

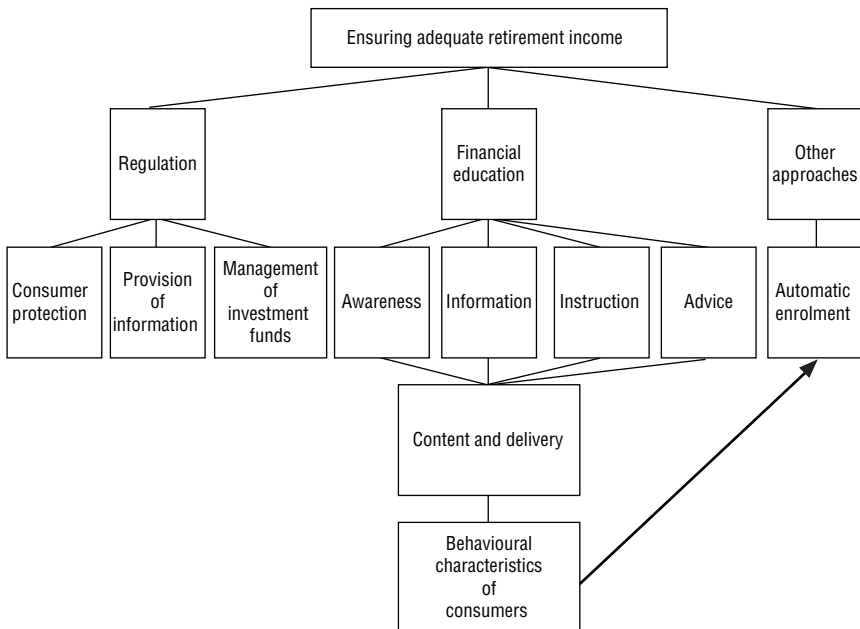
Chapter 2

Current Financial Education Programmes, Related Approaches and Evaluations

Surveys and experience therefore show how financial education is urgently needed, and can play an important role in helping workers achieve an adequate retirement income. However, financial education should be seen as only part of a broader strategy for achieving this goal. The following diagram illustrates tools which have and can be used in combination by different countries to achieve the goal of helping to ensure adequate retirement incomes for their populations.

It is clear from the diagram in Figure 2.1 that financial education, while important, is only one approach to ensuring that consumers have an adequate retirement income. In many cases it could be complemented by regulation, such as consumer protection, and/or by other approaches, such as automatic enrolment. Financial education serves to increase consumer awareness of financial issues, in addition to providing consumers with information, instruction, and advice on these issues. Providers of financial education must ensure that the content and the mode of delivery are appropriate for their

Figure 2.1. **Tools for achieving adequate retirement incomes**



target audience. The content and delivery mode will be determined in part by the behavioural characteristics of consumers, as well as by their economic and demographic characteristics. The behavioural characteristics of consumers will also influence the design of effective automatic enrolment plans.

1. Financial education

Understanding the changing retirement environment¹

An important role for financial education is alerting individuals to the importance of understanding the various retirement saving options (i.e. private pensions, retirement savings plans, social security, etc.) and of taking a proactive role in saving for retirement, ideally from an early age. Financial education can provide information on the characteristics of pensions and retirement savings plans so that the individual understands what actions he needs to take with respect to each of the options. For example, he will know that he will need to bear more of the responsibility (and risk) for his own retirement savings if he has a retirement savings plan than if he has a pension. He will know that in the case of a retirement savings plan he will have to make decisions about participation, contributions, and asset allocation.

In response to the changing retirement income landscape, public and private groups are initiating programmes to encourage retirement savings. In the United Kingdom, for example, the Department for Work & Pensions (DWP) is considering a DWP/Age Concern/Citizens Advice partnership to experiment with a number of ways to prompt and encourage people to save more, and to give them support for financial retirement planning into their future. Younger workers need to understand that it will not be possible to maintain the same forms of retirement income into future generations and they therefore will have to take on more responsibility for their own savings. In Canada, the Canadian Foundation for Economic Education (CFEE) issues a publication *Money and Youth* targeted to younger workers.² The publication includes sections on planning for retirement and getting started on investment and understanding investment options. In the United Kingdom, the Informed Choice initiative targets individuals under State Pension age. The highest priority audience are those who are unlikely to amass adequate savings during their working years, and who are thus vulnerable to considerably lower standards of living once retired. In 2006 the German Insurance Industry introduced, on a voluntary basis, a simple instrument which allows insured individuals to calculate their total old-age security and disability benefits from all three pillars (Eigenvorsorge-Report³). By comparing their future benefits with a specific pension level they can calculate their pension gap – the “Eigenvorsorge Report” being supported by an on-line calculator.

Older workers may also have to make some changes, for example extending their retirement age or at least not expecting to retire early. Individuals also need to understand that they may spend more time in retirement than they had originally planned. Financial education is needed to ensure that retirement income and pensions are adequate, and to close the gap between the retirement people **want** and what they can **afford**⁴. With shorter working lives and longer retirements ahead, individuals need to understand that increased savings are required for them to be able to live in the manner they hope to once they have stopped formal work, and indeed attitudes towards work as a whole may have to change – perhaps with people taking on different jobs towards the end of their working lives (the concept of an active or working retirement). People will have to change their expectations and definitions of what retirement means and how it is funded. Financial education can and should play an important part in aiding the smooth transition of these changes and avoiding intergenerational conflict. Germany is planning to launch a programme addressing these questions. *Fit in Altersvorsorge* is an information campaign covering a series of training sessions targeted to the public and older workers “to help find the right path to an additional old-age pension”. Most particularly the campaign addresses concerns such as, “What will be my financial situation in old age? Should I take out an additional private or occupational old-age pension or both?” Also available in Germany to both younger and older workers looking for retirement provision solutions are advisory services and consumer advice centres, and information services of trade unions and employers’ associations.

Financial education programmes can also help governments explain to the public the terms of the debate when pension reform is on the political agenda. The recent Slovak government media campaign is an example of a successful explanation of pension reform (Jurninová, 2004). In addition, in countries in which pension reform is occurring, it is very important that workers be aware of the necessity of making sound investment decisions and that they be provided with the information and skills that will enable them to do so. Financial education programmes can explain these pension reforms to consumers and help consumers make appropriate choices. In Finland, for example, major ongoing information campaigns have been organised by the Finnish Pension Alliance TELA and the Finnish Centre for Pensions to explain the pension reforms. The activities include special training for reporters, news flashes, an information magazine distributed to Finnish households, information brochures for the media and a television programme where specialists answer questions from the public. Care should, however, be taken with public campaigns to distinguish between financial education and political advocacy for a particular form of pension or retirement income

system. Public debate on pension reform needs both, but they should be clearly separated to allow citizens to make informed choices when consulted.

Understanding of investments

Financial education can contribute to the well-being of workers in retirement by providing them with the information and skills to make wise investment choices with both their pension plans and any individual savings plans. Programmes can provide workers with both basic financial information such as the trade-off between risk and return and the value of compound interest and more specific information about the advantages and disadvantages of particular types of investments. In Ireland, for example, the Irish Financial Supervisory and Regulatory Authority (IFSRA) is currently in the process of preparing two information booklets which will highlight the costs and risks involved with all forms of pension products. In addition, the Pensions Board and the Consumer Association of Ireland have published an information booklet on private pensions. Meanwhile in the United Kingdom, the Financial Supervisory Authority (FSA) requires providers of consumer products to produce explanatory documents and is currently publishing a “Key Facts” document which outlines proposals to make the information contained in the explanatory documents more straightforward, and with a “sharper focus”.⁵ Financial education programmes can also contribute to the well-being of workers by teaching them to be wary of schemes that promise high returns with low risks and by helping them ask the right questions about financial products and services. By providing accurate, objective, and easily understandable information, such as a discussion of investment terms and descriptions of the features of different types of investment, and by equipping workers with the skills to absorb this information, financial education can help them select the investment products and services that are most appropriate for their individual situations. For example, a financially educated investor would know that he should not concentrate an entire investment portfolio in one stock, whether this is his personal savings or an employer-provided defined contribution plan. One example of a good tool to do this is the FSA’s Comparative Tables which help consumers in purchasing similar financial products from a range of providers, thus assisting them to shop around for products such as personal pensions, stakeholder pensions, and annuities.⁶

Improving the ability of financial intermediaries and pension fund fiduciaries

Though the focus of this report is on financial education for individuals – particularly in an environment with defined contribution pension plans – it is important to note that financial education programmes can also be targeted to

the training of financial intermediaries. The licensing and training of those selling pension products and giving pension advice has been tightened in many countries. For example,⁷ the recently created Financial Services Act in the Netherlands requires that the financial advisor assess the financial situation of the consumer, determine the degree of risk the consumer is willing and able to take, and provide the consumer with all the information necessary to adequately judge the financial products and services offered. The Financial Advice Consumers Act in Sweden ensures that individuals providing advice have the necessary skills, that the advice provided is appropriate for the specific needs of the individual consumer, and that the consumer is aware of the relationship of the advisor to any specific financial company. In Germany the insurance industry has since 1990, on a voluntary basis, provided testing and certification for their members after one year in-company training, aiming at high standards of intermediary expertise. 120,000 members have taken these 'BWV' tests – with a failure rate of 75-80% testifying to their high standard. In addition in 2002 BWV were in one of the founding institutes of the European Financial Certification Organization,⁸ which aims to standardize certification across Europe.

In addition to the financial education needs to individual consumers, another area of great importance for financial education specifically relating to pensions is the training of trustees and other fiduciaries – a topic which has generated much discussion in its own right and is not the main focus of this paper.⁹ As the financial environment has become more sophisticated and funding and investment decision more complex, so has financial education for trustees and other pension fund fiduciaries, who either make these decisions or oversee experts who do so, and it is becoming ever more required – just as for individuals making their own asset allocations.

2. Regulation

Disclosure

However, financial education by itself can only go so far. In addition to helping individuals to understand their retirement needs and pension programmes, there is also the need to foster simpler, more easily compared information on pensions – given the complexity of these products. Education can bring levels of understanding “up” but it is also necessary to bring the information provided on individual’s pension plans provided by pension plan sponsors “down” to a level which is easily understandable. Information needs to be provided in as simple a language as possible, with limited use of “jargon”. For example, research by the Irish Financial Services Regulatory Authority (IFSRA) finds that for 75 per cent of consumers the written information on financial products is too difficult to understand (Keena, 2004). Policy measures may help market participants deal with investment and other risks by

facilitating access to accurate and standardized information. Better information disclosure is also required to assess the extent to which financial intermediaries/advisers act in favour of investors' interests – as severe 'information asymmetries' need to be overcome. Non-professional investors may simply be unaware of the potential conflicts of interests that might prejudice any investment advice they receive. Policymakers should also consider policies to improve the transparency of fees, or even capping them – though this is more controversial (for example only asset-based fees may be charged for stakeholder pensions in the United Kingdom, capped at 1%, and for mandatory individual account plans in Sweden, which are also capped). Better disclosure is also needed on the costs and benefits of financial products such as annuities and reverse annuity mortgages.

Currently, a number of countries require that certain information be provided to members and beneficiaries of occupational plans, such as information on the characteristics of the pension plan itself, detailed information on the projected level of retirement benefits, the range of investment options, the actual investment portfolio, the extent of exposure to risk, and the costs related to investments. The Canadian Association of Pension Supervisory Authorities (CAPSA) has produced a set of "*Guidelines for Capital Accumulation Plans*" – applicable to plans where members are permitted to make investment choices – which provides a useful set of 'good practices' for the information and advice that should be given to individuals to help them make these investment choices.¹⁰

A number of countries are considering regulations or legislation to improve the disclosure of information by financial institutions.¹¹ For example, in Hong Kong, the Mandatory Provident Fund Schemes Authority (MPFA) issued 'The Code on Disclosure for MPF Investment Funds' in June 2004 to MPF trustees, so that scheme members would be provided with clearer and easier-to-understand information, enabling them to make more efficient investment decisions. A government working group in Finland has recommended that all investment fund companies and investment service suppliers be subject to uniform regulation so that consumers would have access to comparable information about the costs and risk of different long-term savings products.

The OECD "Guidelines for the protection of rights of members and beneficiaries in occupational pension plans", also address the issue of what information should be provided to pension fund members and beneficiaries (via Guideline IV on disclosure and availability of information). The guidelines state that members and beneficiaries should have a legal right to ready access or disclosure to basic information about the pension plan. This is taken to mean:

- adequate information regarding rights on access;
- anticipated contribution and/or benefit accrual rates;

- vesting schedules;
- other rights and obligations;
- investment policy;
- the names and manner of contacting responsible parties for plan administration and governance;
- the claims process or procedures.

In addition, certain information should be provided to each individual prior to joining the plan and upon request afterwards, such as plan documents and information on the governing body, an explanation of promised benefits, information on portability and the consequences of leaving the plan early. Other regularly disclosed information should include performance and levels of accrued benefits or an account balance, via a timely, individual benefit statement. Additional and more frequent disclosure for member-directed DC plans may be required, including enough information on financial instruments to make an educated decision and standard, comparable information on investment choices (including charges). Plan members should also be given written accounts of transactions and of any major changes to the scheme as well as notification if contributions have not been received. Whilst the guidelines recommend that all material should be in easily understandable and adequately delivered, they also note that consideration should be taken to avoid the provision of unnecessary or burdensome information, and that costs be considered.

Given that workers will increasingly receive retirement income from a variety of public and private sources, it is important that information be provided to them on all sources of future retirement income. Individuals will not be in a position to make decisions regarding private pension savings unless they know the level of retirement income they can expect from the state. The British government is in the process of developing such combined statements, believing that one of the best ways of helping people to plan for retirement is through the provision of personalised information regarding their forecasted state and private pension's positions. A state pension forecast can be applied for and the government has begun an automatic dispatch of such forecasts, mainly at first to self-employed people. In addition, the Government and several employers are collaborating to provide a combined forecast of state and current occupational or personal pension to company employees. In June of 2005, 8 million people were scheduled to receive state pension forecasts from the Government, while 6.3 million people were scheduled to receive combined pension forecasts. As of spring of 2006, British citizens have been able to calculate their total projected pension income (both State and private) and to obtain a forecast of the sum they might require

during retirement through the use of the web-based Retirement Planner.¹² The Swedish authorities are also targeting combined pension projections.

How information is presented is also of great importance. Information should be provided in as many formats as possible, to meet the preferences of as many consumers as possible.¹³ Face to face programmes have been found to be the most effective, but are naturally expensive.

3. Other approaches

Yet even when well educated individuals have access to all the information necessary to make rational decisions regarding their pension, problems may still arise. Improved financial education is the appropriate response if a lack of financial information or skills is the reason for low levels of saving, but an increasing number of studies in behavioural economics show that financial and savings behaviour relate to psychological factors. For example, several studies find that while a certain percentage of consumers are dedicated savers who think that individuals should take responsibility for their retirement, a much larger percentage have a “live for today” attitude and prefer to spend money than to save it, or would like to save more but lack the willpower or are overwhelmed by too much choice.¹⁴ These findings, therefore, show heterogeneous savings behaviour across consumers, which have important implications for the design and implementation of effective financial education programmes.¹⁵ For example, in order to meet the needs of those consumers who are “non-planners”, financial education programmes will need to emphasise simpler decisions and tangible present-day (as opposed to some future day) benefits, using explicit and direct information, reduced complexity, and fewer choices.

Yet even these directed schemes may not be sufficient, and studies therefore conclude that for some consumers in this group of non-planners, financial education may not be the only solution, and other measures may be required to ensure adequate level of savings for retirement.

Automatic enrolment and other schemes

It has been suggested that what might be best for this group of “non-savers” is automatic enrolment in a pension plan with appropriate default options with respect to contribution rates and investment allocation – ensuring an adequate level of saving for retirement even if they do nothing. Choi, et al. (2002), study the impact of automatic enrolment in 401(k) plans using both a survey of individual savings adequacy and an analysis of administrative data on the 401(k) savings behaviour of employees in several large corporations that had implemented changes in their defined contribution plans.¹⁶ The authors note that sponsors of financial education programmes need to keep in mind a key

behaviour variable – that employees often follow the “path of least resistance”. In other words, employees will often do what is easiest, which may be nothing, a phenomenon that the authors call a “passive decision”. Thus, by changing the design of the 401(k) plans so that the default is automatic enrolment when the employee becomes eligible, participation rates can be greatly increased and few employees ever take action to disenroll. Participation rates under automatic enrolment are between 86 and 96 per cent after six months of tenure at the companies studied. Before automatic enrolment, participation rates at six months of tenure were between 26 and 43 per cent. The authors conclude that plan design can significantly affect the savings behaviour of individuals. However, despite growing enthusiasm for automatic enrolment (e.g. both the New Zealand and UK governments are working on automatic enrolment in pension schemes for all workers) experience of using such techniques and evidence of their impact is still fairly limited. In addition as few employees opt out of default options, governments’ or employers’ choices of default savings rates and default investment funds have significant effects on savings levels of employees and could have implications for liability (a concern which has been raised in Germany, for example). It should also be noted that the use of default options does not remove the need for financial education as individuals still need to decide whether it is optimal or not for them to remain in such schemes; specifically, efforts should still be taken to ensure that individuals are engaged with decisions relating to their retirement income.

Thaler and Benartzi (2001) address the issue of low savings rates in 401(k) plans and suggest an approach for increasing those rates. They base their approach on research showing that individuals prefer future opportunities to save over current ones, that due to inertia and procrastination individuals tend to stay in a programme once enrolled, and that due to loss aversion individuals are reluctant to increase their retirement savings if this means a reduction in take-home pay. These principles were used to design the *Save More Tomorrow* (SMT) programme, which gives workers the option to commit themselves now to increase their savings rate later, for example, each time they get a raise. This programme has been introduced in several firms. Where it was used in conjunction with an investment consultant who met with the employees and discussed savings options, the workers who joined the SMT plan tripled their saving rates in 28 months from 3.5 per cent to 11.6 per cent.

Number of choices

Framing the way choices are offered has also been shown to impact and potentially improve investment decisions; for example, moving from a *libertarian* solution (involving better disclosure, financial education etc.) to a *libertarian paternalistic* one. Studies in behavioural finance also show that individuals react to risk in different ways depending on how options are

“framed”, which may lead to misinterpretations and wrong choices.¹⁷ Workers also seem to be overwhelmed by “choice overload”, with consumers less motivated to choose, less committed to the decisions they make, less likely to choose optimally and more likely to opt out of the system altogether, particularly if time and effort are needed to make informed decisions (see Iyengar *et al.*, 2003). In the United States pension literature, observers have noted a negative effect of number of choices on plan participation,¹⁸ whilst the actual experience in Sweden is that over 90 percent of participants end up in the default fund (OECD, 2005b). The notion of diminishing marginal utility therefore seems to apply also to the number of portfolio choices offered. Limiting options to a manageable number can simplify decisions and provide incentives to save more for retirement, apart from lowering administrative costs. This research finds that participation rates peak when only two funds are offered. As the number of funds increases, participation rates decline (by 1.5 to 2% for every 10 funds added). One implication arising from this research is that employers could use a “tiered” approach in which a limited number of options, for example fewer than ten, is offered on the first tier, with one choice being “additional funds”, providing sophisticated workers with many more options and thereby preserving individual choice. The extent of investment choice, however, will vary depending on the nature of the pension plan, the conditions in the relevant securities markets, the role of the pension plan in the broader retirement income security scheme of the particular country, and other similar factors. The decision to limit choice should be weighed against the need to provide sufficient diversity of choice and assure a competitive market.

Default options

Related to framing the number of choices, it is also important to have a well designed default option, given that many individuals take this option as they do not wish or feel able to make their own investment decisions. However, there is debate as to what constitutes a “well designed” default option. In some countries, like the United States, plan fiduciaries are increasingly selecting life-cycle funds as the most appropriate default option. This is also the most common default choice in the Latin American region and is also being used by some private funds. These consist of portfolios that become more conservative as the member ages. For example in Chile, Mexico and Peru individuals who do not make an active investment choice are allocated to the provider’s different funds according to age. In Chile, up to age 35, individuals are assigned to fund type B, which has a considerable equity component. Men between 36 and 55 and women between 36 and 50 are put in type C and the oldest workers into type D. No one defaults to type A or E (the most and least risky) funds. With the introduction of investment choice in Mexico, the SIAFORE Basica 2 is the default option for all workers except for

those who are 56 or older, who are assigned to SIAFORE Basica 1 (unless they choose otherwise). This gives some equity exposure to younger workers by default. Similarly in Peru, under-60s default to the mixed fund while over 60s are allocated to the conservative fund unless they choose otherwise.

In other countries default funds are based on risk pooling principles, providing smoothed returns, or consist of insurance products offering guaranteed returns, like the guarantee investment contracts offered in many 401(k) plans in the United States or a deferred annuity. The designers of such default options presume a high level of risk aversion by plan members, and therefore try to ensure that the default should come as close as possible to providing a risk free rate of return to contributions and provide a high level of protection against longevity risk.

In Australia the typical default portfolio is a “balanced” fund, with an equity weighting of typically around one half of the portfolio. In Sweden the Premium Pension Authority (PPM) sets out the objective of the default fund as: “People who do not have a fund manager, for whatever reason, should receive the same pension as others – that is our goal”. However, this objective can be interpreted in a number of different ways. Observing what the PPM has done, it is clear that low administrative charges are a key goal: investment-management fees are 0.15% of assets, compared with an average of 0.6% for active choosers. The default fund has just 13 employees and contracts asset management out to a range of mainly indexed funds. To achieve the overriding objective of matching the returns of active choosers, the default fund’s portfolio is similar to the average, with 82% in equities (17% domestic, 65% overseas), 10% in inflation-indexed bonds and the rest (8%) equally in hedge funds and private equity. It is important to note that this rather aggressive portfolio is because 16% of the pension contribution goes into the public scheme and just 2.5% into the DC account. In Hong Kong Mandatory Provident Fund Schemes are required by legislation to offer at least one constituent fund in the scheme in the way of a Capital-Preservation Fund. Likewise the default portfolio in Estonia and the Slovak Republic is the conservative fund. However, such funds may be too conservative, particularly for younger workers, and risk not building enough assets to ensure an adequate retirement income. Since workers tend to remain in the default solutions, participants risk getting locked into retirement savings arrangements that do not work to their best advantage. Default funds may also vary depending on the size of the public pension.

4. Case studies¹⁹

Overview

The OECD’s survey of financial education programmes in member countries identified 19 countries that already provide, or are planning to

provide, workers with information about pensions and how to invest their savings for retirement: Austria, Australia, Canada, Czech Republic, Finland, Germany, Hungary, Ireland, Italy, Japan, the Netherlands, New Zealand, Poland, Portugal, Turkey, Mexico, Sweden, the United Kingdom, and the United States.

The most frequently used way of providing retirement savings information is through publications. These come in a variety of forms including brochures, magazines, booklets, guidance papers, newsletters, annual reports, direct mail documents, letters and disclosure documents. The majority of providers of these publications are from the public (or semi-public) sector: government agencies, ministries (of finance and social affairs), central banks, and regulatory and supervisory authorities. Consumers' and employees' associations as well as pension fund organisations are also important providers of these publications. Most publications are intended for a broad selection of investor population groups, but a few target specific groups including employees and members of specific pension funds.

The next most frequently used method of providing retirement savings information is through websites. The topics covered and providers of these websites are similar to those of publications. Most sites are intended for all investor population groups. An example of such a site is that of the Investor Education Fund in Canada,²⁰ which contains several investment calculators and a variety of resources to help investors determine their risk level. In contrast, one initiative in Poland is targeted particularly to insurance and pension fund clients. Another project in Sweden is a web portal grouping together the numerous information pages and websites already in existence which provide information and advice on the many different pension systems available to future Swedish retirees.

Training courses are also often used to deliver financial information on pensions. Providers range from employers (United States) to pension fund organisations (Netherlands) to independent retirement investment information services (Australia). Courses also tend to be targeted at specific population groups, such as employees or company board members and/or policymakers.

A number of countries have undertaken public education campaigns for the promotion of financial education on investment and saving. Providers of these campaigns span the public, semi-public, private and independent non-profit sectors and include regulatory and supervisory bodies, government agencies, and consumer associations. They also include a variety of methods of provision, such as brochures, websites, radio and television.

Selected examples

For some countries it is governments and regulators that provide information and education on general issues, while financial institutions

provide more specific product information, whilst in others regulations exist on the types of information employers can provide. It is important to have some coordination on the provision of information because although information about pensions is widely available, people often do not know which sources to trust, how to access it, or how the information relates to their circumstances. Successful programmes have been shown to be ones with a strong leader, but involving many different partners (e.g. the Pensions Awareness Campaign in Ireland). The following examples show the different roles played by the various parties in campaigns.

a) Government – awareness campaigns

Australia: After the superannuation choice of fund legislation²¹ went into effect on 1 July 2005, the government directed the Financial Literacy Foundation (a division in the Department of the Treasury) to coordinate with ASIC (the Securities and Investment Commission) and ATO (the tax office) in implementing the choice of fund policy. The government allocated almost \$20 million over two years to fund education initiatives associated with the implementation of fund choice. This education campaign includes four main activities which aim to raise awareness: a call centre to reply to questions regarding fund choice; the Super Choice Internet site;²² written publications targeted to employees and employers informing them of their obligations and rights; and an advertising initiative informing employers and employees of their obligations and rights provided for by the choice law. A recent evaluation of the campaign's first phase concluded that consumers and employers rated the initiative highly. The campaign will be further developed, particularly amongst employer groups, in 2006.

Italy: The Directorate for Communications of the Ministry of Labour has begun designing an educational campaign, in cooperation with COVIP (the pension supervisor), prior to the final approval of the country's pension reform. This campaign provides workers with information on all aspects of reform of the Italian pension scheme, on the characteristics of different pension plans, and on the different choices available to workers. The campaign includes: a dedicated Internet site with links to appropriate pension-related sites, a telephone call centre with operators knowledgeable about the reform, a brochure describing the reform and the choices that workers need to make (sent to all private sector employees), and announcements and advertising in the media (newspapers and magazines, radio and TV). This educational campaign has a dedicated budget of 17 million euros as well as additional funding from the internal resources of the relevant government agencies.

New Zealand: As part of the KiwiSaver initiative,²³ a new voluntary work-based retirement savings scheme, the government has developed a national financial education campaign. The purpose of this educational campaign is to provide workers with the basic tools required to make simple financial

decisions. Initially, the campaign will provide workers with information that will enable them to decide if KiwiSaver is appropriate for them, if it will help them achieve their savings goals, and if they can afford to participate. Officials are hoping that the KiwiSaver educational campaign will be able to build on and complement financial education work already being conducted by a number of government and non-government departments and agencies. It is expected that the KiwiSaver financial education campaign will contribute to improving the level of financial literacy amongst employees in New Zealand. The end goal of the programme is to develop a “well-regulated financial intermediary industry” and a “well-informed workforce”.

United States: The public information campaign, *Choose to Save*, advocates the idea that in order to ensure a secure financial situation for the future, consumers must start saving today.²⁴ The programme, provided by the non-profit Employee Benefit Research Institute (EBRI), is delivered nationally using a wide range of media including newspapers, radio, television, and the Internet, train and bus advertisements and conferences. Partners such as the United States Department of Labor co-operate on producing written materials including booklets (*The Power to Choose*) and brochures (*Top Ten Ways to Save for Retirement*). Public service announcements originally developed for radio and television stations in just one metropolitan area are now broadcast in forty-nine states. Meanwhile, since 1997, four television news specials called *The Savings Game* have been broadcast on primetime in one metro area and also nationally on cable stations, with the total value of their airtime already exceeding \$20 million. Internet tools are also provided such as the *Ballpark Estimate Retirement Planning Worksheet*,²⁵ which helps consumers estimate how much they need for retirement savings, and over 100 online financial calculators, which assist investors with a wide range of financial planning issues including credit, budgeting, mortgages and all aspects of their future financial security. Funding and materials for these programmes have been provided by private sector companies, partner institutions of the American Savings Education Council (ASEC) and EBRI members.

b) Pension regulators and securities market supervisors – information provision

Mexico: The 1997 reform replaced the country’s pay-as-you-go (PAYG) system with a defined contribution system based on individual capitalisation accounts managed by specialised financial institutions, called the Afores. The new pension system has generated a need to provide more information for workers and to introduce them to a basic financial education scheme related to the pension system. The Mexican government agency, Consar, has responsibility for disseminating such information on the new pension system and aims to let employees know that it is important to select an Afore²⁶ with

the smallest possible commissions and greatest possible returns. It does this through a permanent information campaign provided in partnership with Afores, unions, the private sector and employer associations, and targeted to workers. The campaign's main goal is to generate interest and concern among employees about preparing effectively for their retirement. The campaign uses Internet and media channels (TV, radio, newspapers, magazines, billboards) for its principal delivery methods. More specifically it publishes printed materials, such as wall posters and advertisements in newspapers and magazines, and online materials, such as banners on principal Internet sites.²⁷ It also diffuses radio and television advertisements, and places posters on information stands nationwide.²⁸ Materials are intended to develop workers' interest in their retirement. They include questions such as: "Do you prefer 15% more or less in your retirement", "Do you know how much your Afore is charging you?", "Are you indifferent?" Moreover Consar agents make personal visits to companies and associations, and seminars and round tables are also organised. As a result, Consar has succeeded in achieving a closer relationship with workers, thus allowing them to understand and take stock of all the options they have to enhance their personal retirement savings.

Spain: The supervision of Pension Funds is carried out by the General Directorate of Insurance and Pension Funds. On the website of this directorate,²⁹ members of pension funds can find information about balance sheets and profit and loss accounts of pension funds, regulation on courses, sectorial statistics, consultations to clarify regulations, frequently asked questions, the process to make a complaint against the managing entity, and register information.

Italy and Spain: The websites of these countries' respective securities markets supervisory authorities (Consob in Italy and CNMV in Spain), both feature an *Investor's Corner* to draw the investor's attention to relevant information. Consob's *Investors' Corner* is divided into four sections: first, "Warnings" include the latest notifications (from Consob or corresponding foreign authorities) about frauds or abusive activities; second, "Dos and don'ts" gives suggestions to follow before, during and after signing an investment contract and underlines the importance of an appropriate information relationship between investors and intermediaries; third, "Know the risks" is a page stating the risks of investments in financial instruments; the fourth and final section, "Investor education" (launched in 2001) details all the educational campaigns elaborated by Consob as well as other helpful information pages.³⁰ *Corner (Rincón del inversor)* of CNMV's website gives clear, detailed information on the functioning of Spanish securities markets, and is organised in a similar way to its Italian counterpart: it is clearly divided into three sections – Information, Help to Investors and Warnings.³¹ *Investors' Corners* are also found on the websites of the regulatory and supervisory

authorities of Turkey and Japan. The Spanish National Commission of Securities Markets (CNMV) publishes Investor Information Guides on topics related to different areas of the securities market (i.e. intermediaries, products, etc.). One set of guides is published under the title *What you need to know about...*, and deals with the main securities market topics, such as mutual funds, fixed-income products, and the rights and responsibilities of shareholders. In 2003, 200 000 copies were distributed free to investors. The CNMV intends to accompany the launch of new and more sophisticated products (e.g. equities, derivative products, etc.) with a further set of *Investors' Guides*, in order to familiarise more experienced investors with more complex financial services. In addition, the pension fund supervisor in Spain, the General Directorate of Insurance and Pension Funds, also provides information on pensions. Their website³² provides pension fund members with information on the balance sheet and profit and loss account of pension funds, clarifying existing and forthcoming information on regulation, as well as statistics related to the sector, FAQs and how to make a complaint.

Poland: The Polish Securities and Exchange Commission (PSEC), a central government authority, produced in 2003 the "Investor's Guide", which includes basic information on investing in the Polish capital market. Updated and reissued in 2004, this guide initiated a series of brochures targeted at beginner investors (i.e. those with no dealings in the capital markets as yet and wanting to learn about investment possibilities or those who have just begun investing in the capital markets). Three Investor's Guides, entitled *Investment Funds*, *What to Invest in – Investments ABC*, and *Sources of Information on the Capital Market*, were published in 2004. In addition, the PSEC prepared a booklet on the Individual Compensation Scheme, which the Polish authorities consider is particularly important from the investors' point of view. The PSEC also published a series of books providing detailed information on the capital market for more financially literate investors.

c) Social partners and others – instruction

Austria: A wide variety of investment publications are offered by private, non-profit entities such as the employees' association, the Austrian Chamber of Labour (BAK). BAK publishes and distributes brochures targeted at employees (such as *The Savings Book*, *Financial Investment and Financial Advisor*, *Building Loan Agreement*, *10 Steps to Employee Assessment*). These brochures cover issues specific to employees and include information on all kinds of investment products in which they could potentially be interested, including stocks, securities, and funds. For each particular investment product discussed, the publications also point out the associated advantages, disadvantages and risks. Published in October 2003, these brochures are also available on the Internet.

Czech Republic: Fit for Investment, a programme targeting private investors and initiated in 2002, is provided by ČEKIA (an information agency). Partners in the programme include the Association for Capital Markets (AKAT) and The Union of Investment Companies (UNIS CR). The main aims of the programme are to enhance knowledge of public investors about investment principles and to reinforce trust in the capital market. The programme does this through a series of training courses and annual conferences, called “Investment Opportunities” and the “Fond Market”. The seminars attract over 300 individual investors every year in most major cities but mainly in Prague. In 2004, Fit For Investment continued to draw on the financial support of major Czech capital market players, such as IKS KB, FIO, Pioneer Investment and others.

UK: The Trade Union Congress (TUC) in the UK is a good example of the role which trade unions can play in financial education relating to pensions. In addition to keeping members informed and knowledgeable regarding the pension environment and reforms (via detailed briefings and reports on pension policy), the organisation also provides specific information and training relating to pensions. Publications provide members with detailed information on pensions and leaflets have been targeted specifically at young members to highlight the need to save early on in life. The TUC also provides training for pension fund trustees.

d) Employers – financial advice

Japan: In corporate-type DC plans (introduced into Japan in 2001), participants make their own investment decisions and bear the investment risk – so that, in terms of fiduciary duty, employers sponsoring plans do not owe the duty of care directly in relation to asset management investment. However the new “Defined Contribution Pension Law” (DCPL) requires sponsoring employers to give so called “investment education” to participants so that they can make investments based on their own responsibility (DCPL Art.22), and this requirement does fall under employers’ fiduciary duty of care. According to a notice from the Director of the Pension Bureau (which is under the Ministry of Health, Labour and Welfare) investment education includes: information on DC plans, other corporate plans and public pensions; characteristics of financial products such as bank deposits, investment trusts, bonds, stocks and insurance; basics of investment such as types and characteristics of risk and return. An employer can entrust the investment education duty to an operation management institution. In this case, the employer is under the duty of care in designating and supervising the operational management institution.³³

United Kingdom: The National Association of Pension Funds (NAPF), representing 1300 organisations involved with workplace pension provision in

the UK, are highly supportive of using the workplace as a cost-efficient way of reaching large numbers of people with a financial education message, particularly given consumers demonstrated reluctance to pay for individual retirement planning advice. Since 2006, the NAPF has been offering a service known as PENSIONSFORCE (funded via the UK Department of Work and Pensions' Pensions Education Fund).³⁴ This is an independent service, provided free of charge to employees via their employers at their place of work and in work's time. Interactive group presentations are used to help people understand the importance and planning for retirement (via raising the awareness of the need to save, increasing appreciation of the need to save for retirement, ensuring that people are better able to make informed choices, showing people where to go for further information). The NAPF claim that their experience shows that there is a clear demand for such services, providing "entry level", generic advice, and that feedback on the programme has been positive.

United States: Employer-provided financial education programmes include those operated by companies such as United Parcel Service (since 2000) and Weyerhaeuser Ltd (since 1984) on long-term planning for savings and retirement. Both initiatives include classes of one or two days in length and are offered at regular intervals, with keen support from management. They are targeted at specific age groups and provide employee participants with a good range of resources and written materials (such as course book manuals which include explanations as to how company benefits fit into broader financial planning strategies). Building on existing written materials and resources, the UPS programme offers a web-based service assisting employees with the development of a personal financial action plan as well as computer software providing advice on debt management, budgeting, insurance, and retirement and personal savings. By contrast, Weyerhaeuser Ltd. approaches its programme provision in a more "holistic" way: the company's programme covers non-financial advice for employees such as how to improve their quality of life and maintain good health (Braunstein and Welch, 2002).

5. Evaluations of financial education programmes with respect to retirement savings

Having discussed the need for financial education in general and specifically the growing need for financial education in relation to pensions, this paper has set out some examples of programmes run by different parties in various OECD countries. What can be said in terms of what works well in these programmes, and what conclusions can be drawn?

Given the increasing responsibility of individuals for their retirement incomes, it is important that they make the best choices possible. Improving the financial knowledge of individuals will certainly play a role. Therefore, an

assessment of the effectiveness of financial education programmes in improving this knowledge and an evaluation of what approaches have worked well is important.

Evaluations of financial education programmes undertaken so far come from the United States. These can be classified as either subjective or objective. The subjective evaluations ask participants in the financial education programme for their views about the information provided and about whether in response to this information they intend to change their behaviour by, for example, saving more or opening up a retirement account. This can be done by surveying participants both before and after they have taken a course in financial education. The objective evaluations identify some goal, such as an increase in participation rates or in contribution rates to a defined contribution plan, and then use data and statistical techniques to determine whether there is a significant relationship between attendance at a financial education programme and change in the goal variables.³⁵

Subjective evaluations

Financial education seminars have an effect on individuals' retirement goals and savings behaviour according to Clark, *et al.* (2003). These authors investigated the responses to questionnaires distributed at 60 TIAA-CREF financial education seminars held at educational institutions and non-profit organisations in the United States between March 2001 and May 2002.³⁶ Participants completed a survey on retirement goals, attended a one-hour financial seminar, and then filled out a second questionnaire to see if these retirement goals had changed. In analysing the results, the authors find that 34 per cent of the participants changed either their retirement income goal or their retirement age goal in response to the seminar. Ninety-one per cent of respondents reported that they anticipated making changes to their retirement savings plans. The authors conclude that the provision of financial information has an important effect on saving for retirement.

As discussed in the following section, these results do support those of other studies that use objective evaluation methods. There are several limitations to this study, however. This survey looks at the responses of those who chose to attend the seminar and, who therefore, might be more disposed to change their behaviour than individuals not attending the seminar. In other words, their behaviour might not be representative of the average worker. More important, there was no follow-up to see if respondents actually carried out the actions they said they intended to do. There can be a big difference between what individuals plan to do and that they actually do.

Objective evaluations

A 1996 NBER study finds that participation in and contributions to voluntary savings plans [401(k) plans] are greater when employers offer frequent retirement seminars (Bayer et al., 1996).³⁷ The authors find that non-highly compensated workers experience the largest effects, with a 12 percentage point increase in participation rates and a one percentage point increase in the contribution rate.³⁸ Highly compensated workers experience an increase in participation of six percentage points but no increase in contribution rate. Lusardi (2003) also finds that attending a retirement seminar increases workers' savings. The effect of the seminars is especially strong for those with low levels of education and those with low levels of savings. Using data from the Health and Retirement Study, she finds that attending retirement seminars increases financial wealth by 18 per cent. For those at the bottom of the distribution, the increase in financial wealth is 70 per cent.

The evidence on the effectiveness of brochures and other written material is mixed. Bayer et al. (1996), find that written materials, such as newsletters and summary plan descriptions, have no effect on participation and contribution rates. However, Clark and Schieber (1998), using employment records gathered by Watson Wyatt Worldwide from 19 firms covering 40,000 employees, find that certain types of written material do have an effect. They compare three levels of plan communications: distribution of plan enrolment forms and required periodic statements of account balances, provision of generic newsletters related to participation in 401(k) plans, and provision of materials specifically tailored to the 401(k) plan sponsored by the individual company. The authors find that the provision of generic newsletters increases participation by 15 percentage points while the provision of information specific to the individual company's 401(k) plan increases participation an additional 21 percentage points. Thus, employee participation in voluntary retirement plans can be increased by 36 percentage points if a company provides both generic and specifically tailored financial information. The authors also find that the provision of information specific to the company's 401(k) plan increases the contribution rate by two percentage points. However, the contribution rate is not significantly affected by the provision of generic newsletters on 401(k) plans.

A survey by Ernst and Young (2004) of human resources and employee benefits professionals in a cross section of large employers finds that personalised counselling programmes are most influential in changing participant behaviour and that financial information alone is not sufficient. In most of the firms surveyed there is little response to traditionally provided financial education such as brochures upon enrolment and quarterly

statements thereafter. When employers use more personalised programmes such as telephone or in-person counselling, there is a substantial increase in the percentage change in participant investing. The study concludes that one-on-one counselling is better able to help employees understand the importance of saving and to equip them to determine the best course of action to meet their financial needs. However, such counselling can be expensive for employers to provide.

Notes

1. Unless otherwise indicated, the sources for the example financial education programmes illustrated in this section come from responses to the OECD questionnaires on financial education, provided by OECD member countries and selected non-member countries.
2. Reviewable on CFEE's website: www.cfee.org.
3. www.eigenvorsorge-report.de.
4. See HSBC's survey, "The future of retirement in a world of rising life expectancies: Attitudes towards ageing and retirement – a study across 10 countries" http://a248.e.akamai.net/7/248/3622/5d4393a0c726bf/www.img.ghq.hsbc.com/public/groupsite/assets/retirement_future/hsbc_future_of_retirement.pdf;brochid=VEGF3DCWMFYFHQFIYNKSGWQ.
5. This "Key Facts" document will include a two-page "Quick Guide" that will describe life products. In addition, the FSA will also publish a Discussion Paper on projection rates.
6. Financial education is also important for financial intermediaries and pension fund fiduciaries, as their actions will affect the retirement savings of individuals. See appendix for additional information.
7. The following examples are taken from responses to the OECD questionnaires on financial education provided by OECD member countries and selected non-member countries.
8. www.efcert.org.
9. See forthcoming OECD Working Paper on Pension Fund Governance – to be published in 2008.
10. Available at www.capsa-acor.org.
11. The following examples are taken from responses to the OECD questionnaires on financial education from OECD member countries and selected non-member countries.
12. The difficulties of providing such combined statements should not, however, be underestimated – for a discussion on the topic see: "Pension Reform, Financial Literacy and Public Information: A Case Study of the UK", by Edward Whitehouse, available on – <http://siteresources.worldbank.org/SOCIALPROTECTION/Resources/SP-Discussion-papers/Pensions-DP/0004.pdf>.
13. "It's good to talk", IPE March 2003, available on www.ipe.com. The article discusses how pension funds have a wide range of options including journals and newsletters, presentations and road shows, internet websites and help desks.

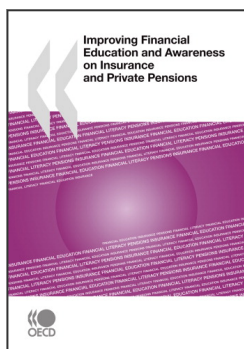
Examples quoted include ABN Amro Bank in the Netherlands, which used direct marketing rather than road shows to communicate its new “hybrid” DC pension scheme to its 40 000 staff. Respondents to the discussed survey preferred face-to-face communication – preferably “one-to-one” – with almost three quarters (73%) feeling that presentations and road shows are the most effective way of communicating with members, and 71% favouring helpdesks. A lower percentage (58%) found websites effective, and there was less enthusiasm for journals and newsletters (with only 46% thinking this the most effective channel of communication). A substantial majority (88%) agree that media coverage has made people more aware of pensions – though not always in a positive way.

14. MacFarland *et al.* (2003), study the link between psychological attitudes towards money and retirement planning using the results of a survey of 1 141 randomly selected individuals in Vanguard recordkeeping plans. The authors find that attitudes are important and are linked to specific behavioural differences with respect to plan participation, investment decisions, and engagement with retirement plan accounts. They find in their sample that slightly more than 50 per cent of participants have no strong retirement goals and lack the discipline to set and adhere to goals; consider financial matters to be a source of stress, anxiety, and confusion; or are uninterested in the future.
15. These findings also suggest that, in some cases, a strengthening of consumer protection and of the regulation of financial institutions might be required to address deficiencies in financial capacity.
16. By matching responses to their survey with administrative data, the authors determine that almost none of the employees who reported that they intended to increase their savings rate in the next two months actually did so.
17. Benartzi and Thaler (2002) conclude that autonomy with regard to retirement savings has very little value because individuals have difficulties choosing their portfolio in a consistent manner. MacFarland *et al.* (2003) study the link between psychological attitudes towards money and retirement planning. The authors find that in their sample more than half of the participants have no strong retirement goals and lack the discipline to set and adhere to goals, consider financial matters to be a source of stress, anxiety, and confusion, or are uninterested in the future. In their survey of Dutch workers, Van Rooij *et al.* (2004) conclude that individuals generally prefer low-risk, low-return portfolios for their retirement savings but tend to choose a portfolio with more stocks than they had initially opted for.
18. Iyengar *et al.* (2003).
19. Unless otherwise indicated, the sources for the example financial education programmes illustrated in this section come from responses to the OECD questionnaires on financial education of OECD member countries and selected non-member countries.
20. www.investored.ca.
21. As a result of this legislation, Australian workers are able to select their own superannuation fund. Previously, the employer chose the superannuation fund.
22. www.superchoice.gov.au.
23. The scheme provides for all employees starting a new job to be automatically enrolled. They will have the option to opt out after an initial cooling off period. Employees will contribute at a rate of four or eight percent of their salary or wages. Employee contributions will be directed to privately provided investment vehicles and will be locked in until the age of 65. Members will be entitled to withdraw their

funds earlier than the age of 65 for the purchase of a first home. The government would be providing an up front contribution to each member's accounts and will be contributing towards the fees. Members will be able to make an active choice about the investment vehicle that they will be contributing towards. If no active choice is made, the member will then be allocated to a default option. The default provider or providers will be selected by the government. Employers are also able to select default providers for their employees. This will not affect the member's ability to voluntarily select a provider themselves.

24. More information available from: www.choosetosave.org.
25. www.choosetosave.org/ballpark/.
26. Specialised financial entities managing and promoting the individual accounts part of Mexico's system and responsible for the investment of resources through the *Sociedades de Inversión Especializadas en Fondos para el Retiro* (Siefores) (Investment Funds Specialised in Funds for Retirement).
27. These materials include detailed information regarding the equivalent fees (a calculation made by Consar in order to make comparable the different kind of fees that the Afores charge) and how to compare the final balances you might obtain with each Afore, either by Internet or by telephone, the "final balance calculator" (a special software programme created by the Consar that gives the workers the approximate amount of money that they could have at the end of his labour life, based on their actual age, income and the Afore that manages their funds).
28. The information stands are located at commercial centers, subway stations and some strategic points in the main streets. This booths are easy recognisable and one or more specialists are there in order to resolve any questions that workers might have. They also have a variety of materials to support and extend their explanations.
29. www.dgsfp.mineco.es.
30. These information pages include informational documents on "Mutual funds", offering information in plain language about these products; "Covered warrants and structured bonds", a page helping investors understand the specific features (e.g. reverse convertibility) of these structured financial products and offering animated presentations as well as two calculators making it easier to calculate the price of structured bonds or to compare the price of similar covered warrant offered in the market.
31. Also to be found on the CNMV website are columns offering concrete, practical advice when dealing with investment institutions and intermediaries, warning messages on unregistered companies, a list of necessary precautions for investors in order to operate safely in the securities markets and glossaries of financial terms (available at <http://www.tesoro.es/sp/deuda/glosario.asp>).
32. www.dgspf.mineco.sp.
33. See "Reconsidering Japanese corporate and personal pensions: from a legal point of view", Hideyuki Morito – <http://www.oecd.org/dataoecd/51/30/2763645.pdf#search=Reconsidering%20Japanese%20corporate%20and%20personal%20pensions%3A%20from%20a%20legal%20point%20of%20view%E2%80%99%2C%20Hideyuki%20Morito>
34. For further information see <http://www.napf.co.uk/PENSIONSFORCE>.
35. With respect to 401(k) plans, there are five behaviours that can be monitored to measure the impact of financial education: changes in participation rates,

- changes in contribution rates, changes in investment allocations, loan activity, and rollovers by terminated employees.
36. TIAA-CREF are non-profit organisations providing financial products to individuals in education, research, and health care. Topics discussed at these seminars include the amount of retirement income needed to maintain pre-retirement consumption; the amount of saving needed to achieve the retirement income goal, and the risk-return characteristics of alternative investments. Participants were also asked if they intend to change the allocation of their invested funds in response to the seminar. The sample consists of 663 participants who completed both questionnaires.
 37. The authors used data from the 1993 and 1994 versions of the KPMG Peat Marwick Retirement Benefits Survey. This survey included approximately 1100 employers selected at random from a list of all private and public employers in the United States with at least 200 employees. Employers were asked about the administration, features and employee utilisation of their retirement plans, as well as the extent to which they provided financial education and guidance to their employees.
 38. Given that the average contribution rate is three per cent, an increase of one percentage point represents an increase of 33 per cent in the contribution rate.



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