

FINANCIAL DECISIONS MATTER

Submission to the Task Force
on Financial Literacy

Canadian Institute of Chartered Accountants

APRIL 30, 2010

Introduction

In a world of rapid change, increasing complexity and more uncertainty, Canadians of all ages and income brackets need greater financial expertise. The time has come to ensure that Canadians have the financial skills, knowledge and confidence to make the best choices for their circumstances.

Financial decisions do matter and the Canadian Institute of Chartered Accountants (CICA) believes it can make an important contribution to the Task Force on Financial Literacy's public consultation process.

The CICA is the national professional organization of CAs, representing more than 76,000 members working in business, public practice, government and education.

In addition, 12,000 students are currently studying to become CAs. On behalf of the profession, the CICA conducts research into current business issues and supports the setting of accounting, auditing and assurance standards for business, not-for-profit organizations and government. We also issue guidance on control and governance, publish professional literature, develop continuing education programs and represent Canadian CAs nationally and internationally.

Protecting and acting in the public's interest are the top priorities of Canada's CAs, a mandate that has defined us for over 100 years.

Charting a Course of Action

The CICA understands the importance of widely available and effective financial literacy programs. Sound financial management knowledge will support Canadian individuals and families in more effectively managing their financial lives, prospering economically and saving for the future.

We also recognize that the CICA is one of many organizations committed to improving financial literacy in Canada. No one organization can address this issue on its own. Implementing a national strategy on financial literacy requires a collaborative and sustained Canadian effort.

The following outlines our responses to the Task Force on Financial Literacy's public consultation document, *Leveraging Excellence: Charting a course of action to strengthen financial literacy in Canada*. The Task Force has put a very

thoughtful process in place—engaging Canadians online, in public meetings and through written submissions. It is an ambitious but critical process as the Task Force prepares to deliver its recommendations for a national strategy on financial literacy to the Minister of Finance in December 2010.

The CICA is pleased to offer the following comments for your consideration, including:

- Key strategic considerations for strengthening financial literacy
- Creating a foundation for life-long learning
- Understanding financial behaviour
- Strengthening retirement planning
- The role of communications and technology
- The CICA's plan of action
- Our commitment.

I Key Strategic Considerations for Strengthening Financial Literacy

The CICA supports the Task Force's efforts to advance financial literacy in Canada. A broad national strategy is needed to leverage existing initiatives, many of which are fragmented and poorly funded and reach only a small percentage of those who need this information, knowledge and skills.

We believe the following are key strategic considerations in the development of a national financial literacy strategy:

- **Education**

CAs know the value of understanding core financial concepts and how this knowledge can transform one's economic future. We believe that financial education is a lifelong endeavour that begins in childhood and continues through retirement. The starting point is our education system through which the foundation of our young Canadians' financial literacy can be built. In addition, new skills can be taught through the continuing education programs and post-secondary institutions and through the media, the workforce, community-based formats such as workshops and seminars, and Internet-based online courses and resources.

- **Nation-Wide Collaboration**

In support of a national cohesive strategy and to facilitate coordination of the activities, the federal government needs to support financial literacy on a national scale. Change will require an ongoing commitment of both time and resources. This could be founded on the consolidation of the existing resources produced by various federal government agencies within a single, easy-to-use, Internet portal under the responsibility of a single government department/agency. This portal could also serve as a gateway to other literacy initiatives advanced by the provincial, territorial and local governments as well as the private sector.

- **Targeted Programs**

Both wide-reaching and targeted communications are needed to help Canadians recognize the need to learn more about personal financial matters. Creating a demand for increased financial education and awareness of existing resources are activities that are best undertaken on a national level. In addition to qualitative and quantitative research to identify those in most need of financial literacy, social marketing approaches could be used to change existing attitudes and behaviours—such as moving from “live for today” to “manage your money more effectively today and realize your dreams for tomorrow”.

II Creating a Foundation for Life-Long Learning

The CICA believes that schools are the most direct way to engage our young Canadians in developing financial life skills. These life skills programs should be accessible and mandatory for all children across the provinces and territories.

The CICA supports incorporating personal finance into core subjects such as math, English and social studies from kindergarten through to high school with more in-depth courses for high school students. In addition, teachers need specialist support in developing the appropriate curriculum and resources and should not rely solely on volunteer or private sector initiatives. Schools are also an excellent channel for sending home material to engage parents and the wider community. While strengthening

the financial know-how of both children and parents through the school system requires provincial government commitment, the federal government could assume a central role in facilitating coordination and encouraging the provinces in their initiatives.

In addition to delivering formal training through the education system, Canadians need timely access to financial education that addresses the issues they experience at each life stage. Increasing awareness of the pivotal life moments and the financial issues they trigger should be a major focus of the adult education initiatives. With the benefit of financial literacy, Canadian individuals and families will be more likely to save for their future, prosper economically and avoid poverty.

In particular, children typically imitate the actions and behaviours of the parent—the primary role model—and this includes the parent who demonstrates poor financial habits. Parents need the opportunity to acquire the skills and knowledge that their children will acquire so that they can reinforce what should become a life-long learning process. For example, parents could be involved in the education process to support the lessons learned by children. Given the multicultural diversity of our society, the program also needs to respond to parents who come from many cultural and educational backgrounds and their various approaches to teaching their children about money.

To provide parents with the knowledge and resources needed to teach their children about financial literacy, we recommend the development of a Parent's Guide with strategies for teaching important money lessons to various age groups using everyday situations. This Guide could be provided free-of-charge online as well as distributed through schools, libraries and local community centres.

To complement the formal education system, we need to deliver more and better personal finance education to all Canadians. Where possible, existing adult education and community outreach programs could be expanded to provide more comprehensive personal finance programs

for all ages. Where gaps in the system are identified (both at the formal and informal level), new programs need to be developed.

Canadians could also be reached through the post-secondary education system and through the private sector with financial workshops, training sessions, credit courses, human resources programs and many other venues. Continuing education and the need to stay current are widely accepted facts of life in our rapidly changing world. This speaks to a need to ensure that the concept of financial literacy is not seen as a static skill that, once acquired, will last a lifetime. We believe that financial knowledge, skills and the confidence to make responsible financial decisions is an ongoing process that needs to be supported at each life stage as situations and information change.

Some Canadians are harder to reach and may require special initiatives. Unfortunately, this work is often left to the work of not-for-profit organizations and charities that tend to be underfunded and lack the resources to fully meet the needs of their target populations. Particular attention needs to be paid to ensuring adequate funding and resources are in place to provide financial skills and knowledge to meet the needs of the segments of the population that these organizations serve.

III Understanding Financial Behaviour

Attitudes and knowledge about financial issues vary widely across various segments of the Canadian population. It is not reasonable to expect that a one-size-fits-all solution exists to improve financial literacy in the short and longer term—or that one could be created. A flexible approach will be needed to identify, target and respond to the various high-need and/or specific populations.

Both nationally and internationally, a growing body of literature confirms the success of personal finance education and the efficacy of various programs that have been undertaken. At the best of times, however, it can be challenging to understand who needs what type of information and at what point in time it will produce the greatest impact in a Canadian context. For example, how can public awareness campaigns ensure that they will reach their intended target groups and ultimately change attitudes and behaviour?

Along with understanding the demographics of those who will most benefit from financial literacy (through both qualitative and quantitative studies such as the *2009 Canadian Financial Capability Survey (CFCS)* by Statistics Canada), psychographics or social values research can greatly assist with our understanding of the motivations of various groups. This can also help address how to best change existing attitudes and behaviours.

Canada is fortunate to be home to some of the leading thinkers in social values research. Any investment in ongoing financial literacy efforts should include the use of social values research to gain a better understanding of financial behaviours by the various demographic groups. This will aid tremendously in increasing our ability to specifically target messages and programs to those in the most need in a way that encourages participation.

IV Strengthening Retirement Planning

In April 2010, CICA conducted a survey of members to assess their views on Canada's retirement income system. 82% of respondents agreed that *Canadians lack sufficient investment knowledge to make the right retirement planning decisions.*

In response to the question on "The Role of Government in Supporting the Retirement Income System" 89% of survey respondents agreed that *the government should*

promote the importance of retirement planning and educate Canadians on their roles and responsibilities.

The CICA's submission to the consultation process on *Ensuring The Ongoing Strength of Canada's Retirement Income System* is attached as an appendix.

V The Role of Communications and Technology

Creating Demand

Canada has a solid history of using social marketing to address societal challenges that require both attitudinal and behavioural changes. From the current background research and literature, it appears that a long-term social marketing strategy (with sustained funding and resources) would be an effective and prudent approach.

Both broad and targeted communication efforts are needed to help students and adults recognize the value of learning about personal financial matters. Recognition is the first step in encouraging people to seek out and commit to financial literacy education, that is, to see it as an essential life skill that will help them make informed money decisions throughout their lives. This means the concept must be successfully marketed to the public-at-large to help create demand for these new products and services.

Creating Awareness

We need to increase the public's awareness of the tremendous resources and programs currently available so as to not duplicate efforts and waste resources. There should be a common national message shared by all stakeholders—government agencies, not-for-profit organizations,

media and others addressing personal finance as an important life skill—that would consistently reinforce the value of financial literacy.

Creating demand and increasing awareness are activities that could best be undertaken on a national level. Traditional media, the Internet, social media and other channels can be used to both create and satisfy demand. Television and the Internet are powerful delivery systems and a significant amount of financial education material and resources already exist that could be leveraged and strengthened.

Encouraging and Rewarding New Behaviours

It would be appropriate to explore various incentives to reward positive personal financial education. Some possible incentives include additional tax credits for completing an adult learning personal finance course, additional interest on savings accounts of first-time savers, increases in the Tax Free Savings Account and RRSP limits and additional benefits for full annual contributions to RRSP programs.

VI The CICA's Plan of Action

The CICA has embraced financial literacy as an important community investment initiative—one that delivers a win-win-win solution. Individual CAs, the public-at-large and the profession all win with the investment of time, talent and resources of CAs from coast to coast.

During the last 18 months, the CICA has reviewed a number of potential programs and opportunities to better understand how our organization and the CA profession could make a meaningful contribution to improve the financial literacy levels of all Canadians. We have listened to our members and we have listened to concerned Canadians in focus groups held across the country. Based on a recent member survey, our members are overwhelmingly (87 per cent) in favour of the CICA supporting financial literacy and well over half of these members are prepared to volunteer their talents and time in their own communities.

New Financial Literacy Program

In the fall of 2010, the CICA will be introducing a broad-based, multi-faceted financial literacy program designed to help Canadians from childhood to retirement. Offering free online and offline resources for understanding money management for college, marriage, parenthood and other major life events, the program will provide straightforward, practical resources to meet Canadians' needs for basic financial information. The core components of the program include:

- A wealth of easily understood, accurate and unbiased financial information resources focusing on what people need at each stage of their life;
- Outreach education and access to CAs with financial expertise at the local grassroots level through the CA Ambassadors Program; and
- An ongoing public awareness effort to encourage Canadians to take advantage of the offerings available through our program.

Community Outreach —The CA Ambassadors Program

Across the country, CAs are active community participants and volunteers. Every spring, CAs volunteer their services to help low income Canadians who are unable to complete their income tax and benefit returns themselves and who are unable to pay to have these completed. Last year, over 1,600 CAs completed more than 11,000 tax returns in Ontario alone, following a tradition initiated by the Institute of Chartered Accountants of Ontario in 1969.

Nationally, CICA is partnering with the Martin Aboriginal Education Initiative and school boards in an important pilot project to mentor aboriginal youth with an aptitude for and/or interest in an accounting or business career. The goal of the project is to encourage aboriginal youth to complete high school and pursue careers in accounting or business.

The CA Ambassadors Program builds on the existing volunteer work of CAs in their local communities and their expressed commitment to support the CICA's financial literacy initiatives both locally and nationally.

The CICA will be providing CAs with the resources and presentation material to help Canadians gain knowledge and power over their personal finances. At the grassroots level, CAs will be able to offer financial education presentations on a range of topics to a variety of audiences as well as facilitate workshops, host seminars, contribute to radio shows and newspaper columns and more. The workshops and seminars will offer Canadians a hands-on opportunity to learn about the financial complexities and choices that affect their daily lives.

Having access to top-notch, impartial financial advice is one thing but having someone answer your questions and point you in the right direction can make all the difference. Supported by a complete package of volunteer resources, CAs will be able to emphasize the benefits of financial literacy and show how best to get started—whether it means creating a first budget, deciding how much to save for college, or starting a business, among the many financial goals of individuals.

VII Our Commitment

The CICA is committed to supporting the objectives of the Task Force on Financial Literacy. We recognize that a substantial partnership of organizations and concerned people will be required to develop the resources and implement the strategies to achieve greater levels of financial literacy across our nation. We are ready to contribute our experience and skills to this important effort.

We also recognize that the scope and challenges of this goal are large and that there are many hurdles to be overcome. Ours is a long-term commitment.

The CICA and the CA profession believe that helping Canadians develop the skills they need to take charge of their finances is critical to our nation's ongoing prosperity and growth.

Working in concert with the Task Force on Financial Literacy, we can help empower Canadians to more knowledgeably and effectively manage both their own financial destiny and that of future generations. After all, financial decisions do matter. We appreciate the opportunity to comment on this major initiative.

Appendix

ENSURING THE ONGOING STRENGTH OF CANADA'S RETIREMENT INCOME SYSTEM

A Submission to the Federal-Provincial
Relations and Social Policy Branch
Department of Finance

Canadian Institute of Chartered Accountants

APRIL 30, 2010

Ensuring the Ongoing Strength of Canada's Retirement Income System

On behalf of the Canadian Institute of Chartered Accountants (CICA), we are pleased to provide input on the issues discussed in the government's consultation paper on strengthening Canada's retirement income system. Our submission builds on the CICA's participation in the April 19, 2010 stakeholder roundtable in London, as well as the recent Calgary Summit on Retirement Income. It is also informed by input sought from CICA members through a recent survey on some of the issues raised in the consultation document. Survey highlights are attached in Appendix A.

INTRODUCTION

Canada's retirement income system—built on three distinct pillars—is recognized as one of the best in the world. There are powerful incentives built into the system in the form of tax assisted savings opportunities.

The system's success in providing Canadians with an adequate standard of living upon retirement is reflected in the 2009 OECD report cited in the consultation paper which highlights the relatively low poverty rate among seniors in Canada as compared to those in other OECD countries. It is also evident in the data cited in the paper with respect to the high levels of replacement income available to Canadian seniors in retirement. Amid challenging economic circumstances however, it is prudent for federal and provincial governments to more closely examine the existing system to ensure that it provides Canadians with all of the tools necessary to serve them well in the future and into retirement.

OBSERVATIONS AND RECOMMENDATIONS

While we believe that the three pillars of our retirement system taken together provide a relatively strong retirement income system for Canadians, there are pressures inherent in the system. They include:

- People are living and working longer;
- Investment returns have been hard hit by the economic downturn;
- The security of the pension promise has come into question with insolvencies and reductions in pension benefits by many companies;

- The transition from defined benefit to defined contribution plans in the workplace raises further questions about the potential amount of future pension benefits; and
- Retirement options are becoming more complex and complicated to understand.

Concerns have been raised recently about the adequacy of retirement income, particularly given the effects of the global economic downturn. In particular, there are questions as to why some modest and middle-income Canadians are not saving enough for their retirement and the reasons why. This issue was identified in the report by Professor Jack Mintz put forward at the December 2009 meeting in Whitehorse of federal, provincial and territorial Ministers of Finance and Ministers responsible for pensions. The reasons are likely varied, and must take into account setbacks that have resulted from the economic downturn, as distinct from actions that are within an individual's control.

As such, we believe it is important to further examine the issue of retirement savings before specific reforms are undertaken. In particular, research into behaviours and incentives—particularly as they relate to younger Canadians—is required to determine whether a lack of adequate saving stems from the system itself, or if it relates more to a human tendency to ignore or delay consideration of the need to plan for one's retirement. Research is also needed in order to assess the degree to which components of household net worth that fall outside of pension assets—such as home equity and other financial and non-financial assets—can and are contributing to savings rates in order to boost the adequacy of retirement income.

The responsibility to save for retirement (beyond the benefits provided under the two public pillars of the retirement income system) is a personal one. Attitudes and knowledge about financial issues vary widely across various segments of the Canadian population. This underscores the need to ensure that Canadians across the board have the financial skills, knowledge and confidence to make the best choices in planning for their retirement. As such, the CICA supports the efforts of the Task Force on Financial Literacy to advance financial literacy in Canada.

We believe that a broad national strategy is needed to leverage existing initiatives, many of which are fragmented, poorly funded and reach only a small percentage of those who need this information, knowledge and skills.

Should it be determined that despite current incentives in the retirement income system some Canadians are failing to save enough for their retirement, Canada's Chartered Accountants believe that opportunities to improve the system can be found through a review of existing regulations and additional tax incentives in order to determine those that would best encourage Canadians to accumulate additional savings for retirement.

The following reforms to the personal income tax system merit consideration in this regard, as they would provide an incentive for savings and would make the tax system more efficient, effective and competitive:

- Reducing or eliminating the income tax on personal savings; increasing the contribution limits for Tax Free Savings Accounts (TFSA) and Registered Retirement Savings Plans (RRSPs) would be a step in this direction;
- Modifying RRSP and Registered Retirement Income Fund (RRIF) rules to allow greater tax deferrals on retirement savings:
 - a. Increasing the age limits for commencing withdrawals from a Registered Pension Plan (RPP) and converting an RRSP to an RRIF
 - b. Reducing the RRIF minimum withdrawal requirements; and
- Developing saving incentives, perhaps through enhanced credits, to encourage younger Canadians to start saving earlier.

We also believe the government should review the regulatory framework governing pension plans to ensure it does not unnecessarily inhibit innovation in the private sector market. Changes that allow for more risk pooling, decreased costs of administration or facilitated participation by both employers and employees could be beneficial. Examples include treating contributions to group RRSPs on the same basis as contribution to a registered pension

plan for payroll withholding purposes or facilitating Defined Contribution Multi Employer Plans. These changes could be particularly beneficial for the self-employed and Canada's small businesses.

The development of any new, government-sponsored voluntary schemes is not supported by the CICA. We believe that such initiatives would require the inclusion of significant incentives—costing deficit-laden governments scarce funds—and would further complicate the system. If there is a demand for new voluntary programs, the changes noted above to the personal income tax system and the regulatory framework would allow the private sector to address this need.

One option that has arisen in the public consultation so far is to increase the CPP/QPP—either through an increase in the 25% income replacement target, or the Year's Maximum Pensionable Earnings. Should the government decide that:

- the level of retirement savings in Canada is too low;
- incentives to encourage Canadians to increase saving on a voluntary basis will not be effective; and,
- the benefits offered by a defined benefit plan should be made available to more Canadians;

then some form of increase in CPP/QPP could be considered. However, changing the CPP/QPP raises a number of significant policy issues that would need to be fully researched and debated. These include:

- intergenerational considerations;
- the mandatory element of any change;
- maintaining an appropriate balance between public and private retirement plans; and,
- understanding the net impact on total retirement benefits for retirees after factoring in OAS/GIS entitlements.

Hence increasing the CPP/QPP would need significantly more research and debate before being further considered. Having said this, one change that could be made would be to allow non-working (as in outside the home) spouses to contribute to the CPP/QPP.

CONCLUSION

Canada's Chartered Accountants are pleased to provide input on the issues discussed in the government's consultation paper on strengthening Canada's retirement income system. The government plays a crucial role in ensuring that Canadians are adequately supported in achieving an adequate income in retirement. The effects of the economic downturn have had a profound effect on the ability of many Canadians to reach this goal. The complexity that is inherent in the system further illustrates the need to ensure individuals have sufficient investment knowledge to allow them to make the decisions right for them, and best utilize the tools available to them. It is equally important to understand which segments of the population may not be saving adequately for their retirement, the reasons why, and how proposed changes would best address these issues.

Appendix A – CICA Member Survey

In April 2010, the CICA conducted a survey of members to assess views on Canada's retirement income system. The survey asked members for their opinions on issues facing Canadians with respect to saving for retirement and the role of the government in helping Canadians to achieve adequate retirement income. The survey also asked members whether they supported proposed changes to Canada's retirement income system. The survey was sent to a random sample of 1,978 members working in industry and 601 responded for a 30% response rate. Highlights of the survey findings are included below:

Issues Facing Canadians with Respect to Saving for Retirement

There is widespread agreement among members that the following issues are facing Canadians with respect to saving for retirement:

- Canadians are not starting to invest in retirement at an early enough age. (90%)
- The trend away from defined benefit programs is shifting more risk to individuals. (88%)
- It is difficult for individuals to manage investment risks such as market volatility, interest rates, and investment terms. (89%)
- The increase in the number of investment options and retirement savings methods has made retirement planning more complex for Canadians. (81%)
- Canadians lack sufficient investment knowledge to make the right retirement planning decisions. (82%)
- There is a lack of widespread access to defined benefit plans beyond the Canada/Quebec Pension Plan (CPP/QPP) for many Canadians. (80%)

Although agreement was not as widespread, a majority of members agreed that the following issues are also facing Canadians with respect to saving for retirement:

- Canadians are not considering the effect of inflation in their retirement planning. (73%)
- Many Canadians have inadequate disposable income to permit saving for retirement. (71%)
- There is a lack of impartial advice for individuals. (69%)

Role of the Government in Supporting the Retirement Income System

There is wide agreement among members that the following are appropriate roles for the government in supporting Canadians to achieve adequate retirement income:

- To provide a minimum level of basic retirement income for all Canadians. (77%)
- To ensure an appropriate regulatory framework to protect the savings of Canadians. (93%)
- To provide basic taxation incentives to motivate Canadians to become and remain retirement savers at an early age. (95%)
- To promote the importance of retirement planning and educate Canadians on their roles and responsibilities. (89%)

Support for Change to the Canadian Retirement Income System

The survey found that a majority (63%) of members believe changes should be made to the Canadian retirement income system. The changes most widely supported by members include adding tax incentives to encourage young Canadians to start saving for retirement earlier (85%), allowing non-working spouses to contribute to the CPP/QPP (79%) and raising or removing RRSP contribution limits (75%). Raising or removing limits on eligible pension benefits from a registered pension plan (64%) is also widely supported.

Retirement Planning Among Chartered Accountants

The majority of Chartered Accountants are doing the right things with respect to planning for their own retirement. 89% either have a completed retirement plan or have started one and 83% expect to have sufficient income available to them at retirement to meet their retirement needs.