



EMPTY WALLET: THE EMERGENT RISK OF FINANCIAL ILLITERACY WITHIN THE CAF

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JCSP 49

Exercise Solo Flight

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EMPTY WALLET: THE EMERGENT RISK OF FINANCIAL ILLITERACY WITHIN THE CAF

One third of CAF members are illiterate and unreliable! That statement undoubtedly compels a reader to throw their stick and gloves to the ice bristling for a fight, but it is true ... in a certain context. Financial literacy in Canada is poor and in assuming that the CAF reflects the society it serves, it is likely that this illiteracy is manifest within its ranks. However, unlike the average citizen, the demands of service require CAF members to be held to a higher standard of conduct. Unfortunately, low levels of financial literacy manifests as reduced resilience amongst CAF members. This low resilience creates vulnerabilities that serve to undermine a myriad of systems that contribute CAF reliability and operations.

This paper will argue that in facing personal finance headwinds, poor financial literacy within the CAF is emerging as an unmitigated institutional risk that would benefit from a more deliberate leadership response. This position will be explained by first describing key economic and personal finance challenges facing CAF members. Secondly, it will outline the current programs that offer some level of mitigation. Thirdly, it will explain that desynchronized, underemphasized and in some areas underfunded nature of these programs fall short in ensuring financial resilience. Fourthly, it will illustrate how these challenges undermine reliability and create an emergent area of institutional risk.

FINANCIAL ILLITERACY AMONGST CAF MEMBERS

Financial literacy is essential to financial resilience. By some accounts, “30% to 40% of retirement wealth inequality may be accounted for by differences in financial knowledge.”¹ It is through this literacy that individuals are able to make wise “decision across a range of financial concepts to improve [their} financial well-being ... and to enable participation in economic life.”² The least financially savvy tend to incur high transaction costs, pay higher fees in general and use high-cost borrowing. For example, in a recent study of credit card use, the least financially knowledgeable individuals in the sample made up 29% of the credit card holder population, but accounted for 42% of the penalty fees³. As such, few would dispute the necessity for financial literacy, but equally few would readily recognize that it is as present in Canadian society as would be thought.

For the past two decades Professor Anna-Maria Lusardi has conducted extensive research into the financial literacy rates of G20 countries. She confirms that on average only two thirds of G20 populations are financially literate with Canada being ranked as

¹ “Episode 217: The Expected Returns of Financial Literacy.” The Rational Reminder Podcast, 8 September 2022. <https://rationalreminder.ca/podcast/217>

² “Episode 232: Dr. Annamaria Lusardi: The Economic Importance of Financial Literacy.” The Rational Reminder Podcast, 22 December 2022. <https://rationalreminder.ca/podcast/232>

³ “Episode 217: The Expected Returns of Financial Literacy.” The Rational Reminder Podcast, 8 September 2022. <https://rationalreminder.ca/podcast/217>

one of the most financially literate at a shockingly low 65%⁴. As one thinks of themselves, and by extension their friends and family, they likely are hesitant to use the label “financially illiterate”. However, when asked generic questions about the foundational financial concepts of risk diversification, inflation, numeracy and compound interest, Gallup Surveys reaffirm this point⁵. This is all to say, a full one third of Canadians lack the financial literacy to make wise financial decisions making. This in turn makes them vulnerable to a myriad of negative financial outcomes.

It is often said that the CAF is a reflection of Canadian society. This is reaffirmed in the CAF’s foundational document, *Trust to Serve*⁶ and again in its recently published *Retention Policy*⁷. Assuming this to be true, it is likely that the financial illiteracy challenges present in the general population are resident within the CAF. Anecdotally, as the personnel managers and social support staff of any CAF unit could tell you, a notable number of its members face complicated financial challenges that offer varying degrees of distraction to their employment. Accepting that there has always been a portion of members facing these challenges, systems have been created to assist these members and minimize impacts on operations. As such, the aforementioned illiteracy rate has not yet created a large problem for the CAF. However, as will soon be explained, the financial challenges facing CAF members today are mounting and will likely stretch even the most financially savvy. As such, CAF members with low financial literacy are likely to become all the more vulnerable.

AN ESCALATINGLY HOSTILE FINANCIAL ENVIRONMENT

As British Parliamentarian, Lord David Willets describes in his book, “*The Pinch: How Baby Boomers Stole Their Children’s Future – And Why They Should Give It Back*”, in a democracy it is best to be part of “the bigger group”. This is to say that government policy is driven by the largest voting block⁸. For those countries that experienced a mid-20th century Baby Boom, this has meant that government policies and spending has been geared towards people born 1950 and 1975. When this group was young, government benefits targeted students and families⁹. When they got to the peak

⁴ Global Financial Literacy Excellence Center. *2019 S&P FinLit Survey*. Washington: George Washington University, 2023. <https://gflec.org/initiatives/sp-global-finlit-survey/>

⁵ The questions were as follows: is it safer to put your money into one business or investment or to put your money into multiple businesses or investments; suppose over the next 10 years, the prices of the things you buy double, if your income also doubles, will you be able to buy less than you can buy today, the same that you can buy today, or more than you can buy today; suppose you need to borrow \$100, which is the lower amount to pay back: \$105 or \$100 plus 3%; and Suppose you put your money in the bank for two years and the bank agrees to add 15% per year to your account. Will the bank add more money to your account the second year than it did the first year, or will it add the same amount of money in both years?

⁶ Canada. *Canadian Armed Forces, Trusted to Serve*. Ottawa: Canadian Defence Academy – Canadian Forces Leadership Institute, 2022.

⁷ Canada. *Canadian Armed Forces, Retention Strategy*, Ottawa: National Defense Headquarters, 06 October 2022.

⁸ McNicoll, G. Review of *The Pinch: How the Baby Boomers Took Their Children’s Future – And Why they Should Give it Back*, by David Willetts. *Population and Development Review* Vol 36, Iss 4 (Dec 2010): 848-850 and “Young Generations Are Now Poorer Than Their Parents And It’s Changing Our Economies.” YouTube video, 16:09. Posted by “Economics Explained,” 16 June 2022. <https://www.youtube.com/watch?v=PkJITKUaF3Q>

⁹ “Young Generations Are Now Poorer Than Their Parents and It’s Changing Our Economies.” YouTube video, 16:09. Posted by “Economics Explained,” 16 June 2022. <https://www.youtube.com/watch?v=PkJITKUaF3Q>

of their careers, policy focus turned towards lower income taxes, less business regulation and more domestic industry protection¹⁰. At a micro level, this included a focus on zoning laws to protect the value of their homes and neighborhoods¹¹. Now as they retire and age, governments seeking mandates are wise to focus on retirement benefits, pensions schemes, medical infrastructure and protecting against taxes on wealth¹². The Liberal Government's most recent budget is an affirmation of this where it is running a tremendous deficit (in essence pushing the cost to the young to pay over years to come) to fund programs that are most heavily concentrated to benefit the older generations of Canadians¹³. At its core, these policy trends mean that currently serving CAF members can likely expect costs of living to rise over the middle to long term.

Government debt stands out as one such area these skewed policies will manifest. This will likely result in higher taxes to cover the costs of the large cohort of Boomers drawing upon services and by the nature of their retirement are no longer paying significantly to fund the system. The service of greatest consequence affected by this trend is undoubtedly healthcare, which already demonstrated its limits during the pandemic¹⁴. On current trajectories, it is likely that the provision of service will be reduced and a two tiered-system will emerge with greater force. Another area of consequence will be education. Continuing on current trends, it is likely that public subsidization of post-secondary school will decrease while the demands for trained workers will continue to increase¹⁵. As such, costs to CAF members seeking to prepare their children for gainful participation in the workforce will likely increase.

Another area of interest will be slow forecasted economic growth in Canada. As a resource-based economy with significant infrastructure costs due to its geography, Canada is not be well positioned to capitalize on the tech-centric trends of the 21st century economy¹⁶. As well, after history's longest recorded bull market combined with the disruptions of the pandemic it is likely that interest rates will remain high in the near to middle term. If the aforementioned Willet Theory holds true, this high-interest environment may even be encouraged by income-investing Boomer's seeking to fund

¹⁰ Ibid

¹¹ Ibid

¹² Ibid

¹³ Generation Squeeze. "Analysis of the 2023 Federal Budget." Last accessed 05 May 2023. https://www.gensqueeze.ca/analysis_2023_federal_budget#top

¹⁴ Samantha Edwards, "Final Coronavirus Update: the Globe reflects on three years reporting on the pandemic," *Globe and Mail*, 15 March 2023.

¹⁵ Bianna McGurran "College Tuition Inflation: Compare the Cost of College Over Time," *Forbes Advisor*, 28 March 2022. and "Young Generations Are Now Poorer Than Their Parents And It's Changing Our Economies." YouTube video, 16:09. Posted by "Economics Explained," 16 June 2022. <https://www.youtube.com.com/watch?v=PkJITKUaF3Q>

¹⁶ "The Problem with Canada's Economy | Canadian Economy." YouTube video, 11:24. Posted by "Econ," 19 April 2023. <https://www.youtube.com.com/watch?v=UhG4m9V-Di8> and "The Stagnating Economy of Canada | Economics Explained." YouTube video, 13:18. Posted by "Economics Explained," 03 August 2022. https://www.youtube.com.com/watch?v=GtksJpfoM_g&t=2s

their retirements while concurrently tamping down inflationary costs of living. This will likely maintain high cost of borrowing for CAF members.

And of course, in Canada, when speaking of financial headwinds, one cannot help but discuss housing. Canada has some of the highest housing costs within the G7. It has not always been this way, but due to constraining Not-in-My-Back-Yard (MIMBY) zoning laws, housing production has failed to keep up with demand for decades. This is evident in housing costs as a proportion of income increasing decade over decade. For example, in the 1980s despite high interest rates, in a median United States city, the median household income could have paid off the median home in within 5 years. This same situation today would take 30 years¹⁷. However, Canada is several degrees more expensive than the United States, and with CAF bases located in some of Canada's most expensive cities, this problem is made all the more challenging for CAF members. Unfortunately, although that is where we are at today, it can be assumed that this trend will become even more challenging in the decades to come. This is because, to offset the Boomers exodus from the workforce, Canada is immigrating record numbers of people¹⁸. However, housing policies have not been adapted to accommodate the increased population. If anything, as Boomers age in place, and homes that once held whole families are reduced to couples. As such, housing density is reducing in Canada's largest cities, despite the necessity increasing.

A final area of emerging concern is the environment. Finally, worldwide consensus has been found to affirm that the free dumping of hydro-carbons into the atmosphere with the bulk of them being distributed during the last half of the 20th century has resulted in human induced climate change. At this time, and likely into the foreseeable future, the preferred tool of government to curb this trend is to place a cost on carbon emissions. Unfortunately, being the most active in society, young and middle-aged generations will experience these costs most significantly¹⁹. These demographics represent CAF members and their families. As such, it is likely that CAF member's household finances can expect a general increase in cost of living as they convert to a low carbon emitting economy. This will be seen at a personal level through the necessary acquisition of energy efficient large cost items like appliances and vehicles. As well, it will be at an institutional level as governments raise funds to convert public infrastructure such as vehicle charging stations and mass transit systems.

Cumulatively, unfriendly government policy, slow economic growth and additional systemic costs are likely to create a financial environment that is more hostile than anything experienced by Canadians in nearly 100 years. Due to expectations of

¹⁷ "Young Generations Are Now Poorer Than Their Parents And It's Changing Our Economies." YouTube video, 16:09. Posted by "Economics Explained," 16 June 2022. <https://www.youtube.com/watch?v=PkJITKUaF3Q>

¹⁸ Canada, Immigration, Refugees and Citizenship Canada, Departmental Plan 2023-2024. Ottawa: 09 March 2023. <https://www.canada.ca/en/immigration-refugees-citizenship/corporate/publications-manuals/departmental-plan-2023-2024/departmental-plan.html#s9>

¹⁹ "Young Generations Are Now Poorer Than Their Parents And It's Changing Our Economies." YouTube video, 16:09. Posted by "Economics Explained," 16 June 2022. <https://www.youtube.com/watch?v=PkJITKUaF3Q> and Generation Squeeze. "Climate Justice." Last accessed 05 May 2023. Climate Justice - Generation Squeeze (gensqueeze.ca)

conduct, CAF members will not only have to survive, but succeed in this environment. Unfortunately, as will now be explained, the demands of service in the CAF make employing even the most basic personal finance principles very challenging. As such, even the most financially literate CAF members will likely be stretched to succeed financially, let alone the 30% who are illiterate.

FINANCIAL CHALLENGES DUE TO THE DEMANDS OF SERVICE

Research and self-help guides on personal finance abound, but as Wall Street Journal personal finance columnist, Jonathan Clements, recently noted during a promotion for his newest book, *My Money Journey: How 30 People Found Financial Freedom - and You Can Too*, despite having written over 1000 articles on personal finance, they all seem to revolve around the same twenty topics²⁰. Two of the most prominent of these topics provide utility in illustrating the challenges facing CAF members. They are stability and spend-less-than-you-earn.

Stability

As evident in macro-economics, stability is essential to national wealth generation. One need look no further than Norway contrasted against Venezuela for an example of such²¹. Both countries enjoy a birthright to fantastic oil wealth, but only one of the two has the necessary stability to capitalize upon it. The same is true of personal finance. Households that have endured spousal break-ups or loss of income can find their financial health significantly eroded by contrast to those that remain comparatively stable over years and decades²². Some studies suggest a higher rate of domestic relationship distress within the military compared to the general population. However, the CAF does not collect this data, so it is difficult to confirm if this is a factor. As well, being salaried government employees, CAF members' income is comparatively more reliable over the long term than average Canadians. As such, at first glance, CAF members might be considered as enjoying a comparatively high level of financial stability. However, unlike average Canadians, CAF members are expected to move regularly. Including temporary assignments, exercises and postings, CAF members cannot assume they will be in anyone location for more than a number of years if not months. This makes it difficult to invest in a wide range of financially beneficial activities. Presumably some examples would include CAF members' (and their families) reticence to start businesses (even side-hustles), purchase primary residences and investment properties, undertake property value raising upgrades to their homes or start new careers. As such, they cannot easily realize their full financial potential as compared to average Canadians. Even at a micro level, this instability makes it difficult to leverage even the most basic personal finance

²⁰ "Episode 247: Bank Runs (plus Jonathan Clements on "My Money Journey")." The Rational Reminder Podcast, 6 April 2023. <https://rationalreminder.ca/podcast/247>

²¹ "The Economic Failure of Venezuela." YouTube video, 12:32. Posted by "Economics Explained," 14 November 2019. https://www.youtube.com/watch?v=7_mThYXDr_s

²² Tyler Lang "The Financial Impact of Divorce," Forbes, 20 October 2022. <https://www.forbes.com/sites/forbesfinancecouncil/2022/10/20/the-financial-impact-of-divorce/?sh=7ffa057c19e5>

tool of budgeting. Budgeting is essential to good financial health. It enables savings necessary to offset shocks, fund future consumption and permits financial planning based off personal historical costs of living. Being able to make assumptions about short term costs of living are critically to budgeting. However, due to the transitional nature of CAF employment, it is very difficult for CAF members to exercise good budgeting practices.

Spend-Less-Than-You-Make.

Based off the Bank of Montreal 2022 edition of its annual survey into Canadian retirement savings rates, 55% of Canadians find it difficult to save for their futures²³. Whether this be to save for unforeseen emergencies or retirement, as costs of living increase and wages decrease, saving for the future remains a challenge. As a result of Superannuation, CAF members enjoy an institutionally imposed pension regime which puts them several degrees ahead of average Canadians. However, when this pension cannot easily be accessed until age 65 while the mandatory retirement age remains 55, CAF members must anticipate a career transition point as a matter of course. This transition is navigable, but more to the point of savings challenges is that CAF members cannot anticipate where they are going to live and if their salary will be sufficient to maintain their standard of living once they arrive there. Historically, this has been a challenge for CAF members posted to Canada's major cities. However, due to aforementioned housing trends, more-and-more bases have fallen within the envelop of this challenge. Over the past 40 years, the CAF has sought to offset these costs with various benefits. The latest incarnation of was the Posted Living Differential which focused on offsetting costs of living based off an Ottawa-based consumer price index benchmark²⁴. However, its inflexibility meant that it did not adapt to inflation. For example, the last rate established for Toronto was \$1485 per month in 2008 when the average home price was \$379,080. However, this rate remained the same despite the average home price increasing more than 300% to an eye-watering \$1.19 million in 2022!²⁵ The system finally broke when the bench-mark city of Ottawa experienced a similar housing price increase with the average 2022 price now sitting at \$691,528 compared to the \$244,484²⁶ when the policy first came into being in 2005 (a 280% increase). The PLD is in the process of being transitioned to the Canadian Forces Housing Differential (CFHD). However, being tied to a target of ensuring no member of

²³ Bank of Montreal. "BMO Annual Retirement Study: Average Amount Canadians Believe They Need to Retire Increases by 12 Per Cent, But Fewer Than Half are Confident They Will Have Enough to Achieve It." Published 14 February 2022. <https://newsroom.bmo.com/2022-02-14-BMO-Annual-Retirement-Study-Average-Amount-Canadians-Believe-They-Need-to-Retire-Increases-by-12-Per-Cent,-But-Fewer-Than-Half-are-Confident-They-Will-Have-Enough-to-Achieve-It>

²⁴ Introduction of the Canadian Forces Housing Differential. CANFORGEN 054/23 CMP 028/23 211728Z MAR 23 and Canada. Military Personnel Command, "Canadian Armed Forces Economic Increase and Canadian Forces Housing Differential (CFHD) Policy Brief", Director General Compensation and Benefits, 21 March 2023

²⁵ Toronto Regional Real Estate Board. "Historical Statistics". Last visited 02 May 2023. <https://trrebb.ca/index.php/market-news/market-watch>

²⁶ The Canadian Real Estate Association, "MLS Single Detached Median Price", Ottawa Real Estate Board, Last visited 5 May 2023, <https://creastats.crea.ca/mls/otta-median-price>

the CAF pays more than 25% of their income for a two-bedroom rental apartment, this cost offset is even less generous than the already defunct PLD. Therefore, CAF members that were already struggling to save for their futures are likely to find their personal finances even more stressed, especially if they have the misfortune of being posted to an expensive city such as Toronto, Vancouver, Victoria, Ottawa or Halifax.

The factor of instability combined with a financially under-compensated requirement for mobility reduces CAF members' financial resilience. These are both indicators of the additional challenges facing CAF members. However, as illustrated by it progressively becoming more difficult to spend-less-than-you-make due to upward cost of living trends, these are economic forces facing all Canadians. In fact, as will now be discussed, a review of the compensation and benefits offered to CAF members suggest that they are paid slightly better than the national average. As such, in part the challenges facing CAF members as compared to their peers are partly situational and it is likely some of the financial restlessness being expressed can be explained by low financial literacy.

CONTEMPORARY COMPENSATION AND BENEFITS

By no means would someone join the CAF to become wealthy. Even the best paid members of the organization only earn a fraction of what their civilian chief executive officer counterparts earn. That said, based off salary alone, when compared to civilians of relatively similar seniority and experience, CAF members' earnings are slightly above the national average. As well, when considering all the additional compensations and benefits unique to the CAF, as an organization it should consider itself relatively well compensated. As such, why is it that CAF members are currently expressing such restlessness? In part, this restlessness may act as an additional indicator of low financial literacy resident within the CAF.

Salaries

CAF members are paid based of a tiered pay scale that rewards progressively more educated and experienced members with increasing amounts of pay. As of 1 April 2023, the entry level uneducated member starts their rate of pay at \$41,904 per year and after approximately three years, a time served comparable to a civilian semi-skilled laborer, their pay is \$70,344 with annual incremental jumps from there²⁷. When compared to the average Canadian earning \$54,000²⁸ in 2021, these figures are actually quite fair. One might ask if this fairness holds true in expensive metropolitan centers such as Toronto and Vancouver? With only small outposts in these centers, there is only a small concentration of lowest paid full-time soldiers in these areas. With civilian

²⁷ Canada. Military Pay, Pension and Benefits, "Pay rates for non-commissioned members", Effective 1 April 2023, <https://www.canada.ca/en/department-national-defence/services/benefits-military/pay-pension-benefits/pay/non-commissioned.html#private23>

²⁸ Statistics Canada, "Income of individuals by age group, sex and income source, Canada, provinces and selected census metropolitan areas," Published 2 May 2023, <https://www150.statcan.gc.ca/t1/tbl1/en/tv.action?pid=1110023901>

average pay being \$56,700 and \$55,300²⁹ respectively, CAF members living in these metropolitan centers are not as well compensated as peers employed at the large CAF bases. However, as mentioned previously, efforts under cost-of-living deferral programs attempt to offset these differences. As one ascends the ranks, the discrepancy between CAF member pay and comparable civilian earnings begins to diverge in favor of civilians³⁰. This does present some challenge and may in part explain the emergent “missing middle” as described in the CAF reconstitution order. However, some attrition is healthy because not everyone will progress to the most senior ranks of the CAF. As well, as will now be explained, beyond salaries there are additional compensations and benefits that are attractions to service in the CAF.

Additional Benefits

As described in the CAF’s recently published Attraction Site³¹, there are extensive non-pay related benefits to service in the CAF. Perhaps the most important with regards to personal finance is the CAF’s Pension Program. One of the few institutions left in Canada offering such, this program is absolutely invaluable because it ensures that its beneficiaries will have a guaranteed income upon retirement that is more than likely to exceed that of average Canadians³². Beyond this, programs such as personal and family medical and dental programs, generous vacation leave programs, full-cost-paid moves, subsidized services such as insurance, banking, recreation and housing, military discounts with local and national retailers, and leave travel assistance are all benefits that have a value beyond salaries. In receiving these benefits by virtue of their service, CAF members are in effect augmenting their salaries in comparison to their civilian peers who must obtain the same at personal expense. More controversial within the CAF is specialist, foreign service, environmental and cost-of-living allowances. These stipends augment individual member’s pay as a way of compensating them for working in more austere or challenging circumstances. However, the subjective and inflexible nature of how these allowances are established create some angst within the organization and occasionally encourage institutionally disadvantageous behaviors. For example, members earning a certain allowance at their current posting may be hesitant to move to a new posting because they will lose their allowance, even though that move will better suit the institution. Although when these frictions occur they are very loud and damaging to moral, they are case-by-case and therefore do not figure prominently in understanding macro-economic financial challenges facing CAF members. In general, it should be

²⁹ Ibid

³⁰ According to Salary.com, the median annual Chief Executive Officer salary in Canada is C\$546,752, as of May 01, 2023, with a range usually between C\$406,368-C\$761,959, while according to the CAF Officer Pay Scale as of 1 April 2023 General Officers from the rank of Brigadier General to Lieutenant General will earn between \$182,352 and \$290,904.

³¹ Canada. Life in the Forces, “Pay and Benefits”, last visited on 5 May 2023, <https://forces.ca/en/life-in-the-military/#bt>

³² Canada. Pay, Pension and Benefits, “Public Service Pension Plan”, last modified 21 April 2023, <https://www.canada.ca/en/treasury-board-secretariat/topics/pension-plan.html>

understood that between their salaries and additional benefits, CAF members are relatively well paid compared to civilians.

As an aside, it should be noted that the concept of “well paid” needs to be better understood within the concept of standards of living. For example, what should be considered an appropriate standard of living for a CAF member and their family. Generally, it can likely be agreed that Canadians do not want see their CAF members squatting in huts outside of military bases, but likewise they likely do not want to see them living in comparable mansions with exception of perhaps only the most senior members. If the fact that the majority of CAF Residential Housing Units are designed as three bedrooms with one to two bathrooms and that foreign service premiums are geared to augment the income of members employed elsewhere in the world to live in similar circumstances regardless of cost, it is likely that this size of home can be assumed as a standard. However, members’ needs and standard of living expectations change over time as they create and grow families. As such, although calibrating pay to defined standards of living expectations is likely possible, it is outside the scope of this paper. All that needs mention is that in general, CAF members are well paid compared to their civilian counterparts.

In considering the competitive rates of CAF compensation, why do CAF members continue to express financial restlessness? This is likely due in some part to human nature³³. However, it could be in part due to the aforementioned financial illiteracy. Presumably, people who are financially illiterate are not only unable to capitalize on their financial situation, but they would also not be easily able to recognize the strength of their position.

CAF FINANCIAL EDUCATION AND MENTORSHIP

CAF members are not without resources in overcoming their financial illiteracy. A primary resource to this end is the Service Income Security Insurance Plan (SISIP), an organization that provides CAF members with financial counselling and planning advice as well as acts as a vendor for subsidized insurance and investment products³⁴. As well, members attend some financial planning educational sessions as part of their basic training and in conjunction with pre-deployment training prior to expeditionary operations³⁵. However, leveraging SISIP resources is not mandatory and the guidance is only as good as the questions asked by the members. As well, financial lectures provided by the institution are limited in frequency and scope. As such, unless a member were to enroll possessing a uniquely high level of financial literacy (which cannot be assumed based of public education curriculums) or they have a personal interest, it is unlikely that CAF members will be able to fully realized the financial benefits offered to them by the CAF. Therefore, financial restlessness will likely continue and in the face of impeding

³³ Stanley, Thomas J., and Sarah Stanley-Fallaw. *The Next Millionaire Next Door: Enduring Strategies for Building Wealth* (Lanham: The Rowman & Littlefield Publishing Group, Inc, 2019), 92-120.

³⁴ Canadian Forces Morale and Welfare Services, “SISIP Landing Page”, last accessed on 5 May 2023, <https://cfmws.ca/insurance-finance>

³⁵ Canada. Canadian Forces Leadership and Recruit School, “Basic Military Officer Qualification – Qualificaiton Standard and Training Plan,” 2016 edition.

headwinds will likely result in increasingly low financial resilience. Although the same could be said of civilians, unlike civilians, CAF members must be held to higher standards of conduct in order to be entrusted with the defense of Canada. As such, as low financial literacy expands low financial resilience, institutional risk will emerge.

AREAS OF INSTITUTIONAL RISK

Due to the impending financial hardships facing CAF members in the middle future, it is likely that the CAF will observe significant challenges in the following four focus areas: attraction, retention, reliability and mobility. Once stressed, these focus areas will cumulatively undermine CAF defensive capabilities.

Attraction

The CAF faces an attraction challenge. Generally speaking, its salaries and benefits are relatively competitive as compared to its civilian competitors. However, as has always been the case, the demands of service serve to deter a large number of Canadians from enrolling. For example, expectations for mobility, working in austere conditions and having the potential to deploy to violent and dangerous environments are likely not commonly sought out characteristics of preferred employment in the modern age. Beyond this, Generation Z and Millennial comfort with frequent employer and career change present a trend that runs contrary to the CAF's templated system of contract lengths³⁶. Perhaps even more challenging is the CAF's enduring challenges with reforming its culture. As described in the CDS initiating directive for the Commander of Professional Culture Change³⁷, the CAF has fallen out of step with societal trends within Canada. As such, as demographics shift and the nature of work changes, the CAF presents itself a less-and-less attractive employer. It can no longer be an institution built for and populated by predominantly white heterosexual men. Without making itself more welcoming and inclusive to other gender and racially minoritized groups, it excludes itself from the pools of the eligible Canadian workforce that are growing most quickly. Once weighing these non-financial considerations, it is understandable as to why the CAF has struggled with recruitment in the last decade³⁸. As such, although seemingly competitive compensation and benefits packages do not appear to be an area undermined by financial illiteracy within the CAF therein, they are likely not sufficiently generous to overcome the current social deterrents to enrolment. Efforts such as the establishment of CPCC may change these circumstances in the future, but as long as these stigmas persist, compensations will need to be more generous.

³⁶ Adkins, Amy. "Millennials: The Job-Hopping Generation." Gallup Business Journal, 2023.

<https://www.gallup.com/workplace/231587/millennials-job-hopping-generation.aspx> and Harrington, Brad, Fred Van Deusen, Jenniger Sabatini Fraone and Jeremiah Morelock, "How Millennials Navigate Their Careers: Young Adult Views on Work, Life and Success." Centre for Work & Family at Carroll School of Management (Boston College: 2015), 13-21.

³⁷ Government of Canada. "CDS Initiating Directive for Professional Conduct and Culture." April 2021.

<https://www.canada.ca/en/department-national-defence/corporate/policies-standards/dm-cds-directives/cds-dm-initiating-directive-professional-conduct-culture.html>

³⁸ Canada. Canadian Armed Forces, *CA Task Order – Op Paradigm – Hybrid Training Approach in Support of CA Reconstitution*, Ottawa: Canadian Army Headquarters, 27 May 2022.

Retention

Concurrent to attraction challenges, the CAF is anticipating a growing retention challenge. To this end, in 2022 it published a Retention Policy³⁹. Within in the document, it acknowledges that similar to many industries in Canada, as its Boomer generation reaches retirement age it is experiencing an increase in natural departures from its ranks. It also notes, that presumably due to aforementioned culture challenges, gender and racially minoritized groups have been releasing at comparatively higher rates than their none minoritized peers⁴⁰. This deprives the CAF of personnel who would otherwise be prepared to remain employed for full terms of service as well as contribute to making the work environment more inclusive and thereby attractive to potential new recruits. Interestingly, the strategy suggests that based off exit interviews, compensation and benefits did not figure prominently as aggravating factors for release⁴¹. However, the data was collected prior to the surge in cost-of-living and changes to the CAF compensation and benefits programs that took place between 2021 and 2023. As such, it is likely these figures have shifted. As well, the exit surveys did not indicate how heavily compensation and benefits figured into the members decision to release. For example, if they had been higher or civilian opportunities had not been as generous, would they have stayed? The reality is that the CAF remains one of the few employers in Canada that offers a defined benefits pension plan that includes healthcare. To the financially literate, this alone should weigh heavily against their considerations to release, especially if they are close to qualifying for full benefits. However, if considering that a large portion of the Force is financially illiterate, it helps to explain why efforts to retain members through compensation and benefits have been mixed.

Reliability

As economic headwinds build, the demands of service remain extant and financial illiteracy creates personal challenges for its members, it is reasonable to assume that some individuals will seek opportunities to relieve their monetary pressures. Unfortunately, running concurrent to the aforementioned macro-economic trends is the reemergence of great power competition. This competition has marked a concerted increase in adversarial state sponsored influence operations. The most recent example of this are the revelations of Chinese government interference in the 2016 and 2021 Canadian Federal Elections⁴². Based off Globe and Mail reporting, methods used to influence the election included bribery and extortion. When considering that a large portion of the CAF is likely to become increasingly economically vulnerable, understanding that foreign state actors are capable and motivated to act upon personal weaknesses opens an area for concern. Even low-ranking CAF members have access to technical and doctrinal information about the CAF and its allies for which adversaries

³⁹ Canada. Canadian Armed Forces, *Retention Strategy*, Ottawa: National Defense Headquarters, 06 October 2022

⁴⁰ Ibid Annex E

⁴¹ Ibid

⁴² Robert Fife and Steven Chase, “CSIS documents reveal Chinese Strategy to influence Canada’s 2021 election,” The Globe and Mail, Published 17 February 2023 (updated 22 February 2023).

would be very interested. It is not clear to what level standards of living would have to fall for reliability amongst CAF members to be questioned. In all likelihood, that level would vary by individual. However, it is likely that as challenges emerge at individual levels, some members will become susceptible to such tactics.

Mobility

With cost of living and housing costs rising dramatically, it is near essential that families generate two incomes. This is partially the assumption underwriting the Liberal government's subsidized childcare program⁴³. However, the CAF's career management model does not align well with this concept. For example, for its specialist trades and management, it near insists that members change their geographic place of work every two to four years in order to obtain institutional breadth and facilitate promotions. This presents a challenge to dual income families, where spouses often are unable to work, have a gap in income while they transition between postings and/or are under employed because they never stay in location sufficiently long to obtain raises or seniority. When compensation and benefits maintained relative strength against costs of living, these challenges were simply accepted as an aspect of life as a military family. However, as purchasing power has eroded and wages have not kept pace⁴⁴, it is likely that members will be more hesitant to move. In some cases, posting on imposed restrictions will compensate. This is already evident at CAF schools where members assume their posting will be of a relatively short duration. However, this program places significant pressure on families and in accordance with the previously mentioned Retention Policy, is an aggravator for releases. More likely, recognizing personnel shortages across all bases and appreciating that as mentioned, they are open to career change, CAF members may simply refuse to move even under threat of release. As such, the CAF could observe severe challenges in staffing bases located in economically stressed regions such as Vancouver, Toronto, Montreal and Ottawa. These areas are of particular concern because they are critical to the institutional leadership of the Force and present nodes of interface with provincial and federal government. As such, under-staffing, or staffing with members selected based on their availability as opposed to their quality will likely erode confidence between the CAF and its government partners.

Accumulation

These four focus areas combined create a significant cumulative institutional risk. A staffing shortage has emerged due to slow recruiting and poor retention. This adds additional pressure to an already struggling Force. This will likely reduce the reliability of some individuals within the Force, which will undermine defense integrity. As well, it is already and will continue to present friction within the CAF's ability to staff its

⁴³ Canada. Employment and Social Development Canada, "Toward \$10-a-day: Early Learning and Child Care," last modified 6 December 2022. <https://www.canada.ca/en/employment-social-development/campaigns/child-care.html>

⁴⁴ 2023 CAF Economic Increase: NCMS, GSO and Pilots, Medical and Dental Officers. CANFORGEN 055/23
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installations Canada-wide. At every one of these areas of focus, low financial resilience can be identified as an exacerbating factor.

CONCLUSION

As has been established, it is likely that a third of the CAF is financially illiterate. This has been tolerable under traditional circumstances, but national macro-economic forces are gathering to present additional economic challenges in the near and middle future. As such, even financially literate CAF members will and are already becoming restless. This will only exacerbate the challenges facing those struggling most. Unfortunately, the nature of service in the CAF demands that its members be held to a higher standard. As such, the CAF must take a more deliberate role in addressing issues of financial literacy if it intends to maintain the reliability and availability of its Force. Because pay and benefits are already fairly competitive, improving them would serve as a partial solution. Rather, existing financial guidance and mentorship programs such as SISIP and financial training integrated into career courses offer a start to addressing financial illiteracy issues. However, to have a greater effect, the presence of these programs must be increased significantly in terms of frequency and content. In so doing, CAF members will be better positioned for a level of financial resilience that ensures their reliability beyond doubt.

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