insight and inspiration

ANZ-Retirement Commission Financial Knowledge Survey, March 2006 Research Report

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What is the report about?

This report presents the results of the first national survey of financial knowledge levels of adult New Zealanders.

The major objectives of this research were to:

- identify areas of low financial knowledge (by topic and population) and therefore assist educators to improve literacy in those areas
- develop benchmark measures of financial knowledge across the entire adult population and key segments in order that trends can be measured and programmes targeted at areas of need
- assist the financial services industry to identify which aspects of financial skills, products or services are causing the greatest problems for New Zealanders and thus improve design or communication
- use the findings to develop law reform programmes that provide effective consumer protection and address real issues facing individuals
- identify participation rates, investment behaviours, habits and level of sophistication of retail investors/consumers in New Zealand's securities market

The full research report provides an overview of financial knowledge levels of New Zealanders aged 18 and over in 2005. Detailed findings are contained in the Appendices.

What is financial knowledge and why is it important?

"Financial knowledge" for the purposes of this study was defined as:

"the ability to make informed judgements and to take effective decisions regarding the use and management of money."[1]

The more financial understanding people have, the more effectively they can manage their day-to-day finances and long term financial planning. This is true of any country, but in New Zealand this has particular relevance. New Zealand has a relatively light-handed approach to banking and insurance market regulation and a voluntary approach to private provision for retirement. These two factors make a financially capable community important if people are to meet their lifestyle expectations.

In addition, people are living longer and need to ensure they have adequate savings for the duration of their retirement.

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[1] *Source: Schagen, S. "The Evaluation of NatWest Face 2 Face With Finance": NFER, 1997.*
Also used in "ANZ Survey of Adult Financial Literacy in Australia" report by Roy Morgan Research, May 2003. This definition was adopted from UK and Australian research with a view to international consistency.

How financial knowledge was measured

Funded by ANZ, the Retirement Commission commissioned Colmar Brunton to undertake a major research study into adult financial knowledge in New Zealand. The Ministry of Economic Development also supported the study and had some specific objectives around understanding investor behaviour.

This was the first study to measure financial knowledge of adult New Zealanders. Financial knowledge research has only previously been conducted among New Zealand secondary school students.[2] The measurement of a population's financial knowledge has been done in Australia and a few other OECD countries and the design of this study has built on learnings from the first Australian study, sponsored by ANZ in 2003.

The research process involved the following stages:

- Stakeholder interviews to enhance the Financial Knowledge Framework on which to build the questionnaire (see Appendix)
- Questionnaire development and cognitive pre-testing
- Face to face interviews with 856 New Zealanders aged 18 or over (including ethnic boosters - 104 Maori and 96 Pacific People). A high response rate of 60% was achieved.

A Steering Group, made up of academic and financial experts, and representatives from ANZ, Retirement Commission and the Ministry of Economic Development was established to guide and help inform the research. The Steering Group reviewed and adapted the financial literacy framework used in previous Australian and UK studies and agreed the range of skills and knowledge to be measured. This framework was used to design the survey questionnaire that would test New Zealanders' overall level of financial knowledge.

In reading this report, the reader should bear in mind that this study was specifically designed to test and measure the population's knowledge. The survey instrument looks very different to a questionnaire designed to measure attitudes and behaviour. For example the questionnaire used true/false questions, scenarios and extensive use of show cards to test peoples' understanding of financial concepts.

As with the Australian survey, this study represents a big step towards better understanding the population's knowledge in relation to financial concepts. As with any study that forges new ground, we have learned from this project and there are significant learnings for whoever takes the next step.

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[2] *'An investigation into the financial knowledge levels of New Zealand senior secondary school students, Lyn Morris, December 2001*

What was measured?

The study sought to measure financial knowledge and understanding as they relate to the following specific areas of interest:

- **Mathematical and standard literacy** – essential mathematical, reading and comprehension skills
- **Financial understanding** – understanding of financial terminology and concepts
- **Financial competence** – understanding the main features of basic financial services; understanding financial records; understanding which type of payment is best to use and why; understanding mortgages; attitudes to spending money and saving; awareness of the risks associated with some financial products and appreciation of the relationship between risk and return
- **Financial responsibility** – ability to make suitable personal life choices about financial matters; understanding consumer rights and responsibilities

The study also sought to find out what people knew about goal setting, financial planning, budgeting, debt management, saving, investing, and managing risk.

Financial knowledge framework and scoring

The Financial Knowledge Framework (see Appendix) set out the knowledge and skills required for a person to be financially literate at a basic and at an advanced level. This helped determine the topics which would be covered by the survey.

Survey questions were designed to capture the most important skills and knowledge under all of the categories on the framework and an effort was made to ensure the questions covered as much of the framework as possible. It was recognised that some questions could cover more than one concept. However, it was agreed that each question would only be counted once.

The questions were divided into those which would feed into the score of financial knowledge and those which would act as filters to knowledge questions (e.g. Do you know the what 'equity' means?') or descriptors (e.g. demographic or behavioural information helping to describe the respondent). The scored questions were predominantly given one point for each correct answer. Where multiple responses were possible, these were given part scores so that the overall score was in line with other questions of equal value. Each question was identified as measuring either basic or advanced knowledge, with the majority falling under basic and those tagged advanced being predominantly investment related questions – for those who have money to invest.

It was agreed that, as financial knowledge reflects each person's circumstances and experiences, people should not be disadvantaged because they were not familiar with products and services they might never use or need (for example, those without the means to invest would not be expected to know about investing). Therefore, only the questions testing basic knowledge were used to determine the overall financial knowledge scores. The advanced questions, relating primarily to investment, were scored separately.

Having taken this approach, scores were levelled across basic knowledge. Planning for the future, saving, understanding mortgages and budgeting were deemed the most important areas of financial knowledge.

The basic knowledge questions had a maximum score of 58.5 and the advanced knowledge questions had a maximum score of 18.5.

Executive Summary

What do the findings tell us?

This study was designed to test adult New Zealanders' knowledge against a financial knowledge framework. It was designed to reflect both the basic building blocks required to deal with financial matters as well as more advanced financial concepts found with investment markets.

Overall New Zealanders have a reasonable level of personal financial knowledge. While most people have a good basic understanding of financial concepts, there are some topics, such as compound interest, mortgages and investment that are not understood very well.

There is a strong correlation between financial knowledge and socio-economic status. Across all topics, knowledge generally increases with age, income, education and also net worth. This relationship has been observed in studies conducted in other OECD countries.[3]

Saving

New Zealanders' basic knowledge around the concept of saving was good and they understood the impact of inflation on savings. However, when it came to other concepts that impact on savings, like compound interest, most of the population (three out of four New Zealanders) could not explain its impact.

People may not necessarily save money, but in most situations this was because they did not understand "saving". For some New Zealanders there is not enough money earned to allow them to save.

Borrowing / managing debt

About a quarter to a third of New Zealanders struggled with terminology such as asset, liability, net worth, secured loan, and equity. These terms are not readily understood by significant segments of the population.

Further, some of the basic terminology and concepts around mortgages are not fully understood by everyone. For example, a quarter of the population did not understand what a fixed rate home loan was and a quarter of people with mortgages did not appreciate that making fortnightly rather than monthly payments would be the better payment option for reducing the amount of interest they would pay.

[3] "Improving Financial Literacy: Analysis of Issues and Policies" OECD, 2005

Debt consolidation was also a relatively weak area of financial knowledge. Nearly half the population could not identify that grouping debts together in one low interest loan is a good way to pay off debt.

Investing

Investing is one of the more complex areas of personal finance where there is evidence of some confusion and gaps in knowledge.

Most of the population understood some of the basics of investing with regard to 'risk vs. return' and the variability of returns. The concept that the value of shares can in the short term go up and down was also well understood. They also understood that diversifying an investment portfolio is a way to reduce risk.

While most of the population could correctly identify potential features of a financial scam, nearly half said they would recommend others to invest lightly in an 'investment having a return well above market rates' and see how it goes before investing heavily.

However, when it came to picking investment options that would produce the highest return over the long term (18 years), over half opted for fixed interest investments rather than a range of shares. More people said they did not know the answer to this question, than gave the wrong answer.

Credit cards

While the majority of credit card holders (94%) understood that paying the minimum amount on a credit card meant that money was still owed, one in five credit card holders did not understand that paying the full amount on the credit card each month would give them interest-free days on purchases.

Financial goals and plans

The majority of the population have financial goals, and one in five people have a written financial plan. We also found that while most of the population are familiar with budgets and how to budget, over a third (37%) of New Zealanders do not budget.

Financial preparation for retirement

Overall knowledge of New Zealand Superannuation was good, but there is confusion about income testing and asset testing. Most New Zealanders have given some thought to their retirement, and people tended to more focus on their future lifestyle and spending rather than considering their current financial situation or the length of their retirement.

Attitudes and behaviour

The majority of people, 83% say they feel confident about managing their financial affairs and 84% feel in control of their borrowing and debt generally. Nearly a fifth (19%) say their greatest difficulty in managing their money is controlling their impulse behaviour.

Financial knowledge groups

The population was divided into three even knowledge groups based on their score on the survey.[4] This table shows some of the demographic characteristics of the financial knowledge groups. For example, 40% of females are in the low knowledge group, 32% are in the medium group and 29% are in the high group.

Table A: Demographic distribution across financial knowledge groups

Demographic category	Low Knowledge %	Medium Knowledge %	High Knowledge %
All Respondents	33	34	33
Female	40	32	29
Male	25	36	39
18-24 years	57	32	11
35-54 years	23	29	48
65 years and over	45	33	22
Paid employment	24	35	41
Not in paid employment	51	30	19
Primary or basic secondary school education (no certificate)	54	32	14
Tertiary or post graduate education	18	36	46
Household income $20,000 or less	62	30	8
Household income $50,000 or more	17	35	48
Negative net worth	51	37	12
Net worth $300,000 or more	15	34	51
European	24	37	39
Maori	67	22	11
Pacific Island	85	11	4

[4] For details on the demographic composition of the groups please refer to page 35

Demographic category	Low Knowledge %	Medium Knowledge %	High Knowledge %
All Respondents	33	34	33
Home owned by self/partner	23	33	44
Home rented	45	36	19
Home Duties	45	36	19
Retired	45	33	22
English as first language	29	35	36
English not first language	69	19	12

NB. Percentages may not add to 100% due to rounding

Low Financial Knowledge Group

- Those with low knowledge (about a third of the population) could most benefit from increasing their level of financial knowledge.
- The Low Knowledge group had clear demographic skews away from the average. While 33% of all respondents were allocated to the Low Knowledge group, those with Low Knowledge were significantly more likely to be:
    - Female
    - 18-24 years, 75+ years
    - Maori and Pacific people
    - English as a second language
    - Not in paid employment – retired or home duties or social welfare beneficiary
    - Semi-skilled and low level occupations – labourer, manual, agricultural or domestic worker
    - Primary or basic secondary school education
    - Low household income - $20,000 or less
    - Negative net worth or net worth of less than $100,000
- The Low Knowledge group have lower levels of knowledge in all those areas that could help them manage their personal finances, including understanding:
    - budgeting
    - how to get rid of debt faster
    - the advantages of different payment methods
    - the effects of compound interest and inflation
    - credit card repayment features
- This group is much more likely to "find it hard to make ends meet" and not manage if they had a major loss of income. They are less likely to save than those with good or high knowledge. This group also said that their greatest difficulty with managing money was their lack of money and they tend to make greater use of personal loans, leasing, hire purchase or other debt on household items than people in the other knowledge groups.

- While the majority of our Low Knowledge segment feel confident about managing their financial affairs and feel personally responsible for their financial future, the findings from this study show that this group have low knowledge of financial concepts and how to use the range of financial products and services available.
- This group is much more reliant on cash and do not know how to best minimise fees and costs to themselves through other payment methods.

Medium Knowledge Group

- The Medium Knowledge group is more typical of the overall findings.
- The Medium Knowledge group had few demographic skews away from the average for the population overall. Those with Medium Knowledge were:
  - more likely to be of European ethnicity
  - less likely to be Maori and Pacific ethnicity
  - they were evenly split between males and females
  - a quarter said their highest education level was secondary school without school certificate
  - a third had some type of tertiary education, with a quarter saying they were university graduates or post graduates
  - four in ten were from households where the youngest child was aged under 15 years. Three in ten were from households with no children or none at home
  - just over two-thirds were in paid employment
  - There was a wide spread of household income:
    - 15% having household income of $20,000 or less
    - 31% had a household income of $20,000-$50,000
    - 32% a household income of $50,000-$100,000
    - 16% a household income of over $100,000
- Half of the Medium Knowledge group were regular savers.
- Almost half kept a fairly close eye on their expenses without keeping written records.
- They were slightly less likely to say they had no difficulties managing their money than those in the Low Knowledge group, but just as likely as both those in the Low Knowledge and High Knowledge groups to suffer from impulse spending.
- Respondents in the Medium Knowledge group did not differ significantly to all respondents in their incidence of financial products ownership or in their usage of methods of payment.
- The Medium Knowledge group's level of agreement or disagreement with most of the attitude statements was similar to the average.
- More likely than the average to disagree that it is not important to save for retirement because the Government will pay them NZ Super.
- More likely than the average to agree that it is important to shop around for financial products to get the best deal.

- The Medium Knowledge group were weaker in their knowledge of the following areas than they were in other areas of knowledge:
  - the meaning of the real rate of return
  - the financial advantages of using Internet banking
  - certain areas of home mortgages (minimising interest by paying fortnightly, equity and leveraging, fixed interest rates, penalties on home loans)
  - NZ Super
  - debt reduction
  - compound interest
  - risk and return on investments (particularly capital guaranteed investments, reducing risk and importance of finding out how a financial adviser is being paid)
  - planning for the future (key considerations of the current financial situation, length of retirement or retirement income in relation to saving for retirement)
  - budgeting (planning or tracking reasons for budgeting)
  - investing (key considerations of cost, liquidity or duration in relation to what to take into account when considering investment offers)
  - risk management (while six in ten had a current will, only just over a third had a financial enduring power of attorney)

High Knowledge Group

- The High Knowledge group also had clear demographic skews away from the average. While 33% of all respondents were allocated to the High Knowledge group, those with High Knowledge were significantly more likely to be:
  - Male
  - 40-54 years of age
  - European
  - Tertiary educated
  - White collar occupations – clerical/sales employees, business managers/executives, business proprietors, professionals/senior government officials
  - Home-owners
  - High household income - $100,000 or more
  - High net worth - $300,000 or more
- Fewer people with a high financial knowledge find it hard to make ends meet, feel out of control with their borrowing, or feel they would be unable to manage if they had a major loss of income than in the other groups.
- This group are also much more likely to save regularly (possibly because they can afford to) and the majority watch their expenses.
- Impulse buying and inability to control one's spending behaviour were just as evident in this group as in the other groups.

- Even though they scored well in most areas of financial knowledge, there were still areas that caused those in the High Knowledge group some problems. These were the more advanced financial concepts such as:
    - Compound interest
    - Equity and leveraging (using the equity in a home)
    - The financial advantages of using the Internet
    - Risk and return on investments (e.g. capital guaranteed investments)

Advanced Knowledge Group (Investing)

- About one in seven New Zealanders (15%) can be considered to have advanced financial knowledge relating to investing.
- Those in the Advanced Knowledge Group were more likely than the average to be:
    - Male
    - 35-54 years of age
    - University educated
    - Professional or senior government official
    - Household income of $100,000 or more
    - High savings/investments balances - $125,000 or more
    - Net worth of $600,000 or more
    - European
    - Home-owners
    - In households with no children/none at home
- The Advanced Knowledge Group exhibit strong basic knowledge of financial concepts as well as advanced financial concepts. This group say they are in control of their borrowing and debt, and that they do not spend all their income as they get it. They feel financially confident and recognise investing is a way to achieve their financial goals.
- However relative to other areas of knowledge for this group there are still some of the more complex financial knowledge areas they could improve on like:
    - equity and leveraging and revolving credit accounts
    - investments advertising as having a return well above market rates, which investment would make the most money, and taking cost, liquidity and duration into consideration when looking at investment offers).

The survey has clearly shown that New Zealanders could improve their financial knowledge in some areas. These are discussed below in relation to differences in financial knowledge between population groups as well as in relation to different financial skills, products and services.

Areas of knowledge – specific findings

Maths, standard literacy and understanding of financial records

The ability to perform basic calculations is important in budgeting, understanding basic statements and most aspects of being an informed user of financial services. Understanding financial records is important if consumers are to keep track of their finances.

Most people had reasonably good standard literacy and mathematical skills. However, when asked to apply these skills to the comprehension of a financial statement and to work out how long it would take someone to save a specific amount of money (an exercise which involved multiplication) fewer than half were able to correctly work out how long it would take.

Using the example of a bank statement, nearly all respondents were able to identify how much the statement owner had at the end of the month. The majority could also identify that money had been saved, but only just over half could give the correct amount. When asked to calculate how long it would take the statement owner to save a certain amount, fewer than half of all respondents could give the correct answer.

When given an example of a person's income and monthly outgoings and then asked to calculate how long it would take to save a certain amount, most people could do the calculations. However, a quarter of respondents were incorrect or did not know the answer.

Financial understanding

Understanding of financial terms

An understanding of commonly used or important financial terms is a necessary element of financial knowledge. Respondents were asked to match the definition for a range of common financial terms.

> *Most of the population had no problems matching the definition for basic terms in respect to financial products, savings and term deposits. However, terms like net worth and real rate of return were not understood by nearly half the population. Even terms like asset, liability, and secured loan, were not understood by nearly a third of the population.*

People had the most difficulty with the following terms:

- Asset – a quarter of respondents could not match the correct definition.
- Liability – a third were incorrect. The incidence of matching the correct definition did tend to be better than the average amongst those who had a liability in the form of a home loan.
- Capital Gains – a third could not match the correct definition.
- Real Rate of Return – 40% of respondents were incorrect. Respondents with some type of investment did have a slightly higher than average incidence of giving the correct answer than those who did not have investments.
- Net Worth - while the majority of respondents claimed to know what Net Worth meant, when faced with a practical example, in reality only just over half could demonstrate that they understood the concept.
- Secured Loan – a quarter did not know the meaning. Amongst those who said they knew the meaning of ‘secured loan’ 94% gave the correct answer when faced with a practical example to test their knowledge of secured loans.
- Equity – a third did not know the meaning of equity. However, homeowners had a higher than average incidence of being correct when their knowledge was tested.

Financial competence

Money management & payment methods

Having knowledge of the different ways to pay for goods and services, and their advantages is an essential element of good money management.

Segments of the population with lower overall financial knowledge are still much more reliant on cash than other payment methods. About a third of the population do not know how to minimise fees and costs or that keeping money in their accounts longer and paying bills on the day they are due, would be financially advantageous for them.

Payment methods

Cash and EFTPOS were the two most commonly used **payment methods** with just over eight in ten respondents using them. The incidence of using cash tended to be higher than the average amongst those aged 18-24 years and Pacific people. EFTPOS usage was more popular with the 18-24 year olds but lower than the average amongst those aged 65 or over, Maori, and those with low education levels (an overlap with those aged 65 or over).

Between half and two thirds of respondents used automatic payments, direct debits, credit cards or cheques. The usage of direct debit and automatic payments was lower than the average amongst those aged over 75 years and tended to be highest amongst the 35-44 year age group. Their usage was also lower than the average amongst those with low household incomes. Credit card usage was low amongst those aged 18-24, those over 75 years, Maori and Pacific people, those with low household incomes and low education levels.

Internet banking was used by a third of respondents and the incidence was lower than the average amongst those over 65 years, Maori and Pacific people, those with household income under $50,000. Telephone banking was used by a quarter of respondents but showed no significant differences by ethnicity, household income or education level. However females were more likely to use it than males and those over 65 years had a lower incidence than average.

Internet banking is slightly ahead of telephone banking in regards to usage, but its usage is much higher amongst higher income households whilst those using telephone banking are much more representative of the overall population. This difference may reflect that access to technology is not equal for everyone in the population and consequently not everyone has the same opportunity to use some banking or information channels.

Money management

When faced with a practical example of **which payment type was best to use in order to minimise fees/costs**, a third of respondents were unable to identify the best payment type.

In terms of recognising the financial advantages of using Internet banking just over half mentioned that it would be cheaper. Internet banking users tended to have a higher incidence of mentioning the financial advantage than those who did not use it.

While three quarters of respondents recognised that there were **advantages in paying a bill on or just before a due date**, a quarter did not. There were no differences by gender or ethnicity. When asked what the advantages were, more people mentioned qualifying for a discount or avoiding overdue fees than mentioned the advantage of being able to maximise interest. As household income and education level increased so did the awareness of the maximisation of interest.

Respondents were asked two true/false statements relating to **credit cards**. While the majority of respondents understood that paying the minimum on a credit card meant that money was still owed, a third did not understand that paying the full amount would give interest-free days on purchases. Twenty percent of credit card holders did not understand that paying the full amount would give interest-free days on purchases.

Usage of a financial product does not always mean that people fully understand the features and benefits of the financial product. For example, one in five credit card holders did not understand the interest free terms of their credit card.

Understanding mortgages

Understanding of mortgages was one of the weaker areas of financial knowledge for all respondents. Even those who would be expected to have knowledge of this area (i.e. mortgage holders) had problems.

It is significant that the biggest debt most people will ever have, i.e. their home loan, is also the one of weaker areas of knowledge.

One in four mortgage holders could not identify how to minimise interest on their mortgage, and one in five mortgage holders did not understand under what conditions it was better to go for a fixed term interest rate. Given the high level of home ownership in New Zealand, this is an area where better knowledge could result in a significant financial benefit over the lifetime of the loan.

In terms of understanding **ways to minimise interest on a home loan/mortgage** there were mixed results. Nine in ten respondents understood that increasing the amount of regular payments was a way to minimise interest and two-thirds also recognised that increasing the frequency of payments would also minimise interest. Amongst existing mortgage holders, a quarter did not know that paying fortnightly instead of monthly could help them reduce the amount of interest they pay.

The issue of **equity and use of equity in one's home for investment** was an area of knowledge that caused problems for many respondents, even those with mortgages. Around a third of respondents did not know the meaning of **equity**. Amongst those who said they did know, nine in ten were able to calculate the equity when given a practical example. However when asked to determine which of a range of options was the **best way to finance an investment property**, just over half did not choose the correct option. Even existing mortgage holders were no better than non-mortgage holders.

Twenty percent (20%) of existing mortgage holders were unable to identify that it was better to have a **fixed interest rate rather than a variable or floating rate** when interest rates were expected to increase.

While there was relatively good understanding that **for a fixed rate home loan the interest rate would remain the same for the term of the loan**, around a quarter of all respondents and a fifth of mortgage holders did not recognise this feature of a fixed rate home loan.

Some respondents did not have a good knowledge of variable/floating rate home loans and revolving credit loans. Two-thirds of people with a home loan (either on their own home or a holiday home) knew there would be no repayment penalty for variable or floating rate home loans. Respondents with a revolving credit account were more likely to know that there were no repayment penalties for revolving credit loans than those who did not have that type of account.

Financial planning

Goal setting

Our goals and decisions influence our financial planning. Our financial planning decisions have an impact on our income, worth and well-being of ourselves and others.

Whilst many people have financial goals, only a fifth have a written financial plan. People aged 25 to 44 had the highest incidence of financial goals, whilst those over 65 years of age were much less likely to have financial goals.

The majority (eight in ten) of respondents have **financial goals**. People aged 25-44 years, or with an income of more than $50,000, or in a household where the youngest child was aged 5-15, were more likely to have financial goals. Mortgage holders were also more likely (nine in ten) to have a financial goal.

The majority (three quarters) of respondents do not write down their **financial goals** and a fifth of respondents **have a financial plan**. Those aged 45-54 years were more likely to write down their financial plan.

Budgeting

The consequences of the financial decisions we make today will affect us in the future. Tradeoffs we make for spending, saving and borrowing determine our financial well-being.

Most of the population (over eight in ten) are familiar with a budget and its features, and even people who do not budget themselves understand what a budget is. Over a third of New Zealanders (37%) do not budget, and those with lower household incomes are less likely to do so.

The majority of respondents (over eight in ten) could correctly identify the **best description of a budget**. Respondents with a budget were no more likely to be correct than those without one.

When asked **why budgets were important**, nearly all respondents mentioned something relating to control. Just under half mentioned planning reasons, and a third mentioned reasons related to tracking spending.

Respondents who said they had a budget were more likely to mention control or tracking reasons than those who said they did not have a budget.

Nearly three quarters of respondents felt that everyone can **benefit from having a budget**, while just under a quarter thought it was for people who have difficulties managing money. Those aged 25-44 tended to be more likely to believe everyone can benefit from a budget. The incidence of believing a budget benefits all increased with household income. Those with lower education levels were more likely to believe budgets were for people having difficulties or people without much money.

Almost two thirds of respondents (63%) **have a budget**. Those aged 18-24 years were less likely to have a budget, while those aged 35-44 years were significantly more likely. Those not in paid employment and those with household income of under $20,000 were also less likely to have a budget.

Debt management

Managing debt requires knowledge of options and understanding of how to reduce debt. As with mortgages, this was one of the weaker areas of knowledge. Just under half of all New Zealanders could not identify the benefits of debt consolidation, and one quarter of people with mortgages or term deposits were unaware of which was the best option to reduce their debt.

Around eight in ten respondents correctly identified the **responsibilities of a guarantor**. Respondents with a personal loan were no more likely to be correct than those without one.

Just over half of respondents understood the concept of **consolidating debt** in order to get rid of debt faster. Respondents with a personal loan and those with a credit card had a slightly higher incidence of having this knowledge but this was only as high as 60%.

Reducing debt first was also a weak area of knowledge. When given an option of paying more off a home loan or investing in a term deposit, just over two thirds of all respondents suggested paying more off the home loan. A quarter opted for the term deposit. Respondents who had either a term deposit or a mortgage were more likely than those who did not have a term deposit or mortgage to opt for paying more off a home loan (around 75%), but a fifth of these people still chose the investment option.

Managing risk

New Zealanders generally recognised the need to manage their risk and many understood the importance of insurance and wills.

When given a scenario as to **who needed the greatest amount of life insurance** nine in ten respondents identified that a young single woman with two children needed the greatest amount of life insurance. Given the high proportion giving the correct answer there was very little demographic variation from the average. Those of Pacific or Asian ethnicity were significantly lower than average, although three quarters were still correct with their answer. Those with higher household incomes and net worth, and in households with a child aged 5-15 years were also more likely to be correct.

When given an example of a relationship break-up after four years, the majority of respondents (eight in ten) identified that **one partner was entitled to a share of the other's house**. The incidence of giving this answer increased with age up to 45-54 years and then declined slightly but only the 18-24 year age group were below the average. There were no significant differences to the average by household income, education level, household type or savings/investment balance.

About 40% of the population do not have a will. This is significantly higher amongst Maori and Pacific people, where three quarters do not have a will.

Around six in ten respondents said they **had a current will**. As would be expected the incidence increased with age and was lower than the average amongst those aged under 34 years and highest amongst those aged over 65 years, of whom 90% had a current will. Other groups less likely to have a current will were those with low household income, home renters, those with low savings balance and those with negative or low net worth.

A third of respondents **had an enduring power of attorney.** Those most likely to were those aged over 55, those with household income over $100,000, those with high savings/investment balances, homeowners, and those from households with no children at home or single person households. Half of those who had a will also had an enduring power of attorney.

Saving

Basic saving was well understood. Most of the population, other than those who cannot afford to save, save money on a regular or irregular basis. As an overall population New Zealanders may not save enough but they understand how to save and the need to save.

New Zealanders do not understand all the things that impact on our savings. Most of the population do not understand compound interest but do understand the concept of inflation and its effects on savings.

Just over half of all respondents said they **save money** on a regular basis. A fifth said they sometimes save money, Fifteen percent said that they can't save because there's never enough money and a tenth said they save only when they want to save up for something big or special. Three percent said they don't save because they don't need to.

People more likely to say they don't save because there's never enough money are 18-24 year olds, those on low household incomes, and home renters, and those in households where the youngest child is aged under 5 years. University graduates were also significantly more likely to say they don't save for that reason.

Two questions in the survey dealt with knowledge of the concept of **compound interest** and a large proportion of respondents had problems giving the correct answers. Firstly respondents were given a scenario of one person depositing twice the amount a month as another person but for half the amount of time into an interest earning savings account. Just under a third of respondents were able to correctly identify that one had more money than the other. Overall however, three quarters were unable to correctly identify that one had more, which one it was and the reason why they had more as being due to compounding interest. Savings account holders were no more likely than others to get these questions correct. Those correct on all three parts of the question tended to be older and have higher household income, education level, savings/investment balance and net worth.

The second question gave **two term deposit examples with differing interest payment options** and asked which would pay the most interest in total. Just over half of respondents correctly chose the option that paid the interest quarterly back into the term deposit i.e. compounding the interest. Just over a quarter thought that the options paid the same amount of interest. As household income, education level, and savings/investment balance increased so did the incidence of being correct. There was very little difference in the proportion giving the correct answer between those who had a term deposit and those who did not. Of those who were correct on all parts of the other compound interest question 70% were correct at this question, higher than the average but possibly not as high as could be expected.

Just over eight in ten respondents demonstrated knowledge of compound **interest** by identifying that someone with $100 in a 2% interest savings account would have more than $102 after five years. Respondents who had a savings account were more likely to be correct than those without a savings account.

The concept of **inflation** was relatively well understood by the majority of respondents. Nearly all respondents (nine in ten) correctly understood that one **would need more money income in five year's time to be able to live at the same standard** and just over eight in ten gave the reason as being inflation or increased costs/prices.

Eight in ten respondents also demonstrated knowledge of the **effects of inflation on savings** by correctly identifying that someone would be able to buy less than today with the money in their account if the inflation rate was higher than the interest rate. Homeowners had a better understanding of the effects of inflation than renters, but amongst homeowners there was no difference between those who had a mortgage and those who did not.

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Investing

Risk is part of financial planning and needs to be understood and managed. The consequences of the financial decisions we make will have an impact on our future.

Investing is one of the more complex areas of personal finance where there is evidence of some confusion and gaps in knowledge.

Most of the population understand some basic investing concepts with regards to 'risk vs. return' and the variability of returns. They also understand the concept that the value of shares can in the short term go up and down and that diversifying the investment portfolio is a way to reduce risk.
When it came to picking the best long term investment option, just over half opted for a range of fixed interest investments rather than a range of shares. So while the population may have some basic understanding of share market returns, that does not translate into believing the share market will deliver better returns over the long term.

Many respondents understood the concepts of **risk versus return** and the **variability of returns**. Around nine in ten respondents recognised that **an investment with a higher than average return is likely to have a higher than average risk**. There was no difference in the incidence of being correct amongst those who had a term deposit, savings account or high interest call account and those who did not have one of these products.

Just over nine in ten respondents also recognised that **even with good share investments, in the short term the value can usually be expected to go up and down**. More people did not know the answer than gave the wrong answer. Those respondents who currently had shares were slightly more likely to know than those who did not. Likewise, those who had once had shares but currently did not were also more likely to know this than those who had never had shares.

Thirty percent of respondents correctly identified that having a **range of shares would make the most money over the next 18 years**. Just over half thought that a range of fixed interest investments would be the better option while 15% opted for a savings account. The 1987 share market crash may well be influencing responses to this question. Males were more likely than females to suggest a range of shares, as were those aged 35-44. The older age groups were more likely to choose the fixed interest investments. The youngest age group, 18-24 had the lowest proportion suggesting fixed rate investments, but the highest proportion (a third) thinking a savings account would make the most money. Of those respondents who currently had shares, still only just more than the average would choose the range of shares with half choosing the fixed rate investments. A similar result was seen amongst those who had had shares in the past with a third choosing the range of shares, but half opting for the fixed rate investments. Of those with a term deposit, the proportion choosing the fixed rate investment was even higher than the average with nearly two-thirds choosing that option.

When asked what someone should **take into account when looking at an investment offer**, the two most common things that respondents mentioned were the **risk** and the **return**. Seven in ten mentioned something relating to the risk. Two thirds of respondents mentioned the return on the investment such as the interest rate, and any tax implications. Just over a quarter of respondents mentioned something relating to the duration of the investment, while just under a quarter mentioned the liquidity of the investment. Thirteen percent of respondents mentioned anything relating to the cost of the investment. A tenth of respondents could not mention anything at all. Respondents with investments such as term deposits, or unit trusts, or high interest call accounts or personal retirement savings tended to be more likely to mention risk than those people without these types of investments.

As household income and education level increased, so did the incidence of mentioning each of the key areas of risk, return, duration, liquidity and cost.

It was well understood that diversifying the investment portfolio and changing from high risk to low risk investments were ways of **reducing risk**. Less well understood as ways of **reducing risk** were taking out capital guaranteed investments or not investing only in property.

The use of **capital guaranteed investments** as a way of reducing risk was not well understood. As many respondents did not know that taking out capital guaranteed investments were a way to reduce risk as did know. Respondents with investments were no more likely to know that capital guaranteed investments were a way to reduce risk than respondents who did not have investments. The incidence of having this knowledge tended to increase above the average after the age of 35. The incidence of not understanding the question tended to be significantly higher than the average amongst those of Maori or Pacific ethnicity, those with savings/investments less than $1,000, and those of negative net worth. The incidence of not knowing the answer was also higher than the average amongst those with low savings/investment balances and those with negative net worth.

Just over three-quarters knew that **diversifying the investment portfolio and having a variety of investments** was a way to reduce risk. Twice as many did not know the answer than gave an incorrect answer. Respondents who owned an investment product were more likely to be correct than those who did not own investments.

A fifth of people thought that **investing <u>only</u> in property** was a way to reduce investment risk. Respondents who owned investment products were less likely to think that investing only in property was a way to reduce investment risk than those who did not have investments.

While most of the population could correctly identify potential features of a financial scam, nearly half said they would recommend others to invest lightly in an 'investment having a return well above market rates' and see how it goes before investing heavily.

Scams

When given an example of **an investment advertised as having a return well above market rates**, nearly half of respondents would recommend investing lightly and seeing how it goes before investing more heavily. Forty-four percent considered it "too good to be true" and would recommend not investing. Respondents who had a high interest call account, or term deposit or shares tended to be more likely to think the offer was too good to be true than those who did not have these types of investments but the proportions were still just over half.

When given a series of true/false statements about aspects of potential scams, nine in ten respondents recognised that a **promise of very high returns with little risk** was likely to be a scam.

Thirteen percent of respondents did not know that '*an investment with a higher than average return is likely to have higher than average risk'*. However the majority of these people (84%) recognised at this question that a promise of very high returns with little risk was likely to be a sign of a scam.

The majority of respondents also recognised that if an offer was **only made to a select few** it was probably a scam. Five percent did not think it was a sign of being a scam. Existing investors i.e. those with a term deposit, call account, unit trust or personal retirement savings tended to be more likely to give the correct answer than those without that type of product.

Nearly nine in ten respondents knew that if the **offer was being made by a well known, respectable financial organisation**, it was not a scam.

Fewer people were able to identify that if **the minimum amount to invest kept reducing** that this was the sign of a scam. Just over two-thirds recognised this was a scam, while 18% thought it wasn't a scam and 13% were unsure. Those with a term deposit had a higher incidence of recognising this as a sign of a scam than those who did not have term deposits, however there was no significant difference between those who had unit trusts/managed funds or high interest call accounts and those who did not.

Planning for the future/retirement savings

Our financial choices vary according to situation and stage of life.

The majority of New Zealanders (about 9 out of 10 people) could recognise the positive features and benefits of financial planning.

Whilst most of the population has given some thought to their retirement, when it came to thinking about how much to save for their retirement, people tended to more focus on their future lifestyle and spending rather than consider their current financial situation or the length of their retirement.

Respondents were asked a series of true/false statements about financial plans. Over nine in ten respondents recognised **that financial plans should take into account possible changes in your life** and that **financial planning is not about investment only**. Slightly fewer, around 85%, knew it was not true that **financial plans are set up once and you use the same plan throughout your life**.

A third of respondents had **thought a lot about their financial planning for retirement**, 27% a fair amount, a quarter just a little and 17% not at all. There were no significant differences by gender in having thought about financial planning for retirement. As would be expected, there were significant differences by age. As age increased so did the extent to which people had thought about it. Of those in the pre-retirement decade of 55-64 years, nearly half had thought about it a lot. Those who had the economic means (i.e. those earning above the level of NZ Superannuation) to think about financial planning for retirement generally appeared to be doing so - half of those with net worth of over $600,000 had thought about it a lot. A third of homeowners with a mortgage had thought about it a lot and a further third had thought about it a fair amount.

When asked **what a person needs to think about to work out how much to save for retirement**, respondents tended to think more about their future lifestyle and spending needs than their current financial situation or how long their retirement would be. Eight in ten respondents mentioned something relating to **retirement spending or lifestyle**. Just under half of all respondents mentioned something relating to considering their **current financial situation**, just over four in ten mentioned the need to consider their **income once retired** and just over one in ten mentioned the need to consider the **length of retirement**. Respondents who said they had personal retirement savings were slightly more likely to mention the key considerations than those who did not have personal retirement savings, but this was not a statistically significant difference.

Overall knowledge of New Zealand Super is good, but there is confusion about income testing and asset testing. As would be expected, knowledge of New Zealand Super, and of details like how much, and if it is mean tested, improves as people approach retirement age.

The majority of respondents (83%) correctly identified that the **age of entitlement for NZ Super** was 65. Six percent thought it was 60 years of age and 3% said something else. Eight percent did not know. Ninety-three percent of those aged 45-74 and 88% of those aged 75 or over knew the age of entitlement was 65.

Thirty-five percent correctly recognised the **amount of NZ Super for a single person living alone** as $13,000. A quarter thought it was lower, while 13% thought it higher. The remaining quarter did not know the answer. Those aged 55 or more had a higher incidence of giving the correct answer than those younger, and of this group 51% were correct. Of those aged 75 or more, almost a quarter did not know the correct answer. Of retired respondents half knew the correct amount but a fifth did not know.

Many did not know whether NZ Super was **income tested** and **asset tested**. A third incorrectly thought that NZ Super was **income tested**, while a quarter did not know. Just over a third knew that it was not income tested. Those over 55 had a higher than average of knowing it was not income tested. However a quarter of 55-64 year olds and a third of those aged 75 or more did think it was.

Just under half of respondents knew that NZ Super was not **asset tested** while the remainder was split between those who thought it was asset tested and those who did not know. Two-thirds of those who thought NZ Super was asset tested also thought it was income tested. As age increased, people were more likely to know that NZ Super was not asset tested (71% of those aged over 65 years were correct). As household income increased, so did the proportion who knew NZ Super was not asset tested.

Consumer rights

Internet banking passwords

Whilst most are aware of the need to protect their banking details when it comes to the Internet, a small portion of people think it would be all right to share their Internet banking password with a member of their bank's staff if asked to do so.

Respondents were presented with three situations and asked if it would be all right to tell someone else their Internet banking password. In all three situations there were people who thought it would be all right when in fact it would not be.

Half of respondents (51%) said it would be all right to **tell their partner** so they could pay some bills. Those who had a higher than average incidence of thinking it would be all right were males, those aged 18-44 years, those with a household income of $50,000-$100,000, mortgage holders, households with youngest child aged 5-15 years, and flatters. Females and those aged 55 years or over were less likely to say it would be all right. There was no difference in the incidence between those who said they use Internet banking as a payment method and those who did not.

Nearly all respondents (96%) thought it inappropriate to **tell their friend** their Internet password so they could pay their bills. Again, there was no difference in the incidence between those who said they use Internet banking as a payment method and those who did not.

Seventeen percent would **tell a bank staff member** their Internet banking password if they were asked for it at the branch.

Getting financial advice

When it comes to dealing with financial advisors about our own money and investments, most people agree it is important to check out an adviser's qualifications and experience, and to both read and understand investment details before investing.

Respondents were read out a number of true/false statements about getting financial advice.

Three quarters of respondents said it was true that it was **important to find out how a financial adviser is being paid.** Respondents with any investment product (term deposit, unit trust/managed fund, high interest call account or personal retirement savings) were no more likely to think the statement was true than those who had none of these products.

The vast majority of respondents (95%) thought it was true that **before handing money to a financial adviser, a person should ask about their qualifications and experience**. Respondents with investments were as likely to think the statement true as those that did not have any.

Almost all respondents (99%) said it was true that it was **important to read and understand the investment statement that explains the details about the investment before investing**.

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The financial knowledge groups

A major objective of this research was to develop benchmark measures of financial knowledge across various groups within the population. These benchmarks will be used to monitor changes in financial knowledge, across topics and groups of the population, over time.

Analysis was undertaken to identify the financial knowledge groups in the form of 'tiles' (groups, quartiles or quintiles). In order to do this a financial knowledge score (FKS) was developed using the basic knowledge scores as agreed (the maximum score was 58.5). The decision was ultimately made to use groups (i.e. the population was divided into three groups) and also investigate key questions for a 'lowest knowledge' group – a sub-group of the lowest group.

Based on the FKS, respondents were split into three equal groups:

- Low Knowledge group - FKS scores of less than 37.25 – 32.9% of the population
- Medium Knowledge group - FKS scores of 37.25 to 44 – 33.6% of the population
- High Knowledge group - FKS scores of 44 to 58.5 - 33.5% of the population

In addition to these three groups, the analysis also looked at those at both ends of the knowledge scale; those who scored 28.25 or less on the basic knowledge (Lowest Knowledge) and those who scored 15 or more out of a possible 18.5 on the advanced knowledge points (Advanced Knowledge Group). The advanced knowledge points were assigned to questions where it was expected that a higher level of financial knowledge would be needed. Those questions that were defined as advanced were predominantly investment related questions.

The Lowest Knowledge group represented 9% of the population, and the Advanced Knowledge Group (Investing) 15%, of the total weighted respondents. Just over a quarter of the Low Knowledge group (28%) were in the Lowest Knowledge sub-group. Of the Advanced Knowledge Group, 82% were also in the High group and 18% were in the Medium group.

Financial knowledge groups

Respondents were split into three **equally** sized knowledge groups.

Table B below shows the profile for the financial knowledge groups by some key demographics. For example 63% of the Low Knowledge group are female and 37% are males. Percentages in **red** indicate those significantly over or under represented compared to the proportion of all respondents at the 95% confidence level. There are therefore significantly more females in the low knowledge group.

Table B: Demographic representation in each financial knowledge group

Demographic category	Total Respondents %	Low Knowledge %	Medium Knowledge %	High Knowledge %
Total Respondents	**100**	**33**	**34**	**33**
Female	52	**63**	49	**44**
Male	48	**37**	51	**56**
18-24 years	13	**22**	12	**4**
25-34 years	19	17	24	16
35-44 years	21	**16**	19	**30**
45-54	18	**12**	15	**27**
55-64 years	12	11	14	12
65+ years	17	**22**	16	11
Paid employment	65	**47**	69	**80**
Not in paid employment	35	**53**	31	**20**
Primary or basic secondary school education (no certificate)	27	**44**	26	**11**
Tertiary or post graduate education	34	**18**	37	**47**
Household income $20,000 or less	17	**32**	15	**4**
Household income $50,000 or more	46	**24**	48	**67**
Negative net worth	18	**28**	19	**6**
Net worth $300,000 or more	36	**16**	37	**56**
European	81	**60**	89	**94**
Maori	12	**24**	8	**4**
Pacific people	5	**13**	2	**1**
Home owned by self/partner	63	**43**	62	**83**
Home rented	26	**36**	28	**15**
Home duties	9	13	10	**5**
Retired	16	**22**	15	**10**
English as first language	90	**79**	**94**	**96**
English not first language	10	**21**	**6**	**4**

(Please note that not all groups of a demographic may be shown and therefore percentages may not add to 100%. Key groups have been selected to illustrate the over and under representation.)

Product ownership by knowledge group

The table below shows financial product ownership by the financial knowledge groups. Percentages in red indicate those significantly different from the total at the 95% confidence level.

Products Held	Total	Low	Medium	High
Cheque/transaction/current account	84%	70%	89%	96%
Savings	84%	84%	85%	84%
Vehicle insurance	78%	63%	79%	94%
House/contents insurance	75%	55%	76%	97%
Credit cards	64%	35%	70%	86%
Private health insurance	40%	28%	39%	54%
Mortgage on home/holiday home	29%	21%	27%	41%
Store cards	27%	18%	33%	30%
Term deposits	25%	16%	26%	34%
Personal retirement savings	23%	15%	25%	28%
Personal overdraft	22%	10%	28%	27%
Lease/HP	21%	24%	20%	19%
Shares	21%	10%	22%	30%
Other deposit accounts	16%	9%	19%	20%
Work based retirement savings	16%	11%	13%	23%
Unit trust/managed fund	15%	2%	14%	28%
High interest call account	12%	7%	13%	17%
Govt student loan	12%	11%	16%	10%
Personal loan	12%	14%	14%	7%
Mortgage on other property	12%	2%	12%	21%
Revolving credit	11%	2%	10%	21%
A current will	59%	42%	60%	76%
An enduring power of attorney	35%	26%	38%	40%

Knowledge groups

Low Knowledge Group - profile

The Low Knowledge group (and the Lowest Knowledge sub-group) had the lowest levels of financial knowledge. This Low Knowledge group had clear demographic skews away from the average (see Table B). While 33% of all respondents were allocated to the Low Knowledge group, those with Low Knowledge were significantly more likely to be:

- Female
- 18-24 years, 75+ years
- Non-European
- Not in paid employment – retired or home duties or social welfare beneficiary
- Semi-skilled and low level occupations – labourer, manual, agricultural or domestic worker
- Primary or basic secondary school education
- Low household income - $20,000 or less
- Those renting their home
- Low deposit balances – savings/investments less than $5,000
- Negative net worth or net worth of less than $100,000
- Low incidence of product ownership – credit cards, insurance

The Lowest Knowledge group are a sub-set of the Low Knowledge group (see Table C below, which compares the profile of the Lowest Knowledge group with the total Low Knowledge group and also against all respondents). This Lowest Knowledge group were more likely than the rest of the Low Knowledge group to be:

- 18-24 years
- Maori, Pacific people, or of other ethnic minority group
- English not first language
- Social welfare beneficiaries, labourers/manual/domestic workers
- Household income of $20,000 or less
- Savings/investment balance of less than $100

Table C below shows the profile for the Lowest Knowledge sub-group in comparison to Total Respondents, and the Total Low Knowledge group. For example 60% of the Lowest Knowledge sub-group are female compared to 52% of all respondents, and 65% of the rest of the Low Knowledge group. Thirty percent of the Lowest Knowledge sub-group are aged 18-24 compared to 13% of all respondents, and 22% of the total Low Knowledge group.

Percentages in **red** (and bolded) indicate those significantly over or under represented compared to the proportion of Total Respondents at the 95% confidence level. Percentages highlighted in **yellow** in the Lowest Knowledge column indicate those significantly over or under represented compared to the total Low Knowledge group at the 95% confidence level.

Table C

Demographic category	Total Respondents %	Total Low Knowledge %	Lowest Knowledge %
Total Respondents	**100**	**33**	**9**
Female	52	63	60
Male	48	37	40
18-24 years	13	22	30
25-34 years	19	17	13
35-44 years	21	16	14
45-54	18	12	14
55-64 years	12	11	9
65+ years	17	22	19
Paid employment	65	47	41
Not in paid employment	35	53	59
Primary or basic secondary school education (no certificate)	27	44	59
Tertiary or post graduate education	34	18	4
Household income $20,000 or less	17	32	43
Household income $50,000 or more	46	24	12
Negative net worth	18	28	36
Net worth $300,000 or more	36	16	3
European	81	60	34
Maori	12	24	45
Pacific Island	5	13	24
Home owned by self/partner	63	43	28
Home rented	26	36	42
Labourer, manual, agricultural, domestic worker	6	11	19
Social Welfare beneficiary	5	9	16
English as first language	90	79	67
English not first language	10	21	33

Behaviourally the Low Knowledge group and Lowest Knowledge sub-group were less likely than the other groups to be regular savers, or to keep a close eye on expenses. Four in ten were regular savers and one in ten did not keep an eye on expenses at all, significantly more than the other knowledge groups. They were more likely to say their greatest difficulty managing money was the lack of it, but had just as many as the other groups who had no difficulty at all.

Respondents in the Low Knowledge group tended to have a significantly lower incidence of owning financial products compared to the Medium and High groups, with the exception of savings accounts, personal loans (higher compared to High group), government student loan, and lease, hire purchase agreement or other debt on household items. In terms of the types of payment methods used, they had a lower incidence of usage of EFTPOS, credit cards, direct debits, cheques and store cards, and Internet banking.

Overall, while their level of agreement or disagreement with the attitude statements differed significantly to the other groups, at least two-thirds of the Low Knowledge group had 'positive' attitudes to the majority of statements. However, four in ten agreed they found it hard to make ends meet, agreed they would not manage if they had a major loss of income, or agreed they spend all of their income as they get it and do not plan for the future.

Half of the Lowest Knowledge group say they find it hard to make ends meet, four in ten spend all of their income as they get it and do not plan for their future, and a quarter feel out of control with their debt and borrowing. Nearly half could not manage for three months if they had a major loss of income and only half knew what insurance they needed. The majority felt confident about managing their financial affairs and felt personally responsible for their financial future. The majority also recognised the need to shop around to get the best deal on financial products, but fewer agreed that investing money was a way for them to achieve their financial goals.

Low Knowledge Group – areas of knowledge

The Low Knowledge group (and the Lowest Knowledge sub-group) by definition had low financial knowledge across all areas, but there were distinct areas of underperformance in terms of their financial knowledge:

- maths and standard literacy
- understanding of financial terms (with the exception of Savings and Term Deposit)
- payment methods (financial advantages of Internet banking and the financial advantages in paying bills on or before their due date)
- debt management (reducing debt first and getting rid of debt faster)

- understanding mortgages (minimising interest by paying fortnightly, equity and leveraging, fixed interest rates, penalties on home loans)
- understanding compound interest
- planning for the future (key considerations of the current financial situation or retirement income in relation to saving for retirement)
- budgeting (importance of planning and tracking reasons)
- investing (what to take into account when considering investment offers)

Their lower knowledge in many of these areas is driven by their lower incidence of having products such as mortgages, credit cards, and investments.

Lowest Knowledge subgroup – areas of knowledge

The Lowest Knowledge subgroup, being a sub-group of the Low Knowledge group, has all the same areas of poorer knowledge. They also appear to have lower knowledge relative to the Low Knowledge group in these areas:

- maths and standard literacy
- understanding of Term Deposits
- advantages of Internet banking, and revealing Internet banking password
- credit card repayment features
- home mortgages (equity and leveraging, fixed interest rates)
- NZ Super
- understanding the definition of a budget, budgeting (planning or tracking reasons for budgeting)
- getting rid of debt faster
- compound interest and inflation
- recognising scams
- investing (what to take into account when considering investment offers with four in ten not able to mention any considerations)

Given the age and economic skew of the Lowest Knowledge group it is not surprising that knowledge of planning for the future was low. Fewer than a third mentioned any of the key considerations in relation to saving for retirement. However this group has neither the capacity nor reason to save. NZ Super provides the bottom two or three deciles of income earners in New Zealand with sufficient income to maintain the standard of living they had pre-retirement.

Medium Knowledge Group - profile

The Medium Knowledge group was very similar to the population of all respondents on almost all demographics and measures (see Table B above). The only significant difference between the Medium Knowledge group and all respondents was:

- they were more likely to be of European ethnicity
- they were less likely to be Maori and Pacific ethnicity

The Medium Knowledge group was evenly split between males and females. A quarter said their highest education level was secondary school without school certificate. Just over a third had some type of tertiary education, with a quarter saying they were university graduates or post graduates. Four in ten were from households where the youngest child was aged under 15 years. Three in ten were from households with no children or none at home. Just over two-thirds were in paid employment.

There was a wide spread of household income:

- 15% having household income of $20,000 or less
- 31% had a household income of $20,000-$50,000
- 32% a household income of $50,000-$100,000
- 16% a household income of over $100,000.

Half of the Medium Knowledge group were regular savers, significantly higher than the Low Knowledge group. Almost half kept a fairly close eye on their expenses without keeping written records, higher than both the Low Knowledge and the High Knowledge groups. They were slightly less likely to say they had no difficulties managing their money than those in the Low Knowledge group, but just as likely as both those in the Low Knowledge and High Knowledge groups to suffer from impulse spending.

Respondents in the Medium Knowledge group did not differ significantly to all respondents in their incidence of financial products ownership or in their usage of methods of payment.

The Medium Knowledge group's level of agreement or disagreement with most of the attitude statements was similar to the average. However they were more likely to disagree that they spend all their income as they get it, more likely to disagree that it is not important to save for retirement because the Government will pay them NZ Super and more likely to agree that it is important to shop around for financial products to get the best deal.

Medium Knowledge Group – areas of knowledge

Relative to their performance in other areas of financial knowledge the Medium Knowledge group were weaker in their knowledge of:

- the meaning of the real rate of return
- the financial advantages of using Internet banking
- certain areas of home mortgages (minimising interest by paying fortnightly, equity and leveraging, fixed interest rates, penalties on home loans)
- NZ Super
- debt reduction
- compound interest
- risk and return on investments (particularly capital guaranteed investments, reducing risk and importance of finding out how a financial adviser is being paid).
- planning for the future (key considerations of the current financial situation, length of retirement or retirement income in relation to saving for retirement)
- budgeting (planning or tracking reasons for budgeting)
- investing (key considerations of cost, liquidity or duration in relation to what to take into account when considering investment offers)
- risk management (while six in ten had a current will, only just over a third had a financial enduring power of attorney)

High Knowledge Group - profile

The High Knowledge group scored between 44 and 58.5 on the basic knowledge questions. Members of this group were more likely than the average to be:

- Male
- 40-54 years of age
- European
- Tertiary educated
- White collar occupations – clerical/sales employees, business managers/executives, business proprietors, professionals/senior government officials
- Home-owners
- High Household income - $100,000 or more
- High savings/investments balances - $50,000 or more
- High net worth - $300,000 or more
- Higher incidence of product ownership – high take up of credit cards, house/contents and vehicle insurance

Two thirds of the High Knowledge group are regular savers, and 82% keep a close or fairly close eye on their expenses. Three in ten, a similar proportion to the other groups, claim they have no difficulties managing their money, while a fifth, again a similar proportion to the other groups, said their greatest difficulty was impulse buying or an inability to control their own behaviour.

The High Knowledge group differed significantly to the average on nearly all attitude statements. Significantly fewer found it hard to make ends meet, felt out of control with their borrowing, thought they would be unable manage if they had a major loss of income, or spent all of their income as they got it.

However they were no different to the average in their agreement that they had worked out how much they needed for retirement, that they were personally responsible for their financial future, that it was important to shop around for financial products and services and that they would want to take into account ethical, environmental and social factors when deciding where to invest.

In terms of their financial market participation, those in the High Knowledge group had a significantly higher incidence of having superannuation/life insurance, shares (currently or in the past) and having or having considered shares through a public offering or collective investment schemes or debt securities. In terms of getting advice on these investments they did not differ to the other groups.

High Knowledge Group – areas of knowledge

The High Knowledge group were generally strong in almost all areas of knowledge. Relative to other areas they were slightly weaker in:

- money management (the financial advantages of using Internet banking, and paying bills on time or before the due date)
- certain areas of home mortgages (equity and leveraging, penalties on home loans)
- NZ Super
- debt reduction
- compound interest
- risk and return on investments (particularly risk, return, capital guaranteed investments, some aspects of scams)
- budgeting (planning or tracking reasons for budgeting)
- investing (mentions of cost, liquidity and duration when considering investment offers)

Three quarters of the High Knowledge group had a current will and four in ten had a financial enduring power of attorney.

Advanced Knowledge Group (Investing) - profile

The Advanced Knowledge Group (those scoring between 15 or more out of 18.5 on the advanced knowledge questions relating to investing) had a similar demographic and behavioural profile to the High Knowledge group. Table D below compares the profile of the Advanced Knowledge group against all respondents. Those in the Advanced Knowledge Group were more likely than the average to be:

- Male
- 35-54 years of age
- University educated
- Professional or senior government official
- Household income of $100,000 or more
- High savings/investments balances - $125,000 or more
- Net worth of $600,000 or more
- European
- Homeowners
- In households with no children/none at home

Overall, the vast majority of Advanced Knowledge Group tend to be in control of their borrowing and debt, do not find it hard to make ends meet, and do not spend all of their income as they get it. They feel financially confident and recognise that investing is a way to achieve their financial goals. They could survive for three months after a major loss of income and they know what insurance they need. Just over half agreed they have worked out how much they need for retirement, a higher proportion than amongst all respondents due to the higher proportions of older and wealthier respondents in the Advanced Knowledge Group.

The Advanced Knowledge Group had a significantly higher than average incidence of being financial market participants. Eight in ten have or have had superannuation or life insurance. Just over a third currently owned shares, and of those who did not, half had shares in the past. The Advanced Knowledge Group were twice as likely as all respondents to have bought or considered buying shares through a public offering and just over half had invested in or considered a collective investment scheme or debt securities.

Table D below shows the profile for the Advanced Knowledge Group in comparison to Total Respondents. For example almost three-quarters of the Advanced Knowledge Group are male. Four percent of the Advanced Knowledge Group are aged 18-24 compared to 13% of all respondents. Percentages in **red** indicate those significantly over or under represented compared to the proportion of Total Respondents at the 95% confidence level.

Table D

Demographic category	Total Respondents %	Total Advanced Knowledge Group %
Total Respondents	**100**	**15**
Female	52	27
Male	48	73
18-24 years	13	4
25-34 years	19	17
35-44 years	21	30
45-54	18	24
55-64 years	12	11
65+ years	17	13
Paid employment	65	79
Not in paid employment	35	21
Primary or basic secondary school education (no certificate)	27	12
Tertiary or post graduate education	34	59
Household income $20,000 or less	17	4
Household income $100,000 or more	18	42
Negative net worth	18	5
Net worth $300,000 or more	36	60
European	81	99
Maori	12	2
Pacific people	5	0
Home owned by self/partner	63	86
Home rented	26	12
Professional or senior govt official	5	12
Social Welfare beneficiary	5	0
Savings/investment balance< $5,000	31	6
Savings/investment balance> $50,000	31	60
Households with youngest child at home 15+ yrs	15	6
Households with no children/none at home	28	40

Advanced Knowledge Group - areas of knowledge

The Advanced Knowledge Group were generally strong in almost all areas of basic knowledge but, like the High Knowledge group, relative to other areas they were slightly weaker in:

- money management (the financial advantages of using Internet banking, the best type of payment method, the financial advantages of paying bills on time or before the due date)
- NZ Super
- consolidating debt

They performed well on the advanced knowledge areas of:

- definition of terms
- debt reduction
- consumer rights

Within the Advanced Knowledge Group in comparison with their knowledge of other advanced knowledge areas there was some room for improvement in the following:

- equity, leveraging and revolving credit
- investments advertising returns well above market rates, which investment would make the most money, and taking cost, liquidity and duration into consideration when looking at investment offers.

Three quarters of the Advanced Knowledge Group had a current will and just over a third had a financial enduring power of attorney.

Attitudes and behaviours

The primary focus of this research was to measure financial knowledge. Some attitudinal and behavioural questions were also asked to help describe the knowledge groups.

Savings behaviour

Just over half (53%) of all respondents said they save money on a regular basis. A fifth (20%) said they sometimes save money, fifteen percent said they cannot save because there is never enough money and a tenth said they save only when they want to save for something big or special. Three percent said they do not save because they do not need to.

Control of expenses

About four in five New Zealanders say they keep a close eye on their expenses.

Four in ten respondents (40%) said they keep a fairly close eye on expenses without keeping written records. The next largest proportion (38%) said they use written or electronic records to keep a close eye on expenses. Seventeen percent said they keep their eye on expenses a bit and 5% did not keep an eye on expenses at all.

The majority of the following groups keep an eye on expenses to some extent, but those aged 18-24, Maori and Pacific people, those with low household income, those with school certificate as their highest level of education and those with savings/investment balances less than $5,000 are more likely to not keep an eye on their expenses at all. Twice to three times as many of these groups did not keep an eye on expenses at all compared to all respondents overall.

Greatest difficulty with money

It appears that those in the community who do not have a mortgage, or are not in paid employment, (and this could be through retirement), or do not have children at home are less likely to have difficulty with money. People with low incomes, children or borrowing for a home increase the likelihood of having difficulty with money.

Those who have a plan and say they are in control of their finances also say they have less difficulty with money.

Three in ten of all respondents (31%) said they do not have any difficulties with money. A further quarter (26%) said they do not have or do not earn enough money. A fifth (19%) of all respondents said that their greatest difficulty was that they couldn't control their own behaviour or impulse buying. Fourteen percent of all respondents said they have a difficulty with unexpected bills/expenses.

Respondents who said they had no difficulties managing money were more likely than average to agree that they could manage for 3 months if they had a loss of income, agree they were confident managing their financial affairs, and that they had worked out how much they need for retirement. They were also significantly less likely than the average to agree that they spent all their income as they got it and didn't plan for the future, that they felt out of control with their debt and borrowing, and that they found it hard to makes ends meet.

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Financial attitudes

Respondents were asked to agree or disagree to a series of attitude statements.

The majority of respondents agreed with the following attitude statements:

- 92% agreed that they were personally responsible for their financial future
- 92% agreed that it was important to have a current will
- 90% agreed that it was important to shop around for financial products and services such as credit cards and loans to get the best deal
- 83% agreed that they felt confident about managing their financial affairs
- 76% agreed that they know what insurance they need to cover their needs
- 75% agreed that investing money was a way for them to achieve their financial goals
- 71% agreed that they wanted to take into account ethical, environmental and social factors when deciding where to invest
- Of those aged 55-plus, 47% had worked out how much they need for retirement
- A quarter (26%) agreed that they find it hard to makes ends meet because there is not enough money and nearly half (46%) of those with household income of $20,000 or less agreed.

Many respondents disagreed with the following attitude statements:

- 86% disagreed with the statement "It doesn't really matter much about saving for retirement because the Government will pay them NZ Super"
- 84% disagreed that with "I feel out of control with borrowing or debt generally "
- Three in ten (30%) disagreed hat they could manage for 3 months if they had a major loss of income. This was higher (43%) amongst households with income of $20,000 or less.

Amongst 18-24 year olds and those with low savings/investments or household income there was a lower proportion than the average in agreement with the statements:

- 64% of 18-24 year olds agree "Investing money is a way for me to achieve my financial goals"
- 11% of 18-24 year olds agree "I have worked out how much I need for my retirement"

It is less important for these younger groups to have a high level of agreement on these attitudinal statements, given their stage of life, as compared with people who are closer to retirement.

Financial market participation

People who had invested in or seriously considered investing in managed funds, contributory mortgage schemes, bonds, debentures or other debt securities had a higher incidence of getting advice before signing, than those who had invested in superannuation or life insurance, or invested in or considered public offering shares. Relatives or friends were as important a source of advice for some investments as professional investment advisors. Generally, investors were satisfied with the advice they received.

Superannuation or life insurance

Two-thirds (66%) of respondents have, or had in the past, superannuation and/or life insurance. The incidence tended to be significantly higher than all respondents amongst those aged 30-54 years, homeowners, those in households where the youngest child was aged 5-15 years, those with household income over $100,000, and those with net worth over $100,000. Eighty-four percent of those in the High Knowledge group have, or had in the past, superannuation and/or life insurance compared to 51% of the Low and 64% of the Medium Knowledge groups.

Of the two-thirds of respondents who currently have, or had in the past, superannuation or life insurance, just over half (58%) had got advice before deciding whether or not to sign their life insurance or superannuation contract, with no significant difference across the knowledge groups.

Thirty-eight percent had got advice from an insurance company agent/adviser and the majority (85%) found the advice very or quite useful. A similar proportion (36%) had received their advice from an independent financial planner/broker and 94% found this advice very or quite useful. Just over a third (36%) had received advice from a relative or friend.

Shares

A fifth of respondents (20%) currently own shares. The incidence of owning shares tended to be significantly higher than all respondents amongst the following demographics; those aged 45-74 years, homeowners, those homeowners with no mortgage, those in households with no children/none at home, those with a household income of $100,000 or more and those with a postgraduate qualification. The incidence was also significantly higher amongst the High Knowledge group where 30% owned shares, compared to 13% of the Low Knowledge group.

Of the 80% of respondents who did not currently own shares, just over a quarter (27%) had owned shares in the past. Again the incidence was higher amongst those in the High Knowledge group where 42% had owned shares compared to 17% of the Low Knowledge group. When asked why they no longer owned shares, almost four in ten (38%) said that they had needed the money, over a quarter (27%) said that the share market was too risky, one in ten (11%) found that better returns were available through other investments and 9% said they had got out because they lost money on their shares. There were no significant differences in reasons across the knowledge groups.

30% of respondents had bought or seriously considered buying shares through a public offering. Males, those aged 40-54 years, those with a household income of $100,000 or more, and those whose highest level of education was university graduate or post graduate qualifications were significantly more likely to have done so. Of the High Knowledge group 42% had bought or seriously considered public offering shares compared to 16% of the Low Knowledge and 31% of the Medium Knowledge groups.

Just over a third (37%) of those who had bought or seriously considered buying shares through a public offering had got advice before making their decision, with no significant difference across the knowledge groups. 36% had got that advice from a relative or friend, 34% from a share broker, 22% from a specialist investment adviser, 21% from an accountant and 12% from a lawyer. While the sample size was low, those in the Low Knowledge group appeared to have a higher incidence of getting their advice from a relative or friend.

Collective investment schemes or debt securities

Nearly three in ten respondents (28%) had invested in or seriously considered investing in managed funds, contributory mortgage schemes, bonds, debentures or other debt securities. The incidence of owning or considering any of these products tended to be significantly higher than all respondents amongst the following demographics; those aged 45-64, homeowners, those with household income of $100,000 or more, and those whose last formal level of education was university graduates or post graduate. Ten percent of the Low Knowledge group had invested in or considered these products compared to nearly half (48%) of the High Knowledge group.

Of the respondents who had invested or considered investing in debt equities, nearly two-thirds (63%) had got advice with no significant difference across the knowledge groups. This is much higher than the proportion that got advice when considering shares through a public offering (37%) and slightly higher than the proportion who got advice before signing contracts for superannuation or life insurance (58%). Just over half of those who got advice before deciding to invest got that advice from a specialist investment adviser (56%). A quarter got advice from a relative or friend (26%), 16% from an accountant, 14% from a share broker, 9% from a bank, and 4% from a lawyer. The majority found the advice they received very or quite useful.

Written information about investments

Two thirds (65%) of respondents who have or had superannuation or life insurance or bought or considered buying shares through a public offering, or had invested or considered investing in debt equities said they had obtained written information about their investment opportunity before signing any contract. Those in the High Knowledge group had a significantly higher incidence at 74% compared to 55% of the Low Knowledge group. Nearly two-thirds of those who had obtained written information had got a prospectus (64%). Just over half had got a brochure (56%), and just under half (46%) had obtained an investment statement. Those in the Low Knowledge group had a significantly lower incidence of saying they obtained a prospectus (45%) or an investment statement (33%). Of those investors who had received an investment statement, the vast majority found the different types of information either very useful or quite useful.

Financial market participants and specific areas of knowledge

Financial market participants are those who own or have owned shares, or bought or considered shares through a public offering or invested in or considered investing in managed funds, contributory mortgage schemes, bonds, debentures or other debt securities. Fifty-seven percent of respondents were financial market participants.

Financial market participants were significantly more likely to have a written financial plan than non-participants (24% compared to 16%). They were also more likely to have a current will (70%) or an enduring power of attorney (40%) than non-participants. They were significantly more likely than non-participants and all respondents to know the correct definition of capital gains (72%) and real rate of return (68%). Participants were more likely than non-participants to know that it is important to find out how a financial adviser is being paid, and that they should ask about an adviser's qualifications and experience before handing over money.

While they were also more likely to get all three sections of the compound interest question correct, the majority (70%) did not. Likewise, while they were more likely than non-participants to recognise that a range of shares would provide the best return over 18 years, more chose the fixed interest investments (49%) than the range of shares (39%).

Half of financial market participants did not recognise that taking out capital guaranteed investments was a way to reduce risk and ninety-three percent did know that an investment with a higher than average return is likely to have a higher than average risk. However just under half (46%) would recommend investing in an investment advertised as having a return well above market rates, fewer than non-participants but not significantly different to total respondents.

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Areas of financial knowledge by specific demographic groups

18-24 year olds

Just over half of 18-24 year olds (57%) were in the Low Knowledge group, a third (32%) were in the Medium Knowledge group and the remaining 11% were in the High Knowledge group. Generally the 18-24 year olds were less likely to correctly answer financial knowledge questions; this is to be expected in areas such as home loans/mortgages, investing, retirement planning and knowledge of NZ Super which have less immediate relevance for them. They had lower scores in the following areas of basic financial knowledge:

- their ability to use the bank statement to identify how much saved and calculate how long to save a certain amount of money
- which payment type was best to use to minimise costs/fees
- interest free days on credit cards
- maximising interest by paying bills on or before the due date
- the definition of liabilities
- whether gross salary was before or after tax
- the effects of inflation
- financial planning needing to take into account life changes

They performed better than might have been expected in the following knowledge areas:

- understanding the implications of a secured loan (amongst those who said they knew what it meant)
- understanding the meaning of net worth (amongst those who said they knew what it meant)
- calculating equity (amongst those who said they knew what it meant)
- responsibilities of a loan guarantor
- consolidating debt to get rid of it faster
- increasing the amount of regular payments to minimise interest on a mortgage
- using the equity in an existing property when financing an investment property
- the variability of share investments
- considering the return and liquidity when investing
- recognising most aspects of a scam

A third of 18-24 year olds were from households where the youngest child at home was over 15 years and a quarter were flatting. A further fifth were from households where the youngest child was aged under 5 years. Two-thirds were in paid employment, not significantly different to all respondents.

In terms of their occupation the largest proportion, a quarter, were university students. A fifth were in semi-skilled or labouring/unskilled occupations and a tenth were social welfare beneficiaries.

Two-thirds were European, lower than amongst all respondents. A fifth were Maori and 16% of Pacific ethnicity, both higher than amongst all respondents.

The 18-24 year age group had lower than average incidence of ownership of all products with the exception of savings accounts, personal overdrafts, personal loans and leases/hire purchase agreements. They were also less likely compared to the average to have a budget. In terms of the types of payment methods used, they were under-represented in usage of credit cards, direct debits, cheques and store cards but were more likely to use cash.

Behaviourally, they were relatively evenly split between saving regularly, saving sometimes, saving only when they want something or not being able to save because there's not enough money. Nearly half said their greatest difficulty managing money was not being able to control their behaviour – significantly higher than the average and all other age groups. They also had a higher than average incidence of keeping an eye on their expenses a bit or not at all.

With regard to the financial attitudes, the 18-24 year olds were less likely to **agree** with the following statements:

- *39% agreed 'I know what insurance I need to cover my needs'*
- *71% agreed 'It is important to have a current will'*
- *60% agreed 'I feel confident about managing my financial affairs'*
- *11% agreed 'I have worked out how much I need for my retirement'*
- *64% agreed 'Investing money is a way for me to achieve my financial goals'*

While the majority of them disagreed, they had a higher than average incidence of agreeing with the following:

- *30% agreed 'I spend all of my income as I get it and don't really plan for the future'*
- *20% agreed 'I feel out of control with my borrowing and debt generally'*
- *30% agreed 'If I had a major loss of income I could manage for 3 months'*
- *39% agreed 'I find it hard to make ends meet because there is not enough money'*

65+ age group

Just under half of those aged 65 or older (45%) were in the Low Knowledge group, a third (33%) were in the Medium Knowledge group and the remaining 22% were in the High Knowledge group.

Generally those aged 65 or over were not significantly different to the average on most areas of financial knowledge. However they were lower than the average in the following areas:

- their ability to use the bank statement to identify if money was saved and how much
- their ability to calculate how long it would take to save a certain amount or accrual of interest
- repayment features of credit cards
- advantages of Internet banking
- the definition of savings, term deposits, assets, capital gain, real rate of return
- understanding the meaning of net worth (amongst those who said they knew what it meant)
- recognising that a budget would benefit everyone
- having financial goals or a written financial plan
- recognising that financial planning is not about investment only
- understanding the implications of a secured loan (amongst those who said they knew what it meant)
- consolidating debt to get rid of it faster
- when best to have a fixed rate mortgage
- recognising that quarterly compounding interest would provide the better return on a term deposit
- recognising that shares would provide a better long term return than other options
- considering the return when investing

They had a better understanding of NZ Super than others, as would be expected of their age group.

Just over half of those aged 65 or over were from households with no children/none at home. A further quarter were from single person households. Only a tenth were in paid employment and eighty-seven percent said they were retired. They were predominantly European (93%), higher than amongst all respondents. A quarter had net worth of $600,000 or more, a quarter between $300,000 and $600,000, and a third between $100,000 and $300,000. Sixteen percent had net worth of between $0 and $100,000 and 3% had negative net worth.

Just over half said they were personally responsible for budgeting or making ends meet in their household, while a third said they were jointly responsible with their partner and 8% said their partner was responsible. Half said they were personally responsible for decisions about investments, while 39% said they were jointly responsible with their partner.

The 65+ age group were significantly more likely than the average to have a term deposit and house/contents insurance, but less likely to have a mortgage, personal loan, overdraft, leases/HP or credit card. In terms of the types of payment methods used, they were less likely than the average to use credit cards, direct debits, automatic payments, EFTPOS, Internet banking and telephone banking. They were much more likely to use cheques than the average.

Just over half (56%) were saving regularly, a fifth saving sometimes and 5% saving only when they want something. Eleven percent said they were not able to save because there's not enough money. Significantly more than average (7%) said they did not need to save.

Half kept a fairly close eye on expenses without written records, significantly higher than the average, and the next largest proportion (30%) kept a close eye using written or electronic records. Six in ten said they had no difficulties managing money, significantly higher than amongst all respondents. A quarter said their greatest difficulty was not having enough money. Only 5% said they had self-control problems, significantly lower than the 20% of all respondents who said this was their greatest difficulty.

With regard to the financial attitudes, the 65+ age group had a significantly higher than average incidence of disagreeing with the following statements:

- *I spend all of my income as I get it and don't really plan for the future* (86% disagreed)
- *I feel out of control with my borrowing and debt generally* (97% disagreed)
- *I find it hard to make ends meet because there is not enough money* (71% disagreed)

They also had a significantly higher than average incidence of agreeing with the following:

- *If I had a major loss of income I could manage for 3 months* (78% agreed)
- *I know what insurance I need to cover my needs* (85% agreed)
- *It is important to have a current will* (98% agreed)
- *I feel confident about managing my financial affairs* (94% agreed)
- *I have worked out how much I need for my retirement* (71% agreed)

A significantly lower than average proportion disagreed with the following statement:

- *I don't think it really matters much about saving for retirement because the Government will pay me NZ Super* (79% of 65+ compared to 86% of the total sample)

Maori

The Maori demographics are significantly different to the overall sample. Maori in the sample are more likely to have negative net worth, be in low income groups, be younger, and have lower levels of education. Given that an overall finding of the survey is that financial knowledge generally increases with age, income and education, these demographic differences in the Maori population largely explain the lower knowledge scores that were found amongst some Maori.

Two thirds of the Maori sample were in the Low Knowledge group, and they were under-represented in the Medium and High knowledge groups.

Maori were less likely than average to use most financial products and services but much more likely to use hire purchase, personal loans and lay-bys.

A booster sample of interviews was undertaken with Maori in order to provide sufficient sample for analysis – 181 people who identified as Maori were interviewed. (Booster interviews were done in areas where 20% or more of the population identified as Maori). These were then weighted back to be representative of the population – 12%.

Just over a third of Maori were from households where the youngest child was aged under 5 years, significantly higher than the average, and a quarter were from households with the youngest child aged 5-15 years.

Six in ten were in paid employment, not significantly different to all respondents. In terms of their occupation, 12% were in labouring/unskilled occupations and 19% were social welfare beneficiaries, higher than amongst all respondents.

A fifth were aged 18-24 years compared to 13% amongst all respondents. Maori also had a lower than average proportion aged over 65 years (6%). Just over a third (37%) of Maori had negative net worth and 40% had net worth between $0-$100,000, both significantly higher than the average.

Just over a quarter had household income of $20,000 or less compared to 17% amongst all respondents. Significantly fewer had household income of over $50,000 (29% compared to 46%). Seventy percent of Maori had secondary school as their highest level of education and a significantly higher than average proportion had left secondary school without a qualification.
Two-thirds of Maori (67%) were in the Low Knowledge group, 22% were in the Medium Knowledge group and the remaining 11% were in the High Knowledge group.

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Generally Maori were less likely than average to give correct answers on most areas of financial knowledge. This is to be expected in areas such as home loans/mortgages, investing, and retirement planning where their lower economic status makes these areas of less experience and relevance for them. Their knowledge of the following basic knowledge areas was low:

- mathematical ability and understanding of bank statements
- payment type best to use to minimise costs/fees
- credit card repayment features – but lower incidence of ownership
- advantages of Internet banking
- maximising interest by paying bills on or before the due date
- the definition of term deposits, assets, liabilities
- whether gross salary was before or after tax
- the definition of budget and that everyone can benefit from one
- the effects of inflation
- having financial goals
- financial planning needing to change throughout your life

Maori had a lower than average incidence of ownership of cheque accounts; credit cards and store cards; debt such as mortgages and personal overdrafts; investments such as term deposits, high interest call accounts and unit trusts/managed funds; and vehicle, house/contents and private health insurance.

However they were twice as likely to have personal loans or leases/hire purchase agreements. They were also less likely than the average to have a budget.

They were less likely than the average to use EFTPOS, credit cards, cheques and store cards, Internet banking and telephone banking but were twice as likely to use hire purchase and lay-bys.

Three in ten said they save regularly but just over a quarter said they don't have enough money to save. Maori did not tend to differ significantly from all respondents in terms of their greatest difficulty managing money – just over a quarter had no difficulties, a quarter said their greatest difficulty was not having enough money and a quarter said their greatest difficulty was not being able to control their own behaviour. They were more likely than the average to keep their eye on their expenses only a bit or not at all, but two thirds did keep a close eye or fairly close eye on them.

Maori were more likely than the average to agree with the following:

- *'I spend all of my income as I get it and don't really plan for the future'* (36% agreed)
- *'I feel out of control with my borrowing and debt generally'* (21% agreed)
- *'I find it hard to make ends meet because there is not enough money'* (44% agreed, 37% disagreed)

- *'If I had a major loss of income I could manage for 3 months' (*45% agreed, 49% disagreed)

Maori were significantly less likely than the average to agree with the following statements but still had high levels of agreement:

- *'It is important to have a current will' (*87% agreed)
- *'I have worked out how much I need for my retirement' (*21% agreed)
- *'It is important to shop around for financial products and services such as credit cards and loans to get the best deal' (*83% agreed)

Pacific people

The Pacific demographics are significantly different to the overall sample. Pacific people in the sample are more likely to have negative net worth, be in low income groups, be younger, and have lower levels of education. Given that an overall finding of the survey is that financial knowledge generally increases with age, income and education, these demographic differences in the Pacific population largely explain the lower knowledge scores that were found amongst many Pacific people.

85% of the Pacific sample were in the Low Knowledge group, and they were under-represented in the Medium and High knowledge groups.

Pacific people were less likely than average to use most financial products and services but much more likely to use hire purchase, personal loans and lay-bys.

A booster sample of interviews was undertaken with Pacific people in order to provide sufficient sample for analysis – 133 Pacific people were interviewed. (Booster interviews were done in areas where 20% or more of the population identified as Pacific ethnicity). These were then weighted back to be representative of the population – 5%.

In terms of household income, just over a third (35%) had household income of $20,000 or less compared to 17% amongst all respondents. Significantly fewer had household income of over $50,000. Seventy-one percent of Pacific people had secondary school as their highest level of education. Six percent were university graduates, less than half of the average. However twelve percent had some other tertiary education, similar to all respondents.

Three quarters of Pacific people were from households where the youngest child was aged under 15 years, significantly higher than the average. Six in ten were in paid employment, not significantly different to all respondents.

Sixteen percent gave their occupation as being university student, three times as high as amongst all respondents. Fifteen percent were labourers and 14% were clerical workers, both significantly higher compared to the average. Just 4% were retired compared to 16% amongst all respondents.

Four in ten (39%) were aged 18-24 years compared to 13% amongst all respondents. Pacific people also had a lower than average proportion aged over 55 years (16%).

Four in ten (39%) Pacific people had negative net worth and 44% had net worth of $0-$100,000, both significantly higher than the average.

Eighty-five percent of Pacific people (85%) were in the Low Knowledge group, 11% were in the Medium Knowledge group and the remaining 4% were in the High Knowledge group. Pacific people were significantly less likely than average to give correct answers on most areas of financial knowledge. These findings, particularly in the areas of retirement planning, home loans/mortgages and investing, reflect the lower incomes, younger age profile, and lower levels of education and home ownership in the Pacific community. For example, tenants would not be expected to understand mortgages to the same extent as homeowners.

Pacific people had low knowledge in the following basic areas:

- mathematical ability and understanding of bank statements
- payment type best to use to minimise costs/fees
- credit card repayment features – but lower incidence of ownership
- advantages of Internet banking
- maximising interest by paying bills on or before the due date
- the definition of term deposits, assets, liabilities, capital gain and best rate of return
- whether gross salary was before or after tax
- the definition of budget and that everyone can benefit from one
- having financial goals
- the effects of inflation
- financial planning needing to change throughout your life

Pacific people were significantly less likely than the average to answer questions about risk and return and recognising scams correctly. Seven in ten correctly recognised signs of a scam with the exception that if the minimum amount to invest keeps reducing it is likely to be a scam. Just over half understood this (56%), significantly lower than all respondents (69%).

Pacific people were significantly less likely than the average to have a cheque account; credit card; home mortgage; investments such as term deposits, high interest call accounts and unit trusts/managed funds; and vehicle, house/contents and private health insurance.

They were more likely to have personal loans or leases/hire purchase agreements – a quarter had a personal loan compared to 12% of all respondents, and nearly a third had leases/hire purchase agreements compared to a fifth of all respondents.

They were also less likely than the average to have a budget. They were more likely to use cash, hire purchase and money orders but less likely to use credit cards, cheques and store cards, and Internet banking.

Savings behaviour was evenly split between regular saving (28%), sometimes saving (24%), saving only when want to (24%) and not having enough money to save at all (22%).

Four in ten (39%) Pacific people said their greatest difficulty managing money was impulse buying or not being able to control their own behaviour, higher than amongst all respondents. A third said their greatest difficulty was not having/earning enough money, also significantly higher than amongst all respondents. A fifth had no difficulties, lower than the average.

Nearly half kept their eye on expenses a bit (29%) or not at all (18%), both significantly higher than the average. A quarter kept a fairly close eye on expenses and 29% kept a close eye using written and electronic records.

With regard to the financial attitudes, while the majority of them disagreed, Pacific people had a significantly higher than average incidence of agreeing with the following:

- *I spend all of my income as I get it and don't really plan for the future* (32% agreed)
- *I feel out of control with my borrowing and debt generally* (23% agreed)

Over half of Pacific people agreed that:

- *I find it hard to make ends meet because there is not enough money* (57% agreed, 28% disagreed)

Pacific people were significantly less likely than average to agree with the following statements:

- *If I had a major loss of income I could manage for 3 months* (38% agreed)
- *It is important to have a current will* (79% agreed)
- *I feel confident about managing my financial affairs* (55% agreed)
- *I have worked out how much I need for my retirement* (18% agreed)
- *I know what insurance I need to cover my needs* (50% agreed)
- *It is important to shop around for financial products and services such as credit cards and loans to get the best deal* (77% agreed)

Appendix

Financial Knowledge Framework

Knowledge/Skill Area	Basic Understanding	Advanced Understanding
Mathematical and Standard Literacy: **Essential mathematical, reading and comprehension skills** **(numeracy)** **(understanding of terms)**	• Ability to add, subtract, multiply and divide (with or without calculator) • Ability to understand and calculate percentages (with or without calculator) • Ability to read and comprehend basic English • Ability to read and comprehend basic charts or graphs	• Ability to understand principles of compound interest whether in a borrowing or savings capacity (most importantly the effect it has on making personal financial decisions – affect on repayments/total interest bill/time taken to repay). • Ability to understand averages • Understanding the time value of money.
Financial Understanding **Income and Wealth** **Understanding of where money comes from and goes**	• Understanding of income and wealth – income comes from work, employment and investment (active, passive and unearned income). Test whether people know the difference between capital and income i.e. return on time, return on capital. • Recognition of household expenses and regular financial commitments • Understanding of financial terms and concepts: o Asset/liability o Capital o Capital gain/capital growth o Cash	• Understanding of how companies and other organisations are financed, including shares. • Understanding of financial terms and concepts: o Nominal return/Real rate of return o Secured loan/unsecured loan o Securities o Share market investments o Stocks o Annuity o Inflation adjusted o Investment – active & passive, passive fund manager o Trustee company o Unit Trust

Knowledge/Skill Area	Basic Understanding	Advanced Understanding
	o Compound interest (as applies to debt & savings) o Credit rating o Debt/borrowing o Debt servicing o Interest /fixed rate/floating rate o Equity in your home (related to mortgages) o Gross/net o Inflation o Today's dollars o Investment o Managed funds o Net worth o New Zealand Superannuation o Pension o Rate of return o Risk o Superannuation o Tax – income/GST o Term deposit	o Vesting
Financial Competence **Money Management -** **Understanding of the main features of basic financial services** **Understanding of which type of payment is best to use and why.**	• Understanding of the range of ways to pay for goods and services, including: o Cash (no charge) o Cheques (fee per cheque) o Money orders (charge) o Credit cards (annual fee for card, charge interest to unpaid balance monthly, charge interest on cash advances daily) o Store cards o EFTPOS (fee per transaction) o Direct debit o Automatic payment o Loans (loan fee, charged interest) o Lay-bys • Ability to compare the financial advantages and	• Ability to make strategic use, to maximise personal financial advantage, of: o Basic banking o Electronic banking (e.g. ATMs, EFTPOS, telephone banking, Internet banking) o Other investments (e.g. shares, term deposits, managed investments, life insurance with an investment element) o Risk insurance products (e.g. house and contents insurance, including coverage and exclusions, health insurance)

Knowledge/Skill Area	Basic Understanding	Advanced Understanding
	disadvantages of different forms of payment • Awareness of the sorts of fees that apply to basic banking services (electronic banking, account fees, EFTPOS) – *which is the cheapest/most effective/wisest way to pay?* • Awareness that one should shop around before purchasing financial products	
Money management **Understanding of mortgages**	• Understanding of fixed interest rates vs. variable interest rates • Understanding of the effect of interest rates on the amount of repayments, time mortgage takes to repay and the total interest bill (interest compounding) – e.g. *how do you reduce the cost of a mortgage?* • Understanding concept of equity	• Understanding of how to use equity in your property for personal financial advantage (investment) • Revolving credit / line of credit (better term)
Money Management **Ability to understand financial records and appreciation of the importance of reading and retaining them**	• Ability to understand and check accuracy of official financial records, such as: o Bank statements o ATM service statements o Credit card statements o Insurance o Understanding of the need to keep records, including for tax purposes.	• Ability to reconcile a bank statement to allow for items not yet reconciled • Ability to read investment reports e.g., a report from a managed fund to see the asset classes invested in and % return over time • Investment statements (for those who have investments) • Understanding of the need to monitor an investment over time
Financial Planning – **7 key areas:** • **goal setting (short, medium & long term plans)** • **budgeting** • **debt management** • **saving** • **managing risk (insurance;**		

Knowledge/Skill Area	**Basic Understanding**	**Advanced Understanding**
enduring power of attorney; wills) • **investing** • **tax**		
Financial planning - **Goal Setting – should be:** **Specific, Measurable, Achievable, Relevant, Time bound (SMART)**	• Understanding that short/med/long-term goals are more likely to be achieved through financial planning • Financial planning involves the management of money to achieve goals • Goals change as life cycle changes • Understanding of the difference between long-term and short-term needs	• Ability to assess the financial implications of personal life choices in terms of career choices and life-long learning opportunities • Understanding that the composition of net worth matters – having a balance between cash (sufficient to meet short term goals and emergencies) and non-cash - growth assets (e.g. investment property and shares).
Financial Planning – **Long term goals & planning for the future**	• Understanding of why people save for the long-term future (e.g. retirement, children's education) • Understanding of where money comes from in retirement (NZ Govt provides New Zealand Superannuation at the age of 65 years and remainder comes from private savings), and how much you will need. • Knowledge of level of NZ Superannuation • Understanding that if you want more than NZ Super you need to prepare financially for retirement. • Understanding of how you make financial preparation/grow your wealth can be done in many ways – managed investments, building businesses, property, share market, continuing to work in retirement etc. • Understanding of net worth (*what is net worth and how to calculate it i.e. assets-liabilities*) (and the difference	• Understanding of need to check records (e.g. Annual Statements) from managed funds and other investments, e.g. shares, to determine whether current contribution levels and % returns are appropriate for anticipated needs • Knowing your financial independence point (the amount of capital required to provide your lifestyle requirements) and the savings required to achieve that.

Knowledge/Skill Area	Basic Understanding	Advanced Understanding
	between lifestyle (e.g. family home) versus investment (e.g. shares) assets • Understanding that some workplace superannuation schemes include an employer contribution	
Financial planning – Budgeting	• Understanding of how to use budgets to plan and control personal spending • Understanding the need for planning for a surplus • Understanding the impact of unplanned spending • Understanding need to prioritise needs and aspirations (wants) • Ability to forecast and recognise the impact of irregular major financial outlays (e.g. vehicle registration; holidays) • Ability to prioritise different needs to balance income and expenditure within financial capacity	• Ability to budget strategically to make payments as late as possible and keep money earning interest as long as possible
Financial Planning - Debt management	• Understanding of the need to plan and manage debt • Awareness that both savings and borrowing are offered on differing terms and interest rates that vary over time • Understanding of what are the options for debt? *(Should you save if you have debt?)* • Understanding of principles that you borrow to buy assets and save for expenditure (concept of value builders and value losers) subject to understanding the risk. • Ability to compare costs, obligations and timeframes of different forms of credit arrangements (hp, loans) • Understand the tradeoffs between paying now and	• Understanding of the implications and key features of unsecured credit and debt, including both fixed: o Personal loans o Lease o Hire purchase and revolving credit o Credit cards o Store cards o Overdrafts o Other "line of credit" facilities • Understanding of finance rate and ways to compare interest rates and the effects of fees and other charges • Understanding that some loans and purchase agreements are secured while others are unsecured, and the implications

Knowledge/Skill Area	Basic Understanding	Advanced Understanding
	paying later (opportunity cost of debt rather than saving) • Awareness that individuals are responsible for debts of spouse/other family members with whom they have a joint financial product	for default • Understanding of the concept and implications of personal guarantor and co-borrower arrangements • Understanding of how credit records are generated and the implications of bad records for future borrowing
Financial Planning – Saving	• Understanding of the purpose of saving and why people save • Understanding that there are a variety of places and ways in which to save money (bank accounts, managed funds, shares etc) • Understanding that you need to adjust amount saved each year for inflation • Awareness that both savings and borrowing are offered on differing terms and interest rates and returns vary over time (people can be saving in other ways too - not just the bank)	
Financial responsibility **Financial Planning –** **Managing risk** **Estate planning:** • **enduring power of attorney** • **insurance** • **wills**	• Understanding that risk is part of financial planning and needs to be understood • Understanding that financial shocks can occur and need to be planned for/managed • Understanding of the purpose of insurance *(what are the different types, when should a person consider these, what factors to consider when buying insurance)* • Understanding financial impact of relationship break-up – What happens? How to safeguard. • • Understanding purpose of wills, enduring power of attorney, insurance and life stage.	Understanding the financial implications of relationship break-up and what can be done to minimise these risks (e.g. contracting out and Family Trusts).

Knowledge/Skill Area	Basic Understanding	Advanced Understanding
Financial planning – Investing	• Understanding of the value of diversification when investing • Awareness of risks associated with some financial products and appreciation of the relationship between risk and return • Understanding of the particular features of a scam • Understanding that short-term ups and downs in value are less important for long-term investments • Understanding that your most important return is the return on your capital	• Understanding of four basic principles of investing – duration, risk, liquidity and return • Investing/building financial assets/building net worth – (understanding the need for diversification, ability to recognise a range of investment options, asset classes – short term deposits, bonds, property, shares) • Understanding of net real rate of return, NPV • Ability to identify potential risks and determine whether they need to be eliminated or mitigated against • Understanding that you can invest directly or through a managed fund/ professionally • Understanding of guarantees on investments • Understanding of currency issues, including the impact of fluctuations in exchange rate for the New Zealand dollar • Understanding of socially responsible investing (i.e. that you can take into account your ethical, social and environmental considerations when making investment decisions)
Financial planning – Tax	• Understanding of gross/net, and how it's calculated – and that there is tax e.g. simple GST and income tax	• Tax on income vs capital gains • Deductibility or use of Company or Trust
Understanding of consumer rights and responsibilities	• Understanding that consumers do have rights • Understanding that consumers have a right to clear information about advice and products both pre-purchase and ongoing post-purchase • People have right to ask	• Understanding the need to check, before handing over money for an investment. Questions to ask an investment adviser

Knowledge / Skill Area	Basic Understanding	Advanced Understanding
	advisor for their disclosure document • Awareness of and ability to access independent dispute resolution schemes for financial products • Understanding of consumer responsibilities and the implications of not meeting them, including: o Safeguarding of PINs for transaction banking o Taking the necessary precautions to protect their PCs and safeguard their Internet banking access • Understanding that our financial choices are guided by law	
Understanding and confidence to access assistance when things go wrong	• Awareness of the distinction between financial advisers charging fee-for-service vs. taking commission, and understanding of its implications	

ANZ-Retirement Commission Knowledge Survey Stakeholder Interviews

Members of the Steering Group interviewed key stakeholders from the following offices and organisations during January-February 2005 to enhance and confirm the Financial Knowledge Framework on which the questionnaire was based:

Banking Ombudsman

Citizens Advice Bureaux

Consumers' Institute

Enterprise New Zealand Trust

Financial Planning and Investment Advisors Association

Insurance and Savings Ombudsman

Investment Savings and Insurances Association

IP Solutions - Maori Education Consultant

Ministry of Women's Affairs

NZ Federation of Family Budgeting Services Inc

NZ Exchange

Pacific Education Centre

Securities Commission

Letter sent to selected households

Have your say – take part in a national survey of New Zealanders

Colmar Brunton, a research company, has been asked by the Retirement Commission, ANZ and the Ministry of Economic Development to carry out a very important survey of people throughout New Zealand. Your household has been randomly chosen to take part in this survey.

The purpose of the research is to measure how much New Zealanders know about managing their personal finances. The results of the research will be used to improve information and education programmes available to New Zealanders about managing their money well.

The survey will involve an interviewer speaking with a person in your household who is aged 18 or over.

The survey will take about 45 minutes. If the person in your household we need to speak to takes part, as a thank-you they will be given $20 worth of MTA (Motor Trade Association) vouchers. These can be used to make purchases, including petrol and groceries, at service stations.

We visited your house today to ask you about participating in the survey, but you were out. You can phone Colmar Brunton's fieldwork company, Consumer Link, on 0508SURVEY (0508 787839) to arrange a suitable time to take part. If we don't hear from you, an interviewer will visit again in the next few days to see if you are interested in the survey and if you are, to ask the survey questions.

You don't need to know anything special to take part. Everything you say is confidential – only Colmar Brunton will know your individual answers and none of the information you provide will be passed to any one for marketing or promotional purposes. Your participation will be of great value in helping the Retirement Commission learn more about what New Zealanders know about managing their money; we hope you will take this opportunity to be part of the survey.

Thank you.

Yours sincerely

Diana Crossan

Retirement Commissioner