



# ANZ – RETIREMENT COMMISSION FINANCIAL KNOWLEDGE SURVEY



# WHAT NEW ZEALANDERS KNOW ABOUT MONEY

In the past few decades the financial lives of people in developed countries have been transformed. The experience of New Zealanders is no exception.

❖ The handling of money is no longer a physical matter. Long gone are the days when people were paid in cash and probably managed their money by putting it into jam jars; one for groceries, one for bills and another for a rainy day. Now, we have sophisticated banking systems and financial products and there are many competing offers to be evaluated. ❖ Social, economic and political developments are also having an influence on our finances. Borrowing is part of modern life, to pay for homes, education and much more. We are living longer which means that more money will be needed to support us than for previous generations. This means that individuals are under pressure to save much larger sums than their parents and grandparents.

Funded by ANZ, the Retirement Commission, with the support of the Ministry of Economic Development, commissioned market research company Colmar Brunton to measure the level of financial knowledge within the adult population. In the past, research has been conducted among New Zealand school children, but this project considered knowledge among the adult population for the first time.



## ❖ THE SURVEY AT A GLANCE

- ~ Overview of financial knowledge levels of New Zealanders aged 18 and over.
- ~ Interviews conducted between 1 October and 20 November 2005 with 856 people nationwide.
- ~ Among those invited to take part, 60% responded.
- ~ Interviews of 55 minutes duration, on average.
- ~ Booster samples of 104 Maori and 96 Pacific people to ensure statistically significant results for these groups as is common practice in social research.
- ~ Data weighted to population proportions by age, gender and ethnicity.
- ~ People divided into three main groups, depending on scores for answers given; low, medium and high knowledge.

## ❖ RESULTS AT A GLANCE

- ~ Overall New Zealanders have a reasonable level of personal financial knowledge.
- ~ Strong correlation between financial knowledge and socio-economic status, but some significant exceptions. Some people on high incomes achieved low scores and vice versa.
- ~ Some confusion over New Zealand Superannuation; significant number think it is income and/or asset tested.
- ~ Understanding of compound interest and debt consolidation relatively weak.
- ~ Mortgage holders' knowledge of mortgages shows some low levels in key areas.
- ~ Some basic financial terms are not well understood.
- ~ Mixed understanding of investment strategies, particularly long term returns from stock market and relevance of compound interest.
- ~ Some people think it is alright to divulge their internet banking password to bank staff.

## Why financial knowledge is particularly important in New Zealand

The more financial understanding people have, the more effectively they can manage their day-to-day and long term financial planning. In New Zealand this is particularly relevant.

- ~ Young people need to be equipped to make financial decisions early as many use loans to finance further education.
- ~ The financial market is relatively deregulated and encourages competition so consumers need to be able to compare and contrast products to make the best decisions.
- ~ New Zealand has a voluntary approach to saving for retirement. Many people will want and need to save from their own resources to top up their state pensions and this requires an understanding of debt, savings, investments and basic money management.





❖ FINANCIAL KNOWLEDGE DEFINED

Financial knowledge, for the purposes of the study, was defined as:

*“The ability to make informed judgements and to take effective decisions regarding the use and management of money.”*

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).

The main objectives of the survey were to:

- ~ Identify areas of low financial knowledge, by topic and population, and to assist educators to improve literacy in those areas.
- ~ Develop benchmark measures of financial knowledge across the entire adult population and key segments so 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.

The survey also provided the Ministry of Economic Development with information 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 consumers in New Zealand’s securities market. Results specific to these objectives are reported on page 11.

❖ SO HOW ARE WE DOING?

While the knowledge levels are reasonable overall, there are gaps that could be pivotal in deciding how the population adapts in future to the modern financial environment and how well we do in retirement.

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 wealth. This finding matches that of other international surveys.

- ~ Levels of knowledge are specific to circumstances or related to experiences and the different lives that people lead. For example, those on low incomes may have less knowledge of investment as they do not have the money to invest.
- ~ People with lower levels of personal financial knowledge are more likely to be young (18-24); or older (75 years and over); have lower levels of education, income and net wealth; or be of Maori or Pacific ethnicity (possibly because of their younger age profile, lower levels of education, income and net worth); and be tenants rather than homeowners.





DETAILED KNOWLEDGE FINDINGS

<b>Financial planning for retirement</b> <p>Asked what a person needs to think about to work out how much to save for retirement, 80% mentioned lifestyle and the amount of spending required in retirement; almost half mentioned their current situation and their ability to save right now; 40% mentioned the income they will have when they retire; 10% mentioned life expectancy as a key factor.</p> <p>~ This was an area of knowledge particularly challenging for people with household incomes of \$20,000 or less. For people in this group New Zealand Superannuation (NZ Super) replaces current income in retirement.</p> <p>~ Most, 83%, knew that NZ Super is paid at 65 but a third thought that it is income-tested and a quarter did not know. Nearly 30% thought it is asset tested and 25% did not know.</p> <p>~ Knowledge of NZ Super increased with age; those over 50 were more likely to know the actual level of NZ Super (\$13,302 after tax for a single person living alone) and the fact that NZ Super is not affected by personal income or assets.</p>	<b>Mortgages</b> <p>~ A quarter of people with mortgages did not appreciate that making fortnightly rather than monthly payments would be the better payment option for reducing interest paid.</p> <p>~ 24% of mortgage holders did not know the meaning of the term 'equity'.</p> <p>~ A fifth, 20%, of mortgage holders could not give the correct answer as to when it is best to have a fixed rate home loan.</p> <p>~ Asked to choose from a range of options as to the best way to finance an investment property, half of people with mortgages did not choose the cheapest option of borrowing against an existing property.</p>	<b>Investing</b> <p>~ There is a lack of understanding about share market returns relative to other forms of investment.</p> <p>~ While the majority, 93%, do understand that the share market has its ups and downs in the short term, 54% incorrectly thought that a range of fixed interest investments would make more money over 18 years than shares. Nearly a third, 30%, answered that shares would make more money.</p> <p>~ Nearly 20% thought that investing only in property was a way to reduce investment risk.</p>	<b>Banking</b> <p>~ New Zealand has a high level of banking inclusion, with 97% of consumers having a transaction or savings account (Source: ACNielsen Consumer Finance Monitor).</p> <p>~ The vast majority of people, 92%, could read and understand a bank statement presented to them. However, when asked four questions which required additional calculations 58% could answer all four correctly.</p> <p>~ Two thirds, 67%, understood how to minimise their transaction costs by paying by EFTPOS and getting cash out at the same time.</p> <p>~ Over half, 56%, understood that internet banking is cheaper or attracts less fees than over the counter banking at their local branch.</p> <p>~ As might be expected, older people were less likely than younger people to use electronic or newer forms of banking.</p>
<b>Debt and interest</b> <p>~ Consolidation of debt was a relatively weak area of financial knowledge; fewer than half identified grouping of debts together in one low interest loan as a good way to pay off debt.</p> <p>~ Compound interest was less well understood. When presented with two scenarios, just over a third were able to identify that one saver (who saved a smaller amount than the other but over a longer period) had more money.</p>	<b>Credit cards</b> <p>~ The majority of credit card holders, 94%, understood that paying the minimum on a credit card meant that money was still owed.</p> <p>~ 20% of credit card holders did not know that paying off the full amount on the credit card each month would give interest-free days on purchases.</p>	<b>Scams</b> <p>~ Most people can pick several aspects of scams, such as the promise of very high returns with little risk, 89%, and the offer being made to a select few people, 91%. Fewer, 69%, understood that one sign of a scam is that the minimum amount to invest keeps reducing.</p>	<b>Numeracy</b> <p>~ Three quarters were able to correctly answer a scenario requiring basic addition, subtraction and multiplication relating to household expenditure and take home pay. Males were significantly more likely than females to get the right answer where calculations were needed.</p>
	<b>Internet banking – password security</b> <p>~ Most people, 96%, thought it was not appropriate to tell a friend their internet banking password but 51% thought it would be alright to tell their partner. 17% thought it was alright to tell a member of the bank's staff.</p>	<b>Understanding financial terms</b> <p>~ Significant minorities were unable to give the correct definition of the term 'asset', with 25% unable to match the definition. A third could not match the definitions for 'liability' and 'capital gains', 40% were unable to define 'real rate of return' and more than half had trouble with 'net worth'.</p> <p>~ A quarter had difficulty with the term 'secured loan' and a third did not know the meaning of 'equity'.</p> <p>~ Most, 90%, understand that inflation means you would need more each year to maintain the same living standards and 79% know that inflation affects the value of savings over time.</p>	<b>Saving</b> <p>~ The majority, 80%, understood that inflation affects savings and the spending power of savings.</p> <p>~ Just over 80% can identify how simple interest accrues to a savings account.</p>
	<b>Protection</b> <p>~ Most people, 91%, gave the right answer about life insurance when asked to say who needed the most – a single mother with children – out of a group of scenarios.</p> <p>~ 80% understood the property sharing implications of the Property Relationship Act, when presented with a scenario relating to entitlement to the share of a house when a couple separates after four years.</p>		

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.
- ~ While 31% say they have no difficulties managing money, 26% say that not having enough money is their greatest difficulty. People in low income groups were more likely than others to say that not having enough money is their greatest difficulty. All knowledge groups have the same proportion who report they have no difficulties.
- ~ Nearly a fifth, 19%, say their greatest difficulty is in controlling their impulse behaviour.
- ~ The majority, 80%, have financial goals and 21% a written financial plan. People aged 45-54 years are more likely to have a written plan than others.
- ~ More than 60% say they could cope for three months if they had a major loss of income, but 30% say they could not.

SIGNPOSTS FOR THE FUTURE

- ~ The generally poor level of knowledge among some young people could hinder them from managing their finances well in future. While young people could be expected to gain knowledge with age, the increased pressures on young adults, such as the necessity to borrow for further education and easy access to credit, could mean that they are not equipped to make the best choices at a vulnerable time in their lives.
- ~ Some people have an unsteady grasp of financial terms and concepts. In an environment where many will benefit from saving for retirement they may be at a disadvantage if they do not understand, for example, the benefits of saving small amounts from a young age.
- ~ Although understanding of NZ Super increased with age, younger people who do not know that the state pension is not asset-tested might be deterred from saving privately.
- ~ Gaps in knowledge about mortgages might deter borrowers from paying off debt quickly and enhancing their financial position over the long term.

EDUCATIONAL OPPORTUNITIES

There are opportunities to improve the understanding that New Zealanders have of a wide range of financial concepts. Improving knowledge will help people to manage their money day-to-day and for the future. This is particularly important in relation to the introduction of legislation to establish a workplace savings scheme. Education will also enable people to make sound, well informed decisions in the context of their entire financial situation.

- ~ Key areas for improving knowledge include the management of debt through consolidating loans, the effect of compound interest on savings over a long period, choice of mortgage and managing mortgage debt, New Zealand Superannuation – particularly whether it is affected by private wealth, investment and stock market investment, and effective use of credit cards.

WHO KNOWS THE MOST ABOUT MONEY?

One of the major objectives of the research project was to develop benchmark measures of knowledge across groups within the population. These can be used in future to monitor changes in financial knowledge among the groups concerned. Respondents were given scores for their levels of basic financial knowledge and divided into three knowledge groups, low, medium and high. Those who scored highly on the advanced knowledge questions were classified as Advanced Investors.

Even though levels of knowledge generally increased with socio-economic status and other factors, there were exceptions, for example:

- ~ While young people generally know less across the board, 11% of 18-24 year olds score highly.
- ~ Nearly a fifth, 19%, of people not in paid employment also score highly.
- ~ While those with lower educational achievement generally have low financial knowledge, 14% score highly and 32% are in the medium knowledge group.
- ~ Among those earning \$20,000 or less, 8% score highly.
- ~ Among those with net wealth of \$300,000 or more 15% are in the low knowledge group.
- ~ While 67% of Maori were in the low knowledge group, 11% are in the high knowledge group.

(See table of Financial Knowledge Groups on page 10.)



## FINANCIAL KNOWLEDGE GROUPS

### LOW

The 'low knowledge' group had a higher proportion of the following:

- ~ Females
- ~ 18-24 year olds, 75-plus
- ~ People with English as a second language
- ~ Maori and Pacific people
- ~ Not in paid employment
- ~ Semi-skilled and occupations such as labourers or domestic workers
- ~ Only primary or basic secondary school education
- ~ Low household income – \$20,000 or less
- ~ Tenants, rather than homeowners
- ~ Savings/investments less than \$5000
- ~ Negative net wealth or net wealth of less than \$100,000
- ~ Low ownership of financial products such as credit cards and insurance

### HIGH

This group was significantly more likely than average to be:

- ~ Males
- ~ 40-45 years
- ~ European
- ~ Tertiary educated
- ~ White collar
- ~ Home-owners
- ~ Household income \$100,000 or more
- ~ Savings/investments of \$50,000 or more
- ~ High net worth – \$300,000 or more
- ~ Higher ownership of financial products
- ~ Many were regular savers and watched expenses

### MEDIUM

This group is similar to the population of all respondents on most measures, except that there was a higher incidence of European ethnicity.

- ~ Even split between male and female
- ~ A quarter had secondary school without school certificate as their highest education level
- ~ Just over a third had tertiary education, a quarter graduates
- ~ Just over two thirds were in paid employment
- ~ 15% had household incomes of \$20,000 or less, 31% of \$20,000 to \$50,000, 32% \$50,000 to \$100,000 and 16% had incomes of more than \$100,000
- ~ Half said they were regular savers
- ~ Half kept a fairly close eye on expenses without written records
- ~ Slightly less likely to say they had no difficulties managing money than those in the low group but just as likely as those in low and high groups to suffer from impulse control

### ADVANCED INVESTORS

Those who scored highly on the advanced knowledge questions were classified as advanced investors. They tended to be:

- ~ Male
- ~ 35-54 years
- ~ University educated
- ~ In professional or senior government jobs
- ~ Household income \$100,000 or more
- ~ Savings/investments of \$125,000 or more
- ~ Net wealth \$600,000 or more
- ~ European
- ~ Home-owners
- ~ In households with no children or none at home





➤ FINANCIAL KNOWLEDGE GROUPS

The survey has shown a strong correlation between financial knowledge and socio-economic status. This table shows how a selection of key demographic groups are spread across the financial knowledge groups. For example, 40% of females are in the low knowledge group, 32% in the medium and 29% in the high.

Demographic category			
	Low Knowledge %	Medium Knowledge %	High Knowledge %
Total Sample (100%)	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 wealth	51	37	12
Net wealth \$300,000 or more	15	34	51
European	24	37	39
Maori	67	22	11
Pacific People	85	11	4
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

➤ FINANCIAL MARKET PARTICIPATION FINDINGS

The Ministry of Economic Development was particularly interested in better understanding behaviour in relation to superannuation, life insurance, shares and other securities products. Questions not specifically related to financial knowledge were asked to find out the demographics of participation in these markets, and the advice that investors sought and valued before making their investment decisions.

Superannuation and insurance

The results here tended to confirm what might be expected.

- ~ More males (71%) than females (62%) have or have had superannuation or life insurance.
- ~ Greater levels were also observed among higher income households, among individuals aged 30-54 years, and those who own their own homes.

Advice

- ~ 58% of those who have, or have had superannuation or insurance got advice in advance of signing the contract.
- ~ The main sources of advice were the insurance company agent or advisor (38%), an independent financial planner (36%) and a relative or friend (36%).
- ~ There was a good level of satisfaction with the advice received. 85% found the advice obtained from the insurance company very useful or quite useful. The percentage for advice obtained from an independent financial planner was considerably higher at 94%.

Collective investment schemes and debt securities

- ~ 28% had invested or seriously considered investing in managed funds, contributory mortgage schemes, bonds, debentures or other debt securities. The main demographic trends were much the same as noted for shares below.
- ~ 63% of the 28% had got advice.
- ~ People under 35 years of age were less likely to have got advice.
- ~ The predominant source of advice was a specialist investment advisor (56%).
- ~ 26% obtained advice from a relative or friend, 16% from an accountant, 14% from a share broker, 9% from a bank and 4% from a lawyer.
- ~ 83% found the advice from a specialist investment advisor to be very useful or quite useful.

Shares

- ~ 20% of respondents currently own shares. The ownership rates were significantly higher for those aged 45-74, those who owned their own home, having no mortgage, having no children or no children at home, household income of \$100,000 or more and with a postgraduate qualification.
- ~ 27% of the 80% who currently did not own shares had done so in the past. The main reasons for selling were: a need for the money (38%), concern that the share market was too risky (27%), better returns available through other investments (11%), because they lost money (9%) and complexity of the share market (5%).
- ~ 30% had bought or seriously considered buying shares through a public offering. Males, those aged 40-54, a household income of \$100,000 or more and those with university qualifications were more likely to have owned them.
- ~ 37% of the 30% got advice before making their decision. This percentage is substantially lower than for superannuation/life insurance, collective investment schemes and debt securities.
- ~ The main sources of advice were relative or friend (36%), share broker (22%), specialist investment advisor (21%), accountant (21%) and lawyer (12%).

Obtaining written information about investments

- Three quarters of all respondents answered yes to at least one of the categories of questions in this section of the questionnaire.
- ~ 65% of this group of investors and potential investors said they had obtained written information in advance. 64% had obtained a prospectus, 56% obtained a brochure and 46% an investment statement.
  - ~ Those who had obtained an investment statement were asked how useful were the 10 categories of information that are required to be included in an investment statement. All categories were regarded as very useful or quite useful by at least 87% of this subset of respondents.
  - ~ The percentage rating a category 'very useful' varied from 46% to 76%. The highest ratings were given to information about what the risks are (76%), what the returns are (75%), who to contact with enquiries (74%) and what the charges are (76%).





A copy of this Summary Report and the full Colmar Brunton Research Report can be found on [www.retirement.org.nz](http://www.retirement.org.nz) and [www.anz.co.nz](http://www.anz.co.nz)



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