

## Improving Canadians' financial literacy

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As the peak RRSP season approaches, we should be concerned about whether the money Canadians save will be available to them when they retire: A recent Scotiabank study suggests that a third of those who contribute to their retirement savings will withdraw funds from their RRSPs prematurely, taking out an average of \$18,000 to help pay for a home, pay down debt or cover day-today expenses.

Spending retirement savings is often a mistake, but it should come as no surprise that a third of Canadians take the risk. There is a growing gap between rich and poor in Canada. And that gap manifests itself in many ways -- including financial literacy. Consider the facts:

- The average consumer's debt-to-income ratio is now at an all-time high of 122%.
- Collectively, Canadians owe \$760-billion in personal debt from credit cards, mortgages, lines of credit and student loans.
- Between 1984 and 2005, only the wealthiest 10% of Canadians increased their share of total wealth.
- One in five households without a credit card were turned down when they applied.
- Nearly half (48%) of Canadians who retire and then go back to work do so because they need the money.
- 72% of Canadians say they have no financial plan.
- Almost half of Canadians report being just one or two pay cheques away from a financial crisis.

Making smart choices about money can be difficult. Some rely on friends and family for advice, or seek help from non-profit community groups. Those who can afford it turn to professionals. Then there's the media -- countless stories in newspapers, on radio and TV, not to mention Web sites, brochures and public seminars. It can all be bewildering. How can Canadians make better use of their financial resources given the sea of information out there?

Part of the answer is financial literacy -- knowledge of and confidence in good money management and financial decision making. In other developed

nations, there are programs that help improve financial literacy. For example, in the UK, the department of education and skills has made financial literacy a component of a revised school curriculum. Canada needs a similar effort, one that will help all Canadians become financially literate.

The need for change is obvious. We know that one in five Canadians lacks confidence in their financial skills and decisions, and that two-thirds aren't properly equipped for tasks like investing and financial planning. What we know less about is who in Canada needs the most help and what kinds of interventions will be most useful. Here, governments, the private sector and voluntary organizations all have a role to play.

For its part, the federal government is investing in the first-ever national survey of financial literacy/capability. This survey will be launched later this year and will be an important national benchmark to measure our progress as a country in the years to come.

The private sector can put its money and expertise to good use by working with educators, trainers and voluntary groups to make more information and some generic advice (that doesn't involve selling a product or service) available at low or no cost to consumers on-line, in the media and in their communities.

Some employers, especially those with unionized work forces, offer pension planning seminars to employees. They can do more by offering workplace-based learning on a wider range of financial topics such as insurance, estate planning, income tax preparation and education planning for employees with children.

Together, these ideas form the basis for a national strategy on financial literacy in Canada, but leadership is needed to make it happen. As a start, a national Steering Committee on Financial Capability has been assembled. This group includes senior leaders from the financial services sector, regulators, governments, literacy experts and others. Over the next two years, this group will consult with stakeholders, learn from experts in Canada and abroad, explore options, build a consensus that supports action, and ultimately develops the first national plan on financial capability in Canada.

Canadians want control of their financial lives. They don't want to see their retirement savings disappear into day-to-day expenses. By ensuring Canadian are better able to make wise financial decisions, individuals win and so does the economy. Canada can't afford to ignore financial literacy any longer.

- Charles Coffey is chairman of the National Steering Committee on Financial Capability and Peter Nares is founding executive director of Social and Enterprise Development Innovations. You can learn more about financial capability at [www.sedi.org](http://www.sedi.org)