

The role of financial education in supporting decision-making for retirement

A CHECKLIST

Please cite this publication as:

OECD (2016), *The role of financial education in supporting decision-making for retirement: A checklist*

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THE ROLE OF FINANCIAL EDUCATION IN SUPPORTING DECISION-MAKING FOR RETIREMENT: A CHECKLIST

The OECD International Network on Financial Education has developed two practical policy tools based on the analysis contained in Chapter 5 on “The Role of Financial Education in Supporting Decision-Making for Retirement” of the 2016 OECD Pensions Outlook (OECD, 2016). These policy tools are for immediate use by policy makers, as a way to support their efforts to identify financial education needs for retirement and to improve financial education efforts in this area.

This checklist on financial education for retirement is the first of these policy tools; the second tool is a matrix of financial education needs and instruments to support retirement decision-making, which can be found in Chapter 5 of the 2016 OECD Pensions Outlook.

The checklist is designed for policy makers intending to complement the regulatory and consumer protection frameworks in relation to pensions with financial education, or wanting to strengthen existing financial education activities to support retirement policies. It can be used in combination with the matrix and is intended to help policy makers to determine the needs of citizens and workers for information, instruction and advice in relation to retirement.

The checklist is meant to be a self-assessment tool for policy makers, or other relevant stakeholders, who want to improve the provision of financial education for retirement. It is constituted by a series of questions that policy makers and other stakeholders should ask to themselves, on the left-hand side of the page, accompanied by comments and explanations, on the right-hand side of the page. In keeping with the OECD definition of financial education (OECD, 2005b), financial education includes information, instruction and advice. Financial education needs refer to the need to implement financial education to support people’s retirement planning. For an explanation of terms related to pensions see the OECD Glossary (OECD, 2005a).

The checklist is divided into three parts:

- **Part 1** helps users gauge the extent of financial education needs for retirement in their country based on the characteristics of their pension system and any recent pension reform;
- **Part 2** helps users collect evidence to identify needs for financial literacy to support decision-making before and after retirement, as well as specific target groups and content areas deserving more attention; and
- **Part 3** helps users understand how to improve existing financial education initiatives, how to ensure they are effective, and whether they should be complemented by additional ones.

CHECKLIST ON FINANCIAL EDUCATION FOR RETIREMENT

Checklist	Explanations
<p>Part 1 - Strength of financial education needs</p> <p>This section is to help you think whether the pension system in your country is likely to require relatively big financial education efforts to support citizens in their retirement decision-making, or whether relatively modest financial education is needed.</p>	
<p>Q1. Based on the characteristics of the pension system, how large are financial education needs? is there a strong need for financial education for retirement?</p>	
<p>Q1.a. Public pensions</p> <ul style="list-style-type: none"> - Is retirement age flexible, meaning that individuals can decide to anticipate /postpone their retirement age and receive consequently reduced/increased retirement benefits? - Can workers pay voluntary additional contributions in the public scheme? - Can they pay contributions ex-post for past periods of study or else? - Does the public pension system have a notional defined contribution component? 	<p><i>If you tend to answer Yes to these questions, it means that the public pension system in your country allows more choice and that it requires more active decision-making on the part of the worker, meaning that financial education needs for retirement planning in your country are higher.</i></p> <p><i>If you tend to answer No, it probably means that the need to develop financial education to support retirement decision-making is less acute.</i></p>
<p>Q1.b. Private pensions – mandatory and voluntary (if any)</p> <ul style="list-style-type: none"> - Can workers decide about the levels of contributions, investment allocation, time when starting to receive benefits, type of benefits in their voluntary private pension (if any)? - Do workers have access to a lot of different funds/providers from which to choose? - Do workers have access to a lot of different investment allocations from which to choose? - Do workers have access to a lot of different payout products for receiving benefits in retirement? 	<p><i>If you tend to answer Yes, it means that private pensions in your country allow a lot of choice and active decision-making on the part of the plan member, or that choice is more complex, meaning that financial education needs are higher.</i></p> <p><i>If you tend to answer No, financial education needs are less acute.</i></p>

Checklist	Explanations
<p>Q1.c. Default mechanisms - mandatory and voluntary private pensions (if any)</p> <ul style="list-style-type: none"> - Are there any default mechanisms in place in relation to the choice of levels of contributions, investment allocation, time when starting to receive benefits, type of benefits? - Are there other mechanisms encouraging workers to contribute more in their voluntary private pension (such as matching, guarantees, etc)? 	<p><i>Default and other mechanisms nudge individuals into choices that are supposed to be positive for them. If workers are called to make many choices but default mechanisms are in place, the consequences of non-choice may be less negative than in a situation where workers are called to make many choices but no default mechanisms are in place. Even in the presence of defaults, people need to have sufficient financial knowledge and skills to judge whether the default choices are suitable for them.</i></p>
<p>Q1.d. Recent pension reforms (if any)</p> <ul style="list-style-type: none"> - Did we recently implement any reform or are we planning any reform in relation to public pensions, private pensions, or any other aspect of welfare/social protection that will increase workers' need to save for retirement? - Are these reforms increasing the amount of choice / responsibility for individuals/workers? 	<p><i>Pension reforms require workers to be aware of the reform, to become acquainted with the new rules, and to understand how the new rules impact on them. If you tend to answer Yes, it probably means that financial education needs are higher. This is especially the case if reforms are increasing the amount of choice and responsibility for individuals. If you tend to answer No, it means that you do not have specific financial education needs related to pension reforms.</i></p>

Checklist	Explanations
<p>Part 2 - Evidence of financial education needs</p> <p>This section is to help you collect more evidence to decide whether there is an urgent need for financial education to support retirement decision-making based on the features of the pension system, which groups in the population are likely to need more financial education, and on which areas of financial knowledge and skills should financial education be focused</p>	
<p>Q2. Do we collect aggregate statistics about participation in private pensions?</p> <ul style="list-style-type: none"> - Do we know how many people are members of different types of pension schemes (especially voluntary schemes)? - If we have any auto-enrolment mechanism in place, do we know how many members stayed with the default and how many opted-out? 	<p><i>If you do <u>not</u> have this type of evidence you should probably collect more, if this is relevant given the structure of the pension system in your country. If you do have this type of evidence, you can use it to gain an understanding of participation into private pensions and their response to auto-enrolment mechanisms. This can help you figure out the extent of potential financial education needs.</i></p>
<p>Q3. Do we have evidence about the financial literacy of the population or of workers?</p> <ul style="list-style-type: none"> - Level of financial knowledge in the population / or workers? Any specific evidence of aspects of financial knowledge relevant for retirement (such as interest compounding, inflation, etc.)? - Attitudes in the population towards the long term, long-term saving, and retirement issues? - People's / workers' behaviour in relation to retirement saving, or saving in general? - Any heterogeneity in financial knowledge, attitudes and behaviour across different population groups? 	<p><i>If you do <u>not</u> have evidence about these aspects you should collect more to figure out the extent of potential financial education needs with respect to your pension system. If you do have evidence about these aspects, you can use it to learn on which areas of financial knowledge, attitudes and behaviour you should concentrate your financial education efforts, and on which population groups.</i></p>

Checklist	Explanations
<p>Q4. Do we have evidence about the pension knowledge of the population or of workers?</p> <ul style="list-style-type: none"> - Knowledge in the population / workers of how the pension system works (including public and private component, mandatory and voluntary components)? - Knowledge of their personal situation about retirement? - Awareness of recent pension reforms? - Awareness of why pension reforms are needed/undertaken? - Awareness that future pension benefits are likely to be lower than the ones of current retirees? - Any heterogeneity in the pension knowledge aspects mentioned above across different population groups? 	<p><i>If you do <u>not</u> have evidence about these aspects you should collect more to figure out the extent of potential financial education needs. If you do have evidence about these aspects, you can use it to learn on which areas of pension knowledge you should concentrate your financial education efforts, and on which population groups.</i></p>
<p>Part 3 - Initiatives and stakeholders addressing financial education needs This section is to help you think about what is already being done in the country and what remains to be done to make sure you are providing financial education for retirement planning as necessary.</p>	
<p>Q5. To what extent do financial education programmes, tools and other initiatives for retirement planning already exist in our country?</p> <ul style="list-style-type: none"> - Information about how the pension system works (including public and private component, mandatory and voluntary components)? - One-off communication/ awareness campaigns about retirement/ pensions/ pension reforms? - Regular communication/ awareness campaigns about retirement/ pensions/ pension reforms? - Tools to compare different pension plans or other pension options? - Unsolicited personalised information? - Personalised information on demand? - Calculators to support decision making about retirement? - Retirement seminars? - Other, more general financial literacy seminars also covering retirement? - Other financial literacy training not covering retirement but equipping participants with financial skills that can be relevant for retirement planning? 	<p><i>Depending on the structure of the pension system in your country and on the extent of financial education needs, it may be relevant to implement financial education through one or more the tools and initiatives listed here (see also the matrix, Figure 1).</i></p> <p><i>If you or other stakeholders are already implementing some of these measures you should continue with the checklist to make sure financial education is making an impact.</i></p>

Checklist	Explanations
<ul style="list-style-type: none"> - Advice and guidance about retirement planning and/or funding? <p>Q6. [In relation to items in Q5 that are already in place], to what extent do these financial education programmes/initiatives/tools for retirement planning are part of a national strategy for financial education?</p>	<p><i>If a national strategy for financial education is in place, it is important that it includes any financial education for retirement planning programmes, to make sure these initiatives are happening within a consistent framework.</i></p>
<p>Q7. [In relation to items in Q5 that are <u>not</u> already in place], what more could be done?</p> <ul style="list-style-type: none"> - Could they be relevant in our country, given the structure of the pension system and the extent of financial education needs? - Should our authority / institution engage in any of these activities? - Should we mandate / encourage other stakeholders to engage in any of these activities? 	<p><i>If some of the measures listed above are not being implemented, you should consider what more could be done and whether they could be useful to support your citizens in planning for retirement.</i></p>
<p>Q8. [In relation to all items in Q5], are tools combined in an effective way?</p> <ul style="list-style-type: none"> - Are both general and personalised information being provided? - Is personalised information provided in a way that brings together information on retirement benefits from different sources (such as public and private pensions, as well as mandatory and voluntary ones)? - Is personalised information combined with tools (such as calculators and simulators) to allow workers make their own projections? - Are both information and education being provided, whether through dedicated retirement seminars or through retirement topics in broader financial literacy seminars? - Are there ways to obtain unbiased advice in case information and education are not sufficient for the worker to take decisions? 	<p><i>If some of the financial education initiatives listed above are already being implemented, you should make sure they are combined in effective ways. If some initiatives are not being implemented, you can use the questions on the left to think whether you can provide additional tools to make sure the existing ones are being effective.</i></p>
<p>Q9. [In relation to all items in Q5], are financial education tools combined in an effective way with other policy instruments to encourage retirement saving and improve retirement outcomes?</p>	<p><i>If some financial education initiatives are already being implemented, you should make sure they are combined in effective ways with other policy instruments (fiscal incentives to save, default options, etc.).</i></p>

Checklist	Explanations
<p>Q10. [In relation to items in Q5 that are already in place], did we make sure that the development and delivery is coordinated and monitored across the relevant stakeholders (public authorities, private sector, not-for-profit organisations)?</p> <ul style="list-style-type: none"> - Do we have coordination mechanisms? - Do we have guidelines or principles for the involvement of private and not-for-profit stakeholders? - Do we monitor if the initiatives developed by private and not-for-profit stakeholders are reliable, impartial, and coordinated with public messages/actions? 	<p><i>If you are already implementing at least some financial education initiatives for retirement, or if some are delivered by other stakeholders, you should make sure that the development and delivery is coordinated across the relevant stakeholders. You can do so by setting up relevant coordination mechanisms and developing guidelines for the involvement of private and not-for-profit stakeholders.</i></p>
<p>Q11. [In relation to items in Q5 that are already in place], are the relevant target groups being addressed?</p> <ul style="list-style-type: none"> - Young people - Pre-retirees - Women - Self-employed - Other relevant groups in the country 	<p><i>If you are already implementing at least some financial education initiatives for retirement, or if some are delivered by other stakeholders, you should make sure that all the groups with specific financial education needs are being addressed (based on evidence in your country – see Part 2 of the checklist).</i></p>

Checklist	Explanations
<p data-bbox="232 204 1256 268">Q.12 [In relation to items in Q5 that are already in place], do initiatives work well and make an impact?</p> <ul style="list-style-type: none"> <li data-bbox="344 277 875 304">- Is the implementation being monitored? <li data-bbox="344 314 981 341">- Is the impact of these initiatives being evaluated? <li data-bbox="344 351 1211 453">- Have we created ways to facilitate other stakeholders to monitor the implementation and evaluate the impact of their financial education programmes for retirement, and to share the results? <li data-bbox="344 462 1088 523">- Are we disseminating the evaluation results nationally and internationally as relevant? 	<p data-bbox="1279 204 1989 411"><i>If you are already implementing at least some financial education initiatives for retirement planning, or if some are delivered by other stakeholders, you should make sure initiatives are being monitored and evaluated to see if they are having the intended impact, and evaluation results are being disseminated.</i></p>

References

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