

Discussion document

# National Strategy for Financial Literacy 2014

31 January 2014

everyone getting ahead financially

<b>foreword</b>	<b>your feedback</b>	<b>vision</b>	 <b>talk</b>	 <b>teach</b>	 <b>plan</b>	 <b>debt-smart</b>	 <b>save/invest</b>
The Commissioner introduces the updated National Strategy	Beginnings, purpose and your feedback	Vision, activity streams, objectives and outcomes	A cultural shift where it's easy to talk about money	Effective financial learning at all levels of the education system	Everyone has a current financial plan and is prepared for the unexpected	People make smart use of debt	Everyone saving and investing
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# foreword



The vision outlined in this draft National Strategy is to equip everyone to 'get ahead financially'. It sounds good, but what does it actually mean? And does 'getting ahead' resonate with everybody or is it just a pipe dream for some?

In putting together this document, the team have debated those questions at length. Now we'd like to hear from you.

The term 'getting ahead' holds different meaning for different people, but at its core it is about how we successfully navigate our way through products, choices, demands and needs across a lifetime.

The vision is about being equipped to be on the winning side of your decisions. It means knowing where you want to get to, what success looks like, and having a plan to get there.

One of the streams of work outlined in the draft strategy is 'talk'. It's about the benefits of talking about money. It's not suggesting we boast about our income, or overshare on how much we think our house is worth, but that we gain the confidence to have the hard conversations and ask questions when we don't understand. That may mean asking to see the paperwork and asking more questions before investing, or talking about debt and assets within a family or relationship.

Behavioural economics tell us that knowledge alone is not the determinant of success. Our behaviour is not always rational and we sometimes act in a way that is at odds with what we know.

It's important that we recognise those complexities, lest we focus on simply telling people what they *should* do, then stand back in surprise when they don't do it.

To that end we are always seeking to better understand through research, both global and local, qualitative and quantitative, how to bring about sustainable change – change for life.

Recent research on scarcity concludes that worrying about money, how to feed the family and pay the bills, erodes mental bandwidth, confidence, energy and optimism. Building financial stability builds our own personal capability and allows us the space to plan our lives.

One of the strengths of KiwiSaver that became apparent in focus groups in 2013 was that it changed the way people felt about themselves and what they were capable of. They went from being 'that person who is hopeless at saving' to 'that person who has \$10k in an account'. It is a moment of success, and an opportunity to feel successful, and in that sense it has an impact above and beyond the dollar sum saved.

Another insight was the importance of knowing that success is about *your* best result and nobody else's. It is easy to give up when everyone else seems so much further ahead, but in the words of Warren Buffett 'no-one knows who's swimming naked until the tide goes out' (in other words the neighbour's new car may just be a large loan on wheels). It's an important message that only you can carve your own path, at your own pace.

And critically, success at an individual level builds success at a national level, both socially and economically.

The goal of the National Strategy is to bring us closer to that success, by galvanising and consolidating efforts, sharing knowledge, and providing a structure to talk about the work to be done.

It should offer a clear articulation of goals and work streams and reduce the need for the same but separate conversations, in small disparate groups, to get to the same point. Some of the goals are hairy and audacious and you may tell us they are unrealistic, but that's not a bad starting point.

There are many individuals, agencies, NGOs and corporates working on financial literacy initiatives across New Zealand. Bringing about sustainable behavioural change is a task that is huge, resource hungry and seemingly without end, but we have a better chance of success with collaboration.

Together, we can equip New Zealanders to get ahead financially.

Diane Maxwell  
Retirement Commissioner

# beginnings

## LAUNCH

New Zealand was one of the first OECD member countries to adopt a National Strategy for Financial Literacy when it was launched in June 2008.

The National Strategy was a collective effort of many individuals and organisations who worked together with a common vision, mission and focus.

Progress in implementing the strategy has since been reported to the Minister of Finance twice yearly.

## 2008 STRATEGY

The strategy agreed in 2008 is shown in the diagram below.



# purpose

## DOCUMENT PURPOSE

The Commission is undertaking a review to produce a clearer, more accessible strategy for release in 2014.

Our aim is to make clear recommendations to all interested sectors about how we can achieve the greatest impact on personal financial decision-making for all New Zealanders over the long-term.

## SOURCES

The following are the sources of the benchmarks and quotes used in this document:

Commission focus groups, 2013

*Financial Knowledge and Behaviour Survey 2013* (FKBS)

*Financial Behaviour Index*, Nov 2013 (FBI)

Inland Revenue (IRD), *KiwiSaver Evaluation Annual Report*, Oct 2013

*Money Week 2013 Evaluation*, Oct 2013

Massey University, *How young New Zealanders learn about personal finance: a longitudinal study*, Nov 2012

Reserve Bank of New Zealand (RBNZ) statistics

# feedback

## YOUR VIEWS

We're keen to hear your views.

We'd appreciate your feedback by midday on Friday 7 March 2014, either direct to [office@cflri.org.nz](mailto:office@cflri.org.nz) or through the [submission form](#) at the Commission website.

Don't hesitate to contact any of the Commission staff to discuss. We'd be happy to meet or talk about any aspect of this draft National Strategy for Financial Literacy.

## QUESTIONS

We'd particularly like to hear what you think about:

1. Does the vision *Everyone getting ahead financially* resonate with you and your organisation? Is this something you would like to see in New Zealand?
2. In each activity stream, which objectives and outcomes do you connect with most?
3. Can you see the role that you and your organisation could play – where and how you would take action?
4. Are there any adjustments you would make to the strategy that would make it more relevant to you and your organisation? That would make it more likely to achieve the vision?
5. What would you like to see happen next with this strategy?

# everyone getting ahead financially

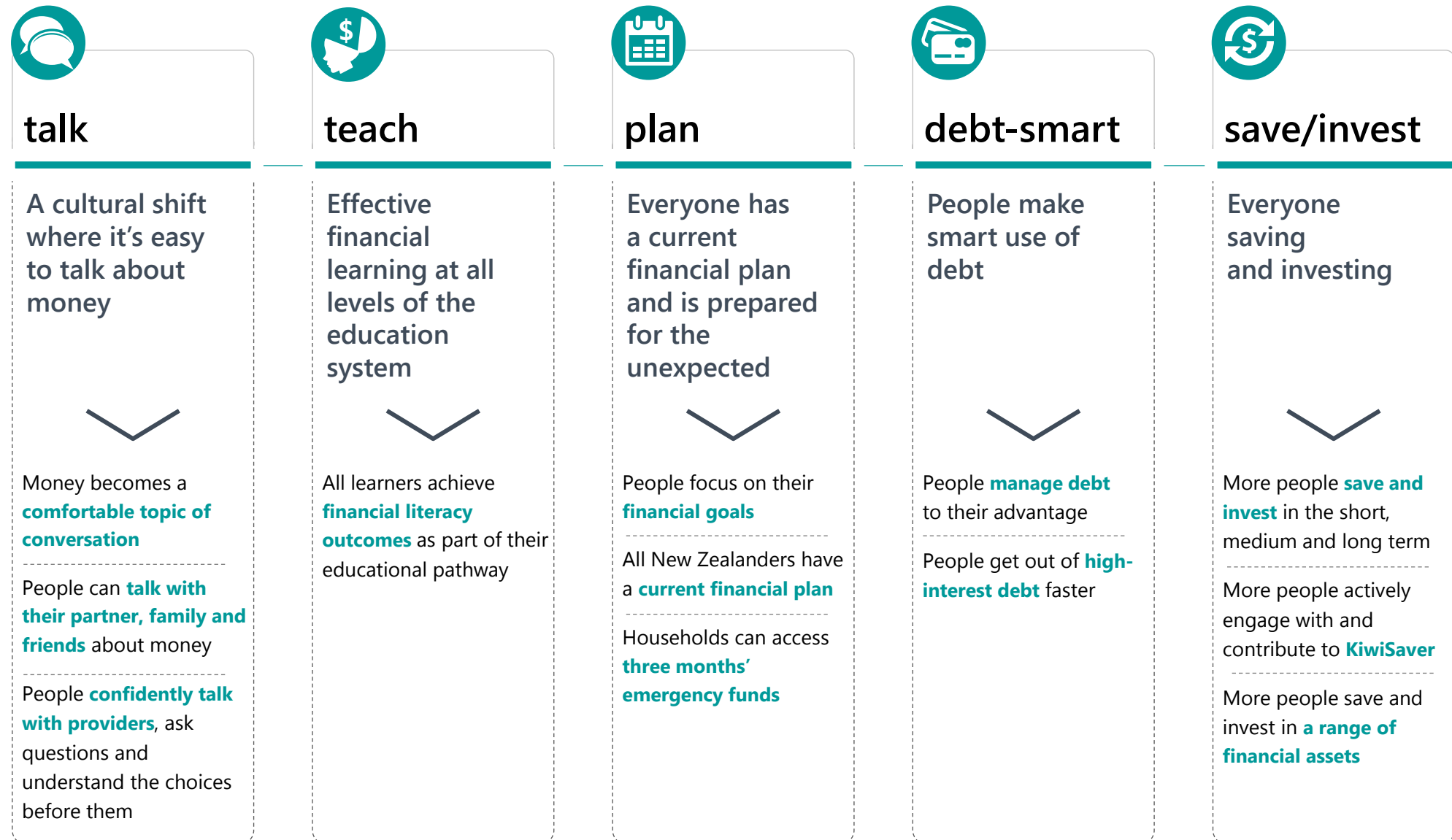
To achieve  
our vision

we've  
identified distinct  
activity streams

with clear  
objectives

to deliver the  
outcomes  
we all want to see

by working as  
partners.





# a cultural shift where it's easy to talk about money

## OUTCOMES

- Money becomes a comfortable topic of conversation
- People talk with their partner, family and friends about money
- People confidently talk with providers, ask questions and understand the choices before them

## BENEFITS

People are able to **navigate their way through decisions** about financial products and services

Families and partners make **joint decisions and work together** to improve their financial situation

## CHALLENGES

As a culture, we are **not used to talking** about money

**Individual differences** can make talking about money stressful

Financial products and services **can be complex**

*"I feel like I can talk to the bank a bit better now, knowing a bit more."*

*Money Week 2013 Evaluation*

**37%** of people talked to family, relatives or friends to get financial information or advice in the last year (FKBS)

## ACTIONS



Conduct campaigns about why talking about money is good and so encourage money conversations in popular culture

Embed 'talking about money' in financial literacy and investor education programmes

Equip people to navigate their way through a point-of-sale conversation with a financial services provider

## GOALS 2025

The quantity and quality of money conversations improve

New and unexpected benefits associated with increased conversations about money are identified and evaluated



# effective financial education at all levels

## OUTCOME

- **All learners achieve financial literacy outcomes as part of their educational pathway**

## BENEFITS

Good financial behaviours learned early help **avoid financial traps** and have a compounding positive impact throughout life

Financial education equips people with the **tools to make choices** for a better life

## CHALLENGES

Need to invest in growing **levels of financial literacy** among tutors and teachers

Getting **widespread buy-in** from self-managing schools with an already crowded curriculum

*"The light went on – I'd never thought of such a simple system to manage my money."*

*Money Week 2013 Evaluation*

**77.2%** of 18–22 year olds had no formal financial education during their high school years

*Massey University study*

## ACTIONS



Promote and evaluate teacher professional learning and development in financial education

Encourage widespread adoption of the financial capability progressions

Gain Education Review Office agreement to include measurement of financial capability outcomes in school reviews

Increase access to and use of a wide range of quality financial education resources

Increase access to quality financial education amongst Māori and Pacific learners

## GOALS 2025

**All schools** deliver effective professional learning and development for financial education

**All schools** make active formal use of the financial capability learning outcome framework

The Education Review Office regularly reviews financial capability programmes in **all schools**

**100%** of schools are effectively using high-quality relevant financial education resources

**100%** of Māori and Pacific learners can access appropriate financial education programmes



# everyone has a current financial plan

## OUTCOMES

- People focus on their financial goals
- All New Zealanders have a current financial plan
- Households can access three months' emergency funds

## BENEFITS

Money is **managed well** so more can be spent, saved and invested

Individual and household **net worth improves** over time

**Crisis borrowing** is reduced

## CHALLENGES

Individuals are not accustomed to **paying for professional financial advice**

Consumer trust in **financial advisers** needs to improve

*"I wish I'd had this conversation maybe at high school. It was a bit of an eye-opener."*

*Commission focus groups*

Only **17%** of 25–34 year olds have a long term financial plan (FKBS)

## ACTIONS



## GOALS 2025

## BENCHMARKS

Promote the benefits of financial planning: short, medium and long term

**90%**

of people annually review their financial plans and insurances

Up from 66% for plans (FBI)  
Up from 57% for insurances (FBI)

Conduct campaigns to encourage households to build an emergency fund

**90%**

of households can access three months' expenses in an emergency

Up from 72% (FBI)

Agree the elements of, and make freely available, a standard financial plan template

**Dec 2014**

A standard financial plan template is published by 31 December 2014

Grow innovative and accessible channels offering qualified financial advice

**50%**

more people use qualified financial advisers

Up from 15% (FKBS)

Work with employer groups to introduce and extend financial education in the workplace

**50%**

of workplace financial education programmes include understanding financial planning



DRAFT  
FOR  
DISCUSSION

# people make smart use of debt

## OUTCOMES

- People manage debt to their advantage
- People get out of high-interest debt faster

## BENEFITS

Individuals are **better equipped to negotiate** with lenders

Unproductive debt decreases and **net worth increases**

As debt is paid off faster, **more money is available** sooner to spend, save and invest

## CHALLENGES

Easy **access to credit**

**Lenders make money** from people being in debt

Pressures of **consumerism**

New Zealanders owe **\$6 billion** in personal credit card debt

*"I like to budget week to week, put a bit aside. I had some bad experiences with debt... and I've realised you can't throw money away."*  
*Money Week 2013 Evaluation*

41% of people don't pay their credit card off each month, so they're paying interest at an average of **17.6%** (FBI/RBNZ)

## ACTIONS



- Where appropriate, promote awareness of the impact of long-term borrowing on an individual's future
- Partner with price comparison websites to make people aware of the available options when purchasing goods and services
- Work with employee groups to introduce and extend financial education in the workplace
- Educate people to borrow only what is needed where possible, and explain the consequences of over-borrowing
- Work with banks to develop greater reporting of real credit card debt on statements

## GOALS 2025

- 65%** of people are making more than the minimum mortgage repayments
- 95%** of people shop around before making a significant purchase
- 50%** of financial workplace programmes include debt management
- 70%** of people pay off their credit cards in full each month
- 100%** of lenders show the 'real cost' of borrowing on statements (currently under review)

## BENCHMARKS

- Up from 40% (FBI)
- Up from 72% (FBI)
- Up from 59% (FBI)
- Up from 0%



# save/invest everyone saving and investing

## OUTCOMES

- More people save and invest for the short, medium and long term
- More people actively engage with and contribute to KiwiSaver
- More people save and invest in a range of assets

## BENEFITS

- Individual and household **net worth increases** and unproductive **debt decreases**
- People's **financial resilience** and ability to **reach goals** in a downturn increases
- People reap the rewards of **compounding** interest over time
- The **economy benefits** from more diversified investment
- Potential for **deeper capital markets**

## CHALLENGES

- Low **awareness of the gap** between people's desired and expected retirement income and what can be done to fill it
- Disengaged KiwiSaver members** may not be contributing enough, or not be in the optimal type of fund for them
- Continued **reliance on property** as a savings vehicle
- In some instances, household **outgoings exceed income**

*"Exploring ideas on shrinking debt and saving motivated people... some have already made changes."*

*Money Week 2013 Evaluation*

Only **45%** of KiwiSaver investors get the \$521 full member tax credit each year

*IRD KiwiSaver Evaluation*

## ACTIONS



## GOALS 2025

## BENCHMARKS

Conduct campaigns to drive more saving and investing	<b>90%</b> of people put money into short-, medium- and long- term savings and investments	Up from 74% (FBI)
Run investor education programmes	<b>80%</b> of investors invest in assets in addition to KiwiSaver, such as bonds, shares and managed funds	Up from 66% (FBI)
Promote key investing principles via workplace financial education programmes	<b>100%</b> of investors understand key investment principles	Benchmark to be finalised (FKBS)
Conduct campaigns to encourage KiwiSaver members to actively engage with and contribute to KiwiSaver	<b>90%</b> of KiwiSaver members qualify for the member tax credit	IRD KiwiSaver Evaluation
Promote community saving and investment schemes among Māori	<b>90%</b> of the largest iwi offer savings schemes	Like that offered by Ngai Tahu through the Whai Rawa scheme