David K. Foot

Demographics and the client relationship – in conversation with David K. Foot

We sat down with David and asked him to provide us with an update on the demographic factors affecting the Canadian economy at the start of the 21st century, as well as how those factors impact which financial services clients are seeking from their advisors.

David K. Foot is a Professor of Economics at the University of Toronto, and the author of the best-selling *Boom, Bust & Echo* books. He is an expert in the study of demographics and his research explores how changing demographics, especially the aging of the large boomer generation and the entry of their children into the market and workplace, will redefine society's needs.

For those of you unfamiliar with David's work, he contends that, generally speaking, demographics can explain two-thirds of everything – whether that "everything" is business planning, the stock market, housing, education, health, recreation, leisure, or social and global trends. The other one-third of the equation can be chalked up to such factors as globalization, technology and employment situation. David takes a macroeconomic perspective to his research, using lifecycle analysis to provide insight into big-picture trends affecting the economy and society.

According to David, the behaviour of demographic segments within the population is stable and predictable. This consistency allows us to make predictions about the consumption habits of each segment and the effects of those habits upon the economy. The reason why baby boomers in particular are such an important demographic group is that there are simply so many of them relative to the rest of the population, and their impact on the economy is correspondingly large. Canada's demographics are quite unique in that our population pyramid contains a massive bulge, representing the huge generation of baby boomers born in the 20 years between 1947 and 1966. Almost one-third of Canadians fall into this demographic category. Similarly, the children of these boomers, the "echo" generation, are a demographic force in the making and will create strong ripples in the economy as they enter the workforce.

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As people age and move through demographic groupings, their income and investing needs change. For those of us in our 20s and early 30s, the chances are high that we will begin to accumulate debt in order to purchase assets such as education, a first car or home. Once we reach our late 30s and early 40s, we start paying off those early debts, even as we take on new debts to finance, for example, a larger home as our families grow. As we move into our 50s and early 60s, which coincides with the first half of the current boomer generation, our goals shift from debt reduction to savings and asset accumulation in order to prepare for retirement. After retirement, the focus moves from asset accumulation to asset management. Identifying this evolution of needs is invaluable when providing financial products and counsel to a client base.

Using this approach, David has identified some important considerations advisors should be taking into account when dealing with their clients:

Adopt a life-cycle approach when evaluating the current and future needs of your clients

In David's evaluation, younger investors are likely to be looking for debt management services to deal with their high debt loads. In general, they are not yet ready for savings plans as their income is largely servicing debt.

However, once those investors reach their 40s, they have managed to set aside a small amount of savings with their rising incomes and are more open to asset purchases. Not yet experienced investors, they tend to be receptive to mutual funds and broad-based income growth plans that reflect sector or market trends.

As they pay off their mortgages and approach retirement, older investors hold larger investment portfolios and tend to have the strongest need for a fuller spectrum of wealth management services.

Understand that boomers are looking for more than stock advice

With growing savings portfolios and years of investing experience, early boomers have had the time to develop into sophisticated and educated investors in their own right. While they have the most need for serious investment advice due to the size of their assets, they are also knowledgeable and mature enough to understand what they're looking for. David believes it's important to recognize that the advisor-client relationship needs to evolve at this point and become more of a partnership, rather than the doctor-patient dynamic that may exist with younger investors. He suggests that advisors adopt a more holistic approach to their business to be able to service the entire "wealth" of these boomer clients by asking about their hobbies, other leisure activities and future vacation plans.

David also points out that the portfolios of boomers are very likely not limited to stocks and may contain such sources of wealth as real estate, art and other investments. This is why old money management models have become insufficient when dealing with this demographic segment. Boomers are increasingly looking for sophisticated advice from an advisor who understands that they need to be considering all sources of wealth when planning for their clients.

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Offer wealth management services for the entire family

David believes that Canadians are moving increasingly to an intergenerational model of financial planning as growing life expectancies have given rise to the need for ensuring the financial health of all generations in the family. This is often expressed in the desire for tax planning within the family. Helping ensure that families are paying the appropriate level of overall taxes is the job of the advisor, though it should be noted that this is distinct from tax avoidance, which David feels is a disservice to clients and society.

Another area of interest in family wealth management is insurance, which, according to David, is also affected by demographic factors. Investors begin to require insurance with the purchase of their first major asset, which typically occurs in their 30s and 40s. Older investors, such as today's boomers, may have special insurance needs for such assets as vacation properties, boats and artwork. Approximately one in seven Canadians owns a cottage or vacation property. These same investors, though, have a diminishing desire for life insurance as they are living longer, more active lives. Many may want to convert their policies into annuities. It is their children and, perhaps, grandchildren who should own life insurance.

Looking forward

Looking ahead 10 to 20 years, David predicts that interest rates should experience moderate increases, though remain at relatively low levels. This is because the echo generation, born between 1980 and 1995, are entering the workforce and into their prime borrowing years. However, at the same time, boomers will be retiring their own debt, which should exert a moderating influence on rising interest rates.

As for economic growth, David believes it will continue to slow down, which is inevitable, given our aging population. This should ease pressure on commodities. David is quick to point out, though, that declining GDP growth will not necessarily translate into falling per capita income. As long as GDP growth exceeds the slower population growth, per capita incomes can continue to increase.