Financial Literacy in a Box (FLIB) initiatives during summer 2016

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In the summer of 2016, students at the Rotman School of Management worked on developing a set of tools for BEAR's initiative on Financial Literacy in a Box (FLIB). As an integral part of current financial education programs, FLIB will highlight key information, serve as a reminder of educational content, and provide a set of action-oriented heuristics to facilitate desired financial behaviours.

Given the growing evidence that education alone is not enough to improve the financial well-being of Canadians, the team incorporated approaches from the behavioural sciences, choice architecture, and design thinking to facilitate desired behaviours.

The team began with three project areas:
1) **Compound interest:** distilling the complex concept into digestible form.
2) **Education savings:** increasing enrollments for the Registered Education Savings Plan (RESP).
3) **Receiving retirement benefits:** getting people to think about when is the optimal time to start receiving their Canada Pension Plan (CPP) income.

Below is a short summary of the projects.

Project 1: Compound interest

Goal: Distill the complex concept of compound interest into digestible form.

Approach: Explain compound interest by highlighting the four elements below in a concise and easy to understand format.

Engagement	Information	Comparison	Application
Used format of whiteboard animation to engage audience.	Introduced basic concepts of interest, with the key idea that compound interest multiplies quicker than you think.	Compared simple vs. compound interest and showed how the impact multiples over time.	Application of interest in impacting both savings and debt. Interest can work for or against you.

Outcome: A four-minute whiteboard animation on compound interest, which can be viewed at
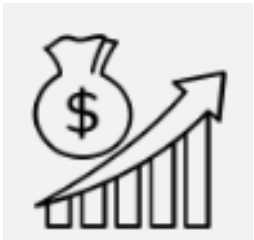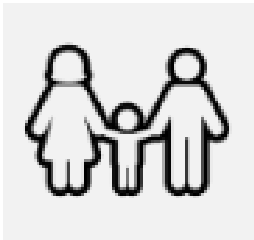https://www.youtube.com/watch?v=U4ik9oHf1NU

Project 2: Education Savings

Anyone who starts an RESP account for a child's post-secondary education is eligible for some matching money by the government (a bigger grant for low income families). The free matching is either 20 cents, 30 cents, or 40 cents for each dollar contributed (SmartSAVER, 2016). Yet, many parents and other caregivers in Canada are still not taking advantage of the free government grant that is available to any child with an RESP account. A survey conducted in 2014 by the Chartered Professional Accountants of Canada showed that 47% of caregivers have not created RESP accounts for their children. At the same time, Canadian research shows that youth with some savings earmarked for their education are 50% more likely to participate in post-secondary education than those with none (Statistics Canada and HRDC, 2003).

Goal: Create a flyer that would highlight the key benefits of opening an RESP account and guide parents and relatives to easily create one for the child.

Approach: After speaking with multiple stakeholders (behavioural science experts, financial literacy experts, educators, and managers of financial literacy programs), we identified the four key themes below. We also engaged experts, end users and students in a dynamic workshop session to gain feedback on the first iteration of our prototype.

	THEME 1 – Aspiration	THEME 2– Information	THEME 3– Commitment	THEME 4– Action
Target:	kids	parents	kids & parents	parents
Design:	Activity Area	Comparative charts	Signature (informal contract)	RESP journey map
Goal:	increase kids' engagement + attachment → Medium to engage parents	use visuals to showcase RESP benefits → Increase RESP awareness & dismiss skepticism	positively change RESP perception and drive commitment → Increase motivation	convince parents to sign up for RESP → Increase motivation

In this initiative, the team collaborated with SmartSaver and the Toronto District School Board (TDSB) who were already interested in disseminating flyers with behaviourally-informed messaging as part of their in-class exercise. Other community organizations including WoodGreen Community Services provided BEAR with valuable feedback and suggestions.

Outcome: After the dynamic feedback session with stakeholders, a second iteration of flyers were developed (see Appendix A for examples). We are currently looking for partner organizations to test the different versions in a randomized controlled trial (RCT) to find out which versions are most effective in engaging parents to sign up for RESPs for their children.

Project 3: Retirement Savings

This project began in collaboration with Service Canada and Employment and Social Development Canada (ESDC).

Preliminary findings show that most Canadians don't think of the decision on when to start receiving CPP as a significant one. Yet, this decision has a large impact on how much recipients get over their remaining lifetime (see chart below).

Impact on monthly CPP income depending on when you begin to claim CPP:

Age 60-64	Age 65	Age 66-70
- You lose 0.6% for each month you take CPP before age 65. - If you begin claiming CPP at age 60, you will receive 36% less than if you had waited until 65.	You receive full pensionable amount.	- You gain 0.7% for each month you delay getting CPP after age 65 - If you delay claiming CPP until age 70, you can get 42% more than if you started claiming at 65.

With the help of ESDC, the team identified factors that may influence this decision:
- Income levels (current and future)
- Employment status and opportunities (current and future)
- Taxation effects (marginal rates, means-tested benefits, etc.)
- Contributor's health and expected longevity
- History of employment and contributions to CPP
- Plans for retirement
- Whether CPP pension credits were split following a divorce or separation

This is an ongoing project at BEAR, with the goal of highlighting key information that may be beneficial when Canadians make the decision regarding when to begin receiving CPP income. In one aspect, we are exploring ways to effectively present information by using clear and concise number comparisons (i.e. a person who took out CPP at age 60 would earn a monthly income of XX whereas someone who waited until age 65 would earn a monthly income of YY), rather using abstract percentages.

For more information, contact us at BehaviouralEconomicsinAction@rotman.utoronto.ca

References

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Appendix A: Iterations of the RESP flyer

Front side:

QUIZ Name:_____

1. If your parent puts in $100 this month in your RESP and the government gives 20% of the amount your parent puts in, then what is the amount you will receive from the government?

Amount received from the government = Amount your parent puts in X 20%

= (1) [   ] X 20%

= (2) [   ]

2. At the end of the month, how much will you have in your RESP? (ignore interest)

Total = Amount your parent puts in + Amount received from the government

= (1) [   ] + (2) [   ]

= (3) [   ]

After I graduate from high school:

❑ I want to be successful

❑ I want to learn more skills

❑ I want to make more friends

❑ I want to make more money

❑ I want to become a(n) _____

❑ _____

❑ _____

I, _____, dream of becoming:

PRINT NAME

[   ]

After I graduate from high school:

❑ I want to be successful

❑ I want to learn more skills

❑ I want to make more friends

❑ I want to make more money

❑ I want to become a(n) _____

❑ _____

❑ _____

I want to achieve my dream.   I will commit to support my child's dream.

[   ]   [   ]

STUDENT'S SIGNATURE   PARENT'S SIGNATURE

Back side:

Kids with an education savings account are **50%** more likely to pursue post-secondary education.

Starting an RESP is as easy as 1, 2, 3

$29,000

Average 4-year Tuition

*

Cash | Savings Account | Investment | TFSA (Tax-free savings account) | RESP

You Earn

You Save

*Assuming monthly contribution of $95 from child's age 5 to 18.

(1) **Go on tdsb.on.ca/smartsaver**
❑ Complete application in 10 mins

(2) **Your financial institution will call you to book an appointment**
❑ Appointment date & time_____

(3) **Visit your Financial Institution and bring**
❑ Your SIN number
❑ Child's SIN number
❑ 2 photo IDs for yourself (at least 1 government ID)

**RESP is a registered savings plan for post-secondary education.
It's the only plan where the government contributes money.**

Kids with an education savings account are **50%** more likely to pursue post-secondary education.

Can be used as wallet card

Starting an RESP is as easy as 1, 2, 3

RESP is the only account where Government contributes money.

$29,000

Average 4-year Tuition

*

Cash | Savings Account | Investment | TFSA (Tax-free savings account) | RESP

You Earn

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