

The need for personal financial education

Practical steps towards improving adult financial literacy.

There is now a growing amount of feeling and of evidence that the general level of financial literacy in the UK must be improved substantially. This is the only way that individuals are going to be in a position to manage financially through their lives and into retirement and, more immediately, out of situations which have been caused by the recession and, to put it mildly, by the extremely relaxed attitude people have taken towards saving, and indeed basic financial housekeeping, over past decades.

In promoting this view we are, by no means, alone. Just as the global financial re-adjustments have taken their toll across the board so the realisation that there exists an enormous lack of knowledge and confidence in anything pertaining to personal financial matters has also hit many countries, more or less simultaneously. And they are beginning to do something about it.

A life-long problem

The question is “Where do you start?” In the long term the answer has to be at school level, and individuals have to be equipped from the very beginning to meet life’s various challenges. But how do we address the problem as it stands right now? There are many adults who are having to think through the implications of their own life planning; with children, schooling, housing, retirement, elderly relatives, care costs and many other factors all needing to be brought into the mix.

Superimposed on this is the emerging awareness that, due to improvements in longevity, life for the majority of us is going to go on for longer than we may have anticipated earlier in life. This means that we are all going to have to come to some kind of a view about the balance to be achieved in planning for the working and non-working portions of our life.

As a result, the notion of retirement as such, will be increasingly seen as redundant for many.

For those older workers who are already quite a way through their working lives the potential to review and revise decisions previously made may

be extremely limited. And we are now likely to be facing a period of acute and extended austerity if we are not to saddle future generations with an intolerable financial burden.

The recognition that the most suitable place for this financial education to take place is within the work environment is gradually crystallising. Some far-sighted organisations are already putting schemes in place but, those who are not yet doing so should recognise that there exist enormous benefits, all ways round, in introducing some form of general financial education for their employees.

The benefits to employers

The question arises of course as to why any such initiative should be linked to the workplace rather than through some other mechanism, particularly for smaller businesses already drowning in “add-ons” to the basic notions of trying to trade and make a surplus at the end of the week.

One basic reason is that working provides structure to our lives and the workplace is the one environment which provides the necessary routine, discipline and camaraderie for us to focus in and confront our “gremlins”.

But there has to be more to it than that. There have to be positive reasons why employers should take it on board. There are. But let us be clear – employers are only being asked to provide an enabling mechanism – possibly a speaker and a room that is available at lunchtime or after work. However, more than that there are some very positive reasons why employers should see it is in their interests to support the idea.

First, there is strong evidence to suggest that stress, lack of concentration and lack of productivity are all being impacted by individual financial worries so much so that these worries account for a significant amount of time off work and a much greater amount of time at work dwelling on financial concerns rather than working.

Second, in an era when pensions and pension provision are changing rapidly it has to be to everyone’s advantage for people to be able to

take on board what is happening to their own pensions and how better they might participate in what their employer is putting forward. Or, if not, they should understand fully the implications of alternative courses of action. At present there is just a huge “reality gap” between what people are saving and what they need to save.

This leads to the third point which is that clear retirement plans will lead to a smoother transition from work to non-work at the most appropriate time, in the most appropriate manner following open and meaningful discussion between employer and employee.

Financial planning is only the monetary expression of life planning in general and this includes all manner of things at all stages of life; flexible working, sabbaticals, when is the need for advancement and when is the time to ease off, to name but a few.

Fourth, when finding appropriately skilled workers is going to be increasingly difficult this will promote loyalty, improve morale and provide the space for them to focus on their jobs. And in a world of increasing corporate social responsibility it will signal an organisation which is good to work for and good to deal with.

Lastly, it cannot be overstated that the core of good personal financial discipline runs totally parallel to good financial discipline in any arena. Those who have the right attitudes and mindsets will also use them for the good of the organisation.

The current state of play

Almost daily the headlines suggest that people are not saving enough, that they are heading for poverty in their later years, that they are shying away from unintelligible financial issues, that they don't trust advisers and providers and so on. Why should that be and what can be done about it?

Here are a few of the reasons.

At the school level where, it must be emphasised, all things must ultimately start for the long term benefit, there has only been lukewarm enthusiasm for doing anything. Some of this stems from philosophical debates about the nature of education but much arises by virtue of “heel-dragging” by the decision makers. For example the initiative last year involving Martin Lewis of “Martin's Money Tips” fame got close but then was kicked into the long grass at the last moment and with the onset of the election.

At the adult end, a more pressing need, again there has been precious little achieved. Defendants of the cause will point to the online service “Money Made Clear” run by the Consumer Financial Education Body which was established by the Financial Services Authority. Despite re-

launching itself only a year ago, it is going re-launch itself again in April 2011 as the Money Advice Service. This, in itself, speaks volumes.

There are a number of reasons for its spectacular lack of impact. First, although there are many brochures available, much of its presence is online, and you have to know about it to find it. Second, and it does this very well, it solves problems and answers questions. You have, therefore, to know and understand what your problem is before it becomes of use. What most people need is a much more basic understanding and a strategic perspective to their considerations. Third; however much they try to advocate their independence, the involvement of the professional financial services industry raises doubts and suspicions in people's minds. How independent, impartial and comprehensive is this information that I am getting?

These last two criticisms also apply to the “pre-retirement” courses which some firms do offer whereby they bring in representatives from a pensions firm or insurance company for an hour or two. What exactly is their motivation in being there?

As to the notion of “pre-retirement” courses in general, the general comment is universal – “very worthwhile (up to a point) but too late. What can I do with this information so close to retirement. My hands are now largely tied.”

The way forward

So what needs to be done?

Financial education and confidence and common sense in dealing with money need to be instilled all through life. Ideally it should be done from a young age but, if not this, then from as early in adulthood as possible probably in the workplace if nowhere else.

Personal financial well-being these days is a personal matter and individuals must learn to take responsibility for planning and arranging their finances over the *whole* of their adult life span.

Retirement, these days is not so clear cut as it maybe once was and life consists of periods of work, non-work and part-time work, largely to be determined by the life-course planning of the individual concerned.

Ultimately financial management consists of selecting individual products, investments and courses of action, probably with the help of expert advice. But long before that people must understand the basics, understand the choices available to them and develop, at the strategic level, the ability to plan what their life ahead of them looks like and how they are going to make the numbers fit.