Fondation pour la recherche FP Canada®/MD Research Foundation

Values & Priorities of Millennials in Canada

Practice Notes

November 2021

Research conducted by:

THE DECISION LAB

Introduction

FP Canada Research Foundation funded research conducted by Dr. Brooke Struck, Research Director at The Decision Lab, into the financial experiences of Canadian millennials to help planners increase opportunities to engage with millennials and optimize client outcomes.

Many millennials have differing values and realities than other cohorts, meaning that planners may need to adapt their approach if they are to add meaningful value to clients of this generation. The research provides a series of vignettes that demonstrate effective approaches to offer a more adapted service throughout the financial planning process.

As financial planners, you have a key role to play in helping to improve the overall financial situation of your millennial clients, as well as a vested interest – this generation has already begun inheriting the largest inter-generational wealth transfer in history.

Background

The Millennial cohort – born between 1981 and 1995 – is a large and increasingly important generation. They are currently facing many important life decisions, such as career choice, housing, settling down with a partner, and starting a family. The lifestyle and consumption patterns established during this period contribute enormously to setting the stage for their financial wellness into the future.

Additionally, millennials will be the major recipients of the largest wealth transfer in history. This transfer has already started and will continue over the next few decades. While the bulk of that transfer will come in the form of bequests, large gifts from parents while they are still living can also be a considerable source of wealth transfer, notably in connection to down payments on a home.

In general, the financial situation of millennials includes increased indebtedness and precarious income streams. This highly educated cohort graduated with higher levels of debt than previous generations and emerged into one of the hardest job markets in a century. Under these circumstances, many millennials find themselves in part-time and contract work as well as the gig economy. These forms of employment create much more erratic income streams, leave workers vulnerable to shocks, and make it hard to pay down accumulated debt.

Millennials tend to live with their parents longer, start their careers later, and consequently, defer traditional life milestones such as marriage, home ownership and children. They have little savings and their appetite for risk may be low because they do not know if or when they might need those savings to bridge gaps in cashflow. Accordingly, their savings may not grow quickly, leaving them further behind in saving towards big goals such as home ownership and retirement.

Feeling that the material trappings of that traditional vision might be beyond their reach, and not just temporarily, many millennials are defining new markers of success, charting a course for themselves that looks quite different from the ideals of previous generations.

The values and priorities of millennials have, in some cases, shifted away from material possessions (more characteristic of Boomers and Gen X) and towards experiences and short-lived moments. Millennials may also have a strong sense of social responsibility, seeking to have their purchasing decisions, employment, lifestyle choices and investments reflect their values of equality, justice, and ecological responsibility.

Tips for Practice

Financial planners should be aware of some of the unique challenges and opportunities of the millennial generation so that they can help optimize outcomes of engaging with this group. The practice tips provided in this section are summarized in four sections which generally map to the stages of the financial planning process: engaging the client, conducting discovery, making recommendations and supporting implementation.

1. Engaging the Client

Planners should understand that millennials:

- readily engage with mobile technologies and digital tools. While they see an important role for human planners, they expect financial planning services to be delivered efficiently and conveniently, including through the use of virtual meeting tools.
- tend to have different markers of success than other cohorts; planners should understand their clients' definition of financial independence and success to determine a benchmark against which they can measure progress over the course of the engagement.
- want somebody to be “in their corner” -- someone they can rely on to act in their best interests as millennials tend to lack trust in large financial institutions. Planners should approach this cohort with particular sensitivity to their lack of trust, rather than through the lens of financial products and services because millennial clients are likely to be especially wary of professionals who offer them products or services that are not clearly a strong fit with their situation.
- may prioritize financial management and risk management services rather than the more traditional investment and retirement planning services.

- are not averse to paying fees providing they see value in the services provided; convenience and personalization are highly valued for this cohort.
- may have parents who represent a significant percentage of planners' client base. Planners can help ensure the continuity of client relationships by showing interest and getting to know the millennial children of existing clients and demonstrating their genuine interest in getting to know what matters to the younger generation.
- may feel their finances are controlling them. Gauge their self-efficacy toward achieving their goals by asking about their level of confidence in their ability to achieve the things they aspire to, even in the short-term.

2. Conducting Discovery

Planners should:

- consider opportunities to work collaboratively with their millennial clients during the discovery process, including by leveraging online and virtual meeting tools.
- ask questions to understand where their clients might be encountering money challenges connected to income stability and volatility and to determine the extent that debt is dragging on their monthly cashflow.
- be mindful not to assume that a millennial who carries high debt or has low savings is lacking in financial literacy. Millennials may not be lacking in financial knowledge or discipline, but in opportunity.
- ask about existing risk protections in place to determine an appropriate level of contingency funds because traditional protections for sickness and job loss may not be available to many millennials.
- be supportive and non-judgemental – even when the goals of their millennial clients conflict with planners' own views of what is important; millennials often define different goals for their lives.

3. Making Recommendations and Developing the Financial Plan

Planners should:

- help clients who may be struggling with volatile income or significant debt by helping them shore up their day-to-day finances, including consolidating debts to minimize costs and streamlining repayments, before working towards longer-term goals.
- ensure tax filings are current where a client may be engaged in the gig economy to ensure receipt of income-tested benefits and credits, such as the HST/GST credit. If education-related debt exists, qualifying student loan interest is tax-deductible for up to five preceding years.
- consider that with housing inflation and precarious finances on the rise, renting can be a more financially viable and appropriate option for millennials than home ownership; growing wealth for their futures may need to be balanced with flexibility in the short term.

- consider that where millennial clients may be struggling to get their careers firmly in place and where they may have unpredictable income, the more flexible TFSA may be better suited for savings than a RRSP.
- not assume that because millennials are young, they have long time horizons and therefore high tolerance for investment risk; they have grown up in an investment market with very high market volatility.
- remain aware that millennials with precarious income may rely more heavily on cash buffers in the form of emergency funds and liquid, risk-free investments.
- address insurance coverage for income protection and life insurance where resources to rely on may be lacking in the event of disability or premature death.
- place greater emphasis on inheritances and consider the possibility of inter-vivos gifts from parents, where appropriate.
- position any additional services offered when delivering the plan as optional but clearly valuable, to avoid the perception of a "hidden fee" (a service that's actually required rather than optional in order to unlock value) or "useless upsell" (a service that has little value to offer and is therefore perceived as being pushed on the client for other reasons), both of which will be poorly received by this value-seeking group.

4. Supporting Implementation

To ensure a higher likelihood of financial plan success, planners can:

- keep an implementation schedule and send their millennial clients timely digital reminders along with key information.
- send millennial clients relevant articles or tips and other regular acknowledgements that show that planners are genuinely thinking of them and their well-being.
- build trust with millennials by demonstrating the social impact of their investments, where this is important.
- connect with millennials frequently to demonstrate the progress they are making toward their goals, which tend to be short term in nature. These may be quick check-ins via email, text, WhatsApp message or other means to show interest in helping them track their movement toward their goals.
- ask millennials to assess their financial confidence relative to the start of the engagement and ongoing throughout your relationship with them. This can help build trust and grow your relationship with them as they start to feel a greater sense of financial independence, and lead to greater opportunities to plan for longer-term financial goals once their foundation is secure.

In Conclusion

The millennial cohort represents the largest share of the Canadian population. They will shape Canada's future, just as the Baby Boomers have for the past several decades. Financial planning needs for these individuals may be different than what may be more typical for other financial planning clients because of their financial circumstances and values.

That said, they stand to receive the largest inter-generational wealth transfer in history as the Baby Boomers provide financial gifts or assistance while alive, or eventually, through inheritance. Financial planners need to refine their skills and adapt their practices to gain and retain millennial clients.

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Research Paper

Executive Summary

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June 2022