The Conference Board of Canada

Saving for the Future:
Impacts of Financial Advice on the Canadian Economy

Presented to:
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Prepared by:
The Conference Board of Canada

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Executive Summary

Saving for the Future is an update of The Conference Board of Canada's 2014 report, *Boosting Retirement Readiness and the Economy Through Financial Advice*. Similarly, this report assesses the economic impact of higher national household savings projected to occur through the increased uptake of financial advice. The Conference Board received updated survey data used in Montmarquette and Viennot-Briot,[1] which underpinned the analysis in the 2014 report. The survey data include savings and income by age cohort for those who do and do not have a financial advisor. According to the survey results, individuals who have a financial advisor are more disciplined in their savings behaviour.

Aside from the updated data, the methodology and many of the assumptions in this report remain the same as in the 2014 report. The analysis is based on a hypothetical scenario in which 10 per cent of individuals who currently do not have a financial advisor begin a relationship with one. Therefore, they start saving at a higher rate that is comparable to the savings rate of an individual with a financial advisor. We assume that these additional savings are invested and earn a nominal return of 6 per cent per year, net of management fees. We use the Conference Board's national forecasting model to quantify the impacts of increased household savings on the Canadian economy over an extended time period that spans from today to 2060. Savings were projected using our population and income forecasts. The long-term forecast allowed us to account for the shift in income and savings that will result from an aging population. The increase in savings was modelled as an equal but negative "shock" to household consumption. Plus, we also factored in the increase in investment income earned on these savings that will be withdrawn to supplement retirement income, as well as an increase in domestic business investment spending. We assume that 50 per cent of the annual savings in the domestic economy will fund domestic business investment.

The increased savings rates in our hypothetical scenario have a huge impact on national household savings over time. In nominal terms, the stock of household savings is $2 billion higher in 2060, relative to the baseline case. The results show that the overall impact on GDP from increased savings is positive. The drop in household spending from increased savings pulls GDP below its baseline at the start of the time period. However, the positive impacts from the increased savings on domestic investment and trade – as well as the drawdown of the

[1] Montmarquette and Viennot-Briot, *Econometric Models*.

savings stock as more Canadians enter retirement – help to boost GDP through the duration of the time period. By 2060, real GDP is $900 million above the baseline, thanks to the positive impacts resulting from increased savings. At the same time, the increase in domestic investment spending improves productivity and this lifts potential economic growth higher.

Our findings show that increased business investment yields higher corporate profits and hence higher corporate income tax revenues. However, in the short term, the negative impact on tax revenues from goods and services taxes and personal income tax (which result from lower consumer demand and lower employment) outweighs the positive impact on corporate income tax. Tax revenues are still well below the baseline in 2025. Though, as economic conditions improve over the medium term and continue to do so over the long term, the impact on all three sources of tax revenue becomes increasingly positive. Overall, tax revenues sit nearly $7 billion above the baseline in 2060.

In addition to examining the influence on the overall economy, we looked at the impact on individuals. We estimated how increasingly affluent a person could be in retirement by employing the services of a financial advisor throughout their working life. In our approach, we modelled the lifetime income, consumption, and savings of two hypothetical individuals. Our modelling was based on the survey data provided by Montmarquette and contained savings rates by age cohort and by type of saver (i.e., whether or not the individual receives financial advice). In our hypothetical scenario, one individual is assumed to have a financial advisor and the other does not. The model also considered current and future government deductions and benefits.

We considered two cases; the first of which analyzed the evolution of lifetime savings, consumption, and retirement income for early savers. The individuals are 25 years old when they begin saving in 2020. In the second case, the analysis considered the savings, consumption, and retirement income of late savers. These individuals are 35 years old in 2020 when they begin saving. Overall, our results suggest that forming a relationship with a financial advisor leads to greater accumulation of retirement savings. In our hypothetical scenario, having a financial advisor could result in an increase of between 55 to 60 per cent in retirement savings.[2] These increased savings, in turn, provide higher retirement income, and allow individuals to retain a larger share of their pre-retirement standard of living. In fact, in this

[2] In our scenario, lifetime savings are 55 per cent higher if an individual receives financial advice and begins saving early, at age 25. Savings are 60 per cent higher if the individual receives financial advice and starts saving late, at age 35.

scenario, retirement consumption could increase by 23 to 25 per cent.[3] Therefore, employing the services of a financial advisor could significantly boost retirement readiness. We also found that while financial advice is crucial to boosting retirement readiness, it is also advantageous to begin saving at an early age.

[3] The individual spends 23 per cent more as an early saver and 25 per cent more as a late saver.

Introduction

Canada is undergoing a major demographic shift as most baby boomers approach retirement. Seniors represented about 18 per cent of the Canadian population in 2019.[4] And by 2060, they will account for one in every four individuals living in Canada. Population aging has severe socio-economic implications and addressing its challenges has been of great interest in policy discussions. Often, these discussions have revolved around the retirement readiness of Canadians and the slowdown of our potential economic output growth. Even though financial advice does not immediately come to mind when thinking about potential economic output, it can impact both retirement readiness and long-term economic growth through its influence on household savings.

In 2014, The Investment Funds Institute of Canada commissioned The Conference Board of Canada for a report examining the link between the use of financial advisers and retirement readiness, as well as the link between financial advice and long-term economic growth potential. The report, entitled *Boosting Retirement Readiness and the Economy Through Financial Advice*, assessed the economic impact of higher household savings through increased uptake of financial advice. At the aggregate level, the study found that the medium-term effects on GDP were adverse due to a significant decline in consumption as a larger share of income was allocated to savings. But over the long term, consumer expenditure increased as drawdowns from the accumulated stock of savings were used to supplement income. Overall, the GDP impacts were found to be positive in the long term, thanks to higher consumption and increased business investment.

This report is an update of the 2014 study and includes case studies that examine the impact of financial advice on individuals' lifetime income, savings, and consumption.
The relationship between financial advice and retirement readiness is especially relevant in the context of an aging population that is living longer and not saving enough for retirement. Research on Canadian savings habits often highlights the fact that the savings behaviours of many Canadians are not in line with lifetime consumption smoothing. As a result, a significant share of future retirees is likely to experience considerable declines in their standard of living during retirement.

[4] Statistics Canada, "Table 17-10-0057-01," 17.

A 2015 report by McKinsey & Company concluded that nearly one in six Canadian households were financially unprepared for retirement.[5] In 2016, the Investor Office of the Ontario Securities Commission funded a study on the retirement readiness of Canadian pre-retirees aged 50 and older. The study found that over half of pre-retirees did not have a plan for retirement savings.[6] And, among those who had a retirement savings plan, nearly a third felt behind their plan. Also, of pressing concern was the fact that over 20 per cent of pre-retirees had not started saving for retirement yet. Overall, 40 per cent of pre-retirees expected a decline in their standard of living during retirement. The latest BMO annual RRSP study indicates that nearly 60 per cent of Canadians are uncertain about how much savings they would need to retire comfortably.[7]

Financial advice can, indeed, clear a lot of uncertainty about retirement and boost retirement readiness. In fact, a 2016 Canadian study by Montmarquette and Viennot-Briot revealed that households that received financial advice for 15 years or more could increase their assets by 290 per cent compared to those households without a financial advisor.[8] Moreover, advised households accumulated 3.9 times more assets than their non-advised counterparts after 15 years. The study concluded that the value of financial advice lies in its ability to cultivate discipline in households' savings behaviours. People tend to save a larger share of their income when they have financial advice.

It is evident that Canadians are not saving enough for retirement and that financial advice can help boost retirement readiness through higher savings. This report also asks the following question: What would happen to the economy if more Canadians had financial advice and hence saved a higher percentage of their income?

This report is organized as follows. The first section assesses the economic impact resulting from a potential increase in household savings. It also provides an outline of the methodology – as well as assumptions – used to conduct the analysis. Like the previous report, this report also builds on earlier research by Montmarquette and Viennot-Briot. They found that households who use the services of a financial advisor tend to have higher savings rates, more disciplined financial behaviours and, consequently, better asset accumulation. Hence, the approach taken in the analysis was to construct a hypothetical scenario where changes in savings behaviours are based on the share of individuals receiving financial advice. The resulting economic impacts

[5] McKinsey & Company, *Building on Canada's Strong Retirement Readiness*.
[6] Innovative Research Group, "Retirement Readiness: Canadians 50+."
[7] BMO, "BMO 10th Annual RRSP Study."
[8] Montmarquette and Viennot-Briot, *The Gamma Factor and the Value of Financial Advice*.

were quantified using The Conference Board of Canada's national econometric forecasting model. Simulations were performed over a lengthy time horizon to determine the effects of increased savings on domestic investment and potential economic output.

The second section quantifies individuals' benefits during retirement associated with receiving financial advice over time. We construct case studies analyzing the lifetime income, savings, and consumption paths of two hypothetical individuals: one who receives financial advice, and one who does not.

Section 1: The Impact on the Economy

1.1. Methodology

In this analysis, we created a hypothetical situation in which savings behaviour changes in the presence of financial advice to determine the resulting economic impact from this change in behaviour. We needed to produce the analysis over a lengthy time horizon to capture the linkages between changes in savings behaviour, investment, and potential output. But, conducting an analysis over a significant time period has some inherent challenges. In this case, the main challenge is that savings and income are dependent on age. Therefore, demographic changes must be factored into income projections.

Prior to running the economic impact scenario, it was necessary to build the data to be used to shock The Conference Board of Canada's national forecasting model.[9] The steps required to build this data can broadly be grouped into four sections detailed below. These steps include:

1. Evaluating savings and income across age cohorts.
2. Creating a profile of long-term income by age and type of saver.
3. Calculating the extra savings from a change in savings behaviour.
4. Forming assumptions regarding the rate of return on investments and the link between domestic savings and investment.

1.1.1. Estimating the Increase in Savings

Savings Behaviour and Income Across Age Cohorts

To model the impacts of increased savings, we need to understand how savings behaviour changes, based on average income and across different age cohorts. The Life-Cycle Hypothesis theory (in economics) posits that individuals prefer to smooth consumption over their finite lifetimes. This implies that saving rates change depending on one's stage of life. This means saving rates often rise with age and income, but decline and become negative as an individual enters retirement and income falls.

[9] A model shock involves introducing a change to our baseline scenario. Model shocks are a common tool for evaluating the impact of different policy scenarios.

Professor Claude Montmarquette provided The Conference Board of Canada with updated household survey data that was utilized in his 2012 research that explored the value of financial advice.[10] The 2018 data contain average income and savings, broken down into three age groups (i.e., 25–44, 45–55, and 55–64) and for two types of savers: those who received financial advice (advised) and those who do not receive financial advice (non-advised). (See Table 1.)

Within this data set, we see some clear patterns. For instance, those who seek financial advice have higher incomes as well as higher savings rates. In each case, the savings rates change across the age cohorts, rising as one moves closer to retirement age. In addition, the two types of savers do not have identical shares in the sample. Non-advised savers account for the bulk of the sample at 69 per cent, while advised savers account for 31 per cent of the sample. This suggests that a large share of the overall population likely do not use a financial advisor.

Table 1

Income and Savings Characteristics by Age Cohort, 2018

Age Cohort	**25–44**		**45–54**		**55–64**		**65 +**	
	Average Income ($)	**Savings Rate (%)**	**Average Income ($)**	**Savings Rate (%)**	**Average Income ($)**	**Savings Rate (%)**	**Average Income ($)**	**Savings Rates (%)**
With a financial advisor	122,077	11.5	121,837	8.9	101,965	11.1	93,465	7.5
Sample (n)	*180*		*271*		*449*		*185*	
Non-advised	112,120	9.5	105,013	7.3	92,261	9.5	72,335	7.4
Sample (n)	*409*		*368*		*406*		*218*	

Note: The total observations for advised participants in the data set was 1,118 and was 1,139 for non-advised participants.

Source: CIRANO.

[10] Montmarquette, Claude, and Nathalie Viennot-Briot, *Econometric Models.*

Above all, the data show that savings and income are dependent on age. To account for the shift in income and savings that will result from Canada's aging population, we needed to create a long-term projection of average income by age cohort and by type of saver.

Long-Term Income Projections by Age and Type of Saver

Canada's population is aging. By 2040, those aged 65 and over will make up 23.1 per cent of the total population, compared with just 17.6 per cent in 2019.[11] To account for the fact that Canada's age structure will change over the next decades, and the impacts this will have on national income and savings, we created long-term projections of average income by age cohort and by type of saver.

We first collected average income data by age cohort from Statistics Canada and re-weighted the data using population shares to fit our desired age cohorts: 0–24, 25–44, 45–54, 55–64, and 65+.[12] These data were then extended forward using our long-term forecast for wages and salaries per employee. This assumes that income growth is the same across all cohorts. This assumption is, of course, an oversimplification but was necessary given the absence of alternative information about the evolution of wages by age cohort. However, this assumption allowed us to account for the level difference between the average incomes across age cohorts. These income projections were then applied to our long-term population projections in order to obtain total income shares by age cohort over the long term. This allowed us to account for the demographic shift that will occur over the next few decades. For example, even though income growth is assumed to be the same over all age cohorts, the share of income accruing to those 65 and over will increase from 18 per cent in 2019 to 23 per cent before 2060, as a larger share of the population moves into this age cohort.

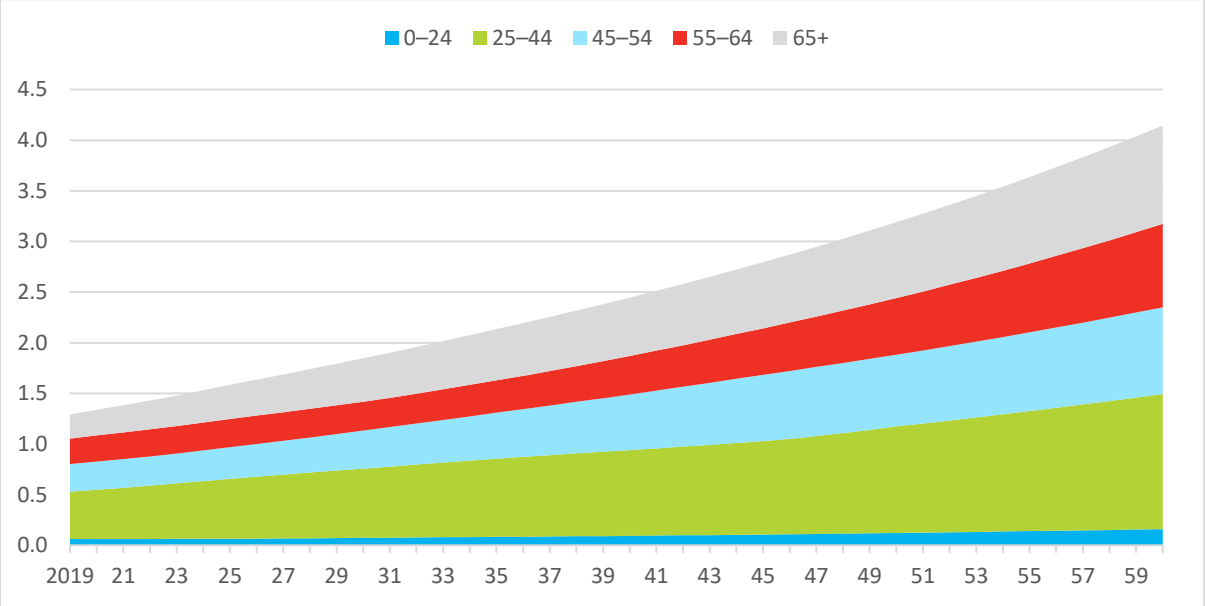
These income shares were then applied to the Conference Board's long-term forecast for disposable income in order to arrive at estimates of disposable income by age cohort. (See Chart 1.)

[11] Conference Board of Canada, The. *Canadian Outlook Long-Term Economic Forecast: 2020*.
[12] Statistics Canada, "Table 11-100240-01."

Chart 1

National Disposable Income by Age Cohort

($ billions)



Sources: The Conference Board of Canada; Statistics Canada.

The next step was to calculate the amount of disposable income over the long term that should be allocated to advised and non-advised savers. Using Montmarquette's data set, we calculated the share of income in the sample for both types of savers. These sample shares were then applied to the long-term forecast for disposable income for each corresponding age cohort to derive disposable income by age cohort and type of saver.

Estimating the Change in Long-Term Savings

The savings rate for each age cohort and each type of saver were applied to the corresponding disposable income series to arrive at savings estimates by age cohort, and then summed to derive an estimate of the national savings rate.

With estimates of aggregate savings for each age cohort and for each type of saver in hand, we then sought to answer the following question: **What would be the economic impact if a portion of the currently non-advised sample were to receive financial advice and, therefore, start saving at the same rate as those with a financial advisor?** In this scenario, we assume that 10 per cent of the income of non-advised savers (across the three age cohorts

spanning 25–64) is now saved at the higher rate of those already receiving financial advice. We chose the 10 per cent figure assuming that this is an outcome that is achievable by the industry.

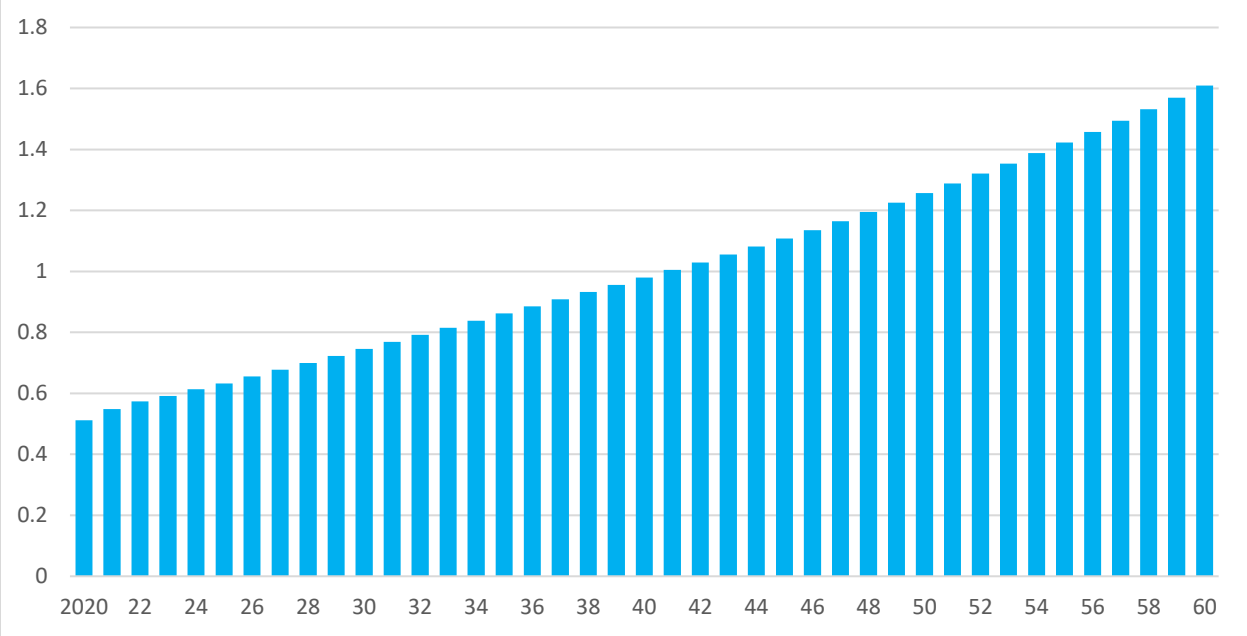
We calculated a new stream of national savings based on 10 per cent of non-advised savers increasing their savings rates to the rates of advised savers. The percentage difference between this savings rate and the baseline savings rate (calculated above) was then applied to the Conference Board's long-term savings rate forecast to derive a new savings rate that was consistent with the savings rate definition used in the Board's forecasting model.[13]

The difference between household savings with the baseline savings rate and this new savings rate, multiplied by our baseline forecast for disposable income, provides an estimate of the additional savings that could occur in the economy if 10 per cent of non-advised savers use the services of a financial advisor. (See Chart 2.)

Chart 2

Annual Increase in Savings

($ billions)



Sources: The Conference Board of Canada; CIRANO; Statistics Canada.

[13] The percentage increase was applied to the Conference Board's baseline savings rate forecast. The reason is that we required an estimate that was consistent with our baseline scenario and the savings rates from the data set did not match the personal savings rate from Statistics Canada's national accounts.

1.1.2. Additional Assumptions Used in Economic Impact Analysis

An increase in national savings imposes two key impacts that must be modelled in order to make our scenario as realistic as possible. For one, the additional savings are expected to be invested and provide additional investment income that can be withdrawn at a point in time. It is assumed that the additional savings earn a nominal return of 6 per cent, net of management fees.[14] Given the aging population, and the rising number of retirees expected over the next decades, further assumptions are made regarding the drawdown rate of savings as people will need to withdraw income from their savings to fund their retirement. The stock of savings is assumed to be withdrawn starting in 2020, with the rate of drawdown accelerating at a pace corresponding to our inflation projections.

The second impact concerns the link between domestic savings and investment. Considering the literature that supports the correlation, especially over the long run, it is assumed that 50 per cent of the additional annual savings will be used to fund domestic business investment.[15]

In total, this scenario involved three coinciding shocks to our national forecasting model (See Chart 3.):

1. A negative consumption shock equal to the increase in household savings.

2. A positive household investment income shock to account for the drawdown in the stock of savings that is assumed to begin immediately.

3. A positive shock to private business investment equal to half of the annual increase in domestic savings, shared out across the investment categories based on their respective shares in the baseline scenario.

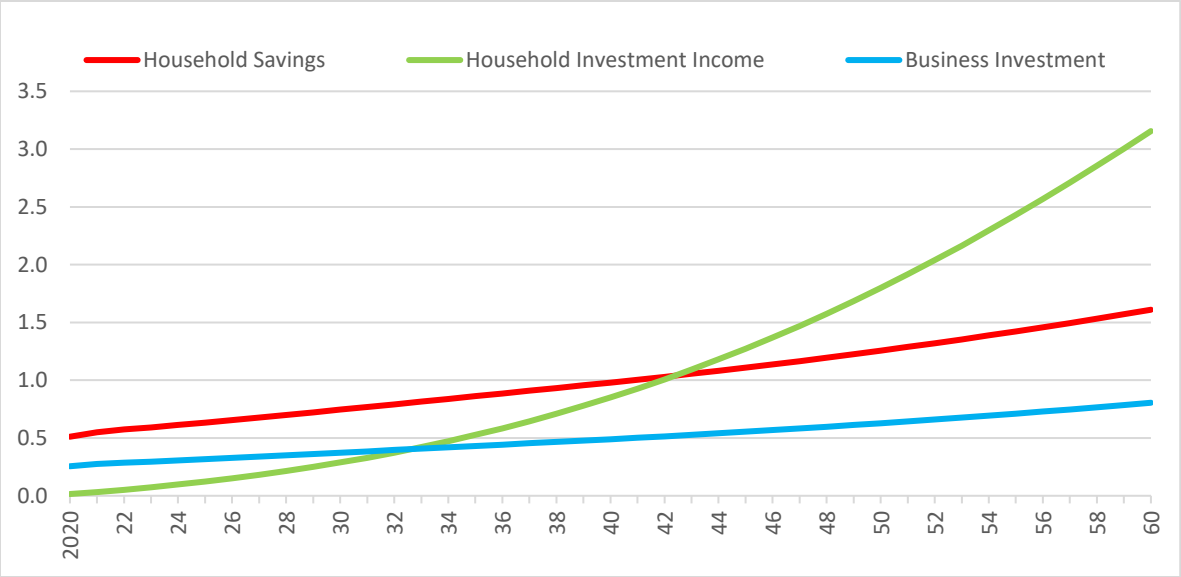
[14] The 6 per cent nominal return assumption is based on the average return across a range of market investments. See the FP Canada Standards Council and the Institut québécois de planification financière (IQPF) 2019 Projection Assumption Guidelines (https://www.iqpf.org/en/Account/news/news/2019/04/30/default-calendar/2019-projection-assumption-guidelines).

[15] Fifty per cent was chosen as the share of domestic savings funding domestic investment as it allows for some savings to flow out of the country. This reflects capital mobility while providing a conservative estimate of the correlation between the variables that are observed over the long run.

Chart 3

Shock Variables

($ billions)



Source: The Conference Board of Canada.

1.2 Results

Our goal was to examine how an increase in domestic savings – our "shock" scenario – impacts the Canadian economy in the medium and long term. As indicated above, the increase in savings is assumed to result in a decrease in consumer spending, an increase in household investment income, and an increase in business investment. In this section, we present the results obtained from the shock scenario.

The economic impact – which includes the direct, indirect, and induced impacts[16] of changes in the three variables – was modelled over the 2020 to 2060 time period using the Conference Board's national econometric forecast model. Given the extended time frame of the analysis, the medium- and long-term impacts associated with this shock are discussed in turn.[17]

[16] The total economic impact covers the initial shock, the resulting supply chain impacts, and the resulting consequences of more (or less) income and profits in the economy.
[17] All of the results are relative to the base-case Conference Board forecast. Shocking the model with the three variables of interest in this study results in an alternative scenario. The difference between this new scenario and the base-case forecast are the impacts resulting from the assumed change in savings behaviour.

1.2.1 Medium-Term Impacts

Households continually face a trade-off between saving and consuming – and this holds especially true over shorter time horizons. In the shock scenario, more households choose to save their disposable income rather than spend it. In effect, household spending is kept at a lower level compared to the baseline scenario. This extends through the entire medium term: by 2030, household spending is $237 million below the baseline scenario. (Unless otherwise noted, all dollar figures are presented in real or inflation-adjusted terms, in constant 2012 dollars. This allows spending, income, and GDP estimates to be comparable over time.)

In response to the lower demand, domestic businesses scale back on their operations. This scenario results in fewer jobs over the near term. But due to the positive impact on investment and trade from increased savings, the negative impact on the labour market is short-lived with job creation exceeding the baseline scenario as soon as 2022.

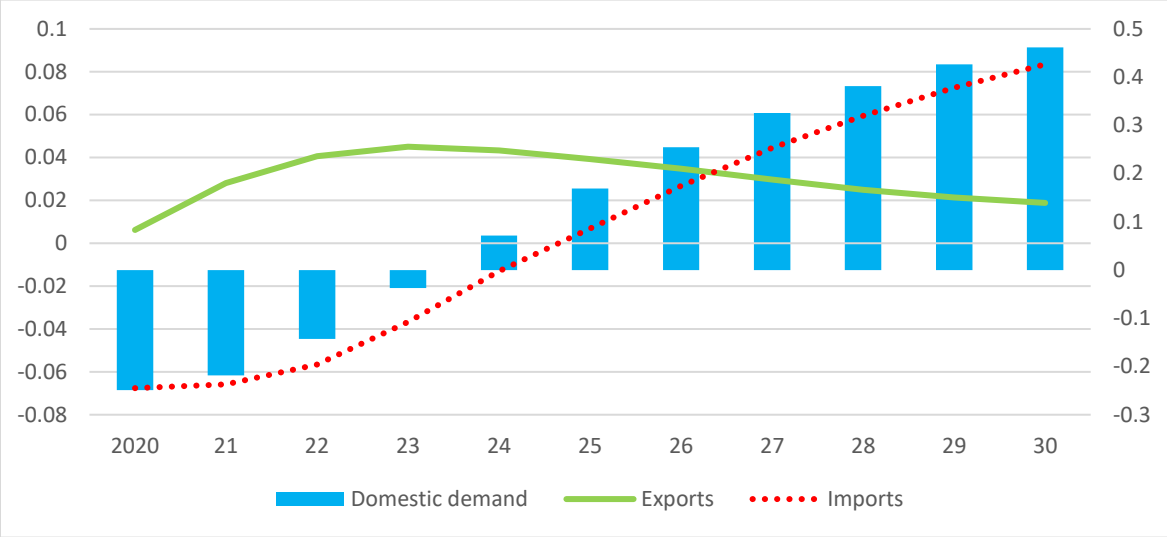
All else being equal, lower consumer demand for products and services leaves excess capacity in the economy, leading to a lower rate of inflation relative to the baseline scenario. Given these conditions and the Bank of Canada's inflation-targeting regime, a reduction in inflationary pressures results in the Bank adopting a more accommodative monetary stance. In turn, this results in a marginal decline in interest rates in order to stimulate demand.[18] Aside from the desired effect of stimulating consumer demand, lower interest rates also boost capital inflows into Canada. This leads to a mild depreciation of the Canadian dollar, which boosts exports. However, the depreciation of the dollar also makes imports more expensive. Higher import prices and softer domestic demand result in a drop in import volumes over the initial years of the forecast. But, the increase in capital flows into Canada leads import volumes to surpass the baseline scenario as soon as 2025. (See Chart 4.) And by 2027, the level difference in imports exceeds that of exports, and the contribution from net trade turns negative.

[18] In our model, monetary policy decisions are guided by a central bank reaction function. Specifically, The Conference Board of Canada's national model incorporates a standard Taylor-rule equation that defines the bank rate as a function of the output gap and inflation.

Chart 4

Medium-Term Impacts on Trade

(level difference from baseline, $ billions)



Source: The Conference Board of Canada.

Given our assumption that half of the increase in savings is channeled to domestic businesses for investment purposes, the impact on business investment is clearly positive. At the same time, business investment benefits from the lower interest rates and the depreciation of the Canadian dollar. Overall, business investment sits $659 million higher at the end of the medium term in 2030.

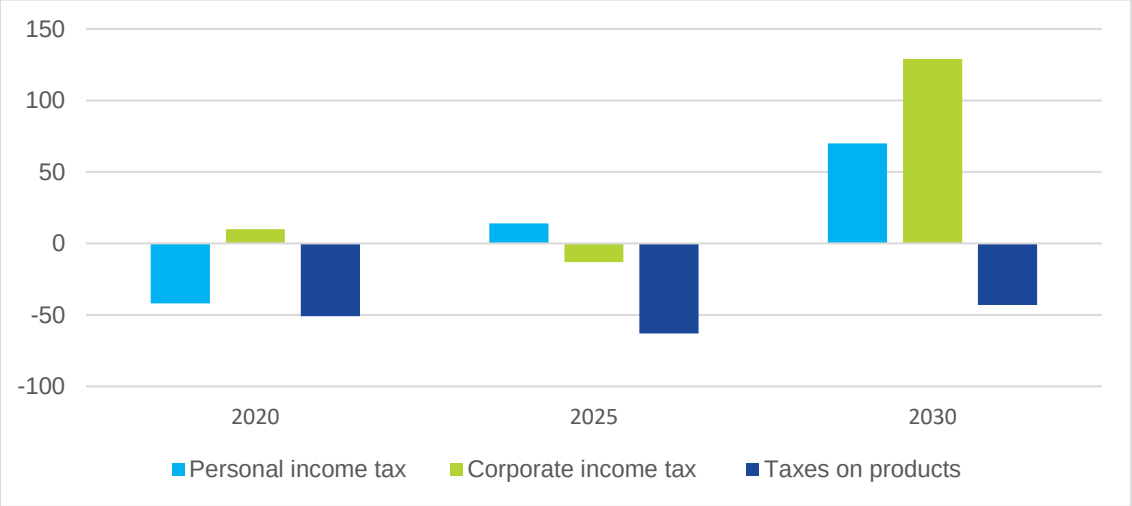
Increased business investment translates into higher corporate profits and hence higher corporate income tax. However, the negative impact of taxes on products,[19] and personal income tax resulting from lower consumer demand and lower employment, outweighs the increase in corporate income tax revenues. Tax revenues collected from these sources is $83 million lower relative to the baseline in 2020. Though, as economic conditions improve over the medium term, the negative impact on consumption tax eases and the impact on personal income becomes positive. Tax revenues from these three sources are $156 million higher by 2030. (See Chart 5.)

[19] Taxes on products refers to taxes on goods and services.

Chart 5

Impact on Tax Revenues

(level difference from baseline, $ millions)



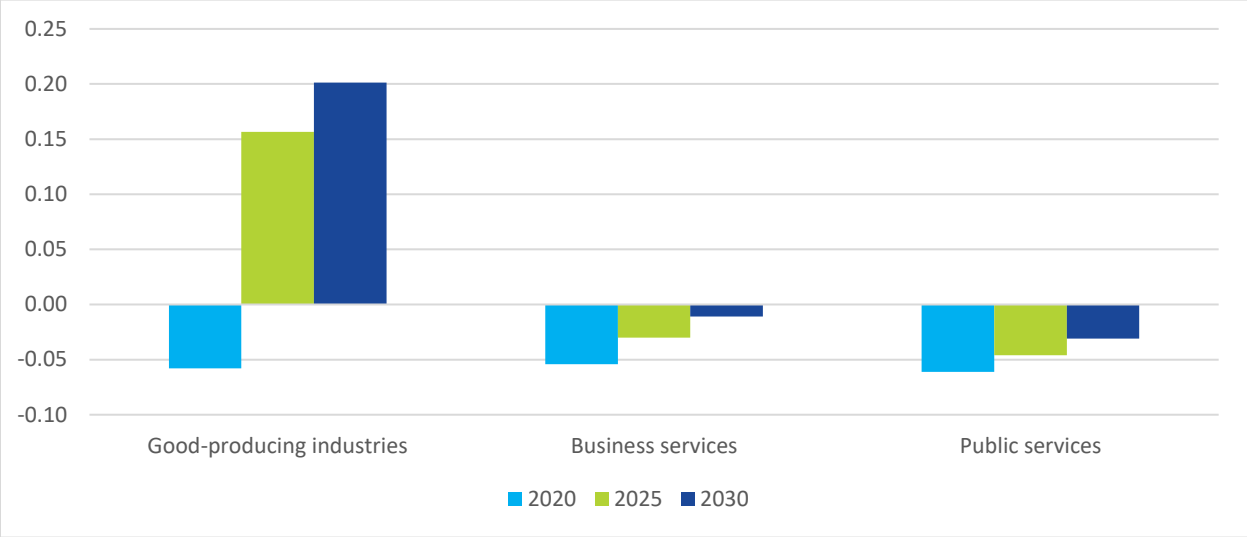
Source: The Conference Board of Canada.

Looking at the impact industry by industry, service industries are hardest hit by the change in consumer behaviour with most performing below their baseline scenario through much of the medium term. (See Chart 6.) In particular, the reduction in consumer spending impacts those services that cater to households rather than businesses – including retail, accommodations, cultural services, and real estate. At the same time, insurance and financial investment services experience positive impacts over both the medium- and even longer- terms as higher levels of household savings are assumed to increase demand for financial services. Public sector services, such as education and health services, perform below the baseline scenario as real government spending is negatively impacted by the slower economic activity.

Chart 6

Industry Level Impacts

(level difference from baseline, $ billions)



Source: The Conference Board of Canada.

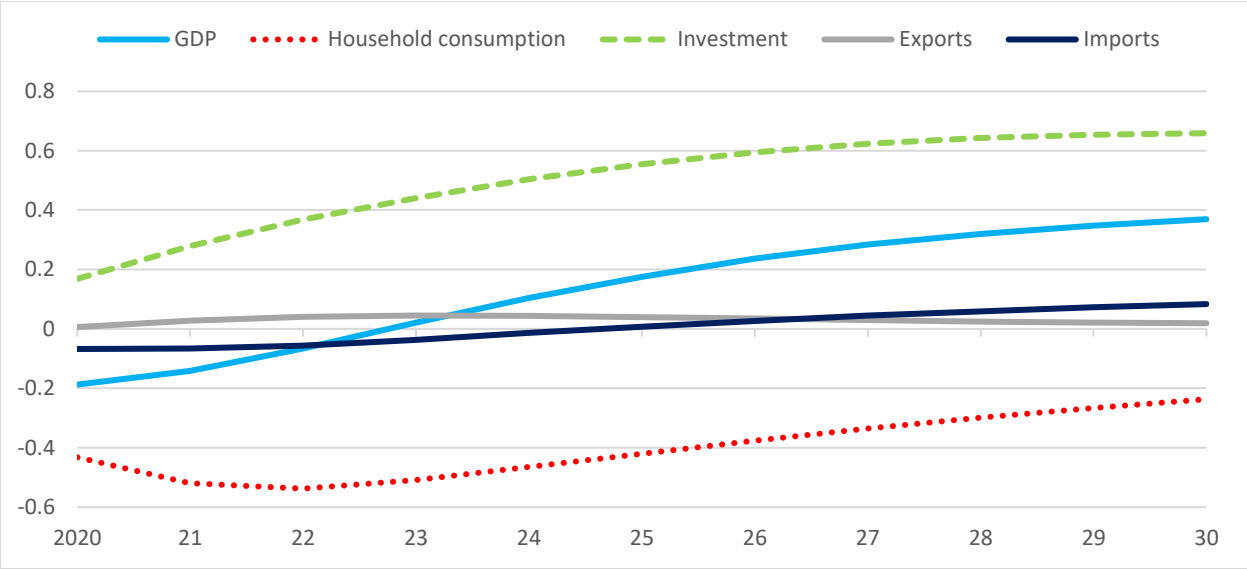
An increase in business investment and the downward pressure on the Canadian dollar are two favorable factors for the goods-producing industries. Overall, goods industries are up by $201 million in 2030. Construction makes up the majority of these gains as the increase in domestic savings stimulates domestic investment. The depreciation of the Canadian dollar boosts the export competitiveness of Canadian manufacturers, lifting manufacturing output by $37 million by 2030.

The overall impact of increased savings on real GDP is positive. Despite real GDP falling below the baseline scenario in 2020, the positive lift to both business investment and trade outweighs the negative pressures from the reduction in domestic demand over the remainder of the medium term. (See Chart 7.) Real GDP is $370 billion higher in 2030 compared to the baseline scenario.

Chart 7

Medium-Term Impacts, 2020 Versus 2030

(level difference from baseline, $ millions)



Source: The Conference Board of Canada.

1.2.2. Long-Term Impacts

In our shock scenario, retirees are assumed to withdraw from the stock of accumulated savings over the entire time period, and at an accelerated rate as more of the Canadian population enters retirement age. The withdrawal of income from the stock of savings and improvements in the domestic economy – thanks to the rise in investments and improved trade – helps lift consumer spending above the baseline in 2035. Due to these two factors, household spending continues to rise through the long term and by 2060, real household spending is $817 million higher than in the baseline scenario.

Exports remain higher relative to the baseline scenario throughout the entire forecast horizon, due to the new capacity resulting from increased investment spending. At the same time, as consumer spending and investment accelerates, there are further increases in the imports of goods and services to meet this additional demand. The contribution from net trade remains negative through the long term, as import levels continue to surpass that of exports.

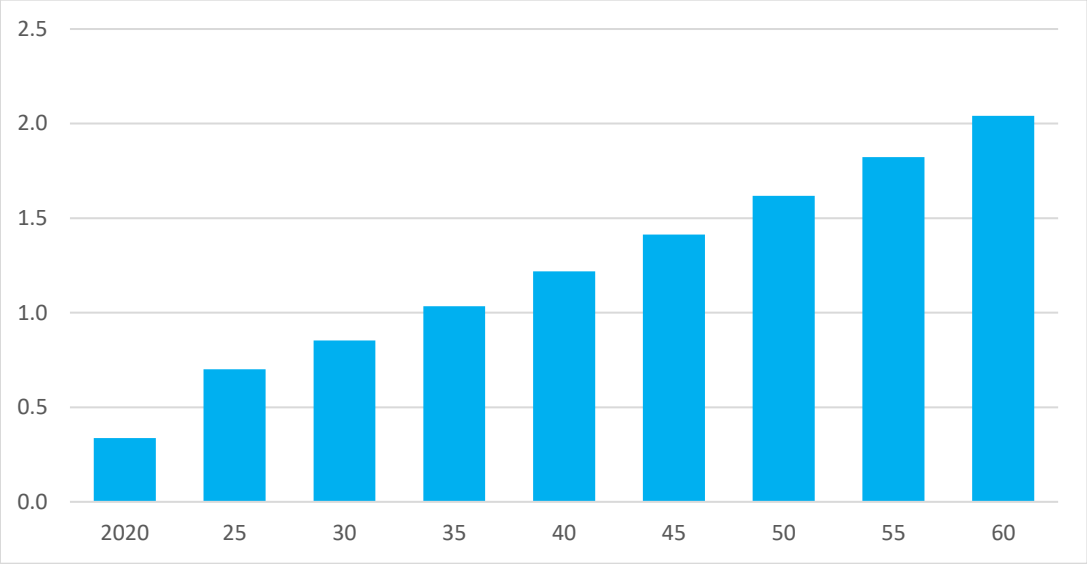
The increased savings rates in this scenario have a huge impact on national household savings over time. In nominal terms, the stock of household savings is $2 billion higher in 2060. (See

Chart 8.) Despite the drawdown of savings that occurs over the forecast to supplement retirement income, there is still a substantial stock of accumulated savings that can be drawn upon by future retirees. Unsurprisingly, the higher savings rates starting in 2020 help to better prepare Canadians for retirement. There is more income available to individuals reaching retirement age during the time frame of the analysis, as well as a large accumulated stock of savings to benefit individuals retiring after the time frame.

Chart 8

Stock of Savings

(level difference from baseline, $ billions)



Source: The Conference Board of Canada.

Canada's economic potential also sees a lift from the rise in capital investments. Potential output measures the highest level of output that an economy can reach without surpassing its capacity limits or igniting inflation, and is determined by potential employment, productivity, and capital availability. A rise in potential output benefits households as well as businesses and, subsequently, government revenues through permanent increases in real incomes and profits. By 2060, Canada's potential output is $800 million higher as a result of a higher capital-to-worker ratio and improved productivity.

With the economy faring much better over the long term, all industries experience higher output relative to the baseline by the end of the time frame. Construction is $126 million higher in 2060 relative to the baseline scenario as the sector benefits from ongoing domestic investment resulting from the increase in savings. The increase in consumer demand that begins to occur in

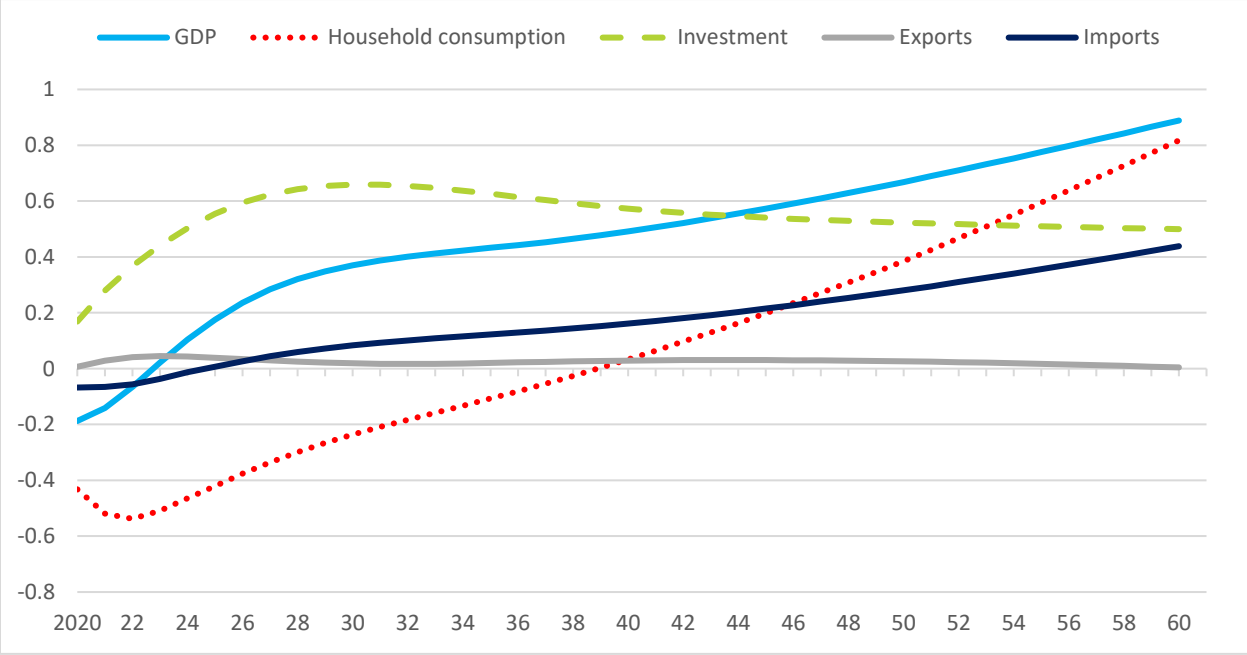
2039 provides a lift to manufacturing. However, it is the service sector that experiences the largest gains as the increase in domestic demand drives real output $560 million higher by 2060.

After surpassing the baseline case in 2022, real GDP continues to accelerate above the baseline throughout the long term. In 2060, real GDP is $900 million higher than the baseline due to the positive impacts that result from increased savings in the Canadian economy. (See Chart 9.)

Chart 9

Long-Term Impacts

(level difference from baseline, $ billions)



Source: The Conference Board of Canada.

Favorable economic conditions in the long term are reflected in the positive impact on tax revenues. Personal income tax and corporate income tax trend above their baseline values from the early years of the forecast period. Meanwhile, as the negative impact of higher savings on household consumption wanes and turns positive, so does the impact on tax revenues on products. Overall, tax revenues sit $7 billion above the baseline scenario in 2060.

Section 2: The Impact on the Individual

In this section we examine the difference that financial advice makes on an individual's retirement readiness. How much more affluent is a person in retirement by employing the services of a financial advisor over time?

2.1. Methodology

We approach this question by analyzing the savings and income profiles of two hypothetical individuals, Andrew and Betty, over the course of their lives. Andrew and Betty live in Ontario, are the same age, earn the same annual income, and begin saving at the same time. Their income is assumed to grow in line with average wages in the economy until they retire at age 65. The only difference between these two individuals is that Betty seeks advice from a financial advisor whereas Andrew does not. As such, Andrew's savings rate is lower than that of Betty's rate. (See Table 2.) Indeed, Andrew's savings rate each year is equivalent to that of a non-advised investor in the same age cohort. Similarly, Betty's savings rate is consistent with that of an average advised investor of the same age. [20]

Table 2

Saving Rates by Age*

(per cent)

Age	Betty	Andrew
25–44	11.5	9.5
45–54	8.9	7.3
55–64	11.1	9.5

*Savings rate are based on Montmarquette survey data. These rates reflect the sum of the discretionary savings rate and mandatory CPP contributions.

Source: The Conference Board of Canada.

During their working years, Andrew and Betty's annual savings are broken down into mandatory contributions to the Canadian Pension Plan (CPP). Their discretionary savings are invested in an annuity with a nominal return of 6 per cent, net of taxes and management fees. Given that they earn the same income, both individuals face the same deductions from their income each

[20] As per the survey data provided by Montmarquette.

year. In addition to mandatory CPP contributions,[21] these deductions also include the federal and provincial income tax[22] and EI premiums.[23] As such, the savings gap between both individuals is reflected in the amount that they each allocate to discretionary savings.

Upon retirement, the annuity provides a stream of fixed annual income and the CPP and the Old Age Security program (OAS) offer benefits that are annually adjusted for inflation. In line with current life expectancy at age 65, both individuals will continue to receive annuity payments, CPP, and OAS benefits until age 85.[24]

We consider two cases. (See Table 3.) The first case looks at the evolution of lifetime savings and retirement income for early savers – Andrew and Betty are 25 years old when they begin saving in 2020. In the second case, we consider the savings and retirement income of late savers – both individuals are 35 years old in 2020 when they begin saving.

Table 3

Case Study Scenarios

	Early savers	**Late savers**
Age of investor when savings begin	25	35
Income when savings begin*	$48,000	$63,000
Retirement age	65	65

* Incomes are in line with average incomes of individuals in the 25–34 age cohort and 35–44 age cohort.

Source: The Conference Board of Canada.

[21] While the year's maximum pensionable earnings grow in line with average wages in the economy, the base amount is fixed over time.
[22] Federal and provincial tax rates are based on 2020 estimates and income brackets are adjusted for inflation over time.
[23] EI premium rates and maximums are based on 2020 estimates and assumed to be constant until 2059.
[24] Statistics Canada, "Table 13-10-0114-01."

2.2. Results

2.1.1. Early Savers

Andrew and Betty begin saving for retirement in 2020 at age 25 through mandatory CPP contributions and discretionary savings. They each earn $48,000 and contribute $2,336 (or 4.9 per cent of their gross income) to CPP in 2020. Andrew has $2,235 in discretionary savings that year (or 4.7 per cent of his gross income). Net of federal tax and EI deductions, he spends $38,086. Meanwhile, Betty saves $3,162 (or 6.6 per cent of her gross income) in 2020, and spends $37,159, or 2.4 per cent less than Andrew.

By 2059, their annual nominal income is $117,895, having grown at the average growth rate of wages in the economy.[25] Andrew's stock of discretionary savings accumulates to $389,731 while Betty's savings amount to $603,505. (See Chart 10.)

In their first year of retirement in 2060, they would each qualify for the maximum CPP benefit of $23,959 (before tax) and OAS pension of $16,367, collectively replacing about 34 per cent of their 2059 income. Each year until 2079, their maximum CPP and OAS benefits grow in line with inflation.

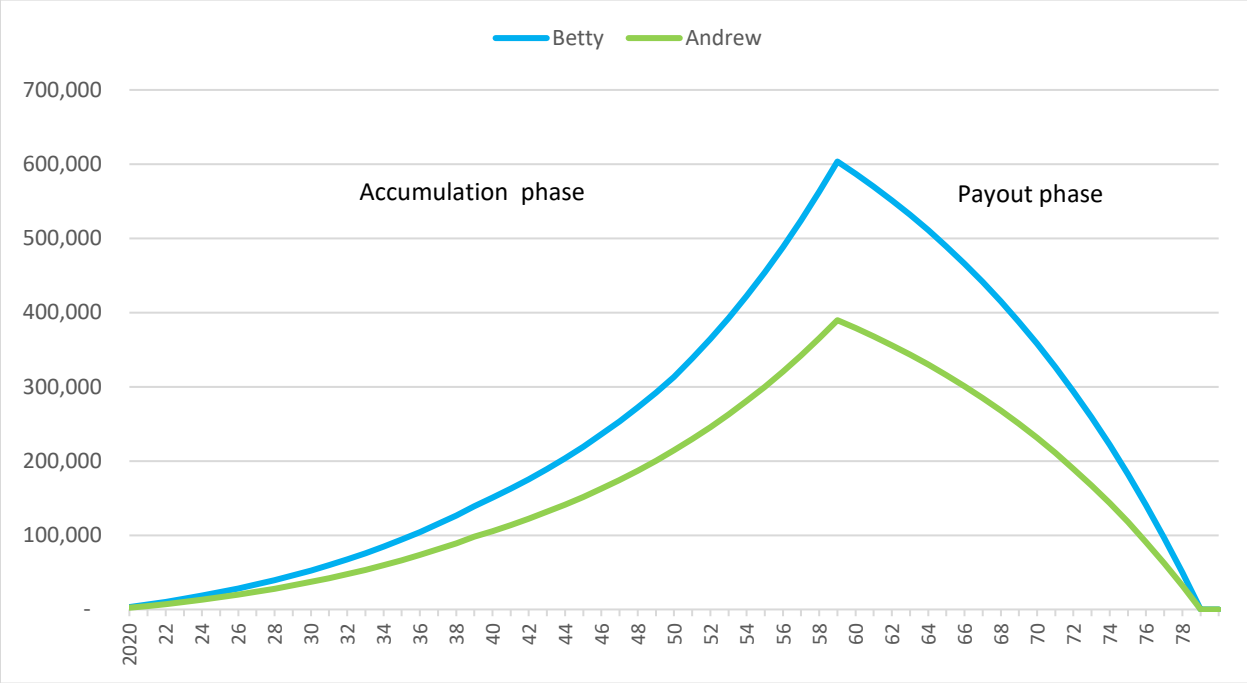
In 2060, both individuals' savings are converted into an annuity that provides them with fixed annual payments. Based on the value of their savings, every year Andrew and Betty receive $33,978 and $52,616, respectively. As the payout phase of the annuity begins at age 65 in 2060, their lifetime savings gradually decline each year by the amount of their respective annuity payments.

[25] Based on The Conference Board of Canada's long-term forecast for wages and salaries.

Chart 10

Lifetime Accumulated Savings Notably Lower for Non-Advised Investor

(C$)



Sources: The Conference Board of Canada; CIRANO; Statistics Canada.

Annuity payments, coupled with his CPP and OAS benefits, increase Andrew's nominal retirement income to $74,304 in 2060. As such, in his first year of retirement, he would be able to replace 63 per cent of his 2059 income. (See Chart 11.) In Canada, an income replacement rate of at least 70 per cent is generally assumed for a person to maintain their standard of living after they have transitioned from work to retirement.[26] Andrew's income replacement rate is slightly below this threshold, allowing him to maintain 76 per cent of his 2059 consumption.

Conversely, advised investor Betty receives a total retirement income of $92,942 in 2060. Her higher annuity payments boost her total retirement income replacement rate to 79 per cent of her 2059 income. (See Chart 11.) As such, Betty is able to fully maintain her 2059 consumption.

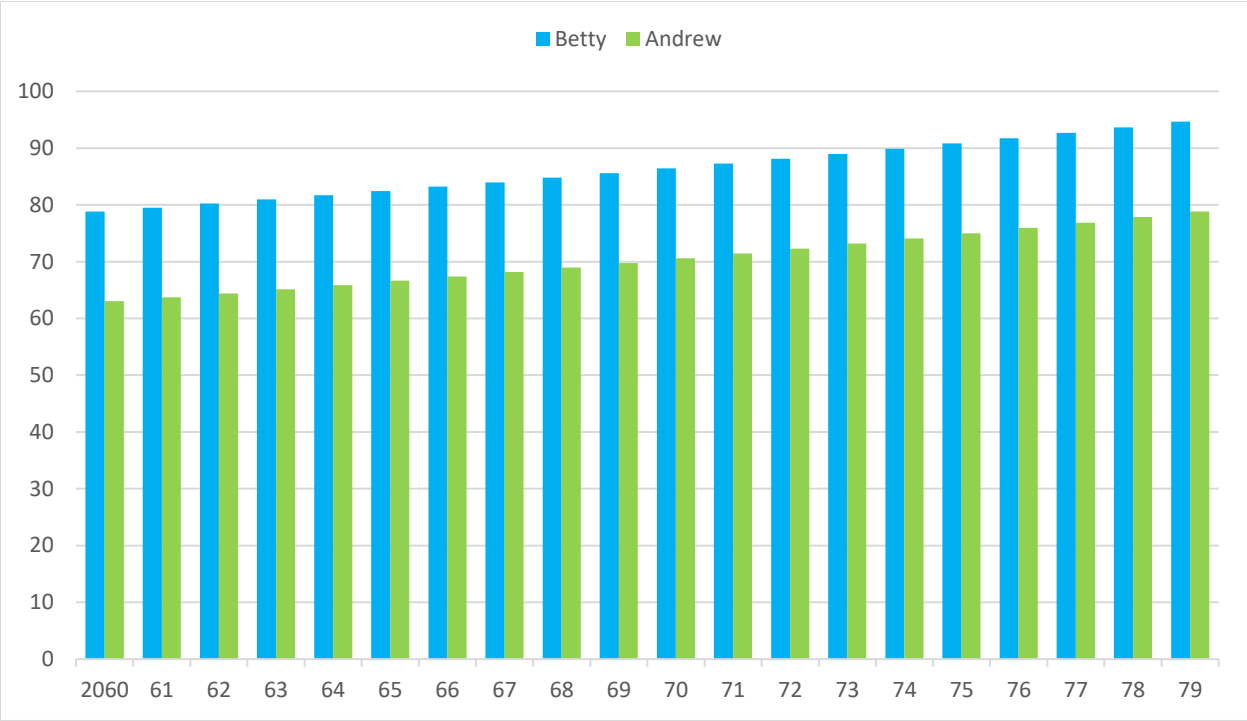
26

Baldwin, "Assessing the Retirement Income Prospects of Canada's Future Elderly."

Chart 11

Retirement Income Replacement Much Higher for Advised Saver

(per cent of 2059 income)



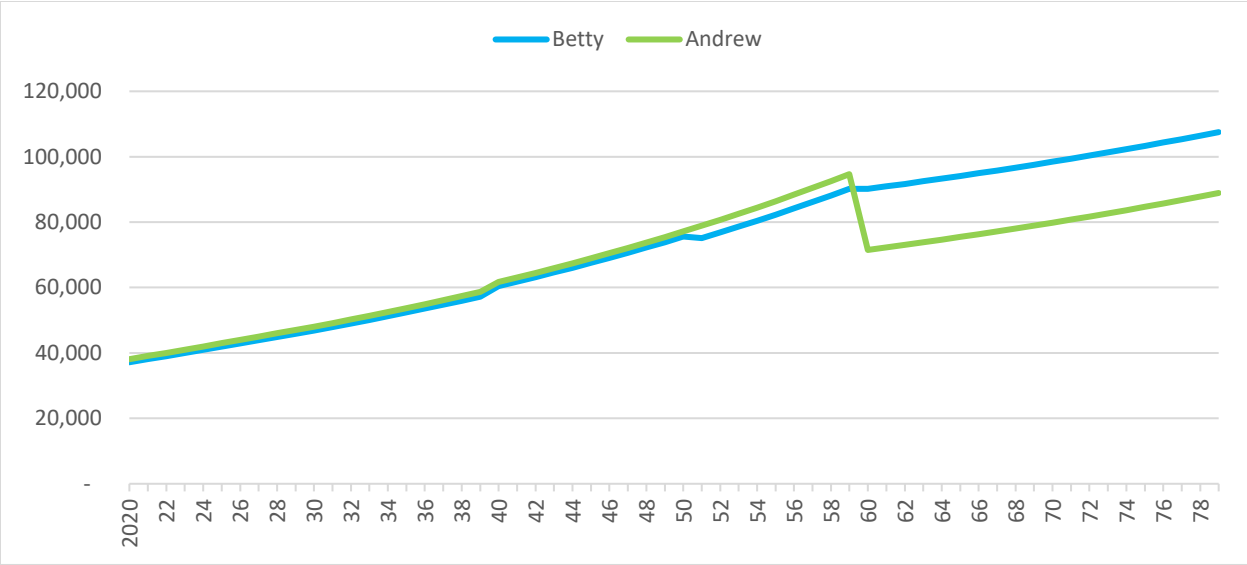
Sources: The Conference Board of Canada; CIRANO; Statistics Canada.

To put these numbers into perspective, before retiring Andrew spends, on average, 3 per cent more than Betty. However, during retirement, his relatively lower savings result in him spending, on average, 19 per cent less than Betty. (See Chart 12.) Financial advice makes a significant difference in an individual's overall savings; and, consequently, their retirement income. In Andrew's case, financial advice could increase his savings in 2059 by 55 per cent and his average retirement consumption by 23 per cent. Therefore, by using the services of a financial advisor, Andrew could considerably boost his retirement readiness.

Chart 12

Financial Advice Boosts Retirement Consumption

(C$)



Sources: The Conference Board of Canada; CIRANO; Statistics Canada.

2.2.2. Late Savers

Now let's assume that Andrew and Betty are late savers. They begin working and saving at age 35 in 2020, during which they each earn $63,000 and contribute $2,898 (or 4.6 per cent of their income) to CPP. In 2020, Andrew allocates $3,101 (or 4.9 per cent of his income) to discretionary savings. This allows him to spend $47,735 after deducting the federal tax and EI premiums. Advised investor Betty contributes $4,318 (or 6.9 per cent of her income) to her discretionary savings and spends $46,518, or 2.5 per cent less than Andrew.

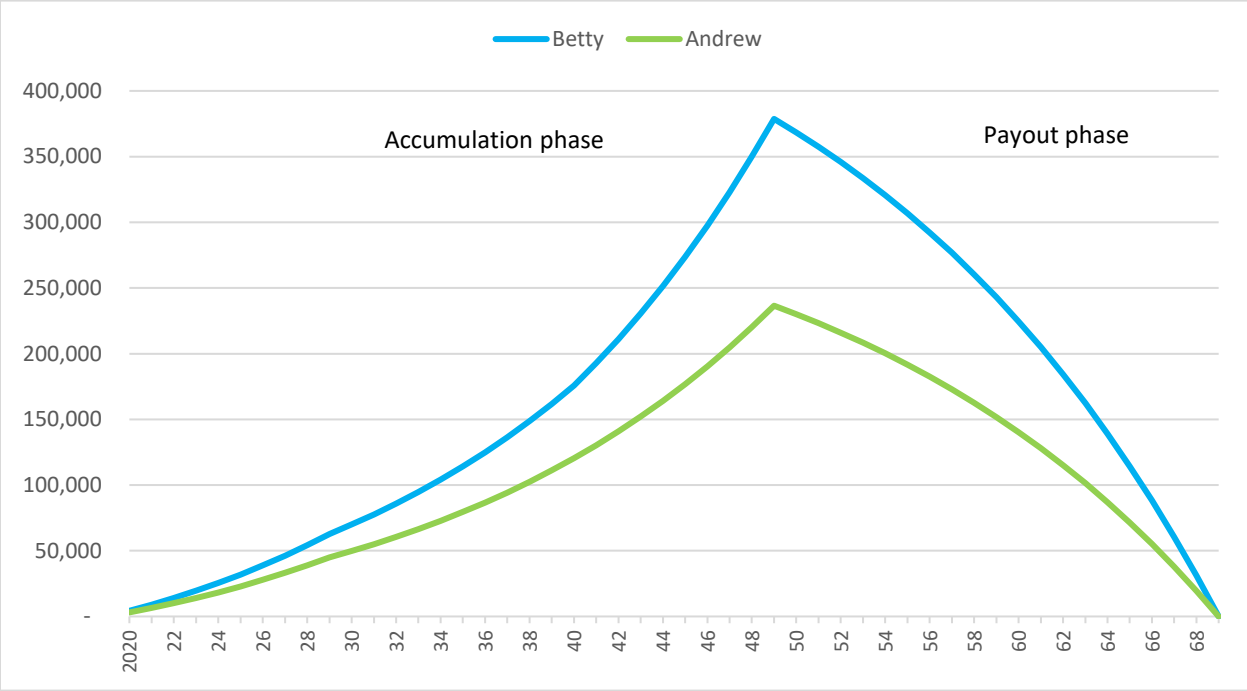
In line with the growth rate of average wages in the economy, their income grows to $122,707 by 2049, before retiring. By 2049, Betty's discretionary savings accrue to $378,694 whereas Andrew accumulates only $236,520. (See Chart 13.) Based on the value of her savings, Betty would receive an annuity paying $33,016 each year until 2069. Andrew's lower savings would give him an annuity paying $20,621 per year.

When they retire in 2050, they are both eligible for the maximum CPP benefit of $17,386 (before tax) and OAS pension of $13,400, which replace 25 per cent of their 2049 income. Their CPP and OAS benefits will be annually adjusted for inflation. If they live until 85, they could expect to receive a final pension of $45,018 from the CPP and the OAS in 2069.

Chart 13

Lifetime Savings for Advised and Non-Advised Late Savers Much Lower

(C$)



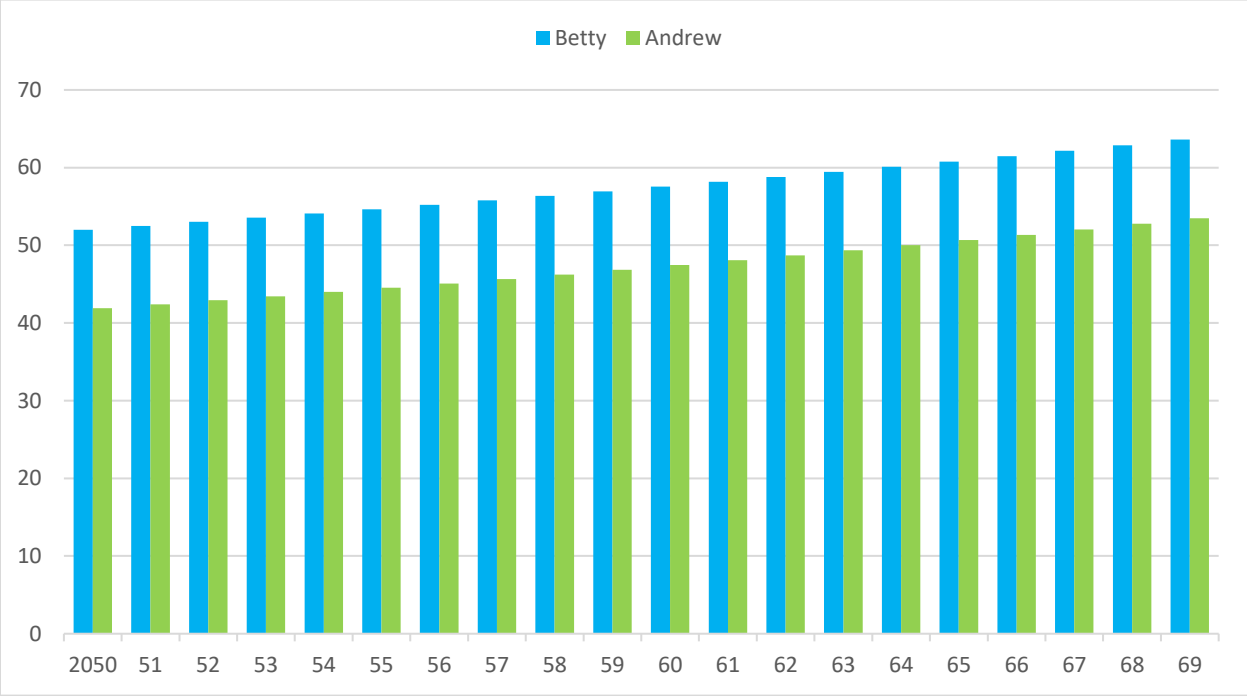
Sources: The Conference Board of Canada; CIRANO; Statistics Canada.

In 2050, Betty and Andrew's total retirement income is $63,802 and $51,406, respectively. Their retirement incomes replace 52 and 42 per cent of their 2049 incomes, respectively. (See Chart 14.) With her retirement income, Betty can retain 64 per cent of her 2049 consumption. Meanwhile, Andrew's 2050 retirement income allows him to spend only 48 per cent of his 2049 consumption.

Chart 14

Late Savers' Retirement Income Replacement Below 50 Per Cent

(percentage of 2049 income)



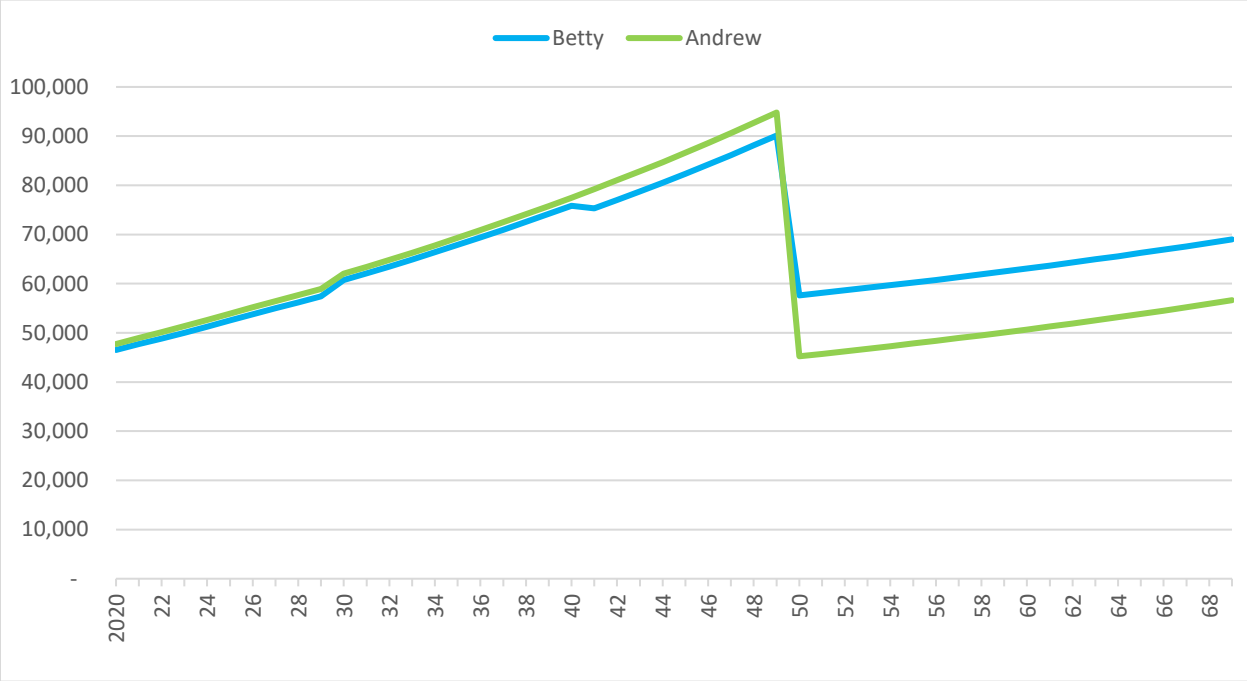
Sources: The Conference Board of Canada; Montmarquette; Statistics Canada.

Before retiring, Andrew spends, on average, 3 per cent more than Betty. However, during retirement he spends 20 per cent less than Betty. (See Chart 15.) With financial advice, Andrew could have increased his retirement savings by 60 per cent, boosting his average retirement consumption by 25 per cent.

Chart 15

Consumption for Late Savers Plummets After Retirement

(C$)



Sources: The Conference Board of Canada; CIRANO; Statistics Canada.

Overall, in both the early and late saver scenarios, advised investor Betty accumulates greater retirement savings than Andrew, thanks to stronger discipline in her savings behaviours during her working years. Upon retirement, her lifetime savings are 55 to 60 per cent higher[27] than Andrew's savings. Having spent annually, on average, 3 to 5 per cent less[28] than Andrew during her working years, Betty consumes 23 to 27 per cent more than Andrew in retirement. A comparison of the early versus late savers cases also shows that by beginning saving at age 25 rather than 35, Betty and Andrew's discretionary savings in real terms increase by 30 and 35 per cent, respectively, upon retirement. In turn, their average real consumptions during retirement increase by 28 and 29 per cent, respectively. While financial advice is crucial to boosting retirement savings and consumption, it is also advantageous to begin saving at an early age.

[27] Lifetime savings are 55 per cent higher when Betty begins saving early, at age 25. Her savings are 60 per cent higher when she starts saving later, at age 35.
[28] She spends 3 per cent less as an early saver and 5 per cent less as a late saver.

Summary

In this report we explored the relationship between financial advice and increased household savings, as well as its link to potential economic output and retirement readiness.

The analysis performed in the first part of this report assumed a hypothetical scenario where 10 per cent of households without a financial advisor begin a relationship with a financial advisor. Hence, they save at the same higher rate as those who have a financial advisor. This leads to an increase in domestic savings each year, half of which is used to accommodate business investment in the economy. Using The Conference Board of Canada's national econometrics model – as well as survey data on the savings rates by age cohort of individuals with a financial advisor and those without – we estimated the economic impact of increased savings over the long term.

Results from the impact analysis suggest that the overall impact on GDP from increased savings is positive. Falling consumer expenditure, as larger shares of income are diverted to savings, results in GDP trending below its baseline in the early years of the forecast period. However, GDP soars above its baseline through most of the forecast period. This is due to the positive impact of higher savings on domestic investment, trade, as well as the drawdown of the savings stock. Simultaneously, higher business investment improves productivity, which, in turn, expands economic output potential.

As Canada's baby boomer generation migrates out of the labour force, recent survey data suggest that many Canadians are not financially prepared for retirement. As such, a significant share of the future elderly will likely experience declines in their consumption in retirement. Case studies conducted in the second part of this report highlight that by having financial advice, investors save a higher percentage of their income than their non-advised counterpart during their working years. Hence, they accumulate greater retirement savings. This affords them a higher retirement income and, consequently, greater consumption. The analysis also shows that for an individual to retain much of their pre-retirement standard of living during retirement, they need to begin saving at an early age.

Appendix A: Summary Tables

Table 1

Key Economic Indicators

(level difference shock minus base-case, unless otherwise indicated)

	2020	2025	2030	2035	2040	2045	2050	2055	2060
Real GDP (2012 $ millions)	-188	176	370	433	492	573	668	776	889
GDP ($ millions)	-223	166	556	716	867	1104	1417	1805	2259
GDP deflator (percentage difference)	-0.001	-0.002	0.002	0.002	0.002	0.002	0.003	0.003	0.004
Consumer price index (percentage difference)	-0.002	-0.002	-0.001	0.000	0.000	0.000	0.001	0.001	0.001
Average weekly wages (percentage difference)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Employment (000s)	-3.32	-0.02	1.71	2.11	2.38	2.81	3.31	3.84	4.34
Unemployment rate	0.01	0.00	-0.01	-0.01	-0.01	-0.01	-0.01	-0.01	-0.01
Disposable Income ($ millions)	-141	53	252	457	729	1087	1536	2077	2703
Corporate profits before tax ($ millions)	55	-78	329	885	1816	3632	7449	16109	37389
90-day treasury-bill rate	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Current account balance ($ millions)	64	-93	-159	-256	-399	-592	-853	-1205	-1673
Personal income tax ($ millions)	-42	14	70	130	217	346	528	774	1091
Corporate income tax ($ millions)	10	-13	129	300	550	977	1737	3129	5746
Taxes on products ($ millions)	-51	-63	-43	-27	-9	14	42	76	116
Federal govt. balance ($ millions)	-68	-21	122	326	665	1292	2529	5156	11227
Provincial govt. balance ($ millions)	-43	-12	83	212	404	676	977	1013	-393
Real disposable income (2012 $ millions)	-126	44	195	329	491	692	922	1178	1447
Exchange Rate (percentage difference)	0.00	-0.02	-0.01	-0.01	-0.01	-0.01	-0.01	-0.01	0.00
Canada, federal bonds: long-term	0.00	-0.01	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Household net savings	313	555	571	619	692	792	918	1058	1216

Source: The Conference Board of Canada.

Table 2
Gross Domestic Product at Market Prices
(level difference shock minus base-case, 2012 $ millions)

	2020	2025	2030	2035	2040	2045	2050	2055	2060
Final consumption expenditure	-429	-410	-223	-90	53	218	402	607	824
Household consumption expenditure	-432	-421	-237	-107	34	199	385	595	817
Non-profit consumption expenditure	-2	3	9	14	22	31	42	56	71
General govt. consumption expenditure	0	3	6	9	12	15	16	18	22
Investment	169	555	659	626	573	541	523	510	500
Business investment	169	555	659	626	572	539	520	506	494
Residential structures	63	423	508	460	392	346	313	284	259
Non-residential structures	57	68	78	86	92	99	105	112	118
Machinery and equipment	32	43	49	55	61	66	72	78	84
Intellectual property products	17	21	23	25	27	28	30	32	33
General governments	0	0	0	0	0	0	0	0	1
Final domestic demand	-249	169	462	559	641	766	921	1102	1295
Investment in inventories	-1	-2	-2	-2	-2	-2	-2	-2	-1
Exports of goods and services	6	39	19	20	29	31	26	18	5
Less: imports of goods and services	-68	7	83	122	162	215	281	357	439
Real net exports	74	32	-65	-102	-133	-184	-254	-339	-434
GDP at market prices	-188	176	370	433	492	573	668	776	889

Source: The Conference Board of Canada.

Table 3

Gross Domestic Product at Basic Prices

(level difference shock minus base-case, 2012 $ millions)

	2020	2025	2030	2035	2040	2045	2050	2055	2060
Real gross domestic product	-311	33	233	291	343	420	509	611	715
Total goods	-58	156	201	187	167	154	142	129	115
Agriculture, forestry, and fishing	-8	-2	-1	-2	-3	-4	-5	-6	-8
Mining	-23	-12	-11	-11	-11	-12	-13	-14	-16
Utilities	-12	-7	-5	-5	-4	-4	-4	-3	-3
Construction	19	146	182	170	152	141	135	130	126
Manufacturing	-34	31	37	35	34	32	28	23	15
Business services	-192	-78	63	126	189	267	356	456	560
Wholesale and retail trade	-61	-19	3	15	28	44	64	88	112
Wholesale trade	-22	1	10	12	16	20	26	32	38
Retail trade	-39	-20	-6	2	12	24	39	56	74
Transportation and warehousing	-21	-6	-1	0	2	4	6	9	12
Information and cultural services	-17	-9	-1	4	10	16	24	33	42
Finance, insurance, and real estate	-23	-13	61	94	124	160	199	241	285
Credit intermediation and monetary authorities	54	-1	23	36	47	55	61	66	70
Insurance carriers and related and financial investment services	15	-3	5	10	13	16	19	20	22
Real estate and rental and leasing	-92	-9	33	48	64	89	119	155	193
Professional, scientific, and technical	-15	-1	12	14	15	17	20	24	27
Public sector	-6	-46	-31	-22	-13	-1	11	25	41

Source: The Conference Board of Canada.

Table 4
Labour Market
(level difference shock minus base-case, 000s)

	2020	2025	2030	2035	2040	2045	2050	2055	2060
Total employment	-3.32	-0.02	1.71	2.11	2.38	2.81	3.31	3.84	4.34
Primary	-0.10	-0.05	-0.04	-0.04	-0.04	-0.04	-0.04	-0.04	-0.04
Construction	0.15	1.40	1.77	1.63	1.40	1.25	1.14	1.06	0.98
Utilities	-0.04	-0.02	-0.01	-0.01	-0.01	-0.01	-0.01	-0.01	-0.01
Manufacturing	-0.27	0.26	0.29	0.26	0.23	0.21	0.17	0.13	0.08
Other commercial services	-1.29	-0.63	-0.07	0.18	0.40	0.67	0.95	1.24	1.51
Wholesale and retail trade	-0.79	-0.25	0.04	0.16	0.27	0.40	0.54	0.67	0.80
Transportation and storage	-0.23	-0.07	-0.02	0.00	0.02	0.04	0.07	0.10	0.13
Finance, insurance, and real estate	-0.07	-0.05	0.16	0.23	0.28	0.32	0.37	0.41	0.44
Public sector	-0.69	-0.62	-0.42	-0.30	-0.17	-0.03	0.12	0.28	0.45
Unemployed	2.95	0.08	-1.43	-1.84	-2.15	-2.59	-3.09	-3.61	-4.12
Unemployment Rate	0.01	0.00	-0.01	-0.01	-0.01	-0.01	-0.01	-0.01	-0.01

Source: The Conference Board of Canada.

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