ACPM/ACARR

The Association of Canadian Pension Management
L'Association canadienne des administrateurs de régimes de retraite

ACPM Comment
to the
Government of Ontario
Ministry of Education

Working Group on Financial Literacy

Wednesday, June 2, 2010

Prepared by the

Financial Literacy Subcommittee of the ACPM Strategic Communications Committee

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FOREWORD

The Association of Canadian Pension Management (ACPM)

The Association of Canadian Pension Management (ACPM) is the informed voice of Canadian pension plan sponsors, administrators and their allied service providers. Established in 1976, the ACPM advocates for an effective and sustainable Canadian retirement income system through a nonprofit organization supported by a growing membership and a team of volunteer experts. Our members are drawn from all aspects of the industry from one side of this country to the other. We represent over 300 pension plans consisting of more than 3 million plan members, with total assets under management in excess of $300 billion.

The ACPM promotes its vision for the development of a world leading retirement income system in Canada by championing the following Guiding Principles:

- Clarity in legislation, regulations and retirement income arrangements;
- Balanced consideration of other stakeholders' interests; and
- Excellence in governance and administration

Introduction

The ACPM appreciates the opportunity to provide our input to the Ontario Minister of Education's Working Group on Financial Literacy on the matter of financial literacy in the Ontario curriculum. We applaud the Ministry's initiative in this regard and look forward to the recommendations that come from this Working Group. If ACPM can be of any further assistance through this process including surveys and focus groups please feel free to contact us.

Question 1 - *Why is it important for Ontario students to be financially literate? What are the short-term and long term implications?*

The implications of diminished financial literacy stretch beyond the impact to the individual and the repercussions will be felt on a societal level. Over the past several decades the general level of financial literacy has declined as Ontarians benefitted from a system that provided generous social benefits from both the provincial and federal levels. For instance, comprehensive health care, benefits in the event of job loss and a certain level of retirement income meant that in many instances basic needs could be met.

In past generations, before the widespread introduction of comprehensive social benefits, financial literacy and the ability to manage ones personal affairs was simply a matter of survival. Many of these basic skills have been lost as we have moved towards a more consumer driven culture. Although savings rate in Canada are still relatively high, they have dropped significantly over the years.

On a short term basis the implications for young Ontarians are quite significant. Without basic financial literacy skills, the job market, as tough as it is now, becomes tougher. Those entering the job market will likely lack basic skills needed to not only acquire employment but also to manage their lives. For instance with rising housing costs a basic understanding of savings and interest rates are an important skill when attempting to acquire a first home.

Long term, the impacts stretch to affect society as a whole as the population ages. With the demographic trend moving towards an aging population, it will become incumbent on future generations to sustain themselves in a way that previous generations may not have needed to. Personal responsibility for one's future can only be achieved with an understanding of basic financial concepts such as saving, budgeting, retirement planning and so forth. While governments would no doubt like to maintain current benefit levels it will be necessary for them to shift attention to the aged cohort and the attentive care they will no doubt require.

Question 2 – *What should be the three key objectives of financial literacy education in Ontario?*

I. Create a program that integrates with all aspects of the current curriculum and begins early in the education process and continues through to the grade 12 level. It needs to be practical, tactical and relate to the everyday realities of today's students.

II. Include all aspects of financial literacy including money, saving, budgeting, investing, insurance, economics, retirement savings programs/options.

III. Engage partners in the process; the private sector has done a very good job in providing education to workers who are members of workplace retirement programs; leverage that expertise to design engaging educational programs. Don't let consultation process be the end of the exercise. There needs to be a firm commitment to following through on the initiative and an understanding that the investment in the education initiative would pay significant dividends in terms of a reduced burden on society in the long term.

Question 3 – *What should students know and be able to do in order to be financially literate?*

Financial literacy is not just one specific item or action…it involves a lifelong process of understanding, planning and actions that provide an individual with a secure and sustainable lifestyle in the present and the future. Therefore any program on financial literacy has to cover the spectrum from basic understandings of money (how to manage it, how to invest it, credit), protection including insurance and savings and of course long-term saving for retirement through a variety of vehicles including workplace pension/retirement plans and RRSPs.

This would involve that students understand how to open a bank account, how to budget with an emphasis on saving, what to look for when acquiring financial services such as mortgages and an understanding of how investments work. For instance students should gain a basic understanding of financial markets, the differences between various investment categories, an understanding of risk vs. reward and long term savings strategies. Students should learn that there is value in working for an employer that offers a pension/retirement savings plan and that saving for retirement begins early in their career.

Question 4 – *What advice would your organization provide to the Working Group on Financial Literacy on the concepts related to financial literacy education in elementary and secondary school?*

Canada's retirement income system is based on a "Three Pillar" system and according to the 2009 Mercer Global Pension Index it is rated as one of the best retirement income systems in the developed world. A critical and meaningful concept to teach students would be this Three Pillar system. There is great opportunity to go into more detail, especially under Pillar Three, as students progress through high school.

Pillar One: Old Age Security (OAS) and Guaranteed Income Supplement (GIS);

Pillar Two: Canada Pension Plan (CPP)

Pillar Three: Personal Savings, RRSPs, Workplace Pension/Retirement Programs (Defined Benefit, Defined Contribution, Capital Accumulation Plans, Group RRSPs, etc.)