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^{p}	preliminary
^{r}	revised
x	suppressed to meet the confidentiality requirements of the *Statistics Act*
^{E}	use with caution
F	too unreliable to be published
*	significantly different from reference category ($p < 0.05$)

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Financial literacy and retirement planning

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Overview of the study

Using data from the 2014 Canadian Financial Capability Survey (CFCS), this article examines the extent to which individuals in the labour force are preparing for retirement and provides another perspective on the relationship between financial literacy and retirement planning.

- In 2014, 78% of labour market participants (employed or unemployed) aged 25 to 64 reported they were financially preparing for retirement, down from 81% in 2009. In both years, about 45% said they knew how much they needed to save for retirement.
- Between 2009 and 2014, significant reductions in retirement preparation rates were observed among some groups of labour market participants, including those aged 25 to 34 (from 75% to 66%) and those with a high school diploma or some postsecondary education (from 80% to 71%).
- In 2014, 34% of labour market participants who were preparing for retirement said that workplace pensions would be their primary source of retirement income. This compared with 31% who listed Registered Retirement Savings Plans (RRSPs) and Retirement Income Funds (RIFs), 13% who reported government pensions, 10% who reported other sources, and 12% who did not know.
- In the CFCS, respondents are administered a financial literacy quiz comprised of 14 questions. In 2014, the average score obtained by those who were preparing for retirement was 9.4 (or 67%), compared with 7.6 (or 54%) among those who were not preparing for retirement.
- Even after accounting for other demographic factors such as level of education, age and income, those with higher financial literacy scores were more likely than those with lower scores to financially prepare for retirement and know how much they needed to save.

Introduction

Retirement planning continues to be an important issue for Canadians, especially in view of ongoing changes in the pension system and pension coverage. Between 1977 and 2013, the proportion of the overall employed Canadian population covered by Registered Pension Plans (RPPs) declined from 46% to 38%, mainly as a result of a drop in defined benefit plan coverage.[1] Furthermore, existing research suggests that some Canadians in the middle of the income distribution are not saving adequately for retirement,[2] and that certain groups would be more at risk of undersaving.[3]

Private pension plans and personal savings could therefore play an even more important role for retirement income in the future, meaning individuals will need to be even more knowledgeable about saving for retirement. Existing research has shown that planning is strongly associated with higher total net worth in retirement.[4]

Retirement planning is found to be associated with a number of individual socioeconomic characteristics. In recent years, there has been a growing interest in understanding the link between financial literacy and retirement planning.[5] If financial literacy is indeed positively associated with retirement planning, then a higher degree of financial literacy could potentially contribute to enhancing the financial wellbeing of Canadians.

In this article, recent data from the 2014 Canadian Financial Capability Survey (CFCS), along with 2009 data from the same survey (see *Data sources, methods and definitions*), are used to study how retirement planning in Canada differs across various socioeconomic groups with a particular focus on the association between financial literacy and retirement planning. For the purposes of this paper, two key measures of retirement planning are used: (1) whether or not individuals are financially preparing for retirement and (2) whether or not individuals know how much to save for retirement. The financial literacy measure consists of the number of correct responses to a 14-question quiz testing respondents' financial knowledge. Results associated with another, more subjective, measure of financial literacy (based on a self-rated measure of financial knowledge) are also shown.

Following existing research on retirement preparation, the sample is restricted to individuals aged 25 to 64 and who were in the labour force (employed or unemployed) during the reference week. The article first looks at the characteristics of those who are planning for retirement and then explores the relationship between financial literacy and retirement planning.

Among Canadians in the labour force, 4 in 5 reported that they were financially preparing for retirement

In the CFCS, non-retired respondents were asked the following two questions related to retirement preparation: (1) Are you financially preparing for retirement either on your own or through an employer pension plan? (2) Do you have a good idea of how much money you will need to save to maintain your desired standard of living when you retire?

In 2014, 78% of labour market participants aged 25 to 64 stated that they were financially preparing for retirement (Table 1). This was down from 81% in 2009.[6] Also, in 2014,

Table 1
Retirement preparation by selected characteristics, 2009 and 2014

	Financially preparing for retirement		Know how much to save	
	2009	2014	2009	2014
	percent			
Total	**81.0**	**77.8***	**45.6**	**45.0**
Sex				
Men	81.3	78.2	50.6	52.3
Women	80.7	77.3	39.9	37.4
Age group				
25 to 34	75.0	66.3*	37.3	35.6
35 to 44	82.3	81.6	44.0	46.8
45 to 54	83.0	81.2	48.4	50.3
55 to 64	85.1	83.6	56.8	47.4*
Family status				
Couple family with children	84.4	82.0	46.5	46.8
Couple family without children or dependent children	84.0	81.1	51.1	47.2
Unattached individuals	78.1	73.5	44.4	43.7
Lone-parent family	70.6	68.9	30.1	29.0
Other family type	67.5	56.9	36.2	43.1
Educational attainment				
Less than high school	61.1	60.7	28.8	42.8*
High school/some postsecondary	79.5	70.9*	41.1	37.8
Postsecondary certificate or diploma	81.1	80.5	45.9	43.8
University degree	87.8	85.5	53.5	53.0
Immigration status				
Canadian-born	82.8	79.3*	46.7	45.2
Immigrant	74.5	71.8	41.5	44.2
Recent	65.8	65.2	34.2	40.1
Established	77.4	74.7	44.0	46.0
Employment status				
Paid employee	85.2	81.3*	45.4	43.3
Self-employed	75.1	72.4	52.5	56.4
Unemployed	50.7	36.9*	35.0	44.4
Household income quintile				
Bottom	58.2	56.9	30.1	37.0*
Second	77.4	72.1	37.4	39.1
Third	85.1	77.8*	44.1	36.2*
Fourth	91.4	89.5	54.1	50.4
Top	93.6	93.6	61.9	62.5
Housing tenure				
Owned - No mortgage	85.1	86.0	57.9	58.2
Owned - Mortgage	85.6	80.5*	45.2	43.4
Rented	66.9	67.4	35.0	38.0
Pension coverage[1]				
No plan	...	...	50.5	49.9
Defined contribution plan	...	...	53.9	63.5*
Defined benefit plan	...	...	51.6	50.5
Other plans[2]	...	...	38.8	40.0
Not financially preparing for retirement	...	...	24.8	24.8

Table 1
Retirement preparation by selected characteristics, 2009 and 2014 (continued)

	Financially preparing for retirement		Know how much to save	
	2009	2014	2009	2014
	percent			
Occupation				
Sales and service	74.3	64.6*	40.1	38.6
Management	86.9	85.0	57.0	61.2
Business, finance and administrative	84.5	87.1	45.0	49.9
Natural and applied sciences	88.2	87.9	56.3	48.2
Health	89.1	88.9	47.7	37.8
Social science, education, government service and religion	90.5	89.7	44.1	37.2
Art, culture, recreation and sport	79.4	78.9	42.4	54.4
Trades, transport and equipment operators	75.4	72.9	43.1	44.0
Primary industry	75.3	61.9	47.4	49.0
Processing, manufacturing and utilities	73.2	83.5*	27.3	40.2
Other	71.8	46.5	47.3	44.2
Region				
Atlantic	77.4	76.2	39.6	40.5
Quebec	77.7	75.5	40.3	42.4
Ontario	82.5	77.9	46.3	45.6
Manitoba and Saskatchewan	87.9	84.9	48.0	46.1
Alberta	84.6	80.5	51.9	49.4
British Columbia	77.9	76.1	48.9	45.7

... not applicable
* significantly different from the reference category (2009) (p<0.05)
1. Respondents not financially preparing for retirement were not asked if they had pension coverage.
2. These include individuals with mixed defined benefit/defined contribution plans and individuals who did not know what type of plan they had.
Note: The sample includes individuals aged 25 to 64 who were in the labour force.
Source: Statistics Canada, Canadian Financial Capability Survey, 2009 and 2014.

45% indicated that they knew how much to save, a proportion similar to that in 2009.[7]

These shares varied by various socioeconomic characteristics. Generally speaking, the proportion of individuals who were financially preparing for retirement increased with age, level of education, income and homeownership. The same was true for those who said they knew how much to save (for those who were not preparing for retirement, the survey asked for the reason. For additional information, see *Individuals who are not financially preparing for retirement*).

In 2014, two-thirds of individuals aged 25 to 34 reported that they were financially preparing for retirement. This proportion was higher among those aged 35 and over (81% to 84%). Younger individuals were also less likely to know how much they needed to save. These results are expected given that retirement may be a distant notion for individuals in that age group.

Retirement preparation varies by level of education. About 61% of individuals who did not have a high school diploma reported preparing for retirement. This compared with 86% among those with a university degree. The comparable proportions for those with a high school diploma/ some postsecondary education and a postsecondary certificate or diploma were 71% and 81%, respectively. Also, 54% of university degree holders knew how much to save compared with 43% of those who never completed high school.

The level of household income is also associated with retirement preparation. About 57% of individuals in the lowest household income quintile stated that they were financially preparing for retirement. This compared with 94% among those in the top income quintile. Furthermore, 63% of individuals in the top income quintile knew how much to save compared with 37% in the bottom quintile. One reason for these results could be that the incentive to save might not be as strong for those in the lowest income quintile given the fact that the public pension system helps individuals in this quintile to maintain a similar living standard in their retirement years.[8]

Recent immigrants (those who arrived in Canada during the period 10 years prior to the survey) were less likely to be preparing for retirement (65%) compared with established immigrants (75%) and the Canadian-born (79%). They were also less likely to know how much to save. Other groups that were more likely to be preparing for retirement included couples with dependent children (82%) and couples without dependent children (81%) compared with unattached individuals (74%), lone parents (69%) and individuals belonging to “other” family types (57%); paid employees (81%) compared with the self-employed (72%) and the unemployed (63%); and homeowners without a mortgage (86%) compared with owners with a mortgage (81%) and renters (67%). Residents of the Prairies were also more likely than other Canadians to be preparing for retirement.

As noted earlier, the proportion of individuals in the labour force preparing for retirement declined from 81% to 78% between 2009 and 2014. The decline, however, was more pronounced among certain groups. The largest declines took place among individuals aged 25 to 34 (from 75% to 66%); those with a high school diploma or some postsecondary education (80% to 71%); homeowners with an outstanding mortgage (86% to 81%); those who were in the third quintile of household income (85% to 78%); and those whose family type was "other" (68% to 57%).

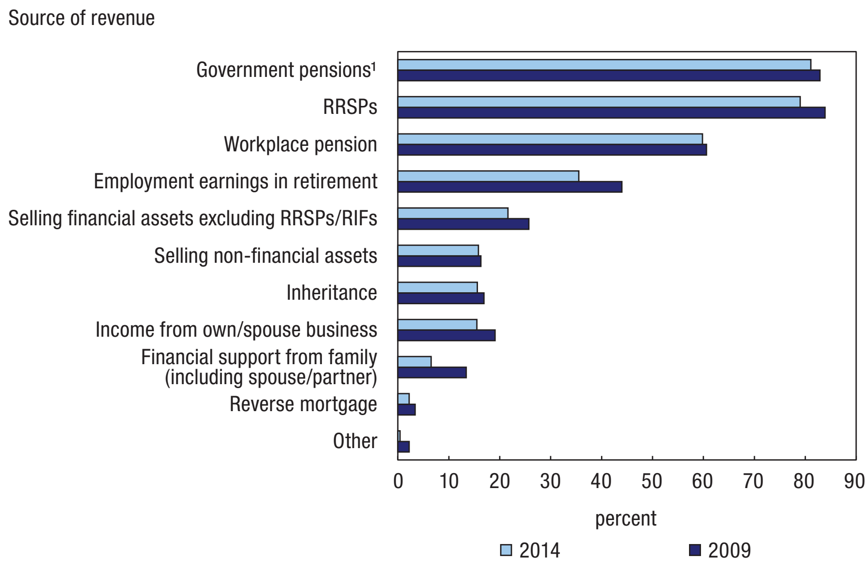
Workplace pensions and RRSPs anticipated as primary source of income in retirement

Respondents who stated that they were financially preparing for retirement were asked to list the sources of revenue that were included in their financial plan for retirement. The two most common sources were government pensions and Registered Retirement Savings Plans (RRSPs). In 2014, around 80% of labour force participants expected both to be a source of revenue in retirement (Chart 1), while 60% listed workplace pensions.[9]

In 2014, as many as 36% of individuals in the labour force cited employment earnings as an expected source of retirement income. This was down from 44% in 2009. As found in previous research, some Canadians consider post-retirement employment an option, suggesting that a number of Canadians do not view retirement and labour force withdrawal as synonymous.[10]

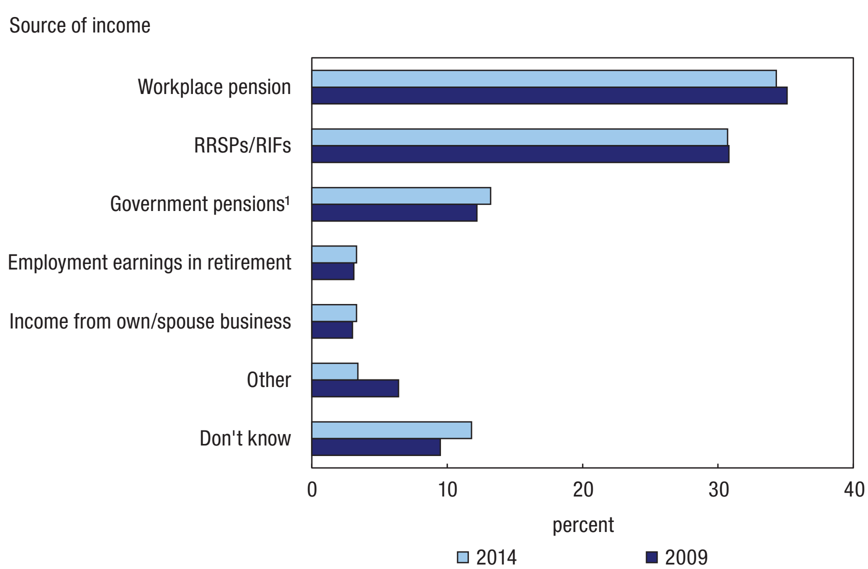
In addition to being asked about the various sources of revenue included in their financial planning, respondents were also asked what they expect

Chart 1
Sources of revenue included in financial plan for retirement, 2009 and 2014



1. Includes OAS/GIS and CPP/QPP.
Note: Includes only labour force participants aged 25 to 64 who reported that they are financially preparing for retirement.
Source: Statistics Canada, Canadian Financial Capability Survey, 2009 and 2014.

Chart 2
Primary source of income anticipated in retirement, 2009 and 2014



1. Includes OAS/GIS and CPP/QPP.
Note: Includes only labour force participants aged 25 to 64 who reported that they are financially preparing for retirement.
Source: Statistics Canada, Canadian Financial Capability Survey, 2009 and 2014.

Table 2
Primary source on anticipated income in retirement by selected characteristics, 2014

	Government pensions[1]	Workplace pension	RRSPs/RIFs	Employment earnings	Other	Don't know
	percent					
Sex						
Men	11.0	32.9	32.4	4.4	6.3	13.0
Women	15.7	35.9	28.9	2.0	7.1	10.4
Age group						
25 to 34	7.8	30.1	31.9	2.6	5.5	22.1
35 to 44	8.7	39.6	31.0	4.4	6.5	9.8
45 to 54	13.4	35.2	34.1	2.5	6.7	8.1
55 to 64	25.5	30.2	24.0	3.4	8.9	8.0
Family status						
Couple family with children	10.4	36.8	32.6	2.8	7.2	10.2
Couple family without children or dependent children	17.7	31.0	29.4	3.7	7.8	10.4
Unattached individuals	14.8	34.0	27.0	4.0	3.9	16.3
Lone-parent family	11.0	34.2	32.5	4.1	5.6	12.6
Other family type	12.9	30.3	28.7	2.5	6.9	18.7
Educational attainment						
Less than high school	23.4	25.1	17.7	9.1	8.9	15.8
High school/some postsecondary	16.8	29.3	27.2	4.4	7.6	14.7
Postsecondary certificate or diploma	11.6	37.6	31.2	2.4	5.7	11.5
University degree	10.8	35.6	35.3	2.5	6.5	9.3
Immigration status						
Canadian-born	12.5	36.1	30.2	3.4	7.1	10.7
Immigrant						
Recent	14.0	23.4	29.9	3.8	4.4	24.5
Established	17.4	27.3	33.8	2.5	5.5	13.5
Employment status						
Paid employee	12.6	38.3	29.1	2.6	4.8	12.6
Self-employed	14.7	7.0	44.0	7.1	21.0	6.2
Unemployed	26.0	28.3	23.6	6.3	6.9	8.9
Household income quintile						
Bottom	26.1	23.1	21.3	2.8	6.3	20.4
Second	15.8	29.7	28.3	3.7	5.7	16.8
Third	14.1	31.7	33.1	2.8	7.0	11.3
Fourth	9.5	42.4	30.2	2.7	6.1	9.1
Top	5.9	39.4	37.0	4.2	8.1	5.4
Housing tenure						
Owned - No mortgage	16.5	24.1	37.9	2.2	8.9	10.4
Owned - Mortgage	11.8	39.5	30.1	2.8	6.8	9.0
Rented	13.0	32.8	25.8	5.2	4.8	18.4
Pension coverage						
No plan	19.6	2.7	46.7	5.8	11.6	13.6
Defined contribution plan	12.4	43.2	29.8	2.8	2.9	8.9
Defined benefit plan	7.5	62.3	18.1	1.4	2.9	7.8
Other plans[2]	9.0	47.8	16.9	0.7	4.3	21.3
Region						
Atlantic	12.5	44.1	23.3	2.6	5.9	11.6
Quebec	9.8	38.0	33.9	2.9	4.7	10.7
Ontario	14.6	35.5	29.1	3.2	6.2	11.4
Manitoba and Saskatchewan	7.7	43.7	24.3	3.6	10.4	10.3
Alberta	13.4	22.6	33.2	4.6	9.6	16.6
British Columbia	18.2	25.6	34.8	3.1	7.5	10.8

1. Includes OAS/GIS and CPP/QPP.
2. These include individuals with mixed defined benefit/defined contribution plans and individuals who did not know what type of plan they had.
Note: The sample includes individuals aged 25 to 64 who were in the labour force.
Source: Statistics Canada, Canadian Financial Capability Survey, 2014.

their **primary** source of income to be in retirement. Among those preparing for retirement in 2014, most expected workplace pensions (34%) and RRSPs/RIFs (31%) to be their primary sources of income in retirement (Chart 2). These were followed by government pensions (13%). However, 12% did not know what their primary source of income in retirement would be. The results for 2009 were generally similar (for primary anticipated source of revenue among those not preparing for retirement, see *Individuals in the labour force who are not financially preparing for retirement*).

Anticipated primary sources of retirement income vary by socioeconomic characteristics. Younger individuals were less likely to know what their primary source will be—a result consistent with the fact that more time separates them from their retirement years. More than 1 in 5 individuals aged 25 to 34 did not know what their primary source of retirement income would be (Table 2). This compared with 10% of those aged 35 to 44 and 8% of those aged 45 and over. Individuals aged 25 to 34 were also least likely to list government pensions as the primary source of retirement income (8%), while one-quarter of those aged 55 to 64 expected them to be their primary source.

Individuals with higher levels of education were more likely to expect workplace pensions and RRSPs/RIFs to be their primary source of income in retirement. This is not surprising as higher levels of education are associated with professional jobs, which are more likely to have workplace pension plans and higher levels of income, leading to higher personal savings. On the other hand, those without a high school diploma were more likely to report that their primary source of income would be government pensions. In addition, nearly 1 in 6 of them did not know what their primary source of retirement income would be.

One-fifth (20%) of those in the lowest household income quintile did not know what their primary source would be, compared with 5% among those in the highest income quintile. Those in the upper income quintiles were more likely to list workplace pensions and RRSPs/RIFs as their primary expected source of income. Conversely, those who were in the bottom income quintile were more likely to expect government pensions to be their primary source of income (26%, compared with 6% among those in the top quintile).

As might be expected, there were differences depending on whether individuals were paid employees or self-employed. Paid employees rely more on workplace pensions (38%) than the self-employed (7%). The latter were more likely to have RRSPs/RIFs as their primary expected source of income (44%). In addition, 7% of the self-employed expected employment earnings in retirement to be their primary source and 13% listed income from business. The 7% of self-employed individuals who listed workplace pensions as their primary source have previously worked or expect to work for an employer with a pension plan.

Immigrants were less likely than the Canadian-born to know about their primary source of income in retirement and were more likely to list government pensions as the main source. Regionally, residents of Manitoba and Saskatchewan were the least likely to expect government pensions as their primary source of income and most likely (along with residents of Atlantic Canada) to have workplace pensions as their primary source.

Financial literacy varies between groups

The CFCS adopted both subjective and objective approaches to measuring financial literacy. The more subjective approach involved asking individuals to self-assess their financial knowledge. Respondents were asked to rate their financial knowledge as either being very knowledgeable; knowledgeable; fairly knowledgeable; or not very knowledgeable.

In both 2009 and 2014, 5% of individuals did not respond to the question asking them to rate their financial knowledge. Among those who did respond in 2014, 8% rated themselves as being very knowledgeable; and 30%, 44% and 18% said they were knowledgeable, fairly knowledgeable and not very knowledgeable, respectively. The comparable proportions in 2009 were 7%, 31%, 46% and 16%.

The objective approach consisted of administering a quiz consisting of 14 questions related to inflation, interest rates, credit reports, stocks, risk, and debts and loans (see *Data sources, methods and definitions*).[11] The majority of individuals either provided an answer to the questions (correct or incorrect) or stated that they did not know the answer. A score of 1 was assigned to every correct answer and a 0 to every incorrect answer as well as the response “don’t know.” Only 7% of respondents in 2009 and 9% in 2014 refused to respond to at least one question or left the response blank for at least one question. These individuals were excluded from the analyses below.

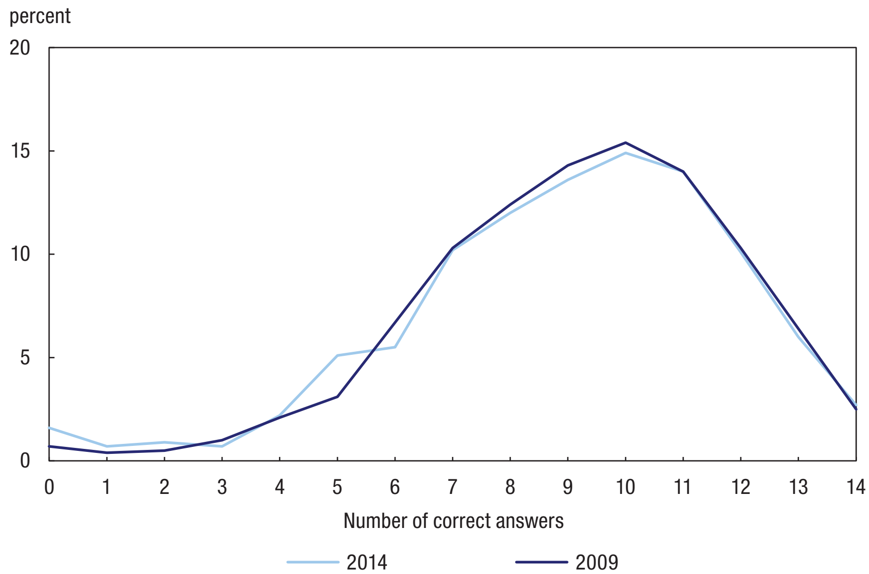
In 2014, the mean financial literacy score among labour force participants was 9.0 out of a possible maximum of 14.0 (or about 64%). This was similar to 9.2 in 2009. The overall distribution of financial literacy scores in 2014 was very similar to the one in 1999 (Chart 3). In both years, around 52% of individuals had a score of 9.0 or less.

The mean score did not vary much by age. Those in the youngest age group (25 to 34), had a score of 8.6 in 2014, while those aged 45 to 54 had a score of 9.2.[12] The remaining age groups recorded a score of 9.1. However, higher levels of education were associated with higher financial literacy scores. Individuals whose highest level of education was less than a high school diploma scored 7.2 compared with 9.9 for those with a university degree. The average scores of individuals with a high school diploma/some postsecondary education and those with a postsecondary certificate or diploma were 8.7 and 9.0, respectively.

Higher household income levels were associated with higher financial literacy scores. Individuals in the lowest income quintile households recorded a score of 7.8. On the other hand, those in the highest income quintile had a score of 10.4. Individuals in the second, third and fourth income quintile households had scores of 8.6, 8.8 and 9.4, respectively. Employment status was also associated with financial scores. Paid employees, the self-employed and the unemployed had scores of 9.0, 9.9 and 7.5, respectively.

Recent immigrants had significantly lower scores than the Canadian-born (6.9 versus 9.4). Established immigrants scored 7.8 on average. Lower scores among immigrants might be associated with respondents' first language. In fact, among individuals whose first language was neither English nor French, the languages in which the survey was conducted, the mean score was 7.4 compared with 9.4 for those whose first language was either English or French.

Chart 3
Proportion of population with correct answers to the financial quiz, 2009 and 2014



Note: The sample includes individuals aged 25 to 64 who were in the labour force.
Source: Statistics Canada, Canadian Financial Capability Survey, 2009 and 2014.

In the regions, Atlantic Canada, Quebec, Ontario, Manitoba/Saskatchewan, Alberta and British Columbia had mean scores of 8.9, 8.6, 9.0, 9.3, 9.4 and 9.2, respectively. Lastly, women had a lower financial literacy score on average (8.7) than men (9.3).[13]

Assessing the relationship between financial literacy and retirement planning

Financial scores were associated with retirement preparation. In 2014, among those who were financially preparing for retirement, the average financial literacy score was 9.4 (or 67%). In comparison, it was 7.6 (or 54%) among those who were not preparing for retirement. Similarly, it was 9.7 (69%) among those who knew how much to save and 8.7 (62%) among those who did not.

To study the relationship between financial literacy and retirement preparation, the following four categories of retirement preparation were created: (1) not preparing and do not know how much to save; (2) not preparing but know how much to save; (3) preparing but do not know how much to save; and (4) preparing and know how much to save. Given that the sample size for 2014 was relatively small, data from 2009 and 2014 were pooled together to obtain robust results for all categories.

About 41% of labour market participants were financially preparing for retirement and knew how much to save (Table 3). Another 40% were preparing but did not know how much to save. About 5% were not preparing but knew how much to save, and 14% were not preparing and did not know how much to save.

Four categories were created for the financial literacy scores: 0 to 7 (corresponding to 24% of individuals in the labour force); 8 or 9 (26%); 10 or 11 (30%); and 12 to 14 (20%). Exact quartiles could not be created given the distribution of scores. Labour force participants with higher financial literacy scores were more likely to be financially preparing for retirement and to know how much to save. More than one-half (57%) of those with scores between 12 and 14 were in this group. In comparison, just over one-quarter (28%) of individuals with the lowest scores were preparing and knew how much to save, while almost one-quarter (23%) of those with the lowest scores were neither preparing nor knew how much to save. This compared with 7% for those with the highest financial literacy scores.

Self-rated financial knowledge was also positively associated with retirement preparation. Almost two-thirds (64%) of individuals who stated that they were very knowledgeable were financially preparing for retirement and knew how much to save. In contrast, one-fifth (21%) of those who said they were not very knowledgeable were in this group. Almost 23% of those who were not very knowledgeable were not preparing for retirement and did not know how much to save, compared with 6% of the very knowledgeable.

Table 3
Distribution across retirement preparation categories, by financial literacy and selected characteristics, combined 2009 and 2014 data

	Not preparing		Preparing	
	and do not know how much to save	but know how much to save	but do not know how much to save	and know how much to save
	percent			
Total	**14.4**	**4.8**	**39.8**	**41.1**
Financial literacy score				
0 to 7	23.3	5.9	43.3	27.5
8 to 9	16.2	4.5	43.0	36.3
10 to 11	10.5	5.1	38.5	45.9
12 to 14	6.5	3.1	33.2	57.3
Self-rated financial knowledge				
Not very knowledgeable	22.8	5.7	50.3	21.2
Fairly knowledgeable	14.3	3.6	44.1	38.0
Knowledgeable	11.7	4.9	32.0	51.5
Very knowledgeable	5.6	7.7	22.5	64.1
Sex				
Men	12.8	5.7	35.1	46.4
Women	16.1	3.8	45.0	35.2
Age group				
25 to 34	21.1	5.7	42.0	31.2
35 to 44	13.3	4.2	40.7	41.8
45 to 54	11.9	4.7	38.7	44.7
55 to 64	10.3	4.4	36.9	48.4
Educational attainment				
Less than high school	26.8	9.3	36.5	27.3
High school/some postsecondary	17.0	5.8	42.5	34.8
Postsecondary certificate or diploma	14.3	3.9	40.7	41.1
University degree	8.8	3.5	37.7	50.0
Family status				
Couple family with children	12.4	3.5	40.4	43.7
Couple family without children or dependent children	10.6	4.7	39.2	45.6
Unattached individuals	18.0	5.6	37.8	38.6
Lone-parent family	23.6	5.3	47.3	23.8
Other family type	24.0	10.0	36.3	29.8
Immigration status				
Canadian-born	13.5	4.5	40.2	41.9
Immigrant				
Recent	25.0	9.5	37.3	28.3
Established	15.1	4.6	38.8	41.5
Employment status				
Paid employee	12.2	3.5	42.9	41.5
Self-employed	17.1	6.9	28.2	47.9
Unemployed	36.1	16.8	25.4	21.7
Household income quintile				
Bottom	32.5	9.1	33.7	24.8
Second	16.7	6.1	44.6	32.7
Third	10.4	4.0	47.7	37.9
Fourth	7.4	2.0	41.1	49.5
Top	3.5	2.4	31.9	62.2
Housing tenure				
Owned - No mortgage	8.1	5.0	33.4	53.5
Owned - Mortgage	12.0	3.7	43.2	41.1
Rented	24.2	6.8	38.5	30.6

Table 3
Distribution across retirement preparation categories, by financial literacy and selected characteristics, combined 2009 and 2014 data (continued)

	Not preparing		Preparing	
	and do not know how much to save	but know how much to save	but do not know how much to save	and know how much to save
	percent			
Pension coverage[1]				
No plan	...	...	49.3	50.7
Defined contribution plan	...	...	48.6	51.4
Defined benefit plan	...	...	41.7	58.3
Other plans[2]	...	...	60.6	39.5
Not financially preparing for retirement	75.1	24.9	...	...
Occupation				
Sales and service	22.5	6.2	37.6	33.7
Management	9.5	3.2	31.5	55.8
Business, finance and administrative	11.4	2.9	41.3	44.5
Natural and applied sciences	7.1	2.9	40.1	50.0
Health	7.1	2.0	49.9	41.0
Social science, education, government service and religion	8.3	1.5	50.5	39.7
Art, culture, recreation and sport	14.6	6.4	36.3	42.6
Trades, transport and equipment operators	16.2	7.4	38.4	38.0
Primary industry	19.7	11.9	31.8	36.7
Processing, manufacturing and utilities	17.3	3.1	49.1	30.6
Other	24.6	9.9	29.1	36.4
Region				
Atlantic	17.4	5.4	42.4	34.9
Quebec	17.2	5.0	40.5	37.4
Ontario	13.3	4.5	40.3	42.0
Manitoba and Saskatchewan	10.3	2.9	42.3	44.5
Alberta	12.3	4.6	36.6	46.6
British Columbia	14.7	6.1	37.4	41.8

... not applicable
1. Respondents not financially preparing for retirement were not asked if they had pension coverage.
2. These include individuals with mixed defined benefit/defined contribution plans and individuals who did not know what type of plan they had.
Note: The sample includes individuals aged 25 to 64 who were in the labour force.
Source: Statistics Canada, Canadian Financial Capability Survey, pooled 2009 and 2014.

As expected, retirement preparation was positively associated with age. Almost one-half (48%) of individuals aged 55 to 64 reported that they were preparing and knew how much to save, compared with less than one-third (31%) of those aged 25 to 34. More than one-fifth of those in the youngest age group and one-tenth of those in the oldest age group were not preparing and did not know how much to save. Also, men were more likely than women to be preparing and to know how much to save.

One-half of individuals with a university degree were preparing for retirement and knew how much money they needed to save. Among those with less than a high school education, 27% were not preparing for retirement and did not know how much money they needed. This proportion was smaller (9%) among those with a university degree.

A majority (62%) of individuals who were in the top quintile of household income said they were financially preparing for retirement and knew how much they needed to save. While just 4% of those in the top income quintile were not preparing and did not know how much to save, this was the case for 33% of those in the lowest income quintile.

Other groups with comparatively high proportions of individuals who were both preparing for retirement and knew how much to save included: owners without a mortgage (54%); couples with (44%) and without (46%) dependent children; those who were employed as managers (56%) and in natural and applied sciences and related occupations (50%); the self-employed (48%); and residents of Alberta (47%).

On the other hand, some other groups with relatively high proportions of individuals not preparing for retirement and not knowing how much to save included the unemployed (36%); recent immigrants (25%); lone parents and individuals belonging to other family types (24% each); renters (24%); those with occupations in sales and service (23%) and primary industry (20%); and residents of Atlantic Canada and Quebec (17% each).

The preceding discussion highlights the fact that a number of characteristics are associated with retirement planning. These factors were simultaneously accounted for in a multinomial probit model and the results are presented as predicted probabilities (Table 4).

To begin, only the financial literacy variable and a binary variable identifying the survey year were included in the model. The results closely mirrored the simple proportions presented earlier. Then various socioeconomic characteristics were included. Because many of these characteristics are also related to financial literacy,

Table 4
Predicted probabilities from a multinomial probit model of retirement preparation categories, combined 2009 and 2014 data[1]

	Not preparing		Preparing	
	and do not know how much to save	but know how much to save	but do not know how much to save	and know how much to save
	predicted probability			
Year				
2009 (ref.)	0.10	0.03	0.44	0.43
2014	0.12	0.04	0.42	0.42
Financial literacy score				
0 to 7 (ref.)	0.15	0.04	0.47	0.34
8 to 9	0.13	0.04	0.45	0.39*
10 to 11	0.09*	0.05	0.40*	0.46*
12 to 14	0.07*	0.03	0.38*	0.52*
Sex				
Men	0.10*	0.05*	0.39*	0.47*
Women (ref.)	0.12	0.03	0.47	0.37
Age group				
25 to 34 (ref.)	0.18	0.05	0.43	0.34
35 to 44	0.10*	0.04	0.43	0.38*
45 to 54	0.09*	0.04	0.42	0.43*
55 to 64	0.07*	0.03	0.42	0.47*
Educational attainment				
Less than high school (ref.)	0.17	0.07	0.42	0.34
High school/some postsecondary	0.13*	0.05	0.45	0.38
Postsecondary certificate or diploma	0.12*	0.03*	0.42	0.43*
University degree	0.08*	0.03	0.42	0.47*
Family status				
Couple family with children (ref.)	0.11	0.03	0.43	0.43
Couple family without children or dependent children	0.09	0.04	0.42	0.45
Unattached individuals	0.11	0.04	0.41	0.44
Lone-parent family	0.14	0.05	0.50	0.32*
Other family type	0.15	0.06*	0.41	0.37
Immigration status				
Canadian-born (ref.)	0.10	0.04	0.43	0.43
Immigrant				
Recent	0.15	0.07	0.41	0.36
Established	0.13	0.04	0.41	0.42
Employment status				
Paid employee (ref.)	0.09	0.03	0.45	0.43
Self-employed	0.18*	0.07	0.33*	0.42
Unemployed	0.24*	0.14	0.31*	0.31*
Household income quintile				
Bottom (ref.)	0.25	0.07	0.37	0.31
Second	0.14*	0.06	0.45*	0.35
Third	0.09*	0.03*	0.49*	0.39*
Fourth	0.07*	0.02*	0.42	0.49*
Top	0.05*	0.03*	0.38	0.55*
Housing tenure				
Owned - No mortgage (ref.)	0.07	0.04	0.37	0.52
Owned - Mortgage	0.12*	0.04	0.46*	0.39*
Rented	0.14*	0.04	0.42	0.40*
Region				
Atlantic	0.14*	0.04	0.45	0.37*
Quebec	0.12	0.04	0.42	0.41
Ontario (ref.)	0.10	0.04	0.44	0.42
Manitoba and Saskatchewan	0.08	0.02	0.45	0.45
Alberta	0.11	0.04	0.40	0.45
British Columbia	0.11	0.05	0.41	0.43

* significantly different from the reference (ref.) category ($p<0.05$)
1. Predicted probabilities are calculated at the mean.
Note: The sample includes individuals aged 25 to 64 who were in the labour force.
Source: Statistics Canada, Canadian Financial Capability Survey, pooled 2009 and 2014.

the positive association between financial literacy and retirement planning is somewhat reduced but the association still persists. More specifically, those with the highest financial literacy scores (between 12 and 14) were 18 percentage points more likely than those with the lowest scores (between 0 and 7) to be financially preparing for retirement and to know how much they needed to save. That same differential was 5 percentage points for those with a score of 8 or 9 and 12 percentage points for those with a score of 10 or 11.

Conversely, individuals with the highest scores were 8 percentage points less likely than those with the lowest scores to say that they were not preparing and did not know how much to save, while those with scores equal to 10 or 11 were 6 percentage points less likely than those with the lowest scores to be in the same situation.

Other adjusted results generally confirmed the descriptive results. Preparing for retirement and knowing how much to save was positively associated with age, education, income and homeownership. Conversely, lone parents and residents of Atlantic Canada were less likely to be preparing for retirement and to know how much to save.

The relationship between retirement preparation and financial literacy did not change when a more subjective measure of financial knowledge was used instead of the scores obtained in the quiz. After controlling for various socioeconomic characteristics, results revealed that, in comparison with individuals who stated that they were not very knowledgeable, those who considered themselves to be very knowledgeable, knowledgeable, and fairly knowledgeable were respectively 37 percentage points, 26 percentage points, and 14 percentage points more likely to be financially preparing for retirement and to know how much to save (Table 5). Conversely, the very knowledgeable were 13 percentage points less likely to state they were not preparing for retirement and did not know how much to save than those who were not very knowledgeable.[14]

The results above, however, should not be interpreted as causal relationships; rather, they should be seen as associations. While financial literacy can have an effect on retirement preparation, the reverse may also be true. Simply put, individuals who are financially preparing for retirement might experience an improvement in their financial knowledge. Studies have occasionally adopted an instrumental variable approach to address this factor. Exposure to economics courses, for example, has been used in this literature as an instrument for financial literacy and has confirmed the positive association between financial literacy and retirement preparation.

A similar instrument cannot be constructed with CFCS data, but the models described above were estimated with two different instrumental variables—whether the respondent's official language is English or French and whether the respondent is the person who is mainly responsible for financial management in the household.[15] The results confirmed the positive association between financial literacy and retirement preparation.

Table 5
Predicted probabilities from a multinomial probit model of retirement preparation categories with self-rated financial knowledge, combined 2009 and 2014 data[1,2]

	Not preparing		Preparing	
	and do not know how much to save	but know how much to save	but do not know how much to save	and know how much to save
	predicted probability			
Self-rated financial knowledge				
Not very knowledgeable (ref.)	0.17	0.04	0.54	0.25
Fairly knowledgeable	0.11 *	0.03	0.46 *	0.39 *
Knowledgeable	0.09 *	0.04	0.35 *	0.51 *
Very knowledgeable	0.04 *	0.06	0.27 *	0.62 *

* significantly different from the reference (ref.) category ($p<0.05$)
1. All controls listed in Table 4 were also included in the model.
2. Predicted probabilities are calculated at the mean.
Note: The sample includes individuals aged 25 to 64 who were in the labour force.
Source: Statistics Canada, Canadian Financial Capability Survey, pooled 2009 and 2014.

Conclusion

The importance of retirement planning cannot be underestimated, especially in a time of declining pension coverage. In this article, data from the 2009 and 2014 cycles of the CFCS were used to study how retirement planning in Canada differs across socioeconomic groups with a particular focus on the association between financial literacy and retirement planning. In 2014, 78% of labour market participants aged 25 to 64 stated that they were financially preparing for retirement compared with 81% in 2009. Also, in 2014, 45% of respondents indicated that they knew how much to save to maintain their desired standard of living in retirement, similar to 46% in 2009. The proportions of individuals who were financially preparing for retirement and those who knew how much to save varied across socioeconomic characteristics.

Among those planning for retirement, the two most common sources of income included in their plans were government pensions and RRSPs/RIFs. Approximately 80% expected each of these to be a source of income. Almost one-third anticipated workplace pensions and RRSPs/RIFs to be their primary source of income in retirement.

Financial literacy was found to be positively associated with retirement planning. After controlling for various socioeconomic characteristics, those with the highest financial literacy scores were 18 percentage points more likely than those with the lowest scores to be financially preparing for retirement and to know how much they needed to save. Also, those with the lowest scores were more likely to be in the category of those who were not preparing for retirement and did not know how much to save. Similar results were obtained when a more subjective measure of financial knowledge was used instead of the more objective scores obtained with the results from the financial quiz.

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Data sources, methods and definitions

Data sources

The main data sources for this study are the 2009 and 2014 cycles of the Canadian Financial Capability Survey (CFCS). The survey was sponsored by the Financial Consumer Agency of Canada, Employment and Social Development Canada and the Department of Finance. The target population for the CFCS is all persons 18 years of age and over living in Canada. Full-time residents of institutions and residents of the Yukon, Northwest Territories and Nunavut are not included in this survey. In an attempt to maintain comparability, the 2014 CFCS kept the 2009 CFCS's content intact, making only very slight updates where necessary.

The CFCS collects information on Canadians' knowledge, abilities and behaviour concerning financial decision making—how Canadians understand their financial situation, the financial services available to them and their plans for the future. The survey is designed to collect information about respondents' approaches to day-to-day money management and budgeting, longer-term money management and general financial planning.

Following existing research in the field of retirement preparation, the sample is restricted to individuals aged 25 to 64 who were in the labour force (employed or unemployed) during the reference week.

Retirement preparation

With regard to financial preparation for retirement, the CFCS asked non-retired respondents the following two questions: (1) Are you financially preparing for retirement either on your own or through an employer pension plan? (2) Do you have a good idea of how much money you will need to save to maintain your desired standard of living when you retire?

With the second question, however, it is important to keep in mind that respondents may or may not rely on accurate information. While some respondents rely on careful planning and calculation, others may rely on information that is incomplete—especially among those for whom retirement is a distant notion.[16]

Respondents who reported that they were financially preparing for retirement were provided with a list of income sources and asked to select all that were included in their financial plan for retirement. All respondents were asked what they thought would be their primary source of income at the time of their retirement.

Financial literacy

The CFCS collected both subjective and objective information on financial literacy. The survey asked the following subjective personal assessment question: How would you rate your level of financial knowledge? The choices included very knowledgeable; knowledgeable; fairly knowledgeable; and not very knowledgeable.

The objective portion on financial literacy in the survey involved responding to a 14-question multiple choice quiz testing skills and knowledge in regards to financial matters. For the analysis in this article, a score of 1 was assigned to each correct response and a score of 0 was assigned if the answer to the question was incorrect or if the respondent chose the option "I don't know". Four categories of financial literacy were created based on the total scores: 0 to 7 (24%); 8 or 9 (26%); 10 or 11 (30%); and 12 to 14 (20%). The proportion of individuals in each category was not equal due to the distribution of scores.

The questions and the correct responses are listed at the end of this document.

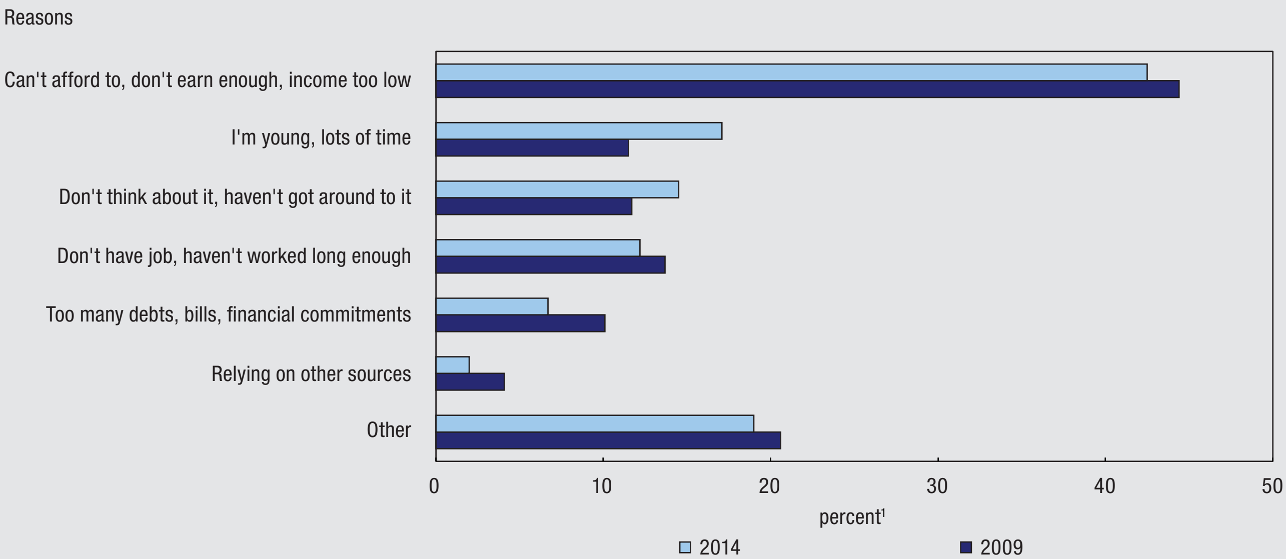
Individuals in the labour force who are not financially preparing for retirement

Individuals who stated that they were not financially preparing for retirement were asked about the reasons. The most common reason cited was "can't afford to, don't earn enough, income too low" (Chart 4). In 2014, 43% cited this reason (44% in 2009). Other widely reported reasons included "I am young or have lots of time" (17%) and "don't think about it, haven't gotten around to it" (15%). Another 12% in 2014 said the reason was that they didn't have a job or hadn't worked long enough.

The question on the primary source of revenue expected in retirement was asked to both groups, i.e., those preparing for retirement and those who were not doing so. Among those who were not preparing for retirement, the most common source cited was government pensions (29% in 2014) (Chart 5). In comparison, the most common source cited by those preparing for retirement was workplace pensions. RRSPs/RIFs were the second-most common source (15%). These were followed by workplace pensions and employment earnings in retirement (7% each). A significant proportion (32%) did not know what their primary source of income in retirement would be. In comparison, among those preparing for retirement, 12% did not know.

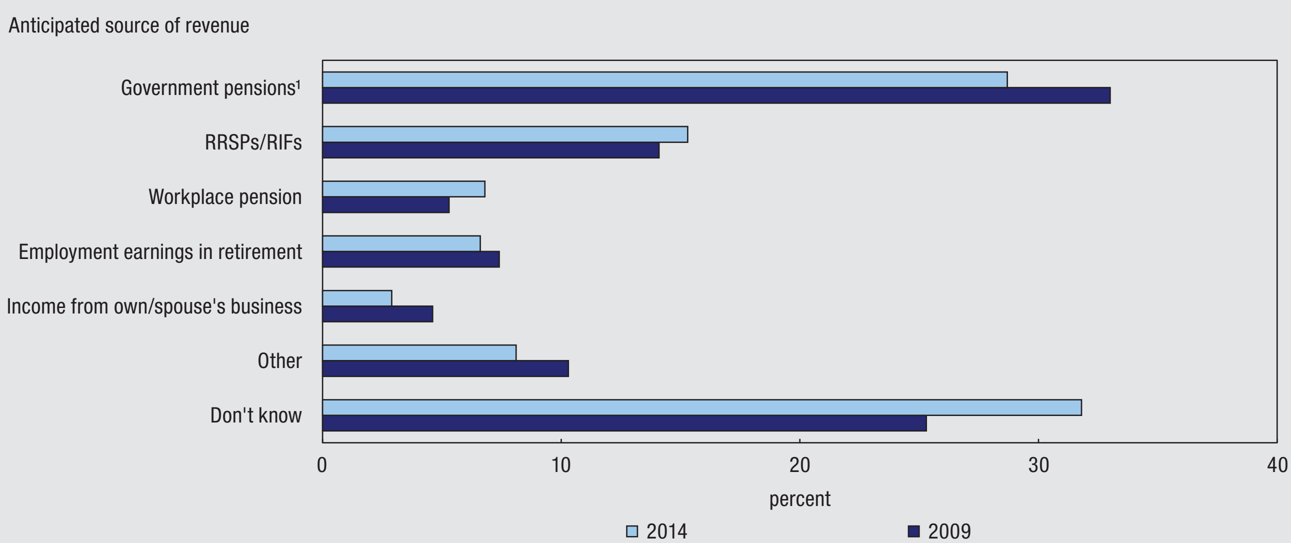
Individuals in the labour force who are not financially preparing for retirement (continued)

Chart 4
Reasons for not preparing for retirement, 2009 and 2014



1. The percentages do not add to 100% as respondents could pick more than one reason.
Note: The sample includes individuals aged 25 to 64 who were in the labour force.
Source: Statistics Canada, Canadian Financial Capability Survey, 2009 and 2014.

Chart 5
Primary anticipated source of revenue in retirement among those not preparing for retirement, 2009 and 2014



1. Includes OAS/GIS and CPP/QPP.
Note: The sample includes individuals aged 25 to 64 who were in the labour force.
Source: Statistics Canada, Canadian Financial Capability Survey, 2009 and 2014.

Notes

1. See Drolet and Morissette (2014). Though overall pension coverage has been declining, Milligan and Schirle (2014) show that coverage for young workers (aged 25 to 29 years) has increased slightly between 1999 and 2009.
2. See LaRochelle-Côté et al. (2010, 2008).
3. See Liu et al. (2013).
4. For example, see Lusardi and Mitchell (2007).
5. See Lusardi and Mitchell (2011, 2008); van Rooij et al. (2011); Mullock and Turcotte (2012); and Boisclair et al. (2014).
6. The results associated with question (1) exclude those who stated they did not know and those who either refused to answer or left the response blank. Together these accounted for 2% and 3% of the population in 2009 and 2014, respectively.
7. The results associated with question (2) exclude those who stated they did not know and those who either refused to answer or left the response blank. Together these accounted for 5% and 8% of the population in 2009 and 2014, respectively.
8. Individuals in the lowest quintile of income achieve income replacement rates that are close to 100%. See LaRochelle-Côté et al. (2010).
9. One explanation for this seemingly high number is provided by Schellenberg and Ostrovsky (2010, p. 12) while summarizing results from the 2009 CFCS: "The fact that 61% of labour force participants aged 25 to 64 include workplace pension income in their retirement plans may appear high given that pension coverage rates based on the Pension Plans in Canada (PPIC) database are currently around 38%. The 61% figure cited above excludes labour force participants aged 18 to 24 as well as labour force participants who report that they are not preparing for retirement. These exclusions increase the prevalence of pension coverage among remaining respondents. Moreover, anticipated workplace pension income reported in the CFCS could pertain to pension coverage having taken place earlier (or anticipated coverage to take place later) in the respondent's working life, or to pension benefits that will be received by the respondent's spouse. Finally, the PPIC is administrative data while the CFCS is survey data, and the two sources use different methodologies to measure different concepts (specifically, pension coverage at a given point in time versus receipt of pension income at a future point in time)."
10. See Schellenberg and Ostrovsky (2010). Furthermore, existing research on Canadian seniors shows that 17% of men and 9% of women aged 65 and over were employed in the 2011 National Household Survey reference week (Uppal 2015).
11. Similar surveys have been conducted in other countries, for example the 2007 U.K. Baseline Survey of Financial Capability and the 2007 De Nederlandsche Bank Survey.
12. Keown (2011) presents a detailed analysis of associations between financial literacy and various socioeconomic characteristics using data from the 2009 CFCS.
13. Drolet (2016) provides an in-depth analysis of gender differences in financial knowledge using the 2014 CFCS.
14. Additional models were estimated using the type of occupation as an additional variable. None of the conclusions regarding financial literacy changed. However, given that most of the results for occupation were not statistically significant, the results are not presented here. Models were also estimated by constructing financial literacy scores based on only five questions (question numbers 1, 8, 9, 13 and 14). This restriction was imposed to make results from this study comparable to most of the existing literature, which uses surveys containing questions similar to these five questions. Once again, the conclusions did not change.
15. This approach follows Mullock and Turcotte (2012).
16. See Schellenberg and Ostrovsky (2008).

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Financial knowledge quiz

Q1 If the inflation rate is 5% and the interest rate you get on your savings is 3%, will your savings have at least as much buying power in a year's time?

1. Yes
2. No

Q2 A credit report is…?

1. A list of your financial assets and liabilities
2. A monthly credit card statement
3. A loan and bill payment history
4. A credit line with a financial institution

Q3 Who insures stocks in the stock market?

1. The National Deposit Insurance Corporation
2. The Securities and Exchange Commission
3. The Bank of Canada
4. No one

Q4 True or false. By using unit pricing at the grocery store, you can easily compare the cost of any brand and any package size.

1. True
2. False.

Q5 If each of the following persons had the same amount of take home pay, who would need the greatest amount of life insurance?

1. A young single woman with two young children
2. A young single woman without children
3. An elderly retired man, with a wife who is also retired
4. A young married man without children

Q6 If you had a savings account at a bank, which of the following statements would be correct concerning the interest that you would earn on this account?

1. Sales tax may be charged on the interest that you earn
2. You cannot earn interest until you pass your 18th birthday
3. Earnings from savings account interest may not be taxed
4. Income tax may be charged on the interest if your income is high enough

Q7 Inflation can cause difficulty in many ways. Which group would have the greatest problem during periods of high inflation that lasts several years?

1. Young working couples with no children
2. Young working couples with children
3. Older, working couples saving for retirement
4. Older people living on fixed retirement income

Q8 Lindsay has saved $12,000 for her university expenses by working part-time. Her plan is to start university next year and she needs all of the money she saved. Which of the following is the safest place for her university money?

1. Corporate bonds
2. Mutual Funds
3. A bank savings account
4. Locked in a safe at home
5. Stocks

Q9 Which of the following types of investment would best protect the purchasing power of a family's savings in the event of a sudden increase in inflation?

1. A twenty-five year corporate bond
2. A house financed with a fixed-rate mortgage
3. A 10-year bond issued by a corporation
4. A certificate of deposit at a bank

Q10 Under which of the following circumstances would it be financially beneficial to borrow money to buy something now and repay it with future income?

1. When something goes on sale
2. When the interest on the loan is greater than the interest obtained from a savings account
3. When buying something on credit allows someone to get a much better paying job
4. It is always more beneficial to borrow money to buy something now and repay it with future income

Q11 Which of the following statements is not correct about most ATM (Automated Teller Machine) cards?

1. You can get cash anywhere in the world with no fee
2. You must have a bank account to have an ATM card
3. You can generally get cash 24 hours-a-day
4. You can generally obtain information concerning your bank balance at an ATM machine

Q12 Which of the following can hurt your credit rating?

1. Making late payments on loans and debts
2. Staying in one job too long
3. Living in the same location too long
4. Using your credit card frequently for purchases

Q13 What can affect the amount of interest that you would pay on a loan?

1. Your credit rating
2. How much you borrow
3. How long you take to repay the loan
4. All of the above

Q14 Which of the following will help lower the cost of a house?

1. Paying off the mortgage over a long period of time
2. Agreeing to pay the current rate of interest on the mortgage for as many years as possible
3. Making a larger down payment at the time of purchase
4. Making a smaller down payment at the time of purchase

Answer Key

Question	Answer	Question	Answer
1	2	8	3
2	3	9	2
3	4	10	3
4	1	11	1
5	1	12	1
6	3 and 4	13	4
7	4	14	3