**Question 2(a)**

The retirement savings vignette includes key variables: marginal tax rate, APR on debt and client involvement in UL insurance that were randomized to observe how financial planners’ recommendations changed.

**Marginal Tax Rate (MTR) at Contribution:** the MTR in this vignette is set at either 30% or 50%. The higher the MTR at the time of contribution, the more advantageous it becomes to recommend an RRSP due to the immediate tax savings. Lower MTR would suggest a preference for the TFSA, which avoids taxes on withdrawal.

When the MTR is 50%, planners are significantly more likely to recommend an RRSP over a TFSA, as this option provides more tax savings at higher rates. A 50% MTR led to a 42-percentage-point increase in the likelihood of recommending the RRSP, while recommendations for the TFSA decreased by 28 percentage points. This effect shows that planners recognize and apply tax optimization principles in their advice.

**Annual Percentage Rate (APR) on Debt:** the APR on client debt was randomized to 2.5%, 5%, or 7%. With higher APRs, the recommendation shifts toward debt repayment to avoid compounding interest costs.

A higher APR makes debt repayment more appealing relative to other investments because paying down high-interest debt has a guaranteed return (equivalent to the interest saved). In response to a 7% APR, planners increased debt repayment recommendations by 46 percentage points while reducing recommendations for RRSPs and TFSAs. This reflects an approach in which planners consider debt reduction more beneficial than investment at certain interest thresholds.

**Client Involvement with Universal Life (UL) Insurance:** the vignette included a prompt suggesting that the client is interested in UL insurance, a type of life insurance with investment features that is less tax-efficient than RRSPs and TFSAs.

While UL might cater to specific client needs, it’s generally not tax-optimal in cases where there is still RRSP or TFSA room. Planners generally did not increase recommendations for UL insurance in response to this prompt, indicating they likely prioritize optimal tax outcomes overstated client interest when these interests diverge. This suggests a tendency among planners to prioritize tax-efficient options, like RRSPs and TFSAs, over the client’s prompted interest.

**Question 2(b)**

**Are the signs of the coefficients in line with economic theory?**

**Be specific: for each parameter, explain the expected sign of the coefficient and compare it with theoretical predictions.**

🡺Marginal Tax Rate (MTR) at Contribution:

**RRSP Recommendation**: When the MTR is 50% (compared to a 30% baseline), the likelihood of recommending an RRSP increases by **0.422** (or 42.2 percentage points). This increase indicates that planners prefer the RRSP when the tax rate is high, which aligns with tax optimization strategies. A higher MTR means more immediate tax savings from RRSP contributions, making it the most tax-efficient choice under these conditions.

**TFSA Recommendation**: In contrast, a 50% MTR leads to a **-0.277** (27.7 percentage points) decrease in the likelihood of recommending a TFSA. This decrease is significant and reflects the tax inefficiency of TFSAs at higher MTRs, as TFSAs do not offer an upfront tax deduction. Essentially, planners recognize that when immediate tax savings are available through the RRSP, it is less advantageous to recommend a TFSA.

**Debt Repayment Recommendation**: A 50% MTR results in a **-0.144** (14.4 percentage points) reduction in the likelihood of recommending debt repayment. This effect, though smaller than for RRSPs and TFSAs, suggests that planners deprioritize debt repayment when the tax benefit of an RRSP is high. The tax saving from contributing to an RRSP becomes more appealing than the guaranteed return of paying down debt.

**Universal Life (UL) Insurance Recommendation**: The effect on UL insurance is nearly zero (-0.001) and insignificant. This suggests that planners do not consider UL insurance as a primary recommendation influenced by changes in tax rates, likely due to its lower tax efficiency compared to RRSPs and TFSAs.

These effects reveal that planners prioritize tax efficiency. They are more likely to recommend RRSPs at higher tax rates because of the immediate tax deduction. TFSAs and debt repayment become less attractive in high-MTR scenarios, as the tax savings from an RRSP outweigh the benefits of these alternatives.

🡺Annual Percentage Rate (APR) on Debt:

**RRSP Recommendation:** At a 5% APR, the likelihood of recommending an RRSP decreases by 0.138 (13.8 percentage points), and at a 7.5% APR, it drops further by 0.206 (20.6 percentage points). These decreases indicate that as debt becomes more costly, planners are less inclined to recommend an RRSP, shifting preference toward debt repayment. This aligns with the principle that repaying high-interest debt offers a guaranteed return, making it a priority over investment in an RRSP.

**TFSA Recommendation:** Similarly, the likelihood of recommending a TFSA drops by 0.136 (13.6 percentage points) at 5% APR and 0.253 (25.3 percentage points) at 7.5% APR. This parallel decrease with APR increases suggests that planners view debt repayment as more beneficial than TFSA contributions when debt interest is high.

**Debt Repayment Recommendation:** At a 5% APR, the likelihood of recommending debt repayment increases by 0.278 (27.8 percentage points), and at 7.5% APR, it rises by 0.463 (46.3 percentage points). These increases show that planners prioritize debt repayment when interest rates are high, as paying off debt at high interest rates effectively provides a guaranteed return equivalent to that interest rate. This response aligns with economic theory, where high-interest debt is considered a financial burden to be addressed before making new investments.