SAVING BY TALBOT STEVENS

Change in client's habits feathers retirement nest

Advisors can promote education, wiser spending choices, better savings strategies and borrowing for the future

WHILE THE PERSONAL savings rate of less than 0% does not accurately reflect the total amount that is being saved, it is safe to say many clients are not saving nearly enough to meet their financial goals.

Because investment advisors, their clients, investment companies and even governments have much to gain from clients increasing their savings rates, it is valuable to explore and understand ways to help clients save more dollars, earlier and with more consistency.

■ **MORE EDUCATION.** Awareness and understanding are the first steps toward acting on any idea from which we can benefit. Thus, more education on all aspects of financial planning is one of the keys to increasing savings rates. The merits of basic financial planning need to be promoted better by advisors, industry associations and corporations — especially corporations that have shifted to defined-contribution pension plans. The financial services industry should push governments to introduce a mandatory course on the basics of personal finance in high school.

Clients need to regard advisors as essential professionals who will protect their financial health, just as they rely on doctors to protect their physical health. Whenever possible, advisors should quantify the difference between clients' implemented plans and their former situation — to increase the clients' appreciation of the advisors' efforts.

■ **BEING BETTER CONSUMERS.** The current trend to educate consumers is in helping them make better spending choices. **Bank of Nova Scotia**'s Find the Money campaign shows people that even small changes in their everyday spending habits add up over time. This is a shift toward a more positive and inspirational message and a departure from the fear-mongering tone of Scotiabank's Reality Check campaign a few years ago, in which clients were often shocked to learn the reality of how much money they would need to fund a secure retirement.

Rick White, Scotiabank's vice president of brand management in Toronto, says that simplicity is the key to the success of the campaign. The reality is that many people are intimidated by the idea of a financial plan, and the most important thing is to get clients to adjust some of their spending habits to free up some cash flow, then start putting away savings each month.

Mackenzie Financial Corp. recently launched its Burn Rate campaign, with a suite of resources on www.*burnrate.ca* so that advisors can ask clients whether the clients can afford to maintain their current lifestyles. John Dale, executive vice president of marketing at Toronto-based Mackenzie, says most people have no idea how quickly they are burning through their cash.

The company's next focus is to take the spending awareness message to clients' children to help foster a conscious choice in balancing spending and savings before their financial habits are established.

> **Instead of telling clients they need $867,000 to finance their lifestyle till 90, tell them how much they need to save each month**

■ **INVEST ALL INTENDED DOLLARS IN RRSPS.** Consider a 50% tax bracket for simplicity. Advisors and clients need to understand that $1,000 available to invest in RRSPs is generally already taxed and equates to $2,000 before taxes inside an RRSP. Most investors spend the $500 refund, unwittingly reducing their real after-tax contribution toward retirement to only $500. Reinvesting the refund is a much better strategy than spending it, as this results in a total deposit of $1,500.

But encouraging clients to invest all their intended after-tax dollars benefits them and advisors. The equivalent RRSP contribution from $1,000 available to invest is $2,000, which is double the amount normally invested, hence doubling the benefit to both clients and advisors.

■ **BETTER SAVINGS STRATEGIES.** Once some cash flow is available for investing, clients need to understand the pros and cons of the three fundamental savings strategies. The ad hoc savings approach, by which clients only invest when they have cash available and they are in the mood, is the least effective and, unfortunately, the most common. This often occurs before the RRSP deadline, if at all.

More effective is the automatic savings approach, by which clients pay themselves first, with monthly deposits taken directly from a savings account before the money can be spent. An informal survey of advisors suggests that only 10%-30% of clients invest on a monthly basis.

For many, a forced savings approach of paying off an investment loan is even more effective because it locks in a higher level of commitment and savings discipline than would otherwise occur. As long as the forced savings plan (mortgage, RRSP catch-up loan or investment loan) is small enough that it will not result in financial or emotional strain, the client is likely to complete the investment because there is no choice but to make the loan payments.

■ **BEHAVIOURAL SOLUTIONS.** Educating clients about the tactics of saving and financial planning is the easy part. Getting them to act — and on a consistent basis — is much tougher.

The best behavioural solutions produce long-term, ongoing results from one-time decisions, as do both the automatic and forced savings approaches. Ideally, advisors should move clients from the ad hoc approach toward a combination of automatic and forced savings approaches that meet the clients' need for locked-in discipline vs flexibility and create comfort with "good" investment debt.

U.S. motivational guru Anthony Robbins says everything we do is an attempt to avoid pain or experience pleasure. This is a core concept to keep in mind when searching for solutions to motivate clients to save more.

It is common for investors to procrastinate because it is easier, and thus less painful, to defer than it is to take the time and effort to learn about and implement a savings plan. Procrastination ends when the potential pain resulting from further delay outweighs the pain of taking action now. Indeed, fear-mongering is a popular marketing strategy used to try to get clients to invest more.

Michael Walker, vice president of wealth-management services at **RBC Financial Group** in Toronto, says clients need a wake-up call so they are aware of the amount required to fund the retirement lifestyle optimistic baby boomers are hoping to enjoy.

At some point in the clients' financial development, they will need to understand how much savings will be required to meet their retirement goals. However, too much truth too soon can actually make things worse.

If, after decades of negligible saving, an investor with $67,000 in savings learns he will need to accumulate $867,000 in the next 12 years, he may conclude he will never get there, give up and end up actually saving less.

■ **START GOOD HABITS, ONE STEP AT A TIME.** All industry experts agree that the first and most important step for clients is simply to get started. Once the savings habit is in motion, advisors can progress to the basics of investment planning, eventually leading to retirement and estate planning. If clients establish and continue the habit of automatically investing 10% of their income starting with their first paycheques, they are 80% of the way to securing comfortable retirements.

■ **KEEP IT SHORT AND SIMPLE.** If our actions are motivated by the desire to avoid pain, making the process of saving and financial planning as painless as possible is critical.

CIBC's Financial HealthCheck, which promises to get an investor's RRSP on track in as little as 15 minutes, is a good example of keeping the process short and simple. It will undoubtedly produce good results for those clients who are ready to take the next step — those who want to graduate beyond ad hoc savings and get started with a basic financial plan.

Although financial planning can be complicated, it doesn't have to be. Lack of understanding leads to lack of confidence, which prevents people from taking action. Advisors need to communicate in the simplest language, providing only the details needed to develop client trust and comfort.

■ **FINANCE PART OF RETIREMENT WITH LOW, EASY PAYMENTS.** Auto manufacturers make large financial commitments seem easier by offering financing with "low, easy payments." This approach is so successful for vendors that we are now a monthly-payment society. And the introduction of leasing reduced the pain of acquiring transportation even further by allowing us to finance only part of the life of a vehicle.

The financial services industry should learn a lesson from this magical marketing strategy and follow suit. Instead of revealing that clients need $867,000 to finance their desired retirement until the age of 90, tell them how much they need to save each month to get the job done.

Better yet, don't think of retirement as a single, huge financial goal. Break this large commitment into several, smaller pieces. Talk to clients about saving to finance the first five years of retirement, and then the next five, and so on — building the security of their retirement house one room at a time. As leasing a vehicle does, this will require smaller and less intimidating monthly payments.

For example, clients who are 20 years away from retirement can "buy" $10,000 a year of retirement income that lasts five years for the low, easy payment of about $75 a month, assuming 8% returns in an RRSP. At less than $3 a day, this is something that almost anyone can afford.

■ **PROBE CLIENT FEELINGS AND PRIORITIES.** Ultimately, we do things that make us feel better. After communicating that you are simply a financial coach there to help them achieve their financial goals, ask clients how important retirement is to them on a scale of zero to 10. If they are young, ask how important retirement will be in 10 or 20 years. Then ask if their current behaviour reflects that priority. Have they started saving regularly? Do they have a plan? Are they on track?

On a scale of zero to 10, how happy are clients with their current financial situation? Ask how they would feel if they could increase their money happiness by two or three points. What would they be willing to do to make that happen?

These are just some of the tactical and motivational approaches that financial advisors can use to help their clients increase their savings rate. As behavioural finance continues to develop, more insights and innovative behavioural solutions will become available to help advisors help clients achieve their financial goals. **IE**

Talbot Stevens is an industry consultant, speaker and software developer. E-mail him at talbot@TalbotStevens.com.