

What is Financial Literacy?

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Financial literacy is having the knowledge, skills and confidence to make responsible financial decisions.

The increasing complexities of financial products combined with the responsibility of individuals for their economic well-being are contributing to the need for a financially literate society. Efforts to increase financial literacy are gaining momentum around the world. Over the past years, the United Kingdom, the United States, Australia and New Zealand have all been developing and implementing national strategies to improve the financial literacy of their peoples. The Government of Canada has also formed a National Task Force on Financial Literacy (www.financialliteracyincanada.com).

The current global financial crisis has emphasized the importance of a financially literate society. Although Canada has to date avoided some of the worse outcomes of the economic downturn, recent reports have shown some cause for concern. Canada's debt to income ratio is currently at 146%. This means that Canadians owe on average \$1.46 for every \$1 they earn. This is a significant concern because a recent study found that 6 in 10 Canadians would be in trouble if their paycheque was delayed by even a week. Many households are not far from financial crisis.

Another cause for concern is the sheer cost of the very things that Canadians value, an education, a home and a comfortable retirement to name a few. It has been estimated that the expenses needed to complete a post-secondary education is approximately \$58,000. This figure is projected to grow significantly. For the majority of us who will never see a pension from our employer, having a nest egg of savings for retirement is partially up to us to build. Experts often suggest that we save approximately 10-20% of our income towards retirement in order to maintain our current standard of living. The reality is that savings rates for retirement and children's post-secondary education remain too low.

In Canada, key decision makers are starting to understand that financial literacy isn't just a matter of distributing brochures in the hope that they will be read. Financial literacy entails developing skill sets people will use every day to make better decisions. It is about creating financial services that are accessible particularly to those who cannot afford a financial advisor.

Financial literacy initiatives aim to increase financial knowledge and therefore change financial behaviour. As Canadians receive financial education, increase their confidence in financial matters and make more informed financial decisions, there will hopefully be a positive impact on their personal financial situation and financial security.

Nonprofit, community and faith-based organizations can play a significant role in building the financial literacy of Canadians. The nonprofit SEDI, for instance, co-founded the Canadian Centre for Financial Literacy (www.theccfl.ca) with TD Bank, to help community organizations across the country build their capacity to provide financial literacy information, services and support to the low-income groups they serve. A few examples of these services include running financial literacy workshops (on budgeting, using credit wisely, saving strategies, building a credit score, etc), hosting free tax clinics and providing support to help low-income families save and build assets. The CCFL's goal is to bring financial literacy to over 230,000 low-income earners by 2013.

If Canada is to prosper in this increasingly complex financial environment, it will need to create a supportive environment where people can build their financial literacy, have places to turn to get help, and have opportunities to invest in a better future.