PART 1: ROUNDTABLES REPORT

MILLENNIAL MONEY

Financial Independence and Well-being for the Next Generation

NOVEMBER 2018

PUBLIC POLICY FORUM

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INTRODUCTION

This report reflects what we heard at four regional roundtables (Toronto, Vancouver, Calgary and Halifax) conducted between June and September 2017 to examine the current state of the financial literacy of millennials—the generation born between 1980 and 2000[1]—in Canada.

This project builds on earlier work of the Public Policy Forum, including the 2013 *National Summit on Pension Reform,* a pan-Canadian gathering that brought together leading experts and decision-makers to discuss the factors that are inhibiting retirement saving, and a follow-up project in 2014 detailing how senior decision-makers can better leverage their expertise and resources to overcome the issues identified in the Summit. Together these pension events provided guidance on how to improve retirement income security in Canada, particularly for at-risk groups. However, participants agreed that further discussion could help stakeholders shift from talk to action on issues that inhibit effective retirement planning, and that low financial literacy was, perhaps, the most fundamental issue that required greater exploration and collaboration.

Furthermore, in 2014, the Financial Consumer Agency of Canada (FCAC) conducted an extensive series of roundtables on financial literacy and produced a *National Strategy for Financial Literacy: Count Me In, Canada*. In order to strengthen the financial well-being of Canadians and their families, three primary goals were identified by the FCAC: “manage money and debt wisely”, “plan and save for the future”, and “prevent and protect against fraud and financial abuse”.[2]

A foundational aim of this project was to delve further into the second goal in this strategy—plan and save for the future—by gaining insights and identifying best practices that could provoke policy changes and strengthen the financial literacy of millennials, in light of current financial realities and the ability of millennials to plan and save for retirement. This is important because, as of 2015, the population of millennials in Canada was 9.5 million and this generation is now the largest segment of the labour force at 37 percent.

A mix of millennials and non-millennials contributed to the roundtable discussions, drawing on personal and professional experiences in financial services, student financial aid, education, counselling, pensions, investments, real estate, economics and entrepreneurship. A full participant list is provided at the end of this report as Appendix A. Each roundtable had 15 to 30 participants. A copy of the Toronto roundtable agenda is provided in Appendix B as an example of the format. Appendix C provides a copy of the discussion paper

1 Canadian Millennials. 2018. Millennial Audits. Abacus Data.

2 Financial Consumer Agency of Canada. 2017. National Strategy for Financial Literacy – Count Me In, Canada.

circulated to participants in advance of the roundtables. Individual arguments or perspectives expressed during the roundtables are not attributed in line with the Chatham House rule.

TERMS USED THROUGHOUT THIS REPORT

Financial literacy was the primary term used in the development and delivery of the roundtables. The Task Force on Financial Literacy, established by the federal Department of Finance in 2009, defines financial literacy as "the knowledge, skills and confidence to make responsible financial decisions."

During the roundtables, participants regularly used the terms **financial well-being and financial independence**. For the purpose of this report we drew on the meaning of well-being[3] as defined by Policy Horizons Canada and a specific financial well-being definition presented by the U.S. Consumer Financial Protection Bureau, wherein individuals have control over day-to-day and month-to-month finance; have the ability to absorb a financial shock; are on track to meet their financial goals; and have the financial freedom to make the choices that allow them to enjoy life.[4] Financial independence was used by participants in a manner similar to financial well-being.

[3] David Hay, Policy Horizons Canada. Sept. 2011. What is Well-Being? Government of Canada.

[4] Consumer Financial Protection Bureau. Jan. 2015. Financial well-being: The goal of financial education.

WHAT WE HEARD

While we heard about many challenges on the journey to improve financial literacy, we also heard a number of ideas and suggestions that illustrate the importance of working to improve the financial well-being of Canadians. There is not a one-size-fits-all solution to promoting financial independence and well-being for millennials. Change won't happen simply because of one course, one app, one message or one organization. Rather, it requires a suite of approaches and diverse interventions from numerous stakeholders and partners throughout a lifelong journey.

ISSUES AND IMPORTANCE

As with other generations, millennials are not a homogenous group; there is great diversity within the demographics of this generation. For example, millennials aged 30 to 34 are likely to have much different financial goals than 15-to-19 year olds.[5] There is also great regional and socio-economic diversity throughout the country. Participants also raised how critical it is to address "what is in it for millennials" by addressing the financial goals they have—it can't just be talking about the way older generations did things. Regardless of age or demographics, people are generally loss-averse. That is, behaviour is much more responsive to avoiding loss than seeking rewards.

Roundtable participants emphasized that there are two pieces of good news to work with. The first is that millennials still have time to improve their financial literacy and outcomes. The second is that new, innovative and creative tools are emerging to help. Fintechs, behavioural economics, and exposure from a young age to financial literacy contribute to the recipe for success.

Participants suggested that actual behaviours and outcomes should be studied, in addition to what financial literacy surveys indicate. The kinds of metrics used for financial literacy assessments are important and such measures should include both quantitative and qualitative metrics, such as confidence in decision-making. However, participants noted that few financial literacy initiatives track ongoing financial literacy or long-term financial well-being.

HOW WE TALK ABOUT FINANCIAL LITERACY MATTERS

There is a need to shift the narrative. Far too often, discussions about finances are framed—explicitly or implicitly—in a "you're in serious trouble" narrative. This simply doesn't work – in fact, it repels millennials. As one roundtable participant said, "There is a major stigma to this [narrative]. Students are embarrassed to talk and they're worried about being nagged or shamed."

[5] While the aim of the roundtables was to focus on millennials, the conversations would include other age groups for comparison, contrast and framing ideas or issues to be addressed.

Naming and shaming is not an effective approach, and there is movement to shift the language to "financial well-being", which makes it clear that financial literacy is a skill that contributes to independence and security. This addresses the "why" instead of the "what", which is an established best practice.

Financial literacy also needs to be exciting and empowering, with central messages focused on independence, having control over finances, being able to achieve dreams, and understanding that planning and saving is required to achieve both short- and long-term financial goals. Participants noted that awareness leads to knowledge and that knowledge leads to confidence and control of one's financial future. The tone of the narrative and discussion is important; there cannot be too much emphasis on consumerism being inherently evil, nor can it unduly focus on a far-off retirement. It seems that there is too much time spent talking about hard work, rather than goals. Participants also emphasized that it is important that the narrative be authentic, focus on spending what you can afford to buy, and on sacrifices that may be required to build up the financial resources to achieve those short-term and long-term financial goals.

Some participants expressed a need to seek opportunities to shift the framing of 'credit' and 'debt'. Both terms can be misleading. Having access to credit sounds positive, but taking on debt is generally viewed as much less so. It is important for millennials to know that "debt" is not always a four-letter word and there are times when taking on debt can be positive for one's long-term financial well-being. At the same time, it is also important for millennials to understand both the implications of, and how to avoid, accumulating debt on their credit cards.

PENSIONS

A central impetus behind this project was to spark a discussion about millennials' ability to plan and save for retirement, while understanding the opportunities, barriers and distractions affecting retirement planning. One of the three pillars of Canada's retirement income system[6] is the Canada Pension Plan (CPP). There is a sentiment, particularly among younger Canadians, that retirement planning is going to be more challenging for millennials because they think the CPP may not be available when they are eligible for retirement. This sentiment came across repeatedly during the roundtables. A majority of participants expressed an interest in learning more about CPP, including how it impacts them and its sustainability.

During the roundtables, the Canada Pension Plan Investment Board (CPPIB) spoke about work they have underway to help Canadians better understand the role of CPPIB, and the sustainability of the CPP for generations to come. Participants shared a number of ideas and suggestions for initiatives that could help millennials, and indeed all Canadians, better understand the CPP and its role relative to the suite of financial instruments to support retirement. For example, Canadians could receive an annual leaflet or e-document with their tax return providing them with an update on the state of the CPP Fund and its sustainability. Such

[6] The Old Age Security program, funded by government revenues, and occupational pension plans and voluntary tax-assisted savings tools, such as Registered Retirement Savings Plans (RRSPs) and Tax-Free Savings Accounts (TFSA), are the other two pillars of the Canadian retirement income system. The Quebec Pension Plan (QPP) fulfills the same role as CPP for the province of Quebec.

a document could also provide an illustrative generic example of an average contributor's expected annual benefits and reference specific government websites where they can find more information.

It was also noted that, with the coming into effect of the CPP enhancement that is designed to strengthen retirement security for contributors, young Canadians just entering the workforce are expected to see the largest increase in benefits.[7] Beginning Jan. 1, 2019, increases in CPP contributions and in the maximum pensionable earnings will be phased in over seven years.[8] While only those who work and contribute to the enhanced CPP will be affected, the maximum annual benefit payout target will ultimately increase from approximately 25 percent of pre-retirement eligible earnings to 33 percent.

A lot of discussion at the roundtables focused on the changing nature of work and the decrease in employer pension plans. These two elements are interrelated: more people are employed in the so-called "gig economy" or are increasingly transient between employers, and organizations are moving from defined-benefit to defined-contribution pension plans or RRSP contributions. In 2017, Common Wealth launched the first retirement plan for lower- and moderate-income Canadians.[9] The concept of providing centralized benefits, in this case retirement plans, was modelled in the past through such things as the provision of financial services or health benefits through guilds, unions and closed-bond credit unions. Participants indicated a need for research on ways people can make additional savings through a pension mechanism that is not attached to an employer.

RETIREMENT AND FINANCIAL PLANNING

A number of participants commented during the roundtables that few millennials seek out professional advice on savings and investments. Instead, millennials are more likely to listen to their peers than parents and professionals. Developing and using peer ambassadors could be an important and effective resource. For example, one type of peer ambassador may be lifestyle bloggers who can say "here is what I did and how I was able to do it."

Participants noted that an aversion to risk by millennials, coupled with interest rates that have been low their whole lives, have left millennials without a point of reference when rates rise, and they don't have experience managing money when interest rates are higher. As one participant stated, "In some ways, millennials invest like grandparents, in that they are generally highly risk averse."

Participants also remarked how millennials are highly skeptical of the financial system. While it is not just millennials investing in cryptocurrencies, the growth in size and number of these companies—despite not

[7] Department of Finance. 2016. Backgrounder: Canada Pension Plan (CPP) Enhancement.

[8] Fully enhanced benefits will be available after approximately 40 years of making the additional contributions, while partially enhanced benefits will be available sooner based on years of contributions.

[9] Common Wealth. 2018. http://www.cwretirement.com/

being backed by governments or central banks—illustrated some of this lack of trust in the traditional financial system.

Financial institutions are also spending a lot of time thinking about millennials. Much financial literacy education happens at the point of sale of savings products, however participants raised how it must go beyond talking about Registered Retirement Savings Plans (RRSPs) only once a year. Rather, financial institutions must use data to link financial literacy opportunities to events and actions, such as being able to talk about a student loan when graduating from high school or talking about the implications of adding a newborn beneficiary.

It was also pointed out that some companies in the financial industry are looking at models to create more independence for financial advisors versus the approach currently used, in which financial advisors are tasked with selling specific products and services. Participants felt this type of initiative could increase trust among millennials. For example, participants suggested addressing and reconciling some of the conflicts of interest and tensions within the product and retail units of financial institutions. These affect perceptions of:

- being able to seek financial advice versus being sold a product;
- developing financial education programs versus marketing campaigns;
- helping wean people off debt without losing them as customers (or members); and
- increasing transparency by disclosing the commission on mutual funds and other financial products.

Participants felt that the onus is on financial institutions to build more positive relationships. Financial institutions need to think about establishing long-term relationships and how to use a combination of in-person, print and technology options when communicating with millennials.

Credit unions, such as Vancity, are serving newcomers and others in need of basic financial products and services through micro-credit and alternative lending for those who do not have a credit history, and providing education on money matters. These initiatives could be expanded or modified to include millennials. Financial literacy education and the use of technology can make access to financial services easier and thereby serve a preventative function from high-interest lending options, as well.

Financial technology companies, known as fintechs, offer software and apps designed to bypass traditional providers of financial services, with millennials as their main target market. Many of these companies are building partnerships with existing financial institutions, such as a recent alliance between ApplePay and Canada's big banks. Millennials are also among their key targets for robo-advisors such as WealthSimple, Nest Wealth and Bank of Montreal's SmartFolio, which make it easier and less costly for Canadians to manage their investments without a traditional financial advisor,.

The fintech space is still developing, therefore the approach used between digital or robo-advice and working in-person with a financial advisor is evolving. While many seem to claim that millennials only want to interact and receive services digitally, during the roundtables several participants—including millennials—noted that mixed-delivery formats are preferred.

In a sea of apps, adding yet more apps is likely not the answer. Participants referred to the importance of collaboration between fintechs and traditional institutions, so that innovative technology is incorporated into the apps millennials are already using. Some financial institutions have added a feature to their online banking suite to allow individuals to track spending and savings through their app. One example of capitalizing on the concept of nudging, and particularly leveraging Canadians' affinity to reward programs, is Carrot Insights, a tech company with a wellness app—Carrot Rewards—that aims to influence the behaviour of Canadians for the better. Carrot partnered with provincial governments to encourage healthy behaviours, such as meeting daily step goals, getting flu shots and improving nutritional literacy. With more than 400,000 users in Ontario, British Columbia and Newfoundland and Labrador, Carrot has worked with FCAC to build on the success of their wellness app to develop a financial application that encourages people to budget.[10] These tools empower and encourage individuals to take control of their finances and enable them to pursue their financial goals. The confidence they build could be an antidote to inertia.

For certain segments within the millennial group, participants suggested, having the ability to invest ethically, in line with their values, is critically important. This creates an opportunity for ethical investment options and another financial literacy touch point, to further improve awareness and education.

Roundtable participants would like to see government and educational institutions help facilitate awareness about various financial literacy initiatives, as there are many pockets or one-off initiatives of great work occurring in various communities and sectors throughout the country, but they are not always well-connected or well-known.

FINANCIAL LITERACY IN THE WORKPLACE

While many participants talked of the desire to have financial literacy be part of the education curriculum, others noted that many millennials already in the workplace have missed previous education opportunities and therefore workplace financial literacy is an important area to develop to support employees.

Employers are already involved in the financial lives of their workers, so they have a natural entry point to influence knowledge, skills and certain behaviours. Some participants noted that the impacts of low financial literacy are significant for employers: these express themselves in the forms of productivity, retention, employee engagement levels, absenteeism and demands on benefit programs.[11] Employers, therefore, have good reason to become part of the solution. Through programs such as the Chartered Professional

[10] Financial Consumer Agency of Canada. 2017. A new mobile app to encourage budgeting.

[11] Manulife. 2016. Results from the 2016 Financial Wellness Index.

Accountants of Canada (CPA Canada) Financial Literacy Program,[12] employers can provide short, targeted learning sessions to various demographic groups within the workplace on such topics as: *How to Teach Your Kids About Money*; *Planning for Your Retirement*; and *Effective Tax Strategies*. Even if an employer cannot afford a defined benefit pension, there are other options to support financial literacy.

Participants also discussed how a broader perspective should be taken when considering financial well-being, as there is increasing recognition of the relationship between overall health and financial well-being. Research from the Canadian Payroll Association, ABC Life Literacy Canada and the Center for Financial Services Innovation, presented at the 2017 National Conference on Financial Literacy[13], draws connections to the role of employers, given the relationships between mental health and consumer financial health, and between financial literacy and workplace literacy (defined as having the transferable skills required to complete one's job in a timely and efficient manner).[14]

THE ROLE OF GOVERNMENT

Financial literacy is certainly not the sole responsibility of government, but the Government of Canada has recognized the importance of, and dedicated resources to, fostering strong financial literacy in Canada through the Financial Consumer Agency of Canada.[15] The FCAC has been involved in financial literacy since 2005, when it hosted its first financial literacy conference. The FCAC continues to play a role in providing financial literacy programs and resources to Canadians, coordinating efforts at the national level and working collaboratively with stakeholders across the country.

In addition to noting existing programs and resources, participants offered ideas that could be considered for the federal, provincial and territorial governments, including setting rules for mandatory meetings with financial advisors before entering into some types borrowing, or automatically for establishing a Tax Free Savings Account (TFSA) or RRSP when someone turns 18 years of age(with an opt-out).

Participants also suggested that governments could play a role in providing unbiased, helpful and simple information that would help bridge the information millennials are seeking yet not acting on due to their apparent mistrust in banks and financial professionals. While there is a wealth of information and resources available on the FCAC website, some participants noted that many millennials are unaware of these comprehensive resources. Participants suggested that government could partner with financial institutions

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[12] Chartered Professional Accountants of Canada. 2018. Financial literacy sessions.

[13] Financial Consumer Agency of Canada. 2017. 2017 Event highlights for the National Conference on Financial Literacy.

[14] The Public Policy Forum. Dec. 2017. Workplace Literacy: The Lynchpin of Canada's Inclusive Growth Agenda.

[15] In 2009 the Government of Canada-appointed Task Force on Financial Literacy, comprised of 13 leaders from business and education and community organizations, was mandated to make recommendations to the Minister of Finance on a national strategy to improve financial literacy in Canada. The report from the Task Force set out 30 recommendations, including the first recommendation – that the government appoint a financial literacy leader. Jane Rooney was appointed Canada's first financial literacy leader in April 2014 and published a National Strategy for Financial Literacy in 2015, which included three goals: manage money and debt wisely; plan and save for the future; and, prevent and protect against fraud and financial abuse. Under a private member's bill passed in 2012, November was designated Financial Literacy Month to raise awareness about the importance of one's financial well-being, and the diversity of resources available.

to have a link from the institutions' websites or mobile banking apps to FCAC's financial literacy information, providing a consistent source of key information and questions millennials should ask about financial products and services.

There were also suggestions from some participants to look at best practices and lessons learned from other countries. The U.K.'s National Employment Trust, for example, created a successful auto-enrolment program for making savings contributions; similar pilots could be considered in Canada. Employers could also consider auto-enrolment versus opt-in programs within their organizations. Australia's National Financial Literacy Strategy[16] is in its third generation. The strategy recognizes the required multi-faceted approach and that improving financial well-being is not a quick-fix endeavour but one that comes about through gradual improvements over time. Australia has completed extensive research on topics ranging from financial resilience to financial attitudes and behaviours, and they make this available through a portal entitled MoneySmart. As noted above, Canada released its financial literacy strategy[17] in June 2015, and the Australian financial literacy strategy and research could provide helpful benchmarking as Canada advances its own strategy.

FINANCIAL LITERACY NETWORKS

Some participants referred to the financial literacy networks and their value in helping to address the regional and contextual variability in the opportunities and challenges linked to financial literacy. The number of financial literacy networks in Canada has grown since 2014, and there are currently 16 across the country, which range from community-focused networks to much broader networks, such as a by-youth, for-youth network. Some roundtable participants proposed establishing networks based on more targeted groups, such as new Canadians.

EDUCATION

At the roundtables participants noted the importance, and the growing inclusion, of financial literacy education through post-secondary programs. There was also widespread agreement that young people should start learning about managing their finances at school, because those with a higher level of education are more likely to plan for their retirement.[18] This is now happening throughout the country as financial education has been added to the curriculum in all provinces and territories. In addition, many not-for-profit organizations and providers of financial services are investing in a variety of financial literacy programs. It is easy to measure how many people attend a workshop or how many clicks a website receives, but far more difficult to assess whether these programs lead to changes in behaviour. Some online

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[16] Financial Capability. 2018. http://www.financialliteracy.gov.au/

[17] Financial Consumer Agency of Canada. 2017. National Strategy for Financial Literacy — Count Me In, Canada.

[18] Financial Consumer Agency of Canada. 2015. Managing Money and Planning for the Future: Key Findings from the 2014 Canadian Financial Capability Survey.

measurement tools have recently become available, including one from Prosper Canada,[19] which users can use to evaluate the impact of financial literacy programs.

While most financial literacy programs focus on the management and allocation of financial resources, some participants noted that young people want financial education programs to pay more attention to helping them earn money, instead of assuming they already have it.

One participant recommended that a series of national benchmarks for financial literacy be set. Canada participates in the Programme for International Student Assessment (PISA) survey and therefore has benchmarking data for financial literacy among 15-year-olds. There are also surveys such as the 2014 Canadian Financial Capability Survey[20] and the 2016 OECD/INFE International Survey of Adult Financial Literacy Competencies,[21] which provide insights into the financial literacy levels of adults 18 to 79, and include results for adults in the 18-24 and 25-34 ranges.

Canada's second-place results in the 2015 OECD PISA[22] survey indicate some promising news about the youngest of the millennials. Canadian youth placed second, behind four cities in China and tied with Belgium, for financial literacy. Seven Canadian provinces participated in the assessment. The country notes on Canada's 2015 PISA Financial Literacy results[23] provide some interesting insights into behaviour: For example, in the participating Canadian provinces, 78 percent of 15-year-old students have a bank account, and these students score 31 points higher in financial literacy than students of similar socio-economic status who do not hold a bank account.

Participants raised the inconsistency in financial education in elementary, secondary and post-secondary schools throughout the country. Some provinces, like British Columbia, Ontario and Quebec, have expanded or made commitments to expand financial literacy education. British Columbia has a record of having financial literacy education included in the elementary and secondary school curriculum and, as of the beginning of the 2017-18 school year, mandatory financial literacy teaching is included in the math curriculum from kindergarten through grade 12.

Programs like Junior Achievement throughout Canada and FrogskinU in Calgary also play an important role. Using volunteers, community leaders, and financial literacy professionals, these programs are making a big difference according to the participants. The impact of mixed-delivery model programs—with online and in-person components—could be multiplied throughout the country, especially to address accessibility in

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[19] With support from FCAC and the Canadian Bankers Association.

[20] Ibid.

[21] OECD. 2016. OECD/INFE International Survey Adult Financial Literacy Competencies. Secretary-General of the OECD.

[22] The PISA assessment also highlights some general policy suggestions for all countries to consider. These are:

Address the needs of low-performing students; Tackle socio-economic inequalities early on; Provide equal opportunities for learning to boys and girls; Help students make the most of available learning opportunities at school; Target parents at the same time as young people; Provide young people with safe opportunities to learn by experience outside of school; and evaluate the impact of initiatives in and outside of school.

[23] OECD. 2015. Country Note: Canada – Programme for International Student Assessment (PISA) Results from PISO 2015 Financial Literacy. Programme for International Student Assessment.

rural and remote communities. Additionally, there are programs like Vancity's Each One, Teach One program, which is regularly used in delivering financial literacy to elementary and high school students (without endorsing Vancity-specific products). Vancity has also made this program available to other Canadian credit unions, and there are currently almost 100 credit unions delivering the *Each One, Teach One* program throughout the country.

Participants identified budgeting skills as a primary goal for educational programming around financial literacy. Once that skillset is gained, then secondary goals such as emergency savings, the use of TFSAs versus RRSPs, the use of other savings vehicles, or the promotion of individual rights and responsibilities can be pursued more meaningfully. Similarly, participants identified a need to focus on educating about cash flow, debt repayment and setting priorities as essential in meeting their immediate needs, before focusing on retirement planning.

In addition, concern was expressed by some participants about distinguishing between financial advice and education and, in particular, the need to distinguish between the financial advice institutions provide to individuals and the education that builds individual skills.

FINANCIAL LITERACY AND RELATED RESEARCH

Participants suggested a number of areas for potential future research in the area of financial literacy, including:

- The rate of home ownership is dropping amongst millennials in urban centres. What could this mean and how could it change the landscape when there is a large demographic of long-term renters or a demographic who indefinitely rent? How do we shift the perception of the acquisition of personal wealth in Canada, which had primarily been determined through home ownership? How could changes in home ownership change plans for savings? Are there lessons to be learned from other developed countries with large segments of the population who are renters?
- What is the potential of using just-in-time financial literacy messages at the point of critical financial decisions? For example, could credit card companies be mandated to provide warning messages and credit counselling messages on transactions over a certain dollar amount or on cards carrying a certain level of balance for customers under 21 years of age?
- Should people automatically be set up and enrolled in an RRSP or TFSA when they turn 18? Could government establish "Make Work Pay" schemes, as discussed in the U.K.? Could the Government of Canada develop a scheme, for example, where four years after a post-secondary degree, if the person is employed full-time, the government provides top-up incentives into savings instruments? How would this interact with the CPP?

NEXT STEPS

The participants at the roundtables across the country highlighted that financial literacy is multi-faceted and needs to be an ongoing, life-long practice. Participants felt that a combination of approaches would be required to provide millennials the support they need to continue to improve their financial literacy and have more confidence in their financial well-being. The clock is ticking toward insecure retirements for millions of Canadians and the time to influence that outcome is now.

In Millennial Money, Part Two: Research and Recommendations we review existing literature, present original analysis of national data sets and revisit the thematic ideas raised during the roundtables to develop recommendations for creative but feasible responses to the key financial challenges faced by millennials.

APPENDIX A: ROUNDTABLE PARTICIPANTS

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Certified Credit Counselor
Credit Counselling Services of Atlantic Canada Inc.

Kristin Williams
President & CEO
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APPENDIX B: TORONTO ROUNDTABLE AGENDA

9:45 **Registration**

10:00 **Welcome and Introductions**

Edward Greenspon, President & CEO, Public Policy Forum
Michel Leduc, Senior Managing Director, Global Head of Public Affairs & Communications, Canada Pension Plan Investment Board
Jane Rooney, Financial Literacy Leader, Financial Consumer Agency of Canada
Rob Carrick, Personal Finance Columnist, The Globe and Mail
Tyler Fleming, Director, Investor Office, Ontario Securities Commission

Roundtable introductions of all participants

10:30 **ROUNDTABLE DISCUSSION**

The following questions are a guide, the specific questions and order of the questions is subject to change.

Education

What are the fundamental building blocks that Canadians need to learn at a young age to properly plan their retirement and how can these be addressed in financial literacy education programs?

Expanding reach

What role can fintech companies play in promoting financial literacy?

What other steps can pension plans/funds, both public and private, take to promote financial literacy?

How can resources be tailored so that youth from all backgrounds—low or high income families, newcomers, youth in care and those in remote areas—all see a path to success in retirement savings?

Traditional financial institutions

What should young Canadians know about the CPP, and what more can be done to help them plan for retirement more effectively?

Changing behaviour

What can be done to encourage more young people to seek expert financial advice? Conversely, what can financial advisors do to share their knowledge more widely? What role can be played by "auto-solutions" that take decisions out of individuals' hands, potentially making it easier for them to keep setting aside savings for the future? How can millennials be encouraged to use such services?

The role of government

What further initiatives might the federal government and the provinces take to promote financial literacy?

Coordination and collaboration

How can organizations work together to raise awareness about existing financial literacy resources and programs?

There has been rapid growth in financial literacy networks in communities across the country. They are local, regional, and provincial. How can we encourage the development of more networks or regional approaches such as linking networks? Would the creation of a network targeted to a specific audience like youth be effective?

Is there scope for financial institutions to work more closely together in providing financial literacy information to consumers? Additionally, the National Steering Committee on Financial Literacy includes representatives from associations representing financial institutions, provincial securities regulators and financial advisors. They are working together to provide financial literacy information to consumers. How can they best reach their younger clients? Are there other models that the financial services sector could follow?

Putting research into action

Are there research gaps and future opportunities for research specifically related to millennials? How do we prioritize these research initiatives?

Financial literacy interventions are often not tailored to millennials or delivered in a way that they can relate to. What is the most effective delivery model for financial literacy interventions to millennials? For instance, how can technology be harnessed to deliver interventions? How effective are approaches such as online videos, text messaging, interactive apps, etc.?

Millennials have high levels of student and credit card debt, and very few seek help to manage their finances. How can financial literacy interventions be enhanced through behavioural insights? Specifically, in what ways can approaches such as gamification be applied to encourage desirable behaviours among millennials? What can be done to simplify decision-making and reduce barriers to key behaviours? For instance, can default settings or avatars be used to help simplify the process of using a budget tool? Can savings rates be increased through behavioural insights?

12:30 **Lunch**

1:00 **Wrap-up remarks, reflections and next steps**

APPENDIX C: DISCUSSION PAPER

CANADA'S PUBLIC POLICY FORUM DES POLITIQUES PUBLIQUES DU CANADA

Building for Retirement

Strengthening Financial Literacy in Canada

Roundtable Discussion Paper

May 2017

Table of Contents

“Money is important. Saving for the future is important….
Have you thought about the future? Have you thought about it at all?
-- *Wealthsimple, CTV SuperBowl ad, February 2017*

OVERVIEW

The Public Policy Forum has convened several roundtables and other events over the past four years to discuss shortcomings in Canada’s retirement savings system. These discussions provided useful guidance on how to improve retirement income security, especially for “at-risk” groups. But participants agreed that follow-up work was needed to turn talk into action and that, in doing so, high priority should be given to the specific issue of financial literacy among young Canadians.

To that end, we are preparing a report titled *Millennial Money: Financial Independence and Well-Being for the Next Generation.* As part of this project, we plan to convene 4-5 regional roundtables to examine the current state of financial literacy in Canada, specifically among millennials, the generation born between 1980 and 2002.

This paper sets out the key issues for discussion at the forthcoming roundtables, and outlines some potential action items as questions for further discussion. The list is by no means exhaustive, and we encourage participants to bring forward other proposals. We emphasize the importance of moving forward from ideas to action.

The task force on financial literacy, set up in 2009, defined financial literacy as the knowledge, skills and confidence to make responsible financial decisions. It is widely accepted that low rates of financial literacy are a key barrier to effective retirement planning, especially among young Canadians. The implications go far beyond personal finance issues. By postponing or ignoring retirement planning, a significant proportion of the population is at risk of being ill-equipped financially for their ever-longer, post-work lives. The burden on them, their families and their communities could be enormous. The proposals that emerge from the forthcoming roundtables could thus make a real difference in the lives of millions of Canadians.

CANADA'S RETIREMENT INCOME SYSTEM—STRENGTHS AND WEAKNESSES

Canada has a robust retirement income system compared to many other western countries. For generations, our three-pillar system—the Canada Pension Plan (CPP), Old Age Security/Guaranteed Income Supplement (OAS/GIS), and private/workplace savings—has provided security for retirees, improved well-being and dramatically reduced poverty among the elderly.

The existing system is generally sound. The CPP is renowned globally for its stability and strong management. Under enhancements agreed in June 2016, payouts will grow from 25% of pre-retirement earnings to 33%, funded by slightly higher premiums. The reforms will be phased in over seven years, starting in January 2019.

Apart from the CPP and OAS/GIS, individuals – even those without employer-funded, defined-benefit pension plans—have access to a variety of other retirement savings vehicles. They include defined-contribution plans, tax-sheltered RRSPs and tax-free savings accounts, all of which can be tailored to suit individual retirement goals. Canadians thus have no shortage of options to achieve long-term financial stability after they leave the workforce.

A number of broad trends are forcing Canadians to rethink the way they save for retirement. Stagnant wages and high living costs are making it more difficult for many to build up a nest egg. Longer life expectancy has put defined-benefit pension plans under mounting strain, causing employers to shift to less predictable and often less generous options, notably defined-contribution plans but, in many cases, no pension plan at all. At the same time, markets are more volatile than they used to be, while globalization has opened up many new investment opportunities, but also risks. On another front, an array of young financial technology firms, known as fintechs, are developing new banking and investment tools that appear well-suited to millennials but have yet to be fully developed or understood.

These trends mean that Canadians need to be more actively involved in financial planning if they are to ensure adequate income for their retirement. In other words, financial literacy is no longer an option. It has become a necessity.

YOUNG CANADIANS FACE SPECIAL CHALLENGES

When it comes to retirement planning, millennials have one big advantage. Time—a powerful asset when it comes to saving or investing for retirement—is on their side. But this plus is far outweighed by the challenges they face.

Millennials are in a far more fragile situation than the generations ahead of them, and likely to remain so. Many millennials find themselves either trapped in low-paid jobs or zig-zagging between jobs in a way that makes it difficult to focus on long-term financial goals. They are burdened by more student and credit-card debt than their parents and grandparents were.

There's an even more crucial difference between millennials and the generations that preceded them. Baby-boomers and gen-Xers, no matter how financially illiterate, have enjoyed the benefit of spectacular gains in home prices and the stock market over the past 30-40 years. By contrast, millennials cannot assume that they will reap the same windfalls—indeed, they are unlikely to.

Many millennials, among others, are already raiding what little savings they have so that they can pay for a first home, a car, a wedding, and other immediate needs. According to a Statistics Canada study published in February 2017, Canadians withdrew 47 cents from tax-free savings accounts (TFSAs) in 2013 for every $1 they contributed.

The uncertainties facing millennials are compounded by poor financial literacy. A TD Bank survey found that almost a third of Canadians between the ages of 18 and 33 are "not at all knowledgeable" about retirement savings plans. More than 40% of respondents admitted to putting off learning about investments because their finances were stretched too thinly. Another 28% said they were saving for other purposes. The TD study noted that while many millennials are well aware that they should do more to save for retirement, this knowledge has not spurred them to action.

In fact, research by the Canadian Foundation for Economic Education has found that young people want financial education programs to show them how to earn money, rather than assuming they already have it.

Even when millennials do save, they all too often do not take the wisest decisions. According to a CIBC study, an unusually high proportion of their savings is in cash accounts which offer virtually no return when interest rates are low, as they have been for the past decade.

“Strikingly, those under 35—the furthest away from retirement—are holding twice as much cash as those over the age of 65, about 33% versus 15%,” CIBC noted. The one-third of millennial respondents who are not active investors cited lack of financial knowledge and the fact that investing “intimidates” them as the main reasons they haven’t begun to invest. That lack of confidence is especially pronounced among women.

According to a PwC survey in 2015, only 36% of US millennials have a retirement account. Of those account holders, 17% took a loan in the past 12 months and 14% made a “hardship” withdrawal. The survey concluded: “The gap between the amount of financial responsibility given to young Americans and their demonstrated ability to manage financial decisions is rapidly widening.” There is every reason to believe that the same applies to young Canadians.

BARRIERS TO FINANCIAL LITERACY

The PwC study noted: “Millennials are unhappy, but may not have the tools to change their situation”. Before turning to possible remedies, it may be helpful to identify some of the reasons for this state of affairs, and to consider whether these obstacles can be removed, or at least alleviated:

- Relatively few millennials seek help to manage their finances. Many may not even be aware that they need such help, or be aware how important this issue is to their future well-being. Bear in mind that millennials have grown up in an era of low interest rates and cheap debt, making it easier for them to avoid tough decisions on financial management.
- Many millennials’ finances are in a parlous state. Student debt and credit card debt are especially heavy burdens that can banish any thought of retirement planning for many years.
- The fragility of millennials’ finances means that they are big users of “alternative financial services”, such as payday loans and pawnshops. These services may solve immediate needs, but they exacerbate the long-term challenge of saving for retirement.
- Some millennials are already tapping into savings supposedly meant for retirement.
- Many people, especially those on low incomes, face barriers in accessing initiatives that could boost their financial literacy. For example, they may not be aware of or understand existing government and workplace benefits, such as workplace savings programs.

- Millennials are often embarrassed to discuss their financial situation with family and friends, and reluctant to ask for help when they encounter problems.

- There is no shortage of information on financial literacy, but much of it is not tailored to millennials' needs, or delivered in a way that they can relate to. This means that providing information does not necessarily result in knowledge, and knowledge does not always lead to behaviour change.

- Psychological and behavioural finance studies suggest that inertia is one of the biggest stumbling blocks to retirement saving. The fact is that we're hardwired to discount the future for the sake of the present. On the other hand, there is evidence that bolstering confidence can help overcome this inertia.

OPTIONS TO IMPROVE FINANCIAL LITERACY

Vancity's financial literacy programs

As a values-based financial co-operative, Vancity considers the long-term well-being of its members and the communities where they live. Vancity is committed to increasing the financial literacy of its members and others in the community because having the knowledge, skills and confidence to make financial decisions greatly impacts overall well-being.

- In 2013, Vancity and its community partners delivered financial literacy workshops and seminars to close to 10,500 people.
- Vancity's employee-driven Each One, Teach One financial literacy program covers topics like seniors financial abuse prevention, identify theft and fraud prevention, credit cards, and RRSPs and TFSAs (see list of upcoming events).
- Since 2012, Vancity has provided $4.8 million in grants to support microfinance, financial literacy and poverty reduction.
- The Vancity grants enable organizations like Family Services of Greater Vancouver, Burnside Gorge Community Association and Aboriginal Financial Officers Association of BC to deliver financial literacy workshops in the community.

-- *Vancity press release.*

- There is widespread agreement that young people should start learning about managing their finances at school. An added bonus is that children who become financially literate tend to spread the message to others in their household.

Action items: As financial literacy is being added to the curriculum in more provinces, which programs can best reinforce this learning? What is the role of financial literacy education at the post-secondary level?

Action items: How can successful programs be expanded? What supports are needed for broader implementation?

- As mentioned above, research has found that young people want financial education

A fintech start-up takes aim at financial literacy

In October, mobile applications provider Voleo Inc. launched the Voleo TSX Equity Trading Competition – a simulated public markets investment competition that provides undergraduate and graduate students across Canada with the tools and information they need to enter the Canadian investment landscape.

Teams are given $1-million of virtual currency to compete for $25,000 worth of prizes by creating and managing a simulated equity portfolio.

“This application is breaking down the barriers, like fear or lack of knowledge, that hinder new investors from entering into the financial markets,” Thomas Beattie, chief executive officer of Voleo, said in a statement….

Voleo, meanwhile, is refreshing the investing club concept for the digital age by borrowing elements from gaming and social media. Chief executive officer Thomas Beattie says the major barriers to millennials’ investing are a lack of money and a lack of knowledge. “We believe we’ve successfully addressed those fears. You no longer need $10,000 to build a diversified portfolio—you need $1,000 and nine friends,” Beattie says.

-- The Globe and Mail, November 30 2015.

- Robo-advisors, such as Wealthsimple, Nest Wealth and Bank of Montreal’s SmartFolio, are making it easier and less costly for Canadians to manage their investments without a traditional financial advisor. Again, millennials are among their prime targets.

  Action items: Can these services help promote financial literacy? What other online tools are available to improve financial literacy? What can be done to make millennials more aware of them?

  Action items: What other steps can pension plans/funds, both public and private, take to promote financial literacy?

Action items: How can resources be tailored so that youth from all background—low or high income families, newcomers, youth in care and those in remote areas—all see a path to success in retirement savings?

Traditional financial institutions

- An Ipsos survey found that 82% of millennials have never dealt with a company that is not a financial giant for banking and investing services. (The proportion is roughly the same for older Canadians.) Rob Carrick, The Globe and Mail's personal finance columnist, wrote: "Sticking with the big banks is like only shopping at malls. Financial literacy at any age means being a smarter consumer than that."

  Action items: How should banks, credit unions and other traditional financial institutions respond? Can they design new long-term savings products and literacy programs that are more appealing to young people?

- Pension plans can be important vehicles for conveying information on retirement planning. For example, the CPP Investment Board holds public meetings and has put a variety of other initiatives in place to promote awareness of the CPP.

  Action items: How successful are such outreach initiatives? What other steps can pension funds, both public and private, take to promote financial literacy?

Credit unions highlight online financial literacy resources

Based on the analysis that came from a scan of over 60 programs, the research highlights eight programs and approaches that hold great potential for improving credit unions' financial literacy offerings to their members and that can be implemented on a broader scale through the system. Among these are three that can be implemented in the short-term:

- KOSMIKS, an online game for children built around budgeting principles.
- For Consumer, a website offering comprehensive and unbiased resources for consumers.
- FamZoo, a web-based interactive family budgeting tool.

  -- Credit Union Central of Canada, Financial Literacy: What's Best and What's Next?

Changing behaviour

> **"First, they must overcome their fears."**
>
> So what will it take for millennials to finally start investing for retirement? First, they must overcome their fears, says Toronto financial planner Shannon Lee Simmons, a millennial herself. "A lot of us graduated right into the [2008] crash," she notes. "Our investor appetites were like, 'This is what it's like?'"
>
> *-- Canadian Business, February 29 2016.*

- A survey by the Canadian Foundation for Economic Education found that young people face five main challenges in managing their finances: earning money; saving some; spending their money wisely; buying things they don't need; and wanting things they can't afford. More than half said their top challenge was saving money.

  Action item: What can be done to address these concerns?

- The PwC study found that even though most millennials admit to knowing less than they should about financial management, few take the trouble to seek expert advice. Only 27% of those surveyed sought professional advice on savings and investments within the past five years. Only 12% sought advice on debt management.

  Action items: What can be done to encourage more young people to seek expert financial advice? Conversely, what can financial advisors do to share their knowledge more widely? What role can be played by "auto-solutions" that take decisions out of individuals' hands, potentially making it easier for them to keep setting aside savings for the future? How can millennials be encouraged to use such services?

> **Can we learn from behavioral economics? One example...**
>
> Under some conditions, presenting a single savings goal leads to greater savings intention and actual savings than presenting multiple savings goals. Multiple goals typically evoke tradeoffs between competing goals, and thus increase the likelihood that people remain in a deliberative mindset and defer actions. In contrast, the authors propose and demonstrate that a single goal evokes a stronger implementation intention, which in turn has a greater effect on behavior change. Further, they show that the advantage of single goal over multiple goals on saving is attenuated when saving is easier to implement, or when the multiple savings goals are integrated rather than competing among themselves.
>
> *-- Dilip Soman and Min Zhao, Rotman School of Management: from Journal of Marketing Research.*

The role of government

- The previous Conservative government took several initiatives to advance financial literacy. Building on the recommendations of the 2009 task force, the government appointed Canada's first financial literacy leader (Jane Rooney) in April 2014 and published a National Strategy for Financial Literacy in 2015. Under a private member's bill passed in 2012, November has been designated as National Financial Literacy Month.

  Action items: What further initiatives might the federal government and the provinces take to promote financial literacy? One specific idea: Should the government send out annual CPP statements to all contributors as a way of encouraging Canadians to think about their retirement options?

- The Financial Consumer Agency has taken a growing interest in financial literacy.

  Action item: What role should the agency play in future?

- Wider public policy initiatives may also have a role in promoting financial literacy. The Canadian Foundation of Economic Education found that young people would like to see financial education programs focus on helping them earn money, rather than starting from the assumption that they already have it and should learn how to handle it.

  Action items: Are there other concrete steps that governments should take to promote financial literacy? Is there a role for regulatory agencies, such as provincial securities commissions or the federal Superintendent of Financial Institutions? Would there be value in setting up a government agency dedicated to financial literacy?

Coordination and collaboration

- The National Strategy for Financial Literacy noted: "While there are many programs in place to improve Canadians' financial literacy, their impact would be so much greater if these initiatives were mobilized in a coordinated and collaborative way."

  Action items: What role can CPPIB play in the future?
  Action item: What can be done to promote more effective coordination?

- Some vehicles already exist to promote collaboration, notably, the Financial Literacy Action Group (FLAG), a seven-member coalition, including ABC Life Literacy Canada, the

Canadian Foundation for Economic Education, Credit Canada Debt Solutions, the Financial Planning Standards Council, the Investor Education Fund, Junior Achievement, and Social and Enterprise Development Innovations.

Action items: There has been rapid growth in financial literacy networks in communities across the country. They are local, regional, and provincial. How can we encourage the development of more networks or regional approaches such as linking networks? Would the creation of a network targeted to a specific audience like youth be effective?

Action items: Much of the material used in classrooms across the country has been developed by not-for-profit organizations. How can thought leaders in youth financial literacy education better engage with these not-for-profits as key partners in financial literacy education for millennials?

- Some banks and credit unions share financial literacy information and ideas with others. But there is still a good deal of overlap in these efforts.

  Action items: Is there scope for financial institutions to work more closely together in providing financial literacy information to consumers? Additionally, the National Steering Committee on Financial Literacy includes representatives from associations representing financial institutions, provincial securities regulators and financial advisors. They are working together to provide financial literacy information to consumers. How can they best reach their younger clients? Are there other models that the financial services sector could follow? (One example: an existing online platform that coordinates the needs of refugees in Vancouver.)

Putting research into action

- A Research Sub-Committee comprised of 12-15 members, (representing the academic, public and private sectors) is undertaking and funding research. A National Research Plan (2016-2018) was developed to focus research on four key areas: i.) Budgeting; ii.) Paying down household debt; iii.) Building savings; and, iv.) Choosing financial products and services.

  Action items: Are there research gaps and future opportunities for research specifically related to millennials? How do we prioritize these research initiatives?

  Action items: Financial literacy interventions are often not tailored to millennials or delivered in a way that they can relate to. What is the most effective delivery model for financial literacy interventions to millennials? For instance, how can technology be harnessed to deliver interventions? How effective are approaches such as online videos, text messaging, interactive apps, etc.?

Action items: Millennials have high levels of student and credit card debt, and very few seek help to manage their finances. How can financial literacy interventions be enhanced through behavioural insights? Specifically, in what ways can approaches such as gamification be applied to encourage desirable behaviours among millennials? What can be done to simplify decision-making and reduce barriers to key behaviours? For instance, can default settings or avatars be used to help simplify the process of using a budget tool? Can savings rates be increased through behavioural insights?

> The last word… from the National Strategy for Financial Literacy
>
> An essential part of financial literacy is setting financial objectives and identifying the paths to achieve them. These can be short-term, such as buying a computer, or address major life events such as planning for education or retirement. Initiatives under this goal will focus Canadians' attention on setting objectives, making plans for major life events and taking concrete steps to achieve them. They will help consumers develop a solid understanding of financial products and services and the ability to assess their features and benefits, including associated costs and risks. These initiatives will also boost Canadians' awareness and understanding of existing government and workplace benefits, such as workplace savings programs for which they may be eligible. The goal here includes reducing barriers to participation in these programs, of particular concern for people living on low incomes.

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