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Planning for Resilience

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Institute of Public Policy and Economy

The StrategyCorp Institute of Public Policy and Economy provides thought leadership on important public policy issues facing Canadians and their governments across the country by combining economic and policy expertise with key political insights.

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Financial Resilience Institute is a non-profit society dedicated to improving the financial resilience and well-being of all Canadians and global citizens. It is the leading independent authority on financial resilience and financial well-being in Canada and measures household financial resilience through its Index.

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Disclaimers

The literature reviewed in this document in some cases uses the title ‘financial advisor’. We recognize in Quebec the use of this title is prohibited by regulation. In reading this section, ‘financial advisor’ should instead be read and understood as referring to a representative or professional who is authorized to provide advice, products and services.

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Executive Summary: Planning for Resilience

While the COVID-19 pandemic exposed financial resilience challenges for many households across Canada, this lack of resilience was not a new phenomenon. Financial vulnerability existed prior to the pandemic in regions and households across the country. As the government stepped in to shore up the financial resilience of Canadians with temporary support programs like the Canada Emergency Response Benefit (CERB), such measures and the lack of opportunities to spend money due to lockdowns enabled many Canadians to grow their savings and improve their financial resilience and financial well-being during the pandemic.

But as Canada emerges from COVID-19, and support programs have ended while new challenges in the macroeconomic environment developed, the situation from a financial resilience perspective has once again worsened. The June 2022 Seymour Financial Resilience Index™ measures households' financial resilience across Canada, which is defined as the household's ability to get through financial hardship, stressors and shocks as a result of unplanned life events[1 2]. According to the Index, the Canadian mean financial resilience score has dropped from 55.67 in June 2021 to 50.52 in June 2022, while the proportion of households that were 'Financially Resilient' has decreased from 31 per cent in June 2021 to only 22 per cent in 2022[3]. In the same vein, the percentage of households that were 'Extremely Vulnerable' or 'Financially Vulnerable' grew from 39 per cent of the population in 2021 to 49 per cent in June 2022, with 78 per cent of Canadians (19.99 million households) experiencing financial vulnerability on some level[4].

The federal government has committed to building a stronger and more resilient economy in its 2022 budget. The government's goal to build a more resilient economy requires financially resilient households that can withstand challenging situations and uncertainty. That includes the types of economic stressors we are seeing today — climbing interest rates, inflation, high indebtedness and insufficient retirement savings.

Building financial resilience – especially among financially vulnerable households and low- and middle-income Canadians that really need it – demands a multi-faceted and deliberate approach.

To this end, professional financial planning can be one important part of the solution. A review of the available data suggests a household's financial resilience can be strengthened by planning ahead financially for upcoming and unexpected expenses or to save for long-term goals, and by creating and implementing a financial plan.

Financial planners help their clients improve their financial literacy and knowledge by working closely and continuously with them. This notion of continuous engagement between financial planners and their clients is fundamental to the financial planning process.

Financial planning is an ongoing process involving regular monitoring of an individual's progress toward meeting personal goals, needs, and priorities, a re-evaluation of financial strategies in place and recommended revisions, where necessary[5].

A financial plan helps identify the actions that individuals can take to achieve their specific life goals and objectives. Financial planners help individuals identify these goals, create the financial plan that provides the road map to achieve them, and guide and support people with implementation of the plan. This can ultimately help improve their financial resilience and their financial well-being.

By taking a holistic approach, financial planners are well-positioned to help Canadians develop and implement a plan that improves their financial resilience. A holistic approach means they consider the client's needs from a broad perspective of their financial picture, including considerations of their financial management needs, investment planning needs, retirement planning needs, insurance and risk management needs, estate planning needs and tax planning needs.

Working with a professional financial planner to build and implement a comprehensive plan contributes to individuals' financial resilience by positioning them to better withstand challenging economic times like Canada is experiencing today.

Unfortunately, despite the positive impacts of planning, several real and perceived barriers prevent individuals from seeking financial planning services today. Research has demonstrated that while some Canadians simply feel they can manage their finances in a do-it-yourself manner, for many low- and middle-income Canadians, perceived cost is also a barrier preventing them from reaching out for professional help.

Considering the financial challenges facing Canadians and the need to build up their resilience, the federal government has a unique opportunity to help Canadians address this perceived cost barrier through new tax policy.

Introducing a refundable tax credit available to low- and middle-income households seeking financial planning advice for the first time would be instrumental in shoring up financial resilience — not just for individual Canadians, but for the economy as a whole.

This tax credit would be an effective and targeted addition to the government's policy toolbox and would contribute to a financially sound Canadian economy.

Introduction

The financial resilience of Canadians has been measured nationally across Canada since June 2017, and then more specifically through the Seymour Financial Resilience Index™ since February 2020, before the COVID-19 pandemic affected Canadian households[6]. The COVID-19 pandemic posed a significant threat to the physical and financial health of Canadians. As sectors of the economy shut down to prevent the virus from spreading, governments had to step in to shore up the financial resilience of both individuals and organizations. At the federal level, this led to the introduction of temporary support programs like the Canada Emergency Response Benefit (CERB), the Canada Emergency Wage Subsidy (CEWS) and the Canada Emergency Business Account (CEBA).

COVID-19 and the current challenging macroeconomic environment have exposed the pre-existing lack of financial resilience of households across the country, and the need to help Canadians achieve financial well-being. In response to these challenges, the federal government has committed to building a stronger and more resilient economy. To attain this important objective, the Canadian economy needs financially resilient households that can withstand challenging situations and uncertainty.

Household financial resilience is defined by Financial Resilience Institute as a household's ability to get through financial hardship, stressors and shocks as a result of unplanned life events[7], with this measured through the Institute's Index. Building financial resilience and financial well-being requires a multifaceted and deliberate approach, with people's consumer and financial decisions, behaviours and other factors such as unplanned life events or financial stressors as a result of the macroeconomic environment having an impact.

Having a comprehensive financial plan and taking actions to implement the different dimensions of that plan can be an important enabler to help support households in building their financial resilience. However, many households can find this process challenging to undertake on their own for a variety of legitimate reasons (e.g., cost, limited financial knowledge, not enough time and competing priorities). Thankfully, professional financial advice can provide assistance.

Financial planners are particularly well-positioned to enable households to improve their financial resilience thanks to their holistic approach and the close alignment between the planning process and the interconnected dimensions of financial resilience. Despite the importance and positive benefits of having a financial plan, the cost associated with planning services constitutes a perceived barrier for many Canadians.

As part of its efforts to build a resilient economy, there is a unique opportunity for the federal government to help address this cost barrier and invest in the financial resilience of Canadians. This could be done by introducing a refundable tax credit available to low- and middle-income households seeking planning advice for the first time. This tax credit would provide a helpful and targeted tool in the government's policy toolbox.

This paper illustrates the importance of the introduction of this new tax policy measure to help more Canadians seek and implement financial planning advice to build resilience and overall financial well-being. We begin by providing high-level definitions and framing of financial resilience and financial well-being. Next, we provide data on the state of Canadian households from the Seymour Financial Resilience Index™, longitudinal Financial Well-Being studies and other sources, which highlight some of the challenges Canadians are facing today. We then review the scientific literature to show how receiving professional financial advice – and more specifically, working with a financial planner and developing and implementing a comprehensive plan – can have a positive impact on individuals' resilience. Lastly, we explain the key features of the tax credit proposed by this paper.

Section 1
Defining Financial Resilience and Financial Well-Being

Household financial resilience is defined by Financial Resilience Institute as a household's ability to get through financial hardship, stressors and shocks as a result of unplanned life events[8]. In Canada, this is measured at the national, provincial, segment and individual household level through the Seymour Financial Resilience Index™.

The Seymour Financial Resilience Index™ has nine behavioural, resilience and sentiment indicators upon which household financial resilience is based:

- Planning ahead financially for upcoming and unexpected expenses
- Debt management composite
- Change in households' financial situation over the past 12 months
- Liquid savings buffer
- Social capital: close person(s) who could provide financial support in times of financial hardship
- Self-reported credit score
- Confidence in ability to meet short-term savings goals
- Financial stress composite; and
- Financial stress over current and future financial obligations[9].

The Index is based on over six years of longitudinal Financial Well-Being studies data on a representative sample of the Canadian population by household income, age, gender and province with most studies conducted with 5,000 primary or joint financial decision makers, aged 18 to 70 years old. The Index has a pre-pandemic baseline of February 2020 and measures and tracks financial resilience for customers, employees and communities of financial institutions and other organizations.

Based on the proprietary Index model, households' financial resilience scores range from 0-100, with weightings for the indicators not equal. 'Extremely Vulnerable' households have a financial resilience score of 0 to 30, 'Financially Vulnerable' households a score of 30.01 to 50, 'Approaching Resilience' households a score of 50.01 to 70 and 'Financially Resilient' households a score of 70.01 to 100. Importantly, households from all income demographics are represented across all financial resilience segments[10].

The Index has been peer-reviewed by Statistics Canada and other organizations. Seymour Consulting and Statistics Canada jointly published a report on the Financial Resilience and Financial Well-Being of Canadians during the COVID-19 Pandemic in October 2021[11].

In line with the Financial Well-Being Framework developed by Seymour Consulting (now Financial Resilience Institute) in 2016, here are definitions for this paper of the following constructs[12]:

Financial Resilience: Is about your ability to get through financial hardship, stressors or shocks as a result of unplanned life events.

Financial Well-Being: A state of being wherein a person can fully meet current and ongoing financial obligations, can feel secure in their financial future, and is able to make choices that allow them to enjoy life.

Section 2
The State of Canadians' Financial Resilience and Financial Well-Being

2.1. THE IMPACTS OF THE PANDEMIC ON CANADIANS' LONG-TERM PLANNING AND WELL-BEING

Close attention was paid to the financial health of Canadians during the COVID-19 pandemic. As millions of workers lost their jobs in the spring of 2020, concerns around the financial resilience of individuals led the federal government to introduce several support programs.

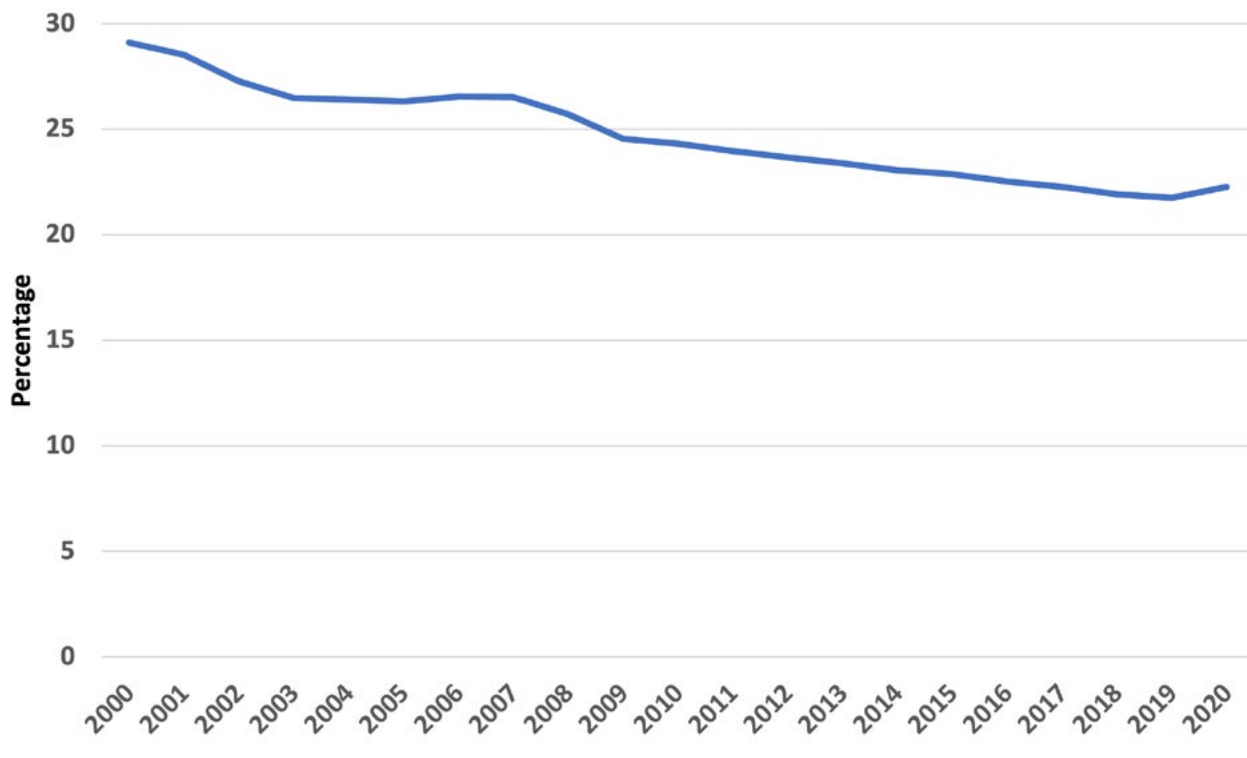
The sums rolled out to improve the ability of households and businesses to withstand this unexpected shock were substantial. A total of 8.9 million individuals claimed the CERB over the life of the program, which amounted to $81.6 billion in federal support[13]. The CEWS saw over 460,000 unique employer applicants for a total of over $100 billion in subsidies approved[14]. As for the CEBA, just under 900,000 small businesses, self-employed individuals and non-for-profits were approved for loans, which totaled $49.2 billion[15].

The support programs and the lack of opportunities to spend money during the COVID-19 lockdowns enabled some Canadians to grow their savings. The Bank of Canada estimated that 2020 saw an increase in savings of approximately $180 billion[16]. As a result of increased savings, Statistics Canada reported that more than 6.2 million individuals made contributions to their registered retirement savings plans (RRSP) in 2020, an increase of 4.9 per cent compared to 2019[17]. The median contribution was $3,600, up from $3,260 in 2019[18].

With over 27.8 million tax filers in 2020, this means 22.3 per cent of them made RRSP contributions[19]. While this number was slightly higher than in 2019 (21.8 per cent), Figure 1 shows that the proportion of tax filers saving for retirement by contributing to their RRSPs has been slowly decreasing since the beginning of the century.

With less than 30 per cent of tax filers contributing to their RRSPs, the proportion of workers covered

Figure 1: Proportion of tax filers making RRSP contributions



Source: Statistics Canada. Table 11-10-0044-01. Selected characteristics of tax filers with Registered Retirement Savings Plan (RRSP) contributions. https://www150.statcan.gc.ca/t1/tbl1/en/tv.action?pid=1110004401

by defined benefit pension plans decreasing since 2000 and the rise of "gig workers" who do not have access to benefits, headlines about Canadians not saving enough for retirement predated COVID-19[20]. In February 2020, a Scotiabank Retirement Survey found that 70 per cent of respondents worried they were not saving enough money for retirement and 66 per cent feared they had underestimated how much they would need to sustain themselves after leaving the workforce[21].

Underestimating the amount of money to sustainably retire is a common concern and a true risk for Canadians. This is further compounded by the fact that "Canadians commonly underestimate how long they'll live, the cost of health care and the impact of inflation"[22] in addition to making investment choices that are too conservative, according to financial professionals surveyed by Natixis, a global asset management firm.

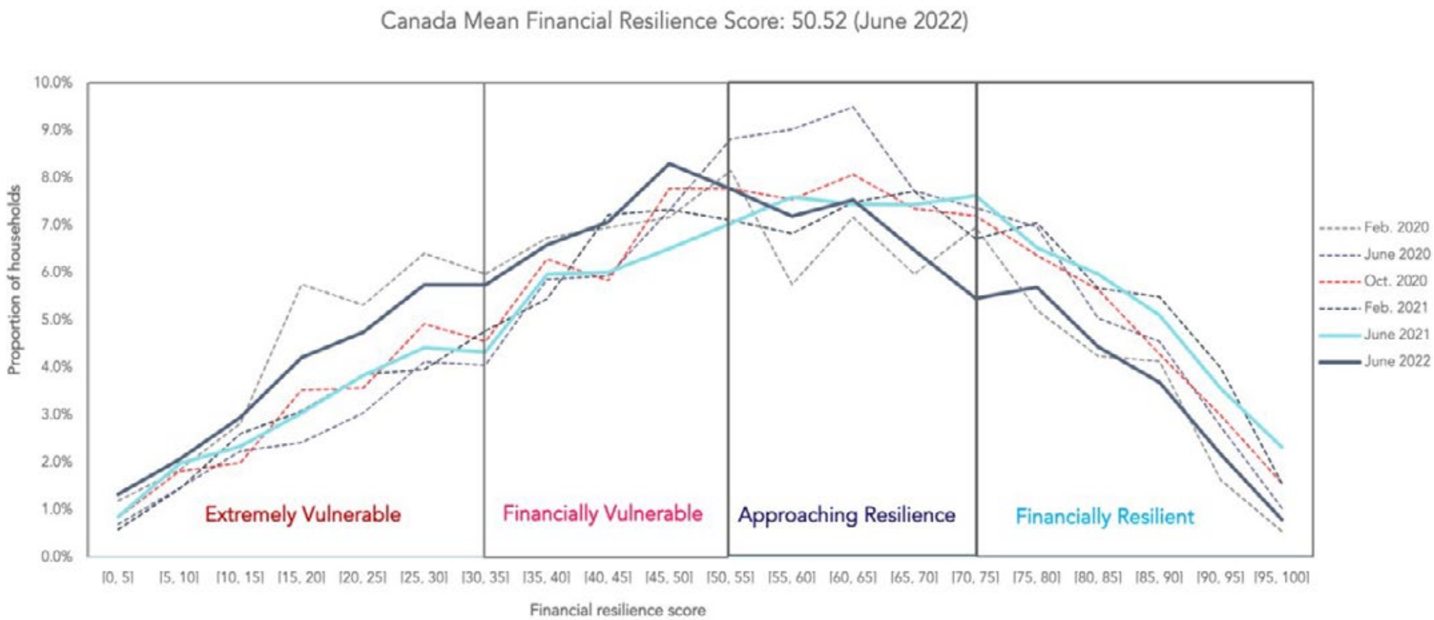
A CIBC study found in March 2022 that only 43 per cent of respondents believed they were currently saving enough money to retire how and when they want to[23]. The study also showed that 88 per cent of non-retirees did not have a formal and detailed retirement plan[24]. This highlights that temporary higher savings and RRSP contributions during the pandemic did not lead to better and more deliberate retirement planning by Canadians.

As reflected in data from the Seymour Financial Resilience Index™, discussed in the next subsection, while the pandemic enabled some people to grow their savings, high household indebtedness, a lack of retirement preparedness and ongoing macroeconomic challenges remain significant threats to the overall financial resilience and financial well-being of Canadians. The Index also highlights significant nuances in household savings rates, reported consumer and financial behaviours, financial stressors and access to financial help challenges across the four financial resilience segments and key populations.

Similar industry research shows the same. According to a September 2022 Angus Reid survey on the impacts of inflation, 26 per cent of respondents indicated their households had deferred or not made a contribution to an RRSP or tax-free savings account (TFSA) in the last few months[25]. This was up seven per cent compared to the beginning of August, signalling that a growing number of Canadians are cutting back on saving for retirement in the face of inflation.

Likewise, a September 2022 BMO Real Financial Progress Index also found that a little over "one third of Canadian adults (36 per cent) have reduced their savings contributions due to rising costs of living with almost one quarter (22 per cent) cutting their retirement savings contributions[26]." In addition, after dropping to 161.9 per cent in the second quarter of 2020, the level of household credit market debt as a proportion of disposable income is back up to 181.7 per cent two years later[27].

Figure 2: Seymour Financial Resilience Index™ Distribution from February 2020 to June 2022



Source: Seymour Financial Resilience Index ™: Distribution from February 2020 to June 2022

2.2. INSIGHTS FROM THE JUNE 2022 SEYMOUR FINANCIAL RESILIENCE INDEX™

Despite being further removed from the most economically challenging days of the pandemic, between 2021 and June 2022, the Canada mean financial resilience score, as measured by the Seymour Financial Resilience Index™, fell five points, from 55.67 to 50.52[28]. Based on the Index, as of June 2022, 78 per cent of the population have financial vulnerability on some level, representing 19.99 million households[29].

The decrease in the Canada mean financial resilience score highlights increased financial vulnerability for households at the national level based on the June 2022 Index. The challenging macroeconomic environment, including inflation, rising interest rates and the end of COVID-19 government support programs, have exacerbated the challenges with resilience and well-being many households were already facing, despite many of them working hard to maintain or improve their financial resilience from a consumer and behavioural perspective based on the Index data[30]. As of June 2022, 28 per cent of Canadians have a household savings buffer of less than three weeks[31], with this being the case for 46 per cent of low-income households[32].

Between June 2021 and June 2022 there has been a significant increase in 'Extremely Vulnerable' households from 16.5 per cent to 21.1 per cent of the population[33], representing 5.86 million adults[34]. As of June 2022, there has been an increase in 'Financially Vulnerable' households from 23 per cent to 28 per cent of the population, and a decrease in 'Financially Resilient' households from 31 per cent to 22 per cent of the population, representing just under eight million adults[35]. At the same time 29 per cent of households were 'Approaching Resilience' in June 2022, a similar proportion to a year earlier[36]. Households from all household income demographics are represented across all four financial resilience segments as measured by the Index. For example, of households with a household income between $75,000 and $149,000, 14 per cent are 'Extremely Vulnerable' and 28 per cent are 'Financially Vulnerable'[37].

The Seymour Financial Resilience Index™ and longitudinal Financial Well-Being data from Financial Resilience Institute shine a light on the increased financial vulnerability and challenges for households who are 'Extremely Vulnerable' or 'Financially Vulnerable' compared to those who are 'Financially Resilient.' For example, in June 2022, 88 per cent of 'Extremely Vulnerable' households reported experiencing significant financial hardship, an increase from 80 per cent in June 2021 and 69 per cent in June 2020, while just two per cent of 'Financial Resilient' households reported experiencing significant financial hardship, compared to 12 per cent in June 2021 (during the pandemic)[38]. Those who are 'Extremely Vulnerable' or 'Financially Vulnerable' are much more likely to have significantly reduced their non-essential spending, but also to have increased their borrowing to help pay for essentials expenses, draw down on savings and/or to deferring loan or credit card payments compared to their 'Financially Resilient' counterparts[39].

Longitudinal analysis conducted by Financial Resilience Institute since 2020 also highlights mobility within the Index (i.e., that households can 'move forwards' and improve their financial resilience by changing their financial behaviours and/or as a result of other factors, and similarly can also 'slip backwards' as a result of their behaviours, unplanned life events such as job loss, or other factors). For example, between June 2021 and June 2022, of 1,082 of the same survey respondents that were scored against both the June 2021 and June 2022 Index, 55 per cent of 'Financially Vulnerable' households in June 2021 stayed 'Financially Vulnerable' a year later, just under 20 per cent 'slipped back' a segment to become 'Extremely Vulnerable', 24 per cent improved their financial resilience score to 'Approaching Resilience' a year later, and just under two per cent 'moved up' two segments to become 'Financially Resilient'[40].

Other data from the Seymour Financial Resilience Index™ further highlights the challenges facing Canadian households in the current environment. For example, as of June 2022:

- 86 per cent reported that the increase in the cost of living has outpaced any growth they've seen in their household[41], with 41 per cent reporting they are experiencing significant financial hardship[42];
- 61 per cent reported that rising interest rates are a problem for them[43] and 23 per cent report that their household debt levels feel somewhat or very unmanageable[44];
- 52 per cent reported that recent drops in the stock market have negatively impacted their households' financial situation[45]; and
- 54 per cent were confident they can meet their short-term savings goals (compared to 64 per cent in June 2020)[46].

When it comes to Canadians' financial resilience and these kinds of challenges, certain segments of the population are unfortunately struggling more. For example, women were found once again in 2022 to be less financially resilient than men as their mean score was lower (48.69 for women and 52.45 for men) with the 'financial resilience gap' measured by Financial Resilience Institute[47]. Other populations are unfortunately also faring worse from a financial resilience perspective, including Canadians with disabilities, low-income Canadians and single parents[48].

In light of these challenges, Financial Resilience Institute's data shows that Canadians are taking steps to try to improve their financial resilience. For example, in June 2022, 50 per cent of households reported that they were "planning ahead financially" for upcoming and unexpected expenses or to save for long-term goals, which is one of the Index indicators[49].

As of June 2022, the mean financial resilience score of those who plan ahead financially for upcoming or unexpected expenses or to save for long-term goals was significantly higher than those who do not. Planning ahead financially is one predictor of, and contributor to, households' financial resilience. The mean financial resilience score of households that planned ahead financially was 63.08 compared to 30.90 for those that did not plan ahead financially based on the June 2022 Index, and 68.85 for those who planned ahead financially in June 2021 compared to 33.5 per cent for those that did not[50].

While 39 per cent of households that report planning ahead financially for upcoming expenses or to save for long-term goals were 'Financially Resilient' based on the June 2022 Index, this was the case for one per cent of households that did not plan ahead financially[51].

Similarly, 56 per cent of households that planned ahead financially for upcoming or unexpected expenses or to save for long-term goals rated their financial well-being highly (as seven or more out of 10) as of June 2022 compared to 15 per cent of households that did not plan ahead financially[52].

Moreover, households that do not plan ahead financially are more likely to report facing other financial challenges, including:

- More likely to be living paycheque to paycheque (84 per cent for households that do not plan ahead financially compared to 40 per cent for those that do plan ahead financially for upcoming or unexpected expenses or to save for long term goals);
- More likely to have a household income under $100k (81 per cent do not plan ahead financially compared to 58 per cent for those who do plan ahead financially);
- More likely to be unable to meet their essential expenses (37 per cent do not plan ahead financially compared to 11 per cent for those who do plan ahead financially); and
- More likely to be struggling with debt manageability (37 per cent do not plan ahead financially compared to 17 per cent for those who do plan ahead financially)[53].

There are significant nuances in financial stressors, needs and reported consumer and financial behaviours by financial resilience segment. For example, as of June 2022, 90 per cent of 'Financially Resilient' households (with a financial resilience score of 70.01 to 100) reported planning ahead financially, with 90 per cent of these same households having a liquid savings buffer of three months or more and 71 per cent reporting having a household savings rate of nine per cent or more of their total household income in the past 12 months[54]. In contrast, 35 per cent of 'Financially Vulnerable' households (with a financial resilience score of 30.01 to 50) reported planning ahead financially, with 24 per cent reporting having a liquid savings buffer of three months or more and 5.8 per cent having a household savings rate of nine per cent or more of their total household income over the past year[55].

Section 3

Why Building Financial Resilience and Financial Well-Being Matters

The importance of financial resilience cannot be overstated. In an uncertain world with unplanned life events, financial stressors and shocks, building one's financial resilience is important for overall resilience and well-being. Financial resilience is foundational to one's ability to get through challenging situations that impact income and/or assets[56]. It is a "reservoir of resources" someone can draw upon[57]. As highlighted through Financial Resilience Institute's data and whitepapers, financial well-being is vital to overall emotional and physical well-being, family stability, and achievement of life goals, with more financially vulnerable households scoring lower across all dimensions of well-being, such as physical health or mental health[58].

Without adequate financial reserves, which a financial plan can help address, individuals must turn to family, friends, financial institutions and governments for support. In this regard, a person's financial resilience has implications for others and ultimately the economy as a whole. For instance, financial resilience can enable a person to continue making mortgage and credit card payments despite dealing with an unexpected expense or financial 'shock'. It can also save individuals from having to seek government financial assistance. This can help reduce costs for governments by potentially limiting the levels of financial support needed to be deployed to support households facing difficult personal or widespread economic downturns. The perfect example of the latter is, of course, the COVID-19 pandemic when the federal government had to step in to financially support many Canadians.

As discussed above, data from the Seymour Financial Resilience Index™ tells us that those who are less resilient and more vulnerable are more likely to need to resort to exhibiting financial behaviours with negative impacts, including increasing their borrowing to help pay for essentials, drawing down on savings and deferring loan or credit card payments[59].

Clark and Mitchell, have developed a report and index on the financial resilience of Americans during the pandemic aged 45-75 years old based on data from two studies conducted in spring 2020 and spring 2021 using questions from a national survey in the United States called the Understanding America Study. This work defines and measures household financial resilience differently than the Seymour Financial Resilience Index™, with financial resilience defined as a household's ability to withstand acute shocks having an adverse effect on its financial well-being[60]. Financial fragility for this report is defined as a household's ability to cover short-term expenses, and specifically it indicates whether people are confident they can come up with $2,000 if an unexpected need arose within the next month.

Using a probit regression model, they found "that a one-unit increase in the resilience index is associated with a three percentage point lower chance of being financially fragile 1 year later. Measured at the mean of the fragility index, this translates into a 18% lower probability of being unable to handle a $2,000 unexpected expense[61]."

The multifaceted nature of financial resilience can make it difficult for households to build resilience in a deliberate manner on their own. The next section outlines how professionals, including financial planners, can help households with the different dimensions of financial resilience. It also outlines why having a financial plan can be beneficial to improving financial resilience. In particular, financial planners are well positioned to support households in the development and implementation of comprehensive plans. This crucial expertise stems from planners' training in holistic planning, which aligns with the multifaceted nature of financial resilience.

Section 4

The Importance of Professional Help in Building Financial Resilience

In this section we examine the positive impacts working with a financial advice professional can have on the different dimensions that constitute financial resilience. It also looks at why a comprehensive approach to financial planning is needed to address the multifaceted nature of resilience.

4.1. IMPACTS OF WORKING WITH FINANCIAL ADVICE PROFESSIONALS

As discussed below, the scientific literature demonstrates how using a financial advice professional can help people to maintain or build their financial resilience over the medium to long-term. Professional advice can have for example positive impacts on building blocks of individuals' financial pictures such as their financial flows and stocks (i.e., income, savings, debt and assets), retirement preparedness and ability to withstand unexpected situations and shocks.

These three areas link to aspects of household financial resilience. For example, an individual's financial flows and stocks can impact indicators such as one's ability to plan ahead for upcoming and unexpected expenses, liquid savings buffer and debt management composite. Retirement preparedness can impact indicators such as one's financial stress over current and future financial obligations and liquid savings buffer. Finally, the ability to withstand unexpected situations and shocks (by having insurance for instance) can impact indicators such as one's ability to plan ahead for upcoming and unexpected expenses, debt management composite and financial stress over current and future obligations.

Financial Flows And Stocks

The Montreal-based research centre CIRANO published in 2012 a seminal study titled "Econometric Models on the Value of Advice of a Financial Advisor." Analyzing Canadian survey data collected by Ipsos Reid, CIRANO researchers investigated the impacts of working with a financial advisor. They found that, "for two identical individuals, the one with a financial advisor will have 106% more financial assets, or 2.06 [times] the level of financial assets of the non-advised respondents[62]." Accounting for a variety of variables, the longer a household works with a financial advisor, the greater the positive impact on asset accumulation. Higher savings rates and allocating more resources into non-cash investments were the main drivers contributing to households working with financial advisors having more financial assets than non-advised ones[63].

CIRANO also found that individuals receiving professional advice were approximately 13 per cent more likely to feel confident of achieving a financially secure retirement compared to non-advised individuals[64].

In 2016, CIRANO revisited its findings using new survey data. The updated analysis found an even greater positive impact associated with working with a financial advisor. Individuals with an advisor had 188 per cent more financial assets or 2.88 times the level of financial assets compared to otherwise identical non-advised counterparts[65]. These numbers were up from 106 per cent and 2.06 times respectively in the 2012 study. Similar to 2012, the longer the relationship with a financial advisor, the higher the benefits were from an asset value standpoint. Interestingly, the data showed that using a financial advisor yielded positive effects as early as the first four years[66].

The drivers leading advised individuals to have higher financial assets were similar to the ones identified in the 2012 study. On saving, the authors found that "a respondent with a financial advisor and a positive savings rate will have a savings rate that is 25.8 percentage points higher than an otherwise 'comparable' non-advised respondent[67]."

In the 2016 study, CIRANO compared data from 2010 and 2014 to gain insight into what happens when people stop working with an advisor. It found that households with an ongoing relationship with a professional during that period saw their asset values grow by 26 per cent while the ones that stopped consulting an advisor between 2010 and 2014 endured a loss of 34.2 per cent[68].

Lei and Yao ran a logistic regression model to compare the investment portfolio performances of individuals working with financial planners versus self-directed and non-advised investors. The authors found that households that relied on financial planners as an information source for their saving and investment decisions were 16 per cent more likely to benefit from higher Sharpe ratios, which measure the return on an investment compared to a risk-free asset[69 70].

Using an approach that explicitly corrected for reverse causation, Zick and Mayor evaluated the impacts of financial planners by using data from the 2007 Survey of Consumer Finances in the United States. They found that working with a planner led to greater portfolio diversification. It also led to lower-income households having a higher portion of total financial wealth held in stocks[71].

Hanna and Lindamood used theoretical examples that compared optimal decisions informed by a financial planner with "naïve alternatives". They found that "the more risk averse a household is, the more valuable is advice that will reduce risk[72]." Advice also proved to be more valuable when the proportion of wealth that could be lost was higher[73]. Beyond investments, the authors also argued that professional "advice on saving that prevents substantial decreases in consumption can have a substantial monetary value[74]." This last finding is important from an economy-wide standpoint as consumption is a major component of the Canadian gross domestic product (GDP). When dealing with challenging situations impacting their finances, households will naturally cut back on their spending. At the aggregate level, reduced consumption leads to lower tax revenues for governments, slower economic activity and potential job losses as businesses see demand shrink. This is an important reason why financial resilience matters as it helps mitigate the effects of difficult situations on households' consumption habits.

Hanna and Lindamood concluded by suggesting that, while individuals with high income and/or net worth are more likely to benefit from professional financial planning advice, moderate income households could also find value in this advice (especially if they are risk-averse)[75].

Retirement Preparedness

In his paper "Financial Advice: Does it Make a Difference?", Michael Finke found a positive relation between consulting a financial planner and retirement wealth and net worth even when controlling for other variables such as income and education[76]. In Finke's regression model, working with a financial planner had a strong positive impact on sheltered retirement saving and the use of an Individual Retirement Account[77]. The results also showed that people who had received financial planning advice "were five times more likely to have calculated their retirement needs[78]."

Using a multivariate analysis, Martin Jr and Finke found that households that worked with a financial planner and had calculated their retirement needs saw significantly higher retirement wealth accumulation over time compared to individuals with no plan and no professional help. This finding held across all levels of retirement wealth even after controlling for variables related to socioeconomic status[79].

When considering the median level of retirement wealth, Martin Jr and Finke calculated using a quantile regression model that having a strategy and working with a financial planner yielded $20,777 more retirement wealth compared to not having a plan[80]. Looking specifically at changes in retirement wealth between 2004 and 2008, the authors determined that individuals who had calculated their retirement needs and consulted a financial planner accumulated $4,188.31 more than households with no plan at the median of the change in retirement wealth[81].

Calculating financial needs and having a plan are important and can help households to build their financial resilience. They can guide the actions households can take to improve their current and future financial situation. As Martin Jr and Finke note, individuals with no plan were worst off, which highlights the potential benefits of working with a financial planner.

Lastly, the Conference Board of Canada looked in 2020 at a hypothetical scenario that assumed 10 per cent of currently non-advised savers would start using a financial advisor. The analysis found this could significantly boost retirement readiness in Canada as retirement savings could rise by 55 to 60 per cent as a result[82].

Increased savings would grow retirees' income once they have stopped working and, in doing so, would allow them to maintain a greater standard of living and consumption. In this scenario, higher savings could increase retirement consumption by 23 to 25 per cent[83].

On aggregate, the Conference Board of Canada evaluated that real GDP would be around $900 million higher in 2060 thanks to the higher savings generated by individuals working with financial advisor[84]. In addition to individuals stimulating economic activity by spending more once retired, the Conference Board found that greater savings also positively impact domestic investment and trade, which ultimately boosts GDP in this scenario[85].

Ability To Withstand Unexpected Situations And Shocks

Grable investigated whether working with a financial advisor can help reduce wealth loss and wealth volatility during an economic shock. His 2014 article compared changes in wealth experienced between 2007 and 2009 (i.e., during the financial crisis) by individuals between the ages of 45 to 53 as of 2010. The author found that people who had met with a financial advisor in 2005 did better than the ones who had not done so in the years leading up to the financial crisis[86].

While both categories suffered losses between 2007 and 2009, households who had met with an advisor lost proportionately less wealth. Nominally, this translated to advised individuals seeing a mean change in wealth of minus 20.9 per cent compared to a contraction of 24.2 per cent for their non-advised counterparts[87]. The former also benefitted from a reduction in wealth volatility of 20.9 per cent compared to non-advised people[88].

Grable pushed his analysis further by adjusting for risk. Looking at the same time period, he found that individuals who had met with a financial advisor in 2005 did better as they saw their wealth volatility reduced by more than six per cent on a risk-adjusted basis (what he called the "zeta")[89]. These results led him to conclude that "financial advice may add

meaningful value within the consumer marketplace when financial stress is experienced[90].”

Insurance also plays an important role in helping households withstand unexpected and often challenging situations. Based on the Seymour Financial Resilience Index™, there appears to be a positive correlation between households reporting having sufficient insurance protection and a higher financial resilience score based on the 2022 Index[91]. Based on the June 2022 Index, households that reported having sufficient insurance to protect against the unexpected had a mean financial resilience score of 59.31 compared to a score of 42.39 for those who do not[92]. The June 2021 Index analytics show the same: households that reported having sufficient insurance to protect against the unexpected had a mean financial resilience score of 64.05 compared to a score of 44.47 for those who did not[93].

Finke, Huston and Waller found in a 2009 paper that working with a financial planner had a positive and statistically significant effect on the life insurance adequacy of households when holding household characteristics constant[94]. By contrast, looking at another financial service provider, the authors' analysis demonstrated that using a broker did not have a statistically significant impact on life insurance adequacy[95].

Using a logistic regression model, Kim et al. (2019) found that households that worked with a financial planner had 45.2 per cent greater odds of owning any life insurance compared to individuals who did not use a planner[96]. This positive relationship also held for the ownerships of term life and whole life insurance policies, with higher odds of 24 per cent and 35 per cent respectively for individuals who had a relationship with a financial planner[97].

Looking at the implications for financial planning of life insurance ownership rates decreasing, Kim et al. (2019) concluded their article with a highly relevant warning: “if the ownership rates continue to decline, more and more families will face financial hardship and economic distress if a spouse or partner dies prematurely. [...] Financial planners and educators can better inform their clients and the population as to the merits of life insurance[98].”

The literature highlighted in this section shows that professional advice can have positive impacts on various aspects of financial resilience. Namely, advised households see benefits on their financial flows and stocks, retirement preparedness and their overall ability to face unexpected situations and shocks.

4.2. HOW THE DIFFERENT ASPECTS OF FINANCIAL RESILIENCE ARE CLOSELY CONNECTED

Financial resilience takes into consideration multiple dimensions of an individual's financial situation. These aspects are all interconnected and influence one another. A single dimension does not make someone financially resilient: it is the combination of financial behaviours, social capital and other indicators that can together contribute to a household's financial resilience. There are also enablers and building blocks that can make a difference.

For instance, financial flows and stocks such as assets and savings are foundational to retirement planning and future preparedness as resources for retirees to draw from. Clear goals and target setting and sound debt management are also important to help households adequately prepare for retirement. Social capital and access to credit can be instrumental in helping an individual withstand an unexpected situation. Additionally, financial literacy, knowledge and confidence can help households to foster healthy financial habits and access financial advice, products and solutions that can help them maintain or improve their financial resilience.

As previously mentioned, insurance is also closely related to other dimensions of financial resilience. As Kim et al. (2019) argued, life insurance can help prevent financial hardship and distress resulting from an unexpected change in a household's financial situation like the death of a significant other. Life insurance can also help the surviving partner with debt management by allowing that person to pay off debt[99]. It also plays an important role in retirement and estate planning given its tax advantages and its ability to make up for the lost earnings and savings the deceased person would have accumulated if alive[100].

Other insurance products can also help households with their financial flows and stocks. For instance, disability income insurance can help replace the income of an individual in the event they are no longer able to work because of a disability. This is particularly relevant for disabilities that did not result from workplace accidents as they are not eligible for benefits from workers compensation boards. For long-term disability, this insurance product can also play an important role in replacing future potential earnings (and therefore savings) lost[101].

4.3. DEVELOPING AND IMPLEMENTING A COMPREHENSIVE PLAN HELPS BUILD FINANCIAL RESILIENCE

The multidimensional character of financial resilience and the interconnectedness of its different indicators align with a holistic approach to financial advice. An individual's overall financial health and resilience cannot be improved by focusing on only one aspect of their financial picture (for example, only dealing with their retirement preparedness).

The literature reviewed in this report highlights the positive impacts professional financial advice can have on various facets of a household's financial resilience and financial well-being. While we did not make a distinction between financial advisors and financial planners for the purpose of this review, the two advice channels are not the same. In the course of their engagement with individuals, planners provide both holistic and targeted advice across several areas that help support financial wellness and resiliency. Their scope of practice is broader and will generally encompass the scope of financial advisors. As a result, the positive impacts of financial advisors on resilience cited in the literature also apply to financial planners.

It is the holistic approach of planners that sets them apart from other financial professionals and enables them to have a more substantive impact on a household's resilience. A financial plan takes into consideration multiple dimensions, similar to how the literature broadly defines resilience. Developing and then implementing a financial plan entails a deliberate process that is comprised of six interrelated areas:

- Financial management
- Investment planning
- Insurance and risk management
- Tax planning
- Retirement planning
- Estate planning and legal aspects[102]

As Table 1 demonstrates, these six areas relate to many of the previously identified Seymour Financial Resilience Index™ indicators. By having a financial plan and acting on it with the help of a professional planner, Canadians can improve their financial resilience. This in turn could better position them to weather challenging situations.

Financial planners help their clients improve their financial literacy and knowledge by working closely and continuously with them. This notion of continuous engagement between financial planners and their clients is fundamental to the financial planning process. Financial planning is an ongoing process involving regular monitoring of an individual's progress toward meeting personal goals, needs, and priorities, a re-evaluation of financial strategies in place and recommended revisions, where necessary[103].

Furthermore, having a financial plan and working with a professional can contribute to reduced overall financial stress and anxiety. Letkiewicz, Robinson and Domian ran logistic regressions on Canadian survey data and found that working with a financial planner can help reduce subjective financial stress[104][105]. Looking at financial stressors, the 2022 Financial Stress Index produced by FP Canada found that "money was not a stressor" for 71 per cent of individuals who worked with a planner. This number dropped to 43 per cent among people that did not use a planner[106]. Additionally, 36 per cent of respondents without a financial planner indicated that financial stress had led to mental health issues compared to 16 per cent for individuals with a planner[107].

Table 1:
Common ground between financial planning areas and financial resilience indicators

FINANCIAL PLANNING AREAS	HIGH LEVEL DESCRIPTION[108]	RELATED INDICATORS FROM THE SEYMOUR FINANCIAL RESILIENCE INDEX™
Financial management	Focuses on the client's current and future financial position.	• Planning ahead financially for upcoming and unexpected expenses or to save for long term goals • Debt management composite • Self-reported credit score • Level of financial stress over current and future financial obligations • Change in households' financial situation over the past 12 months • Liquid savings buffer • Confidence in ability to meet short-term savings goals • Extent to which the person has social capital they are prepared to turn to for financial support in times of financial hardship
Investment planning	Focuses on the client's assets and how to best manage them.	• Planning ahead financially for upcoming and unexpected expenses or to save for long term goals • Confidence in ability to meet short-term savings goals
Insurance and risk management	Focuses on strategies designed to manage the client's exposure to an unexpected financial loss due to death, disability, health issues, property damage and other risks.	• Planning ahead financially for upcoming and unexpected expenses or to save for long term goals • Debt management composite • Liquid savings buffer • Financial stress over current and future obligations
Tax planning	Focuses on the client's current and future income tax obligations and the use of available strategies to minimize or defer taxation.	• Planning ahead financially for upcoming and unexpected expenses or to save for long term goals • Financial stress over current and future obligations
Retirement planning	Focuses on the client's financial well-being after regular employment has stopped.	• Planning ahead financially for upcoming and unexpected expenses or to save for long term goals • Change in households' financial situation over the past 12 months • Liquid savings buffer • Confidence in ability to meet short-term savings goals • Financial stress over current and future financial obligation
Estate planning and legal aspects	Estate planning focuses on the distribution of assets on death. Legal aspects impact the client's financial planning. Financial planners must be aware of the client's legal situation to help determine the level of exposure and evaluate protective measures.	• Planning ahead for upcoming and unexpected expenses or to save for long term goals

TAKING A HOLISTIC APPROACH IS FOUNDATIONAL TO THE TRAINING AND PRACTICE OF FINANCIAL PLANNERS.

Planners are guided by a holistic approach that integrates the different components of an individual's personal situation. The *Canadian Financial Planning – Definitions, Standards & Competencies* document, which is the unified source of definitions and standards for professional financial planning in Canada, states that "for a financial planner to provide meaningful advice and planning, they must understand all of the client's personal goals, needs, priorities, interdependencies, overall constraints and opportunities in order to develop appropriate financial planning strategies and recommendations[109]." This constitutes one of the fundamental financial planning practices that applies to the profession.

The Institut québécois de planification financière (Quebec Institute of Financial Planning) has developed a situational integration framework to help planners analyze six different situations related to a client's life. Each of the following situations are integrated in the assessment in a holistic way to guide the development and implementation of a comprehensive financial plan.

Table 2: Aspects covered in the situational integration framework

Situation	Definition[110]
Personal and family	Reveals the rights and obligations arising from the structure of the client's household (marriage, civil union, de facto union, de facto separation, etc.), as well as those arising from a contract made personally, such as agreeing to be a trustee, administrator (tutor, curator, mandatary, etc.) or the liquidator of an estate.
Financial	Relates to the client's savings, consumption and borrowing habits.
Tax	Where the client's taxpayer status is identified (employee, self-employed, member of a partnership or shareholder of a private corporation), along with the status of the taxpayers around the client, such as family members, corporations, partnerships or trusts the client plays a role in.
Protection	Examines all the protection mechanisms at the client's disposal to offset the financial or legal consequences of problems related to their own health, the health of their family members or their inability to take care of themselves or manage their assets.
Retirement	Involves a multitude of data in order to accurately evaluate the current savings situation and the projected situation in retirement, to determine the savings efforts required to achieve the client's goals. The client's various sources of income should be examined and included in the analysis.
Situation at death	Evaluate the legal, tax and financial repercussions of death, to measure the consequences for the family's or partners' general financial situation and to identify strategies that may improve the situation of the heirs or achieve wealth transfer objectives.

Similar to the different dimensions of financial resilience, each of the aforementioned situations relates to at least one of the planning areas.

The literature in this report highlights that household financial resilience is multifaceted. In our review of the available data, a household's financial resilience can be strengthened by creating and implementing a financial plan. The financial plan can identify the actions that can be taken to achieve the financial goals that were selected. Financial planners can assist individuals in implementing these actions, which can ultimately help improve their financial resilience and/or their financial well-being.

Thanks to their holistic approach, financial planners are well positioned to help Canadians develop and implement a plan that improves their financial resilience. By not limiting themselves to one specific dimension (e.g., investments, insurance) like some financial advice professionals do, financial planners take a holistic view that encompasses different aspects of financial resilience.

4.4. BARRIERS TO SEEKING FINANCIAL PLANNING ADVICE

Even though comprehensive financial planning advice can be instrumental in helping households build their financial resilience, only four per cent of Canadians work with a financial planner, according to the 2022 Financial Stress Index[111].

Several real and perceived barriers prevent individuals from seeking financial planning services. Many individuals believe they simply do not need advice because they can manage their financial affairs themselves. A pan-Canadian survey from Pollara Strategic Insights asked respondents why they were not receiving professional financial advice (which encompasses financial planning). A third (33 per cent) indicated they can manage their own financial affairs and 26 per cent similarly answered they would rather just do it themselves[112 113]. The data showed that men were more likely than women to have this do-it-yourself (DIY) attitude.

A key risk associated with a DIY approach is of course overconfidence. As Kim et al. (2022) highlighted in an article, the literature shows links between overconfidence in one's financial knowledge and undesired financial behaviours[114]. This is pertinent in the Canadian context as recent research from the Ontario Securities Commission (OSC) found that almost 30 per cent of Canadian investors overestimated their financial knowledge[115].

Additionally, some households consider their circumstances do not justify the need to receive professional financial advice (22 per cent of respondents)[116]. Others simply do not know who to trust (15 per cent) and/or where to even start 11 per cent[117].

The perceived barrier of cost is another major barrier that negatively impacts access to financial planning services for many Canadian households. Pollara found that 19 per cent of respondents do not receive professional financial advice because they feel they cannot afford it and/or it costs too much[118]. Moreover, 17 per cent indicated they did not want to pay the costs associated with these services[119].

The perceived cost barrier is particularly relevant for financial planning services. The upfront fee for the development of the original financial plan can be higher than the subsequent costs associated with implementation and adjusting the plan on a yearly basis. In this regard, the structure of planning costs is likely to deter more individuals despite the fact that working with a planner can help them improve their financial resilience.

Chatterjee and Zahirovic-Herbert identified a similar dynamic in the United States by analyzing the factors determining the use of financial planning services among younger baby boomers born between 1956 and 1964. They concluded that households "who need professional financial planning advice the most are least able to access these services because of the challenges of paying for them and locating credible professional providers[120]."

Section 5

The Opportunity for Government and Recommendation

As previously mentioned, less than a quarter of Canadian households were considered 'Financially Resilient' in June 2022. Working with a financial planner who leverages a comprehensive approach could benefit households that are not financially resilient. It might be particularly impactful for the nearly 30 per cent of Canadians that were 'Approaching Resilience'[121] as having a financial plan and receiving professional advice could ultimately put them over the edge into the 'Financially Resilient' category.

The evidence in this paper indicates that financial planners can have a substantial positive impact on the resilience of their clients thanks to their holistic approach to advice, which aligns to the multidimensional character of financial resilience and the interconnectedness of its different indicators. As Table 1 demonstrated, the financial planning areas also closely align with the different dimensions of financial resilience identified through the Seymour Financial Resilience Index™ and take into consideration their intertwined nature. The combination of these aspects can help an individual build financial resilience.

However, as stated above, only four per cent of Canadians work with a financial planner[122]. A variety of factors hinder households' willingness to seek professional planning advice. While some are internal and specific to the individual, like having a DIY attitude or not believing it is necessary, an important external barrier identified by people is the perceived costs associated with working with a planner.

The internal versus external distinction is important as factors like costs can be mitigated using public policy tools. Thinking about the role of government in helping address this barrier, Chatterjee and Zahirovic-Herbert suggested that "a more efficient and effective approach is to provide incentives for consumers, particularly less educated and lower income consumers, that will defray their costs and increase their access to financial planning services[123]."

The targeted approach suggested by Chatterjee and Zahirovic-Herbert is equally applicable to Canada to specifically help low- and middle-income households access a financial planner by overcoming the perceived cost barrier the data identified.

In this regard, a targeted refundable tax policy measure would constitute a strong incentive by alleviating the costs associated with seeking financial planning services for the first time. By making it more affordable and accessible for those who would benefit the most from having a financial plan, the credit would incentivize more Canadians to work with a financial planning professional which, as we demonstrated above, is shown to have significant positive impacts on several dimensions of a person's financial situation.

By introducing a tax incentive in a targeted manner, the federal government could invest in the resilience of Canadians and the country's economy. It can help prepare people to withstand difficult economic situations and uncertainty which, in turn, would enable them to bounce back more quickly. In doing so, this may save some people from having to turn to government for financial assistance. Most importantly, resilient Canadians are the cornerstone of a resilient economy as it continues to face severe domestic and global headwinds.

5.1. THE RECOMMENDATION: A REFUNDABLE TAX CREDIT FOR FIRST TIME USERS

Canadians can currently deduct fees for certain investment advice and for the management of some investments at line 22100 of their tax returns[124]. However, fees paid for financial planning advice cannot be claimed despite its role in helping households develop and implement a comprehensive plan to build financial resilience. As the perceived cost barrier can deter individuals from seeking planning services, a tax credit could be a tool to mitigate this barrier for Canadians who would benefit the most from working with a professional planner (i.e., low- and middle-income households).

The principles underlying the Canada Training Credit (CTC), which supports tax filers with the cost of eligible training fees, offer a good model to provide an adequate incentive to consumers without being too cost prohibitive for government[125]. The CTC uptake has been impressive so far as 400,000 people claimed the credit in 2020 amid a global pandemic that disrupted most people's lives and plans that year.

To start, a federal tax credit for Canadians using financial planning advice for the first time could be introduced on a pilot project basis. This would enable the Government of Canada to assess and review the impacts of the measure.

Any tax credit meant to alleviate the perceived cost barrier associated with seeking financial planning services should be refundable in order to be of sufficient value to potential users. The assurance of a reimbursement is in this regard extremely important to drive behavioural change. To ensure fairness, the credit should not be available to high-income earners. This would prevent people who already have the money to pay for planning advice from claiming the

credit. This approach would build on an important lesson learned in the United States where an itemized tax deduction (i.e., not a refundable credit) for financial planning fees was eliminated in 2017 after being criticized for mostly benefitting upper-income households[126]. This example from the United States demonstrates that adding financial planning fees to the list of eligible expenses for the line 22100 federal deduction would not sufficiently benefit low- and middle-income households.

Similar to the CTC, a new tax credit to make planning advice more affordable could have a set maximum amount that could be drawn from over time. To reflect the life cycle of a typical financial planning engagement, the tax measure could help with the fees associated with both the development of the initial financial plan and subsequent review and implementation meetings. These follow-up touchpoints with a planner are extremely important to help guide individuals as they act on their financial plan.

In keeping with the comprehensive approach of financial planners and the multifaceted character of financial resilience, only plans covering advice across multiple areas would be eligible for the credit. This important criterion would ensure that clients receive holistic advice that can positively impact the financial resilience of users.

Support For The Measure And Uptake

The majority of Canadians are in favour of using the tax system to make it more affordable and accessible to receive professional financial advice and planning services. According to the 2021 Pollara survey we previously mentioned, 64 per cent of respondents supported the introduction of a new tax credit or tax deduction to achieve this outcome[127].

The Pollara results highlight the strong potential of a tax measure to incentivize more Canadians to develop and implement comprehensive financial plans with the help of a professional. More than half (55 per cent) of individuals who had not worked with a planner in the two prior years indicated they would be likely to pursue such advice if the federal government would introduce a tax credit or deduction[128]. Among this group, 57 per cent of individuals identified as women. A little over two thirds of respondents (69 per cent) had an income of $100,000 or below[129].

Investing In Canadians' Financial Resilience And Financial Well-Being

Introducing a targeted tax incentive to increase access to financial planning services and improve the financial resilience of low- and middle-income Canadians aligns with several federal government priorities.

The Financial Consumer Agency of Canada (FCAC) has unequivocally signalled that helping Canadians improve their financial resilience matters to the organization and the Government of Canada. The vision at the core of the FCAC's National Financial Literacy Strategy 2021-2026 is "A Canada where everyone can build financial resilience in an increasingly digital world[130]". One of the targeted outcomes of the Strategy is for more Canadians to have access and ultimately use affordable and relevant financial advice[131]. A refundable tax credit to enable more Canadians to have a financial plan and take actions to implement it could be an anchor policy to help achieve this outcome and enhance households' financial resilience.

From increasing the Guaranteed Income Supplement to raising Canada Pension Plan contributions to provide higher benefits to retirees, the federal government has taken several measures to improve the financial resilience of retired Canadians and seniors. Our review showed that working with a professional to develop and implement a plan helps increase retirement preparedness. In this regard, encouraging more Canadians to seek planning advice would align with these initiatives and give the government an additional tool in the policy toolbox.

Lastly, Budget 2022 reinforced the federal government's objective to build a stronger and more resilient economy by proposing programs related to childcare and affordable housing. A resilient economy needs financially resilient Canadians who can withstand difficult situations and uncertainty. In this regard, investing in low- and middle-income households by making financial planning advice more affordable can help the government improve the resilience of both individuals and the economy.

Conclusion

Household financial resilience is multifaceted and foundational to a household's ability to navigate difficult and often unexpected situations. According to Financial Resilience Institute, only 22.2 per cent of Canadian households were 'Financially Resilient' in June 2022, with these households having a financial resilience score of 70.01 to 100[132]. While financial planners are well positioned to help households build their financial resilience thanks to their holistic approach and scope of practice, a relatively low number of Canadians have a comprehensive financial plan. Among the reasons why individuals do not seek planning advice, research shows the perceived cost barrier is a real deterrent.

Helping more households across the country access financial planning services would have significant benefits for individuals as well as government and the Canadian economy. The federal government could invest in helping households to improve their financial resilience by introducing on a pilot project basis a refundable tax credit for first time users of planning advice. The credit would be modeled after the CTC and be specifically targeted to low- and middle-income households to prevent high income earners to access it.

A majority of Canadians support using a tax incentive to help individuals work with financial planners and develop and implement financial plans. Thanks to the holistic planning process, this would enhance people's financial resilience and their ability to withstand difficult situations. Lastly, it would also make an important contribution to increasing the retirement preparedness of Canadian seniors and to building a more resilient economy, which are key priorities of the federal government.

Appendix – About the Seymour Financial Resilience Index™

Financial Resilience Institute measures and tracks household financial resilience at the national, provincial, segment and individual household levels in Canada through the Seymour Financial Resilience Index™. This Index was developed by Eloise Duncan, CEO and Founder of Seymour Management Consulting Inc, now the Founder and CEO of Financial Resilience Institute. The Index has a pre-pandemic baseline of February 2020 and builds on over six years of longitudinal Financial Well-Being studies data.

The Institute's Index model measures and tracks households' financial resilience, defined as "a household's ability to get through financial hardship, stressors and shocks as a result of unplanned life events," across nine behavioural, resilience and sentiment indicators. Households' financial resilience is measured for tier one bank customers and for the customers, employees and communities of organizations using the Index, with longitudinal benchmark data provided by the Institute. The Index has been peer-reviewed by Statistics Canada, C.D. Howe Institute, UN-PRB and leading financial institutions and organizations using the Index.

The proprietary Index has a baseline of February 2020 (pre-pandemic) and measures and tracks households' financial resilience every six to twelve months, with more frequent tracking based on the needs of the Institute's partners. Financial resilience measurement and tracking was conducted three times a year through the pandemic in 2020 and 2021, validating the model and showing many changing financial behaviours and differences for households as the pandemic unfolded. Households' financial resilience is based upon nine behavioural, resilience and sentiment indicators. These are:

- Debt management composite
- Planning ahead financially for upcoming and unexpected expenses
- Change in households' financial situation over the past 12 months
- Liquid savings buffer
- Social capital: close person(s) who could provide financial support in times of financial hardship
- Self-reported credit score
- Confidence in ability to meet short-term savings goals
- Financial stress composite; and
- Financial stress over current and future financial obligations.

Based on these indicators, households are scored from 0 to 100 in terms of their household's financial resilience, creating four financial resilience segments. These segments are labelled as 'Extremely Vulnerable' (with a financial resilience score of 0 to 30); 'Financially Vulnerable' (with a score of 30.01 to 50); 'Approaching Resilience' (with a score of 50.01 to 70) and 'Financially Resilient' (with a score of 70.01 to 100). The financial resilience scores and challenges for many populations are tracked by the Institute.

The Index development was motivated by data and results confirming that financial stress and financial vulnerability have been mainstream issues since well before the pandemic, based on Seymour Consulting's National Financial Well-Being Studies conducted since 2017, and by the linkage between households' financial well-being and their overall well-being. Seymour Consulting and Statistics Canada published a joint report on the financial resilience and financial well-being of Canadians during the COVID-19 pandemic in October 2021, with the Index data used and compared with government administrative data.

Index Development Methodology

The Index is a proprietary regression model that was developed over more than five years based on an iterative process of regressing and evaluating over 35 potential indicators against self-reported "financial resilience" or "financial stress" measures, using the multiple linear regression technique. In the end, nine variables were determined to account for 62 percent of the variance in the financial resilience construct as of June 2022 and 64 per cent of the variance in the financial resilience construct as of February 2021. The regression model's indicators (independent variables) are significant at a 95% confidence interval, with p-values less than 0.05. The regression model has been validated against all years of Financial Well-being studies data between 2017 and 2022. This has revealed consistency in results, represented by a strong R-squared as well and similar weights of the independent variables as predictors of financial resilience. Weightings for the model are based on their overall contribution to the dependent variable in the model and are not equal.

Based on 2017 and 2018 data, six of the nine index model independent variables were available, and in the 2019 data, seven of the independent variables were available. All nine variables are available based on the February 2020 Index baseline data. In July 2022, one of the two variables within the debt composite indicator was replaced. Index indicators and data are part of longitudinal financial health, resilience and stress longitudinal data from the 2017-2022 Financial Well-Being studies. This is a 15 to 20-minute longitudinal online survey conducted with 5,000 adult Canadians from a representative sample of the population by province, age, gender and household income, with respondents recruited through the Angus Reid Forum, Canada's most engaged and respected online panel and all survey design and analysis conducted by Financial Resilience Institute. More information on the Index development roadmap is available online at: https://www.finresilienceinstitute.org/why-we-created-the-index/

Robust Samples and Longitudinal Benchmark Data

The June 2022 Financial Well-Being study has a sample size of 5,061 households with 4,505 households scored through the Index. MOE of +/- 1.4% and 95% confidence interval across all provinces. June 2021 Financial Well-Being study has a sample size of 5,028 households with 4,504 households scored through the Index. June 2020 Financial Well-Being study has a sample size of 4,989 households with 4,462 households scored through the Index. February 2020 Financial Well-Being study has a sample size of 1,013 households aged 18-70 and an Index sample of 919 households scored through the Index. MOE of +/- 3.1% and 95% confidence interval across all provinces. All other studies have a sample size of 3,000 to 5,000 adult Canadians. Data is weighted to be representative of Canadian population based on household income, gender, age and province. Boost samples are also conducted for deep-dives on specific populations, such as low-income Canadians or others.

Complementary Financial Well-Being Studies and Application to other Countries

The Index was developed based on the nuances of the Canadian consumer and ecosystem, but it has applications for other countries. The Index complemented with the second instrument namely the longitudinal Financial Well-Being studies data set, with the first Financial Well-being study launched in 2017. This has a wide range of financial health, financial stress, financial resilience and reported behavioural indicators. The study provides independent measuring and tracking on the extent to which households rate their Financial Institution (and other organizations) for helping to improve their financial wellness, for customers and those who are more financially vulnerable, and on the impacts of financial stress on multiple dimensions of health and well-being. This study also tracks households' financial stressors and challenges in accessing financial services, products and help, plus sentiment and reported consumer and financial behaviours. Customized questions can be added to the Financial Well-Being study with analytics against Financial Resilience Institute's Index model.

More information on the Index and published reports are available at https://www.finresilienceinstitute.org/

Endnotes

[1] Financial Resilience Institute. (2022a). *The Increasing Financial Vulnerability of Canadian Households: June 2022 Seymour Financial Resilience Index™ Release*. https://www.finresilienceinstitute.org/wp-content/uploads/2022/11/Final-June-2022-Seymour-Financial-Resilience-Index-TM-Release-1.pdf. p. 3.

[2] Consumers' financial resilience is measured across nine behavioural, sentiment and resilience indicators based on the Seymour Financial Resilience Index™. This measures households' financial resilience at the national, provincial, segment and individual household level, with the Index building on over six years of longitudinal financial well-being data with a pre-pandemic baseline of February 2020. 'Extremely Vulnerable' households have a financial resilience score of 0 to 30, 'Financially Vulnerable' a score of 30.01 to 50, 'Approaching Resilience' a score of 50.01 to 70 and 'Financially Resilient' households a score of 70.01 to 100. The population estimate of 19.99 million adults experiencing financial vulnerability is based on a total population of 25.70 adult Canadians aged 18 to 70 years old as of July 2021 (based on Statistics Canada census data).

[3] Ibid., p. 17.

[4] Ibid., p. 13.

[5] FP Canada. (2019). *FP Canada Standards Council™ Competency Profile*. https://www.fpcanada.ca/docs/default-source/standards/fp-canada-standards-council-competency-profile.pdf?sfvrsn=d2b9a2a1_11. p. 3.

[6] Financial resilience is measured through the Seymour Financial Resilience Index, a proprietary Index peer reviewed by Statistics Canada and other organizations, that is being licensed to Financial Resilience Institute. This Index builds on over six years of longitudinal Financial Well-Being studies data with measurement of Canadians' financial health, financial resilience and financial wellness measured and tracked across numerous indicators since 2017.

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