

Westpac Massey
**Fin-Ed
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**YOUNG NEW ZEALANDERS AND
RETIREMENT PLANNING:
A LONGITUDINAL STUDY UPDATE**



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ABOUT THE FIN-ED CENTRE

Westpac New Zealand and Massey University founded the Fin-Ed Centre with the aim of improving New Zealanders' knowledge, attitudes and behaviour towards money matters. The Fin-Ed Centre undertakes a variety of teaching and research activities to improve the quality and access of financial education. Key projects, among others, include a 20-year longitudinal study tracking 300 New Zealanders over time to better understand the need for financial knowledge at different life stages, a multi-level certification for personal financial educators, and the a Retirement Income Survey. "How Young New Zealanders Perceive Political and Financial Wellbeing" is a periodic update to the Longitudinal Study.

ABOUT THE AUTHORS

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DISCLAIMER

The views expressed in this report are those of the authors and do not necessarily represent the views of the Fin-Ed Centre, Massey University or Westpac New Zealand Limited.

SURVEY UPDATE

This report covers an interim update to the 20-year longitudinal study into how young New Zealanders learn about personal finance. The main longitudinal study, launched in 2012, comprises a cohort of 318 New Zealanders aged 18 to 22 years, at that time, with further stages at five-yearly intervals. Overall, the Longitudinal Study endeavours to understand issues related to the financial knowledge and financial education experience, both formal and informal, of the participants. Planned interim updates, such as this, enable on-going contact with the participants as well as providing a periodic snapshot of their financial knowledge progression and financial wellbeing.

Of the original 318 Longitudinal Study, 44% responded to the update survey over a five-week period. Four years on from the original study, the respondents range in age from 21 to 26 years. Key features of the interim survey follow.

- The survey ran from 20 April 2016 to 23 May 2016.
- One hundred forty-one of the original 318 Longitudinal Study participants attempted the survey.
- The original Longitudinal Study selected participants randomly from New Zealand electoral rolls covering the Auckland, New Plymouth, Wellington, Nelson, Christchurch, and Palmerston North regions.
- All Longitudinal Study participants received an invitation to participate in this interim survey.
- This interim survey had three key objectives
 - Maintain contact with the participants in the Longitudinal Study
 - Measure participants' current financial well-being and behaviour
 - Explore participants' planning for retirement.

RESULTS

The key observations from the survey at a glance are:

- 62% feel "in control" of their financial situation and 73% feel good about their money management skills.
- 41% are satisfied with their current financial status but 65% expect their situation to improve in the coming year.
- 42% had taken steps to improve their money management skills in the past year; of these 52% had discussed money management with parents and 44% had discussed it with friends.
- 43% had made a major financial decision in the past year; of these 28% changed jobs, 16% had decided to go overseas, 20% bought a car, and 23% bought a house.
- 59% sought advice from their parents, 55% discussed the decision with friends while 38% researched using the internet.
- 98% think owning a home would be useful for retirement but only 86% think they will have a freehold home by retirement
- 41% think they'll need more than their current income in retirement
- 90% are currently a member of KiwiSaver
- 73% are contributing 3% or 4% to their Kiwisaver account
- 49% are on track to achieve their retirement goal
- 45% believe NZ Super will not be sufficient in retirement
- 84% believe the age of eligibility for NZ Super will increase
- 63% believe means testing for NZ Super will be introduced

BACKGROUND

This interim survey has two purposes. In the first instance, on-going communication and contact with the participants in the Longitudinal Study is critical to maintain the study's integrity. Maintaining contact, in between the regularly five-yearly updates to the full study, develops a sense of community and involvement across the cohort. At a more practical level, on-going contact also preserves the lines of communication necessary to preserve links with the participants. The second purpose of the periodic, interim updates is to help better inform the long-term objectives of the Longitudinal Study to understand better where individuals learn about financial matters and their financial experiences contextualized within a topical framework.

Planning for retirement continues to generate a lot of discussion, as the population ages and the financing of retirement at the central government level becomes more challenging. Starting to save earlier rather than later is important if saving for retirement is to be a less daunting prospect. However, the long time horizon for young people contemplating their own retirement can make it difficult for them to see the relevance of retirement planning and the need for saving. The third purpose of this interim survey is to explore young people's expectations for their retirement, and their current preparedness.

METHODOLOGY

All participants of the full Longitudinal Study received an email on 23 April 2016 to participate in the second online interim survey, with a reminder email sent on 6 May 2016. The main cohort of the study comprises 266 participants, originally selected at random based on age (18-22 years at the time of the first stage of the study) from six regions; Auckland, New Plymouth, Wellington, Nelson, Christchurch, and Palmerston North. From that group, 128 (49%) completed the survey over a five-week period. The sub-cohort comprises 52 young New Zealanders who identify as being of Ngāi Tahu descent, of which 13 (25%) completed the survey over the same period. At the time of taking the online survey, participants were aged 21-26 years old. For this interim survey, the online questionnaire comprised a range of questions. Some of the questions were from the 2014 interim survey, and some had also been asked in the original survey in 2012, which allows changes to be identified and tracked. The new questions sought information about participants' income and savings behaviour as well as their expectations about retirement to enable an assessment of their preparation for retirement.

RESULTS – RETIREMENT EXPECTATIONS AND PREPARATION

One of the easy things that New Zealanders can do to assist their retirement savings is to join KiwiSaver. With all New Zealanders being compulsorily enrolled in KiwiSaver on starting a new job, it is not surprising to find that 90.3% of participants are members of a KiwiSaver scheme.

| KiwiSaver contribution rate | 0% | 1% | 2% | 3% | 4% | 5% | 6% | 7% | 8% or more |
|-----------------------------|------|------|------|-------|-------|------|------|------|------------|
| Respondent's contribution | - | - | - | 33.7% | 39.1% | 3.3% | 5.4% | 1.1% | 15.2% |
| Employer's contribution | 6.3% | 2.1% | 6.3% | 59.4% | 14.6% | 2.1% | 4.2% | - | 5.2% |

Unsurprisingly, most are contributing at the standard rates of 3%, 4% or 8%, and most employers are contributing at the required minimum of 3%.

Almost all participants (97.6%) believed that owning a home would be helpful for retirement, but fewer (86.4%) expected to own a home freehold by the time of their own retirement. While home ownership is helpful in retirement, the expected level of home ownership is out of alignment with the current (and falling) rate of home ownership in New Zealand, which stood at 64.8% in 2013 according to Statistics NZ.

Participants' expectations about their retirement lifestyle relative to their current lifestyle were surprising, as most advice suggests expenditure in retirement falls.

| | |
|--|-------|
| I expect my retirement lifestyle will require less money than my current lifestyle | 20.3% |
| I expect my retirement lifestyle will require the same money than my current lifestyle | 39.0% |
| I expect my retirement lifestyle will require more money than my current lifestyle | 40.7% |

However, these responses may reflect the particular life stage of these participants, some of who will still be in education or training. In addition, most could expect to gain promotion and a consequent increase in income prior to reaching retirement.

To assist in meeting the expected requirement for more money, 26.7% indicated they expected to receive other financial contributions at retirement. This other financial contribution took a variety of forms, with savings or investment the most significant.

| | |
|---|-------|
| Trust | 4.6% |
| Inheritance | 8.4% |
| Private pension | 4.6% |
| Personal savings or investment | 22.1% |
| Liquidation of personal assets (e.g. your home) | 7.6% |

The amount of that contribution could potentially be quite substantial.

| | |
|------------------------|-------|
| Up to \$100,000 | 26.5% |
| \$100,000 to \$249,999 | 39.1% |
| \$250,000 to \$499,999 | 18.8% |
| \$500,000 or more | 15.6% |

Participants were asked other information including current income and savings rates to enable a calculation to be made to estimate how likely they were to achieve their retirement goal, specified as the amount required to fund their expected retirement lifestyle. Based on this calculation, which assumed a retirement age of 65 and payments until age 90, 48.9% of respondents were expected to meet their retirement goal. The surplus in excess of what was needed to meet their retirement goal ranged from \$10,000 to \$833,000. The deficit for those who would fall short of their retirement goal ranged from \$5,000 to \$500,000.

Each participant was advised during the survey as to whether s/he was on track to achieve his/her retirement goal. Those who fell short were given an indication as to how much they needed to increase their savings or reduce their retirement income.

Where their current provision for retirement would not cover their retirement expenditure, respondents were asked what corrective steps they planned to take.

| | |
|--|-------|
| Join KiwiSaver | 1.8% |
| Increase my KiwiSaver contribution rate | 7.1% |
| Increase the amount of money I save each month | 37.5% |
| Invest | 32.1% |
| Seek financial advice | 7.1% |
| Get a job | 4.8% |

Increased savings, whether in KiwiSaver or in other savings, is clearly the most popular option, being preferred by nearly 45%.

Participants were asked about their expectations in relation to New Zealand Superannuation, because such expectations have a substantial influence on individuals' retirement planning.

| | EXTREMELY LIKELY | SOMEWHAT LIKELY | NEITHER LIKELY NOR UNLIKELY | SOMEWHAT UNLIKELY | EXTREMELY UNLIKELY |
|--|------------------|-----------------|-----------------------------|-------------------|--------------------|
| How likely do you believe that NZ Super will satisfactorily provide for your retirement? | - | 23.2% | 32.1% | 21.4% | 23.2% |
| How likely do you believe that NZ Super's retirement age will increase? | 45.6% | 38.6% | 8.8% | 5.3% | 1.8% |
| How likely do you believe that NZ Super will introduce means testing? | 5.6% | 67.4% | 31.5% | 5.6% | - |

There has been a lot of publicity in recent years noting that the lifestyle provided by NZ Super is not exceptional, and these results suggest this message is reaching the public. Similarly, there are widely held views that the retirement age needs to increase, and with retirement at least 40 years away for this cohort it is a realistic expectation that the age at which they become eligible for NZ Superannuation will be older than it is currently. Similarly, many believe that means testing will be needed to keep NZ Superannuation affordable, and young people are also clearly hearing this message.

RESULTS – PERSONAL FINANCIAL MANAGEMENT

Some of the questions in this section were asked in the first stage of the longitudinal study and repeated in the first interim survey, while others were only asked previously in the interim study.

Participants were asked to what extent they agreed or disagreed with the following statements.

| | STRONGLY DISAGREE | DISAGREE | NEITHER AGREE NOR DISAGREE | AGREE | STRONGLY AGREE |
|---|-------------------|----------|----------------------------|-------|----------------|
| I feel in control of my financial situation | 8.3% | 13.3% | 16.7% | 47.5% | 14.2% |
| I feel good about my money management skills | 1.7% | 15.8% | 9.2% | 54.2% | 19.2% |
| I am satisfied with my current financial status | 11.7% | 31.7% | 15.0% | 32.5% | 9.2% |

This question explores respondents' satisfaction with regard to their financial ability and their current financial situation. These results are compared to the two previous surveys below.

Participants are feeling less satisfied with their current financial status, possibly reflecting a move from education/training into the workforce that has not measured up to expectations in terms of the impact on their financial situation. This may also explain their feeling of being less in control of their financial situation. However, there is an improvement in how they feel about their money management skills.

The next three questions in this section asked participants to compare their financial situation today with twelve months previous, then to explain the influences behind the change before looking twelve months ahead. These questions were not asked in 2012.

| COMPARED TO TWELVE MONTHS AGO, MY FINANCIAL SITUATION TODAY IS | 2016 | 2014 |
|---|-------------|-------------|
| A lot better | 20.8% | 13.3% |
| A bit better | 38.3% | 28.0% |
| About the same | 17.5% | 24.5% |
| A bit worse | 20.0% | 28.7% |
| A lot worse | 3.3% | 5.6% |

The proportion feeling relatively better off (a lot or a bit) compared to twelve months ago is much higher in 2016 at 59%, compared to just 41% in 2014. And the number feeling worse off (a lot or a bit) has reduced from 34% to 23%.

The influencing factors identified for the change in their financial situation relative to twelve months previous were relatively similar in 2016.

| | 2016 | 2014 |
|---|-------------|-------------|
| I've got a new job | 40.5% | 48.9% |
| I've relocated to another town | 16.8% | 14.6% |
| My employer has made changes | 11.5% | 11.0% |
| Changes in Government policy | 3.8% | 8.0% |
| The general economic situation in New Zealand | 10.7% | 11.0% |
| Other | 40.5% | 44.5% |

In 2016, the detailed provided for Other indicated that starting or ending study was a common explanation for the relativity. In both years, getting a new job was the most important influence on the change in their financial situation. Government policy and the general economic situation continued to have minimal impact.

| COMPARED TO TODAY, MY FINANCIAL SITUATION IN TWELVE MONTHS WILL | 2016 | 2014 |
|--|-------------|-------------|
| Get a lot better | 21.8% | 24.5% |
| Get a bit better | 42.9% | 44.8% |
| Stay about the same | 27.7% | 15.4% |
| Get a bit worse | 5.9% | 12.6% |
| Get a lot worse | 1.7% | 2.8% |

Fewer expect to be better off in twelve months compared to today (64%) than was the case in 2014 (69%). But fewer also expect to be worse off, at 8% in 2016 compared to 15%. Nearly twice as many expect to be in about the same position.

The next questions asked participants about anything they had done to improve their money management skills.

| IN THE PAST TWELVE MONTHS, HAVE YOU TAKEN ANY STEPS TO IMPROVE YOUR MONEY MANAGEMENT SKILLS? | 2016 | 2014 |
|---|-------------|-------------|
| Yes | 41.7% | 29.4% |
| No, because my money management skills were already very good | 18.3% | 18.2% |
| No, I didn't think it was necessary | 34.2% | 42.0% |
| No, I couldn't find anything to help me improve | 5.8% | 10.5% |

It's pleasing to see the number seeking to improve their money management skills had increased substantially, with fewer not seeing it as necessary.

Those participants that had taken steps to improve their money management skills were asked what they had done.

| | 2016 | 2014 |
|--|-------|-------|
| Talked about money management with my parents | 52.0% | 45.2% |
| Talked about money management with my friends | 44.0% | 40.5% |
| Attended classes, workshops, and/or seminars on money management | 4.0% | 9.5% |
| Read books and magazines about money management | 24.0% | 14.3% |
| Found information about money management through television, radio and/or newspapers | 16.0% | 9.5% |
| Talked about money management with bank staff | 32.0% | 33.3% |
| Found information about money management on the internet | 38.0% | 28.6% |
| Talked about money management with my financial planners, financial advisers or financial counselors | 12.0% | 0.0% |
| Sought assistance from a budget adviser | 6.0% | 2.4% |
| Other | 18.0% | 31.0% |

It is interesting to find the number talking to their parents had increased, but more had read books and magazines and/or found information on the internet as well. The average number of steps taken was 2.5 in 2016 compared to just 2 in 2014. Informal influences remain the strongest, with the more formal influence of classes having dropped, although financial professionals are now playing a role.

We then asked which of these sources was the main source of help.

| | 2016 | 2014 |
|--|-------|-------|
| Talked about money management with my parents | 35.4% | 35.7% |
| Talked about money management with my friends | 18.8% | 19.0% |
| Attended classes, workshops, and/or seminars on money management | 2.1% | 7.1% |
| Read books and magazines about money management | 2.1% | 2.4% |
| Found information about money management through television, radio and/or newspapers | 0.0% | 4.8% |
| Talked about money management with bank staff | 4.2% | 7.1% |
| Found information about money management on the internet | 18.8% | 9.5% |
| Talked about money management with my financial planners, financial advisers or financial counselors | 4.2% | 0.0% |
| Sought assistance from a budget adviser | 2.1% | 0.0% |
| Other | 12.5% | 14.3% |

The changes were fairly marginal between the two surveys, with the exception of the internet, which became the main source of help for nearly twice the proportion of participants. However, parents retain their number one position as the main source of help. Back in 2012, parents were also the main influence on participants' personal financial management and were expected to remain important for the next five years.

The next set of questions looked at major financial decisions made in the previous twelve months. More participants (43.3%) had made a major financial decision in the past twelve months in the 2016 survey than had in the 2014 survey (35.6%).

| | 2016 | 2014 |
|--------------------------------------|-------|-------|
| To give up my job to study | 13.2% | 11.8% |
| To change jobs | 28.3% | 31.4% |
| To give up my job to travel overseas | 15.8% | 27.5% |
| To buy a car | 19.5% | 15.7% |
| To buy a house | 22.7% | 3.9% |
| To join KiwiSaver | 7.5% | 7.8% |
| Other | 45.9% | 54.9% |

The key differences are the proportion of those who had made a major financial decision who had bought a car and/or a house. Given the relative youth of the participants the proportion buying a house appears surprising, but when considered in light of the total number of participants (9.9%) it is less unexpected.

It's helpful to understand what information had been used to make a financial decision that was considered to be major.

| | 2016 | 2014 |
|--|-------|-------|
| Talked about it with my parents | 58.5% | 74.5% |
| Talked about it with my friends | 54.7% | 43.1% |
| Read books and magazines | 5.7% | 9.8% |
| Found information about it through television, radio and/or newspapers | 9.4% | 11.8% |
| Talked about it with bank staff | 11.3% | 19.6% |
| Found information about it on the internet | 37.7% | 49.0% |
| Talked about money management with my financial planners, financial advisers or financial counselors | 13.2% | 5.9% |
| Other | 11.3% | 17.6% |

Here we see a reduced influence of family and, somewhat surprisingly, the internet, but a growing influence of financial professionals and friends. The value of the growing influence of friends will differ according to the financial capability of those friends.

DISCUSSION OF RESULTS

This interim report re-surveys 44% of the original Longitudinal Study participants to obtain a current “snap shot” of how their financial world has changed recently.

Most of the group indicated they were in a better financial situation than they had been twelve months previously. The change in their financial situation, for better or worse, was attributed to a change in job, relocation or starting/ending study. While a higher proportion expect their financial situation to improve in the following twelve months, many expected to remain in a similar situation.

The group continued to gain confidence in their money management skills, but were less satisfied with their current financial situation and, more importantly, their control over their financial situation. It is possible this demonstrates their confidence is misplaced or perhaps their money management skills are not actually being applied effectively.

Major financial decisions over the previous twelve months included changing employment, buying a car and buying a house. Given the constant stream of negative press about the housing market and the difficulties for first home buyers, the proportion of these young adults buying a house is unexpected. Parents continue to be the main source of financial information, but their contribution is substantially reduced from 2014. The influence of friends has increased, as has the influence of financial professionals. The danger of relying on the advice of parents and friends is the question of their financial capability, so the growing use of financial professionals is encouraging.

A positive finding was the high rate of KiwiSaver membership (90%) and the proportion that was contributing at above the minimum of 3%, which was approximately two-thirds of the group. The majority received the minimum employer contribution, also 3%, but more than a quarter received a higher employer contribution. Higher contribution rates by either the employee or the employer means greater savings, and should have a beneficial effect on retirement.

Participants' expectations about their future retirement lifestyle were interesting, and deserve further investigation. With many (41%) expecting to need more money in retirement, a better understanding of the basis of that expectation would be useful.

Based on information provided, 49% of participants were expected to meet their retirement goal, with many actually exceeding that goal, by up to \$833,000. However, deficits could also be substantial, at up to \$500,000. For those estimated to fall short of their retirement goal, most would increase their savings or undertake investments to improve their situation.

The group appeared fairly realistic in their expectations around the future of New Zealand Superannuation, with few (23%) believing it would be sufficient for their retirement. Almost all (84%) expect the age of eligibility for New Zealand Superannuation to increase, and most (73%) expect means testing to be introduced. This suggests that the regular media coverage around the challenges for the government to fund New Zealand Superannuation are being heard.

CONCLUSION

This interim survey had three key objectives: to maintain contact with the participants in the Longitudinal Study; to measure participants' current financial well-being and behaviour; and, to explore participants planning for retirement.

In the first instance, over 44% of the cohort responded to the survey over a five-week period, indicating a successful outcome in maintaining contact and preserving engagement in the 20-year Longitudinal Study.

In the second instance, the interim report provides a further snapshot of the cohort's financial progression and sense of financial wellbeing, and allows an assessment of changes since the last survey and since the original survey. The results confirm, not surprisingly, that individuals continue to seek advice from family and friends when making financial decisions, but increasingly seek advice from financial professionals. The internet has grown in importance as a source of information to improve financial skills, but is used less for financial decision-making. The high level of confidence the group place on their financial management skills continues to suggest a disconnect from reality.

Finally, despite the long time horizon to retirement, the group appears to be making good preparation for retirement, having recognised the advantages of starting early. In addition, they are realistic about the level of state support that is likely to be available by the time they get to retirement.

NEXT UPDATE

Longitudinal Study updates are 5-yearly with periodic topical partial updates. The next full update will take place in 2017.