



**Ministry of Finance**  
of the Czech Republic

# **FINANCIAL EDUCATION AND SAVING FOR RETIREMENT**

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**GLOBAL FINANCIAL LITERACY SUMMIT 2012**

**Amsterdam, November 14<sup>th</sup>, 2012**



**Financial education in the Czech Republic in general**

**Financial literacy as a prerequisite for financial well-being in retirement age**

**Financial education on retirement @ school – an (ir)relevant issue?**

**College students/graduates – a (new) way forward in FE?**



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**College students/graduates – a (new) way forward in FE?**



- First attempts in 2005 - no policy/framework, low awareness of and interest in FE
- 2007 Consumer protection: Information + Fin. Literacy + Consumer rights
- 2007/2010 – National Strategy for Financial Education
- 3 priorities:

## ACTIVE BEHAVIOR

- ✓ planning
- ✓ shopping around
- ✓ asking the right questions
- ✓ dealing with problems (instead of hiding)

## OVER-INDEBTEDNESS PREVENTION

- ✓ increasing in the crisis times
- ✓ low level of FL as one of the crisis triggers

## SAVING FOR RETIREMENT

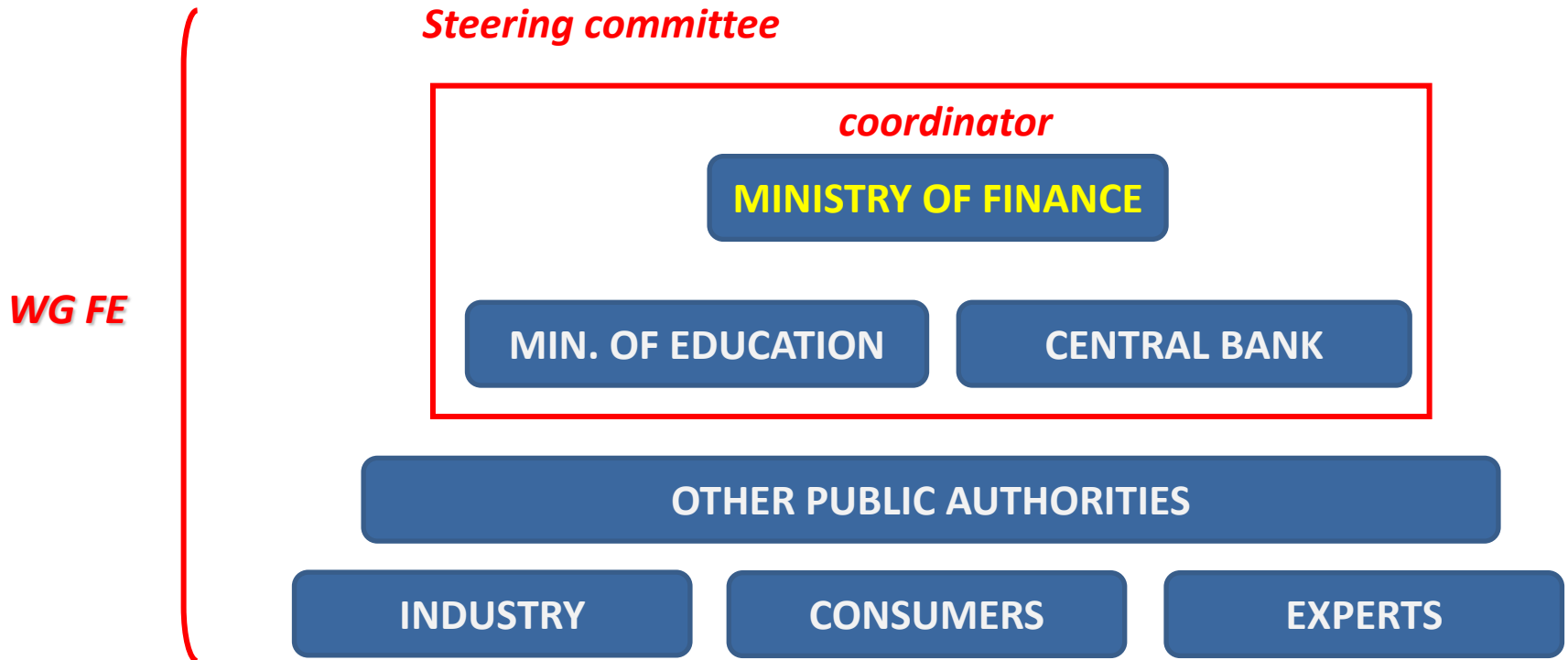
- ✓ a common issue for all countries
- ✓ portfolio choice and investment risk in pension schemes

- 2 pillars (target groups): kids and adults
- co-ordinated approach: WG for FE
- Web: [http://www.mfcr.cz/cps/rde/xchg/mfcr/xsl/fm\\_financial\\_education.html](http://www.mfcr.cz/cps/rde/xchg/mfcr/xsl/fm_financial_education.html)



## Working group for financial education

- long-term mission: exchange of information, experience and expertise
- current task: to develop guidelines for unbiased FE („no marketing rule“)





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## The Czech Republic in figures

- 10,5 mio inhabitants
- 5,1 mio economically active inhabitants
- 4,7 mio pension savings contracts (3rd pension pillar)  
→ almost full coverage

## So far so good, but...

- avg. monthly contribution = 18 EUR
- avg. balance = 2 000 EUR
- aging issue → PAYG not sufficient → savings in private pillars important
- investment fund choice to be launched → new (revenue) opportunities
- investment risk to be borne by the participants

CHANGE NEEDED

CHANGE IS COMING



*Are citizens ready for such a change?*

*What is the role of financial education?*



## Financial literacy and saving for retirement

- Financial literacy = knowledge + behaviour + attitudes
- all necessary for making saving for retirement work



*Do people plan long term?*

*Have they ever thought about retirement?*

*Do they make reserves? For retirement?*

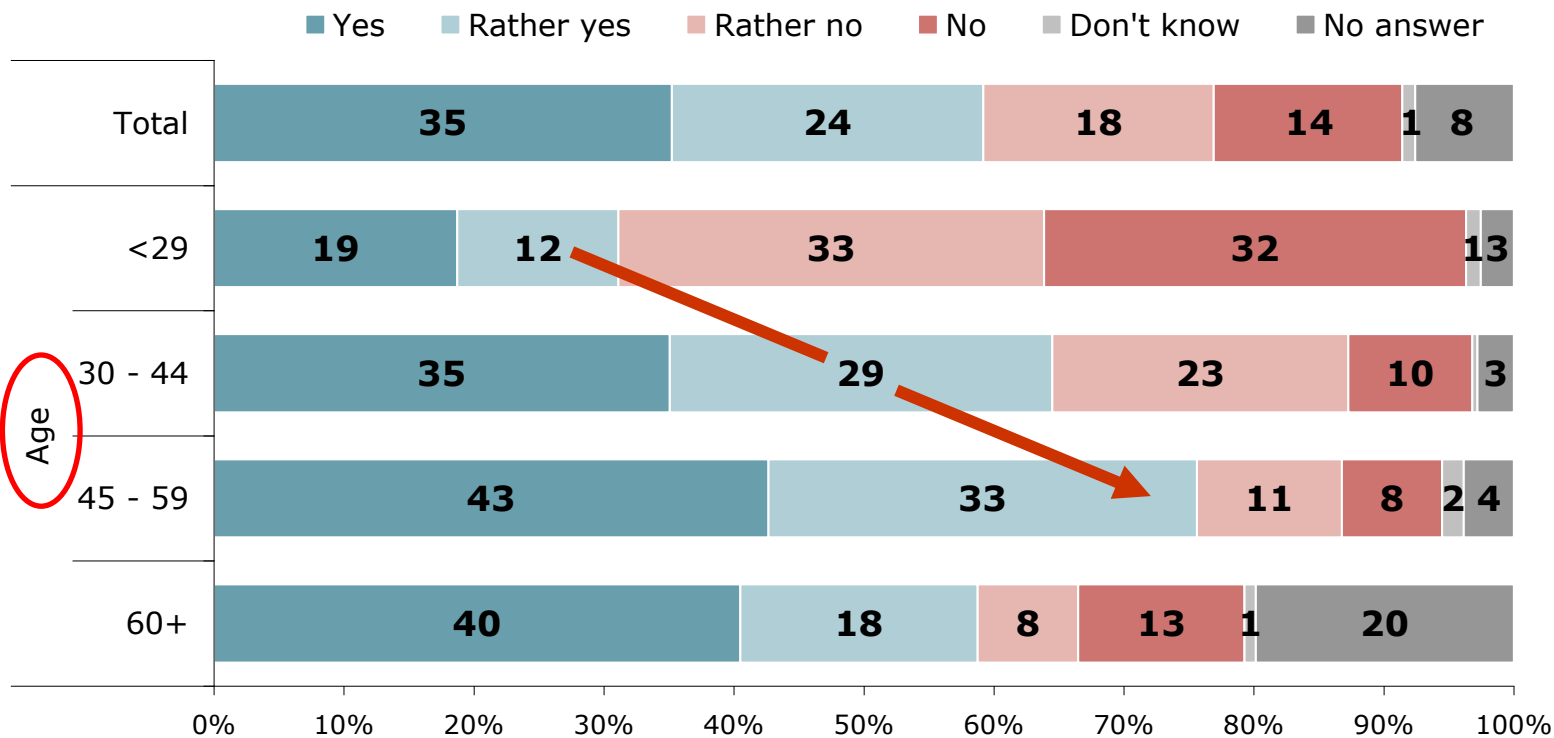




Thinking about retirement - 57% of all already did so

## Have you already thought about how you'll cover your expenses when you retire?

All respondents, n=1005



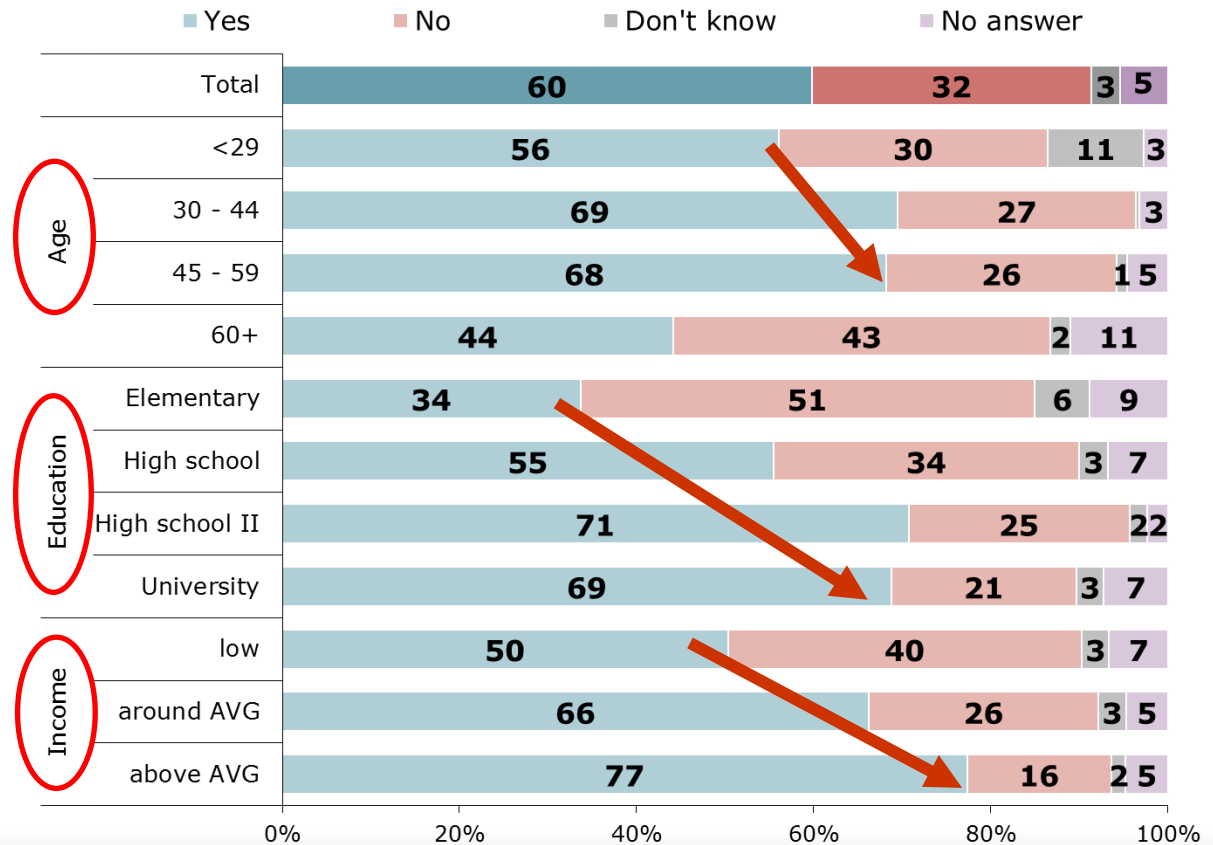
ZDROJ: STEM/MARK, Finanční gramotnost, 2010



## Creating reserves

- 60% of all (unspecified purpose)
- 35% of all for lost of income
- 60 % of all for retirement

## Do you save for retirement?



All respondents, n=1005



## Financial literacy and saving for retirement

- other knowledge, behavior and attitudes important as well

Spending habits

Short- and mid-term planning and monitoring

Knowledge about saving and investment

Careful treatment of credits

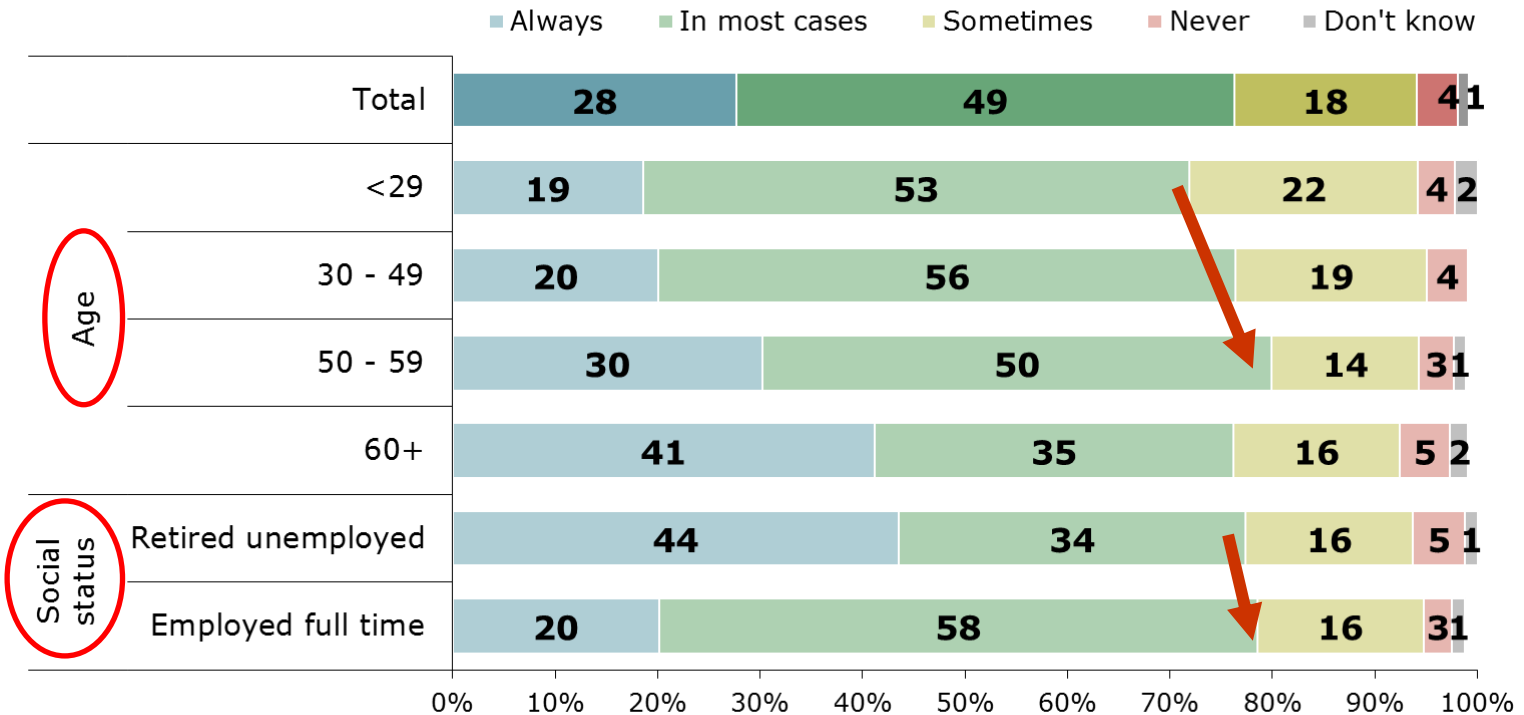
Risks management



**Budgeting and monitoring** - 45% have a budget  
- 77% of „budgeters“ keep an eye

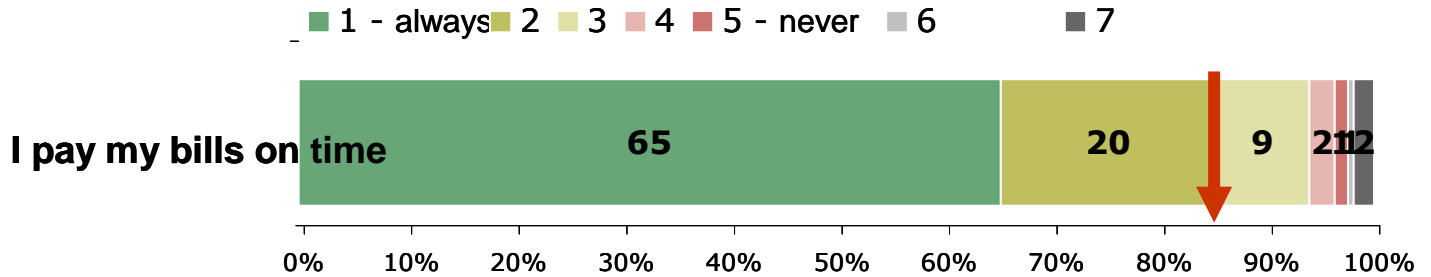
## Do you monitor whether your incomes and expenses match

Respondents making budget, n=451

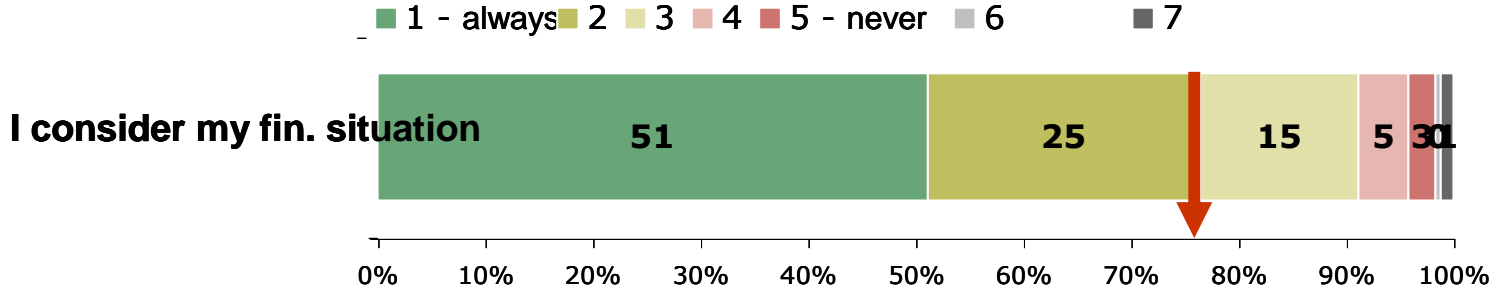




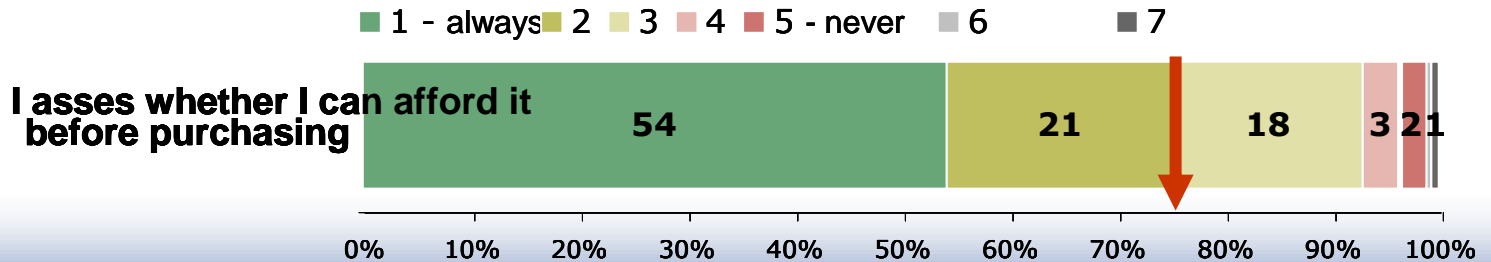
**Paying on time – 65% of all always + 20 % in most cases**



**Monitoring one's financial situation – 51% of all do so**



**Assess whether he/she can afford before buying – 54 % of all do so**





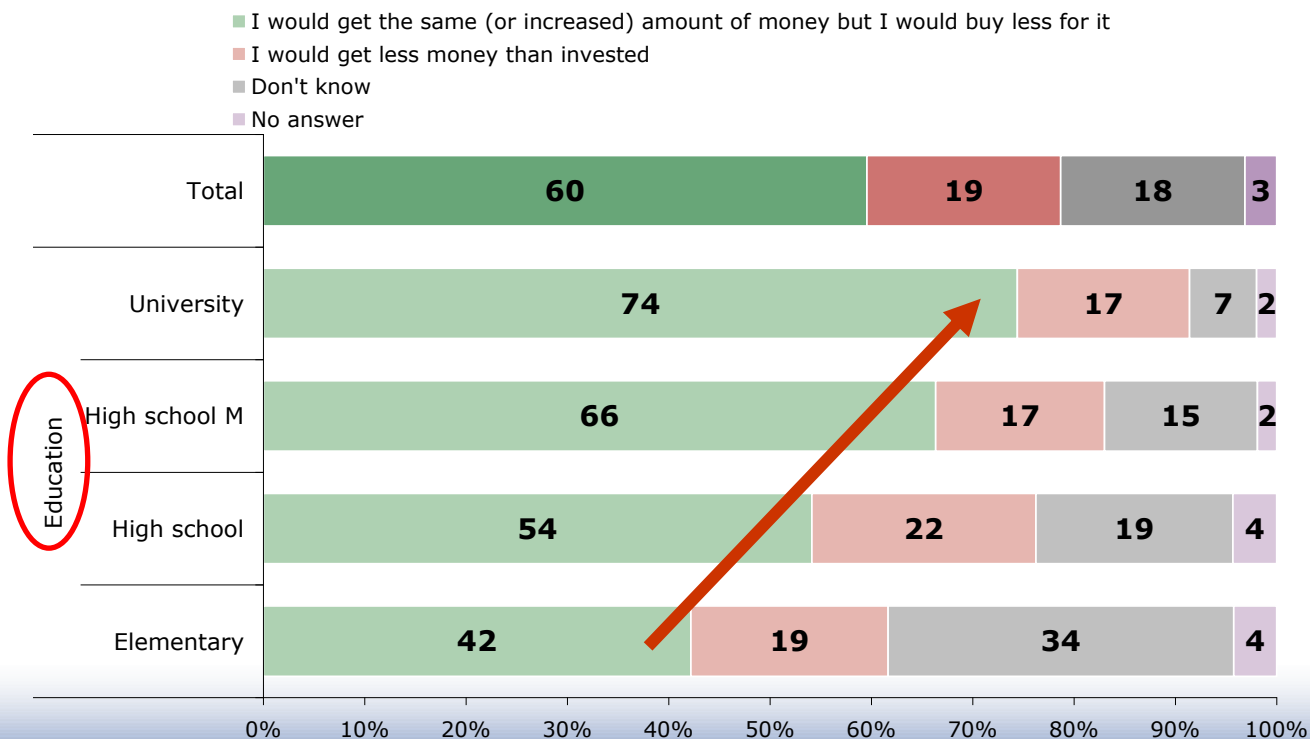
**DGS – 81% of all** know that bank deposits are covered by DGS

**Inflation - 60% of all** know what inflation means in practical life (see chart)

**Inflation – 28% of all** guess the correct interval

## If the inflation level increases, what would happen with the money on your bank account?

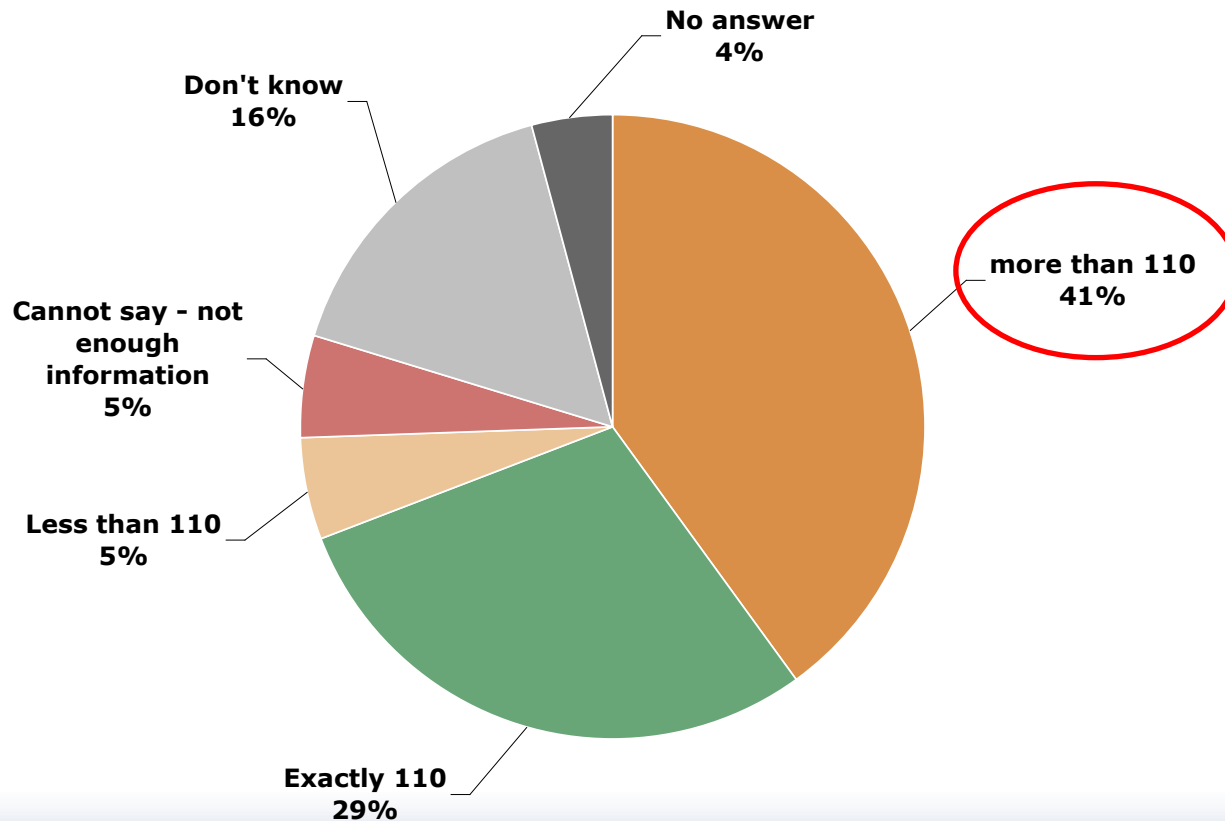
All respondents, n=1005





- Interest rates**
- only **16%** of all know what p.a. and p.m. mean
  - only **41%** of all are familiar with compound interest

**100 CZK deposit on a savings account with 2% p.a. - how much would you get in 5 years time?**





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*Should saving for retirement be a part of FE @ school?  
Is this topic relevant and interesting for youngsters?*

Most probably **NOT**



*So should we forget about FE relating to saving for  
retirement @ school level?*

Definitely **NOT**

**The foundations of future financial well-being in retirement age  
need to be laid at school.**



## Elementary school

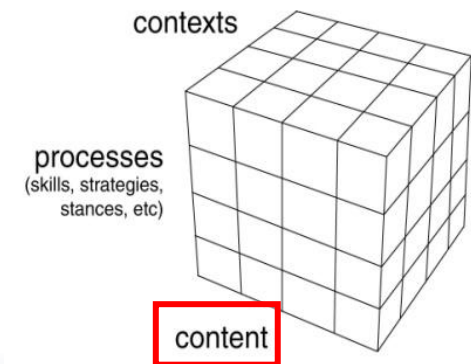
- Wants vs. needs
- Basic budgeting and planning
- Why and how to save
- Credits are to be repaid
- Basic financial products
- Basic financial calculations

## High school

- Inflation and its consequences
- Long-term planning
- Saving and investment products
- Credit products and their price
- Risk and reward
- Advanced calculations

## PISA 2012

- an unique tool to measure FL of youngsters worldwide
- 4 content categories covering
  - Money and transactions
  - Planning and managing finance
  - Risk and reward
  - Financial landscape (choices and consequences)





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## Financial Literacy of University Students

### Assumptions

- above-average potential of university students
  - positive correlation between education and FL (2010 OECD and CZ)
- (respected) source of information and advice (family, peers, colleagues)
  - 3<sup>rd</sup> for information, 1<sup>st</sup> for new products (CBA Research, 2006)
  - university degree (esp. in finance/economics) → high expectation
- but young generation reporting lower levels of FL (UK FSA 2006)



*Do university students/graduates meet such high expectation?*

*Could university students/graduates serve as champions of FL?*



## Financial Literacy of University Students

### Aim of the research project (University of Economics in Prague)

- to develop a measurement tool → comparability + existing best practice
- to collect and evaluate data → expectations vs. reality

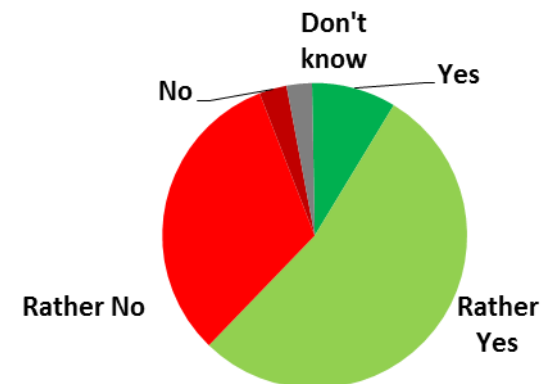
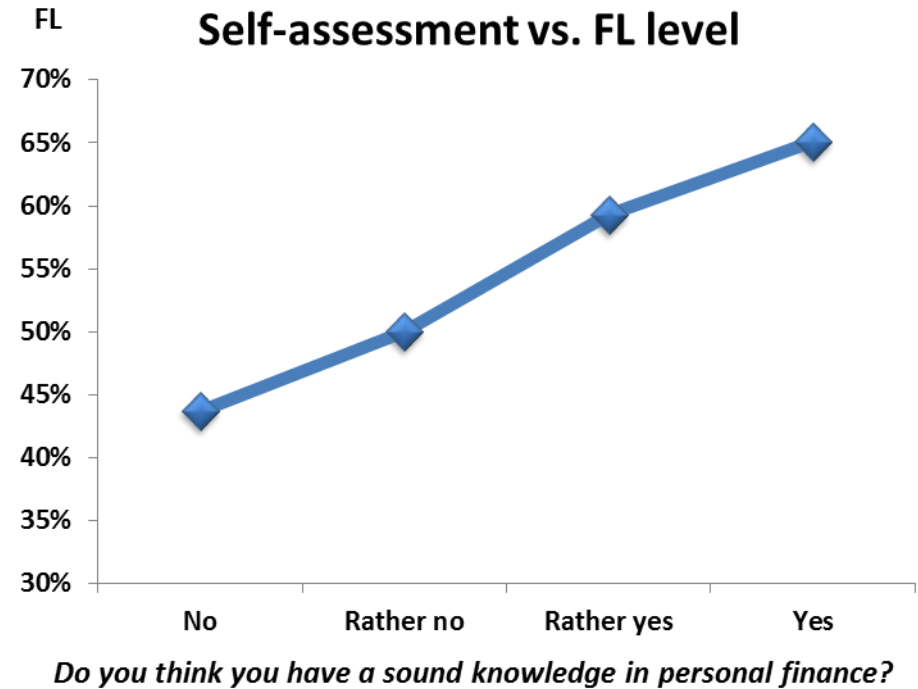
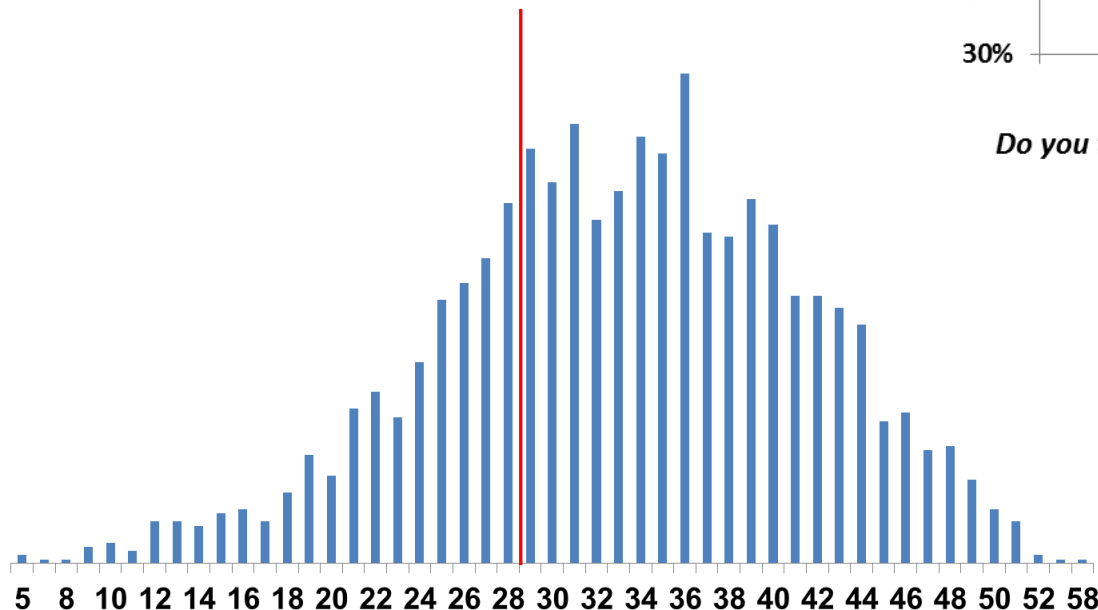
### Follow-up of the project (Masaryk University in Brno)

- to develop a dedicated curriculum (college/university level)
- to educate young champions of FL able to provide FE

## Financial Literacy of University Students

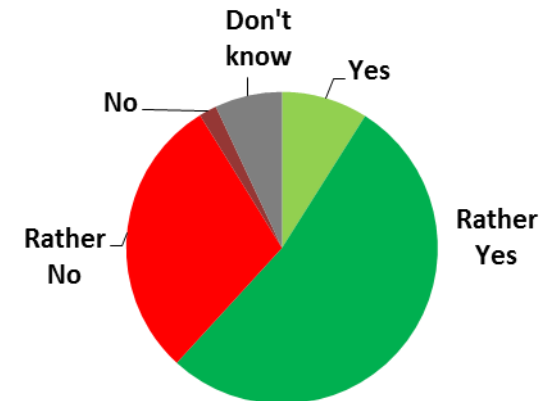
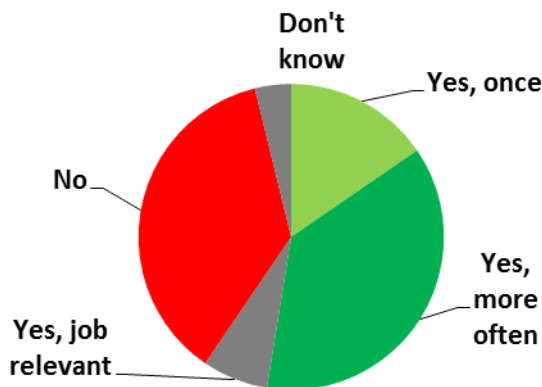
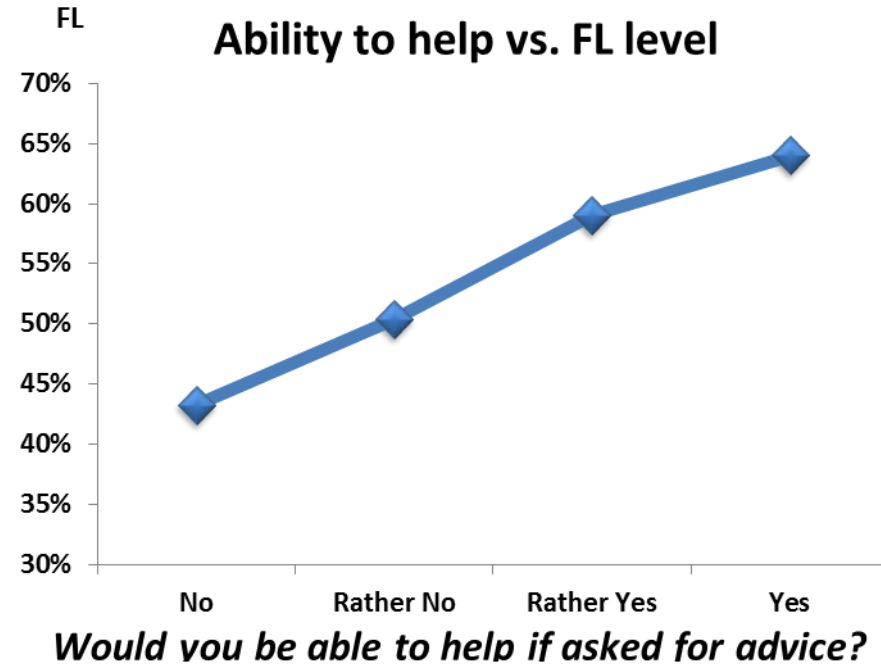
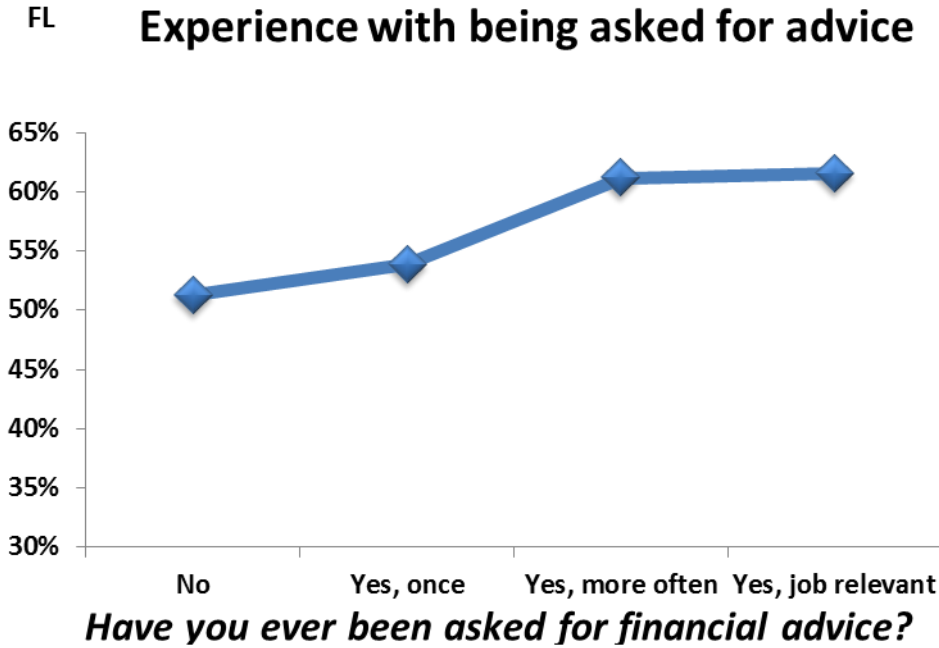
### Preliminary outcomes

- over 2,000 respondents
- top student: 58 out of 59 score points,
- avg score: 33,1 score points (56% correct)
- graduates beat students
- gender issue (< 10 %)\*



## Financial Literacy of University Students

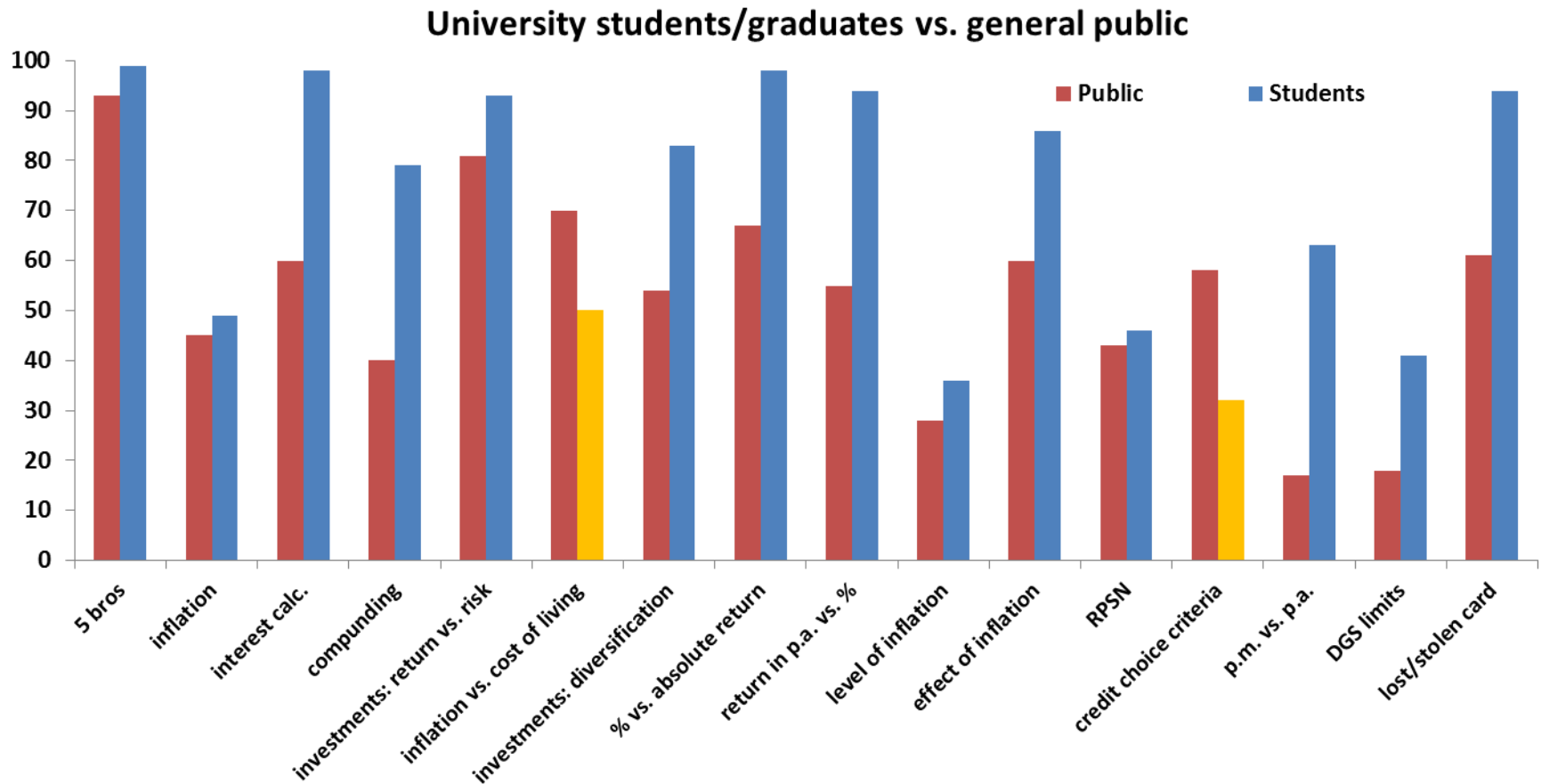
Preliminary outcomes: TG experienced and both willing and largely able to help



## Financial Literacy of University Students

### Preliminary results – TG beats general public but FL low in important thematic areas

- „High inflation means that the cost of living is increasing rapidly“
- 2 main criteria to consider when choosing a credit product

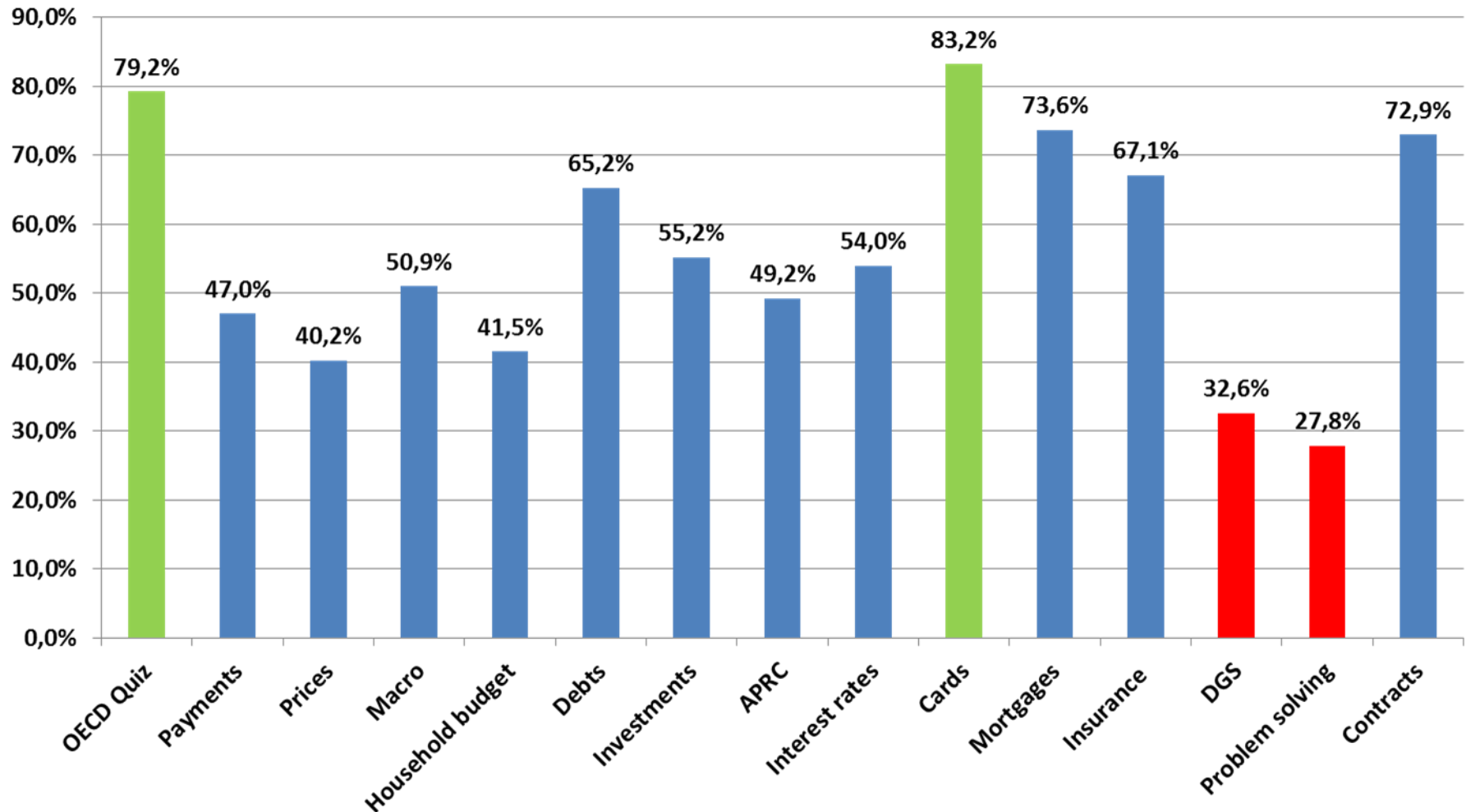




## Financial Literacy of University Students

### Preliminary results – TG FL low in important thematic areas

- debit vs. credit card, bill of exchange or arbitration clause vs. DGS or ADR





## Ministry of Finance of the Czech Republic

*Citizens are not and will never be financial experts. But they should be able to consider what they are offered – the final decision is their responsibility.*

**Thank you for your attention**

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