



## Financial Capability For Europe's Youth And Pre-retirees:

Improving The Provision  
Of Financial Education And Advice



Citi Foundation



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# FOREWORD

In recent years there have been significant developments in financial services markets. Technological change, market innovation and increased competition have created a complex financial services industry in which consumers are offered a broad range of services from a wide variety of financial service providers. Consumers now have a much wider choice of financial products and of providers. Increasing choice can be beneficial for consumers but it also presents increasing risks of people making decisions which are not in their best interests.

Also relevant is the phenomenon of demographic change and population ageing. In Europe, the ratio of the number of people over the age of 65 in retirement to the number of people of working age is increasing. Particularly notable is the expected increase in the percentage of the population of Europe aged over 80, from 4.3% today to about 12% by 2050. Many governments have responded by reforming pension systems, which has included raising retirement ages, increasing individual savings contributions and reducing financial benefits. Increasing longevity and changes to pension systems require people to take increasing responsibility for their own retirement planning.

But our research shows that the majority of the population is not sufficiently prepared to take on additional responsibilities for financial planning and for making decisions which frequently have long term implications. The financial capability of the population of Europe is low. Financial capability consists of a combination of knowledge, skills, behaviours and attitudes that enable people to manage their financial affairs in their own best interests.

We have a problem that needs to be addressed. This has become more difficult in the context of the global financial crisis, which is still ongoing at the time of writing. This problem is particularly acute for young people, given the rate of youth unemployment, and for people approaching retirement, who have limited working time left to save to compensate for reduced pension incomes. People need information and advice to enable them to better manage the issues they face: we need an investment in financial education to improve the financial capability in the population of Europe.

In this publication, we report the results of a study of the financial capability of Europe's youth and pre-retirees, people aged 16 to 30 and 55 to 64 respectively. This study was a collaborative project undertaken under the auspices of CSR Europe's Enterprise 2020 initiative. The study was commissioned by The Citi Foundation and led by the UK's Money Advice Service.

The study involved a number of organisations working together to address a complex set of issues. Our proposals include a call for further collaborative action to meet the challenges, informed by the findings of the study which we outline in this publication. We focus on two segments of the population where there are opportunities for progress in what is inevitably a long term programme for financial services providers, for employers, for the EU and governments and for voluntary sector organisations.

This publication is intended as a short summary of the work that we have done so far and our views on what needs to happen next. Financial capability is a complex and wide ranging subject. Our purpose is to raise awareness of the key issues and to gain commitment to further collaborative action.

*"... individual consumers and their families will have to take on more and more responsibility for their financial futures, and in doing so, have to deal with managing risk, including longevity risk. In this context, consumer information, education and empowerment are essential."*

Charlie McCreevy, European Commissioner for Internal Market and Services, Increasing Financial Capability Conference, Brussels, March 2007

## ABOUT THIS STUDY

The purpose of this study was to identify the key financial capability issues facing young people and those approaching retirement as well as the financial information and advice systems currently in place. One outcome of the study is an outline of a potential course of action to strengthen the quality of information and advice necessary to empower people to better plan for their financial futures.



### The study was conducted in two phases.

- The first part consisted of a survey undertaken through Facebook of the attitudes of around 1,200 people aged 16 to 30 living in France, Poland, Spain and the UK. This survey was conducted in September and October 2011.
- The second part focused on people aged 55 to 64 who are approaching retirement and consisted of a review of the literature on financial capability, including reports of surveys assessing the level of financial capability in the population, and research into the financial education systems in place. This part included an overview of the 27 Member States of the European Union and an in-depth comparison of France, Poland, Spain and the UK. It was completed in December 2011.



This study captures the extent of the challenges facing both young people and people approaching retirement. In turn, it emphasises the need to invest in financial education to support people to manage their financial affairs in their own best interests. We identify the priorities and make a number of recommendations for the EU, for Member State governments, for financial service providers, for third sector organisations and for employers generally. This is a call to action, particularly in relation to two key issues.

### Key issue 1:

#### Retirement planning and the pensions gap

People of all ages are better at managing their day to day finances than in longer term planning. Research identifies the 'pensions gap', a shortfall in retirement provision and personal savings, a significant difference between the income that people aspire to in retirement and the income they are likely to have.

This is a particular issue for younger people who are faced with powerful marketing messages to spend now and on credit; retirement is a long way off and there are other priorities.

At the other end of the working age spectrum are people approaching retirement who have key decisions to make, which frequently affect their (and their families') long term financial security and are often irrevocable.

### Key issue 2:

#### The decline in trust and public confidence

Surveys show a decline in public confidence in governments and financial service providers which affect attitudes towards financial planning and to long term saving.

We explore this phenomenon and the way that it has changed since the advent of the financial crisis. This then enables us to make recommendations for governments and financial institutions to rebuild trust and public confidence.

**We identify the 'teachable moments' at which younger people and pre-retirees will be most receptive to information and advice and most likely to take appropriate action.**

## WHAT IS FINANCIAL CAPABILITY?

Financial capability refers to **knowledge, skills, behaviours and attitudes** that people need to be able to successfully manage their financial affairs in the short, medium and longer term and to be able to make decisions which are in their best interests.

### Financial capability

#### Knowledge

- of financial concepts
- of financial products
- of own financial position

#### Behaviours

- planning ahead and budgeting
- saving for emergencies
- taking appropriate advice
- making provision for retirement

#### Skills

- interpreting financial information
- making decisions
- choosing suitable financial products

#### Attitudes: what people think and feel about

- their financial affairs
- taking personal responsibility
- government and financial service providers

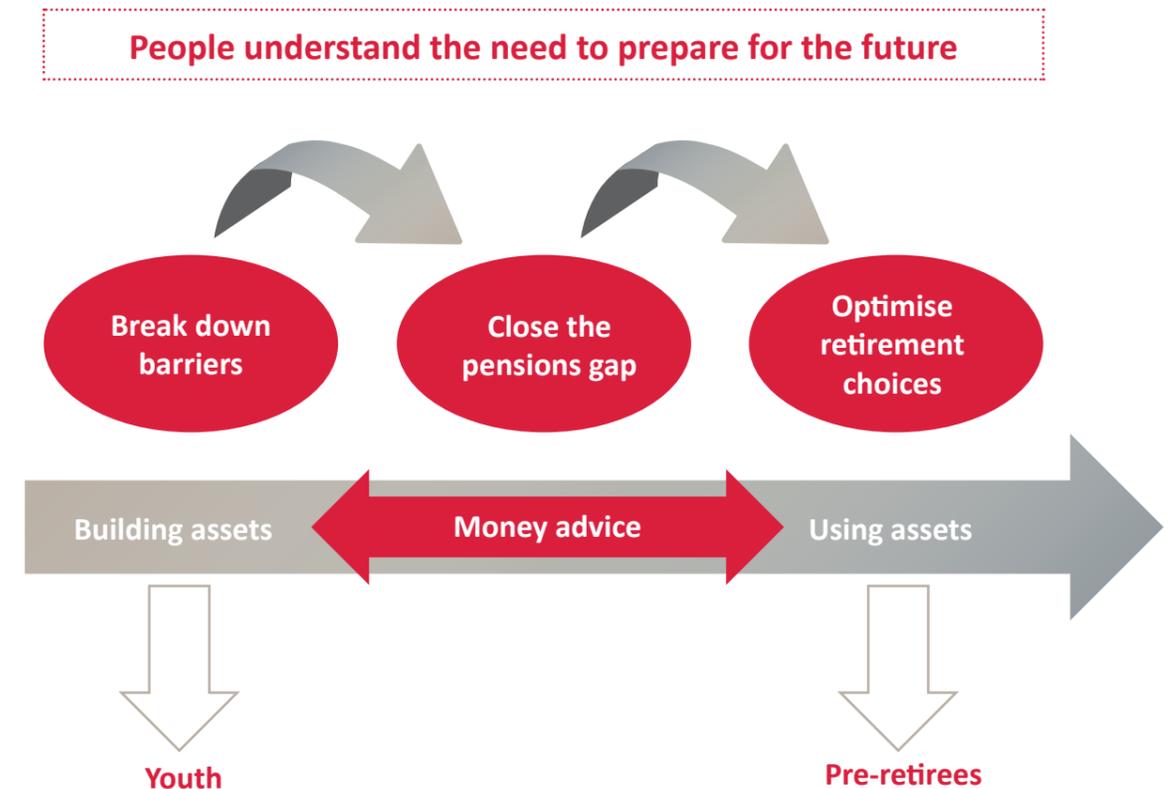


### Teachable moments

Our research has shown that education provided in the abstract is not effective. Information and advice need to be provided at a relevant point, at a point where a meaningful decision has to be made. There are 'teachable moments' at which people respond to information and advice.

## A MODEL FOR LONG TERM SAVING AND SPENDING

Many people understand the need to prepare for retirement but far fewer take any action. We need to break down the barriers to action, such as the tendency to focus on the short term, by identifying the teachable moments when people are receptive to information and advice. This improves the prospects of closing the pensions gap and enabling people to optimise their retirement choices.



### People take positive action to prepare for the future

#### Some key teachable moments

- For young people: when they take up a student loan or a new job
- For pre-retirees: 10 years, 5 years and 1 year prior to normal retirement age and at the point of retirement

## YOUNG PEOPLE AGED 16 TO 30

In this section, we report the results of our survey of around 1,200 young people. This was undertaken through Facebook and therefore represents the views of the generation which uses this form of media. The survey targeted young people in France, Poland, Spain and the UK.



### Attitudes towards their financial affairs

We began by asking how young people rated their current financial situation: comfortable, coping or struggling? The results in France, Poland and the UK were very similar, with around 30% feeling that they are struggling. In Spain, however, some 43% felt that they were struggling. This correlates with a much higher rate of youth unemployment in Spain.

**Only a fifth of young people say they are comfortable with their financial affairs, while over a third say they are struggling.**

We then asked how well our respondents thought they would cope financially in retirement in comparison with those about to retire now. The Polish were the least pessimistic, followed by the French: 32% and 41% respectively thought that they would be worse off. Young people in the UK and Spain are, however, much more pessimistic with 54% and 59% respectively thinking that they would be worse off.

### The key to engaging young people in financial planning

We asked “Money can be tight as you start out in adult life. What is the key to helping you enjoy life today and still start planning for your financial future?” The most popular option was for incentives but responses were generally neutral indicating no key influence in financial planning.

We then asked what financial firms could do to improve in terms of product design, branding and marketing. Again, the results were fairly neutral. In France and the UK people agreed that brand values should identify more closely with their life now and that saving, pensions and insurance products should be simple and easy to understand and more flexible to meet changing financial circumstances. In France, Poland and Spain there was a feeling that firms should not promote savings and pension products in ways that give those products equal status with products for loans and credit.

Recognising the importance of the workplace channel, we asked how employers could improve the ways in which they communicate pensions and other benefits. In the UK, young people agreed that employers should offer personalised advice as soon as they started work and that their age should not be a barrier to their eligibility for pensions and benefits. Views in other countries on these issues were more non-committal. In the UK and Spain, the majority disagreed with the idea of discussing options with co-workers, but otherwise there were no firm views.

### Seeking advice

We asked how proactively people sought advice about financial issues. In Poland just 7% sought advice often but 62% rarely. In the UK the figures were slightly better at 11% and 47% respectively. In France and Spain more than 20% sought advice often but there was still a large minority that sought advice rarely.

The preferred sources of advice in each country were parents and family followed by friends. Financial firms, employers and teachers were lower down the list. We asked specifically about the preferences for virtual advice channels (forums/communities, independent sites, financial firms and product comparison sites). The responses were all fairly neutral suggesting that young people have no preferences in this respect. We also explored different presentations of advice (graphical, textual, visual, figures and percentages). The most popular choice was visual, especially in France and the UK, followed by graphical. Text, figures and percentages are generally less favoured as means of presentation.

**Many young people do not seek financial advice proactively and those that do prefer to rely on family and friends rather than financial services providers.**

### Teachable moments

Respondents in the UK agreed that employers should offer personalised advice as soon as they started a new job. In other countries the responses were less enthusiastic but not against the idea. Starting a new job is a good teachable moment to get young people thinking about their financial affairs and particularly their retirement planning.

### Conclusions

The results of this survey present challenges for financial firms and for governments. The responses to the detailed questions suggest that most young people are not yet actively engaged in long term financial planning and have no strong views on what they expect from financial firms. Many see themselves as struggling financially and they will therefore be focused on the short term. There is a strong preference for seeking advice from parents, family and friends; but there are many young people who rarely seek advice. There are encouraging signs that employers provide an acceptable channel for information and advice when people start a new job but it is notable that financial firms are rarely seen as the preferred source of advice.

The full report of the survey can be found at the following link

[www.csreurope.org/financial\\_capability](http://www.csreurope.org/financial_capability)



## PEOPLE APPROACHING RETIREMENT AGED 55 TO 64\*

In this part of our study we examined a number of surveys which had been conducted in recent years to assess the level of financial capability in the population. Most of these studies have been conducted by financial services providers. They frequently cover a number of countries but in our study we concentrated on France, Poland, Spain and the UK to match our survey of young people. We analysed the results using the framework for financial capability shown on page 6.



### Knowledge

The evidence suggests that people have a lack of knowledge and understanding of their pension systems, of the changes being made to those systems and even of their own likely pension income. This lack of knowledge extends to state and workplace pension systems and also to personal pension savings schemes. There is also a lack of understanding about how tax affects pension savings and pension income.

In a study conducted in 2010 by CSR Europe's member Axa, a large financial services provider based in France, less than 30% of working people in France, Spain and the UK knew what their retirement income would be, rising to about 40% in Poland. Less than half of people prepared in advance for their retirement.

### Skill

The results of a number of studies show that people have difficulty in understanding and interpreting financial information and in many cases there is a reluctance to engage with such information. Information received from financial services providers is not especially valued. Most people tend to rely on informal sources of advice such as family and friends although there are some groups that do use professional financial advisers or approach their banks for assistance. More generally, most people have difficulty in choosing suitable financial products.

### Behaviours

Most people have a short term focus for their financial affairs, preferring to spend today rather than to save for tomorrow. There is some evidence however that the ability to plan ahead improves with age. But for many, this is too late to prepare for retirement. Some do regret that they did not start retirement savings much earlier in their working lives. Paradoxically, people often express concern that they will not have enough income in retirement but for many this does not translate into active saving.

In a study conducted in 2008 by Aviva, a large financial services provider based in the UK, around two thirds of pre-retirees were worried that they would not have enough money when they retire to provide an adequate standard of living. But only one third in France, Spain and the UK and only one quarter in Poland were regularly setting aside money for their retirement.

### Attitudes

When asked about their financial affairs, most people choose negative words such as 'complicated' and 'depressing' rather than positive emotions. A common feature in all four countries is a lack of confidence, a feeling of financial vulnerability and high levels of anxiety about having sufficient money in retirement.

Negative attitudes also predominate towards governments and towards financial services providers. Inevitably, these emotions have increased since the start of the financial crisis. Lack of trust is given as one of the reasons for not saving in a pensions plan, although the predominant reason given is lack of money. When people do save, research has established that investors have a high level of risk aversion. More people prefer to obtain a lower but safer return on their savings than those who seek the very best return.

Attitudes towards working longer before retirement or working part-time in retirement are mixed. Some would like the opportunity to work longer and others think that it will be necessary to work longer to secure a reasonable income. But the majority, especially in Poland and Spain, are against government policy changes which raise the normal retirement age.

### Teachable moments

There is evidence in many studies that people increasingly focus on their retirement from the age of 40 onward. Generally, the percentage of the population saving for retirement increases with age and this is notable for people aged 55 to 60. In terms of promoting savings, there is a teachable moment in middle age, as people become conscious of retirement.

In terms of providing advice on optimising retirement choices, people clearly need to know what their retirement incomes are likely to be. Providing information 10 years, 5 years and 1 year before normal retirement age with key messages about savings and forward planning would focus minds on what is important. This will also prepare people for the time that they decide to retire and have to make the key decisions which have an impact on their future financial security. There are therefore teachable moments in the years approaching retirement, leading to the key point at retirement at which crucial and often irrevocable decisions have to be made.

### Conclusions

A number of studies present a consistent picture of the financial capability issues affecting pre-retirees in Europe. There are some differences between the four countries we studied but these are small in relation to the similarities. The lack of financial capability is a substantial barrier to long term savings and financial planning. We expect these issues to be common across the European Union and action is required to address these issues.

The full Cranfield University report can be found at the following link: [www.csreurope.org/financial\\_capability](http://www.csreurope.org/financial_capability)



\* some countries have now raised the retirement age

## FINANCIAL EDUCATION SYSTEMS IN PLACE

Our study included a review of the financial education systems in place in Europe in general and in France, Poland, Spain and the UK in particular. While there is a good deal of valuable activity, there are discernible gaps.



In all countries, governments, financial institutions, employers and third sector organisations have deployed resources to support financial education. Much of these resources are internet based which provides general information and advice about, for example, the level of savings required to achieve a certain pension income. But while these resources are valuable, it is not normally sufficient to ensure appropriate action in the majority of the population as many people have difficulty interpreting financial information and applying it to their own circumstances. Also, these resources will not reach all of the population in need.

In all countries, surveys have been conducted primarily by financial service providers. These surveys reveal many common financial capability issues as outlined above but they do not normally engage a sufficiently large survey population to enable statistically valid conclusions to be drawn at the level of different groups within the population. This makes it difficult to target resources at the differing needs of different segments of the population.

With some notable exceptions such as the UK, there is a lack of national planning by governments. There is also a common lack in evaluating the effectiveness of the various initiatives and resources deployed in achieving an improvement in financial capability. We are not currently learning from experience.

### Essential elements of a national plan for financial education

- Research into the level of financial capability in the population
- Segmentation of the population to identify the differing needs of different groups (e.g. age, socio-economic status)
- Identification of the priorities and targeting of resources at the needs of different segments
- Delivery of information and advice through appropriate channels at teachable moments
- Evaluation of the effectiveness of the education delivered

### Conclusions

Further action is required. In 2007, the European Commission called for such action but has reported that little progress has been made. With the further evidence presented in this report, this call to action needs to be refreshed and renewed. We present our specific recommendations below.

*"However, despite these calls [for action], limited progress in the provision of financial education has been registered since 2007 ...."*

European Commission Review of Financial Education Initiatives, 31 March 2011

## PRACTICAL MEASURES TO IMPROVE FINANCIAL CAPABILITY

Our study refers to the need to provide information and advice at teachable moments. The study also identifies some particular initiatives that could be undertaken by governments, financial institutions, employers and other interested organisations that could make life easier for people.

### Helping people to understand financial information

Providing information in itself is not normally enough. Research shows that most people have difficulty in understanding financial information. They also lack confidence and are frequently reluctant to engage. Understanding is impaired by technical language, by jargon and by long passages of small print. Different organisations use different styles which causes confusion. Other measures are required:

- We need a simple common language with concepts that can be explained and understood. Some initiatives are progressing in some countries on this point but action needs to be extended across all Member States of the European Union.
- Secondly, information needs to be provided in different formats to suit different learning styles. Some people prefer to read, others to listen, others to watch. Using different textual, graphical, audio and visual formats will improve communication and extend the reach of information and advice.
- Thirdly, some face to face or telephone contact may be necessary to reach some groups, to encourage people to engage and to build confidence. Employers and voluntary groups provide important channels to reach those who need additional support.
- Finally, there is a need for some quality assurance to ensure that the different sources of information and advice all meet a minimum standard and present key issues in a common way.

### Helping people to make decisions

Decision making involves identifying and evaluating alternative options and making a choice between them. This is not a process that people always approach logically. Behavioural research shows that people are subject to reasoning biases. Care needs to be taken, therefore, in presenting people with choices.

One way forward is to use personal case studies and scenarios, personal stories illustrating how people in different situations go about making a decision. People can then identify with others in a similar situation. Most people relate more to a real situation than to alternatives presented in the abstract in writing. Again, creative use of media can help here.

The design and marketing of financial products is crucial in this context. Financial products have often been subject to public criticism and regulatory action for being too complex and for being sold to customers for whom they are not suitable (mis-selling). Products need to be simple and to be explained in the common language so that customers can understand them and make decisions that are in their best interests.

## SUMMARY AND RECOMMENDATIONS: THE CALL TO ACTION

In this publication so far we have identified the need for greater efforts to improve the financial capability of people in Europe. While much is being done to deliver financial education our study has shown gaps in the provision and weaknesses.

EU institutions, the Organisation for Economic Co-operation and Development (OECD), national governments, financial services providers, employers and third sector organisations all have a role to play in improving financial information and advice, and in supporting individuals and families in managing the financial challenges that they face.

### The role of EU institutions and OECD

The EU has taken a lead on the subject of financial education, setting out a number of key principles and promoting initiatives to encourage the development of strategies among Member States. The Commission also has a Lifelong Learning Programme (LLP)<sup>1</sup> which runs until 2013. This programme does not, however, make specific reference to financial education and it would clearly be useful for it to do so. The EU Labour Force Surveys and the Adult Education Surveys could then be used as mechanisms for collecting data about participation in financial education programmes.

There is a degree of overlap between the initiatives sponsored by the Commission and those of the OECD's International Network for Financial Education (INFE). Most EU Member States are members of INFE. At a working level therefore, EU institutions do not need to sponsor initiatives that are already being promoted by INFE.

### Action for EU institutions

- continue the leadership role in financial education, emphasising its importance, encouraging and supporting action to improve financial capability;
- explicitly recognise financial education as part of the EU's Lifelong Learning Programme and incorporate in routine EU survey questions on participation in financial education programmes;
- co-ordinate interventions at the working level with those undertaken by the OECD's INFE.

### The role of national governments

Financial capability needs to be built in all sections of the population but different groups have different current levels of capability and different issues and

priorities. A national plan is required if public policy objectives in financial education are to be achieved. This requires leadership from national governments, particularly in co-ordinating the efforts of different agencies and organisations.

### Action for national governments:

- take the lead in encouraging all organisations engaged in research into financial capability and in delivering financial education to work together to make best use of the opportunities and resources available;
- develop a national segmentation and a national plan;
- identify priorities such as young people and those approaching retirement,
- evaluate the impact of the national plan.

### The role of financial institutions

Financial institutions already support financial education, in particular by publishing the results of their surveys and by providing information and advice to the public. They also engage and co-operate with EU institutions, national governments and central banks. Much good work is already being done.

The market for pensions and long term savings is changing. Demographic change and changes in pension systems are requiring individuals to take more responsibility for their retirement planning, which in turn opens up the market for increasing personal savings and for new financial products. But this market opportunity needs to be exploited cautiously to ensure that people make decisions that are in their long term interests. Financial institutions have a clear interest in seeing an improvement in the financial capability of their customers and potential customers so that people make choices that are right for them. Financial institutions also have an interest in building and rebuilding confidence and trust in their brands, especially after the financial crisis. This requires a clear distinction to be made between the provision of financial education and the marketing of products so as to avoid the perception of a conflict of interest.

<sup>1</sup> <http://eacea.ec.europa.eu/llp/>

Financial institutions will have their own ideas about projects they will wish to run in this context. There is, however, a limit to what one individual institution can do on its own to address this agenda. But collectively and in co-operation with governments (and without compromising their independence or market competition), financial institutions could make a real difference. As a first step, there are a number of practical measures that can be adopted to address the specific issues identified in this study which we referred to on page 10 of this report.

### The role of employers and third sector organisations

Employers have always played a key role in providing a channel for the provision of schemes for pensions and retirement saving and also in the delivery of financial information and advice. Employers have ideal opportunities to provide financial information and advice to their employees, particularly at key teachable moments such as starting a new job or approaching retirement. Much good work is already being done and needs to continue. As with financial institutions, employers have a leadership role in influencing governments to improve the planning of financial education and employers also have a key role to play in some practical initiatives referred to above.

Voluntary groups, trade unions and other third sector organisations also support financial education and play a key role in reaching segments of the population that are not so easily accessed by financial services providers. These organisations need the support of governments and financial institutions to continue this key role.

### Conclusions

The need for greater financial capability is driven by a combination of socio-economic issues:

- changes to the structure of financial services markets,
- demographic change,
- the reform of pension systems.

These issues require individuals to assume greater responsibility for their own financial affairs.



Improving the financial capability of Europe's youth and pre-retirees is a substantial but vitally important challenge. In this publication we have identified the key issues and priorities, particularly the importance of providing information and advice to people at teachable moments in their lives. We have also identified the roles that the EU, the OECD, national governments, financial service providers, employers and third sector organisations are currently playing and need to play in the future to improve the provision of financial information and advice. But as socio-economic change requires people to take greater responsibility for their financial affairs, much more needs to be done to improve the financial capability of the population.

In this short publication we can only provide an overview of a complex subject. Our purpose is to raise awareness of the issues and to gain commitment from key stakeholders for further work. No one institution can solve this problem but by working together we can seek to make a real difference for the EU's youth and older workers approaching retirement.

Citi Foundation, CSR Europe and Money Advice Service would like to thank the following organisations for their contributions to the project:

