Sun Life | Consulting

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Industry Insights

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Inside this issue

3
Prenups can help with a couple's long-term financial planning

4
Index funds: the subtle differences

5
Build and sustain family financial resilience

6
Banks can be subject to higher liquidity risk compared to insurers

7
Tips on how to find prospects in your community

8
Understanding unique challenges female clients may face

9
'Econotalk' causing anxiety in clients

10
Why clients may end their relationship with an advisor

11
Detect and prevent economic abuse

Prenups can help with a couple's long-term financial planning

Start the conversation with a checklist

If you have clients who are thinking about marriage, it may be good to suggest they discuss a prenuptial agreement (prenup) before marriage.

A prenup is a written agreement addressing the legalities regarding the marriage in the event of divorce or death. For example, prenups often address property ownership, financial rights and other financial matters that may be important to a couple should the marriage end.

Prenups are becoming more common. A recent Harris Interactive poll found that 40% of American couples between the ages of 18 and 34 had signed one. A lawyer will likely need to create a prenup for clients, but you can offer some questions to consider.

Use a checklist to help couples identify issues that may be important to cover in a prenup, including:

- Do they want children? If so, who would be their ideal childcare provider?
- If there are children from a prior relationship, how do they envision integrating their blended family?
- How will a professional relocation impact the professional goals of the other?
- What sort of home do they want and how do they plan to pay for it?
- How will they handle prior debt?
- Do either have an idea for a business they'd like to launch? How will they value their startup?
- Will they file taxes separately or together?

Prenups can be flexible. However, there are a few best practices clients need to consider when working with their lawyer. For example, a prenup should be:

- in writing,
- voluntarily entered,
- accurate in details, and
- developed by each partner with an independent legal counsel.

Source: Wealth Management

Takeaway: Help your clients who are thinking about marriage customize their financial relationship. Start the conversation about a prenup and get them started thinking about key financial matters.

Index funds: the subtle differences

How to help clients make better choices

The popularity of index funds continues to grow among clients. One reason is because clients can gain broader market exposure to a specific sector. Index funds are also a passive investment – funds aren't actively traded, and the expenses are typically lower. Understanding the differences between funds while considering clients' risk tolerances can help you strengthen the value of your advice.

Expense ratios

What are the expenses associated with each index? This is an important factor to consider when thinking about the returns a client would like to see.

Fees

What's the fee structure of the index? Some have front-end loads, back-end loads, and 12b-1 fees:

- **Front-end loads** are when the charges come at the initial purchase of the investment.
- **Back-end loads** occur at the end when the client is selling the investment.
- **12b-1 fees** are the marketing expenses for the index. These can be a separate charge or integrated into the expense ratio.

Sometimes the expense ratios might be low, but the fees are high. This makes it important to look at the fees and expense ratio together.

Tracking errors

This measures the difference between the value of the fund and the index it's mirroring. A standard deviation represents a tracking error. A large deviation means there are many inconsistencies. This could show a poorly constructed fund, high fees and/or expense ratios.

Holdings

Not all indexes track the underlying index or sector exactly. A fund may include other stocks that are similar to what the index includes. If portfolio managers are actively monitoring the stocks, it means this isn't a passively managed fund. These may have increased fees. Look at the individual stocks in an index. This lets you know whether it's a true index fund or one with an index-like name.

Lack of diversification

Many index funds have the same properties as focused, value or sector funds. This means the index lacks the diversification of the underlying index. It can also mean the index spreads across a larger number of stocks. This narrow focus can pose higher risks and potential financial losses to clients.

Source: Investopedia

Takeaway: Understanding the differences between index funds can help you guide clients to make stronger investment decisions.

Build and sustain family financial resilience

Canadians need your guidance

According to the Financial Resilience Institute, family financial resilience is a household's ability to endure stress, financial difficulty and unexpected surprises brought on by unanticipated life circumstances. A great example of an unexpected circumstance is the COVID-19 pandemic.

Canadians' finances were monitored closely throughout the pandemic. Results showed that:

- **A 2020 Scotiabank Retirement Survey found:**
  - 70% of respondents thought they weren't saving enough for retirement.
  - 66% miscalculated how much they'd need to support themselves after they were no longer employed.
- **A 2022 CIBC poll found:**
  - 43% thought they were saving enough for retirement.
  - 88% lacked a formal retirement plan.

The June 2022 Seymour Financial Resilience Index showed a decrease in Canadians' financial resilience score. Some reasons for this included:

- High household debt
- Lack of retirement preparedness
- Other macroeconomic issues

The same Index also shows only 4% of Canadians use an advisor. That's why you should make the value of your advice known. Create comprehensive strategies based on the needs of each client. This can help them see the building blocks of their financial picture. It can also help them see how to save more and add to their non-cash investments. Doing this review for each client can help increase a family's financial resilience.

Source: Wealth Professional

Takeaway: There's a huge untapped market for your advice. Clients need your help building financial resilience.

Back to top

Banks can be subject to higher liquidity risk compared to insurers

Insurance products aim to engage clients for long-term business

Takeaway: Insurance companies have financial strength. This helps build trust for clients looking to purchase insurance policies.

Silicon Valley Bank (SVB) was a regional bank in California heavily invested in long-term bonds. As interest rates rose, the value of these bonds decreased. SVB was forced to sell bonds at a loss due to mass withdrawals ("run on the bank") in the billions.

In contrast, a "run on the bank" situation is highly unlikely for insurance companies. Any policies with cash values are subject to surrender charges which deter early withdrawals. As well, policyholders may be giving up their insurance coverage. Insurance companies usually have a strong capital position and value almost all their investments to reflect any unrealized losses.

Source: Investment Executive

Tips on how to find prospects in your community

Tell your community what you do and why they should work with you

Think of prospecting within your community like the law of attraction. If your community knows you're hardworking, ethical, and successful, you'll be top of mind when their need arises. Here are six ways to inform your community of what you do and why you're good at it:

1. Raise people's awareness.
   - Dress professionally and wear your company logo to spark conversations.
2. Increase your visibility.
   - Get involved in local events to meet and establish relationships with a variety of people.
3. Let people know what you do.
   - If you take interest in others' careers, they'll likely ask about yours.
4. Always be positive.
   - Avoid complaining and negativity. Maintain client confidentiality. Translate "how's business" into "how did you help someone today" to demonstrate the value you offer.
5. Volunteer for roles that align with your skill set.
   - Holding a financial educational seminar is a great way to show your skills.
6. Carry business cards.
   - Give them to new people you meet so they will remember you.

Source: Think Advisor

Takeaway: Rather than asking for business, get involved in your community to show people why they should approach you. Promote yourself silently. Wear company clothing or add a logoed item to your daily outfit. Volunteer for positions that allow you to leverage your skill set.

Understanding unique challenges female clients may face

Instill confidence to help women achieve their goals

Takeaway: Women will continue to have increasing financial wealth and seek out advisors they can relate to. This creates an opportunity for all advisors – females especially – to support and instill confidence to help them achieve their goals.

According to StatsCan, more than a quarter of Canada's 1% of top earners are women. By 2026, women will control nearly half of the country's financial wealth (Investor Economics Household Balance Sheet 2017).

While women are making progress in controlling more wealth, they also face unique financial challenges like:

- pay inequalities,
- career interruptions, and
- longer life expectancies.

Female advisors are in a valuable position to help women manage their finances. That's because they may have a better understanding of the challenges women face and can provide more tailored advice.

However, at the end of the day, women want to feel confident in their financial decisions. It's up to every advisor to help their clients feel educated and happy with their financial choices.

Source: Investment Executive

‘Econotalk’ causing anxiety in clients

Talking points to help with the emotions of financial planning

Many clients are waiting for more detailed information about inflation and interest rate hikes. There’s a need to calm them, whether a recession comes or not.

Here are a few talking points you can use:

1. Ignore the noise of economic talk.
    - Short-term investors tend to be more immersed in economic speculation. The equity market’s long-term arc has, on average, always gone higher.
2. The market looks forward while economic data looks backward.
    - Prominent analysts and economists say the current forward vision is showing a favorable market.
3. Silicon Valley Bank’s (SVB) failure might not be a bad sign.
    - Based on historical patterns, such events typically occur late in rate-hike cycles. The media obsession with SVB’s failure is eclipsing the reality of financial stocks. Generally, regional banks in rural areas are good investments. That’s because of the value of their low price-to-earnings ratio and strong prospects.
4. This is a bad time to index.
    - Indexing is a return killer in markets like the current one. The case for active management is now especially strong.
5. Don’t rely on short-term bonds too heavily.
    - Compared to the high long-term returns of the stock market, bonds and CDs act more like savings.

Source: Think Advisor

Takeaway: Some clients may lose sight of basic investing principles when riddled with anxiety. You can use the points above to calm clients and restore their confidence in their finances.

Why clients may end their relationship with an advisor

And what you can do to avoid termination

A recent Morningstar survey shows clients rarely fire their advisors. If they do, it's likely due to the quality of the relationship rather than fees or lower-than-expected returns.

Three underlying factors often cause clients to terminate their advisor:

1. Not enough emphasis on the human side of personal finance.
2. The advisor's failure to clearly articulate their value.
3. Misalignment of expectations at the outset of the partnership.

The survey also found people with these characteristics were more likely to fire their advisor:

- better salaries,
- more investable assets, and
- greater financial awareness.

Source: Wealth Professional

Takeaway:
You can avoid termination by:

- talking with clients about their best interest benchmark,
- using discussion guides to understand clients' deeper goals, and
- engaging clients in goal-setting practices.

Clearly articulate the value you provide to clients by:

- ensuring service is personalized,
- being proactive with interactions, and
- using effective communication methods.

Back to top

Detect and prevent economic abuse

Know your clients to prevent financial gaslighting

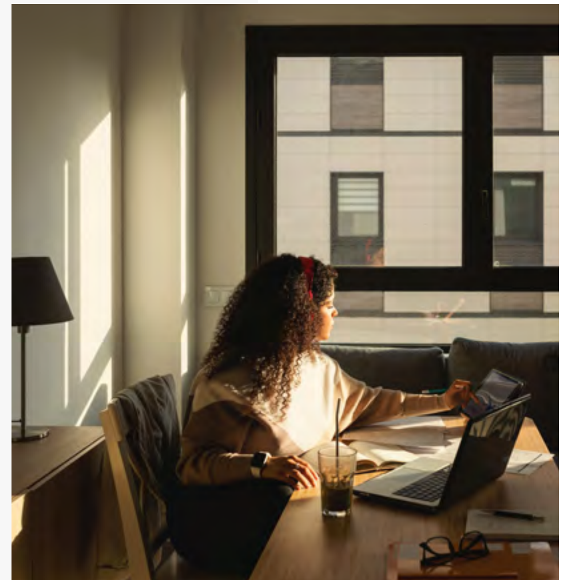
The Canadian Center for Women's Empowerment (CCFWE) recently conducted a study. They surveyed 121 victims and survivors of economic abuse during the pandemic. Economic abuse is when someone controls and stops the victim from getting economic resources.

The survey results found:

- 93% had their income payments taken away by their abusers.
- 80% said their partners displayed more controlling, manipulative and coercive behaviors around finances and economic stability.
- 87% said they've had their money stolen from their wallets, purses or bank accounts.

As an advisor for a couple, your relationship may be more active with one partner than the other. In some cases, advisors may respect the one partner who involves themselves more with investments than the other. However, you still have a duty to involve the other partner with joint investments/accounts, especially if you haven't connected with them in a while.

Source: Wealth Professional



Takeaway: It's essential to know your client rather than knowing what their partner says about your client. It's your job to create a safe space for both parties. That way each can state their financial goals, even if one partner is more involved.

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