can take advantage of digital tools to offer higher-value service to their clients. These tools represent valuable complementary components throughout the financial planning engagement. For example, digital tools can greatly improve a planner's service offering during the implementation phase. Beyond the operational support that makes implementation easier, there are many opportunities for planners to help their clients stay motivated during implementation, such as demonstrating improvements in the client's money mindset, helping them to feel confident in taking on bigger financial goals once the foundation is shored up, and demonstrating to them the social impact of their investments. There are many concrete suggestions throughout the report to help planners accomplish these objectives.

Want more information?

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Practice Notes

Research Paper

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Values & Priorities of Millennials in Canada

Practice Notes

November 2021

Research conducted by:

THE DECISION LAB

Introduction

FP Canada Research Foundation funded research conducted by Dr. Brooke Struck, Research Director at The Decision Lab, into the financial experiences of Canadian millennials to help planners increase opportunities to engage with millennials and optimize client outcomes.

Many millennials have differing values and realities than other cohorts, meaning that planners may need to adapt their approach if they are to add meaningful value to clients of this generation. The research provides a series of vignettes that demonstrate effective approaches to offer a more adapted service throughout the financial planning process.

As financial planners, you have a key role to play in helping to improve the overall financial situation of your millennial clients, as well as a vested interest – this generation has already begun inheriting the largest inter-generational wealth transfer in history.

Background

The Millennial cohort – born between 1981 and 1995 – is a large and increasingly important generation. They are currently facing many important life decisions, such as career choice, housing, settling down with a partner, and starting a family. The lifestyle and consumption patterns established during this period contribute enormously to setting the stage for their financial wellness into the future.

Additionally, millennials will be the major recipients of the largest wealth transfer in history. This transfer has already started and will continue over the next few decades. While the bulk of that transfer will come in the form of bequests, large gifts from parents while they are still living can also be a considerable source of wealth transfer, notably in connection to down payments on a home.

In general, the financial situation of millennials includes increased indebtedness and precarious income streams. This highly educated cohort graduated with higher levels of debt than previous generations and emerged into one of the hardest job markets in a century. Under these circumstances, many millennials find themselves in part-time and contract work as well as the gig economy. These forms of employment create much more erratic income streams, leave workers vulnerable to shocks, and make it hard to pay down accumulated debt.

Millennials tend to live with their parents longer, start their careers later, and consequently, defer traditional life milestones such as marriage, home ownership and children. They have little savings and their appetite for risk may be low because they do not know if or when they might need those savings to bridge gaps in cashflow. Accordingly, their savings may not grow quickly, leaving them further behind in saving towards big goals such as home ownership and retirement.

Feeling that the material trappings of that traditional vision might be beyond their reach, and not just temporarily, many millennials are defining new markers of success, charting a course for themselves that looks quite different from the ideals of previous generations.

The values and priorities of millennials have, in some cases, shifted away from material possessions (more characteristic of Boomers and Gen X) and towards experiences and short-lived moments. Millennials may also have a strong sense of social responsibility, seeking to have their purchasing decisions, employment, lifestyle choices and investments reflect their values of equality, justice, and ecological responsibility.

Tips for Practice

Financial planners should be aware of some of the unique challenges and opportunities of the millennial generation so that they can help optimize outcomes of engaging with this group. The practice tips provided in this section are summarized in four sections which generally map to the stages of the financial planning process: engaging the client, conducting discovery, making recommendations and supporting implementation.

1. Engaging the Client

Planners should understand that millennials:

- readily engage with mobile technologies and digital tools. While they see an important role for human planners, they expect financial planning services to be delivered efficiently and conveniently, including through the use of virtual meeting tools.
- tend to have different markers of success than other cohorts; planners should understand their clients' definition of financial independence and success to determine a benchmark against which they can measure progress over the course of the engagement.
- want somebody to be "in their corner" -- someone they can rely on to act in their best interests as millennials tend to lack trust in large financial institutions. Planners should approach this cohort with particular sensitivity to their lack of trust, rather than through the lens of financial products and services because millennial clients are likely to be especially wary of professionals who offer them products or services that are not clearly a strong fit with their situation.
- may prioritize financial management and risk management services rather than the more traditional investment and retirement planning services.

- are not averse to paying fees providing they see value in the services provided; convenience and personalization are highly valued for this cohort.
- may have parents who represent a significant percentage of planners' client base. Planners can help ensure the continuity of client relationships by showing interest and getting to know the millennial children of existing clients and demonstrating their genuine interest in getting to know what matters to the younger generation.
- may feel their finances are controlling them. Gauge their self-efficacy toward achieving their goals by asking about their level of confidence in their ability to achieve the things they aspire to, even in the short-term.

2. Conducting Discovery

Planners should:

- consider opportunities to work collaboratively with their millennial clients during the discovery process, including by leveraging online and virtual meeting tools.
- ask questions to understand where their clients might be encountering money challenges connected to income stability and volatility and to determine the extent that debt is dragging on their monthly cashflow.
- be mindful not to assume that a millennial who carries high debt or has low savings is lacking in financial literacy. Millennials may not be lacking in financial knowledge or discipline, but in opportunity.
- ask about existing risk protections in place to determine an appropriate level of contingency funds because traditional protections for sickness and job loss may not be available to many millennials.
- be supportive and non-judgemental – even when the goals of their millennial clients conflict with planners' own views of what is important; millennials often define different goals for their lives.

3. Making Recommendations and Developing the Financial Plan

Planners should:

- help clients who may be struggling with volatile income or significant debt by helping them shore up their day-to-day finances, including consolidating debts to minimize costs and streamlining repayments, before working towards longer-term goals.
- ensure tax filings are current where a client may be engaged in the gig economy to ensure receipt of income-tested benefits and credits, such as the HST/GST credit. If education-related debt exists, qualifying student loan interest is tax-deductible for up to five preceding years.

- consider that with housing inflation and precarious finances on the rise, renting can be a more financially viable and appropriate option for millennials than home ownership; growing wealth for their futures may need to be balanced with flexibility in the short term.
- consider that where millennial clients may be struggling to get their careers firmly in place and where they may have unpredictable income, the more flexible TFSA may be better suited for savings than a RRSP.
- not assume that because millennials are young, they have long time horizons and therefore high tolerance for investment risk; they have grown up in an investment market with very high market volatility.
- remain aware that millennials with precarious income may rely more heavily on cash buffers in the form of emergency funds and liquid, risk-free investments.
- address insurance coverage for income protection and life insurance where resources to rely on may be lacking in the event of disability or premature death.
- place greater emphasis on inheritances and consider the possibility of inter-vivos gifts from parents, where appropriate.
- position any additional services offered when delivering the plan as optional but clearly valuable, to avoid the perception of a "hidden fee" (a service that's actually required rather than optional in order to unlock value) or "useless upsell" (a service that has little value to offer and is therefore perceived as being pushed on the client for other reasons), both of which will be poorly received by this value-seeking group.

4. Supporting Implementation

To ensure a higher likelihood of financial plan success, planners can:

- keep an implementation schedule and send their millennial clients timely digital reminders along with key information.
- send millennial clients relevant articles or tips and other regular acknowledgements that show that planners are genuinely thinking of them and their well-being.
- build trust with millennials by demonstrating the social impact of their investments, where this is important.
- connect with millennials frequently to demonstrate the progress they are making toward their goals, which tend to be short term in nature. These may be quick check-ins via email, text, WhatsApp message or other means to show interest in helping them track their movement toward their goals.
- ask millennials to assess their financial confidence relative to the start of the engagement and ongoing throughout your relationship with them. This can help build trust and grow your relationship with them as they start to feel a greater sense of financial independence, and lead to greater opportunities to plan for longer-term financial goals once their foundation is secure.

In Conclusion

The millennial cohort represents the largest share of the Canadian population. They will shape Canada's future, just as the Baby Boomers have for the past several decades. Financial planning needs for these individuals may be different than what may be more typical for other financial planning clients because of their financial circumstances and values.

That said, they stand to receive the largest inter-generational wealth transfer in history as the Baby Boomers provide financial gifts or assistance while alive, or eventually, through inheritance. Financial planners need to refine their skills and adapt their practices to gain and retain millennial clients.

Want more information?

Additional materials on this topic and other research projects are available for you to download at:

www.canadianfoundationforfinancialplanning.ca

Executive Summary

Research Paper

Identifying and Removing Psychological Barriers to Seeking Financial Advice

FP Canada Research Foundation and Smith School of Business at Queen's University released the Identifying and Removing Psychological Barriers To Seeking Financial Advice, research. Authored by Dr. Lynette Purda and Dr. Laurence Ashworth, it examines barriers that impact consumer behaviour, affecting their tendency to seek professional financial planning advice.

Executive Summary

Practice Notes

This research was funded and released by the FP Canada Research Foundation, now known as the Canadian Foundation for Financial Planning™

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Identifying and Removing Psychological Barriers to Seeking Financial Advice

Executive Summary

June 2021

Research conducted by:

Working with a financial planner has been researched and documented to provide tangible psychological and financial wellness benefits. In a 3-year longitudinal study of Canadians, research found that individuals with comprehensive plans feel:

- More on track with their financial goals and retirement plans
- More confident that they can deal with financial challenges in life
- Better able to indulge in their discretionary spending goals
- More on track with financial affairs
- More able to save in the last five years

Yet, research also shows that many individuals – especially those most in need of assistance, frequently fail to obtain the advice they need. Financial advisors are seen as more geared to individuals that are richer, older and more experienced investors.

The question is why more individuals are not engaging with professional financial planners? What are the main barriers?

At a summary level, the research by Dr. Purda and Dr. Ashworth points to three main barriers:

Consumer confusion about what financial planning is and who is qualified to provide it: Consumers are generally ill-informed about the various financial professionals they interact with, the services they provide and the obligations they are bound to. Consumers surveyed knew very little about different financial titles used to describe financial professionals. As well, consumers did not appear to understand all the elements of a financial plan or the full range of services offered by financial planners.

Consumer attitudes toward planner use: Consumers who have negative attitudes toward financial planner use will be less inclined to engage in financial planning. Attitude is impacted most positively by consumer perceptions about the benefits of financial planning relative to the perceived costs and whether these professionals are deemed to be trustworthy or operating with an ulterior motive outside the client's best interests. Where perceived benefits relative to costs and trustworthiness are high, attitudes toward working with a financial professional are more favorable. Interestingly, as individuals become more confident in their financial know-how, they may be less favorably pre-disposed to seeking professional assistance.

Financial Advice Seeking Efficacy (FASSE): Consumers who don't believe they have "what it takes" to engage with a financial professional will not tend to do so. That is, where consumers don't believe they have sufficient knowledge or experience or resources to work with a financial professional won't tend to engage one. Similarly, consumers who are not certain about where to get good financial advice or feel unable to judge the quality of the financial advice they receive won't tend to engage in planning. FASSE is also impacted most positively by perceptions that financial planners are trustworthy, without ulterior motives.

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Research Paper

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Research conducted by:

Practice Tips for Addressing Key Barriers to Financial Planner Engagement

The researchers experimented with a number of possible interventions to address the key barriers to client engagement and concluded with the following key finding to address consumer confusion and positively impact both consumer attitude and FASSE (which measures how confident and comfortable an individual is in their ability to successfully seek out, identify and engage with a qualified financial professional).

Develop a Value Proposition that is Customized to Your Client

Be clear about:

- Your services and how they will address the client's biggest interests, needs, priorities and concerns;
- Your qualifications and most specifically what they mean in terms of the standards that guide you and your practice and your obligations to your clients (i.e., the duty of care and loyalty you owe to every client).

Leverage Consumer Financial Wellness Guide to enhance Consumer Attitude and FASSE:

The research indicates that consumers propensity to seek financial planning advice is negatively impacted, in part, when they don't have confidence in their financial knowledge and when they believe that advisors have ulterior motives and not their best interests at heart.

FP Canada Research Foundation sponsored research by CPA Canada that included the development and delivery of a Financial Wellness Guide, a self-assessment questionnaire that helps consumers understand the strengths and gaps in their own financial situations. Provide the link to the Financial Wellness Guide to your clients to help build their confidence in their financial knowledge and build trust.

Online Financial Wellness Guide

The self-assessment tool is an opportunity for your clients to better understand their financial position from the comfort of their own home and increase their readiness to speak with you. You can offer to follow up or be a sounding board as they may wish to discuss aspects of the questionnaire or questionnaire results – a great opportunity to influence clients' attitudes toward financial planning and you, as a financial planner, as well as their confidence in their ability to work with you.

Of note: The researchers tested different fee structures to assess the effect on attitude and FASSE of different models, in particular the impact of different models on clients' perceptions of financial planner trustworthiness.

They found that differences in fee structure (commissions, fees based on assets under management or (fee-for-service) made little difference to consumer perceptions. The key is that clients understand and appreciate the benefits of planner services and professionalism relative to the fees charged.

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Executive Summary

Research Paper

The Implementation Gap

The FP Canada Research Foundation has funded a study that seeks to uncover barriers to the implementation of financial plans delivered to Canadians by professional financial planners. Many financial planners note that their clients do not always take action on the plans they deliver and discuss with their clients. This is referred as the Implementation Gap—the gap between advice provided and action taken by the client.

Executive Summary

Practice Notes

This research was funded and released by the
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The Implementation Gap

Executive Summary

October 2020

Why is it that some clients engage in financial planning yet fail to follow through and implement the advice provided? This is referred to as the "Implementation Gap" – the gap between the advice financial planners provide their clients and the action that clients take based on that advice.

The FP Canada Research Foundation™ funded a research initiative to better understand and recommend ways to overcome the Implementation Gap.

The research considered the financial planner- client journey starting with the initial meeting right through to discussing the recommendations and the financial plan and implementing the recommendations.

BEworks conducted interviews with a small group of CFP® professionals and then, developed and distributed a broad-based survey to CFP professionals across Canada and individuals holding the Pl. Fin. designation in Quebec. Another survey was distributed to Canadians who work with CFP professionals and Pl. Fins.

The responses make clear that there are fundamental differences in thinking between planners and clients as to the root of the problem:

Financial planners perceive that the problem centers on the client – specifically, their state of mind, motivations and understanding – things like:

- Client procrastination
- The plan is too complicated for the client
- A strong relationship with the client was not built
- Client doesn't understand the value of a financial plan

Clients agreed with planners about their tendencies toward procrastination. However, they also attributed a lack of implementation to:

- Differing expectations between themselves and planner, i.e., a mismatch between the advice delivered and what the client expected from the planner; and
- The licensing effect, that is, the feeling that the financial plan is an important end and important accomplishment, in and of itself, which impacts clients' impetus to move to implementation.

Additional survey findings

FP Canada Research Foundation examined the results of both the client and financial planner surveys in detail and surfaced the following additional findings:

- Despite the fact that almost half of clients surveyed rated their knowledge and confidence in financial matters between eight and ten out of ten, there is still confusion on what financial planning is and what a financial plan consists of 92% of clients survey said they had a “Financial Plan” but the majority indicated Retirement (80.3%) and Investment (76.5%) as the priority focus areas of their plan Further, when asked to define financial planning in their own words, almost 40% defined financial planning in the context of investment, retirement and/or wealth accumulation, whereas only 10% included other areas like financial management, tax and insurance in their definitions.
- The majority of clients surveyed identified retirement savings and investments as their main interest and motivator in seeking out a financial planner (64%). Financial Planners surveyed support this notion, indicating that most clients, when they first come, are specifically interested in just two or three areas of planning; however, those same financial planners said that on average most financial plans typically cover four to six financial planning areas.
- None of the financial planners surveyed indicated that asking questions to uncover prospective clients' aspirations and concerns was a typical way of engaging new clients; rather, they indicated focusing on explaining the financial planning process, the nature of their business, their qualifications and the benefits of working with them and their firm.
- Less than half of clients surveyed said that their financial planner took the time to understand their wants and needs and who they are as a person.
- Only 30% of financial planners surveyed said that financial planners always walk clients through the terms of the engagement, including the scope of services they're proposing to provide.

- Despite the fact that the majority of clients surveyed had been working with their planners for over five years, almost 40% indicated that they may not be fully truthful or forthcoming with their financial planner, despite their long-standing relationships.
- Only 39% of client surveyed agreed or strongly agreed that the plan was discussed with them in a way they understood, with just 38% agreeing or strongly agreeing that the level of detail in the plan was appropriate for their understanding.
- Only 18% of clients surveyed agreed or strongly agreed that following through with financial planning recommendations requires substantial work on their end. 68% indicated that it was valuable to have the support of their financial planner in implementing the recommendations.
- Only 26% of financial planners surveyed strongly agreed that they should play a role in helping their clients implement the action steps set out in the financial plan.
- Only 38% of financial planners agreed or strongly agreed that where implementation is part of the terms of the engagement, it is the financial planner's role to set up meetings and appointments with lawyers and other third parties (where appropriate) as part of the implementation process. Further, just 45% agreed or strongly agreed that where implementation is part of the terms of the engagement, it is the financial planner's role to sit in on meetings and appointments with lawyers and other third parties as part of the implementation process.

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Practice Notes

Research Paper

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The Implementation Gap

Research summary

This study explored why some clients who engage in financial planning fail to follow through and implement the advice provided. This is referred to as the "Implementation Gap" – the gap between the advice financial planners provide their clients and the action that clients take based on that advice.

Practice Tips

The following tips and strategies can help you overcoming the barriers to implementation and improve your client outcomes:

1. Enhance your client engagement to avoid a mismatch in expectations between you and your clients.

   Right from the initial meeting, engage clients or prospective clients in financial planning by relaying your value proposition in a way that aligns your services to the "jobs" your client wants to achieve or the concerns they want to overcome. Focusing on your client is key as opposed to focusing on the financial planning process or yourself. A focus on how you can help your client will enhance their understanding and appreciation of the value of holistic financial planning as a means to help them achieve what matters most to them.

   Frame the terms of engagement discussion as an opportunity to ensure your clients understanding to your proposed services and how they will help the client achieve their priorities. Take the time to discuss and explain what the services entail and how they will help the client and invite your client to ask questions and become comfortable with services they may not have originally contemplated or felt they required. Review and discuss the associated fees and other disclosures required and discuss to ensure understanding.

   Time taken at this stage of the financial planning process will help prevent misunderstandings or surprises down the road as to what your recommendations and financial plan include and help prevent implementation challenges by clients who weren't expected what you delivered. It will also serve to build a trusting relationship as clients see you as a professional delivering a professional service in their best interests.

Effectively delivering your value proposition and taking the time to discuss the terms of your engagement will also help ensure that your client is more forthcoming during the discovery process as they should better understand the rationale for your questions.

2. **Right-size your recommendation and financial plans**

   Ensure that the recommendations and financial plan you develop are specifically linked to clients' priorities and concerns and include only information that specifically aligned to what matters to them and improving their future outcomes and confidence. "Less is more" in a plan as a plan that is too heavy, involved or complex may cause overload, confusion and create implementation challenges.

   Focus your financial plan discussion on only those elements that allow your client to clearly see how your recommendations and plan will help enhance their future prospects and achieve their priorities. The detailed analysis or alternate scenarios can be set aside for discussion in response to questions your client may have or requests for further information. This will allow greater understanding and appreciation of your recommendations, prevent overwhelm and help motivate clients to action.

3. **Support implementation process to avoid licensing effect and procrastination**

   Important steps to motivate action in clients' best interests include:

   - help clients commit or set an intention to take action (the plan is not an end in itself; it won't move the client closer to their goals);
   - set specific, short-term implementation goals, which helps to increase their self-efficacy (i.e., specifying the when, where and how of actions will lead to implementation);
   - facilitate the process of implementation by supporting clients in setting up meetings or joining clients in meetings with third parties, where appropriate and desired,
   - check on clients' progress and how they are managing with implementations steps that are assigned to them, and
   - provide positive reinforcement for steps taken.

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Additional materials on this topic and other research projects are available for you to download at:

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Executive Summary

Research Paper

Understanding the Importance of Risk for Financial Planning

This study, conducted by Dr. Bonnie-Jeanne MacDonald of Ryerson University, explored the sources of risk in retirement planning, how these should be addressed and the degree to which individuals can improve financial outcomes by adjusting factors they can control.

Executive Summary

Practice Notes

This research was funded and released by the FP Canada Research Foundation, now known as the Canadian Foundation for Financial Planning™

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Understanding the Importance of Risk for Financial Planning

Executive Summary

March 2018

Research conducted by:

Bonnie-Jeanne MacDonald, PhD FSA,
Senior Research Fellow
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(Ryerson University) and
Resident scholar at Eckler Ltd.

Marvin Avery,
Chief Software Architect,
Employment and Social
Development Canada (ESDC) *(retired)*

Richard J. Morrison, PhD,
Senior Methodologist, ESDC *(retired)*

Retirement financial security has become critically important with an aging population. As the shift away from defined benefit pension plans continues, it is becoming increasingly important (and necessary) for workers to be engaged in their own retirement income planning and for you to help clients manage the inherent risks in retirement income planning to help meet their retirement planning goals.

The findings from this research reveal the significant risks inherent in retirement income planning based on a number of factors, which can impact clients' ability to maintain their desired lifestyle over their retirements or provide assurance of sufficient funds to avoid outliving their savings.

These factors include:

- Investment returns
- Unexpected expenses
- The passing of a loved one
- Changing tax eligibilities
- Changing goals
- Changing inflation rates
- Changing life expectancy

While these risks are not limited to clients' retirement years, they are perhaps more significant in retirement. While younger, healthier seniors are generally better able to absorb financial risks by adjusting spending, or even returning to the workforce to supplement any income shortfalls, seniors at later ages are more likely to be more financially, mentally, and physically vulnerable to income shortfalls. For example, it is at advanced ages (e.g. 85 and beyond) that inflation has eroded any nominally fixed pension income by nearly a third (2 percent compounded over 20 years), increased frailty and skills attrition has reduced the possibility of returning to the workforce, and cognitive declines expose vulnerable seniors to financial decision-making mistakes. In addition, the advanced-aged elderly are much more likely to experience the impacts of financial shocks associated with the onset of chronic health conditions, which creates fixed and ongoing health care costs that cannot be postponed without impact. With the population aging and a decline in secure employer pension plan income, more and more Canadians will face this reality.

This research supports the practice of regularly reviewing and adjusting recommended withdrawal rates and financial strategies based on emerging information, including the above factors any other material changes in the client's circumstances (including divorce, widowhood or needed home renovations to accommodate clients in retirement).

The research also reinforces the importance of considering the risk implications of key decision opportunities that can have significant impact on client's future well-being and are either non-reversible decisions or reversible at significant cost.

These include decisions as to:

- when to take Canada Pension Plan (CPP)/Québec Pension Plan (QPP) and Old Age Security (OAS);
- whether to choose the pension or commuted value of a pension;
- whether to tap into home equity to help fund retirement;
- whether to direct funds to reducing debt and/or savings;
- renting versus owning primary residence; or
- converting retirement savings to an annuity and/or RRIF.

The impact of these decisions can have significant life-long implications for clients. Lack of information or guidance or misinformation can be the difference between a client feeling confident in their futures and significant concern for seniors who do not have adequate secure retirement income. While younger seniors generally prefer financial flexibility, advanced age seniors often require financial security – and unfortunately, "risk" operates in precisely opposite terms, as the elapse of time enables risk to have greater opportunity to generate significant, interacting, cumulative impacts.

All else equal, financial strategies that ignore risk are progressively more likely to fail with time. As a result, an elderly senior is increasingly more likely to deplete financial savings as they advance in years.

Some seniors choose not to use their savings to protect against future risks. This precautionary behaviour, however, leads to significant unspent savings at the time of death and an unnecessarily reduced lifestyle.

Rather than not spend and benefit from their savings in retirement, you can help your clients manage the risk by:

- choosing withdrawal strategies that respond to risk. Known as "variable" drawdown strategies, this requires adjusting annual payments each year to reflect financial market performance and other changes that may have taken place in the client's life; and
- taking full advantage of key decision opportunities and events both leading up to and in retirement.

Want more information?

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www.canadianfoundationforfinancialplanning.ca

Practice Notes

Research Paper

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March 2018

Research conducted by:

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Understanding the Importance of Risk for Financial Planning

Research summary

This study, conducted by Dr. Bonnie-Jeanne MacDonald of Ryerson University, explored the sources of risk in retirement planning, how these should be addressed and the degree to which individuals can improve financial outcomes by adjusting factors they can control.

Practice Tips

Here are tips on how to use this research with your clients or prospects:

1. **Proactively engaging in retirement income planning** with your clients who are approaching retirement in the next 5 years.

   This provides opportunity to understand client's planned lifestyle and income needs and avoid missing key decision opportunities where clients will inevitably require sound financial advice from a professional, including timing of taking Canada Pension Plan (CPP)/Québec Pension Plan (QPP) and Old Age Security (OAS), retirement income solutions and possible decisions related to home ownership.

2. **Discuss the importance of reviewing your clients' retirement income plans regularly and set up regular follow ups**

   A common challenge is that people who depend on financial planners may not return year after year to revisit their strategies nor check in with financial planners when making key decisions that can impact their retirement income for the rest of their lives.

   It is incumbent on your to be proactive in following up with clients and impress on them the significance of professional advice and regular review to help ensure they continue to have confidence in their financial futures.

It is important to follow up with clients annually at a minimum or when their circumstances may change as to health or the health of loved ones or the onset of unexpected expenses. This could be the difference between a comfortable retirement or one where clients are struggling at times when they can least afford to be.

3) **Proactively advise clients on key, one-time, decisions** that will have significant impacts on their financial well-being in retirement, including when to take CPP/QPP and OAS, whether to convert assets to an annuity for predictable cash flow in retirement, homeownership decisions and money transfer or gifting decisions.

Want more information?

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Executive Summary

Research Paper

Financial Wellness Study

This study, conducted by CPA Canada, with the financial support of the FP Canada Research Foundation, helps Canadians assess, articulate and ultimately improve their degree of financial wellness. The study showed that by framing their view of financial wellness and what it means to them, Canadians can better identify gaps between their current and desired state of well-being and more effectively communicate with the financial planners who can help them reach their goals.

Executive Summary

Practice Notes

This research was funded and released by the FP Canada Research Foundation, now known as the Canadian Foundation for Financial Planning™

Visit our website:
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Financial Wellness Study

Executive Summary

January 2018

Research conducted by:

With support by the Financial Planning Foundation (renamed, the FP Canada Research Foundation) CPA Canada a financial wellness study intended to enhance Canadians' financial wellness.

The culmination of the study was the development of a Financial Wellness Guide (the "Guide") – an online tool to help Canadians:

- 39 questions that explore the participant's current financial position: Because the questionnaire is filtered, each participant's specific responses determine the series of questions they are asked (so, for example, a participant indicating no dependent children would not be asked further questions regarding RESPs.) Most participants will be asked about 20 questions.
- Plain language definitions of key concepts: Throughout the questionnaire, all key concepts offer rollover definitions, allowing participants to review the definition of any concept with which they are unfamiliar or for which they require additional clarity, while not being slowed down by definitions of concepts with which they are already familiar.
- Information "tidbits": To keep participants engaged and encourage them to complete the questionnaire, interesting "did you know?" facts pop up throughout the questionnaire, that contextualize the participant's responses. So for example, if an individual responds that they make minimum payments on their credit cards, they will receive a pop up that says: Did you know? Making minimum payments may cost you a lot more in interest payments. The average interest rate on Canadian credit cards is 19.99%. Some department store cards have rates as high as 30%. This is money better spent securing your financial future. These tidbits draw from current publicly available data and behavioural economics theory.
- Report database: Underlying the questionnaire is a database with a specific piece of information and/or recommended next step for every possible answer to every question in the questionnaire. Once the participant has completed the questionnaire, the tool generates a report that compiles all responses and groups them into themes, publishing only what is relevant to their particular responses. To help participants manage the size of the report, they may choose to see the whole report, or only specific sections (for example "tax" or "budgeting").

The questionnaire should take most people 10 to 15 minutes to complete. The target audience is Canadians aged 24 to 49.

Background for Study

The idea for the Financial Wellness Guide was based on the unfamiliarity of Canadians with financial terms and their discomfort talking about money and finance in general. These challenges are well researched by the Financial Consumer Agency of Canada (FCAC), the Organization for Economic Cooperation and Development (OECD), and many others.

While there are some tools on the market for financial planning, most are either not specifically Canadian, are tied to a specific financial service provider or are fee-based. The gaol of this project was to create something universally available to all Canadians and available at no cost.

Summary of Study

CPA Canada commissioned Neilsen to undertake an online research study to evaluate what the concept “financial wellness” means in plain language terms that Canadians could relate to. The study was done with 600 CPA Canada members and 200 CFP professionals.

Descriptions of financial wellness were categorized thematically. The dominant emerging themes of financial wellness generally focused on financial planning and living within ones means, and evoked the emotional benefits of empowerment, peace of mind and being in control of one’s life.

A joint CPA Canada/FP Foundation working group was established to study the findings of the research and develop a self-assessment tool that could help Canadians understand where they currently stand financially in order to help take steps to fill gaps and prepare for conversations with financial planners.

Focus Groups:

The questions and the questionnaire concept proposed by the working group were fleshed out and a draft tool was developed for testing with a sample of Canadians.

Testing was conducted in a series of eight qualitative focus groups of two-hours duration, with two held in each of these four centres: Toronto, Winnipeg, Calgary and Montreal. Participants in seven of the eight sessions were aged 20 to 54; the eighth session was a pre-retired and retired group aged 50 to 69. Participants were recruited with a household income over $40,000 ($30,000 for students) who were interested in improving their financial knowledge. Groups were formed to reflect gender mix, participants with and without children, and at various life stages.

Most participants valued online delivery (with no one trying to "sell" them anything) and being able to complete the questionnaire and learn in private rather than have to ask someone in person. The questionnaire was largely thought to be comprehensive, with a few exceptions. The one group that felt the guide was not really for them (though they thought it valuable for younger people) was the pre-retired and retired group, who had more specific needs.

The culmination of this study was a Financial Wellness Guide, in plain language terms, that consumers may use and that planners may use with their clients as a starting point to help engage clients in financial planning in a gentle, non-threatening manner that helps clients feel more comfortable with financial matters and terms, and more understanding of their own financial situation and priorities.

Want more information?

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Practice Notes

Online Financial Wellness Guide

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Research conducted by:

Financial Wellness Study

Research summary

This study, conducted by CPA Canada help Canadians assess, articulate and ultimately improve their degree of financial wellness. The study showed that by framing their view of financial wellness and what it means to them, Canadians can better identify gaps between their current and desired state of well-being and more effectively communicate with the financial planners who can help them reach their goals.

Based on the Financial Wellness Study and with the financial support of the FP Canada Research Foundation, CPA Canada developed the Financial Wellness Guide, an interactive questionnaire that helps Canadians understand money basics and how to apply learnings to improve their own lives.

Practice Tips

Some Canadians may have feelings of anxiety, embarrassment or shame as it relates to their finances, which may create hesitation to engage in financial planning or with a professional. They may also lack trust in financial advisors if they feel that advisors may not have their best interests at heart or they may not want to reveal their lack of financial literacy. They may also not feel comfortable sharing private or intimate details of their financial situation with a stranger.

As a result, many Canadians may not be getting the financial planning help they need.

The Financial Wellness Guide provide an easy way for clients or prospective clients to get started in exploring their finances, without the anxiety or intimidation they may have in meeting with a professional. It provides a warm up exercise for the client and a way to engage clients in planning.

Where the client is comfortable sharing the results with you, it can also facilitate your discovery process as both you and the client will be armed with equal information about what is important to the client and where they may have financial concerns.

Here are a few suggested steps for using the Financial Wellness Guide with your clients or prospects:

1. Provide your prospects/clients with the link to the Guide. Indicate that it should take about 10 – 15 minutes to complete.
2. Let them know its purpose – to allow them to better understand their current situation and to help identify areas where they may feel confident and less confident and areas where they may want guidance or advice from a professional financial planner, like you.
3. Ask them if you can follow up with them in a week to see if they may have any questions or to discuss the results
4. Maintain your commitment to follow up and when you do, ask open ended questions, such as:
    - Being more effective in engaging them in financial planning;
    - Helping to ensure their ongoing engagement throughout the financial planning process; and ultimately,
    - Motivating your clients to take action based on your recommendations.

Want more information?

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Executive Summary

Online Financial Wellness Guide

Predicting a Person's Likelihood to Seek Professional Financial Hel Financial Stress & Self-Efficacy

This study, conducted by researchers Jodi Letkiewicz, Chris Robinson and Dale Domian of York University, examined the behavioural aspects of financial planning. The researchers focused specifically on two behavioural experiences or traits—financial stress and self-efficacy (the belief in one's own ability to succeed)—and analyzed how both traits predict a person's likelihood to seek professional financial help. Planners can apply the findings of this research to increase the likelihood that clients will both seek your professional financial planning advice and implement that advice.

Executive Summary

Practice Notes

This research was funded and released by the FP Canada Research Foundation, now known as the Canadian Foundation for Financial Planning™

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Predicting a Person's Likelihood to Seek Professional Financial Help – Financial Stress and Self-Efficacy

Executive Summary

2016

Research conducted by:

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FP Canada's Value of Financial Planning study revealed that Canadians with financial plans feel they are saving more, living well, and experiencing higher levels of overall contentment in their lives. Despite these positive findings, the unanswered question is why more people are not seeking out a professional to develop a financial plan. Understanding these factors may allow more Canadians to experience the benefits identified in the study.

The Financial Planning Foundation (recently, renamed FP Canada Research Foundation) funded a study, conducted by researchers Jodi Letkiewicz, Chris Robinson and Dale Domian of York University, to look at the behavioural aspects of financial planning. This study was motivated by interest in the types of factors – aside from wealth and income – that lead people to seek help.

The researchers focused specifically on two behavioural experiences or traits – financial stress and self-efficacy (the belief in one's own ability to succeed) – and analyzed how both traits predict a person's likelihood to seek professional financial help. The research concluded that financial stress alone is not enough for people to seek financial help. Instead, it is self-efficacy that is a consistent and strong predictor of help-seeking behaviour. In fact, financial stress without self-efficacy tended to decrease the likelihood that one would seek the help they need. Those who believe they can succeed are more likely to seek the help they need to succeed.

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Practice Notes

Research Paper

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Research conducted by:

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Predicting a Person's Likelihood to Seek Professional Financial Help – Financial Stress and Self-Efficacy

Research summary

This study, conducted by researchers Jodi Letkiewicz, Chris Robinson and Dale Domian of York University, examined the behavioural aspects of financial planning. The researchers focused specifically on two behavioural experiences or traits—financial stress and self-efficacy (the belief in one's own ability to succeed)—and analyzed how both traits predict a person's likelihood to seek professional financial help. Planners can apply the findings of this research to increase the likelihood that clients will both seek your professional financial planning advice and implement that advice.

Practice Tips

Helping to increase clients' self-efficacy can help to enhance your outcomes with clients by:

- Being more effective in engaging them in financial planning;
- Helping to ensure their ongoing engagement throughout the financial planning process; and ultimately,
- Motivating your clients to take action based on your recommendations.

There are 4 ways for you to increase your clients' self-efficacy:

1. **Vicarious Experiences**
   - **Let Your Clients or Prospects Know You Serve Others Like Them**

     Vicarious Experiences occur when you observe someone like yourself succeeding at a task.

     Communications and advertising can highlight success stories to appeal to a diverse audience and provide valuable information and guidance to help people get started.

     You can encourage prospects or clients to engage in financial planning by letting them know that you regularly work with clients like them, with similar needs, priorities or concerns and who, like them, may have been initially hesitant to discuss their finances with a professional, but who have now made great strides, with many increasingly confident in their futures.

2. **Performance Accomplishments**

   – **Give Your Clients a Sense of Accomplishment**

     You can help your clients feel a sense of accomplishment by setting simple tasks toward achieving their goals as a start -- for example, paying off their credit card debt by a certain deadline or setting aside a small amount each month for emergencies. Another example would be to discuss and put a plan in place to address a single priority. These tasks require a measure self-discipline but they are relatively modest and readily achievable goals.

     The philosophy applies equally to personal finance as it is for diet or exercise – the more we feel good about what we have accomplished, the more motivated we will be to continue on a positive course and set larger goals for ourselves that will enhance our well-being.

     As it pertains to financial planning, setting micro-tasks is a good way to motivate clients to take on more advanced tasks, such as engaging in a fulsome discovery process to help address their goals more holistically or developing a budget to satisfy both current and future lifestyle needs.

3. **Verbal Persuasion – Be Your Clients' Cheerleader!**

   You have opportunity to be your clients' cheerleader! Encourage your clients by providing constructive feedback to build and maintain their confidence. Congratulate them for their efforts and achievements, even when they may appear relatively small. This helps to build self-efficacy.

   A little belief in someone can go a long way. Using the fitness analogy, a big reason why people use personal trainers is for their role as personal champions and supporters! Similarly, a big reason why people use diet clinics is for their ability to support and encourage.

   You have opportunity to play a similar role with your clients — in particular those who may not be comfortable with personal financial matters or who may feel badly about the progress they have made toward their goals to date.

4. **Physiological States – Help your Clients Take Action in their Best Interests**

   Extremely nervous or anxious people tend to doubt themselves and may therefore have a weak sense of self-efficacy. This is in line with the research findings that stress can either paralyze or mobilize someone to seek financial help.

   One way to reduce stress and anxiety about personal finances is to keep things simple and connect to what's important to your clients. This can be done in the following ways:

   a) Keep your discussions with clients focused on what matters most to them - you can do that by connecting every conversation back to your client's priorities. As an example, during your discovery meetings, tie your questions directly to the client's interests and concerns. When discussing your recommendations and plan, keep the details to the side and focus on an Executive Summary with the clients' priorities front and centre.

   b) Break down implementation plans into small bite-size pieces – this will reduce anxiety and help develop your clients' confidence in their ability to take on the steps you are recommending more efficiently

   c) Facilitate the implementation of your recommendations – you can do this by offering to set up meetings with counterparts and other experts who may need to be involved in the implementation, offering to join your clients in meetings with specialists and offering to help your clients in tasks that are delegated to them.

You have an important role to play in helping to increase your clients' self-efficacy so that they seek your professional financial planning advice and then, implement your advice to effect positive client outcomes for you and your clients over the long term.

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Executive Summary

Research Paper

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