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National Research Plan

for Financial Literacy

2016-2018



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Table 2: Percent Changes for Sales

Year	Q1	Q2	Q3	Q4
2003	1.8	0.8	1.1	1.8
2004	1.4	0.6	0.7	1.6
2005	1.2	0.5	0.6	1.4
2006	1.1	0.4	0.5	1.3



Executive Summary

Overview

Summary



Preamble

This document presents Canada's 2016-2018 National Research Plan for Financial Literacy. The objective of the Plan is to focus efforts and enhance coordination among researchers to generate key empirical evidence that will contribute to the successful implementation of the *National Strategy for Financial Literacy—Count me in, Canada*.

This Plan acts as a guide for financial literacy researchers by describing key research opportunities and important areas of focus that are of primary interest to the goals of the national strategy for financial literacy. The Plan also outlines the concrete research projects that are being undertaken during the 2016-2018 timeframe. The Plan will be revisited and revised on an ongoing basis to ensure that it reflects the needs of the national strategy as well as that it is adequately addressing emerging issues.

This document outlines the path forward for the financial literacy research community and demonstrates how an integrated and coordinated approach to research can effectively support the *National Strategy for Financial Literacy—Count me in, Canada*. The evidence that emerges through the execution of this Plan will be used to enhance financial literacy programs and services across Canada. It will also serve to inform concrete and actionable evidence-based policy and program interventions to enhance financial well-being and financial consumer protection.

Introduction

The *National Strategy for Financial Literacy—Count me in, Canada* was developed to mobilize and engage public, private, and non-profit sectors to strengthen the financial literacy of Canadians and empower them to:

- manage money and debt wisely;
- plan and save for the future; and
- prevent and protect against fraud and financial abuse.

In 2016, the Financial Literacy Leader of Canada established a Research Committee to support the implementation of the national strategy through evidence-based research and thought leadership. The Research Committee has developed the current National Research Plan for Financial Literacy (the Plan) in support of the implementation of the *National Strategy for Financial Literacy—Count me in, Canada*. The objective of the Plan is to focus the research efforts of the committee and to enhance coordination among researchers working in the area of financial literacy. It encourages the use of quantitative, qualitative, and mixed method approaches and fosters interaction between multidisciplinary teams to strengthen financial literacy research. Working with key stakeholders to conduct pilot projects and applied research is also encouraged to examine program impact on specific demographic groups.

Financial literacy refers to having the knowledge, confidence and skills to make responsible financial decisions—decisions that are integral to our everyday lives. These decisions range from daily spending and budgeting to choices of insurance, banking, investment products, and saving for retirement, home ownership, and post-secondary education. Those who are more financially literate are more likely to participate in financial markets, plan and save for retirement, accumulate wealth and refrain from using high-cost borrowing (Boisclair, Lusardi, & Michaud, 2014). The Plan aims to better understand how to enable individuals to make responsible financial decisions and how financial literacy improvements can be supported by public policy (e.g., promoting financial literacy education within the school system, access to programs and services, industry regulation).

Key opportunities

A summary of what we know about financial literacy interventions

- A more financially literate population leads to better outcomes for individuals and for society as a whole.
- Financial education that is focused exclusively on imparting financial knowledge does not consistently lead to sustained behavioural change. A holistic approach to financial education that addresses multiple factors is most effective. For instance, financial decisions are also influenced by financial confidence, skills, cognitive biases and behavioural tendencies as well as contextual and environmental factors.
- The quantity and timing of financial education matter. One-time education programs produce some short-term, but few long-term, effects. Financial education specific to a given decision is most effective when it closely precedes that decision.
- Financial education in Canada will benefit from a better understanding of the unique needs and characteristics of demographic groups, namely, newcomers, youth, seniors, Indigenous Peoples and low-income Canadians, to better tailor program content to their specific needs.
- Financial education in Canada will benefit from a systematic approach to measurement and evaluation in order to assess changes in behaviour and report on incremental progress and success.

There is a tremendous opportunity for research to contribute to the successful implementation of the *National Strategy for Financial Literacy—Count me in, Canada*. Focusing the efforts of the research community on a concise set of critical research questions will enable financial literacy programs and interventions to become **smarter, more targeted and more effective**.

Smarter financial literacy interventions

Financial literacy interventions that are focused exclusively on imparting financial knowledge do not consistently lead to sustained behavioural change (Willis, 2008; Soman & Mazar, 2012; Soman, 2015; Fernandes, Lynch & Netemeyer, 2014). A holistic approach to financial literacy that addresses multiple factors is most effective. For instance, financial decisions are also influenced by financial confidence, skills, cognitive biases and behavioural tendencies as well as contextual and environmental factors (OECD, 2013; Palameta et al., 2016; Sunstein & Thaler, 2008). There is an important opportunity for researchers to contribute to making financial literacy interventions **smarter**. By that we mean, informing the evolution of financial literacy interventions through empirical evidence about the factors that contribute to financial decision-making, the best timing to provide financial literacy interventions, as well as the best sources and mechanisms for delivering financial interventions (World Bank Group, 2015; Fernandes, Lynch & Netemeyer, 2014).

One of the most promising avenues for achieving smarter financial literacy interventions is through integration of insights from behavioural sciences. For instance, we know that cognitive biases and choice architecture have a direct influence on financial decision-making and more can be done to test the application of these insights to further support financial well-being. We also know that financial behaviour can be influenced online (An, Kim, & Soman, 2016). As an example, research is necessary to examine how financial literacy interventions could become more salient and relevant to the individual consumer, to take into account present-bias and time inconsistencies in decision-making, as well as to explore how evidence about social preferences and peer effects can benefit financial literacy programs. Further to this, evidence related to nudging through choice architecture will benefit stakeholders and practitioners from a myriad of professions that influence financial outcomes.

Further opportunities also exist for leading to smarter financial literacy interventions. There are outstanding research gaps related to understanding the right timing for financial literacy interventions and the most effective sources of financial literacy interventions.

More targeted financial literacy interventions

There is an opportunity to better **target financial literacy interventions** to address the unique realities of specific populations of Canadians. In order to accomplish this, it is important to have an understanding of the role of the broader socio-economic context in financial well-being (Lusardi, Schneider & Tufano, 2011). Generally speaking, individuals with low incomes are particularly vulnerable, and understanding how they manage their finances is critical to designing effective interventions (Buckland, 2011; Prosper Canada, 2015). For example, many Indigenous Peoples face multiple socio-economic barriers that affect their financial knowledge and well-being (AFOA Canada, 2015; Prosper Canada, 2015). Newcomers to Canada, seniors, youth and other groups require unique and tailored approaches (Prosper Canada, 2015). Therefore, there is a need to better understand the financial literacy needs of these populations and to increase the relevance and cultural appropriateness of financial literacy interventions.

More effective financial literacy programs

Program evaluation and measurement is critical to demonstrating impact, building knowledge of effective practices and supporting continuous improvement of programs in order to drive towards **more effective financial literacy programs**. It is central to ensuring that financial literacy interventions are adapted to varying and changing realities with emerging trends and issues. There is a need to build evaluation capacity within organizations and to develop tools to empower organizations in assessing the outcomes of their programs. The Canadian Bankers Association and Prosper Canada conducted research and developed a Financial Education Outcome Evaluation Tool to assist organizations in evaluating the impact of their programs. There is also a need to document best practices to better understand what interventions are most effective, for whom and why. The feasibility of building a reporting element within the Financial Education Outcome Evaluation Tool will be explored.

Research opportunities: smarter, more targeted and more effective financial literacy

Research will be conducted to generate further empirical evidence related to making financial literacy interventions **smarter, more targeted and more effective** (please refer to Annex A). For example, the Plan outlines the following research initiatives¹:

- Dr. David Rothwell will examine the impact of financial education on financial behaviours using data from the CFCS.
- In addition, Dr. Rothwell will use the same dataset to examine how financial knowledge varies across different demographic groups.
- Dr. Karen Duncan has an interest in understanding financial stress and well-being at midlife. Dr. Duncan will conduct research in this area to expand the knowledge of financial challenges and opportunities of Canadian adults at mid-life.²
- Chartered Professional Accountants of Canada will examine the impact of an economic downturn on the ability for Canadians to absorb an economic shock. This research will be used to inform the development of financial education materials.
- Chartered Professional Accountants of Canada will also conduct research to examine the definition of financial wellness and to develop a self-assessment tool that will allow individual consumers to articulate their view of optimal financial wellness and where they are relative to this optimal position.
- In order to better understand the financial literacy of students, FCAC is participating in the OECD's Programme for International Student Assessment (PISA).³ This survey will generate benchmark data on the financial literacy levels of youth in Canada.
- Dr. Jodi Letkiewicz is examining the financial knowledge, financial well-being, and academic persistence and performance of Canadian university and college students.
- In terms of behavioural change, Dr. Dilip Soman is examining how avatars can be used to positively influence financial decision-making.

¹ Please refer to Annex B for a complete list of contributors to the National Research Plan.

² Dr. Karen Duncan is also working with the Manitoba Financial Literacy Forum to better understand the financial challenges specifically in Manitoba.

³ The Programme for International Student Assessment (PISA), a large-scale international study, surveys 15 year-olds and was fielded in 70 countries/economies including in all ten Canadian provinces in the spring of 2015. Financial literacy was an additional skill that was assessed in seven provinces. The results of the 2015 survey will be available in 2017.

- The B.C. Securities Commission is examining whether plain language materials result in more effective conversations between investors and advisors.
- Dr. Jennifer Robson has identified an opportunity to use tax-filing behaviour to understand financial behaviour. Dr. Robson's research will examine the impact and obstacles to tax-filing for low-income Canadians.
- The Chartered Professional Accountants of Canada is monitoring research on an ongoing basis to identify best practices and opportunities for Canada.

In addition, there is a need for further empirical evidence to better understand the specific financial literacy needs of low-income Canadians, Indigenous Peoples and newcomers. The Canada Mortgage and Housing Corporation and Aboriginal Financial Officers Association have identified themselves as potential leaders and contributors to this research.

Areas of focus

The National Research Plan focuses on four key areas: **budgeting, paying down household debt, building savings, and the complexity of the financial services industry.**

Budgeting

Budgeting is a fundamental aspect of financial literacy because it allows consumers to prioritize their needs under times of financial constraint (Fernbach, Kan, Lynch, 2015). And, many Canadians are financially constrained. One third of Canadians are struggling to make ends meet. This rises to 42% for those between the ages of 35 and 44 years old (FCAC, 2015). Many Canadians rely on sources of credit, rather than savings, when their income is inadequate to cover their expenses.⁴

Despite the benefits of budgeting, less than half of Canadians have a household budget (FCAC, 2015). Of those who do, however, over 90% stay within their budget almost all the time (FCAC, 2015). For this reason, enabling more households to budget is an important first step in assisting consumers to prioritize their expenses and manage their debt more wisely.

Budgeting is also an important skill that assists consumers with planning for the future. Overall, only 40% of Canadians know how much they need to save for retirement. However, people who stick to a budget are twice as likely as those without a budget to know how much to save for retirement.⁵

There is clearly an opportunity to improve consumers' financial outcomes through budgeting. The questions that are being addressed by the National Research Plan relate to how best to inform consumers about the benefits of budgeting, how to budget and how to increase confidence around budgeting. The research community has already begun to address some of these questions. For instance, in a study of Canadian

⁴ FCAC calculations of the 2015 OECD/INFE Survey on Measuring Financial Literacy and Financial Inclusion.

⁵ Simhon, Y. (2016). Financial Literacy and Retirement Well-Being in Canada: An Analysis of the 2014 Canadian Financial Capability Survey. Paper presented at the 50th Annual Conference of the Canadian Economics Association, Ottawa, Canada. The logistic regression analyses was performed on pre-retirees (aged 55 – 64 years) and controlled for age, gender, marital status, income quintile and highest level of education.

consumers who do not budget, 44% indicated that they did not know where to start (FCAC, 2016). Many of these consumers reported beginning budgeting after being provided information about the importance of budgeting and how to do it.

Research opportunities: budgeting

Under the National Research Plan, the following research initiatives will be undertaken to generate empirical evidence related to **budgeting** (please refer to Annex A)⁶:

- FCAC will conduct an experiment aimed at initiating budgeting behaviours among non-budgeters. FCAC will assess the effectiveness of its consumer education materials and related tools through an innovative mobile application.
- Chartered Professional Accountants of Canada will examine motivational triggers that encourage individuals to draft a budget or financial plan for themselves.
- Dr. Christina Kan is exploring how to get people to continue using a budget, and how technology can be leveraged to encourage the continuation of budgeting behaviour.

In addition, as part of this Plan, FCAC will coordinate and collaborate with Research Committee members and representatives from the research community to encourage further research to:

- better understand how best to enable non-budgeters to start using a budget and to continue using a budget on the long-term;
- understand the different ways of budgeting (e.g, mental accounting, written spending plans, tracking expenses) and the impact these different approaches have on financial behaviour;
- identify successful policy approaches to encouraging budgeting in jurisdictions with the highest levels of budgeting (e.g., France); and,
- inform efforts to use budgeting as a means of enabling consumers to prioritize key behaviours such as saving for an emergency, paying down debt and saving for the future.⁷

Paying down household debt

The Canadian debt-to-disposable income ratio continues to climb and is one of the highest in the world (OECD, 2016). Canadian household debt is not only increasing, but is also becoming more concentrated in households with higher levels of indebtedness. The Bank of Canada identifies those with a debt-to-gross income ratio of more than 250 percent at risk, with those with a debt-to-gross income ratio of more than 350 percent as the most at risk (Bank of Canada, 2016).

⁶ Please refer to Annex B for a complete list of contributors to the National Research Plan.

⁷ For additional details on how FCAC will coordinate and collaborate with Research Committee members and representatives from the research community to encourage further research, please refer to next steps on page 12 of this document.

Further examination of the characteristics of highly indebted borrowers indicates that, in comparison to less indebted borrowers, highly indebted borrowers tend to be younger (under age of 45), have lower incomes and wealth, and are less likely to have pursued post-secondary studies or training (Bank of Canada, 2016). These findings add to the concerns that younger Canadians are among the most heavily indebted.

The number of seniors carrying debt is also increasing (Uppal, 2012).⁸ Between 2009 and 2014, retirees with a mortgage on their primary residence increased from 16% to 19% while retirees with an outstanding balance on a credit card rose from 12% to 15% (FCAC, 2015). There is a clear trend of increasing indebtedness among current retirees and a worrying trend for those who will be entering retirement in the next 20 or 30 years.

Evidence about effective ways to enable consumers to reduce their levels of household debt was recently uncovered through research in Canada. For instance, a series of studies conducted by the Social Research and Demonstration Corporation found that financial knowledge was not sufficient to steer consumers towards desirable short-term behaviour including managing debt. These studies found that financial confidence was integral to making good day-to-day financial decisions (Palameta et al., 2016; Shek-wai Hui, 2016). In addition, FCAC recently participated in the OECD/INFE Measuring Financial Literacy Survey to gain insights on money and debt management in Canada.

Research opportunities: paying down household debt

Research will be conducted to generate empirical evidence that will inform practices that will enable consumers to reduce their levels of household debt (please refer to Annex A). For instance⁹:

- Dr. Jennifer Robson and Dr. David Rothwell are working together to examine asset poverty in Canada. This research will provide insights into economic insecurities by examining asset poverty rates across sociodemographic groups. The research will also examine how age and geography shape the risk for asset poverty.
- Dr. Robson and Dr. Rothwell are also conducting research to examine measures of household financial vulnerability, including: allocation of assets into liquid vehicles, participation in fringe financial services and difficulty in meeting financial obligations.
- Understanding the relationship between family caregivers and financial hardship is an area of interest for Dr. Karen Duncan. Dr. Duncan will conduct research to better understand the prevalence of poor financial outcomes (e.g., selling assets, filing for bankruptcy) among family caregivers.
- Dr. Jodi Letkiewicz and Credit Counselling Canada are working together on a research proposal to examine impact on debt management plans, consumer proposals and bankruptcy on signs of financial distress.

⁸ The number of seniors carrying debt has increased from 27.4% in 1999 to 42.5% in 2012. The median amount of debt they are carrying more than doubled in the same timeframe (from \$8,500 to \$18,000).

⁹ Please refer to Annex B for a complete list of contributors to the National Research Plan.

FCAC will coordinate and collaborate with Research Committee members and representatives from the research community to encourage further research in this area.¹⁰ Research to understand the nature and scope of the financial challenges facing Canadian households will be conducted as part of the Plan. For example, types of household debt and the barriers to paying down household debt are areas of interest.

Building savings

The rise in household indebtedness in Canada has coincided with a gradual decline in the personal savings rate from nearly 20% of disposable income in 1982 to just under 5% of disposable income in 2016 (Statistics Canada, 2016). Recent research findings demonstrate that one-third of Canadians have recently faced the situation of not being able to cover living expenses through income alone.¹¹ One half (48%) of this group also identifies using some form of credit to make ends meet.¹² A relatively small proportion (between 12% and 18%) across all household income groups report using savings to make ends meet.¹³ The research also found that 50% of households making under \$56,000 a year indicated that they would have to move within 3 months if they lost their main source of income.¹⁴

According to the 2015 Rainy Day Survey conducted by Pollara and BMO, 56% of Canadians have less than \$10,000 in liquid savings for emergencies, with 44% indicating under \$5,000 and 21% indicating they had less than \$1,000 of liquid funds available. Of those surveyed, 29% indicated that their savings would only last one month or less in case of income disruption, while 25% reported that they have enough to last them over a year. Given that 46% of Canadians indicated that they experience an unexpected expense on an annual basis¹⁵ (CIBC 2014), it is important that consumers establish an emergency fund. This includes creating a budget and incorporating savings in their budget.

¹⁰ For additional details on how FCAC will coordinate and collaborate with Research Committee members and representatives from the research community to encourage further research, please refer to next steps on page 12 of this document.

¹¹ FCAC calculations of the 2015 OECD/INFE Survey on Measuring Financial Literacy and Financial Inclusion.

¹² *ibid*

¹³ *ibid*

¹⁴ *ibid*

¹⁵ Canadians classified medical expenses (72%), job loss (71%), major car repairs (61%) and unexpected home repairs (59%) as the top emergency concerns. A breakdown by age yields interesting results: ages 18-34: 45%, ages 35-54: 51%, and age 55+: 42%.

Research opportunities: building savings

Under the National Research Plan, the following research initiatives to generate empirical evidence related to **building savings** will be undertaken (please refer to Annex A)¹⁶:

- Dr. David Rothwell will examine the relationship between knowledge and self-efficacy related to savings among low-income individuals.
- Use of tax-sheltered saving vehicles is one important way to build savings. Dr. Pierre-Carl Michaud will examine Canadians' perceptions, knowledge and use of tax-sheltered savings vehicles (i.e., RRSP and TFSA).
- In addition, FCAC will explore approaches used in other jurisdictions including establishing tax-time savings accounts and incentives that make it easier for households to save a portion of their tax refund¹⁷

FCAC will continue to coordinate and collaborate with Research Committee members and representatives from the research community to encourage further research in this area.¹⁸For instance, a research project examining the public policy impact on saving levels across different countries as well as various demographic groups is of interest.

Increasing complexity and availability of financial products and services

Financial products and services are becoming increasingly complex. It is therefore increasingly important to seek out sources of information and advice, and to shop around for products and services when making a financial decision. Individuals are being asked to take on responsibility – and assume the burden of risk – for planning and saving for their future (OECD, 2006). In addition, the explosion of financial technology (FinTech) companies is enabling traditional and non-traditional players to develop solutions that drive engagement and deliver value for merchants and consumers. Digital currencies and electronic payments are two examples.

Getting advice on financial products is an important financial literacy skill associated with financial well-being. For instance, getting advice on financial products is associated with positive savings and financial planning behaviours (Simhon, 2016).¹⁹ In addition, a recent FCAC study of payday loan users found that many respondents did not consistently seek out financial advice even when they felt it was needed. For example, only eight percent of respondents reported always seeking financial advice when they felt it was necessary. Surprisingly, 27 percent never sought out advice even when they needed it (FCAC, 2016b). The low rate at which payday loan users sought financial advice highlights the need for promoting professional

¹⁶ Please refer to Annex B for a complete list of contributors to the National Research Plan.

¹⁷ FCAC is assessing the feasibility of approaches similar to those employed an existing program entitled the Refund to Savings (R2S) Initiative. This project is one of the largest saving experiments conducted in the United States to date. R2S builds a saving-promotion experiment into the TurboTax Free File Online product that is available free to low- and moderate-income households. R2S experiments measure the effect of behavioural economics techniques using a randomized controlled trial with the goal of increasing savings at tax time.

¹⁸ For additional details on how FCAC will coordinate and collaborate with Research Committee members and representatives from the research community to encourage further research, please refer to next steps on page 12 of this document.

¹⁹ The logistic regression analyses controlled for age, gender, marital status, income quintile and highest level of education.

financial advice among consumers. As choosing financial products and services is a core component of financial literacy and evidence suggests that more informed consumers make better financial decisions, it is important that research consider this a priority.

Research opportunities: choosing financial products in a complex marketplace

The following research initiatives will be, or have recently been, undertaken to generate empirical evidence about effective ways of helping consumers to be more knowledgeable, confident and skillful when it comes to **choosing financial products in a complex marketplace** (please refer to Annex A)²⁰:

- FCAC is completing research to understand the demographics of payday loan users, and reasons for using payday loans. Through this research, FCAC has identified the following areas for potential further investigation:
 - the nature of payday loan borrowers' spending habits and how these affect their likelihood of accessing payday loans;
 - how best to take advantage of cognitive biases to encourage consumers to use their savings for relatively small, necessary expenses and avoid accessing credit products; and,
 - the nature of online pay day loan use, and how borrowers' behaviour differs when using online versus storefront payday loans.
- Dr. Jerry Buckland will lead a research project commissioned by Indigenous and Northern Affairs Canada (INAC), to examine access to banking on-reserve. In addition, Dr. Buckland will work with SEEDWinnipeg, a local non-profit, to examine a group-based RESP product that is especially popular with newcomer Canadians and examine the benefits, costs, and risks of it to the consumer.
- Dr. Dilip Soman will lead a project to test a new tool, Financial Literacy in a Box (FLIB), to examine opportunities to bridge the gap between the goals of a financial education program (i.e., knowledge) and effective decision-making.
- Grace Barakat will conduct research to examine the ways in which individuals manage to pay for their education by accessing available resources: loans, bursaries and grants in universities across Ontario.
- Milos Vašić will conduct research to help broaden financial inclusivity in Canada. The goal will be to understand how financially vulnerable populations can access reasonably priced basic banking services rather than relying on the alternative financial system dominated by payday lenders and other suppliers of fringe financial services.

²⁰ Please refer to Annex B for a complete list of contributors to the National Research Plan.

Next steps

FCAC will serve as a central hub for sharing research, enhancing knowledge transfer and disseminating research findings. Although ownership of individual research projects remains with researchers and funders, the intent of the Research Committee is to collaborate and coordinate research initiatives, as well as, to share and promote research findings. FCAC will share and promote financial literacy research by making research papers available through the Canadian Financial Literacy Database. In addition, researchers and funders are encouraged to make their research broadly available.

At regular intervals, information briefs will be developed to inform the work of stakeholders in support of the implementation of the *National Strategy for Financial Literacy—Count me in, Canada*. Opportunities will be sought to integrate research findings into concrete and actionable evidence-based policy and program interventions to enhance financial well-being and financial consumer protection in Canada.

In order to facilitate new research initiatives in areas identified in this Plan and encourage further research, FCAC is working to identify funders and funding mechanisms to support the execution of this Plan.

For a detailed description of national research plan projects, please contact ResearchRequest@coll-pr.fcac-acfc.gc.ca.

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