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Saving for Retirement—A Case for Financial Education in Germany and UK? An Economic Perspective

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Abstract Demographic changes, tight public budgets, and reduced generosity of occupational pension plans shift the responsibility for an adequate retirement provision towards the individual. Applying the theoretical perspectives of Behavioural Finance and New Institutionalism to the domain of retirement provision offers insights into the difficulties individuals are facing in planning for retirement, carrying out, and revising plans. Lacking financial literacy seems to lie at the heart of the problem and points to a possible solution: providing financial education to consumers through non-governmental organizations and state-related agencies. This article is examining which role consumer education and consumer advice can play to enhance financial literacy with regard to pensions and old-age provision. As two case studies Germany and the UK are compared because the institutional set-up of the pension systems and the approaches towards consumer policy are very different. The case studies show that financial education with regard to old-age provision can be successful if it reaches consumers in their environment at life-stages where important decisions need to be made. To achieve that considerable efforts have to be taken in terms of funding and organizational set-up. However, evaluation is necessary to prove the effectiveness of the education especially for vulnerable consumer groups. If evaluation reveals that these groups cannot be targeted effectively or that consumers are not taking action subsequently to attending financial education, there might be a case for changing behaviour through the institutional set-up of pension schemes (i.e., through automatic enrolment) and using financial education as a supportive policy instrument.

Keywords Financial literacy · Consumer education · Consumer advice · Saving · Retirement

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Demographic changes arising from changes in both fertility and longevity put increasing pressure on established pension systems in the OECD countries. As more and more older people rely on pensions that are funded by contributions from a declining productive work force, financial sustainability is a critical issue for state pension systems. Most systems have or will be forced to introduce measures that will ultimately lead to a lower level of pension payments. Combined with the reduction of defined benefit occupational pension plans the burden for an adequate pension provision shifts to the individual. This responsibility includes first the active decision to save and the amount to be saved, subsequently the decision for an occupational pension plan (if available) and/or a private pension plan, the selection of the appropriate investment product, and the decision for a specific financial services provider. Hence, the individual as a consumer of financial services for old-age provision is facing several decisions under ambiguity.[1] Considering the number of people who are either not saving or who are not saving enough or those who are saving using saving instruments that are associated with high costs and/or low flexibility shows that decisions relating to saving for retirement are overwhelming, complex, and demanding for most people.

The question that is largely discussed among policy makers is how people can be empowered and motivated to take responsibility for their retirement provision. The fact that these issues have only in recent years appeared on the political agenda and advanced to be a concern for policy makers might not only be attributed to the less generous pension systems but might as well be related to the prevailing neoclassical theory as a basis for economic analysis.

Under a neoclassical perspective individuals are perceived as rational decision makers who dispose of and process all relevant information. According to the expected utility theory, they distribute their resources including their human capital over their entire life span and react sensitively to external changes.[2] Consequently, there is no room for a potential under-saving for retirement. In contrast, the paradigm of new institutional economics incorporates micro- and macroeconomic perspectives. Information economics combined with a newer economic theory that is focusing on the individual as a decision maker recognizes that two problems may arise in the “real world” of market exchanges: asymmetries in the contract relationships and bounded rationality (Oehler 2005a, p. 196f.; Oehler 2005b). Applying these theories to the domain of retirement provision may shed light on the advantages and disadvantages of possible ways how people can be supported in the decision process with regard to retirement saving.

Among the possible solutions that are being tried out are incentives such as tax exemption and bonus payments which are designed to increase the attractiveness of saving for retirement.[3] But such instruments will not have the desired effect if people lack the understanding of basic concepts of retirement saving. Low levels of financial literacy detected by several studies inhibit people from making informed choices and increase the tendency to postpone decisions related to saving for retirement. In order to prevent poverty among the elderly in the years to come and to avoid an increasing number of older people having to rely on social security, steps to support consumers in their decision process need to be taken. Lacking financial literacy seems to lie at the heart of the problem and might point at a possible solution: providing guidance and education to consumers through Non-

[1] For an overview of different decision types see Laux (2005), p. 22f.; Oehler (1995), p. 62ff.

[2] For a description of the lifecycle model, criticism and further developments see Blake (2006), p. 13ff.; Browning and Lusardi (1996), p. 1799ff.; Bodie (2003); Oehler (2006), p. 294ff.

[3] For a discussion on the effectiveness of saving incentives see Duflo et al. (2005); Engen et al. (1996); Hubbard and Skinner (1996); Poterba et al. (1996).

Governmental-organizations (NGOs) or state-related agencies. Only if consumers are more literate with regard to pensions, they will be able to appreciate the value of tax incentives and bonus payments. This article is looking at consumer education and consumer advice with regard to retirement provision. As two case studies Germany and England are compared because their pension systems as well as their approaches to consumer policy are very different. The goal is to establish which role consumer education and advice can play to enhance financial literacy with regard to pensions. If consumer education does not seem to be able to solve the problem, more interventionist approaches such as the establishment of automatic enrolment pension plans could be a possible solution.

The article will be structured as follows: Chapter 2 analyses the decisions consumers are facing with regard to retirement provision from a theoretical perspective of New Institutional Economics and Behavioural Economics. Chapter 3 focuses on the policy instruments consumer education and advice and their impact on financial literacy. Chapter 4 and 5 are giving an overview of the pension systems in Germany and England and analyse the approaches towards consumer education and advice in each country. Chapter 6 compares the two countries and concludes.

Retirement Provision from the Perspective of New Institutional Economics and Behavioural Economics

Neoclassical economic theories have difficulties to capture the challenges consumers are facing with regard to retirement provision. As a "homo oeconomicus" the consumer can easily adapt to the changing environment of lower state pensions or diminishing occupational pensions and will take the right decisions to ensure his/her resources are distributed over the life-cycle. A wider theoretical basis can help to sharpen the understanding of the actual difficulties consumers are facing with saving for retirement and pave the way for finding possible solutions.

Oehler (2006) refers to New Institutional Economics—and within this framework especially to information economics and principal-agent theory—and to Behavioural Economics as a theoretical foundation to develop a holistic conceptual design of consumer protection. Applying this economic perspective to the specific area of retirement provision allows for an analytical framework which reveals the major challenges for consumers in this area.

The theories which are subsumed under the New Institutional Economics paradigm analyse explicit and implicit contracts between market participants (Furubotn and Pejovich 1972; North 1991, p. 97; Richter 1990). One crucial issue is the acquisition and exchange of information before and during a contractual relationship which may give rise to information asymmetries between the parties concerning price, quantity, and quality. Equally important is the delegation of property rights which plays a role in the selection and evaluation of a suitable agent, the dutiful and goal-oriented conduct during the contract duration, and in the winding-up after the formal contract termination including the risks involved (Oehler 2006, p. 297). These bring about further asymmetries between the contractual parties because of the limited influence of the principal on the behaviour of the agent during the contract relationship and because of the different ways that the parties are affected by the financial or physical/psychical destiny of their contractual counterpart.

In the case of retirement provision these asymmetries are amplified because financial services can be classified not only as credence but as contract goods. Typical for credence goods is that the quality of the good and service cannot be evaluated by the consumer even after a decision has been taken because the information needed can not be obtained within a reasonable time frame and/or at reasonable costs (Reisch 2005, p. 191). This is certainly the case for the majority of people with regard to products and services related to retirement provision: contract clauses, cost structure, rights of cancellation, investment options, pay-out provisions, and depository guarantees are not available to the consumer in a standardized comparable format. Moreover, since there is in most cases a substantial deferment period between the contributions and the receipt of the benefits, financial services related to retirement provision can be classified as contract goods. In contrast to exchange goods which are traded quid pro quo, they are a promise to deliver in the future. Therefore, evaluating the quality of an inviolable good or service poses an even bigger challenge. As a consequence, learning from experience via trial and error processes or via an exchange with peers is not a viable option for consumers with regard to financial services related to retirement provision. Hence, the postulation that competition for a sufficiently large group of informed and experienced consumers would lead to the protection of the uninformed does not hold true in this case.

Resulting from the uncertainties with regard to the quality and the risks associated with the delegation of property rights and of being negatively affected after the termination of the contract adverse selection may occur in the form of partial or temporary market failure.[4] Considering the fraction of the population that is not saving for retirement, that might exactly be the case for retirement saving. In order to cure market failure, there is a recurrence to the self-healing processes of the market. Signalling, screening, and incentive-based contracts or preventive measures are suggested as mechanisms to reduce the consequences of the asymmetries. But the effect of these measures for financial services related to retirement provision must be doubted. Preventive measures such as deposit protection for savings are part of the overall regulatory regime and cannot be influenced by the individual consumer. Limited bargaining power of the consumer in relation to the provider of financial services opposes the enforcement of incentive-based contracts. Signalling depends largely on the credibility of the signal. Consumers of financial services with regard to retirement provision have difficulties to judge the signal which becomes credence good of its own account. Screening on the other hand relies on the accessibility of information and the ability of the consumer to process this information. But the effect of this method is limited when Behavioural Economics and Bounded Rationality are considered.

Compared to the homo oeconomicus, the more realistic bounded rationality concept emphasizes that individual decision-making is subject to restrictions firstly concerning the internal limitations of the mind and secondly concerning the structure of the external physical and social environment. Bounded rationality implies that the individual makes (sufficiently) good decisions with the externally available information structure (Oehler 2005b, p. 36; Selten 2001, p. 14).

In order to do so, different strategies are used: recognition, awareness, and reflection processes that reduce the information search; heuristics that guide the search process and determine its end; and decision rules that utilise the information found. But only if these heuristics are adapted to the external environment, accuracy, speed and simplicity of decision-making can be achieved.[5] With regard to retirement provision, the external environment is a very complex one. A multitude of different options is available not only with regard to the type of pension (individual or occupational), but as well with regard to the product categories (life or retirement insurance, funds, saving deposits) and financial

[4] The process of adverse selection was first described by Akerlof (1970) for used cars.
[5] Failures in adaptivity are described in Payne et al. (1993), Chapter 6 (p. 192–217). See as well Payne and Bettman (2001).

service providers. Internal limitations manifest themselves not only in the more general limitations of the mind to absorb and process information. With regard to financial services, the financial literacy levels have to be taken into account as well. Atkinson et al. (2006) examine the levels of financial capability in the UK. Distinguishing between the ability to manage money and planning ahead, people scored relatively well in the subcategories of managing money (making ends meet and keeping track of their finances). In contrast, planning ahead seems to be a major challenge with most people avoiding to engage in this activity. In this context, strategies individuals are using in their decision-making processes do not always lead to desirable outcomes. Behavioural Economics recognises anomalies or biases in decision-making related to retirement provision which deviate from adaptive decision-making.[6] Some examples include:

– Timely inconsistent preferences and hyperbolic discounting: Timely inconsistent preferences imply that individuals do not hold discount rates for future payment flows constant over time. More specifically, the preference for two future incoming payments may shift over time to the one that is approaching first (Frederick et al. 2002, p. 361; Laibson et al. 1998, p. 98; Thaler 1981, p. 205). "[...] while individuals might make well-reasoned and prudent choices for the future, the temporal proximity to the stimuli often leads them to impulsively switch from their earlier selection" (Soman et al. 2005, p. 351f.). A common form of timely inconsistent preferences is hyperbolic discounting which signifies that discount rates are higher the shorter the time period considered: one dollar invested today is perceived as growing faster in value over the short-run than over the long-run (Mitchell and Utkus 2004, p. 7; for empirical studies see Loewenstein and Prelec 1992, p. 595; Thaler 1981). Individuals who are hyperbolic discounters have therefore no incentives to invest over a longer time-horizon. Current cash flows are overvalued compared to future cash flows.[7]
– Lack of self-control and postponing decisions with regard to retirement provision (Oehler 2005a, p. 201): For a hyperbolic discounter, saving for retirement is simply not an attractive option compared to contemporary consumption. Foregoing current consumption is perceived as emotionally distressing.[8] Therefore, self-control is lacking and retirement provision is postponed even though people might have recognized the need to save (Holzmann and Pallarès-Miralles (2005), p. 19f.; Laibson et al. 1998, p. 95; for empirical studies see Choi et al. 2001a). If consumers are saving depends on

[6] OECD (2006) points out that even well-informed individuals use heuristics in their decision-making process which might lead to suboptimal outcomes: "Even well-informed consumers exhibit consistent patterns of behavior that can lead them away from making decisions that satisfy their preferences." OECD (2006), p. 8. For a summary of heuristics and biases see Blake (2006), chapter 8, p. 221ff.; Mitchell and Utkus (2004), p. 3–42.

[7] Mariotti and Manzini (2007) ascribe hyperbolic discounting not only to the preference for contemporary consumption but also to the fact that it is more difficult for individuals to compare and distinguish between alternatives the further away they occur in the future. See for these "vague time preferences" Mariotti and Manzini (2007), p. 12f.

[8] See for the emotional consequences of deferred consumption Loewenstein (1987), p. 679. Weber (2004) puts forward emotional as well as cognitive reasons for delaying decisions relating to retirement provision: "[...] the reason for this attentional neglect lies in the abstract representation of distant-future consequences and in the psychological risk dimension profile of the hazard. Contemplating the consequences of inadequate pension saving does not result in an affective reaction of fear and worry. As a result, no 'flag' gets set that indicates the presence of some 'clear and present danger' which mandates some proactive action." Weber (2004), p. 62. A similar reasoning can be found in Selnow (2004), p. 45.

their attitude and their propensity to save.[9] Especially consumer groups in the lower income bracket and with a lower degree of education tend to prefer the immediate benefits of current consumption over the deferred utility of saving (Dixon 2006, p. 42; O'Donoghue and Rabin 1999, p. 118; Selnow 2004, p. 46).

- Ambiguity aversion and inertia: Strongly related to the lack of self-control is the tendency to avoid uncertain and ambiguous situations (Fox and Tversky 1995, Oehler 1995). Decisions related to retirement provision fulfil the characteristics of an ambiguous decision-making context leading to inertia.
- Information-overload and too much choice: In decisions which are characterised by a multitude of alternatives such as retirement provision, individuals might suffer from an information-overload and cancel information search and product comparison altogether (Iyengar and Kamenica 2006, p. 3; Iyengar et al. 2004, p. 92; O'Donoghue and Rabin 2001; Oehler 1995, 2006). The easiest fall-back option is to not do anything which is as well called "the path of least resistance."[10] Therefore the institutional design of retirement plans is largely determining retirement provision behaviour. If individuals are automatically enrolled into a pension scheme when starting their professional life or if an active decision to join the plan is required, the number of participants in the scheme will be affected. Similarly, the default investment options and the default savings rate set in case no active decision is taken influence the savings behaviour. Hence, default options that kick in if individuals do not take any active decision are of crucial importance in retirement plan design.[11]
- Framing: Small changes in the presentation of the decision options have an impact on which alternative is selected (Kahneman and Tversky 1984, p. 346, 2000; Oehler 1995, p. 27f; Tversky and Kahneman 1986). For decisions relating to retirement provision this not only plays a role with regard to the default options mentioned above but as well with regard to the presentation of the decision problem and the alternatives offered by the financial service providers and their intermediaries.
- Mental accounting:[12] Individuals tend to organize their assets in different mental accounts. Decisions are often taken within the framework of a single mental account ignoring possible interdependencies to other parts of the portfolio. For example, there might be separate mental accounts for different asset classes. The purchasing price is used as a reference point for any future decisions hindering the closure of a mental account due to the sunk cost effect (Barberis and Huang 2001; Cheema and Soman 2006; Kahneman and Tversky 1984, p. 346ff., 2000, p. 11ff.; Samuelson and Zeckhauser 1988, p. 37f; Shefrin and Thaler 1988). With regard to retirement provision, individuals might classify their in- and outgoing cash flows as belonging to a certain mental account and not put them in relation to their overall wealth. Therefore, people more easily use unexpected wind-falls such as bonuses or tax refunds for immediate consumption rather than investing it for their retirement provision. Concerning asset allocation, investors might divide their portfolio into different mental

[9] For an empirical examination of the relation between attitude towards planning and wealth accumulation and retirement provision Ameriks et al. (2003); MacFarland et al. (2004).

[10] See for empirical research concerning the path of least resistance Choi et al. (2001a).

[11] See Choi et al. (2001b); Choi et al. (2005); Beshears et al. (2006); Madrian and Shea (2001) point out that default options have an impact on participation, saving rates, asset allocation and payout modus. See Beshears et al. (2006), p. 6ff.

[12] For an overview of mental accounting see Oehler (1995); Oehler (2000); Thaler (1999).

accounts. Their portfolio can be designed in separate layers with different aspiration levels. While one layer might act as an insurance against poverty, a second and more risky layer might be an attempt to get rich (Oehler 2000; Shefrin and Statman 2000; Statman 1999, p. 23, 2004, p. 71f.).

Recognizing these biases, the search for additional information or providing people with additional information as a remedy to cure market failure reaches its limitations. People struggle to understand and feel overwhelmed by the information that is available. Adding to the information-overload they are facing will aggravate the situation rather than improving it (Howells 2005, p. 358ff.). For this reason, information not only with regard to signalling and screening mechanisms, but as well as a more general consumer policy tool might not live up to aspirations of policy makers advocating the benefits of a competitive and transparent market environment with as little intervention as possible. Since “consumers can only know which information they would like to know if they know which information they should know,”[13] there is a clear need for enhancing consumers understanding for financial services. This might in turn enable them to adapt their decision strategies more successfully to the problem at hand. As it stands, most consumers simply cannot determine which information would actually be needed to make an informed decision.

Financial Education and Advice and Their Impact on Financial Literacy

Several factors have prompted an increased attention to financial literacy of consumers in the recent years. Technological changes and the internet have increased the information and choice available to consumers without geographical limitations. But a certain level of knowledge and understanding is required for the consumer to benefit from this development (Braunstein and Welch 2002, p. 446; Hansen et al. 2005, p. 236ff; Hogg et al. 2007, p. 155; Micklitz and Oehler 2007, p. 15ff.). Furthermore, in a trend known as the “residualisation of the welfare state”, government provision of services such as health care, pensions, unemployment insurance and education has been cut back shifting the responsibility towards the individual and requiring for a greater involvement in and understanding of the financial system (Reifner 2006a, p. 11). At the same time the European consumer policy and more specifically European contract law and the jurisdiction of the European Court of Justice are recurring to the model of the informed, responsible and confident consumer.[14] In financial market transactions, to meet these demands consumers need at least a basic understanding of products and how they suit their individual situation, of financial market mechanisms, and of suppliers and their interests (Oehler and Kohlert 2008).

The term “financial literacy” is widely used often without a precision of what the concept actually stands for. Studies relating to financial literacy have focused on specific aspects of consumers’ financial abilities such as literacy and numeracy skills (Banks and Oldfield 2006), their understanding of basic economic concepts and their effect on financial planning and decisions for financial services (Lusardi and Mitchell 2006, 2005), the attitudes towards money and planning and/or the experience with financial services (Leinert

[13] This is due to the fact this information is a subset of all theoretically relevant information, of all accessible information and of all perceptible information. See Oehler (2005b).

[14] See Micklitz (2003), p. 1049f., 1058; Micklitz (2004), p. 339–356; for a critical review see as well Wilhelmsson (2004).

2004a). Financial literacy encompasses a wide range of competencies including basic numeracy and literacy skills, managing money and budgeting, managing debt and credit and financial planning and investing (Reifner 2006b, p. 31). Hence, financial literacy stresses the competency to act for oneself which stems from understanding of the basics financial concepts combined with the methodological competence of knowing how and where to find appropriate information and how to use it, the awareness for the own specific decision-context and the ability to communicate effectively with financial service providers (Micklitz and Oehler 2007; Oehler 2006). Being financially literate not only facilitates the initial selection of a specific financial service and a financial service provider, but also enables the individual to track and adjust already taken decisions to fit his/her specific situation. A financially literate consumer should be "[...] aware of the need for financial services and have the ability to identify, access, understand and manage financial information, products and services in the short, medium and long-term and know what action to take if they experience problems" (Reifner 2006b, p. 31). It should be noted however that sometimes in the US literature the term financial literacy is used in a sense that focuses merely on providing consumers with the ability to participate in the market. Very basic literacy skills are connected with this understanding of financial literacy.[15] While these very fundamental skills are a prerequisite, they are not sufficient to meet the challenges consumers are facing with regard to financial services. The definition of financial literacy underlying this work corresponds more to the financial capability concept that is used predominantly in the UK and which encompasses five key areas: behaviour, decision-making, practical skills, knowledge, and understanding.[16]

Financial education is the overall method by which financial literacy can be enhanced. In line with the definition of the OECD (2005) it is the process by which consumers/investors improve their understanding of financial products and concepts and, through information, instruction and advice develop the skills and confidence to become more aware of financial risks and opportunities, to make informed choices, to know where to go for help, and to take other effective actions to improve their financial well-being (OECD 2005). The objective of financial education is that consumers are capable of managing their money flows rationally during the course of their lifecycle. Knowledge, attitudes and/or behaviour can be addressed by financial education programmes (Fox et al. 2005). OECD (2005) and the FSA (2004) point out that financial education encompasses information strategies as the provision of meaningful facts and data, instruction in the sense of training and guidance and advice which is taking into account the personal situation of the individual without giving product-related recommendations.

Due to the limited merits of providing additional information in form of leaflets and brochures when taking bounded rationality and behavioural economics into account, this article focuses on financial training and advice as methods to enhance financial literacy. The difference between these two approaches is that financial training is a rather preventive and more standardized approach, while advice is more oriented towards the individual and his/her situation. As such it can be preventive in trying to enable the person to take an appropriate initial decision or it can be problem-oriented if the consumer is experiencing

[15] For an understanding of financial literacy in that sense see Adkins and Ozanne (2005).

[16] See Dixon (2006), p. 8. Financial Capability is understood to cover three interrelated areas: financial knowledge and understanding, financial skills and competence and financial responsibility. See BSA/FSA (2006), p. 4.

difficulties with an already signed contract. Although financial education can take place at all stages of a person's life-cycle, this article focuses on financial education for adults. Since people have difficulties in assessing alternatives that are occurring only at a distant point in the future, financial education relating specifically to retirement provision might better be targeted towards adults.

Impact measurement of both, financial training and advice is a major challenge. One branch of the US literature has focused on the behavioural effects of education related to retirement provision in the workplace (Bayer et al. 1996; Bernheim and Garrett 2003; Lusardi 2004), while others have studied the effect of including financial education in the high school curricula on saving when reaching adulthood (Bernheim et al. 1997). These studies have generally identified significant effects of financial training on specific goals such as saving while the acquisition of a more general and more comprehensive financial literacy is less clear cut (Braunstein and Welch 2002, p. 452).

One problem in evaluating the impact of financial education is that competencies which financial education aims to induce are internal conditions composed of knowledge, skills and motives that by themselves are not observable. Only the external conditions like the retirement system in one country and the actual episodes realised by the individual such as specific behaviour are visible. Therefore, competencies can only be inferred by the observation of specified external conditions and behaviour.[17] While using rules for interpreting behaviour might be a method to deduce competence levels, a major concern in measuring the impact of financial education is the isolation of the effect of financial education from other factors. Hence, observing if individuals save more at a certain point in time after attending financial education might not capture the full picture that led to this decision. If no action is taken, additional analysis is needed to determine whether the need to make changes is simply ignored, or whether economic circumstances have changed (Clark et al. 2004, p. 201). But only capturing intended courses of action after attending a form of financial education does not reveal if individuals actually follow through on their intentions.[18] Lack of self-control, postponing decisions relating to retirement provision and inertia are heuristics to which individuals might fall back even after attending financial education. Education might therefore not be sufficient to change behaviour.

Evaluating the impact of financial education with regard to retirement might prove difficult as well due to practical concerns: the participation is typically voluntarily. People who attend might therefore differ from those who don't in that they already have more retirement wealth accumulated or in that they exhibit a more positive attitude towards saving and planning compared to the overall population (Lusardi and Mitchell 2006, p. 10). These factors might lead to an over-estimation of the effect financial education has on saving. Furthermore, even if a positive impact of financial education can be observed for the individual, the effectiveness as a consumer policy tool depends as well on the fraction of the population that is reached. A particular challenge is to motivate vulnerable consumer groups to attend financial education.

By comparing the two countries Germany and England with regard to the external situation of the retirement system and analyzing the approaches taken with regard to

[17] For a diagnostic framework for the measurement of competencies see Straka (2004), p. 272.

[18] Leinert (2004) and (2005) points out that prerequisites for taking action are first the willingness and propensity of the individual to plan, second a positive evaluation of the benefits associated with retirement provision and third realizing the intention by taking action. See Leinert (2004b), p. 55; Leinert (2005), chapter 4.

financial education for retirement provision, the role of financial education as a consumer policy tool shall be examined.

Germany

The Pension System

The statutory retirement system in Germany[19] follows the Bismarckian tradition. Its goal is to ensure a sufficiently high retirement income to maintain the standard of living in retirement relative to when working. Therefore, there is a strong link between pension entitlements and pre-retirement earnings.[20] Characteristic of the pension system is its single tier with an earnings related Pay-as-you-go scheme. For low income pensioners, there is a social-assistance safety net. Following recent reforms, retirement age will gradually increase to 67. Contribution rates are at 19.9% of the earned income until an upper earnings-limit, with contributions paid in half by the employer and the employee respectively.

The calculation of the pension entitlements is based on a point-system: Workers earn pension points based on their individual earnings for each year of contribution. At retirement, the sum of pension points is multiplied by a pension-point value to convert them into a regular pension payment (Whitehouse 2006, p. 8). Taking into account recent reforms such as the sustainability factor and the adjustment of the pension point value to the contribution rates, net replacement rates[21] for full career workers are 57.3% of individual net earnings for the median earner. An individual earning half of the economy-wide average has a net replacement rate of 53.4% while for an individual earning twice the average the net replacement rate is at 44.4% (OECD 2007, p. 129). These numbers show that there is a substantial reduction compared to a net replacement rate of the pre-reform scenario of 75.9% of the median earner (66.33% for the low earner and 65.2% for the high earner respectively). It is also necessary to take into account that the figures mentioned here are based on the assumption of a full working career from the age of 20 until the standard retirement age without any periods of unemployment, income reduction, and/or deferred start into the working life due to education or early retirement.

The impact of the recent reforms highlights the necessity of additional occupational or private retirement provision and brought about the "Riester" reform in 2001. In order to compensate for the declining level of public pensions, supplementary voluntary pensions for all dependently employed and certain self-employed—either private or public—are subsidised by tax deferral and tax deduction or by direct subsidies to private or occupational

[19] The retirement system described focuses on employees because they constitute the largest group of the working population. The system for freelancers, civil servants, farmers and certain types of self-employed differs from the system laid out in this article.

[20] For a classification of countries according to the degree that pension entitlements are linked to pre-retirement earning see Whitehouse (2006), p. 39ff.; OECD (2007), p. 46f.

[21] The net replacement rate is defined as the individual net pension entitlement divided by the pre-retirement earnings, taking account of personal income taxes and social security contributions paid by workers and pensioners. The indicator used here shows pension benefit as a share of individual life-time average earnings. It is a measure of how effectively a pension system provides income during retirement to replace earnings as the main source of income prior to retirement. See OECD (2007), p. 32ff.

pension plans. But these incentives are only available for investment vehicles that guarantee the payment of a life annuity in retirement. Combined with the fact that saving subsidies are phased in rather slowly and that tax deduction of retirement savings from income tax is usually more advantageous for workers with higher than average earnings, there has been a rather hesitant uptake of Riester pensions (Börsch-Supan and Wilke 2005, p. 249ff.). In another reform targeted primarily towards the self-employed Rürup pensions have been introduced. So far, these are available in the form of insurance only and are personalized with benefits not being inheritable. In addition to Riester and Rürup which are more targeted towards personal pensions, there have been changes to promote occupational pensions. Most important, the general right to convert part of ones salary into contributions to a pension plan is beneficial due to deferred taxation and its exemption from social security contributions.

Consumer and Financial Education Landscape

Since the 1980s Germany's consumer policy is characterised by a low degree of intervention. Emphasis is on the individual to take action in order to enforce consumer rights.[22] Since the confident and sovereign consumer is increasingly referred to as a model for consumer policy in line with the jurisdiction from the European Court of Justice, consumer education and consumer advice gain importance on the political agenda. Among others, consumer associations such as the consumer associations in the 16 federal states and their national umbrella organization (VZBV) are entrusted with the task of delivering consumer education and increasing consumer knowledge (Tänzler et al. 2005, p. 50). While the umbrella organization is mostly funded by the Federal Ministry for Agriculture, Food, and Consumer Policy, the member organizations depend on financing provided by the state governments and local authorities, on project funding by the federal government and increasingly on income generated from their advice activities and training material. Obtaining sufficient funding for their activities is an issue for most of the consumer associations, with some more affected than others depending on their location in federal states with tight public budgets and/or different political priorities. For the 16 consumer association funding is mostly split into an institutional part which is designed to support the basic functioning of the association and a project-related part which is usually awarded for a specific time frame. Due to the different financial resources available the offers of the federal consumer associations for advice and education vary. Topics for advice sessions may include consumer issues relating to energy, medical services, holidays, nutrition, banking, investment, insurance, mortgages and credits, old-age provision, household, leisure, and telecommunications. Supplementing the advice sessions consumer associations are offering lectures and training on different subjects including financial topics. Some consumer associations set up financial education projects to reach specific target groups. The Consumer Association Baden-Württemberg is targeting young people with the project "Finanzprodukte für Berufsstarter—Financial services for young people" in cooperation with schools and vocational training centres. The goal is to help young people to master the financial issues related to the transition between school and working life. Similarly, "Was kostet die Welt?—How much is the world?" is an initiative of the Consumer Association Schleswig-Holstein aiming to reach adolescents and raise their awareness for budgeting, banking, credit and over-indebtness, risk, and assurance. Advisers of the consumer

[22] See Department of Trade and Industry (2003a), p. 32; Janning (2004), p. 419ff.; Tänzler et al. (2005), p. 47f. For a more theoretical analysis of different approaches to consumer protection see Reich (1992).

protection agency conduct five to 6-h-long working sessions with the students and/or train teachers in financial matters to enable them to convey financial knowledge to their students.

In addition to the offers of the consumer associations there is a large variety of financial education initiatives in Germany with a broad spectrum of organizations and institutions involved such as social and debt counselling agencies, federal and state governments, local authorities, welfare organizations, educational institutions and the financial services industry. Only some initiatives shall be described before turning to the specific financial education initiatives focusing on pensions in the next section.

"Netzwerk Finanzkompetenz" The Network for Financial Competence in North Rhine-Westphalia comprises over 100 members including money advice agencies, consumer associations, educational institutions, state government, local authorities, financial service providers, and other private companies. Since the initiation of the network beginning of 2006 several pilot projects have taken place to reach the target group of children, young adults and families. With the funding of €290,000 from the State Ministry for the Environment, Nature Conservation, Agriculture, and Consumer Protection of North Rhine-Westphalia 50,000 young people have so far attended a two hour session in secondary schools with advisors from money and debt advice centres. Major topics of the sessions are budgeting and debt prevention. For primary school children special information packages have been designed which have been rolled out to over 700 schools. Information material for a project week has been developed and tested in cooperation with a company to target young adults starting their professional career. The plan is to make this information package available to all schools providing vocational training in North Rhine-Westphalia. In addition, about 500 intermediaries of family centres, youth welfare offices, and welfare services have been trained in two conferences to enable them to support families in financial difficulties.

"Präventionsnetzwerk Finanzkompetenz" The prevention network for financial competence was founded in 2005 to increase financial capability and prevent over-indebtness. Over 90 members from money and debt advice centres, academia, consumer and home economics associations belong to the network which promotes the cooperation of organizations involved in financial capability initiatives. In conferences and fairs and on the home page projects are presented to facilitate the exchange of good practices.

There are numerous initiatives focusing on prevention of over-indebtness such as the "Debt-free. Future clear initiative" by the Central Debt Counselling Stuttgart, "Moneycheck for life" delivered by the local authority in Düsseldorf for those in long-term unemployment, "Nothing for free" carried out by a non-profit organization in Palatine, and "Financially fit for young unemployed people" by a non-profit organization in Mainz. In the context of preventing over-indebtness and poverty, a programme has been set up in the 14th legislative period under the responsibility of the Federal Ministry for Families, Seniors, Women and Youth. Emphasis has been on training for real-fife situations and involved topics such as financial planning and budgeting, decision making in families, nutrition and health, shopping, and consumer rights. In total, 16 associations on federal, state and local level carried out about 100 trainings in over 50 locations (Reifner 2003, p. 229ff).

Further mostly local or regional initiatives of financial education include "(f)in fit, a financial training" by local authorities for young migrants and females in the Offenbach region or "Financial management in young households" delivered by a non-profit organization in Dortmund targeting young people in the transition from school to working life. A pilot project called "Einkommens- und Budgetberatung in Rostock—Advice on

Income and Budgeting" funded by federal and state authorities has been set up in Mecklenburg–Western Pomerania in 1994 and is still running. Recognizing the specific situations of the household, the advice which is available free of charge covers sources of financial income, the administration of household finances and the utilisation of income.

Financial service providers and their associations are as well engaged in financial education. In its initiative "Schul/Bank—Economics for teachers and students" the Association of German Banks is running a programme targeted towards young people which has been set up twenty years ago. Teaching materials on economics, financial literacy and choosing a career are supplied and competitions on financial issues are conducted. Booklets and leaflets on different financial products and topics can be ordered or downloaded free of charge from the website under the section "Geldinfos and Finanztipps—Information and Tips on Money and Finances" and from a special internet portal (http://www.infos-finanzen.de).

An internet portal named "Klipp und Klar—Clear as daylight" (http://www.klipp-und-klar.de) is as well maintained by the German Insurance Association. On the website online tools and information on different types of insurances can be accessed. Via a telephone hotline free of charge information on insurances is provided without recommending or comparing specific products. Brochures and leaflets explaining different product types are as well available for download on the website. In cooperation with the Working Group Youth and Education Association the German Insurance Association is offering information on the social security system, old-age provision and risk to 13- to 19-year-olds on its Safety 1st—internet portal from which information material can be downloaded.

The German Savings Banks Association is offering an advice service through its "Geld und Haushalt—Money and Household Budgeting"-project. With the first initiatives dating back to 1958 the German Savings Banks Association is offering free of charge educational services through brochures, computer programs for budget analysis and lectures. Lectures on different financial topics are delivered on request by experts of the German Savings Banks directly at clubs and societies, associations, institutes for adult continuing education, and welfare organizations. Topics include among others "Fit in Finance—Budgeting made easy," "Financial planning for young adults," "Financial strategies for women," and "Families and financial matters."

In 2003 a joint initiative of the financial services industry called "Finanzstandort Deutschland—Germany as a financial centre" has been set up in order to improve the situation of both private clients and financial service companies in Germany. Part of the strategy is to foster financial capability and financial knowledge. Primary target for increasing financial literacy of consumers are schools and the integration of finance and economics in different educational contexts. An internet portal (http://www.kursraumgeld.de) lists the educational activities of financial service providers and associations. Offers include seminars on financial topics for teachers, lectures through experts of the financial services industry and information and educational material.

Financial Education on Pensions

Important players in the provision of specific consumer education and advice[23] for old-age provision and pensions are the federal consumer association centres. Advice can include

[23] Advice as understood in this article understood is not linked to the sales process of financial services. It is a general exploration of the financial situation of the individual and an evaluation of potential gaps in the provision for old-age and potential product types that might be suitable. The final decision and subsequent action (i.e., to look for and to purchase a specific product) is up to the individual.

both, the more preventive pre-purchase phase or the check of already concluded contracts. In line with funding restraints, the offers and the extent of cooperation with external partners differ from one federal state to another. By the same token, fees consumers have to pay for the services vary as well as the number of people reached. The following examples reflect the activities of five different consumer associations:[24]

- Consumer Association Bavaria: About once a month, there are seminars for about 2 h covering the basics of old-age provision at the advice centres in Munich and in Nuremberg. In addition, there are more specific seminars about Riester and occupational pensions, Rürup pensions and retirement insurance, and the role of investment funds and property for old-age provision. The general seminar is split by target audience into sessions for those who are and those who are not insured in the statutory system. Fees to participate are 10 Euros per seminar. About half of those participating in a seminar are subsequently seeking advice concerning retirement provision. There are two types of advice sessions offered: an extensive advice session for 90 Euros which lasts about 90 min or a shorter advice session which entails the evaluation of a contract or an offer for 25 Euros. On request, seminars are conducted as well in companies or at associations. Companies are asked to pay a small fee for such a service. In total, about 4,500 contacts with regard to old-age provision are registered per year. About 1,600 of these are seeking some form of advice. Participants in seminars either at the advice centres or at companies are about 1,000 per year. The remaining are E-mail or telephone enquiries. Six people are working for the consumer association to deliver the seminars and advice concerning old-age provision.
- Consumer Association Baden-Württemberg: Similar to Bavaria, the consumer association is offering a more extensive advice service for investment and retirement planning for 140 Euros and a shorter advice session for 30 Euros per 30 min. Per year, there are about 470 of the shorter advice sessions (including as well mortgages and construction financing) and 400 of the more extensive sessions. In addition, there are about 15 seminars per year concerning old-age provision. About 150–200 people attend these seminars which cost 30 Euros. While 10 people are working in the financial services section of the consumer association, three additional people are delivering advice and seminars with regard to old-age and retirement provision. Specific to the State of Baden-Württemberg is an initiative of a Round Table initiated by the ministry responsible for consumer policy (MLR). Aiming to develop a good practice tool for consumer information and consumer advice with regard to private pensions and savings the Round Table brought together participants from the financial services industry, the German Statutory Insurance of Baden-Württemberg, independent financial advisors, the Ministry for Social Affairs, and the Consumer Association of Baden-Württemberg. One of the results of this project and a project initiated by the Ministry of Social Affairs is the importance of a campaign to raise awareness among consumers for the necessity of additional old-age provision and for choosing a product which is appropriate for their individual situation. In order to achieve that various strategies have been compiled including an "Aktionswoche Altersvorsorge—Action Week Old-Age Provision" involving players from different sectors, an extended

[24] Figures concerning advice activities date from the year 2006 and exclude advice on insurance which is available at most of the consumer associations as well.

cooperation between the partners involved, and the development and distribution of a flyer.[25]

– Consumer Association North Rhine-Westphalia: About 4 people are delivering training and advice concerning old-age provision. Per year about 800 people take-up the offer for an advice session of 1.5 h for 140 Euros. In addition, there are seminars on old-age provision and on investment. In 2006 about 350 people participated in one of these which cost 40 Euros per person. Projects in cooperation with companies or job centres are in a planning stage.
– Consumer Association Bremen: Two employees at the consumer association in Bremen are involved in advice concerning investment and retirement provision. Prices vary between 60 and 100 Euros per hour depending on the amount of money to be invested. There are no seminars offered concerning old-age provision.
– Consumer Association Saxony: Advice is available on the subjects of private and occupational old-age provision and on investment. Once a month there is a specific advice session targeted towards women. Prices vary according to the length of the session with 15 Euros for 30 min and 30 Euros for 1 h. Seminars for a fee of 5 Euro are available targeting specifically those on low incomes or the unemployed and women. Advice is delivered by all of the 16 advice centres by in total 19 employees responsible for all issues relating to financial services. A current initiative is as well designed to raise awareness particularly among young adults who are in the transition between school and job and at university. In 2006, there have been 840 consumer contacts with regard to old-age provision of which 524 were advice sessions and the remaining are split between telephone and E-mail contacts and seminar sessions.

Even though most consumer associations are not carrying out a detailed evaluation, the majority of people reached is estimated to be between 30 and 45 years of age who are generally quite well educated. There is also a consumer education portal available on the internet by the consumer associations and the umbrella organization VZBV which is specifically targeted towards government-sponsored and private old-age provision (http://www.vorsorgedurchblick.de).

Supplementing the existing financial education landscape, the campaign “Old-age Provision goes to school” started in 2007 initiated by a partnership of several federal ministries, the German Statutory Pension Insurance, the German Adult Education Centres Association, the Federation of German Consumer Associations, the Confederation of German Trade Unions, and the Confederation of German Employers’ Associations. In a 12-h course, adults between the age of 30 and 45 learn about provision for their retirement. The independent training courses are carried out at 500 adult education centres in Germany. For 2007, 800 courses were planned to be delivered through about 230 experts from the German Statutory Pension Insurance. Individuals interested in participating need to sign up at a local adult education centre and pay a fee of 20 Euros for the entire course. An initial evaluation after the first six months revealed that about 3,500 people had participated and over 90% of the participants considered the course to be helpful for their financial planning.[26]

[25] Recommendations of the Round Table focused not only on the importance of raising awareness and the need for comparable and transparent information but also on the regulative framework of old-age provision. For a more detailed overview of the analysis and the recommendations of the Round Table see Reisch and Bietz (2008).

[26] See website http://www.altersvorsorge-macht-schule.de.

A network of about 1,000 advice and information centres is maintained by The German Statutory Pension Insurance to support its members. Via E-mail, phone, in writing or in person advice and information is available on topics relating to the level of statutory provision in case of retirement or reduction of earning capacity and benefits related to rehabilitation. Today, about 15% of all enquiries concern the possibilities for additional private and occupational old-age provision.

The financial services industry provides financial education on pensions for example in the form of free of charge lectures on the topic "Being well-prepared—Finance and old-age" run by experts of the German Savings Banks Association directly at associations, clubs and societies, welfare organizations, and institutes for adult continuing education. Online tools and brochures are made available to consumer on topics relating to old-age provision such as a tool for consumers to calculate in a few steps the combined future value of insurance benefits by the "Klipp und Klar—Clear as Daylight" internet portal. Information on old-age provision and online-calculators to determine the probable benefits from the statutory pension insurance adjusted for inflation and a suggested savings rate are as well available on the website of the German Institute of Old-Age Provision (DIA). Funded by financial service providers DIA is an independent research institution with the aim to clarify the chances and risks of the statutory pension system and to encourage private provision through publications, research projects, and the provision of information.

Evaluation

Numerous players such as consumer associations, money advice centres, federal and state governments, local authorities, welfare organizations, educational institutions, and the financial services industry are involved in providing financial education in Germany. A considerable number of consumers is reached by some form of financial capability initiative. Especially projects working with partner organizations and targeted towards a specific population group are successful. However, the objectives of the players involved are not unified.[27] Financial service providers associate rational use of their products with an understanding of their services. Thus, they tend to focus more on product-related information while non-profit organizations take a more problem-oriented approach and try to help consumers who have run into difficulties or to prevent difficulties altogether. Increasing the level of cooperation and joint activities of the non-profit and the financial services sector might help to establish a more unified approach to financial education. Due to the large amount of initiatives and different organizations involved in financial education in Germany a danger of a piecemeal approach exists. Expanding existing and fostering new networks may be one way to make sure that initiatives are supplementing rather than duplicating each other and that good practice is shared.

Though training, lectures and information brochures are able to raise awareness among consumers with regard to complex matters such as pensions and retirement saving, most consumers will require personalised advice which considers their individual situation to take an informed decision (Reifner 2005, p. 37ff). Consumer associations are familiar with the structure of financial services and possess the necessary knowledge on the economic and legal aspects involved in financial contracts concerning old-age provision. Therefore, they are in a position to carry out financial education on pensions. However, consumer associations are limited in their work due to restrained financial resources and the

[27] For the following reasoning see as well Reifner (2006c), p. 121; Reifner (2003), p. 193ff.

requirement to increase the level of self-financing. Reflecting the different financial positions of the consumer associations, not only extend but also prices of the services offered vary considerably. Partnerships with other organizations such as jobcentres, universities, companies and trade unions to reach the people in their specific environment are starting to develop. So far they seem to be an exception rather than the rule. Hence, people need to make an active decision to approach a consumer association for advice and support in their old-age provision. Considering the findings of bounded rationality and behavioural economics, that might be a hurdle that a lot of people especially vulnerable groups are not likely to overcome. Fees, a lacking awareness of the services offered and the only limited established partnerships might be the cause for the rather small extent of vulnerable groups reached. A general lack of evaluation activities particularly with regard to long-term effects (actions taken after three or six months) might as well be attributed to funding restraints. A more stable and generous financial position of the consumer associations might enable them to strengthen the cooperation with different players involved in financial education for saving and retirement similar to the initiatives of the Round Table on old-age provision in Baden-Württemberg or the network for financial capability in North Rhine-Westphalia. As a consequence their services might expand from reaching mostly the better-off population to include as well more vulnerable consumer groups.

The new initiative “Old-age goes to school” is based on a partnership between several organizations which might emerge as a successful joint initiative. However, similar as for the consumer associations, people have to make a conscious decision to take part in such a training, sign up for it, pay a small fee, and come to the lessons at the adult learners centres. Even though offering an intensive course might significantly enhance financial literacy among the participants, it is rather unlikely that vulnerable consumer groups will be reached to a large extent.

Due to changes in the statutory pension system there is a clear need to enhance financial literacy in Germany in order to encourage people to take up voluntary additional pensions such as Riester or occupational pension plans. However, the current landscape of financial education on pensions does not seem to be extensive enough to deliver that goal to sufficient degree. A more targeted approach towards vulnerable groups in particular might be needed for consumers to reduce information asymmetries and overcome inertia. But that would certainly require more resources and a more integrated approach which strives for providing education and advice of consistently high quality to a substantial part of the population.

UK

The Pension System

Britain has a complex pension system that combines public with private pension provision.[28] The public scheme has two tiers: a flat-rate basic pension and an earnings-related state second pension. It is complemented by a large voluntary private pension sector

[28] Pensions Commission (2004), p. 210; Pemberton (2006) explains the complexity with the constant reforms to the pension system since 1946. While the pension system at a macro-level has not been locked-in, at the sub-system level of different state, occupational and private pensions there has been a lock-in situation making it difficult to change or abolish the sub-systems. See Pemberton (2006), p. 57.

(OECD 2007, p. 198). Emphasizing the importance of non-public pension provision, there is a possibility to “contract out” of the state second tier in favour of an occupational or a private pension scheme. For low-income pensioners, a means-tested benefit called the pension credit is available that is above the basic state pension in order to ensure a minimum income level. To receive the pension credit, means-testing is conducted to establish the actual wealth and income situation for the individual.

The main goal of the public retirement system in the United Kingdom is to guarantee that all older people meet a minimum standard of living. As such it can be classified as a Beveridge pension system. Contributions to the national insurance are necessary to build up entitlements to social security benefits including the national health system and the state pension system. Linked to the level of income, the contribution level of someone employed and earning between £100 and £670 per week is 11% with an additional 1% for earnings above £670. As a consequence of contracting out to an occupational or private pension, these contributions may be lower.

The net replacement rate of a median earner with a full career is 45.4% of the individual net earnings over the lifetime. An individual earning half of the economy-wide average receives 66.1% of the individual net earnings in retirement, while the net replacement rate for someone earning twice the average is 24%.[29] Hence, despite the fact that there is a mandatory earnings-related pension, the link between pension entitlements and pre-retirement income is rather weak due to the minimum-credits that are granted.[30] Measures put forth in the Pensions Act 2007 are likely to increase the net replacement rate since the Basic State Pension will be linked to earnings rather than prices from 2012 given affordability and the fiscal position. Moreover, contributing provisions to receive full Basic State Pensions have been reduced to 30 years and some conditions have been changed to make it easier to build up some entitlement. For the second tier, the second state pension, credits have been introduced to facilitate the accrual of some additional pension entitlement for people with disabilities or those with caring responsibilities to. The state pension age will be gradually increasing to 68 for both men and women in 2046.[31]

Considerable importance is attributed to private and occupational pensions as part of the retirement income. A wide range of private-sector pensions is available to the individual either as an occupational or a private pension. Historically, companies offered generous defined benefit pension plans for their employees which compensated largely for the low level of public pensions. But in the recent years, the generous defined benefit pension plans have been either closed down for new members or are being completely substituted for defined contribution plans shifting risks towards the individual.[32] As personal pension choices that are independent of the employer’s scheme, there are personal pension schemes, group pensions schemes or stakeholder pension schemes. The latter has been introduced in April 2001 as a low-cost personal pension scheme making pension saving attractive as well

[29] The replacement rates have been calculated using the assumption of an unbroken work history starting from 20 ending at the retirement age.

[30] For a classification of countries according to the degree that pension entitlements are linked to pre-retirement earning, see Whitehouse (2006), p. 39ff.; OECD (2007), p. 46f.

[31] For a more detailed description of the changes, see Department for Work and Pensions (2006a).

[32] Blake points out several unresolved issues with regard to defined contribution pension plans: high and confusing charges, low persistency of voluntary agreements, below-average investment performance, adverse selection and longevity risk, inflation risk, interest rate risk, reinvestment risk. See Blake (2002), p. 330ff. The problem of costs of defined contribution personal pension plans is as well emphasized by Bateman (2002), p. 157 and Daykin (2002), p. 24

to less-well off individuals and middle-income earners with no existing private pension provision. But since take-up rates especially of the voluntary stakeholder pensions did not meet the expected levels as the Pension Commission[33] pointed out in its first report, a new Personal Accounts pension scheme will be introduced in 2012. It is an automatic enrolment pension scheme designed to target an estimated seven to ten million people in the UK who are not saving enough. These are often those on low or moderate incomes who do not have access to a good employer pension scheme. Employees between age 22 and the state pension age who earn between 5,000 and 33,500 Pounds per year and who do not save into an exempt work-based pension will be automatically enrolled into the Personal Account Scheme. Employees will contribute around four percent of their earnings into the scheme which will be matched by a 3% contribution by the employer and 1% from the State in the form of normal tax relief. People who do not wish to join the scheme may opt out, but can join at a later stage.[34]

Consumer and Financial Education Landscape

Consumer education and empowerment has a long tradition in the UK. This can be attributed to the fact that consumer policy in the UK is in general favouring a less interventionist approach relying on self-regulation of businesses and the empowerment of confident consumers to promote competitive markets (Department of Trade and Industry 2002, 2003b, p. 140, 2005, p. 13). However, in certain cases where these market complementary consumer policy tools fail to deliver a desirable solution, a more interventionist approach is adopted. Independent watchdogs have been implemented in certain industries responsible for the regulation of suppliers, improving competition in a specific industry and promoting consumer interests. Examples for such independent regulators are Energywatch, the watchdog for the energy market, and Postwatch. Organizations involved in the delivery of consumer education and advice are the Office of Fair Trading (OFT) and Citizens Advice (CA). The OFT is a public authority which has a joint responsibility for fostering consumer protection and enforcing competition policy. Citizens Advice is a consumer association which is providing advice and information free of charge on topics related to debt, welfare benefits, tax, and legal matters through 440 Citizens Advice Bureaux in children centres, prisons, jobcentres, and independent offices. In recent years, the organization has moved as well into more preventive financial literacy work. Citizens Advice and each Citizens Advice Bureau are registered charities reliant on over 20,000 volunteers and need to raise funds to provide their services.

Research commissioned by the Financial Services Authority (FSA), an independent regulator for the financial services sector, has alerted policy-makers to the low levels of financial capability across the population and particularly of those with literacy and numeracy needs (Atkinson et al. 2006; Atkinson 2007). As a response, the Treasury has set out the government's long-term approach to financial capability in 2007. Working in partnership with the government, the FSA is leading the national strategy for financial

[33] The Pension Commission was appointed by the government in 2002 to review the British pension system and to make recommendations on future policy. These recommendations have been crucial for the changes enacted with the Pensions Act 2007 and the Pensions Bill enacting the Personal Accounts. For a detailed analysis, see Pensions Commission (2004); Pensions Commission (2005); Pensions Commission (2006).

[34] For details on Personal Accounts, see Department for Work and Pensions (2006b).

capability. This sets out a seven point plan which includes projects in schools and the workplace, projects for young adults and new parents, as well as improving consumer communication, and the development of online tools and money advice. The goal is to reach about at least 10 million people with the financial capability programmes in the five years from 2006/2007 until 2010/2011. To do so, the FSA is scaling up the funding considerably from £10 million in 2006/2007 to £17 million in the financial year 2007/2008 and £15 to £20 million in the following years (Evers & Young Financial Services Research & Consulting 2007, p. 81). Like all FSA spending these resources are funded by a general levy on the regulated financial services industry. Partner organizations and the government raise and/or provide additional funding.

Besides financial capability another political priority of the Treasury is financial inclusion which aims at making financial services available and accessible to all population groups.[35] An initial fund disposing of £120 million has been initiated in 2005 and financed several projects involving debt advice. In 2008 this fund has been renewed. £33 million are made available to Citizens Advice as the main contract partner and to partner organizations. The funds will be used to finance ten different projects and increase advice capacities.

Within the framework of extending financial capability, gaps in the provision of financial advice have been identified as a challenge to make an informed decision. Especially people on lower incomes are less likely to seek independent financial advice which might have a demand-side explanation (independent advice is perceived as unaffordable) or a supply-side explanation (advisors have commercial incentives to focus on higher-income earners) (FSA 2005, p. 3.; HM Treasury 2007, p. 14f; Resolution Foundation 2006, p. 2). Therefore, the government has invited Otto Thoresen to conduct an independent feasibility study of how national generic advice[36] can be delivered and how existing services can be incorporated. In an intermediate report published in October 2007 key principles for a generic financial advice have been established. The service should

- Be impartial from the government and from the industry, "on the user's side,"
- Provide support to individuals without criticising them,
- Not be designed for crises intervention such as debt advice, but rather prevent crises,
- Be available to all, but targeting the most vulnerable groups by focusing on specific triggers or situations in life that makes generic financial advice beneficial and necessary and by working with trusted intermediaries such as job centres, children's centres, the workplace, educational establishments, surgeries, and community organizations,
- Not recommend specific products from particular providers (Thoresen Review of Generic Financial Advice 2007, p. 7).

[0] For a more detailed discussion on financial inclusion in the UK see Ford and Jones (2006), p. 42–58.

[0] The term "generic advice" has been defined as follows: "Generic financial advice is a set of services and tools that use information about individuals' circumstances to help them to identify and understand their financial position and their needs and to plan their finances accordingly. Generic financial advice helps consumers identify:

- their current financial position and, therefore, the choices and possible priorities for action appropriate to their needs;
- how to take the next steps in addressing their priorities; and
- how to access other relevant sources of information and advice.", FSA (2005), p. 6. Generic advice is different from financial advice regulated by the FSA in that it does not include the recommendation of products types or identify specific products which suit the customer's needs. It is distinct from the sales process. See HM Treasury (2007), p. 11 and p. 49. For a distinction between the terms education, information, generic and basic or full advice see FSA (2004), p. 2f.

Using the FSA's financial capability baseline survey a major target group of about 19 million people has been established. Among these are the 7.5 million most vulnerable who would benefit most from generic financial advice, recognizing that about half of this group could be referred to sources of crises support.[37] Two pilot studies have been conducted from September to December 2007 reaching about 5,000 people to give a clearer insight about the appropriate mixture of delivery channels. Evaluation showed a positive effect of the advice provided with eight out of ten participants taking some form of subsequent action.[38] The delivery channels which are used and the number of customer contacts determine the annual cost for generic financial advice service.[39] In the final report Thoresen estimates average annual costs of £49 million assuming that four million people are reached per year and that 45% of the requests are dealt with online, 35% consists of telephone and 20% of personal advice sessions (Thoresen Review of Generic Financial Advice 2008, p. 14f.). Costs shall be equally split between the financial services industry and the government.[40] Influencing the costs will be as well how external providers of generic financial advice are integrated into the service delivery. Thoresen suggests a hybrid approach in which a central body is responsible for the overall strategy, the marketing, the accreditation and training of external partners and possibly some form of delivery. External partners such as already existing organizations would deliver the majority of the service (Thoresen Review of Generic Financial Advice 2007, p. 55f.). Since a range of models is possible under such a hybrid approach, the exact design needs to be determined. Through the setup of a pathfinder limited to a geographical region the propositions of the final report shall be tested to adapt the strategy before extending the geographical outreach.[41]

With regard to the already existing landscape in money matters and financial education, the FSA is conducting the "Make the Most of your money"—project which is targeting employees in their workplace. The project involves recruiting employers who are willing to promote financial education for their workforce and providing a combination of easy-to-use information resources and one-hour educational seminars held in their workplace (Evers & Young Financial Services Research & Consulting 2007, p. 78). All the materials are branded "Make the Most of Your Money" and are covering budgeting, managing debt and planning for the future including pensions. Materials as well as the seminars are free of charge for the employer and the employees. The FSA has established a project team and collaborates with partner organizations and companies in the financial services industry who have provided staff to the project team and to act as presenters to deliver the seminars. Currently, about 260 presenters are at the disposal of the FSA project team. In 2006, around 200 employers participated in the initiative, with a total of 220,000 employees reached and

37 For a detailed analysis of the target group see Resolution Foundation (2006), p. 7f.; Thoresen Review of Generic Financial Advice (2007), p. 38.

38 See Thoresen Review of Generic Financial Advice (2008), p. 19. Another small successful pilot study called "Moneyplan" involving Independent Financial Advisors has been carried out by Citizen's Advice (CA) in 2005. A follow-up project on a larger scale is running for two years from 2007 until 2009 funded by Barclays and Ageon.

39 Estimates for annual costs range from £10- £15 million for a complete web-based service to £90-£100 million for a service relying more on face- to-face advice. See Resolution Foundation (2006), p. 18; Thoresen Review uses some different assumptions which produces a range of costs between £39 and £81 million, see Thoresen Review of Generic Financial Advice (2007), p. 79.

40 See Thoresen Review of Generic Financial Advice (2008), p. 19. This is heavily criticised by the financial services industry.

41 In 12 to 15 months the pathfinder is estimated to reach 500,000 to 750,000 people. For further details see Thoresen Review of Generic Financial Advice (2008), p. 87ff.

10,000 attending seminars (Evers & Young Financial Services Research & Consulting 2007, p. 81). By 2011, the aim is to reach four million employees with 500,000 attending the seminars. About 15% of the FSA's budget for the National Strategy on Financial Capability is devoted to the workplace seminars. An evaluation of pilot studies has revealed that 82% of the seminar attendees intended to take positive action and when telephoned three months later 60% had already followed up on that intention. Top actions were to review money affairs and goals (77%), to shop around for financial products and services (64%), to seek money advice using the resources and information provided (45%) and to discuss money affairs, plans, and goals with spouse or partner (35%) (Evers & Young Financial Services Research & Consulting 2007, p. 80).

In addition there are numerous programmes by charities or the financial service industry designed to enhance financial capability often linked to the strategy of the FSA. Just a selection of initiatives can be described. For example, the Basic Skills Agency (BSA), an organization belonging to the charity National Institute of Adult Continuing Education (NIACE), runs several financial literacy projects, i.e., with community groups, colleges, prisons, and children's centres. One of the projects placed in Cornwall aims at enhancing financial literacy in the workplace building on a partnership between trade unions, local skills and training providers, and employers. Working with the employer, an individual training programme of essential skills is developed. Union Learning Representatives[42] in various workplaces help to identify and engage potential learners and negotiate with the employers over issues like securing paid time off for learners to study. In 21-hours of financial literacy training, personal finance issues including pensions are discussed in a context relevant to the learners. In that way, personal finance issues can be used as a context to deliver literacy, language or numeracy skills. The courses have been positively evaluated by all stakeholders involved and continue to be popular with learners. NIACE is running a "Let's Talk About Money"-project in cooperation with prison and probation centres aiming to support offenders in financial matters and has developed an educational online tool called "Money matters to me" (http://moneymatterstome.co.uk) which is available to consumers free of charge. In order to facilitate the exchange among those involved in financial capabilities, NIACE has established an online forum called Spondoolies (http://www.niace.org.uk/spondoolies/).

Royal Bank of Scotland and Nat West have been involved in financial capability initiatives since 1994. "Money-Sense for school" is a project which was developed to help secondary schools teach personal finance and enterprise skills. In 2006 a Money-Sense website has been launched to extend the reach of the project beyond schools and provide customers and consumers with free access to information and advice. In a project called "Axa Avenue" about twenty households in Brighton took part in a pilot study on the effectiveness of financial advice. For the duration of one year half of the households had access to financial advice while the comparison group did not receive professional outside support. Despite the small sample, results showed that households with access to financial education managed to reduce their debt and increased their savings compared to the control group.

In addition, the financial services industry is sponsoring various other financial education initiatives. "Financial Skills for Life" is a project run by Citizens Advice funded by Prudential. Initially set up for a period of three years in 2003 the programme provided funding for nine projects run by local Citizens Advice Bureaux. The projects focused on

[42] Union Learning Representatives are employees trained by Trade Union Congress (TUC). Their task is to help their colleagues to identify their training needs, to find possible training courses, and to negotiate with the employer.

different target groups such as young unemployed people, people over 50, young parents, migrants, and prisoners and involved the cooperation with partner organizations to target people at important life stages such as the birth of a child, leaving prison, retirement or looking for employment. During the project duration about 6,000 people took part in the financial education projects. Based on the experience gained 85 local Citizens Advice Bureaux have build up financial capability projects. In order to coordinate the activities and share good practices Citizens Advice has set up regional financial capability forums that include local Citizens Advice Bureaux and their partner organizations. A separate project called Horizons has been led by Citizens Advice with funding provided by Barclays Bank. In cooperation with partner organizations Citizens Advice targeted single-parents in financial difficulties.

Financial Education on Pensions

Educating people to take an informed decision with regard to their pensions has been the major focus of the Pension Education Fund (PEF) which is administered by the Department of Work and Pensions (DWP). The Fund of £3 million was set up in 2003 and is targeting particularly those sectors of the workforce where there is a significant under provision, e.g., women, self-employed, people aged over 50, minority groups and young people. 26 different projects by non-profit-organizations which are trying out new ways to deliver information and education needed for decisions related to retirement and pensions are sponsored until March 2008. Due to limited resources individual project evaluation only takes place on a limited scale, but an evaluation by the Department of Work and Pensions will be available in March 2008. Examples for projects in the PEF include:

– Service Against Financial Exclusion (SAFE) Pension Education at Toynbee Hall: SAFE Pensions is targeting employees from minority ethnic groups and women from the age of 45 who are working in the voluntary sector. A majority of employees in the voluntary sector are women and they are often prone to an under provision in retirement due to broken working histories, divorce, and salaries below the national insurance threshold. There are three project workers in SAFE Futures who are marketing the project to charities which wish to provide financial education to their employees and are conducting about 1-hour training sessions and potential one-on-one follow-ups. From July 2006 until May 2007 about 400 people had been reached in about 30 workshops. The target is to provide education and information to about 1,500 people in the voluntary sector. The budget for the whole project is about £250,000 for 2 years. Funding will run out in March 2008. The project might be integrated into the SAFE project work, but will probably continue on a smaller scale.
– Pensionsforce project of the National Association of Pension Funds (NAPF): 18 pension guides who are recruited from the pension industry and work on a voluntary basis deliver one-hour group sessions in the workplace. There is one person at NAPF who is the project manager. Target groups are women and employees in small and medium-sized companies because they very often do not have an occupational pension. Until mid 2007 about 2,500 employees had taken part in one of about 100 Pensionsforce sessions. For the purposes of the pilot the North East, the West Midlands and the South West have been targeted. When the funding from the DWP is running out, the project will probably continue in a different form.
– Pensions Champions-project at Trade Union Congress (TUC): Aim of the project is to recruit and train people who can pass on basic information about pensions to their

colleagues in the workplace. The Pensions Champions are similar to the already established Union Learning Representatives who pass on information about continuing learning possibilities. In the two-year project from April 2006 until March 2008 TUC recruits Pensions Champions and trains them in a 5-day course at a local trade union education centre. One person at TUC working half-time is managing the project and is as well delivering some of the training. So far, about 110 Pensions Champions have been trained. In addition, there have been two courses for the tutors delivering the 5-day workshops.

– Integrating Retirement, Work and Money Workshops at Life Academy: Life Academy provided nine free one-day workshops to their target group of those in their early 50's delivered by their staff employed at Life Academy. A key purpose of the workshops was to provide information, signposting and enhance knowledge and retirement planning. In the agriculture sector, eight similar workshops have been conducted for farmers in the south west of England. In total, Life Academy reached about 180 people. For both projects, evaluation was undertaken before, immediately after and 3 months after the workshops showing impressive results not only with regard to an increased understanding of pension issues but as well with regard to actions being taken three months after the workshops.[43] A follow up 18-months pilot project "50+ Working Lives" funded by the DWP starts in January 2008. The project will be running in the area of Cambridgeshire and Bedfordshire and target those over 50. Planning to reach about 3,500 people the project has a different focus from its predecessors and concentrates on the issue of extending the working life.
– Royal National Institute of the Blind: The project is aiming to raise awareness for pensions and other sources of income in retirement among blind and partially-sighted people who are in employment or self-employed. One person is working for the project. With a budget of about £100,000 for the 2-year period presentations and one-to-one sessions are delivered in person and over the phone. Special challenges in this project involved raising awareness for the project among the target group and providing the information in a useful and accessible format. At the end of the project an audio-guide to pensions will be developed to suit the needs of the target audience. Until November 2007, over 5,000 people have been reached including individual contact via phone, email, and in person with about 1,000 people. In March 2008 the project ends since the funding is running out.
– Successful Retirement Project of National Institute of Adult Continuing Education (NIACE): This project initially targeted small companies with up to 40 employees in the printing industry in South Yorkshire. Project design was similar to the TUC project with the goal being to train employees in the area of pensions who can answer questions about pensions to their colleagues. After widening the target group training will be delivered to about 200 employees who will be a pension expert for about 1,500 colleagues.

Most of the projects except for the TUC Pension champions project which relied on an already established system of Union Learning Representatives had some difficulties in

[43] Three months after the workshops 59% of the initial workshops had obtained a forecast of their state pension, 77% had looked at their occupational/personal pension fund statement, 45% had sought financial planning advice, 45% had increased their savings/investment for retirement.

recruiting companies, organizations, and individuals within their target group. But specific marketing initiatives, the use of well-established existing partner organizations and a widening of the initial target group helped to overcome these difficulties.

An already established organization providing information and guidance to the public on pension matters and resolving disputes and complaints about private pension arrangements is the Pensions Advisory Service (TPAS). TPAS is an independent organization funded by the Department of Work and Pensions (DWP) which is recovered from a levy imposed on occupational and personal pension providers. 471 volunteers from the pension industry are delivering advice on a helpline or in written casework. In the year 2006/2007 TPAS registered 61,644 total enquiries. 6,821 complaints were received, 91% of which have been resolved. Workplace seminars on pensions and retirement planning have been piloted using trained volunteer advisors. In short sessions topics individuals should consider when planning how to provide for their retirement are covered.

Evaluation

In England, financial capability and generic financial advice are high on the political agenda. There are a multitude of initiatives from the FSA, the financial services industry and NGOs to enhance levels of financial capability and to foster financial inclusion. Considerable sums of funding are made available and are likely to increase further in the future with the institutionalisation of generic financial advice. Most of the initiatives mentioned above have been particularly successful in targeting specific and often vulnerable groups. Evaluation conducted reveals a positive impact on participants' understanding of financial contexts and on the attitudes towards financial planning. Hence, education is capable of reaching vulnerable groups if delivered in the right context and at the right time. Partnerships with established and trusted institutions such as unions, jobcentres, children centres, colleges, and surgeries seem to be a particular success factor. If these initiatives are having an overall long-term effect on national financial capability levels, will only be observable in a few years when another baseline survey is conducted. In this context it is important to remember that especially short sessions as well as booklets and CD-ROMs can raise awareness for financial issues, but are probably limited in their mid- and long-term effect. Despite the national strategy, the overall financial education landscape exhibits a piecemeal approach that needs to be integrated so that the initiatives are structured in such a way that they complement each other.

Projects funded by the Pension Education fund have developed innovative and mostly successful ways of how pension education can be delivered. But since the Pension Education fund is ending in March 2008, it is not certain if and how the projects will continue. Reputation built in the 2 years while the projects have been running and experience gained in the process of setting up might be lost. Continuous funding is made available by the Department of Work and Pension for pilot projects aimed at the issue of extending working lives. Governmental focus from this department seems to be shifting away from its emphasis on pension education. Further evidence for this shift can be found in the implementation of the Personal Accounts pension scheme. Taking into account inertia, Personal Accounts are designed to limit the number of decisions individuals have to make through the mechanism of automatic enrolment (HM Treasury 2007, p. 20). In this context there is still a role for financial capability: People need to be able to make an active decision to opt out of the scheme if necessary, which fund to chose and whether to make additional contributions or not. Government is entrusting generic financial advice to enable people to do that. If and how this task will be delivered depends on the concrete structure of a generic financial advice service and remains to be seen in the future. It is crucial that such a service will reach those with debt and advices them to opt out of the Personal Accounts scheme. Means-testing is another issue that the new service needs to consider in advising people on the right steps forward.

Conclusion and Outlook

In Germany and the UK a wide array of financial education initiatives are available. However, considering the amounts of public and private funding made available for the national strategies on financial capability, generic financial advice and financial inclusion—at least on a national level—education on general financial matters seems to take a higher priority on the political agenda in the UK. This might as well be related to the historically less generous pension and social security system in the UK. In that sense, there has been a stronger necessity for enabling consumers to take responsibility for their financial matters.

Converging towards a similar situation as in the UK, cut-backs in social security and decreasing levels of the pension net replacement rates in Germany shift the responsibility for a sufficient provision to the individual. In order to encourage people to take up voluntary private or occupational pensions and to benefit from subsidies available, financial literacy levels among adults need to be improved. Evaluation carried out primarily in England but as well to a smaller extent in Germany shows that financial education in the form of advice and training can be effective in the sense of inducing behavioural change. In Germany, the current education and advice system targeting adult financial literacy with regard to pensions can be evaluated as a strong basis that needs to be further expanded to reach particularly vulnerable groups. In a first step, a more comprehensive evaluation is needed to prove the effect of financial education. Second, building on and extending partnerships with existing organizations and shifting the delivery closer towards people's lives, i.e., into work places, job centres or children centres might increase the number of people reached. Initiatives which are targeting people in their environment at life stages where important decisions need to be taken will probably prove particularly successful. Third, in order to reach vulnerable groups financial education and advice needs to be free of charge. Examples from the UK and Germany in relation to general financial education and debt-prevention have shown that this approach works, even though it needs to be recognized that in order to reach especially vulnerable consumer groups, a considerable effort has to be taken. Marketing the service, establishing partnerships, and targeting the delivery to the audience are costly and time-consuming.

However, the running out of the Pensions Education Fund and the establishment of the Personal Account scheme with automatic enrolment in the United Kingdom might be an indicator that financial education alone does not suffice. Depending on how successful this new pension scheme will be especially for the vulnerable groups, there might be a case for changing behaviour through the institutional setup of pension scheme and supporting this by the delivery of appropriate advice services.

One issue that has not been examined here but that should be taken into account when studying financial education for retirement provision is the regulatory environment. Regulation differs from one country to the next and determines the extent of asymmetries that consumer are facing with regard to the financial service industry. Hence, the regulatory environment of old-age provision should be the subject of future research. A comparison of different countries might shed light as well on strengths and weaknesses of one system compared to the next.

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