

Financial Capability

Inequity, Resilience & Recovery

Who is the Commission for Financial Capability?

Te Ara Ahunga Ora

CFFC

OUR VISION TĀ MĀTOU WHAKAKITENGA

New Zealanders retire with confidence

OUR MISSION TĀ MĀTOU KAUPAPA MĀTĀMUA

To help improve retirement outcomes for New Zealanders, with trusted information, informed advocacy and effective collaboration

OUR OBJECTIVES TĀ MĀTOU ARONGA

-  Trustworthy information
-  Informed advocacy
-  Effective collaboration

THREE GOALS WHĀINGA E TORU

Retirement Policies

What we will do: Advocate for a system that serves the diversity of New Zealanders

- How we will do it:**
-  Conduct a three-yearly review for government
 -  Uncover emerging issues and call for action
 -  Promote debate on retirement challenges
 -  Drive shared evidence to measure the impact of policy changes

Retirement Villages

What we will do: Oversee a fair regulatory framework

- How we will do it:**
-  Flag issues and report on sector trends
 -  Support dispute resolution
 -  Tackle issues through sector collaboration

Financial Capability

What we will do: Promote the importance of long-term thinking

- How we will do it:**
-  Lead the National Strategy for Financial Capability
 -  Supply trusted, independent information through Sorted
 -  Equip stakeholders with insights that add value

What is Financial Capability?

FC is about more than money...

- Financial capability is *the ability to make informed judgements and effective decisions regarding the use and management of money*
- Financial literacy? What we **KNOW** is important, but what we **DO** is the only thing that matters
- **Fin Literacy** >> Attitude + Action >> **Fin Capability**
Long term wellbeing requires more than a budget.
- Being financially capable is not about just how much money you have **but** income adequacy and equal opportunity is still a challenge for many.



What is 'financial vulnerability'?

2016 RRIP – Vulnerable 'Groups'

- *Māori*
- *Pasifika*
- *Women*
- *Disabilities*
- *Renters (at retirement)*

Reframed – 'Vulnerability Factors'

- *Health Expectancy*
- *Skills and employment*
- *Housing (esp. homeownership)*
- *Caring for others*
- *Social isolation*

The 'gap' for Pacific People in NZ (pre COVID)

- Income, employment and housing have the most direct impact on long term financial wellbeing and Pacific people have the worst statistics across all areas for any group.
- RRIP focus on declining homeownership as a key vulnerability factor:

Homeownership has been in decline for all New Zealanders in the past 30 years, from a high of 78% in the 1980s, to 55% today.

Māori and Pasifika have fared worst, with only 35% Māori and 20% Pasifika in their own homes today.

The FC Gap – An international perspective

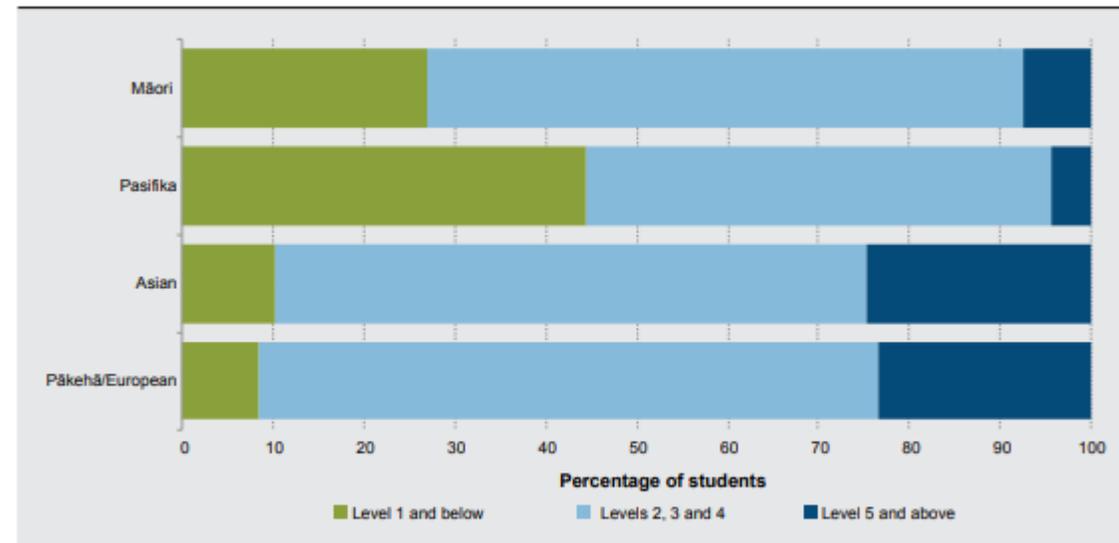
- International testing compared the levels of financial capability of various groups.
- The following are results from the Programme for International Student Assessment (PISA) and the Organisation for Economic Co-operation and Development (OECD) testing.
- NB: These are standardised tests that allow a level of benchmarking, but do not consider cultural context.

PISA student financial literacy 2012

<https://www.educationcounts.govt.nz/publications/series/PISA/pisa-2012/148116>

Māori students (466 points) and Pasifika students (424 points) achieved lower financial literacy scores than the average for New Zealand (520).

Figure 2.6 Financial literacy performance across ethnic groups in New Zealand



Note: The small numbers of Māori and Pasifika students at Level 5 and above means that the proportions at this level are indicative only. Students may identify with more than one ethnic group. Students are counted in each group they identify with.

In 2020 we conducted the OECD financial knowledge test on adults

We found a gap especially in understanding how compounding interest works

21% of Pacific Peoples answered these questions correctly, compared to 50% of Europeans

Suppose you put \$100 into a no fee savings account with a guaranteed interest rate of 2% per year. You don't make any further payments into this account and you don't withdraw any money. How much would be in the account at the end of the first year, once the interest payment is made?

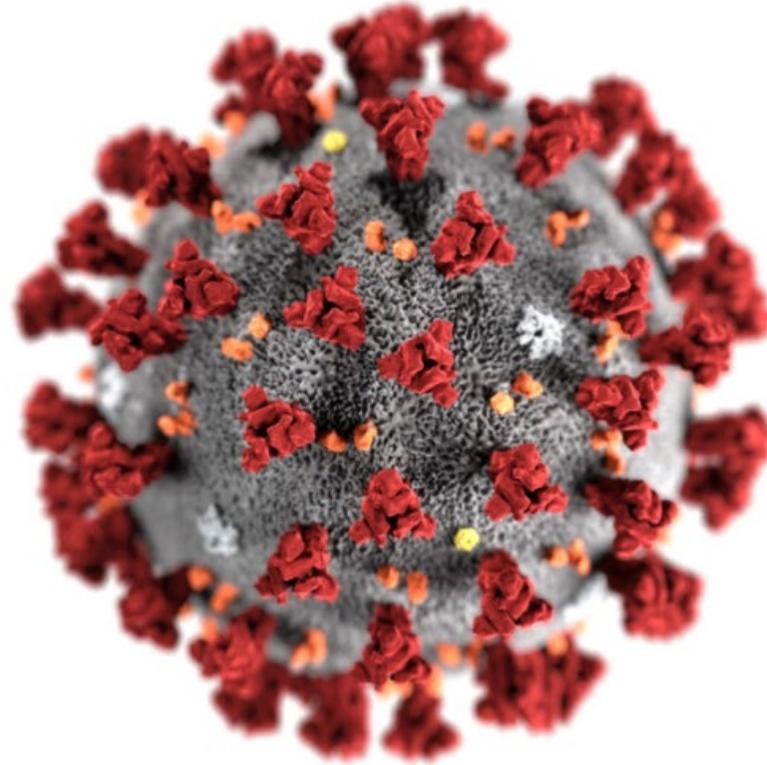
Text entry (correct answer: 102)

And how much would be in the account at the end of five years, remembering there are no fees? Would it be:

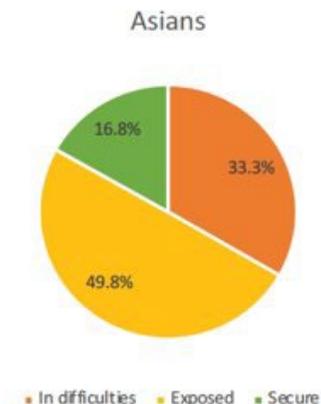
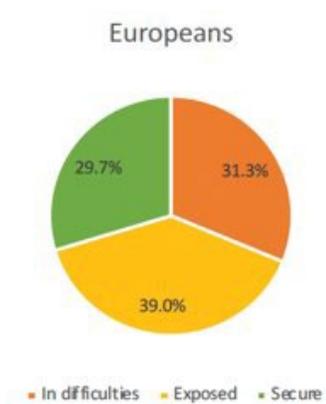
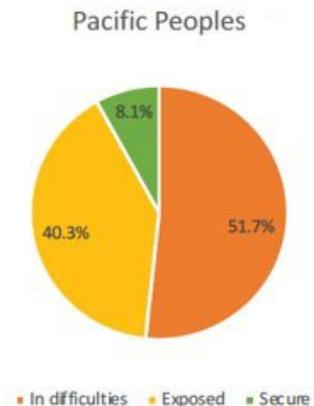
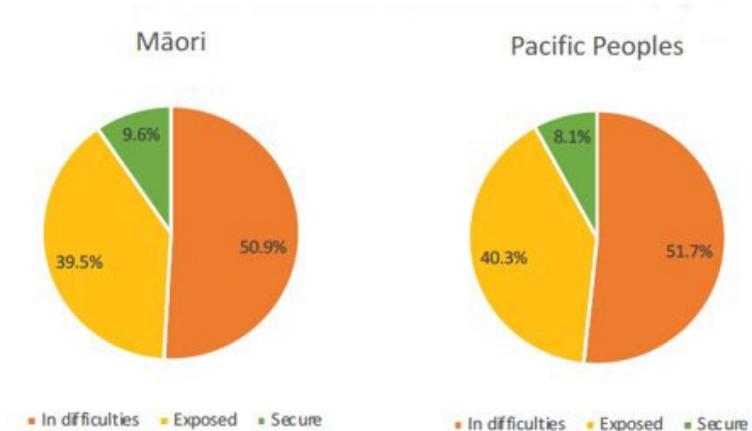
- [1] More than \$110
 - [2] Exactly \$110
 - [3] Less than \$110
 - [4] Or is it impossible to tell from the information given
- Correct answer: [1]

2020 and COVID-19: The Aftermath

- Who fared worst?



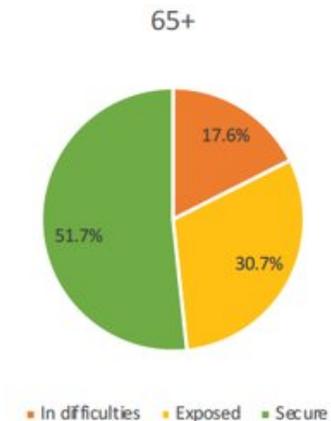
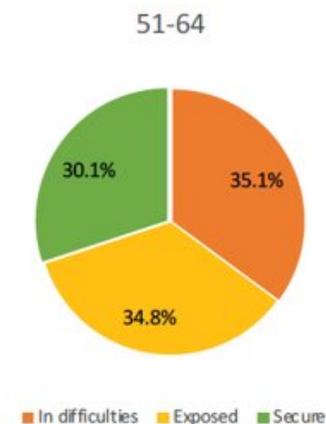
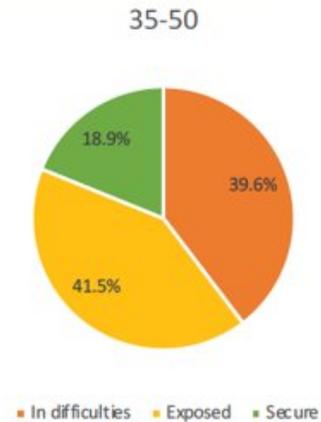
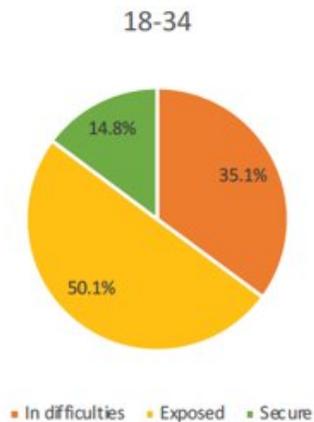
Māori and Pacific Peoples worst affected:



Many in hardship before the crisis:

- Low savings and low incomes
- Low home ownership
- High prevalence of insecure work
- Young population

Young most exposed, least secure:



18-34:

- At risk of sliding into hardship
- Higher % of insecure work in most affected industries

35-50:

- higher % of secure households but also higher % in difficulty

65+ (best off):

- NZ Super
- High mortgage-free home ownership

Financial Resilience and Recovery

- Financial resilience is not about not being affected, it's about the ability to 'bounce back'.
- The data suggests Pasifika were the least financially resilient group pre-COVID, so it's no surprise our communities will find recovery the most challenging.
- Building financial resilience will be key to recovery and weathering the next storm, but what does that mean?

Resilience is multi-dimensional

Money

Income
Savings
Ability to meet cost of living expenses
Ability to raise funds in an emergency

Financial access and inclusion

Access to a bank account
Access to adequate credit
Access to adequate insurance
Access to government support when needed

Internal resources

cognitive skills
positive views of self
hope and optimism

Financial skills (capability)

Knowledge of products and services
Confidence
Willingness to seek financial advice
Willingness to act

Social capital

Social connections
Access to social support in times of crisis

Where do the strengths and weaknesses of Pacific communities lie?

The Solution?

- There is no simple answer - the solution lies in a system wide approach that addresses inequities in the pre-retirement system.
- The 2019 RRIP highlighted these inequities and recommended that addressing them be prioritised over the historical preoccupation with the affordability of NZ Superannuation e.g. age of NZS eligibility.
- An alignment of policy discussions across housing, employment, education, health and social services is critical to addressing these issues in the long term.

Why is this important for ALL New Zealanders?

- The demography is irrefutable i.e. an ageing population and declining dependency ratios - What does that mean?
- Dependency ratio = number of 16 to 64 year-olds relative to 65+
Today that ratio is 4:1 and in 20 years time, it reduces to 2:1.
- Today NZS costs over \$30M per day. In 20 years that cost doubles and in 30 years it trebles.
- Relative birth-rates of Asian/Euro New Zealanders to Māori/Pasifika means we will be a much larger proportion of that smaller taxpayer base.
- If we remain anchored in low wage/low skill employment, with the worst health and housing outcomes... that's a problem for EVERYONE.

