Paradise at the end of your days
A review of the retirement planning tools offered by financial institutions

RESEARCH REPORT

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MISSION

Option consommateurs is a not-for-profit organization whose mission is to promote and defend the rights and interests of consumers and ensure that they are respected.

HISTORY

Option consommateurs has been in existence since 1983, when it arose from the Associations coopératives d'économie familial movement, more specifically, the Montreal ACEF. In 1999 it joined forces with the Association des consommateurs du Québec (ACQ), which had already pursued a similar mission for over 50 years.

PRINCIPAL ACTIVITIES

Option consommateurs helps consumers experiencing difficulties, provides budget consultation and conducts sessions on budgeting, indebtedness, consumer law and the protection of privacy. We also make free visits to low-income households in order to improve energy efficiency in their homes.

Each year we produce research reports on important consumer issues. We also work with policy makers and the media to denounce unacceptable situations. When necessary, we institute class action suits against merchants.

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Summary

Despite the importance of preparing for retirement, Canadians do not have all the knowledge they need to understand such a complex subject. To obtain information, they mostly turn to financial institutions, which provide them with tools such as brochures, websites or online videos.

In this study, we looked at retirement planning tools offered by financial institutions. Our qualitative analysis of the sample of financial tools, with the help of experts, raised a couple of questions which should be studied further in future research projects.

We found that the information presented in the tools provided by the financial institutions is not objectively false. In addition, these tools provide undeniable advantages: they can allow consumers to start thinking about retirement planning and they raise awareness on this off-putting topic. More often than not, the tools are drafted in general terms, they use reassuring language and they encourage consumers to meet with a representative of the financial institution.

However, in many cases, we found that the tools seem to put little emphasis on the importance of public pension plans available within the Canadian retirement income system. We can be concerned that consumers would be directed toward financial products such as RSSPs and TFSAs, without fully knowing about all their retirement options and the strategies they can implement. In addition, the tools generally omit to display the fees charged for these financial products. In some cases, they seem to provide information that does not take into consideration the specific situation of the consumer and their saving needs. General rules will sometimes be promoted thus encouraging consumers to make the full contribution to RRSPs and TFSAs.

In semi-structured interviews, Canadian consumers said that although the tools provided by financial institutions give them the opportunity to begin tackling a complex subject, they need personalized advice to help them reach a financial decision. Despite a certain wariness, several said they trusted the information given out by the financial institutions, some even declaring that they had followed their recommendations, or at least intended to do so.

Finally, the tools we analyzed raise the issue of a conflict of interest between the purported educational role of these tools and their role in the institution's sales strategy. In this context, given the importance of consumers to obtain the appropriate information, it seems timely to study this area further.

One of Option consommateurs' recommendations is to promote the use of retirement planning tools created by neutral, independent bodies. We also call on financial institutions to disclose more information to consumers on the issues of these tools identified in our analysis, particularly regarding the fees applicable to the financial products they offer and the manner in which their employees are remunerated.

Leading as I did at the time a solitary life, despite my youth, I knew how to treat the souls of solitary people with delicacy. Still, I made a mistake. It was precisely my youth that forced me to imagine the future in my own terms, including a certain search for happiness. I told him that in thirty years these ten thousand trees would be magnificent. He replied very simply that, if God gave him life, in thirty years he would have planted so many other trees that these ten thousand would be like a drop of water in the ocean.

- Jean Giono, *The Man Who Planted Trees* (1953)

Introduction

For a great many Canadians, retirement is synonymous with uncertainty. Many are the traps in store for seniors who have planned poorly for old age or who spend their savings too quickly. They face financial insecurity, the loss of their home, and even the prospect of outliving their savings.

It is understandable then that they would want to find the best plan for their retirement. But that is no simple matter. Canada Pension Plan, provincial pension plan, defined benefit plan, RRSPs, TFSA, bonds, stocks, mutual funds... the average consumer can easily be bewildered by the multitude of existing schemes and financial products offered. In short, Canadians do not know enough to make optimal choices.

Most Canadians turn to financial institutions for advice on preparing for retirement. With the use of pamphlets, websites or online videos, these institutions offer to explain the basics of retirement savings to consumers and help them get a handle on these worrisome and complex issues. But is the advice they give truly the best they could get?

This study focuses on the retirement planning tools offered by financial institutions. With the help of experts, we submitted these tools to analysis to allow us to determine whether the information they give on retirement planning and the solutions they propose are adapted to the needs of consumers. We then conducted semi-structured interviews with Canadians in order to discover how well they understand these tools and how they perceive them.

In order to identify the context in which these tools are presented, we will first summarize the Canadian retirement income system. We will also describe the difficulties Canadians face when attempting to obtain information and provide a brief a review of the academic and specialized literature that addresses the issue of retirement planning tools and the quality of the financial information it contains.

1. A headache for consumers

1.1. Canada's retirement income system

In their endeavour to maintain a standard of living in retirement comparable to the one they had when they were in the labour market, Canadians can count on several sources of income[1]. The vast majority of them will receive a basic income through public plans – the old age security program and the Canada Pension Plan. During their working lives, many also participate in an employer pension plan. They may also participate in private programs or grow their assets in a Registered Retirement Savings Plan (RRSP) or a Tax-Free Savings Account (TFSA).

Old Age Security Program

The Old Age Security program, which is administered by the federal government and financed by taxes from Canadians, offers various benefit plans to retirees. The two most important are the Old Age Security (OAS) pension and the Guaranteed Income Supplement (GIS), which are designed for Canadians of 65 and over. Note that the age of eligibility for benefits will gradually increase from 65 to 67 between 2023 and 2029.

The OAS is the basic plan in Canada's retirement income system. The vast majority of Canadians aged 65 and older are eligible to receive this benefit whether or not they have worked in their lives. They simply need to have the status of citizen or legal resident and have lived in Canada for at least 10 years since the age of 18[2].

There are several factors that can influence the amount of the OAS benefit. In order to receive the full amount of $551.54 per month[3], beneficiaries must have resided in Canada for 40 years after the age of 18; if they have been residents for between 10 and 40 years, the benefit is calculated proportionally[4]. A subsidized amount can also be assigned for each year that they defer their application beyond the age of 65, until the age of 70. People with an annual income of over $71,592 will see their pension reduced progressively, with the benefit dropping to zero for an annual income of $115,716 and beyond.

The GIS is an assistance program for low income people 65 years and over. This program provides a minimum income for people receiving OAS and who have little or no other income. Unlike social assistance, GIS does not take a person's assets into account.

[1] The information in this section come mainly from the following: Service Canada (http://www.servicecanada.gc.ca/eng/lifeevents/retirement.shtml); Financial Consumer Agency of Canada (http://www.fcac-acfc.gc.ca/Eng/forConsumers/lifeEvents/planningRetirement/Pages/home-accueil.aspx); Rolland G. Plamondon and Pierre Sauvé, *Personal Financial Planning: A Comprehensive and Integrated Approach*, 6th ed, Chenelière Education, 2012.

[2] Special conditions may apply to Canadians living abroad, immigrants, or people born on July 1, 1952 or earlier.

[3] Unless otherwise stated, all the scales referred to in this report are for January 2014.

[4] Note, however, that under several international agreements on social security, the years spent in foreign countries may be considered in calculating that number of years.

The amount paid under this program is reduced for each dollar of income a person receives in excess of the OAS[5]. The only exception is if the beneficiary's maximum annual salary is $3,500 or less. Since any other income a person receives may also be subject to significant taxes and tax assessments, it may sometimes be advantageous for some consumers who anticipate earning a low income during their retirement to rely more on a non-registered savings plan such as a TFSA or the equity of their home[6].

Canada Pension Plan

The second level in the structure of the Canadian retirement income system is the Canada Pension Plan (CPP) or, in Quebec, the Quebec Pension Plan (QPP)[7]. These plans, which are almost exactly equivalent, are accessible only to those, i.e. workers, who have paid into them. The beneficiary and the employer contribute equally to the plan during the beneficiary's working life.

The amount of pension that beneficiaries receive is calculated on the basis of the income earned while they were working and on their age when they applied for the pension[8]. A consumer who retires at age 65 will get 25% of the average income earned, up to the maximum pensionable earnings. One person can choose to withdraw his pension in advance, from the age of 60, or delay applying for it up to the age of 70. However, requesting the pension before age 65 reduces the amount one will receive for the rest of one's life. Conversely, a late request may cause it to increase. For someone with a normal life expectancy, it may be detrimental to claim this pension prematurely.

Employer pension plans

An employer pension plan[9] is a scheme that is financed by employer contributions, with or without the worker's contribution. There are essentially two main types: defined benefit plans and defined contribution plans.

Defined benefit plans guarantee the participant a retirement pension calculated on the basis of an agreed formula. Generally, this pension is determined based on a percentage of salary and the worker's years of service under the terms of each plan. Since the amount of the pension is

[5] The amount becomes zero when the person reaches a maximum allowed annual income, excluding OAS, of $16,728 or $22,080 for a couple.

[6] Some authors call this situation, in which a consumer's is income below the prescribed threshold, a "tax trap." In such circumstances, the consumer is doubly penalized: not only is the GIS is reduced, but he also has to pay taxes on other income. In total, a large proportion of his revenue is returned to the state: for example, a single senior with an income of $22,000 who withdraws $100 from an RRSP will have to repay $84 in taxes or have it deducted from his GIS.

[7] These plans also include various other types of annuities: disability pension, surviving spouse's pension, orphan's pension, invalid pension and child death benefit.

[8] Under international agreements, work performed abroad can sometimes be considered.

[9] We use the terms "employer pension plan" or "supplemental pension plan" interchangeably to describe such schemes.

guaranteed, the risk resides with the employer, who must make up the difference if the amounts contributed are insufficient to cover the amounts to be paid to retirees.

In contrast, defined contribution plans do not guarantee the future retiree a predetermined annuity. In this case, the risk resides with the consumer, whose income is dependent solely on the performance of the capital accumulated in the funds.

All these schemes are regulated by both provincial and federal laws[10], which stipulate that the employer must contribute an amount of at least 50%. There is also a ceiling imposed on the contributions and benefits payable under these schemes[11].

Despite their undeniable advantages in adequately preparing for retirement, only one-third of Canadian workers participate in employer plans[12]. Faced with this situation, the federal government recently implemented a new type of plan: the Pooled Registered Pension Plan (PRPP). This is a plan that employees can participate in without their employer being obliged to make contributions[13].

RRSPs, TFSAs and personal savings plans

In addition to public benefits and those provided through employer pension plans, Canadians can obtain retirement income from amounts they have saved on their own initiative during their working lives. To encourage Canadians to save for retirement, the tax laws provide two well-known instruments: the Registered Retirement Savings Plan (RRSP) and the Tax-Free Savings Account (TFSA).

An RRSP is an investment vehicle that allows one to save for retirement with tax benefits. One can hold various types of investments, such as guaranteed investment certificates, bonds or stocks. The consumer can make a contribution equal to 18% of qualifying income from the previous year or an annual maximum set by law, whichever is lesser. For 2014, the ceiling was

[10] Depending on the province or activity area in which such schemes are introduced, different laws apply. In Quebec the *Supplemental Pension Plans Act*, RSQ, c. R-15.1. In Ontario: the *Pension Benefits Act*, RSO 1990, c. P.8. In areas under federal jurisdiction (banks, state companies, transportation organizations), it is the *Pension Benefits Standards Act*, RSC c. 32 2nd Supp that applies. Under the *Income Tax Act*, all these employer pension plans must be approved by the Canada Revenue Agency, which calls them "registered pension plans." Life Income Funds (LIFs) must also comply with the tax rules applicable to Registered Retirement Income Fund (RRIFs).

[11] However, this limit does not prevent the retiree from receiving benefits, such as pension indexation or purchased years of service.

[12] This percentage is based on the estimate of 32% in 2008, Karim Moussaly, *Participation in Private Retirement Savings Plans*, *1997 to 2008,* Statistics Canada, Catalogue no. 13F0026M, No. 1, March 2010, p. 10. Note that some analysts arrive at higher estimates, including Canadians covered by an employer plan in which they no longer participate. This can occur, for example, when they participated in such a scheme in a previous employment. See: Grant and Yuri Schellenber Ostrovsky, *Retirement-Related Highlights from the 2009 Canadian Financial Capability Survey,* Catalogue no. 11-624-M Statistics Canada, June 2010, p. 13

[13] The PPIC was created by the *Pooled Registered Pension Plans Act*, SC 2012, c. 16 which provides a general framework for the provinces to set specific conditions for this type of plan. In Quebec, the *Voluntary Retirement Savings Plans Act*, RSQ, c. R-17.0.1, responded by creating the VRSP. Unlike the situation with the PRPP, Quebec employers with more than five employees are obliged to offer the VRSP to their employees, even though the latter are free to contribute or not.

set at $24,270. This amount could be higher for those who did not contribute in previous years, or lower if they participated in an employer plan[14].

Consumers' contributions to an RRSP are tax deductible; similarly, the investment grows sheltered from tax. It is only when they withdraw these funds at the time of retirement that they will have to pay tax. They will then have several options at their disposal, allowing them to access their funds gradually and spread out the taxes over time.

A TFSA is a plan that also provides tax benefits. Unlike an RRSP, the tax payments are not delayed, yet the amounts it contains continue to grow sheltered from tax. In 2015, the TFSA contribution limit was increased to $10,000 per year, not indexed to inflation. However, the allowable contribution may be higher if, in previous years, one has invested less in one's TFSA than the maximum allowed or if one has made withdrawals.

Naturally, all of a consumer's savings (besides RRSPs) can provide a source of income upon retirement. These types of savings are called "unregistered" because they do not benefit from special tax exemptions. When they retire, consumers can generate income from assets, such as rental income or income from the sale of their house. They may also liquidate their investments, if any. Most financial institutions also offer a financial product, the reverse mortgage, which pays credit secured by a lien on the consumer's residence.

1.2. Complex choices, insufficient knowledge

Public plans, employer plans, RRSPs, TFSAs, savings plans... preparing for retirement requires consumers to make complex financial decisions that can have serious consequences. They not only have to know about the various existing schemes and financial products, but also be able to determine their pension requirements, juggle sophisticated tax concepts and choose an optimal savings strategy.

Along the way, even the most savvy consumer may be confronted with multiple dilemmas. How much should I save? What are the best instruments to do this? Should I pay off my debts or contribute to an RRSP? Which stock options should I choose? Is buying a life annuity a good solution? In short, retirement planning can be a real headache.

Unfortunately, consumers do not have all the knowledge they need to make such complex decisions. While 81% of Canadians aged 25 to 64 say that they are actually making financial preparations for retirement, only 46% of them know how much they need to save to maintain a standard of living equivalent to what they had during their working lives[15]. In other words, many consumers are saving up for their old age, but are unable to say whether the nest egg they are accumulating will be enough to maintain their standard of living.

[14] In the latter case, a pension adjustment will be calculated to determine the value of the benefit granted and will reduce the maximum allowable RRSP contribution for the following year.

[15] Grant and Yuri Schellenber Ostrovsky, *Retirement-Related Highlights from the 2009 Canadian Financial Capability Survey,* Catalogue no. 11-624-M, Statistics Canada, June 2010,, p. 12

Their poor knowledge of Canada's retirement income system also merits attention. For instance, 55% of pre-retirement Canadians aged 45 to 59 say they "more or less" understand Canada's public retirement income programs and 25% report that they do not understand them at all[16]. Similarly, almost one member of a pension scheme in six does not know if he is contributing to a defined benefit plan or a defined contribution plan[17].

Canadians also know very little about the characteristics of the products they purchase. They often pay scant attention to the fees applicable to them[18]. In fact, according to the OECD, pension plans are among the least understood financial products that consumers have to deal with[19].

1.3. Financial institutions: the leading source of information

In short, Canadians need information on how to prepare for retirement. And in their search for enlightenment, they turn primarily to financial institutions. Statistics Canada's *2007 General Social Survey Report* revealed that the main source of retirement planning advice is the financial sector[20]. A survey by the *Régie des rentes* (the authority administering Quebec's pension plan) corroborates this, indicating that over half of consumers go to financial institutions to seek information or advice on how to plan their retirement[21]. These results point to the preponderant role of financial institutions as the source of retirement planning information, far ahead of other sources such as independent financial planners, relatives, government, or even the Internet.

1.4. A little-explored field

Despite the important role that financial institutions play in terms of supplying information on retirement planning, researchers have rarely focused on the quality of the advice they give in

[16] Grant and Yuri Schellenber Ostrovsky, *The Retirement Puzzle: Sorting the Pieces,* Statistics Canada, No. 11-008, p. 38

[17] Id., p. 40

[18] Joanne Yoong, *Preparation for retirement and individual decisions: Implications for Canada*, research paper prepared for the Task Force on Financial Literacy, Rand Corporation, 2011, p. 32

[19] OECD, *Improving Financial Education and Awareness on Insurance and Private Pensions*, 2008, p. 106

[20] See: Grant and Yuri Schellenber Ostrovsky, *The Retirement Puzzle: Sorting the Pieces* Statistics Canada, No. 11-008. According to the authors, over 50% of respondents say they rely on this source for retirement planning advice. The authors do not define the term "financial sector" exactly, but state that it is often characterized as "consisting of financial planners, investment advisors, employees of financial institutions, accountants and brokers." Some of these may not be affiliated with financial institutions, but it can be assumed that it is the case for most of them. The survey also remains unclear regarding the distinction between "advice" and "general information." Note also that the "media" are a source of limited "advice" within the meaning of their investigation, as well as an employee of a financial institution. However, it is unclear how media can offer advice that might be described as personalized; this obviously falls under general information.

[21] RRQ, *Sondage concernant les effets de la crise financière sur la planification de la retraite des Québécois*, 2009, p. 29. (French only) Again, this survey does not provide a precise definition. The exact question respondents were asked was: "If you want information or advice on planning your retirement, where would you find this information? " The answer most often given, by 52.4% of respondents, was "financial institution / my credit union / adviser in a bank. " Although the terms are not defined further, each element of this response obviously refers to a "financial institution."

this regard. The vast majority of studies produced on the subject focus instead on behavioural economics and financial literacy. Their general conclusion is that consumers with a higher level of financial literacy plan for their old age better, and that consequently, consumers' knowledge of the subject should be improved[22]. Several of these studies highlight the difficulty consumers face in making informed choices about preparing for retirement, especially considering the complexity of the products offered[23].

The availability of retirement planning advice or the quality of the financial information are topics that are explored far less in the literature. The OECD showed a brief interest in the context of its studies on the implementation of national financial education programs. According to the organization, information given to consumers about pension schemes should be easy to understand and should cover the range of all retirement income sources, both public and private. The OECD points out that retail investors are not always aware of the potential conflicts of interest that could influence the advice they receive. In particular, it calls on the national authorities to improve transparency with regard to the fees applicable to retirement savings instruments and the cost of certain financial products such as reverse mortgages, and even that a cap should be set on such charges[24].

In Canada, the recommendations of the Task Force on Financial Literacy report summarily addressed certain problems concerning the information documents offered by financial institutions. The group expressed regret that, although these documents are readily available and in abundant supply, they are usually written in complex language that is difficult to understand, even for those who are relatively well-versed in financial matters. The group also stresses the importance for financial institutions of being transparent and training personnel able to give consumers accurate information and useful advice[25].

A few studies conducted outside Canada address the quality of the information provided by financial institutions in preparing for retirement in greater detail. In the United States, Professor Zvi Bodie[26] has analyzed the quality of the investment education materials and advice offered online. His conclusion, based on a small sample, is that the investment choices available to consumers are inadequate for assessing the risk involved and expose them to the danger of

[22] Joanne Yoong, *Preparation for Retirement and Individual Decisions: Implications for Canada*, research paper prepared for the Task Force on Financial Literacy, Rand Corporation 2011; Annamaria Lusardi and Olivia S. Mitchell, *Baby Boomer Retirement Security: The Roles of Planning, Financial Literacy, and Housing Wealth* (2007) 54-1 *Econ J* Monet. 205; Sewin Chan and Ann Huff Stevens, "What You Don't Know Can't Help You: Pension Knowledge and Retirement Decision-Making" (2008) *Rev. Econ. Stat,* p. 253

[23] Daniel G. Goldstein, Eric J Johnson, William F. Sharpe, "Choosing Outcomes Versus Choosing Products: Consumer-Focused Retirement Investment Advice" (2008) 35-3 *J. Cons. Res*. 440; Michael J. Liersch, *Choice in Retirement Plans: How Participant Behaviour Differs in Plans Offering Advice, Managed Accounts, and Target-Date Investments*, T. Rowe Price, 2009

[24] OECD, *Improving Financial Education and Awareness on Insurance and Private Pensions*, 2008, pp. 120-123

[25] Task Force on Financial Literacy, *Report of Recommendations on Financial Literacy: Canadians and Their Money: Building A Brighter Financial Future* 2010, pp. 22-23

[26] Mr. Bodie is a professor of finance at Boston University School of Management

outliving their savings[27]. A study in the UK found that financial advisors[28] sometimes have limited knowledge of public pension schemes and that this can have distressing consequences for low-income consumers[29].

Beyond the context of preparing for retirement, there are many studies conducted in several countries that focus on the quality of the advice offered by financial advisors. The majority of these studies conclude that such advice may be biased and inadequate when the mode of remuneration of those who give it depends on the sale of financial products, as is often the case[30]. Others add that, despite this, consumers generally lend credence to the advice dispensed by their financial advisors[31]. Also, Option consommateurs has conducted two studies in the past fifteen years on investment advisors in financial institutions; both studies show that the competence of some of these advisors leaves much to be desired[32].

[27] Zvi Bodie, "An Analysis of Investment Advice to Retirement Plan Participants" in Olivia S. Mitchell and Kent Smetters, eds, *The Pension Challenge. Risk Transfers and Retirement Income Security*, Oxford University Press, 2003

[28] In this report, the term "financial adviser" denotes any person, whether or not employed in a financial institution, who provides a consumer with personalized financial advice.

[29] Elaine Kempson and Sharon Collard*, Advice on Pensions and Saving for Retirement: Qualitative Research with Financial Intermediaries*, research report submitted to the Department for Work and Pensions by the Personal Finance Research Centre, University of Bristol (UK), Research Report No. 289 2005

[30] Sendhil Mullainathan, Markus Noeth and Antoinette Schoar, *The Market For Financial Advice: An Audit Study*, National Bureau of Economic Research, Cambridge, 2012; Andreas Hackethal et al, "Financial Advisors: A Case of Babysitters?" (2011) 36-2 *Journal of Banking and Finance* 509;. Adeline Gilson, "Les conseillers financiers de La Banque Postale : entre les besoins du client et les intérêts de l'employeur" *SociologieS,* 2010; Roman Inderst and Marco Ottaviani, "How (Not) to Pay for Advice: A Framework for Financial Consumer Protection" (2012) 105-2 *J. Financ. Econ.* Pp. 393-411

[31] Ralph Bluethgen et al, *Financial Advice and Individual Investors' Portfolios*, Goethe Universität Frankfurt am Main., 2008; John Chalmers and Jonathan Reuter, *What is the Impact of Financial Advisors on Retirement Portfolio Choices and Outcomes?* NBER Working Paper No. 18158, 2012

[32] Claire Harvey, *Les représentants dans le domaine du placement : des compétences bien inégales*, Report presented to Autorité des marchés financiers, by Option consommateurs, 2007; Option consommateurs, *Des experts de fortune : Un aperçu du marché québécois du conseil en matière de placements* (French only) report submitted to Industry Canada, 2000

2. Retirement planning tools

2.1. Methodology

In this research, we focused on the information provided by financial institutions on the subject of preparing for retirement. We did not study the personalized advice given by these institutions, i.e. the information dispensed to a consumers in the context of individual meetings. Rather, we limited the scope of our analysis to the wide range of retirement preparation tools they offer: brochures, retirement preparation courses, websites and online videos. What is the information on retirement planning that is found in these tools? Are the solutions proposed adequate for consumers' needs? What do they include? What are their advantages or disadvantages?

To answer these questions, we first gathered a range of retirement preparation tools offered by ten financial institutions and characterized them. Then, in order to determine the reliability of these tools, we asked financial planning experts and an economist to analyze and comment on the information offered in a representative sample of these tools[33]. We also sought the opinion of the experts on the overall results. Finally, we inquired into the perceptions of consumers by conducting semi-structured interviews with 30 subjects who had used retirement planning tools offered by financial institutions[34].

2.1.1. Collection

For the purposes of our collection, we defined the term "retirement planning tool" very broadly. Any document in which a financial institution provides information or advice about retirement planning, or invites consumers to learn more about this topic, was considered to be such a tool.

We collected the tools offered by ten financial institutions[35]. We first selected the most important banks in Canada: BMO, CIBC, National Bank, RBC, Bank Scotia and Bank TD[36]. Since they occupy such an important place in the mass savings market, we added two provincially regulated credit unions to our sample: the Desjardins Movement in Quebec, and Meridian

[33] More information on our methodology is available in section 2.1.3

[34] More information on the selection process of the 30 subjects is available in section 2.3

[35] The term "financial institution" may embrace many types of enterprises, ranging from banks to financial service companies, through insurance companies. Within this research, we narrowed our definition of financial institution to enterprises designated as "depository institutions" by the Office of the Superintendent of Financial Institutions (OSFI), i.e. banks, credit unions (whether federally or provincially incorporated) and the Trust and Loan Companies Act, see: http://www.osfi-bsif.gc.ca/Fra/fi-if/dti-id/Pages/default.aspx. This approach is particularly justified due to consumers' predisposition toward contacting their depository institution for advice, as shown for example in the survey: Option consommateurs, *Des experts de fortune : Un aperçu du marché québécois du conseil en matière de placements* (French only) report submitted to Industry Canada, 2000, pp. 30-31,. This was also been confirmed in the semi-structured interviews with consumers, who mostly indicated that their financial institution is their primary source of information on retirement planning (see Section 2.3), and the literature (see Section 1.3).

[36] These are the six most important domestic banks in Canada designated by the OSFI. According to the OSFI, these six Canadian banks represent almost 90% of total assets entrusted to banks. See: OSFI, *Domestic Systemic Importance and Capital Targets* - ID, Canada, March 2013. Note that we also take a look in our analysis at the subsidiaries of these banks, such as BMO Nesbitt Burns.

Credit Union, in Ontario. We also included two trust companies: Manulife Financial and Investors Group[37].

We collected all the tools that we could find from each of these financial institutions. As we did this, we put ourselves in the place of consumers searching for information how to prepare for retirement.

We began by visiting the branches of these financial institutions[38]. The collection was carried out in Ontario and Quebec, and in each province, we visited at least two branches of each financial institution. In Quebec, collection took place in the Montreal area in August 2014. In Ontario, collection took place in the greater Ottawa region in October 2014. In the case of credit unions, we expected to visit two branches of Desjardins in Quebec and two branches of Meridian in Ontario[39]. In each city, we randomly selected a branch from each financial institution. This method is based on the presumption of homogeneity of practices amongst local branches from a financial institution within the same city.

In each branch, our *modus operandi* was to introduce ourselves to the employee who greeted us as consumers seeking information and documentation on preparing for retirement. Most often, the employee strongly urged us to meet an advisor of the institution or to visit their website, and then handed us some documentation on the subject. Sometimes a financial advisor came to give us these documents by hand[40]. The documents we were given varied greatly from one branch to the next; sometimes it was limited to a pamphlet; other times, we were handed a portfolio containing guides, brochures and financial advisors' business cards.

As a second step, we studied the content of the websites of the selected financial institutions. We read all the pages we could find that related to preparing for retirement and we tried out several of the online interactive tools offered to users. We also watched all the videos put out by the financial institutions that corresponded to our definition of a retirement planning tool[41].

Initially, we had planned to attend group information sessions on retirement planning in order to analyze the material used in them. Despite our efforts, however, this possibility did not arise[42]. Representatives of the financial institutions told us that this type of session is only available on rare occasions, usually following an invitation from the institution where the consumer is a customer. Nonetheless, we found that several financial institutions have online "webinars," whose educational content actually seemed very similar to what one might expect in a group workshop.

[37] These two financial institutions were selected both because of their importance in the mass savings market and because of the large number of representations they make regarding preparation for retirement.

[38] We did not, however, go to any trust companies, such as Manulife Financial and Investors Group. In fact, we quickly found that these companies do not offer banking services and have no service points available to the public similar to credit unions or banks. Consequently, consumers looking for advice must clearly make an appointment.

[39] However, we were only able to visit one Meridian branch during our tour of the greater Ottawa area.

[40] In some of the branches, the manager himself handed us the documentation personally.

[41] A large percentage of these videos can be found on the financial institutions' YouTube channel.

[42] In an attempt to attend such meetings, we took several steps that turned out to be fruitless. As we were collecting tools in the branches, we tried to sign up for such sessions by talking to the officer who greeted us. We also browsed the websites of financial institutions to locate information on these sessions. We also made some telephone inquiries about the subject to certain financial institutions.

2.1.2. Characterization

In total, we collected fifty paper documents, browsed through dozens of pages on the websites of financial institutions and other satellite sites, tried the various interactive tools that were offered there (quizzes and calculators) and viewed a hundred online videos.

Not surprisingly, the content of these documents is similar from one financial institution to the next. They mostly contain information on:

- objectives and major retirement issues, including human and social aspects
- the importance of retirement planning and starting saving at an early age
- the major stages of retirement planning
- retirement income sources: public plans, employer-sponsored plans and, above all, personal savings
- the financial products offered to prepare for retirement (mainly RRSPs and TFSAs): how they work, what the benefits are, and the importance of subscribing
- the importance of obtaining personal advice from a representative of a financial institution.

This information is presented in a variety of formats. They may be in the form of short, commercial-like video capsules or brief advertising brochures featuring a specific topic. For example, there are numerous pamphlets devoted exclusively to RRSPs. Other formats include multiple-page guides or long webinars that deal with several aspects of retirement planning. One of these, the "Retirement Income Planning Guide" produced by RBC, covers several facets of the subject. The websites of financial institutions usually contain information on all the above aspects, distributed over several pages. Some financial institutions have even created separate sites in addition to their primary site specifically to inform consumers.

The wide range of tools can be categorized as follows:

- paper documents, either in the form of short booklets or more detailed guides;
- websites;
- interactive tools such as online financial calculators and questionnaires;
- online videos, from short capsules to much longer webinars.

The formulas for presenting information also vary. Most often, the information is presented in a didactic manner, occasionally in conjunction with a mildly playful approach. Many of the financial institutions communicate their message through scenarios. For example: "Manon Gervais, 50, legal technician. With all her responsibilities, will Manon ever get to work on her yoga when she retires?[43]" Some inform consumers through lengthier articles that they post on their websites. They also use interactive tools such as online quizzes or "calculators" designed to help consumers get an idea of their financial situation.

[43] Desjardins *Planifier sa retraite pour la génération sandwich, comment faire?* https://www.youtube.com/watch?v=Xu3HkA-2_Vk

2.1.3. The expert's contribution to our analysis

In order to judge the quality of information available to consumers in the tools we collected, we consulted these experts: Josée Jeffrey, tax and financial planner at Focus Retirement and taxation, Jean-François Larocque, CPA, CA, and Kevin Lee, MBA, both financial planners and lecturers at the Faculty of Administrative Sciences at Université Laval[44] and Michel Lizée, an economist and expert on pension plans.

After characterizing the tools selected, we sent these experts a working paper summarizing our observations. We asked them specific questions while inviting them to raise any points they considered pertinent. We also sent them a representative sample of the fruits of our data gathering; this sample contained 8 websites[45], 10 videos and webinars[46] and 7 brochures[47]. For each medium, we took care to select tools of all formats for specific financial products and for retirement planning in general[48].

[44] The comments of Messrs. Larocque and Lee were submitted jointly and will be quoted together as such in this report.

[45] These sites are: BMO, Take Charge of Your Retirement http://www.bmo.com/takecharge/bmofg_en.html; TD Bank, TD Start Saving, http://www.tdgetsaving.com/#/get-saving/; CIBC, CIBC Advice Centre> Retirement Planning, https://www.cibc.com/ca/advice-centre/retirement-planning.html; Investors Group, Group Retirement Readiness Quiz, http://www.pmgsurvey.com/investorsgroup_rr/ig_rr_survey.asp; Manulife: It's never too late to begin preparing for your future, http://bit.ly/1xJeJhP; Plan My Retirement https://nbcmore.ca/myidea/; RBC, Retirement Tools and Calculators, http://www.rbcroyalbank.com/investing/investment-tools-calculators/mutual-funds-and-gics.html; RBC, Getting Ready to Retire, http://www.rbcroyalbank.com/investing/investment-advice/ready-to-retire/index.html. All these sites were consulted in August 2014.

[46] These videos and webinars are: National Bank Webinar - Optimize your family's savings during the RRSP season, https://www.youtube.com/watch?v=czd0_E48E88; National Bank RRSP or TFSA: which is best? https://www.youtube.com/watch?v=242JkiwK0-o; Desjardins, *Les Rendez-vous WebFinance$, REER et CELI : mythes et réalités*,http://www.icastpro.ca/events/desjardins2/2014/02/19/les-rendez-vous-webfinances/play/2054; Desjardins, *Les Rendez-vous WebFinance$, REEE, dividendes, RRQ, FERR, décaissement, fiducie testamentaire, impôt sur les REER en cas de décès, et plus*, https://www.desjardins.com/videos/unitaire.jsp?docName=finances-personnelles-vous-preoccupe; Desjardins, *Combien dois-je épargner pour ma retraite?* https://www.youtube.com/watch?v=HqSVbNCZrYg; Desjardins, *Aurez-vous les moyens de vivre jusqu'à 100 ans?*, https://www.youtube.com/watch?v=m7mc573h02c; Investors Group, Planning to retire, http://www.investorsgroup.com/en/how-can-we-help/planning-to-retire; Manulife, So, You Want to Be a Millionaire?, https://www.youtube.com/watch?v=TcOiF9YyVPU; Manulife Retire Sooner than you'd expect - Manulife RetirementPlus, https://www.youtube.com/watch?v=wLMlKZciK6w; Scotiabank Think about your future, https://www.youtube.com/watch?v=AOlB7j7n_44

[47] These brochures are: BMO, *How will you spend the rest of your life?*; National Bank, *My Retirement...because planning for tomorrow starts today!*; Desjardins, *Retirement Guide*; RBC, *Retirement Income Planning Guide*; RBC, *Saving for retirement in Canada: How RBC Royal Bank can help*; Scotiabank, *Saving for my retirement*; Meridian Credit Union, *Understanding All The Basics.*

[48] We have, wherever possible, sought to build a sample using tools from all the financial institutions studied in our investigation.

2.2. Results of the analysis of the tools

The present section sets out what we found in the tools that were selected and what the experts' highlighted in their analysis as set out in the methodology explained in section 2.1.

At the outset, it seems necessary to point out the limits of our methodology. We performed a qualitative analysis of the tools and we highlighted the most compelling examples. According to Mr. Simon N. Roy, this method is commonly used in social sciences, as it allows to illustrate a reality which would otherwise be difficult to measure[49]. In order to increase consumer protection, the results of our analysis focus on areas that can be problematic for consumers. Moreover, our sample of tools is not intended to reflect perfectly what is offered in the industry, as we did not analyze tools provided by some in the industry, such as insurance companies. Furthermore, when creating our sample of tools, we used a qualitative method, in which we tried to select the most revealing examples regarding the characterization of the tools.

Given the limits mentioned above, for the results achieved in this study to be especially applicable to the industry, these results will have to be confirmed in other studies. However, we believe that the methods used allowed us to review the industry's practices and to highlight significant issues in a largely unexplored field.

2.2.1. An inticement to reflection and individual consultation

To start with, the information provided in the majority of tools we found is very general in nature, hedged with generalities such as "usually," "mostly" or "experts agree that...." Systematically, the consumer was invited to meet with an advisor of the financial institution, sometimes with the proviso that the information given was general and that each situation had to be analyzed on its merits.

In short, the tools are above all designed as an invitation to meet with a representative of the financial institution. The usual approach consists of providing general information to generate consumer interest in an aspect of retirement planning, and to conclude with an invitation to meet with an advisor. In some cases, the method feels rather Socratic:

> How much money will you need to have the retirement you've always dreamed of? Exactly how much should you invest each year? And where? How much investment risk should you take on? Planning for your retirement can seem overwhelming. But we're here to answer any questions you might have.[50]

The National Bank's booklet *My retirement... because planning for tomorrow starts today!* provides a good illustration of this process. This document contains several pages in which the reader is quizzed about his situation and objectives, with spaces to fill in so that he can record

[49] Simon N. Roy, *Recherche sociale : de la problématique à la collecte de données*, Les Presses de l'Université du Québec, 2006, p. 167

[50] http://www.scotiabank.com/ca/en/0,,8260,00.html

his answers. While this approach does not provide the consumer with any answers, it at least gets him asking questions about his financial future. Messrs. Larocque and Lee commented:

> Some of the documents in our opinion are very effective for getting the consumer to start thinking about the issues surrounding retirement. We found the most relevant ones to be the documents that explain the steps involved in retirement planning and provide information on the sources of income available and the risks to consider.

The aim is to gain the consumers' trust, to reassure them about the competence of the bank's representatives. Some tools focus exclusively on emphasizing the importance of consulting with a representative of the financial institution. Desjardins says it this way: "You can count on the skills and knowledge of Desjardins advisors to accompany you." Mr. Lizée observes:

> Even publications with titles such *Financial Planning Guide* or *Retirement Guide* are clearly designed to introduce the question, to introduce a certain number of terms, but most of all to direct the reader or visitor to a financial advisor at the financial institution who will be able to advise them, and direct them to the "appropriate" products offered by their institution.

But who should they entrust their money to? How can they assess the competence of the person they have chosen to trust? The experts agree: this is a difficult task. In order to help consumers make the best choices, IIROC recommends[51] consumers ask their financial planners about their background, how they are getting paid and which type of products and services they offer[52].

In our analysis, we observed that few tools give this kind of information to consumers. This situation is deplorable, says Ms. Jeffrey, who believes that consumers would be better off turning to professionals with the title of "financial planner":

> The financial planner is not initially trained to sell. [...] For financial planning services, one needs a financial planner, someone who has the education and skills required to analyze the customers' overall situation and provide them with recommendations based on their constraints and objectives.

According to Ms Jeffrey, the financial institutions should explain the different roles of the various players in the financial community, so that consumers can understand the role of the person they have chosen to advise them[53].

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[51] The Investment Industry Regulatory Organization of Canada (IIROC) is the national self-regulatory organization for investment dealers

[52] http://www.iiroc.ca/investors/choosinganadvisor/Pages/Take-Action-Questions-You-Should-Ask.aspx

[53] For further developments toward regulating the title "financial planner" and the confusion it generates, the curious reader can read the following reports produced by the *Public Interest* Advocacy *Centre*: John Lawford and Janet Lo,, *Holding the purse strings: Regulating Financial Planners*, Report to Industry Canada's Office of Consumer Affairs by PIAC, 2009; Jonathan Bishop and John Lawford, *Purse Strings Attached: Towards A Financial Planning Regulatory Framework*, Report to Industry Canada's Office of Consumer Affairs by PIAC, 2013

2.2.2. Education and support

All the tools we consulted, whether they were videos, brochures or websites, often used an informative tone. The general impression that emerges is that the financial institution sincerely wants to educate consumers about the importance of retirement planning and the various options available to them. Among other examples, one RBC brochure states:

> **We're here help you**
>
> We're here to listen to your unique needs, answer any questions you may have and give you personalized advice. An RBC advisor can help you explore all your options so that you can feel better about the choices you make — big or small.[54]

In a video made by TD, the actress says the following:

> Hello. My name is Erica and lately I've been thinking about the fact that they never teach you enough about personal finances in school. Like, why is that, anyway? It's so important when you really think about it, but somehow it, it just wasn't part of the program, at least back when I was in school. So I thought it might be cool to do a video series for people who're kind of new to this stuff and want to get their heads around it, as I had to.[55]

Some of those testimonials are meant to reassure consumers on the expertise of the financial institution. An example, in the RBC video, a consumer says the following:

> We were guided and directed by experts at each stage of the decision we took. It was a service we appreciated very much. You feel so relieved. It's such a weight off your mind.[56]

[54] RBC leaflet "Picture a more confident you"

[55] http://www.tdgetsaving.com/#/get-saving/ Video "Get Saving"

[56] RBC, Our method to help you, http://www.rbcwealthmanagement.com/canada.html

Fig. 1: Excerpt from the CIBC brochure "Achieving what matters most to you"

Working together
for your financial future

At CIBC, we're committed to understanding your entire financial situation. Your Advisor will engage you in an ongoing dialogue to identify your goals for today and tomorrow, and then combine our broad range of products and services to create a custom solution.

According to this CIBC brochure, an advisor will help consumers find customized solutions to assist them in achieving their goals.

To summarize, retirement planning is difficult and can cause feelings of insecurity. However, the financial institution can provide support and expertise to the consumers. Ms Jeffreys explains:

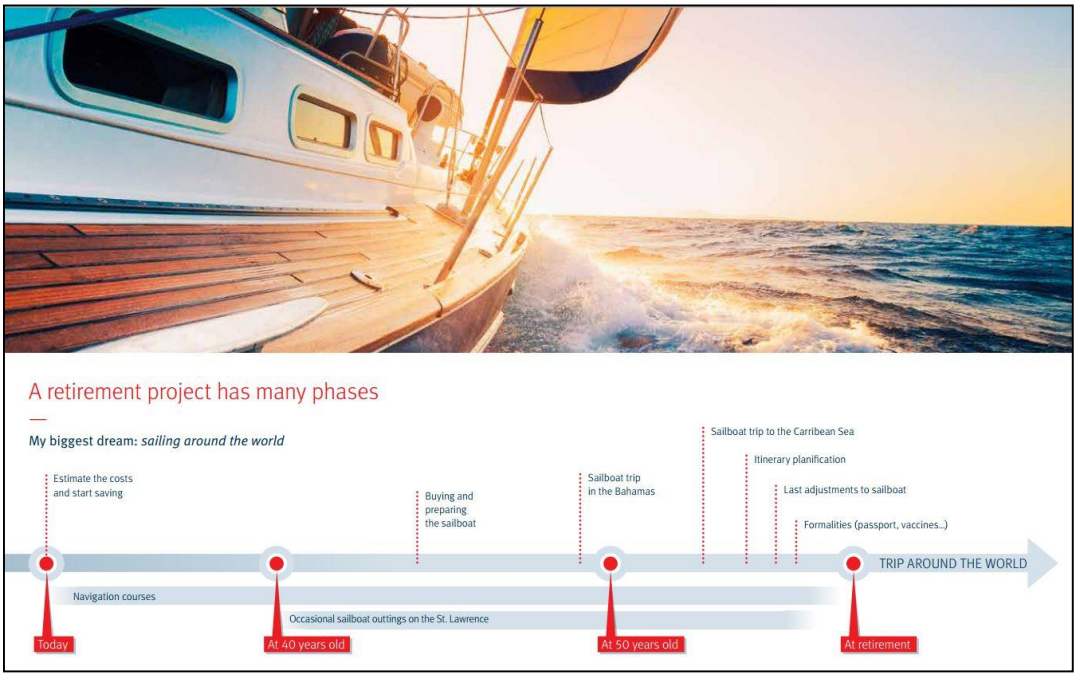
> Consumers will choose the financial institution that knows how to earn their trust and above all, how to maintain it. If the pitch is too focused on selling products, it risks alienating the consumer. They must feel that the bank really can support them in developing their pension plan and in all the events of their life when financial support is required.

2.2.3. The dream retirement

"Retirement – who hasn't thought about it? To finally be free to take on all the projects you have always dreamed about[57]." So says a National Bank brochure. While most financial institutions seek to establish trust with the consumer, some also dangle the tantalizing prospect of a retirement where all their dreams come true.

[57] National Bank, guide: *Your dream retirement is within reach,* p. 2

Figure 2: Excerpt from the guide *My retirement... because planning for tomorrow starts today!* National Bank, pp. 12-13



Are they selling dreams to consumers? In this guide, the National Bank depicts one retirement project: sailing round the world. To make the dream possible, the bank splits the goal into several stages. Between the ages of forty and fifty, the consumer will buy his yacht; in his early fifties, he will go on a sailing trip to the Bahamas. In the few years preceding the date of his retirement, he will take care of all the preparations for the big trip: a sailing excursion in the Caribbean, planning the route, the final adjustments to the boat, etc.

In addition making dreams come true, the banks also attempt to change the image of retirees as old and unproductive. They depict them as active folk with many different hobbies.

Figure 3: Excerpt from the brochure "How will you spend the rest of your life? "Bank of Montreal, p. 2

Trendy, young, fulfilled... "The baby boomer generation is already reinventing retirement," BMO says. They add: "You've always done things your way. It's no different now. You, and others of your generation, are redefining retirement, reshaping it into a fluid process that continues to evolve throughout the rest of your life."

According to experts, approaches that emphasize the positive aspects of retirement may fail to adequately inform consumers that financial resources will be limited in the retirement phase. Michel Lizée explains that the primary issue of income security in retirement is to help maintain a pre-retirement standard of living, taking into account not only falling expenses, but also those that will go up, such as health- or accommodation-related expenses. This economist continues:

> It is <u>after</u> this first round of calculations aimed at maintaining one's standard of living in retirement that a major expense could arise, for example buying a sailboat and related expenses, or a trip around the world. But such expenses are only thinkable for people who already have the means to replace their income in retirement and can come up with the additional sums needed for such special expenses. However, given that nominal income levels have barely kept up with inflation (to put it mildly), and that there has been an increase in retirement indebtedness, I think this type of information is illusory for a significant part of the population, much like the Freedom 55 of not so long ago...

As the Financial Consumer Agency Canada (FCAC) seeks to remind us, there could be many unexpected developments in store during retirement. The FCAC gives the examples of "earlier than expected retirement for personal, professional, or health reasons," "unexpected major

expenses" or "health emergencies for yourself and/or a significant other and the need for additional care this may cause[58]."

2.2.4. Informational content

According to Mr. Lizée, information on financial planning for retirement should include adequate coverage of what the public plans offer (Old Age Security program and pension plans). He justifies this approach by the fact that these schemes form a very large part of the resources available to low and middle income seniors[59].

The economist feels that the consumer should be given a brief description of each type of public plan, as well as their level of benefits. The consumer should be informed of important facts to consider with regard to each plan, such as the consequences of postponing an application for benefits or the tax consequences of certain savings choices[60].

However, the tools offered by financial institutions generally offer little guidance on public plans. Several of the tools we analyzed clearly give prominence to certain types of private retirement income. Most often, their focus is on RRSPs or TFSAs - that is to say, the financial products offered by financial institutions.

For example, of the 25 or so Desjardins retirement preparation videos on YouTube, roughly half extol the benefits of RRSPs and TFSAs and the importance of saving money in these instruments. In parallel with these videos, consumers receive very little information about the public plans, which are fundamental components of retirement planning. Most, in fact, confine themselves to stating that these public plans are inadequate... just to emphasize the importance of saving through the products offered by the financial institution[61].

In a BMO brochure, the bank states that consumers will only be able to rely on the revenues that they saved:

> **This time...it's up to you**
> Our parents and most retirees today have some form of guaranteed income throughout their retirement, often in the form of a defined benefit pension plan. But for the next generation of retirees, this will not be the norm. Increasingly, the responsibility for supporting your lifestyle during retirement has shifted – to you.[62]

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[58] http://www.fcac-acfc.gc.ca/Eng/forConsumers/lifeEvents/planningRetirement/Pages/Howmuchw-Savezvou.aspx

[59] According to Mr. Lizée, public plans accounted for 50% of total income for women aged 65 and over and 32% of total income for men 65 years and older. For the less fortunate, those proportions are obviously even higher. In 2011, 51% of women and 40% of men over 65 years in Quebec were poor enough to receive the Guaranteed Income Supplement.

[60] As an example of a guide presenting this information, Mr Lizée points to the document *Guide de réflexion pour bien préparer sa retraite*, produced by le Régime de retraite des groupes communautaires et de femmes in 2014. Online at: http://regimeretraite.ca/site/wp-content/uploads/2009/06/GuideReflexionRetraite.pdf

[61] Example: *À quoi faut-il s'attendre des gouvernements lors de la retraite?* https://www.youtube.com/watch?v=3yi62Bt70r0

[62] BMO brochure "Live to your ambitions," p. 6

In the opinion of Mr. Lizée, this imbalance in the information given to consumers about the various sources of income is a major problem:

> How can we reasonably talk about "financial planning for retirement" if we do not allow the "consumer" to understand what he will receive from the public plans and therefore better assess the gap between his income and his retirement income objective, a gap that will have to be filled by private income? And above all, what strategies can be implemented to improve the situation (e.g. delayed retirement, since the OAS and QPP are revalued after the age of 65)?

Ms. Jeffrey adds:

> Consumers can be strongly influenced to "buy" the products the financial institution emphasizes. It is not a matter of misinforming customers completely, but rather of diverting their attention. Several print documents or video capsules only mention certain products while ignoring the existence of other options, so that no one will consider the opportunities that are open to them.

Of course, some of the tools we analyzed do contain more complete information on the public plans[63]. Nevertheless, it is clear that financial institutions as a whole give the highest priority to the products they offer.

2.2.5. Hidden management fees

As mentioned earlier, many of the tools invite consumers to meet with a representative of the financial institution. By way of reassurance, it sometimes states explicitly that there is no charge for such a meeting. Ms. Jeffrey says:

> Many financial institutions offer their clients financial planning services free of charge However, we know very well that there is nothing free in life. This aim of this approach is to attract customers in order first of all to offer them the financial products offered by the financial institution, and subsequently products offered the other mutual and insurance funds, the management fees on which will bring in a significant return for the financial institution.

According to the firm Morningstar, Canada also holds the world record for management fees[64]. In 2009, a paper by an OECD expert written for Canada's Finance Department revealed that the annual fee for typical Canadian equity fund was 2.42%[65]. Mr. Lizée explains:

[63] For example, the RBC webpage http://www.rbcroyalbank.com/investing/investment-advice/ready-to-retire/assessing-retirement-resources.html contains a section on "Government Retirement Benefits"

[64] Benjamin N. Alpert and John Rekenthaler, *Global Fund Investor Experience 2011* Morningstar, 2011, p. 22.

[65] Edward Whitehouse, *Canada's retirement-income provision: An International Perspective*, 2009. Online: http://www.fin.gc.ca/activty/pubs/pension/ref-bib/whitehouse-eng.asp

> [This] means that 37% of the returns earned by the fund during the entire career of the participant will remain in the hands of the financial institution! A rule of thumb in finance is that each additional 1% in management fees reduces retirement income by 20%! This is a very serious limitation on RSPs - and TFSAs - which is mentioned nowhere in the texts that I read.

Indeed, one of the most striking findings in our analysis is the near total absence of any reference to the cost of various financial products offered by financial institutions. A painstaking search turned up this statement at the end of an "FAQ" section on TD Bank's website:

> Investments in mutual funds may be accompanied by commissions, trailing commissions, management fees and other fees. Please read the prospectus before investing as it contains detailed information on investments.[66]

Besides such discreet pronouncements, it seems that financial institutions of have little to say in their representations about the fees they charge for their retirement savings services. According to Mr. Lizée, this amounts to a lack of transparency. This is all the more disturbing since, according to several authors, consumers pay scant attention to the fees applicable to their investments[67].

Beyond the silence of the tools we studied in the context of our analysis, our experts deplored the general opacity of financial institutions when it comes to the costs they generate from their clients' investments. Ms. Jeffrey says:

> By law, financial institutions are obliged to provide their customers with information on funds and prospectuses on the products they offer. However, consumers find it difficult to understand their contents. The advisor should read these documents with his client before the sale, and it is at this point that discussion and questions could take place. The more serious question in my opinion is how these costs are expressed in the statements during the investment period.

The regulatory authorities have not been deaf to these problems. Recently, new transparency standards were implemented[68]. Before any transaction, brokers must now inform their clients of the costs associated with it. They should also be given an annual statement showing the total transaction costs and commissions paid. However, it is clear that the scope of these new standards, which mainly target the relationship with the client, does not extend to the tools studied in this research.

[66] http://www.tdpourlavenir.com/#/faq

[67] See: Joanne Yoong, *Preparation for retirement and individual decisions: Implications for Canada*, research paper prepared for the Task Force on Financial Literacy, Rand Corporation, 2011, p. 32, 2011, p. 32

[68] See: https://www.ific.ca/en/pg/crm2-is-paving-the-way-for-clear-timely-information-for-investors/

2.2.6. Saving... at any cost?

The importance of saving is emphasized tirelessly in almost all the tools we consulted. Sometimes through their dreams, sometimes through their logic, sometimes through their fears, consumers are constantly prompted about the importance of saving early for retirement[69]. "When you start a career, saving for the long term may not be a priority, despite the many advantages of doing so. By saving for your retirement, you're building your financial autonomy while securing your financial future [70] "Desjardins says. "It's time to invest in your future. Because if you don't, who will?[71]" Scotiabank adds.

To help do this, many financial institutions offer automatic periodic savings: they ask the consumer to allow them to make an automatic withdrawal from their account and put it into an investment account, usually an RRSP[72]. The approach is summed up in the slogan, "Pay Yourself First."

Figure 4: Banner on the RBC website

But how much should one save for retirement, exactly? The messages from the financial institutions seem contradictory on this issue. On the one hand, they say this has to be decided case by case, in line with the consumer's individual profile and objectives, but on the other hand, they often appeal to generic principles.

For instance, in many of the tools, some financial institutions say that the consumer will need approximately 70% of current income upon retirement[73]. In an online quiz, Desjardins asks:

> To maintain your current standard of living, what percentage of your pre-retirement income will you need?

According to Desjardins, the correct answer is:

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[69] Example: National Bank: Why should think about retirement from your twenties?, https://www.youtube.com/watch?v=ZVKOYSN07aQ

[70] Desjardins, *Save now for the future* https://www.youtube.com/watch?v=WowbAQUe0m8

[71] Scotiabank, *Your 5 year plan* https://www.youtube.com/watch?v=l171rOOGB9M

[72] Desjardins Tip: *Budgéter son épargne comme une dépense*, https://www.youtube.com/watch?v=g1L03J60ylQ; Scotiabank, Save automatically, https://www.youtube.com/watch?v=jGQlDDylyCE; TD Bank, Making Savings a Habit, https://www.youtube.com/watch?v=Vsre8iPYZUk

[73] See, for example: DESJARDINS, How much should I set aside to make sure I have enough money when I retire at age 65? http://www.desjardins.com/ca/videos/index.jsp?idSection=1

> **70%.** At retirement, the need to save is lessened and taxes are reduced. Moreover, employment expenses such as clothing, commuting, contributions to public and private pension plans and RRSPs are no longer necessary. That's why people generally consider 70% of pre-retirement income to be enough.

TD suggests another approach: "Your million dollar retirement." On a special website[74] apparently aimed at younger consumers, TD provides a calculator to help the user visualize accumulating a million-dollar jackpot at retirement. The objective here seems to be the same as for the others: save copious amounts in anticipation of your old age.

Figure 5: Excerpt from the site http://www.tdgetsaving.com

The calculator offered by TD Bank divides the steps for reaching the goal of saving one million dollars into age slices. For consumers 25 years of age with no savings who want to retire at 65, the bank proposes gradually increasing monthly RRSP payments throughout their lives until they are putting in $1,460 a month between the ages of 50 to 65 years. "At that stage, you could have partially repaid your mortgage and other debts. So you could afford to put a monthly contribution of $1,460 into your RRSP. Your million dollar retirement dream could come true!

To consumers who have saved "rigorously for years" and who have "reached [their] retirement savings goals," RBC nevertheless recommends:

> **One last savings push**

[74] http://www.tdgetsaving.com/#/get-saving/

> You’re not retired yet! As you’re still earning an income from work, you have more time to continue building your savings. There are a number ways you can keep saving and investing, so you can be as financially prepared as possible for retirement.
> . [...]
>
> - Continue to pay yourself first – no matter what. This is the time to focus on you and your goals, so make saving for your retirement a top priority.
> - Maximize your RRSP contribution if you haven’t already done so. This will help ensure that your money is working as effectively as possible within your registered plans.
> - Consider other tax-efficient investment options such as a Tax-Free Savings Account. Try our calculator to see how a TFSA can be a strong complement to your overall investment strategy[75].

Should consumers save for their retirement regardless of all circumstances? Not necessarily. According to the experts, the amount to save for retirement has to be adapted to each person, taking into account factors such as income level, and the presence or absence of a pension fund and retirement goals. Nothing is gained by saving beyond one’s needs. As Messrs. Larocque and Lee explain:

> Since you can only spend your dollar once, if you save more today, you can spend more tomorrow, but at the cost of lower consumption or even increased debt today. So what's the use of saving in excess of your needs?

For many consumers, saving in every possible way, as the financial institutions suggest, is perhaps not the best option. For people with too much debt, it would be better to pay off these debts first. For those in a lower income bracket, saving for retirement is simply not to their advantage. Ms. Jeffrey explains:

> Why talk of saving to people who earn less than $35,000 a year? Public plans and the Guaranteed Income Supplement will cover almost 100% of their disposable income. Their RRSP withdrawals will penalize them and increase their implicit tax rate by over 50%. No financial institution ever points that out.

Thus, the invitation that TD Bank launches to consumers to raise a million in anticipation of their old age has little relevance for the savings needs of most consumers. Mr. Lizée explains:

> Based on an annual return of 4%, if my income upon retirement was equal to the average industrial wage - $52,500 - and I aimed at a replacement rate of 70% *taking public pension plans into account,* and my withdrawals were indexed to the cost of living, $1 million worth of capital would be worth $1,612,925 when I died!

Messrs. Larocque and Lee also raise doubts about this approach:

> But is raising $1 million an end in itself? And who can afford to save in the first years of their working life, when the match between income and expenditure is at its highest?

[75] http://www.rbcroyalbank.com/investing/investment-advice/ready-to-retire/retirement-financial-health.html

> Insisting on the need to save early in one's working life, when one's expenses and responsibilities are at their maximum (unlike one's income), often results in practice in increased credit card and line of credit balances at high interest rates (unlike the return on savings that one was attempting to create). The consumer will therefore find himself facing a deficit situation with a borrow to invest loan.

According to Ms. Jeffreys, it is important to take into account life events (children, marriage, death, loss of job, buying a first home, education) that can upset the consumer's financial planning. "There is no or little information on the amount to be saved according to the customer's age," she says. "You need to save, and that's all." What is more, she emphasizes, they forget to point out more recent developments:

> Working in retirement is an increasingly strong trend. The public plans pay out larger pension cheques if the application is deferred. Accordingly, there will be less pension capital accumulated than expected. Strange to tell, but no financial institution ever refers to this fact, one which merits close attention from future retirees.

As for the 70%, the income replacement rule, experts believe that it is, at best, an indicator to help consumers define their needs long ahead of retirement. Since it is so widely known, the rule has the advantage of getting consumers to reflect on their futures, Messrs. Larocque and Lee believe that:

> In the context of a financial planning for retirement, this rule can serve as a basis for reflection in a preliminary discussion with consumers and help start them thinking about something more suited to their needs.

But, ultimately, determining how much pension income a person will need can only be done on a case-by-case basis, not through the use of a universally applicable rate[76]. Furthermore, the tools of some financial institutions acknowledge this fact. For example, RBC Financial Planning says:

> Many experts believe it will take up to 70% of the income you earned just before retirement to maintain your standard of living once retired. But if we ignore health problems or other contingencies, many other experts claim that you'll need much less.[77]

Ms. Jeffrey says:

> Some financial institutions do issue a word of warning about the rule (RBC maintains that the rule does not take into account the contingencies of life, such as illnesses, but what I detect most is an to urging to save more than 70% of annual gross income)

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[76] The 70% rule is put into perspective by Plamondon and Sauvé, who state that the "cost of living method" is preferable for determining the income needed in retirement. See: Rolland G. Plamondon and Pierre Sauvé, *La planification financière personnelle : une approche globale et intégrée*, 6th ed., Chenelière Education, 2012, p. 238. The FCAC concurs on this point; see: http://www.fcac-acfc.gc.ca/Eng/forConsumers/lifeEvents/planningRetirement/Pages/Howmuchw-Savezvou.aspx

[77] http://www.rbcfinancialplanning.com/RBC:q1Klp6wYUA8BDwDaSY0AAABC/RP-may-need-less-than-you-think.html; See also: http://www.bmo.com/home/personal/banking/financial-planning/planning-for-the-future/retirement

> whereas for most it is a very powerful marketing factor that too often makes consumers feel guilty about their retirement needs. It is a rate that is often overestimated.

In sum, several of the claims made by some financial institutions about the amount that consumers need to put aside for their retirement leave us wondering about their validity.

2.2.7. Borrowing to save

Some financial institutions are also suggesting that consumers who lack the cash to save should take out a loan. For example, the BMO pamphlet "Effective RRSP Strategies" states:

> Borrowing to save may seem contradictory, but borrowing to contribute to an RRSP is totally logical! Use BMO Financial Group's Readiline option for example, or use your line of credit to maximize your RRSP contribution. You will benefit from preferential rates and you can use the tax savings to repay the loan. And thanks to compound returns, the returns from your investments over the years can offset the interest paid on the loan (see table 1)

On the back of the page, next to an asterisk, in small print, it is specified:

> Borrowing to invest in an RRSP may not be the right choice for everyone. Using borrowed money to finance the purchase of securities involves greater risk than using cash resources only. If you borrow money to purchase securities, your responsibility to repay the loan and pay interest as required by its terms remains the same even if the value of the securities purchased declines.

An RBC video adopts the same approach:

> Say for example you want to contribute toward an RRSP but don't have the money available to do it right now. Well, one option is to take out an RRSP loan. It may sound unusual, borrowing money to save money, but an RRSP loan can actually be a great way to build your retirement savings. That's because you'll be investing a lump sum of money that will grow - sheltered from tax - as long as it's in your plan.[78]"

The video goes on to explain that consumers who form the habit of putting money aside to repay their loan will, once the debt is paid off, continue to save the same amount on a regular basis.

However, according to experts, borrowing in order to save is a risky affair. Mr. Lizée explains:

> The logic of borrowing to invest in an RRSP or TFSA is very good from the standpoint of the financial institution – it picks up both the interest charges on the loan and the

[78] RBC, Borrowing for RRSPs can help you with your retirement plan, https://www.youtube.com/watch?v=s8lMvvY0OKg; See as well: https://www.tdcanadatrust.com/products-services/investing/rsps/rsp-index.jsp, Article "Does it make sense to borrow money for my RRSP contribution?"

> administration and management costs on the RRSP - but it's not necessarily so good for the individual, and may even put him at risk.

According to Mr. Lizée, while taking out a loan to buy a home can be beneficial, since it allows one both to acquire an asset that will grow in value and save rental costs, the same logic does not necessarily apply to other situations:

> Borrowing to invest in an RRSP is different, since I am betting that the performance of my RRSP will be higher than the amount of the interest I have to pay on it. Certainly, I will receive a tax refund. But the typical borrower lacks major personal reserves if his financial situation deteriorates (e.g. job loss, extended illness or material loss) or if the net yield of the RRSP is lower than the interest rate on the loan.

According to Ms. Jeffrey, by inviting consumers to borrow to invest, financial institutions are encouraging their customers to take risks. She points out that such a loan may be advantageous if the customer is able to repay it in the same year; if he cannot, this will result in an increase in his or her debt ratio.

2.2.8. Indebted retirees

The financial position of Canadian consumers is worrying. The household debt ratio has risen to over 160%[79] of disposable annual income; a significant portion of this debt was contracted not to acquire assets, but rather to cover consumer spending.

Not only does such a level of debt not encourage savings, but many consumers may even reach retirement still dragging debts behind them. The cost of this debt will have the effect of even further reducing the ability of households to meet their needs in the future. A prospect that some financial institutions, such as BMO, acknowledge.

> **Most retirees will have debts**
> Sixty-four per cent of retirees surveyed for The BMO Retirement Trends Study said they carried debt into retirement. Among those, more than one-in-four (28 per cent) said they don't feel comfortable with their amount of debt. More than two-thirds (68 per cent) of pre-retirees expect to carry debt into retirement.[80]

CIBC echoes this message:

> Debt carried into retirement can affect retirement plans and cash flow, as the monthly payments must come from pension earnings or from retirement savings — both of which were intended to serve as retirement income.
>
> These poll results clearly illustrate the importance of having a good debt repayment strategy in all phases of life, particularly as you approach retirement" adds Ms. Kramer.

[79] This rate is 163.6% in Q2 2014.

[80] BMO "How Will You Live the Rest of Your Life?" p. 7

> "While it's a good sign to see that Canadians have made some progress on debt reduction entering retirement, it's also clear that once you retire with debt, it can be harder to pay off your outstanding balances[81].

While some financial institutions, in certain circumstances, inform consumers of the dangers of indebtedness in retirement, some nevertheless suggest financial products that can pose a certain risk such as reversed mortgages.

While browsing the Internet for information on retirement, we came across some noteworthy statements about the reverse mortgage. On its retirement income list, RBC rates it just after public pension benefits and personal savings[82]. The page describing the product states the following:

> It's called a Reverse Mortgage because unlike a traditional mortgage in which you make regular payments to a lender, the CHIP Home Income Plan pays you! You do not have to make any payments — principal or interest – for as long as you or your spouse lives in your home[83].

Sure, it may seem attractive to consumers seeking an additional retirement income by gradually liquidating their property assets without having to move. But there are risks... and high costs. Ms. Jeffrey says:

> People are unaware that this strategy reduces their net worth while increasing their indebtedness. The mechanism behind this product depends on the logic of the principal residence (often the only asset held) being the homeowners' only source of liquidity and the only solution to the problem of financing their retirement.

Mr. Lizée continues:

> We must remember, however, that this mortgage is not reduced by regular repayments and that therefore the capital increases exponentially (capital + compound interest). Given the limitations that the lender can impose, this strategy will only last for a while, and the mortgage lender will obviously have priority over the proceeds of the sale of the house. Once committed to this path, it becomes very difficult to get off it, because insufficient assets and savings were the very problem that necessitated this mortgage.

Although marginal, promotions of reverse mortgages nevertheless give cause for concern.

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[81] https://www.cibc.com/ca/advice-centre/retirement-planning/carrying-debt-in-retirement.html

[82] This list can be found at: http://www.rbcroyalbank.com/investing/investment-advice/ready-to-retire/assessing-retirement-resources.html

[83] http://www.rbcroyalbank.com/investing/investment-advice/retirement-income-sources/reverse-mortgage.html. "Canadian Home Income Plan"(CHIP) is the name of a service offered by a financial institution; it is not a government program.

2.2.9. Considering each individual case

According to Messrs. Larocque and Lee, advice to consumers about preparing for retirement should always be adapted to each particular situation. In short, everything comes down to a matter of "know your customer," the basic principle of financial planning. In the absence of such knowledge, financial institutions should refrain from making overly generalized recommendations and limit themselves to dispensing neutral information.

The experts pointed to a few cases in which a more nuanced approach should perhaps have been adopted. Interactive online calculators are a particular cause for concern. For instance, Messrs. Larocque and Lee say, many of these computers are too simplistic:

> The tools provided on the websites of financial institutions are, in our opinion, too unsophisticated to enable consumers to determine their retirement needs and how much to save. They do have the advantage, however, of being easy to use and of prompting the consumer to be aware of certain questions.

In their opinion, consumers would be better off consulting a financial planner who is able to make calculations based on their specific situation. Ms. Jeffrey goes on to suggest that automatic online calculation tools should be accompanied with the caution that they do not replace the services of a financial planner.

On other occasions, we noticed that some financial institutions tend to formulate their recommendations concerning the risk of investments in very general terms. For example, RBC Financial Planning, after explaining how inflation can destroy the performance of an investment, concludes:

> Even though your investments should be made based on your goals and your risk tolerance, you must include growth stocks in your portfolio to offset the effects of inflation.[84]

We found a similar statement at Scotiabank:

> and yet, despite the occasional rough patches, when you look at the Canadian stock market over the long-term, the number of positive years far outweighs the negative ones. Large or small, real or perceived, market risk is often the elephant or shark in the room. It can cause some long-term investors to become risk-averse, which ironically could expose new risks such as falling short of your goals or running out of money in retirement.[85]

Even here, experts say, although consumers are not necessarily being exposed to excessive risks, it is important to know the client to truly understand how much risk he or she faces.

[84] http://www.rbcfinancialplanning.com/RBC:yjkGzKwYUA0BiQAqqksAAABn/RP-threat-to-retirement-security.html

[85] Scotiabank Rethinking Risk, https://www.youtube.com/watch?v=B77zridkE1c

2.3. The consumers' view

As part of this research, we wanted to determine how much consumers understand and retain about retirement planning tools. We also wanted to know if they lend credence to the advice provided to them and if they choose to follow it.

To find out, we conducted semi-structured interviews with 30 non-retired people of all ages, both employed and unemployed[86]. We recruited people who claimed to have consulted such tools and said they were thinking about preparing for retirement. Recruiting was carried out by Research House. This company selected non-retired Canadians who responded in the affirmative to questions asking them if they were thinking about preparing for retirement and if they had already consulted brochures, websites, videos or other tools on retirement planning products put out by financial institutions. This yielded a sample of Canadians of varied profiles. The persons selected where married or single and came from all annual income brackets[87]; the majority worked full-time and had a secondary diploma or a university degree.

In interviews, these people recounted that they had consulted websites and leaflets produced by financial institutions. Some said they used online calculators or various interactive online tools. However, none had participated in a webinar delivered online or watched a video dealing with preparing for retirement.

Some of the consumers we talked to participated in an employer plan while others did not[88]. Some had RRSPs or TFSAs, others did not. During the interview, we first discussed the participants' experiences and perceptions about the tools they had consulted, and we gave them the opportunity to consult three brochures in our presence, so that they could comment on their content directly[89].

2.3.1. Dreams, concerns and questions

Most consumers said they had modest ambitions for their old age. Their priority was to have enough income to maintain an acceptable standard of living. "We would like to have peace of mind, have some money put aside if anything happens," one participant said. Many predicted that retirement will simply be an opportunity to see relatives and to engage in various leisure activities. "I don't have any big plans; I'll see my grandchildren, take a trip a year, try to stay healthy enough to live a long life," another said. Many said they would like to travel in retirement, mostly to spend the winter in sunny Florida or to discover new destinations. Some even brought up the possibility of selling their home in Canada and buying a motorhome.

[86] We held interviews in groups of three consumers, with five interviews on March 2 in Montreal and five other interviews on 4 March in Ottawa. Discussion guides used to be found in the appendix.

[87] Les consommateurs nous ont indiqué avoir des revenus allant de moins de 40 000 $ à plus de 100 000 $.

[88] On the recommendation of our methodologist, we included within the same group individuals who have such plans and those who do not, in order to avoid undue influence.

[89] We presented the following documents: TD Bank "Retirement my way"; RBC: "Your Guide to Retirement Income Planning"; Scotiabank: "Retirement Income Products and Services" These three documents are of different lengths: the TD pamphlet is short; the RBC document is much more comprehensive; while the Scotiabank brochure is of medium length.

For the majority of respondents, however, these prospects are clouded by a number of apprehensions. Many are worried about not being able to maintain their standard of living and no longer being able to support themselves after retirement. “Will I have anything left in fifteen years? It’s difficult to predict,” one participant said. They are also afraid that health problems could have irremediable consequences for their retirement income, “If I’m forced to stop working because of illness, it will be difficult.” They were also anxious about the vagaries of the economy: “You never know what’s going on, on the stock market... I'm worried that by the time I get there, there won’t be any money.” Others, particularly those working in the public sector, fear that government reforms could erode their financial security: “Future governments could say, “We can’t afford it.”

Preparing for retirement is a source of concern that raises many questions among consumers[90]. For example, some wonder if they should contribute to an RRSP in addition to their employer's plan; others wonder about the difference between a TFSA and an RRSP, or the benefits of one over the other. Still others wonder how much they will receive in public pensions or the age at which they should choose to subscribe. Some want to learn more about the types of investment and the risk they should take.

Behind these specific questions, we can guess that what consumers want to know is which financial strategy they should adopt to plan for retirement, “I’d like to know how I'm going to get there, whether I’ve got what it takes.” Given the complexity of the financial products and the various existing schemes, they all seemed to be asking, basically, what are the best decisions to make: “Do I put my money in this basket or in that basket?”

2.3.2. General information

We also asked the participants questions about the tools they had consulted. They replied that they had learned a few things from them. “I learned some words, a bit about how it works, and the various products,” one participant said. “There are so many. They present a detailed, clear, picture but not a personalized one.” Others said they had learned more about financial products: “It helped to explain what a TFSA is and the difference between TFSAs and RRSPs.” Many felt that the tools they had consulted were good sources of information: “I found it was a good summary of everything I wanted to know.” However, the consumers’ knowledge of certain aspects remained incomplete; for instance, most of them knew nothing about the fees that could be applicable to the financial products advertised in the tools. One participant said, “I thought I had interest, no fees.”

Most participants said they preferred the tools that gave them an overall picture of sources of retirement income. “What I'd like is a really easy retirement income pyramid, so that I can understand how much I will get from the Canada and Quebec pension, and I will know then if I need an RRSP.” Several also mentioned their interest in the calculators and other interactive tools available online. “I filled out an online questionnaire with Desjardins on preparing for

[90] One notable exception, many of those who subscribe to an employer's plan said they ask fewer questions, “I don’t know how much I need, but I know that it happens automatically every pay day. We have a system, a calculation that tells us when we can retire with the full amount. “

retirement... It helped me to know where I was." Some said they had the impression that financial institutions concentrate on giving information on RRSPs: "They push their products a lot rather than focusing on our needs." Most participants explained that they had to resort to other sources, such as government sites, to obtain information on the public plans.

As for the brochures we showed them, many appreciated the fact that there were tables or boxes to fill in; it made it seem more "concrete." However, some participants said they did not understand the language used in these tools. "When it's not your field, these are not terms that are easy to understand... Everything in finance is another language for me," one participant said. Some said it was like "Chinese" and that the use of abbreviations such as CPP, QPP or RRIF added to the confusion. "They would need to be simplified so that the average person can understand them." Added to this, is the fact that retirement planning arouses little interest among several of them:" This is a subject I find boring, "one participant remarked.

Although the participants had already found some answers to their questions in the tools provided by financial institutions, many of them complained how limited they are. "Somebody would need to explain it to me in more concrete terms," one of them said. They often remarked that the information was "very general" and that it did not answer all their questions. "It's not enough. Each case is different. Our needs are different," one participant said.

2.3.3. An introduction

Many consumers appeared to be more aware of retirement issues as a result of consulting the tools. They stressed that their reading had given them an opportunity to ask questions about their retirement, to start thinking about it: "It gives you a guideline. It's a tool to start." Another added: "It got me to do my calculations before meeting the advisor. I'll do my work before I see what they have to offer."

Some said that reading the tools led them to obtain certain financial products, mainly RRSPs. "If they give information about it, it's because it must be important... When I read the brochures, I told myself I had to get an RRSP." Others added that although they understood the importance of saving for their old age, it was difficult in practice: "I'd like to follow their advice, but I can't afford to make the contributions they propose. My budget is too tight. "

Most consumers felt that the tools offered by the financial institutions mostly provide an opportunity to start tackling a complex subject, but that it they would need personalized advice before they could make a financial decision: "I would get a second or third opinion before making my own decisions." Another added, "I find these brochures are a good way to start you thinking, but they are not enough." For some, consulting a professional seemed necessary simply to demystify the information given in the tools: "I went and read the brochures and the websites, but I didn't understand them, so I went to see an advisor."

2.3.4. Who to trust?

Many participants seemed to have a negative perception of banks; they suspect them of primarily seeking to make a profit. “They want to sell their products,” one of them said. “There are some things they don’t tell us. There are some things I doubt,” another said. There was some mistrust of the way that the tools presented the information: “It's like a car dealership. They want to get you in the door, and then it's up to the dealer to sell you the car.” Many lamented that they give a too positive image of retirement. “They promise us that everything will go well, that we’ll be able to travel and have fun.” Above all, the participants did not like the feeling that they were being sold retirement preparation products. They said they wanted to be told exactly where they stood.

However, most consumers said it was their financial institution that they turn to for information on preparing for retirement[91]. They explained that since they are already customers at a particular institution, it seems only natural to refer to it on these matters: “It's more accessible; it’s where our money is.” Many consumers also seem to trust the information given by financial institutions. “I’m confident because I presume they would not publish something that is wrong,” one participant said. Others rely on what they say. “I don’t have any comprehensive knowledge, so if they insist on an aspect, I’ll assume it’s important,” another said.

It may seem contradictory that on the one hand, consumers obtain the majority of their information on retirement planning through their financial institution, while on the other hand, some exhibit mistrust towards banking corporations. Some hypotheses can be formulated to solve this paradox.

First, consumers have limited knowledge about other sources of information they can turn to in preparing for retirement, such as independent organizations and professionals. Admittedly, some participants mentioned other sources, such as government websites, that provide information on public plans. Those with a company pension plan might rely on information from their pension committee, their union or the financial institution affiliated to their trades. However, for many, the financial institution remains the most common source of information: “I’d never thought about getting information on preparing for retirement from anywhere other than the bank, said one participant. I thought it was the only place I could go.”

Consumers reported that their mistrust of financial institutions diminished when they were able to establish a personal communication with a representative. “For me, the most important thing is the relationship with the person.” In short, while consumers feel suspicious about large corporations, establishing human contact helps dispel their apprehensions. “My job is to choose the bank,” one participant said. Once that’s done, I’ll trust it.” In this regard, the tools we reviewed, by inviting consumers to meet a representative of the institution, perhaps play a strong strategic role: building a relationship of trust with the financial institution, which might at first seem tenuous.

[91] This observation confirms previous studies that show that the financial sector is the dominant source of retirement preparation Information (see Section 1.3).

Conclusion and recommendations

The financial future of Canadian retirees is clouded with uncertainty. Studies show that not all Canadians are managing to save enough to prepare themselves for old age[92]. Employer pension plans are becoming ever less generous. Canadian household debt is at historic highs; we can expect that many Canadians will enter retirement still dragging debts behind them. Demographic trends predict increasingly higher numbers of retirees, and that these people will have a longer life expectancy.

Given this prospect, it appears more important than ever to ensure that Canadians have the most accurate information possible to prepare them for retirement and enable them to make informed choices. But Canadians' knowledge in this regard remains scanty.

The National Strategy for Financial Literacy developed by the FCAC is also aware of these difficulties. Among its goals are to help Canadians prepare financially for their old age and better understand public benefit schemes. To do this, it wants Canadians "to be aware of and use appropriate resources to help them save and plan their finances for their senior years[93]."

These are worthy goals, and the financial institutions, as first line actors in preparation for retirement, must play a role in achieving them.

In this study, we looked at retirement planning tools offered by financial institutions. With the help of experts, our qualitative analysis of these tools raise a number of questions which should be further studied.

Of course, the information in the tools provided by financial institutions is not objectively false. They also have undeniable advantages: they can allow consumers to start thinking about preparing for retirement and make them more aware of this sometimes daunting topic.

However, the results of our analysis reveal certain difficulties. In many cases, we observed that these tools seem to put little emphasis on the importance of public pension plans available within the Canadian retirement income system. Consumers are directed towards certain financial products such as RRSPs and TFSAs, without knowing all of their retirement saving options and the strategies that they can put in place. Similarly, the fees applicable to these financial products are generally omitted. Given that the management fees in Canada are the highest in the world, this lack of information seems to be a serious impediment to consumers making informed decisions – especially given that the existence of these fees are not well known by consumers and consumers do not have the instinct to worry about them. Moreover, in certain cases, the tools seem to give information that do not take into consideration the specific situation of a consumer and his saving needs. Sometimes, general rules will be promoted and the consumer will be advised to make the maximum RRSP and TFSA contributions. Some

[92] For an overview of these studies, see: Joanne Yoong, *Retirement Preparedness and Individual Decision-Making, Research Paper Prepared for the Task Force on Financial Literacy*, Rand Corporation, 2011, p. 9-10

[93] Financial Consumer Agency of Canada, *National Strategy For Financial Literacy,* Phase 1: Strengthening Seniors' Financial Literacy, October 2014, p. 11

financial institutions even encourage consumers to borrow money to use those financial products.

To summarize, the tools we analyzed do not avoid the thorny issue of conflict of interest. First of all, the financial institutions that issue them present themselves as credible educators; they solicit the confidence of their customers and invite them to meet with one of their representatives who will listen to them and address their concerns. Second, it must be remembered that they are for-profit organizations that make money from the various financial products they offer to those seeking advice in preparation for retirement[94]. Are the tools they provide simply informational or are they advertisements for their products?

This situation is particularly worrying since the majority of Canadians turn towards financial institutions for information on preparing for retirement. Our semi-structured interviews revealed that although they may be wary at first, they tend to believe the advice conveyed by their financial institution; some even say they followed the recommendations they were given, or at least intend to do so.

Canadian financial institutions play an important role in providing information, but despite this fact, very few studies have analyzed the quality of the information financial institutions provide to consumers. Rather, most studied consumer behaviour regarding retirement planning. However, consumers that obtain inappropriate information regarding retirement planning could face important consequences. Consumers could be making financial decisions that are not necessarily advantageous when other options could be more suited to their needs. Some of the strategies studied, such as borrowing to invest and reversed mortgages, can increase the risks of consumer indebtedness. The situation is particularly worrisome for low-income consumers. In many cases, the experts stated that the financial products promoted in the tools were of little benefit to a low income person.

In such a context, our study calls for further research to be done in the field of financial literacy in the context of retirement planning. Given that the tools provided by financial institutions systematically encourage consumers to meet with planners in order to obtain tailored advice, it would be also interesting to study the quality of the advice provided. In this respect, when looking at studies done abroad, it is enough to convince oneself that this is a major challenge.

At the end of our study, it is worth asking whether it might not be advisable for consumers to develop new reflexes when seeking information on retirement planning. Instead of turning to financial institutions, they might be better advised to consider information supplied by neutral, disinterested organizations or professionals. Most consumers are unfamiliar with these other sources of information, however, or at least do not seem sufficiently aware of the conflict of interest that may influence the information they receive.

Accordingly, we make the following recommendations:

[94] The issue of conflict of interest was also raised recently in Sophie Roussin, *Spotlight on the provision of financial literacy content on the Internet*, report to Industry Canada's Office of Consumer Affairs by Union des consommateurs, 2014, p. 82-83

Recommendations to consumers:

- **Option consommateurs recommends that consumers who are looking for information on retirement planning consult neutral, independent sources. This will permit them to obtain information from government sources or organizations that do not generate income from the sale of financial products.**

Recommendations to financial Institutions:

- **Option consommateurs recommends consumers seeking information on the preparation of their retirement be directed to neutral, independent sources. In practice, financial institutions could distribute material produced by neutral, independent bodies. On their Internet sites, they could include hyperlinks to the websites of these organizations.**

- **Option consommateurs recommends that the following information be disclosed to consumers:**
    - **the charges for the financial products offered;**
    - **the mode of remuneration of employees responsible for dispensing advice on preparation for retirement, as well as the titles of these employees;**
    - **ways of verifying the backgrounds of financial planners;**
    - **financial and fiscal strategies to optimize retirement income;**
    - **a description of all Canadian retirement income plans.**

Recommendations to the federal government and the provinces:

- **Option consommateurs recommends that funding be made available to conduct research on the personalized advice given by representatives of financial institutions with regard to preparing for retirement.**

- **Option consommateurs recommends providing support to neutral and independent bodies that provide information on preparing for retirement.**

- **Option consommateurs recommends that the issues raised in this research regarding advice given to consumers preparing for retirement be taken into account when drafting new rules for the financial sector.**

Appendix 1 - Discussion Guide (English version)

The interview today is about the information provided by financial institutions on retirement planning. We are interested in the information that they give to consumers on the Internet, in videos or in pamphlets. If you are here today, it is because you have used at least once the documents previously mentioned

[show examples]

We want to ask you questions in order to get your opinion and your point of view on these issues. There is no good or bad answer.

The interview will last no more than one hour. You can answer in any order or comment the answers of others.

We will record the interview in order to recall what was said when we write our report. We are the only ones that will listen to the recording. You will stay completely anonymous.

Context

- Are you worried about your retirement planning?
  What is your financial plan?

- Do you have an Employer's Retirement Plan?

- Do you have savings for your retirement (such as Registered Retirement Savings Plan (RRSP) or a Tax-Free Savings Account (TFSA))?

- What do you want to do when you retire?
  Goals? Projects?

- What would like to know about retirement planning?

You have been to websites and/or read brochures and/or watched videos from financial institutions to get information about retirement planning.

- What did you consult exactly?
  Brochures or pamphlets? Videos? Websites? Others? From which financial institution?

- Why did you consult those?
  Were you looking for specific information? Why did you consult information given by financial institutions in order to get answers?

- Did you look at information from other sources, such as the government? If so, which one?

Understanding of consumers

- Did you learn anything when you browsed websites and/or read brochures and/or watched videos from financial institutions? Did you find the information you were looking for?

- Did you learn more about:

  - the Old Age Security pension or the Canada Pension Plan?
  - the different Employer's Retirement Plans that can exist?
  - RRSP? (Registered Retirement Savings Plan)
  - TFSA? (Tax-Free Savings Account)
  - Insurances?
  - Estate, inheritance?
  - Financial strategies or types of investments?
  - Reverse mortgage?

  - What did you learn?

- Did the information received from financial institutions make you ask questions about your retirement? Did it bring to your attention issues you weren't aware of? *Examples: the importance to make savings at a younger age, the amount you should need for your retirement, the risk of surviving to your savings, etc.*

- Did the information given by financial institutions make you aware of the importance to plan your retirement?

- Do you know how much you must save for retirement? Did the information given by financial institutions help you to determine what amount is needed? What is this amount?

- Do you think this information is helpful?

- Did you ever use the calculators you can find on the financial institutions websites? What do you think of those?

- After reading information given by financial institutions about retirement planning, did you make financial decisions? If so, which ones? If no, why?

Trust of consumers

The interviewer shows documents to consumers and asks them to go through them. He gives them a few minutes to do so.

- What are your impressions? What are the pros and the cons of these documents?

- Was the information well presented? Did you think the way this information was conveyed is adequate?

- Does the lay-out of these documents invite you to trust their content? What attracted your attention? [invite consumers to point to pages]
  Do you have the same feeling with websites, videos, or any other documentation made available by financial institutions?

- Do you think that financial institutions are a good source of information to know more about your retirement planning? Do you think that the information they provide is complete? Do you think that they put emphasis on some kind of information more than on other kinds?

- Do you think that you would be able to realize your retirement projects if you follow the advices given by financial institutions? Do you think it can make a difference?

- Are these documents informative or more of an advertisement? *Do you think that financial institution want to sell you products or that they want to inform you?*

- Do you know if they are any fees for financial products that they offer? How much? How did you learn about these fees?

Will to follow advice

- Did you ever follow advice given by financial institutions? If so, which advice did you follow? If no, why?

- In the event you made contributions to a RRSP or TFSA through a financial institution, did you do research prior to doing so?

- Do you think that information in these documents given by financial institution can apply to your situation? Or would you prefer to get tailored advice to your situation?

- After reading a brochure or pamphlet, a website, or any other source of information coming from a financial institution, did you follow up with a meeting with a representative of this institution? Why?

- Was the meeting worthwhile? What were the results?

- Any comments?

Appendix 2 - Discussion Guide (French version)

L'entrevue que nous ferons aujourd'hui porte sur les informations que donnent les institutions financières sur la préparation de la retraite. Nous nous intéressons à ce qu'elles donnent comme information aux consommateurs sur leurs sites Internet, dans des vidéos ou dans des brochures. Si vous êtes ici aujourd'hui, c'est que vous avez au moins une fois consulté l'un de ces types de documents.

[montrer des exemples de documents à examiner plus tard]

Nous voulons obtenir votre opinion et connaître votre point de vue sur les sujets que nous allons aborder et les questions que nous allons vous poser. Il n'y a pas de bonne ou de mauvaise réponse.

L'entrevue devrait durer au maximum une heure. Vous pouvez répondre aux questions dans n'importe quel ordre, et vous pouvez aussi commenter les réponses des autres.

Nous allons l'enregistrer pour ne rien manquer de ce que vous direz. Il n'y a que nous qui aurons accès à l'enregistrement. Vous demeurerez complètement anonyme.

Contexte

- Êtes-vous préoccupés par la préparation de votre retraite?
  Quelle est votre stratégie financière?

- Avez-vous un régime de retraite de votre employeur?

- Avez-vous de l'épargne pour votre retraite (REER, CELI, autre)?

- Quels sont vos plans de retraite?
  Que souhaitez-vous faire pour votre retraite? Avez-vous des projets?

- Est-ce qu'il y a des choses que vous cherchez à savoir sur la préparation de la retraite?

Vous avez déjà consulté des sites et/ou des brochures et/ou des vidéos d'institutions financières pour chercher de l'information sur la préparation de la retraite.

- Qu'avez-vous consulté exactement?
  Avez-vous consulté des brochures? Des vidéos? Les sites Internet? Autres? De quelles institutions?

- Pourquoi les avez-vous consultés?
  Y a-t-il des informations que vous cherchiez plus particulièrement? Pourquoi consulter la documentation des institutions financières pour avoir ce genre d'information?

- Avez-vous aussi consulté de l'information provenant d'autres endroits, par exemple d'organismes gouvernementaux? Si oui, lesquelles?

Compréhension des consommateurs

- Avez-vous appris des choses en consultant les brochures, les sites Internet ou les vidéos des institutions financières? Y avez-vous trouvé les informations que vous cherchiez?

- En avez-vous appris davantage sur :

    - Le régime de pension du Canada ou la RRQ?
    - Les différents régimes d'employeur qui existent?
    - Le REER?
    - Le CELI?
    - Assurances?
    - Succession?
    - Stratégies ou types de placements?
    - L'hypothèque inversée?

    - Qu'avez-vous appris?

- Trouvez-vous que les informations que vous avez reçues des institutions financières vous ont amené à vous poser des questions sur votre retraite? A-t-on porté à votre attention des choses auxquelles vous n'aviez pas pensé?
  Par exemple : l'importance d'économiser quand on est jeune, le montant dont vous aurez besoin à la retraite, le risque de survivre à votre épargne, etc.

- Est-ce que la consultation des informations données par votre institution financière vous a sensibilisé à l'importance de planifier votre retraite?

- Savez-vous combien vous devriez épargner pour votre retraite? Est-ce que l'information donnée par les institutions financières vous a aidé à fixer ce montant? Croyez-vous qu'elle pourrait vous aider?

- Avez-vous déjà utilisé les calculateurs sur les sites web des institutions financières? Qu'en pensez-vous?

- Après avoir consulté des informations données par des institutions financières concernant la préparation de la retraite, avez-vous pris des décisions financières? Si oui, lesquelles? Si non, pourquoi?

Confiance des consommateurs

L'intervieweur présente des documents aux participants et leur demande de les parcourir. Il leur laisse quelques minutes pour ce faire.

- Quelles sont vos impressions? Ces documents ont-ils des défauts, des qualités?

- Trouvez-vous que l'information est bien présentée? Le ton est-il approprié?

- Est-ce que la présentation de ces brochures vous met en confiance? Y a-t-il des choses qui ont attiré votre attention? [inviter les participants à pointer vers les pages]
  Si vous les avez consultés, avez-vous le même sentiment avec les sites Internet, les vidéos ou toute autre documentation produite par les institutions financières?

- Croyez-vous que les institutions financières sont une bonne source d'information pour en savoir plus sur la préparation de votre retraite? Croyez-vous qu'elles donnent une information complète? Croyez-vous qu'elles mettent l'accent sur certaines questions plutôt que d'autres?

- Croyez-vous que vous pourrez effectivement réaliser vos projets de retraite si vous suivez les conseils donnés par les institutions financières? Croyez-vous que cela peut faire la différence?

- Les brochures sont-elles des publicités ou des documents d'information?
  Croyez-vous que les institutions financières cherchent davantage à faire de la publicité pour leurs produits ou à vous informer?

- Savez-vous s'il y a des frais sur les produits financiers que les institutions financières vous offrent? Quels sont-ils? Comment avez-vous appris leur existence?

Volonté de suivre les conseils

- Avez-vous déjà suivi les conseils donnés par des institutions financières? Si oui, lesquels? Si non, pourquoi?

- Si vous avez choisi de cotiser à un REER ou à un CELI par l'intermédiaire d'une institution financière, vous êtes-vous renseignés préalablement? Comment?

- Croyez-vous que les informations données par les institutions financières dans ces brochures peuvent s'appliquer directement à votre situation? Croyez-vous qu'il vous faudrait des conseils personnalisés?

- Après avoir consulté une brochure, un site Internet, ou une autre source d'information provenant d'une institution financière, avez-vous déjà consulté un représentant de cette institution financière? Pourquoi?

- Le cas échéant, cette rencontre vous a-t-elle été profitable? Quel en a été le résultat?

- Autres commentaires?