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Improving Financial Education and Awareness on Insurance
and Private Pensions

Overview

Financial education is particularly important for retirement savings and in particular pensions due to the unique nature of these financial products. These are exceptionally long-term contracts with a wide social coverage – involving those with low education and income levels who may display a low risk-tolerance. At the same time private pensions are particularly complex products (involving tax issues, assumptions over future salaries, longevity and interest rates, etc.) and are increasingly important as a source of retirement income, which enlarges their potential impact on financial markets worldwide. In addition, various demographic and social factors – including increasing life-expectancy and the rise of defined contribution pensions involving individual choice – are making the risks individuals face in relation to private pensions increasingly severe.

Yet, not only do consumers have low levels of financial literacy in general, they often lack a good understanding and knowledge of pensions and retirement saving plans. According to surveys reviewed, pensions and retirement savings plans- though vitally important to individual welfare and the stability of the economy – are some of the least understood financial products. In addition, surveys indicate that individuals are not saving sufficiently to ensure an adequate retirement income and are often not saving wisely.

This report examines the need for financial education in relation to retirement savings and pensions in detail, looking at needs according to the type of retirement income and the drivers behind the increasing requirement for financial literacy in this field. The role financial education can play in improving the understanding of the retirement environment, the understanding of investment and improving the ability of financial intermediaries and fiduciaries is then discussed, and how financial education should be combined with other tools to achieve these outcomes – from disclosure, auto enrolment, framing choices and the use of default options. A range of financial education programmes which have been undertaken in OECD countries are then highlighted, and initial analysis on the effectiveness of these is presented. The report concludes by outlining some initial conclusions and lessons learnt.

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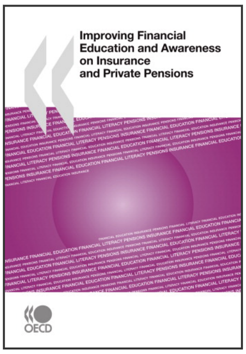
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