January 21, 2015

Via Electronic Mail (consult@fcac.gc.ca)

Ms. Jane Rooney
Financial Literacy Leader
Financial Consumer Agency of Canada
427 Laurier Ave. West, 6th Floor
Ottawa, ON K1R 1B9

Dear Ms. Rooney,

RE: Toward a National Strategy for Financial Literacy, Phase 3: Young Canadians and Adults

We are writing to provide you with the comments of the members of The Investment Funds Institute of Canada ("IFIC") with respect to the document *Toward a National Strategy for Financial Literacy, Phase 3: Young Canadians and Adults, A consultation paper* ("Phase 3 consultation"). We appreciate the Financial Consumer Agency Commission's ("FCAC") broad-based approach and commitment to engage all stakeholders in generating ideas and identifying solutions to the issues outlined in the Phase 3 consultation and we were pleased to support and take part in the FCAC's financial literacy conference in November.

We concur with the paper's sentiment that significant progress in boosting all Canadians' financial literacy can only be achieved through collaborative action. While there are other, non-literacy related issues with respect to supporting the financial well-being of all Canadians; however, we have limited our comments below to the scope of the FCAC's consultation document.

The mutual fund industry is a key stakeholder in financial literacy for Canadians of all ages, financial means, and life stages. Mutual funds currently represent about 32% of total Canadian household wealth. Assets under management totalled $1.1 trillion dollars as of June 30, 2014, with approximately half held in registered plans (i.e. RRSPs, RRIFs, RESPs, TFSAs, and RDSPs) and 82% of mutual fund investors citing retirement savings as the intended purpose for their funds savings.

The commission will note that IFIC did not make a submission on Phase II of the consultation that focussed on priority populations. We agree with the importance of targeted solutions for these populations; however, we would defer to other more qualified commenters such as Prosper Canada. Nonetheless, we would note that, over time, the more successful we are able to deliver strategies for addressing youth and adult financial literacy, the more we will be able to improve financial literacy among priority populations, and perhaps reduce the numbers in need of special attention within some of these groups.

Youth Goal 1: Provide young Canadians with information they need to manage their money at key points throughout their lives.

As the Phase 3 consultation paper notes, Canada is at the forefront of developing innovative tools and programs aimed at helping to make the next generation more financially literate, while many provincial and territorial governments have integrated financial literacy into their curricula. The classroom has a valuable role to play in teaching children and youth the facts about money and financial matters, but to be successful, the information that young Canadians are exposed to in the classroom must align with the values they observe at home and through their everyday interactions with their peers.

The child who learns about good nutrition in the classroom, but goes home to a dinner of fast food and soda is unlikely to develop good eating habits. Similarly, the more a child is exposed to good financial habits, the more likely s/he is to start on a path to financial well-being

IFIC agrees with and supports the solid range of initiatives identified in the Phase 3 consultation paper, however, we have some concern that the second initiative, "… support parents' effort to become more involved in teaching their children about money," presumes that parents themselves have good knowledge and habits that they can pass on. Given some of the findings of the Canadian Financial Capability Survey, e.g. only 45% of respondents reported having a budget; it appears that successful execution of a strategy for youth will be dependent on being able to elevate their parent's knowledge habits and behaviours. As tactics involving the education sector demonstrated in elevating awareness about recycling and changing adult behaviours, learning materials that include messages kids could carry and use at home can help elevate discussions of financial matters in all age groups.

Youth Goals 2&3: Engage young Canadians in setting financial goals, saving and planning for their financial future; promote the practices that contribute to financial well-being and protect against risk.

IFIC fully supports the FCAC's goals and initiatives as outlined in the framework and, in particular, the initiative that would engage financial advisors and other stakeholders in the development of effective tools and resources for young Canadians. The financial services sector, including the investment funds industry is heavily engaged in supporting a range of programs and tools, e.g. Money and Youth, the Junior Economic Club, ABC Life Literacy and more. In addition, advisors are well positioned to channel information to parents to help them pass along good savings habits and attitudes to their children. To generate interest and to provide focus and consistency, retail and financial services firms could collaborate with government to launch a 'Participaction' type of campaign – like 'learn to limit your wants, be smart with your money'.

In order to set Canada's youth on a path to lifelong financial well-being, it is vital to understand and reflect the ways in which young Canadians engage with information. Surveys[1] report that young Canadians online activity is focussed on entertainment and connecting with friends. Online games (59%), downloading entertainment (51%), and various social media activities are cited as the chief ways youth spend their time online. As important, time spent online seeking information or advice is focussed on topics such as celebrity news and sports and relationships – not budgeting and saving. Information providers need to consider the realities of engaging today's youth as we consider how best to connect them with information and model good behaviours. Gamification is being used increasingly as a way to engage youth. Involvement of sports and entertainment celebrities is another potential way reach young Canadians – both by modelling positive behaviours and as messengers about financial risk.

Adults: Goals 1 through 4:

IFIC fully supports the FCAC's goals and initiatives for adults as outlined in the Phase 3 consultation paper. As we did in our Phase 1 submission, we would propose an additional initiative: that of encouraging more Canadians to seek the services of a financial advisor and ensuring that public policy at all levels facilitates access to advice.

As noted in the federal government's 2011 report Toward a National Strategy for Financial Literacy, "financial advice has an important role to play in empowering Canadians in their financial decisions."

[1] Steele, Valerie, (2014), Young Canadians in a Wired World, Phase III: Life Online. MediaSmarts.

It is noteworthy that 87% of mutual fund holders purchase their funds through an advisor and that across all age groups, advisors are a preferred source of investment information. Advisors are already building financial literacy in investors as they work with clients to develop individual financial plans and coach clients on how they can reach their financial goals.

There is clear evidence on the effectiveness of financial advisors as coaches and their potential to advance most of the Phase 3 consultation paper's goal and objectives for adult Canadians, specifically encouraging more adult Canadians to make a budget; fostering a savings culture, financial goal-setting and long-term planning; raising awareness of savings and tax-advantaged registered programs, encouraging life-long financial learning, and educating investors on risk and fraud. Independent research has found that:

- **Advised individuals are more likely to participate in tax advantaged plans** such as RRSPs. Studies conducted in 2010 and 2011 by Ipsos Reid[2] reported that 84% of advised investors less than 65 years of age held RRSPs compared to only 36% of non-advised investors in the same age group;
- Those who use the services of an advisor accumulate more assets over time than those who do not – largely because **advisors encourage disciplined savings habits** [3];
- Advised households are **twice as likely to save regularly for retirement** across all age groups and across all income levels[4];
- Those who have an advisor are more than twice as likely to have a financial plan[5];
- **Discussions of investment risk**, and personal capacity to accept investment risk are mandated aspects of advisor-client conversations under the *Know Your Client* requirements, and
- As use of advice goes up, **the likelihood of falling victim to fraud goes down**[6].

Early and ongoing access to financial advice is critical because financial literacy is built over time; it is built as financial goals are set and the choices available to reach those goals are understood. With the complex array of financial products in the market, most individuals are not able to do it on their own. As we succeed in improving the financial well-being of the adult population, those adults, in turn will be better able to pass on their knowledge, values and habits to the younger population.

Recommendation: That financial sector stakeholders, including government, work together to help investors become better informed about the role and benefits of financial advice and that access to advice be included as a feature of government's financial literacy strategies.

Measurement

For adult populations, we would put forward the same measures we recommended in our Phase I submission, with the same caution that it may not always be possible to definitively attribute a direct cause and effect. Changes to registered plans, the introduction of new public pension plans, and other non-related changes can all impact results. It is important that measurements be carefully modelled and statistically sound and that conclusions can be fully supported by the data. Potential areas for measurement include:

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[2] Ipsos Reid, Value of Financial Advice, reports prepared for IFIC, 2010 and 2011.
[3] Montmarquette, Claude and N. Viennot-Briot, "Econometric Models on the Value of Advice of a Financial Advisor", CIRANO, July 2012.
[4] Ipsos Reid, Value of Financial Advice, reports prepared for IFIC, 2010 and 2011.
[5] ibid
[6] ibid

1. Improvements in findings of independent longitudinal studies such as Canadian Financial Capability Study, Canadian Financial Monitor (Ipsos Reid)
2. Levels of retirement savings when all potential sources are considered
3. Use of registered plans by target populations
4. Percentage of the population using a financial advisor and frequency of interactions
5. Increased reporting of fraud
6. Increased identification of potential financial abuse

Pollara Research conducts an annual survey of mutual fund investors which is funded by IFIC. We would be prepared to assist in a measurement function by incorporating questions into this survey.

Measurement of younger Canadians may be more challenging and require targeted studies and segmenting of consumer behaviour.

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Closing

The investment funds industry fully supports the FCAC in its goal of increasing the financial literacy of all Canadians and looks forward to coordinating its own activities with those of other stakeholders across the country. We look forward to the release of the final and to developing a complementary industry action plans to help address the needs of various populations.

Yours sincerely,

THE INVESTMENT FUNDS INSTITUTE OF CANADA

By: Joanne De Laurentiis
President & CEO