pensionbriefing

THE UNIVERSITY OF AUCKLAND BUSINESS SCHOOL

A briefing paper from the retirement policy and research centre

Financial knowledge and capability: the plans

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RPRC PensionBriefing 2015-1

30 November 2015

In 2008, New Zealand was one of the first countries in the OECD to adopt a National Strategy for Financial Literacy. The Strategy was revised in 2014 and became the National Strategy for Financial Capability. This *PensionBriefing* reports on financial literacy, knowledge and capability in New Zealand.

1. Introduction

In 2008, New Zealand was one of the first countries in the OECD to adopt a National Strategy for Financial Literacy (financialliteracy.org.nz 2008), with the Retirement Commissioner reporting progress in implementing the strategy to the Minister of Finance twice yearly. After wide consultation, the Strategy for Financial Literacy was revised (2014) and became the National Strategy for Financial Capability (2015), supported by over 100 organisations. In July 2015, Commerce and Consumer Affairs Minister Paul Goldsmith stated:

> *Building the financial capability of New Zealanders is a Government priority...At the moment almost a third of New Zealanders have low levels of financial knowledge. If we can improve their financial capability we can improve the wellbeing of our families and communities*. (Goldsmith 2015)

The key streams to the National Strategy are: a cultural shift so people talk about money, financial learning is lifelong, everyone has a financial plan and an emergency fund, uses debt wisely, and saves and invests (Commission for Financial Capability 2015). To support the implementation of the Strategy, the Commission For Financial Capability[2] has established a cross-government Financial Capability Network with the Ministries of Education, Health, Social Development, and Business, Innovation and Enterprise, as well as the Inland Revenue Department, the Financial Markets Authority, Treasury, the Reserve Bank, the Commerce Commission and more (New Zealand Government 2015).[3]

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[1] Dr M. Claire Dale is Research Fellow with the RPRC. Thanks to the Commission For Financial Capability for providing access to current reports and resources.
[2] The name of the Retirement Commission changed in 2012 to Commission for Financial Literacy and Retirement Incomes and in 2014 to Commission for Financial Capability.
[3] See http://www.cffc.org.nz/assets/Uploads/Financial-Capability-Government-Statement.pdf.

Like most OECD countries, New Zealand has a rapidly ageing population. Retirement Commissioner Diane Maxwell uses the metaphor of a perfect storm when this profound and enduring demographic change is combined with the aftermath of the global financial crisis, declining home ownership, easy access to high-cost credit and low financial capability. She is adamant: "We've got to start talking about money." (Retirement Commissioner 2015)

To promote public engagement in this critical conversation, Ms Maxwell has broadened the focus of the Commission For Financial Capability, using multiple platforms to connect with communities.

This wider approach does not diminish the value of Sorted.org.nz, the website launched in 2001 as one of the first achievements of the newly created Retirement Commission.[4] Over time, the Sorted site has been upgraded and functions added to the calculators, for example, enabling people to save their own data. Since the launch of the KiwiSaver retirement saving scheme in 2007, more resources have been added, including the KiwiSaver fee calculator and a KiwiSaver fund finder. Another addition is the Investment planner, operated in partnership with the New Zealand Stock Exchange.

The current rebuild of Sorted will improve its accessibility for mobile devices, and enable uploading of photos and other attachments to make the experience more personal, aiming to attract more visitors aged 18 to 34 years. A further aim is to provide more assistance and information to those at or near retirement. The core services will remain: the A to Z Guides providing clear explanations of everything from compound interest to retirement planning, and the calculators.

Many banks now provide online calculators that perform a similar range of services for their customers. The great advantage of Sorted is its independence. Because it doesn't have a commercial motive, visitors to Sorted have more trust in the information it provides, and feel secure storing their financial data on the site.

Sorted also provides access to free information booklets on topics ranging from goal setting and budgeting to retirement planning – and around 100,000 of these are posted out annually. In addition, as part of the Retirement Commissioner's community outreach strategy, Sorted provides downloadable teaching tools for schools and community groups. More recently, four programmes have been developed for Whanau, Community, Workplace, and Pasifika, and Commission facilitators trained to deliver them.

Schools are a big focus for the Commission. The Programme for International Student Assessment (PISA) 2014 report compared 15-year-olds from OECD countries. While New Zealand had 19% of students scoring at the highest level for financial literacy compared to the OECD average of 10%, the report revealed a major gap between students with higher socio-economic status who tended to perform better, while disadvantaged students did a lot worse (OECD 2014). The Commission deliberately engages with students and their parents in low income areas.[5]

Another strand of the Commission's strategy is "Money Week", an annual public exercise to encourage a cultural shift to make it easier to talk about money. First launched in August 2012[6] via the Sorted portal, Money Week has growing support from businesses, local and national government, academic institutions and community organisations. In the third quarter of each year, a range of free events and activities including budgeting

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[4] The Commission, and the role of Commissioner, were created by the New Zealand Superannuation and Retirement Income Act 2001. The Commissioner is appointed by the Minister of Commerce.

[5] But perhaps financial education needs to start even earlier than school-age. In the US, the White House's advice site, moneyasyougrow.org, suggests four financial concepts parents can reinforce as simple lessons for children aged 3 to 5 years. Those concepts are: you need money to buy things; you earn money by working; you may have to wait to buy something you want; and there is a difference between things you want and things you need. See www.moneyasyougrow.org.

[6] See https://www.sorted.org.nz/blog/welcome-money-week.

sessions, investing workshops, and school competitions, are offered throughout the country, and promoted through the Commission's Money Week sites.

Engagement in Money Week has increased each year. In 2014, 330 events were registered, and just over 1 million people were reached on social media. These statistics almost doubled in 2015 to 642 activities and events, and over 2 million engaged via social media. The key messages for Money Week 2015 were: financial capability is an important life skill, financial fitness is important for individuals, families and communities, and stress about money reduces employees' productivity.[7]

Despite all the changes, the essential purpose of Sorted remains the same: to assist people to improve their financial capability. This is more than financial literacy: it is knowledge put into action, behavioural change. Although Sorted user numbers keep climbing: almost doubling between 2012 and 2015 to 1,557,845 sessions,(Retirement Commissioner 2015) even perfect financial capability will not solve the broader issues of low incomes and inability to save and sustain adequate standards of living. Nor does financial capability provide solutions when suitable financial products are not available, for example, decumulation products.

The big question remains: will promotion of a National Strategy for Financial Capability and a shift in the Commission's strategy from provision of tools and resources to more face-to-face engagement make a measurable difference to the nation's financial capability? We won't know the answer to that if we don't measure it.

A recent Bulletin from the Reserve Bank (2015) reported that aggregate debt in the household sector increased from 110% of household incomes in 2000 to a peak of 175% in 2008, and in 2014 reduced to 165%. This reduction was driven by the increase in property values. The ANZ Bank and Commission-sponsored 'Financial Knowledge and Behaviour Survey', run nationally in 2005, 2009 and 2013, using face-to-face interviews with people aged 18 years and over shows a clearer picture. The 2013 results showed, disappointingly, that financial knowledge overall had not changed since 2009 (Colmar Brunton 2013). High use of credit cards and payday lenders is perhaps explained by the finding that only 32% of New Zealanders understood compound interest and its impact on a savings account, or on a debt. With no cost-of-credit legal cap, and interest rates above 500% annually on third tier lending, this lack of knowledge perpetuates poverty in low income communities.

There were some improvements. Half of New Zealanders (51%) are now aware that a variable or floating rate home loan can be repaid in part or in full at any time without penalty. Among mortgage holders, understanding of their housing equity increased from 71% in 2005 to 84% in 2013. However, while 88% understood that they would need to save for their retirement, only 31% had worked out how much they would need to save (Colmar Brunton 2013).

The gap between financial knowledge and financial behaviour remains. While 78% said they have financial goals, only 34% had developed a plan to achieve their mid term goal. More generally, there was an improvement in the numbers of people who knew a financial adviser must provide them with a disclosure statement, and understood the importance of finding out how an adviser is paid. But the 2013 survey showed that trust in financial institutions and advisors was continuing to weaken, and perhaps with good reason. The Financial Markets Authority, the sector regulator, has just released its first report on the financial services industry (Financial Markets Authority 2015). It expresses concern that "consumers are not always receiving the support they require or desire". Such issues need urgent attention as private retirement savings accumulate in the new KiwiSaver environment.

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[7] See http://www.cffc.org.nz/latest-news/media-releases/.

Given the lacklustre results of local surveys and reports, it was surprising that New Zealand came out above 14 countries in a 2012 OECD International Network on Financial Education pilot study comparing financial literacy among adult residents (Grifoni and Messy 2012). This suggests some of the previous decade of effort toward building financial capability *is* paying off.

The Commissioner's goal is to understand the attitudes that bridge the gap between financial knowledge and enduring financial behaviour, then help to build those bridges. Significant value would come from repeating a Financial Knowledge and Behaviour Survey in 2017. It could reveal any changes in financial knowledge and more importantly, any changes in financial behaviour. It would show whether the National and Commission strategies were being effective. The population is ageing. The storm is approaching. We need to monitor our readiness.

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