

Expect more

Women and Wealth

The changing face of wealth in Canada and its implications for financial advisors



Why this paper is important

By 2026, women in Canada will control close to half of all accumulated financial wealth¹, a significant increase compared to a decade earlier when the share was closer to one third. This increase will be partially driven by a significant flow of inheritances to women of all ages in Canada, roughly estimated by Strategic Insight to represent up to \$900 billion in financial and real assets over the next decade.

It is also reasonable to expect that within the next few years, Canadian women will report a total annual income of \$500 billion², some of which will flow into investment and retirement accounts. Not only are women in Canada managing significant wealth and cash flow but it is also predicted that, at some point in their lifetime, 90% of women will be required to play the role of sole financial decision maker. No surprise that research suggests women place a greater level of importance on financial affairs than men!³

These facts and expectations underline the importance, both now and in the future, of female clients to financial professionals in Canada. To ensure that there is widespread recognition of the financial issues, challenges, and opportunities faced by women in dealing with their financial affairs, IPC Private Wealth, through this whitepaper, is highlighting matters of concern to women as they deal with their expanding and influential role as owners of personal capital.

This whitepaper is focused on the issue of women as inheritors as well as women who, for one reason or another, receive lump sums that may be associated with a significant life event, such as a divorce.

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Methodology

This paper has been developed by Strategic Insight using data collected through its day-to-day activities as a prominent research firm as well as through the use of third-party data and research undertaken by reliable and respected firms in Canada and other markets. While some of the data used in the development of the paper is non-proprietary, the analysis and commentary has been provided by Strategic Insight.

Strategic Insight also conducted a series of interviews with financial advisors within Investment Planning Counsel's (IPC) Advisor network who have considerable experience in dealing with women seeking financial advice as a result of a major life event that has changed their status.



Executive Summary

This whitepaper sets out to explore the opportunity represented by female investors in Canada as well as the financial issues faced by women. In particular, the paper deals with the growing number of women who are faced with the need to assume full control of their financial affairs, sometimes late in life, as the result of becoming single through the death of a spouse or divorce.

The financial assets controlled by Canadian women as well the income earned by women is projected to grow significantly over the next decade. This increase in wealth will result from greater overall participation in the work force, participation at far higher levels in terms professional responsibilities, an increase in female entrepreneurship, and being the beneficiaries of a disproportionate share of the approximately \$1 trillion wealth transfer that is underway in Canada.

Not only are women set to control nearly half the financial wealth in Canada by 2026, but research clearly indicates that their financial needs and objectives, attitudes towards risk, and willingness to plan and take professional advice are different from men. Canadian women, particularly those over 65, display a lower level of financial literacy than men and, prior to a change in their circumstances are less likely to have an individual financial plan.

Given these facts and differences, it is apparent that while the fundamental issues, such as the need for sustainable income, may be the same, the planning and investment solutions presented to women must be distinct and fully personalized to their unique situation.

Widows and divorced women face many similar challenges in terms of both emotions and the need to assume full responsibility for their financial wellbeing as well as that of their immediate family. In many cases, they face a partial loss of income and a change in the level of capital available for their future years. The total number of widows and divorced women in Canada, at the end of 2015, reached approximately 2.5 million (or 17% of adult females) and there is every reason to expect that this number will continue to rise.

The planning and investment solutions for women must be distinct and fully personalized to their unique situation.



Women in these two segments display a willingness and interest in developing their financial knowledge and engaging with professional advisors to develop a medium-term financial plan focused on assured outcomes not performance, and a plan that reflects their personal values. Most women, including those in these segments, seek security over prosperity.

To assist women in these two growing segments, and to guard against the tendency amongst women to change advisors following a critical life event, financial advisors will be required to adopt new approaches and develop new expertise. If they are able to strengthen their understanding of the needs, expectations and financial goals of women, advisors of both genders can provide essential support to women in challenging circumstances while, at the same time, building their practice.

*Most women,
seek security over
prosperity.*





Women and Money

Before looking in detail at the issues of inheritance and divorce, it is worth reviewing some more general issues associated with women and money. Although there are a number of differences between the attitudes of men and women towards money, there are some that provide guidance to financial advisors in their dealings with women. First, twice as many women in North America seek financial security over prosperity, a finding underlined by research conducted by Fidelity in the U.S. that points to the fact that women demonstrate superior savings habits to men.⁴

Even though women appear more concerned about financial matters than men – an attitude illustrated in a study by U.S. Trust found that only 62% of women identified as high net worth felt financially secure (compared to 76% of high net worth men) – they feel less prepared and not as well educated about investments and other financial issues as men⁵. The combination of these two factors supports the notion that, in general, women are more likely to seek the counsel of a financial advisor than men. However, likely reflecting a lower level of financial literacy, there is also evidence that less than 50% of women are confident in the quality of advice likely to be received from an advisor and that advice from family members runs a close second as a source of reliable advice⁶. Despite the evidence that supports the notion that women represent a distinct investor segment, almost two-thirds of financial advisors – 85% of whom are men – do not believe that a female client should be viewed in any different light than a male client.

This prevailing attitude by advisors is reflected in the finding that only 20% of women feel that their needs are truly understood and that 73% are “unhappy with the financial services industry”.⁷ But, as a senior IPC advisor indicated to Strategic Insight, “Women are not just a singular group. They are hard to generalize.”

A third important aspect to respect is the desire by many women to avoid investments in businesses that may not be socially responsible, or that may produce products that are potentially harmful to society such as weapons. In fact, the U.S. Trust study suggests that 56% of female investors “would be willing to accept a lower return from investments in companies that have a greater positive social impact”.

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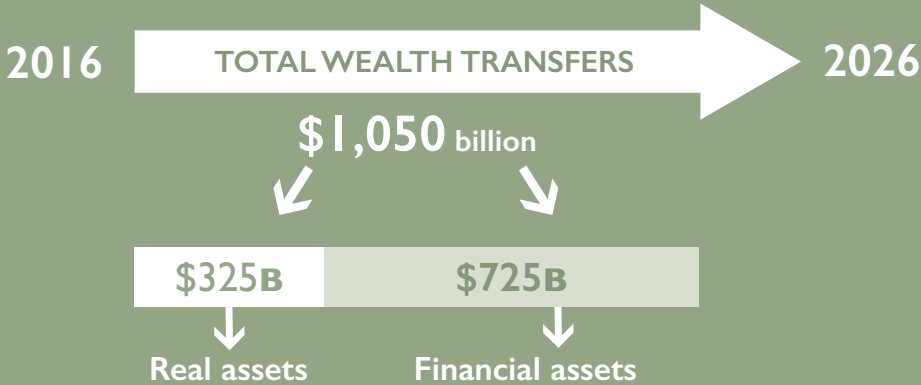


Inheritances

In the 2017 Household Balance Sheet Report, Strategic Insight projected that over the decade 2016 to 2026 a total of \$1,050 billion in personal wealth will be transferred from one generation to another, with approximately 30% of that total being in the form of real assets⁸. Much of this wealth will be transferred from mothers to their daughters, or grandmothers to their granddaughters. But that only looks at the vertical transfer of wealth. Before the inter-generational transfer of wealth takes place, assets are frequently passed between members of the same generation, from husband to wife, or from partner to partner.

At the end of 2016, the two million households in Canada, where at least one member was over the age of 75, controlled almost \$860 billion in financial wealth – not counting any equity in real estate or holdings in private businesses – an amount which is expected to grow by almost \$1 trillion to \$1.8 trillion by 2026.

Inter-generational Wealth Transfer





Money in Motion

Without using complex formulas and numerous assumptions, and using Strategic Insight's segmentation database and the firm's estimates of inter-generational wealth transfer; it is not unreasonable to suggest that over the course of the decade ending 2026, women in Canada will inherit financial assets of approximately \$710 billion and hard assets worth another \$190 billion. This estimate is supported by a number of studies undertaken in other countries, including the U.S., where there is a pattern of women outliving their husbands and partners – as is the case in Canada – and where the demographic structure of the population features a baby-boomer cohort that has generated and accumulated wealth at an unprecedented rate and to unprecedented levels. This high-level estimate takes into account the fact that wealth may pass to a spouse then to a daughter in the same decade. In other words, the estimate is of money in motion with women as the beneficiaries.

Over the course of the decade ending 2026, women in Canada will inherit financial assets of approximately \$710 billion.



Life Expectancy at Birth in Canada

	2005	2010	2015
Women	82.7	83.4	84.1
Men	78.0	79.1	80.2

Statistically, Canadian women, on average, have a life expectancy that is four years longer than men.

This, coupled with the fact that women generally marry or partner with older men, results in baby-boomer widows outliving their husbands or partners by between 10 and 15 years⁹. The challenge of being alone, financially, in later years is one likely to be faced by women as it is estimated that 80% of men will die while married.

Financial professionals are likely to be challenged to deal with inheritors of varying ages, investment objectives, risk tolerances and levels of financial literacy. In recent studies, there is evidence that women are less prepared than male beneficiaries to deal with an inheritance, partly on the grounds that both the inheritance itself, and the wishes of the benefactor, were unknown to the female inheritor prior to the gift. Only 35% of women in Canada are confident that they will receive an inheritance¹⁰. As one IPC advisor suggested, “Inheritances are not often expected. The will is not often shared.”

Irrespective of these gender differences is the issue of the involvement of financial advisors in the movement of capital between testators and inheritors. Research undertaken by a major Canadian institution in 2009 suggested, at the time, that a majority of testators – whether they were classified as baby-boomers or seniors – had no plans to discuss their gifting plans with their financial advisor. On the receiving end, an even larger percentage (between 77% and 80% depending on age) had no plans to consult their financial advisor should they receive an inheritance¹¹.

The challenge of being alone, financially, in later years is one likely to be faced by women as it is estimated that 80% of men will die while married.



Widows

At the end of 2016, according to Statistics Canada¹², there were an estimated 1.835 million widows and widowers in Canada, an increase of approximately 200,000 from 2012. For every four widows in Canada there is only one male widower. Given the aging population, the number of widows in Canada – currently 1.465 million – will continue to increase over the medium term and to represent a unique segment in need of both planning and investment services.

It is worth noting that, while the average age of a widow in Canada as reported by Census Canada was 56 in 2011 (a similar number to that referenced in U.S. publications), it is probable that, as is the case in the U.S., three-quarters of all widows are over the age of 65 and 43% of Canadians over the age of 65 are single, with the majority being women¹³. The challenge for financial advisors is to develop expertise in dealing not only with widows but widows who are likely to be over the age of 65, with limited financial knowledge.

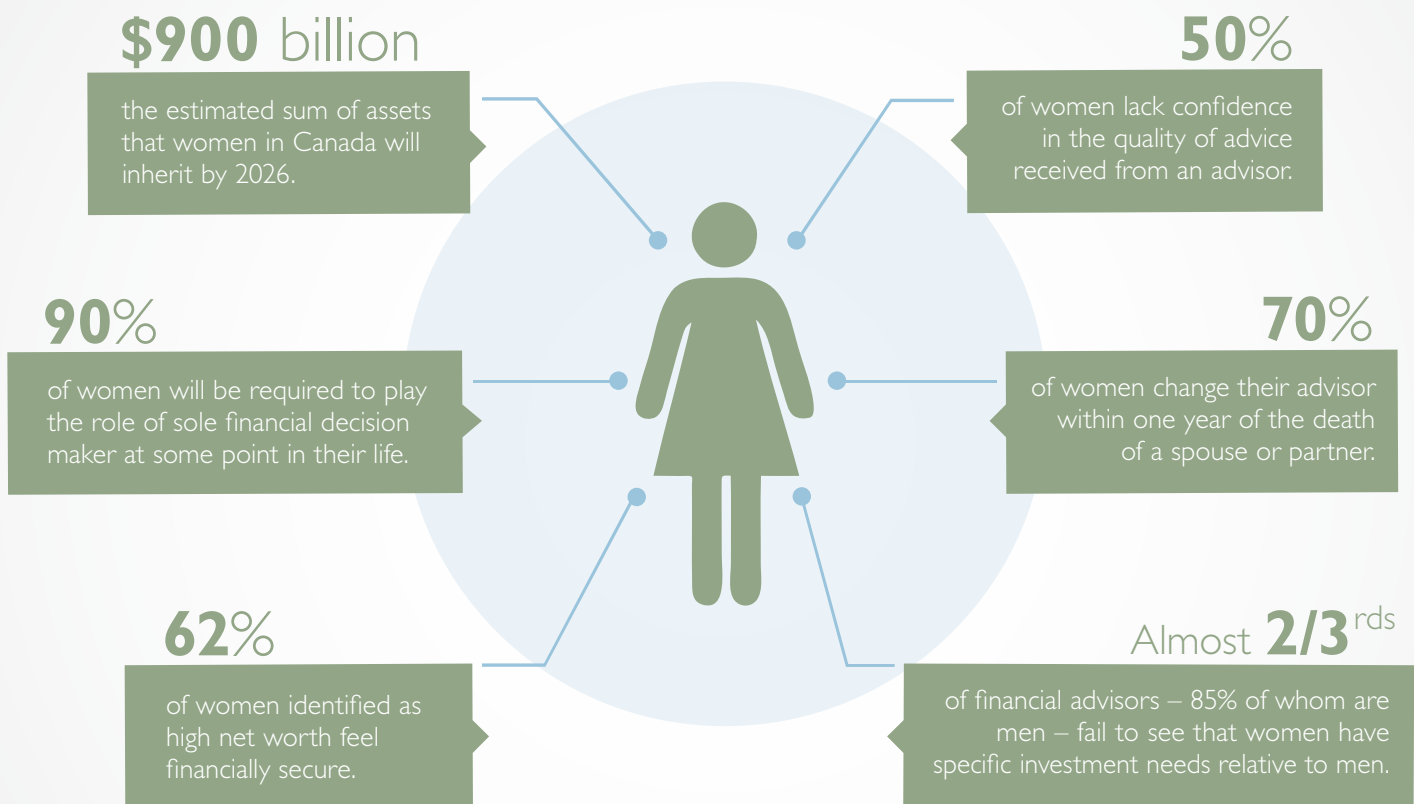
There is limited research on the financial state of Canadian widows although research here, and in other developed countries, suggests that, in most cases, widowhood has a direct and often negative impact on the standard of living of senior women. In one recent study, it was suggested that the rate of poverty among elderly widows is, consistently, three to four times higher than that of elderly married women¹⁴. Helping elder women to avoid a decline in their living standards is both a responsibility and an opportunity for financial advisors.

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By 2026, women in Canada will control nearly Are you prepared?

Women and Wealth



half of all accumulated financial wealth.

Their Wealth Management **Concerns**



Adjusting to lower income levels following the death of a partner.



Knowing how much to save for retirement given their longer lifespan and tendency to have interrupted careers.



Understanding the tax consequences of withdrawing from their portfolios.



Leaving a legacy and transitioning more wealth than they inherited to their children.



Becoming a “financial burden to loved ones”.

Their Wealth Management **Wants**



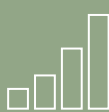
Financial security over prosperity.



A plan that reflects their personal values.



Generating a stable income stream.

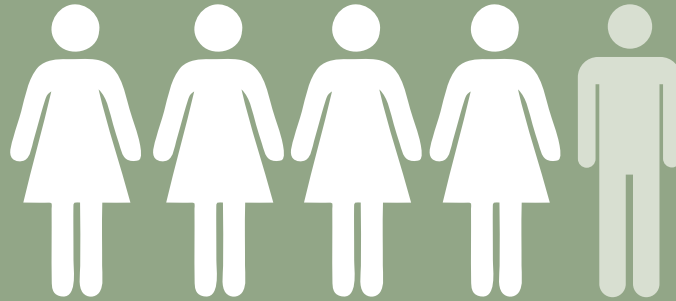


A plan focused on assured outcomes and not just investment performance.



A preference for socially responsible investments.

Women and Widowhood



For every 4 widows in Canada there is only 1 widower

One of the biggest challenges faced by widows in the years immediately following the death of a husband or partner is adjusting to a lower level of income, be it from pension sources, government transfers or investments. Some reports have indicated that within five years of becoming a widow, irrespective of wealth status, newly-single women witness, on average, a 40% decline in household income⁵.

It seems, however, that concerns about the overall financial wellbeing of widows, particularly Canadian widows, may be exaggerated. When asked about preparedness for retirement, 39% of Canadians, irrespective of gender, age or marital status, believe that they are either ahead of or on target in terms of savings⁶. Women, on the whole, appear slightly less prepared as 65% admit to being off target. Compare that to the widows in the sample, of which 47% believe that they are ahead or on target.

While still a minority, as a group, widows appear to be one of the best prepared segments as only 33% of widows, compared to 54% of females as a whole, are concerned that they might outlive their savings and pension entitlements.

Finally, of concern to financial professionals, particularly those focused on planning and investment services, is the fact that less than a quarter of widows are inclined to work with an advisor to get the most out of their savings, and less than 20% expressed a concern about the tax consequences of making withdrawals from their portfolios. Add to this the frequently quoted statistic, which suggests that 70% of women change their advisor within one year of the death of a spouse or partner and the challenge for the advisor community becomes very apparent¹⁷. If there is any consolation, it is that once a new relationship has been established, women are loyal clients.

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Divorced or Separated

As indicated previously, widowed women in Canada face important financial challenges although they are not the only group of women that undergo a radical change in their financial affairs. In November 2016, Statistics Canada reported that there were 1.096 million divorced women in Canada, an increase of approximately 63,000 over the four year period beginning 2012¹⁸. That number alone is close to the number of widows. Add to the number of divorced women those who are separated from their husbands, and the total – 1.552 million – exceeds the number of widows and represents 10.7% of women in Canada over the age of 19. Not only is the number higher but the average age of a female divorcee is significantly lower – 41 years versus 56 years – suggesting that the financial issues faced by female divorcees will be both different and, to some extent, of longer duration than those faced by widows.

It is worth pointing out that the number of Canadian men who are either divorced or separated is approximately 434,000 fewer than the number of women in the two groups, suggesting that men are more likely to either re-marry or enter a common law relationship following a relationship breakdown.

According to the Family Justice Working Group, based on 2013 data, there are approximately 70,000 divorces each year in Canada, a number that, over time, represents 33% of first marriages. Not only is one of the causes of divorce disagreements over financial issues, but the divorce process itself can represent a financial burden with the average legal fees for a contested divorce ranging from \$7,000 to \$70,000.

Not all divorced women benefit from settlements such as those awarded to Mel Gibson's wife (US\$425 million) or to Heather Mills at the time of her divorce from Sir Paul McCartney (US\$66 million). In fact, quite the opposite. Data from Statistics Canada points to the fact the financial impact of divorce on women is greater than that resulting from the death of a spouse. In addition, on a relative basis, women in higher income brackets are more likely to suffer a change in their lifestyle than those from lower income groups. Irrespective of income group, U.S. research points to the fact that, on average, divorcing individuals need more than a 30% increase in income to maintain the same standard of living they enjoyed prior to their divorce.

Number of Widows and Divorcees in Canada

	2012	2013	2014	2015	2016	4-Year CAGR
Widowed	1,312,466	1,349,429	1,386,650	1,422,578	1,460,920	2.72%
Divorced	1,029,741	1,047,007	1,063,224	1,077,367	1,092,599	1.49%

If further evidence is needed to support the case that divorced women need the support of a financial professional, recent polls indicate that only 30% of divorced Canadians believe that they are achieving their retirement savings targets (compared to 35% of all poll respondents) and 48% are concerned that they will not have enough money on which to retire (compared to 33% of widows). However, surprisingly, but in keeping with widows, only about a quarter of divorcees see any value in working with a financial planner.

A Senior Financial Consultant associated with IPC confirmed many of these issues indicating that she is frequently asked by divorced women questions such as “Am I going to be OK?”, “Is this going to be enough?” and “Do I need to work more?”

Only a quarter of divorcees see any value in working with a financial planner.



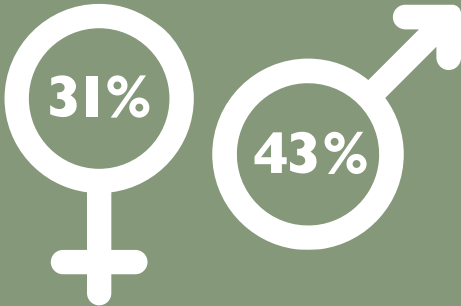


Financial Literacy and Planning

Whether single through death or divorce, many women in Canada are, and will be, faced with the need to re-think their financial priorities and to develop plans and strategies that will provide financial security for both themselves and their dependents. To some women, this need will represent a marked change.

Notwithstanding the fact that four out of five women participate in planning the day-to-day finances of the household, a similar number have no personal back-up plan in the event of a sudden change of status. Furthermore, both retirement and estate planning are processes that are generally undertaken by husbands and male partners, even though generally, women survive their husbands. According to U.S. research, nearly 40% of women do not have a will and over half failed to draw up appropriate powers of attorney²².

Canadians who consider themselves 'financially knowledgeable'



One of the causes of this lack of preparedness among Canadian women may be a lower level of financial literacy not only about various products and services but also about straightforward financial concepts such as inflation, diversification, registered versus non-registered accounts, compound interest and annuities. A Prudential Assurance study²³ indicated that a majority of women claimed not to understand annuities despite their importance in providing a reliable stream of income, a priority for many women.

In a report published by Statistics Canada in 2016, based on the results of the 2014 Canadian Financial Capability Survey²⁴, only 31% of women indicated that they felt themselves to be “financially knowledgeable” (versus 43% of men). It is also worth noting that, in terms of results of a financial literacy quiz, the average score for men was 3.6 percentage points higher than women.

Of concern is the fact that the gap between men and women who were separated, divorced or widowed was even greater. Of some comfort to advisors is the fact that those women who seek guidance from a financial advisor achieved far higher quiz scores than those who did not use an advisor.

Behind this lower level of financial literacy is the fact that, in many families, there is only a passing effort to educate women about investments and financial budgeting. In a 2014 survey undertaken by Wells Fargo²⁵, a U.S. bank, more than two-thirds of female respondents indicated that nobody had educated them about investing in the stock market. There is an opportunity to provide core financial education to women and enable them to interpret the impact of political and economic events on their financial goals and the risks that need ongoing management.

Financial Knowledge of Men and Women

Scores on quiz by Statistics Canada	MEN	WOMEN
Married or Common Law	64.5%	60.6%
Separated, Divorced or Widowed	60.1%	54.9%
Single or Never Married	57.9%	55.9%

In developing financial plans, women are forced to consider certain issues that separate them from men. Among these, as mentioned before, is the fact that women live longer. In addition, women and their financial advisors are required to contend with the fact that women are more likely to have interrupted careers as a result of family responsibilities and that women, in general, continue to earn less than men. The result of these two factors is that retirement savings by Canadian women generally lag that of men. The extent to which women need to save for retirement is an important issue which, to some extent, is complicated by a feeling held by many women that they should leave a legacy and pass on to their children a level of wealth that was greater than they received²⁶.

Despite a seemingly greater willingness to take professional advice, and evidence that points to the existence of a financial plan as a fundamental aspect of a comfortable retirement, research in Canada by a major financial institution suggests that only 52% of women versus 61% of men have a financial plan. Dividing women between those in a relationship and those who are single indicates that two-thirds of those who are married or in a stable long-term relationship have a plan versus almost twice the percentage of single women.

The retirement savings by Canadian women generally lag that of men.



In order to develop financial plans that are appropriate for women, it is important for all advisors, particularly male advisors, to recognize the unique concerns of women. A study of financial attitudes of women conducted in Australia confirmed similar work undertaken in other major markets.

The study underlines the goal of achieving financial security rather than accumulating wealth or achieving investment performance goals. As a senior IPC advisor indicated during the research for this paper, “Women want long-term protection and don’t have a `show me the money` mentality.” In addition, women tend to be more concerned about becoming single than men and also more focused on gaining financial security through the elimination of debt. Furthermore, based on the Prudential Assurance study referred to earlier, women (82%) have a high level of concern about becoming a “financial burden to loved ones” and/or about enabling their family to maintain their standard living should they die or become disabled. Clearly, there is a place for insurance in the financial plans of women.

*There is a place
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Financial advisors who seek to meet the expectations of female clients should deal with the total balance sheet and cash flow issues and not assume that investment success is the priority. As another senior IPC advisor indicated, “women are concerned about their ability to meet their obligations, maintain their life style and, importantly, the welfare of their children.”

Women also have non-financial concerns that come into play when developing plans for the future. The Wells Fargo research indicated that, in addition to running out of money, the two leading concerns of women are losing their health (55%) and facing the deterioration of their mental capacity (52%). This concern about health extends to family members and was a finding of research undertaken by Strategic Insight in Canada in 2015.

Aside from running out of money, women are also more concerned about losing their health and dealing with a deterioration in their mental capacity.





Conclusion and Key Takeaways

This paper is designed to provide information and guidance to IPC’s female clients as well as their advisors. The paper brings forward the unique differences between male and female clients and brings to light the distinct challenges faced by women who become the sole decision maker in terms of their financial wellbeing. The intention of this final section is to summarize the key research findings and issues. In doing so, the paper can act as a catalyst for discussions between advisors and their female clients to be more meaningful, more comprehensive, and more successful.



Women represent an increasingly influential segment within the Canadian wealth management market.



Women have a relatively low level of confidence in their financial knowledge but also in advice received from financial professionals.



Women of all ages are expected to benefit disproportionately from the transfer of wealth over the next decade.



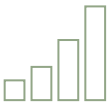
Women are likely to benefit from the development and maintenance of a comprehensive financial plan.



At some point in their life, nine out of ten Canadian women will have sole responsibility for their personal financial wellbeing.



For various reasons, women may seek to change their financial advisor following the death of a spouse or partner.



Women focus on predictable financial outcomes as opposed to the assumption of risk and the achievement of specific performance objectives.



Becoming single again is often accompanied by a reduction in income and financial assets and heightened concerns about financial security.



Divorce has a more negative impact on the financial wellbeing of women than the death of a spouse.

- ¹ As mentioned in Investor Economics Household Balance Sheet Report - Canada, 2017.
- ² CFA institute data as referenced in 'Harnessing the power of women investors in wealth management'. Ernst & Young LLP, 2016.
- ³ 69% of women versus 59% of men view finances as a high or critical priority. Infographic: Women & Finances. Harbinger. April 2015
- ⁴ Money Fit Women Study. Fidelity Investments. 2015
- ⁵ The study by U.S. Trust indicated that only 35% of high net worth have a good understanding of the level of risk that they would be comfortable with in their portfolio. An even smaller percentage (27%) indicated any knowledge of the impact of taxes on investment returns. U.S. Trust. Insights on Women and Wealth. Bank of America Corporation. 2013
- ⁶ Why Sex Matters in Wealth Management. Scorpio Partnership and SEI. 2016
- ⁷ Infographic: Women & Finances. Harbinger. April 2015
- ⁸ As mentioned in 2015 Household Balance Sheet. Investor Economics. 2015
- ⁹ Anthes, W., & Most, B. (2000). Frozen in the headlights: The dynamic of women and money. *Journal of Financial Planning*, 13(9), 130-142
- ¹⁰ As indicated in a survey conducted by Ipsos Reid on behalf of HomEquity Bank. 2014
- ¹¹ BMO Retirement Institute Inheritance Survey. 2009
- ¹² Statistics Canada. Population by marital status and sex. 2016.
- ¹³ Statistics Canada. Focus on Geography Series, 2011 Census. 2011.
- ¹⁴ Medicare Gaps and Widow Poverty. Kathleen McGarry and Robert F. Schoeni. *Social Security Bulletin*, Vol. 66, No. 1, 2005
- ¹⁵ Statistics Canada. Death of a Spouse: The Impact on Income for Senior Men and Women. 2009
- ¹⁶ Ipsos Reid polls 2013 – 2015.
- ¹⁷ Partners 4 Prosperity, "Women and Wealth: Challenges, Changes, and Keys to Prosperity," by Kate Phillips, Mar 5, 2016, based on *Journal of Financial Services* gated reports.
- ¹⁸ Statistics Canada. Population by marital status and sex. 2016.
- ¹⁹ Feldstein Family Law Group. Divorce Fact Sheet 2013. 2013.
- ²⁰ Family Justice Working Group. Meaningful Change for Family Justice: Beyond Wise Words. 2013.
- ²¹ Alan Hawkins, Tamara Fackrell, Steven Harris, "What are the possible financial consequences of divorce," in *Should I Try to Work it Out?*.
- ²² U.S. Trust. Women and Wealth. 2013.
- ²³ Financial Experience & Behaviors Among Women. 2010-2011 Prudential Research Study.
- ²⁴ Gender differences in the financial knowledge of Canadians. Marie Drolet. Statistics Canada. March 2016
- ²⁵ Wells Fargo Survey. Affluent Women 'Enjoy' Making Money. Wells Fargo & Company and Versta Research. November 2014
- ²⁶ As mentioned in Women & Finance. Lisa Claes. ING Direct. March 2015
- ²⁷ Divergent paths to retirement: How men and women plan differently. BMO Wealth Institute. BMO Financial Group. 2013
- ²⁸ Wells Fargo Survey. Affluent Women 'Enjoy' Making Money. Wells Fargo & Company and Versta Research. 2014

NOTES

I P C P R I V A T E W E A L T H

IPC Private Wealth is a program offered by IPC Securities Corporation. Member of the Canadian Investor Protection Fund.