

Will a financial advisor help me build more savings?

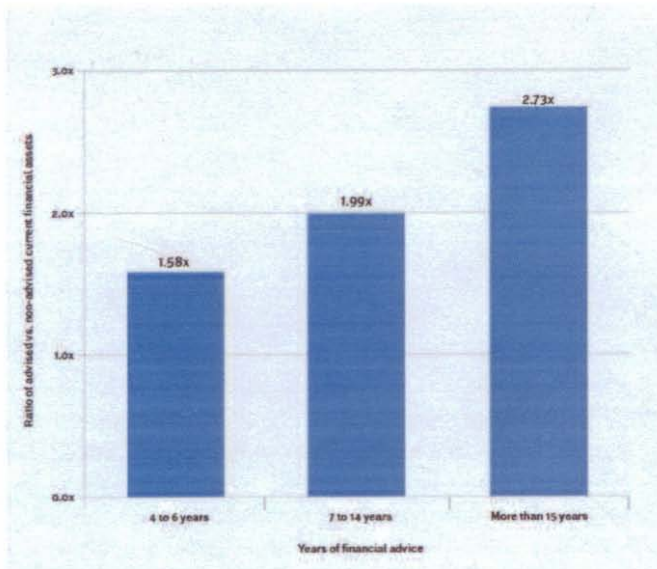
Highlights

Recent research shows that:

- Having a financial advisor helps people increase their level of wealth.
- This positive effect of advice on wealth is not simply a result of asset performance. The greater savings discipline acquired through advice plays an important role.
- Advice positively impacts retirement readiness.

Key Findings

The research found that having a financial advisor for more than four years contributes positively and significantly to a household's level of assets when the impact of all other variables have been factored out. The longer the advice relationship, the greater the impact.



This chart shows financial assets of households that received advice over various time periods, as a multiple of the financial assets of households that did not receive advice¹. The researchers removed the influence of close to 50 other factors that could have an impact on savings, such as age, education level, income level, and marital status. As a result, the differences in the chart reflect the impact of advice on households that are otherwise similar. The chart shows that a household that has worked with a financial advisor for four to six years accumulates 1.58 times more assets than a household that does not have an advisor and is otherwise virtually the same. Similarly, a household with a financial advisor for seven to 14 years accumulates 1.99 times more assets than a virtually identical household without an advisor. After 15 years or more with a financial advisor, the household with an advisor accumulates

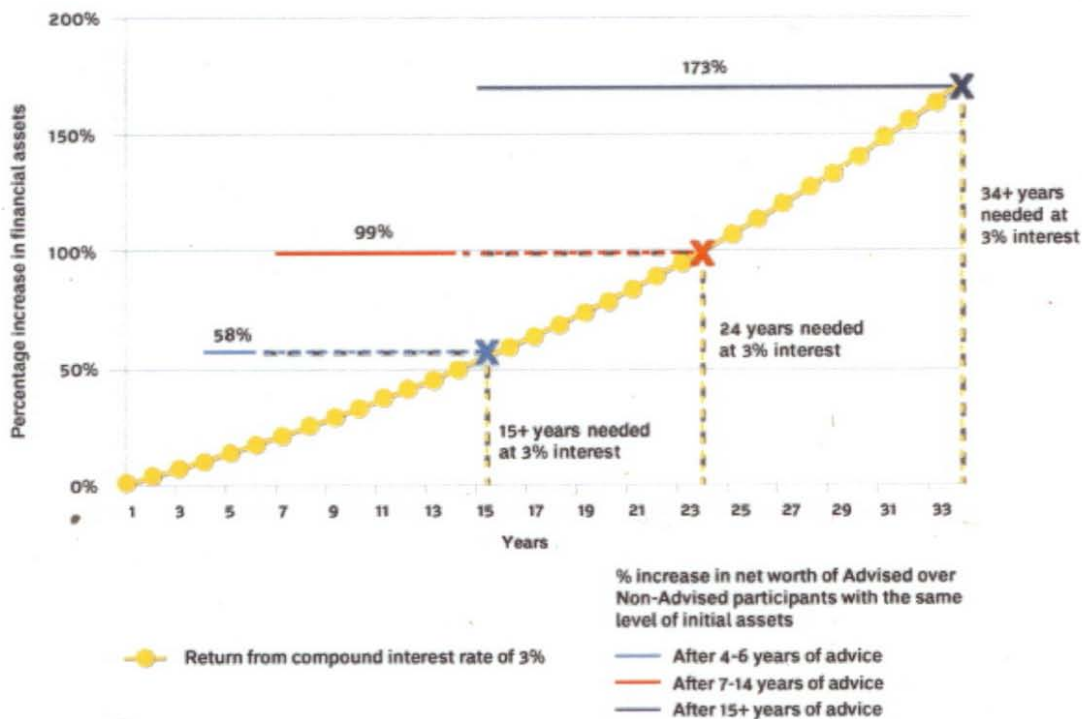
2.73 times more assets than an otherwise household that does not have an advisor.

¹ In this analysis, "households that do not receive advice" excludes those who choose not to receive advice because they consider themselves capable of managing their own investments.

Why do households with advisors have more assets than households without advisors?

The researchers examined whether the selection of specific assets (such as particular stocks and bonds) was a factor in these results. Their analysis shows that, even if asset selection increased returns by 3% (compounded) annually, this would not fully explain the difference.

As the chart below illustrates, it would take over 15 years for a 3% advantage to increase assets by 58%; whereas the households with advisors achieve this differential in 4 to 6 years. Clearly, the increase in assets of households with advisors, relative to households without advisors, cannot be explained by asset selection alone.



Advised Households have Higher Savings Rates

The researchers found important differences in the savings rates of advised and non-advised households. As the table below shows, advised households save at twice the rate of non-advised households (8.6% compared to 4.3%).

	Savings Rate
Households with advisors	8.6%
Households without advisors	4.3%

A sophisticated mathematical analysis revealed that financial advice increases the probability that a respondent saves and, among those who do save, it increases the rate of saving.

All evidence points to **improved savings behaviour** as the key to the relative success that households with advisors have in accumulating assets, and the important role of the financial advisor in encouraging this behaviour.

Retirement Readiness

On a scale of one to 10, a total of 56.4% of households with advisors indicate with a score of six or higher that they feel confident they will have enough money to retire comfortably. Only 40.8% of households without advisors feel the same way. The researchers examined what caused these differences. They found that having a financial advisor has a strong and significantly positive effect on the level of retirement readiness. They also found that 13% more people with advisors were confident that they would have a comfortable retirement, compared to people without advisors.

Other important characteristics that gave people confidence about retirement were high incomes, availability of workplace pensions, and employment in the public sector. Respondents who are older and, therefore, closer to retirement, are less likely to feel confident that they will have enough money to retire comfortably.

Research Background

The research is based on a study of 3,610 Canadian households by researchers Professor Claude Montmarquette, Ph.D. and Ms. Nathalie Viennot-Briot from the Montreal-based Center for Interuniversity Research and Analysis on Organizations (CIRANO). Dr. Montmarquette is the President and Chief Executive Officer, and Vice-President Public Policies at CIRANO. He has a Ph.D. in economics from the University of Chicago, and is a full professor in the Department of Economics at the University of Montreal. He is well known as a specialist in the economics and econometrics of education and labour and in the economics of public choice.

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