Why Should Employers Care About Financial Literacy?

The trend toward increased debt and less saving has put many Canadians on the financial edge. One remedy, the author suggests, is workplace-based financial literacy programs.
How the Workplace Can Contribute to Financial Wellness in Canada

Google the term financial literacy and you'll get thousands of hits, with each source defining it slightly differently. A 2010 report by the Task Force on Financial Literacy in Canada defines it as having the knowledge, confidence and skills to make responsible financial decisions. In Canada and around the world poor financial choices are putting individuals and the economy as a whole at risk—and it's raised alarm bells among policy makers and financial professionals alike. People are increasingly digging themselves into deeper holes of debt, with little or no money left over for basic savings.

Financial literacy can't fix all the problems, but it certainly can play a role in setting up Canadians for better outcomes around debt and retirement savings. Employers can strengthen the financial literacy of their employees. In fact, it could be considered a wellness issue that can help improve productivity.

Financial Literacy—Why Now?

Many believe the relationship Canadians have with their money has reached a turning point. Canadians owe more than ever before, and savings rates are at a historically low point. The trend toward increased debt and less saving has put many on the financial edge. To see how critical the situation has become, one need only look at the data:

- One-third of Canadian households live paycheque to paycheque.¹
- The average consumer debt load is $27,355, not including mortgage debt.²
- On average, Canadians owe a little more than $1.64 for every dollar they earn.³
- One in four Canadians polled said they can't come up with $2,000 to cover a financial emergency in 30 days.⁴
- Canadians save just 5% of their income compared to the 9% average since 1961.⁵
- Only 28% of working Canadians expect to be fully retired at 66.⁶
- Canadians have an estimated $683.6 billion in unused registered retirement savings plan contribution room.⁷

These statistics show many Canadians are in worse shape financially than ever. Increasing debt loads are mounting at the same time Canadians are assuming responsibility for their own retirement savings. Pension coverage isn't available to 60% of the population, leaving critical investment decisions up to individuals who must choose from a complex and ever-evolving menu of savings programs and products.

But can more financial literacy help? Or are we now just a nation of debtors doomed to a retirement lived on a shoestring?

Financial Literacy Can Make a Difference—But There Are Limits

Strengthening the financial literacy of working Canadians can help address financial skill and knowledge deficits as well as behavioural and attitudinal issues. However, it is not a panacea. Key structural challenges have put Canadians in a poor position for managing debt, savings and retirement plans. Financial literacy can't combat low interest rates or unemployment or change the trend away from defined benefit pension plans. Nor will it boost pension coverage or reduce the mounting cost of postsecondary education.

However, greater financial literacy can help people become better savers and more savvy spenders. That will allow Canadians to be more adaptable and flexible to handle those structural changes, with money saved for a rainy day and the capability to assess and navigate the changing spectrum of financial products in the marketplace.

Strong financial literacy skills and knowledge can have a positive impact at a national economic as well as individual level. In fact, research shows that financial literacy is positively correlated to economic development (measured by gross domestic product [GDP] per capita) and financial development (the GDP ratio of stock market capitalization plus private credit).³ And higher literacy leads to more efficient allocation of savings and higher per dollar returns, attracting more investment and growth in the country.⁷ On an individual level, finan-
Financial literacy

cial sophistication is associated with higher wealth and a higher probability to invest in the stock market as well as a higher propensity to plan for retirement.\textsuperscript{10}

Higher levels of financial literacy also can reduce dependency on high-cost ways of borrowing (one-third of Canadians carry a balance on their credit cards from month to month) and boost wealth accumulation. Low financial literacy has also been shown to lead to higher social safety net usage.\textsuperscript{11}

Financial Literacy as a Policy Imperative

Countries like the U.K., Australia, New Zealand, the U.S. and now Canada understand the importance of better financial literacy in creating a stronger social and economic fabric. Each has developed its own financial literacy strategy. More countries are following suit—Across the world national policies, strategies and programs are integrating financial literacy into schools and targeting high-risk populations.

The Financial Consumer Agency of Canada is responsible for financial literacy in Canada. The country is implementing a national strategy for strengthening financial literacy based on recommendations by the Task Force on Financial Literacy (published in 2010). There is huge momentum to ensure financial literacy is part of the formal curriculum in schools. British Columbia has included it in its mandatory tenth-grade curriculum since 2004, and Ontario has moved ahead to integrate financial literacy into fourth through 12th grades. Other provinces may follow suit.

Financial Literacy at Work

Yet with all this attention on financial literacy, the working public is one of the most overlooked groups. Workers represent a high-need area for financial education. After schools, workplaces represent one of the most effective venues for delivering financial literacy. In fact, the Task Force on Financial Literacy’s recommendations identified workplace financial literacy training as a potential policy imperative for Canada.

Task Force on Financial Literacy

The task force recommends that employers incorporate financial literacy training into workplace training programs and communications and making such programs eligible for tax assistance. The recommendation makes a lot of sense—Most people get their money through the workplace and are encouraged to save for retirement through savings programs and deductions for both the Canada Pension Plan and Old Age Security. And, by best estimates, employers in Canada already pay for the vast majority of the formal and informal training and education received by working-age adults.

Workplace financial education can support employees in developing skills to manage their wages in the short term (credit, saving, debt) and over the long term (managing for retirement).

The benefits are not one-sided—employees who are less burdened by financial stresses are more productive, positively inclined to the employer and less absent and stressed from work. In the U.K. for example, accesses for financial counseling and consultation from employee assistance programs (EAPs) are increasing twice as fast as all other EAP services.\textsuperscript{12} Financially stressed employees also spend an estimated 20 hours a month of work time trying to solve their financial problems.

Canadians’ primary cause of stress, anxiety or depression—excluding the workplace—is money, according to the Centre for Addiction and Mental Health in Toronto. Nearly half (44%) of respondents cite money issues as their top stressor.

A growing body of research links better productivity to financial wellness. Research by Joo,\textsuperscript{13} for example, found that good financial wellness and worker productivity are positively re-

Top websites in Canada for financial literacy resources:

- **Getsmarteraboutmoney.ca:** Information and tools on all things money, including investments, debt, spending and lifestyle. It’s run by the Investor Education Fund, an arm of the Ontario Securities Commission.
- **Moneysense.ca:** Engaging articles and tools on how to manage all aspects of money, brought to you by a solid roster of writers
- **The Financial Consumer Agency of Canada:** Highlights include a credit card selector tool based on regularly updated information like interest rates, points, etc. Visit www.fcac-acfc.gc.ca/Eng/Pages/home-acueil.aspx.
lated. Bagwell and Kim found that employees with more financial distress were absent from the workplace more often. They also found that employees with more financial distress displayed less commitment to their organization and are less satisfied with their pay, regardless of the amount of money they make.

**Best Practices**

As employers recognize the benefits of financial literacy in the workplace and their potential role, the question is—How should they do it? Below are a few key best practices:

- **Focus on the basics.** Understand and work toward building the core skills your employees need to understand about money and savings.
- **Leverage free tools.** As policy makers jump on board the financial literacy concept, they’re putting money into producing some excellent resources (see sidebar of websites).
- **Consider segmenting financial education based on employee groups.** Whether it’s women, new Canadians or people at different stages of life, not everyone has the same needs at the same time.
- **Make it holistic.** Employers need to put saving for retirement in context. Educating employees about saving and spending is just as important.
- **Fight apathy with innovation.** Draw on what we know about the potential for auto-enrolment, etc., to overcome employee behavioural biases.
- **Be consistent.** Make financial education a constant in the workplace and take every opportunity to clearly communicate financial information.
- **Make financial literacy a wellness issue.** High debt loads and the results of poor financial choices are huge stressors for employees. Basic financial education can promote mental health.
- **Quality.** Resources and programs should be unbiased (product-driven information does not support financial literacy).
- **Encourage behaviour change.** Support good practices in the workplace.

As policy makers wake up to the importance of financial literacy among the broad population, employers also can play a role. By boosting levels of financial wellness, employers can help employees succeed in different areas of their lives and contribute to the strength of the overall Canadian economy.  

**Endnotes**