

Group RESPs:

Using mixed-methodologies to study the experiences of low-income investors

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Research team:

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Presentation Outline

- Introduction to the research project
 - Mixed methodology approach
- Regulatory research and insights
- Field research methodology
- Field research findings
- Discussion & conclusion

Sponsors & funders



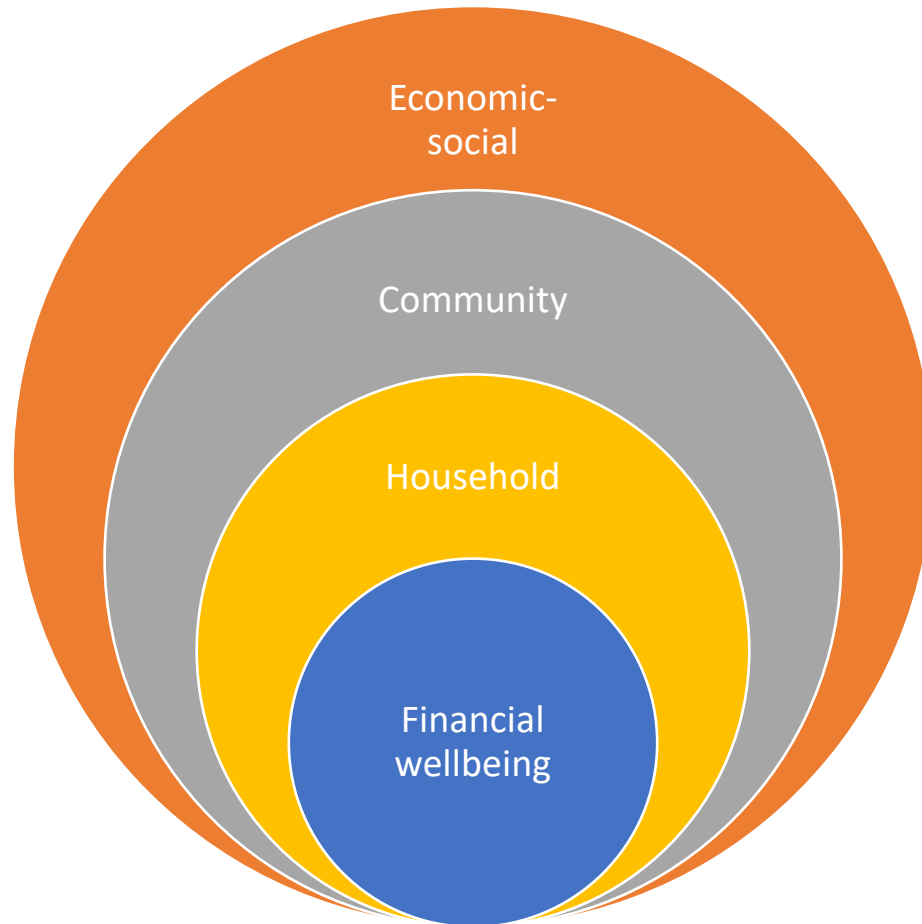
Why are group RESPs relevant to low-income populations?

- Government incentives aimed at low- and middle-income families
 - Canada Learning Bond – non-matching grant (income \leq \$45,916)
 - Enhancement to Canada Education Savings Program matching grant (income \leq \$45,916 and between \$45,917-91,831)
- Low-income families who open an RESP for the purpose of collecting the CLB invest their own money as well
- Group RESP promoters target low- and middle-income investors

Structure of group RESP providers and group RESPs

- Unique structure of group RESP providers:
 - Non-profit trust which holds the funds and for-profit promoters which manage the funds and employ the sales reps
- Structure of the plan rewards those who stay in the plan until maturity (i.e., when the beneficiary turns 18)
 - Investors who drop out or have their plans cancelled prior to maturity lose
 - Contributions that go to cover the high, up-front sales fees
 - Earnings on all contributions
 - Government matching grants (which cannot be re-earned if a new plan is opened)

Financial ecosystem nested model¹



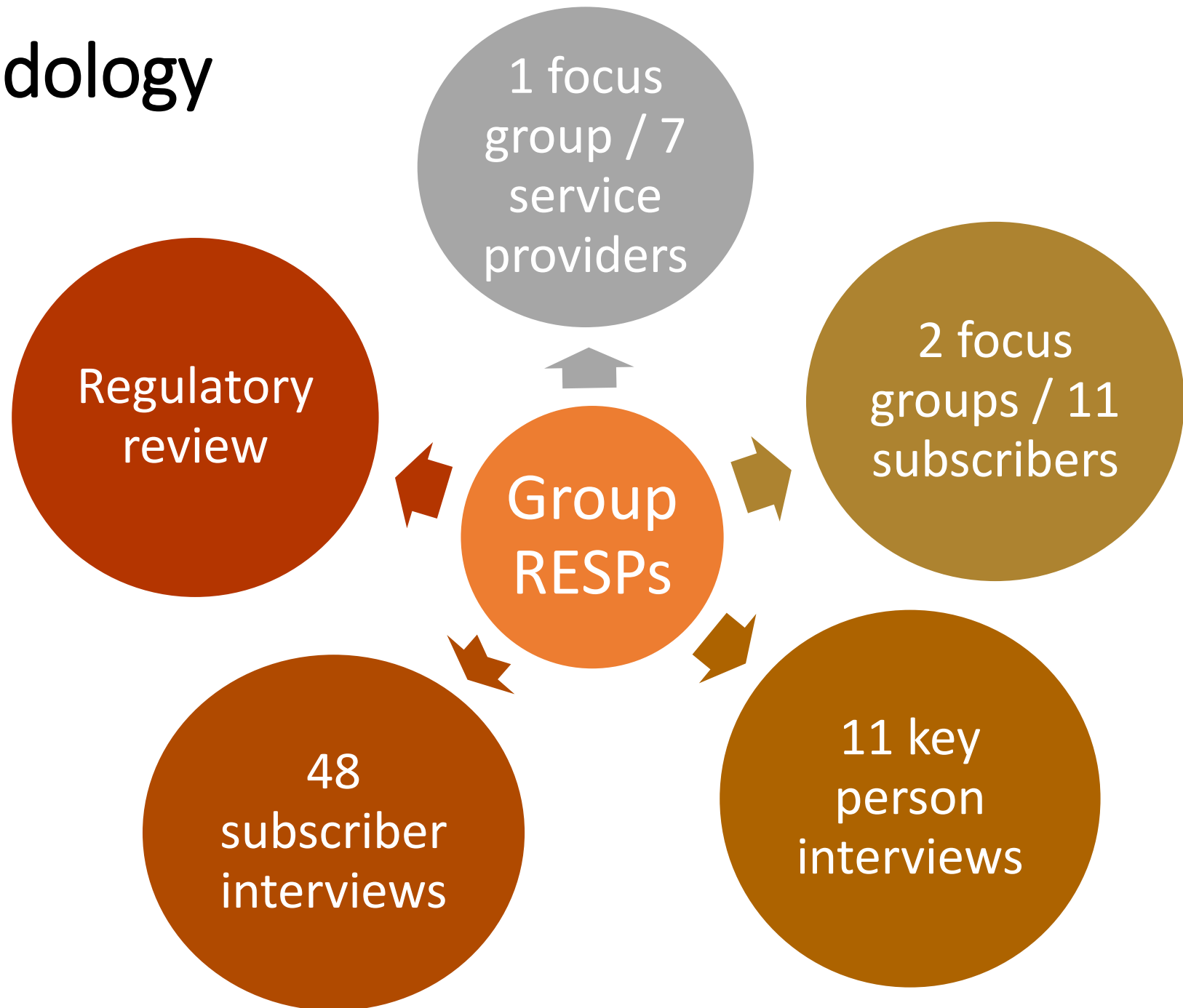
Category	Salient factors
Economic-social	Global financial markets, Gig economy, Employment, Social policy, Financial inclusion regulations
Community	Economic-social status, Social capital, Community of practice, Accessibility of financial services
Household	Income, Employment, Age, Gender, Education, Health, Time perspective / Locus of control, Financial literacy

Mixed methodology

- Use a variety of quant and qual methods to understand complex phenomenon

- Enables textured insight

- Triangulation



John Creswell on mixed methodology



Results of Regulatory Review

- Group RESPs are regulated as “securities” because they are “scholarship plans”
 - See eg ss 1(1) Ontario *Securities Act*
- 2010-11 Ontario Securities Commission compliance review main findings:
 - Selling to investors for whom group RESPs are not “suitable” due to low or volatile income – repeated violation
 - Aggressive and misleading sales tactics set out in marketing materials
 - Closing sales in one home visit
 - Exaggerated the cost of tuition and the fees charged by mutual funds
 - Lack of understanding and explanation of terms and risks

Results of Regulatory Review

- Quotes from sales training materials of group RESP promoters:
 - “It would really help me if there were any way you could make a decision tonight. If we had to call on every family twice, we could never get our job done.”
 - “there is always something to spend money on,”
 - “it is seldom money that stands in the way of people who really want to do something.”

Methodology: 'Field' research components



Results

1 focus
group / 7
service
providers

- Recruitment of subscribers is done in different ways and referrals from family and friends is common
- Where family and friends are promoting the product then trust is factor

Results



2 focus
groups / 11
subscribers

1. The importance of post-secondary education
2. The lack of, or misleading nature of, information about group RESPs
3. Trust in the RESP product and/or the sales staff
4. Dissatisfaction with group RESPs
5. Advice for others
6. Ways to improve group RESPs

Results

2 focus
groups / 11
subscribers

2. The lack of, or misleading nature of, information about group RESPs: before/after, too little info/too complicated info/ inaccurate.

“[T]he [group RESP] representative who came to the house only half explained – they are doing a sale and thinking about a commission.”

“Annual statements don’t make sense. If you call [the group plan promoter for clarification] it takes two hours to talk to someone.”

Results

2 focus
groups / 11
subscribers

2. The lack of, or misleading nature of, information about group RESPs: before/after, too little info/too complicated info/ inaccurate.

“[They work with] families living under \$25,000 a year. They target newcomers. Someone from your community approaches you – they [the person selling the product] think it’s a good product. You trust them. One family was [saving] \$278 per month.”

Results

2 focus
groups / 11
subscribers

3. Trust investors had, at least initially, with the sales people and the company, at critical moments (e.g., newly arriving to Canada, after birth of child).

“But the person who linked [me to the group promoter] was part of my [ethno-cultural] community. He is a friend of a friend. He made an appointment with the salesperson who came to my home. The community member was there [at the appointment]. I felt [the salesperson] was someone I could feel comfortable with.”

Results



2 focus
groups / 11
subscribers

3. Trust: in some case participants were concerned that complaining about the product might harm their community member.

“That’s what a lot of people think. When you work with someone from the community, you’re more reluctant to get them in trouble. You don’t want them to talk badly about you in the community.”

Results

2 focus
groups / 11
subscribers

4. Dissatisfaction with group RESPs: a majority of the participants were dissatisfied with the product

“What’s the difference between what these companies are doing to families [compared] to other scammers running off with people’s money?”

“It’s counter-intuitive that government programs help families to save with vultures like this.”

Results



2 focus
groups / 11
subscribers

5. Advice for others: double-check the information.

“[s]leep on it! Try to not sign up that day [when the salesperson comes].”

Results



2 focus
groups / 11
subscribers

6. Ways to improve group RESPs

- Provide clear information to prospective investor
- Clear and timely information about fees and product rules
- Simplify language of product documents
- Compare group and individual plans
- Better regulation of group plans

Results



48
subscriber
interviews

- Sales experience
 - 27/40 respondents signed up on the first sales visit;
17/40 respondents felt it was insufficient time

“I wish I had time to do research first ... but I was told ‘think about your children!’, there was a lot of pressure to follow through [with the purchase].”

Results



48
subscriber
interviews

- Understanding about the product
 - 20/39 respondents satisfied in the way the product was explained to them at the time of purchase
 - 25/39 were unsatisfied with how some of the product was explained to them, e.g., front-loaded nature of fees, lost fees if dropped out
 - **Some respondents felt they did not even know what questions to ask**

Results



48
subscriber
interviews

- Awareness about product restrictions
 - 23/46 respondents were not aware of restricted use of the savings for particular programs
 - Responses to question ‘what would happen if their child did not attend PSE?’ All knew they would not receive the government grant but mixed ideas about contributions, fees, and interest

Results



48
subscriber
interviews

- Hardships and consequences
 - 20/48 respondents faced a problem that caused them to miss one or more payments. This caused NSF fees and sometimes follow up from the company

Results



48
subscriber
interviews

- Strengths and weaknesses
 - 11/48 identified the government grant as the main strength
 - Automatic monthly withdrawal
 - Security of the investment
 - Pooling of the investment

Results



48
subscriber
interviews

- Strengths and weaknesses
 - Product poorly explained to them
 - Rushed signing of contract
 - Incomprehensible product documentation
 - Unreasonable fees
 - Lack of flexibility (early access, changing contribution amount, transfer money to another child)
 - Lack of control over their money

Results



48
subscriber
interviews

- Overall assessment
 - Respondents views varied: 12 positive; 12 negative; 19 advised caution

“Do it! 100%”

“Do your research, and explore all options, including banks.
I feel like group RESP is predatory, I don’t see the value.
Find out what fees really are.”

Discussion & conclusion

1. Group plan RESPs are a complex financial product.
2. The unique characteristics of group plan RESPs can be beneficial in promoting savings for children's post-secondary education; however, if the product is not well aligned with the needs and financial situation of the subscriber, participation in a group plan may be detrimental to a subscriber's financial well-being.
3. There continues to be significant representation of low-income subscribers in RESPs held by group plan promoters.

Discussion & conclusion

4. Redistribution of earnings on contributions from subscribers who exit their plans early to those who stay to maturity is integral to the design of group plan RESPs. There are concerns that low-income subscribers may be more likely to exit these plans prior to maturity or prior to their beneficiaries accessing the full complement of EAPs.

Discussion & conclusion

5. More than half of the scholarship plan dealers that sell group plan RESPs have a history of non-compliance with the securities regulations that apply to the industry. Among other issues, compliance reviews found breaches of securities regulations related to selling plans to low-income investors for whom they were not suitable.
6. Evidence from this study suggests that the non-profit status of group plan sponsors and trust in community salespeople play an important role in motivating some low-income subscribers to open group plan RESPs.

**Ideas? Comments?
Questions?**

Please contact us
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Thank-you!

Report is available here:
**[http://seedwinnipeg.ca/
resources/group-resp-
research](http://seedwinnipeg.ca/resources/group-response-research)**