



# THE EDMONTON FINANCIAL LITERACY SOCIETY

Because money does *not* come with a manual.™

## EFLS Submission to Task Force on Financial Literacy:

With a spirit of great anticipation and enthusiasm, the staff and directors of the **Edmonton Financial Literacy Society (EFLS)** are appreciative of this unique opportunity to share its expertise, experience and to provide feedback and recommendations with respect to the **Task Force on Financial Literacy's** public consultation document entitled; *Leveraging Excellence, Charting a course of action to strengthen financial literacy in Canada.*

### About EFLS

As a **leading pioneer** in delivering financial literacy education in Canada for the past seven years, EFLS is in a very unique position as it offers its insight, thoughts and recommendations to the task force. EFLS is a registered non-profit charitable organization that has to date, delivered *impartial* financial literacy education to over **1,400** people, predominantly focusing on low income clients, including Aboriginals, Recent Immigrants, Youth and other low income segments via partnerships with over **45** different organizations.

EFLS is the only non-profit organization in Edmonton specializing in financial literacy and was among the first organizations in Canada to deliver financial literacy education with a matched savings component. Furthermore, EFLS **dedicates 100% of its resources to developing and teaching financial literacy** and its success is largely the result of it having developed and utilizing its own unique learning materials and approach to education.

Unlike other money management approaches, EFLS utilizes a comprehensive **holistic approach** as its financial literacy courses do not just teach budgeting skills and tracking one's expenses; the curriculum looks in depth at the human emotions that drive spending and money management and help people to have a healthier relationship with their personal finances. Furthermore, EFLS' courses emphasize the use of interactive learning materials to ensure greater knowledge retention.

EFLS takes a unique approach in development and delivery with its partnership model, which builds on the strengths of other local agencies to provide its services. **Flexibility and adaptability** are key strengths of EFLS as it is open to custom tailoring learning materials to more effectively suit the different needs of the groups it delivers to and draws from a pool of specialized contract facilitators with different skill sets to effectively deliver its courses or provide "train the trainer" courses to other agencies they have partnered with.

EFLS recognizes that **simply possessing knowledge does not necessarily induce a positive change in a person**. To address this issue, EFLS accesses and utilizes resources from the field of **Behavioural Economics** in its programming. EFLS strives to ensure that individuals who receive its programming not only enhance their level of financial knowledge but will also **apply** that new found knowledge in their daily lives on a long term basis. **EFLS courses are designed not just to educate, but to positively change behaviours** and thus increases the success of each project it manages.

EFLS is grateful to have the availability of this forum to offer their perspective and recommendations to improve the state of financial literacy in Canada.

## Defining Financial Literacy:

EFLS' opinion is that the Task Force's definition of Financial Literacy is largely accurate but is missing a critical component, that of an *individual's emotional relationship to money*. It is EFLS' experience, that without exploring this facet of financial literacy first, most financial literacy education opportunities are far less effective.

EFLS strongly believes that there is a direct correlation between *How one views money and its role in their life* **and** *How well that individual will be able to manage their money*.

While some money management courses take the approach that individuals should identify and distinguish between personal *needs* and *wants* and then only direct their financial resources to *needs*; EFLS also recognizes that a balanced life needs to be enjoyable and that it is acceptable to also spend money on *wants*, providing that the *wants* are affordable, within one's budget, doesn't compromise on the money designated for *needs* and meets the individual's desired goals, happiness...etc.

Unless an individual has some psychological insight as to *Why one tends to spend money frivolously*, or *Why one accumulates unmanageable levels of credit card debt*, or *Why one has a deep seeded need to impress others with their material possessions*; simply instructing an individual on how to prepare a budget and to cut back on their spending will have little impact on their financial circumstances. Therefore, EFLS would modify the Task Force's definition to read:

### Definition of Financial Literacy

*Financial literacy means; possessing the knowledge, skills and **psychological insight into one's motivations and behaviours** so that financial decisions are responsible, conducive and realistic in relation to one's personal circumstances.*

## Task Force questions answered:

In response to the Task Force's request for feedback on this topic, EFLS' viewpoint is outlined below:

### I. Personal Insight into one's "Money Mindset"

- The ability to distinguish between personal needs and personal wants and making wiser choices accordingly.
- Being aware of the seductive power of *Consumerism* (i.e. marketing materialistic attitudes) and not allowing it to manipulate one into over spending and accumulating unmanageable debt.
- The ability to recognize *peer pressure* (otherwise known as "keeping up with the Jones" in the adult world) and not to succumb to it.

### II. Saving habits and Budgeting

- The ability to develop and stay within a realistic household budget.
- Developing an effective and habitual system for tracking one's expenses and appreciating the importance of doing so as personal circumstances dictate.
- Identifying "spending leaks" that negatively affect household budgets and exploring as well as implementing creative ways to stop the spending leaks.

### III. Using Credit Wisely

- Possessing the knowledge and proper mental attitude to establish or re-establish a good credit rating.
- The ability and willingness to resist greed and temptation and to live within one's means.
- The ability to decipher credit / loan agreements in terms of what interest rate is being charged, how interest charges and late payment penalties are calculated and the consequences of late / non-payment.

### IV. Preservation of Capital

- Taking measures to protecting oneself from Identity theft.
- Taking measures to protecting oneself from fraudulent investment schemes.
- Having insight into one's risk tolerance level and matching their savings and investment choices accordingly.

### V. Banking

- The ability to open and efficiently manage a bank savings account.
- The ability to choose the right company and type of bank account to match one's banking needs and circumstances.
- Being aware of and not falling victim to; the pitfalls of conducting business with pay day loan companies and non - traditional cheque cashing businesses (e.g. Money Marts).

### VI. Smart Shopping Skills

- Understanding the intrinsic value of comparison shopping and incorporating comparison shopping into one's shopping habits.
- Understanding the concept that; *the more convenient a product or service is, the more costly it will be* and taking measures to adjust one's shopping habits to become more cost efficient.

## **VII. Government Benefits & Taxation**

- Understanding eligibility criteria for GST rebates, Provincial and Federal Child Tax Benefits and following through by applying for them.
- Understanding the tax saving benefits of RRSP's and RESP's and initiating the start of these types of savings plans.

## **VIII. Making good savings and investment choices**

- Insight into one's investment risk tolerance level.
- Clear understanding of what types of financial organizations and products are covered / not covered by the Canada Deposit Insurance Corporation as well as maximum amounts insured.
- Easy access to *consumer watchdog agencies* to check the legitimacy of financial organizations and products.
- Having a realistic vision of where they want their life to be in 5 years from now, 10 years from now and 25 years from now.
- Insight into what is realistically affordable vs. what they desire.
- Ability to identify suitable experts to obtain advice that is appropriate and best fits their needs.

## EFLS Recommendations for a National Financial Literacy Strategy:

### #1 The Government should manage the strategy and NOT delegate this responsibility to an independent organization.

For the purposes of objectivity, impartiality and transparency, EFLS believes that the national financial literacy strategy should be monitored and administered by the Government either at Federal and/or Provincial levels.

One possibility is to expand the current mandate and responsibilities of the Financial Consumer Agency of Canada. Another possibility may be to create a new Government department or agency dealing only with financial literacy issues.

Either way EFLS feels that it would be dangerous to outsource this initiative to just one community agency for management, information sharing, strategy development and funding purposes.

### #2 Non-Government Organizations who currently provide effective financial literacy programs should be recognized, supported and sufficiently funded to continue their work.

The Task Force needs to recognize that there already exist a number of *grass roots* non-Government organizations (NGO) who deliver and target highly effective financial literacy programs to specific population segments. EFLS is among this group of NGO's and they need to be acknowledged and supported by the Task Force in addition to their larger broad brush focus of 'educating-everyone' in society. Securing funding for these NGO's is challenging and the Task Force for Financial Literacy could assist these organizations by advocating for funding on their behalf.

Also, the designated government agency should strongly consider the role of being an *information broker* and purveyor of information for grass roots groups such as EFLS. In this role, the government agency would be the custodian of copy rights and user agreements. It would support and redistribute to groups such as EFLS free of charge. EFLS would also encourage that department to screen and approve all agencies and individuals that use the materials to ensure they have the appropriate training, skills and background to deliver this education. Furthermore, screening should eliminate potential conflicts of interest or ulterior motives such as the selling of financial products...etc.

Further to the above, the designated government agency should provide mechanisms so that groups such as EFLS can make use of, contribute to, and compare against Canadian statistical data for organization value measurement, participant benefit measurement and a larger movement of improving Financial Literacy within targeted Canadian populations.

EFLS also recommends that the Task Force needs to recommend the establishment of a NGO award system to recognize, promote and honour those organizations and individuals who are making a difference.

### #3 Applying *Behavioural Economics* is crucial for an Effective National Financial Literacy Strategy.

The Task Force's consultation document makes reference to behavioural economics and EFLS applauds the inclusion of this factor in the report as EFLS strongly believes that **utilizing resources from the field of *Behavioural Economics* will be a key component with respect to any effective national financial literacy strategy.**

EFLS attests to the philosophies and teachings of world renowned bestselling author, **Stephen R. Covey**, whose book entitled *Principle-Centered Leadership* states the following in its opening chapter:

### **Personal Development**

*"I have long advocated a natural, gradual, day-by-day, step-by-step sequential approach to personal development. My feeling is that any product or program – whether it deals with losing weight or mastering skills – that promises 'quick, free, instant and easy' results is probably not based on correct principles. And yet virtually all advertising uses one or more of these words to entice us to buy. Small wonder many of us are addicted to 'quick fix' approaches to personal development.*

*In this section, I suggest that real character and skill development is irrevocably related to natural laws governing principles; when we observe this, we gain the strength to break with the past, to overcome old habits, to change our paradigms and to achieve primary greatness."*

The government agency would need to develop and make available greater Behavioural Economics resources to assist in the development and implementation of the national strategy.

### **#4 The National Strategy needs to be Diverse and Accessible to all Canadians.**

EFLS is in agreement with the Task Force that a *one size fits all* approach to financially educating the public would not be effective. EFLS believes that **financial literacy education is important for all population segments**, not just for the poor and the marginalized. EFLS cites 3 recent real life examples that support this perspective:

- **Travelers stranded as volcanic ash disrupts air travel to / from and within Europe:** In April 2010, up to a million people were affected by this event as many were left *stranded in airports all over the world (especially within Europe) because of the volcanic eruption in Iceland resulting in unsafe air travel. No one anticipated this happening and most likely, very few (if any) of the stranded have emergency financial resources in place that were specifically designated to deal with this type of scenario.*

*People in this situation faced challenges such as additional travel costs, loss of income from employment, insurance claims and stress.*

*This event reinforces the importance of having emergency savings and a preparedness plan to tackle unforeseen circumstances.*

- **Alberta goes quickly from boom to bust:** *Alberta is reputed for its boom or bust economies due to its reliance on the oil industry. Just prior to the most recent economic downturn, jobs were abundant and consumer spending and the liberal use of credit widespread. Some employers were practically begging for workers as "help wanted" signs were a common sight in business districts and employers needed to find innovative ways to recruit employees by offering unorthodox incentives to potential job applicants.*

*When the economy went sour, the change was sudden and many Albertans were not prepared for it. They had the misconception that the good times were going to last forever. The help wanted signs disappeared quickly and many of those that lost their jobs did not have a financial cushion to fall back on (other than EI) and facing bills that they had no idea how they were going to be able to pay. Usage of the province's food banks skyrocketed as did the personal bankruptcy rate and average household debt to income ratios. Again, this shows that poor spending choices in times of plenty can seriously affect lifestyles when the economy faces challenges. We can also see that interest rates have changes, but unless Albertans possess the skills to review and renegotiate their interest rates, they could pay considerably more than a fair market price for any loans they were responsible for.*

- **Self proclaimed Canadian Financier; Earl Jones bilks investors out of \$50 million** – Once a pillar in his community and trusted and befriended by many seniors, Earl Jones swindled as many 150 investors out of their life savings.

*Those investors that were victimized had to possess some level of financial literacy in order to have enough money to invest in the first place. Unfortunately, the amount of financial literacy they did have was not enough for them to perceive and walk away from a poor deal.*

The real life examples above reinforce the importance of financial literacy and how a lack of it can have a huge negative impact on one's life. Personal financial crisis can happen to anybody, rich or poor. Events will happen that we will have no control over. We can, however, *control how we react* to financial crisis and being financially literate provides a foundation for doing so and doing it effectively.

Every person will think and perceive situations differently. Materials that more directly meet an individual's circumstances and perceptions are far more likely to have a positive impact on that person. We can see this in our school system, even though we have the same subjects to focus on, the content and delivery mechanisms differ from grade to grade in order to be as effective as possible. This approach should also be applied to the teaching of financial literacy.

EFLS recommends that for **vulnerable population segments**, specialized curriculums tailored to meet the unique needs of their demographic should be developed and utilized. EFLS has identified the following population segments as being high need:

- Aboriginals
- Addiction recovery program participants
- Criminal rehabilitation program participants
- High School Youth
- Individuals diagnosed with developmental disabilities
- Individuals diagnosed with mental illness
- Low wage earners receiving supplementary income from government sources
- Recently landed immigrants
- Teenaged parents
- Troubled Youth / Youth at Risk
- Victims of domestic violence and abuse

## #5 Youth should be a high priority for receiving financial literacy education.

It's well known that consumer debt levels and personal bankruptcies are at an all time high in Canada. This disturbing trend is exacerbated by the fact that today's youth expect a lot more in terms of what they think that they are "*entitled to*" due in large part to peer pressure and slick corporate marketing. For example, in generations past, youth were *not* expected to have:

- Cell phones & other High Tech hand held gadgets
- Designer Clothes & High priced Sneakers
- A Computer with Internet access
- The latest and trendiest Video Game System (e.g. Playstation 3, XBOX 360)

The result is that today's young people fundamentally do not have a strong appreciation for the value of money as they take for granted the possessions that have been, in most cases, financed by their parents. This perhaps explains in part why consumer debt levels and personal bankruptcies are at an all time high as many parents are indulging their children as a result of their children's high priced and often unreasonable demands.

**EFLS' aspires to educate today's youth so that they will possess** a more realistic and healthier attitude towards money, greater insight into their spending motivations, practical goal setting skills and greater appreciation towards the value of tracking one's spending and building personal savings.

The anticipated overall benefit to the community with this approach is that; **future generations will be less susceptible to:**

- Taking on unmanageable levels of personal debt.
- Filing for personal bankruptcy.
- Falling victim to the practices of predatory lenders and scam artists.
- Experiencing homelessness.
- Making poor decisions which affect their long term financial stability.
- Experiencing undue stress in their personal, family and work lives stemming from financial pressures.
- Engage in addictive negative behaviours (e.g. gambling, substance abuse) which are counter-productive and just exacerbate their financial difficulties as opposed to resolving them.

Youth are subject to influences from a wide variety of sources. EFLS offers the following recommendations with respect to how some of these influential sources can contribute positively to financial literacy for Canada's youth:

#### **Parents /Family:**

- Teach children that money is a *finite* and not an *infinite* resource.
- Teach children that money should be treated with *respect* and *not abused*.
- Teach children that having money is a *privilege*, not a *right*.
- Refrain from indulging children and educate them that in this life; "*You can't always get what you want*".
- Convey to their children that many of the things they take for granted (food, clothing, housing, clean water...etc.) requires money and every household has a limited amount of money that can be accessed.
- Communicate to their children that succumbing to peer pressure and *being just like the cool kids and having the same things they do* is not always the best way to live.

#### **Targeting 8 – 12 Year Olds:**

According to scientific research, youth aged 8 – 12 years old are deemed to be the most *impressionable* in terms of learning and adapting to new ideas, attitudes and behaviours. Therefore, conducting projects that would involve delivering financial literacy education to parents of young children aged 8 – 12 years of age and in turn having the parents share what they learned with their children may serve to be quite effective. The basic objective of a project of this nature would be to reduce unmanageable personal debt levels in present and future generations. (*Note: This project concept has been endorsed by the Federal Consumer Agency of Canada but has yet to be implemented by EFLS due to a lack of funding. This is typical of some of the direct challenges that EFLS has to deal with as a financial literacy pioneer.* )

#### **Schools:**

Because education falls under provincial jurisdiction and not federal jurisdiction, making financial education mandatory in all schools nationwide is challenging. EFLS' recent experience with the education system in Alberta warrants disclosure and sharing.



Currently, *Alberta Education* provides High School youth with *Career and Life Management (CALM)* programming. However, many of those who teach the CALM curriculum are specialists in other areas (e.g. Social Studies, Science) and often lack the practical skills in how to effectively teach money management. This is evidenced by the fact that since 2008, EFLS has been approached by several Edmonton area High Schools to offer support to their respective CALM curriculums. To date; EFLS has delivered this type of financial education support to 478 students in partnership with 6 different High Schools. Most subjects taught in schools have specific, measurable and pre-determined outcomes as there is no behavioural focus (i.e. 1+1 always equals 2, but when it comes to money management there may be no right or appropriate universal answer). Often CALM teachers are not appointed as specialist CALM teachers, but are asked to teach CALM along with their specialist subjects. They often do not have the experience and supports to effectively teach materials with a behavioural focus and can often intertwine their own personal values to the subject rather than remain impartial. Teachers need far greater training and supports to effectively teach financial literacy to the next generation.

The fact that a non-profit organization such as EFLS has been petitioned to offer ongoing support to an educational curriculum indicates that there is an unmet need within the current school system.

### **Colleges / Universities:**

The current debt levels of post secondary students is alarming and concerning. EFLS believes that one way to alleviate this problem is to enforce legislation that will ensure that student loans are distributed monthly and not in one lump sum at the beginning of the school year. The vast majority of the general population does not receive their source of income in one annual payment and neither should post secondary students, as it does not accurately reflect how the real world operates.

Furthermore, many young people do not have the self discipline to refrain from squandering their student loan on non-essentials as they receive one big cheque before they even crack open their first textbook and temptation is staring at them each and every day of the school year. This is one of the reasons why Food Bank depots started appearing and continue to be fixtures on University campuses all across the country. Grant distribution should also be linked to pre-determined goals. This could include payment for term 2 being based on attendance and acceptable grades in term 1 etc.

## **#6 New legislation should be introduced to make Lenders, Creditors & Investment Brokers more accountable through the provision of contracts that are more transparent and understandable for the consumers they deal with.**

### **Loan & Credit Agreements**

When one gets into financial difficulty, quite often it's simply the result of signing an agreement and not fully reading and / or understanding the contract they signed.

When one signs a legal agreement, it is assumed that the individual has read the contract in full and completely understands and agrees to abide by all the conditions stated. In real life, this is rarely the case. One barrier is the fact that contracts tends to be lengthy, full of legal jargon and written in a manner only a person with a law degree could decipher. This often being the intent of the company, to ensure the client does not fully understand the impact of the contract and is far less likely to make an informed decision. Not everyone has the skills or mental capacity to fully understand a complex contract, so while placing the onus on a company may provide challenges, it is a far more morally suitable approach for our society towards the ethics of business and the protection of defaulted contracts and increased consumer debt.

EFLS is advocating that greater transparency be required from all businesses that are involved in loaning money and / or providing credit. One way to do this is to make mandatory that contracts be written in simple, easy to

understand language. Furthermore, consequences in terms of default on loans and credit should also be openly disclosed.

EFLS also supports more transparent disclosure by lending institutions and credit card companies in terms of interest rates charged and penalties for late payments and how these penalties are calculated.

### **Credit Card Limits**

EFLS supports legislative change that would make mandatory, credit card holder's written consent before credit card companies increase their clients' respective card limits. Presently, credit card companies automatically increase clients' credit limits without consultation as this is how the small print in the contract is set up, with the assumption that if the person overspends, the credit card company can make more profits from the client. With this scenario the company does not have the best interest of the client as a motive for their process; and consumers should have protection from this approach.

Furthermore, EFLS also supports proposed Government legislation that would force credit card companies to set credit limits more realistically in proportion to a cardholder's income (e.g. if a person's **annual** income is less than \$20,000, why would that person need a **monthly** credit card limit of \$30,000?)

### **Investment Brokers**

EFLS endorses any revised legislation designed to:

- Protect investors from taking risks beyond their risk tolerance level.
- Enforce mandatory disclosure of risks associated with different investment vehicles.
- Make more stringent, code of ethics, qualifications and licensing requirements for those who sell investments.

## **EFLS' Perspective on the Future of Financial Literacy in Canada**

There is a greater need now for financial literacy than there ever has been in the history of mankind. EFLS applauds the government's decision to increase focus on this area. It will take many years to see the improvements that this strategy will make to our society, but EFLS knows that there will be successful outcomes for Canadian citizens if the government successfully implements the recommendations presented to the Task Force. EFLS also encourages **all** individuals to seek out as much knowledge and skills development as possible pertaining to their personal money management skills, to make wise and informed decisions, with prudence. EFLS also encourages corporations to support and educate their staff more for their own well being and for the benefit of the companies they work for.

*"You can give a man a fish and he will be fed for a day.*

*You can teach a man to fish, and he may feed himself from time to time.*

*You can teach and motivate a man to fish, and he will not only enjoy fishing regularly, but teach and motivate others to fish as well".*

If we apply this principle to financial literacy, we will see positive changes in the lives of every Canadian citizen.

### **Summary of EFLS Recommendations:**

- 1. The Government should manage a strategy and NOT delegate this responsibility to an independent organization.**
- 2. Non-Government Organizations who currently provide effective financial literacy programs should be recognized, supported and sufficiently funded to continue their work.**
- 3. Applying *Behavioural Economics* is crucial for an Effective National Financial Literacy Strategy.**
- 4. The National Strategy needs to be Diverse and Accessible to all Canadians.**
- 5. Youth should be a high priority for receiving financial literacy education.**
- 6. New legislation should be introduced to make Lenders, Creditors and Investment Brokers more accountable through the provision of contracts that are more transparent and understandable for the consumers they deal with.**