

# THE GREAT DIVIDES

Strongly agree

**36%**

Somewhat agree

**60%**

Somewhat disagree

**4%**

n = 735

Source: Annual Dollars & Sense Survey, 2008

*"I am realistic about my current and future financial position."*

**Boomers**

responded to the statement



7th Annual Dollars & Sense Survey

## Latté or buzz juice? Health drink or tea? A client's choice speaks volumes about the generational landscape.

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**ADVISORS**, by nature, have to be good jugglers. Every client has unique needs, and it's tough to divine details that result in the perfect plan.

Generational differences make the job harder. A younger advisor might have trouble relating to a client already in, or moving toward, retirement. And the reverse is also true. Fortunately, there normally aren't too many age cohorts in play at any one time.

Unless you're active in the business in 2008, in which case you're living the Chinese curse: interesting times. A single advisor today can be faced with as many as four generations actively in the investments stream. He or she can be dealing with anyone from depression- and World War II-era retirees, to baby boomers, to Gen-Xers, and the echo baby boom known as Generation Y.

These generational differences manifest in a variety of ways—from people's comfort with technology and beverage choices, to their ability to save. It further impacts their openness to different levels of risk and types of products or portfolio approaches.

Advisors are caught in the middle, not knowing whether to wear a suit or jeans to client meetings, and struggling to keep up with the needs and aspirations of four

unique types of clients. "The key is identifying the needs and wants of each specific group and addressing those," says Andrew Baechler, an investment advisor with PWL Capital in Ottawa. "I find Gen Y investors have an over-inflated expectation of what you can and cannot do for them. So a part of your job is to explain how markets work, and what they can expect."

A retiree who's been invested 50-to-60 years, on the other hand, is quite different. "It's often, 'Protect my capital,' as opposed to, 'Make me as much additional new wealth as possible,'" he says.

Advisors working with boomers, meanwhile, need to be good at dealing with divorce, and in some cases serial divorce. Boomers have the highest marital split rate and the practice has crippling financial impact—part of a client's pension is lost in the settlement and, even though some may be earning high salaries, these people are slowly cleaning themselves out.

Add to that a tendency by a subgroup of wealthier boomer men to father children in their late 50s and early 60s. These guys will soon face the reality of having kids start university after they're retired—or would like to be. "I had a guy who was 60 with a baby and I laid it on the line that he couldn't

retire until he was 80," says Janet Freedman, president of Finance Matters Ltd. in Toronto. "That's when I lost him as a client."

### Practice Segmentation

Tim Landry, director, Living Benefits at Beneflex in Montreal, says most advisors choose to deal with their own generation, or close to it. What's really changing, though, is the way firms bring in new advisors. On the insurance side, the large recruiting companies are gone, which means the practice of hiring folks in their 20s and connecting them to clients alongside whom they'll grow up, is over.

"Now we're recruiting people who are 55, who have either left or were forced to leave other careers," he says. "They're just now entering the business."

Yet the industry still needs young blood. "How do I go in and talk to a 24-year-old? We don't relate to each other well," Landry says. "We came out of school and we had our choice of jobs. Today, people are working at Java U."

Firms also need to look seriously at developing practices that cater to women's needs, he says, because the number of female executives in every profession is growing and they've shown a preference for working with **continued on page 16**

continued from page 15 people who understand their specific needs.

Likewise, many boomer advisors are retiring, which means older clients will have to make the adjustment to younger counsels.

Baechler notes the economic downturn may stave off that exodus. “The value of advisors’ books has suffered because they’ve been cut down by the market,” he notes. “They may choose to stay around a few years to see if their own books recover.”

At best, though, that’s temporary, so Landry asserts firms need to do a better job of training people and working more toward a multigenerational team approach with specialists in specific areas, such as tax, wills and powers of attorney, disability and long-term care coverage, investments, and divorce.

“I don’t think any advisor can be

competent to handle all the needs of all clients,” he says. “It’s becoming far too complicated with advances in technology, with compliance issues and trading issues, and with four generations in play.”

**Style Council**

Even though advisor approaches drift based on a client’s age, it’s still crucial to start with the basics. No matter when a client was born, it really does come down to KYC—take notes during the meeting, type them up afterwards, follow up with a phone call and refer to the notes to ensure you’re both on the same page.

Baechler says each relationship starts with a client service agreement and a discussion about how often the client wants to hear from him. Some who have been through market ups and downs only want a follow-up on the anniversary of account opening. Newbies

can request more frequent contact. It really is case by case.

And there are generational divides. “The Gen X and Ys, because they’re plugged into the Internet and can access their accounts daily, feel a sense of control,” he says. “The retirees less so; they’re still waiting for the envelope in the mail.”

Recent market volatility has people close to retirement wanting more contact. “We hear from them more and go out and have more meetings with them,” Baechler says. “The markets being what they are, they have a lot of issues to address.” Retirees, meanwhile, are calling or stopping by more frequently, in part because they have more time to do so.

One way Jason Pereira, a financial consultant at Woodgate Financial Partners and Investment Planning Counsel, deals with multiple generations is by involving entire families in the planning process. “I tell them, ‘We can get the house in order, but it needs to be the entire house,’ ” he says.

In most cases, first contact comes from the middle generation—people in their late 40s to early 50s. They have kids in school and parents who are getting older. “You get the parents to sit down with you if they’re willing and discuss the intergenerational wealth transfer,” he says. “The conversation goes better when you put the reins of control in those people’s hands.”

Then, the advisor has to start asking questions:

- Are the children going to be supporting the parents?
- Are the parents giving them a substantial inheritance?
- Can the parents support themselves?
- Is Long Term Care insurance an affordable possibility?
- Do you have to get the parents more income by using something like a

“I am realistic about my current and future financial position.”

**Gen Y**  
responded to the statement

Somewhat agree **66%**  
Somewhat disagree **7%**



Source: Annual Dollars & Sense Survey, 2008 \*Note, small sample size.

guaranteed minimum withdrawal product?

- How should the residual wealth go to the next generation?

“There are a lot of quirky issues,” says Pereira. “They may want certain things to go to certain people. They may want to keep wealth out of certain people’s hands.” But the more generations involved, the better picture he gets of the family, its wealth, and the needs of each member.

Baechler’s firm, which is focused on passive and index-based investing, also finds its style appeals to specific age groups. “We have an issue appealing to the Gen Y and X investors, because they have more of an expectation that you should be able to beat the market for them,” he says. “Our pitch is that we can capture the market returns. We’re not the home run shop, but we’re also not going to blow up your portfolio.

“We’re more appealing to the boomer or the retiree [who’s] already been invested with two, three or four advisors and had some bad experiences. They’ve been underperforming the market and appreciate what we do.”

David Sung, president at Nicola Wealth Management in Vancouver, says he tends to disregard generational differences and, instead, strives to create portfolios that generate an income stream for people at any life stage. He favours real estate investments as they bring steady income from the rents. Such an approach, he says, is the key to seeing clients through tougher times. “If they can see that income component, they’re less likely to worry,” he says. “It prevents them from selling low and being their own worst enemies. How many hard asset real-estate owners do you know who choose to sell when values are depressed if they are still collecting their **continued on page 19**

# BRIDGE THE CHASM

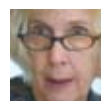
**WHAT** does it mean for advisors to work with four generations of Canadians simultaneously? To get some answers, and uncover opportunities, we assembled a roundtable of advisors and industry experts to examine and comment on the data from this year’s Dollars & Sense Survey.

This year’s participants included: Andrew Baechler, investment advisor, PWL Capital; Barbara Foy-Pilchner, vice-president, business development, Invesco Trimark; Janet Freedman, president, Finance Matters Ltd.; Rob Kochel, VP National Accounts, Invesco Trimark; Tim Landry, director, Living Benefits, Beneflex; Jason Pereira, financial consultant, Woodgate Financial Partners & IPC; and Ron Silverton, AVP, Customer Research & Insights, Invesco Trimark. We thank them for their participation and insightful comments.

Here are their thoughts about the diverse challenges and opportunities that face advisors and their clients in these unique times:



**ROB KOCHEL:** The whole area of income distribution analysis will see growth. We’re hearing that already, anecdotally, with people headed into pre-retirement and retirement.



**JANET FREEDMAN:** Most of my clients are my age or older.

But I don’t segment by assets or income. My process is client-driven. I usually work with a financial plan that’s good for five years. A lot of my clients touch base with me at tax time, which is one of the great advantages of doing taxes.



**JASON PEREIRA:** Tax planning was low across the board in



**PHILIP PORADO,**  
editor of Advisor’s Edge.

the survey data, and that’s concerning. Tax planning helps enhance wealth. Tax deferred is future compounding gain. By focusing on that, we deliver more wealth to the client.



**ANDREW BAECHLER:** When we meet with new clients, we provide them with a client service

agreement where we discuss how much contact they would like. Unless a client has been dishonest on that agreement, I hope they feel we meet with them frequently enough.

**RK:** For advisors who are still building a book, there’s a huge opportunity to focus by life stages. What jumped at me from the data was segmentation by gender. Studies show women will change advisors within three years of their husband’s death, and that 95% of women will be the primary decision-maker with financial affairs at some point in their lifetimes. There’s a definite opportunity here . . . for younger and less established advisors there is upside to pay- **continued on page 19**

continued from page 17 rent cheques?”

John MacBeth, Senior VP and investment advisor at Hampton Securities, also says advice transcends generational matters. “A financial plan should help people realize life aims. Those are rich and diverse discussions at any age,” he says. “It’s far more complex because it’s an individual, but it also makes it kind of wonderful. You go home and say, ‘How do I get through to this person?’”

Baechler, who is 35, says he has an easier time speaking with Gen-Xers or younger boomers. However, that’s not a common experience since the firm’s average client is a bit older. He’s aligned with one of the more senior advisors at his firm, though, so in situations where there may be a confidence challenge, they meet with the client together. “The client may not think they’re dealing with a peer, so you have to demonstrate expertise and value.”

### Y, oh Y

There are four words most baby boomers have been bad about using themselves, and teaching their Gen-Y children: I can’t afford it.

One frightening aspect for Gen Y, says Freedman, is the lack of well-paying job opportunities for those without at least an undergraduate degree. Whereas many early baby boomers have been able to embark on successful careers—reaching middle and even senior management—with high school educations, their children haven’t been so lucky.

“You have a generation now that graduates with grade 12 and they’re digging roads, so you have to do post-secondary,” she says. “And a Master’s today will get you to where a person with an undergrad did a few years ago.”

The result is this generation is starting out in the working world four or more years later, **continued on page 20**

continued from page 17 ing attention to age, life stages and particularly gender.

**AB:** We’ve found a lot of retirees actually ask for someone younger who could work with them for the rest of their lives. Boomers, however, look for someone who’s experienced in the same types of life issues.



**TIM LANDRY:** Speaking from the older perspective, younger people are probably more current, they know what’s happening around them. I’d actually prefer to work with someone younger.



**BARBARA FOY-PILCHNER:** There aren’t any big surprises in the data about the time being spent with clients at or near retirement.

Retiree clients and boomers lead more active, complicated lives today than in the past. There’s an opportunity to use the team approach across the various generations.

**JF:** I certainly can say I spend more time with the retirees, because for the most part they have more time on their hands. More of my clients are women, not because I have selected that way, but because they have. In order to build a relationship with older clients, the conversations tend to get longer. They’re asking about my kids, telling me about their kids. There are a lot of issues facing people who in many cases can’t really afford to retire. So we actually talk about how we could get them a

“McJob” in order to make ends meet.

**AB:** We also spend a lot of time with the boomers because a lot of them are approaching partial or full retirement. They view financial planning and investments to be critical and want to be actively engaged.

**TL:** Employee benefits over the next 15 years are going to change significantly. We aren’t going to be employees anymore. We’ll be contractors. Advisors need to spend more time learning and talking about that. Currently, so much of what clients have comes from employee benefits. Also, the vast majority of clients don’t know what they have. It was true forty years ago, and it’s true today.

**JP:** The unbelievably low level of insurance products being sold is disappointing. There isn’t enough being done by advisors to push these products, especially the longevity ones. And those who are selling insurance are focusing on Life because it’s an easy sale. But the living benefits side is so much more meaningful and helpful to clients. Long Term Care and Guaranteed Minimum Withdrawal Benefits are going to be the two most important products in a person’s portfolio. In terms of education, the current market recession is a great opportunity for advisors. These are just the kinds of market conditions these products are designed to cover.

**JF:** There’s need for **continued on page 20**

### Relative to your overall client base, how much time do you spend with a typical client from each of the following age groups?

	More Time Than Average	About Average	Less Time Than Average
Retirees (born before 1946)—those aged 62 or older	42%	47%	10%
Boomers (born between 1946 and 1962)—those aged 46 to 61	34%	63%	2%
Generation X (born between 1962 and 1978)—those aged 30 to 45	13%	59%	26%
Generation Y (born after 1978)—those under 30	8%	31%	61%

n = 1,002

Source: Annual Dollars & Sense Survey, 2008

**continued from page 19** and with levels of debt unimagined by their parents—as well as a cost of living that’s significantly higher. Freedman tells clients, “Don’t think for a minute that you’ll be able to retire until you’re 75.”

That’s not necessarily a problem, though, since medical advances, lower rates of smoking, and a general push to healthier living will lead many to longer life spans. Who wants to face the prospect of 40 years in retirement?

When he does work with Gen Y clients, Baechler says it’s normally because they’ve been referred by an accountant, a lawyer, or by mom and dad. “Their parents have pushed them to come see us, or expressed the value of what we bring to the table,” he says. “We tell them it’s difficult to beat the market.”

Such clients will often counter with stories of higher returns or point out their long time horizon and advocate taking some risks while they’re young.

“They conceptualize it as a 30-year-plus time horizon and think, ‘I can make it back up if things go bad,’” he says.

Most Gen-Xers also bank on the long time horizon, says Pereira. “A lot of them have been burned at least once, but haven’t learned from that,” he says. “They repeat the same mistakes.”

When he asks Xers for their vision of a reasonable rate of return, he gets numbers of 10% or higher. So he’s learned to rephrase the question and ask, “If you gave me \$100,000 today, would you be happy with \$200,000 in 10 years?” Most of the time clients say yes, and for those who don’t he simply backs up the timeline until they are satisfied. “I usually don’t have to go back beyond eight years,” says Pereira.

Eventually, says Baechler, people who’ve been singed **continued on page 22**

**continued from page 19** a lot more insurance products, such as disability insurance. We also see clients with completely inadequate risk management across the board.

**BFP:** There’s an awful lot of confusion out there. People think they have plans from work that will see them through retirement. They are also misinformed about the products they have. People are not familiar with the terminology we use in the industry. It’s Kleenex versus tissues—they know the brands but little about the product. Advisors have a huge opportunity to get down to the basics and educate clients about the products they own. The next step is educating them on what it is they need.

**AB:** Can we expect some boomers to work longer? Absolutely. I have encountered boomer clients in recent months who have the funds to retire, but who aren’t willing to contemplate full-scale retirement.

**RK:** If there’s anybody who needs more help

right now, it’s the boomers. They thought their ship was headed in the right direction but these latest market realities have rocked them. Advisors need to pay more attention to the pre-retirement transition period. I’m 53 and grew up very much with the allure of “freedom at 55.” We joke about it and say it’s “freedom 75 now.” Those transitional clients out there are wandering right now. They don’t know what to expect. They are anxious, confused and wanting direction.

**JP:** It’s our professional responsibility to educate clients to the reality of what’s going on. We’re being hired not just to pursue people when things are good and sales are easy but also to stay in touch when things get tough. It’s during the tough times that real relationships are forged.

**We thank Invesco Trimark for its sponsorship of this year’s Dollars & Sense research.**



*“I am realistic about my current and future financial position.”*  
**Retirees**  
 responded to the statement

Somewhat agree **60%**  
 Somewhat disagree **3%**

Strongly agree  
**36%**



n = 445

Source: Annual Dollars & Sense Survey, 2008

continued from page 20 become great clients. They start to seek an alternative. “We move away from products and single securities. We look at the ultimate goal and how we can get you there without taking on unnecessary risk. And we look at ETFs and funds that accomplish that,” he says. “Then, the meetings can be about ensuring the goals and circumstances haven’t changed.”

One problem with the 30-and-under crowd, though, is they’re too exposed to the media. They’ve grown up during the ’90s boom and a barrage of messages has told them to invest early and often or they’ll never catch up. They’ve bought in all too willingly.

Unfortunately, they’re also in the middle of a life transition. They’re leaving school with huge debt levels and are next in line to move toward marriage and home ownership. In many ways this group is as, or more, susceptible to volatility than late boomers or retirees. Despite their long outlook, they actually have little risk tolerance because they lack financial cushions.

“Most people expect what they see on television,” Pereira says. “It’s all about hype. They’re expecting the hot tip from the broker and making changes based on market movements.”

Pereira works with this group by putting 20% of their money into a long-term equity portfolio and the rest into bonds; or if their timeline for marriage or home buying is short, into a money market or GIC. By watching the 20%, they get to see how a regular portfolio would behave, getting their feet wet without endangering their futures.

### Saving Grace

While there are some natural savers among the baby boomers, it’s not common within the generation that basked in postwar prosperity. Advisors we spoke

*“I am realistic about my current and future financial position.”*

## Gen X responded to the statement

Somewhat agree **65%**  
Somewhat disagree **5%**

Strongly agree  
**30%**



n = 278

Source: Annual Dollars & Sense Survey, 2008

with say ability to save and budget is very much a mindset. Clients either have it or they don’t. Training is not an option.

A contributor to failure, they add, is the availability of easy credit. Clients will tend to spend what they have and live up to their incomes. And in some cases, spend beyond. Two scoops, not just one.

Most Xers also need to be reminded they’re older than they realize. Their boomer predecessors have driven up the prices of basic commodities, cars, and houses; so Xers have concentrated on cash flow and gotten used to low bank balances. But they’ve got kids and mortgages now, and need to focus on putting money away. And then, when their kids are out of school, they need to put the sums once earmarked for tuition away for their own retirements.

One area Landry believes advisors are overlooking is the need to place more Long Term Care insurance. The Federal and provincial governments are reluctant to talk about their inability to meet future healthcare needs, but statistics suggest that when boomers retire in earnest, there won’t be enough taxpayers around to support them.

“Healthcare costs are rising far in

excess of the consumer price index,” he says. “The average Canadian has about \$50,000 in his or her RRSP. That’s not going to go far.”

Advisors working with clients who are firmly in retirement, meanwhile, need to start conversations about how to give money with a warm hand today, rather than a cold one from the grave.

“You throw out the idea of, ‘Why don’t you fund the grandchildren’s educations,’ and they’re ecstatic to do that,” says Pereira. “They want to do something beneficial for loved ones.”

Key to dealing with the post-retirement demographic, especially given the economic climate, is ensuring any trusts or pass-alongs can be reversed. Older clients can change their minds about heirs, and sometimes even well-positioned grandparents can find themselves in financial trouble. “You want to be able to pass it one to two generations down while still maintaining control,” says Pereira.

### Future Fears

These days one topic trumps all others, the economic downturn, and investors’ time horizons play large in how much danger they **continued on page 24**

**continued from page 22** perceive. Sharp stock devaluations place retirement plans in jeopardy for both baby boomers and Generation-Xers. And boomers facing crimped net worth may opt to retire later, in hopes that income from their portfolios will be more substantial.

“I don’t think boomers are going to retire in a traditional sense,” says Landry. “The vast majority aren’t in a position to do so, due to lack of savings. And the way we used to define retirement as sitting on a beach on a lawn chair is gone.”

Bad news for Xers, especially the leading edge of the generation, since they’ve been counting on boomer retirements to tighten labour markets and push them up the wage curve. As Freedman says of her Xer clients, “If they think the baby boomers are going to get out of the way in a hurry, they’re wrong.”

But, she notes, an Xer who says he or she wants to retire at 55 also isn’t speaking in conventional terms. While he may voice the desire, he also understands few people—unless they’re a teacher or bureaucrat with a substantial pension—ever get to live that dream. In most cases, that

**Do you segment your client base (and offer different service and/or fees) in any of the following ways?**

By Assets	52%
By Life Stage	38%
By Age	25%
By Gender	5%
Other	17%

n = 696 (respondents who have prepared a financial plan for at least 21% of their households.  
Source: Annual Dollars & Sense Survey, 2008

client is expressing an intention to work less, consult, or choose his assignments. For those who really do think in terms of hanging it up before age 60, Freedman can be blunt: “I told one couple, ‘You’re not going to be able to retire at 55 unless you’re dead at 70.’ ”

People just entering, or on the cusp of retirement tend to be more nervous, Pereira notes, because their growth expectations are getting hammered. “They realize the money they’ve set aside is going to have to take them through retirement,” he says. “They’re scared they don’t have enough.”

Nowhere is this more apparent to him than when he does second opinion portfolio reviews. He says a large percentage of client plans he looks over are heavily weighted in equities—not good given the recent volatility.

“So you start to explain the advantages of bonds to take some of the volatility out,” he says.

By and large, the pre-retirement cohort is willing to accept trade-offs. They understand their timeline is shortening and they’re willing to give up some return if it means more security. “This is where the guaranteed minimum withdrawal benefit funds start to become a factor—or annuities for a short time while we look at options,” he says. “There’s a premium to these things, but being able to sleep at night is worth the premium to some of these people.”

On the bright side, Freedman says brokers have so far handled the crisis well, calling clients who are prone to worry. One of her clients in his 60s is getting antsy. He got married not long ago and has a son who’s 13. But he’s in good, solid mutual funds that Freedman says will come back, eventually. “It’s not the end of the world but even if it is, he has a bloody good pension that he can live off of,” says Freedman. “He started to get worried and I told him, ‘What are you going to do, sell now?’ ”

Another client is living off investments from an inheritance. Her husband left her recently, so she has no employment income and has been getting worried. “She told me, ‘I’ve lost \$100,000,’ to which I replied, ‘You haven’t lost anything until you sell,’ ” says Freedman.

Baechler says he’s lucky, because a lot of his clients in Ottawa are government workers and have defined pensions. “They’re concerned,” he says, “but this is not catastrophic.”

But one subset of clients, government consultants who lack hefty pensions, are worried. These people are telling Baechler they’ll continue to take on contract work, and not forgo any employment income just yet. “They’re going to work for another

two-to-three years and see what their portfolios look like,” he says. “They’re extending their working lives.”

The only other change Baechler’s seen so far is people actively voicing an intention to reduce consumption. People who were going to buy a new car with money from their portfolios are starting to hold

back. “None of my clients have lost jobs yet,” he says, “but they are anticipating leaner times and are actively saying they’ll be less robust consumers.”

Tough times ahead, to be sure, and the needs of clients from multiple age groups are only going to get more complex. So keep juggling. <sup>AE</sup> **PORADO**