Is 'sugar dating' draining your client's savings?

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by Sophie Nicholls | 25 Feb 2014

You've managed to convince your client not to withdraw from an RRSP to fund a vacation; veered them away from the gimmicky investment of the week promising hefty returns ... but what if your client's latest risk-taking endeavour has them love struck?

The controversial term 'sugar daddy' is taking on a whole new meaning when it comes to the world of online dating. Coined 'sugar dating,' websites, like SeekingArrangement.com, are the next hit for 20-something college students looking to avoid financial debt, and well-off benefactors seeking their next thrill.

Last year, alone, approximately one-million students worldwide logged on to SeekingArrangement.com in search of wealthy benefactors, with the average college 'sugar baby' receiving $3000 per month, according to the website.

Young women – a target demographic – are being wined and dined by wealthy men – also targeted – often leading to longer-term relationships on an emotional, physical and, most certainly, transactional level.

One 23-year-old woman, reported the New York Post earlier this month, began dating a mid-40s lawyer and, just two weeks in, was offered $1,000 every 10 days in exchange for regular company over dinner, drinks and weekend rendez-vous. The young woman collected approximately $20,000 before the relationship ended, reported the Post.

So, what happens if, as an advisor, you suspect similar behaviour from a client, whose accounts, you've noticed, are all of a sudden taking a greater hit? **(continued.)**

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Toronto advisor Rona Birenbaum, founder of Caring for Clients, says a disconnection like this requires analysis to find out where the money is going. If it's not being used to pay down debt, maximize retirement savings or to fund a child's education, she says, chances are the client is spending the money on something that isn't being disclosed. If, this is indeed the case, Birenbaum says, it usually falls into one of a few different of categories.

"It's usually gambling, drugs or the kind of thing described, which is courting another individual outside of the family structure," she says.

In this situation, Birenbaum says she would immediately confront the client, given the relationship she and the client have and her responsibility as a financial advisor.

"I am unafraid of going there (with a client). They've hired me and they're paying a fee, so they're going to get my advice," she says. "Typically, we do a full cash-flow analysis – money in, money out – and we can identify where those black holes are."

Birenbaum says she would simply ask the question – What is either not showing up or that you are not comfortable sharing? By creating an environment where a client feels safe, secure and unafraid, she says her clients open up.

"I say 'If we're really going to accomplish anything from a planning standpoint, you really need to put all your cards on the table,'" she says. "'The walls have no ears. Let's just get it out there and we can work through it.'"

Another advisor, Laurie Bonten of the Bonten Group in Winnipeg, agrees with Birenbaum's approach. Having dealt with similar situations in the past, Bonten says it's about being direct with the client and explaining the consequences of their actions. **(continued.)**

"I've seen this type of thing happen a few times before, usually with older clients, who are more vulnerable. It could be a young girlfriend, a family member, even a caregiver who tries to take advantage," she says. "I'm not afraid to approach a client on these issues, as there is a relationship established between us. Most of my clients I've known for many years ... and this is my role as their advisor."

But what if your client refuses to give up their flame?

According to Birenbaum, it's about helping clients make different choices and talking to them about what happens if they prioritize short-term pleasures over long-term consequences. She puts clients through what she calls 'a choice exercise,' where they identify what is most important to them, in chronological order. For example, going to the casino or funding their child's education.

"An individual isn't going to trade off something that gives them short-term pleasure for something that isn't going to pay off until sometime in the future, unless they get really connected with the payoff of that trade-off," she says. "It's coming to terms with choices and the trade-offs that many people are making without even realizing it."

For those advisors hesitant to confront a client, Birenbaum says you have two options; ignore the problem and focus on what you CAN do (i.e. the client has $200 a month to put towards an RRSP, so help them invest that); OR refuse to ignore the problem and, in addition to confronting the client, plug into a network of professionals who could help support the individual through the transition. (i.e. accountants, lawyers, therapists etc.)

"Whether the client is open to this introductions remains to be seen, but having those resources available (to you) can help because an advisor cannot be all things to all clients," she says.

"It can take years to help somebody transition and use their money in a more productive manner, both emotionally and financially."