



Retirement Commission

Whiriwhiria!

Financial Literacy in New Zealand



DIANA CROSSAN & DAVID
FESLIER
Retirement Commission
New Zealand

20th December 2010
Financial Literacy around the World
(FLat World)

Financial literacy in New Zealand (1)

Financial Literacy Drivers

- Voluntary savings regime
- Growing complexity of financial products and market
- Financial crisis

Retirement Income policy

- Universal, non means-tested pension
- Private provision including opt-out scheme (KiwiSaver)

Financial literacy in New Zealand (2)

Māori

- 15% of New Zealand population
- Lower social economic standard

Ngāi Tahu iwi (tribe)

- 50,000 members
- Managed treaty settlement money well
- Concept of collective ownership

The datasets

2006

ANZ/Retirement Commission Survey of Financial Knowledge

2009

ANZ/Retirement Commission Survey of Financial Knowledge

2010

Ngāi Tahu Financial Knowledge Survey

Interest question

If Nicky had \$100 in a savings account and the interest rate was 2% per year, after 5 years how much would Nicky have in her account if she left the money to grow? Would it be more than \$102, exactly \$102 or less than \$102?

	General population		Ngāi Tahu	
	No. of respondents	%	No. of respondents	%
a) <i>More than \$102 (correct)</i>	731	86	340	85
b) Exactly \$102	54	6	25	6
c) Less than \$102	32	4	21	5
Don't understand the question	2	*	1	*
Don't know the answer	30	4	13	3
Total	850	100	400	100

Inflation question

If the interest rate on Anne's savings account was 1% per year and inflation was 2% per year, after 1 year, with the money in this account, would she be able to buy more than today, exactly the same as today, or less than today?

	General population		Ngāi Tahu	
	No. of respondents	%	No. of respondents	%
a) More than today	56	7	43	11
b) Exactly the same as today	63	7	26	7
c) Less than today (correct)	685	81	303	76
Don't understand the question	5	1	3	1
Don't know the answer	41	5	24	6
Total	850	100	400	100

Risk/Diversification

Which one of the following is **generally** considered to make you the most money over the next 15 to 20 years?

	General population		Ngāi Tahu	
	No. of respondents	%	No. of respondents	%
a) a savings account	183	22	118	30
b) a range of shares (correct - when designed)	232	27	119	30
c) a range of fixed interest investments	414	49	153	38
d) a cheque account	3	*	2	1
Don't understand the question	1	*	2	1
Don't know the answer	17	2	6	2
Total	850	100	400	100

Spearman Rank Correlations National Survey

*Spearman rank correlations (p-values in parenthesis)**

General population (n=850)	Interest	Inflation	Risk	General population (n=850)
Interest	1 -			Interest
Inflation	.246 (.000)	1 -		Inflation
Risk	.137 (.000)	.176 (.000)	1 -	Risk
No. of correct answers	.576	.663	.743	No. of correct answers

Spearman Rank Correlations Ngāi Tahu

Ngāi Tahu (n=400)	Interest	Inflation	Risk	Ngāi Tahu (n=400)
Interest	1 -			Interest
Inflation	.193 (.000)	1 -		Inflation
Risk	-.021 (.673)	.069 (.167)	1 -	Risk
No. of correct answers	.495	.660	.662	No. of correct answers

Multiple Correct Answers

	General population		Ngāi Tahu	
	No. of respondents	%	No. of respondents	%
Correct answers to interest and inflation	617	73	271	68
All correct answers	202	24	82	21
No correct answer	47	6	22	19
At least one 'do not know/do not understand'	58	7	23	6
All 'do not know/do not understand'	3	*	3	1
Correct answers to interest and inflation	617	73	271	68

Who knows the least?

National

- Younger New Zealanders, under the age of 35.
- Elderly New Zealanders, over the age of 65.
- Women, particularly with regards to inflation and risk.
- Those less educated than others.
- Those who are not employed in professional roles.
- Those living in provincial areas.
- Those living in rural areas, particularly with regard to risk.
- Those who identify as Māori.

Who knows the least? Ngāi Tahu

- Younger, Ngāi Tahu under the age of 35.
- Elderly, Ngāi Tahu over the age of 65.
- Those less educated than others.
- Those who are not employed in professional roles.
- Social welfare beneficiary/those who are unemployed

Does Financial Literacy Matter? National

Retirement Planning

Financial literacy (defined by the number of questions correct) *is* weakly and positively associated with thinking about planning for retirement ‘a lot’ ($r_s=.08$). Further, answering the inflation question correctly *is* associated with thinking about retirement ‘a lot’ ($r_s=.10$).



Does Financial Literacy Matter?

Ngāi Tahu

Retirement Planning

Financial literacy (defined by the number of questions correct) is not associated with thinking about planning for retirement 'a lot'.

Answering the interest question correctly is associated with thinking about retirement 'a lot' ($r_s = .11$).



Discussion and Conclusions

- ‘Reasonable’ financial literacy
- Low financial literacy amongst some groups
- Ngāi Tahu and similar level to general population
- Positive but weak associations between financial literacy and retirement planning behaviour

