

FINANCIAL LITERACY ONLY HALF THE BATTLE

A recently released study of financial literacy among Ontarians found that most people had a basic grasp of financial concepts yet struggled to apply them to their personal situations.

“We found that certain financial concepts are reasonably well understood by the majority of Ontarians,” says Tom Hamza, president of the Investor Education Fund. “But this study is also an important signal for the financial literacy community to focus on the application of knowledge, which seems to be where the real problem is.”

Among the positive findings, 90% of survey participants were able to spot signs of fraud, while 79% understood the tax benefits of contributing to an RRSP. The idea that risk and return are linked was familiar to about two-thirds of respondents.

But understanding the concept is a far cry from being able to put it into practice. The study found that many were unable to solve a practical problem regarding compound interest.

Most were also unfamiliar with which investments generate income or preserve capital and which grow assets. This was especially true of respondents ages 50 to 64.

“Literacy is partly about knowing the words and definitions, and that’s an important start. But we must focus on also inspiring the practical application of knowledge to help change behaviour,” says Hamza. “Knowledge without real-life application is insufficient, and we need to focus on educating people to use what they know.”

A separate study conducted by Financial Finesse found that women were “significantly behind in virtually all areas of financial knowledge.” Given that women tend to live longer than men, this is particularly troubling.

Only 25% of women said they felt confident about how their investments were allocated, compared with 42% of men. Sixty-three percent of female respondents said they felt they have a handle on their cash flow each month, compared with 80% of men.

Where women and men were most alike was in retirement preparedness, but this is hardly cause for celebration. Only 12% of women and 19% of men said they were confident they would be able to replace 80% of their income in retirement.