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ANZ SURVEY OF ADULT FINANCIAL LITERACY IN AUSTRALIA

STAGE 3 IN-DEPTH INTERVIEW SURVEY REPORT

April, 2003

– Prepared for –
ANZ Banking Group
Level 20, 100 Queen Street
Melbourne VIC 3000

– Prepared by –
Roy Morgan Research
411 Collins Street
Melbourne, Victoria 3000

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Roy Morgan Research

INDEX

Executive Summary

E1. INTRODUCTION

This Report covers Stage 3 of a three-stage project to measure the financial literacy levels of adult Australians. The purpose of the project was to identify:

- benchmarks for the ongoing measurement of financial literacy across the entire population;
- any segments of the population that have low levels of financial literacy; and
- aspects of financial skills, products and services that are causing the greatest problems for consumers.

The project was commissioned by ANZ, conducted by Roy Morgan Research and overseen by a Steering Committee.[1] It involved three stages:

Stage 1	Developing a framework for measuring financial literacy, based on in-depth discussions with 33 key stakeholders;
Stage 2	A telephone survey of 3,548 adult Australians which included 145 finance and 25 demographic questions; and
Stage 3	An in-depth survey of 202 people including a self-completion component and in-depth interview of 1– 1.5 hours each.

The major objective of Stage 3 of the project was to measure respondents' financial literacy in areas not possible to test adequately in the Stage 2 telephone survey, and to further explore a number of the issues identified in Stage 2.

Given the small sample of Stage 3, results are best read in conjunction with those of the Stage 2 report. Stage 3 clarified understanding of particular financial literacy concerns such as the ability to plan for the long-term and the need for education in relation to commission-based advice. It also confirmed that consumers are broadly aware of their problems and their needs for further education.

[1] Membership of the Steering Committee changed slightly over the course of the project. Those involved at any stage included Jane Nash (Head of Government & Regulatory Affairs, ANZ); Delia Rickard, (Deputy Executive Director, Consumer Protection, ASIC); Chris Connolly (Director, Financial Services Consumer Policy Centre, University of New South Wales); Geoffrey Cohen (Managing Director, Deputy Head-Mergers & Acquisitions, Australia & New Zealand, Deutsche Bank), and Carlene Wilson (Manager of Government & Regulatory Affairs, ANZ).

E2. THE SURVEY

E2.1 Financial Literacy

Financial literacy is about people making informed and confident decisions about all aspects of their budgeting, spending and saving and their use of financial products and services, from everyday banking through to borrowing, investing and planning for the future.

The definition of financial literacy agreed to by the Steering Committee in Stage 1 was:

> *"The ability to make informed judgements and to take effective decisions regarding the use and management of money."*[1]

It was also agreed that measures of financial literacy should reflect each person's circumstances. As such, knowledge was only to be tested against an individual's needs and circumstances rather than against the entire array of financial products and services, some of which they will neither use nor need.

E2.2 Survey Methodology

Stage 3 of the project involved 202 people aged 18 and over completing a self-completion questionnaire, followed by a face-to-face interview, over a period of approximately 80 minutes.

The sample for Stage 3 was broadly representative of the adult population in Melbourne and Sydney with quotas for age, sex, household income and education reflecting population patterns.

The content of Stage 3 questions was based on the framework developed in Stage 1 and investigated aspects of financial literacy that were not feasible to attempt to measure via a telephone interview in Stage 2.

The self-completion questionnaire comprised 28 questions for which there were clear correct answers, as well as 20 demographic questions.

The in-depth (face-to-face) interview comprised 43 questions, most of which sought to delve into responses to reveal reasoning or understanding of issues raised in Stage 2.

[1] Schagen, S. "The Evaluation of NatWest Face 2 Face With Finance": NFER, 1997.

E3. KEY FINDINGS

Below are highlights of what the Steering Committee and Roy Morgan Research considered to be some of the most important results from the survey.

E3.1 Overall Findings

Responses throughout Stage 3 confirmed the overall conclusion from Stage 2 that most Australians have a reasonable level of financial literacy.

Stage 3 revealed the following more specific concerns:

- basic mathematical ability can be a problem in the context of interpreting financial statements
- there is a limited understanding of long-term investment options
- consumers probably overestimate the adequacy of provisions made for retirement
- many consumers have a poor understanding of the nature of commission-based advice
- many consumers have limited confidence in making a complaint against a bank or financial institution.

Importantly, Stage 3 also revealed that consumers are aware of their own limits in managing their finances and believe they would benefit from further education in a number of areas.

E3.2 How Different Groups Performed

A major objective of this research was to establish benchmark measures of financial literacy across various groups within the population. This allows future monitoring of progress, particularly for those groups in the population that face financial literacy challenges.

The Stage 3 survey confirmed the correlation found in Stage 2 between socio-economic status and financial literacy.

Groups facing particular financial literacy challenges were again found to be:

- those with less than Year 10 as their highest level of education;
- those with no occupation;
- unskilled workers, non-workers and those looking for work;
- those with household income under $20,000;
- those with savings or investments of less than $5,000; and
- those aged 18 to 24 and those aged 70 or over.

Outlined below are the findings of Stage 3 in specific areas (such as mathematical ability).

E3.3 Mathematical ability

Mathematical ability underpins many aspects of financial literacy. The ability to perform basic calculations is important in budgeting, understanding basic statements and most aspects of being an informed consumer of financial services.

The objective of the Stage 3 survey was to investigate mathematical ability further in the areas of compound interest and averages.

The survey confirmed that the population as a whole had reasonably good mathematical skills. For example:

- 92% of people could determine the prior balance of an account from an ATM withdrawal receipt;
- 81% could calculate an average from an example given.

Most respondents also had a reasonable understanding of compound interest, supporting the self-ratings from Stage 2:

- 70% of respondents could be regarded as having a reasonable understanding of compound interest, consistent with the 67% result in the Stage 2 telephone survey.

Stage 3 findings suggest that mathematical calculations may be more difficult in the context of financial statements. When asked to look at information in a sample bank statement, 25% of respondents were unable to accurately answer regarding the amount withdrawn from ATMs over a one month period, requiring the addition of three figures drawn from the statement.

E3.4 Understanding of Investment Fundamentals

There are few concepts more important to sound investment and money management than the relationship between risk and return.

The Stage 3 survey investigated elements of risk and return in greater detail, and found broad consistency with issues highlighted in Stage 2.

On the positive side, the principle that high return investments are risky was well understood, with 92% indicating that a term deposit is a better short-term investment than property and shares.

In Stage 2, when faced with an investment advertised as having a return 'well above market rates at no risk', 47% would have made some level of investment. Stage 3 presented a 'double your money, but only if you sign up now' scenario. While all respondents were at least cautious, only 77% said that they would definitely not sign.

Stage 3 confirmed that diversification was broadly understood, with 89% of respondents able to correctly identify its definition from a range of options.

Stage 3 also revealed that:

- Most respondents (73%) understood the dangers of trying to predict future returns from recent past returns.
- Many people had a poor understanding of investment product differences for long-term investments, with only 39% selecting appropriate options when choosing a growth investment for a 12 year period.
- While the understanding that market values can fall as well as rise was high for managed investments, it was low in the specific case of property.

E3.5 Planning for Retirement

Given that Australia's compulsory superannuation scheme is still in its early stages, it is widely recognized that most people will need to rely on more than their superannuation for a comfortable retirement.

In Stage 2 it was found that:

- Only 37% of people had actually worked out how much they needed to save for their retirement.
- Of those people over 35 who had worked out how much money they would need for their retirement, 40% thought they would be living at least as comfortably in retirement as they are living today.[1]

In Stage 3, respondents were given an example of a 53-year-old who currently had $25,662 in superannuation and wished to retire at 65. They were asked their views on the adequacy of this amount. Only 69% regarded it as "not nearly enough to achieve a comfortable retirement income".

Stage 2 revealed that only 54% of those with superannuation were aware that it is taxed at a lower rate than other investments. Stage 3 explored this further, finding that only 17% of respondents saw the taxation advantages of investing in superannuation as being a factor to consider when contemplating making additional superannuation payments.

E3.6 Consumer Awareness

E3.6.1 Payment Methods

Having a working knowledge of the different ways in which goods and services can be paid for, and their strengths and weaknesses, is an essential element of good money management.

Stage 2 found that fewer people knew how to use newer payment methods such as Internet banking, BPay and telephone banking, in comparison with older methods.

Stage 3 further explored internet banking, finding that that people actually had a good understanding of its advantages, suggesting that the challenge to increasing usage may go beyond increasing awareness.

[1] ABS, *Retirement and Retirement Intentions,* Catalogue No. 6238.0, November 1997, provides evidence that pre-retirement perceptions of retirement income adequacy often prove optimistic.

E3.6.2 Fees and Charges

Fees and charges impact on the cost of conducting financial transactions, owning financial products and the returns that can be expected from investment. A good understanding of fees and charges is therefore important to minimise such costs and to make informed choices among products and services.

In Stage 2, the level of reported understanding about fees and charges was quite high for a number of products.

Stage 3 explored the specific issue of fee-for-service and commission-based advice.

When given the choice between a financial adviser who is paid on a fee-for-service basis versus paid by commission, 69% of respondents preferred the fee-for-service adviser, while 21% preferred the commission-based adviser.

While those who chose a fee-for-service adviser generally recognized the potential for conflict of interest with commissions, 48% of those who chose a commission-based adviser thought the adviser would be more motivated to do well with their money.

E3.6.3 Resolving Disputes

From time to time, customers will have problems with their financial services and products. When such problems arise, it is important that consumers know where to go and believe that they will be treated fairly.

Considerable work has been undertaken in Australia setting up effective external dispute resolution schemes in the financial sector and, more recently, improving internal complaints handling systems. Despite this, Stage 2 revealed that:

- While 65% of respondents were broadly aware of independent dispute resolution schemes, around one quarter of consumers had no idea where to go for help if they had a problem with a banking type product, an insurance product or a financial planner.
- 40% of consumers said they were 'not very confident' or 'not at all confident' about their ability to make a complaint against a bank or financial institution.

Stage 3 explored this further, examining responses to specific scenarios. Where a formal complaint was not accepted by a bank, only 58% of respondents said they would approach an independent resolution body. In many cases, the initial response would be to move the account to another bank.

E3.7 Behavioural Issues

E3.7.1 Budgeting, Saving and Investing

The ability to budget, save and invest are core financial skills. The survey sought to measure both the understanding of budgeting, saving and investment, and behaviour in relation to these.

Stage 2 revealed that 98% of people seemed to understand the importance of prioritising needs to balance income and expenditure, while 67% tried to save regularly, if they possibly could.

Stage 3 confirmed a high level of awareness (96%) of budgeting/saving as ways of coping with regular and irregular financial outlays.

It was also found that unmanageable debt was generally recognized, though less so by the less well educated and less affluent. Implications of a poor credit record were also well understood, despite the misconception that credit histories contain positive as well as negative events.

E3.7.2 Shopping Around

Considerable effort has gone into improving competition in the Australian financial sector. However, the benefits these reforms bring depend on there being a culture of shopping around among consumers.

Stage 2 found that people shop around for major items such as loans (46%), insurance (51%), mortgages (56%) and investments (56%), but less so in choosing a financial specialist (24%) and bank account (33%).

The low level of shopping around for financial advice was further explored in Stage 3. It was found that a large proportion of respondents would be unlikely to seek advice and many misunderstood the relationship between fees and advice in relation to commission-based advice.

E3.8 Consumer Perceptions

Stage 3 sought respondents' perceptions of their own difficulties in dealing with their finances and ideas as to how difficulties may be addressed.

Consumers generally appear to recognize that there are difficulties that need to be addressed:

- Only 5% of people claimed to have no difficulties in dealing with their finances.
- Only 14% of respondents felt they needed no further education in this area.

The most common difficulties reported were:

- controlling own behaviour/budget (21%);
- confusing paperwork (17%);
- not earning enough money (17%).

The most common educational needs identified were for:

- investing (47%);
- superannuation (20%);
- budgeting (15%);
- taxation (10%).

Caution is needed in interpreting these findings, as they represent findings across the entire Stage 3 sample. In practice, strategies would need to combine broad-based financial education with specifically tailored measures for target groups.

1. INTRODUCTION

1.1 Background

Managing finances successfully has become more complicated and more important for each generation. Increased relative wealth and the greater choice and opportunities available in terms of financial products and services, together with changes in social and personal values, demography, the production and consumption of goods and services and the delivery of government services are set to make good financial literacy even more important in the future.

ANZ has commissioned this research for the following reasons:

1. To better understand the needs of its customers
2. To respond to those needs in the way products and services are developed and in the way it communicates with customers
3. To help inform public policy, particularly as it relates to low literacy segments

1.2 What is Financial Literacy?

Financial literacy has been defined in research conducted in the UK by the National Foundation for Educational Research (NFER) as:

> *"The ability to make informed judgements and to take effective decisions regarding the use and management of money."*[1]

This is the definition of financial literacy adopted by the Steering Committee for this project.

Considerable research into financial literacy has been conducted in the UK and US, where it is an issue of growing policy and social interest.

However, no significant research into this particularly complex issue had previously been conducted in Australia, and as far as we are aware this survey represents the first national research of this scale into financial literacy in Australia.

It is important to ensure that all people have the skills, attitudes, understanding and confidence to apply financial knowledge in order to ask the right questions and make informed judgements and to take effective decisions regarding the use and management of their money.

[1] Schagen, S. "The Evaluation of NatWest Face 2 Face With Finance": NFER, 1997.

1.3 Research Objectives

The objectives of the research are to:

- benchmark for the ongoing measurement of financial literacy across the entire population;
- identify any segments of the population that have low levels of financial literacy; and
- identify aspects of financial skills, products and services that are causing the greatest problems for consumers.

1.4 Broad Research Stages

The research has been divided into three broad stages:

- Stage 1: **Stakeholder Survey** - Develop a framework for adult financial literacy in Australia, including stakeholder feedback through qualitative interviews
- Stage 2: **Telephone Survey** – Telephone survey of such aspects of adult financial literacy as could be investigated over the phone
- Stage 3: **In-depth Interview Survey** - Central location survey (self-completion and in-depth interview) of such aspects of adult financial literacy as could not be investigated over the phone

This report details the findings and conclusions from Stage 3 of the research, which was designed around the framework developed in Stage 1.

1.5 Framework

Stage 1 of the survey involved developing a framework of adult financial literacy suitable for Australian conditions, around which later stages of research could be structured.

The UK's Adult Financial Literacy Advisory Group previously developed a framework for adult financial literacy skills and knowledge in the UK. In order to benefit from this prior work, this research was:

- considered by the Steering Committee and Roy Morgan Research project personnel and revised for Australian conditions into a draft Australian framework
- discussed with 33 key stakeholders (see Appendix 1) suggested by the project Steering Committee to obtain expert opinion concerning its adequacy and relevance to Australia
- revised by the Steering Committee and Roy Morgan Research project personnel, in light of suggestions from key stakeholders, into a final framework of adult financial literacy in Australia (see Table 1 on the following page).

Measuring financial literacy involves measurement of knowledge and understanding, behaviour, attitudes, perceptions and awareness.

The framework was organised into 4 main sections:

- Mathematical literacy and standard literacy[1]
- Financial understanding
- Financial competence
- Financial responsibility

Two broad levels of financial literacy were incorporated within the framework:

- "Basic requirements" are the minimum essential level of literacy needed (e.g. being able to perform simple mathematical calculations)
- An "Advanced competence" level (e.g. being able to understand compound interest).

[1] Although standard literacy is a key factor in achieving financial literacy, standard literacy was not measured comprehensively due to this being outside the scope of this research.

Table 1. Adult Financial Literacy Framework

Note: Elements covered in Stage 3 are highlighted in ***Bold Italics***.

Mathematical Literacy and Standard Literacy		
	Basic requirements	**Advanced competence**
Essential mathematical, reading and comprehension skills	• ***Ability to add, subtract, multiply and divide (with or without calculator)*** • Ability to understand and calculate percentages (with or without calculator) • ***Ability to read and comprehend basic English***	• ***Ability to understand compound interest*** • ***Ability to understand averages***

Financial Understanding		
	Basic requirements	**Advanced competence**
Understanding of what money is and how money is exchanged	• Understanding of the range of ways to pay for goods and services, including: – Cash – Cheques – Money orders – Credit cards – Debit cards – Store cards – EFTPOS – Direct debit – Loans – Laybys • ***Ability to compare the advantages and disadvantages of different forms of payment***	• ***Understanding of the implications and key features of unsecured credit and debt, including both fixed:*** – ***Personal loans*** – ***Lease*** – ***Hire purchase*** ***…and revolving:*** – ***Credit cards*** – ***Store cards*** – ***Overdrafts*** – ***Other "line of credit" facilities*** • Understanding of ways to compare interest rates and the effects of fees and other charges • ***Understanding that some loans and purchase agreements are secured whilst others are unsecured, and the implications for default*** • Understanding of the concept and implications of personal guarantor and co-borrower arrangements • ***Understanding of how credit records are generated and the implications of bad records for future borrowing***
Understanding of where money comes from and goes	• ***Ability to read a pay-slip*** • ***Recognition of household expenses and regular financial commitments***	• ***Understanding of how companies and other organisations are financed, including shares***

Financial Competence		
	Basic requirements	**Advanced competence**
Understanding of the main features of basic financial services	• ***Awareness of the availability and basic features of:*** – ***Basic banking*** – ***Electronic banking (e.g. ATMs; EFTPOS; telephone banking; Internet banking)*** – ***Mortgages*** – ***Superannuation*** – ***Other investments (e.g. shares; term deposits; managed investments; life insurance with an investment element)*** – ***Risk insurance products (e.g. house and contents insurance, including coverage and exclusions; health insurance)*** • Awareness of the sorts of fees that apply to these services • Awareness of the relationship between fees and return • Awareness that one should shop around before purchasing financial products • Understanding that superannuation sets aside money for retirement, and involves compulsory employer contributions • ***Understanding that personal contributions can be made to superannuation as an option*** • ***Ability to check that an employer has been making compulsory contributions to superannuation*** • Understanding of fixed interest rates vs. variable interest rates as they apply to mortgages • Understanding of terms and conditions for early termination and other variations within mortgages	• ***Ability to make strategic use, to maximise personal financial advantage, of:*** – ***Basic banking*** – ***Electronic banking (e.g. ATMs; EFTPOS; telephone banking; Internet banking)*** – ***Mortgages*** – ***Superannuation*** – ***Other investments (e.g. shares; term deposits; managed investments; life insurance with an investment element)*** – ***Risk insurance products (e.g. house and contents insurance, including coverage and exclusions; health insurance)*** • ***Ability to check records (e.g. Annual Statements) from superannuation funds to determine whether current contribution levels and % returns are appropriate for anticipated needs*** • ***Knowledge concerning what constitutes an adequate level of insurance for total and permanent disablement or death benefit, and ability to check that a superannuation fund is providing it*** • ***Understanding that taxation can be minimised through personal contributions to superannuation vs. other forms of investment*** • ***Ability to use property for personal financial advantage (e.g. purchase investment property)***

<table>
<tr><th colspan="3">Financial Competence (continued)</th></tr>
<tr><th></th><th>Basic requirements</th><th>Advanced competence</th></tr>
<tr><td>Ability to understand financial records and appreciation of the importance of reading and retaining them</td><td>Ability to check accuracy of official financial records, such as:
Bank statements
ATM service statements
Credit card statements
Superannuation statements
Insurance policies and renewal notices (e.g. understand coverage, exclusions and duty of disclosure)
Loan documentation
Understanding of the need to keep records</td><td>Ability to reconcile a bank statement to allow for items not yet reconciled
Ability to read an Annual Statement from a superannuation fund to see the asset classes invested in and % return over time
Understanding of official financial records, such as prospectuses and Annual Statements for investment products
Understanding of the need to monitor performance of investments over time</td></tr>
<tr><td>Attitudes to spending money and saving</td><td>Understanding of the purpose of saving
Understanding of why you need to save for retirement
Understanding that there is a variety of places and ways in which to save money
Understanding of how to use budgets to plan and control personal spending
Ability to forecast and recognise the impact of irregular major financial outlays (e.g. vehicle registration; holidays)</td><td>Ability to budget strategically to make payments as late as possible and keep money earning interest as long as possible</td></tr>
</table>

Financial Competence (continued)		
	Basic requirements	**Advanced competence**
Awareness of risks associated with some financial products and appreciation of the relationship between risk and return	• ***Understanding of the purpose of insurance*** • Awareness that both savings and borrowing are offered on differing terms and interest rates that vary over time • ***Awareness that high return investments are also likely to involve high risk*** • ***Understanding that market values can fall as well as rise*** • ***Awareness that if it sounds "too good to be true", then it probably isn't true*** • Awareness of the dangers of under-insurance • Awareness that individuals are responsible for debts of spouse/other family members with whom they have a joint financial product • ***Understanding of the value of diversification when investing***	• ***Ability to identify potential risks and determine whether they need to be eliminated or mitigated against*** • ***Understanding of managed investments*** • ***Understanding of guarantees on investments*** • ***Understanding that short-term ups and downs in value are less important for long-term investments*** • ***Understanding of currency issues, including the impact of fluctuations in exchange rate for the Australian dollar***

Financial Responsibility		
	Basic requirements	**Advanced competence**
Ability to make appropriate personal life choices about financial issues	• ***Understanding of the difference between long-term and short-term needs*** • ***Ability to prioritise different needs to balance income and expenditure within financial capacity*** • ***Understanding of the difference between good (manageable and planned) debt and bad (unmanageable and unplanned) debt*** • ***Ability to make informed choices when experiencing a drop in income***	• ***Ability to assess the financial implications of personal life choices in terms of career choices and life-long learning opportunities***
Understanding of consumer rights and responsibilities	• Understanding that consumers do have rights • Understanding that consumers have a right to clear information about products both pre-purchase and ongoing post-purchase • ***Awareness of and ability to access independent dispute resolution schemes for financial products*** • Understanding of consumer responsibilities and the implications of not meeting them, including: – Duty of disclosure for risk insurance – Safeguarding of PINs for transaction banking	• Understanding and ability to check, before handing over money for an investment, that: – Financial products should only be purchased from licensed financial businesses – Advice should only be sought from persons employed by licensed advisery businesses – Prospectuses must be lodged with ASIC – Persons providing advice about financial products must disclose any commissions, important side-benefits and potential conflicts of interest • Awareness of 14-day cooling-off period for insurance
Ability and confidence to access assistance when things go wrong	• Understanding that the finance sector is regulated • Understanding of who one can call on to help with more complex issues (e.g. advisers; accountants) • ***Awareness of where/whom to contact if things go wrong (e.g. consumer complaints department of financial institution; consumer association; financial counsellor; ombudsman)*** • ***Ability to make complaints effectively*** • ***Awareness of the distinction between financial advisers charging fee-for-service vs. taking commission, and understanding of its implications***	• ***Broad understanding of the level of regulation of the finance sector*** • ***Understanding that regulation of the finance sector is no guarantee of the safety of all financial products*** • ***Ability to assess and compare different sources of financial advice and information*** • ***Understanding of the processes and procedures for resolving disputes***

Please note that other potential aspects of adult financial literacy (e.g. taxation; understanding of how and why government is financed; awareness and understanding of government benefits; understanding of how fees are calculated and how to minimise them) were agreed upon as being beyond the scope of the current project, and were therefore not included in the final framework.

2. METHODOLOGY AND KEY SAMPLE CHARACTERISTICS

2.1 Sample

Data collection method: Self-completion questionnaire and in-depth interview
Time: 29 January to 2 February 2003
Age: 18+
Sample Size: 202

Area:		Sample	%
Sydney		103	51
Melbourne		99	49
		202	100

Sex:	Female	113	56
	Male	89	44
		202	100

Age:			%
	18 – 19	13	6
	20 – 24	25	13
	25 – 29	18	9
	30 – 34	24	12
	35 – 39	19	10
	40 – 44	22	11
	45 – 49	12	6
	50 – 54	19	9
	55 – 59	13	6
	60 – 64	17	8
	65 – 69	7	4
	70 +	13	6
		202	100

2.2 Method

Stage 3 of the Adult Financial Literacy survey involved 202 persons aged 18 and over completing a self-completion questionnaire, followed by a face-to-face interview, over a period of approximately 80 minutes.

Half the Stage 3 exercise (99 respondents) was conducted at Roy Morgan Research's Melbourne office, and the other half (103 respondents) at Roy Morgan Research's Sydney office.

An incentive ($60 in Melbourne; $75 in Sydney) was offered to encourage participation in the exercise, with appointments being offered during business hours and early evenings on weekdays and on weekend days over the period Wednesday 29 January–Sunday 2 February, 2003.

The sample for Stage 3 comprised a representative sample of the adult population in Melbourne and Sydney, with the following broad, non-interlocking quotas for sex, age, education and household income, approximating their distributions within the national population aged 18 and over were applied at the recruitment stage. The sample was over-recruited by approximately 20% to allow for those who subsequently failed to attend.

Sex

Male:	50%
Female:	50%

Age

18–34:	35%
35–59:	45%
60+:	20%

Education

Less than Year 11:	30%
Year 11/Year 12/Technical or commercial college:	35%
University/TAFE/Other tertiary:	35%

Household Income

Less than $35,000:	1/3
$35,000–$69,999:	1/3
$70,000 or more:	1/3

The self-completion questionnaire comprised 28 questions for which there were clear correct answers, and could therefore be asked in a traditional test-style multiple-choice format, as well as 20 questions concerning demographic characteristics.

The in-depth interview comprised 43 questions, most of which could not be asked in a multiple-choice format, because of the need to probe beyond superficial answers to reveal reasoning, and therefore required the skills of an interviewer.

Many questions in both interviewing methods were scenario-based. These scenarios could be provided direct to respondents within the self-completion questionnaire, but required that show-cards be used with the in-depth interview.

The content of both methods were based on the framework and investigated aspects of adult financial literacy which were too complex to attempt via a telephone interview.

2.3 Analysis Approach

Stage 2 of this project (with a sample of 3,548 respondents) identified a number of groups who performed poorly on criteria relevant to their needs.

The major groups were:

- Those with less than Year 10 as their highest level of education
- Those with no occupation
- Unskilled workers
- Non-workers
- Those with household income under $20,000
- Those with savings under $5,000
- Those looking for work
- Those aged 18–24
- Those aged 70 and over

These groups were amongst those over-represented in the lowest Financial Literacy quintile ie. the poorest performing 20% (Quintile 1–2).

Whilst Stage 3 comprised a sample of only 202 respondents, the results verified the findings from Stage 2, with the demographic groups less likely to correctly answer the Stage 3 questions the same groups as those identified above in Stage 2.

As a result of these findings, sub-group analysis within this Stage 3 report primarily focused on the performance of the following key groups. Several of these groups were added because they were marginally poor performers in Stage 2.

- Sex: Female
- Age: 18–24
- 60 and over[1]
- 70 and over
- Household structure: Single – living alone
- Single – living in shared household
- Single parent
- Language other than English spoken at home

[1] A group of people aged 60 and over was added as a group to be analysed where consistency with those aged 70 and over was shown, thereby providing a more reliable sample.

- Education: Primary school/Some secondary school
- Passed Year 10 or below
- Home ownership: Renting residence
- Employment status: Employed – casual
- Student
- Looking for work
- Home duties/Non-worker[1]
- Retired
- Occupation: Semi-skilled/Unskilled/Farm worker[2]
- No occupation
- Personal income: Under $20,000
- Household income: Under $20,000
- Savings: Under $5,000

In addition to the groups analysed throughout this report, a number of other demographic and geographic breaks were analysed to assess whether differences existed. Very few differences existed when comparing the following:

- States
- Number of children in households
- Country in which people were born

Notes:

1. **Throughout this report, analysis that mentions single parents, students and those with no occupation should be treated as indicative only, due to small sample sizes.**
2. **Unless otherwise stated, all Tables throughout this report are based on full sample of 202 respondents.**
3. **All Tables throughout this report only show responses given by more than 1% of respondents (other than "none" or "can't say").**

[1] Home Duties combined with Non-worker to provide more reliable sample
[2] Semi-skilled/Unskilled/Farm worker groups combined to provide more reliable sample

3. MATHEMATICAL AND STANDARD LITERACY

This section examines the basic standard literacy skill of ability to read and comprehend English at a simple level, along with the basic mathematical literacy skill of ability to perform arithmetic calculations and the advanced mathematical literacy skills of ability to understand compound interest and averages.

3.1 Essential Mathematical, Reading and Comprehension Skills

	Objectives	*Key Findings*
BASIC REQUIREMENTS	• Ability to add, subtract, multiply and divide (with or without calculator) • Ability to read and comprehend basic English	• 81% of respondents were able to perform more complex calculations involving multiple operations • Over 90% of respondents could correctly answer simple questions based on a paragraph they had just read, revealing a high level of ability to read and comprehend English at a very basic level – although the youngest respondents (aged 18–24) appeared more capable in this regard than the oldest respondents (aged 70 and over)

	Objectives	*Key Findings*
ADVANCED COMPETENCE	• Ability to understand compound interest • Ability to understand averages	• Most respondents had a reasonable understanding of compound interest, supporting self-ratings from Stage 2 • 81% of respondents were able to calculate an average • Groups less able to calculate an average included: – Those with highest level of education of Year 10 or below – Those aged 70 and over – Those with no occupation – Those with gross annual household income under $20,000 – Semi-skilled/unskilled/farm workers

3.1.1 Basic Requirements for Essential Mathematical, Reading and Comprehension Skills

3.1.1.1 Ability to Perform Arithmetic Calculations

The Stage 2 telephone survey found that between 80% and 90% of adults were able to correctly perform basic calculations concerning addition, subtraction, division and percentages, although less than 60% were able to perform a basic multiplication calculation involving whole dollars.

Some of the questions in Stage 3 involved some more complex calculations against which the Stage 2 results can be compared.

One of the questions involved a relatively simple addition calculation which was presented in the more conceptually complex (and real-life) context of a withdrawal from an ATM (refer also to Section 4.2: Understanding of Where Money Comes From and Goes).

Please use Gary's ATM receipt to answer Q23.

Gary's ATM Receipt

24/12/2003 08:34:26	
43245435 Sussex Street	
582373838+882	
XYZ Centre, 201 Sussex Street	
Record No.	*0009888*
Withdrawal from Savings 2	*$350.00*
Current Balance	*$500.00*

(Self-Completion)

SCQ23 What was the balance in Gary's account prior to this transaction? (Please circle one only)

Responses were as follows.

Table 2. Account Balance on ATM Receipt Prior to Transaction

Response Options	*Percentage Giving Response (%)*
$150.00	*4*
$350.00	*0*
$500.00	*1*
$850.00	*92*
Don't know	*2*

Percentages may not sum to 100% due to rounding.

Ninety-two percent of respondents were able to select the correct answer.

Those less likely than average to answer this question correctly included those with primary/some secondary education (50%), those with highest level of education less than Year 10 (59%), and those with gross annual household income under $20,000 (74%).

(For more detailed analysis, refer to Section 4.2: Understanding of Where Money Comes From and Goes).

The following question involved calculation of an average (refer also to the Advanced Competence section of this report).

(Self-Completion)

SCQ3 Charlie owns a factory that produces chairs. His sales figures for the last four weeks indicate that he sold:

1,500 chairs in Week 1
3,000 chairs in Week 2
4,500 chairs in Week 3
1,000 chairs in Week 4

What was the average number of chairs sold per week in the last four weeks? (Please circle one only)

Responses were as follows.

Table 3. Average Number of Chairs Sold

Response Options	*Percentage Giving Response (%)*
2,250	*12*
2,500	*81*
3,000	*2*
4,000	*2*
Don't know	*3*

Percentages may not sum to 100% due to rounding.

The majority of respondents (81%) were able to perform a complex calculation involving the addition of four large numbers before dividing by another number.

This figure is similar to the proportions able to correctly perform simple calculations (other than multiplication) in the Stage 2 telephone survey.

(For more detailed analysis refer to the Advanced Competence section of this report).

3.1.1.2 Ability to Read and Comprehend Basic English

Reading and comprehension of basic English is typically assessed in an objective, standardised manner by providing the same piece of stimulus text to all respondents. A series of questions is then asked, all of which can be answered by referring to the stimulus text.

Respondents were first presented with the following piece of stimulus text.

Please read the following paragraph, then answer Q1 and Q2.

> *On all Australian coins, Queen Elizabeth II is shown on one side. On the other side, a different design is shown on each value of coin: an echidna on the 5 cent coin; a lyrebird on the 10 cent coin; a platypus on the 20 cent coin; the Australian coat of arms on the 50 cent coin; kangaroos on the $1 coin; and an aboriginal on the $2 coin.*

(Self-Completion)
SCQ1 Which person is shown on all Australian coins?
(Please circle one only)

Table 4. <u>Person Shown on Australian Coins</u>

Response Options	***Percentage Giving Response (%)***
An aboriginal	*2*
John Howard	*0*
Queen Elizabeth II	*97*
Slim Dusty	*0*
Don't know	*0*

Percentages may not sum to 100% due to rounding.

(Self-Completion)

SCQ2 What is shown on the other side of the 20 cent coin? (Please circle one only)

Table 5. <u>Picture Shown on 20 Cent Coin</u>

Response Options	***Percentage Giving Response (%)***
An echidna	*2*
A lyrebird	*1*
A platypus	*91*
The Australian coat of arms	*3*
Don't know	*3*

Percentages may not sum to 100% due to rounding.

When asked which person was shown on all Australian coins, almost all respondents (97%) gave the right answer to this question, revealing a high level of ability to read and comprehend English at a very basic level. Results were relatively consistent across all groups.

When asked what is shown on the other side of the 20 cent coin, the proportion of correct responses was 91%.

The oldest respondents (aged 70 and over) were the least likely to have answered correctly (69%), whereas the youngest respondents (aged 18–24) were the most likely to have done so (97%).

Overall, these results indicate a generally high level of ability to read and comprehend basic English.

3.1.2 Advanced Competence for Essential Mathematical, Reading and Comprehension Skills

3.1.2.1 Ability to Understand Compound Interest

In Stage 2, 67% of respondents reported understanding the term "*compound interest*" "*very well*" or "*fairly well*".

To investigate understanding of compound interest, respondents were asked the following question.

(Self-Completion)
SCQ4 Suppose you have $1,000 to invest. Bank A offers to pay you 10% simple interest on your $1,000. Bank B offers to pay you 10% compound interest on your $1,000. Please circle the statements below that appear to be true.
(Please circle as many as apply)

Table 6. <u>Interest Calculations on Bank Account</u>

Response Options	*Percentage Giving Response (%)*
a) Bank A will calculate interest that is based on the initial principal and accumulated interest	*11*
b) Bank B will calculate interest that is based on the initial principal and accumulated interest	*68*
c) The difference between the income earned with Bank A compared with the income earned with Bank B will become larger over time	*45*
d) If investing your money with Bank B, you would prefer compounding to occur weekly instead of monthly	*54*
e) Don't know	*14*

Consistent with Stage 2 findings, 68% understood the basic concept of compound interest – that interest is earned on interest. Only 28% of respondents selected all of b, c and d as the correct responses to this question.

All of the groups that were over-represented in the lowest financial literacy quintile in Stage 2 were less likely than average to select the combination of correct answers particularly those speaking a language other than English at home (8%), those aged 70 and over (15%), those aged 18–24 (16%), and those looking for work (18%).

The following question was indicative of ability to apply compound interest in a real-world context.

(Self-Completion)

SCQ12: Jack and Lucy are both aged 60. Lucy began saving for her retirement when she turned 20, and has saved $2,000 per year. Jack didn't think about saving for his retirement until he turned 40, but has been saving $4,000 per year since then. If their retirement accounts always provide the same rate of return, which of them will have more money in their retirement account?
(Please circle one only)

Responses were as follows.

Table 7. <u>Effect of Compound Interest on Retirement Account</u>

Response Options	***Percentage Giving Response (%)***
Jack would have saved more because he has saved more per year	*1*
They would have the same amount because they have saved exactly the same amount of money	*21*
Lucy would have more because she has put away more money	*2*
Lucy would have more because her money has been able to grow for a longer period of time	*72*
Don't know	*3*

Percentages may not sum to 100% due to rounding.

Seventy-two percent of respondents correctly identified that *Lucy would have more because her money has been able to grow for a longer period of time* – a similar result to the 67% who said they understood compound interest "*very well*" or "*fairly well*" in Stage 2.

All of the groups that were over-represented in the lowest financial literacy quintile in Stage 2 were less likely than average to answer correctly. Those least likely to have done so included those with highest level of education less than Year 10 (50%), those with gross annual household income under $20,000 (52%), and those aged 70 and over (54%).

3.1.2.2 Ability to Understand Averages

At an advanced level of financial competence concerning mathematic literacy, ability to understand averages permits an understanding of average values and returns across different financial products and over time, etc., with clear implications for making informed choices concerning financial products and investments.

To assess ability to calculate averages, respondents were asked the following question.

(Self-Completion)

SCQ3 Charlie owns a factory that produces chairs. His sales figures for the last four weeks indicate that he sold:

1,500 chairs in Week 1
3,000 chairs in Week 2
4,500 chairs in Week 3
1,000 chairs in Week 4

What was the average number of chairs sold per week in the last four weeks?
(Please circle one only)

Responses were as follows.

Table 8. <u>Average Number of Chairs Sold</u>

Response Options	*Percentage Giving Response (%)*
2,250	*12*
2,500	*81*
3,000	*2*
4,000	*2*
Don't know	*3*

Percentages may not sum to 100% due to rounding.

Eighty-one percent (81%) of respondents gave the correct answer to this question.

The second most common response, selected by 12% of respondents, was the closest to the correct response, suggesting that most of those unable to perform the calculation may have a reasonable facility for approximation. Few selected the more extreme response options, and only 3% did not attempt a mathematical response to the question.

The groups that were over-represented in the lowest financial literacy quintile in Stage 2 were generally less likely to give the correct answer, particularly those with highest level of education of Year 10 or below (59%), those aged 70 and over (61%), those with no occupation (63%), those with gross annual household income under $20,000 (63%), and semi-skilled/unskilled/farm workers (64%).

4. FINANCIAL UNDERSTANDING

This section examines money and the exchange of money, including ability to compare the advantages and disadvantages of different payment methods, understanding of the implications and key features of unsecured credit and debt (both fixed and revolving), and understanding that some loans and purchase agreements are secured whilst others are unsecured, along with the implications this has for default.

Understanding where money comes from and goes to is also covered, including ability to read a pay-slip, recognition of household expenses and regular financial commitments, and understanding of how companies and other organisations are financed, including issuing of shares.

4.1 Understanding of What Money Is and How Money is Exchanged

	Objectives	*Key Findings*
BASIC REQUIREMENTS	• Ability to compare the advantages and disadvantages of different forms of payment	• Overall, there was a relatively high level of ability to compare the advantages and disadvantages of different payment methods

	Objectives	*Key Findings*
ADVANCED COMPETENCE	• Understanding of the implications and key features of unsecured credit and debt, including both fixed: – Personal loans – Lease – Hire purchase …and revolving: – Credit cards – Store cards – Overdrafts – Other "line of credit" facilities • Understanding that some loans and purchase agreements are secured whilst others are unsecured, and the implications for default • Understanding of how credit records are generated and the implications of bad records for future borrowing	• There was generally a high level of awareness of the implications and key features of unsecured credit and debt • There was limited knowledge concerning the high interest rates imposed if credit is not paid in full within the interest-free period • Many, particularly younger persons and the less well educated, were unaware of the difference between unsecured and secured loans, with a few (9%) misconstruing "unsecured" as referring to variable interest and "secured" as referring to fixed interest • Unmanageable debt was quite readily recognised – although less so by the less well educated and less affluent • The implications of a poor credit record for future borrowing were quite well understood • The misconception that credit histories contain positive events as well as negative events was prevalent, particularly among those speaking a language other than English at home and those employed on a casual basis

4.1.1 Basic Requirements for Understanding of What Money Is and How Money is Exchanged

Beyond a knowledge of the existence of a range of payment methods, as investigated in Stage 2, the ability to compare the advantages and disadvantages of different forms of payment is required to choose the most appropriate method when deciding how to make a particular payment.

4.1.1.1 Ability to Compare Payment Methods

To assess their ability to recognise relevant payment method options and identify one as being the most appropriate, respondents were asked the following questions.

(In-Depth)

IDQ1 *Michelle is 27, single, and has no dependants. She earns $38,000 per year. Generally, she spends most of her income as she gets it, and has $750 in savings. She needs to buy a new refrigerator immediately that costs $999. What payment methods could she consider using to pay for the refrigerator? (What else? Anything else?)*

IDQ2 *What would you recommend?*

In response to this hypothetical situation where an item needs to be purchased immediately but costs more than one has in savings, the following payment methods were considered and recommended.

Table 9. Payment Methods Considered and Recommended for Purchasing Something Costing More Than Savings

Responses	***Percentage Considering (%)***	***Percentage Recommending (%)***
"Buy now, pay later" scheme	*55*	*30*
Credit card	*76*	*25*
Cash	*17*	*12*
Loan from friends/family	*27*	*9*
Loan	*37*	*8*
Vendor finance/Hire purchase	*18*	*7*
Layby	*18*	*6*
Bank loan/Personal loan	*25*	*4*
Buy a cheaper fridge	*7*	*4*
Rent/Lease	*4*	*0*
Store card	*12*	*3*
Cut down on spending/Save money	*3*	*3*
Can't say	*0*	*0*

The results above reveal that *credit card* (76%)was the payment method most often considered for an item costing more than one's savings, followed by *"buy now, pay later" scheme* (55%).

However, *"buy now, pay later" scheme* was the payment method most often recommended in this scenario (30%), ahead of *credit card* (25%) and *cash* (12%). Numerous respondents recommended using some or all of savings to pay *cash*, with the balance to be paid on *credit* or from a *loan*.

A few respondents went outside the parameters of the question and suggested solutions, rather than payment methods, but these (*buying a cheaper fridge* or *cutting down on spending/saving money*) were sensible, financially literate suggestions.

Groups less likely to recommend using a *credit card* in this scenario, were single persons living alone (4%, compared to 25%), those aged 70 and over (8%) and those with gross annual household income under $20,000 (11%). People employed on a casual basis (46%) were more likely to recommend this option.

In order to identify the perceived advantages and disadvantages of their recommended payment method, respondents were asked the following questions.

(In-Depth)

IDQ3 What are the advantages of this? (What else? Anything else?)

IDQ4 What are the disadvantages of this? (What else? Anything else?)

The advantages and disadvantages mentioned most frequently in response to these questions are shown in the tables below for the three most commonly recommended payment methods in this scenario.

Table 10. Advantages Identified by Those Recommending "Buy Now, Pay Later" Scheme for Purchasing Something Costing More Than Savings

Payment Method Recommended	***Advantages***	***Percentage Giving Response (%)***
"BUY NOW, PAY LATER" SCHEME	*Gets her fridge immediately*	*52*
	No interest/Less interest/Cost less	*25*
	Retain savings	*21*
	No cost if paid within interest-free period	*21*
	Save the money over time/Got time to save up	*18*
	Force one into thinking about saving as part of the repayments	*10*
	Should be able to pay off quickly	*10*
	It's a regular payment/Can be ready for it	*8*
	You do get a credit rating	*7*
	Pay later	*3*
	Leniency when paying back	*3*
	No deposit/No money up-front	*3*

Base: Those who answered "'Buy Now, Pay Later' Scheme" to IDQ 2

Sample Size: 61

The main advantage identified for a *"buy now, pay later" scheme*, mentioned by most of those recommending this payment method (52%), was the fact that it would provide the required product *immediately*.

Responses concerning such schemes *costing nothing if paid* in full *within the interest-free period* (25%) or providing the ability to *retain one's savings* (21%) were reasonable responses.

Table 11. <u>Disadvantages Identified by Those Recommending "Buy Now, Pay Later" Scheme for Purchasing Something Costing More Than Savings</u>

Payment Method Recommended	*Disadvantages*	*Percentage Giving Response (%)*
"Buy Now, Pay Later" Scheme	*High interest if not paid within period*	*33*
	Costs more/Higher interest	*26*
	Debt to pay off/In debt	*18*
	Less money left for other things	*7*
	May not continue payment/be able to repay	*7*
	Manage money well/Budget/Disciplined	*5*
	Bad credit rating	*3*
	Repossession of goods	*3*

Base: Those who answered "'Buy Now, Pay Later' Scheme" to IDQ 2

Sample Size: 61

The main disadvantages identified for *"buy now, pay later" schemes* were all concerned with the *higher interest* (26%) which such schemes might involve if the full amount is *not paid within period* (33%), and therefore display a realistic appreciation of the disadvantages of this payment method.

Table 12. Advantages Identified by Those Recommending Credit Card for Purchasing Something Costing More Than Savings

Payment Method Recommended	*Advantages*	*Percentage Giving Response (%)*
CREDIT CARD	*No cost if paid within interest-free period*	*26*
	No interest/Less interest/Costs less	*26*
	Gets fridge immediately	*24*
	Convenience/Easier	*16*
	How long it can be paid off for/Flexibility	*10*
	Should be able to pay off quickly	*8*
	Instant cash	*6*
	No debt/less debt	*6*
	Leniency when paying back	*4*
	It's a regular payment/can be ready for it	*4*
	No paperwork	*4*
	Less monthly payments	*4*
	Can't say	*0*

Base: Those who answered "Credit Card" to IDQ 2

Sample Size: 50

One of the main advantages identified for a *credit card* was the realistic observation that it would *cost nothing if paid within the interest-free period* (26%).

The fact that a *credit card* would provide the required product immediately (24%) and the *convenience and ease* of using a credit card (16%) were also reasonable responses.

Table 13. **Disadvantages Identified by Those Recommending Credit Card for Purchasing Something Costing More Than Savings**

Payment Method Recommended	***Disadvantages***	***Percentage Giving Response (%)***
CREDIT CARD	*Costs more/Higher interest*	*36*
	High interest if not paid within period	*24*
	The debt could drag one down/Could get into more debt	*12*
	Less money left for other things	*10*
	Debt to pay off/In debt	*10*
	Manage money well/Budget/Disciplined	*8*
	The longer the repayment period, the more interest you end up paying	*8*
	May not continue payment/May not be able to repay	*4*

Base: Those who answered "Credit Card" to IDQ 2

Sample Size: 50

The disadvantages identified for a *credit card* were largely concerned with the higher interest this payment method could involve, once more displaying a realistic general appreciation of the disadvantages of this payment method.

Table 14. **Advantages Identified by Those Recommending Cash for Purchasing Something Costing More Than Savings**

Payment Method Recommended	***Advantages***	***Percentage Giving Response (%)***
CASH	*Negotiate a discount/better price*	*50*
	No interest/Less interest/Costs less	*44*
	No debt/Less debt	*44*
	It's paid for in full	*13*

Base: Those who answered "Cash" to IDQ 2

Sample Size: 24

The main advantage identified for *cash* was the possibility *of negotiating a discount or a better price* (50%), with the other main perceived advantages referred to *cash costing less or not incurring interest* (44%) or *debt* (44%).

Table 15. Disadvantages Identified by Those Recommending Cash for Purchasing Something Costing More Than Savings

Payment Method Recommended	*Disadvantages*	*Percentage Giving Response (%)*
CASH	*Less money left for other things*	*42*
	Costs more/higher interest	*21*
	Carrying around cash – might spend on something	*8*

Base: Those who answered "Cash" to IDQ 2

Sample Size: 24

The main disadvantage identified by those recommending *cash* was that using savings rather than credit *left less money for other things* that one might want or need to do (44%), which was a reasonable response.

The 21% suggesting that *cash costs more/higher interest* appears on the surface to be accurate with the scenario making clear that the fridge could not be purchased by cash alone. Further analysis of the data revealed that all these respondents had suggested a combination of *cash* and *credit card* or *loan*. It would therefore appear that the higher cost/higher interest mentions are actually intended for the credit card or loan components of these combinations, rather than the cash component.

The only other disadvantage mentioned by a number of those recommending *cash* (8%) was that it could provide a temptation to use it for some other purpose – a realistic response, however suggesting difficulty in controlling behaviour.

To find out the factors that would be taken into account when making a direct comparison between two different payment methods, respondents were asked the following question.

(In-Depth)

IDQ5 Michelle's mother recommends that she purchase the refrigerator on the retailer's "buy now, pay later" scheme. However, her boyfriend recommends that she use a credit card. What factors should Michelle consider when deciding whether to use the "buy now, pay later" scheme or a credit card? (What else? Anything else?)

Factors identified in response to this question are shown in the following table.

Table 16. Factors to Consider When Deciding Whether to Use a "Buy Now, Pay Later" Scheme or a Credit Card

Responses	***Percentage Giving Response (%)***
The interest rate after the interest-free period on the credit card	*44*
The interest rate after the interest-free period on the "buy now, pay later" scheme	*37*
Ability to repay within the interest-free period on the "buy now, pay later" scheme	*32*
Ability to repay within the interest-free period on the credit card	*23*
The length of the interest-free period on the credit card	*19*
The difference in the interest rates	*19*
The terms and conditions on the "buy now, pay later" scheme	*15*
"Hidden charges" on the "buy now, pay later" scheme	*15*
The terms and conditions on the credit card	*13*
The length of the interest-free period on the "buy now, pay later" scheme	*11*
Ability to repay	*10*
That there is a limit on the credit card	*4*
Reward program attached to the credit card	*3*
How much the minimum repayments are	*3*
Should consider how to save better/budget	*2*
The balance on the credit card	*2*
Fees on the credit card	*2*
Penalties	*2*
Can't say	*0*

The main factors mentioned in terms of deciding whether to purchase the refrigerator on a retailer's *"buy now, pay later" scheme* or with a *credit card* largely concerned the relative costs of the two payment methods, particularly the interest rates of both payment methods and the ability to pay in full within the interest-free period for each.

The fact that no respondent was unable to offer a response to this question, may suggest a relatively high level of ability to make an informed decision when deciding which of these two payment methods to use.

Except for students where the sample size was small there was no noticeable difference between the groups that were over-represented in the lowest financial literacy quintile in Stage 2 and respondents in general.

With the primary intention of investigating awareness of budgeting and saving (see Section 4.2.1.2), respondents were asked the following question.

(In-Depth)

IDQ6 Michelle also needs to pay her electricity bill for $280 at the same time, but isn't sure that she can do this and also buy the fridge. What sort of things should Michelle do in the future to be able to cope with regular outlays, such as electricity bills and car registration as well as unexpected bills? (What else? Anything else?)

Suggestions for coping with regular and irregular financial outlays were mentioned by the proportions shown in the following table.

Table 17. Suggestions for Coping with Regular and Irregular Financial Outlays

Responses	***Percentage Giving Response (%)***
Save regularly	*62*
Use a budget	*54*
Pay bills by smaller, more frequent payments	*13*
Save an amount for unknown expenses	*13*
Not spend all one's money	*9*
Pay regular bills by direct debt	*6*
Ask for an extension	*2*
Can't say	*0*

In accordance with the primary purpose of the question, most respondents suggested *saving regularly* (62%) or *using a budget* (54%), with less frequent mentions for *saving an amount for unknown expenses* (13%) and *not spending all one's money* (9%).

However, in accordance with the minor purpose of the question, suggestions also included using payment methods to cope with regular and irregular financial outlays.

Paying bills by smaller, more frequent payments (13% – e.g. instalment schemes for utility bills) is effectively a means of integrating budgeting and payment, and constitutes a very reasonable response to this question.

Paying bills by smaller, more frequent payments was less likely to be mentioned by those speaking a language other than English at home (4%, compared to 13%) and those aged 18–24 (5%). *Paying regular bills by direct debit* was not mentioned by single persons living alone, those looking for work, home duties/non-workers and those with no occupation (although very small sample size) – perhaps due to most of these groups, almost by definition, receiving little, if any income.

To further investigate what sorts of factors would be taken into account when making a direct comparison between two different payment methods, respondents were asked the following question.

(In-Depth)

IDQ7 Michelle's mother recommends that she have the total amount of her electricity bills directly debited from her bank account each billing period. Michelle's boyfriend recommends that she use a credit card to pay the electricity bill. What factors should Michelle consider when deciding which option is better? (What else? Anything else?)

Factors identified in response to this question are shown in the following table.

Table 18. Factors to Consider When Deciding Whether to Use Direct Debit or a Credit Card

Responses	***Percentage Giving Response (%)***
Whether there will be enough money in your account when the direct debit is made	*68*
The interest rate on the credit card	*42*
Whether you can pay off the full amount before payment is due on the credit card	*24*
The interest-free period on the credit card	*20*
Fees/cost involved in each option	*11*
The reward program on the credit card	*10*
How long before the bill is due to be paid	*6*
Saving capacity/budgeting	*4*
Financial position/salary/job security	*2*
Whether repayments can be afforded	*2*
The balance on the credit card	*2*
The ease of spending money that you haven't got with the credit card	*2*
Can't say	*1*

In terms of deciding whether to pay electricity bills by *direct debit* or with a *credit card*, most respondents (68%) recognised the importance of ensuring *there will be enough money in your account when the direct debit is made.*

Other mentions largely concerned the relative costs of the two payment methods, particularly the *credit card*.

With only one respondent unable to offer a response to this question, these findings suggest a relatively high level of ability to make an informed decision when deciding which of these two payment methods to use.

Those with less than Year 10 as the highest level of education were considerably less likely to mention *whether there will be enough money in your account when the direct debit is made* (33%, compared to 68%).

4.1.2 Advanced Competence for Understanding of What Money Is and How Money is Exchanged

At an advanced level of financial competence concerning money and the exchange of money, understanding of the following were tested:

- The implications and key features of unsecured credit and debt, both fixed and revolving
- That some loans and purchase agreements are secured whilst others are unsecured, and the implications for default

Such an understanding could help ensure the most advantageous use of credit and avoid the pitfalls in which the wrong form of credit may result.

Further, ignorance of how credit records are generated may have unforeseen implications for future borrowing.

4.1.2.1 Understanding of Unsecured Credit and Debt

The primary purpose of questions IDQ1–IDQ4 concerning purchase of a refrigerator costing more than one has in savings, as referred to in the previous sub-section (4.1.1.1), was to assess ability to recognise relevant payment method options, identify one as being appropriate, and recognise its advantages and disadvantages.

However, appropriate breakdown of responses to these questions also allowed for investigation of the implications and key features of unsecured credit and debt.

Credit cards were the second most commonly identified payment method in response to the first question, and the most commonly recommended payment method in response to the second question.

Conversely, *"buy now, pay later" schemes* were the most commonly identified payment method in response to the first question, and the second most commonly recommended payment method in response to the second question.

Credit cards represent a revolving form of unsecured credit, whereas *"buy now, pay later" schemes* might represent either a fixed form of unsecured credit or a form of secured credit, dependent upon the particular scheme.

The advantages and disadvantages mentioned most frequently in respect of these two payment methods by those recommending them in the scenario of needing to purchase a refrigerator costing more than one's savings are shown in the tables below.

Table 19. Advantages Identified by Those Recommending "Buy Now, Pay Later" Scheme for Purchasing Something Costing More Than Savings

Payment Method Recommended	*Advantages*	*Percentage Giving Response (%)*
"Buy now, pay later" scheme	*Gets fridge immediately*	*52*
	No interest/Less interest/Costs less	*25*
	Retains savings	*21*
	No cost if paid within interest-free period	*21*
	Save the money over time/Got time to save up	*18*
	Force one into thinking about saving as part of the repayments	*10*
	Should be able to pay off quickly	*10*
	It's a regular payment/Can be ready for it	*8*
	You do get a credit rating	*7*
	Pay later	*3*
	Leniency when paying back	*3*
	No deposit/No money up-front	*3*

Base: Those who answered "'Buy Now, Pay Later' Scheme" to IDQ 2

Sample Size: 61

In terms of revealing understanding of the implications and key features of *"buy now, pay later" schemes*, responses suggesting such schemes *cost nothing if paid within the interest-free period* (21%) or providing the ability to *retain one's savings* (21%) were accurate responses.

However, as already noted, responses concerning such schemes charging *little or no interest or costing less* than other payment methods (25%) could indicate a lack of awareness of the potential costs involved if not paid in full within the interest-free period.

Further, the suggestion that use of a *"buy now, pay later" scheme* would provide one with a *credit rating* (7%) would appear to be based on a misconception.

Table 20. Disadvantages Identified by Those Recommending "Buy Now, Pay Later" Scheme for Purchasing Something Costing More Than Savings

Payment Method Recommended	*Disadvantages*	*Percentage Giving Response (%)*
"Buy Now, Pay Later" Scheme	*High interest if not paid within period*	*33*
	Costs more/Higher interest	*26*
	Debt to pay off/In debt	*18*
	Less money left for other things	*7*
	May not continue payment/may not be able to repay	*7*
	Manage money well/budget/disciplined	*5*
	Bad credit rating	*3*
	Repossession of goods	*3*

Base: Those who answered "'Buy Now, Pay Later' Scheme" to IDQ 2

Sample Size: 61

The main disadvantages identified for *"buy now, pay later" schemes* were all concerned with *higher interest* (26%), which is generally true of such schemes if the full amount is *not paid within the period* (33%), indicating recognition that unsecured credit, which *"buy now, pay later" schemes* can represent, can involve higher interest rates than secured credit.

By contrast, the mention of goods purchased on a *"buy now, pay later" scheme* being repossessed (3%) may be accurate in respect of *"buy now, pay later" schemes* representing secured credit, with the goods constituting collateral against the amount borrowed.

Table 21. Advantages Identified by Those Recommending Credit Card for Purchasing Something Costing More Than Savings

Payment Method Recommended	*Advantages*	*Percentage Giving Response (%)*
CREDIT CARD	*No cost if paid within interest-free period*	*26*
	Gets fridge immediately	*26*
	No interest/Less interest/Costs less	*24*
	Convenience/Easier	*16*
	How long it can be paid off for/Flexibility	*10*
	Should be able to pay off quickly	*8*
	Instant cash	*6*
	No debt/less debt	*6*
	Leniency when paying back	*4*
	It's a regular payment/Can be ready for it	*4*
	No paperwork	*4*
	Less monthly payments	*4*
	Can't say	*0*

Base: Those who answered "Credit Card" to IDQ 2

Sample Size: 50

Responses concerning *credit cards costing nothing if paid within the interest-free period* (26%) revealed an understanding of one of the main implications and key features of this unsecured credit payment method, and the advantage of *getting the fridge immediately* (26%) is straightforward.

As already noted, suggestions that *"buy now, pay later" schemes*, c*harge little or no interest or cost less* than other payment methods (24%) could indicate a lack of awareness of the potential costs involved if not paid in full within the interest-free period.

Table 22. Disadvantages Identified by Those Recommending Credit Card for Purchasing Something Costing More Than Savings

Payment Method Recommended	*Disadvantages*	*Percentage Giving Response (%)*
CREDIT CARD	*Costs more/Higher interest*	*36*
	High interest if not paid within period	*24*
	The debt could drag one down/Could get into more debt	*12*
	Less money left for other things	*10*
	Debt to pay off/In debt	*10*
	Manage money well/Budget/Disciplined	*8*
	The longer the repayment period, the more interest you end up paying	*8*
	May not continue payment/May not be able to repay	*4*

Base: Those who answered "Credit Card" to IDQ 2

Sample Size: 50

The main disadvantages identified for credit cards were all concerned with the *higher interest* (36%) which such schemes might involve if the full amount is *not paid within the period* (24%), again recognising that unsecured credit can involve higher interest rates than secured credit.

The primary purpose of question IDQ5 concerning factors to consider when deciding whether to use a *"buy now, pay later" scheme* or a *credit card* to purchase a refrigerator costing more than one has in savings, as referred to in the previous sub-section (4.1.1.1), was to assess ability to compare different payment methods.

However, responses to this question also provided a degree of insight into the implications and key features of unsecured credit and debt, in that the main responses were largely concerned with the relatively high interest rates which both payment methods can entail if not paid in full within the interest-free period – a major implication of unsecured credit.

Similarly, the primary purpose of question IDQ7 concerning factors to consider when deciding whether to use *direct debit* or a *credit card* to pay electricity bills, as referred to in the previous sub-section (4.1.1.1), was to assess ability to compare different payment methods.

Again, responses to this question also provided a degree of insight into the implications and key features of unsecured credit and debt, in that the main responses concerning *credit card* were largely concerned with the relatively high interest rates this payment method can entail if not paid in full within the interest-free period.

4.1.2.2 Understanding of Differences between Secured and Unsecured Loans, and the Implications for Default

In order to investigate understanding of the differences between unsecured and secured loans, respondents were asked the following question.

(In-Depth)

IDQ8 Amanda is separated from her husband, and is 33 years old. She has two young children and earns an annual income of $29,000. She wants to take her children overseas to meet her parents for the first time, but only has $1,500 in savings.

Amanda is considering taking out a personal loan to pay for the trip, and has a choice between an unsecured loan or a secured loan. What are the main differences between an unsecured loan and a secured loan? (What else? Anything else?)

Table 23. Awareness of Differences between Unsecured and Secured Loans

Responses	***Percentage Giving Response (%)***
Secured loan is backed by an asset/Unsecured loan is not backed by an asset	*44*
Unsecured loan has higher interest	*21*
Unsecured loans have variable interest/Secured loans have fixed interest	*9*
Can't say	*32*

The main difference between unsecured and secured loans mentioned by respondents was that *secured loans are backed by assets,* unlike unsecured loans (44%).

This was an accurate response, as were mentions of *unsecured loans having higher interest rates* (21%).

A small proportion of respondents (9%) confused "unsecured" with variable interest and "secured" with fixed interest.

With 32% of respondents unable to attempt an explanation of the differences between unsecured and secured loans, and only one respondent referring to repossession of assets for non-payment of a secured loan, these findings reveal a lack of awareness in this area.

With the exception of older persons and retirees, groups that were over-represented in the lowest financial literacy quintile in Stage 2 were generally more likely to respond *"can't say"* to this question, particularly those aged 18–24 (55%, compared to 32%), those looking for work (55%), and those with highest level of education less than Year 10 (50%).

4.1.2.3 Understanding of Credit Records

In order to investigate understanding of how credit records are generated, respondents were asked the following question.

(Self-Completion)

SCQ13 Which of the following best sums up a bank's ability to check individuals' credit histories?
(Please circle one only)

Table 24. Level of Agreement with Statements Concerning Credit Records

Response Options	***Percentage Giving Response (%)***
Banks are not allowed to check credit histories	*0*
A bank can check the credit histories of its own customers, but only by checking its own records	*10*
A bank can check anyone's credit history by referring to a central record of all credit histories	*45*
A bank can check any bad credit history by referring to a central record of bad credit histories	*33*
Don't know	*12*

Percentages may not sum to 100% due to rounding.

The correct answer to this question – *that banks can check any bad credit histories by referring to a central record of bad credit histories* – was selected by only one third of respondents (33%).

The most common response to this question – that *banks can check anyone's credit history by referring to a central record of all credit histories* – although selected by almost half of respondents (45%), was incorrect.

In addition to the finding in Section 4.1.2.1 that some respondents perceived getting a credit rating as an advantage of using a *"buy now, pay later" scheme*, these findings reveal an apparently common misconception among Australian adults – that credit histories reflect not just negative events (ie. defaults), but also include positive events (ie. successful repayment of a debt).

Groups that were over-represented in the lowest financial literacy quintile in Stage 2 tended to answer this question correctly less often than average, particularly those speaking a language other than English at home (24%) and those employed on a casual basis (25%).

Understanding of how credit records are generated was further investigated by asking respondents the following question concerning unmanageable debt.

(Self-Completion)

SCQ14 Which of the following would definitely represent situations involving unmanageable (bad) debt?
(Please circle as many as apply)

Table 25. Situations Considered to Represent Unmanageable Debt

Response Options	*Percentage Giving Response (%)*
a) Inability to pay for a tertiary education except by using the Higher Education Contribution Scheme (HECS)	*4*
b) Inability to make the minimum repayment on a credit card	*82*
c) Inability to buy a home, except by obtaining a mortgage	*3*
d) None of the above	*12*
e) Don't know	*3*

The majority of respondents (82%) selected the one correct response option for this question – that *inability to make the minimum repayment on a credit card* represented a situation involving unmanageable debt.

Twelve percent of respondents did not recognise any of the situations as involving unmanageable debt, and only 3% could not attempt to answer the question.

Overall, 79% of respondents correctly selected response option b) only, indicating a relatively high level of recognition of unmanageable debt.

Groups that were over-represented in the lowest financial literacy quintile in Stage 2 tended to answer this question correctly less often than average, particularly those with highest level of education of Year 10 or below (68%), those with gross household income under $20,000 (70%), and unskilled/semi-skilled/farm workers (70%).

In order to investigate understanding of the implications of having a poor credit record, respondents were asked the following question.

(In-Depth)

IDQ9 *Amanda has a poor credit record. How might this affect her ability to borrow money to pay for the trip?*

Table 26. Awareness of the Implications of a Bad Credit Record for Future Borrowing

Responses	*Percentage Giving Response (%)*
May be unable to borrow the money	*89*
May have to pay a higher interest rate	*19*
May have to go to finance companies instead of banks	*13*
May have to provide a guarantor	*13*
Might only be able to obtain a secured loan	*7*
Might limit the amount she can borrow	*6*
Can't say	*0*

The great majority of respondents (89%) recognised that a poor credit record could simply result in the *inability to borrow money*, consistent results across all groups.

All other implications mentioned represented realistic consequences of having a poor credit record, revealing a generally high level of awareness.

4.2 Understanding of Where Money Comes From and Goes

	Objectives	*Key Findings*
BASIC REQUIREMENTS	• Ability to read a pay-slip • Recognition of household expenses and regular financial commitments	• Ability to work out take-home pay and gross pay for overtime from a pay-slip was high (over 90%); however, ability to work out employer contributions to superannuation was lower (74%) • Overall a high proportion of people were able to understand a payslip, although some had difficulty with identifying employer contributions to superannuation, particularly: – Those with gross annual household income under $20,000 – Those with highest level of education less than Year 10 • Budgeting and saving were both recognised by most respondents as ways of coping with regular and irregular financial outlays (62% and 59% respectively), although awareness of budgeting was lower among single parents and those with highest level of education less than Year 10

	Objectives	*Key Findings*
ADVANCED COMPETENCE	• Understanding of how companies and other organisations are financed, including issuing of shares	• 56% of people appeared to have some understanding of how companies are companies are financed. Lower levels of understanding were found among: – Those with highest level of education less than Year 10 – Those with gross annual household income under $20,000 – Those with savings under $5,000 – Those speaking a language other than English at home

4.2.1 Basic Requirements for Understanding of Where Money Comes From and Goes

4.2.1.1 Ability to Read a Pay-Slip

An indication of understanding where money comes from and goes at the point of income is provided by ability to read a pay-slip and understand what happens between gross earnings and net pay.

An indication of understanding where money comes from and goes at the personal/domestic level is provided by recognition of household expenses and regular financial commitments.

To investigate ability to read a pay-slip, respondents were first presented with the following example:

Please use Gary's pay advice, to answer SCQ19 to SCQ21.

<u>Gary's Pay Advice</u>

16/01/2003

EZY Electrics

ABN: 13 886 370 653

<u>GARY SMITH</u>

Grade A Electrician
Pay Period: 10/01/2003 to 16/01/2003
Method: Cheque Weekly

Item	Quantity	Rate	Earnings	Deductions	Employer	Net Pay
Normal Pay	38.00	21.36	811.68	0.00	0.00	
Time and a half	2.25	32.04	72.09	0.00	0.00	
Super	1.00	79.54	0.00	0.00	79.54	
Tax	1.00	0.00	0.00	211.00	0.00	
		This Pay	*883.77*	*211.00*	*79.54*	*672.77*
		Year to Date	*24,467.88*	*5,842.00*	*2,202.11*	*18,625.88*

Respondents were then asked the following question.

(Self-Completion)
SCQ19 How much take-home pay did Gary receive for the week?
(Please circle one only)

Responses follow:

Table 27. <u>Ability to Work Out Take-Home Pay from a Pay-Slip</u>

Response Options	*Percentage Giving Response (%)*
$672.77	*96*
$811.68	*0*
$883.77	*1*
$18,625.88	*0*
Don't know	*3*

Percentages may not sum to 100% due to rounding.

The great majority of respondents (96%) correctly selected *"$672.77"* from five multiple-choice response options (including *"don't know"*) as the amount of take-home pay indicated on the pay-slip.

Only 1% selected an incorrect answer, and only 3% selected the *"don't know"* response option.

Groups that were over-represented in the lowest financial literacy quintile in Stage 2 tended to be less likely to answer this question correctly, particularly those with gross annual household income under $20,000 (81%), those with highest level of education less than Year 10 (83%), those speaking a language other than English at home (84%), and those aged 70 and over (85%).

Respondents were next asked the following question.

(Self-Completion)
SCQ20 How much gross pay for overtime did Gary receive for the week?
(Please circle one only)

Respondents answered as follows:

Table 28. <u>Ability to Work Out Gross Pay for Overtime from a Pay-Slip</u>

Response Options	***Percentage Giving Response (%)***
None	*0*
$2.25	*0*
$32.04	*3*
$72.09	*92*
Don't know	*4*

Percentages may not sum to 100% due to rounding.

Most respondents (92%) correctly selected *"$72.09"* from five multiple-choice response options (including *"don't know"*) as the amount of gross pay for overtime indicated on the pay-slip.

Only 3% selected an incorrect answer, and 4% selected the *"don't know"* response option.

Groups that were over-represented in the lowest financial literacy quintile in Stage 2 tended to be less likely than average to answer this question correctly, particularly those with highest level of education less than Year 10 (67%), those aged 70 and over (69%), those with gross annual personal income under $20,000 (70%), and students (71%).

Respondents were asked the following question.

(Self-Completion)

SCQ21 How much money has his employer paid towards Gary's superannuation fund so far this year?
(Please circle one only)

Responses to this question were as follows:

Table 29. <u>Ability to Work Out Employer Contributions towards Superannuation from a Pay-Slip</u>

Response Options	***Percentage Giving Response (%)***
$79.54	*19*
$211.00	*0*
$2,202.11	*74*
$5,842.00	*3*
Don't know	*4*

Percentages may not sum to 100% due to rounding.

The majority of respondents (74%) correctly selected *"$2,202.11"* from five multiple-choice response options (including *"don't know"*) as the amount of employer contributions towards superannuation indicated on the pay-slip. However, 22% selected an incorrect answer, and 4% selected the *"don't know"* response option.

Groups that were over-represented in the lowest financial literacy quintile in Stage 2 tended to be less likely to answer this question correctly, particularly those with gross annual household income under $20,000 (41%), and those with highest level of education less than Year 10 (42%).

4.2.1.2 Recognition of Household Expenses and Regular Financial Commitments

In order to investigate awareness of ways of coping with regular and irregular financial outlays, respondents were asked the following question.

(In-Depth)

IDQ6 Michelle also needs to pay her electricity bill for $280 at the same time, but isn't sure that she can do this and also buy the fridge. What sort of things should Michelle do in the future to be able to cope with regular outlays, such as electricity bills and car registration as well as unexpected bills? (What else? Anything else?)

Methods of coping with regular and irregular financial outlays were mentioned by respondents in the proportions shown in the following table.

Table 30. Suggestions for Ways of Coping with Regular and Irregular Financial Outlays

Responses	***Percentage Giving Response (%)***
Save regularly	*62*
Use a budget	*54*
Pay bills by smaller more frequent payments	*13*
Save an amount for unknown expenses	*13*
Not spend all her money	*9*
Pay regular bills by direct debt	*6*
Ask for an extension	*2*
Can't say	*0*

The primary intention of this question was to investigate awareness of budgeting and saving as ways of coping with regular and irregular financial outlays, both of which were frequently mentioned in response to this question.

As already mentioned in Section 4.1.1.1, payment methods also received mentions as ways of coping with regular and irregular financial outlays, with regular instalment payments offering something along the lines of an agreed but externally imposed budget.

Overall, there was high awareness of budgeting and saving as ways of coping with financial outlays.

With reference to the top two mentions, none of the groups that were over-represented in the lowest financial literacy quintile in Stage 2 were particularly less likely to mention saving regularly. Using a budget was much less likely to be mentioned by single parents (20%, compared to 54% overall) and those with highest level of education less than Year 10 (23%).

4.2.2 Advanced Competence for Understanding of Where Money Comes From and Goes

4.2.2.1 Understanding of How Companies and Other Organisations Are Financed

At an advanced level of financial competence concerning where money comes from and goes to, people's broad understanding of how companies are financed, including issuing of shares, was tested.

Respondents were asked the following question.

(Self-Completion)
SCQ18 A large publicly listed company needs to obtain financing to expand its operations. Please indicate which of the following statements appear to be true. (Please circle as many as apply)

Proportions of respondents selecting each of five multiple-choice response options (including *"don't know*"), with multiple responses permitted, are shown in the table below.

Table 31. <u>Level of Agreement with Statements concerning Financing of Companies</u>

Response Options	***Percentage Giving Response (%)***
a) Debt financing (e.g. obtaining a loan) would give the lender an ownership interest in the company	*16*
b) Equity financing (e.g. issuing shares) would result in a dilution of ownership interests	*56*
c) Equity financing would gain funds for the company, but would also incur debt	*14*
d) Debt financing would gain funds for the company, but would also incur debt	*46*
e) Don't know	*25*

Fifty-six percent of respondents recognised that *equity financing would result in a dilution of ownership interests*, and 46% recognised that *debt financing would gain funds but also incur debt*.

The proportion of respondents correctly selecting only the two true statements, as mentioned above, was 35%.

All groups that were over-represented in the lowest financial literacy quintile in Stage 2 were less likely to answer this question correctly, particularly those with highest level of education less than Year 10 (17%), those with gross annual household income under $20,000 (19%), those with savings under $5,000 (20%), and those speaking a language other than English at home (20%).

5. FINANCIAL COMPETENCE

This section examines a number of areas relating to financial competence.

Basic financial services are examined from a number of aspects including awareness of the features of banking and financial products, along with advanced aspects including the ability to make strategic use of such products to one's own advantage.

Financial records and information covers aspects of understanding of official financial records such as prospectuses and annual statements, and understanding of the need to monitor performance of investments over time.

Spending money and budgeting includes understanding of the purpose of saving, the need to save for retirement, understanding that there is a variety of ways in which to save money and how to use budgets.

Risk and return covers understanding of a range of concepts such as the purpose of insurance, awareness that high return investments are also likely to involve high risk, that market values can fall as well as rise and the ability to identify potential risks.

5.1 Understanding of the Main Features of Basic Financial Services

	Objectives	*Key Findings*
BASIC REQUIREMENTS	• Awareness of the availability and basic features of: – Basic banking – Electronic banking (e.g. ATMs; EFTPOS; telephone banking; Internet banking) – Superannuation – Other investments (e.g. shares; term deposits; managed investments; life insurance with an investment element) – Risk insurance products (e.g. house and contents insurance, including coverage and exclusions; health insurance)	• Awareness of features of financial products: **Insurance:** • 76% answered correctly regarding the coverage provided by Third Party Property Insurance **Investment:** • There were a number of major gaps in awareness of investment product features: • Overall, 89% of respondents correctly answered regarding the meaning of diversification of investments. That result needs to be considered alongside the Stage 2 results, which showed that 91% of people thought diversification was important to some extent and that only 51% of people thought it “very important” to diversify • 73% of respondents understood the dangers of trying to predict future returns based on short term (the past two years) investment performance; 25% did not • 60% of respondents understood the meaning of a capital guaranteed investment; 40% of respondents were unsure or incorrect • Only 39% of respondents correctly selected shares as the most likely growth investment over the next 12 years, when given a range of alternatives, including a managed fund invested largely in cash, a fixed interest account and government bonds

	Objectives	*Key Findings*
		Banking: • Most respondents were aware of banking methods other than branch banking, with the most frequently mentioned alternatives being Internet banking (82%), ATM (67%), telephone banking (64%) and EFTPOS (31%) • Groups that were over-represented in the lowest financial literacy quintile in Stage 2 were generally less aware of features of financial products. Groups in that category included: – Those with no occupation – Those 18–24 years of age – Students – Single parents – Single people living alone – Retirees – Those with primary/some secondary education – Those with household income under $20,000

	Objectives	*Key Findings*
ADVANCED COMPETENCE	• Ability to make strategic use, to maximise personal financial advantage, of: – Basic banking – Electronic banking (e.g. ATMs; EFTPOS; telephone banking; Internet banking) – Superannuation – Other investments (e.g. shares; term deposits; managed investments; life insurance with an investment element) – Risk insurance products (e.g. house and contents insurance, including coverage and exclusions; health insurance)	• Ability to make strategic use of financial products and services: **Banking:** • Respondents demonstrated a good understanding of the benefits of ATMs, with key advantages being identified as 24 hour access (61%), shorter queues/quicker (51%) and no fees/lower fees than over the counter (42%) • There was also a good level of understanding of the advantages of Internet banking, with the main advantages reported being 24 hour access (47%), access at home or work (37%), quicker (31%), and no fees/lower fees than over the counter (30%). However, this result needs to be considered in the context of the relatively low level of knowledge of how to use Internet banking that was shown in Stage 2 • When asked about the benefits of paying off a bill precisely when due, 51% of respondents mentioned avoiding an overdue fee or interest charge, and 27% mentioned that it would maximise interest earned • Respondents had a sound understanding of the advantages of moving some money from an everyday account into a term deposit **Insurance:** • It appeared that respondents had a reasonably good knowledge of basic insurance needs. Consideration of types of insurance required for adequate coverage was reasonably high for house insurance (94%), car (93%), contents (71%) and life insurance (81%). 50% mentioned that private health insurance should be considered, and 41% mentioned income insurance • Of the issues to consider when renewing insurance, the main issue mentioned was whether the amount of cover was still sufficient (63%). That result contrasts with the result in Stage 2 which showed a lower percentage of people reporting they focused on that element, indicating a gap between the behaviour reported previously and the more “ideal” approach in Stage 3

	Objectives	*Key Findings*
		Investment: • A majority showed a knowledge of appropriate retirement saving vehicles, with 68% mentioning extra money in superannuation. An unexpectedly high proportion mentioned saving money in a bank account (32%) – this may reflect recent poor performance of managed investments and/or limited understanding of appropriateness of different vehicles • Understanding of the benefits and shortcomings of property investment was sound. The most frequently reported advantages of property investment were that the property may grow in value faster than interest in a bank account (59%), negative gearing/tax advantages (49%) and earning extra income from rent (26%). The main disadvantages of property investment were regarded as being difficulty in meeting loan repayments (33%), money being tied up/not readily accessible (32%) and the property possibly not growing in value as fast as interest in a bank account (25%); only 12% mentioned a potential fall in the value of the investment • When asked about the advantages of a managed fund investment, the most frequently mentioned advantages were providing a diverse portfolio/risks are spread (40%), making more money/receive higher interest (39%), and that the investment was more accessible than if tied up in property (21%) • The information strategies that would be used in order to find out more about a particular managed fund included contacting the fund itself (49%) and seeing a seeing a financial planner/adviser or accountant (48%). This is consistent with the Stage 2 finding that 51% of people use a financial specialist • When it came to choosing between a fee-based or commission-based adviser, affordability was most mentioned, followed by impartiality

	Objectives	Key Findings
		• Overall, 69% of respondents would prefer a fee-for-service adviser, due predominantly to the perception of greater impartiality. On the other hand, many of those who would prefer a commission-based adviser (21%) perceived that the commission would make the adviser more motivated to do well with the money • Groups that were frequently below average in terms of more advanced competence regarding financial services were: – Those aged 18–24 – Those with primary school/some secondary education – Those who passed Year 10 education or lower – Students – Those with savings under $5,000 – Those with household income under $20,000 – Single parents – Those aged 70 and over

5.1.1 Basic Requirements for Understanding of the Main Features of Basic Financial Services

5.1.1.1 Awareness of Features of Financial Products

5.1.1.1.1 Car Insurance

In order to investigate awareness of coverage and exclusions for third party property car insurance, respondents were asked the following question.

(Self-Completion)
SCQ5 Fred has caused a car accident, but has third party property car insurance. Which cars would be covered by Fred's insurance?
(Please circle one only)

Responses follow.

Table 32. Third Party Property Car Insurance Coverage

Response Options	***Percentage Giving Response (%)***
Fred's car only	*4*
The other cars involved in the accident only	*76*
Both Fred's car and all other cars involved	*12*
Neither Fred's car nor any other cars involved	*5*
Don't know	*2*

Percentages may not sum to 100% due to rounding.

Seventy-six percent of respondents correctly answered that *only the other cars involved in the accident* would be covered by the insurance, leaving 24% of respondents that were unsure or incorrect.

In general, the groups that were over-represented in the lowest financial literacy quintile in Stage 2 were less likely than average to answer correctly. Those least likely to have given the correct answer were those in casual employment (58%), those with no occupation (63%), those 18–24 years of age (63%), and retirees (63%).

5.1.1.1.2 Investments

Understanding of diversification amongst different investment types was examined by asking:

(Self-Completion)
SCQ7 In relation to managing your investments, diversification is:
(Please circle one only)

Responses are given below.

Table 33. Investment Diversification

Response Options	*Percentage Giving Response (%)*
The strategy of pooling your money with other investors to make joint purchases of investments	*2*
The strategy of putting your money into a range of different investments such as property, shares, managed funds, etc.	*89*
An excess of liabilities over assets	*0*
When an investor buys more shares when the price is low and fewer shares when the price is high, thus reducing the overall cost	*3*
Don't know	*5*

Percentages may not sum to 100% due to rounding.

Overall, 89% of respondents correctly answered that diversification in relation to investments was *the strategy of putting your money into a range of different investments such as property, shares, managed funds, etc*.

Those least likely to correctly answer this question were single parents (60%), those aged 60 and over (78%), semi-skilled/unskilled/farm workers (79%), and those in the 18 to 24 age group (79%).

In order to examine understanding of the issues involved in trying to predict future investment returns, respondents were asked the following question.

(Self-Completion)

SCQ8 If an investment product has produced good returns for the past two years, this means that the returns for this year are most likely to be:
(Please circle one only)

Table 34. Predicting Investment Returns Based on Historical Performance

Response Options	***Percentage Giving Response (%)***
Higher than in previous years	*9*
About the same as in previous years	*14*
Less than in previous years	*2*
Can't say based on the information provided	*73*
Don't know	*1*

Percentages may not sum to 100% due to rounding.

Seventy-three percent of respondents correctly answered that returns for the coming year could not be predicted *based on the information provided.* A number of respondents predicted a return based on reported "good returns" for the past two years.

Groups least likely to give the correct answer were those with highest level of education less than Year 10 (58%), those with household income under $20,000 (59%), and single parents and home duties/non-workers, of whom 60% gave the correct answer.

In order to assess understanding of the term *capital guaranteed*, respondents were asked:

(Self-Completion)
SCQ9 If an investment is capital guaranteed, this means that:
(Please circle one only)

Responses are provided below.

Table 35. Meaning of the Term Capital Guaranteed Investment

Response Options	***Percentage Giving Response (%)***
The amount invested cannot be reduced by losses on investments	*60*
The investment is very low risk and so the possibility of losing money on the investment is minimal	*26*
You have information about a company that is known by the company's board of directors, management, and/or employees, but not by the public	*2*
Don't know	*12*

Percentages may not sum to 100% due to rounding.

Overall, 60% of respondents answered correctly that in a capital guaranteed investment, *the amount invested cannot be reduced by losses on investments*. The rest of the respondents were unsure of the exact meaning, with 26% responding that it reflected a low risk investment with minimal possibility of losing money on the investment.

Most of the groups that were over-represented in the lowest financial literacy quintile in Stage 2 were less likely than average to answer correctly, particularly students (29%), those with no occupation (25%), singles who were living alone (40%) and single parents (40%). Retirees were more likely than average to answer correctly regarding capital guaranteed investments (67%).

In order to examine understanding of growth investments, respondents were asked:

(Self-Completion)

SCQ10 Frank and Julie have just had a baby. They have some money they want to invest in order to pay for their child's education. Which of the following is most likely to provide the highest growth over the next 12 years?
(Please circle one only)

Responses follow:

Table 36. Understanding Long-Term Investment Options

Response Options	***Percentage Giving Response (%)***
Fixed interest account	*15*
Government bonds	*7*
Shares	*39*
Managed fund that invests largely in cash	*21*
Don't know	*18*

Percentages may not sum to 100% due to rounding.

Only 39% of respondents correctly answered that the investment most likely to provide highest growth over the next 12 years was *shares*. The majority of people responded that alternative investments would offer higher returns over that time period, or could not say.

With the exception of those on home duties/non-workers (60%), the groups that were over-represented in the lowest financial literacy quintile in Stage 2 were less likely than average to answer correctly, particularly those with highest level of education of Year 10 or below (9%), those in the 18–24 age group (11%), and casual employees (13%).

5.1.1.1.3 Banking

In order to assess awareness of the different banking methods, the following question was asked.

(In-Depth)

IDQ10 Amanda often does her banking by going to her local branch and performing transactions over the counter. What other methods of banking could Amanda consider? (What else? Anything else?)

Results are provided below.

Table 37. Awareness of Banking Methods

Responses	*Percentage Giving Response (%)*
Internet banking	*82*
ATM	*67*
Telephone banking	*64*
EFTPOS	*31*
Bpay	*20*
Direct debit	*17*
Post office	*15*
Credit card	*13*
Cheque	*12*
Debit card	*6*
Direct credit by employer	*3*
Mail	*3*
Cash	*2*
Money order	*2*
Can't say	*0*

Overall, respondents reported a number of appropriate, alternative banking methods, with the most frequently reported methods being *Internet Banking* (82%), *ATM* (67%), *Telephone Banking* (64%) and *EFTPOS* (31%).

Those less likely to mention *Internet Banking* were those aged 70 and over (31%), those with highest level of education of Year 10 or below (36%), and those with household income under $20,000 (33%).

It was noticeable that awareness of *Internet banking* was reported so frequently, while knowledge of how to use that banking method was only reported by 52% of people in Stage 2.

5.1.2 Advanced Competence for Understanding of the Main Features of Basic Financial Services

5.1.2.1 Ability to Use Financial Products and Services Strategically

The following question was asked to examine the degree to which respondents understood the benefits of ATMs.

(In-Depth)

IDQ11 What advantages could using ATMs provide Amanda? (What else? Anything else?)

The results are provided below.

Table 38. Understanding of Advantages of Using ATMs

Responses	***Percentage Giving Response (%)***
24-hour access	*61*
Shorter queues/Quicker	*51*
No fees/Lower fees than over the counter	*42*
Time	*13*
Convenience	*9*
Convenience of using in other locations	*9*
Gives mini-statement when you want it	*4*
Don't have to go to a branch	*2*
None	*2*
Can't say	*1*

Respondents demonstrated a good understanding of the benefits of ATM use. Only 3% reported *"none"* or *"can't say"*.

Some of the advantages reported were *24-hour access* (61%), *shorter queues/quicker* (51%) and *no fees/lower fees than over the counter* (42%).

There was a broad understanding of advantages of using ATMs across all groups.

In order to assess understanding of the benefits of Internet banking, respondents were asked:

(In-Depth)

IDQ12 What advantages could InternetbBanking provide Amanda? (What else? Anything else?)

Results are provided below.

Table 39. Understanding of Advantages of Using Internet Banking

Responses	*Percentage Giving Response (%)*
24-hour access	*47*
Access at home/ work	*37*
Quicker	*31*
No fees/lower fees than over the counter	*30*
Can see each detail	*11*
Access to history of transactions	*7*
Time management/ in her own time	*7*
Convenience	*7*
More ability to do things	*6*
Keep daily record/ keep track of finances more readily	*5*
Secure	*5*
Access from anywhere in the world	*4*
She doesn't have to travel with cash	*4*
Control everything yourself	*3*
Can see all accounts clearly	*3*
Can transfer funds	*3*
No need to go to the bank	*3*
Complete privacy	*2*
Safety	*2*
Can't say	*8*

There appeared to be a good understanding of the advantages of Internet banking, with only 8% of respondents not able to give an advantage. That result can be contrasted with the relatively low level of knowledge of how to use Internet banking, reported in Stage 2, showing a gap between awareness of banking method and willingness or ability to use it.

A major advantage was perceived to be around speed and convenience of access, with 47% of respondents mentioning *24-hour access*, 37% mentioning *access at home or work*, and 31% mentioning that it was *quicker*. *No fees/lower fees than over the counter* was mentioned by 30% of respondents.

Advantages relating to greater financial control were also mentioned in a number of cases, with reporting of the benefit that the person *can see each detail* (11%), *access history of transactions* (7%), and *keep daily record/keep track of finances more readily* (5%).

While many of the groups that were over-represented in the lowest financial literacy quintile in Stage 2 showed an understanding of the advantages of Internet banking, some groups were less familiar with such advantages and would have a lower than average chance of using such a banking method strategically. Groups with high levels of "*can't say"* were those with highest level of education less than Year 10 (42%), those with household income under $20,000, (33%) and retirees (30%).

In order to explore respondents' understanding of the need for different types of insurance cover, the following question was asked.

(In-Depth)

IDQ13 Erik, a computer engineer, is transferred to Australia from Sweden, bringing with him his wife, Ingrid, who is expecting their second child. Within one month of arriving, they are well established, and have already purchased a house and car. What sorts of insurance should they seriously think about taking out? (What else? Anything else?)

The results are provided below.

Table 40. <u>Types of Insurance that Should be Considered</u>

Responses	***Percentage Giving Response (%)***
House insurance	*94*
Car insurance	*93*
Life insurance	*81*
Contents insurance	*71*
Private health insurance	*50*
Income insurance	*41*
Mortgage Insurance	*3*
Sickness & accident	*2*
Superannuation Insurance	*2*
Can't say	*0*

Overall, respondents had a good understanding of the need for particular insurance types, including *house* (94%), *car* (93%), *contents* (71%) and *life insurance* (81%).

Reporting of some insurance types was much lower, with 50% of respondents mentioning the need to consider *private health insurance* and 41% mentioning *income insurance*.

Whilst generally most groups mentioned house, car, life and contents insurance, as might be expected certain groups such as those with savings under $5,000 and those aged 18–24 were less likely to mention *private health insurance* or *income insurance.*

As an assessment of understanding issues to be considered in reviewing insurance at renewal, the following question was asked.

(In-Depth)

IDQ14 When Erik and Ingrid have been here for more than a year, what issues should they consider when their insurance policies are due for renewal? (What else? Anything else?)

Results are provided below.

Table 41. Issues to be Considered When Renewing Insurance

Responses	*Percentage Giving Response (%)*
Whether amount of cover is still sufficient	*63*
Whether they could get the same cover cheaper with another insurer	*58*
Whether policy is still required	*15*
If planning to stay in Australia	*12*
Whether they need to make any additional disclosures	*7*
Combining policies to get cheaper rates/Consolidating to get discounts	*6*
Ability of company to pay claims/Secure and reliable	*3*
Incentives/No-claim bonus/Loyalty	*3*
Job security	*2*
Income changes	*2*
Terms and conditions	*2*
Can't say	*5*

A number of respondents were able to report issues to consider when insurance is due for renewal. The main types of issues reported were *whether the amount of cover was still sufficient* (63%) and *whether the same cover could be obtained more cheaply from another insurer* (58%).

Some groups were less likely than average to consider whether the same cover could be obtained more cheaply elsewhere. That issue was mentioned less by those aged 70 and over (31%), semi-skilled/unskilled/farm workers (46%) and retirees (47%). Other groups that were less likely to mention price comparisons were those with no occupation, students and single parents.

In order to assess understanding of options for saving for retirement, respondents were asked:

(In-Depth)
Returning to Gary, the electrician from the questionnaire you completed earlier.

IDQ16 If Gary was your age, and given his circumstances, what method of saving for his retirement would you recommend, and why? (What else? Anything else?)

Responses were as follows.

Table 42. Recommended Forms of Retirement Saving

Responses	***Percentage Giving Response (%)***
Put extra money into superannuation	*68*
Invest in shares/stocks and bonds	*44*
Invest in property	*37*
Save money in a bank account	*32*
Sacrificing salary and putting the amount sacrificed into superannuation	*16*
Managed/Investment funds	*13*
Term Deposits	*10*
See a Financial Planner	*6*
Pay off his mortgage as quickly as possible	*5*
Diversify investment portfolio/other investments	*3*
Cut down on expenses/spending	*2*
Can't say	*2*

A number of respondents demonstrated sound understanding of appropriate retirement savings vehicles, with the most common recommendations being *extra money in superannuation* (68%), *investment in shares/stocks and bonds* (44%) and *investment in property* (37%). Sixteen percent recommended *salary sacrifice to increase superannuation*.

A relatively high proportion of respondents recommended *saving money in a bank account* (32%), with that savings vehicle being mentioned frequently by those under 45 years of age. This may in part reflect the recent poor performance of superannuation funds and shares and, consistent with the findings in SCQ10 (Table 36), it probably also reflects the fact that differential growth potential of savings vehicles is not well understood by some people.

Only 13% of respondents mentioned *managed/investment funds* as a retirement saving option.

Groups least likely to mention investing in extra superannuation were those with no occupation (38%) and those aged 18–24 (53%). Those same groups were also more likely than average to recommend saving money in a bank account.

In order to explore understanding of whether or not to make additional personal contributions to a superannuation fund, respondents were asked:

(In-Depth)

IDQ18 Again, imagine that Gary is your age. He is deciding whether he should make personal contributions to his superannuation scheme, additional to those made by EZY Electrics. What factors should he consider? (What else? Anything else?)

Table 43. Factors to Consider When Making Additional Superannuation Payments

Responses	***Percentage Giving Response (%)***
Can he afford it?	*41*
Whether he could get better return elsewhere	*31*
How much return the EZY Electrics superannuation scheme is providing	*25*
How else he might use the money (e.g paying off his mortgage)	*20*
Taxation advantages of investing in superannuation	*17*
Whether he may need to access his savings before he retires	*13*
How much he would want to contribute	*5*
Lifestyle	*5*
What the superannuation fund invests the money in	*5*
See a financial adviser	*4*

Responses	***Percentage Giving Response (%)***
How much he requires for retirement	*4*
How long before he retires	*4*
Present debt/financial commitments	*4*
Current income and expenses	*4*
Family	*4*
Level of risk associated with superannuation fund	*3*
Reputation of superannuation fund/Performance	*3*
Will the fund he has be sufficient	*2*
How comfortable he wants to be during retirement	*2*
If contributions will actually make a considerable difference	*2*
Health	*2*
How much his employer currently contributes	*2*
Can't say	*1*

A number of possible factors were suggested by respondents as needing to be considered regarding whether or not additional personal contributions to a superannuation fund should be made. The most frequently mentioned consideration was the most basic – *whether or not the person could afford to make the extra contribution* (41% of respondents).

The other factors mentioned included whether a better return could be achieved elsewhere (31%), the return that the superannuation fund is providing (25%), and how else the money might be used, such as paying off the mortgage (20%).

In general, the groups that were over-represented in the lowest financial literacy quintile in Stage 2 were less likely than average to mention considering *whether a better return could be achieved elsewhere*. Groups that were particularly less likely to mention that issue were those with Year 10 education or below (14%), students (14%), and those with household income under $20,000 (15%).

The following question was asked to assess understanding of money management strategies in relation to bill paying.

(In-Depth)

IDQ20 What ADVANTAGES, if any, would Gary gain by paying a bill for electrical parts on PRECISELY the date it is due? (What else? Anything else?)

Responses were as follows.

Table 44. Advantages of Paying Bills Precisely on the Due Date

Responses	***Percentage Giving Response (%)***
Avoid being charged interest/fee for being overdue	*51*
Maximise interest earned on his money	*27*
It's good for his credit history	*23*
Bills don't pile up	*7*
Peace of mind/good feeling	*7*
Could get a discount for not paying late	*6*
Does not get a bad credit rating	*5*
Avoids debt	*3*
Good business practice	*3*
Keeps records accurate/up to date/organised	*3*
Plan/budget better for future	*3*
Improves business relationship	*3*
Can't say	*6*

Only 6% of respondents could not report a benefit of paying bills precisely when they fall due. Avoidance of interest charges or fees for being overdue was mentioned by 51% of respondents as a benefit of paying bills exactly when they fall due.

Twenty-seven percent of respondents mentioned the benefit of this practice maximising the interest earned on a person’s money. Although suggestive of most respondents not understanding the full benefits of this money management strategy, this interpretation is negated somewhat by the lack of interest earned on transaction accounts in recent years.

All groups were able to report some benefits of paying bills at precisely the time they become due.

In order to assess understanding of how to manage money appropriately, using higher interest accounts in combination with everyday accounts, respondents were asked:

(In-Depth)

IDQ21 Gary is considering withdrawing some of the money in his account and depositing it in a term deposit. What would be the advantages of Gary doing this? (What else? Anything else?)

Table 45. Advantages of Using a Term Deposit

Responses	*Percentage Giving Response (%)*
Make more money/receive a higher interest rate	*84*
Won't spend his money/Can't touch it	*34*
Secure investment/Guaranteed return	*12*
Saving for the future	*9*
Fixed interest rate	*6*
Can't say	*5*

Respondents appeared to have a sound understanding of the advantages of moving some money from an everyday account into a term deposit, with only 5% of respondents unable to suggest an advantage.

The majority of responses centred around the advantages of *making more money/receiving a higher interest rate* (84%) and not being able to spend the money (34%).

While most groups were able to report an appropriate advantage of using a term deposit, 18% of those aged 18–24 were unable to do so, reflecting a lack of understanding of that savings vehicle amongst a proportion of that group.

In order to examine understanding of any possible negative implications of moving some money into a term deposit, respondents were asked:

(In-Depth)

IDQ22 What would be the disadvantages of Gary withdrawing some of the money in his account and depositing it in a term deposit? (What else? Anything else?)

Results are provided below.

Table 46. Disadvantages of Using a Term Deposit

Responses	***Percentage Giving Response (%)***
The money is inaccessible for the specified term	*77*
The money earns less/nothing if withdrawn within the specified term	*16*
Low rate of return/Get better return elsewhere	*7*
Other opportunities lost	*6*
It will cost to get the money out early	*4*
Reduces his working capital/cash	*4*
Tax disadvantages	*4*
Bank fees/conditions of term deposit/Penalties	*4*
Risk – could be bad investment	*2*
Can't say	*3*

The majority of respondents were able to report a disadvantage involved in moving money into a term deposit from another account, with only 3% unable to give a response.

Overall, 77% of respondents saw a disadvantage in the *money being inaccessible for the specified term*, and 16% reported that the money would earn less or nothing if withdrawn within the specified term.

Some groups were noticeably less likely than average to report the disadvantage of the money being inaccessible for the specified term. In particular, that disadvantage was less likely to be mentioned by single parents (40%), semi-skilled/unskilled/farm workers (55%), those aged 18–24 (55%), and students (57%).

Respondents were asked the following question in order to assess understanding of the benefits of property investment.

(In-Depth)

IDQ24 Sharon is 33, single and has no children. She earns $60,000 per year and has $40,000 in savings. Sharon is considering borrowing money to buy an investment property. What would be the advantages of Sharon purchasing an investment property? (What else? Anything else?)

Responses were as follows.

Table 47. Advantages of Property Investment

Responses	***Percentage Giving Response (%)***
The property may grow in value faster than interest in the bank account	*59*
Negative gearing against borrowed money/tax advantages	*49*
Property is a tangible asset/"Bricks and mortar"	*33*
Earn extra income from rent	*26*
Aid in retirement or future/Security for future	*15*
The tenants pay the mortgage	*13*
Continuing growth of the property/Asset growth	*13*
Secure investment	*9*
Make one work harder to pay it off	*6*
Can live there later/It will be yours one day	*5*
Could use it as security on another loan	*3*
Positive relationship with bank	*3*
Can't say	*0*

All respondents offered comments on the advantages of investing in property, with the most frequently mentioned advantages being that *the property may grow in value faster than interest in a bank account* (59%), *negative gearing/tax advantages* (49%), the *tangible* nature of the asset (33%), and *earning extra income from rent* (26%).

All groups were able to suggest advantages of property investment.

In order to evaluate respondents' understanding of the disadvantages of property investment, the following question was asked.

(In-Depth)

IDQ25 What would be the disadvantages of Sharon purchasing an investment property? (What else? Anything else?)

Results are provided below.

Table 48. Disadvantages of Purchasing an Investment Property

Responses	*Percentage Giving Response (%)*
Difficulty meeting loan repayments	*33*
Money is tied up/ can't be accessed readily	*32*
The property may not grow in value as fast as interest in the bank account	*25*
Property could be damaged by the tenants	*24*
Difficulty in obtaining tenants	*21*
Increased costs involved in management of property/Added expenses	*14*
Potential for a fall in the market/ decline in market	*12*
Maintenance/repairs on the house	*12*
Has a debt/ mortgage/loan	*8*
Diminished savings/Less disposable income/No liquid asset	*8*
Could be subjected to more tax	*6*
Unstable/Risky	*5*
Constant repayments for a long period of time	*4*
Affects her lifestyle	*3*
Unreliable tenants – don't pay on time	*3*
High purchase price/Overpaid initially	*3*
Will have to work out how to manage it	*2*
Selling the property	*2*
Investment does not produce income/No return till later	*2*
Could lose money – interest rates could increase	*2*
Can't purchase own home	*2*
Can't say	*3*

A wide range of disadvantages of property investment was recorded. Only 3% of respondents could not suggest a disadvantage.

The most frequently mentioned disadvantages included *difficulty in meeting loan repayments* (33%) and *money being tied up/not readily accessible* (32%). Twenty-five percent of respondents mentioned *property possibly not growing in value as fast as interest in a bank account*. (While there are a range of variables to consider such as the location of the property, purchase price and how long it is held, it seems unlikely that interest in a bank account would provide a better return over the long term.) Only 12% mentioned the potential for a fall in the market.

All groups were generally able to report disadvantages of property investment. It was noticeable, however, that the groups least likely to mention the disadvantage of *difficulty in meeting loan repayments* were those with highest level of education less than Year 10 (17%), those looking for work (18%), and semi-skilled/unskilled/farm workers (21%).

In order to assess understanding of the benefits of managed investments, respondents were asked:

(In-Depth)

IDQ26 Sharon is also considering using her savings to invest in a managed fund. What would be the advantages of Sharon doing this? (What else? Anything else?)

Responses were as follows.

Table 49. Advantages of Investing in a Managed Fund

Responses	***Percentage Giving Response (%)***
Make more money/ receive a higher interest rate	*39*
Provides diverse portfolio/ risks are spread	*40*
Money more accessible than if tied up in property	*21*
Safety and security/Less risk	*10*
No additional cost/expenses	*5*
Guaranteed % of earning/interest	*3*
Can add readily to the investment	*2*
No loan/debt	*2*
None	*1*
Can't say	*16*

The most frequently mentioned advantages of managed investments were that such an investment could *make more money/receive a higher interest rate* (39%), *provide a diverse portfolio/ risks are spread* (40%) and was *more accessible than if tied up in property* (21%).

Sixteen percent of respondents could not report an advantage in this area of investment, indicating a lack of knowledge of managed investments amongst that group.

Most of the groups that were over-represented in the lowest financial literacy quintile in Stage 2 were more likely than average to be unable to report an advantage of a managed fund investment. The groups that gave noticeably higher than average "*can't say*" responses in that regard were students (43%), those aged 18–24 (39%), those with savings under $5,000 (31%), and those aged 70 and over (31%).

The following question was asked to assess understanding of the shortcomings of investing in a managed fund.

(In-Depth)
IDQ27 What would be the disadvantages of Sharon investing in a managed fund? (What else, anything else?)

Responses were as follows.

Table 50. Disadvantages of Investing in a Managed Fund

Responses	***Percentage Giving Response (%)***
Could lose her money if the fund fails	*37*
Might make less money/Lower interest rate	*24*
Money not as accessible	*13*
Loses control	*12*
Might have higher fees and charges	*11*
Depends on the skills of management	*7*
Could lose money if downturn in market	*5*
Long term investment	*4*
Lack of flexibility	*2*
More volatile than property in terms of value	*2*
Capital gains tax/Tax on interest received	*2*
None	*3*
Can't say	*16*

Most respondents reported disadvantages regarding managed fund investment; however 19% were unable to suggest any disadvantages.

The most frequently reported disadvantages were that the money *could be lost if the fund fails* (37%) and that the fund *may make less money/lower interest rate* (24%). Other mentions were that the *money would not be as accessible* (13%), that *control would be lost* (12%) and 11% mentioned the possibility of *higher fees and charges*.

A number of groups were more likely than average to be unable to report a disadvantage of a managed fund investment. In particular, groups that had a high "*can't say*" response in terms of managed investment shortcomings were students (43%), those aged 18-24 (42%), those employed on a casual basis (29%), and those with savings under $5,000 (29%).

In order to evaluate respondents' awareness of different resources and information sources that could be used in considering a particular managed fund, the following question was asked.

(In-Depth)

IDQ28 Sharon's friend recommends she consider a particular managed fund. What might Sharon do to find out more about this fund? (What else? Anything else?)

Results are provided below.

Table 51. Ways of Finding Out More About a Particular Managed Fund

Responses	*Percentage Giving Response (%)*
Contact the fund and ask questions/ask for information	*49*
See a financial planner/adviser, accountant, etc.	*48*
Get a prospectus for the fund	*26*
Talk to people/friends/family/Ask questions	*16*
Use Internet to research	*15*
A comparative study of all companies/funds	*11*
Read books/magazines about investment	*10*
Research (unspecified)/Gather all the information	*8*
Investigate/research via news/newspapers	*5*
Discuss with bank manager	*5*
Get information from Stock Exchange	*4*
Look at past performance/results/returns	*4*
Speak to people who have invested in the fund	*2*
Refer to literature/Investment fund manager rankings	*2*
Speak to financial adviser on radio	*2*
Can't say	*4*

Only 4% of respondents were unable to suggest a way to find out more about a particular managed fund.

The major means of finding out more about a fund that were reported were to *contact the fund* itself (49%), *see a financial planner/adviser or accountant* (48%), and *obtain a fund prospectus* (26%). A variety of other information sources were also mentioned, including word of mouth (16%) and Internet (15%).

A little over half of the respondents did not mention a planner/adviser or accountant. This aligns with the findings from Stage 2, where 51% of people reported having a financial specialist in the form of an accountant, financial planner/adviser or tax specialist.

While all groups were generally able to suggest ways to find out more about a specific managed fund, some groups were less likely than average to see a financial planner/adviser or accountant in such a situation. That was particularly the case for those with the highest level of education less than Year 10 (33%), those employed on a casual basis (33%), and single people living in shared households (39%).

In order to examine respondents' awareness of the term "prospectus"[1], the following question was asked of those respondents who had not mentioned a prospectus in the previous question IDQ28.

(In-Depth)
IDQ29 Have you ever heard of a prospectus?

Results from IDQ28 and IDQ29 were combined, revealing that 84% of respondents had heard of a prospectus. Groups least likely to have done so were those aged 18–24 (53%), single people living in a shared household (71%), those with savings under $5,000 (71%), and those involved in home duties/non-workers (73%).

In order to explore understanding of the purpose and use of a prospectus, respondents who were aware of a prospectus were asked:

(In-Depth)
IDQ30 How might a prospectus assist Sharon's decision? (What else? Anything else?)

Responses were as follows.

Table 52. Role of a Prospectus in Helping to Consider a Managed Fund

Responses	***Percentage Giving Response (%)***
Show how well the fund has been performing	*71*
Show what the fund invests in	*51*
Show how long the fund has been operating	*21*
List the principals of fund	*16*
Information/confidence in company/Financial stability and integrity of management	*8*
Predicted returns of the fund	*8*
Specify fees – entering and exiting	*7*
Outline the workings of the fund/Provide credible facts and figures	*6*
Show the size of the fund	*6*

[1] Please note that as the survey was commenced at the beginning of the transition phase from prospectuses to Product Disclosure Statements, it was considered that respondents would still understand the term "prospectus" best with reference to the primary disclosure document for managed funds

Responses	***Percentage Giving Response (%)***
Outline possible risks	*4*
Outline terms and conditions	*4*
Shows how the fund might plan to turn around losses/strategies	*2*
Shows the company's philosophy	*2*
Go over with expert	*2*
Compare with other funds	*2*
Can't say	*12*

Base: Those aware of a prospectus

Sample Size: 170

The majority of respondents who were aware of a prospectus, were able to suggest ways in which a prospectus might assist in a decision on whether to invest in a particular managed fund. The most frequently reported areas of assistance were that a prospectus would show *how well the fund had been performing* (71%), show *what the fund invests in* (51%), show *how long the fund has been operating* (21%), and *list the principals of the fund* (16%).

However, 12% of respondents were unable to suggest how a prospectus may help such a decision. The groups that were over-represented in the lowest financial literacy quintile in Stage 2 were generally more likely than average to be unable to make any suggestions as to how a prospectus may help an investment decision. As might be expected, groups with the highest incidence of *"can't say"* responses regarding the use of a prospectus were those aged 18–24 (30%), those with highest level of education less than Year 10 (30%), and those with savings under $5,000 (31%).

In order to assess understanding of how to choose a financial adviser, respondents were asked:

(In-Depth)

IDQ31 Sharon has decided to seek the advice of a financial adviser regarding how she should use her savings. She is considering two alternative financial advisers. One adviser takes commission from products, whereas the other charges a fee for service. What factors should Sharon consider when deciding which financial adviser to see? (What else? Anything else?)

Responses were as follows.

Table 53. Factors to Consider When Choosing Between a Commission-Based and a Fee-for-Service Adviser

Responses	*Percentage Giving Response (%)*
Which will be more impartial/have less vested interest	*36*
Which can be more easily afforded	*29*
Amount of service fee	*22*
Amount of commission	*22*
Make sure they are accredited/reputable	*6*
Depends on what the commission is based upon	*6*
Which one would best suit one's needs	*6*
Commission provides higher motivation to get the best return	*6*
Quality of product and services	*5*
Compare their track records	*3*
Commission would result in bias	*2*
Can't say	*3*

The most frequently mentioned factors to consider when choosing between a commission-based adviser and a fee-for-service adviser were *which would be more impartial/have less of a vested interest* (36%), *which could more easily be afforded* (29%), the *amount of the service fee* (22%), and the *amount of commission* (22%).

Only 3% of respondents did not report a factor to consider in choosing between a commission-based or fee-for-service adviser.

Many of the groups that were over-represented in the lowest financial literacy quintile in Stage 2 were more likely than average to consider which adviser the person could afford, and to be less likely than average to consider how impartial each adviser would be. The groups least likely to consider how impartial the adviser would be were those aged 18–24 (11%), those with primary school/some secondary education (17%), those with savings under $5,000 (18%) and those with highest level of education of Year 10 or below (18%).

The following question was asked to explore the influence of commission based or fee for service pricing on selection of an adviser.

(In-Depth)
IDQ32 If you were in Sharon's position, which financial adviser would you prefer to use – one who takes commission from products, or one who charges a fee for service?

Results are provided below.

Table 54. Preference for Fee-for-Service vs. Commission-Based Adviser

Responses	***Percentage Giving Response (%)***
Financial adviser who charges a fee for service	*69*
Financial adviser who takes commission from products	*21*
Neither	*2*
Can't say	*7*

Percentages may not sum to 100% due to rounding.

Sixty-nine percent of respondents preferred an *adviser who charges a fee for service*, whereas only 21% preferred an *adviser who takes commission from products*. Nine percent could not give a preference.

It should be noted that the preferences shown by respondents in this question were provided without information on the relativity between the level of the fee for service and the commission rate involved.

Groups more likely than average to prefer a commission-based adviser were single people living in a shared household (37%), those with savings under $5,000 (36%), those with personal income under $20,000 (29%), and those aged 18–24 (29%).

Those who preferred a commission-based adviser were asked for their reasons, as below.

(In-Depth)

IDQ33 Why would you prefer a financial adviser who takes commission from products rather than one who charges a fee for service?

Responses were as follows.

Table 55. Reasons for Preferring a Commission-Based Adviser

Responses	***Percentage Giving Response (%)***
More motivated to do well with my money	*48*
Fees/more easily affordable	*12*
Only pay when you are making money	*7*
Less initial financial outlay	*5*
More accountable for their services	*5*
Could be cheaper in the long run	*5*
Don't get charged for asking information	*5*
Don't want to end up out of pocket	*2*
Gets commission from company	*2*
They will assist me knowing that it is a win-win situation	*2*
Will have really done their homework on the product	*2*
More guaranteed they do only get a proportion of what I made	*2*
Depending on the amount commission, have access to adviser at any time	*2*
Can't say	*2*

Base: Those who preferred a financial adviser who takes a commission from products at IDQ 32.

Sample Size: 42

Clearly, the main reason for respondents preferring a commission-based adviser was the perception that the adviser would be *more motivated to do well with the person's money*, as reported by 48% of those respondents preferring a commission-based adviser. These respondents did not appear to perceive a risk that the commission-driven nature of the advice could influence the impartiality of advice, and they in fact perceived the commission being more likely to align the interests of the adviser with those of the investor.

Affordability was much less frequently mentioned than the issue of the commission providing greater motivation to the adviser.

All groups mentioned the adviser being more motivated to do well as the reason for preferring a commission-based adviser, but these results should be treated as indicative only, due to the small sample of those preferring a commission-based adviser.

Those who preferred a fee-for-service adviser were asked for their reasons, as below.

(In-Depth)

IDQ34 Why would you prefer a financial adviser who charges a fee for service rather than one who takes commission from products?

Results are provided below.

Table 56. Reasons for Preferring a Fee-for-Service Adviser

Responses	***Percentage Giving Response (%)***
Will be more impartial/have less vested interest	*63*
Will know straight away what it will cost you	*21*
It will be less in $/cheaper	*5*
Fee is once-off payment	*5*
Can't say	*1*

Base: Those who preferred a financial adviser who charges a fee for service at IDQ 32.

Sample Size: 140

The predominant reason given by respondents preferring a fee-for-service adviser was that the adviser would be *more impartial/have less of a vested interest*, with that reason being reported by 63% of those respondents who preferred a fee-for-service adviser.

Another group of respondents was more comfortable with the fee-for-service arrangement because its *cost would be known straight away* (21%), because it *would be cheaper* (5%), or because it only involved a *once-off payment* (5%).

The groups that were over-represented in the lowest financial literacy quintile in Stage 2 were less likely than average to give the reason of impartiality for preferring a fee-for-service adviser. Groups less likely to mention that reason were those aged 70 and over (30%), those with household income under $20,000 (32%), and those with highest level of education less than Year 10 (33%). Single parents (25%) and students (25%) were also much less likely than average to report impartiality as a reason, but results for these groups should be treated as indicative only, due to small sample sizes.

In order to examine the ability to assess and make decisions concerning a drop in performance of a particular managed fund, respondents were asked:

(In-Depth)
IDQ35 Sharon decides to invest in a particular managed fund to provide some income for when she retires at 65. Performance of that fund has dropped by 5% over the last year. What should Sharon take into account when deciding whether she needs to take any action? (What else? Anything else?)

Responses were as follows.

Table 57. <u>Factors to Consider when Assessing and Deciding Actions Based on a Drop in a Managed Fund's Performance</u>

Responses	***Percentage Giving Response (%)***
Whether other funds/the market also dropped over the same period	*59*
Whether the fund has been profitable in the longer term	*48*
Whether the fund's performance is likely to improve	*14*
The degree of risk in the assets the fund invests in	*13*
Why it has dropped	*10*

Responses	***Percentage Giving Response (%)***
Exit fees/penalties; what will it cost her	*7*
What else she might invest in	*5*
Get advice from financial adviser	*5*
Global economic outlook	*4*
A long term investment, therefore should not take action	*4*
Long term goals - how much she expects to earn	*2*
Has there been real change in investment or strategy of the fund	*2*
Managed funds - cyclic in nature: some years there are gains - some losses	*2*
How much she can afford to lose	*2*
Can't say	*3*

The majority of respondents suggested factors that should be considered when making decisions in the event of a drop in a particular managed fund's performance. The most frequently reported factors to consider were *whether other funds on the market had dropped over the same period* (59%), *whether the fund had been profitable in the longer term* (48%), *whether the fund performance is likely to improve* (14%) and the *degree of risk that the fund invests in* (13%).

Only 3% of respondents were unable to suggest any factors to consider. Groups more likely than average to be unable to suggest factors included those engaged in home duties/non-workers (13% *"can't say*") and those with savings under $5,000 (11%).

In order to assess the ability to make sound decisions on a managed fund investment where the funds will be required in a short to medium time period, respondents were asked:

(In-Depth)

IDQ36 If Sharon had invested in that particular managed fund with the aim of taking her money out in two years and using it as a deposit on a house, what should she take into account when deciding whether she needs to take any action? (What else? Anything else?)

Results are provided below.

Table 58. Factors to Consider Before Taking Action with Managed Fund

Responses	*Percentage Giving Response (%)*
Whether a different form of investment would provide a better return	*37*
The expected performance of the fund in the following year	*17*
Whether other funds/the market also dropped over the same period	*16*
Whether the fund has been profitable in the longer term	*16*
The degree of risk in the assets the fund invests in	*12*
Exit fees and charges	*10*
If there is a penalty for withdrawing money now	*6*
Whether the house is really needed now/purchase can be delayed	*5*
How much one can afford to lose	*5*
Makes the decision more urgent, as shorter term	*4*
Property prices/value – if high	*3*
Look around for something more stable	*2*
Timing – take it out now rather than later	*2*
Rate of increase in property values relative to drop in fund performance – difference should not increase	*2*
What options available if decide to withdraw	*2*
Consult a financial adviser	*2*
Can't say	*9*

The main factors respondents believed should be considered before making such a decision on the managed fund were *whether a different form of investment would provide a better return* (37%), *the expected performance of the fund in the following year* (17%), *whether other funds or the market had also dropped* (16%), *and whether the fund had been profitable in the longer term* (16%). It was noticeable that the degree of asset risk was reported by 12% of respondents, which may be considered relatively low in the context of the hypothetical example where the money will be needed in two years for a house deposit.

Overall, 9% of respondents could not offer suggestions on factors to consider before making a decision on the managed fund.

Groups least likely to report factors to consider were those with household income under $20,000 (15% "*can't say*"), those aged 70 and over (15%), those with savings under $5,000 (16%), and those involved in home duties/non-workers (20%). Single parents also recorded 20% *"can't say"*, but this result should be treated as indicative only due to small sample.

5.2 Ability to Understand Financial Records and Appreciation of the Importance of Reading and Retaining Them

This section examines financial literacy in terms of the ability to read and understand financial records and information. Areas covered include assessment of the ability to check the accuracy of official financial records, including an Annual Statement from a superannuation fund, and prospectus and Annual Statements for other investment products. Understanding of the need to monitor performance of investment over time is also examined in this section.

	Objectives	***Key Findings***
BASIC REQUIREMENTS	• Ability to check accuracy of official financial records, such as: – Bank statements – ATM service statements – Credit card statements – Superannuation statements – Insurance policies and renewal notices (e.g. understand coverage, exclusions and duty of disclosure) – Loan documentation	**Banking:** • Twenty-five percent (25%) of respondents were unable to accurately answer regarding the amount withdrawn from ATMs using a bank statement. This would appear to be a barrier to effective monitoring of the financial situation for everyday transactions. The result was better when respondents were asked to use an ATM receipt to calculate an ATM balance prior to a withdrawal, with 8% of respondents incorrect **Superannuation:** • When asked to interpret information from an annual superannuation statement, 40% of respondents were unable to perform all of the four tasks correctly • 88% were able to correctly identify the employer contribution • When asked to identify the asset allocation mix, 29% were unable to do so • 62% of respondents were able to accurately identify the average fund performance over 5 years • 87% of respondents were able to say whether life insurance was provided, based on the statement • The groups most frequently below average on basic requirements were: – Those with household income under $20,000 – Those with primary school/some secondary education – Single parents – Those who passed Year 10 education or lower

ADVANCED COMPETENCE	• Ability to read an Annual Statement from a superannuation fund to see the asset classes invested in and % return over time • Understanding of official financial records, such as prospectuses and Annual Statements for investment products • Understanding of the need to monitor performance of investments over time	• As described in the findings on basic requirements for this section, a substantial proportion of respondents showed an inability to accurately read an Annual Statement from a superannuation fund, with only 40% able to correctly identify all of the following: – Employer contribution – Asset allocation – Five-year fund performance – Life insurance • While 84% of respondents had heard of a prospectus, 12% of those aware were unable to suggest how a prospectus may help in making a managed fund investment decision • 10% of respondents were unable to suggest things to consider in the event of a managed fund's performance dropping • The groups that tended to be below average on advanced competence measures were those identified in the basic requirements section

5.2.1 Basic Requirements for Ability to Understand Financial Records and Appreciation of the Importance of Reading and Retaining Them

5.2.1.1 Ability to Check Accuracy of Official Financial Records

In order to assess the practical ability to accurately check a bank statement, a hypothetical statement was presented to respondents, as below.

Gary's Bank Statement

Account Holder: Gary B. Smith

Date 2003	***Transaction Description***	**Debits**	**Credits**	**Balance**
01-Jan	Balance brought forward			5,804.67
07-Jan	EFTPOS Aust Post Sydney CITY BUS 2 NSW 26736	25.00		5,779.67
12-Jan	Bank ATM 20 Martin Place Sydney NS	300.00		5,479.67
13-Jan	Internet Banking Funds Transfer Transfer 831348 to 139008981	35.00		5,444.67
13-Jan	EFTPOS Grace Bros Sydney	25.00		5,419.67
15-Jan	Bank ATM 13 Elizabeth Street Sydney NS	160.00		5,259.67
17-Jan	EFTPOS Jones & Son, Sydney	30.00		5,229.67
19-Jan	Payment EZY Electrics 456788		883.77	6,113.44
24-Jan	Bank ATM 20 Martin Place Sydney NS	650.00		5,463.44
28-Jan	Account Servicing Fee	8.00		5,455.44
31-Jan	End balance			5,455.44

Respondents were then asked, in relation to the bank statement:

(Self-Completion)
SCQ22 How much money did Gary withdraw from ATMs during January?
(Please circle one only)

Responses were as follows.

Table 59. Amount of Money Withdrawn from ATMs

Response Options	*Percentage Giving Response (%)*
$788.69	*2*
$1,110.00	*75*
$1,225.00	*6*
$1,233.00	*14*
Don't know	*3*

Percentages may not sum to 100% due to rounding.

Seventy-five percent of respondents nominated the correct amount of $1,110 being withdrawn from the ATM account, based on the information provided in the bank statement.

Twenty-five percent of respondents were unable to accurately answer such a question relating to an everyday statement that would be received by most people.

Nearly all of the groups that were over-represented in the lowest financial literacy quintile in Stage 2 were less likely than average to answer correctly in interpreting the bank statement, particularly those with primary school/some secondary education (42%), those with household income under $20,000 (48%), those with Year 10 education or lower (55%) and students (57%).

In order to assess the practical ability to accurately check an ATM receipt respondents were presented with a hypothetical receipt, as below.

Gary's ATM Receipt

24/12/2003 08:34:26	
43245435 Sussex Street	
582373838+882	
XYZ Centre, 201 Sussex Street	
Record No.	0009888
Withdrawal from Savings 2	$350.00
Current Balance	$500.00

Respondents were then asked, in relation to the ATM receipt:

(Self-Completion)
SCQ23 What was the balance in Gary's account prior to this transaction?
(Please circle one only)

Responses were as follows.

Table 60. Balance in ATM Account Prior to the Transaction

Response Options	***Percentage Giving Response (%)***
$150.00	*4*
$350.00	*0*
$500.00	*1*
$850.00	*92*
Don't know	*2*

Percentages may not sum to 100% due to rounding.

The correct account balance of $850, prior to the ATM transaction, was selected by 92% of respondents.

Groups that were least likely to answer correctly were those with primary school/some secondary education (50%), those with Year 10 education or below (59%) and those with household income under $20,000 (74%). Retirees, those in home duties/non-workers and single people living alone were also less likely than average to give the correct answer, with 80% of those groups answering correctly.

In order to assess the ability to accurately check an annual statement from a superannuation fund, a hypothetical statement was presented to respondents, as below.

Extract from Ray's Superannuation Annual Statement[1]

Contributions Next Year

The agreed contribution next year is:
$66.67 per month ($800.04 p.a.) paid by your employer to be invested in Balanced Growth

Your Protection Benefits

At present you have no protection benefits. If you wish to take advantage of any of the optional protection benefits available under your plan, your XYZ adviser will be happy to assist.

Contributions Last Year

	Total ($)	No. of units
You paid in	0.00	nil
Your employer paid in	5,142.77	1,791.70
Total Contributions	***5,142.77***	***1,791.70***

Investment Option Summary

	Total($)	No. of Units
XYZ Balanced Growth		
Holding last year	19,746.59	7,645.42
Contributions	5,142.77	1,791.70
Fees & Taxes	-1,408.39	-423.03
Change in value of units	2,181.24	
Holding now	***25,662.21***	***9,014.09***

Investment Performance

Investment Option: Balanced Growth

Performance Summary (%)

Yearly Returns (%p.a.) to:					Compound Returns (%p.a.) over
31/12/1997	31/12/1998	31/12/1999	31/12/2000	31/12/2001	5 years to: 31/12/01
16.1	10	12.5	11	10.2	11.9

Asset Allocation (%)

Cash	Aust. Bonds	Intl. Bonds	Property Direct	Property Listed	Direct Invest	Aust. Share	Intl. Share
3	17	4	6	5	3	40	22

[1] Please note that this is an extract only, based on a real-life example. A full superannuation statement requires disclosure of a number of other matters. Other funds may use different words to refer to insurance benefits, and not all funds show contributions for the next year.

Respondents were then asked, in relation to the annual superannuation statement:

(Self-Completion)

SCQ24 How much did Ray's employer contribute to Ray's superannuation for the year? (Please circle one only)

Results are provided below.

Table 61. <u>Employer Superannuation Contributions</u>

Response Options	*Percentage Giving Response (%)*
$800.04	*5*
$1,791.70	*3*
$5,142.77	*88*
$19,746.59	*1*
Don't know	*3*

Percentages may not sum to 100% due to rounding.

Overall, 88% of respondents correctly answered that the employer contribution was $5,142.77. The remaining respondents were unable to understand the relevant information from the statement.

With the exception of casual employees and those aged 18 to 24, the groups that were over-represented in the lowest financial literacy quintile in Stage 2 were less likely than average to answer correctly on the amount of the employer contribution, particularly those with primary school/some secondary education (58%), those with a household income under $20,000 (63%) and those with Year 10 education or lower (73%). Those aged 60 and over were also less likely than average to answer correctly (73%).

In order to assess the ability to accurately check the asset allocations shown in the superannuation statement, and to combine information accurately, respondents were asked:

(Self-Completion)
SCQ25 What is the total proportion of Ray's superannuation that is invested in bonds? (Please circle one only)

Responses were as follows.

Table 62. Percentage of Asset Allocation Held in Bonds

Response Options	***Percentage Giving Response (%)***
4%	*11*
17%	*10*
21%	*70*
Don't know	*8*

Percentages may not sum to 100% due to rounding.

Seventy percent of respondents answered correctly that 21% of the superannuation asset allocation was invested in bonds.

A substantial proportion of respondents either picked up only one category of bonds, in the form of Australian bonds (10%) or International bonds (11%), or were not able to answer (8%).

Most of the groups that were over-represented in the lowest financial literacy quintile in Stage 2 were less likely than average to answer correctly, particularly those with household income under $20,000 (37%), those with primary school/some secondary education (42%), those aged 70 and over (46%), and single people living alone (48%). Single parents were also less likely than average to answer correctly (40%), however this result should be treated as indicative only due to the small sample.

In order to examine the ability to accurately check the longer-term average performance of the superannuation fund based on the annual statement, respondents were asked:

(Self-Completion)
SCQ26 How has Ray's superannuation fund performed on average over the last 5 years in terms of its percentage earnings?
(Please circle one only)

Results are provided below.

Table 63. Average Five Year Performance of the Superannuation Fund

Response Options	***Percentage Giving Response (%)***
It has grown by 11.9%	*62*
It has declined	*26*
It has stayed the same	*3*
It has grown by 10.2%	*2*
Don't know	*7*

Percentages may not sum to 100% due to rounding.

Sixty-two percent of respondents were able to provide the correct answer that the superannuation fund had grown by an average of 11.9% over the five years.

Of concern, was the response given by 26% of respondents who thought that the average fund performance over the five years had declined.

Groups less likely than average to answer correctly were those looking for work (41%), single people living alone (44%) and those with household income under $20,000 (44%).

The following question was asked in order to assess whether respondents could identify the person's situation on life insurance, based on the superannuation statement.

(Self-Completion)

SCQ27 Life insurance is often provided as part of superannuation. As far as you can tell from Ray's Annual Superannuation Statement, is life insurance provided as part of his superannuation?
(Please circle one only)

Responses were as follows.

Table 64. <u>Life Insurance Provided as Part of Superannuation</u>

Response Options	***Percentage Giving Response (%)***
Yes	*4*
No	*87*
Don't know	*9*

Percentages may not sum to 100% due to rounding.

Overall, 87% of respondents answered correctly that life insurance was not provided as part of the person's superannuation.

Thirteen percent of respondents answered incorrectly or were unable to give an answer.

Groups less likely than average to answer correctly were those with primary school/some secondary education (67%), those with household income under $20,000 (67%), those aged 70 and over (69%), and semi/unskilled/farm workers (76%).

5.2.2 Advanced Competence for Ability to Understand Financial Records and Appreciation of the Importance of Reading and Retaining Them

The questions relating to advanced competence have been covered in detail in the earlier parts of Section 5. The tables have therefore not been repeated in the analysis below and the comments focus on those areas most relevant to assessing advanced competence issues.

The ability to read an annual statement from a superannuation fund is covered in the basic requirements component of Section 5.2.1.1. (Please refer to Tables 61–64)

Understanding of official financial records, such as prospectuses and Annual Statements for investment products is covered in Section 5.1.2.1. (Please refer to Tables 51–52)

Understanding of the need to monitor performance of investments over time is covered in Section 5.1.2.1. (Please refer to Table 57)

5.2.2.1 Ability to Read an Annual Statement from a Superannuation Fund

Analysis of the relevant questions including detailed tables of responses, is covered in Section 5.2.1.1 where a hypothetical superannuation fund annual statement was provided to respondents in order to assess their ability to read information on asset classes invested in, and the percentage return on the fund over time.

When asked to identify a number of pieces of information, covering the employer contribution, the asset allocation, the five-year fund performance, and life insurance, only 40% were correct on all four measures.

It appeared that a substantial proportion of respondents were well short of achieving advanced competence in regard to reading a superannuation statement for the specific purposes set in the research.

Most of the groups that were over-represented in the lowest financial literacy quintile in Stage 2 were less likely than average to give the correct answer on all four measures, particularly students (14%), those with household income under $20,000 (19%), those with savings under $5,000 (22%) and single people living in shared households (22%).

Respondents were asked, in relation to the annual superannuation statement:

(Self-Completion)
SCQ24 How much did Ray's employer contribute to Ray's superannuation for the year? (Please circle one only)

Refer to Table 61 in Section 5.2.1.1 for detailed responses.

Eighty-eight percent of respondents gave the correct answer on the employer contribution. It was a concern, however that many respondents were incorrect or unsure in identifying such a fundamental piece of information.

The groups that were over-represented in the lowest financial literacy quintile in Stage 2 were generally less likely than average to answer correctly on the amount of the employer contribution.

In order to assess the ability to accurately check the asset allocations shown in the superannuation statement, and to combine information accurately, respondents were asked:

(Self-Completion)
SCQ25 What is the total proportion of Ray's superannuation that is invested in bonds? (Please circle one only)

Refer to Table 62 in Section 5.2.1.1 for detailed responses.

Seventy percent of respondents answered correctly on the asset allocation of the superannuation fund. Given the importance of asset allocations for fund performance and risk management, the remaining respondents may be vulnerable to making less than fully informed decisions in terms of their superannuation investment strategy.

Many of the groups that were over-represented in the lowest financial literacy quintile in Stage 2 were less likely than average to answer correctly.

In order to examine the ability to accurately check the longer-term average performance of the superannuation fund based on the annual statement, respondents were asked:

(Self-Completion)

SCQ26 How has Ray's superannuation fund performed on average over the last 5 years in terms of its percentage earnings?
(Please circle one only)

Refer to Table 63 in Section 5.2.1.1 for detailed responses.

Sixty-two percent of respondents were able to provide the correct answer on growth of the superannuation fund over the five years. There was a problem for many respondents in doing this task, with 26% of respondents thinking that the average fund performance over the five years had declined. The results indicate that a substantial proportion of respondents had little understanding of the performance data.

A number of the groups that were over-represented in the lowest financial literacy quintile in Stage 2 were less likely than average to answer correctly.

The following question was asked in order to assess whether respondents could identify the person's situation on life insurance, based on the superannuation statement.

(Self-Completion)

SCQ27 Life insurance is often provided as part of superannuation. As far as you can tell from Ray's Annual Superannuation Statement, is life insurance provided as part of his superannuation?
(Please circle one only)

Refer to Table 64 in Section 5.2.1.1 for detailed responses.

Eighty-seven percent of respondents answered correctly that life insurance was not provided as part of the person's superannuation, leaving 13% who were unable to discern from the information whether it was offered.

Several of the groups that were over-represented in the lowest financial literacy quintile in Stage 2 were less likely than average to answer correctly.

5.2.2.2 Understanding of Official Financial Records, such as Prospectuses and Annual Statements for Investment Products

In order to examine respondents' awareness of the term "prospectus", the following question was asked of those respondents who had not mentioned a prospectus in the previous question IDQ28:

(In-Depth)
IDQ29 Have you ever heard of a prospectus?

Refer to Section 5.1.2.1 for detailed responses.

Results from IDQ28 and IDQ29 were combined, revealing that 84% of respondents had heard of a prospectus.

A number of the groups that were over-represented in the lowest financial literacy quintile in Stage 2 were less likely than average to have heard of a prospectus.

In order to explore understanding of the purpose and use of a prospectus, respondents were asked:

(In-Depth)
IDQ30 How might a prospectus assist Sharon's decision? (What else? Anything else?)

Refer to Table 52 in Section 5.1.2.1 for detailed responses.

While most respondents who had heard of a prospectus were able to identify ways that a prospectus could help in decisions regarding a particular managed fund, 12% were unable to do so. The most frequently reported areas of assistance were that a prospectus would show *how well the fund had been performing* (71%), show *what the fund invests in* (51%), show *how long the fund has been operating* (21%), and *list the principals of the fund* (16%).

5.2.2.3 Understanding of the Need to Monitor Performance of Investments Over Time

Analysis of the following question including a detailed table of responses is found in Section 5.1.2.1.

Respondents were asked for their opinion regarding the issues to consider in deciding whether to take action in the event of a 5% fall in a managed fund's investment performance.

(In-Depth)

IDQ35 Sharon decides to invest in a particular managed fund to provide some income for when she retires at 65. Performance of that fund has dropped by 5% over the last year. What should Sharon take into account when deciding whether she needs to take any action? (What else? Anything else?)

Refer to Table 57 in Section 5.1.2.1 for detailed responses.

It appeared that most respondents could suggest relevant issues to consider, and in particular were aware of the need to evaluate the performance fall in the context of movements in the market in general (reported by 59% of respondents).

Some groups that were over-represented in the lowest financial literacy quintile in Stage 2 were less likely to be able to suggest relevant factors to consider and therefore could be subject to inappropriate reactions to such short-term investment performance changes.

5.3 Attitudes to Spending Money and Saving

This section covers a range of issues relating to respondents understanding of saving, including the need to save and ways to save. It also includes an assessment of understanding of budgets and the ability to budget strategically.

	Objectives	*Key Findings*
BASIC REQUIREMENTS	• Understanding of the purpose of saving • Understanding of why you need to save for retirement • Understanding of how to use budgets to plan and control personal spending • Ability to forecast and recognise the impact of irregular major financial outlays (e.g. vehicle registration; holidays)	• There was high level of awareness (96%) of saving and budgeting as ways of coping with both regular and irregular financial outlays • There was a high level of awareness of ways of saving for retirement, with extra money put into superannuation being the most common suggestion (68%), followed by shares, stocks or bonds (44%) and property (37%) • 32% of people recommended saving money in a bank account for retirement – this may reflect recent poor performance of managed investments and/or limited understanding of appropriateness of different vehicles • There was a generally sound approach to making personal contributions to superannuation as a way of saving for retirement, showing both a pragmatic concern for affordability and a concern for relativities of return, although relatively few mentioned the taxation advantages offered (17%) • The majority of respondents would not experience difficulty in checking whether their employer has been making compulsory contributions to superannuation if they felt the need to do so • 59% of respondents suggested using a budget to cope with regular or irregular financial outlays • Groups less likely to mention using a budget included: – Single parents – Those with highest level of education of Year 10 or below – Those with household income under $20,000 – Those aged 18–24 • 96% of respondents suggested proactive measures such as saving, however relatively few considered budgeting and planning, as ways of coping with the impact of irregular major financial outlays

ADVANCED COMPETENCE	• Ability to budget strategically to make payments as late as possible and keep money earning interest as long as possible	• 27% of respondents recognised the interest to be gained by making payments as late as possible – this may reflect the recent low interest rate levels • Groups less likely to mention this benefit included: – Those aged 18–24 – Those with highest level of education of Year 10 or below – Those looking for work

5.3.1 Basic Requirements for Attitudes to Spending Money and Saving

Stage 3 investigates some of the basic aspects of spending money and budgeting already covered in Stage 2, but in a more rigorous, in-depth fashion.

5.3.1.1 Understanding of the Purpose of Saving

As already noted in Sections 4.1.1.1 and 4.2.1.2, most respondents suggested saving and budgeting as ways of coping with both regular and irregular financial outlays (IDQ6), including the following mentions:

- Save regularly: 62%
- Use a budget: 54%
- Save an amount for unknown expenses: 13%
- Not spend all one's money: 9%

Considered collectively, those mentioning any of these ways of coping with regular and irregular financial outlays by setting money aside represented 96% of the sample, with a similar proportion across all groups.

With the primary intention of investigating ability to forecast and recognise the impact of irregular major financial outlays (see Section 5.3.1.4), respondents were asked the following question.

(In-Depth)

IDQ15 Sometimes large expenses will occur that just weren't expected to happen. What sorts of things can a person do to make sure they can cope financially with the unexpected? (What else? Anything else?)

Table 65. Ways of Coping with Unexpected Large Expenses

Responses	*Percentage Giving Response (%)*
Save regularly	*82*
Have a credit card	*29*
Use a budget	*26*
Nest egg/Emergency account/Accessible term deposit/Separate savings	*19*
Arrange a line of credit	*16*
Insurance	*14*
Have good credit rating/rapport with banks	*7*
Liquid assets/Investments which can be sold easily	*6*
Invest wisely/Shares/Property	*5*
Take out loan when needed/Personal loan	*5*
Only buy what you need/Don't buy luxury items	*3*
Use mortgage	*3*
Borrow from family/friends	*3*
Consider expenses/other options	*2*
Account with overdraft or redraw facility	*2*
Increase credit card limit	*2*
Can't say	*0*

The great majority of respondents referred to saving, including 82% who mentioned *saving regularly* and 19% who mentioned having a *nest egg/emergency account/accessible term deposit/separate savings*, and 26% mentioned *using a budget*.

Overall, these results suggest a strong general appreciation of the purpose of saving.

5.3.1.2 Saving for Retirement

In order to assess respondents' understanding of the need to save for retirement and the options to do so, respondents were asked the following questions.

(In-Depth)

IDQ16 Returning to Gary, the electrician from the questionnaire you completed earlier.

If Gary was your age, and given his circumstances, what method of saving for his retirement would you recommend, and why? (What else? Anything else?)

Table 66. Recommended Forms of Retirement Saving

Responses	***Percentage Giving Response (%)***
Put extra money into superannuation	*68*
Invest in shares/stocks and bonds	*44*
Invest in property	*37*
Save money in a bank account	*32*
Sacrifice salary and put amount sacrificed into superannuation	*16*
Invest in managed/investment fund	*13*
Invest in term deposit	*10*
See a financial planner	*6*
Pay off mortgage as quickly as possible	*5*
Diversify investment portfolio/other investments	*3*
Cut down on expenses/spending	*2*
Can't say	*2*

The most recommended way of saving for retirement was *putting extra money into superannuation*, mentioned by the majority of respondents (68%), with a 16% mention also for *salary sacrifice*. This represented 73% of respondents making some reference to superannuation as a way of retirement saving.

There were also frequent mentions of other forms of savings, including shares, stocks and bonds (44%) and property (37%), and managed/investment fund (13%). Bank accounts (32%) and term deposit (10%) were also suggested.

With only 2% unable to recommend a way of saving for retirement, respondents were well aware of ways of saving for retirement, with extra contributions to superannuation heavily recommended.

The groups least likely to recommend *putting extra money into superannuation* for retirement were students (14%) and those with no occupation (38%).

(In-Depth)

IDQ17 What factors would Gary need to take into account if he were trying to calculate if his current arrangements were enough for his future retirement? (What else? Anything else?)

Table 67. Factors to Take into Account when Calculating whether Current Arrangements are Sufficient for Retirement

Responses	*Percentage Giving Response (%)*
How comfortably you want to live in retirement	*47*
How long before you plan to retire	*32*
What costs you will have in retirement	*30*
Whether you will have dependants	*23*
How much money you already have saved	*17*
Whether you own or are paying off your house	*16*
Whether/How much you will earn from investments	*13*
Debts/Liabilities	*12*
Whether you will receive pension/Government benefits	*11*
Current health level	*11*
See a financial adviser	*9*
Re-evaluate current job and pay/Job security	*9*
Current lifestyle	*8*
How much you expect to have saved by retirement	*7*
Calculate number of years expected to live after retirement	*5*
Inflation	*5*
Whether you might move to a smaller house	*5*
What assets you have	*5*

Responses	***Percentage Giving Response (%)***
Whether you will work part-time in retirement	*4*
Partner's contributions/superannuation	*4*
Income source during retirement	*4*
Check to see if your savings/investments match your requirements	*4*
Goals and aims	*4*
Work out the best way to invest	*3*
Whether you need to make more superannuation contributions	*3*
Whether you might get better value at another super fund	*2*
How much you can currently afford to put aside	*2*
Unexpected expenses	*2*
Can't say	*3*

Forty-seven percent of respondents recognised that the adequacy of currency arrangements for retirement were relative to *how comfortably one wants to live in retirement*.

Most responses addressed one or both sides of the incoming/outgoing equation, with other relevant responses including *how long before you plan to retire* (32%), *what costs you will have in retirement* (30%) and *how much money you already have saved* (17%).

With only 3% of respondents unable to answer the question and responses generally valid considerations, there appears to be quite a strong overall appreciation of relevant factors to consider concerning the adequacy of current arrangements for one's retirement.

Groups less likely than average to mention *how comfortably one wants to live in retirement* included students (14%), home duties/non-workers (27%), and those with savings under $5,000 (29%).

(In-Depth)

IDQ18 Again, imagine that Gary is your age. He is deciding whether he should make personal contributions to his superannuation scheme, additional to those made by EZY Electrics. What factors should he consider? (What else? Anything else?)

Table 68. Factors to Consider When Making Additional Superannuation Payments

Responses	***Percentage Giving Response (%)***
Can you afford it?	*41*
Whether you could get better return elsewhere	*31*
How much returns the EZY Electrics superannuation scheme is providing	*25*
How else you might use the money (e.g paying off your mortgage)	*20*
Taxation advantages of investing in superannuation	*17*
Whether you may need to access your savings before you retire	*13*
How much you would want to contribute	*5*
Lifestyle	*5*
What the superannuation fund invests the money in	*5*
See a financial adviser	*4*
How much you require for retirement	*4*
How long before you retire	*4*
Present debt/financial commitments	*4*
Current income and expenses	*4*
Family	*4*
Level of risk associated with superannuation funds	*3*
Reputation of superannuation funds/performance	*3*
Will the fund you have be sufficient	*2*
How comfortable you want to be during retirement	*2*
If contributions will actually make a considerable difference	*2*
Health	*2*
How much your employer currently contributes	*2*
Can't say	*1*

In general, responses were realistic and pragmatic, with the most common response being the most fundamental – whether one can afford to make personal contributions to superannuation (41%).

Only seventeen percent of respondents mentioned the *taxation advantages of investing in superannuation*.

There was a higher level of concern with the relativities of returns from superannuation vs. benefit from other applications of the same money, with 31% mentioning *whether you could get better returns elsewhere* and 20% mentioning *how else you might use the money*, *such as paying off your mortgage*.

Only 1% of respondents could not mention any factors to take into account when deciding whether to make personal contributions to superannuation, a result consistent across all groups.

The groups that were over-represented in the lowest financial literacy quintile in Stage 2 were less likely than average to mention considering *whether a better return could be achieved elsewhere,* particularly those with Year 10 education or below (14%), students (14%), and those with household income under $20,000 (15%).

(In-Depth)

IDQ19 How could Gary go about checking that EZY Electrics has been making compulsory contributions to his superannuation fund? (What else? Anything else?)

Table 69. Checking for Compulsory Employer Contributions to Superannuation

Responses	*Percentage Giving Response (%)*
Contact the fund and enquire	*64*
Check the fund's annual statement	*54*
Check with his employer's pay office/HR department	*32*
Check your pay advice	*10*
Check with the Australian Tax Office	*6*
Ring the superannuation hotline	*4*
Check on the Internet	*3*
Go to the superannuation board	*2*
Can't say	*4*

There was strong indication of preparedness to seek objective confirmation that one's employer has been making compulsory contributions to superannuation, mostly by direct contact with the superannuation fund (64%) or from the annual statement (54%) it provides.

The next most common mentions related to *checking with the employer's pay office or HR department* (32%) and *checking of one's pay advice* (10%). Four percent could not say how they could go about checking.

Overall, the results suggest that a majority of adults would not experience difficulty in checking whether their employer has been making compulsory contributions to superannuation.

5.3.1.3 Understanding of How to Use Budgets to Plan and Control Personal Spending

As already noted in Sections 4.1.1.1, 4.2.1.2 and 5.3.1.1, when asked what sorts of things people should do to be able to cope with both regular and irregular financial outlays (IDQ6), most respondents (54%) mentioned *using a budget*.

Further, as already noted in Section 5.3.1.1, when asked what sorts of things can be done to make sure that one can cope financially with the unexpected (IDQ15), 26% of respondents mentioned *using a budget*.

When considered collectively, those mentioning using a budget at either IDQ6 or IDQ15 constituted 59% of the sample.

Groups less likely to mention using a budget included single parents (20%), those with highest level of education of Year 10 or below (36%), those with household income under $20,000 (41%), and those aged 18–24 (42%).

5.3.1.4 Ability to Forecast and Recognise the Impact of Irregular Major Financial Outlays

Although already reported on in Sections 4.1.1.1, 4.2.1.2, 5.3.1.1 and 5.3.1.3, responses to IDQ6, concerning ways of coping with both regular and irregular financial outlays, also relates to forecasting and recognising the impact of irregular major financial outlays when the distinction is made between proactive measures and reactive measures.

Table 70. Suggestions for Coping with Regular and Irregular Financial Outlays

Responses	*Percentage Giving Response (%)*
Save regularly	*62*
Use a budget	*54*
Pay bills by smaller, more frequent payments	*13*
Save an amount for unknown expenses	*13*
Not spend all one's money	*9*
Pay regular bills by direct debt	*6*
Ask for an extension	*2*
Can't say	*0*

Suggestions to *save regularly* (62%), *use a budget* (54%), *pay bills by smaller, more frequent amounts* (13%), *save an amount for unknown expenses* (13%) and *not spend all one's money* (9%) are all measures which anticipate and allow for irregular outlays and are taken on a regular basis.

IDQ15, concerning the sorts of things people can do to make sure they can cope financially with the unexpected, has already been reported on to some extent in Sections 5.3.1.1 and 5.3.1.3, but is of primary importance for investigating ability to forecast and recognise the impact of irregular major financial outlays.

Refer to Table 65 in Section 5.3.1.1 for detailed responses.

Suggestions to *save regularly* (82%), *use a budget* (26%), *have* a *nest egg/emergency account/accessible term deposit/separate savings* (19%), *have insurance* (14%) and *only buy what you need/don't buy luxury items* (3%) are all measures which anticipate and allow for irregular outlays.

Overall, these results suggest a high level of ability to forecast and recognise the impact of irregular major financial outlays.

5.3.2 Advanced Competence for Attitudes to Spending Money and Saving

5.3.2.1 Ability to Budget Strategically to Make Payments as Late as Possible and Keep Money Earning Interest as Long as Possible

At an advanced level of competence, budgeting strategically to make payments as late as possible allows money to be retained as long as possible, allowing the holder to make use of it until the due date, including maximising interest if held in a bank account.

To investigate this ability, respondents were asked the following question.

(In-Depth)

IDQ20 What ADVANTAGES, if any, would Gary gain by paying a bill for electrical parts on PRECISELY the date it is due? (What else? Anything else?)

Table 71. Advantages of Paying Bills Precisely on the Due Date

Responses	*Percentage Giving Response (%)*
Avoid being charged interest/fee for being overdue	*51*
Maximise interest earned on money	*27*
It's good for one's credit history	*23*
Bills don't pile up	*7*
Peace of mind/good feeling	*7*
Could get a discount for not paying late	*6*
Does not get a bad credit rating	*5*
Avoids debt	*3*
Good business practice	*3*
Keeps records accurate/up to date/organised	*3*
Plan/budget better for future	*3*
Improves business relationship	*3*
Can't say	*6*

Fifty-one percent of respondents gave the response that payment on time would *avoid being charged interest or a fee for being overdue*.

The next most common response (27%) related to the maximisation of interest on money retained as long as possible.

Of interest, only 5% of respondents referred to avoidance of a bad credit history as an advantage of paying bills exactly on time, whereas 23% referred to it being beneficial for credit rating, suggesting once more the common misconception that credit histories include positive as well as negative events.

Responses relating to credit history suggest that some people may have misunderstood this question, interpreting "paying a bill for electrical parts" as making a credit repayment. Further, some people would appear to have a poor understanding of the events that contribute to creation of credit history.

5.4 Awareness of Risks Associated with Some Financial Products and Appreciation of the Relationship Between Risk and Return

In the Stage 2 survey it was generally found that there was only a superficial understanding of risk and return. Whilst most people understood the concept they did not have a good understanding of investment fluctuations and showed some degree of susceptibility to high risk investment offers. The objective of Stage 3 was to check in more detail the understanding of respondents by working through a number of different scenarios.

	Objectives	*Key Findings*
BASIC REQUIREMENTS	• Understanding of the purpose of insurance • Awareness that high return investments are also likely to involve high risk • Understanding that market values can fall as well as rise • Awareness that if it sounds "too good to be true", then it probably isn't true • Understanding of the value of diversification when investing	• 83% gave the correct response about the level of understanding of the insurance coverage required • The principle that high return investments are higher risk in the short-term is well understood, with 92% indicating that a term deposit is a better short-term investment than property and shares • The understanding that market values can fall as well as rise is high for managed investments, although not for property investments • When faced with an obvious "over the top" investment proposition most respondents were able to select the correct response. Of more concern however, as was seen in Stage 2, if faced with a more modest (but unrealistic) investment claim, many investors showed a degree of susceptibility • Diversification of investments as an idea was well understood (89% correctly defined)

ADVANCED COMPETENCE	• Ability to identify potential risks and determine whether they need to be eliminated or mitigated against • Understanding of managed investments • Understanding of guarantees on investments • Understanding that short-term ups and downs in value are less important for long-term investments • Understanding of currency issues, including the impact of fluctuations in exchange rate for the Australian dollar	• 90% of respondents knew what to take into account when faced with a small decline (5%) in market value of a managed fund, and 91% understood what to consider for short-term managed funds decisions • The level of understanding of the term "capital guaranteed" was relatively poor with 60% giving the correct answer • 73% of respondents gave the correct answer to the question regarding the ability to predict future returns from past returns • A reasonable level of understanding was evidenced by 86% of respondents answering a simple question on currency issues correctly, but only 47% correctly answered a question concerning the more complex issue of impact of currency value movements on exporters • The groups having the most difficulty with the concepts tested were: – Home duties/non-workers – Those with savings under $5,000 – Those aged 18–24 – Those aged 70 or over – Those with household income under $20,000 – Semi-skilled/unskilled/farm workers – Students – Single parents – Females

5.4.1 Basic Requirements for Awareness of Risks Associated with Some Financial Products and Appreciation of the Relationship Between Risk and Return

5.4.1.1 Understanding of the Purpose of Insurance

Understanding of the purpose of insurance is fundamental to the process of deciding to take out insurance. The test here was to see if respondents understood the insurance coverage needs of different segments of the population.

In order to investigate this issue, respondents were asked the following question.

(Self-Completion)
SCQ6 If the following people all had the same amount of income, who would need the most life insurance?
(Please circle one only)

Proportions of respondents selecting each of five multiple-choice response options (including *"don't know"*) are shown in the table below.

Table 72. <u>Understanding of Who Needs the Most Life Insurance</u>

Response Options	***Percentage Giving Response (%)***
A young married man with two young children, whose family is dependent on his income	*83*
A young married man with two young children, whose family is dependent on his wife's income	*6*
A retired man with a retired wife	*5*
A single woman without children	*1*
Don't know	*4*

Percentages may not sum to 100% due to rounding.

The majority of respondents (83%) answered this question correctly.

The groups that were over-represented in the lowest financial literacy quintile in Stage 2 tended to be less likely than average to select the correct answer to this question, particularly those with highest level of education being less than Year 10 (59%), and those aged 70 and over (69%).

5.4.1.2 Awareness That High Return Investments are Also Likely to Involve High Risk

The purpose of this section was to look at respondents' understanding of risk and return as it relates to market fluctuations and length of investment cycles. In order to test this, the following question was asked.

(Self-Completion)

SCQ11 Sam has saved $10,000, and would like to get some return on his money. However, he needs the money to pay for his expenses when he starts university next year, so he needs to minimise the risk of losing any of it. Which of the following would be the best place for Sam to place his money?
(Please circle one only)

Responses to this question were as follows.

Table 73. Understanding Short-Term Investment Options

Response Options	***Percentage Giving Response (%)***
In a fixed term deposit	*92*
In property	*4*
In shares	*3*
Don't know	*1*

Percentages may not sum to 100% due to rounding.

Ninety-two percent gave the correct answer (i.e. Term Deposit); 7% favoured investment options less suited to a twelve-month time frame and where there is a risk of losing principal.

Most of the groups that were over-represented in the lowest financial literacy quintile in Stage 2 selected the correct option, but there were indications that students (71% correct) and those over 70 years of age (85%) had some problems.

5.4.1.3 Understanding That Market Values Can Fall as Well as Rise

In Stage 2, it was shown that there was some lack of understanding that even good investments can fluctuate in value. In order to test this concept further, respondents were asked the following questions.

(In-Depth)

IDQ26 Sharon is also considering using her savings to invest in a managed fund. What would be the advantages of Sharon doing this? (What else? Anything else?)

Responses to this question were as follows.

Table 74. Advantages of Investing in a Managed Fund

Responses	***Percentage Giving Response (%)***
Make more money/receive a higher interest rate	*39*
Provides diverse portfolio	*33*
Money more accessible than if tied up in property	*21*
Safety & security/less risk	*10*
Risks are spread	*7*
No additional cost/ no expenses	*5*
Guaranteed % of earning/interest	*3*
Can add readily to the investment	*2*
No loan/debt	*2*
None	*1*
Can't say	*16*

The main advantages mentioned in investing in managed funds were *making more money/receive a higher interest rate* (39%), *provides diverse portfolio* (33%) and *money more accessible than if tied up in property* (21%). Issues relating to risk and diversity were lees likely to be mentioned, with *risks are spread* (7%) and *safety and security/less risk* (10%).

Overall, there was a relatively high level of *"can't say"* responses (16%). Most of the groups that were over-represented in the lowest financial literacy quintile in Stage 2 were more likely than average to respond *"can't say"*, with the highest levels being for those aged 18 to 24 (42%), respondents aged 70 years and over (31%) and those with savings under $5,000 (31%).

The question below covered understanding of the disadvantages of managed funds.

(In-Depth)

IDQ27 What would be the disadvantages of Sharon investing in a managed fund? (What else, anything else?)

Responses to this question were as follows.

Table 75. Disadvantages of Investing in a Managed Fund

Responses	***Percentage Giving Response (%)***
Could lose her money if the fund fails	*37*
Might make less money/lower interest rate	*24*
Money not as accessible	*13*
Loses control	*12*
Might have higher fees and charges	*11*
Depends on the skills of management	*7*
Could lose money if downturn in market	*5*
Long term investment	*4*
Lack of flexibility	*2*
More volatile than property in terms of value	*2*
Capital gains tax/tax on interest received	*2*
None	*3*
Can't say	*16*

There appears to be a reasonable understanding of the possibility of the value of managed investments fluctuating with the real possibility that losses can be made. The major disadvantages mentioned were *could lose her money if the fund fails* (37%) and *might make less money/lower interest rate* (24%). The possibility of losing money was mentioned consistently across most groups.

Overall, there was a relatively high level of *"can't say"* responses (16%). Those having the least idea of the disadvantages of managed funds (i.e. *"can't say"*) were respondents aged 18 to 24 (42%), those employed on a casual basis (29%) and those with under $5,000 in savings (29%).

5.4.1.4 Awareness That If It Sounds "Too Good to Be True", Then It Probably Isn't True

The objective of this section was to test respondents' susceptibility when it comes to spectacular investment offerings. In Stage 2 it was found that there was potentially a problem in this area with 47% indicating they would be prepared to invest in something advertised as offering returns well above market rates with no risk.

The question put to respondents was as follows.

(In-Depth)
IDQ40 If an investment salesman guaranteed that you could double your money in his investment scheme, but you would have to sign up immediately because it was almost fully subscribed, what would you do? (What else? Anything else?)

Responses to this question were as follows.

Table 76. Likely Action Taken If Offered "Double Your Money" Investment

Responses	*Percentage Giving Response (%)*
Do nothing/tell him to get lost/not sign	*77*
Check it out first	*10*
Be wary	*9*
See a financial planner/adviser, accountant, etc.	*4*
Ask the advice of friends/family	*4*
Make a report to the police, Ombudsman, etc.	*3*
Analyse the information provided but unlikely to sign	*3*
Request more details	*2*
Credentials of the person	*2*
Can't say	*0*

It appears from the above that most respondents had no trouble with the example given, with 77% indicating that they would *do nothing*. This finding was consistent across all groups.

5.4.1.5 Understanding of the Value of Diversification When Investing

The objective in Stage 3 was to determine whether respondents understood the meaning of diversification when investing. In Stage 2 there was some doubt as to whether the concept was really understood with only 51% of people thinking that it was a *very important* concept.

Understanding of the value of diversification when investing is basic to the process of deciding to diversify, as there is no reason for doing so without understanding the benefits to be derived from this approach.

In order to investigate understanding of diversification, respondents were asked the following question.

(Self-Completion)
SCQ7 In relation to managing your investments, diversification is:
(Please circle one only)

The proportion of respondents selecting each of the five options (including *"don't know"*) are shown in the table below.

Table 77. <u>What is Diversification?</u>

Response Options	***Percentage Giving Response (%)***
The strategy of putting your money into a range of different investments such as property, shares, managed funds, etc.	*89*
When an investor buys more shares when the price is low and fewer shares when the price is high, thus reducing the overall cost	*3*
The strategy of pooling your money with other investors to make joint purchases of investments	*2*
An excess of liability over assets	*1*
Don't know	*5*

Percentages may not sum to 100% due to rounding.

Overall, there appeared to be a good understanding of diversification, with 89% of respondents answering this question correctly.

The groups that were over-represented in the lowest financial literacy quintile in Stage 2 slightly less likely to answer this question correctly, particularly those aged 70 and over (77%), those aged 18 to 24 (79%) and semi/unskilled/farm workers (79%).

5.4.2 Advanced Competence for Awareness of Risks Associated with Some Financial Products and Appreciation of the Relationship Between Risk and Return

5.4.2.1 Identifying Potential Investment Risks

The problems encountered in understanding risk and return that were identified in Stage 2 are explored further here, including areas such as market fluctuations, long and short-term investing, past performance as a guide and foreign exchange.

Understanding the potential down-side to property investments was the aim of the following question.

(In-Depth)

IDQ25 What would be the disadvantages of Sharon purchasing an investment property? (What else? Anything else?)

Responses to this question were as follows.

Table 78. Disadvantages of Purchasing an Investment Property

Responses (Top 8 responses only)	*Percentage Giving Response (%)*
Difficulty meeting loan repayments	*33*
Money is tied up/ can't be accessed readily	*32*
The property may not grow in value as fast as interest in the bank account	*25*
Property could be damaged by the tenants	*24*
Difficulty in obtaining tenants	*21*
Increased costs involved in management of prop/ added expenses	*14*
Potential for a fall in the market/ decline in market	*12*
Maintenance on the house/ repair	*12*
Can't say	*3*

Refer to Section 5.4.2 for detailed analysis of results.

The level of understanding of the risks associated were understood reasonably well although only 12% identified a potential decline in the market. Only 3% of respondents gave a *"can't say"* answer. Respondents were then asked the following question:

(In-Depth)

IDQ27 What would be the disadvantages of Sharon investing in a managed fund? (What else, anything else?) (Refer to Table 75 for full list)

Responses to this question were as follows.

Table 79. <u>Disadvantages of Investing in a Managed Fund</u>

***Responses** (Top 5 responses only – Refer to Table 75 in Section 5.4.1.3 for detailed responses)*	***Percentage Giving Response (%)***
Could lose her money if the fund fails	*37*
Might make less money/ lower interest rate	*24*
Money not as accessible	*13*
Loses control	*12*
Can't say	*16*

Refer to Section 5.4.1.3 for detailed analysis of results.

The disadvantages of managed investments were not as well known as for property investments although awareness that value could fall and money be lost was much higher. A relatively high 16% could not give a response to this question. Groups that were over-represented in the lowest financial literacy quintile in Stage 2 were more likely than average to give this response, particularly students (43%), those aged 18 to 24 (42%), those employed on a casual basis (29%), and those with savings under $5,000 (29%).

In order to determine the level of understanding of longer term investing, the following question was asked.

(In-Depth)

IDQ35 Sharon decides to invest in a particular managed fund to provide some income for when she retires at 65. Performance of that fund has dropped by 5% over the last year. What should Sharon take into account when deciding whether she needs to take any action? (What else? Anything else?)

Responses to this question were as follows.

Table 80. Factors to Consider when Assessing and Deciding Actions Based on a Drop in a Managed Fund's Performance

Responses	*Percentage Giving Response (%)*
Whether other funds/the market also dropped over the same period	*59*
Whether the fund has been profitable in the longer term	*48*
Whether the funds performance is likely to improve	*14*
The degree of risk in the assets the fund invests in	*13*
Why it has dropped	*10*
Exit fees/penalties – what will it cost her	*7*
What else she might invest in	*5*
Get advice from financial adviser	*5*
Global economic outlook	*4*
A long term investment, therefore should not take action	*4*
Long term goals – how much she expects to earn	*2*
Has there been real change in investment or strategy of the fund	*2*
Managed funds cyclical in nature – some years there are gains, some there are losses – if leave now, a loss; next year could gain	*2*
How much she can afford to lose	*2*
Can't say	*3*

Ninety-seven percent of respondents gave a sound response to this question with the major factors to consider being by far *whether other funds/the market also dropped over the same period* (59%) and *whether the fund has been profitable in the longer term* (48%).

Most of the groups that were over-represented in the lowest financial literacy quintile in Stage 2 were more likely than average to respond *"can't say"* to this question, particularly those in home duties/non-workers (13%), people in households with incomes under $20,000 (7%) and those with savings under $5,000 (11%).

As an additional test in understanding risk, respondents were asked the following question.

(In-Depth)

IDQ36 If Sharon had invested in that particular managed fund with the aim of taking her money out in two years and using it as a deposit on a house, what should she take into account when deciding whether she needs to take any action? (What else? Anything else?)

Responses to this question were as follows.

Table 81. Factors to Consider Before Taking Action with Managed Fund

Responses	***Percentage Giving Response (%)***
Whether a different form of investment would provide a better return	*37*
The expected performance of the fund in the following year	*17*
Whether other funds/the market also dropped over the same period	*16*
Whether the fund has been profitable in the longer term	*16*
The degree of risk in the assets the fund invests in	*12*
Exit fees and charges	*10*
Is there a penalty if she withdraws money now?	*6*
Does she really need the house now/ delay purchase	*5*
How much she can afford to lose	*5*
Makes the decision more urgent, as shorter term	*4*
Property prices/value - if high	*3*
Look around for something more stable	*2*
Timing – take it out now rather than later	*2*
Rate of increase in property values relative to drop in fund performance – difference should not increase	*2*
What options she has if decides to withdraw	*2*
Consult a financial adviser	*2*
Can't say	*9*

The most common response was *whether a different form of investment would provide a better return* (37%), followed by *the expected performance of the fund in the following year* (17%). It would appear from the answers given that most respondents had a reasonable understanding of what to consider, although 9% gave a *"can't say"* response.

The groups that were over-represented in the lowest financial literacy quintile in Stage 2 were more likely than average to give the response *"can't say"*, particularly those involved in home duties (20%), single parents (20%), those with savings under $5,000 (16%), those with household income under $20,000 (15%) and those aged 70 or over (15%).

5.4.2.2 Understanding of Managed Investments

Refer to the following sections for detailed results and analysis of:

- Advantages of managed funds – refer Table 74 in Section 5.4.1.3
- Disadvantages of managed funds – refer Table 75 in Section 5.4.1.3
- Negative returns, action to take – refer Table 80 in Section 5.4.2.1
- Short-term investment (2 years) considerations – refer Table 81 in Section 5.4.2.1

5.4.2.3 Understanding of Guarantees on Investments

Understanding the meaning of the term "capital guaranteed" in respect of investments is essential to ensure that expectations concerning investments are realistic, and potential investors can identify investments where their capital is not at risk.

In order to measure respondents' level of understanding of this term, they were asked the following question.

(Self-Completion)
SCQ9 If an investment is capital guaranteed, this means that:
(Please circle one only)

Table 82. Meaning of the Term Capital Guaranteed Investment

Response Options	***Percentage Giving Response (%)***
The amount invested cannot be reduced by losses on investments	*60*
The investment is very low risk and so the possibility of losing money on the investment is minimal	*26*
You have information about a company that is known by the company's board of directors, management, and/or employees, but not by the public	*2*
Don't know	*12*

Percentages may not sum to 100% due to rounding.

Sixty percent of respondents gave the correct answer to this question; 40% were incorrect or unsure. This is of some concern, as an understanding of *Capital Guaranteed* is fundamental to many investment decisions and is used by marketers of investment products.

Most of the groups that were over-represented in the lowest financial literacy quintile in Stage 2 had an average understanding of this term, however the following groups were less likely than average to understand: those with no occupation (25% correct), students (29%), single parents (40%) and singles living alone (40%).

The level of *"don't know"* at 12% was relatively high for this question overall, and was particularly high for single parents (40%), those with no occupation (38%), semi/unskilled/farm workers (30%), students (29%) and those involved in home duties/non-workers (27%).

5.4.2.4 Understanding That Short-Term Fluctuations in Value Are Less Important for Long-Term Investments

The Stage 2 telephone survey found some gaps in people's understanding that good investments can fluctuate in value. In that survey, 19% considered that good investments *are always increasing in value*. The purpose in Stage 3 was to explore this issue further using specific examples.

Understanding that good long-term investments are likely to fluctuate in value in the short-term is of critical importance for maximising long-term investment returns. In order to test the understanding of this concept, respondents were asked the following question.

(Self-Completion)

SCQ8 If an investment product has produced good returns for the past two years, this means that the returns for this year are most likely to be:
(Please circle one only)

Table 83. <u>Predicting Investment Returns Based on Historical Performance</u>

Response Options	***Percentage Giving Response (%)***
Can't say based on the information provided	*73*
About the same as in previous years	*14*
Higher than in previous years	*9*
Less than in previous years	*2*
Don't know	*1*

Percentages may not sum to 100% due to rounding.

Seventy-three percent of respondents gave the correct response to this question regarding the ability to predict the next 12 months return based on historical performance i.e. *can't say based on the information provided*.

The groups that were over-represented in the lowest financial literacy quintile in Stage 2 generally were less likely than average to respond correctly, particularly students (57% correct), households with incomes under $20,000 (59%), those with education to less than Year 10 (58%), single parents (60%) and those involved in home duties/non-workers (60%). These groups may be relatively more prone to making poor investment decisions.

In addition to being asked the question on using past performance as a guide to future prospects, respondents were also asked the following question.

(In-Depth)

IDQ35 Sharon decides to invest in a particular managed fund to provide some income for when she retires at 65. Performance of that fund has dropped by 5% over the last year. What should Sharon take into account when deciding whether she needs to take any action? (What else? Anything else?)

Responses to this question were as follows.

Table 84. Factors to Consider when Assessing and Deciding Actions Based on a Drop in a Managed Fund's Performance

Responses	***Percentage Giving Response (%)***
Whether other funds/the market also dropped over the same period	*59*
Whether the fund has been profitable in the longer term	*48*
Whether the funds performance is likely to improve	*14*
The degree of risk in the assets the fund invests in	*13*
Why it has dropped	*10*
Exit fees/penalties; what will it cost her	*7*
What else she might invest in	*5*
Get advice from financial adviser	*5*
Global economic outlook	*4*
A long term investment, therefore should not take action	*4*
Long term goals - how much she expects to earn	*2*
Has there been real change in investment or strategy of the fund	*2*
Managed funds - cyclic in nature: some years there are gains – some loses, if leave now, a lose, next year could gain	*2*
How much she can afford to lose	*2*
Can't say	*3*

In this example there appears to be a reasonably good understanding of the need to take a longer term view of fluctuations in value, with many sensible responses such as w*hether other funds/the market also dropped over the same period (59%)* and *whether the fund has been profitable in the longer term* (48%).

The groups giving the lowest level of mentions to whether the fund had been profitable in the longer term were students (29%), casual employees (25%), those with education to Year 10 or below (23%) and people with household income of under $20,000 (33%).

5.4.2.5 Understanding of the Impact of Exchange Rate Fluctuations

The objective here was to examine the respondents' level of basic understanding of what fluctuations in currency are, and the likely impact they have on consumers (and investors).

In order to test the understanding of the impact of a fall in the Australian dollar, the following question was asked.

(Self-Completion)

SCQ15 If the Australian dollar falls in relation to the US dollar, a regular Australian traveller to the US will find that prices there are now:
(Please circle one only)

Responses to this question were as follows.

Table 85. <u>Price Impact of a Fall in the Australian Dollar</u>

Response Options	***Percentage Giving Response (%)***
Higher than before	*86*
About the same as before	*6*
Lower than before	*6*
Don't know	*1*

Percentages may not sum to 100% due to rounding.

Eighty-six percent of respondents understood that a fall in the Australian dollar in relation to the US dollar would mean prices from the Australian perspective would go up. This suggests a good general understanding of the impact on respondents' personally.

The groups that less likely to understand the impact of exchange rates were respondents who passed Year 10 or below (59%), those aged 70 or over (62%), households with incomes under $20,000 (70%) and semi/unskilled/farm workers (73%).

Respondents were then asked the following question relating to the impact of a rise in the Australian dollar.

(Self-Completion)

SCQ16 If the Australian dollar rises in relation to the US dollar, Australian exporters should consider themselves:
(Please circle one only)

Responses to this question were as follows.

Table 86. <u>Price Impact on Exporters of a Rise in the Australian Dollar</u>

Response Options	***Percentage Giving Response (%)***
Worse off	*47*
Better off	*43*
Neither better off nor worse off	*7*
Don't know	*3*

Percentages may not sum to 100% due to rounding.

In contrast with the impact on an Australian traveller to the US, the impact that a rise in the value of the dollar has on Australian exporters was not well understood. Forty-seven percent gave the correct answer (i.e. *worse off*), whilst 50% gave an incorrect answer.

It would seem that the impact of exchange rate movements is not well understood particularly amongst those with below Year 10 level of education (17% correct), those involved in home duties/non-workers (27%), those aged 18 to 24 (32%) and females (34%).

6. FINANCIAL RESPONSIBILITY

This section examines:

- Making personal life choices relevant to one's financial position, including understanding the difference between long-term and short-term needs, prioritising different needs to balance income and expenditure within financial capacity, an understanding of manageable and unmanageable debt, making informed choices when experiencing a drop in income, and in general, assessing the financial implications of personal life choices
- Consumer rights and responsibilities, together with access to assistance, including awareness of dispute resolution options, the ability to make complaints effectively, understanding of regulation of the finance sector, awareness of the distinction between different types of financial advisers and the ability to assess and compare different sources of financial advice and information

6.1 Ability to Make Appropriate Personal Life Choices About Financial Issues

	Objectives	*Key Findings*
BASIC REQUIREMENTS	• Understanding of the difference between long-term and short-term needs • Ability to prioritise different needs to balance income and expenditure within financial capacity • Understanding of the difference between good (manageable and planned) debt and bad (unmanageable and unplanned) debt • Ability to make informed choices when experiencing a drop in income	• Overall, there was a relatively low level of understanding of which are the more appropriate long-term investment options (39%), but a much higher understanding of appropriate short-term investment options (92%) • Groups less likely to understand appropriate long term investment options included: – Those with a low level of education – Young people – Causal employees – Students • Nearly all respondents (98%) appeared to understand that prioritising different needs is required to balance income and expenditure within financial capacity • While the difference between good (manageable and planned) debt and bad (unmanageable and unplanned) debt was recognised by most (79%), many failed to do so, particularly: – Those with less education – Semi/unskilled/farm workers – Those with low household income

	Objectives	*Key Findings*
		• Most people were able to suggest a range of appropriate strategies for dealing with a drop in income. Income increasing strategies were more commonly suggested than expenditure reducing strategies

	Objectives	*Key Findings*
ADVANCED COMPETENCE	• Ability to assess the financial implications of personal life choices in terms of career choices and life-long learning opportunities	• This issue was not specifically addressed by any particular question. The ability to assess the financial implications of personal life choices in terms of career choices and life-long learning opportunities was identified as an aspect of advanced competence, but given the complexity of this issue and the constraints of the survey, the Steering Committee decided not to address it

6.1.1 Basic Requirements for Ability to Make Appropriate Personal Life Choices About Financial Issues

6.1.1.1 Understanding of the Difference Between Long-Term and Short-Term Needs

The two scenarios presented in this section deal with the difference between investing for short term needs and long terms needs. The scenarios encompass at least two issues which would need to be faced by an ordinary consumer in dealing with such investments: recognition of whether the need is short-term or long-term, and a basic understanding of the types of investments that are appropriate in either situation. (A third issue, the balancing of risk and return, is also implicit in the scenarios, and is discussed in more detail in the section on Risk and Return.)

(Self-Completion)
SCQ10 Frank and Julie have just had a baby. They have some money they want to invest in order to pay for their child's education. Which of the following is most likely to provide the highest growth over the next 12 years?
(Please circle one only)

Table 87. Understanding Long-Term Investment Options

Response Options	***Percentage Giving Response (%)***
Shares	*39*
Managed fund that invests largely in cash	*21*
Fixed interest account	*15*
Government bonds	*7*
Don't know	*18*

Percentages may not sum to 100% due to rounding.

The first scenario, dealing with long-term needs, was answered correctly by only 39% of respondents, who identified that of the options offered, *"shares"* would be most likely to provide the highest growth over the next 12 years. Twenty-one percent believed that a *managed fund that invests largely in cash* would provide the highest growth over that period, while 18% were not able to say.

Nearly all of the groups over-represented in the lowest financial literacy quintile in Stage 2 were less able to answer the question correctly. In particular, *"shares"* were identified by just 9% of those whose highest education level was Year 10 or below, just 11% of 18-24 year olds, 13% of casual employees and 14% of students.

The scenario below sought to assess respondents' abilities to recognise the risk/return balance appropriate to short term investment needs, and to identify an appropriate investment option.

(Self-Completion)

SCQ11 Sam has saved $10,000, and would like to get some return on his money. However, he needs the money to pay for his expenses when he starts university next year, so he needs to minimise the risk of losing any of it. Which of the following would be the best place for Sam to place his money?
(Please circle one only)

Table 88. Understanding Short-Term Investment Options

Response Options	***Percentage Giving Response (%)***
In a fixed term deposit	*92*
In property	*4*
In shares	*3*
Don't know	*1*

Percentages may not sum to 100% due to rounding.

Unlike the long-term investment scenario, the majority of respondents (92%) correctly identified the most appropriate investment option, a *fixed term deposit*. This result was relatively consistent across all groups.

6.1.1.2 Prioritising Needs and Balancing Income and Expenditure Within Financial Capacity

A measure of people's ability to understand and prioritise different needs so as to balance income and expenditure within financial capacity was obtained as part of a range of questions dealing with the scenario of "Michelle". (This series of questions is discussed in detail in Section 4). Respondents had been told that Michelle is single, aged 27, with no dependents. She earns $38,000 per year. Generally, she spends most of her income as she gets it, and has $750 in savings. She needs to buy a new refrigerator immediately that costs $999. After questions discussing the options for buying the refrigerator, respondents were asked the following.

(In-Depth)

IDQ6 Michelle also needs to pay her electricity bill for $280 at the same time, but isn't sure that she can do this and also buy the fridge. What sort of things should Michelle do in the future to be able to cope with regular outlays, such as electricity bills and car registration as well as unexpected bills? (What else? Anything else?)

Table 89. Suggestions for Coping with Regular and Irregular Financial Outlays

Responses	***Percentage Giving Response (%)***
Save regularly	*62*
Use a budget	*54*
Pay bills by smaller more frequent payments	*13*
Save an amount for unknown expenses	*13*
Not spend all her money	*9*
Pay regular bills by direct debt	*6*
Ask for an extension	*2*
Can't say	*0*

All respondents were able to suggest things that Michelle could do to cope with regular outlays as well as unexpected bills, and many of the things suggested clearly implied an understanding of the importance of prioritising different needs.

The single most common suggestion was to *save regularly* (62% of respondents). Overall, some 73% of respondents made suggestions that related to saving more and/or spending less. Nearly as many (68% of respondents) made suggestions that related to budgeting, planning and monitoring. Fewer than 2% of respondents made no suggestions that involved either budgeting/planning or spending less/saving, that is their responses did not indicate an understanding of the importance of prioritising different needs.

Results were consistent across most groups, although it was notable that 18 to 24 year olds were more likely to suggest solutions that involved saving more or spending less (87%) and less likely to suggest solutions that involved budgeting, planning or monitoring (50%).

6.1.1.3 Understanding of the Difference Between Good Debt and Bad Debt

A basic requirement of financial literacy is an understanding of the difference between debt which is planned and manageable ("good" debt) and debt which unmanageable and/or unplanned ("bad" debt). The question below tested this understanding.

(Self-Completion)
SCQ14 Which of the following would definitely represent situations involving unmanageable (bad) debt?
(Please circle as many as apply)

Table 90. Situations Considered to Represent Unmanageable Debt

Response Options	*Percentage Giving Response (%)*
a) Inability to pay for a tertiary education except by using the Higher Education Contribution Scheme (HECS)	*4*
b) Inability to make the minimum repayment on a credit card	*82*
c) Inability to buy a home, except by obtaining a mortgage	*3*
d) None of the above	*12*
e) Don't know	*3*

Eighty-two percent of people correctly identified that the *inability to make the minimum repayment on a credit card* would qualify as "bad" debt and a slightly smaller proportion (79%) recognised that this was the only correct answer. Of the remaining respondents, the most common response (12%) was that none of these situations represented unmanageable debt.

Most of the groups that were over-represented in the lowest financial literacy quintile in Stage 2 were slightly less likely to understand the difference between manageable and unmanageable debt, particularly those with limited education. Sixty-eight percent of those with highest level of education of Year 10 or below, 70% of semi-skilled/unskilled/farm workers and 70% of those with a household income under $20,000 correctly answered the question, compared to the 82% overall.

6.1.1.4 Ability to Make Informed Choices When Experiencing a Drop in Income

In order to assess the ability of respondents to make informed choices when experiencing a drop in income, a question was included as part of a scenario dealing with "Gary" the electrician.

(In-Depth)

IDQ23 Gary changes jobs and begins working as a salesman. In this new job he doesn't receive a salary, but is paid on commission. Gary finds that this career move results in a substantial drop in his income. After one year, Gary has no savings left and is having difficulty paying his rent. Gary's wife, Kelly, works part-time and they don't have any children. What are all the options Gary and Kelly should consider to make ends meet? (What else? Anything else?)

Table 91. Suggested Choices When Experiencing a Drop in Income

Responses	***Percentage Giving Response (%)***
Get Kelly to take on a full-time job	*67*
Go back to being an electrician	*48*
Get a more highly paid job	*41*
Second job	*29*
Look at their expenditure/budget	*26*
Change to a sales job which pays a salary/not all commission	*22*
Move to cheaper accommodation	*21*
Borrowing – personal loan	*12*
Sell assets (e.g. TV; DVD player)	*10*
Get more sales/Work harder in sales job	*6*
Ask for government/welfare assistance	*5*
Training/Re-educate/Studying	*5*
Ask friends and family for aid	*4*
Overtime	*2*
See a financial planner	*2*
Renegotiate income arrangements/Talk to boss	*2*
Use credit	*2*
Stick out the sales job/Sales job come good later	*2*
Start a business	*2*
Can't say	*0*

Many options were suggested in relation to the scenario of facing a drop in income and a resultant inability to meet bills. By far the most common suggestions made were those that related to increasing the income of the household. In particular, 67% suggested that that Gary's wife, Kelly should take on a full-time job. Forty-eight percent suggested that Gary increase his income by returning to his former trade as an electrician, while 41% felt that Gary should get a higher paid job.

Respondents were less likely to suggest options that involved decreasing expenditure rather than increasing income, with 21% suggesting that Gary move to cheaper accommodation.

The options of borrowing money or using credit – which, if made in isolation, would be considered to be inadequate solutions to the problem, were suggested by 13% of respondents, all of whom made at least one income-increasing suggestion and half of whom made at least one expenditure-reduction suggestion.

Eleven percent of respondents either suggested selling assets or accessing superannuation savings etc, while 9% felt that Gary should seek the assistance of either the Government or friends and family.

In nearly all cases, respondents suggested a range of strategies which included at least some that were quite appropriate to the situation. Fewer than 2% of respondents suggested selling assets without also suggesting ways of earning more income, while only one respondent suggested selling assets without either suggesting ways of earning more income or of reducing expenditure.

All group responded in a relatively similar manner.

6.1.2 Advanced Competence for Ability to Make Appropriate Personal Life Choices About Financial Issues

The ability to assess the financial implications of personal life choices in terms of career choices and life-long learning opportunities was identified as an aspect of advanced competence, but given the complexity of this issue and the constraints of the survey, the Steering Committee decided not to address it.

6.2 Understanding of Consumer Rights and Responsibilities

Most of this section of the Financial Literacy Framework was dealt with by the Stage 2 telephone survey. The table below only shows the element dealt with by Stage 3.

	Objectives	*Key Findings*
BASIC REQUIREMENTS	• Awareness of and ability to access independent dispute resolution schemes for financial products	• 65% of respondents were at least broadly aware of independent dispute resolution services, and indicated that they would use them if they made a complaint to a bank which was refused (however, it should be noted that the proportion who would actually do so may be higher, given the requirement for banks to tell consumers about the Australian Banking Industry Ombudsman when rejecting a complaint) – 54% of respondents specifically mentioned the possibility of contacting an “ombudsman” – Groups less likely to refer to any form of independent dispute resolution service in dealing with a dispute with their bank, were particularly those aged 18–24, those with less than Year 10 education, students, and those with savings under $5,000

6.2.1 Basic Requirements for Understanding of Consumer Rights and Responsibilities

Nearly all of the issues under this particular heading were addressed as part of the Stage 2 of the study. The only aspect dealt with in Stage 3 – awareness of and ability to access independent dispute resolution schemes for financial products – was addressed as part of a series of questions concerning how respondents would behave if they had a dispute with their bank. A detailed analysis of these questions is covered in 6.3 on Access to Assistance. The following section is limited to discussion of just one aspect of the findings from those questions.

6.2.1.1 Awareness of and Ability to Access Independent Dispute Resolution Schemes for Financial Products

Respondents were asked three questions about how they would deal with a dispute with their bank. These questions, both separately and together, provide evidence that suggests that most people are aware of independent dispute resolution options, such as the Australian Banking Industry Ombudsman.

The three questions covered what respondents would do, how they would go about it, and what they would do in the event that they made a formal complaint to their bank that was refused.

(In-Depth)

IDQ37 If your bank charged you fees that you felt sure were incorrect but was unwilling to refund them, what would you do? (What else? Anything else?)

A full discussion of this question is found in section 6.3. For the purpose of estimating awareness of independent dispute resolution schemes, this question suggested only a moderate level of awareness. Overall, a total of 37% mentioned that they would take their complaint to a regulatory body or an ombudsman of some sort. Most of this group (29% of all respondents) mentioned contacting an "ombudsman", including about half of the group (18% of all respondents) who specifically mentioned the banking industry ombudsman. It should be noted that the proportion who would actually contact an ombudsman if they had an unresolved complaint would in practice be higher, given the requirement for banks to tell consumers about the Australian Banking Industry Ombudsman when rejecting a complaint.

Table 92. What People Would Initially Do If They Had a Dispute with Their Bank – Selected Responses Related to Independent Dispute Resolution Schemes

Summary of Responses Related to Independent Dispute Resolution Schemes	*Percentage Giving Response (%)*
Contact a regulatory body or ombudsman etc	*37*
SUB-TOTAL: Specifically mentioned "ombudsman"	*29*
SUB-TOTAL: Specifically mentioned "banking ombudsman" or "banking industry ombudsman"	*18*

Answers to the second question in this series provided a further opportunity for respondents to indicate if they were aware of and/or knew how to access independent dispute resolution schemes.

(In-Depth)

IDQ38 If you decided to make a complaint in a case like this, how would you actually go about it? (What steps would you take to make your case? What else? Anything else?)

Four percent of respondents specifically mentioned that they would seek the ombudsman's advice about how to make a complaint, while fewer than 2% specifically mentioned seeking the help of government or regulatory agencies. (These low numbers do not by themselves suggest a lack of awareness of these services, as this question did not seek to measure awareness.) A detailed analysis of this question is found in Section 6.3.

The third question in the series – what would people do if they made a formal complaint to the bank but it was refused – provided a final opportunity for respondents to indicate if they were aware of or likely to access independent dispute resolution services.

(In-Depth)

IDQ39 If you made a formal complaint to the bank but it was refused, what would you do? (What else? Anything else?)

Table 93. <u>What People Would Do if They Had a Dispute with Their Bank and the Bank Refused Their Formal Complaint</u>

Responses	***Percentage Giving Response (%)***
Move the account to a different bank	*39*
Contact the Banking Industry Ombudsman	*35*
Contact a solicitor	*15*
Contact the Ombudsman (unspecified)	*12*
Make another formal complaint to the bank	*10*
Contact media: a Current Affair/newspaper/radio	*8*
Contact the bank's Consumer Complaints department	*7*
Tell/consult friends and relations	*5*
Contact the Financial Industry Complaints Service	*4*
Depends on the amount of money concerned	*4*
Contact the State Government Ombudsman	*3*
Contact Legal Aid	*3*
Contact consumer affairs/services	*3*
Contact a financial planner/adviser, accountant, etc.	*2*
Contact a Member of Parliament	*2*
Nothing	*3*
Can't say	*1*

A detailed analysis of this question is in section 6.3. For the purposes of the current discussion, it is notable that 35% specifically indicated that they would *contact the banking industry ombudsman*. In total, 58% indicated that in this situation they would contact an ombudsman, a government authority or an independent regulatory or complaints agency: all of which would direct the person with the complaint to the right scheme. Most of these respondents (49% of respondents overall) specifically mentioned that they would contact an "ombudsman" in this situation.

When these three questions are analysed together, it is apparent that 65% of respondents were aware of, and prepared to access independent dispute resolution services. Most of these respondents (54% of respondents overall) mentioned that they would intend to use services provided by an "ombudsman", including 40% of all respondents who referred to the "banking ombudsman" at some point during the three questions.

However, it should be noted that the proportion who would actually access an independent dispute resolution service may be higher, given the requirement for banks to tell consumers about the Australian Banking Industry Ombudsman when rejecting a complaint.

Some of the groups that were over-represented in the lowest financial literacy quintile in Stage 2 were less likely to be aware of or be prepared to access these services. In particular, those aged 18 to 24, those with less than Year 10 education, students and those with savings under $5,000 were notably lower on all these measures, and less than 50% of each of these groups referred to independent dispute resolution services at any time during these three questions (compared with 65% of respondents overall).

In the Stage 2 telephone survey respondents had been asked "*If you experienced difficulty with a banking-type product, such as a credit card or a loan, that you were unable to resolve with the provider of that service, who would you contact? Who else? Anyone else*?" Forty-eight percent had indicated that they would contact an ombudsman or a regulatory organisation, including 37% who had specifically mentioned the term ombudsman and 21% who had specifically mentioned the banking industry ombudsman. Twenty-one percent had not been able to answer the question. While the Stage 2 question and the third in the sequence of Stage 3 questions were different, their similarities in concept – what would you do if you cannot resolve the dispute yourself – are reflected in their somewhat similar results.

6.3 Ability and Confidence to Access Assistance When Things Go Wrong

	Objectives	*Key Findings*
BASIC REQUIREMENTS	• Awareness of where/whom to contact if things go wrong (e.g. consumer complaints department of financial institution; consumer association; financial counsellor; ombudsman) • Ability to make complaints effectively • Awareness of the distinction between financial advisers charging fee-for-service vs. taking commission, and understanding of its implications	**Who to Contact When Things Go Wrong:** – Most people exhibited a reasonable awareness of at least some of the options available when things go wrong. Making an initial complaint to the financial institution itself was suggested by 64% of respondents, while 37% initially suggested contacting a regulatory body or ombudsman – If the initial complaint to the bank failed, the option of complaining through various independent bodies would be considered by most respondents – 18% of people would initially not take any action that could be described as making a complaint – most would simply move to another bank **Effectiveness of Complaints:** – Only 59% would make their complaint in writing. Only 11% stated that they would keep copies of all documentation and only 10% said that they would seek help from any source **Financial Advisers–Fee vs. Commission:** – Most respondents would prefer to use a financial adviser who charges a fee for service, largely on the basis of receiving more impartial advice. However, 29% would prefer to use an adviser who charges commission, including 12% of total respondents who thought such advisers would be motivated by commission on earnings rather than on the amount invested

	Objectives	*Key Findings*
ADVANCED COMPETENCE	• Broad understanding of the level of regulation of the finance sector • Understanding that regulation of the finance sector is no guarantee of the safety of all financial products • Ability to assess and compare different sources of financial advice and information • Understanding of the processes and procedures for resolving disputes	**Regulation of Finance Sector:** – Knowledge that in the current regulatory environment financial institutions are required to observe specific standards was quite high – 12% could not pick even one of the correct descriptions of how regulation of the Australian financial sector affects the security of financial products, including 3% who believed that all financial products are guaranteed by the regulators **Comparing Sources of Financial Advice and Information:** – This issue was not specifically addressed by any particular question **Resolving Disputes:** – On the basis of both their awareness of the organisations through which disputes are resolved and their understanding of the value of making complaints in writing, it is estimated that 32% of respondents have a good understanding of the processes and procedures for resolving disputes

6.3.1 Basic Requirements for Ability and Confidence to Access Assistance When Things Go Wrong

6.3.1.1 Awareness of Where or Whom to Contact If Things Go Wrong

A sequence of questions dealt with people's awareness of where, or whom to contact if things go wrong with financial institutions, and people's ability to make complaints effectively in this situation. The first and third questions in this sequence largely dealt with who people would contact, and are analysed and discussed in this section. The second question in the sequence largely dealt with the issue of respondents' abilities to make complaints effectively, and is chiefly discussed in section 6.3.1.2.

The questions posed a scenario in which the respondent's bank had charged fees that the respondent felt were incorrect, but the bank was unwilling to refund them, i.e. the scenario implied that there had already been some initial discussion with the bank, which had not resolved the issue to the respondent's satisfaction. The first question was as follows.

(In-Depth)

IDQ37 If your bank charged you fees that you felt sure were incorrect but was unwilling to refund them, what would you do? (What else? Anything else?)

Table 94. What People Would Initially Do If They Had a Dispute with Their Bank

Responses	*Percentage Giving Response (%)*
Make a formal complaint to the bank	58
Move the account to a different bank	50
Contact the Banking Industry Ombudsman	18
Contact the Ombudsman (unspecified)	13
Contact the bank's Consumer Complaints department	8
Contact the Financial Industry Complaints Service	3
Contact a solicitor	3
Talk/complain to friends/family	3
Depends on the amount	3
Contact media: newspaper/radio/tv: a Current Affairs	3
Contact a financial planner/adviser, accountant, etc.	2
Contact consumer affairs	2
Nothing	2
Can't say	0

As the above table indicates, respondents proposed a range of things that they would do in this situation. The most common single responses were that they would *make a formal complaint to the bank* (58%) and/or that they would *move their account to another bank* (50%). Eighteen percent mentioned the *banking industry Ombudsman* specifically, while another 13% mentioned contacting *the ombudsman* but did not specify which ombudsman.

The following summary table groups the main responses. Overall, a total of 37% mentioned that they would take their complaint to a regulatory body or an ombudsman of some sort, while a total of 64% would make a complaint of some sort (formal or otherwise) to their bank directly.

Table 95. What People Would Initially Do if They Had a Dispute with Their Bank – Summary of Main Responses

Summary of Main Responses	*Percentage Giving Response (%)*
Complain to the bank	*64*
Move/consider moving the account to a different bank	*50*
Contact a regulatory body or ombudsman etc	*37*
Seek professional advice (legal or financial) or take legal action	*6*
Contact the media or Member of Parliament	*3*

Eighteen percent of respondents did not indicate that they would take any form of action which could be described as making a complaint, i.e. they did not indicate that they would complain to their bank, nor to any regulatory authority or ombudsman, nor that they would seek professional (financial or legal) advice. The only action proposed to be taken by the great majority of these “non-complaining” respondents was to move their account to a different bank. Respondents unlikely to complain were not consistently over-represented (or under-represented) amongst the groups over-represented in the lowest financial literacy quintile in Stage 2 identified, although students, casual employees, people looking for work and people whose highest education was to Year 10 or below were slightly more likely to be “non-complaining”.

Sixty-four percent of respondents indicated that they would complain to the bank in some way. The groups that were over-represented in the lowest financial literacy quintile in Stage 2 were not consistently more or less likely to complain to their bank, although semi-skilled/unskilled/farm workers (55%) and those with Year 10 education or less (59%) were among those somewhat less likely to complain to their own bank. Those aged 18 to 24 (74%) and singles living in shared households (76%) were among those somewhat more likely than average to complain to their own bank.

Thirty-seven percent felt that they would contact an ombudsman or other regulatory or complaints body. Again, the groups that were over-represented in the lowest financial literacy quintile in Stage 2 were not consistently more or less likely to take this course of action. Those less likely to do so included 18 to 24 year olds (24%), casual employees (25%), those looking for work (27%) and those with savings under $5,000. Groups more likely to *contact an ombudsman or regulatory bodies* included retirees (54%) and those performing home duties/non-workers (50%).

Following this question, respondents were asked how they would actually go about making a complaint if they decided to do so. This question is discussed in section 6.3.1.2: Ability to Make Complaints Effectively.

The third question in the sequence explored respondents' reactions to the hypothetical situation where they had made a formal complaint to their financial institution, but it had been refused.

In this situation, respondents' preparedness to take their complaint to an external party increased, as the following table and chart demonstrate. In particular, preparedness to take the complaint to the *Banking Industry Ombudsman* doubled, from 18% to 35%, while the proportion of respondents prepared to make another complaint to their bank dropped from 58% to 10%. The proportion of respondents who indicated that they would *contact a solicitor* increased from 3% to 15%, and those prepared to go to the media increased from 3% to 8%.

In response to the first of the three questions in this sequence, 50% of respondents said they would move their account to another bank if their bank charged fees which appeared incorrect but was unwilling to refund them. In response to the third question in the sequence, 39% of respondents said they would move their account to another bank if they made a formal complaint to their bank but it was refused. Overall, 60% of respondents indicated that would move their account to another bank, either in response to the first or the third question of the sequence.

(In-Depth)

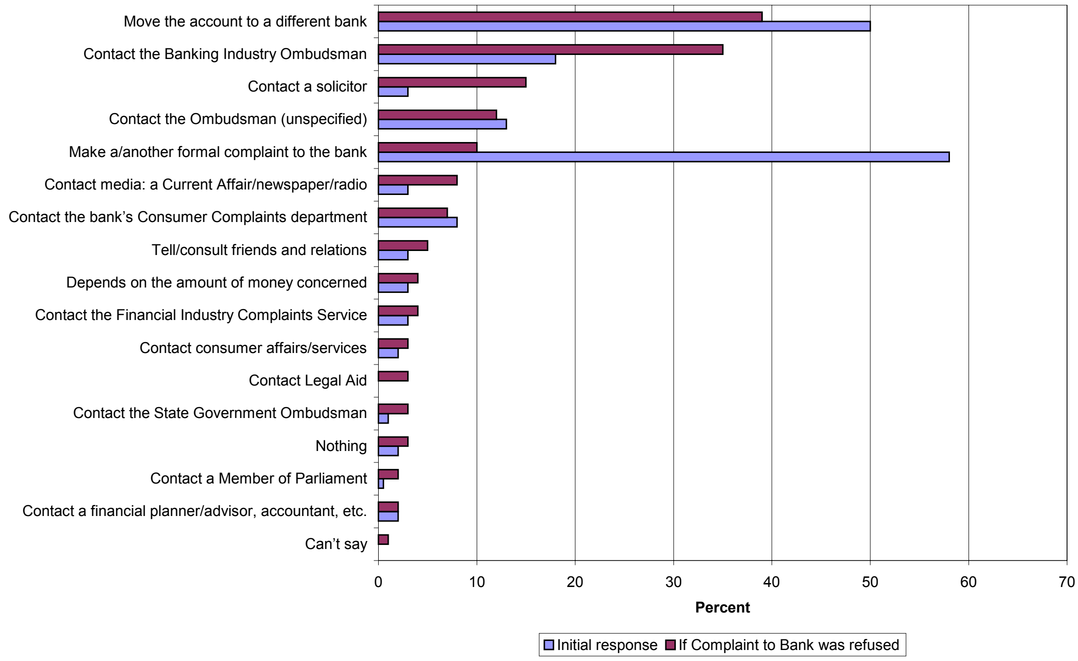
IDQ39 If you made a formal complaint to the bank but it was refused, what would you do? (What else? Anything else?)

Table 96. What People Would Do if They Had a Dispute with Their Bank and the Bank Refused Their Formal Complaint

Responses	***Percentage Giving Response (%)***
Move the account to a different bank	*39*
Contact the Banking Industry Ombudsman	*35*
Contact a solicitor	*15*
Contact the Ombudsman (unspecified)	*12*
Make another formal complaint to the bank	*10*
Contact media: a Current Affair/newspaper/radio	*8*
Contact the bank's Consumer Complaints department	*7*
Tell/consult friends and relations	*5*
Contact the Financial Industry Complaints Service	*4*
Depends on the amount of money concerned	*4*
Contact the State Government Ombudsman	*3*
Contact Legal Aid	*3*
Contact consumer affairs/services	*3*
Contact a financial planner/adviser, accountant, etc.	*2*
Contact a Member of Parliament	*2*
Nothing	*3*
Can't say	*1*

In general, the groups that were over-represented in the lowest financial literacy quintile in Stage 2 were less likely than average to suggest that they would *contact the Banking Industry Ombudsman* if the bank had refused their initial complaint. In particular, those aged 18–24 (13%), those with personal income under $20,000 (16%), those with savings under $5,000 (16%) and singles living in shared households (17%) were notably less likely to *contact the Banking Industry Ombudsman* than were respondents overall (35%).

Chart 1 Possible Responses to a Dispute With One's Bank: Initial Responses and Responses If a Formal Complaint to the Bank was Refused



6.3.1.2 Ability to Make Complaints Effectively

The ability to make complaints effectively was largely addressed by the second question in the sequence of three dealing with the handling of a dispute with one's bank.

(In-Depth)

IDQ38 If you decided to make a complaint in a case like this, how would you actually go about it? (What steps would you take to make your case? What else? Anything else?)

Table 97. How People Would Go About Making a Complaint About Their Bank

Responses	***Percentage Giving Response (%)***
Would make the complaint in writing	*59*
Would make the complaint in person	*40*
Would make the complaint by telephone	*38*
Would keep copies of all documentation	*11*
Would seek the Bank's advice about how to make a complaint	*4*
Would seek the Ombudsman's advice about how to make a complaint	*4*
Would make the complaint by E-mail	*2*
Contact the media	*2*
Can't say	*1*

Key elements of making an effective complaint of this nature are considered to include seeking advice as to how to make the complaint, keeping copies of all documentation, keeping records of discussions concerning complaints lodged verbally, and – particularly for more complex problems – making the complaint in writing. Where a complaint is made orally, records should be kept of conversations – this was not mentioned. Other approaches may, of course, be effective, but awareness of these key elements is likely to reflect a more effective approach to the making of complaints in most cases.

Most respondents (59%) overall indicated that they *would make their complaint in writing*, and 11% indicated that they *would keep copies of all documentation*.

Of potential concern, no respondents mentioned keeping records of discussions concerning complaints lodged verbally, perhaps underestimating the importance of less formal complaints which do not provide objective documentation.

Relatively few respondents indicated that they *would seek advice on how to make the complaint:* 4% said they would seek the bank's advice, 4% would seek the Ombudsman's advice, and a handful of other respondents indicated that they would seek advice elsewhere.

Overall, 10% of respondents indicated that they would seek advice from any source, with this level of responses consistent across all groups.

6.3.1.3 Awareness/Understanding of the Distinction Between Financial Advisers

An awareness of the distinction between financial advisers charging a fee-for-service and those taking commission, together with an understanding of the implications of this distinction, is important for any consumer obtaining or considering obtaining financial advice.

The study included a number of questions designed to address these issues. The questions centred around the scenario of "Sharon", who had earlier been described as 33, single, with no children, earning $60,000 per annum, with $40,000 in savings. After some questions about Sharon's options for using her savings to purchase an investment property or invest in a managed fund, respondents were posed the following question:

(In-Depth)

IDQ31 Sharon has decided to seek the advice of a financial adviser regarding how she should use her savings. She is considering two alternative financial advisers. One adviser takes commission from products, whereas the other charges a fee for service. What factors should Sharon consider when deciding which financial adviser to see? (What else? Anything else?)

Respondents provided an extensive range of answers to this question. The following table shows those answers given by 2% or more of respondents (refer to Section 5.1.2.1 for detailed analysis of Table 53). Many additional answers were given by just one or two respondents. In order to provide a summary of the main overall factors considered by respondents, those answers which fit under the key themes of impartiality, cost, competence and appropriateness have been grouped in the subsequent table.

Table 98. Factors That Should be Considered When Choosing Between Types of Financial Advisers

Responses	*Percentage Giving Response (%)*
Which will be more impartial/have less vested interest	*36*
Which she can more easily afford	*29*
Amount of service fee	*22*
Amount of commission	*22*
Make sure they are accredited/ reputable	*6*

Depends on what the commission is based upon	*6*
Which one would best suit her needs	*6*
Commission will be more highly motivated to get her best return	*6*
Quality of product and service	*5*
Compare their track record	*3*
The one on commission if biased	*2*
Can't say	*3*

As the summary table below shows, 51% of respondents felt that issues to do with cost and/or affordability of the financial adviser's advice should be considered when deciding which financial adviser to see. Somewhat fewer, 38%, mentioned factors to do with the partiality/impartiality of the adviser, while 11% mentioned issues to do with the adviser's reputation, experience, accreditation or competence. Eight percent of respondents gave answers which indicated that the choice between a financial adviser who charged commission and one who charged a fee for service should be based on various factors inherent in the client's investment needs, such as the term of the investment or the amount of the investment.

Table 99. Summary of Main Factors That Should be Considered When Choosing Between Types of Financial Advisers

Summary of Main Responses	***Percentage Giving Response (%)***
Cost/affordability factors	*51*
Impartiality/honesty factors	*38*
Reputation/accreditation/experience/competency factors	*11*
Factors of appropriateness to the investor's specific needs	*8*

Compared with the 38% of respondents overall who felt that the partiality/impartiality of the adviser should be taken into consideration, the groups that were over-represented in the lowest financial literacy quintile in Stage 2 were generally less likely to mention such factors. In particular, those aged 18 to 24 (11%), those with education to Year 10 or below (18%), those with savings under $5,000 and those with household incomes under $20,000 were much less likely to mention factors to do with the partiality/impartiality of the adviser.

Compared with the 51% of respondents overall who felt that costs and affordability should be taken into account, the groups that were over-represented in the lowest financial literacy quintile in Stage 2 were not consistently more or less likely to mention these factors. Among those more likely to take costs into consideration were those aged 18 to 24 (74%), those renting (66%) and those looking for work (68%).

Respondents were then asked which type of financial adviser they would prefer to use if they were in Sharon's position, and why they would prefer that type of adviser.

(In-Depth)

IDQ32 If you were in Sharon's position, which financial adviser would you prefer to use – one who takes commission from products, or one who charges a fee for service?

Table 100. Preference for Fee-for-Service vs. Commission-Based Adviser

Responses	***Percentage Giving Response (%)***
Financial adviser who charges a fee for service	*69*
Financial adviser who takes commission from products	*21*
Neither	*2*
Can't say	*7*

Sixty-nine percent would prefer a financial adviser who charges a fee for service, 21% would prefer one who charged commission, while 9% either preferred neither or could not say. The groups that were over-represented in the lowest financial literacy quintile in Stage 2 were not consistently more or less likely to prefer either type of adviser, although it was notable that singles living in shared households (37%) and people with savings of less than $5,000 (36%) were more inclined than respondents overall to prefer financial advisers who charge commission.

(In-Depth)

IDQ33 Why would you prefer a financial adviser who takes commission from products rather than one who charges a fee for service?

Table 101. Reasons for Preferring a Financial Adviser Who is Paid Commission

Responses	***Percentage Giving Response (%)***
More motivated to do well with my money	*48*
Fees/more easily affordable	*12*
Only pay when you are making money	*7*
Less initial financial outlay	*5*
More accountable for their services	*5*
Could be cheaper in the long run	*5*
Don't get charged for asking information	*5*
Don't want to end up out of pocket	*2*
Gets commission from company	*2*
They will assist me knowing that it is a win-win situation	*2*
Will have really done their homework on the product	*2*
More guaranteed they do only get a proportion of what I made	*2*
Depending on the amount of commission, have access to adviser at any time	*2*
Can't say	*2*

Base: Those who preferred a financial adviser who takes commission from products at IDQ 32.

Sample Size: 42

Respondents' reasons fell into two broad categories, the larger comprising responses indicating belief that financial advisers who charge commission would be more motivated to do well with people's investments (48%), as the commission was assumed to be charged on the return achieved:

> *"They will assist me, knowing it is a win-win situation."*

> *"You only pay when you are making money."*

Respondents holding these views accounted for 57% of those who preferred financial advisers that charged commission. Most of groups that were over-represented in the lowest financial literacy quintile in Stage 2 were more likely to hold these perceptions than respondents overall.

A number of respondents who preferred a financial adviser who charged commission also gave reasons for their preference which indicated they felt that this would be a lower cost, more affordable option.

Overall, the groups that were over-represented in the lowest financial literacy quintile in Stage 2 were as likely as average to mention the adviser being more motivated to do well as the reason for preferring a commission-based adviser, but these results should be treated as indicative only, due to the small sample of those preferring a commission-based adviser.

(In-Depth)

IDQ34 Why would you prefer a financial adviser who charges a fee for service rather than one who takes commission from products?

Table 102. Reasons for Preferring a Fee-for-Service Adviser

Responses	***Percentage Giving Response (%)***
Will be more impartial/have less vested interest	*63*
Will know straight away what it will cost you	*21*
It will be less in $/cheaper	*5*
Fee is once-off payment	*5*
Can't say	*1*

Base: Those who preferred a financial adviser who charges a fee for service at IDQ 32.

Sample Size: 140

Respondents who preferred financial advisers who charge a fee for service tended to hold this preference because they felt they would get more impartial advice. Sixty-three percent of this group held this view. The next most common group of reasons given for preferring financial advisers who charge a fee for service reflected respondents' desires to know what the fee would be up-front.

The groups that were over-represented in the lowest financial literacy quintile in Stage 2 were less likely than average to give the reason of impartiality for preferring a fee-for-service adviser. Those problem groups least likely to mention that reason were those aged 70 and over (30%), those with household income under $20,000 (32%), and those with highest level of education less than Year 10 (33%). Single parents (25%) and students (25%) were also much less likely than average to report impartiality as a reason.

Most, but not all, of the groups that were over-represented in the lowest financial literacy quintile in Stage 2 were more likely than respondents overall to prefer financial advisers who charged a fee because one would be more aware of the fee up-front.

6.3.2 Advanced Competence for Ability and Confidence to Access Assistance When Things Go Wrong

6.3.2.1 Understanding of Regulation of the Finance Sector

An advanced level of financial literacy is considered to involve a broad understanding of the level of regulation of the finance sector, particularly in relation to the fact that such regulation does not guarantee the safety of financial products.

The Stage 2 telephone survey found that there was a wide spread of views as to precisely how regulated the finance sector is, with a considerable degree of confusion. The Stage 3 in-depth interview survey used a question focussed upon the extent to which regulation of the finance sector provided security in relation to financial products.

(Self-Completion)
SCQ17 Regulation of the Australian financial sector means that:
(Please circle as many as apply)

Table 103. Understanding of How Regulation of the Finance Sector Affects Security

Response Options	***Percentage Giving Response (%)***
a) Systems are in place for identifying, managing and measuring risks	*21*
b) All financial products are guaranteed by the regulators	*3*
c) Financial institutions are required to observe specific standards	*83*
d) Don't know	*11*

Eighty-three percent of respondents correctly considered that financial institutions are required to observe specific standards, while 21% considered that systems are in place for identifying, managing and measuring risks. Just 16% selected both descriptions, and 12% selected neither. Most of this latter group indicated that they did not know. Just 3% responded that all financial products are guaranteed by the regulators.

While the groups that were over-represented in the lowest financial literacy quintile in Stage 2 were not consistently more likely to be amongst the 12% who selected neither of the "correct" answers, those aged 18 to 24 (34%), semi-skilled and unskilled workers (33%) and those with less than Year 10 education (33%) were among those most likely to have selected neither answer correctly. While only 16% of respondents overall selected both of the correct answers, older respondents were more likely to do so. Thirty percent of respondents' aged 60 and over and 46% of those aged 70 and over selected both correct answers.

6.3.2.2 Ability to Assess and Compare Different Sources of Financial Advice and Information

Due to its complexity, this element of the framework was not addressed by any question specifically.

6.3.2.3 Understanding of the Processes and Procedures for Resolving Disputes

The apparent ability of people to make complaints effectively is discussed in Section 6.3.1.2. Beyond, but closely related to the ability to make an effective complaint, is one's understanding of the processes and procedures for resolving disputes.

An important element of understanding these processes and procedures is recognition of the value of making such complaints in writing – particularly for more complex problems. In addition, knowledge of the correct agencies through which such complaints can be channelled is another element of understanding.

On this basis, a set of criteria was developed using the three questions on accessing assistance in event of a dispute.

Those who specifically mentioned both taking their complaint with a bank to the *Banking Industry Ombudsman* or the *Financial Industry Complaints Service* and *making their complaint in writing* may be considered to demonstrate a good level of understanding of the processes and procedures for resolving disputes. People meeting these criteria accounted for 32% of respondents (however, as mentioned previously, it should be noted that this may underestimate the proportion who would actually access an independent dispute resolution body, given the requirement for banks to tell consumers about the Australian Banking Industry Ombudsman when a complaint is not resolved to a customer's satisfaction).

With some exceptions, groups that were over-represented in the lowest financial literacy quintile in Stage 2 were less likely to meet these criteria than respondents overall. In particular, those aged 70 or over (8%), those with household incomes under $20,000 (11%), those with savings under $5,000 (11%), and those with Year 10 education or less (18%) were much less likely to meet these criteria for showing understanding of the processes and procedures for resolving disputes. It should be noted that no one with less than Year 10 education met these criteria.

7. SUPERANNUATION

The purpose of this section was to expand on the findings regarding superannuation already covered in Stage 2. It considers at additional areas such as the ability to check that contributions have been made, checking records, understanding adequacy, insurance coverage and taxation advantage.

The detailed objectives and findings are set out below.

	Objectives	*Key Findings*
BASIC REQUIREMENTS	• Understanding that personal contributions can be made to superannuation as an option • Ability to check that an employer has been making compulsory contributions to superannuation	• There is a high level of understanding of the factors to consider when making additional superannuation contributions, with 99% of respondents giving at least one unprompted response • The ability to check that superannuation payments have been made is not a problem for the majority, with 88% correctly calculating the amount. Groups experiencing most difficulty were those less likely to be in the workforce e.g. over 70 year olds, education less than Year 10, and household income under $20,000

	Objectives	*Key Findings*
ADVANCED COMPETENCE	• Ability to check records (e.g. Annual Statements) from superannuation funds to determine whether current contribution levels and % returns are appropriate for anticipated needs • Knowledge concerning what constitutes an adequate level of insurance for total and permanent disablement or death benefit, and ability to check that a superannuation fund is providing it • Understanding that taxation can be minimised through personal contributions to superannuation vs. other forms of investment	• 69% appear to have an understanding of what constitutes an appropriate level of superannuation • Overall, the ability to understand the level of life insurance required is reasonable, with 83% indicating they understood the issue • The taxation implications of superannuation were not top-of-mind when making contribution decisions • Groups experiencing the most difficulty in this section were: – Those educated to less than Year 10 – Those aged 18–24 – Those aged 70 and over – Those with household income under $20,000

7.1 Understanding of Superannuation

In the Stage 2 Survey, it was found that there was a very good level of understanding that people could make additional superannuation payments, with only 5% considering it was not possible. The objective in Stage 3 was to check in more detail people's understanding of the factors to be considered in making additional contributions and how to check that employers had, in fact made their contribution.

7.1.1 Basic Requirements for Understanding of Superannuation

7.1.1.1 Understanding the Personal Contributions Option

In order to check the understanding of the factors that should be considered when making an additional superannuation contribution, the following question was asked.

(In-depth)

IDQ18 Again, imagine that Gary is your age. He is deciding whether he should make personal contributions to his superannuation scheme, additional to those made by EZY Electrics. What factors should he consider? (What else? Anything else?) (Please circle as many as apply)

Responses to this question were as follows.

Table 104. <u>Factors to Consider When Making Additional Superannuation Payments</u>

Responses	***Percentage Giving Response (%)***
Can he afford it?	*41*
Whether he could get better return elsewhere	*31*
How much return the EZY Electric's superannuation scheme is providing	*25*
How else he might use the money(e.g paying off his mortgage)	*20*
Taxation advantages of investing in superannuation	*17*
Whether he may need to access his savings before he retires	*13*
How much he would want to contribute	*5*
Lifestyle	*5*
What the superannuation fund invests the money in	*5*

Responses	***Percentage Giving Response (%)***
See a financial adviser	*4*
How much he requires for retirement	*4*
How long before he retires	*4*
Present debt/financial commitments	*4*
Current income and expenses	*4*
Family	*4*
Level of risk associated with superannuation funds	*3*
Reputation of superannuation funds/Performance	*3*
Will the fund he has be sufficient	*2*
How comfortable he wants to be during retirement	*2*
If contributions will actually make a considerable difference	*2*
Health	*2*
How much his employer currently contributes	*2*
Can't say	*1*

Overall, respondents had a good understanding of the factors to consider with only 1% giving a *"can't say"* response. The most common response was "*can he afford it?"* with 41%, followed by *whether he could get better return elsewhere* (31%), *how much return the EZY Electrics superannuation scheme is providing* (25%), and *how else he might use the money* (20%). All groups generally gave the same responses, with affordability clearly being the biggest issue.

Groups that were over-represented in the lowest financial literacy quintile in Stage 2 were less likely than average to mention considering *whether a better return could be achieved elsewhere*. Groups that were particularly less likely to mention that issue were those with Year 10 education or below (14%), students (14%), and those with household income under $20,000 (15%).

7.1.1.2 Ability to Check Employer Compulsory Contributions

In order to determine whether respondents were able to check the level of superannuation made by their employers, they were shown the following extract of a Superannuation Annual Statement.

Extract from Ray's Superannuation Annual Statement[1]

Contributions Next Year

The agreed contribution next year is:
$66.67 per month ($800.04 p.a.) paid by your employer to be invested in Balanced Growth

Your Protection Benefits

At present you have no protection benefits. If you wish to take advantage of any of the optional protection benefits available under your plan, your XYZ adviser will be happy to assist.

Contributions Last Year

	Total ($)	No. of units
You paid in	0.00	nil
Your employer paid in	5,142.77	1,791.70
Total Contributions	***5,142.77***	***1,791.70***

Investment Option Summary

	Total($)	No. of Units
XYZ Balanced Growth		
Holding last year	19,746.59	7,645.42
Contributions	5,142.77	1,791.70
Fees & Taxes	-1,408.39	-423.03
Change in value of units	2,181.24	
Holding now	***25,662.21***	***9,014.09***

Investment Performance

Investment Option: Balanced Growth

Performance Summary (%)

Yearly Returns (%p.a.) to: 31/12/1997	31/12/1998	31/12/1999	31/12/2000	31/12/2001	Compound Returns (%p.a.) over 5 years to: 31/12/01
16.1	10	12.5	11	10.2	11.9

Asset Allocation (%)

Cash	Aust. Bonds	Intl. Bonds	Property Direct	Property Listed	Direct Invest	Aust. Share	Intl. Share
3	17	4	6	5	3	40	22

[1] Please note that this is an extract only, based on a real-life example. A full superannuation statement requires disclosure of a number of other matters. Other funds may use different words to refer to insurance benefits, and not all funds show contributions for the next year.

The following question was asked regarding the above statement.

(Self-Completion)
SCQ24 How much did Ray's employer contribute to Ray's superannuation for the year? (Please circle one only)

Responses to this question were as follows.

Table 105. Employer Superannuation Contributions

Response Options	***Percentage Giving Response (%)***
$800.04	*5*
$1,791.70	*3*
$5,142.77	*88*
$19,746.59	*1*
Don't know	*3*

Percentages may not sum to 100% due to rounding.

Overall, 88% selected the correct answer.

The groups least likely to answer correctly included those with primary school/some secondary education (58%), those with a household income under $20,000 (63%) and those with a Year 10 education or lower (73%). Those aged 60 and over were also less likely than average to answer correctly (73%).

In addition to checking the level of employer superannuation contributions, respondents were also asked:

(In-Depth)

IDQ19 How could Gary go about checking that EZY Electrics has been making compulsory contributions to his superannuation fund? (What else? Anything else?)

Responses to this question were as follows.

Table 106. Checking for Compulsory Employer Contributions to Superannuation

Responses	***Percentage Giving Response (%)***
Contact the fund and enquire	*64*
Check the fund's Annual Statement	*54*
Check with his employer's Pay Office/Human Resources department	*32*
Check his pay advice	*10*
Tax Office	*6*
Ring superannuation hotline	*4*
Internet	*3*
Go to the superannuation board	*2*
Can't say	*4*

The most frequently reported ways to check on whether the employer has been making compulsory contributions were *contact the fund and enquire* (64%), *check the fund's annual statement* (54%) and *check with the employer's pay office/human resources department* (32%).

Generally, the groups that were over-represented in the lowest financial literacy quintile in Stage 2 had a similar level of "*can't say"* responses, except for those educated to less than Year 10 (25% "*can't say"*), respondents aged over 70 (15%) and those in households with incomes under $20,000 (15%).

7.1.2 Advanced Competence for Understanding of Superannuation

7.1.2.1 Ability to Check and Understand Adequacy of Superannuation

The Stage 2 results showed that there was a problem with people not understanding the amount required in superannuation to provide adequately for retirement. At a more advanced level of competency regarding respondents' understanding of superannuation, comprehension of the amount required for retirement was examined to determine the level of understanding. Respondents were asked the following question.

(Self-Completion)

SCQ28 Ray is 53, married, has two adult children, and hopes to retire at 65. He and his wife live in a small, fully paid-off house that they do not intend to sell, and have no other major investments. Ray's superannuation arrangements might best be described as:
(Please circle one only)

Refer to statement under 7.1.1.2 for full details. The statement showed that Ray currently had $25,662.21 in superannuation.

Responses to this question were as follows.

Table 107. Adequacy of Superannuation

Response Options	***Percentage Giving Response (%)***
Not nearly enough to achieve a comfortable retirement income	*69*
Reasonable to achieve a comfortable retirement income	*16*
Enough to achieve a very good retirement income	*2*
Don't know	*12*

Percentages may not sum to 100% due to rounding.

The level of understanding of the adequacy of superannuation was relatively low, with only 69% nominating the correct response (i.e. *not enough to achieve a comfortable retirement income*). This confirms the findings in Stage 2, and shows that it is widespread across most demographic groups.

The groups that were over-represented in the lowest financial literacy quintile in Stage 2 also had trouble understanding the adequacy concept, particularly those in households with incomes under \$20,000 (only 44% considered it adequate to achieve a comfortable retirement income), 18 to 24 year olds (40%), those aged 70 and over (54%) and those educated to less than Year 10 (55%).

In addition to understanding whether superannuation was adequate, respondents were asked the factors that needed to be considered to calculate the amount required, as below.

(In-Depth)

IDQ17 What factors would Gary need to take into account if he were trying to calculate if his current arrangements were enough for his future retirement? (What else? Anything else?)

Responses to this question were as follows.

Table 108. Factors to Take into Account when Calculating whether Current Arrangements are Sufficient for Retirement

Responses	***Percentage Giving Response (%)***
How comfortably he wants to live in retirement	*47*
How long before he plans to retire	*32*
What costs he will have in retirement	*30*
Whether he will have dependents	*23*
How much money he already has saved	*17*
Owns and pay off his house	*16*
Whether/how much he will earn from investments	*13*
Debts/liabilities	*12*
Whether he will receive pension/Government benefits	*11*
Current health level	*11*
See a financial adviser	*9*
Re-evaluate current job and pay/Job security	*9*
Current lifestyle	*8*
How much he expects to have saved by retirement	*7*
Calculate number of years expected to live after retirement	*5*
Inflation	*5*

Responses	***Percentage Giving Response (%)***
Whether he might move to a smaller house	*5*
What assets he has	*5*
Whether he will work part-time in retirement	*4*
Partners contributions/Partner superannuation	*4*
Income source during retirement	*4*
Check to see if his saving/investment match his requirements	*4*
Goals and aims	*4*
Work out the best way to invest	*3*
Whether he need make more superannuation contributions	*3*
Whether he might get better value at another super fund	*2*
How much he currently can afford to put aside	*2*
Unexpected expense	*2*
Can't say	*3*

Ninety-seven percent of respondents were able to mention at least one factor to consider when determining superannuation adequacy. The most frequently mentioned factor was to do with *how comfortably he wants to live in retirement* (47%), followed by *how long before he plans to retire* (32%) and *what costs he will have in retirement* (30%). Taken together with the previous question concerning adequacy of superannuation it appears from these responses that people understood the factors that need to be considered but do not really understand how this translates into a dollar amount.

Most of the responses given were fairly similar across demographic groupings with some minor exceptions being that those aged 70 and over were more likely to recommend *seeing a financial adviser* (23%). Semi-skilled/unskilled/farm workers were more likely to give a *"can't say"* response (9%), as were those educated to less than Year 10 (14% *"can't say"*). Those in households with incomes under $20,000 were more likely to *see a financial adviser* (15%) and more likely to give a *"can't say"* response (7%).

7.1.2.2 Adequacy of Life Insurance Cover

At an advanced level of competency, respondents were tested for their understanding of the adequacy of life insurance, and whether they understood it was part of superannuation. To assess this they were asked the following question.

(Self-Completion)

SCQ6 If the following people all had the same amount of income, who would need the most life insurance?
(Please circle one only)

The responses to this question were as follows.

Table 109. Understanding of Who Needs the Most Life Insurance

Response Options	***Percentage Giving Response (%)***
A young married man with two young children, whose family is dependent on his income	*83*
A young married man with two young children, whose family is dependent on his wife's income	*6*
A retired man with a retired wife	*5*
A young single woman without children	*1*
Don't know	*4*

Percentages may not sum to 100% due to rounding.

Eighty-three percent (83%) of respondents gave the correct answer i.e. *a young married man with two young children, whose family is dependent on his income*. Most groups had very similar correct responses to this question, although those with education of Year 10 or below appeared less likely to understand this issue, with only 59% giving the correct response.

In addition to understanding the coverage issue, respondents were asked to look at the Annual Superannuation Statement for Ray (refer statement shown in 7.1.1.2) and were asked the following question.

(Self-Completion)

SCQ27 Life insurance is often provided as part of superannuation. As far as you can tell from Ray's Annual Superannuation Statement, is life insurance provided as part of his superannuation?
(Please circle one only)

Responses to this question were as follows.

Table 110. Life Insurance Provided as Part of Superannuation

Response Options	***Percentage Giving Response (%)***
Yes	*4*
No	*87*
Don't know	*9*

Percentages may not sum to 100% due to rounding.

Most respondents did not have a problem with understanding that life insurance was not included as part of Ray's superannuation, with 87% giving the correct response. Groups less likely to give the correct answer included people in households with incomes under $20,000 (67% gave the correct response), semi-skilled/unskilled/farm workers (76%) and people aged 70 and over (69%).

7.1.2.3 Understanding the Taxation Advantages of Superannuation

An advanced competency measure in relation to superannuation was to understand its taxation advantages. To assess this, the following question was asked.

(In-Depth)

IDQ18 Again, imagine that Gary is your age. He is deciding whether he should make personal contributions to his superannuation scheme, additional to those made by EZY Electrics. What factors should he consider? (What else? Anything else?)

Responses to this question were as follows.

Table 111. Factors to Consider When Making Additional Superannuation Payments

Responses ***(Top 5 only listed – refer to Table 104 in Section 7.1.1.1 for full listing)***	***Percentage Giving Response (%)***
Can he afford it?	*41*
Whether he could get a better return elsewhere	*31*
How much return the EZY Electrics superannuation scheme is providing	*25*
How else he might use the money (e.g. paying off his mortgage)	*20*
Taxation advantages of investing in superannuation	*17*

The taxation advantages of investing in superannuation as a factor to consider when making additional payments was mentioned by only 17% of respondents. This appears to be a relatively low figure considering the tax concessions given to superannuation contributions.

While the groups that were over-represented in the lowest financial literacy quintile in Stage 2 appear to have a poor understanding of the taxation advantages of super, this reflects the fact that in many cases they may not have the capacity to make additional superannuation contributions, and that the tax advantage is lower or even non-existent for people earning less than $20,000 per annum.

8. MORTGAGES

This section aims to assess respondents' ability to use property for personal financial advantage, by investigating knowledge of advantages and disadvantages of purchasing an investment property.

	Objectives	*Key Findings*
ADVANCED COMPETENCE	• Ability to use property for personal financial advantage (e.g. purchase investment property)	• All groups, demonstrated a good understanding of the advantages and disadvantages of purchasing an investment property • Respondents were more likely to identify potential increase in property values as an advantage (59%), rather than potential decrease as a disadvantage (12%)

8.1 Understanding of Mortgages

Stage 2 of this project found that certain groups with a mortgage, or considering taking one on, struggled with some of the basic requirements in this area.

Stage 3 assesses the advanced competence measure of awareness of possible advantages of using property for personal financial advantage.

8.1.1 Advanced Competence for Understanding of Mortgages

8.1.1.1 Ability to Use Property for Personal Financial Advantage (e.g. purchase investment property)

In order to assess respondents' ability to use property for personal financial advantage, the following question was asked.

(In-Depth)

IDQ24 Sharon is 33, single and has no children. She earns $60,000 per year and has $40,000 in savings. Sharon is considering borrowing money to buy an investment property. What would be the advantages of Sharon purchasing an investment property? (What else? Anything else?)

Responses to this question were as follows.

Table 112. Advantages of Purchasing an Investment Property

Responses	***Percentage Giving Response (%)***
The property may grow in value faster than interest in the bank account	*59*
Negative gearing against borrowed money/tax advantage	*49*
Property is a tangible asset/ bricks and mortar	*33*
Earn extra income from rent	*26*
Aid to her in retirement or future/Security for future	*15*
The tenants pay the mortgage	*13*
Continuing growth of the property/ Asset growth	*13*

Responses	***Percentage Giving Response (%)***
Secure investment	*9*
Make one work harder to pay it off	*6*
Can live there later/ it will be yours one day	*5*
Could use it as security on another loan	*3*
Positive relation with bank	*3*
Can't say	*0*

Overall, respondents demonstrated a good understanding of the advantages of purchasing an investment property, with all respondents able to give a response to this question.

The most common response given by 59% of people identified that *the property may grow in value faster than interest in the bank*. Forty-nine percent of respondents identified *negative gearing* or *tax advantages* amongst their responses. Other common responses included the advantages *that property is a tangible asset / bricks and mortar* (33%) and *that extra income could be earned from rent* (26%).

All groups were generally were able to identify advantages of purchasing an investment property.

Respondents were then asked:

(In-Depth)

IDQ25 What would be the disadvantages of Sharon purchasing an investment property? (What else? Anything else?)

Responses to this question were as follows.

Table 113. Disadvantages of Purchasing an Investment Property

Responses	*Percentage Giving Response (%)*
Difficulty meeting loan repayments	*33*
Money is tied up/ can't be accessed readily	*32*
The property may not grow in value as fast as interest in the bank account	*25*
Property could be damaged by the tenants	*24*
Difficulty in obtaining tenants	*21*
Increased costs involved in management of prop/ added expenses	*14*
Potential for a fall in the market/ decline in market	*12*
Maintenance on the house/ repair	*12*
Has a debt/ mortgage/ loan	*8*
Diminished savings/ less disposable income/ no liquid asset	*8*
Could be subjected to more tax	*6*
Unstable/ risky	*5*
Constant repayments for a long period of time	*4*
Effects her lifestyle	*3*
Unreliable tenants - don't pay on time	*3*
High purchase price/ overpaid initially	*3*
She will have to work out how to manage it	*2*
Selling the property	*2*
Investment does not produce income/ no return till later	*2*
She can lose money – interest rates could increase	*2*
Can't purchase own home	*2*
Can't say	*3*

Overall, respondents also demonstrated a good understanding of the disadvantages of purchasing an investment property, with only 3% unable to give a response to this question.

The most common responses related to *difficulty in meeting loan repayments* (33%), and *money being tied or unable to be accessed readily* (32%). Another common response was that the *property may **not** grow in value as fast as interest in the bank* (25%). While there are a range of variables to consider such as the location of the property, the purchase price and how long it is held, it seems unlikely that interest in a bank account would provide a better return over the medium to longer term.

All groups were generally able to identify disadvantages of purchasing an investment property.

9. PERCEPTIONS OF DIFFICULTIES AND EDUCATION NEEDS

In addition to those measures covered in the framework, a number of questions were included to collect respondents' perceptions of their own difficulties in relation to dealing with finances and how these may be addressed.

	Objectives	*Key Findings*
DIFFICULTIES AND EDUCATION NEEDS	• To determine financial skills gaps and seek ways to address these needs	**Difficulties in Dealing with Finances** • Only 5% of respondents claimed to not have any difficulties in dealing with their finances • Difficulties commonly mentioned were being unable to control their own behaviour/budget (21%), confusing paperwork/ documentation/ contracts (17%), and not earning enough money (17%) **Measures to help prevent or deal with Difficulties** • Controlling own behaviour/using a budget (27%) was the most common measure identified to help prevent or deal with difficulties, followed by clearer communication from financial institutions (16%), earning more money (15%) and advice from financial advisers (14%) • 11% of respondents were unable to identify measures to help prevent or deal with difficulties, with 25% of those aged 70 and over in this situation **Education Needed in Relation to Finances** • 47% of respondents felt they needed further education in investing, followed by 22% mentioning superannuation or planning for retirement, 15% budgeting and 10% taxation • Only 14% of respondents felt they needed no further education • Means of delivery suggested for further education were via a financial adviser/ stockbroker/ accountant (27%), communications from financial institutions (26%), Internet (22%) and TAFE courses (17%)

9.1 Difficulties in Dealing with Finances

In order to identify respondents' perceptions of their own difficulties in dealing with finances, the following question was asked.

(In-Depth)

IDQ41 What do you consider to be your greatest difficulties in dealing with your finances, including superannuation and insurance? (What else? Anything else?)

Responses were as follows.

Table 114. Difficulties in Dealing With Finances

Responses	*Percentage Giving Response (%)*
Can't control own behaviour/ budget	*21*
Confusing paperwork/ documentation/ contracts	*17*
Don't earn enough money	*17*
Too many financial products/ services/ choices	*11*
Too much paperwork/ documentation/ contracts	*8*
High fees and charges	*8*
Lack of knowledge	*6*
Don't have any/no difficulties	*5*
Time consuming to work out investment plans/ lack of times	*5*
Misleading paperwork/ documentation/ contracts	*4*
Lack of regular savings plan	*3*
Keeping a close eye on all movements/ flow of investments	*3*
Cannot take money out - restricted by job movement	*3*
Things changing too fast/ out of control	*3*
Not enough information from superannuation	*3*
High costs of insurance policies	*2*
Lack of money to put in savings	*2*
Lack of desire to become more knowledgeable/ motivation	*2*
Tax/ the effect financial moves can have on this	*2*
Can't say	*4*

Only 5% of respondents said they did not have any difficulties. The most common difficulty mentioned was being unable to *control their own behaviour/budget* . *Confusing paperwork, documents or contracts* was identified by 17% of respondents, as was *don't earn enough money*. Eleven percent of respondents referred to *too many financial/products/services/choices*. Difficulty with paperwork, documentation or contracts (being too much, confusing or misleading) was mentioned by 24% of respondents.

Students (43%) and single parents (40%) were more likely than average to mention being *unable to control their own behaviour/budget*. Those aged 70 and over were less likely to mention this difficulty (8%), but were more likely to mention that they *don't earn enough money* (31%) compared to 17% overall. Those with less than Year 10 as their highest level of education (50%), single parents (40%) and those with household income under $20,000 (37%) were also more likely to mention *don't earn enough money*.

9.2 Measures to Help Prevent or Deal with Difficulties

After mentioning difficulties in dealing with finances, respondents were then asked:

(In-Depth)

IDQ42 What measures would best help you deal with these difficulties or prevent them occurring? (What else? Anything else?)

Table 115. Measures to Help Prevent or Deal with Difficulties

Responses	*Percentage Giving Response (%)*
Control own behaviour/ use a budget	*27*
Clearer communication from financial institution	*16*
Earn more money	*15*
Advice from the financial advisers	*14*
Set up multiple accounts to separate and allocate personal finance	*6*
Take course in finance	*4*
No/less fees and charges	*4*
Greater increased knowledge	*4*
Get some advice	*3*
Less communication from financial institution	*3*
Being more proactive	*3*
Well informed and up to date with financial matters	*2*
Greater respect paid to customers	*2*
Ask my father/ family/ friends	*2*
Information presented in uniform way/better information	*2*
Financial policies better suited/personalised to customers	*2*
Standardisation of paperwork	*2*
My bank manager	*2*
Can't say	*11*

Base: Respondents who gave an answer other than none at IDQ41 (Difficulties with finances)

Sample: 192

Of those who mentioned having difficulties with their finances, the most commonly identified measures that would best help with these difficulties were *control own behaviour/use a budget* (27%), *clearer communication from the financial institution* (16%), *earn more money* (15%), and *advice from financial advisers* (14%). Eleven percent of respondents were unable to identify any measure at all.

Students (43%) and those performing home duties or non workers (43%) were more likely to identify the need to *control their own behaviour or use a budget*. Single parents (40%) were more likely to mention the *need to earn more money*.

Respondents aged 70 and over were less likely than average to identify measures that would best help with their financial difficulties, with 25% responding *"can't say"* compared to 11% overall.

9.3 Education Topics Needed and Means of Delivery in Relation to Finance

Respondents were asked the following question.

(In-Depth)

IDQ43 What further education, if any, do you feel you need in relation to finance? (What else? Anything else?)

Respondents replied in a variety of ways, generally with multiple responses. The two key areas of responses related to education topics and means of delivery.

a) Topics

Responses were as follows.

Table 116. <u>Education Topics Needed in Relation to Finance</u>

Responses	***Percentage Giving Response (%)***
Investing	*47*
Superannuation	*20*
Budgeting	*15*
Taxation	*10*
Business finance	*5*
Planning for retirement	*4*
Insurance	*3*
Property management	*3*
Banking costs and charges/ banking	*2*
Credit cards	*2*
None	*14*
Can't say – Topic	*6*

When asked which topics for further education respondents felt that they needed, the most common response was *investing* (47%). Twenty-two percent of respondents mentioned *superannuation or planning for retirement*, 15% mentioned *budgeting* and 10% mentioned *taxation*. Only 14% of respondents said *none,* suggesting a strong need for further education overall.

Singles living alone (24%) were less likely to mention *investing*, compared with 47% overall.

Superannuation or planning for retirement was less likely to be mentioned by those who were employed casually (8%) and those with household income under $20,000 (11%).

Budgeting was more likely to be mentioned by students (43%), but less likely to be mentioned by those aged 60 and over (5%), those living alone (4%), and retirees (3%).

Groups more likely to respond "*none"* included retirees (27%) and those with no occupation (25%). Students (0%), those aged 18 to 24 (3%), singles living in shared households (5%) and those with savings under $5,000 (7%) were all more likely to mention a topic, rather than to answer *"none"*.

b) Means of Delivery

The following table summarises means of delivery suggested by respondents.

Table 117. Means of Delivery for Education Needed in Relation to Finance

Responses	***Percentage Giving Response (%)***
A financial adviser/ stock broker/ accountant	*27*
Communications from Financial Institutions	*26*
Internet	*22*
TAFE Course	*17*
Newspaper/ magazine advertisements	*15*
Read books on Finance	*12*
Seminars from financial organisations/ courses	*11*
Family/Friends	*9*
Finance magazines	*6*
Council of Adult Education (CAE) Course	*5*
Communications from Government	*4*
Programs from stock exchanges	*4*
Billboards/ pamphlets	*4*
Go back to school	*2*
TV Advertisements	*2*
Watch financial shows on TV	*2*
University short courses	*2*
People from the bank	*2*
Undertake an accounting/financial planning course	*2*
Courses from employer	*2*
Get advice	*2*
Can't say	*7*

Base: Respondents who gave an answer other than none at IDQ43a (Topics for further education needed)
Sample: 173

Overall, respondents answered this question well, with only 7% of those who suggested a topic for further education unable to suggest any means of delivery for this further education.

The most common means of delivery for education mentioned in relation to finance were via a *financial adviser, stockbroker or accountant* (27%), by *communications from financial institutions* (26%), via *Internet* (22%), *TAFE courses* (17%), through *reading books on finance* (12%), *via seminars or courses from financial organisations* (11%) and through *family or friends* (9%).

Fifty percent of respondents who mentioned *superannuation* as a topic for which they required further education recommended one of the means of delivery to be via *a financial adviser, stockbroker or accountant*. Thirty-five percent suggested the *Internet*, whilst 33% recommended *communications from financial institutions*.

Suggested means of delivery for those who identified *investing* as a topic requiring further education were via the *Internet* (30%), via a *financial adviser, stockbroker or accountant* (29%) or *communications from financial institutions* (29%).

Forty-seven percent of those interested in further education on *budgeting* suggested *communications from financial institutions*, whilst 33% of this group suggested the *financial adviser, stockbroker or accountant* channel.

Forty-three percent of those who mentioned *taxation* mentioned a possible means of education as *financial adviser, stockbroker or accountant*, 33% mentioned the *Internet*, and 29% recommended *communications from financial institutions*.

APPENDIX 1 – KEY STAKEHOLDERS IN STAGE 1

Key Stakeholders interviewed during Stage 1 of Adult Financial Literacy Project

NAME	POSITION	ORGANISATION
Ms Nicola Howell	Policy Officer	Consumer Credit Legal Centre
Ms Karen Cox	Co-ordinator	Consumer Credit Legal Centre
Ms Kathy Avram	Senior Lecturer	Faculty of Business & Economics, Monash University
Mr Bruce Bonyhady	Managing Director, ANZ Investments	ANZ Funds Management
Mr Chris Field	Executive Director	Consumer Law Centre Victoria
Dr Elizabeth Lanyon	Associate Dean (Development)	Faculty of Law, Monash University
Ms Jenny Lawton	Financial Counsellor	Carlton/Fitzroy Financial Counselling Service
Mr Michael Long	Senior Research Fellow	Centre for Economics of Education & Training, Monash University
Ms Alison Maynard	Chief Executive Officer	Financial Industry Complaints Service
Mr Sam Parrino	Chief Executive	Insurance Enquiries & Complaints
Ms Jan Pentland	Financial Counsellor	Financial & Consumer Rights Council
Mr Simon Smith	Consumer Issues Consultant	AAMI
Mr Robin Bowerman	Editor	Personal Investor Magazine
Mr Robert Gottliebson	Chief Commentator	Business Review Weekly
Mr Colin Neave	Ombudsman	Australian Banking Industry Ombudsman
Ms Diane Carmody	General Manager	Australian Banking Industry Ombudsman
Ms Elisabeth Wentworth	General Counsel	Australian Banking Industry Ombudsman
Ms Narelle Brown	Vice President	Financial Counsellors Association of NSW
Mr Tony Devlin	Manager	Credit Line Financial Counselling Services
Mr Robert Drummond	General Manager – Regulation	Insurance Council of Australia
Mr Ian Gilbert	Director	Australian Bankers' Association
Mr Ron Hardaker	Executive Director	Australian Finance Conference
Ms Margaret Raffan	Principal Policy Officer	Department of Fair Trading, NSW Consumer Protection Agency
Ms Phillipa Smith	Chief Executive Officer	Association of Superannuation Funds of Australia
Ms Lynn Ralph	Chief Executive Officer	Investment & Financial Services Association
Ms Susan Brooks	Chief Compliance Officer	Westpac Banking Corporation
Ms Carolyn Bond	Manager	Consumer Credit Legal Service
Dr Valerie Braithwaite	Director, Centre for Tax System Integrity	Australian National University
Mr Wayne Byrne	Financial Adviser	Vanzwan & Associates
Mr Russ Campbell	Manager, Financial Services Provider Conduct Unit	The Treasury
Mr Daryl Dixon	Writer and Consultant	Daryl Dixon Advisory Services
Mr Graeme McDonald	Chairperson	Superannuation Complaints Tribunal
Ms Clare Nairn	Assistant Commissioner	Australian Taxation Office

APPENDIX 2 – ADULT FINANCIAL LITERACY FRAMEWORK

Adult Financial Literacy – Australia
Framework of Skills and Knowledge

(based on an amended version of the framework produced by the Adult Financial Literacy Advisory Group, UK, and revised in light of comment from key stakeholders)

Mathematical Literacy and Standard Literacy		
	Basic requirements	**Advanced competence**
Essential mathematical, reading and comprehension skills	• ***Ability to add, subtract, multiply and divide (with or without calculator)*** • Ability to understand and calculate percentages (with or without calculator) • ***Ability to read and comprehend basic English***	• ***Ability to understand compound interest*** • ***Ability to understand averages***

Financial Understanding		
	Basic requirements	**Advanced competence**
Understanding of what money is and how money is exchanged	• Understanding of the range of ways to pay for goods and services, including: – Cash – Cheques – Money orders – Credit cards – Debit cards – Store cards – EFTPOS – Direct debit – Loans – Laybys • ***Ability to compare the advantages and disadvantages of different forms of payment***	• ***Understanding of the implications and key features of unsecured credit and debt, including both fixed:*** – ***Personal loans*** – ***Lease*** – ***Hire purchase*** ***…and revolving:*** – ***Credit cards*** – ***Store cards*** – ***Overdrafts*** – ***Other "line of credit" facilities*** • Understanding of ways to compare interest rates and the effects of fees and other charges • ***Understanding that some loans and purchase agreements are secured whilst others are unsecured, and the implications for default*** • Understanding of the concept and implications of personal guarantor and co-borrower arrangements • ***Understanding of how credit records are generated and the implications of bad records for future borrowing***

Financial Understanding		
	Basic requirements	**Advanced competence**
Understanding of where money comes from and goes	• ***Ability to read a pay-slip*** • ***Recognition of household expenses and regular financial commitments***	• ***Understanding of how companies and other organisations are financed, including shares***

Financial Competence		
	Basic requirements	**Advanced competence**
Understanding of the main features of basic financial services	• ***Awareness of the availability and basic features of:*** – ***Basic banking*** – ***Electronic banking (e.g. ATMs; EFTPOS; telephone banking; Internet banking)*** – ***Mortgages*** – ***Superannuation*** – ***Other investments (e.g. shares; term deposits; managed investments; life insurance with an investment element)*** – ***Risk insurance products (e.g. house and contents insurance, including coverage and exclusions; health insurance)*** • Awareness of the sorts of fees that apply to these services • Awareness of the relationship between fees and return • Awareness that one should shop around before purchasing financial products • Understanding that superannuation sets aside money for retirement, and involves compulsory employer contributions • ***Understanding that personal contributions can be made to superannuation as an option*** • ***Ability to check that an employer has been making compulsory contributions to superannuation*** • Understanding of fixed interest rates vs. variable interest rates as they apply to mortgages • Understanding of terms and conditions for early termination and other variations within mortgages	• ***Ability to make strategic use, to maximise personal financial advantage, of:*** – ***Basic banking*** – ***Electronic banking (e.g. ATMs; EFTPOS; telephone banking; Internet banking)*** – ***Mortgages*** – ***Superannuation*** – ***Other investments (e.g. shares; term deposits; managed investments; life insurance with an investment element)*** – ***Risk insurance products (e.g. house and contents insurance, including coverage and exclusions; health insurance)*** • ***Ability to check records (e.g. Annual Statements) from superannuation funds to determine whether current contribution levels and % returns are appropriate for anticipated needs*** • ***Knowledge concerning what constitutes an adequate level of insurance for total and permanent disablement or death benefit, and ability to check that a superannuation fund is providing it*** • ***Understanding that taxation can be minimised through personal contributions to superannuation vs. other forms of investment*** • ***Ability to use property for personal financial advantage (e.g. purchase investment property)***

Financial Competence (continued)		
	Basic requirements	**Advanced competence**
Ability to understand financial records and appreciation of the importance of reading and retaining them	• ***Ability to check accuracy of official financial records, such as:*** – ***Bank statements*** – ***ATM service statements*** – ***Credit card statements*** – ***Superannuation statements*** – ***Insurance policies and renewal notices (e.g. understand coverage, exclusions and duty of disclosure)*** – ***Loan documentation*** • Understanding of the need to keep records	• Ability to reconcile a bank statement to allow for items not yet reconciled • ***Ability to read an Annual Statement from a superannuation fund to see the asset classes invested in and % return over time*** • ***Understanding of official financial records, such as prospectuses and Annual Statements for investment products*** • ***Understanding of the need to monitor performance of investments over time***
Attitudes to spending money and saving	• ***Understanding of the purpose of saving*** • ***Understanding of why you need to save for retirement*** • Understanding that there is a variety of places and ways in which to save money • ***Understanding of how to use budgets to plan and control personal spending*** • ***Ability to forecast and recognise the impact of irregular major financial outlays (e.g. vehicle registration; holidays)***	• ***Ability to budget strategically to make payments as late as possible and keep money earning interest as long as possible***

Financial Competence (continued)		
	Basic requirements	**Advanced competence**
Awareness of risks associated with some financial products and appreciation of the relationship between risk and return	• ***Understanding of the purpose of insurance*** • Awareness that both savings and borrowing are offered on differing terms and interest rates that vary over time • ***Awareness that high return investments are also likely to involve high risk*** • ***Understanding that market values can fall as well as rise*** • ***Awareness that if it sounds "too good to be true", then it probably isn't true*** • Awareness of the dangers of under-insurance • Awareness that individuals are responsible for debts of spouse/other family members with whom they have a joint financial product • ***Understanding of the value of diversification when investing***	• ***Ability to identify potential risks and determine whether they need to be eliminated or mitigated against*** • ***Understanding of managed investments*** • ***Understanding of guarantees on investments*** • ***Understanding that short-term ups and downs in value are less important for long-term investments*** • ***Understanding of currency issues, including the impact of fluctuations in exchange rate for the Australian dollar***

Financial Responsibility		
	Basic requirements	**Advanced competence**
Ability to make appropriate personal life choices about financial issues	• ***Understanding of the difference between long-term and short-term needs*** • ***Ability to prioritise different needs to balance income and expenditure within financial capacity*** • ***Understanding of the difference between good (manageable and planned) debt and bad (unmanageable and unplanned) debt*** • ***Ability to make informed choices when experiencing a drop in income***	• ***Ability to assess the financial implications of personal life choices in terms of career choices and life-long learning opportunities***

Understanding of consumer rights and responsibilities	• Understanding that consumers do have rights • Understanding that consumers have a right to clear information about products both pre-purchase and ongoing post-purchase • ***Awareness of and ability to access independent dispute resolution schemes for financial products*** • Understanding of consumer responsibilities and the implications of not meeting them, including: – Duty of disclosure for risk insurance – Safeguarding of PINs for transaction banking	• Understanding and ability to check, before handing over money for an investment, that: – Financial products should only be purchased from licensed financial businesses – Advice should only be sought from persons employed by licensed advisery businesses – Prospectuses must be lodged with ASIC – Persons providing advice about financial products must disclose any commissions, important side-benefits and potential conflicts of interest • Awareness of 14-day cooling-off period for insurance
Ability and confidence to access assistance when things go wrong	• Understanding that the finance sector is regulated • Understanding of who one can call on to help with more complex issues (e.g. advisers; accountants) • ***Awareness of where/whom to contact if things go wrong (e.g. consumer complaints department of financial institution; consumer association; financial counsellor; ombudsman)*** • ***Ability to make complaints effectively*** • ***Awareness of the distinction between financial advisers charging fee-for-service vs. taking commission, and understanding of its implications***	• ***Broad understanding of the level of regulation of the finance sector*** • ***Understanding that regulation of the finance sector is no guarantee of the safety of all financial products*** • ***Ability to assess and compare different sources of financial advice and information*** • ***Understanding of the processes and procedures for resolving disputes***

Please note that other potential aspects of adult financial literacy (e.g. taxation; understanding of how and why government is financed; awareness and understanding of government benefits; understanding of how fees are calculated and how to minimise them) were agreed upon as being beyond the scope of the current project, and were therefore not included in the final framework.

APPENDIX 3 – QUESTIONNAIRE