Increasing Financial Literacy in New Zealand: An Assessment of Learning Content

Steven Lim
Economics Dept, University of Waikato
Hamilton, New Zealand

As teachers our aim is to improve the financial literacy of our students. But this is not an easy task. We face diversity in students’ background and knowledge of financial issues. Some students come with extensive training in finance or economics, while many others may have had no prior formal exposure at all. The range of ways to achieve financial goals is increasing exponentially, forcing financial planning teachers to make difficult decisions about what should be taught and what should be omitted. To ensure that all students can cope with the learning material, we tend to start our financial planning classes from a very basic level, focusing on what we believe to be a core of essential topics and content. This core tends to be defined by what we see in mainstream textbooks, and it is the textbook approach that we follow. But the textbooks tend to emphasis breadth, rather than depth, and this seriously limits how far our students can deal with the real world by the end of a financial planning course. This limited ability (and motivation) of students to create wealth is the focus of this paper. We suggest that there is potentially much to be done to restructure and modify the content that we teach in financial planning courses, at least in New Zealand.

The paper proceeds as follows. Section 1 provides the background to New Zealand’s efforts in increase financial literacy. Section 2 suggests that even more can be done in New Zealand to improve financial literacy, showing how students could make important wealth gains by learning more about property markets. The section also explains how current textbooks potentially foster excessive risk-aversion among students of financial planning, leading them miss out on important income- and wealth-creating opportunities. Section 3 concludes, calling for further research into the teaching of financial planning.

1 Background

Across many dimensions the New Zealand is doing very well economically. The World Bank has rated it as the easiest place in the world to do business, GDP grew at 3.6% in the year to July 2016, unemployment is low at less than 5 percent, wages have risen steadily since the Global Financial Crisis, and the economy has outperformed most other OECD countries recently (The Economist, 2016). Many New Zealanders have experienced significant wealth increases over the last five years, mainly due to dramatic property price rises. Against this backdrop it might appear that financial literacy in New Zealand is advancing well.

The Government and leading financial institutions emphasise the important role of financial knowledge. The New Zealand Government has stated:
‘Building the financial capability of New Zealander’s is a priority for the Government. It will help us improve the wellbeing of our families and communities, reduce hardship, increase investment, and grow the economy.’

Nevertheless, personal financial education is a fairly recent concept in New Zealand, developing only since the mid-1990s. In the early 2000s, research findings (in schools and of the adult population) suggested that some New Zealanders did not have a sufficient level of financial literacy to operate effectively in the financial environment (Feslier, 2006). Thus, momentum grew for improving New Zealanders’ financial literacy. This momentum came from the New Zealand Government, the finance industry, private organisations, regulatory authorities and the Reserve Bank (i.e., the central bank).

There is a substantial need for financial education today, since, among other reforms, New Zealand has adopted relatively light-handed financial sector regulation. For example, the time required to register and be legally able to start a business in New Zealand is one day (World Bank Group, 2016). New Zealand has many and complex financial products, a sophisticated financial market, and a voluntary regime for retirement savings (without tax incentives or compulsion). Personal financial literacy is important in helping New Zealanders to navigate a complex financial environment.

Aiming to build a financially literate population is an ambitious and difficult goal. This outcome requires a multi-organisational approach. The involvement of the public, private and voluntary sectors is necessary for effective implementation to be realised. The major players in New Zealand are listed below, with their website addresses given in brackets. Browsing the websites will give an appreciation of the range and quality of the financial planning and literacy activities that take place in New Zealand. The players are:

- The NZ Government
  Eg, The Commission for Financial Capability (http://www.cffc.org.nz/the-commission/contact-us/)
- The Retirement Commission (www.sorted.org.nz)
- The New Zealand Bankers’ Association (http://www.nzba.org.nz/banking-information/financial-literacy)
- Universities and high schools.

All of these organisations promote basic financial literacy, such that in aggregate New Zealanders have access to information and courses that assist them with making better financial choices. For example, The Retirement Commission website aims to improve peoples’ understanding of all kinds of financial issues, including saving for retirement. The website ‘Sorted’ lets users set goals (short- and long-term), budget incomes, plan short- or long-term savings, understand KiwiSaver – the Government’s main retirement savings vehicle, manage debt, and understand more about mortgages, insurance, investing, trusts and fees.

But does financial literacy teaching and information meet the needs of the NZ people? According to a recent report (PISA 2012), New Zealand’s average score in financial literacy (520 points) is above the average score for the 13 OECD countries taking part (500 points). In addition:

- New Zealand had a large proportion of students (19%) with advanced skills and knowledge in financial literacy compared to the OECD average (10%)
- Most New Zealand students (approximately 90 percent) had a bank account, a proportion higher than most participating countries. The difference in achievement in financial literacy between students who held a bank account (543 points) compared to those who did not (437 points) was the largest among all participating countries.
- Relative to students in other participating countries, New Zealand students did better in the money and transactions content area than in planning and man-
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Overall, some people think that NZ is doing well in financial literacy. But, as we will see, there may be more to be done.

2 Changes to learning content in financial planning courses

Can learning content be modified to better meet the needs of the people? In NZ schools, personal financial planning (PFP) is mixing with entrepreneurship studies. This is a welcome development. Traditional PFP knowledge and learning focus on incremental increases in people’s earnings (via increased knowledge of shares, savings, insurance, managing debt, etc). Entrepreneurship can accelerate earnings and has the potential to contribute proportionately more to people’s finance-related well-being than PFP. NZ is thus doing innovative work in terms of student learning.

As an example, the following photo shows entrepreneurship students in action:

The students, led by William Park, are senior high school students who entered a nationwide competition in 2015 to create and sell a product or service over a year (under the Lion Foundation Young Enterprise Scheme). Any school can enter its students into the competition – in this case the students had a preference for music and made a music album. They are pictured here at an outdoor food and craft market in Hamilton, selling their music CD. Their innovation was to shape the purpose and story behind the songs they were selling. In particular, they gained the support of Starship Children’s Hospital, located in Auckland and the biggest and most well-known children’s hospital in New Zealand. The songs each told a story of someone who had personally been treated at the hospital. The students decided to donate 100 percent of the year’s profit to the hospital to help the children being treated there.

For the whole year the students had to manage the business independently. Their business functioned very similarly to a real enterprise. The students’ three teachers guided them by offering advice, but the students made decisions by ourselves and learned the consequences of financial and creative risk-taking. Overall, the students reported really enjoying leading and managing a business, and the experience opened their eyes to the world of business and entrepreneurship. The group made a profit of NZ$4,000 (or around ¥330,000).

While such novel learning initiatives have much to commend them, and certainly should be encouraged and popularised, there may be problems that require a modification of the approach. First, the entrepreneurship studies are self-limiting. Too much time is spent on time-inten-
sive activities that are difficult to scale – e.g., students learning how to sell products that they have developed in class. This encourages short project horizons – students need to show their teacher a quick financial return over a few months, but this thinking can harm real wealth creation. Second, really innovative approaches to wealth creation are not being taught systematically in class. Here we discuss the choice between being a salaryman, denoted by ‘A’, or an entrepreneur, denoted by ‘B’.

‘A’ versus ‘B’ choice

In class I present students with two scenarios of income earning. ‘A’ (the salaryman scenario) is associated with a moderate income (say $100,000/year), where people have a very high probability of getting such a job. ‘B’ (the entrepreneur scenario) is associated with a much, much high income (say $500,000/year), but with a much lower chance of actually becoming such an entrepreneur. I then ask students: Which scenario do you see yourself opting for once you graduate from university? Around 80% of my New Zealand students and around 95% of my Japanese students choose ‘A’. Clearly ‘A’ is the preferred option for students, regardless of nationality.

Next, the students are asked: How many years of active retirement can you expect? ‘Active’ retirement means, for example, the ability to travel to faraway countries, to climb mountains, to surf, etc – i.e., a time to do the (adventurous) things that the salaryman didn’t have time to do when he or she was focusing on the career. The answer given by students tends to concentrate around 5-8 years. This is quite close to the expected ‘healthy’ life span of approx. 71 years for men and 74 years for women in Japan, during which a person can retain independence and does not need nursing care.

Lastly, I ask the students: Do you consider these 5 or so years of active retirement to be worth the 50 years that you have given up for work or work-related study? The resounding answer is ‘NO’. Not one student, from a sample size of hundreds, has ever said ‘yes’ in the three years since I began asking these questions. Students emphasise that the salaryman scenario is, in their words, a ‘bad deal’. Yet they overwhelmingly choose the salaryman option at the start of the exercise! Students go on to explain that the choice of ‘A’ is because of its stability and because of the influence of others, such as teachers and friends. Choosing ‘A’ is also a rejection of ‘B’, a scenario which most students find too risky.

This exercise reveals that students systematically make two mistakes early on in their lives. The first is that they opt for a salaryman life, which they assess as a ‘bad deal’. The second error is that they assume that the choice ultimately is ‘A versus B’. Since ‘A’ is relatively stable and ‘B’ has a very low probability of being achieved, students choose ‘A’ over ‘B’. But thinking ‘A versus B’ is not the only way to consider the issue. In class students learn that they can use their salaryman position as a springboard for an eventual transition to successful entrepreneur (‘B’). That is, ‘A’ plus ‘B’ is an option. Once students learn of this option, they overwhelmingly vote for ‘A+B’ over ‘A’.

Becoming ‘A+B’

‘A’ provides a steady income and savings, an opportunity to continue learning business skills, and the chance for extensive networking. All of these provide the
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...foundation for becoming a ‘B’. For example, from the networks a salaryman could find new entrepreneurial opportunities or a new business partner. Armed with newly-acquired knowledge and some savings, the partnership could launch a new business. Should the new business succeed, the salaryman could transform into an entrepreneur – ‘A’ diminishes as ‘B’ rises and takes the place of ‘A’. (If ‘B’ fails, then the person simply continues with ‘A’.)

The aim of ‘A+B’ is not financial wealth and income for their own sake, but for the freedom that they offer in allowing people to escape the time demands of a salaryman life. The rise of ‘B’ and scaling back or eventually totally rejecting ‘A’ allows a person to reallocate his or her time to the activities that really give their life meaning. Time is our most precious resource and, in contrast to money and wealth, is not renewable. Thus we must allocate our scarce and limited time to greatest effect, if we are to lead happy and fulfilled lives. ‘B’ gives us that freedom, since we have enough money to decline work, if we so choose.

Modifying financial literacy

The above suggest that new issues could be added to the PFP curriculum, particularly an outline of the ‘bad deal’ and possibly the ‘A+B’ framework. More discussion of how to become a ‘B’ could be undertaken in sections of PFP textbooks that deal with property markets, for example, since rising wealth and income from property can be a very quick and, if done correctly, relatively safe way to make substantial returns. There are many examples of successful, safe and highly lucrative housing developments and investments in New Zealand, so much so that, even in the high school entrepreneurship competition outlined in the previous section, some students proposed housing development as their school projects. Note that some housing investments take very little time to undertake, yet offer a significant income stream – allowing the investor to have both more money and more leisure (by leaving the salaryman career earlier). The potential for property development to enhance wealth is noted in a recent report by Credit Suisse. Depending on the measure of average wealth per adult, New Zealand ranked either first or second in the world last year (Credit Suisse Research Institute, 2015). The primary determinant of the wealth increases was rising property prices.

At the other end of the age scale, becoming a successful ‘B’ also has advantages for older people and the elderly. It allows them to avoid an abrupt trade-off between income loss and leisure when retire, since the retirees (dabbling in ‘B’) can pick and choose income-earning opportunities that suit them (or just live on strong passive income generated from their wealth), rather than continuing as a part-time salary slave to supplement household income after retirement. More generally, older people must increasingly rely on themselves (not on their children, as the population decreases or the children move away, both in time and space, from their elderly parents). Older people who are still entrepreneurs have a higher lifetime earning span, fostering the greater consumption by older people that the government sees as desirable for the macroeconomy. Entrepreneurship is an opportunity for older people to meet challenges, keep active, and live a more meaningful life. No one knows when he or she will die. Some people die early – ‘B’ allows the option of retiring early and enjoying leisure or devoting oneself to whatever it is that give meaning to one’s life.

PFP curriculum and risk-aversion

We saw in Section 1 how the aim of the New Zealand Government includes helping its citizens to gain the financial capability to ‘increase investment, and grow the economy’. Entrepreneurship is demonstrably a key area that contributes to investment and GDP growth. Thus, we now briefly discuss, via examples, whether aspects of PFP teaching align with the more entrepreneurial learning content suggested above. Financial literacy tests and PFP textbooks do not appear to be moving enough into entrepreneurship, even though the trend is towards an overlap of traditional PFP and entrepreneurship. Indeed,
the situation may be even worse – aspects of financial literacy and PFP topics might actually be discouraging entrepreneurship and the creation of wealth.

Consider the following questions taken from a well-known and widely-used financial literacy test:

Which strategy is most likely to improve most people’s financial situation over a lifetime?

a. Using credit to spend more than a person earns.
b. Making financial decisions quickly based on intuition.
c. Saving early in life when a person begins earning an income.
d. Gaining work experience early instead of continuing in school.

The standard answer is (c), and most teachers would readily accept this. But the nudge towards savings is the opposite of what an entrepreneur might do – he or she would lean towards using credit to finance a new business; i.e., option (a). By proposing (c) as the correct answer, teachers bias students away from risk-taking.

In the same literacy test, 6 out of a total of 50 questions are about insurance. Similarly, in standard PFP textbooks, up to 20 percent of the book is devoted to insurance. With so much content about the dangers of risk, either in tests or texts, it is not surprising that so few students become entrepreneurs. Moreover, in one well-regarded and popular PFP textbook, out of more than 500 pages of text, only about 10 pages were devoted to property markets – yet this market is where financial planners can most significantly improve the wealth and income of their clients.

### Conclusions

What further research should we undertake in NZ regarding financial literacy? Our review of financial literacy teaching in NZ suggests a number of research priorities to help improve the content and effectiveness of the teaching. In particular, we ask:

- Are there potential conflicts between PFP and entrepreneurship? (E.g., does PFP learning focus too much on risk minimising, which can harm attitudes towards entrepreneurship?)
- Are students making systematic mistakes in their careers, than undermine wealth creation?
- Does financial literacy content promote a too conservative/cautious approach to managing wealth?

By answering and addressing these questions, financial planning academics and practitioners in New Zealand will be better able to contribute to the Government’s goals of creating for the people a capability to make better financial decisions and contribute to the economy.
[References]


