

Banking Blues: Canadians say they lack confidence in understanding key financial terms

Women – especially those under age 35 – express less confidence in their financial knowledge than men

February 14, 2018 – What's the difference between interest and compound interest? Or between a defined-contribution pension plan and a defined-benefit plan? What about between fixed and variable APR?

A new public opinion poll from the Angus Reid Institute – released as Canadians prepare for the upcoming tax-filing season – finds substantial numbers of respondents unsure how to answer these and other financial literacy questions.

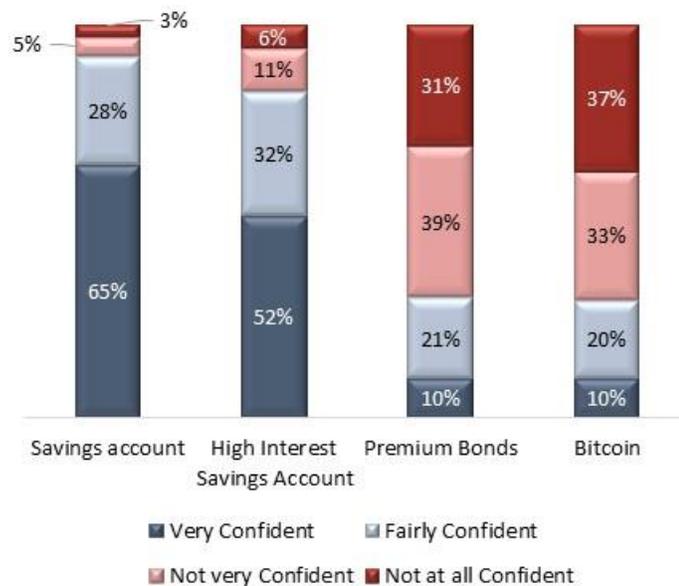
Presented with a list of 18 common banking and finance terms, a majority of Canadians say they are “very confident” in the meaning of just two: “savings account” and “high-interest savings account.” Respondents are at least “fairly confident” in their understanding of most of the terms canvassed, however, with fully six-in-ten expressing this level of confidence in nine of the 18 entries on the list.

Women and younger Canadians tend to express the least confidence in their financial understanding, with young women especially uncertain in comparison to men their age.

More Key Findings:

- Tax-related terms are among the more well-understood items on the list. More than eight-in-ten (82%) express confidence in their knowledge about RRSPs, and almost as many (72%) say the same about TFSAs.
- The public is least confident in its understanding of “Bitcoin,” with seven-in-ten (70%) expressing uncertainty about the term

How confident, if at all, are you that you understand the meaning of each of the following terms?



METHODOLOGY:

The Angus Reid Institute conducted an online survey from December 20 – 21, 2017, among a representative, randomized sample of 1,516 Canadian adults who are members of the [Angus Reid Forum](#). For comparison purposes only, a probability sample of this size would carry a margin of error of +/- 2.5 percentage points, 19 times out of 20. Discrepancies in or between totals are due to rounding. The survey was self-commissioned and paid for by ARI. Detailed tables are found at the end of this release.

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- Wealthier Canadians are more likely to express confidence in their understanding of each of the 18 terms canvassed

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Canadians weigh in on 18 financial terms

This survey presented Canadians with a list of 18 financial terms – some of them common, and others less so. The list is by no means exhaustive, and future polling could be done to canvass terms not mentioned here.

Anyone who has an ongoing relationship with a financial institution has likely heard at least some of the terms on the list, but this exposure doesn't necessarily equate to understanding. On seven of these 18 items, a full majority of Canadians say they are less-than-confident in their comprehension of the term in question. Two more questions split respondents almost evenly in terms of their confidence, while the remaining nine have a clear meaning for at least six-in-ten respondents, as seen in the following graph:

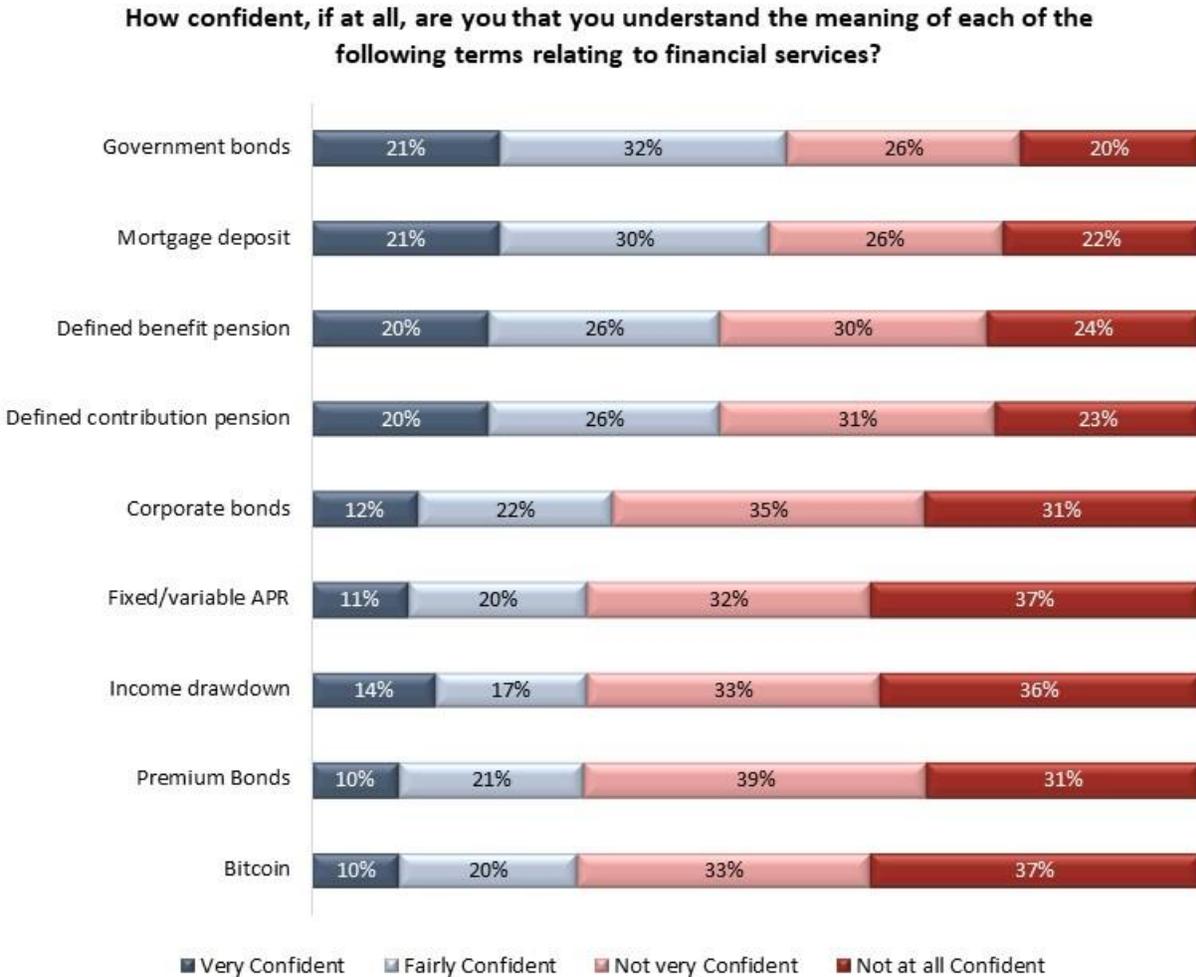
How confident, if at all, are you that you understand the meaning of each of the following terms relating to financial services?



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The following graph shows the remaining nine terms, about which Canadians have considerably more self-doubt:

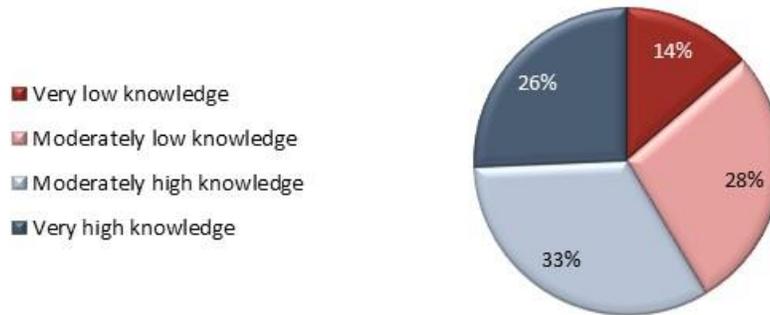


Significant knowledge gaps by age and gender

In order to facilitate comparisons of self-professed financial knowledge across demographic groups, Angus Reid Institute researchers created an index based on responses to this question, sorting respondents into four groups along a continuum from very low to very high confidence in their comprehension of the 18 terms.

More Canadians sort themselves into the “very high knowledge” group (26% of the total population) than the “very low knowledge” one (14%). The remaining six-in-ten Canadians end up in the two middle groups: those with “moderately high knowledge” (33%) or “moderately low knowledge” (28%):

Spectrum of financial knowledge:

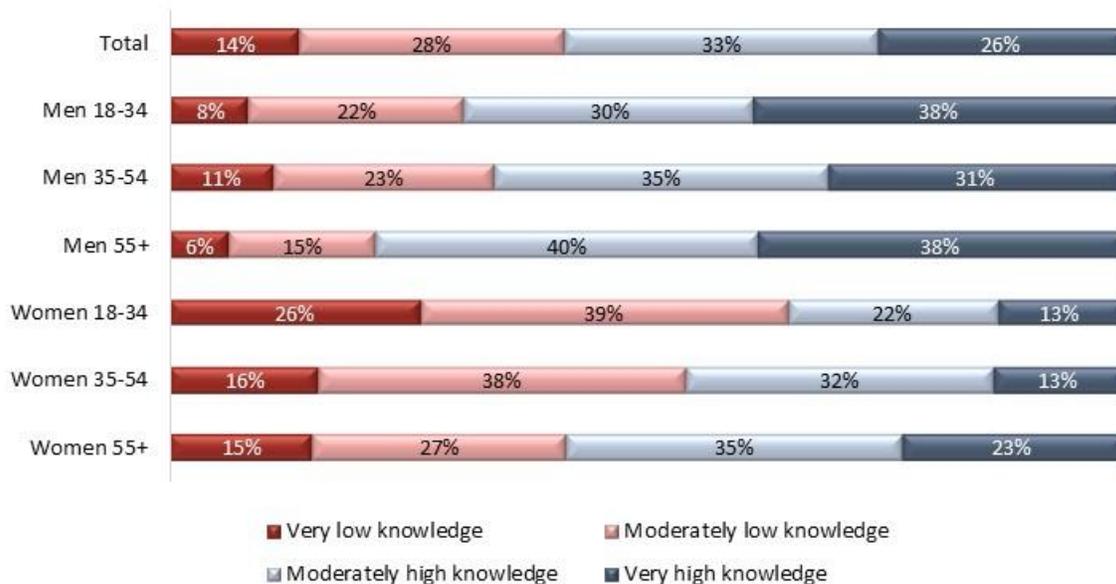


For greater detail on these four groups and how they were derived, see notes on methodology at the end of this report.

Notably, male respondents and those ages 55 and older are consistently more likely than women and younger respondents to say they are confident in their understanding of the financial terms on the list, and this pattern translates into significant differences in the spectrum of financial knowledge.

Men of all ages tend to sort themselves – via their responses to the questions in this survey – into the very or moderately high knowledge groups, while women – especially younger ones – are more circumspect:

Spectrum of financial knowledge:



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Of course, the specific term does have an influence on some of these responses. Canadians of all ages and genders, for example, are extremely confident that they know what a savings account is. Most other terms do differ by age and gender, with older respondents generally more likely to express confidence in their knowledge. The exception to this pattern is bitcoin. The cryptocurrency mostly confounds older respondents, while younger ones – especially young men – are more likely to profess an understanding of the term.

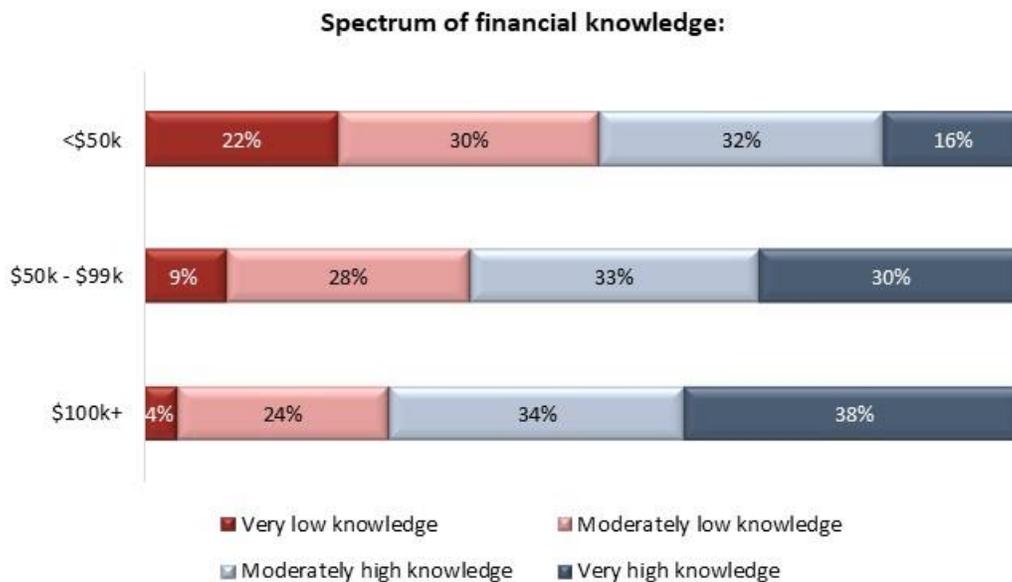
Women in the 18-34-year-old age group are especially notable for their lack of confidence in knowledge of these financial terms. Of the 18, a majority of women of this generation say they are confident in the meanings of only five. Majorities of men in this age group, meanwhile, say they are confident in their understanding of 14 of the 18 items on the list (see summary tables at the end of this report).

The uncertainty women of all ages express relative to the men in their age groups may reflect a genuine gap in knowledge, but it could also be a product of overconfidence on the part of men – a tendency that [has been shown](#) in some academic research. Future polling featuring questions meant to test the public's knowledge – rather than their self-assessment of it – could shed further light on these differences.

Wealthier Canadians are more confident in their financial knowledge

As might be expected, those who have more money to invest are more likely to express confidence in their understanding of these money-related topics. Those with household incomes above \$50,000 per year – and especially those whose households earn \$100,000 or more – are more likely to say they are confident in their understanding of each term ([see comprehensive tables for greater detail](#)).

This confidence is reflected in the distribution of Canadians of each income bracket along the spectrum of financial knowledge:



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Glossary

For reference, definitions of the banking and finance-related terms asked about in this survey are listed below.

Savings account – A deposit account held at a bank or another financial institution that provides interest on the balance.

High interest savings account – A savings account with a higher interest rate, which often features deposit or balance requirements in order for customers to receive the higher rate.

RRSP – Short for “Registered Retirement Savings Plan,” these retirement accounts are legal trusts registered with the Canada Revenue Agency. Contributions are tax-deductible, and taxes are deferred until the money is withdrawn. Contributions can be invested in stocks, bonds, mutual funds, and other investment products.

Fixed mortgage – A home loan that carries an interest rate that doesn't change, it offers homebuyers certainty about the amount of future payments, but often carries a higher rate than a variable-rate mortgage would.

TFSA – Short for “Tax-Free Savings Account,” contributions to these accounts are made with after-tax income, and any income generated in the account is tax-free. Annual contributions are limited to a fixed amount, currently \$5,500 per year, and money in the accounts can be invested in stocks, bonds, mutual funds, and other investment products.

Credit union – A financial cooperative owned by the members who open accounts with it. Most offer all of the same financial services as traditional banks.

The difference between interest and compound interest – So-called “simple” interest is interest that is charged at the end of a fixed term on only the principal of a loan, while compound interest is charged on both the principal and any interest that has previously accumulated on that principal.

Individual pension – An individual pension plan (IPP) is simply a defined benefit pension plan for one member. IPPs specifically benefit owners of companies or executives of incorporated companies who do not participate in an employer pension plan and who have annual earnings in excess of \$120,000.

Term deposit – A cash investment held at a financial institution for a fixed amount of interest over an agreed-upon amount of time

Government bonds – A bond issued by a national government, generally with a promise to pay periodic interest payments and to repay the face value on the maturity date.

Mortgage Deposit – Refers to the initial funds used as an up-front payment to a financial institution or private party in the purchase of a house

Defined Benefit Pension – A type of pension plan in which an employer/sponsor promises a specified pension payment, lump-sum (or combination thereof) on retirement that is predetermined by a formula based on the employee's earnings history, tenure of service and age, rather than depending directly on individual investment returns

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Defined Contribution Pension – A type of pension plan in which the employer, employee or both make contributions on a regular basis. Individual accounts are set up for participants and benefits are based on the amounts credited to these accounts (through employee contributions and, if applicable, employer contributions) plus any investment earnings on the money in the account. In defined contribution plans, future benefits fluctuate on the basis of investment earnings

Corporate Bonds – A bond issued by a corporation in order to raise financing for a variety of reasons such as to ongoing operations, mergers and acquisitions, or to expand business. The term is usually applied to longer-term debt instruments, with maturity of at least one year

Fixed/Variable APR – Annual percentage rate (APR) is the annual rate charged for borrowing or earned through an investment, and is expressed as a percentage that represents the actual yearly cost of funds over the term of a loan. Credit card companies are allowed to advertise interest rates on a monthly basis, but are also required to clearly state the APR to customers before any agreement is signed. For example, a credit card may charge 1% a month, and its APR is 1% x 12 months, or 12%.

Loans are offered with either a fixed or variable APR. Fixed APR loan has an interest rate that is guaranteed not to change during the life of the loan or credit facility. A variable APR loan has an interest rate that may change at any time.

Income drawdown – To leave your pension invested, and take a portion of the pension pot each year as income

Premium Bonds – A bond issued by the Bank of Canada that offers a higher interest rate than a Canada Savings Bond (CSB) with the same issuance date

Bitcoin – A type of digital currency in which encryption techniques are used to regulate the generation of units of currency and verify the transfer of funds, operating independently of a central bank

Note on methodology:

The spectrum of financial knowledge was derived by assigning a point value to each respondent's answers to the 18 items on the list. A "very confident" response was awarded 10 points, a "fairly confident" response received 7 points, a "not very confident" response 3 points, and a "not at all confident" response 0 points.

This produced a point-value for each respondent ranging from 0 (18 "not at all confident" answers) to 180 (18 "very confident" answers). "Very low knowledge" respondents are those who scored between 0 and 49 points on this scale. "Moderately low knowledge" respondents scored between 50 and 89 points, "moderately high knowledge" respondents scored between 90 and 129 points, and "very high knowledge" respondents scored between 130 and 180.

*The **Angus Reid Institute (ARI)** was founded in October 2014 by pollster and sociologist, Dr. Angus Reid. ARI is a national, not-for-profit, non-partisan public opinion research foundation established to advance education by commissioning, conducting and disseminating to the public accessible and impartial statistical data, research and policy analysis on economics, political science, philanthropy, public administration, domestic and international affairs and other socio-economic issues of importance to Canada and its world.*

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For detailed results by age, gender, region, education, and other demographics, [click here](#).

How confident, if at all, are you that you understand the meaning of each of the following terms relating to financial services? [Those saying “very” or “fairly confident” shown]							
(weighted sample sizes)	Total (1516)	Gender + Age					
		Men 18-34 (197)	Women 18-34 (236)	Men 35-54 (284)	Women 35-54 (283)	Men 55+ (259)	Women 55+ (256)
Savings account	93%	91%	91%	93%	91%	95%	96%
High Interest Savings Account	83%	88%	78%	83%	80%	90%	82%
RRSP	82%	86%	67%	83%	79%	92%	83%
Fixed Mortgage	78%	79%	63%	83%	75%	89%	78%
TFSA	72%	81%	63%	72%	68%	78%	72%
Credit union	63%	73%	43%	67%	51%	81%	66%
The difference between 'interest' and 'compound interest'	61%	67%	46%	66%	46%	79%	64%
Individual pension	61%	65%	41%	65%	47%	81%	67%
Term Deposit	60%	56%	33%	62%	48%	85%	74%
Government bonds	53%	58%	32%	60%	40%	77%	51%
Mortgage deposit	51%	59%	47%	58%	44%	57%	44%
Defined benefit pension	46%	52%	28%	49%	33%	66%	48%
Defined contribution pension	45%	51%	29%	51%	32%	64%	46%
Corporate bonds	34%	48%	20%	41%	24%	47%	28%
Fixed/variable APR	32%	43%	17%	43%	22%	39%	26%
Income drawdown	31%	42%	17%	34%	25%	41%	29%
Premium Bonds	31%	40%	15%	37%	19%	43%	30%
Bitcoin	30%	58%	34%	38%	20%	22%	13%

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