Westpac Massey Fin-Ed Centre

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INSIGHTS FROM 2012-2032 LONGITUDINAL STUDY – STAGE TWO

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ACKNOWLEDGEMENTS:

We would like to thank

- David Tikao and the Whai Rawa team at Te Rūnanga o Ngāi Tahu for locating participants from Ngāi Tahu cohort and encouraging them to participate in the survey.
- Deb Plank, who undertook, and then transcribed, the interviews.
- Breeze Mehta, who helped with locating participants and co-ordinated their completion of the online survey and interview arrangements.

OVERVIEW

This report covers the second stage in a 20-year longitudinal study that considers the financial knowledge, attitudes and behaviours of a cohort of young New Zealanders. The first stage of the study was carried out in 2012 when the cohort, aged from 18 to 22 years, participated in the baseline study. The key findings from that initial study were that overall financial knowledge levels were low, there was a lack of formal financial education and parents were a key source of informal financial education. The study also found that young New Zealanders knew about the key elements of good financial management, such as needing to save; however, there was concern that they were not putting this knowledge into practice. Finally, there was a strong aversion to debt, particularly in the form of credit cards. This follow up took place five years later, in 2017, with the cohort now aged from 23 to 27* years old. The key focus of the current study is to determine how the financial knowledge, attitude and behaviours of this cohort have changed as they have matured over the last five years.

* In the 2017 survey, while most participants were aged between 23 and 27, there was a very small number of participants who were aged 22 or 28 years because the survey was conducted at a different time of the year to the 2012 survey.

THE STUDY

Stage two of the longitudinal study was completed in the second half of 2017 and comprised an online survey, and an interview. The participants are now scattered around the world, which meant face-to-face interviews were not practical. In most cases the interview was completed via video conferencing facilities, such as Skype/Zoom, but some face-to-face interviews were also undertaken. While efforts have been made to maintain contact since the first stage was undertaken in 2012, this has not been fully successful and some participants also declined to be involved in this second stage. In addition, some participants only completed the online survey, as attempts to arrange an interview were unsuccessful. The online survey was completed by 232 participants, with 225 also participating in the interview, from the original 318 involved in Stage One of the study.[1]

[1] Due to the smaller number of Māori participants from the Ngai Tahu cohort responding to the survey in 2017, statistically it was not feasible to generate a separate report for Māori participants, it was decided to combine the data in the 2017 report. All comparisons to the 2012 data are based on the combined data from 2012.

KEY FINDINGS

- Financial literacy improved, but participants' self-assessment of their financial literacy declined
- Parents continue to be the primary source of information and lessons on personal financial management matters, although many are not sure their parents know what is best for them regarding their finances
- Participants remain confident about their ability to manage their money, while remaining wary of credit cards, and acknowledging the importance of saving
- The focus remains on the shorter term with respect to financial planning; however, participants are beginning to plan for the distant future, and have a very high participation rate (89%) in KiwiSaver

1. FINANCIAL KNOWLEDGE

1.1 SUMMARY INSIGHTS:

- Overall, objectively measured financial literacy scores improved by 20% when compared to 2012; however, subjective assessment of financial literacy appears to have decreased as fewer participants classified themselves as having a "Good" understanding of financial matters, while more respondents classified themselves as having either a "Fair" or "Poor" understanding of financial matters. There is a gender gap in both objectively measured, and subjectively assessed financial literacy, which is in line with what was observed in 2012, and what has been found worldwide.
- The increase in financial literacy scores may, in part, be attributable to participants engaging more in financial decision making over the past five years as they have entered the work force and started to actively participate in saving and borrowing decisions. On the other hand, the decrease in self-assessed level of knowledge may be attributable to individuals realising how limited their knowledge is when faced with real world financial decision making. Additionally, initial levels of overconfidence regarding levels of financial knowledge may have been moderated as individuals started to make real world financial decisions and left the safety net created by parents, which can be seen in the participant comments such as "I feel less confident about managing money in the adult world. There is this uncertainty there about what to do when you have more money." and "I would say less confident, just because I am paying my own bills and so I don't have the security of parents."
- The higher financial literacy scores may also be reflecting proactive steps that participants have taken to increase their financial literacy. Fifty-two percent of participants reported having taken steps over the past 12 months to improve their money management skills. However, attending classes, workshops or seminars on money management (3%), talking with financial planners or counsellors (2%), or seeking assistance from a budget advisor (2%) were only infrequently referred to in the steps individuals said they had taken. Talking to bank staff was mentioned more frequently (8%), but the main sources were talking to parents (19%), talking to friends (18%) or finding information on the internet (17%). Another source of learning was the use of budgeting or other financial apps or online tools (12%).
- The information sources that individuals found most helpful were talking to parents (24%) followed by money management information found on the internet (21%) and talking with friends (17%).
- In keeping with the findings of 2012, when asked how much they had learned about money management over the past five years from different sources, parents and life experiences remained the main sources; however, the extent of reliance on these sources had declined over the five years. Forty-seven percent of participants reported that they had learnt "everything" or "most everything" from their parents (compared to 66% in 2012). Life experiences were also a key source of learning with 44% indicating this was where they had learnt "everything" or "most everything" (50% in 2012). The influence of friends remained small, with only 5% reporting this as a source of learning "everything" or "most everything" (4% in 2012). Refer to table one for details.

- In line with 2012, formal financial advice was again not a key informational source as 73% indicated that "nothing" had been learnt from financial planners, advisors or counsellors (71% in 2012). In addition, 60% indicated they had learnt "nothing" from classes, workshops, or seminars, and 74% reported that they had learnt "nothing" from Sorted (these particular sources were not included in the 2012 study). Refer to table one.

TABLE ONE

Sources used to learn about money management:

Over the last five years how much did you learn about managing money from each of the following sources?

	2012		2017	
	Nothing	Most everything/ Everything	Nothing	Most everything/ Everything
Your parents	1%	66%	7%	47%
Your friends	25%	4%	19%	5%
Life experiences	1%	50%	2%	44%
Bank staff	27%	10%	45%	8%
Financial planners, financial advisers, and financial counsellors	71%	5%	73%	4%
Sorted	Not included in 2012		74%	4%
Classes, workshops, or seminars	Not included in 2012		60%	5%

- The pattern of sources of learning does alter when individuals are asked where they expect to learn about money management in the next five years, although parents (29%) and life experiences (39%) continue to dominate as the source of "everything" and "most everything" from which individuals expect to learn. There is, however, an acknowledgement that financial planners, advisers and counsellors, as well as classes, workshops, or seminars, could be expected to play a greater role over the next five years, as more than half of participants believe they will learn about managing money from these sources in the future. This highlights the fact that as life stage changes, so does the source of information.

- These findings appear to indicate that traditional financial literacy interventions in formal settings are not currently used as a source of learning for these participants. They continue to rely heavily on their parents for financial advice, and also appear to follow a "learning by doing" approach as life experiences teach them about money management. The risks that this presents are clear. First, if parents are not financially knowledgeable themselves, then they may be providing incorrect advice and guidance to their children. Second in learning by doing, mistakes are part of the process, and financial mistakes and incorrect decisions can be costly and may be difficult to reverse.

1.2 SPECIFIC FINDINGS

1.2.1 Financial literacy scores:

- The average score for the financial literacy test in 2017 was 4.2 out of 7 (60%). This represents a 10 percentage point increase in the average score from the 2012 study (3.5 out of 7, i.e. 50%) equating to a 20% improvement in average financial literacy scores. However, it is important to note that approximately 30% of the original cohort did not participate in the second stage of the study, which could potentially account for some of the increase in the average score, particularly if those participants who dropped out had lower overall financial literacy scores. See table two for details.

TABLE TWO
Financial knowledge:

Financial literacy scores (objective)

Financial literacy average score	2012	2017
	Score out of 7	Score out of 7
All participants	3.5 (50%)	4.2 (60%)
Males	4.2 (60%)	4.9 (70%)
Females	3.2 (46%)	3.8 (54%)

- The average score for female participants was 3.8, which was significantly lower than that of male participants at 4.9 ($p<0.01$).

- Two participants answered all the questions correctly (in the 2012 study none answered all questions correctly), and less than 1% answered all the questions incorrectly (compared to 2% of participants in 2012).

- The worst answered question related to unauthorized charges on a credit card, where only 3% knew that the owner of a credit card is liable only for the first $50 of any unauthorised charges (in 2012 less than 1% answered that question correctly).

1.2.2 Self-assessed financial literacy levels:

- There was a slight increase in the number of participants who rated their overall understanding of personal-finance and money-management concepts and practices as “Very Good” or “Excellent” (28% compared to 22% in 2012).
- Only 30% rated themselves as having a “Good” understanding of personal-finance and money-management concepts and practices (compared to 42% in 2012).
- There was also a slight increase in the number of participants who considered themselves to have either a “Fair” or “Poor” understanding (42% compared to 36% in 2012).
- In keeping with the findings of 2012, there was a significant difference in the self-assessment based on gender ($p<0.01$). Forty-seven percent of females assessed themselves as “Fair” or “Poor” (compared to 32% of males), while 41% of males assessed themselves as “Very Good” or “Excellent” (compared to 21% of females). See table three over page for details.

TABLE THREE
Self-assessed financial literacy levels

How would you rate your overall understanding of personal-finance and money-management concepts and practices?

	2012			2017		
	All	**Males**	**Females**	**All**	**Males**	**Females**
Poor/Fair	36%	27%	40%	42%	32%	47%
Good	42%	41%	42%	30%	27%	32%
Very good/ Excellent	22%	32%	18%	28%	41%	21%

1.2.3 Comparison between objective and subjective assessments:

- There was a significant positive correlation between financial literacy test scores and individuals' self-assessments of their financial knowledge ($p<0.01$). Therefore, in general those with higher financial literacy test scores rated themselves as having higher levels of financial knowledge. However, there were some instances where individual's self-assessments were not reflective of their test scores:
  - 17% of participants who answered less than three questions correctly considered themselves to have a "Very Good" or "Excellent" understanding of personal finance and money management (compared to 12% in 2012).
  - 35% of participants who scored five or more on the financial literacy test considered themselves to have only a "Fair" or "Poor" understanding of personal finance and money management (compared to 30% in 2012).
  - The two participants who scored full marks for the test both rated themselves as only have a "Good" understanding of personal finance and money management.
  - Therefore, a small proportion of individuals are overconfident about their level of knowledge of financial matters, while a slightly larger proportion appear to lack confidence in their knowledge levels.

2. FINANCIAL ATTITUDES

2.1 SUMMARY INSIGHTS:

- Attitudes do not seem to have changed much over the past five years: participants still appear to be confident about their ability to manage their money, they remain wary of credit cards, and acknowledge the importance of saving.
- Positive attitudes to money management appear to have been maintained over the past five years, but there is an increasing awareness that learning about money management is of key importance.
- What is essential to consider is whether these positive attitudes are translating into positive behaviours, which is discussed in section 3.

2.2 SPECIFIC FINDINGS REGARDING FINANCIAL ATTITUDES:

- The series of questions which were included to assess how confident participants were about their ability to manage their money generally elicited similar responses in 2017 as were recorded in 2012. In line with what was found in 2012, approximately 80% of participants are confident about their ability to manage their own finances, while approximately one-third reported that their finances are a significant source of worry or "hassle" for them. Again, in line with 2012, fewer than 10% are uncertain about where their money is spent.

- The 2012 study found very negative attitudes to credit cards and, while this has lessened over time, there continues to be a cautionary attitude towards credit cards in 2017. Sixty-eight percent of participants disagree with the statement that credit cards are safe and risk free (compared with 77% in 2012) and 36% report that they are afraid of credit and credit cards (compared with 44% in 2012). Encouragingly, an increase was seen in the number of individuals who are not comfortable with only making the minimum payment on their credit card each month (70% compared with 58% in 2012). The changing attitude to having a credit card was in some instances as a result of the rewards that could be earned by spending on a card, which was highlighted by a number of individuals; as one participant put it "I have a credit card now, but I pay that off every month. I use it for the perks of getting Airpoints." with another commenting "My attitude to credit cards hasn't changed. It is a good way to earn fly buys points. The only reason we ever use a credit card is because it gets us free stuff.".

- With respect to savings, 94% of participants agreed that regular saving was important (compared with 91% in 2012).

- In line with 2012, positive attitudes with regards to money management were also reflected in the responses to questions related to the importance of spending within budget, paying credit card balances in full each month, learning about money management, and setting and achieving financial goals. The mean responses (out of 5) were 4.0; 4.0; 3.8 and 4.0 respectively (compared to 4.1, 3.9, 3.7 and 4.0 respectively in 2012).

- Learning about money management appears to have become more important to these participants as 69% of them now acknowledged that this was either "Very important" or "Extremely important" compared to 58% who felt this way in 2012. This was reinforced in the comments made by individuals such as "I definitely know that I have a huge gap in financial knowledge. Even though I own a house and I feel confident with my money and I'm not going to go homeless, I know that I don't know everything and there is a lot, even around the banking terms and what is the best way to use your money. Even looking at long term deposits or shares and all of that stuff, I don't really know and haven't wrapped my head around all of that." and "I would like to get some more professional advice on how to manage money. I didn't do any Accounting or Business at school or anything. That wasn't really my strong point. I have friends that are in business and accounting. It wasn't something I was into at school."

3. FINANCIAL BEHAVIOUR

3.1 SUMMARY INSIGHTS:

- Good financial behaviours appear to have persisted over the past 5 years with the majority reporting that they budget, compare prices when shopping and use their credit cards responsibly. However, concerning behaviours also remain with many not reading to improve their financial knowledge, and the majority still reporting that they wish they were better at saving.
- Given the large role that parents play in financial advice for these participants, it is concerning that many are not sure that their parents know what is best for them regarding their finances.
- Participants are still mostly focussed on the shorter term with respect to financial planning; however, they are beginning to plan for the distant future, with a very high participation rate in KiwiSaver. In addition, the product mix held by participants appears to reflect the change in needs as they move into formal employment and start investing, and incurring debt for major purchases.

3.2 SPECIFIC FINDINGS REGARDING FINANCIAL BEHAVIOUR:

- The financial situation of most participants has improved over the past 12 months, with 61% reporting a better financial situation, and 36% indicated they started a new job. Sixty-eight percent anticipate that their financial situation will improve over the next 12 months. However, there were instances where life events and student loans were adversely impacting on individual situations. A number of participants highlighted concerns regarding their student debt such as one individual who commented "My student loan has definitely got the better of me. More so because after I graduated and used me degree overseas for a period of time". According to another individual "I probably feel worse about my financial situation because of the Student Loan debt, but I am also relatively confident I will be able to pay that off reasonably soon enough and it is no interest because I am not leaving the county." Other life events had also negatively impacted on individuals with comments including "I have moved back in with my parents which is a place I don't want to be." and "I feel like I am not as in control of my own finances, so I would say less confident. Five years ago, I was working, so I could bring in my own income, now I have to rely on the Government." and "I was married and will be divorced at 25yrs. I have a child. Things don't always work out the way you want it to. I own a house and now have a mortgage, so my situation is that I am a lot more in debt than I was 5 years ago."

- Positive financial behaviours seen in 2012 appear to continue in 2017. Sixty-five percent budget and track spending (63% in 2012), 80% do not get cash advances on their credit cards (69% in 2012), and 91% compare prices when shopping (89% in 2012). In addition, 57% have spent time thinking about financial goals, credit cards and spending habits and have decided on a money management method that works for them (49% in 2012). There has, however, been a decrease in the number of participants who believe it is better to purchase from savings rather than buy on credit (67% compared to 80% in 2012).

- Forty-eight percent are making contributions to an investment account (33% in 2012) and 65% feel good about their money management abilities (60% in 2012). However, despite these positive behaviours, 60% wish that they were better at saving money (61% in 2012). With comments including "I always think I could be better at saving. That is one area and it is working out how to do it without having to miss out on things." and "Probably making my saving a little more strict and regimented and putting in a little more structure around that."

- Impulse spending was highlighted as a key problem by a number of participants with many commenting that this was an area which they wanted to improve on, with comments including "Impulse spending because I spend and I shouldn't. I know I shouldn't spend but I spend it anyway! Sometimes it is food, last week it was a $200 pair of shoes that was down to $50. I was 'oh it is only $50, $50 only for $200 shoes'." "Actually, thinking before I splurge on things would be something to think about. I went out the other night and accidentally spent about $50. I thought 'whoops, that wasn't supposed to happen!'.". Others have identified their problem and come up with ways to overcome it such as one individual who noted "I do a lot of impulse spends on my credit card. I actually leave my credit card at home now. I leave it at home and if I want to buy something I think about it, wait two days and if I still want it, buy it."

- While there have been improvements in some areas of financial behaviour over the past five years, there are still some areas of concern. Only 32% of participants read to increase their financial knowledge (25% in 2012) and 40% still don't know what financial management style is best for them (48% in 2012).

- Given the reliance on parents for financial advice, it is interesting to note that while 62% of participants see their parents as positive financial role models (compared to 70% in 2012), only 35% believe that their parents know what's best for them in terms of taking care of their finances (compared to 58% in 2012).
- From the perspective of the practical impact of money management, 43% of participants reported having to change food shopping or eating habits because they did not have enough money (48% in 2012), whereas 48% reported cutting back on social and entertainment expenses due to money shortages (62% in 2012). Fourteen percent of participants had reached or exceeded the limit on a credit card at least once in the past six months (compared to 5% in 2012).
- The participants were still generally focussed on the near term with respect to financial planning, with 24% considering the next year as most important in terms of financial planning (29% in 2012), 46% focussed on the one to four year planning horizon (47% in 2012), however 30% were now considering a planning horizon beyond five years (24% in 2012).
- With respect to financial products held, in line with 2012, over 90% have a savings account. There has been a large increase in those who report having a KiwiSaver account with 89% of participants indicating they have a KiwiSaver account compared to 60% in 2012. This would reflect the movement of the participants into the formal employment sector over the past five years. However, in line with 2012, 72% report that they still have a student loan. The percentage of participants holding shares has increased (approximately 11% compared to 4% in 2012). In addition, 15% now have a home loan, compared to less than 1% in 2012. Insurance coverage has also increased with less than 20% reporting they hold no insurance (compared to 38% in 2012). The majority have car insurance and just over 40% have contents insurance.

TABLE FOUR

Financial products:

Which of the following kinds of financial accounts do you have? (Choose all that apply)

	2012	2017
Savings Account	93%	93%
KiwiSaver account	60%	89%
Cheque or transaction account	73%	87%
EFTPOS card	85%	83%
Student loan	67%	72%
Credit Cards	16%	42%
Home loan/mortgage	1%	15%
Personal loan	5%	12%
Term deposit	10%	12%
Retirement savings (other than KiwiSaver)	4%	11%
Shares	4%	11%

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