



# **Financial Literacy and Banking**

## **Registered Education Savings Plans (RESPs)**

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# Financial Literacy and Banking—RESPs

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## What is this document?

This document:

- 1) Presents the importance of Registered Education Savings Plans (RESPs) as a poverty prevention and reduction tool and a valuable product for financial institutions.
- 2) Presents findings from a survey and focus group of financial institutions and RESPs.
- 3) Presents an overview of some of the challenges and successes related to accessibility of RESPs for families living on a low income in Calgary.
- 4) Invites financial institutions to further explore ways in which they can address barriers to banking and the RESP for families living on a low income.

## Who are we?

Momentum is a nonprofit community economic development organization with 20 years of experience partnering with people living on low incomes in Calgary. Momentum works to improve the economic, social, and personal well-being of individuals and the community by offering programs in the areas of Financial Literacy, Skills Training, and Business Development.

One of Momentum's programs, StartSmart, is designed to assist parents living on low incomes to open RESPs and access the Canada Learning Bond, Canada Education Savings Grant, Additional Canada Education Savings Grant, and the Alberta Centennial Education Savings Grant. Since StartSmart was launched in 2008 at Momentum, 1,759 people have attended StartSmart workshops with a total of 528 new RESPs opened by workshop participants. Further information on the StartSmart program is available at: <http://www.momentum.org/startsmart>.

## Why this document?

This document may be of use to financial institutions, financial literacy program providers and other community economic development organizations. This document's purpose is to:

- Share our experience in order to improve program design and delivery.
- Enhance relationships and partnerships within and across sectors.
- Enhance opportunities for people on lower incomes to open an RESP.

## Importance of RESPs

Providing support for people living on lower incomes to open an RESP contributes to the long-term strength of local economies in Canada. Research demonstrates that recipients of post-secondary education (PSE) in Canada earn higher median incomes than non-recipients of PSE<sup>i</sup>. International research findings indicate that parental financial assets are related to post-secondary education completion<sup>ii</sup>. For residents of Alberta, there are up to \$10,000 in provincial and federal government grants available for a child with an RESP<sup>iii</sup>. The StartSmart program contributes to Calgary's economic well-being by reducing the potential barriers for parents

earning lower incomes to open an RESP for their children, thus resulting in children of StartSmart participants being able to access post-secondary education and being less likely to live in poverty as adults. For many StartSmart participants, the RESP is the initial product that allows them to enter or re-enter a relationship with a major financial institution, instead of utilizing high cost financial companies such as the cheque-cashing and pay day loan businesses.

The opportunity to provide a financial service to StartSmart participants can also create an economic benefit for participating financial institutions. The primary demographic of StartSmart is new Canadians who are currently living on low incomes, though many of the participants are employed and will increase their earnings as they become more established in Canada. A positive customer experience through opening a RESP can create customer loyalty resulting in the purchase of future financial products. Recent research of the Alterna Credit Union Community Micro-Loan program highlights the business benefit of targeting financial services at people often marginalized from standard financial services. The research indicates that loan recipients have purchased over \$1 million in other financial products from Alterna, to date. For the StartSmart program, not only are the participants potential long-term customers, but their children are also possible clients.

## **RESP products and service**

### **Survey results**

The experiences of StartSmart staff members, whom accompany participants to financial institutions to open RESPs, along with anecdotal reports from participants, suggested the information participants receive at financial institutions is often inconsistent.

Therefore, in 2009, StartSmart staff conducted a survey related to RESP products and services provided by financial institutions in Calgary. Nine financial institutions, including representatives from a total of 20 branches, participated in the survey. Branches were selected based on their proximity to Momentum and to lower-income households. As anticipated, information received was very inconsistent and often incorrect. Therefore, Momentum staff contacted the financial institutions' Customer Contact Centre to accurately determine the RESP policies and procedures of each financial institution. Staff contacted the Customer Contact Centre again in 2011 to verify or update the original results. In both 2009 and 2011, the following questions were asked:

1. Do you have an RESP product?
2. Is there a minimum deposit to open the account? If so how much?
3. What are your RESP investment options (i.e. RESP Savings Accounts, RESP GIC's and RESP mutual funds)?
4. Is there a monthly minimum deposit? If so how much?

The results of the survey indicated that two financial institutions were particularly strong in customer service for RESPs. When representatives at their branches were asked the survey questions, the answers were clear and consistent. Representatives at these branches were knowledgeable and friendly and one branch representative in particular offered an unexpected level of additional support. The survey results are generally consistent with feedback from participants in the StartSmart program.

Survey results are presented on the following page.

### **Focus group results**

A focus group was conducted in 2011 by an external evaluator with participants who had attended a StartSmart workshop and had opened RESPs for their children. The purpose was to gather in-depth information about their experiences in the program and opening an RESP account.

Findings under the following themes were documented:

**Presentation of the RESP by financial institutions**—Participants unanimously commented that their financial institution did not have complete or accurate information about how to open RESPs and get the grants. All described feeling discouraged by financial institution employees to open RESPs. One employee stated incorrectly, “you do not have kids born here in Canada, so I cannot offer you an RESP.”

**Barriers associated with having a lower income**—Participants all stated that they did not have high paying jobs, and therefore, would not be making large contributions to their RESP. They appreciated the support and encouragement from the StartSmart program to begin saving, even in smaller amounts. Participants thought the financial institutions were not equally consistent in encouraging this approach to savings. They were discouraged by financial institutions’ requests to open accounts with minimum deposits. Making a deposit is not actually a requirement of opening an RESP and getting certain grants. The suggested minimum amounts by bankers were also sometimes unrealistic to a person’s low-income situation.

In conclusion of the focus group, the following suggested improvements to the program were noted by the external evaluator:

- Ensure financial institutions are well-educated and have accurate information about opening RESPs.
- StartSmart could make greater efforts towards close cooperation with specific bank branches to ensure participants have a list of “friendly financial institutions.”

The focus group sample was small and may not reflect the in-depth view of a larger group. However, the findings of the study were consistent with feedback regularly received by StartSmart staff.

**StartSmart Financial Institution Survey Summary**

<b>Institution</b>	<b>RESP Savings Account Option?</b>	<b>RESP Savings Account Minimum</b>	<b>RESP GIC?</b>	<b>RESP GIC minimum</b>	<b>RESP Mutual Fund?</b>	<b>RESP Mutual Fund Lump Sum Min</b>	<b>RESP Mutual Fund Monthly Minimum</b>	<b>Comments</b>
Financial Institution A—Chartered Bank	Y	0	Y	500	Y	100	25	Consistent knowledge of RESPs across the organization. Flexible.
Financial Institution B—Chartered Bank	Y	0	Y	500	Y	500	25	Consistent knowledge of RESPs across the organization. Flexible.
Financial Institution C—Chartered Bank	Y	0	Y	1000	Y	500	50	RESP Savings Account with minimum of \$0 is a good feature. Knowledge of RESPs not consistent across organization.
Financial Institution D—Chartered Bank	Y	\$25/mo	Y	1000	Y	500	50	
Financial Institution E—Chartered Bank	Y	\$25/mo	Y	500	Y	1000	100	
Financial Institution F—Chartered Bank	N	n/a	Y	500	Y	500	25	Knowledge of RESPs not consistent across organization.
Financial Institution G—Credit Union	N	n/a	Y	500	Y	500	25	Knowledge of RESPs not consistent across organization. Traveling sales rep means limited access.
Financial Institution H—Credit Union	N	n/a	Y	500	Y	500	50	Knowledge of RESPs not consistent across organization. Traveling sales rep means limited access.
Financial Institution I—Chartered Bank	N	n/a	N	n/a	Y	500	25	While product offering is limited, the low monthly minimum on Mutual Funds makes it reasonable.

## Challenges and successes

There are individual, as well as system, barriers to accessing financial products and services. StartSmart works closely with individuals to address any issues related to opening an RESP, such as, knowledge, confidence, understanding, and required documentation (such as a Social Insurance Number). Once an individual is ready to open the RESP they then may face significant barriers at a systems level in terms of RESP products and service.

Our survey results, focus group findings and feedback from participants indicate that financial institutions could enhance their RESP service provision to more effectively support their clients (or potential clients). In terms of the RESP product and service, the following barriers exist:

### Product

- Overwhelming level of choice:
  - Bank, credit union, investment firm, group plan provider.
  - Investment choice—savings account, GIC, mutual funds.
- Unmanageable minimums for participants who want to contribute their own money.

### Service

- Incorrect and/or inconsistent knowledge at some financial institutions.
  - Participants have been advised that they cannot only apply for the ‘free’ government money and that they must contribute their own money as well.
  - Staff at financial institutions lack knowledge about the government grants and bonds available to participants and sometimes fail to apply for all the benefits.
  - Staff has advised clients of incorrect minimum contributions.
- Sales pressure to commit to other banking products and services.
- Intimidating nature of financial institutions.
- Language barriers:
  - Accessing financial institution staff that speaks their language of choice.
  - Accessing financial institution staff that is able to use a plain language approach to explaining banking jargon and terminology.

To reduce these barriers, the StartSmart program has taken the following actions:

- Provided participants a take-away of ten key questions that they can ask an RESP provider in order to better understand the RESP.
- Encouraged participants to show financial advisors the summary of all four grants available to families in Alberta. This is listed at the end of the ten key questions and ensures that a financial advisor knows the participant wants to apply for them all.
- For those participants who still do not feel comfortable going to a financial institution, a Momentum staff member or volunteer will accompany the participant to the bank.
- Informal partnerships with StartSmart and several bank branches have been established in Calgary in order to improve participants’ experiences in opening an RESP.
  - StartSmart staff has met with branch teams to discuss the RESP, barriers to opening the RESP for families living on a low income, why it’s important to apply for all the grants and the importance of the RESP and financial literacy for their clients.
  - A list of “recommended bankers” has been established from the partner branches so that StartSmart participants can contact a welcoming and knowledgeable banker directly.

## An invitation to the financial sector

In order to address the aforementioned challenges and to build upon successful actions, Momentum invites financial institutions in Calgary and Canada to further:

- Partner with a local community organization focused on financial literacy to build an understanding of the barriers that exist for their clients.
- Speak to their front-line staff about client barriers and to brainstorm ways in which they may better address the financial literacy needs of their clients.
- Support their staff with resources and professional development opportunities related to financial literacy and banking barriers.
- Attend a local Money Management workshop at Momentum (or other community financial literacy organizations) in order to:
  - Observe first-hand some of the barriers and concerns expressed by participants living on lower incomes.
  - Observe the plain language approach of financial literacy facilitators, and to observe the curriculum used to cover the concepts of banking, RESPs, budgeting, etc.
- Find other ways to partner with local community organizations and financial literacy programs in order to advance financial literacy for all and assist clients in developing their financial assets.

## Summary

The RESP remains a valuable and important tool in poverty prevention and reduction. There are numerous barriers to opening the RESP for people living on a low income.

However, several financial institutions have demonstrated an interest in resolving the barriers by partnering with Momentum to learn more about the challenges and to address them. This is proving to have a significant impact on StartSmart program participants and shows great promise in addressing a wider range of financial literacy issues. This relationship with financial institutions, in its early stages, is critical to the success of the StartSmart program and is tremendously appreciated.

Momentum encourages other program providers to share their experiences of engaging with the financial sector so that we may continue to learn about the opportunities and challenges that exist in banking for families living on lower incomes. Momentum also encourages the financial sector to continue and deepen the conversation on tangible changes to banking products and services, especially related to the RESP, in order to reduce barriers to accessing and utilizing the savings plan and grants.

As outlined in the Federal Task Force on Financial Literacy report, the financial services sector has a critical role in improving the financial literacy of all Canadians. Collaborative efforts involving the voluntary sector, governments and financial service providers can result in asset-building success for families and ultimately more prosperous local economies for all.

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<sup>i</sup> [Statistics Canada \(2006\)](#). Average employment income, by age group and education level.

<sup>ii</sup> [Zhan, M. and Sherraden, M. \(2009\)](#). Assets and liabilities, educational expectations, and children's college degree attainment.

<sup>iii</sup> [Momentum \(2011\)](#). The StartSmart Program and Government Grants.