SAVING BY TALBOT STEVENS

Strategies for tackling clients' low savings rates

Personal savings rates may be at record lows, but you can help clients find ways to save for retirement

ALTHOUGH CANADA WAS once known as a nation of savers, the personal savings rate of Canadians dropped below 0% in 2005, making front-page news. With savings at record lows, personal debt at record highs and interest rates on their way up, are household finances facing a crisis?

This is indeed a concern for advisors and a wealth-management industry that depends on dollars being saved instead of spent. So what can advisors do to help clients who are behind on their retirement plans to increase their savings?

The statistics would seem to indicate that Canadians are no longer concerned about saving. This interpretation is supported by a recent study commissioned by **Canada Investment and Savings**, an agency of the Department of Finance that is responsible for Canada Savings Bonds, which shows that paying down debt is the No. 1 priority for 36% of Canadians, followed by saving for travel or major purchases (30%). Saving for retirement or education is a priority for only 19%.

Before we all throw in the towel and look for new careers, however, let's recognize the risk inherent in statistics. They can be misleading and easily misinterpreted.

The definition of the personal savings rate, as reported by Statistics Canada, for example, measures the percentage of after-tax income that is saved in interest-producing deposits, such as bank accounts and GICs. It does not include investments that produce capital gains. This measure is fundamentally flawed and does not reflect the total dollars that households save toward their future. Investments in stocks, equity funds or real estate do not get counted in the savings statistic, even if they are RRSP contributions. Other significant omissions from the savings data are public and/or employer pension contributions directly deducted from paycheques.

Derek Holt, assistant chief economist at **RBC Financial Group** in Toronto, says the total amount Canadians are saving is generally not a problem. When the excluded factors are included, the savings picture is much healthier, with average savings fluctuating between 15% and 25% of after-tax income instead of the negative savings rate reported by Statistics Canada.

The personal savings rate is also strongly linked to interest rates. As interest rates fell in the 1990s, GIC investors lost the incentive to invest in guaranteed deposits. They moved into mutual funds and began building more balanced portfolios.

Although the more inclusive measure of total savings reveals that the average household is still saving, this will not apply to all clients, of course. In addition, while total wealth may not be in trouble, it is liquid net worth that is important for those who are not willing to downsize or draw on home equity to finance retirement.

As Debbie Ammeter, senior vice president of advanced planning at **Investors Group Inc.** in Winnipeg, says, each client's need for savings is different and must be assessed on an individual basis. Determining if a client needs to increase his or her rate of savings depends on how much more must be put away before retirement, which depends on net worth, debt, age, pension, life expectancy and retirement goals.

In Canada, RRSPs are the foundation of voluntary retirement savings. When fully utilized and combined with government retirement programs, this system allows average Canadians to shelter enough savings during their working lives to enjoy a comfortable retirement.

RRSP data indicate that Canadians, on average, are not putting enough into RRSPs. Since 1991, $377 billion of unused RRSP room has been carried forward, averaging $19,070 of unused room for each of the 87% of tax filers eligible to contribute. Only about 8% of the total contribution room is used each year. Median RRSP contributions were $2,600 in 2004, representing an inflation-adjusted increase of a meagre 0.2% annually since 1991. Average contributions were $4,796 in 2004, growing 1.3% annually after inflation since 1991. Most distressing is the fact that, despite awareness about RRSPs and taxpayers' universal desire to cut taxes, in most years only 30% of eligible tax filers make any RRSP contribution at all.

Part of the reason 70% of Canadians made no RRSP contribution in 2004 is that decades of relatively strong economic growth have made us more grasshopper than ant. Those who lived through the Great Depression learned the need to save the hard way. Each subsequent generation has enjoyed increasing standards of living, creating a consumer society that wants it all. Easy credit and low interest rates make having it all possible — at least, for a while.

Kristian Girard, manager of product strategy, retail credit solutions, at **National Bank of Canada** in Montreal, says we are a "monthly payment" society, and the financial services industry's fundamental competition is not other financial services companies but retailers that spend billions to entice people to spend and enjoy today.

Competition for clients' dollars includes retailers who spend billions to entice people to spend — and enjoy today

This battle for clients' disposable cash is a tough one for the wealth-management industry. Psychologically, the immediate, tangible pleasure of spending to get what you want now easily trumps the delayed gratification of saving to meet future needs and wants. Retailers have also become very innovative, making buying even big-ticket items seem affordable and painless by promoting low monthly payments instead of the total price, "buy now, pay later" deferred payments and partial purchases through leasing.

With the leading-edge baby boomers almost 60, you will have some clients who need to get serious about saving for retirement — and quickly. Here are some ways to help those who need to save more.

■ **HELP CLIENTS BECOME BETTER CONSUMERS.** Too often, financial planning ends at investing. The first and forgotten half of personal finance is becoming a better consumer. Regardless of age or income, everyone spends money. One way advisors can add value is to show clients how to become better consumers, thereby freeing up money for savings.

For example, you can keep a container of "new-car scent" air freshener on your desk with a sign that says: "Worth $204,000." When clients ask about it, say that $5 worth of new-car scent is one way to help clients who find it difficult to keep up their RRSP contributions. Buying a slightly used car instead of a new one can save a lot of money. After a few months, it is difficult to tell the difference between a new vehicle and a previously owned one that is one to two years old. Anyone who misses the new-car smell can buy scented air freshener and keep the car smelling like new for $5 a month.

The savings could easily be $15,000 after factoring in reduced taxes, financing and insurance; $15,000 invested in an RRSP for 30 years at 8% grows to $151,000. And reinvesting a 35% tax refund boosts the benefit to $204,000.

Ask clients if they'd let someone else drive their new vehicle for a year in exchange for $204,000 30 years later. That's not a bad return on acting once on one simple consumer strategy. Simply buying slightly used vehicles a few times and investing the savings could completely fund a client's retirement.

■ **HELP CLIENTS MANAGE DEBT.** With debt at record levels and paying down debt a top priority for many Canadians, advisors can help clients effectively manage debt. For example, are debt payments and debt balances at responsible levels that result in low financial and emotional stress? Can high-interest debt be consolidated at a lower rate with a personal loan or home line of credit? Any difference in debt payments creates new investible cash flow. If a client has unregistered investments that can be cashed in without incurring significant capital gains taxes, a simple "debt swap" can convert personal, non-deductible debt (used to purchase depreciating assets or bad debt) to a tax-deductible investment loan at a lower rate — in which case, the interest expense is generally tax-deductible (good debt).

■ **PROVIDE MORE EDUCATION.** Personal finance is not taught in school, nor is it a subject most parents teach their children. Advisors and the financial services industry need to help the public understand the benefits of financial planning. People need to recognize that their financial health can be as important as their physical and emotional health. Proof is in the fact that eliminating money problems removes one of the main causes of divorce. Advisors' and clients' lives will be easier and more profitable if the public understands the basics of money and starts saving earlier.

■ **BE A BEHAVIOURAL COACH.** The most important barrier to clients' financial success is their behaviour. It's not what we know; it's what we do. We know to buy low and sell high, but most of us do the opposite.

After educating and clarifying clients' goals, advisors have to become coaches, understanding each client's strengths, weaknesses and money personalities. Basic psychology, the expanding field of behavioural finance and motivational skills will always be needed to "sell" clients on acting in ways that realize their financial goals.

To compete more effectively with retailers, who have the easier task of selling tangible products that can be enjoyed immediately, and to earn a larger share of a client's disposable cash flow, advisors need to design, package and deliver effective solutions to address the risk of:

- continuing bad financial habits;
- not having a plan;
- procrastinating;
- saving at an inconsistent or reduced level;
- spending RRSP refunds;
- not acting when action can benefit the client. **IE**

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