



June 2009

ANZ – Retirement Commission
2009 Financial Knowledge Survey – Summary



Retirement Commission
Whiriwhiria!

ANZ–Retirement Commission 2009 Financial Knowledge Survey

This survey measures the financial knowledge levels of New Zealanders aged 18 and over. It was commissioned by the Retirement Commission, supported by ANZ, and conducted by market research company Colmar Brunton.

Financial knowledge is an important contributor to financial literacy, which is defined as:

*“the ability to make informed judgements and to take effective decisions regarding the use and management of money”.*¹



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¹This is the definition used in New Zealand's National Strategy for Financial Literacy. It is consistent with that used in the 2006 New Zealand benchmark survey, and in the 2008 and previous surveys commissioned by ANZ Bank in Australia. The definition was originally adopted for these surveys from UK research.

FOREWORD FROM THE RETIREMENT COMMISSIONER

This second nationwide Financial Knowledge Survey is an important contribution to improving the financial literacy of New Zealanders, by helping us understand trends and developments over time.

Financial knowledge is important because the more New Zealanders know about money and how to manage it, the better placed we are to make the most of our hard-earned income and improve our standard of living.

These days, managing our day-to-day finances is more complex than it was in our parents' or grandparents' time – there are many more options and much more complex information to understand and weigh up. There are also greater risks in getting it wrong.

We all need the financial skills and knowledge to make well-informed decisions, particularly in tough economic times.

We measured the level of financial knowledge of adult New Zealanders for the first time in late 2005, with the analysis completed and published in 2006. We found that while our financial knowledge was reasonable overall, many of us did not know some basic facts. That helped several groups develop and provide useful information to New Zealanders.

This year, we have again commissioned Colmar Brunton to repeat the survey. This sets us on the track for long-term monitoring, and over time we will build up a valuable resource.

The information we gather this year, and in future surveys, will help us make sensible decisions about how best to help New Zealanders learn what they need to know to manage their money effectively.



Diana Crossan

RETIREMENT COMMISSIONER

FOREWORD FROM ANZ NATIONAL CHIEF EXECUTIVE OFFICER

ANZ is proud to continue its support for the ANZ-Retirement Commission Financial Knowledge Survey as part of our broader commitment to improving New Zealanders' financial knowledge.

This survey, which follows an earlier survey completed in 2006, means we can track trends in financial knowledge. It also identifies the factors that can influence people's understanding of the financial issues that affect their lives.

As New Zealand's largest bank, we are committed to taking a lead in this area because we believe it is vital that people have the skills to make informed decisions about how they manage money and how they plan for the future.

Banks and other financial institutions like ours have an important and constructive role to play in this area.

The current economic environment has focussed people's attention on how they need to wisely manage their income and expenditure on the basis of sound financial knowledge.

In my role as CEO for ANZ National, I am committed to increasing the financial knowledge of New Zealanders in every community. I appreciate the importance of people being able to manage their finances and understand the options available to them – both on a day-to-day basis and when they are planning for the future.

These latest findings, as with the 2006 survey, will help ensure efforts to improve financial knowledge and money management skills are focussed and tailored to the areas of greatest need.



Jennifer Fagg

ANZ NATIONAL CHIEF EXECUTIVE OFFICER

THE SURVEY AT A GLANCE

- » Commissioned by the Retirement Commission, supported by ANZ, and conducted by Colmar Brunton.
- » Face-to-face interviews conducted with 850 people aged 18 and over nationwide between 7 March and 28 April 2009.
- » Among those invited to take part, 62% responded.
- » Maximum margin of error of +/- 3.4%.
- » Interviewees answered 42 questions testing their financial knowledge (what they know), and 51 questions on their attitudes and behaviours (what they think and what they do) and on demographic factors.
- » 90% of financial knowledge questions were the same as 2006, with minor wording changes to the remainder.
- » Interviews took 60 minutes on average.
- » Data weighted to population proportions by age, gender and household size.
- » People were scored on their answers to the financial knowledge questions, and their score determined whether they fell into the low, medium or high knowledge group. The threshold scores that defined each group were the same as the previous survey.

THE RESULTS AT A GLANCE

- » There has been an overall improvement in New Zealanders' financial knowledge, with more people having a high level of knowledge.
- » There is little change to the number of New Zealanders with a low level of financial knowledge.
- » The gap in knowledge between men and women has narrowed, with a 12 percentage point increase in the number of women with a high level of knowledge.
- » About one in six New Zealanders (16%) indicate that they are having difficulty managing money, and this is higher amongst those with a low level of knowledge (26%).
- » There is an indication people are feeling more financially uncertain and vulnerable.
- » Use of internet banking has increased to almost one in two (47%), up from one in three (34%) in the previous survey.
- » Banks are the main source of financial advice (51%), followed by friends and relatives (35%).
- » One in three (34%) have used the Retirement Commission's Sorted resources, and one in four (24%) have done so in the last 12 months.
- » When considering investment offers, people now place greater emphasis on fees and security and less emphasis on returns.
- » There are still some gaps in knowledge about variable or floating home loans.
- » When planning for retirement, people are thinking more about what they can afford and less about what they'd like to have.

Why has financial knowledge improved?

There is no one simple answer, but the following are likely to have had an impact:

- » The economic environment has changed (see following commentary).
- » Basic numeracy skills, as tested in this survey, have improved.
- » KiwiSaver has been introduced, with accompanying information and discussion.

- » More media coverage of personal finance.
- » Information and advice is more widely available.
- » More awareness of where to find information as a result of the Retirement Commission's Sorted resources.

MANAGING MONEY IN NEW ZEALAND IN 2009

By ANZ National chief economist Cameron Bagrie

Since the previous survey, New Zealanders are facing a dramatically different environment for managing their finances – whether it be working out their household budgets, paying off debt, buying or selling a house or investing their savings.

The global financial crisis is affecting people from all walks of life. There is now tighter access to credit, a weaker property market, lower returns or even losses on investments. Add to that reduced job security as unemployment looks set to more than double by next year, from its record low of 3.5 percent last year.

All this is taking its toll on households in New Zealand as we navigate a deep and prolonged recession. On top of this, stresses around the globe are triggering a major change in behaviour.

New Zealand is facing a fundamental shift in how we grow. The "model" for the previous decades was built around excess consumption, debt fuelled spending, and spending for today as opposed to saving for tomorrow. It was all reflected in a huge current account position and rising debt. The world – via changes in the price of risk – is now telling nations such as New Zealand that the new "model" is about earning first, and spending second. It is all about getting the current account deficit down. We are seeing a shift away from households spending off the back of debt, in favour of household savings, and spending based on actual income. New Zealanders are hunkering down.

MANAGING MONEY IN NEW ZEALAND IN 2009 (CONTINUED)

For the first time since 2001, the household debt to income ratio is starting to decrease – indicating people are seeking to pay off their debt.

Retail sales actually fell over the past six months, despite increased disposable income from tax cuts, lower petrol prices and lower mortgage rates as fixed term mortgages roll over.

These sort of changes are naturally placing pressure on the economy at present as people spend less, but it needs to be interpreted as a welcome rebalancing process for NZ Incorporated as a whole.

Interest rates have dropped rapidly. In 2006 the rates on six month term deposits were around 6.9 percent, compared to about 3.7 percent now, and floating rates have also dropped from around 9.5 percent to 6.5 percent now.

A big change in the savings landscape since the last Financial Knowledge Survey was the introduction of KiwiSaver in 2007. By April 2009 around one million New Zealanders had joined it.

The worldwide economic upheaval is also influencing the types of investments that people are choosing.

Investors in 2009 are more conscious of the risks and returns on their investments, and they are also spreading their investments across a wider range of financial institutions and investment products than they may have in the past.

For instance, some people are finding they may have over invested in property at the height of the property boom, and have been caught by falling house prices.

In New Zealand the investment landscape has also changed since 2006, with fewer finance companies now operating and the introduction of a Government Guarantee for deposits with registered institutions until October next year. The New Zealand share market and other equity markets have likewise seen a downturn.

2009 has seen one of the biggest changes in the global economic environment in many decades. It is a stark reminder that markets do change, they can be volatile, and it is important to plan for up and down cycles over a long term, and to spread risk and investments.

FINANCIAL KNOWLEDGE GROUPS

To measure financial knowledge, people were scored on their answers to 42 financial knowledge questions. Their score determined whether they fell into the low, medium or high knowledge group. The threshold scores that defined each group were the same as the previous survey.

There has been an increase in the proportion of the adult population in the high knowledge group (up 10 points to 43%). Within that group, the proportion with advanced knowledge has increased by five points, to 20%.

There has been little change in proportion in the low knowledge group.

Low	High
<p>31% are in the low knowledge group. People in this group are more likely to be:</p> <ul style="list-style-type: none"> » 18 – 24 year olds or 65+ year olds. » Māori and Pacific people. » Only primary or basic secondary educated. » Tenants, rather than homeowners. » Not in paid employment. » Semi-skilled or in occupations such as labourers or domestic workers. » Low income. 	<p>43 % are in the high knowledge group (up 10 points). People in this group are more likely to be:</p> <ul style="list-style-type: none"> » Between 35 and 54 years of age. » New Zealand European. » Tertiary educated. » Home owners. » Skilled executives or professionals. » Household income of more than \$50,000.
Medium	
<p>26% are in the medium knowledge group. This group is noticeably smaller than in the previous survey (down eight points) as a result of people increasing their knowledge and moving to the high knowledge group. There is an even spread of demographic categories.</p>	

FINANCIAL KNOWLEDGE GROUPS

Who knows more?

- » The gap in knowledge between men and women has narrowed, with a 12 percentage point increase in the number of women with a high level of knowledge, and smaller proportions of women in the low (down six points to 34%) and medium (down six points to 26%) knowledge groups.
- » The biggest improvements have been among women aged 55-64 and women aged 18-24.
- » Financial knowledge is highest among those aged 35-64. The most notable change has been in the knowledge of 55-64 year olds, with 53% now in the high knowledge group (up 20 points).
- » One in five with a household income of \$20,000 or less have a high level of financial knowledge, up from one in 10 in the previous survey.
- » One in 10 of those with a household income of more than \$100,000 have a low level of financial knowledge (no significant change).
- » Of those not in paid employment, 28% have a high level of financial knowledge (up nine points); 52% of those in paid employment have a high level of financial knowledge (up 11 points).

Demographic categories	Low knowledge		Medium knowledge		High knowledge		
	2009 n=	2006 %	2009 %	2006 %	2009 %	2006 %	2009 %
Total respondents	850	33	31	34	26	33	43
Males	366	25	28	36	27	39	46
Females	484	40	34	32	26	28	40
18-24	83	57	57	32	25	11	18
25-34	116	30	37	42	30	29	33
35-44	166	24	20	30	23	46	57
45-54	160	22	15	28	25	50	60
55-64	145	28	21	39	27	33	53
65+	180	45	44	33	28	23	29
New Zealand European	640	24	24	37	27	39	49
Māori	112	67	56	22	31	11	13
Pacific peoples	32	85	66	11	12	4	21
Asian peoples	60	56	40	24	28	20	32
Primary or basic secondary education	205	54	53	32	28	14	18
Secondary school qualification (only)	197	34	34	33	30	33	37
Tertiary or post-graduate education	441	20	20	35	24	45	56
Home owned by self/partner	437	23	22	33	22	44	57
Home rented	286	45	44	36	28	19	28
In paid employment	507	24	22	35	26	41	52
Not in paid employment	343	51	46	30	26	19	28
Retired	160	45	46	32	23	23	31
Household income of \$20,000 or less	159	62	59	30	20	8	21
Household income of \$20,001 to \$50,000	230	38	38	34	30	28	32
Household income of \$50,001 to \$100,000	205	21	14	38	30	42	56
Household income of more than \$100,000	146	10	9	31	20	59	71

This table profiles demographic groups by the three knowledge groups; for example, it shows 46% of males, and 40% of females, are in the high knowledge group.

DETAILED KNOWLEDGE FINDINGS

This section looks at what New Zealanders know and don't know and compares the results to the previous survey. Figures for increases or decreases are given where the movement is statistically significant. The answers people gave to these questions were scored to measure how much they know; that is, do they have a high, medium or low level of knowledge.

Financial planning for retirement

Most people (84%) know NZ Super is paid at age 65 (unchanged). More know that NZ Super is not income tested (up six points to 44%) or asset tested (up five points to 50%). About one in three (31%) know the amount paid to a single person living alone (no significant change). Knowledge about NZ Super increases with age.

When asked what a person needs to consider when they think about saving for retirement, there was a move away from lifestyle and spending (down five points to 75%) towards considering their current financial situation (up 11 points to 58%); and how long their retirement might be (up 10 points to 24%).

Budgeting

Most (81%) know what a budget is and three-quarters know that everyone can benefit from having a budget (no significant change).

There is a shift in why people say it is important to have a budget, indicating a move to tighter management of finances. When asked why it is important to have a budget, more say it is to control spending or pay bills on time (up four points to 84%); to plan how much to spend and save (up eight points to 43%); and to track where money is going (up five points to 38%). Fewer say the main reason for having a budget is to have savings (down seven points to 25%) or to achieve financial goals (down five points to 15%).

Saving

There is a high level of knowledge about simple interest (86%), inflation (89%) and its impact on savings (81%), with no significant change from the previous survey. There is an improvement in understanding of compound interest in savings accounts (up eight points to 37%) and in term deposits (up five points to 58%).

Debt management

There is a clear understanding of the importance of paying off debt first, before saving, with 68% (unchanged) identifying this as the correct option when inheriting some money. Consolidation of debt is less well understood, with half (49%) identifying grouping of debts together in one low interest loan as a good way to pay off debt (no significant change).

Knowledge about a guarantor's responsibility has improved (up four points to 83%).

About three quarters know the advantages of paying a bill on or just before the due date (no significant change).

Banking

The increase in internet banking is reflected in increased knowledge about the advantages – people say it is quicker (up five points to 43%); more convenient (up 13 points to 39%) and cheaper (unchanged 55%).

Almost all (96%) know they should not reveal their internet banking password to a friend, but half think it is alright to tell their partner (unchanged). Fewer people (down 5 points to 12%) thought it was alright to tell a bank staff member.

Fewer know how to minimise fees by using EFTPOS (down seven points to 60%).

Almost all (92%) understand the information on a bank statement (unchanged).

Credit cards

Almost all credit card holders (94%) know that paying the minimum amount means there is still money owing (unchanged). Three quarters of credit card owners know that paying off the full amount on the credit card each month would give interest-free days on purchases (no significant change). Knowledge is lower amongst those without credit cards.

Mortgages

Almost all home owners with a mortgage (94%) know they can minimise their interest by increasing regular payments (unchanged). 81% of home owners with a mortgage understand under what conditions it is better to have a fixed rate home loan rather than a variable or floating rate.

There is a decrease in the proportion of all respondents who know that you can repay part of a variable or floating rate home loan without penalty (down nine points to 46%). This may be due to media coverage around penalties for breaking fixed term home loans at the time of the survey.

There is a lower level of knowledge in all these areas among those who do not have a mortgage.

Understanding of equity and leverage remains strong, with 77% understanding the best way to finance an investment property.

DETAILED KNOWLEDGE FINDINGS (CONTINUED)

Managing risk

Almost all (93%) know who needs the greatest amount of life insurance from a range of options (no significant change).

Fewer understand that one partner is entitled to a share of the other's house when separating after four years (down five points to 78%).

Investing

When asked which is generally considered likely to make the most money over the next 15 to 20 years, more say a savings account (up seven points to 22%) while less than a third say a range of shares (27%, no significant change).

When asked how to reduce risk, there is an increase in the proportion who know that capital guaranteed investments are a way to reduce risk (up five points to 49%). There is a fall in the proportion who say investing only in property will reduce risk (down four points to 15%). There is more uncertainty, with people saying they don't know the impact on risk of diversifying investments (up four points to 18%) and don't know the impact of changing from high risk to low risk investments (up five points to 13%).

When asked what factors to take into account when looking at investment offers, people are less likely to look at the returns (down five points to 61%) and more likely to consider whether an investment is secured or unsecured (up eight points to 30%). They are also more likely to look at the cost, both fees and minimum investment levels (up 14 points to 27%).

Most can still recognise signs of a scam, such as a promise of very high returns with little risk (88% unchanged). Fewer people think an investment offer would not be a scam if it was offered by a well known reputable financial organisation (down six points to 81%).

Most recognise that an investment with higher than average return is likely to have a higher than average risk (88%, unchanged).

When asked about an investment advertised as having a return well above market rates, half correctly say it would be too good to be true (no significant change) while the same proportion would recommend investing lightly to 'see how it goes'.

Financial advice

Four in five (79%) know about the requirement for financial advisors to provide a disclosure statement (new question).

While 71% know it is important to find out how a financial advisor is being paid (no significant change) there is more uncertainty, with 13% saying they don't know whether this is important (up five points).

93% know to ask about a financial advisor's qualifications and experience (no significant change).

Almost all (97%) know it is important to read and understand the investment statement before investing (down two points).

Understanding financial terms

There is a range of knowledge of the meaning of financial terms (savings, term deposit, asset, liability, capital gain, net worth, secured loan and equity) and this has not changed significantly. The ability to correctly define terms ranges from two thirds being able to define liability up to 89% who are able to define savings. There has been an increase in the ability to define 'real rate of return' (up six points to 66%).

Around nine in 10 knew that gross salary means before tax (no significant change).

Numeracy

There is an improvement in basic addition, subtraction and multiplication, as tested by questions about bank statements and savings. Looking at a bank statement, the proportion who could calculate the time it would take to save a set amount increased 13 points to 74%. There was also an improvement in the number who could calculate the amount available for saving in a given scenario (up four points to 80%).

ATTITUDES AND BEHAVIOURS FINDINGS

This section looks at what New Zealanders think about money, and what they do. The answers people give to these questions are not counted when calculating the score that measures how much they know.

About one in six New Zealanders (16%) think they have difficulty managing their money. This is higher amongst those with a low knowledge level (26%).

Of those who think they have difficulty, 37% say their greatest difficulty is that they do not have enough money, while 29% say their greatest difficulty is a lack of self control in regard to spending and budgeting. A different question was asked in the previous survey so results are not comparable.

How do people plan and manage their money?

Fewer people have financial goals (down five points to 75%) while only one in five have a written financial plan (no significant change).

Two in three people (64%, no significant change) have a budget – more in the high knowledge group (70%) than in the low knowledge group (56%).

Around four in 10 (39%, unchanged) say they keep a fairly close eye on expenses without keeping a written record, while 34% (no significant change) keep written or electronic records. More people are keeping an eye on their expenses 'a bit' (up five points to 22%). There is still a small number (five %) who do not keep an eye on expenses at all.

Just over half (56%) say they think about financial planning for retirement 'a lot' or 'a fair amount' (no significant change); again this is more common among the high knowledge group (70%) than the low knowledge group (38%). As in the previous survey, people give more thought to financial planning for retirement as they get older.

Around half are saving money on a regular basis and about one in five save 'sometimes' (no significant change). About a third (29%) are members of KiwiSaver; this is more common among the high knowledge group (36%) and less common among the low knowledge group (17%).

Where do people get financial advice and information?

Banks are the main source of financial advice (51%) used by people in the last 12 months, followed by friends and relatives (35%). More have taken financial information or advice from a TV programme (21%) than from a financial advisor (18%). This question was not asked in the previous survey.

One in five (21%) have not received any financial advice or information.

People in the low knowledge group are more likely than other knowledge groups to turn to friends and relatives (40%). Banks are still the main source of financial advice for the low knowledge group (43%).

One in three of all respondents (34%) have used the Retirement Commission's Sorted resources, and one in four (24%) have done so in the last 12 months.

What financial products do people have and use?

Use of internet banking has increased to almost one in two (47%), up from one in three (34%) in the previous survey. The move to internet banking has led to a drop in the use of all other payment methods other than EFTPOS.

Two-thirds have a credit card and 68% pay it off in full each month (no significant change).

There is a drop in the number of people with vehicle insurance (down five points to 73%) and house/contents insurance (down six points to 69%). This is particularly the case in the low knowledge group, where the proportion with vehicle insurance is down 14 points to 47% and house insurance is down 12 points to 42%.

How do people feel about their finances?

When asked to agree or disagree with a number of statements, those with less knowledge are more likely to say they feel out of control with their borrowing and debt, less confident about managing their financial affairs, not able to cope with a major loss of income and find it hard to make ends meet.

In contrast, those with advanced knowledge are much more likely to say they are in control of their borrowing, plan for the future and know what insurance they need to cover their needs.

About half of the statements were worded differently to the previous survey. Where the wording was the same, the results indicate that people are now feeling more financially uncertain and vulnerable.

Fewer feel confident about managing their financial affairs (down eight points to 75%); fewer believe they are personally responsible for their financial future (down four points to 88%); fewer feel that if they had a major loss of income they could manage for three months (down five points to 57%); and fewer have worked out how much they need for their retirement (down nine points to 26%).

INTERNATIONAL COMPARISONS

Many countries are taking steps to improve financial literacy, and a number have undertaken surveys and research. As each country is asking questions important to them and using different methodologies, there is no comprehensive international comparison available.

This survey is broadly comparable to surveys conducted in Australia in recent years, and the findings indicate that the financial knowledge of New Zealanders and Australians is broadly aligned, with both having a reasonable level of knowledge but some problem areas.

WHERE TO FROM HERE?

This is the second time this survey has been conducted and therefore long-term trends are not yet clear. However it provides many useful pointers.

The results show that it is possible to improve financial knowledge, and this is an incentive for New Zealand to keep working on lifting financial literacy across the population.

It indicates that it may be more difficult – and take more time – to improve financial knowledge from a low base. Financial education and information alone may not be enough to improve the position of those with low financial knowledge; for example basic literacy and numeracy skills may also need attention.

There are indications that people forget some knowledge, particularly if it is not directly relevant to them. This signals that information needs to be continually available.

The results will continue to be analysed in detail to identify key areas for targeting information to improve financial knowledge. We will also look closely at the findings on attitudes and behaviours, and the links between knowledge and behaviour.

The Retirement Commission aims to repeat this survey in another three to four years.



A copy of this Summary Report and the full Colmar Brunton Research Report can be found on www.financialliteracy.org.nz and www.anz.co.nz



ANZ
PRIVATE BAG 92210
AUCKLAND, NEW ZEALAND
www.anz.co.nz



RETIREMENT COMMISSION
LEVEL 3, 69-71 THE TERRACE
PO BOX 12-148
WELLINGTON, NEW ZEALAND
ph +64 4 499 7396
www.retirement.org.nz
www.financialliteracy.org.nz