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Making Cents of It All: Financial Literacy in Canada

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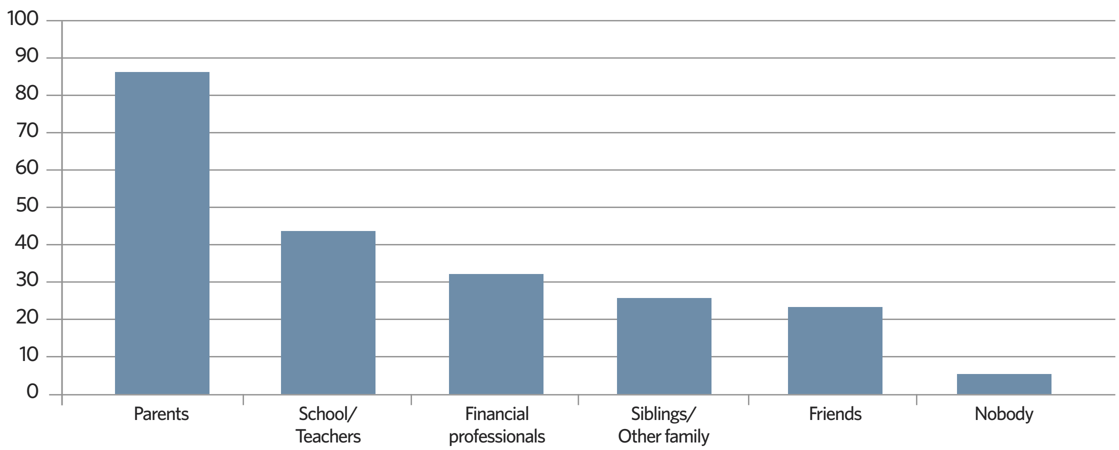
Source-Initiated Advice on Money Management, Canada, 2011*

** Q6A. Please indicate which sources, if any, have ever tried to teach you about managing your money.*



SOURCE: Harris/Decima (2011). *CICA Youth Financial Literacy Study 2011: Summary Report* (survey, conducted July–August 2011). Accessed May 23, 2013. http://bit.ly/12pO8Mm

With the global economy still recovering from the 2008 recession and personal debt levels running high across the country, financial literacy has become an increasingly popular topic. Financial literacy has been defined as "having the knowledge, skills and confidence to make responsible financial decisions."[1] More specifically, financial literacy is based on knowledge about household spending, investment, credit, loans, interest rates, education/retirement savings as well as actions and transactions related to a person's economic situation and their capacity to manage it. Financial literacy is a tool that can empower us to more effectively monitor and manage our financial past (debt and accumulated savings), our financial present (income and expenses) and our financial future (wealth and investments).

Today's volatile and unpredictable economic climate is fuelling the call for greater financial knowledge. The ratio of household debt to disposable income was 88.9% in 1990, but has since risen to 164.8% in the fourth quarter of 2012.[2] One recent study pegged the average Canadian total consumer debt (excluding mortgage) at $27,485 at the end of 2012.[3] *Total* average debt load per household at this time was $113,470.[4] Debt is higher among parents with children at home: according to a 2009 StatsCan study, the overall average debt load in Canada amounted to $114,400,* but was $144,600 for couples with children, accounting for half of *all* household debt that year.[5]

Financial insecurity affects older age groups as well, particularly those who are trying to plan for retirement – but people do not need to be struggling financially to have their plans affected by a lack of financial literacy. While 8 in 10 surveyed Canadians aged 25 to 64 reported in 2009 that they were preparing financially for their retirement, just under half (46%) knew how much savings they would need to maintain their current standard of living.[6]

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The Canadian Financial Capability Survey (CFCS) was conducted in 2009 to assess financial literacy rates across Canada, collecting information on respondents' awareness of and approaches to money management, investment and financial planning. The average score recorded for this survey was 61%, with 17% of participants ranking in the top scoring group (scores ranging from 85–100%) and 31% ranking in the bottom scoring group (scores ranging from 0–50%).[7]

A demographic breakdown provides a clearer picture of financial literacy rates. Age was not a major determining factor in CFCS scores, with all four age groups showing little difference in financial literacy scores (ranging from an average 59% among 25- to 34-year-olds to 62% for 55- to 64-year-olds). The same held true for gender, with only a 3% average score range between women and men (59% and 62%, respectively).[8]

While neither age nor gender revealed major differences in average scores, other factors did, such as the respondents' mother tongue, education levels, employment status and household income. Those who reported either English or French as their first language had an average financial literacy score of 63%, compared to only 51% for respondents who had marked "other" as their first language. Respondents who did not have a high school diploma scored an average 49%, whereas those with post-secondary certification or a diploma scored an average 64%. Unemployed Canadians had an average score of 54%, whereas paid employees and the self-employed scored an average 61% and 64%, respectively. Finally, surveyed Canadians in the lowest income bracket scored an average of 54%, while their top-income counterparts scored an average of 67%.[9]

With a growing focus on financial literacy in Canada, many researchers, economists and policy-makers have emphasized the need for financial literacy education for younger generations. Parents have an important role to play, and 1 in 5 surveyed Canadian parents say they spend "a lot" of time discussing money and financial matters with their children.[10] This instruction can be quite valuable: while 43% of surveyed Canadians aged 16 to 22 reported in 2011 that they use a budget and half said that they track their spending, over one-quarter (27%) reported that they *don't* limit their spending.[11] In a separate survey, 4 in 10 surveyed high school graduates said they *didn't* know how much they had earned or spent in the past month.[12]

Family Lens

Financial literacy isn't just about making day-to-day finances easier for Canadians – research has demonstrated that greater awareness and abilities within a financial system can influence our home-buying capacity and help secure a comfortable retirement or post-secondary education for ourselves (and our children).[13] Conversely, low levels of financial literacy can leave us far more vulnerable to market fluctuations, which can be disastrous in the face of major financial crises such as the 2008 recession.

Parents can play a key role in teaching their children about financial matters, supplementing the financial skills students learn at school (3 in 10 surveyed Canadian parents rank financial literacy as one of the three "most important" subjects children can learn at school[14]). Financial literacy affects us all, and whether we're parents, dependants, students, retirees or potential homebuyers, we all have a stake in the financial literacy of Canadians.

*Among survey respondents who reported having debt, which accounted for two-thirds of all respondents.

[1] Financial Consumer Agency of Canada. *Financial Literacy: For Educators and Facilitators.* Accessed June 7, 2013. http://bit.ly/1fVcSSv

[2] Vanier Institute of the Family (2013). Roger Sauvé and Nathan Battams, *The Current State of Canadian Family Finances: 2012–2013 Report* (October 2013). Accessed October 10, 2013. http://bit.ly/17n3oFx

[3] TransUnion. *Personal Debt Levels Continue to Soar to Record High Levels* (TransUnion Market Trends report). Accessed June 3, 2013. http://bit.ly/16ETn6Y

[4] Vanier Institute of the Family (2013).

[5] Raj K. Chawla and Sharanjit Uppal (2012). "Household Debt in Canada," in *Perspectives on Labour and Income* (May 2012). Statistics Canada Reference No. 75-001-X. Accessed June 4, 2013. http://bit.ly/GJzC6Y

[6] Katherine Marshall (2011). "Retiring with Debt," in *Perspectives on Labour and Income* (Vol. 3, No. 2). Statistics Canada Reference No. 75-001-X. Accessed June 4, 2013. http://bit.ly/iwz8EL

[7] Katharine Mullock and Julie Turcotte (2012). *Financial Literacy and Retirement Saving* (Department of Finance, Economic Studies and Policy Analysis Division). Accessed June 8, 2013. http://bit.ly/17bqvYH

[8] Mullock and Turcotte (2012).

[9] Ibid.

[10] Pollara Strategic Insights (2013). *BMO Financial Literacy Poll: 96 Per Cent of Canadians Believe Teaching Kids About Money Matters Is Key to a Healthier Economy* (survey, conducted March 2013). Accessed May 23, 2013. http://bit.ly/ZnOBdL

[11] Harris/Decima (2011). *CICA Youth Financial Literacy Study 2011: Summary Report* (survey, conducted July-August 2011). Accessed May 23, 2013. http://bit.ly/12pO8Mm

[12] British Columbia Securities Commission (2011). *National Report Card on Youth Financial Literacy: Executive Summary.* Accessed June 11, 2013. http://bit.ly/uff1U3

[13] Sandra Braunstein and Carolyn Welch (2002). "Financial Literacy: An Overview of Practice, Research, and Policy," in *Federal Reserve Bulletin* (November 2002). Accessed June 3, 2013. http://bit.ly/1fyb27v

[14] Pollara Strategic Insights (2013).