

Financial Literacy, Why It's So Important to You

**Patricia Bowles, Director of Communications and Education
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Thank you for inviting me today to speak about the importance of financial literacy. You know, even a year ago, this would have seemed like an odd topic, something that wasn't in the public consciousness.

But today, there seems to be an emerging consensus that in order to survive in what has become a much more complex world, Canadians need financial life skills.

We at the BC Securities Commission made financial life skills a priority four years ago, when we decided to provide a resource for teachers in British Columbia to teach financial life skills.

I will come back to this later in my remarks.

This afternoon,

- **I am going to explain why having financial life skills is important.**
- **I will provide you with some facts about Canadians' financial status that are an important part of this story, and**
- **I will conclude with a plea to everyone in this room to help raise awareness of the importance of teaching financial life skills to young Canadians**

Let me start with a look at what financial literacy is.

There are all sorts of terms to describe this area financial literacy, financial education, economic capability to name a few of the terms. For today's purposes, I am going to stick with two terms, "financial literacy" and our preferred term "financial life skills".

We define it as:

- **Know where to get information**
- **Know how analyze that information**
- **Understand concepts -- savings, budgeting, financial planning**
- **Be able to make sound consumer and investment decisions**

Now, let's look at why you and I need to take responsibility for our own financial health by becoming financially literate.

There are a number of trends emerging as we look at the UK, the United States, Australia and Canada the demographics and types of employment are changing, financial sectors are growing more complex, personal savings are decreasing, while personal indebtedness is increasing.

First, let me begin by reminding you about today's demographics:

The boomers, that's me and some of you in this room, have had fewer children than our parents; and as we retire, there are fewer workers to support us.

So we need more savings to cover the increases in living expenses. This means that there will be more demands on our savings and on government funding, particularly in health care, to look after my generation that is living longer.

Second, employment trends are changing. Fewer people have long-term continuous employment, again unlike our parents.

Part-time, contract and non-permanent employment requires a different set of skills than those of full-time employees. And of course, a growing segment of the Canadian workforce (61%) don't have any benefit plans at all.

Third, financial sectors and products are becoming more and more complex.

The internet has increased the amount of information available to consumers and there are many more complex products being offered to people.

Electronic banking makes it necessary to have a bank account.

Yet significant numbers of people are not using the conventional banks for day-to-day transactions. They are using alternative services such as payday loan businesses and retail cheque cashing outlets – both of which are unregulated and risky.

To quote Alan Greenspan, past Chair of the US Federal Reserve Board:

“Today’s financial world is highly complex when compared with that of a generation ago. Forty years ago, a simple understanding of how to maintain a checking and savings account at local banks...may have been sufficient.

Now, consumers must be able to differentiate between a wide range of financial products and services and providers. Previous less indebted generations may not have needed such a comprehensive understanding of such aspects of credit as the impact of compounding interest and the implications of mismanaging credit accounts.”

And as more people look to invest in the market, the products become more and more complicated.

Fourth, there is the change in Canada’s pension system – the move from defined benefit to defined contribution pension schemes. Those still lucky enough to have a defined benefit scheme know that it is the employers who take the risk.

The growing number of Canadians who have defined contribution pensions understand that they now have to shoulder the risk.

Some economists are predicting a “pension shortfall” in Canadians’ Registered Retirement Savings Plans (RRSPs). Only 42% of Canadians contributed to an RRSP during 2006 tax year.

A recent study suggested that almost 70% of boomers have a Registered Retirement Savings Plan. But more than half consider their registered retirement accounts as their retirement plan, suggesting that they aren’t taking the time for more thorough retirement planning, which would include other investments. This is a problem.

Here are some interesting stats that came out of two national investor studies, the most recent of which was released at the beginning of this month.

One quarter of adult Canadians do not have any savings for the future.

Just over half own stocks, bonds or mutual funds outside company pension plans. Interestingly this is highest in BC and lowest in Quebec. This number shows that more people in this province are investing in the financial markets.

Why? Probably because more people, particularly the boomers, have been successful in accumulating assets and increasing personal incomes.

Finally, over half of British Columbians say that they don't have a financial plan even though the vast majority believe that they should.

What this all means is that Canadians, you and me, need to become more involved with financial markets to better prepare for our financial futures.

But do we have the financial life skills to do this? Currently, no!

One of the most important pieces of information for this audience is that only two-in-ten Canadians say that they have had courses in personal financial management in school.

In other words, very few Canadians get any help in their school years to become financially literate.

The result is that the vast majority of Canadians are ill-equipped to prepare for their own futures.

Now, let's look at young people. We know that credit card debt is huge. Of the 56.4 million credit cards in circulation, less than half are paid off monthly. Research shows us that young people use credit cards like free cash, and are often completely unprepared for the substantial amount of debt they can wrack up.

The average BC student loan is \$27,000 according to the Canadian Federation of Students.

There are probably all kinds of things happening on the internet that haven't been exposed yet. Certainly, it has become a key tool for investment fraud artists to trick people into giving away their hard-earned money.

We recently learned through research that some kids give out their pin numbers on blogs, setting up the possibility that someone, even a friend, will drain their bank account.

Research in the UK confirms some of what we know about Canadian students:

- **29% (16-24 year olds) don't know how to prepare and manage a weekly budget**
- **67% of university students are in debt**
- **Students use credit cards as if they are cash machines with no risk. They fail to understand the consequences of not paying off their monthly charges**

The study concluded that:

- **Schools should teach finances**
- **Students want to be taught finances**
- **14-15 year olds good starting age**

So why should the BC Securities Commission care?

Shouldn't we be content with regulating the securities industry and leave it up to the individual to figure out how he or she should plan and invest for their future?

Well, not only to we set the rules, regulate and enforce those rules for the securities industry, our mandate includes protecting investors.

Now let's take a look at what is happening to retail investors today.

Almost daily, we see the results of people's inability to protect themselves by making ill-informed decisions regarding investing. It is not a pretty sight. With only 20 investigators and 11 lawyers, we can't begin to deal with all of the cases that come through our enquiry line.

We confirmed again in this year's CSA Investor Study that an estimated one million Canadians have been defrauded in their lifetime. It is, in my opinion, a much higher number.

How do we know that? Because so few people actually report an attempted fraud (17%).

So we really don't know the size and extent of people's financial losses from investment fraud. But we believe it to be substantial.

We do know that exposure to fraud is a common occurrence in the lives of Canadians.

Four-out-ten (41%) of adult Canadians have been approached with what they felt was a fraudulent investment opportunity. Half of these victims were introduced to the fraudulent opportunity through an existing relationship of trust, such as a friend, family member or work colleague.

We do not have any hard stats on young people, and can only guess how many students get defrauded.

The majority of cases that we deal with in BC are what we call "illegal distributions" meaning that the fraud artists are not registered with us or working within the securities industry. These are out-and-out fraud artists.

Another compelling statistic that came out of this year's CSA Investor Study. Over 90% of Canadians agree that the impact of investment fraud can be as serious as the impact of violent crime. That is a very significant number. It tells us that Canadians and BCers in particular are in synch with the findings of the Eron Mortgage study that we commissioned.

You may recall that 2800 BC investors lost about \$200 million in the Eron Mortgage debacle in the mid 1990's.

This is the largest study of its kind in Canada. Over 500 victims were interviewed and talked about happened to them -- emotional and physical health problems, family breakdowns, divorce, you name it.

We learned that most of these people were pre-retirees attracted to promised high returns.

If you remember one thing from my talk today it is this. There is no such thing as high return, low risk. High returns equals high risk which means you could lose all of your investment.

The people who invested in Eron Mortgage were not wealthy individuals. They were average wage earners (\$70,000) with about \$250,000 in assets. Most were pre-retirees, worried about retirement, who bet the farm and lost.

Another finding from the study was that many were what I call “cocky” overconfident men in their 50’s. Think about that if any of you consider yourselves to be “confident men in your 50’s”.

Could some of this been avoided? You bet.

Having people better equipped to avoid being defrauded or making an unwise investment is a key goal of our agency. That why we need financially literate Canadians.

That is why we developed InvestRight - BCSC’s investor education program. Our website is a key component to this education program.

Most of the information is categorized using the three “Knows” that are essential for investors to protect themselves – know yourself, know your advisor, know your investment.

We have important protection tools for investors, such as scams in the news, registration checks, the disciplined persons’ list and cease trade order checks.

We provide basic information for potential investors. Go take a look. There is a scam meter and video that shows victims talking about what happened to them and why.

We talk about the RED FLAGS – these are the sales pitch lines that con artists use to get your money.

It is a mix of education and warnings and we have tried to make it easy to use, easy to read and current.

After consulting with retirement advisors, we came up with the “Get Ready to Retire” module to quell the fear of pre-retirees by giving them three steps they can take to start their retirement planning.

The three steps are:

- **imagine what retirement looks like for you**
- **think about how you will finance your retirement life and**
- **move carefully.**

These are initial steps for people to start the process to gain control of their future.

So what's happening on the financial literacy front in Canada?

While the federal government starts to look at the need to better equip young Canadians with financial life skills, we, in BC, have a head start with the mandatory Finances program introduced four years ago as part of the Planning 10 course curriculum.

We need to capitalize on this opportunity by improving the delivery of this program. We need to encourage teachers to learn how to teach this important subject.

As I said at the beginning of this speech, BCSC made the decision to create a resource for teachers to teach the Finances component of Planning 10. It is called The City.

This resource is listed on the Ministry of Education's "Approved Resource List". We provide free province-wide training programs which I'll describe shortly.

We invested \$1.3 million to create this resource that includes a website, a complete copy of the resource in hard copy made is available free-of-charge to Planning 10, along with the free teacher training I just mentioned.

It was put together with the help of a BC teacher advisory group, a team of talented curriculum writers and a creative group specializing in communicating to teens.

Our resource includes: a teacher binder of lesson plans, glossary, test questions, overheads, hand outs and Lifestage Character profiles and documents. There's also a DVD and a website.

The resource covers a whole range of subjects.

So how does it work?

The resource uses fictional characters of different ages and financial circumstances to introduce the subject to teens.

Students work through activities and worksheets involving the finances of the Lifestage Characters and then apply the concepts and skills to their own lives.

So how does the resource measure up with teachers and students?

Our research tells us that over 80 per cent of the teachers rated the resource positively and intend to use it again

In July 2006, we measured the knowledge and attitudes of students before and after attending the Finances course taught with our resource.

The findings show that a majority of students found the topics interesting and engaging and 85 per cent of students gave the course a B or higher.

After taking the course, students are much more likely to see financial planning as personally relevant to them and are more aware of their vulnerability to fraud

We are also measuring the effectiveness of teaching financial life skills in high school over time. A yearly study of recent graduates by the Kelowna School Board revealed that students felt financially unprepared for life after high school. These results came from pre- Planning 10 students.

We are now partnering with the same school board to measure the level of financial life skills of future graduates. We plan to do this survey year-over-year, for the next few years, with the Kelowna school district.

This year's research results will be released this November.

The bad news is,

While teachers and students that use the resource rate it very positively, we have learned that the single biggest obstacle is that teachers themselves don't have the training to teach this subject. Because of this, they don't feel confident or comfortable when teaching Finances.

We also know that not all Grade 10's get the full 21 hours of Finances teaching and that it is unevenly taught.

One of the criticisms of our resource is that it is too comprehensive. In other words, there is too much information in it and teachers are overwhelmed by the material.

We realized that we needed to show teachers how to use the resource, explain key concepts and provide strategies for keeping students engaged. You don't have to use all of the material.

Over the past year we developed a webinar-based province-wide training program.

Teachers can do the training from their home or in the school computer lab. All the teacher needs is a computer linked to the internet and a phone.

The webinar leaders are two BC teachers who have taught Planning 10 Finances and are very familiar with our resource. They share their personal advice, experiences, tips and strategies.

Teachers will learn a great deal from these webinars including: teaching the key points and concepts, time saving approaches and best of all, how to make finances fun for their students.

The webinars are held throughout the school year. Information flyers – such as the one on the screen - are available here at our booth and give you all the information you need.

This month we have 30 teachers enrolled from across the province. Needless to say, we are thrilled with the response.

We are very proud of this program which has won five awards – BC, national and international.

In conclusion, we have a terrific opportunity here in BC to be leaders in graduating students who not only are well versed in mathematics, history, English, and chemistry...but in personal financial management as well.

Understanding these concepts will arm students with the basic tools they need to navigate through the financial realities of adulthood. It will give students practical skills to become tomorrow's carpenters, electricians, lawyers, accountants, teachers, actors, artists and parents!

We think having financial life skills is important for everyone.

The financial realities that I described earlier, indicate there is even more at stake in educating young Canadians to be financially prudent.

As I said at the beginning of my speech...there seems to be an emerging consensus that in order to survive in what is increasing becoming a more complex world, Canadians need financial life skills.

Let's begin by giving young British Columbians a really good start to the rest of their lives. And let's hope that we all pay attention to planning for our financial futures as well.

Thank you.