



ROLE OF FINANCIAL EDUCATION FOR PENSION: RELEVANCE OF WORKPLACE DELIVERY

Seminar on Financial education and retirement savings

Toward Securing a Comfortable Retirement

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Flore-Anne Messy
Senior Policy Expert
Executive Secretary
of the International Network on Financial Education
OECD Financial Affairs Division



OUTLINE

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- **Global context : Importance of financial education and OECD/INFE contribution**

2

- **The importance of a national approach to financial education**

3

- **Needs and challenges of improving financial literacy on retirement issues**

4

- **Related OECD key messages and international experience**

5

- **Relevance of delivery through the workplace : Effective practices, challenges and solutions**



1. THE NEED FOR FINANCIAL EDUCATION

A COMPLEMENT TO FINANCIAL
INCLUSION AND CONSUMER
PROTECTION

OECD CONTRIBUTION



1. Empowering financial consumers : a necessity in an evolving societal & financial context

A riskier, more inclusive, complex and innovative financial landscape

Limits of financial consumer protection and regulation alone

Low level of financial literacy in all countries

Negative spill over effects for all involved !

*Limited coverage,
Financial and
social exclusion*

*Asymmetry of
information
and power*

*Lack of trust,
Fraud & misselling*

*Costs for all
stakeholders*



Low level of financial literacy

(OECD/INFE 2012 survey and national surveys)

Lack of trust & low knowledge of financial issues

UK : 73% of young adults worry about money on a daily basis

Just a third of the **Malaysian population** got two simple questions on interest rate right

Consumers overestimate their knowledge :
75% of **US citizens** have positive perceptions of their own financial knowledge, only **14%** are able to answer all 5 simple financial literacy quiz questions correctly.

Difficulty in several areas of financial behaviours

Use of formal products including for saving purposes

Planning ahead for unexpected life events : health and pension

Responsible use of credit

Groups at risks and in need

young

elderly population

women

low income

Beneficiaries of welfare programmes

Migrants

Micro - Entrepreneurs



Financial consumer empowerment trilogy : Global recognition

OECD/INFE High-Level Principles on National Strategies for Financial Education

Financial Education

G20 (2011) High-Level Principles on Financial Consumer Protection developed by the OECD

Financial Inclusion

Financial Consumer Protection

G20 (2010) Principles for Innovative Financial Inclusion



OECD/INFE contribution to Financial Education

International Gateway for financial education
www.financial-education.org

International Network on Financial Education
107 countries, 260 public institutions

7 set of policy instruments recognised by
global forum and a body of research

Global and regional policy platforms
and regular meetings

Work started in 2002!
serviced by 2 OECD Committees



OECD/International Network on Financial Education (INFE) Priority areas of work

Framework : National Strategies
(high-level principles, publication, policy handbook)

Target audiences

Youth

Women

Vulnerable groups

Tools

Measuring financial literacy

for adults
for youth (PISA)

Evaluating programmes

Sectoral issues

Credit

Saving & investment

Pensions

Insurance

Improving delivery

Behavioral economics and social media

Peer review

Practical guidance



2. THE NATIONAL FRAMEWORK (STRATEGY) FOR FINANCIAL EDUCATION



Financial Education (FE) : A Capacity building process

*“by which financial consumers/investors improve their **understanding** of financial products and concepts; and through **information, instruction and/or objective advice** develop the **skills and confidence** to become more **aware** of financial risks and opportunities to make **informed choices**, to know where to go for help, and take other **effective actions** to improve their financial **well-being**”.*

**OECD 2005
definition**

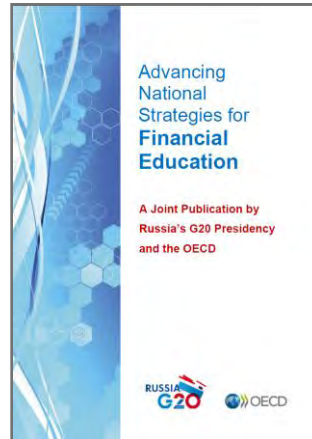


Outcome:
improved financial literacy



2. National Strategies for Financial Education (NS) : OECD/INFE Principles and follow up contribution

2012 : the Principles were **endorsed** by **G20 Leaders** and supported by **APEC MF**



2014 : the OECD/INFE will develop a **policy handbook** on the implementation of NS



2013 : a publication reviewing the status of **NS** in **G20** and invited economies was **welcomed** by **G20 leaders**





2. National Strategy for Financial Education (NS)

Definition

No one size fits all model!

NS = A nationally coordinated approach to financial education that consists of an adapted framework or programme which :

*Recognises the **importance of financial education** and defines its meaning and scope at national level in function of **identified national needs and gaps***

*Involves **the cooperation** of different stakeholders as well as the identification of a national **leader** or **coordinating body/council***

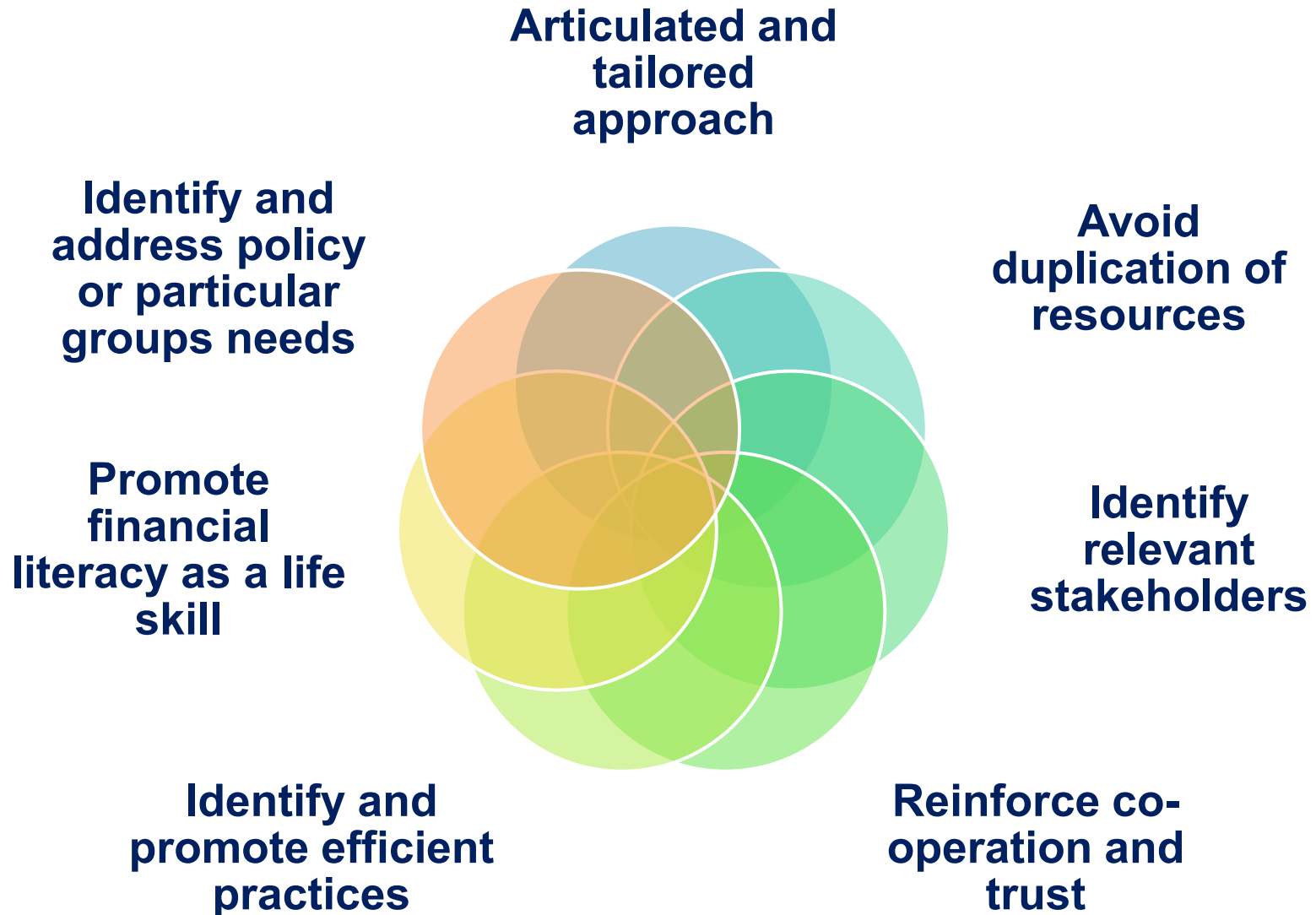
*Establishes a **roadmap** to achieve specific and predetermined **objectives** within a **set period of time**; and,*

*Provides **guidance** to be applied by individual programmes in order to **efficiently and appropriately** contribute to the strategy”*



2. National strategies for financial education

Relevance





3. Selected findings of OECD/INFE survey : **NS status in Asia**

45 countries
have
launched a
NS process

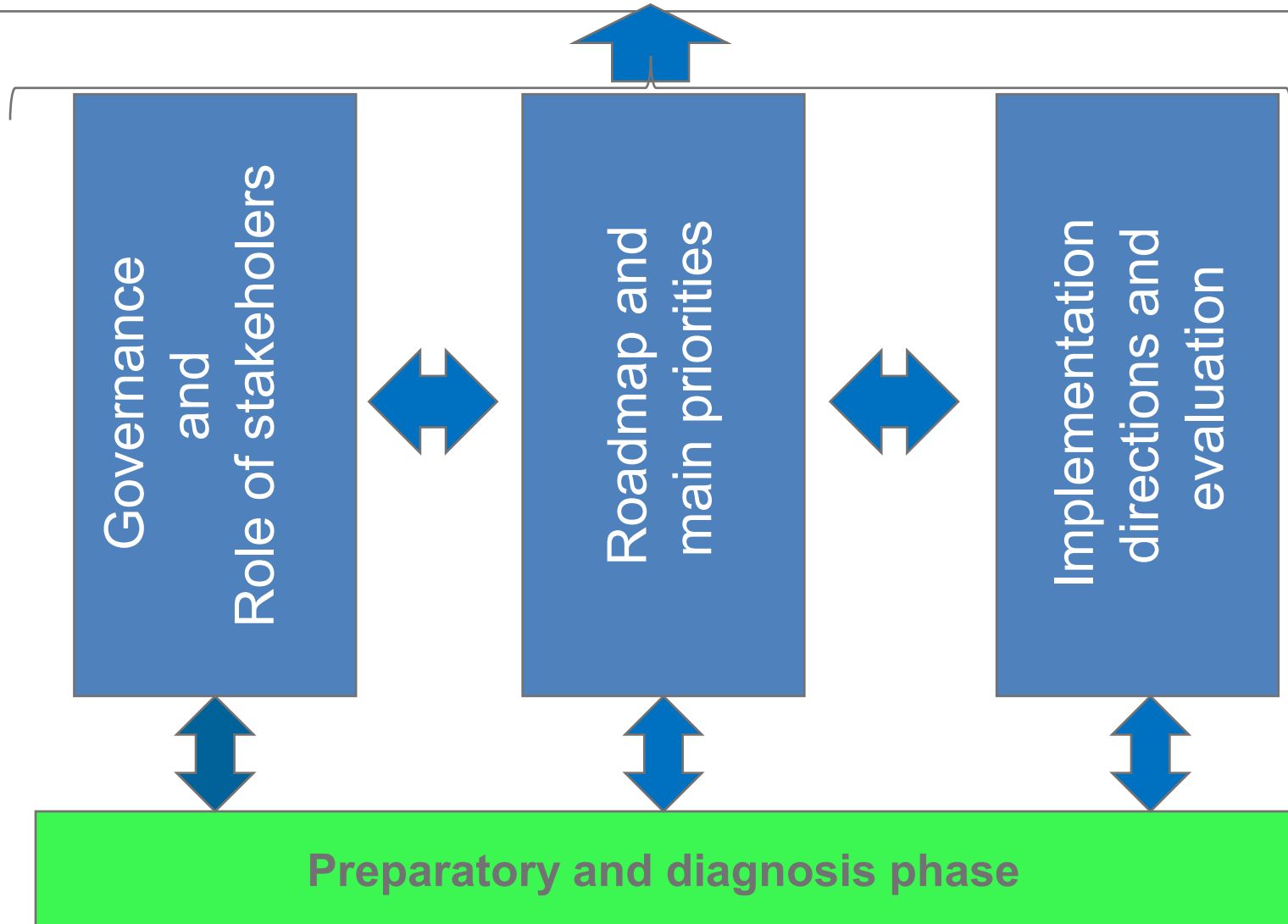
- → In Asia and the Pacific : Australia, India, Indonesia, Hong Kong (in preparation), Japan, Malaysia, New Zealand, Singapore

Often
integrated in
an holistic
approach

- Financial inclusion
- Consumer protection measures/approaches
- But also linked to *pension reform* or overindebtedness



2. National Strategy for Financial Education Framework





3. CHALLENGES AND NEED FOR FINANCIAL EDUCATION ON RETIREMENT ISSUES



3. Individuals have increased responsibilities for their own retirement income



Pension reforms

- Ageing population : Malaysia: from 55 in 1950 to 75 in 2012 in Malaysia
- Budget & Fiscal pressure
- Fewer occupational benefits

Results

- Shrinking public schemes
- Growing private schemes
- Shift from Defined Benefit (DB) to Defined Contribution (DC)
- Importance of voluntary schemes
- Changes in payout phase



DC schemes in particular imply a transfer of risks and responsibility to individuals



3. Individuals are ill equipped to face these risks : **Negative consequences for all**

Pensions are complex

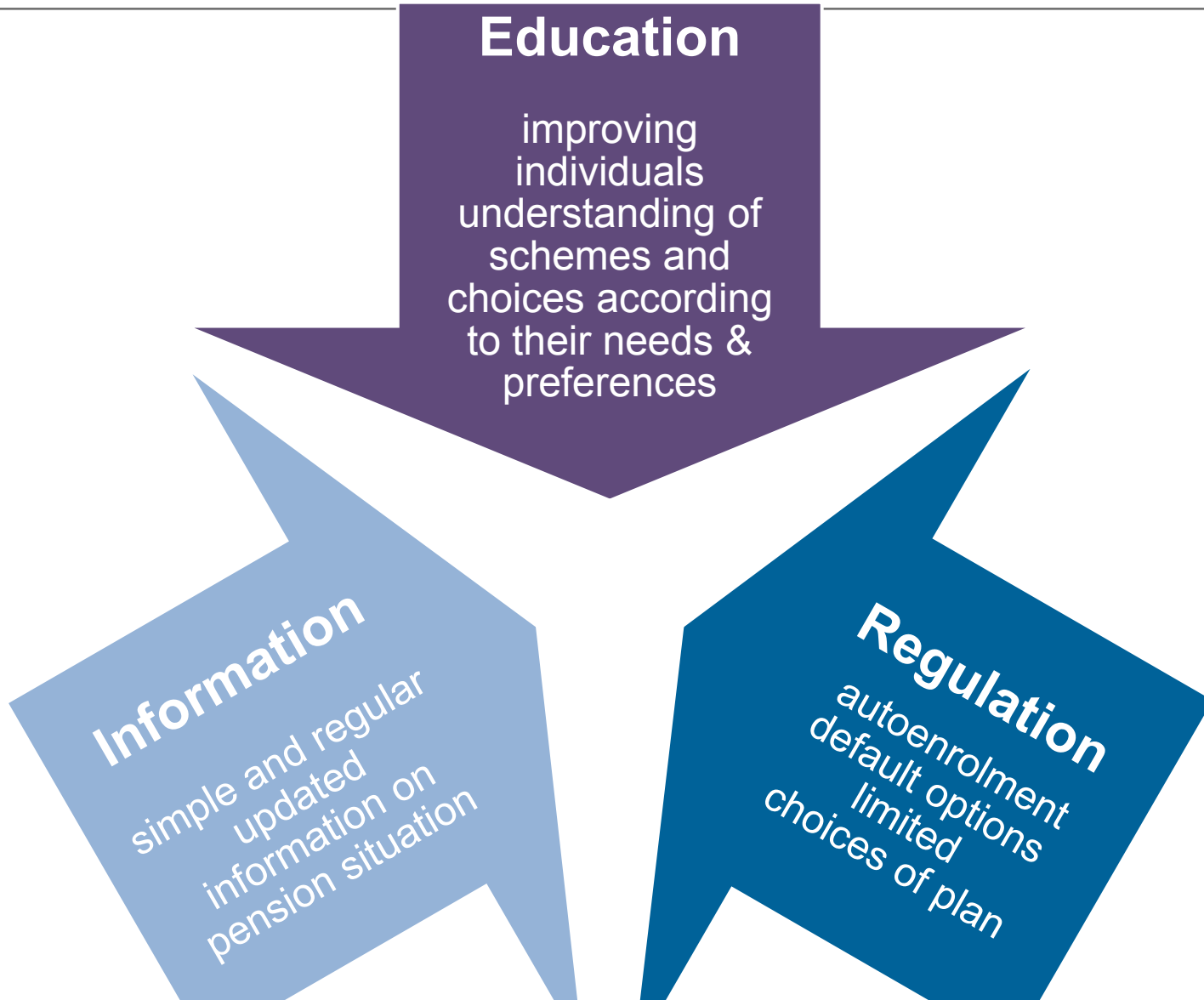
- Long term and non engaging
- Concepts such as taxation, inflation, investment return and risk diversification
- Benefits in the case of DC are uncertain
- Complex public/private schemes

But, surveys show :

- Low risk awareness /over confidence
- Low interest and knowledge in pension :
 - Almost 60 % of the US population have not tried to figure out how much they need to save for their retirement
 - 72% of Dutch Population know nothing about their pension including their own
- Difficulty in planning ahead
- Passive behaviors & other biases
- Some groups are more affected (e.g. vulnerable , women, independent workers)



3. Regulation, Information and Education should work hand in hand to address this situation





4. ROLE OF FINANCIAL EDUCATION IN ADDRESSING THESE CHALLENGES :

OECD KEY MESSAGES AND INTERNATIONAL EXPERIENCE



4. OECD contribution to financial education for saving for retirement

OECD Good Practices (2008)

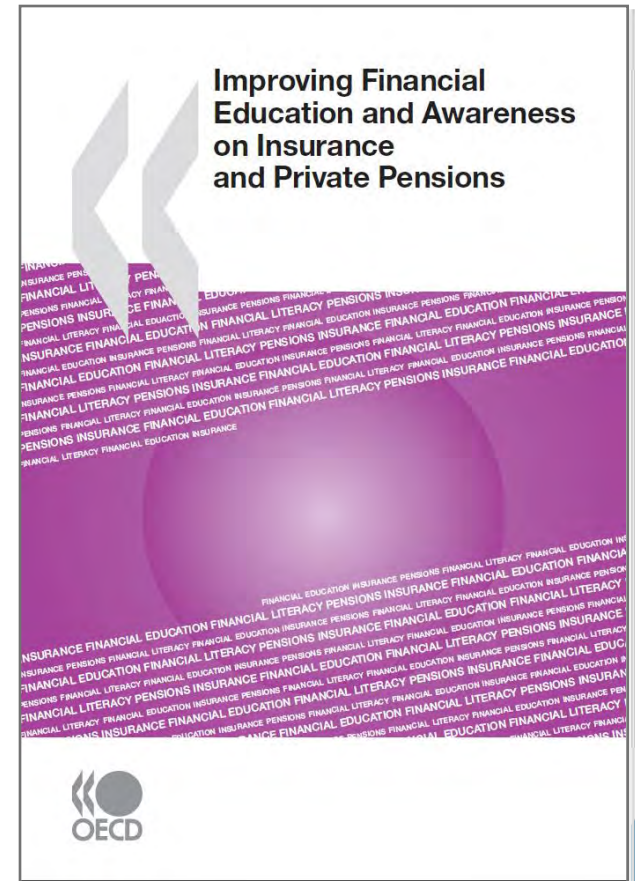
- Financial Education Relating to Private Pensions

Publication (2008)

- Improving Education and Awareness on Insurance and Private Pensions

3 Working Papers (2012):

- Lessons from National Pension Communication Campaigns
- Annual DC Pension Statements and the Communications Challenge
- Financial Education Saving and Investment : an Overview





4. Main OECD messages on Financial education for pensions : **Framework and main challenges**

Importance of a National Strategy on Financial Education (NS)



Pension is a sectorial component of the NS



Main implementation challenges

**Identifying and
coordinating
resources**

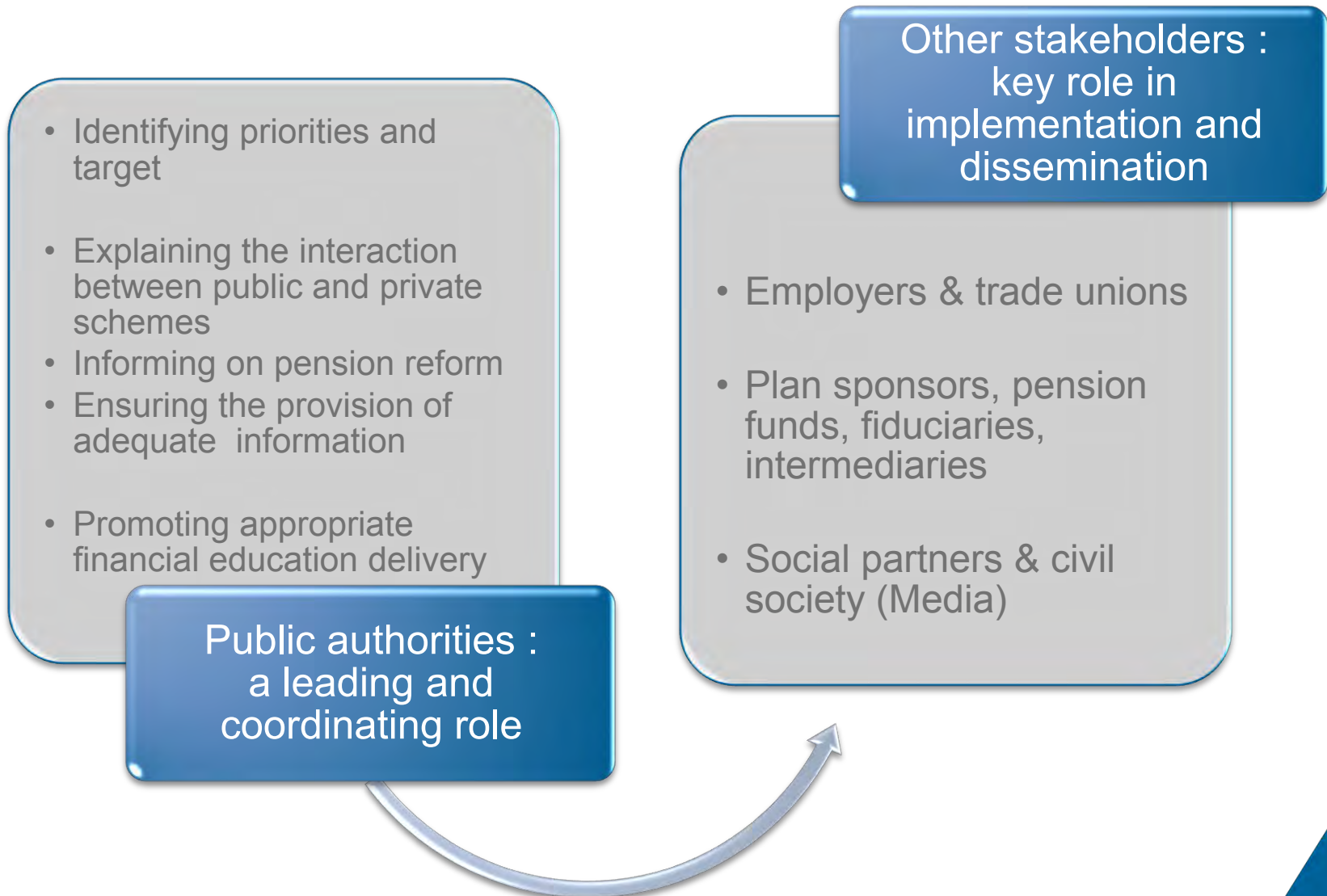
**Providing quality
financial
education**

**Engaging
individuals**

**Changing their
behaviors**



4. Main OECD messages on Financial education for pensions : **Role of main stakeholders**





4. Existing financial education initiatives relative to pension : **Main objective and nature**

linked to systemic pension reform

- **Introduction of a mandatory or quasi-compulsory** (auto-enrolment), **funded DC plan; new voluntary plans**
- **impact of the level of choice** :
 - e.g. Australia (no choice)
 - Singapore (encourage move to mandatory –to annuity life)
 - NZ (auto enrolment-kiwisaver)
 - Chile and Mexico (new responsibilities for individuals)

with on-going objectives

- usually **part of broader financial education initiatives**:
 - Promoting coverage,
 - Encouraging additional savings
 - Improving knowledge about pension plan and products
 - e.g. Denmark, US, Ireland, Spain

linked to external contingencies : financial crisis

- Take advantage of a **momentum**
- Reinforce **confidence** in the system
- e.g. Mexico, Chile, Israel, Hungary, Turkey



4. Main OECD messages on Financial education for pensions : **Delivery considerations**

Harnessing enabling environment

- Schools
- **Workplace**

Demand-driven :
provide education
when needed or
create a demand

Groups at risks

- Beneficiaries of DC schemes
- Women
- Pre-post Retired
- Low income
- Young Adults

Monitor and evaluate!



4. Financial education programmes on pensions : **Women as a key target audience**



Women have greater needs for financial education and may fall into poverty traps

- **Fewer financial resources :**
 - lower labour market participation
 - lower earnings
 - discontinuous careers
- **Longer life expectancy !**
- **But lower financial knowledge in most countries**



4. OECD/INFE responses to gender differences

Scoping paper
& contribution
to OECD
project in 2012



Contribution to G20 Summit in 2013 :

- **Publication : Women and Financial Education - Evidence & practices**
- **Policy guidance**
- **Leaflet to summarise findings**





5. RELEVANCE OF DELIVERY THROUGH THE WORKPLACE :

EFFECTIVE PRACTICES,
CHALLENGES AND SOLUTIONS



4. Workplace programmes: **Why?**

Potentially **reach out** a large number of working adults...

...in a relatively **cost effective** way with limited reliance on scarce public resources.

Win-win for the employer and the employees: promoting financial and health wellbeing

Demand-driven : workers start being interested in the issue (and may be even worry about it)

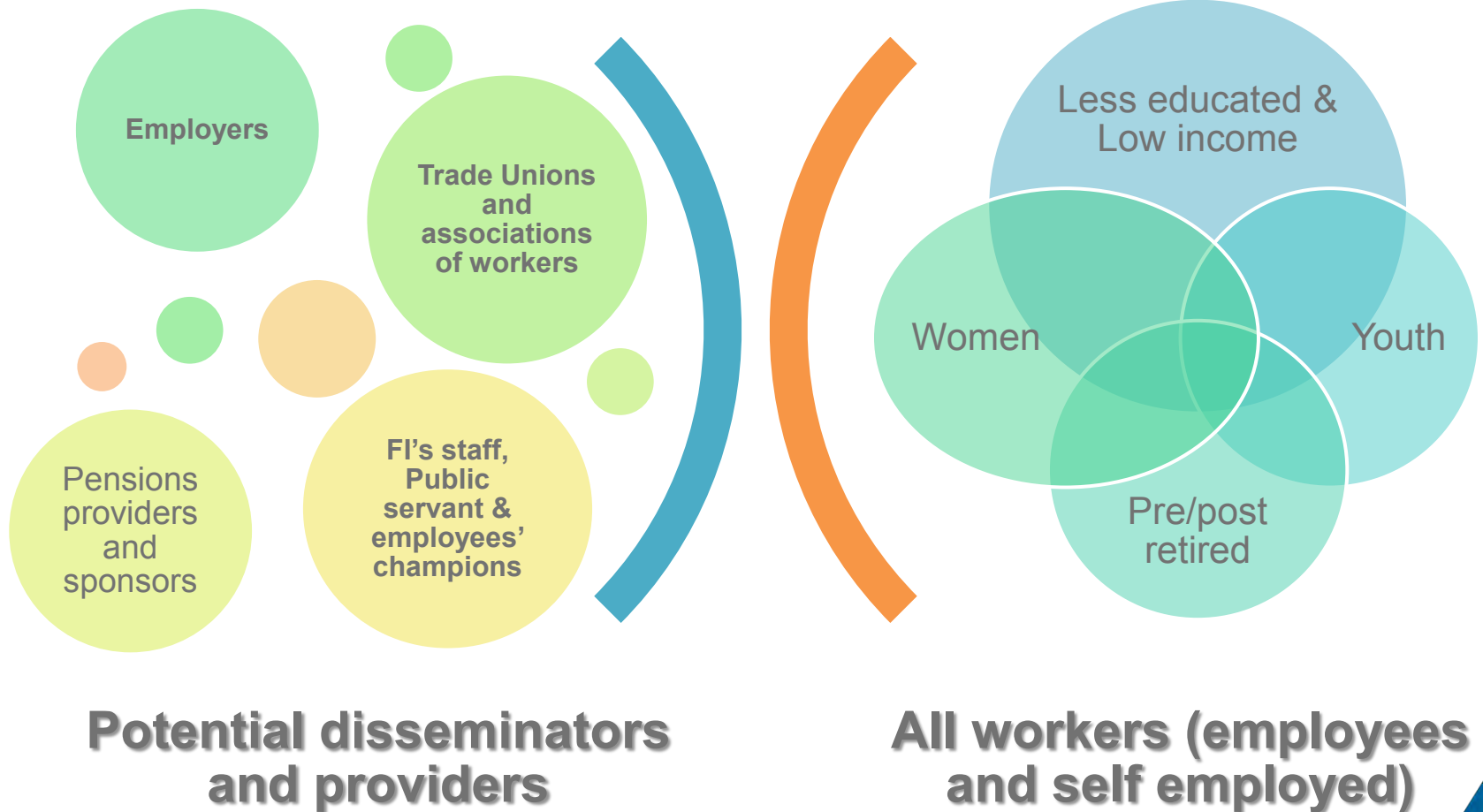
Learning environment : time, place and opportunity

Potentially **good quality and adapted** to the audience needs

(Albeit limited) evidence show **it works if delivered well !**



4. Workplace programmes: For whom?





4. Workplace programmes- Delivery tips : The framework

Part of an overall employers' benefit strategy and communication

Include clear and measurable objectives : business case

Reduce absenteeism
Raise productivity

Increase awareness on
available benefits

Increase
enrolment/savings in
pensions schemes

Modify retirement age/pay
out options preferences

Involve an articulated and adapted process

Well advertised
with positive messages

Planned in advance

Piloted

Relevant :
audience segmentation
(life/work stages &
learning preferences)

Monitored and
evaluated



4. Workplace programmes- Delivery tips :

Providers : pros and cons

The employer

- Advantage of objectivity and direct monitoring
- **but** requires well trained staff

Outsourcing to financial education business firms

- In principle higher quality
- **but** is likely to be more expensive
- Should meet employers' objectives

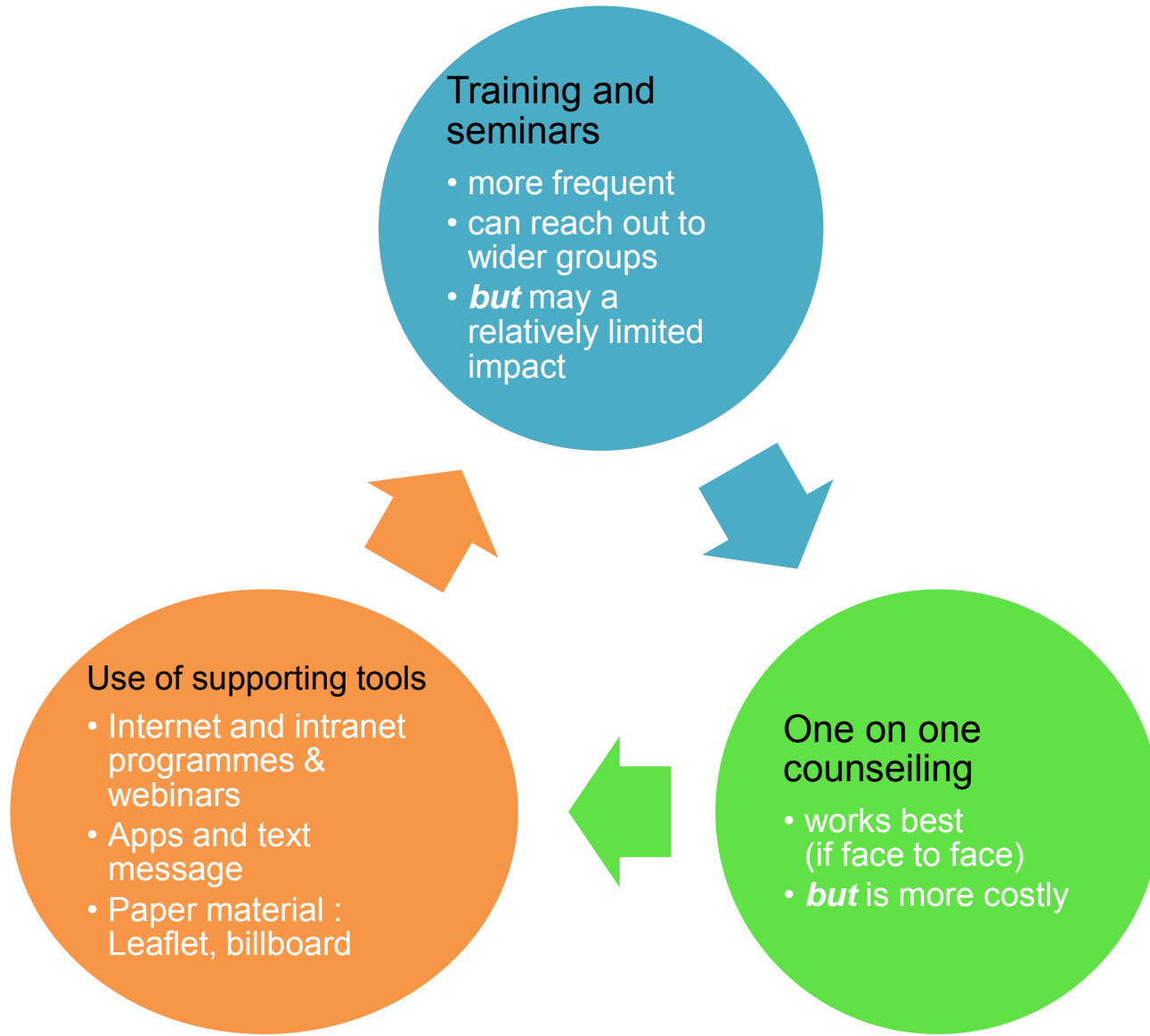
Fiduciaries and financial institutions

- have an incentive, may provide good quality
- **But**, are likely to be biased



4. Workplace programmes- Delivery tips :

Complementary tools





4. Workplace programmes- Delivery tips :

Content and time tailored to employees' needs

Possible content

Firms' benefits

Importance of planning early / retiring later

Key financial concepts : risk and return, inflation, risk diversification, tax system

Estimate of necessary level of saving for retirement

Identifying saving/investment options

understanding DC functioning

understanding the different pay out options and the advantages of annuities

Access and time

Programmes should be delivered at time of changes

Timing should be appropriate with employees ' working condition (during work time & close to work)

Repetition of messages is essential

Follows up and reminder



4. Workplace programmes

Limits and existing solutions (1)

Reach may be more limited than expected

(salaried of big corporations only)

- Encourage civil sector and foundations to promote programmes for SMEs and independent workers
- Encourage participation of spouses and partners in the programmes
- Promote dissemination by champions in other communities

Reluctance even for big firms

(especially during economic downturns)

- FE has positive impact on productivity and attract better qualified staff
- FE is a social responsibility especially with the shift from DB to DC
- « Nudging » employers : tax incentives; mandatory financial education by regulation



4. Workplace programmes

Limits and existing solutions (2)

Quality of provision?

(especially delivered by interested parties)

- Piloting, monitoring, evaluating and following
- Developing codes of conducts and quality standards (cf. toolkit in the US and UK)
- Identifying and disclosing conflicts of interests where relevant

Limited engagement of target audience: **Self selection**

- Mandatory programmes
- (Financial) incentives to kick off the programme
- Improved access and simplified and tailored design

Limited impact on target audience : **Procrastination**

- Provide opportunity to take action shortly after, including commitment to increase saving later
- Send reminders
- Use peer pressure and follow up meetings



6. CONCLUSION AND WAY FORWARD



6. Conclusion and way forward

FE is an important complement to regulation/information and tax incentives to support long-term saving for retirement



Workplace programmes are one of the relevant delivery channels if implemented well and evaluated



Women's needs with respect to retirement and financial education should be taken into account when designing programmes



Workplace delivery should be reinforced and supported by an enabling environment on financial education which includes a National strategy



THANK YOU!

✉ Flore-anne.messy@oecd.org

www.financial-education.org

