The Case for Financial Literacy

Assessing the effects of financial literacy interventions for low income and vulnerable groups in Canada

Canadian Centre for **Financial Literacy**

Centre canadien pour **l'éducation financière**

THE CASE FOR FINANCIAL LITERACY

Assessing the effects of financial literacy interventions for low income and vulnerable groups in Canada

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EXECUTIVE SUMMARY

Introduction

Many of us get our financial information and advice informally – from friends, family, neighbours or the media. But where do we turn when we need more professional or personalized help with our personal finances?

There is a large and sophisticated industry of financial professionals available to give financial information and advice to Canadians who can afford their services, but Canadians with low or modest incomes and wealth lack the means to purchase that help. What's more, sometimes mainstream information and advice from financial services can be inaccurate or inappropriate for vulnerable clients.

Financial literacy research, practice and policy with respect to vulnerable groups in Canada has advanced considerably since Social and Enterprise Development Innovations (SEDI) released its initial report on this topic, *Financial Capability and Poverty*, in 2004 (SEDI, 2004). This report draws on a review of academic and applied research, program evaluation findings, as well as insights from experienced community practitioners. It assesses what we currently know about the impacts and limitations of financial literacy programs for vulnerable Canadians and highlights the next set of research, policy and practice questions.

This review was commissioned by the Canadian Centre for Financial Literacy (CCFL), a division of SEDI, to inform and stimulate a policy dialogue about community-based financial literacy programming as a meaningful support for vulnerable Canadians.

What is financial literacy?

There are many competing definitions and models for financial literacy. This paper draws on the framework developed by the Personal Finance Research Centre in the UK (Atkinson, et al, 2006). This model divides financial literacy (referred to as financial capability) into five distinct domains, each of which is characterized by related knowledge, attitudes and behaviours (see Figure 1 below).

Fig. 1 **Five domains and three aspects of financial capability**

	1 Making ends meet	2 Keeping track	3 Choosing products	4 Planning ahead	5 Staying informed/ getting help
Knowledge	Understanding how to make ends meet	Understanding how to keep track	Understanding how to choose products	Understanding how to plan ahead	Understanding where to get information and help
Attitude	Motivation and confidence in making ends meet	Motivation and confidence in keeping track	Motivation and confidence in choosing products	Motivation and confidence in planning ahead	Motivation and confidence in getting information and help
Behaviour	Making ends meet in practice	Keeping track in practice	Choosing products well in practice	Planning ahead in practice	Staying informed and seeking help in practice

Adapted from Kempson *et al* (2005)

In this model, financial literacy is both continuous and relative. There is no such thing as being perfectly financially literate and all individuals have a need for ongoing learning on personal finance. There is also no pass-fail benchmark that separates financial literacy from illiteracy. Financial outcomes (such as income or wealth) are not good indicators of financial literacy and persons with lower incomes or wealth are not, by definition, necessarily less financially literate.

Putting financial literacy in context

There are many factors that determine well-being, or conversely vulnerability and exclusion. These include individual factors such as resiliency and social capital, institutional factors such as public legislation and tax and transfer systems, and global factors such as macro-economic cycles and public goods.

While the key informants interviewed for this report varied on the importance they assigned to financial literacy relative to these other factors, there was general agreement that financial literacy is a complement to, not a substitute for, other critical building blocks of financial inclusion and well-being.

Informed by the input of key informants and a review of the literature, financial literacy must be viewed in context, particularly for vulnerable groups. This means that:

- **Financial literacy is not a panacea.** Financial literacy cannot replace good regulation, investments in human capital, sustainable social programs, and effective tax and transfer systems. Neither can it fix problem markets, poor regulation or bad luck. Financial literacy on its own cannot do away with poverty, but it is impossible to imagine a response to poverty that could reasonably do away with the need for some financial information or guidance.

- **Financial literacy is an irreducible need for every Canadian.** Low-income and vulnerable consumers are not necessarily less financially literate than wealthier consumers.

- **Financial literacy programs, if done well, can equip vulnerable participants to better navigate complex financial systems *and* highlight opportunities for positive change to public and private financial services and systems.** Even when factors outside of individual control shape certain life chances, financial literacy programs can help reduce risks associated with key financial choices and life events and help capture feedback from consumers to inform market, advocacy and policy responses.

Effects of financial literacy interventions on vulnerable groups

In assessing the available evidence with respect to the effects of financial literacy interventions, this review focused on four main research questions:

- Does financial literacy help individuals to more successfully navigate life transitions?
- Do financial literacy programs address some of the specific needs of certain at-risk groups for financial learning and advice?
- Do financial literacy programs generate positive psychosocial effects for participants?
- What do we currently know about best practice in financial literacy programs?

As noted in previous reviews of the financial literacy literature, there are three important limitations to the current evidence:

- While the available number of papers and studies continues to grow, there are still a fairly limited number of published studies on the effects of financial literacy interventions.
- When financial literacy interventions are delivered with other supports and services, it can be difficult to isolate their effects from those of the other program elements.
- Given the many exogenous factors that contribute to financial inclusion and well-being, it can be difficult to draw causal inferences about the role of financial literacy,

The aim of this review is to interpret the best available evidence and thinking about the effects of financial literacy interventions for vulnerable groups at this time. The field will continue to grow and develop and, with it, a more detailed understanding of what works, under what circumstances, and for which groups. For now, stakeholders may need to think in terms of the contribution of financial literacy towards better outcomes instead of causal relationships between financial literacy interventions and improvements in well-being.

Table 1 summarizes this report's key findings on the proposed effects of financial literacy interventions for vulnerable groups.

Table 1 Summary of evidence on effects of financial literacy interventions for vulnerable groups

Type of effect	State of the evidence base	Current conclusions
Helping participants navigate life transitions	Largely anecdotal and intuitive with inferences possible from social trends, theory and a handful of indirect studies.	Likely to have positive effects, but further research required with attention to the diverse and non-standard kinds of transitions experienced by vulnerable groups.
Helping newcomers to settle in Canada	Some promising findings from applied research, including some quasi-experimental studies.	Good evidence for the demand and gaps in supply. Some evidence for positive effects on orientation to Canadian banking systems and confidence of participants.
Improving financial inclusion for marginalized communities	Some early and promising findings from applied research, but still largely reliant on community	Strong association between community practice on financial literacy and financial inclusion.
Increasing housing stability for insecurely housed families and individuals	Reasonably strong evidence from applied research.	Good evidence for improved housing outcomes among low- and modest-income owners, although no measureable increase in rates of ownership. Substantial and sustained improvement in outcomes for low-income renters leaving shelter systems, but effects may be mediated by a financial incentive.
Establishing good financial knowledge, attitudes and habits among youth	Heavily researched for youth in formal education settings, with some early and promising applied research for vulnerable youth outside of school.	Mixed evidence on the effects of in-school financial literacy delivery. Early results for vulnerable youth are positive, but point to challenges in program delivery.
Improving the net worth of participants	Heavily researched in both workplaces and community savings programs, including rigorous experimental research.	Mixed evidence on the effects of in-school financial literacy delivery. Early results for vulnerable youth are positive, but point to challenges in program delivery.
Improving access to public benefits and managing the effects of windfalls	Largely anecdotal and intuitive.	Likely to have positive effects but further research required. Results from work on the Canada Learning Bond may be relevant.
Improving psycho-social outcomes for participants (e.g. reduced stress and enhanced self-efficacy)	Reasonably strong evidence base from applied research.	Good evidence for reductions in self-reported stress and improvements to self-efficacy. Further research required to understand effective delivery.

Emerging best practices in financial literacy for vulnerable groups

Among financial literacy researchers and practitioners, the discourse is starting to suggest some guiding principles for effective financial literacy interventions aimed at vulnerable groups.

The discussion in this paper is heavily informed by interviews with key informants for this paper as well as a recent report from the Canadian Centre for Financial Literacy on the results of a series of cross-Canada roundtables with financial literacy practitioners (CCFL, 2012). Current knowledge about what works in practice suggests that financial literacy programs are most effective when they:

- Offer appropriate, accurate content, tailored to the audience;
- Are delivered by trusted persons;
- Are consistent with principles of adult learning for adult clients; and
- Are programs with sustainable capacity.

Vulnerable Canadians face substantial challenges in accessing non-judgmental, accurate and relevant financial information and advice. A substantial share of mainstream financial information, tools, and advice, while useful for middle or higher income Canadians, is often less so for low-income Canadians and can even be detrimental. Expertise from financial institutions and professionals may be inadequate, incomplete or incorrect when applied to vulnerable clients.

Financial literacy programs for vulnerable groups serve an important function in translating financial information and advice and adapting it to respond more directly to the life context and needs of vulnerable groups.

It is critical, however, that financial literacy staff are first financially literate themselves (Birkenmaier, 2009). A number of key informants noted the real risks of doing financial literacy badly – that is, providing inaccurate content or insensitive and inappropriate guidance.

Participants also need to be able to trust the provider – both their motives and their capacity to provide accurate and appropriate information. Several key informants noted that clients of financial literacy programs express greater satisfaction and self-reported positive outcomes when they feel they have received guidance relevant to their own circumstances, rather than instruction or lecturing on what they ought to be doing with their personal finances.

Finally, community agencies engaged in financial literacy interventions often face perennial funding and human resource challenges that may limit their capacity to deliver the most effective programs and services to their clients.

Expertise from financial institutions and professionals may be inadequate, incomplete, or incorrect when applied to vulnerable clients.

Suggestions for future research and dialogue

While the review has found some promising evidence for a range of impacts, it is clear that further research is required to improve current understanding of the impacts and effectiveness of financial literacy interventions for vulnerable groups. Answering some of these questions may prove challenging, as there are limited resources and limited capacity in the field of practice to support research and evaluation, but the challenge is not insurmountable.

The review of literature and input from key informants uncovered three distinct but related areas where further research and dialogue could have the greatest effects for policy and practice:

1. **Impacts Of Financial Literacy Programs**

The following questions relate to the nature, extent and causes of the impact arising from financial literacy programs:

- What impacts can financial literacy interventions generate, for which groups, under which conditions and for what duration?
- What is the relationship between financial literacy and basic or essential skills like numeracy and critical thinking? How do these interact?
- How transferable are the knowledge, skills and habits from one domain of financial literacy to another?
- What potential negative effects can arise from financial literacy interventions?

2. **Financial literacy practice in community settings**

The following questions were raised by practitioners seeking avenues and opportunities to actively exchange knowledge:

- What are others doing in the field and how is it working?
- How can we stay on top of emerging practices, as well as important benefit, program and system changes that are relevant to our clients?
- Where can organizations new to financial literacy get support to build their capacity?
- Who can more experienced organizations turn to for help with implementation challenges?
- How can practitioners ensure quality in their programs and accountability in their governance and funding arrangements?

3. **Financial literacy policy**

Private and community sector stakeholders interested in understanding the broader policy environment and how stakeholders can best have a voice in relevant policy dialogues, posed the following questions:

- What's new in policy related to financial literacy and how can I stay on top of relevant policy information?
- How can stakeholders offer input or influence policy decisions about financial literacy and those in related policy areas such as income security, financial inclusion, financial regulation, taxation, immigrant integration and more?
- Which policy-makers are most engaged on financial literacy? What are their priorities and what roles are they playing in different areas of jurisdiction or responsibility?

How can practitioners translate their experience into policy-relevant information with impa

Conclusions

In summary, there is substantial, if not extensive, evidence that financial literacy can make an important contribution to the well-being of vulnerable groups, in the context of multiple societal, institutional and individual factors that shape financial outcomes.

Financial literacy is not a panacea and should not be seen as an alternative to effective regulation, adequate financial resources, and other public policies to promote social and economic inclusion and well-being. However, there is an irreducible need for financial literacy for all Canadians, regardless of income or wealth, and a clear need for distinct financial literacy supports for vulnerable Canadians.

While the review has found some promising evidence for a range of impacts, it is clear that further research is required to improve current understanding of the impacts and effectiveness of financial literacy interventions for vulnerable groups.

1

INTRODUCTION

In 2004, Social and Enterprise Development Innovations (SEDI), a national charitable organization active in financial literacy and asset-building, and Policy Horizons Canada (formerly the Policy Research Initiative) published *Financial Capability and Poverty*, a ground-breaking discussion paper that outlined a rationale for the delivery of financial information, education and advice as one promising way to reduce poverty and exclusion in Canada. The paper reviewed the limited evidence available at the time and described the emerging field of community-based financial literacy practice in Canada. In the eight years since:

- At least five provinces have introduced measures to increase financial literacy;
- The Financial Consumer Agency of Canada now has a specific national responsibility to improve financial literacy;
- Statistics Canada fielded the first ever national survey on how Canadians manage their money, use financial products, plan financially, and get financial information or advice;
- The Minister of Finance established a National Task Force on Financial Literacy that consulted widely and delivered a substantial report and recommendations for a national strategy to raise financial literacy;
- Multilateral organizations such as the World Bank and the OECD have launched major programs to draw attention to, and increase national investments in, financial literacy;
- The United States, the United Kingdom, Australia and New Zealand have launched wide-ranging national strategies to increase the financial literacy of their citizens over the medium to long-term;

There is a large and sophisticated industry of financial professionals available to give financial information and advice to Canadians who can afford their services. But Canadians with fewer resources – those with low or modest incomes and wealth– lack the means to purchase that help. What's more, sometimes mainstream information and advice from financial services can be inaccurate or inappropriate for vulnerable clients.

- Many community-based organizations have launched new financial literacy programs for vulnerable Canadians, sometimes in partnership with financial institutions; and
- Leading community-based financial literacy practitioners have continued to expand their programs in response to client demand and a track record of success.

Many of us get our financial information and advice informally – from friends, family, neighbours or the media. But where do we turn when we need more professional or personalized help with our personal finances? There is a large and sophisticated industry of financial professionals available to give financial information and advice to Canadians who can afford their services. But Canadians with fewer resources – those with low or modest incomes and wealth– lack the means to purchase that help. What's more, sometimes mainstream information and advice from financial services can be inaccurate or inappropriate for vulnerable clients. Their main alternative is to turn to community-based organizations.

Because the field of community-based financial literacy is still developing, it is largely characterized by "uncoordinated innovation"[1] – diverse stakeholders, all trying out different approaches, testing new waters, and learning what works for their clients through experience.

This report draws on a review of academic and applied research, program evaluation findings, as well as insights from experienced community practitioners. It assesses what we currently know about the impacts and limitations of financial literacy programs for vulnerable Canadians and highlights the next set of research, policy and practice questions.

This review was commissioned by the Canadian Centre for Financial Literacy, a division of SEDI, to inform and stimulate a policy dialogue about community-based financial literacy programming as a meaningful support for vulnerable Canadians.

[1] Deb and Kubzansky (2012) and the Task Force on Financial Literacy (2011).

WHAT IS FINANCIAL LITERACY?

2.1 Skills and knowledge?

As many researchers have noted (SEDI, 2004; Oroton, 2007; Schwartz, 2010; Pignal and Arrowsmith, 2006), the term "financial literacy"[2] has many definitions and, furthermore, is often used interchangeably with other terms like "financial capability" and "economic literacy."

Some authors see financial literacy in terms of general literacy and essential skills, where financial literacy is the ability to acquire and use financial information, as measured through comprehension and performance of a financial task (Mason and Wilson, 2007). Through this lens, financial literacy does not exist as a separate set of skills per se, but rather as the application of more general prose literacy, numeracy, problem solving and other core essential skills in a personal finance context (Murray, 2010).

By best estimates, 40% of the Canadian adult population lacks, and is projected to continue to lack, the basic and essential skills needed to function in today's economy and society. Authors such as Mason

By best estimates, 40% of the Canadian adult population lacks, and is projected to continue to lack, the basic and essential skills needed to function in today's economy and society.

and Wilson (2000) and Murray (2010) argue that general literacy, numeracy and other essential skills should be prioritized over learning personal finance. There is, unfortunately, little theory or evidence on how improvements in general skills might lead to improvements in personal financial management. There may be something important about the content in financial learning that can't be replaced by general skills.

Other authors, including the national Task Force on Financial Literacy (2011), have argued that financial literacy should be added to the list of basic and essential skills that make up our national framework for public and continuing education and skills training programs. In response, some (see for example CFEE, 2012) argue that financial literacy is "essential" in the sense of being critical or important, but is not an essential foundational skill in the way that prose literacy or basic numeracy might be. In other words, financial literacy might be stronger with a foundation of high basic literacy and numeracy skills. However, these general skills are not sufficient on their own to ensure financial literacy. This perspective draws some support from at least two large studies of financial literacy in Canada (MacKay, 2011) and the United Kingdom (Atkinson, 2007) both of which find that higher education (as a proxy for higher skills) is related to stronger financial management in some areas, but not others.

Still other authors (CFEE, 2012; Jappelli, 2010; Lusardi, 2009) argue that knowledge of financial and economic concepts is the best way to think about and measure individual financial literacy. Sometimes this knowledge-driven perspective also emphasizes individual abilities to perform certain financial calculations such as calculating rates of return on investments, compound interest and costs over time (Lusardi, 2009). This perspective has attracted criticism however, for being biased from a gender and socio-economic perspective, since associated measurements so often seem to find women and low-income respondents underperforming the population overall (Woolley, 2011). In fact, Mullainathan and Shafir (2009) point out that most adults have considerable difficulty in performing financial calculations. These authors, among others in the behavioural economic field, note that individual knowledge is often a poor predictor of decision-making and financial practices that are influenced by a wider range of psychological and institutional variables.

While the field of financial literacy clearly still lacks universal agreement on common definitions or metrics, this is to be expected in any nascent field of research and practice. Debates and disagreements over concepts and measures can even be viewed as an asset at this stage, as each definition and measurement helps to advance some aspect of our understanding.

Many key informants for this paper noted that having an existing third party definition of financial literacy was helpful because it enabled them to move into action without having to recreate or explain theory and concepts. The definition most commonly cited by key informants was the one advanced by the federal government's Task Force on Financial Literacy: "Having the knowledge, skills and confidence to make responsible financial decisions" (TFFL, 2011). But many of the same key informants noted that, while it was easy to adopt this definition for communications purposes, it did not always reflect their actual organizational priorities and practices in working with vulnerable clients. To foster better links between policy, research and practice, it would be preferable to use a conceptual model that is supported by evidence and more accurately reflects private sector and community practitioner experience.

The Task Force on Financial Literacy defined financial literacy as "having the knowledge, skills and confidence to make responsible financial decisions."

[2]The author uses the term "financial literacy" in this report because it is the one most commonly used in Canada by policymakers, researchers and practitioners.

2.2 A conceptual model of individual financial literacy

Perhaps the best effort to develop a conceptual model for financial literacy was led by Elaine Kempson and a team of researchers from the Personal Finance Research Centre who surveyed hundreds of British households to find the common threads in how ordinary people understand good financial practice and describe personal financial competence (Kempson, Collard and Moore, 2005). Based on this research, Kempson and her colleagues developed a model of financial capability emphasizing behaviour, while recognizing knowledge and attitudinal components. They described five domains of personal finance:

1. Making ends meet
2. Keeping track
3. Choosing products
4. Planning ahead
5. Staying informed and getting help.

Each of these domains is made up of financial knowledge, attitudes towards personal finances and financial practices that together make up financial capability. However, Kempson et al suggest that it is the behavioural element that may be most important.

Fig. 1 **Five domains and three aspects of financial capability**

	1 Making ends meet	2 Keeping track	3 Choosing products	4 Planning ahead	5 Staying informed/ getting hope
Knowledge	Understanding how to make ends meet	Understanding how to keep track	Understanding how to choose products	Understanding how to plan ahead	Understanding where to get information and help
Attitude	Motivation and confidence in making ends meet	Motivation and confidence in keeping track	Motivation and confidence in choosing products	Motivation and confidence in planning ahead	Motivation and confidence in getting information and help
Behaviour	Making ends meet in practice	Keeping track in practice	Making effective product choices in practice	Planning ahead in practice	Staying informed and seeking help in practice

Adapted from Kempson *et al* (2005)

2.3 Stages of change in financial literacy

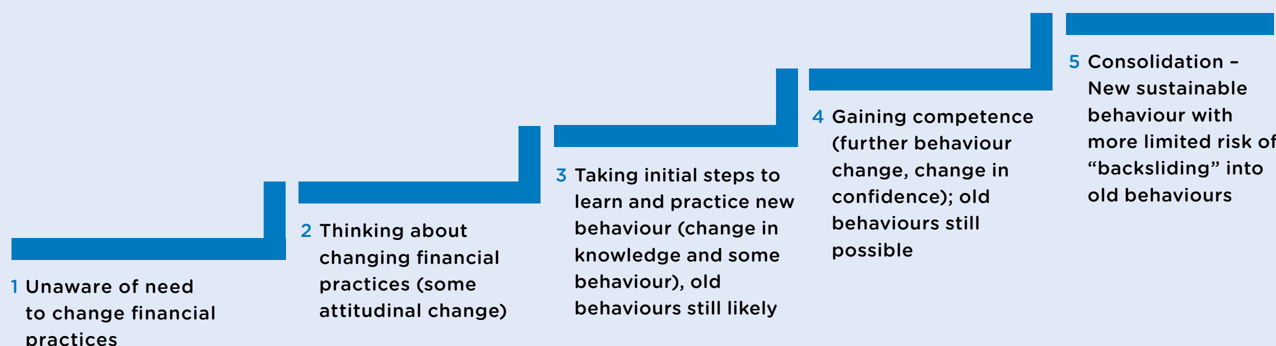
Psychologists and others in the behavioural sciences continue to struggle to understand the multiple links between knowledge, attitudes and observed behaviour. Studies suggest that people sometimes take certain actions, even if they know better and are motivated to change. This perspective is consistent with the behavioural economics literature that finds people frequently behave in ways that are irrational or even contrary to their knowledge of what is optimal (Barr, Mullainathan and Shafir, 2012; Thaler and Sunstein, 2008). When individual behaviour is maladaptive (leading to decreases in, or risks to, well-being), new information and/or changes to underlying attitudes can support constructive behavioural change.

In addition to the work of Kempson *et al*, this paper also borrows from the work of Angela Lyons and her colleagues (Lyons *et al*, 2006) who have adapted the "stages of change" behavioural model used in the addictions counselling field and used it to think about change in individual financial literacy. The "stages of change" model describes various states of awareness and action, as adults move from being unaware of any need to change their financial behaviour, becoming motivated to change, then practicing change, and finally forming new and lasting financial habits. Lyons suggests this model may be useful for describing how financial literacy programs work, but it has proven difficult to apply as a model for program design or evaluation.

2.4 Other definitional considerations

There are two final elements to the working definition for financial literacy used in this report that should be outlined. First,any *useful model of, or way of measuring, financial literacy should be independent of confounding variables*. This means that financial literacy should not, by definition, increase or decrease depending on someone's financial resources or other characteristics such as age or gender. While it is tempting to think that greater financial security should be an outcome of higher financial literacy, people's financial resources are, in fact, not a good indicator of how well they manage their personal finances. To the contrary, more than one study has now confirmed that people with low incomes and low wealth often

Fig. 2 **Stages of change in financial literacy**



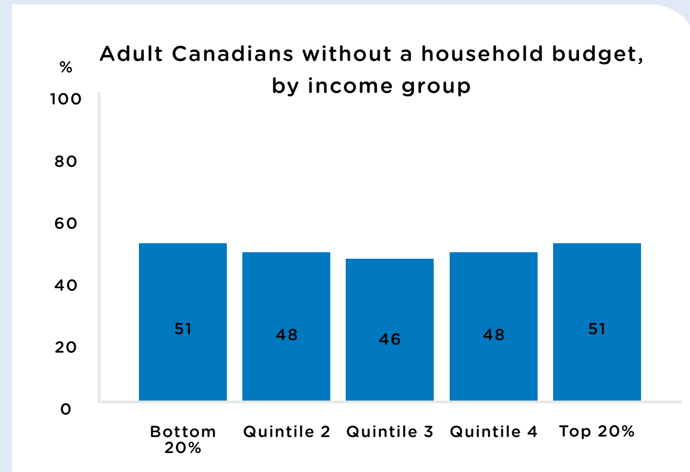
Adapted from Lyons *et al* (2006)

have strengths in financial literacy well above those of people with more resources (Atkinson, 2007; MacKay, 2011; Robson, forthcoming).

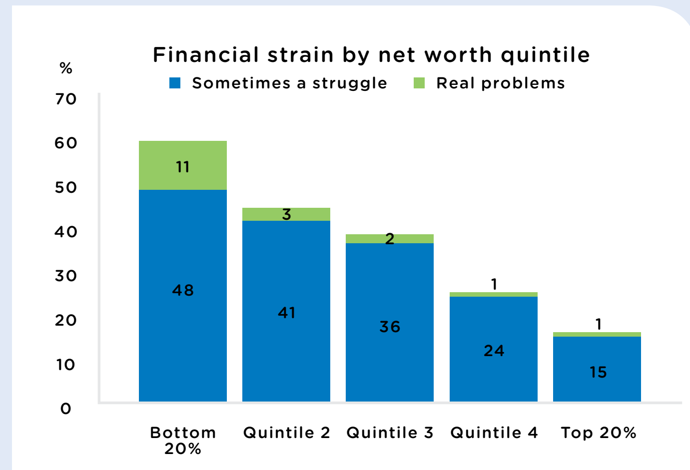
Finally, *financial literacy is relative and continuous.* In other words, there is no such thing as being perfectly financially literate and no pass-fail benchmark that separates financial illiteracy from literacy. The optimal level of financial information, confidence and behaviour is always relative to the circumstances of the individual in question. This paper discusses the importance of personalized interventions later in section 4.5.

Financial literacy is still a new and evolving field of study, theory and practice. Today's definitions and understandings reflect this dynamism and will almost certainly change and improve over time. Consequently, any definition we use today should be viewed as provisional, but no less useful because of that. At the end of the day, what matters is the quality of the programs and the quality of the research. The broader, shared aim of financial literacy practitioners, researchers, policy-makers and funders is to make a positive difference in the lives of people through help with personal finances. It is both understandable and encouraging to have a range of views about how best to make this positive difference.

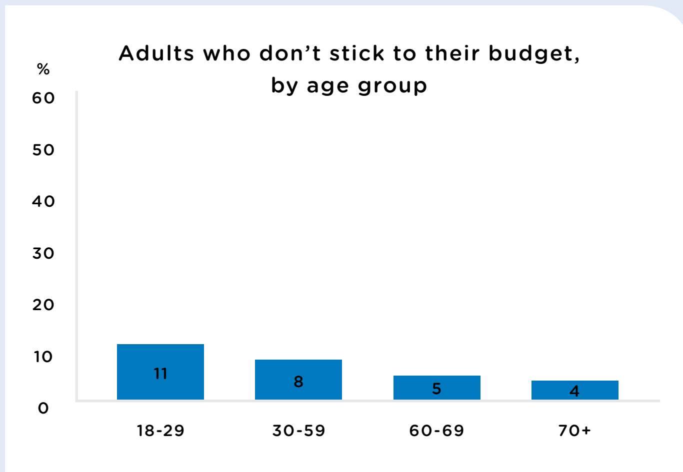
Fig. 3 **Highlights from the Canadian Financial Capability Survey**



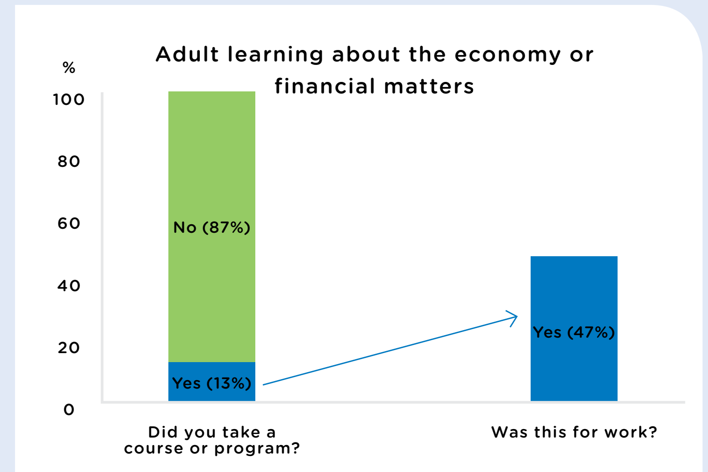
Very low-income Canadians are as likely as very high-income Canadians to budget.



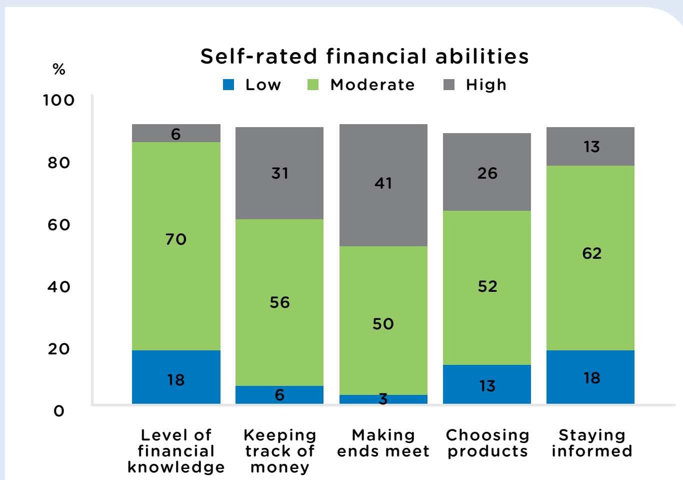
Canadians with lower-income, but especially lower wealth, report having more real financial problems.



Young adults are more likely than older adults to break their budget, if they have one.



Very few adult Canadians take a course, workshop or other formal education on economic or personal financial topics and those who do are often doing so for work.



Canadians show fairly moderate levels of confidence in different areas of personal finance.

In general, financial literacy in Canada is very modest.[3] Few Canadians actively engaged in learning about personal finance. While age might have much to do with financial habits, financial stress is more acute among Canadians with fewer resources.

[3]See for example MacKay, S. (2011) "Understanding Financial Capability in Canada: Analysis of the CFCS", research report for the Task Force on Financial Literacy, Ottawa.

3

FINANCIAL LITERACY IN CONTEXT
VULNERABILITY, POVERTY, AND FINANCIAL EXCLUSION

Before examining the evidence with respect to the benefits and limitations of financial literacy for vulnerable Canadians, it is important to define "vulnerability", to understand who is most at-risk, and to discuss where financial literacy fits with respect to risks of poverty and financial exclusion.

3.1 Vulnerability and poverty

The literature on vulnerability describes it as a multifaceted construct, where each person has some exposure to harmful risks and some capacity (through social, human, economic, political and physical capital) to be resilient (Holzmann, *et al*, 2003). The challenge for policy-makers and program leaders alike is to help households anticipate, prevent, mitigate and cope with negative risks. Poverty (a deficit of economic resources) is not a complete measure of vulnerability, but it is an important component. Poverty carries with it a range of increased risks to health and well-being and greater risks of social, economic and political exclusion.

Canada does not have a "poverty line" but the most common way to define and report on poverty is to look at the proportion of people in a group who are living below the low-income cut off (LICO) set by Statistics Canada.[4]

Some of the groups traditionally at risk of poverty – children, seniors and single mothers – have experienced important gains in relative income over the last two or three decades thanks to federal-provincial income support policies. Increasingly, however, single working-age adults, recent immigrants to Canada, and Canadians with low education and skill levels are at risk of poverty and the financial strain and exclusion associated with low income.

Another and important way to think about poverty is to look at household net worth or wealth. Savings and assets are the stocks of resources that can be used to offset debt, meet basic needs when income is interrupted, and provide a platform for positive risk-taking (like returning to school or starting a small business). Canada does not have a generally accepted measure of "wealth poverty," but we do know that household debt-to-income ratios are at unprecedented highs and that the gap between those with and without wealth is growing. Figure 5 offers some additional information about Canadians at financial risk due to low savings and assets.

Fig. 4 **Rates of low-income (after taxes and transfers) for different sub-groups in Canada, most recent year available**

All Canadians	**9.6%**	**Canadian Children (Under 15 Years)**	**18%**
Seniors	12%	Children in recent immigrant families	48%
Female lone parents	20%	Aboriginal Children	36%
Single working age adults	31%	Children in racialized groups	33%
Working age adults with a disability	20%	Children with a disability	27%
Immigrants within their first year in Canada	41%		
Immigrants after 5 years in Canada	30%		

[4] The low-income cut off (LICO) is a relative measure of poverty that sets an income threshold under which singles or families are projected to be living in some deprivation. It's adjusted for household size, community size and inflation. For a family of four in a large city like Calgary, Toronto or Vancouver, an income of$34,400 would put them just under the low-income cut off.

Fig. 5 **Low wealth in Canada**

Percentage of low-wealth Canadian households	
Singles and families with a negative net worth	**14%**
Singles and families with no or negative financial wealth	**24%**
Singles and families in low-income and not enough wealth (if liquidated) to make up the difference	**9%**
Singles and families in low-income and without any financial assets	**5%**

3.2 Financial inclusion in Canada

Poverty means less money – in income and savings – but it also often means exclusion from the financial systems that non-poor Canadians use and benefit from.

Financial inclusion, in the fullest sense of the term, goes well beyond access to a basic bank account (Reagan and Paxton, 2003). Mainstream financial products provide ways for families and individuals to manage and leverage their financial resources, whatever these may be. As Ray Boshara(2005) explains, it is hard to build a productive asset with savings under the mattress and you can't save at a cheque casher. Mainstream financial services and products, even if not always responsive to the needs of low and modest-income Canadians, are overseen by public regulators and deposit accounts are insured against loss or theft – protections that are not available to those who keep their cash at home or rely on fringe financial services.

Canadians also engage in financial transactions with their governments, receiving income benefits like: Employment Insurance, the Canada Pension Plan, Old Age Security and the Guaranteed Income Supplement, social assistance, worker's compensation, child benefits, annual income tax returns and tax-related credits (e.g. GST/HST credits, tax incentives associated with registered savings accounts). All of these transactions play a significant role in the financial lives of Canadians.

These systems and benefits only work well, however, when target beneficiaries are aware of them and understand how and when to access them. Full financial inclusion for all Canadians demands that both private and public sector financial systems are responsive and transparent.

Most Canadians have access to basic deposit accounts. However, exclusion rates among vulnerable groups are meaningfully higher than the national average. Looking at a wider range of financial products reveals a telling picture of the extent of financial exclusion in Canada: 8% of Canadians have no insurance coverage of any kind and 11% have no credit card.

It is unclear how much of this exclusion is involuntary and how many Canadians are choosing to opt out, and the distinction between these drivers is not always clear. As Buckland (2010b) points out, low-income consumers often feel unwelcome in mainstream banks and encounter obstacles in their transactions that do not impact middle and upper income consumers in the same way. These include

identification requirements, travel to and from the bank, banking hours, and the design of the products themselves. As a result, vulnerable consumers may find it preferable to use fringe financial services, including payday lenders, pawnbrokers and cheque cashers because they lack access to better alternatives. Fringe services typically offer fewer barriers and are delivered in less stigmatizing ways for vulnerable consumers, making them attractive in spite of service fees and interest charges well in excess of 100% on some credit products (Buckland, 2010b). Canadians' reliance on fringe financial services is very low, with just 3% of Canadians reporting their use in the last 12 months, but fringe financial service customers often become repeat users, caught in a costly and self-perpetuating cycle.

Finally, full financial inclusion encompasses access to timely and affordable help with financial choices and decisions. Research suggests that consumers who get financial advice feel more confident about their decisions (TFFL, 2011).

The Canadian Financial Capability Survey asked respondents about their access to advice from a wide range of sources – financial professionals, lawyers, government, community organizations and even friends and family. The results (Figure 7) suggest that many groups of vulnerable Canadians are less likely than Canadians overall to be getting advice on their personal finances.

As research and practice continue to advance, access to help with financial decisions and a wider range of financial products that extend beyond basic deposit accounts, all need to be included in our frame of reference for full financial inclusion.

Fig. 6 **Unbanked Canadians, 2009 (CFCS)**

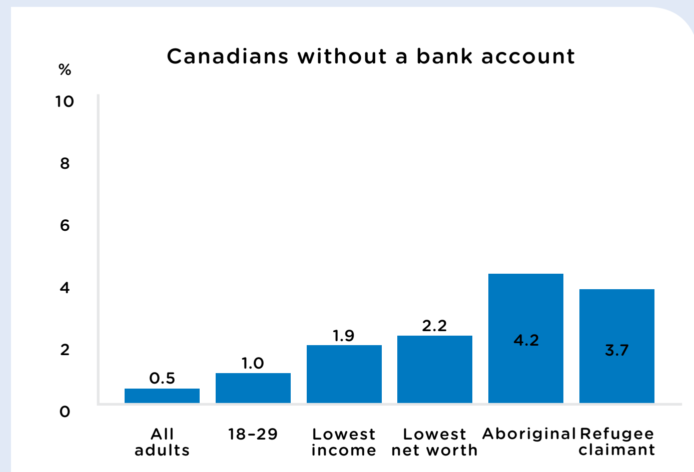
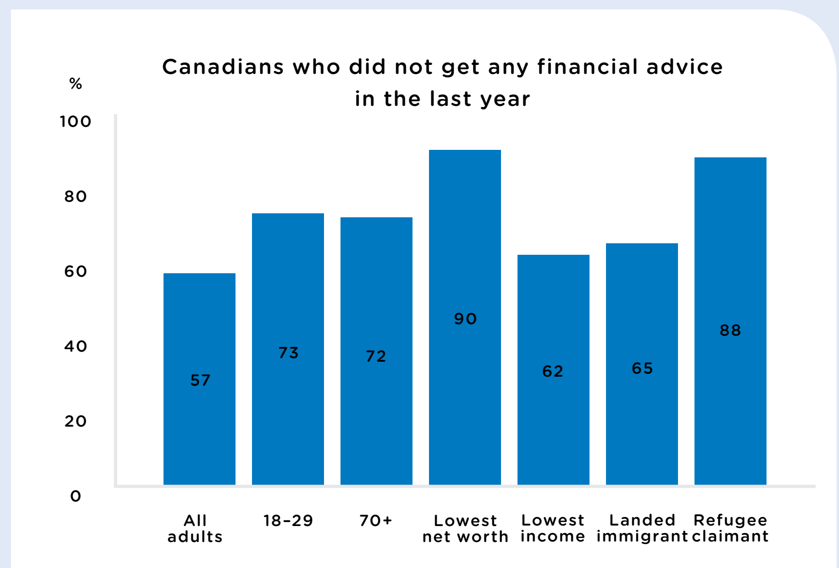


Fig. 7 **Not getting any financial advice**



3.3 Financial literacy in the broader context of poverty and exclusion

There are many pathways into and out of poverty. Many of the key informants interviewed for this project highlighted the importance of examining financial literacy in the context of other factors that shape vulnerability or well-being. The multiple and inter-dependent factors shaping financial outcomes and well-being are numerous and impossible to describe fully in a report of this kind. However, should anyone reflect honestly on how and why they have the economic resources and opportunities they do, whatever these may be, they might mention:

Societal factors

- **Macro-economic forces** such as economic cycles that influence public and private investment, spending, and employment levels, even when those forces originate on the other side of the globe.
- **Cultural norms and values** that shape individual behaviour, but are also reflected in institutional structures and behaviours.
- **Public goods** that are common endowments outside of markets that offer benefits to everyone.

Institutional factors

- **Government tax and transfer systems** that can, depending on policy choices, offset market-driven inequalities or make them worse.
- **Public legislation and regulation of market** conduct to protect consumers against exploitive market products and practices.
- **Strategic aims and objectives of financial institutions** that influence the design and delivery of their financial products and services and their engagement with communities.
- **Markets for other consumer goods and services** like housing, food and other essentials that shape the cost of living and subsequent demands on household budgets.
- **Labour markets** that shape employment prospects and the relationship between employers and workers.
- **Social capital** in the form of informal support from family, friends and community that can be drawn upon in times of need.
- **Human capital** in the form of knowledge, skills and marketable credentials important to labour market and earnings outcomes.
- **Personal endowments** and luck in the physical, social and economic resources/constraints we obtain from our families of origin and subsequent life events.
- **Individual differences** in traits like resiliency, self-efficacy, hopefulness and a forward-looking perspective.

Financial literacy is not a panacea. Financial literacy cannot replace good regulation, investments in human capital, sustainable social programs, and effective tax and transfer systems. Neither can it fix problem markets, poor regulation or bad luck.

Individual factors

- **Civic awareness and engagement** as these relate to one's personal interests, but also as they inform a civic consensus on the roles and priorities of governments, the private sector, and communities.

These and many other factors determine well-being, or conversely vulnerability and exclusion. This includes individual factors such as resilience and social capital; institutional factors such as public legislation and tax and transfer systems; and societal factors such as macro-economic cycles and public goods.

While the key informants interviewed for this report varied on the importance they assigned to financial literacy relative to these other factors, there was general agreement that financial literacy is a complement to, not a substitute for, other critical building blocks of financial inclusion and well-being.

Informed by the input of key informants and a review of the literature, financial literacy must be viewed in context, particularly for vulnerable groups. This means that:

- **Financial literacy is not a panacea.** Financial literacy cannot replace good regulation, investments in human capital, sustainable social programs, and effective tax and transfer systems. Neither can it fix problem markets, poor regulation or bad luck. Financial literacy on its own cannot do away with poverty, but it is impossible to imagine a response to poverty that could reasonably do away with the need for some financial information or guidance.

- **Financial literacy is an irreducible need for every Canadian.** Low-income and vulnerable consumers are not necessarily less financially literate than wealthier consumers.

- **Financial literacy programs, if done well, can equip vulnerable participants to better navigate complex financial systems and highlight opportunities for positive change to financial markets and other systems.** Even when factors outside of individual control shape certain life chances, financial literacy programs can help reduce risks associated with key financial choices and life events and help capture feedback from consumers to inform market, advocacy and policy responses.

Financial literacy programs, if done well, can equip vulnerable participants to better navigate complex financial systems and highlight opportunities for positive change to public and private financial services and systems.

Limitations of current evidence on the effects of financial literacy interventions

Several prior reviews of financial literacy effects have noted that there are three important limitations to the available evidence (Schwartz, 2010; Frennette and Robson, 2011; Buckland, 2010b) that impede efforts to draw firm conclusions about financial literacy interventions:

1. **Published studies of financial literacy to evaluate effects have grown but are still limited in number compared to many other fields.** As a result, we know very little about the diverse ways that financial literacy is being delivered (e.g. workshops, individual coaching or peer-to-peer learning), who it is reaching (e.g., recent immigrants, single mothers, youth-at-risk) and the nature of its information content (e.g. a focus on education savings programs, credit scores or debt management).

2. **When financial literacy interventions are delivered with other services, it is more difficult to isolate their effects.** Some of the most rigorous evaluations of financial literacy interventions for low-income participants have included financial service and savings incentive components as well (e.g. Individual Development Accounts and other matched savings programs), making it hard to separate out observed effects from the financial literacy component alone.

3. **Large variances in other external factors (see section 3) shaping financial outcomes and well-being, make causal relationships very difficult to prove.** Sometimes, this is because the nature of the program or evaluation makes it very hard to understand what would have happened anyway for the client, even without the financial information, education or advice. Did the financial literacy program help or would participants have experienced the same positive outcome anyway with time or as a result of some other factor that made all the difference?

In most cases, financial literacy programs serve eligible participants who voluntarily enroll. This makes sense for lots of good practical and ethical reasons, but some reviewers have noted that people who self-select for a financial literacy program may not be representative of other low-income and vulnerable groups, making it hard to draw inferences about the potential for wider impact if the program were expanded.

In response to these issues, it's important to emphasize that the aim of the review that follows is to interpret the best available evidence and thinking about the effects of financial literacy for vulnerable groups at this point in time. The field will continue to grow and develop and, with time, practitioners, funders and policymakers may be able to benefit from more detailed understandings of what works, under what circumstances, and for which groups. For now, stakeholders may need to think in terms of the contribution of financial literacy towards better outcomes instead of causal relationships between financial literacy interventions and improvements in well-being.

It is also important to note that programs that combine financial literacy information, education or advice with other financial incentives and/or interventions may actually represent the future for the financial literacy field, even if it makes evaluation more difficult. As discussed later in this report, dealing with real money gives participants a meaningful, hands-on learning experience that may be more powerful than classroom learning and the marginal increase in delivery costs to add a financial literacy program to other programs can be quite low.

Finally, issues of causality and self-selection may be less of a concern if viewed through the lens of the 'stages of change' model discussed earlier (see Fig. 2). Clients of most financial information, education or advice programs may already be at the second stage (becoming aware of a need to change their financial practices) or third stage (taking steps to learn and practice new habits). If participation in a financial literacy program is part of a larger set of factors that enable them to consolidate and maintain behaviour change over time, then maybe it matters less whether or not we can isolate the effect of the financial literacy program on its own and attribute causation. Indeed, most experienced practitioners will talk about the effects of their work in a more holistic and systems-based way, where they recognize that the benefits of their programs may often be indirect or interact with other important factors that contribute to well-being and inclusion.

4

EFFECTS OF FINANCIAL LITERACY INTERVENTIONS ON VULNERABLE GROUPS

4.1 Research approach

The sections that follow address four primary research questions:

- Does financial literacy help individuals to navigate life transitions?
- Do financial literacy programs address some of the specific needs of certain at-risk groups for financial learning and advice?
- Do financial literacy programs have certain positive psycho-social effects for participants?
- What do we currently know about best practice in financial literacy programs?

The sources for this review included:

- English-language articles published since 1980 with an emphasis on publications from 2005 onwards. Searches included a wide range of journals in economics, behavioural research and consumer affairs. The search was conducted between May and September 2012.
- English-language grey literature (e.g. discussion papers, organizational reports and studies on financial literacy for low-income groups) published since 2002. The search (May to September 2012) included on-line searches and "snow-ball" techniques to identify relevant material.
- Analysis of the 2009 *Canadian Financial Capability Survey* and poverty trends in Canada conducted by the author in 2011 and 2012.
- Semi-structured interviews with Canadian and American key informants from the private, public, community and research sectors

conducted in 2012.[5] Key informants were also invited to recommend additional experts for other potential interviews and were asked to share any written reports, papers or other documents they felt could be relevant.

4.2 Helping individuals to better navigate life transitions

Social scientists broadly agree that there is more diversity in the trajectories, order and impacts of many life events now than in previous generations (Beaujot, 2008). The order and timing of events that used to mark key life stages no longer conform to reliable patterns for a growing share of the population. This makes it increasingly hard to talk meaningfully about "life stages."

Younger Canadians stay in education longer and join the workforce, leave home and start long-term relationships and families later than their parents and grandparents did (PRI, 2008; CFC, 2012). This is not true for all of them, however. Youth in rural communities are more likely to leave school and start work earlier than their urban counterparts and Aboriginal youth are likely to start families far earlier than non-Aboriginal youth. There is at least as much diversity *within* the pathways followed by different youth as there are differences *between* youth today and those of previous generations. Similarly, there is more diversity in working-lives, with many more Canadians navigating multiple career changes and others choosing or being pushed into non-standard work, like self-employment or contract work. Family and household membership is also more diverse than for previous generations with more Canadians living alone or with more complex relationships like step-parents and half-siblings. Finally, decades-old trends towards earlier and earlier retirement are starting to reverse and the gaps between workers with different kinds of retirement resources are starting to widen

- Deciding whether or not to attend post-secondary education and planning ways to finance any further educational goals.
- Practicing financial independence from a family of origin[7] and learning to manage consumption, budgeting and use of credit for the first time.
- Making occupational decisions about choice in employer, including attention to benefits and compensation.
- Making housing purchases.
- Planning for retirement and saving for future needs.
- Planning for a child's higher education.

Social scientists broadly agree that there is more diversity in the trajectories, order and impacts of many life events now than in previous generations (Beaujot, 2008).

What does this have to do with financial literacy? Some discussions of financial literacy have mapped financial decision-making against a backdrop of different life stages where the sequence of the events follows certain expectations. For example, many popular financial literacy education resources[6] describe financial aspects of the following life events and transitions in a prescribed order of life stages:

Many generic financial literacy resources aimed at a more general population are organized according to this kind of life-cycle or life-stages approach. This poses two problems. First, given life-course diversity, this more normative life stage approach is less and less relevant to the real lives of Canadians. For example:

[5] See Appendix 1 for the list of the interview subjects. Interviews were conducted in July and August 2012 using a standard list of questions. Interviews were conducted by the author and two SEDI staff members, Elizabeth Mulholland and Adam Fair. Given the potential for differences in interview technique and recorded notes, comments from key informants are not directly quoted or attributed in this report.

[6] See for example "The City" developed by the Financial Consumer Agency of Canada, online resources developed by the InvestorEd Foundation and much of the online consumer finance information from Canada's largest financial institutions. These resources may be aimed at audiences with more "traditional" patterns of life events and transitions.

[7] A family of origin is the family to which a person lives with until he or she is an adult and able to live independently or form a new family.

- Some Canadian youth are living with parents for longer periods than in the past, while others are leaving home early without the additional support of lower costs of living. For parents with adult children at home, there may be costs to their housing and retirement assets that peers at a similar age and point in their working lives do not experience.
- Canadians are spending more time in higher education, postponing other life events and also carrying education debt for longer periods. This changes their financial priorities and resources when it comes to housing and employment choices.
- Canadians have multiple retirement income sources (public pensions, workplace pensions, private retirement savings and other assets) to consider in their retirement planning. However, households with less access to some sources (e.g. workplace pensions) also have less capacity to invest in others (e.g. private savings and other assets) to compensate.

Mainstream financial information and advice that does not take these individual differences in circumstances into account will be less relevant, accurate and helpful.

The second problem with the traditional life stages model is that many of the events or transitions do not reflect the experiences of many vulnerable Canadians. The financial or life goals may not be typical for certain groups, and therefore fail to resonate, or other transitions specific groups experience may be ignored. These include the following illustrative examples:

- Completing a jail sentence, entering the parole system for the first time, and re-entering the community and labour force.
- Being evicted from one's home and becoming reliant on shelter housing.
- Taking a short-term, informal job where payment is promised by an unscrupulous employer but never delivered in full or, worse, at all.
- Struggling with the decision on whether or not to pursue higher education as a first-generation Canadian when there is substantial family pressure to start full-time work to contribute more to the household income.
- Applying for provincial social assistance and completing a full disclosure of one's income and assets.
- Entering a mandatory training program to remain eligible for income support benefits and deciding what kind of skills and employment training would be most useful.
- Trying to sell a house inherited from parents because the upkeep is too difficult and costly on disability benefits, but worrying that the sale of the house could jeopardize some or all of the monthly income benefits.
- Resettling in Canada as a family after being sponsored by the Government of Canada and struggling to repay $10,000 in government loans for the cost of travelling from the United Nations refugee camp to Canada.
- Becoming eligible for Old Age Security and the Guaranteed Income Supplement, only to find that these new income sources create uncertainty about eligibility for public drug coverage and access to subsidized housing.

Each of these life events represents a transition of some kind, just like the normative life stages above. The transition may include a change in social role (for example, becoming a “parent”, a “landed immigrant” or a “worker”), a change in financial resources, or a change in attachment to one or more formal systems (for example being “in” the social assistance system). Each of these transitions carries risks and, sometimes opportunities, for development and well-being. Each of these transitions also entails certain financial decisions:

- Some social assistance applicants will have to make decisions about assets that exceed welfare asset limits. Should someone with a small Registered Retirement Savings Plan lock it in or cash it in and spend the proceeds, knowing they are going on social assistance?
- Families and individuals new to transitional housing and shelters are often eager to move on to more permanent, secure, and independent housing. How can shelter residents start to plan for such a move? Where and how do they apply for a housing subsidy and what affordable housing options are available to meet their needs?
- Older adults living in low-income, particularly those whose working life was spent in low or very modest wages, can end up in perverse circumstances where universal seniors' benefits can

raise their monthly incomes but, depending on their other resources and needs, the new income may make them ineligible for income-tested housing or drug benefits that are also important to their standard of living (Stapleton, 2012). How can they make choices about which income benefits to apply for and when, given the complicated interactions between many social programs?

The value of financial literacy programs in helping vulnerable clients with these kinds of transitions is clear – many low-income and vulnerable clients will need information and guidance to make the best possible choices for themselves. Each of the transition examples above requires the client to make a choice that has financial (and other) risks. In these cases, access to good information about options and coaching through the decision process, can help clients mitigate risk, reduce the stress experienced by clients, and support opportunities for improved well-being.

Using the five domain model of financial literacy (see section 2), a client in transition may benefit from support to:

- Find new ways to make ends meet if available resources are projected to change
- Keep track of new or changed resources
- Choose between different financial products or between benefits with different financial values
- Plan ahead for a transition or anticipate and prepare for a “new normal” after a transition
- Locate additional information, programs and resources to address financial and other needs during a transition.

The supports financial literacy programs provide to vulnerable clients are not unlike those that financial services and planning firms provide to clients making choices about mainstream financial products – e.g. which mutual fund to buy or how to divide assets between taxable and tax-benefited instruments. The mainstream financial services sector is not well equipped, however, to provide information and guidance that is consistently relevant, accurate and accessible for vulnerable consumers. Many key informants mentioned that the financial planning tools, rules of thumb, and guidelines that middle- and upper- income families and individuals find useful are irrelevant and unhelpful in the life context of vulnerable clients. Consequently, community-based financial literacy programs that specialize in meeting the needs of vulnerable clients are working to fill this gap.

Despite this, there is little available evidence with respect to the impact of financial literacy programs in helping vulnerable clients to negotiate key life events and transitions. There is indirect evidence that community-based interventions that address the financial implications of a transition seem to be related to better transition outcomes:

- Cross (1981), found that community information and referral centres (offering financial and other career transition guidance) had a measurable and positive effect on the stress level of adult learners and their interest and participation in further learning.
- Ebberwein (2001) found that financial concerns were a critically important part of the transition for adults who had recently lost a job and that support from a career counselling agency had a positive and important impact on their outcomes. This positive effect is likely due, at least in part, to the responsiveness of the delivery agency to the financial concerns of the clients in transition.

Many stakeholders talk about the role of financial literacy in life transitions, and there are good, intuitive arguments to support this view. However, financial literacy in life transitions has not yet been examined by researchers and evaluators.

- Finally, Banks (2010) found a strong association between numeracy and financial well-being in the transition to older age so, to the extent that financial literacy programs may address deficits in numeracy, they may also improve financial outcomes in the transition to older age.

These studies are indirect, but point to the potential of financial literacy interventions to support successful transitions. Many key informants interviewed for this paper, as well as organizations and individuals who took part in the consultations of the Task Force on Financial Literacy, talk about the role of financial literacy in life transitions and there are good, intuitive arguments to support this view. However, a review of the existing literature failed to uncover any discussion or research on the more general role played by financial literacy interventions in successful life transitions. In fact, most financial literacy research is focused on particular programs that target specific sub-groups. The section that follows reviews the evidence with respect to financial literacy programs and their ability to meet the specific, often transition-related, needs of different vulnerable groups.

4.3 Addressing financial information and advice needs of diverse at-risk groups

4.3.1 Supporting newcomer settlement

Robson and Ladner (2005) suggest that newcomers to Canada may have particular financial information and guidance needs that are not met through typical settlement services. For example, orientation sessions offered to new immigrants (often within hours after landing in Canada) may make passing references to the Canadian banking and income tax systems, however, the delivery format is not optimal for detailed and personalized financial information and guidance. Welcome or orientation sessions are typically delivered in group settings, offering highly compressed information on a wide range of topics such as employment, housing and health, and delivered at a time (usually within hours of landing in Canada) when newcomers' energy and attention is likely already very taxed.

At least one key informant also reported that this very early and limited orientation session might encourage newcomers to engage in financial behaviours, such as opening a bank account or obtaining a credit card, without first addressing other important information needs, Canadian cultural norms in financial services, and consumer rights and responsibilities. Based on a review of literature and a distinct set of key informant interviews, SEDI (2008) found that newcomers often have high information and advice needs related to credit – particularly, how to establish a credit record in Canada and access to affordable credit options. The same review suggested that, while some mainstream financial services providers are adjusting their products and services to respond to consumer demand from new immigrants, these providers are not newcomers' preferred source of financial information and advice. Perhaps because of cultural and/or linguistic issues, SEDI concludes that newcomers often turn to trusted community organizations or informal social networks instead. These informal social networks and community sources of information are only adaptive if the information and guidance received is accurate, relevant and timely.

Low-income newcomers need more than information on access to credit. Key informants for this project also repeatedly mentioned that newcomer clients faced difficulties in:

- **Navigating financial services (such as banks and credit unions) and government financial systems (such as tax and benefit systems) that are new and unfamiliar** compared to their country of origin. In some cases, financial practices in Canada have no comparable counterpart in countries where bartering or informal financial transactions are

more common. The use of financial terms or jargon can also be a significant barrier, particularly when available explanations only point to other unfamiliar institutions or formal terms.

- **Translating their existing financial knowledge and habits, based on the rules and systems of their country of origin, into the Canadian context.** Newcomers to Canada bring with them their accumulated financial knowledge, skills and attitudes and, in the case of economic class immigrants, have successfully managed their resources and prepared financially to meet the entry requirements set by Canada. Speeding up the translation of the knowledge and skills that have served them well into a Canadian environment can help newcomers avoid difficulties and mobilize their own social, human and economic capital.
- **Managing financial risks that may be more common for newcomers than other Canadians, such as:**
  - Identifying and avoiding fraudulent offers of employment or housing in exchange for lump sum payments
  - Maintaining modest savings brought into Canada under economic immigration class rules
  - Coping with debts owed to the Government of Canada for travel and medical costs involved in getting to Canada through the Immigrant Loans Program for UN convention refugees.

Financial literacy interventions might help newcomers to identify and mitigate risks or cope with the effects after they have already occurred. At least four studies have suggested that financial literacy interventions for low-income newcomers can have positive effects:

- Leckie *et al* (2010) report that recent immigrants to Canada were more likely to show positive financial behaviours in response to a program combining matched savings and fifteen hours of group financial education than were their low-income Canadian-born counterparts receiving the same program. Compared to Canadian-born clients, newcomers also reported stronger satisfaction with, and personal benefit from, the 15 hours of financial education included for most program groups.
- Zahn and colleagues (2009) found that new immigrants to the US taking part in a financial education program reported a substantial change in self-reported use of lower-cost, mainstream versus high-cost, fringe financial services. The authors also compared scores on tests of financial knowledge and found significant increases in financial knowledge that they attribute to program effects.
- Gibson *et al* (2012) conducted a field experiment to deliver financial literacy training focused on remittances (the practice of sending money to a country of origin). The training consisted of a two-hour information session plus handouts and written financial information about remittance costs and options. In follow-up surveys conducted monthly up to six months later, the authors found that the information sessions led to knowledge increases in specific areas of personal finance and that participants changed some of their financial practices, such as seeking and using multiple sources of information before making a product choice about sending a remittance. However, the training had no measurable effect on the amounts participants sent as remittances (for example switching from frequent small amounts to less frequent larger amounts to reduce service fees for transferring funds) or on the take-up of the least expensive remittance product options.
- Nikolova (2011) completed an evaluation of a financial literacy program for newcomers delivered in three Canadian cities by the Canadian Centre for Financial Literacy (CCFL) and community partners. Nearly 2,400 recent immigrants[8] received financial literacy classes in group settings, often as part of ongoing language training programs. Participants reported increases in their self-confidence in handling personal finances, self-assessed increases in knowledge and, at the end of the program, 92% reported that they planned to make some change in their financial behaviour based on what they had learned (suggesting they may have moved along the "stages of change" continuum). In a series of follow-up interviews

[8] The program defined "recent" as within 5 years of landing in Canada.

with a smaller sample of participants, the researcher found that 77% reported that they had, in fact, been able to apply what they had learned in the financial literacy training in the month after they completed the program. The researcher also suggested that the program participants were likely to pass on information from the formal training to friends and family, creating wider ripple effects from the direct training. Finally, she also stressed the importance of and challenges in adapting more generic financial literacy curriculum materials for the particular needs of newcomers and in the context of immigrant-serving agencies.

4.3.2 Financial inclusion of members of marginalized communities

Canada is fortunate, by international standards, to enjoy relatively high living standards and vibrant communities. However, there are Canadian communities, and neighborhoods within communities, where poverty and exclusion are more concentrated. Poverty analysis by postal code finds places like:

- Suburban Toronto neighbourhoods where low-income residents are concentrated in high-rise towers with little local community or economic infrastructure;
- Vancouver neighbourhoods where mental illness and addiction are prevalent in a low-income and often transient population;
- Rural and remote communities where social, physical and economic isolation may lead to greater unemployment, intergenerational poverty, and having to make the stressful choice of staying in one's community or leaving to seek greater economic opportunity;
- North End of Winnipeg neighbourhoods where a largely urban Aboriginal population struggles with multiple and complex barriers, while retaining hope for their young and growing community.

A number of notable projects have been established to improve access to basic banking in marginalized communities, such as the *Cash and Save* project in Toronto, *Pigeon Park Savings* in Vancouver and the Community Financial Services Centre in Winnipeg (Buckland and Eagan, 2010). Despite these initiatives, marginalized groups are generally underserved by mainstream financial service providers (Collin, 2010). This further compounds the negative impact of gaps in access to social, political and economic development networks and resources that are often experienced by these same communities.

A brief scan of financial services locations in the three northern territories found just a handful of branch locations in each territory, located far away from most of the smaller communities dotting these vast regions.[9] Buckland (2010a) notes the same absence, which he characterizes as a withdrawal, of mainstream financial service providers in many marginalized urban communities. In their place, fringe financial service providers move in, offering a limited set of high cost, financial products and services. Despite the costs and concerns about the business practices of these fringe service providers, more than one key informant noted that they are filling a gap in the market for short-term, accessible credit in small amounts for consumers with low attachment to mainstream banks or poor credit histories.

As a result of these dynamics in local financial service markets, many financial literacy practitioners find a significant and even inextricable part of their work consists of:

- Filling the void left by mainstream financial services in the supply of accurate and relevant financial information and guidance.
- Equipping members of marginalized communities to be more assertive in their interactions with mainstream financial systems. Their aim is to ensure that, prior to an interaction with a financial services provider, clients have more and better information, are familiar with technical terms that might otherwise mystify, and are aware of their rights and obligations and those of the financial services provider.

Consumers in all communities need some generic information and advice to equip them before engaging in a financial transaction. This information and advice can be about the specific technical features of a set of products, services or a system, or include

[9] Author's review using both Google Maps data with the search term "bank" for the three territories and also branch and automated banking machine locator search engines on the websites of the five largest Canadian banks.

more general sign-posting (providing a single point of contact for referrals and help to access a range of other programs, services and additional information) and guidance on basic governance rules (Thorensen Review, 2008). Canadians, in general, do not actively take steps to keep themselves informed or seek advice on personal finance matters. In fact, this is our greatest area of weakness, looking at performance across all five of the financial literacy domains (MacKay, 2011). For Canadians with limited access to, or weak relationships with, mainstream financial institutions, the task of getting generic, pre-transaction, financial information and guidance can be daunting.

Programs offered by many of the most experienced financial literacy practitioners, including SEED Winnipeg, St. Christopher House and the Edmonton Financial Literacy Society, provide some experiential support for the value of financial literacy interventions in addressing the needs of marginalized communities. Participants in these programs report strong levels of satisfaction with the information and guidance they get, greater willingness to engage with financial services and government services that can improve their personal financial circumstances, and potential family and community effects as participants share new information and awareness through social networks (key informant interviews, 2012; SEDI, 2012).

Work on financial literacy in Aboriginal communities also provides relevant information about the impact of financial literacy programs on members of marginalized communities. A 2003 review conducted by the First Nations Development Institute concluded that:

"Findings from this paper reveal that limited financial expertise and inadequate financial education resources to meet the demand in Native communities have significantly hindered the economic health of these communities. They are both a cause and result of the lack of access to capital and financial services available to Native borrowers. The paper also found that the number one reason Native consumers enter into predatory lending relationships is a lack of information about banking, personal finance, and credit." (FDNI, 2003)

Dewees (2008), reporting on the effects of five financial literacy sessions delivered to 120 members of the US Fort Berthold Indian Reservation, found that participants reported feeling that the training was helpful and increased their interest and willingness to take part in further financial learning. It is worth noting that the community members had just started to receive regular resource royalty payments and therefore were navigating a positive change in their financial circumstances. In Canada, the Aboriginal Financial Officers' Association (AFOA) has developed a set of financial literacy tools for youth in First Nations communities, in the hope that the benefits will contribute to better outcomes for individual community members and the community as a whole.

Further research and evaluation is needed to understand the role and effects of financial literacy programs in marginalized communities, but feedback from community practice suggests this is a promising field, even if we do not yet have conclusive proof.

4.3.3 Housing stability for homeless and insecurely housed Canadians

Housing is a critical factor in well-being. Secure housing provides the foundation for greater economic and social participation and, based on evidence from housing-first programs, may be the most important support for individuals struggling with difficult challenges such as mental health and addictions (MHCC, 2011). The housing continuum ranges from emergency shelters, through transitional and supportive housing, to subsidized and then market rental options, to home ownership. Financial literacy interventions appear to have a positive impact at different points on this continuum in re-establishing stable housing after a crisis or preventing housing crisis.

At the ownership end of the spectrum, financial literacy programs in the US have been linked to some improved homeownership outcomes, largely with respect to preventing or mitigating household financial crisis associated with mortgages and ownership. A 10-year review of Individual Development Account (IDA) programs (where a financial savings incentive is combined with

Financial literacy programs in the US have been linked to some improved homeownership outcomes, largely with respect to preventing or mitigating household financial crisis associated with mortgages and ownership.

financial literacy education) found no measurable long-term impacts on rates of homeownership amongst IDA participants compared to similar low-income Americans. However, the same review concluded that IDAs do seem to boost homeownership rates in the short-term (Gale *et al*, 2011), in other words, IDAs may help participants move more quickly into ownership. This finding is consistent with Canadian results (see Leckie et al, 2010) that show low-income participants outside of the IDA program eventually catch up in rates of housing purchases. There is ongoing debate about the relative importance of financial incentives versus financial education in enhancing financial outcomes, but both may be contributing to changes through financial literacy as the mediating variable.

Another survey of US IDA participants tracked 831 former IDA participants for a period of 4 to 12 years after they had finished the IDA program and purchased a home with their IDA savings (Rademacher, 2010). Compared to similar households who did not take part in IDA programs, the program participants experienced substantially better:

- Outcomes in their mortgage rates with just 1.5% holding mortgages categorized as "high interest rate" versus 20% of the comparable sample
- Housing stability with foreclosure rates 2-3% below that of the comparable sample.

US researchers have also found that financial literacy on its own, without a matching savings grant, can improve housing stability. Hirad and Zorn (2001) found that pre-purchase financial counselling substantially decreased mortgage default rates among low-income homebuyers with reductions in defaults of 20-34% in sub-groups. These results were confirmed by Hartanska and Gonzalez-Vega (2006) who also found that credit counselling reduces mortgage defaults.

For the past seven years, SEDI has managed a series of Independent Living Account (ILA) projects that combine a matching savings grant and financial literacy education for transitional housing residents (SEDI, 2006). The goal of the ILA program model is to enable participants to move to independent and affordable rental housing. Results from the initial pilot suggest that a majority (57%) of the project participants who opened an ILA savings account successfully moved out of transitional housing and into a private apartment within 6 to 18 months. In a follow-up study, the program seems to have had important effects on medium-term housing stability, as returns to shelters were estimated to be at least 50% lower than projections for the general homeless shelter population. A cost-benefit analysis found that the ILA program significantly accelerated the move from transitional to permanent housing and reduced housing crisis and returns to shelters (SEDI, 2009). Again, the impacts of the financial incentive and the financial training for participants cannot be separated out and both may be contributing to better housing outcomes through financial literacy.

Rent bank programs[10] and shelter workers across Canada report that just-in-time personalized financial coaching is an important part of the work they do with their clients (SEDI, 2008b). Counselling for rent bank clients can be as brief as one meeting with a counsellor to review the client's household budget and provide referrals to other programs and services. In other cases, rent bank clients are invited to participate in ongoing personal coaching sessions or to attend a financial literacy workshop with a partner agency. Rent bank programs aim to ensure loans are repaid but, more

[10] Rent banks are community-based, non-profit programs that offer emergency repayable assistance to eligible clients who have fallen behind on their monthly rental obligations. The loan may be conditional on some amount of financial counseling and must be repaid within negotiated time lines.

importantly, that clients improve their future housing stability and avoid a need to borrow from the rent bank again. No research is currently available on the impacts of financial literacy on rent bank use, loan repayment and future borrowing.

For shelter clients in crisis, staff may judge that the most effective intervention is one or more brief individual conversations with the client on their most pressing financial decisions in immediate "teachable moments."One shelter worker described conversations with clients who were planning to use cheque cashers after receiving government social assistance cheques (SEDI, 2008b). The worker's goal in the conversations was to help clients consider the costs of using the alternative service provider over mainstream banks or credit unions. He reported that sometimes this seems to encourage behaviour change. Another shelter worker described one-on-one informal counselling sessions with shelter clients suffering from mental illness who sometimes spent all of their monthly living allowance (intended to cover food and other basic necessities other than shelter) on token goods like buttons or paper. The worker described using conversations to explore strategies to solve the cash flow problem (such as returning the purchased goods) and to establish new and protective habits (see Figure 3 on the stages of change model). Qualitative reports from staff indicate that sometimes these small, just-in-time interventions appear to have an impact but, given the multiple and complex barriers faced by clients in crisis, it was difficult to attribute the cause of positive change or to guard against all risk of future crisis.

In summary, a series of key informant interviews[11] with staff of rent banks, shelter housing and homelessness researchers suggest that there is a general perception that financial literacy is part of the mix of supports needed to improve outcomes for vulnerable groups along the housing continuum, but it is not a magic fix in itself.

4.3.4 Helping youth manage their finances

Any scan of national financial literacy strategies in OECD countries will show that youth are by far the leading priority target group. Architects of these strategies generally share the view that increasing financial literacy earlier in life will establish positive life-long financial habits that protect against future personal financial risk. This preventive approach is seen as a more efficient use of financial literacy programs than remedial interventions to help those already in difficulty later in life. Similarly, much of the financial literacy programming and research to date has focused on youth. While the results are somewhat mixed, there is general agreement that there is some merit in trying to improve the financial literacy of youth:

- Chen and Volpe (1998) find that the personal financial literacy of US college students is very low but that business students, with greater exposure to financial concepts and presumably greater interest in financial matters, fare somewhat better, suggesting a role for exposure in an educational context to financial learning.
- Similarly, Seyedian and Yi (2011) find that participation in a financial education course led to some modest improvement in the financial knowledge of US college students (based on comparisons of pre- and post-test scores) and that students who were more engaged and participated more actively in the course showed the greatest improvement.
- Mandell and Klein (2009) find no measureable differences in the financial knowledge or self-reported behaviours of youth who had taken a financial literacy course in high school compared to those who had not.
- Evaluations of BC's *Planning 10*, a province-wide, mandatory, in-school, life skills course that includes career planning and financial education, are also decidedly mixed. The 2006 evaluation (IRG, 2006) found through post-test scores that objective knowledge increased somewhat and that students reported an increase in their confidence in handling personal finances and more positive attitudes towards adaptive financial behaviours (such as researching costs and benefits before making a purchase). However, of the 2011 high school graduates surveyed, 16% could not recall having received any financial education through *Planning 10* (IRG, 2011). And while 79% of respondents who could recall the training said that it was

[11] Interviews were conducted by the author in 2008. Many of the findings are published in SEDI (2008b).

"somewhat" or "very relevant" to people like themselves, most of these positive reviews came from respondents who already judged themselves to be knowledgeable about personal finances. Finally, one of the measures of the impacts of the program has been to look at rates of post-secondary participation among cohorts who received the training. While the goal setting and financial planning was expected to increase applications and attendance in post-secondary education (PSE) programs, at least one early cohort of secondary graduates who received the *Planning 10* course actually had lower rates of PSE participation compared to a cohort who did not get the mandatory course.

With respect to vulnerable youth (sometimes called youth-at-risk), including those from low-income families and youth with other sources of vulnerability[12] , Johnson and Sherraden (2007) argue that financial knowledge, skills, and access to financial institutions are all critical for adolescents and young adults. Consequently, financial literacy can be particularly powerful for youth from low-income families with more limited support and opportunities for exposure to financial systems.

This view is supported by research finding an important link between parental transfers of financial knowledge and habits and later financial practices among youth and young adults (Koonce, 2008; Grinstein-Weiss, 2011; Cho, 2012). However, a case for specific interventions for disadvantaged youth presumes that parents in vulnerable groups are less equipped to transfer valuable financial knowledge to their children. That is certainly the view of Lusardi *et al* (2010) whose survey results found lower levels of objective financial knowledge among youth from families in disadvantaged groups, leading the authors to suggest that financial literacy programs could have an important impact if offered to low-income parents without post-secondary degrees. However, there are many different forms of disadvantage and risk of poverty or exclusion (as described earlier in this paper) and generalizations about intergenerational transfers of risk are problematic given high rates of intergenerational mobility in Canada (OECD, 2011).

The relationship of financial literacy and post-secondary outcomes for disadvantaged youth has also been examined in research and practice. A major review of the literature and a scan of financial literacy programs by Frennette and Robson (2010) suggest that disadvantaged youth may see some changes in their educational outcomes through financial literacy interventions that provide:

- Accurate and timely information about the costs of and return on investment in post-secondary education, given that these are often systematically incorrect in families without previous participation in post-secondary education
- Giving referrals and guidance in

Making financial learning relevant for vulnerable youth

SEDI (2011) conducted an evaluation of a pilot project to adapt and deliver "The City", a financial literacy program developed by the Financial Consumer Agency of Canada. The program was delivered by 10 organizations serving vulnerable youth through a series of group workshops and courses, modified to meet local needs and circumstances. Clients who received the training had very low incomes (on average below $10,000 per year), were trying to manage personal debts and had rates well above the national average of being unbanked and using fringe financial services. The effects of the training were measured through interviews and focus groups six months after the last training sessions. Participants reported a moderate increase in goal setting behaviours, efforts to keep track of their finances and efforts to continue learning and staying up to date on financial matters. Perhaps more importantly, the evaluation shed light on the challenge of modifying a mainstream curriculum for delivery to vulnerable youth outside of school. Examples, case studies and other content in the material have to be relevant and realistic to the circumstances more often encountered by the target youth. Furthermore, learning resources have to be flexible enough to be useful a range of educational contexts where a predictable 15 hours of classroom time is not possible.

[12] Sources of vulnerability for youth, other than low family income, might include: dysfunctions in the family environment, health and activity limitations, mental health and addictions, difficulties in social relationships, learning deficits and more. In some cases, these risks may be concomitant with low-income but research suggests that family income is an imperfect predictor of vulnerability in youth.

sources of post-secondary education finance including savings, loans and scholarships.

The authors propose that the effects of financial literacy interventions on PSE participation come from a reduction in the perceived costs of education, increases in the perceived benefits, and improved awareness and use of affordable education financing instruments. The question of benefits and their take-up is discussed again later in this report. By making education after high school more attractive and feasible, financial literacy programs may indirectly increase high school completion as well as participation in post-secondary education. Again, the literature suggests that financial literacy programs alone are not sufficient to overcome barriers to post-secondary education for disadvantaged youth, but may be part of a more effective program and policy mix (Eitel and Martin, 2009).

Many previous authors have described the need for financial literacy programs aimed at youth in terms of new and more widespread sources of risk. For example, youth today have larger disposable incomes, earlier exposure to credit and financial contracts (such as cell phone contracts), and enter the workforce with far larger education debts than previous generations (Mandell 2008; Brooks, 2009; IRG, 2011; CFC, 2012). These widespread social and economic trends may be expanding our understanding of the risks (and opportunities) faced by many youth in the transition to independent adulthood. However, for youth with multiple or more pronounced barriers – youth from low-income families, youth with disabilities, homeless youth, youth in marginalized communities, youth in the criminal justice system and the tens of thousands of youth across Canada in provincial protective custody or foster care systems – the transition to independent adulthood may be riskier, with diminished opportunities for family or school support.

For these youth, generic financial education programs designed for "typical youth" may feel irrelevant or worse, stigmatizing. While there is an undisputed consensus that youth need help with financial literacy, current financial literacy research on youth finds mixed results for classroom programs, documents the persistent influence of family learning, and indicates that motivation and engagement are key to outcomes. Researchers have not yet undertaken a thorough examination of the effects and implementation considerations for particular sub-groups of disadvantaged youth and early learning form community practice needs to be better disseminated.

Behavioural perspectives on saving

Financial literacy interventions work on the individual knowledge, attitudes and habits of their participants. But behavioural economists point to the importance of institutional factors in shaping how, when and why people save money (or, conversely, accumulate debt). Researchers in behavioural economics find that people have difficulty making rational financial choices because they are so influenced by contextual factors, emotional states, and attention and cognitive limits (NEF, 2005). As Mullainathan and Shafir (2009) note, these factors influence people living in poverty as much as those living with wealth, but financial systems appear to be designed to make decision-making easier only for consumers with more money. Financial literacy programs may be important, from a behavioural economics perspective, as a way to:

A) Equip participants to use their own behavioural tricks and techniques to improve their financial decisions and outcomes (such as reframing saving as a goal rather than a loss, automating savings deposits and other commitment devices).

B) Document the interactions between vulnerable consumers and financial institutions that could be improved through broader systemic change.

4.3.5 Increasing the net worth of low-income individuals and households

Perhaps the most widely researched question about financial literacy is whether or not it leads to changes in the net worth of participants by encouraging them to save more and/or pay down their debts. One of the challenges in responding to this question lies in understanding whether, and what kinds of, financial literacy interventions lead to behavioural changes. In general, there appears to be broad support for the idea that financial literacy might increase savings and improve debt management. Changes in net worth should be considered with caution since there are many exogenous factors (e.g., interest rates and housing prices) that can significantly alter net worth, even if household behaviour remains unchanged. Financial literacy effects on net worth should probably be limited to changes in the knowledge, attitudes and behaviours of participants - e.g. keeping track of assets and debts, or planning ahead through precautionary savings.

With respect to savings, Garman, (1997) found that workplace financial education increased employee savings in an employer-sponsored pension plan. Bayer and colleagues (2009) uncovered similar results and noted that the effects are greater for low-wage workers than middle and upper income earners. Lusardi (2003) as well as Capuano and Ramsay (2011) also concluded that workplace education on personal finance increased retirement savings for program participants. Muller (2002) found that financial literacy programs, combined with help preparing an income tax return, lead to a substantial increase in savings out of lump sum tax refunds for low-income Americans.

With respect to reducing credit use, Elliehausen et al (2007) found that credit counselling services significantly reduced subsequent borrowing and credit use for program participants. Entraide Budgétaire (2011) reports that, after receiving financial counselling, clients approved for small personal loans from a partnering financial institution (Desjardins Credit Union) had a 91% repayment rate. This is well above the credit union's average repayment rate on comparable loan products.

Financial literacy programs specifically targeted to vulnerable groups, at least those connected with IDAs[13] , savings circles, and other asset-based programs encourage participants to increase their financial resources by:

- Finding additional income (e.g. by accessing benefits they were not formerly collecting)
- Reducing non-essential spending (e.g. by re-examining spending needs and sharing peer-to-peer advice on ways to reduce costs)
- Reducing interest charges by switching debts to less costly credit options (and even by small changes like paying all bills on time to avoid late fees)
- Setting goals for saving and/or reducing consumer debt
- Addressing obstacles to meeting personal financial goals (e.g. making saving easier through direct funds transfers and making withdrawals from savings accounts more difficult than deposits).

Evaluations of IDA programs have found that financial literacy training of up to 10 hours a week is associated with increases in regular deposits and total savings, but additional financial education beyond 10 hours is actually associated with a decrease in IDA savings (Clancy, Weiss and Schreiner, 2001; Sherraden, 2008). In *Learn*$ave, a national demonstration project of IDAs in Canada, participants in the research group that received financial literacy training were not found to save significantly more overall but were more likely than participants in the group receiving only a financial incentive to:

- Save anything at all (more participants without the financial literacy training saved nothing)
- Meet the qualification threshold to use their earned savings grant (more participants without the financial literacy training failed to save the required minimum often enough to cash in the financial incentive)
- Have higher savings at their peak level, even if final levels were lower (more participants with financial literacy training had a higher IDA account balance at some point in the project than participants with the financial incentive alone, taking into account the fact that participants in both groups withdrew

[13] IDAs are Individual Development Accounts, matched savings account programs for eligible participants. Money in IDAs is usually restricted to certain savings goals (most often housing, education and employment-related goals) and subject to certain time and savings limits.

money before the project ended)
- Have IDA savings that reached the ceiling recognized by the program
- Report continued savings habits after leaving the project (Leckie, *et al*, 2010).

Because the *Learn*$ave project relied on a random assignment design where participants had an even chance of being placed in a group receiving financial literacy training or not, it is possible to isolate the impact of the financial literacy training from the financial incentive, even if both might have contributed to change in financial literacy and/or net worth. While the financial literacy did not make a difference in the net financial position of participants, it does seem to have given a boost to other types of positive financial behaviour, reinforcing the conclusion that financial outcomes alone may not be accurate indicators of the effects of financial literacy interventions and supporting the view that financial literacy interventions may have impacts on different financial behaviours at different stages of change.

Other research from behavioural economics provides insight into how financial literacy interventions might be influencing savings and debt behaviours. Gathergood (2011) suggests that self-control and financial literacy are positively correlated and that low-self control is strongly associated with over indebtedness. Rha and colleagues (2006) found that setting savings goals and setting financial rules leads to higher savings rates (proportion of income saved) for low-income households. Barr, Mullainathan and Shafir (2012) argue that participation in mainstream financial institutions provides important pathways out of poverty (through reducing transactions costs and facilitating asset accumulation). Therefore, financial literacy programs that equip participants to more effectively engage with financial institutions may be an important part of what the authors describe as a necessary mutual accommodation between institutions and individuals. Financial literacy programs might work helping individuals to simplify decisions, to automate positive behaviour and also may simply increase attention to financial choices. Finally, Morrison and Oxoby (2011) found that even a brief exposure to a financial quiz before making decisions about saving (in a lab experiment) leads to important increases in willingness to save.

Together these studies suggest that financial literacy might be working on financial decisions by:

- Offering participants new rules of thumb and other short-cuts to make a desired financial behaviour more achievable;
- Increasing attention to personal finances, causing participants to be more conscious and deliberate in their financial behaviours;
- Reinforcing self-control efforts of participants over their own financial habits.

However, these kinds of effects are not unique to vulnerable populations. In fact, as Adkins and Ozanne (2005) point out, many low-income, low-literacy and low-numeracy individuals adopt quite sophisticated strategies that enable them to engage effectively in financial transactions. Thaler and Sunstein (2009) and Thaler (1994) suggest a range of small changes to the design of public and private programs that might increase savings (such as pre-committing to saving out of expected increases in future income and changing defaults program options to more positive savings choices). Early findings from Morrison and Oxoby suggest that financial literacy interventions – even if they only draw attention to personal finances immediately before a financial decision is taken – could be another important form of behavioural "nudge."

4.3.6 Facilitating access to public benefits and managing windfalls

Financial literacy also appears to play an important role in facilitating access to government benefits such as income support, tax credits, childcare and housing subsidies, and student aid. SEDI's reports on its own experience with the *Canada Learning Bond* suggest that financial literacy initiatives that offer relevant information, guidance and referrals to other programs can enable marginalized clients to access government benefits that may make a meaningful difference in the resources available to a household.

Similar financial literacy programs offered by SEED Winnipeg and the Omega Foundation among others are coming to the same conclusion about the role of targeted financial literacy in pointing low-income parents to benefits for their children. In the case of the *Canada*

Learning Bond, the administrative challenges in applying for the benefit are reasonably high and the investment among mainstream financial service providers in marketing the associated financial product is fairly modest, leading to a gap between those eligible for the benefit and the actual take-up of the bond.

A similar issue has been identified with respect to other public benefit programs benefits by Shillington (2010), who lists numerous government programs where the actual take-up of benefits falls well short of their potential reach. Many of these programs are administratively complex making it difficult to determine eligibility and to project expected net benefits without some special effort and technical knowledge. Potential target beneficiaries may rely on informal sources of information and advice (for example drawing conclusions based on the experience of a friend or neighbour) and may make decisions on whether or not to seek the benefit on this basis. If their perception of the difficulty (a form of cost) is greater than their expected benefit, it is not surprising that even households who are the target recipients of these public programs might choose not to participate. If financial literacy programs are able to simplify (or at least assist participants with) the application process and to provide accurate information about program rules and potential benefits, they may encourage greater take-up by those eligible for these public benefits. Many of these same public programs also require that beneficiaries interact with mainstream financial service providers. For example, governments at all levels are encouraging and even requiring citizens to receive their income benefits, tax credits (such as GST/HST or child tax credits) and tax refunds as a direct deposit into a bank account. By equipping participants to more effectively interact with financial institutions, financial literacy programs may also improve access to the public benefits that need a deposit account (or even more sophisticated financial products such as Registered Education Savings Plans or Registered Disability Savings Plans).

The arguments in favour of a role of financial literacy in improving access to benefits have intuitive appeal but so far have relied largely on anecdotal evidence. Forthcoming research from the Omega Foundation on their *SmartSaver* program and on similar financial literacy programs associated with the Canada Learning Bond may yield good evidence in the near future. Another study by Falvo (forthcoming) will look at the impacts on participants who received help to move from regular social assistance benefits to the disability program they were eligible for. Again, this may offer important information about the impacts of programs that improve access to public benefits. The evidence for improved take-up of private pension benefits in workplace settings with financial literacy programs may provide some indirect support for this idea (see discussion in section 4.3.5).

Finally, financial literacy and guidance can also play a critical role for vulnerable individuals, families and communities when they receive financial windfalls. According to John Stapleton, based on his work with social assistance recipients in Ontario, there is a small but significant portion of the very low-income population that will, at any given time, receive a lump sum windfall of money, with major repercussions for their medium- and longer-term well-being (Stapleton, 2009). While most Canadians would welcome a modest lottery winning, a small inheritance or the payout of an overdue court settlement, many low-income Canadians greet this news with dread because of the potential risks lump sums pose to income- and asset-tested benefits such as income assistance, rental subsidies, and provincial drug and dental benefits. The lump sum is usually too small to launch recipients out of poverty, but large enough to put their income flows at risk. As a consequence, decisions about the best allocation of these funds can be complicated and critically important. In these instances, access to non-judgmental, accurate, relevant information and advice could be very helpful.

Collin (2010) also notes that lump sum amounts (in this case from residential school settlements) often create substantial social and emotional pressure for the recipients and that multiple demands from family and friends for assistance in a marginalized community further complicates the question of making the best personal financial choice.

Financial literacy programs for vulnerable Canadians are filling a market gap in the supply of relevant, timely and accurate financial information and guidance on how to maximize resources from benefits and how to handle small windfalls

when they happen. Based on results of the key informant interviews conducted for this paper, it does not seem that for-profit financial professionals have the market incentives to become providers of information and advice to vulnerable consumers on access to public benefits or how to handle windfall gains. Officials in public services responsible for the administration of these public benefits are also constrained in their ability to directly meet the needs of vulnerable groups for financial information and neutral advice. These officials do not necessarily enjoy the same knowledge of local needs or level of trust as community-based organizations. Officials also face competing pressures to manage program expenditures (or case loads) that may be at odds with providing advice in the best interests of any single client. However, both financial professionals and public program administrators can play a role by learning about and responding to the barriers to – or perverse effects of – public benefits and private sector financial services that are identified by community-based, financial literacy programs.

Is financial literacy a band-aid solution?

Given the limitations of what financial literacy can do and certainly the limitations of what financial literacy has been proven to be able to do, critics suggest that policy and funding effort would be better mobilized to tackle the root causes of poverty and exclusion. In contrast to financial literacy, these are sometimes described as market regulation, better wages and renewed public social insurance. However, the best available research suggests that the root causes of poverty and the best routes out of it are complex and highly individualized, making any one-size-fits-all approach the wrong one.

Every avenue toward greater economic inclusion and self-sufficiency, whether a new and better job, better housing options, or strong consumer protection regulations, means that some aspect of the architecture within which Canadians (and particularly vulnerable Canadians) make personal choices and decisions has been changed. As a result, there is an irreducible need for some degree of access to personal financial information and guidance and compelling evidence that what is accurate for Canadians with greater resources will not always be helpful or accurate for Canadians with fewer resources.

Financial literacy on its own cannot do away with poverty, but it is impossible to imagine a response to poverty that could reasonably do away with the need for some financial information and guidance.

4.4 Generating positive psycho-social effects

Private, public and community sector key informants interviewed for this paper repeatedly cited the power of financial literacy initiatives to improve psycho-social outcomes for participants.

This makes intuitive sense when one considers the life events rated as the most stressful by the Holmes Rahe Stress Scale –e.g. the death of a spouse, divorce or separation, and imprisonment. Each of these entails direct and indirect financial consequences. The death of a spouse may mean unexpected, long-term changes in household income and assets, as well as short-term decisions about the estate and immediate financial flows. Divorce and separation typically involve a series of technical, and generally difficult, decisions about the value and division of shared assets for the long-term, while managing short-term financial obligations. There are many more examples of this kind that, together, underscore the importance of financial literacy in enabling individuals to navigate varied life transitions and coping with the related psycho-social effects. An international roundtable hosted by the Mental Health Commission of Canada (2009) also noted the important relationship between financial hardship and mental illness noting that "the psychological impact of economic crisis on individuals and families can easily be compared to the aftermath of a disaster such as Hurricane Katrina."

The positive psycho-social effects of financial literacy interventions identified by key informants were varied, but generally fell into one of the following categories:

- **Increased hopefulness and orientation towards the future** (also referred to as time perspective).
- **Reduced stress**, leading to improved mental and physical health and family functioning.
- **Increased self-efficacy**, fostering a stronger sense of self-control and personal competence. Self-control and personal competence here imply both a willingness to engage with personal financial matters (including engagement in further learning or seeking help) and greater awareness of personal choice and responsibility.
- **Enhanced social capital** through learning, new peer connections and referrals to additional sources of help.
- **Enhanced sense of belonging and inclusion** by: **1)** letting participants know that they are not alone in the financial challenges they face; **2)** reducing self-blame by helping them to situate their experience within a broader financial and economic context which includes systemic barriers to inclusion; and **3)** empowering them to interact more effectively with administrative and bureaucratic systems such as income tax offices, consumer appeals divisions in financial institutions and public benefits administrators.

- The evidence for these kinds of psycho-social effects is not conclusive, but it is promising:
- Hira and Loibl (2005) found that financial literacy programs increase work satisfaction and optimism about future finances.
- Allen and Miller (2008) found that unemployed financial literacy program participants reported feeling more ready and able to enter the workforce, in addition to an increase in positive financial practices.
- Entraide Budgétaire found that 30% of its 1,600 annual clients reported reduced feelings of stress about their finances after just one counselling session.
- In examining how financial literacy supports actually achieve psycho-social effects:
- Bateman, *et al* (2012) found that expert advice increases confidence and optimism and that the accompanying increase in financial knowledge allows participants to turn generalized financial strain into quantifiable risks that are easier to understand and manage than emotional stress responses. Some of the effects may be indirect, to the extent that financial literacy supports positive behavioural changes. In other words, financial literacy may not directly reduce stress and anxiety but may do so by: **1)** supporting behaviour changes to improve financial well-being that, in turn, reduce anxiety; or **2)** simplifying financial decisions into more manageable, understandable choices where negative emotional reactions are less likely to be triggered.
- Lea, Webley and Walker (1995) concluded that people with financial debt have similar attitudes to debt as those without debt, but less confidence in their own money management skills. They also typically perceive their financial situation as worse than that of friends and family. This suggests that financial circumstances can lead to increased negative affect and reduced self-efficacy. Interventions that enhance debt management knowledge and behaviour may indirectly reduce negative affect and improve self-efficacy.
- Leckie and colleagues (2010) found that IDA participants who received matching credits and financial literacy services had a measurable increase in their reported life satisfaction and were slightly more likely to express feelings of hopefulness and self-efficacy about their future labour market prospects.
- Finally, Taylor and colleagues (2011) found that financial literacy is important to the psycho-social well-being of men and women but that the nature of the effects is different:

"[…] for both men and women, low financial capability has significant and substantial psychological costs over and above those associated with low income or deprivation. For men the size of this effect is similar to that associated with being unemployed. For women the size of the effect is similar in magnitude to that of being divorced. High financial capability is associated with higher levels of psychological health for both men and women. This suggests that improving people's financial management skills would have substantial effects on

stress-related illnesses and the outcomes associated with such problems, and therefore have lasting benefits for individuals and the wider economy. Furthermore, low financial capability exacerbates the psychological costs associated with being divorced or unemployed and of having low income. An implication is that by improving financial capability policy makers can reduce the psychological impacts of experiencing such life events." (p.i)

In sum, financial literacy may go a long way to making people feel more confident about their ability to handle their personal finances and to feel more optimistic about the potential for future improvements in their well-being. Given the strong association between financial strain, stressful events or prolonged stress, and the negative health impacts of these, there is good reason to think that financial literacy programs may be able to make a measurable contribution toward improving the physical health, as well as the psycho-social well-being, of participants. While other programs and services might also generate positive psycho-social outcomes, because financial strains are among the most present stressor for vulnerable Canadians, using financial content to improve psycho-social well-being may be valuable and salient to participants.

4.5 Emerging best practices in financial literacy for vulnerable groups

The financial literacy field – both research and practice – has started to articulate some guiding principles for effective financial literacy interventions aimed at vulnerable groups. The discussion that follows is heavily informed by interviews with key informants for the current project as well as a recent report from the Canadian Centre for Financial Literacy on the results of a series of cross-Canada roundtables with financial literacy practitioners (CCFL, 2012). Where relevant published studies are available, these are also cited.

Perhaps the best way to summarize the current knowledge about what works in practice is to say that financial literacy interventions are most effective when they offer appropriate, accurate content, tailored to the audience, delivered by trusted persons, in ways that are consistent with principles of adult learning for adult clients, in programs with sustainable capacity. The remainder of this section discusses these elements of successful programs in greater detail.

4.5.1 Appropriate, accurate content, tailored to the target audience

Several key informants noted that vulnerable Canadians face substantial challenges to getting non-judgmental, accurate and relevant financial information and guidance.

Financial literacy interventions are most effective when they:

- Offer appropriate, accurate content, tailored to the audience
- Are delivered by trusted persons
- Are consistent with principles of adult learning for adult clients,
- Are embedded in programs with sustainable capacity.

Some noted that the typical informal sources of financial information and guidance that vulnerable Canadians might turn to – the media, family, friends and frontline community organizations – may offer inadequate, incomplete or incorrect financial information. In more formal or professional settings, financial or program expertise may not be matched with a good understanding of the needs and circumstances of vulnerable Canadians. A significant portion of mainstream financial information, tools and advice, while accurate for many middle or higher income Canadians, is often not so for low-income Canadians. Expertise from financial institutions and professionals may be inadequate, incomplete or incorrect when applied to vulnerable clients. Financial literacy programs for vulnerable groups serve an important function in translating financial information and adapting it to respond more directly to the life context and needs of more disadvantaged audiences. As Birkenmaier (2009) noted, however, it is key that financial literacy staff are first financially literate themselves.

A number of key informants also

noted the real risks of doing financial literacy badly – that is, providing inaccurate content or insensitive and inappropriate guidance. When done badly, financial literacy interventions can encourage participants to make seemingly positive changes that are, in fact, detrimental to their financial well-being. When done badly, financial literacy programs run the risk of turning clients off, discouraging further learning about personal finance, and causing clients to tune-out future financial literacy knowledge as irrelevant or, worse, as a painful and potentially stigmatizing reminder of their own disadvantage.

The best financial literacy programs for vulnerable groups ensure that both the content and the delivery are tailored to the target group. While more generic and passive educational vehicles like pamphlets and websites do have a role, Bayer, Bernheim and Scholz (2009) stress that interpersonal seminars, workshops, and one-on-one methods work best in delivering financial information, education and advice.

Several key informants also highlighted the importance of personalizing information for clients. Programs offering one-on-one services tailored to the individual needs of each client are perceived by some key informants to have greater positive effects than group delivery vehicles such as workshops and courses. While these programs have higher delivery costs, compared to group workshops or mass information dissemination (such as websites), Deb and Kuzansky (2012) have suggested that the marginal cost of giving personalized financial literacy assistance can be as low as seven cents per client when it is piggy-backed onto an existing one-on-one interaction (such as completing an enrolment form, undergoing a learning assessment, or opening an account at a bank). This is in sharp contrast to the $14 per client they estimate it costs to deliver more intensive, remedial programs, even when these are delivered in a group setting.

4.5.2 Services delivered by trusted providers

When it comes to effective financial literacy programming, participants need to be able to trust the provider – both their motives and their capacity to provide accurate and appropriate information.

Many key informants noted conflicts in the roles, motivations and expertise of both financial institutions and community-based agencies in delivering financial literacy services to vulnerable groups. While financial institutions have deep financial expertise, they do not always have an understanding of the needs of vulnerable groups and may not enjoy the trust of clients in marginalized communities or those with little positive experience with mainstream banking. On the other hand, while vulnerable Canadians appear to have greater trust in the ability of community based organizations to understand and respond to their needs, many community organizations are themselves still learning and gaining the confidence they need to deliver effective financial literacy programs. In many communities, community organizations and financial institutions are partnering in ways that leverage the comparative advantages of each party to deliver effective programs, but finding the right balance and preserving the trust of vulnerable clients requires ongoing effort by all stakeholders. Some community organizations are also experimenting with peer-to-peer learning approaches that build on the common experiences of participants and greater mutual trust. Key informants with experience facilitating group financial literacy workshops noted that, while participants are often reluctant to speak openly about their personal finances and financial challenges for social and cultural reasons, they regularly report that they appreciate the experience of being in a community of peers with similar struggles. In many longer-standing financial literacy programs, organizations have expanded on the peer-to-peer principle by hiring program graduates as facilitators. These programs may not be able to personalize to the same extent as one-on-one delivery models, but they may have indirect social benefits not seen when a financial literacy intervention is delivered to one client at a time.

Across different delivery models, it is clear that effective financial literacy programs for vulnerable clients demand that financial literacy providers reflect an understanding of their clients' circumstances and needs, be equipped with accurate, appropriate and accessible content, and be non-judgmental in their approach to preserve their clients' trust.

4.5.3 Respect for principles of adult learning

Financial literacy programs aimed at adults should be governed by the ways that adults learn. Briefly, adults[14]:

- Self-select and learn when they are motivated to do so
- Filter and selectively attend to information they feel is relevant to them
- Learn best by doing
- Respond to guidance not instructions
- Have independent ideas and experience that they bring to their learning.

Participants in a series of cross-Canada roundtables hosted by the Canadian Centre for Financial Literacy (CCFL, 2012) confirmed that principles of adult learning are key to the design of effective adult financial literacy programs. This observation was echoed by many of the key informants we spoke with for this paper and further supported by some published literature.

Adult learners do best when they are motivated and volunteer to be part of a financial education program (Hira and Loibl, 2005). At least one key informant observed that mandatory financial literacy programs may create unintended barriers to learning and force facilitators to first win over reluctant participants.

Regardless of the topic, adults with greater education and past learning are more inclined to seek out further information and learning (Leckie *et al*, 2010). One positive experience with financial learning may be able to start a virtuous cycle of continued learning and information seeking about personal finances (Hilgert, Hogarth and Beverly, 2003).

Buckland (2010a) suggests that financial literacy programs should be viewed through "situated learning theory," a model that says adults learn best by doing and learn best in a meaningful context where what is learned is more often unexpected or indirect to the planned content. Hogarth (2005) and Lyons *et al* (2006) suggest that adults have the greatest increases in financial literacy by having positive experiences with money. More experience in dealing with real money that leads to a rewarding outcome (whether through life experience or targeted programs) is the best predictor of future adaptive financial habits. This may be why asset-based programs that combine the experience of handling money with training in personal finances may be successful in changing the financial literacy of participants. Similarly, McCormick (2009) recommends that financial literacy programs are most effective when they can intervene at "teachable moments," that is when a financial choice is imminent, and when the financial literacy program includes relevant content with practical applications. Embedding financial literacy into existing programs and services (while also potentially more efficient, as discussed above) may make good sense as a strategy to create that "situated learning" so key to positive outcomes.

Adult learners have greater experience and knowledge than do children and youth, so strategies that may work with young learners in a classroom are almost certain to meet resistance with adult learners. Several key informants noted that clients of financial literacy programs express greater satisfaction and self-reported positive outcomes when they feel they have received guidance relevant to their own circumstances rather than instruction or lecturing on what they ought to be doing with their personal finances. Coaching, counselling and problem-solving approaches to financial literacy tend to adopt this approach but group workshops and seminars have also been able to use this principle of adult learning. Many of the financial literacy curricula developed by leaders in the financial literacy field take stock of learners' past experiences, document their own competencies, and then build on learners' own knowledge and insights. Starting where adult learners are at and building on that experience appears to be key (Corus and Ozanne, 2011). This requires that financial literacy programs gather feedback and engage clients to continuously improve delivery. In other words, the learning in financial literacy programs with the greatest impact for disadvantaged groups is a mutual exchange between participants and providers.

4.5.4 Sustainable capacity

Many previous reports (see for example, Orton, 2007; TFFL, 2011; CCFL 2012) and key informants

[14] Adapted from the Canadian Literacy and Learning Network, "Principles of Adult Learning".

interviewed for this project confirm that there are important capacity issues facing voluntary sector organizations active in the financial literacy field. Specifically, they face perennial funding and human resource challenges that may limit their capacity to deliver the most effective programs and services to their clients. These challenges are discussed further, recognizing that they are not unique to the financial literacy field, but shared by many voluntary sector organizations engaged in a wide range of programs and services in Canadian communities (Imagine Canada, 2012).

Human resources challenges come in different forms. Some organizations new to financial literacy struggle with building the capacity and confidence of staff members to take on education and guidance roles in personal finance. These groups face a steep learning curve before they can deliver the accurate, appropriate and relevant information their clients need.

Other organizations already engaged in financial literacy contend with the need to continually renew staff learning because of staff turnover and ongoing changes to the financial services and government benefits/programs that are critical to their clients. These organizations need to continually replace staff and update their organizational knowledge to stay abreast of relevant financial changes. Often the relevant financial changes are technically complex or are not widely publicized by governments or financial services providers. Like private sector financial professionals, organizations in the voluntary sector are under continuous pressure to maintain their knowledge and upgrade their skills. Unlike their private sector counterparts, however, there are very limited resources to support staff training and a limited supply of affordable and relevant learning options for staff[15].

Funding challenges for organizations mean that leading organizations with longer-standing financial literacy initiatives report they are not able to fully keep up with demand for their services. Funding challenges also mean that programs may start up in a community but often do not last beyond an initial pilot stage. When programs start and stop, it can exacerbate staff turn-over (and associated human resource challenges). It can also limit opportunities for program improvement and best practices to emerge and create confusion or disappointment when people are referred by other agencies or word of mouth (sometimes a highly effective way to market financial literacy programs— Leckie et al, 2010) only to find that a program no longer exists. Different organizations are pursuing different approaches to tackle these challenges:

Embedding financial literacy within other programs –For some organizations, the decision to embed their financial literacy activities inside another program or service has been a good approach to ensuring that the financial literacy intervention has sustainable funding. For example, some organizations have integrated financial literacy into language or employment skills training for vulnerable clients.

Embedding financial literacy in other programs may generate cost savings (by piggy-backing on existing programs) and may broaden the range of funding sources available to support financial literacy[16]. There may also be advantages in the outcomes for clients given that some vulnerable clients have multiple challenges to reaching greater self-sufficiency. Embedding financial literacy within programs that simultaneously address multiple needs enables organizations to support clients in a holistic manner and to respect their limited ability to come to meetings or attend seminars. It can also enhance the relevance of the financial information for participants and enable the type of “situated learning” that seems to enhance learning and adaptive financial behaviour.

However, some leading financial literacy practitioners cautioned in key informant interviews that organizations that do not specialize in financial literacy, but rather deliver it as part of a broader set of services, may be constrained in their ability (both in time and expertise) to participate in policy and research dialogues that can advance and improve the field of practice. They also noted that, in some cases, embedding financial literacy in other programs and services may not

[15] Just as the supply of accurate, timely and relevant consumer-oriented financial information for vulnerable groups is limited, organizations working with these target populations suffer from the same limited supply.

[16] For example, some public or philanthropic funding avenues may be willing to support financial literacy as an add-on to another service that is prioritized for funding, but would not be prepared to support a standalone financial literacy program.

be a calculated response to cost pressures but, rather, a reflection of the newness of the field as a distinct area of social programming and services for community agencies. In other words, when financial literacy is embedded inside another program, it may simply mean that a community agency is delivering financial literacy without thinking and planning it that way. For example, a community agency delivering life-skills training to young parents may cover household budgeting, planning for emergency and rainy-day costs and accessing public benefits for families with children (alongside other topics such as parenting methods, meal preparation and health care) but may not think of what they do as "financial literacy." These same agencies may experience less confidence in their ability to deliver the financial literacy portions of their programs and may not be aware of, or seek out, ways to enhance their capacity in this area.

Partnering with interested financial institutions – Some leading voluntary sector financial literacy practitioners have developed and maintained successful partnerships with financial institutions that have included in-kind support, shared delivery, and/or funding. These partnerships seem to work best when the community organization can leverage the technical expertise of financial institution and when the participating financial institution is able to gain new insights into the needs of vulnerable clients and adapt in response. This might include adapting existing business practices, addressing in-house staff learning needs, and piloting new more responsive financial services. For vulnerable clients, community-financial sector partnerships can also facilitate increased financial inclusion by creating avenues to resolve problems opening or using bank accounts or by reducing their anxiety in interacting with staff at local financial institutions.

Developing and maintaining long-term investment horizons – Investing for the long-term is not just a maxim of financial advisors, it is good advice for financial literacy stakeholders. Evidence of measurable impact on financial literacy from programs (versus simple reporting of outputs such as numbers served and hours of training delivered) may take a long time to materialize. This is due, in part, to the still relatively nascent state of financial literacy programming and evaluation and, in part, because measureable individual knowledge, attitudinal and behavioural change is not unidirectional and takes time. The stages of change model, described earlier in this paper, notes that the process of changing habits at an individual level may include "backsliding" into old behaviours. It also takes time for organizations to learn from experience and develop their own best practices, to gain the trust of referral networks, and to develop effective learning materials that are fully adapted to respond to local client needs.

It can be difficult for funders, policy-makers and community organizations alike to focus on the longer-term horizons to see impacts from financial literacy initiatives, particularly in tightened fiscal circumstances where pressures to show results early are a reality for many areas of community practice. However, national financial literacy strategies established by other countries have all recognized that it will take time to see any meaningful improvement in the financial literacy of their populations. Furthermore, for all that we have learned to date, the field of financial literacy education is still a relatively new one and we can and should expect to have as many questions as answers still for some time to come. By implication, one of the primary challenges ahead is to build as much learning and knowledge exchange as possible into future financial literacy initiatives. Investments in learning through financial literacy research and evaluation will accelerate innovation and move Canada more quickly to a consensus on what works and how best to invest resources to improve the financial literacy of all Canadians.

5

SUGGESTIONS FOR FUTURE RESEARCH AND DIALOGUE

While this review has found some promising, but not conclusive, evidence for a range of effects from financial literacy interventions for vulnerable groups, it is clear that there are still many unanswered questions about the effects and effectiveness of financial literacy programs and substantial challenges to addressing these questions. The field is constrained in its ability to invest in and conduct the research and evaluation needed to generate answers. These challenges are outlined in the following sections, which also include suggestions with respect to future research and dialogue to support further learning.

5.1 Challenges to financial literacy research and evaluation

There are a number of important limitations and challenges with respect to current research and evaluation capacity that need to be kept in mind and, if possible, addressed. These are not all unique to the field of financial literacy, but present particular challenges for a relatively new field. The key barriers to more and better learning about financial literacy in Canada include:

- **Limited or weak practitioner evaluation capacity** as a result of funding and human resources challenges (Murray, 2010)
- **The absence of common metrics and indicators of financial literacy** that might allow for cross-program comparisons
- **Limited capacity and willingness of organizations to share internal program results** and lessons learned more broadly and the limited incentives or supports to encourage them to do so
- **Limited efforts to date to make use of new national level data** on financial literacy in Canada
- **Difficulty in establishing evidence of causal relationships and sustained impacts in financial literacy interventions,** without well-designed but costly and administratively challenging demonstration projects.

To expand on this last point, as with other kinds of community interventions, there are many complex and confounding variables that can change the observed financial behaviours and financial outcomes of participants. When participants leave a financial literacy program (whether they received a few minutes or a few weeks worth of service), it can be difficult to keep in touch and find out how they are doing over the medium- and longer-term. Finally, without conducting random assignment evaluations or lab experiments, it is difficult to control for improvements that might take place in the absence of any financial literacy intervention, for example through experience over time, luck, or self-directed learning and change.

These challenges are real but not insurmountable. Targeted investments in research and evaluation capacity, dialogue to agree on shared indicators, and support for knowledge mobilization might all go some way to improving knowledge in Canada about financial literacy and effective financial literacy interventions.

5.2 Areas for future research and dialogue

The review of literature and input from key informants uncovered three distinct but related areas where further research and dialogue could have the greatest effects for policy and practice. These are outlined below.

5.2.1 Impacts of financial literacy programs

The following questions relate to the nature, extent and causes of the impact arising from financial literacy interventions:

- **What impacts can financial literacy interventions generate, for which groups, under which conditions and for what duration?**

  This report has surveyed some of the current thinking and evidence about a range of financial literacy impacts for disadvantaged groups, but we still lack the evidence to make conclusive, definitive judgments on this important set of questions. The discussion on principles for effective programs (section 4.5 in this report) has intuitive appeal and some support in the literature and from practitioner experience, but finding the right program design and content means understanding and responding to a broad range of highly diverse needs among different groups of Canadians. Questions about impacts were the most commonly raised by key informants for this project.

- **What is the relationship between financial literacy and basic or essential skills, like numeracy and critical thinking? How do these interact?**

  Could we get good outcomes on financial behaviour, knowledge and attitudes by addressing essential skills deficits? Could we get better financial literacy without offering financial content in the learning? Some critics of financial literacy argue 'yes,' but no one has really yet put this question to the test. New research being conducted by the Social Research and Demonstration Corporation may be a promising first step.

- **How transferable are the knowledge, skills and habits in one domain of financial literacy to another?**

  Analyses of UK and Canadian national survey results suggest that competence in one domain of financial literacy (e.g. keeping track or planning ahead) may predict competence in another. But the same analysis reveals many different patterns or clusters in the relationships between

domains of financial literacy. Further work is needed to validate earlier findings, to understand why these patterns exist, and what they imply for policy and practice. For practitioners, understanding how to better tailor and target their financial literacy interventions also means getting a handle on how financial habits, knowledge and attitudes are generalized or not by individual clients. If someone is already strong in keeping track of their funds, shouldn't this be taken into account in efforts to improve their ability and willingness to plan ahead?

- **What are potential negative impacts from financial literacy interventions?**

  Although most key informants felt that efforts to increase financial literacy could have few or no real negative effects, some did raise concerns that suggest areas for future research. These concerns related to potential negative effects from financial literacy programs that are poorly designed or delivered. So far the literature reflects a bias toward learning about successful models, but learning from mistakes and failures is important too. Other key informants wondered about potential risks arising from over-confidence on the part of those who have participated in financial literacy programs. Others raised the risks of broader economic consequences if consumer financial practices changed widely – e.g. consumers save more and spend less.

5.2.2 Financial literacy practice in community settings

The financial literacy field's current state of 'uncoordinated innovation' means that stakeholders, particularly practitioners, perceive lots of activity from which they can learn and lots of learning they might share. However, the same practitioners express concerns about limited avenues and opportunities to actively exchange the knowledge they acquire or seek. The main questions that came from discussions with community practitioners were:

- **What are others doing in the field and how is it working?**
- **How can we stay on top of emerging practices, as well as important benefit, program and system changes** that are relevant to our clients?
- **Where can organizations new to financial literacy get support** to build their capacity?
- **Who can more experienced organizations turn to for help** with implementation challenges?
- **How can practitioners ensure quality in their programs and accountability** in their governance and funding arrangements?

5.2.3 Financial literacy policy

Public exercises such as the Alberta and Ontario government consultations on adding financial literacy to the school curriculum, or the consultations of the national Task Force on Financial Literacy (charged with making recommendations on a national financial literacy strategy), give a focus for stakeholder questions and input on financial literacy policy development. Since those exercises have concluded, however, it is clear from conversations with stakeholders for this paper and CCFL's 2011 Conversations with Communities, that private and community sector stakeholders have ongoing questions about policy change and financial literacy. This set of questions is largely about understanding the policy environment financial literacy programs are working in and how stakeholders can best have a voice in relevant policy dialogues:

- **What's new in policy related to financial literacy** and how can I stay on top of relevant policy information?
- **How can stakeholders offer input or influence decisions about financial literacy and related policy areas** such as income security, financial inclusion, financial regulation, taxation, immigrant integration and more?
- **Which policy-makers are most engaged on financial literacy? What are their priorities** and what roles are they playing in different areas of jurisdiction or responsibility?
- **How can practitioners translate their experience into policy-relevant information with impact?**

6 CONCLUSIONS

In the eight years since the release of "Financial Capability and Poverty" (SEDI, 2004), it is clear that the field of financial literacy research, practice and policy has advanced.

The theoretical work to understand and describe financial literacy is far stronger and now provides a better framework to guide research, evaluation, practice, and policy development. Many more financial literacy programs have been tried and tested in Canada and abroad. Many more research studies and evaluation reports on financial literacy are now available. Policy-makers and funders have invested substantially more in consultation and innovation in financial literacy in Canada than was the case in 2004.

There is now substantial, if not extensive, evidence that financial literacy can make an important contribution to the well-being of vulnerable groups, in the context of multiple other global, institutional and individual factors that shape inclusion and well-being.

There are strong arguments and some anecdotal evidence that financial literacy interventions can:

- Foster better outcomes with respect to diverse life events and transitions.
- Help vulnerable Canadians to access public benefits and handle the unintended impacts of windfalls on income from public benefits and transfers.

There is also some promising evidence that financial literacy can:

- Provide useful knowledge, skills and habits for youth that can be used throughout adulthood.
- Support improved settlement processes and outcomes for new immigrants.
- Promote financial inclusion for marginalized communities.

There is stronger evidence that financial literacy can:

- Improve housing stability for vulnerable households in both rental and homeownership settings.
- Increase savings behaviours.
- Improve psycho-social outcomes by reducing stress and enhancing self-efficacy.

Financial literacy is not a panacea and should not be seen as an alternative to effective regulation, adequate financial resources, and other public policies to promote social and economic inclusion and well-being. However, there is an irreducible need for financial literacy for all Canadians, regardless of income or wealth, and a clear need for distinct financial literacy supports for vulnerable Canadians.

While the review has found some promising evidence for a range of impacts, it is clear that further research would be required to improve current understanding of the impacts and effectiveness of financial literacy interventions for vulnerable groups.

There is now substantial, if not extensive, evidence that financial literacy can make an important contribution to the well-being of vulnerable groups, in the context of multiple other global, institutional and individual factors that shape inclusion and well-being.

Appendix 1: List of key informants

Ms. Althea Arsenault, Economic and Social Inclusion Corporation, New Brunswick

Mr. Camille Beaudoin, Autorité des marchés financières

Mr. Donald Booth, Human Resources and Skills Development Canada

Ms. Beth Brown, Ontario Ministry of Education

Mr. Marc Chalifoux, TD Bank Group

Mr. Rick Eagan, St. Christopher House

Mr. Bruno Lévesque, Financial Consumer Agency of Canada

Mr. Jeff Loomis, Momentum Community Economic Development Society

Ms. Catherine Ludgate, Vancity Credit Union

Dr. Angela Lyons, University of Illinois

Ms. Elaine Magil, Woodgreen Community Services

Ms. Donna McBride, Momentum Community Economic Development Society

Ms. Susan Murray, Consultant

Mr. Marc-André Pigeon, Credit Union Central of Canada

Mr. Greg Pollock, Advocis and the Task Force on Financial Literacy

Mr. Gary Rabbior, Canadian Foundation for Economic Education

Ms. Julie Rocheleau, Union des consommateurs

Mr. Jeremie Ryan, Financial Consumer Agency of Canada

Ms. Louise Simbandumwe, SEED Winnipeg

Mr. Brian Smith, Carrefour jeunesse-emploi

Ms. Michelle Smith, United Way Toronto

Ms. May Wong, Omega Foundation

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