SAVINGS RATE

Canadians can be savers again – if we recall how

KIRA VERMOND
SPECIAL TO THE GLOBE AND MAIL

Last updated Monday, Feb. 25 2013, 8:08 PM EST

open in browser PRO version Are you a developer? Try out the HTML to PDF API pdfcrowd.com

Greg Pollock, president and chief executive officer of Advocis, The Financial Advisors Association of Canada, in Toronto, is worried that Canadians are carrying more debt than ever before. (Michelle Siu For The Globe and Mail)

Wandering the streets that flank Barcelona's Plaça de Catalunya last October, cafés were already bustling by 10:30 in the morning with patrons lingering over glasses of Estrella beer and small plates of tomato bread.

When did these people work?

There was a good chance they didn't. Spain's unemployment rate hit a modern-day record of 26.02 per cent in the

open in browser PRO version Are you a developer? Try out the HTML to PDF API pdfcrowd.com

final quarter of 2012 with nearly six million people looking for work.

- RRSPS Plotting a retirement game plan for Gen X, Gen Y
- PLAN B My own RRSP – rural retreat, silence and perspective
- FINANCIAL FACELIFT Wealthy couple want to enjoy the fruits of their labour

With a number like that, Spain's citizens could be forgiven if they abstained from saving their euros for a rainy day. Yet, amazingly, according to recent data from the Organization for Economic Co-operation and Development (OECD), Spain's household savings rate hit 13.6 per cent in 2012, up from 11.6 per cent in 2011.

By way of comparison, Canada's savings rate in 2012 was a paltry 3.3 per cent, down from 3.8 per cent the year before. Projections for 2013 peg the number even lower: only 3 per cent, the difference between a household's disposable income and consumption.

To be fair, Spain uses a gross measure while Canada uses net, but still, a quick glance at savings rates indicates that Canadians sock away less cash than many countries, including Germany, Norway, France, Australia and even the United States.

Canadians' rising debt level is partially to blame, says Scott Plaskett, a certified financial planner with Ironshield Financial Planning in Caledon, Ont.

"People are coming out of the most recent correction or recession and their debt levels are very high, so much of their savings are going toward debt repayment," he says. "The lack of saving isn't about lack of effort. It's a lack of ability."

It's true that Canadians are carrying more debt than ever before, with the latest debt-to-income ratio hitting 165 per cent, and this worries Greg Pollock, president and chief executive officer of Advocis, The Financial Advisors

open in browser PRO version Are you a developer? Try out the HTML to PDF API pdfcrowd.com

Association of Canada, in Toronto.

“Interest rates are low, but as soon as those rates start to reverse, we’re going to see more and more people challenged by the debt loads they have,” he says.

On the upside, losing access to credit could mean an uptick in saving. Americans know a thing or two about heavy debt loads and yet in 2010, at the height of the recession, the country’s savings rate hit 5.3 per cent, a sizable jump from 2006 at 2.6 per cent. It’s possible that more Americans stopped spending and started saving by choice in response to the financial uncertainty. Others didn’t have an option, however – the credit card issuers took away their plastic.

In Canada, the slippery slide down has been going on since the 1980s, says Rock Lefebvre, vice-president of research and standards at the Certified General Accountants Association of Canada in Ottawa, but the real push happened in the late 1990s after the Bank of Canada cut interest rates. Easier access to cheaper credit created a cultural shift in how people thought about debt. If credit was easy to get, why not?

“It’s about immediate gratification. You don’t even need to go to a bank to borrow. There are two or three finance companies available to you in every furniture store,” Mr. Lefebvre says.

The problem with having easy access to credit is that it makes people feel richer than they really are, and that misguided belief can have a direct impact on saving. For although wealthier households tend to have more savings, those with higher *perceived* wealth are more likely to spend more of their disposable income. Behavioural economists call this phenomenon the wealth effect.

Easy credit has also resulted in a cultural shift in Canada for spending and saving, Mr. Lefebvre says.

“When I was younger, you didn’t have access to credit, but more importantly, you had a stigma tied to borrowing. If you were borrowing it meant you weren’t successful or resourceful,” he says. “Today, if you’re not borrowing you’re a

open in browser PRO version Are you a developer? Try out the HTML to PDF API pdfcrowd.com

little bit behind the times. You're not a modern thinker."

Mr. Pollock predicts Canadians will eventually shift back to saving again, but it will take some hard lessons to make it stick.

"As we start to see that certain parts of the senior population do not have enough money set aside to keep them going, we're going to realize we have to modify our behaviour to save a nest egg," he says.

Why wait? Consumers can turn things around now, Mr. Plaskett says, but it's best to start by making a plan and deciding what you want to accomplish in life. Would you like to send your kids to university and not have them saddled with a student loan? Take a vacation somewhere warm every February? Have enough money to retire well before 70? Check, check and check. The important thing is to think it through and put these goals in writing.

"If you don't know what you're aiming for then it doesn't matter where you go because you'll never know when you get there," he says.

Even if a person doesn't actually sit down with a financial planner at this point, it pays to grab a friend to get results. According to a working paper for the National Bureau of Economic Research in Cambridge, Mass., when people know someone else is watching how much money they're saving, they save more.

The buy now, worry later culture in Canada today can make even the most ardent savers feel as though they're swimming against the tide. But Mr. Pollock maintains that adding more money to our own personal coffers will mean a more fulfilling life down the road.

"It takes discipline and a commitment to live within one's means, but Canadians can do it," he says. "They've just forgotten how."

open in browser PRO version Are you a developer? Try out the HTML to PDF API pdfcrowd.com

 © Copyright 2013 The Globe and Mail Inc. All rights reserved

open in browser PRO version Are you a developer? Try out the HTML to PDF API pdfcrowd.com