



## **Secondary Students leaving school Financially Illiterate**

A recent survey timed to coincide with the launch of this week's Financial Awareness Week has revealed most New Zealand secondary students are leaving school with a less than an adequate understanding of basic financial concepts.

Only 20%, or 8 out of the 40 questions, were answered correctly by more than half of the students surveyed. The survey was commissioned by the Young Enterprise Trust and comprised data from 443 students from 54 schools. Of these 443 students, 27.3% received more than 40 hours of financial literacy classes, while 46.6% had not had any financial education (or under 5 hours). The study is a follow up to one conducted in 2001 by Young Enterprise Trust Financial Education National Director, Lyn Morris. Responses are still being received and once the survey is completed, there will be a detailed comparison between the two surveys.

Ms Morris says the questions were ones the students could reasonably be expected to be familiar with and the result indicates that students are leaving school poorly prepared for financial independence.

The survey shows that student's weakest areas are in the area of investments, compound interest and risk. Students performed better in the areas where they were most likely to have direct experience such as ATM cards and third party car insurance. The aspects where they performed poorly were those relating to areas that will be important to them in the future including shares, investments, compound interest and KiwiSaver.

Lyn McMorrnan, President of the IFA says, "The survey shows some alarmingly low levels of understanding of financial terms and concepts. We can conclude from the survey that most New Zealand senior secondary school students have a poor understanding of personal financial management and knowledge."

The IFA urges the poor financial knowledge levels to be addressed. “The results support the need for even more training in financial literacy at schools because if they don’t get it at school, then where will they receive it? There is an urgent need to increase focus on financial literacy and both parents and schools must play a part in ensuring young people are provided with a sufficient level of financial understanding before leaving to partake in the real world.”

McMorran says one of the questions with the lowest proportion of students answering correctly was about credit card interest. In the question, the monthly payment exactly matches the interest charged, so the balance owed is never repaid.

Another question with a poor response was what type of investment offers an investor the highest growth over a 20 year term. “The answer should have been shares, yet 65.7% thought this would come from a savings account and only 12.9% thought this would be from shares. We do believe however that they may have been influenced by the recent falls in share markets.”

74% of participants answered correctly a question about the value of workplace education and about 60% got questions right about ATM cards, car insurance and GST. Yet only 10% correctly answered the question about credit card interest and another one about what happens if your credit card is stolen, 11% on dollar cost averaging and 13% on shares being the best long term investment.

Lyn McMorran, President of the IFA says, “The financial environment is changing rapidly and with increasingly complex products and choices, consumers today require greater levels of financial knowledge than ever before. Having financial knowledge enables people to make wise financial decisions and if they are unable to make these decisions for themselves, then they need to know when to seek advice. Since many decisions have long-term consequences for future financial well-being, financial literacy is an important life skill.”

McMorran says, “The implications of low levels of financial literacy are that our standard of living and our overall standing in the global economy on saving are affected. The survey suggests that students don’t have the financial knowledge base sufficient to make wise personal decisions. These decisions at the household level affect the economy as a whole.

“High levels of financial knowledge impact on national savings levels and without savings New Zealanders are unlikely to accumulate income earning assets. The level of net wealth accumulation also has implications for retirement policies going forward.”

A 40-item multi-choice questionnaire about financial knowledge was answered by 443 senior secondary students from a cross section of New Zealand schools. Survey questions were aimed at reflecting the complexity of modern life and therefore were of a reasonable technical nature.

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