Financial Education and Financial Literacy in New Zealand

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TABLE OF CONTENTS

This note provides a short description of developments in personal financial education and literacy in New Zealand. It is provided only for the information of delegates to the OECD Conference on Financial Education in New Delhi on 21-22 September 2006. The views, opinions, findings and conclusions expressed are those of the author.

EXECUTIVE SUMMARY

Personal financial education is a relatively new concept in New Zealand, developing only since the mid-1990s. Little formal financial education is provided in schools or in adult learning forums. However, momentum is building for greater emphasis to be placed on improving New Zealanders' financial literacy. This momentum is coming from the New Zealand Retirement Commission, the finance industry, private organisations, regulatory authorities and the central bank.

There is a greater need for financial education today than 20 years ago. New Zealand has adopted a relatively light-handed financial sector regulation. We have many and complex financial products, a sophisticated financial market, and a voluntary regime for retirement savings (without tax incentives or compulsion). Research findings (in schools[1] and of the adult population[2]) that suggest that some New Zealanders do not have a sufficient level of financial literacy to operate effectively in today's financial environment.

Since the mid-1990's, the Retirement Commission has developed and delivered personal financial education programmes. These have focussed on lifetime financial management, which has proven more effective than focussing on saving, pension or retirement education in isolation from other financial periods in life.

For the integrity of the education, the Retirement Commission believes it is critical to separate financial education from financial product sales.

The web has proven to be by far the most effective and efficient way to deliver financial education to most groups of New Zealanders, particularly to adults. Paper based material is less efficient, more costly and less timely.

However, for those who don't have easy access to the web, particularly vulnerable groups, other delivery mechanisms are required. Approaches that are culturally appropriate are being developed for Maori and other ethnic groups.

A major focus on effective promotion of the education is critical – the best financial education resources would be under-used unless they were promoted to the target audiences. In New Zealand, far more funding and resources go on promotion than on development of financial education. Web advertising is proving to be far more effective than television advertising at encouraging people to visit financial education websites.

[1] Morris, Lyn. An Investigation into the Financial Knowledge Levels of New Zealand Senior Secondary School Students. December 2001.
[2] ANZ-Retirement Commission Financial Knowledge Survey, Colmar Brunton, November 2005.

Better methods of measuring the impact of financial education are required. Simple surveys of satisfaction levels, intentions and short-term action taken are insufficient to measure the success levels of the education.

A longitudinal study of those participating in financial education, along with a control group is required. This would measure changes in personal financial knowledge, financial behaviours and wealth accumulation, particularly in relation to changing economic circumstances and policy initiatives.

Despite the lack of empirical data, it is accepted by many that good quality personal financial education does improve New Zealanders' financial understanding, actions and wealth.

More research is needed on identifying effective pedagogical approaches to teaching financial literacy. This is likely to occur as more financial education is developed, delivered and evaluated using different methods.

BACKGROUND

New Zealand at a glance:

New Zealand is in the south-west Pacific. Its land area is similar to the UK and Japan.

New Zealand's resident population is 4,140,300 people, of which approximately 1 in 7 are Maori, and 1 in 16 of Pacific ethnicity.

GDP is $US80 million.

GDP per capita is $US19,800.

The civilian labour force is 2.1 million.

Exports make up 29.8% of GDP.

CPI change (annual) is 2.8%

Net NZ Superannuation (the State pension) costs 3.35% of GDP or $NZ5.240 bn

Sources: Statistics New Zealand and Ministry of Social Development. As at 30 June.

New Zealand's population is ageing. Population projections[3] indicate that the number of New Zealanders aged 65 years and over is expected to increase by 2.7 times over the next 50 years to 1.33 million in 2051.

Life expectancy is increasing. Men who reach 65 years of age can expect on average to live another 17 years; for women another 20 years. It is illegal to require workers to retire at a particular age. Subject to residency criteria, every New Zealander who reaches 65 years of age will receive the pension, New Zealand Superannuation, whether working or not. It is currently set at a net 65% of the average after-tax wage for a couple who both qualify. It is not income or asset tested. New Zealand Superannuation is currently the largest single item of Government expenditure at 3.35% of GDP net.

Recent Government retirement income policy initiatives include the partial pre-funding of future costs of New Zealand Superannuation and the establishment of 'KiwiSaver,' an 'opt-out' workplace savings product[4].

[3] Statistics New Zealand.

Private saving is voluntary. There is no compulsion to save for retirement. There are no tax incentives applied to saving. The taxation approach to savings is known as TTE, where the savings come from tax-paid income (T), earnings on savings are taxed (T), but the payment is exempt (E) from tax.

As New Zealand has a voluntary savings regime, New Zealanders save through many different mechanisms: owner-occupied housing, investment property, commercial property, businesses, farms as well as financial products.

The Government established the Retirement Commission in 1993. One of the Commission's key functions is to develop and deliver personal financial education to New Zealanders. The Commission is funded by the Government and set up as an 'Autonomous Crown Entity[5].' This means that it is 'arm's length' from the Government but has to 'have regard to' Government policy. In other words the Commission has a degree of independence from the Government. It is also independent from the financial services industry. This autonomy from the Government, and the financial services industry, is significant in achieving receptiveness from the public to the Commission's education programmes.

[4] KiwiSaver: savings are set at 4% or 8% of salary; a $NZ1000 tax incentive is provided in exchange for at least one year of contributions; there is a Government fee subsidy. Rules apply about using contributions for first home purchase and paying off mortgages. New Zealanders will be 'in' unless they 'opt-out.' Employers that subsidise KiwiSaver contributions of employees can avoid withholding tax as long as they are the lesser of the amount the employee pays and 4%. This modifies the general TTE principles that apply to all other savings.

[5] Autonomous Crown Entity: A body corporate established by or under an Act. In this case the NZ Superannuation and Retirement Income Act 2001.

THE CASE FOR FINANCIAL EDUCATION AND IMPROVING FINANCIAL LITERACY

New Zealanders are living in a much more financially complex environment than they were 20 years ago. The financial markets were substantially deregulated in the 1980s. Since then, there has been a proliferation of financial products, many of which are very complex and difficult for consumers to understand. Borrowing is now an accepted part of today's life. Tertiary students borrow to fund their investment in their education; mortgage levels are increasing; credit card use is increasing.

The role of financial education and improving financial literacy is critical in this environment. New Zealanders need the information and ability to make informed and effective decisions on their finances every day of their working lives. In many cases they will need quality financial advice. Education, information and advice are sometimes used interchangeably, but the distinctions amongst them are important. 'Education' is the teaching and learning that provides New Zealanders with the ability to interpret information and assess advice. 'Information' is a fact or series of facts that require interpretation and assessment. 'Advice' is quite different. It provides hopefully specific, informed guidance or recommendations on financial direction.

The quality of those every day financial decisions will determine the standard of living New Zealanders have throughout their working life and in retirement years. Consequently, financial education in New Zealand is defined broadly. It involves far more than understanding, purchasing and managing pension or financial products (although that is a part of financial education). Simply saving money for retirement may not be the best financial choice for many individuals and families at certain stages of life. The traditional message that 'you must save for your retirement' is now of less practical use to people functioning in an advanced modern economy and changing society. Financial decisions involve increasingly complex and subtle considerations about the source and uses of personal wealth throughout life.

The Retirement Commission defines financial literacy as 'The ability to make informed judgements and take effective decisions regarding the use and management of money.'[6]

The outcome sought from improving financial literacy in New Zealand is that New Zealanders:

- Make informed decisions that suit their personal financial circumstances as they change over time;
- Are aware of the financially optimal approach to personal financial management;

[6] Source: Schagen, S. "The evaluation of Natwest Face 2 Face with finance": NFER, 1997.

- Feel confident in interacting with the financial sector;
- Are satisfied with their decisions;
- Accumulate more wealth than they otherwise would have;
- Reach retirement with no ‘financial surprises’.

Whether personal financial education makes a contribution to economic growth has yet to be assessed (in New Zealand or elsewhere).

What is important is that when New Zealanders make their financial decisions, they are aware of all their options, and the issues and implications involved.

GENERIC FINANCIAL EDUCATION IN NEW ZEALAND

To achieve these outcomes, the Retirement Commission develops and delivers financial education through a number of channels.

Different topics will be relevant to different people at various times in their lives. The Retirement Commission's approach is to provide independent information and education to all New Zealanders at the stage of life when it is most relevant to them. Financial education is a lifetime process – from '5 to 95'. It includes both saving and spending issues.

Consequently the topics included in personal financial education are many – from foundation skills such as financial goal-setting and household budgeting, on which more sophisticated financial topics such as investment, can be built. Other key components of financial education include:

- Saving
- Debt management
- Investments
- Decumulation of assets in retirement
- Understanding State provision
- Hire purchase
- Compound interest
- Housing and businesses
- Income and expenditure
- Making fees on financial products transparent
- Understanding net worth
- Getting and paying for financial advice
- Understanding financial disclosure
- Comparing financial products
- Taxation effects
- Making a will
- Equity release
- Financial trusts
- Employer-sponsored retirement saving plans
- Student loans
- Insurances including employer-sponsored arrangements

As well as these topics, specific target groups may require special content, design or promotion. These groups in New Zealand include low income, Maori, women and Pacific People.

Different topics are relevant at different life stages. Financial education is best targeted to audiences at a stage when relevance will be the motivator to learning and action.

The main provider of financial education in New Zealand is the Retirement Commission, a Government funded Autonomous Crown Entity. Current funding is around $NZ6 million per annum. Other organisations and individuals also provide some financial education. These include the Reserve Bank, Enterprise New Zealand Trust (in schools only), the financial regulator (Securities Commission), some financial institutions, consumer organisations, financial journalists, and voluntary organisations.

The Retirement Commission's programme includes the web-based educational resource www.sorted.org.nz. It provides educational material and information on all of the above topics. As well, 22 interactive calculators are provided so users can input their own information and obtain estimates of future value, interest costs or time to achieve a certain goal. Individuals can store their own calculations or 'plan' in a secure part of the website and return to it at a later stage. Emailed reminders are sent at times specified by the user.

For those who don't have easy access to the web, some paper based material is provided.

Using mainly web-based education raises questions about the proportion of New Zealanders who have ready access to the web, and the exclusion from the education of those who don't have such access – the 'digital divide'. Surveys[7] suggest that 72.7% of New Zealanders 10 years old and over have accessed the web in the last 12 months. This proportion is increasing rapidly. However, there is limited uptake of broadband. Dial-up internet is too slow for sophisticated websites. More coverage of faster broadband is required. Further, there will be some New Zealanders who can not, or choose not to access the web. The best alternative available is paper-based methods.

Educational and promotional material produced by the Retirement Commission is designed with input from Maori through research and consultation.

Some seminars are provided in New Zealand either through voluntary organisations or on a commercial basis by private sector organisations. As education through the workplace gathers momentum (see page 10) more seminars are likely to be offered. It will be important to measure the level of efficacy and outcome from these as they are an expensive educational option.

[7] Nielsen NetRatings and Market Intelligence, September 2006.

FINANCIAL EDUCATION FOR SCHOOL CHILDREN

Financial education is not mandated to be a part of the school curriculum in New Zealand. There are some components of financial education taught in different subjects in both primary and secondary school, but this is not structured and is more by chance than through planning. A private trust, Enterprise New Zealand Trust, has developed a comprehensive financial education programme for secondary schools. Teachers need to be trained before they are authorised to deliver the programme. Uptake is voluntary, and has to compete with other extra-curricular options in schools.

Although a well regarded programme, only a small percentage of schools and pupils participate.

The Retirement Commission has undertaken an audit of all financial education being delivered in schools. Rather than attempting to extend the curriculum by adding another subject called 'Financial Education' the aim is to develop financial education resources that teachers can use within the existing curriculum.

Financial literacy is an outcome sought from learning in schools. It can be induced by good teaching in a number of subjects – mathematics, social studies, health and physical well-being, etc. It also relates to the essential learning areas – literacy, numeracy, problem-solving, management of independence and participation in groups, etc. Inside schools, the main issue is ensuring that the ultimate goal is used to define goals in terms of learning outcomes, and that these are then distributed among the subjects which are the vehicles for delivering learning opportunities. The most pressing need is to up-skill teachers to provide them with the capabilities, especially the confidence about their own knowledge and skills, which are needed to engender the learning sought.

A programme aimed at improving the financial literacy of Maori children and their families is currently being piloted in some Maori and bi-lingual schools.

Other financial education initiatives for school children include the web-based 'Kids and Money' programme. This is a pedagogically designed approach to teaching children age from 5 to 12 years of age about money and financial management. It includes 9 on-line games designed to encourage children to play them, information about money concepts, as well as areas for teachers and parents.

WORKPLACE FINANCIAL EDUCATION IN NEW ZEALAND

There is little workplace financial education in New Zealand. It is generally limited to financial planning for retirement seminars for those aged 55 plus thinking about retirement.

However, with the introduction of KiwiSaver from 1 July 2007, the Government has provided funding for the Retirement Commission to provide financial education in the workplace, especially to help New Zealanders make informed financial decisions around KiwiSaver, in the context of their wider financial position. This is not a promotional programme to encourage New Zealanders to save in KiwiSaver. Indeed it may be that KiwiSaver is not a suitable option for some workers. Rather, it is a programme that will leverage off the KiwiSaver launch to provide comprehensive financial education.

This workplace programme will include enhanced web-based education and information for employers and employees, written material and seminars (funded by the employer). Development of a programme aimed at providing financial education to those with low financial literacy is underway at the moment. Specialist agencies are being used to develop suitable approaches.

As with other education programmes, considerable resource will be used to promote the programmes to target audiences. Promotion of the workplace programme will include 'direct' marketing to employers, web-based advertising, gaining support from trade unions and employer associations to help with dissemination of materials, television shows directed at employers, print, on-line, television and other advertising.

Both trade unions and employer associations are supportive of providing financial education to workers.

These new initiatives in the workplace provide an opportunity to measure the effectiveness and cost-effectiveness of different delivery methods. Evaluations are being established to achieve this.

THE IMPORTANCE OF PROMOTION AND BRAND

In New Zealand there is a direct correlation between the amount of promotion the Retirement Commission's financial education is given and use of the financial education, particularly the website. If it is promoted effectively, usage increases substantially. The costs of promotion of the education to the various target audiences are significantly greater than the costs of developing the educational resources. Most of the Commission's budget is used for promotion.

Promotion is achieved through television advertising, web advertising, and intensive public relations activities. Web advertising is proving to be particularly effective in encouraging New Zealanders to visit the website.

No matter which media is used, placement of the promotions, the creative approach, and ensuring the 'right message' at the 'right time' are the determinants of the promotion's effectiveness.

Receptivity to the promotion is dependent on the development of a strong brand. Key brand attributes the public seek for financial education are relevance, independence, no cost, accessibility and ease of use.

MEASUREMENT OF FINANCIAL EDUCATION AND LITERACY

Measurement of the usage of financial education is relatively straightforward. For example, counts are taken of the number of pupils undertaking financial education in schools. Web site measures[8] are monitored monthly and include amongst others:

- Average number of visitors (97,000 per month)
- Average unique visitor sessions (78,504 per month)
- Average calculations completed (197,642 per month)
- Average cost per visit ($NZ1.79)
- Length of time on the site (5 mins 9 secs)

Surveys are undertaken of users of the website to determine action taken after a period of time since visiting the site.

The 'bigger' question of measuring the outcomes is more challenging. That is, for example are New Zealanders:

1. Better informed or more financially knowledgeable?
2. Aware of the financially optimal approach?
3. Accumulating more wealth than otherwise?
4. Reaching retirement with no 'financial surprises?'

As a step towards measuring the first of these, financial knowledge, a Survey of Personal Financial Knowledge was undertaken in 2005. Key findings are:

- Overall, New Zealanders have a reasonable level of personal financial knowledge;
- There is a strong correlation between financial knowledge and socio-economic status, but some significant exceptions. Some people on high incomes achieved low scores, and vice versa;
- There is some confusion over New Zealand Superannuation – a significant number of people think (incorrectly) that it is currently income tested;
- Understanding of compounding interest is relatively weak;
- Mortgage holders' knowledge of mortgages shows some low levels in key areas;
- Some basic financial terms are not well understood;
- There is mixed understanding of investment strategies, particularly long term returns from the stock market;
- There is some concern over approaches to sharing of passwords for internet banking.

[8] Based on July 2005 to June 2006 year

It is hoped this study will be repeated every 3 or 4 years to measure changes.

A next step will be to measure the relationship amongst financial knowledge, financial behaviour and financial outcomes.

An ideal measure under consideration is a longitudinal study of those who have undertaken financial education (of different types) and compare financial behaviour and asset accumulation, with those who have not had financial education. This approach will be useful for determining the outcome of both financial education in schools and of adult learning.

CONCLUSION AND FUTURE DIRECTION

New Zealanders need to have a higher level of financial literacy than in the past, in order to operate effectively in the current financial environment.

Recent surveys show that some New Zealanders – both school students and working age - have a low level of financial literacy. Commitment and initiatives aimed at improving financial literacy in New Zealand have gathered momentum in recent years. Pressure is building to include a more structured approach to financial education in schools. The KiwiSaver initiative has provided an opportunity to provide financial education in the workplace.

New Zealand takes a holistic approach to financial education. It soon became apparent that it is not feasible to look at one area of financial education in isolation from other aspects of lifetime financial management.

Promotion of financial education initiatives is expensive but essential to gaining uptake. It's pointless having an excellent financial education initiative if it is not reaching the target audience.

By the end of the decade the Retirement Commission expects there will be significantly more financial education taught in schools. Further, as a result of the KiwiSaver initiative, there will be substantially more workplace-based financial education. The Retirement Commission is also exploring ways to provide personal financial education to tertiary students.

As more financial education is developed and delivered, demands will increase for outcome evaluations to determine the effect the education is having on New Zealanders' financial position and well-being. At the moment, questions remain over the degree to which financial education improves personal financial outcomes. Longitudinal surveys will assist it determining this.