



The **Financial Education**  
Institute of Canada

April 30, 2010

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Dear Mr. Stewart:

First of all, we want to applaud Minister Flaherty for the initiative itself and thank the members of the Task Force for taking on this important work. Financial literacy has always been an essential ingredient in personal and financial success, however, it is hard to imagine a time when financial literacy has been more consequential for Canadians. Economic conditions are in a state of rapid change, challenging everyone to react quickly to new dangers and opportunities. Inaction or inappropriate responses can jeopardize the financial health and wellness of many of us; we all need the tools to take charge of our financial situation with confidence.

The Financial Education Institute of Canada was established some 25 years ago to address the knowledge gap we perceived at that time among the general public as well as some financial professionals. The Institute is an independent, "fee-only" provider of books, newsletters, courses, and online resources. Today, we are hired by employers and labour unions across Canada to deliver uncompromised financial education to their employees and members. Our clients sponsor the full array of workplace pension plans and other retirement arrangements: Defined Benefit and Defined Contribution Pension Plans, Group RRSPs, Deferred Profit-Sharing Plans, Tax-Free Savings Plans and other plans. A distinguishing feature of the Institute is that the Institute sells no financial products and receives no commissions on such sales. In short, we have no vested interest in the decisions our students make. We believe that's the way it should be.

No one is born knowing all that they need to know about money matters. They must become educated and they are vulnerable to being misled or misinformed by those with a different agenda. It goes without saying that education in this vital area should come from a source that is:

- knowledgeable
- free of conflicts of interest
- up to date, but possessed of a long-term view
- able to connect abstract financial concepts to real life

It is less than ideal for Canadians to rely on friends and family or those with a product to sell or a plan to promote as the primary source of their financial education.

We agree with the Task Force that the goal is to equip Canadians to make responsible decisions *under the circumstances in which they find themselves.*

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In achieving this goal, we would be wise to keep in mind the one constant that we have found in all of our work: change. Those who would teach Canadians "good" financial habits must avoid the temptation of a fixed solution. Circumstances always change. The wisdom we have learned is that success is based on being alert to, and aware of, the changing conditions - and the consequences of the different choices.

For example, older Canadians are sometimes heard to observe that folks these days don't save like they used to. Those surviving the Great Depression learned the value of thrift and frugality. Saving up for a major purchase made perfect sense when prices were dropping: by delaying gratification, each dollar purchased more goods and services. The same strategy was punished by the conditions of the late 1970s and early 1980s when interest rates on savings could not keep pace with double-digit inflation. Those who tried to save up for a purchase ended up delaying gratification *and* paying more later. Thus, a new lesson was learned: buy now and pay later.

Those who adhered to practices of the previous generation were prone to stick with the "tried and true". They retired with guaranteed investments that saw them go broke "safely" in the face of relentless inflation.

But Canadians can be quite smart with financial decisions - and very adaptable. As interest rates fell in the 1980s, the cost of borrowing became cheap and the reward for saving diminished. As a result, Canadians increased their borrowing and cut back on their savings. The Task Force has noted the rising debt levels (in aggregate) without explicit reference to the context. How much of the changing debt is linked to the changing cost of borrowing? How much of the changing debt level is linked to the changing demographic profile? How much is linked to the rising value of residential real estate? How much is simply a matter of distorted perceptions - unwittingly defining "normal" in reference to out of date benchmarks?

This principle of adapting to change also applies to the personal life cycle which every Canadian will experience. Just as there are different seasons in the economy and the marketplace, for individuals, there is a time to learn, a time to earn and a time to spend. There is a time to borrow and a time to pay back; a time to invest and a time to draw down.

Of course, this has nothing to do with such things as timing the market; it is merely a recognition that life has its inevitable cycles. One's earning power, credit limit and net worth will be different at age ten, twenty, fifty and seventy.

A predictable cycle, with its natural ebbs and flows, can turn into a boom and a bust. Many can profit from extreme circumstances, but there can also be many unwitting victims of a bubble who are trapped by the expectation that the arrows will always point in the same direction. Prices will continue to rise without end. Interest rates will stay high (or low) permanently. Last year's top investment will do best this year as well. My home will always be worth more next year.

The cornerstone to true financial literacy is awareness that today's conditions are but a point in time and what worked in the past may have to be discarded in the future. Canadians will be financially literate when they are able to discern the circumstances in which they find themselves and the consequences of their decisions. Planting seeds in the fall and expecting a harvest in the spring may lead to disappointment!



Our conclusion is that Canadians must be equipped to adapt to economic conditions that are in a constant state of flux - or suffer unexpected consequences.

We have no doubt that the task Force will receive a great number of useful submissions from a wide variety of sources. In considering what we might add to this conversation, we hoped to provide input that would reflect our unique perspective as a fee-only educator. We thank the Task Force for the opportunity to contribute our input.

Kindest regards

Graydon G. Watters  
President