

**ANZ SURVEY OF  
ADULT FINANCIAL LITERACY  
IN AUSTRALIA  
FINAL REPORT**

**May 2003**

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# Executive summary

## E1. WHAT IS THIS REPORT ABOUT?

This is the Final Report on Australia's first national survey of financial literacy levels of adult Australians. The purpose of the survey was to identify:

- benchmarks for the ongoing measurement of financial literacy across the entire adult 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 survey was also designed to help the financial services sector in efforts to better understand its customers' needs, to avoid inappropriate use of products and to inform education, regulatory and social policy about the financial skills consumers require, and the needs of low financial literacy groups in particular.

The report provides a snapshot of the financial literacy levels of adult Australians in 2002-2003. It tells us that we are a financially literate society, but that certain groups have particular challenges that need to be addressed and that certain financial skills, services and products are not as well understood or utilised as they should ideally be.

As would be expected, differences of understanding were found both between population groups and between financial products. For example, those with a lower level of formal education had lower levels of financial literacy and all population groups found superannuation issues more difficult than basic banking.

## E2. WHAT IS FINANCIAL LITERACY AND WHY IS IT IMPORTANT?

### E2.1 Concepts

Financial literacy is about enabling people to make informed and confident decisions regarding 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.

This report adopts the following definition of financial literacy:

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*“The ability to make informed judgements and to take effective decisions regarding the use and management of money.”<sup>1</sup>*

Financial literacy has become an increasingly important requirement for functioning in modern society and trends in work patterns, demography and service delivery suggest that it will become even more important in the years ahead.

Improvements in financial literacy can not only support social inclusion, but also enhance the contribution that the financial services sector makes to the nation’s wellbeing.

## **E2.2 How We Measured Financial Literacy**

While considerable research into financial literacy has been conducted in the UK and US, where it is an issue of growing interest, no major research into the issue has been undertaken in Australia. This survey represents the first national research on this scale into financial literacy in Australia.

The project was commissioned by ANZ, conducted by Roy Morgan Research and overseen by a Steering Committee.<sup>2</sup> It involved three stages:

- Stage 1        Developing a framework for measuring financial literacy in Australia;
- Stage 2        A telephone survey of 3,548 adult Australians, comprising 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.

This report consolidates the key findings from all of those stages. For more detail on Stages 2 and 3, reports on these stages are available on-line at [anz.com](http://anz.com).

The Steering Committee took as its starting point the UK framework for measuring financial literacy. This was then substantially modified to reflect Australian conditions, based on in-depth interviews with 33 experts from areas relevant to financial literacy.<sup>3</sup>

It was 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.

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<sup>1</sup> Schagen, S. “The Evaluation of NatWest Face 2 Face With Finance”: NFER, 1997 (this definition was adopted from UK research with a view to international consistency).

<sup>2</sup> 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).

<sup>3</sup> See Appendix C for information on who was consulted during development of the framework.

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## **E2.3 Survey Framework for Australia**

The framework adopted kept the UK headline categories, with the addition of Mathematical Literacy and Standard Literacy, and sought to measure knowledge and understanding, behaviour, attitudes, perceptions and awareness as they relate to:

### **E2.3.1 Mathematical Literacy and Standard Literacy**

- Essential mathematical, reading and comprehension skills

### **E2.3.2 Financial Understanding**

- Understanding of what money is and how it is exchanged
- Understanding of where money comes from and goes

### **E2.3.3 Financial Competence**

- Understanding the main features of basic financial services
- Understanding financial records and appreciating the importance of reading and retaining them
- Attitudes to spending money and saving
- Awareness of the risks associated with some financial products and appreciation of the relationship between risk and return

### **E2.3.4 Financial Responsibility**

- Ability to make appropriate personal life choices about financial issues
- Understanding consumer rights and responsibilities
- Ability and confidence to access assistance when things go wrong

## **E3. KEY FINDINGS**

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

### **E3.1 Overall Findings**

The survey results show that most Australians have a reasonable level of financial literacy.

Some of the positive results from the survey were:

- the high level of banking inclusion in Australia, as compared with some other countries, with 97% of the consumers surveyed having an everyday banking account; <sup>1</sup>
- eighty per cent (80%) felt 'well informed' when making financial decisions

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<sup>1</sup> The “unbanked” or “financially excluded” have been estimated at 6–9% of individuals in the UK (Access To Current Accounts – A Report To The British Bankers’ Association: Elaine Kempson and Clare Whyley, British Bankers’ Association, August 1998) and 9.7% of households in the US (Capital Connections, The Federal Reserve Board, Vol.3, No.2, Spring 2001)

- 
- all people felt they knew how to use cash, and around 90% felt they knew how to use the more common payment methods such as ATMs, cheques, EFTPOS and credit cards;
  - ninety-eight per cent (98%) appeared to understand that prioritising different needs is required to balance income and expenditure within financial capacity and most people could suggest a range of appropriate strategies for dealing with a drop in income; and
  - there was a good understanding of some of the basics of superannuation, with 97% of people surveyed knowing that their employers were required to make superannuation contributions on their behalf, while 91% understood they can make additional superannuation contributions.

Consumers also seemed to have a good appreciation of some of their responsibilities, with:

- ninety-one per cent (91%) understanding the importance of making honest and complete disclosure of their needs and circumstances; and
- eighty-nine per cent (89%) appreciating the importance of PIN security and the ramifications of breaching it.

While the overall results of the survey tell a positive story, the main focus for policy makers, educators, financial institutions and consumer groups, among others, must inevitably be on the problem areas. These are discussed below in relation to differences in financial literacy between population groups, as well as in relation to different financial skills, products and services.

### **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 will allow future monitoring of progress, particularly for those groups that experience financial literacy challenges.

One of the clearest findings from the survey is the strong correlation between financial literacy and socio-economic status. This is despite individuals only being tested on the issues relevant to their circumstances and needs. Table A below provides a summary of financial literacy for key demographic groups. For each demographic group (e.g. 'unskilled' or 'professional' or 'aged 70 and over'), it shows the proportion of that group at each literacy level (quintile). It also presents averages for incomes, assets and debts for each financial literacy quintile.

The lowest levels of financial literacy were associated with:

- those having lower education (Year 10 or less);
- those not working for a range of reasons or in unskilled work;
- those with lower incomes (household incomes under \$20,000);
- those with lower savings levels (under \$5,000);
- single people; and
- people at both extremes of the age profile (18–24 year olds and those aged 70 years and over).



**Table A. Demographic Summary for all Financial Literacy Quintiles**

Demographic category	Levels 1-2 (lowest literacy)	Levels 3-4	Levels 5-6	Levels 7-8	Levels 9-10 (highest literacy)
	%	%	%	%	%
Female	24	22	21	18	15
Male	15	18	20	22	25
Education Less than Year 10	42	19	20	11	8
Tertiary Degree	8	16	20	24	32
Looking For Work	32	18	21	18	12
Student	29	14	20	20	17
Home Duties	25	24	20	19	12
Retired	27	20	18	16	19
Semi-Skilled	28	26	21	16	8
Unskilled	40	21	21	12	7
Professional	5	14	15	24	41
Owners (including Small Business and Farm Owners)	13	14	19	25	28
Other White Collar*	14	20	19	23	25
Language Other Than English Spoken At Home	25	19	20	19	17
Single Living Alone	26	21	19	16	17
Single Living in Shared Household	27	22	21	18	12
Single Parent	26	24	23	14	13
Couple – Children at Home	16	20	21	22	21
Couple – No Children at Home	14	16	20	22	27
Aged 18–24	31	20	22	16	10
Aged 45-59	13	19	20	22	27
Aged 70 and over	31	23	19	13	14
Renting	29	22	22	15	12
Capital City	19	20	20	20	22
Country Area	21	20	21	21	17

Demographic category	Levels 1-2 (lowest literacy)	Levels 3-4	Levels 5-6	Levels 7-8	Levels 9-10 (highest literacy)
Ave. Gross Annual Personal Income	\$25,140	\$34,270	\$36,550	\$42,010	\$56,100
Ave. Gross Annual Household Income	\$38,600	\$52,170	\$55,300	\$63,870	\$78,180
Ave. Current Value of Home	\$252,790	\$277,820	\$285,670	\$319,390	\$375,740
Ave. Savings (including super but excluding value of home)	\$46,240	\$88,280	\$100,400	\$136,300	\$243,530
Ave. Mortgage Debt for Mortgage Holders	\$113,600	\$119,380	\$131,680	\$162,340	\$222,610
Ave. Non-Mortgage Debt	\$12,460	\$16,980	\$14,100	\$15,200	\$26,290

\* Other White Collar includes white collar occupations other than Professionals, Owners, Sales, Semi-Professional

Percentages may not sum to 100% due to rounding

Base: Total Respondents

Sample Size: 3548

### E3.3 Specific Findings

The survey also highlighted a number of areas of concern. The main focus for policy makers, educators, financial institutions and consumer groups, among others, must inevitably be on the problem areas – especially where those problems are likely to have significant negative ramifications for individuals and groups within our society.

### E3.4 Mathematical Ability

Mathematical ability provides a fundamental base for 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 survey found that the population as a whole had reasonably good mathematical skills, although applying these skills to the comprehension of financial statements presented some challenges, as did a multiplication problem.

### E3.5 Understanding of Investment Fundamentals

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

On the positive side, most people (85%) knew that high returns generally mean high risk. However, many people did not apply the concept when presented with specific scenarios.

For example, 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. This result

brings to mind the millions of dollars Australians lose through investment scams each year.<sup>1</sup>

The survey found a mixed level of knowledge of other investment basics. For example:

- ninety-one per cent (91%) of respondents with investments recognised the importance of diversification to some extent, although only 51% considered it *very important*
- more than one third (37%) of adult Australians with insurance and investments did not understand that good investments can have short-term fluctuations in market value.

### **E3.6 Planning for Retirement**

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

Overall, respondents understood the basics of superannuation and recognised its importance. For example, only 5% of the adult population aged under 65 and not retired said that superannuation, planning and saving for retirement didn't really matter because the Government will make up the gap.

However, the survey also found that:

- only 37% of people had actually worked out how much they needed to save for their retirement; and
- of those people over 35 with inadequate savings for retirement (calculated by considering the individual's current level of savings and investments) 40% thought they would be living at least as comfortably in retirement as they are living today.<sup>2</sup>

The survey also highlighted limited awareness of fees, charges and taxes in relation to superannuation:

- fifty-five per cent (55%) of fund members claimed to know little or nothing about the fees and charges that apply to superannuation; and
- only 54% of those with superannuation were aware that it is taxed at a lower rate than other investments.

### **E 3.7 Understanding of Financial Records**

Understanding financial records and the need to read and retain them is important if consumers are to keep track of their finances and be in a position to identify problems and

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<sup>1</sup> See for example *International Cold Calling Investment Scams*, Australian Securities and Investment Commission.

<sup>2</sup> ABS, *Retirement and Retirement Intentions*, Catalogue No. 6238.0, November 1997, provides evidence that pre-retirement perceptions of retirement income adequacy often prove optimistic.

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take appropriate action. The survey tested both consumers' perceived understanding of records and their actual understanding through use of sample statements. It also tested the extent to which people read and retain statements. The results varied:

- eighty-five per cent (85%) felt that they could read and understand records relating to bank accounts, ATMs, credit cards and store cards, although 25% had difficulty with a practical example using a bank account statement; and
- twenty-one per cent (21%) of those who received and read their superannuation statement reported not understanding it, and when asked to answer four questions from a sample statement, only 40% answered all four questions correctly.

### **E3.8 Consumer Awareness**

#### **E3.8.1 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.

Overall, the survey found a relatively high level of ability to compare the advantages and disadvantages of different payment methods. There was a high level of familiarity with cash and common payment methods such as ATMs, cheques, EFTPOS and credit cards.

Fewer people knew how to use newer payment methods such as Internet banking (52%), BPay (60%) and telephone banking (68%). In relation to Internet banking, it was found that consumers actually have a good understanding of its advantages, suggesting that the challenge goes beyond increasing awareness.

#### **E3.8.2 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.

The level of reported understanding about fees and charges was quite high for a number of products. In particular, 88% of credit card users, 84% of those with mortgages and 83% of own bank ATM users reported knowing about relevant fees and charges 'very well' or 'fairly well'.

As would be expected, reported knowledge was not nearly as high for those with superannuation (44%) and other managed investments (60%).

Twenty-one per cent (21%) of respondents preferred a commission-based adviser to a fee-for-service adviser, and of those 48% thought that a commission-based adviser would be more motivated to do well with their money.

### E3.8.3 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.

Given this, the survey results in this area were disappointing. For example:

- while 65% of respondents were broadly aware of independent dispute resolution bodies, 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; and
- the situation was worse still for superannuation and managed funds, with around one third of consumers having no idea where to go.

The implications of these findings, however, should be interpreted with caution. Where a consumer has a problem, the financial institution is generally *required* to tell them about the external dispute resolution scheme(s) available, where it does not resolve a complaint to the customer's satisfaction.

More concerning is the finding that 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.

In a situation 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.

## E3.9 Behavioural Issues

### E3.9.1 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.

On the positive side, 98% of people seemed to understand the importance of prioritising needs to balance income and expenditure. Sixty-seven per cent (67%) tried to save regularly, if they possibly could.

But a number of findings are of concern:

- sixteen per cent (16%) of the adult population spend all their income as soon as they get it and do not really plan for the future; and

- 
- twenty-six per cent (26%) of the adult population have problems setting aside money for major financial outlays.

It is possible however, that these findings are, in part, a reflection of the impact of respondents' low income.

In relation to investments, most people (92%) understand appropriate short-term investments, but only 39% understand appropriate long-term investments.

### **E3.9.2 Shopping Around**

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

The survey 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%), superannuation product (23%)<sup>1</sup> or bank account (33%).

Reasons for not shopping around varied, but the most common responses were:

- “just going with what was recommended”; and
- “satisfied with current provider”.

### **E3.10 Consumer Perceptions**

The final part of the survey sought unprompted responses from consumers about their perceived difficulties with financial issues and their educational needs.

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

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

The most common difficulties reported were:

- controlling behaviour/budgeting (mentioned by 21% of people);
- confusing paperwork (17%); and
- not earning enough money (17%).

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<sup>1</sup> The low proportion of shopping around for superannuation products is due, at least in part, to the fact that most people do not have choice of superannuation provider

The most common educational needs identified were for:

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

#### **E4. THE WAY FORWARD**

The survey raises a range of issues for financial institutions, governments, educators and the community sector. It is hoped that it will lead to a greater focus on financial literacy, as well as to a greater understanding of the difficulties confronting those groups whose social functioning is impeded by low levels of financial literacy.

It is believed that the data from this survey can help develop more effective targeting of strategies to improve the financial literacy of consumers, especially those groups identified as having difficulties.

By increasing awareness and creating benchmarks for future measurement, it is also hoped that this report provides the foundation for an ongoing endeavour to improve the financial literacy of Australians.

## **1. FINANCIAL LITERACY AMONG POPULATION SEGMENTS**

A major objective of this research was to establish benchmark measures of financial literacy across the adult population as a whole, as well as various groups within the adult population. This will allow future monitoring of progress, particularly for those groups in the population that experience financial literacy challenges.

One of the clearest findings from the survey is the strong correlation between financial literacy and socio-economic status. The lowest levels of financial literacy were associated with those having lower education (Year 10 or less), lower incomes (gross annual household incomes under \$20,000), lower savings levels (under \$5,000) and were at both extremes of the age groupings (i.e. 18-24 year olds and those aged 70 years and over).

This is of particular concern because knowledge was only tested against individual needs and circumstances rather than against the entire array of financial products and services, some of which they will neither use nor need.

Each respondent's overall level of financial literacy was determined by their response to over 100 survey questions. Respondents were divided into five groups or quintiles (20% of the population). The lowest (or bottom) quintile comprised the poorest performing 20% of the population, whilst the best performing 20% respondents were allocated to the highest quintile.

The lowest financial literacy quintile has been further sub-segmented into the following three groups:

- demographic groups strongly over-represented in the lowest financial literacy quintile
- demographic groups moderately over-represented in the lowest financial literacy quintile
- demographic groups slightly over-represented in the lowest financial literacy quintile.



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## Demographic Groups Strongly Over-Represented In The Lowest Financial Literacy Quintile

While 20% of all adults were allocated to the lowest financial literacy quintile, around 30% to 40% of people in the following groups were in this quintile (i.e., the following groups were the most over-represented in this quintile).

(i) Education less than Year 10

No Occupation

Compared to all other demographic groups, people in these groups were the most likely to have the lowest levels of financial literacy. Most areas presented difficulties for these groups but particularly knowledge of payment methods, basic arithmetic, financial terms, risk & return, and problem redress options.

(ii) Unskilled workers

Performed poorly in most areas, including knowledge of channels, fees, arithmetic, and risk and return.

(iii) Non-workers

Similar problems to above.

(iv) People with Household Incomes under \$20,000

Poor knowledge of channels, financial terms, and risk and return.

(v) Savings of less than \$5,000

Generally poor across most measures.

(vi) Looking for work

Poor arithmetic ability, little planning and knowledge of redress options.

(vii) 18-24 year olds

70+ year olds

The younger age group had more difficulty understanding financial terms, superannuation, basic arithmetic, and risk and return.

The older group generally performed poorly across most measures.

### **Demographic Groups Moderately Over-Represented In The Lowest Financial Literacy Quintile**

While 20% of all adults were allocated to the lowest financial literacy quintile, around 25% to 30% of people in the following groups were in this quintile.

The following groups have fewer areas of difficulty than those strongly over-represented in the lowest quintile. They generally have a better idea of payment methods, but still have difficulty with financial terms, risk and return, superannuation and where to go with complaints or disputes.

As they all have similar levels of financial literacy, these groups are shown below in no particular order:

- Students
- Those with gross personal income under \$20,000
- Those renting their residence
- Semi-skilled workers
- Those employed casually
- Retired
- Single people (includes those living in a shared household, those living alone, and single parents)
- Those whose highest level of education is Year 10 or below
- Those speaking a language other than English at home

### **Demographic Groups Slightly Over-Represented In The Lowest Financial Literacy Quintile**

While 20% of all adults were allocated to the lowest financial literacy quintile, a slightly higher proportion of people in the following groups were in this quintile. They were also slightly under-represented in the highest financial literacy quintile.

The two groups are:

- Females
- People living in country areas

On close examination of the data, it appears that the marginally lower financial literacy levels of both these groups are associated with lower levels of income and education, which appear to be strongly associated with financial literacy.

When males and females of similar education, income, etc. are compared, they perform at a similar level of financial literacy.

## **1.1 Overview of Financial Literacy Quintiles**

In order to understand the distribution of financial literacy and illiteracy throughout the community, an overall measure of financial literacy for all respondents was required. To this end, each respondent's answers to questions designed to test financial literacy were allocated a value between +2 and -2. From these an overall average for the individual respondent was then constructed, eliminating the problem that some respondents hold a large range of products compared to others.<sup>1</sup> (Respondents with more products were asked more questions.)

Respondents were then assigned to a Financial Literacy decile according to their average financial literacy score – the Level 1 decile holding the 10% with the lowest average score, through to the Level 10 decile, holding the 10% with the highest average scores. These deciles were then collapsed into quintiles<sup>2</sup> (splitting the total population into five equal groups) as a further data reduction step to allow clearer comparisons.

Major differences between the quintiles were found across most key demographics, but the greatest differences were found in the two extremes (Quintile 1-2 with the lowest level of financial literacy and Quintile 9-10 with the highest level of financial literacy). Based on the key demographic groups over-represented in the highest and lowest quintiles (i.e. Quintile 9-10 and Quintile 1-2), the following table summarises key differences.

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<sup>1</sup> For greater detail of method used to score questions, see Appendix 4 in Stage 2 report.

<sup>2</sup> Quintile proportions are rounded to the nearest percent.

Tables A and B show, for example, that the average personal income for those in the Level 1-2 Quintile was \$25,140, and 42% of those with highest level of education less than Year 10 fall into this quintile (approximately 20% of all people fall into each quintile\*).

**Table A. Demographic Summary for all Financial Literacy Quintiles**

Demographic category	Levels 1-2 (lowest literacy)	Levels 3-4	Levels 5-6	Levels 7-8	Levels 9-10 (highest literacy)
	%	%	%	%	%
Female	24	22	21	18	15
Male	15	18	20	22	25
Less than Year 10	42	19	20	11	8
Tertiary Degree	8	16	20	24	32
Looking For Work	32	18	21	18	12
Student	29	14	20	20	17
Home Duties	25	24	20	19	12
Retired	27	20	18	16	19
Semi-Skilled	28	26	21	16	8
Unskilled	40	21	21	12	7
Professional	5	14	15	24	41
Owners (including Small Business and Farm Owners)	13	14	19	25	28
Other White Collar*	14	20	19	23	25
Language Other than English Spoken At Home	25	19	20	19	17
Single Living Alone	26	21	19	16	17
Single Living in Shared Household	27	22	21	18	12
Single Parent	26	24	23	14	13
Couple – Children at Home	16	20	21	22	21
Couple – No Children at Home	14	16	20	22	27
Aged 18–24	31	20	22	16	10
Aged 45-59	13	19	20	22	27
Aged 70 and over	31	23	19	13	14
Renting	29	22	22	15	12
Capital City	19	20	20	20	22
Country Area	21	20	21	21	17

\* Quintile proportions rounded to nearest percent.

Demographic category	Levels 1-2 (lowest literacy)	Levels 3-4	Levels 5-6	Levels 7-8	Levels 9-10 (highest literacy)
Ave. Gross Annual Personal Income	\$25,140	\$34,270	\$36,550	\$42,010	\$56,100
Ave. Gross Annual Household Income	\$38,600	\$52,170	\$55,300	\$63,870	\$78,180
Ave. Current Value of Home	\$252,790	\$277,820	\$285,670	\$319,390	\$375,740
Ave. Savings (including super but excluding value of home)	\$46,240	\$88,280	\$100,400	\$136,300	\$243,530
Ave. Mortgage Debt for Mortgage Holders	\$113,600	\$119,380	\$131,680	\$162,340	\$222,610
Ave. Non-Mortgage Debt	\$12,460	\$16,980	\$14,100	\$15,200	\$26,290

\*Other White Collar includes white collar occupations other than Professionals, Owners, Sales, Semi-Professionals  
Percentages may not sum to 100% due to rounding.

Base: Total Respondents

Sample Size: 3548

Issues that clearly distinguish the Financial Literacy quintiles are as follows:

- *Education:* Those with lower levels of education were significantly more likely to belong to the lower Financial Literacy quintiles, while those with higher levels of education were more likely to belong to the higher Financial Literacy quintiles
- *Income and Employment:* Those with lower levels of income were significantly more likely to belong to the lower Financial Literacy quintiles. Those employed casually, students, retirees and those participating in home duties were also more likely to be in this quintile. Conversely, the higher Financial Literacy quintiles were over-represented amongst people with higher personal and household income levels, were more likely to be in full-time employment, and were more likely to be in white collar or professional occupations
- *Financial circumstances:* The lowest Financial Literacy quintiles were under-represented in the use of almost all financial products and services, and were likely to have lower than average levels of debt and savings. The higher Financial Literacy quintiles were significantly over-represented amongst those using almost all financial products and services. They were also significantly more likely to have high levels of either debt or savings
- *Age:* People aged under 24 or over 70 were more likely to belong to the lowest Financial Literacy quintile, while those aged between 45 and 70 were more likely to belong to the highest quintile
- *Household situation:* Single people were significantly more likely to be in the lowest Financial Literacy quintile (Level 1-2), while those living as part of a couple were more likely to belong to the top two quintiles.

In addition to the groups mentioned 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 household
- Country in which people were born

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## 2. MATHEMATICAL AND STANDARD LITERACY

*Both mathematic literacy and understanding of English were considered to be important components of financial literacy as they play a key role in financial comparisons and decision-making. The degree to which adults had the essential skills of mathematic literacy were assessed in a number of ways, from their ability to add and subtract, through to calculation of percentages, and understanding of compound interest and averages. The ability to read and comprehend basic English was assessed, along with understanding of a range of financial terms.*

### *Overview*

The survey found that the population as a whole had reasonably good mathematical skills.

*Mathematic Literacy:* Most people were able to correctly perform basic addition (89%), subtraction (81%), division (84%) and percentage calculations (87%). However, fewer people (59%) appeared comfortable with basic multiplication. Mathematic literacy was noticeably below average for lower socio-economic groups, those where a non-English language was spoken at home, those aged 18-24 and those aged 70 or over. At a more advanced level, 81% of respondents were able to calculate an average based on a practical example.

*Ability to Read and Understand Basic English:* Over 90% of respondents could correctly answer simple questions based on a paragraph that they had just read, which was used as a measure of ability to read and comprehend English at a very basic level. Those aged 70 years and above appeared to have some difficulty with this task.

*Understanding of Financial Terms:* An understanding of commonly used or important financial terms is clearly a necessary element of financial literacy. Testing of such an understanding, however, will inevitably involve subjective judgments about the terms to ask about. The terms inquired about in the survey were selected on the basis of those identified by key stakeholders as ones that it is important for consumers to understand but with which many consumers have problems.

The majority of people had an understanding of the terms “Bank Cheque” (94%) and “Direct Debit” (88%). While 67% of people reported that they understood the term “Compound Interest”, when given a practical example at a more advanced level, only 28% would be described as having a “good level” of comprehension. This presented greatest difficulties for females, those aged 18-24 and lower socio-economic groups.

The level of understanding differed noticeably between the different financial terms presented in the research. For example, people reported a high level of understanding of “Guarantor” and a moderate level of understanding of “Co-Borrower”, “Mortgage Insurance” and “Broker”. However, there was limited understanding of more advanced terms such as “Charge-Back on Credit Card”, “Indicative Rate”, “Capital Guaranteed” and “Master Trust”. Women were less likely than men to claim an understanding across the range of terms, as were those aged 18-24 and those aged 70 or over.

### ***Groups Showing Below Average Results***

The groups that were lower than average on many measures regarding mathematic or standard literacy were:

- Those with Year 10 education or lower
- Semi-skilled/unskilled/farm workers
- Those with low incomes
- Those aged 70 and over
- Those aged 18-24
- Those with savings under \$5,000.



## 2.1 Essential Mathematical, Reading and Comprehension Skills

### 2.1.1 Basic Requirements

<b>Basic Requirements</b>	
<b>Objectives</b>	<b>Key Findings</b>
Ability to add, subtract, multiply and divide (with or without calculator)	<p><b>Arithmetic:</b> <i>(Refer Stage 2: Telephone Survey, Section 8)</i></p> <ul style="list-style-type: none"> <li>89% of the population were able to correctly perform basic addition of two dollar amounts</li> <li>81% of the population were able to calculate the change they would receive from a specified purchase amount (basic subtraction)</li> <li>84% of the population were able to perform basic division of round thousand amounts</li> <li>59% of adults were able to correctly perform basic multiplication of round dollar amounts (20 x \$350)</li> <li>Ability to correctly perform basic arithmetic varied by consumer segment</li> <li>Groups below average at basic arithmetic included: <ul style="list-style-type: none"> <li>Those aged 18 to 24 and 70 and over</li> <li>Those speaking a language other than English at home</li> <li>Those with a Year 10 education level</li> <li>Semi-skilled and unskilled workers</li> <li>Those with lower incomes</li> <li>Unemployed people</li> </ul> </li> <li>There was a large gap between the lowest quintile and the overall adult population in their ability to correctly calculate basic arithmetic <i>(Refer Stage 3: In-depth Survey, Section 5)</i></li> <li>81% of respondents were able to perform more complex calculations involving multiple operations</li> </ul>
Ability to understand and calculate percentages (with or without calculator)	<p><b>Percentages:</b> <i>(Refer Stage 2: Telephone Survey, Section 8)</i></p> <ul style="list-style-type: none"> <li>87% to 89% were able to calculate basic percentages</li> </ul>
Ability to read and comprehend basic English	<p><b>Basic English:</b> <i>(Refer Stage 3: In-depth Survey, Section 5)</i></p> <ul style="list-style-type: none"> <li>Over 90% of respondents correctly answered 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 to 24) appeared more capable in this regard than the oldest respondents (aged 70 and over)</li> </ul>
Understanding of the terms: “Bank Cheque” “Direct Debit”	<p><b>“Bank Cheque”:</b> <i>(Refer Stage 2: Telephone Survey, Section 8)</i></p> <ul style="list-style-type: none"> <li>The term “Bank Cheque” was “very well” or “fairly well” understood by 94% of the adult population. Even the groups with lower than average understanding of this term registered a relatively high score</li> </ul> <p><b>“Direct Debit”:</b></p> <ul style="list-style-type: none"> <li>88% of the adult population claimed to understand the term “Direct Debit” either “very well” or “fairly well”</li> </ul>

## 2.1.2 Advanced Competence

<b>Advanced Competence</b>	
<b>Objectives</b>	<b>Key Findings</b>
Understanding of the terms: “Compound interest” “Charge-back on a credit card” “Guarantor” “Co-borrower” “Indicative rate” “Mortgage insurance” “Broker” “Capital guaranteed” “Master trust”	<p><b>“Compound Interest”:</b> <i>(Refer Stage 2: Telephone Survey, Section 8)</i></p> <ul style="list-style-type: none"> <li>67% of adults claimed to understand the term “Compound Interest” either “very well” or “fairly well”</li> </ul> <p><i>(Refer Stage 3: In-depth Survey, Section 5)</i></p> <ul style="list-style-type: none"> <li>When asked detailed questions about a specific scenario many respondents demonstrated some understanding of compound interest, supporting self-ratings from Stage 2, however, only 28% would be described as having a “good level” of comprehension</li> </ul> <p><b>“Charge-back on a Credit Card”:</b> <i>(Refer Stage 2: Telephone Survey, Section 8)</i></p> <ul style="list-style-type: none"> <li>37% of the adult population claimed to understand the term “Charge-Back on Credit Card” “very well” or “fairly well”</li> <li>There was a large gap between the lowest quintile and the overall adult population and in particular between the lowest quintile and the highest quintile, in regard to understanding of the advanced competence financial literacy terms</li> </ul> <p><b>“Guarantor”:</b> <i>(Refer Stage 2: Telephone Survey, Section 8)</i></p> <ul style="list-style-type: none"> <li>94% of the adult population claimed to understand the term “Guarantor” either “very well” or “fairly well”</li> <li>Even the groups with a lower score of understanding for this term scored highly. Students were the most notable group with a lower than average score</li> </ul> <p><b>“Co-Borrower”:</b> <i>(Refer Stage 2: Telephone Survey, Section 8)</i></p> <ul style="list-style-type: none"> <li>65% of the adult population claimed to understand the term “Co-Borrower” either “very well” or “fairly well”</li> </ul> <p><b>“Indicative Rate”:</b> <i>(Refer Stage 2: Telephone Survey, Section 8)</i></p> <ul style="list-style-type: none"> <li>25% of the adult population claimed to understand the term “Indicative Rate” either “very well” or “fairly well”</li> </ul> <p><b>“Mortgage Insurance”:</b> <i>(Refer Stage 2: Telephone Survey, Section 8)</i></p> <ul style="list-style-type: none"> <li>76% of the adult population claimed to understand the term “Mortgage Insurance” either “very well” or “fairly well”</li> </ul> <p><b>“Broker”:</b> <i>(Refer Stage 2: Telephone Survey, Section 8)</i></p> <ul style="list-style-type: none"> <li>72% of the people claimed to understand the term “Broker” either “very well” or “fairly well”</li> </ul> <p><b>“Capital Guaranteed”:</b> <i>(Refer Stage 2: Telephone Survey, Section 8)</i></p> <ul style="list-style-type: none"> <li>41% of the adult population claimed to understand the term “Capital Guaranteed” either “very well” or “fairly well”</li> </ul> <p><b>“Master Trust”:</b> <i>(Refer Stage 2: Telephone Survey, Section 8)</i></p> <ul style="list-style-type: none"> <li>15% of the adult population claimed to understand the term “Master Trust” either “very well” or “fairly well”</li> </ul>

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Able to understand averages	<p><b>“Averages”:</b> <i>(Refer Stage 3: In-depth Survey, Section 5)</i></p> <ul style="list-style-type: none"><li>• 81% of respondents were able to calculate an average</li><li>• Problem groups less able to calculate an average included:<ul style="list-style-type: none"><li>– Those with highest level of education of Year 10 or below</li><li>– Those aged 70 and over</li><li>– Those with no occupation</li><li>– Those with household income under \$20,000</li><li>– Semi-skilled/unskilled/farm workers</li></ul></li></ul>
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### 3. FINANCIAL UNDERSTANDING

*Financial understanding was examined in terms of understanding of money, the exchange of money and where money comes from or goes.*

#### 3.1 Understanding of What Money is and How Money is Exchanged

*In investigating understanding of money and exchange of money, the survey examined areas ranging from knowledge of payment methods, including their advantages and disadvantages, through to understanding of ways to compare interest rates and the effects of fees and charges. Financial understanding was also examined from the perspective of understanding terminology related to loans, the implications of secured and unsecured loans, and understanding of the basis of credit records.*

##### *Overview*

The survey found a relatively high level of ability to compare the advantages and disadvantages of different payment methods.

*Payment Methods:* All respondents knew how to use cash and around 90% knew how to use the more common payment methods such as ATMs, cheques, EFTPOS and credit cards. However, a lower proportion of people knew how to use the newer payment methods such as Internet banking (52%), BPay (60%) and telephone banking (68%). There was a notable gap between the level of knowledge of newer payment methods and their level of usage.

Knowledge of payment methods was below average for lower socio-economic groups, those aged 60 or over and those aged between 18 and 24.

*Ways to Compare Interest and the Effects of Fees and Charges:* While 59% of people with superannuation or investments were aware of calculators on Internet sites that compare the effects of interest rates and fees, only 19% of people had used such a calculator.

*Understanding of Terminology:* 94% of people understood the term “Guarantor” and 65% understood “Co-Borrower”.

*Credit Ratings:* Some people appeared to not understand the basis for personal credit ratings, with only 56% identifying the most likely reason for a bad credit rating. The implications of a poor credit record were better understood, despite the widespread misconception that positive events as well as negative events appear on credit records.

*Secured and Unsecured Loans:* Many people (32%) were unable to specify the difference between unsecured and secured loans.

### **Groups Showing Below Average Results**

There was a noticeable gap between the lowest Financial Literacy Quintile and the average level of knowledge recorded overall.

Particular groups that were below average on both basic and advanced measures included:

- Retirees
- Those with lower levels of education
- Non-workers
- Those aged 60 or over
- Those aged 18-24.

### **3.1.1 Basic Requirements**

<b>Basic Requirements</b>	
<b>Objectives</b>	<b>Key Findings</b>
Understanding of the range of ways to pay for goods and services, including: “Cash” “Cheques” “Money orders” “Credit cards” “Store cards” “EFTPOS/Debit Cards” “Direct debit” “Loans” “Laybys”	<b>Payment Methods:</b> <i>(Refer Stage 2: Telephone Survey, Section 6.1)</i> <ul style="list-style-type: none"> <li>• All consumers knew how to use cash, while around 90% of the population knew how to use ATMs, cheques, EFTPOS or credit cards</li> <li>• Fewer people knew how to use the relatively newer channels of Internet banking, BPay and telephone banking with between 50% and 70% of consumers knowing how to use these</li> <li>• Groups below average on knowing how to use payment methods generally included:               <ul style="list-style-type: none"> <li>– Retirees</li> <li>– Those with a low level of education</li> <li>– Non-workers</li> <li>– Those aged 60 or over – particularly for newer payment methods</li> <li>– Those aged under 25 for methods such as credit and store cards, money orders, direct debit and loans</li> </ul> </li> <li>• There was a large gap between the level of knowledge shown by adults overall for newer payment methods, compared to the lowest quintile</li> <li>• The level of knowledge of newer payment methods was noticeably above usage of those methods</li> </ul>
Ability to compare the advantages and disadvantages of different forms of payment	<b>Advantages and Disadvantages of Payment Methods:</b> <i>(Refer Stage 3: In-depth Survey, Section 6.1)</i> <ul style="list-style-type: none"> <li>• Overall, there was a relatively high level of ability to compare the advantages and disadvantages of different payment methods</li> <li>• There was evidence of limited knowledge concerning the potential costs of failure to repay credit in full within the interest-free period</li> </ul>

## 3.1.2 Advanced Competence

<b>Advanced Competence</b>	
<b>Objectives</b>	<b>Key Findings</b>
Understanding of ways to compare interest rates and the effects of fees and other charges	<p><b>Comparing Interest Rates and Effect of Fees and Charges:</b> <i>(Refer Stage 2: Telephone Survey, Section 6.1)</i></p> <ul style="list-style-type: none"> <li>Although 59% of people with superannuation or investments were aware of Internet sites providing calculators for comparing interest rates and overall costs of financial products, only 19% had used such a calculator facility</li> </ul>
Understanding the concept and implications of personal guarantor and co-borrower arrangements	<p><b>Guarantor and Co-Borrower Arrangements:</b> <i>(Refer Stage 2: Telephone Survey, Section 6.1)</i></p> <ul style="list-style-type: none"> <li>94% of adults understood the term “Guarantor” and 65% understood the term “Co-Borrower”</li> </ul>
Understanding how credit records are generated and the implications of bad records for future borrowing	<p><b>Credit Records:</b> <i>(Refer Stage 2: Telephone Survey, Section 6.1)</i></p> <ul style="list-style-type: none"> <li>Only 56% of people were accurate regarding the most likely reason for a bad credit rating</li> </ul> <p><i>(Refer Stage 3: In-depth Survey, Section 6.1)</i></p> <ul style="list-style-type: none"> <li>Unmanageable debt was quite readily recognised – although less so by the less well educated and less affluent – and the implications of a poor credit record for future borrowing were quite well understood</li> <li>However, the misconception that credit histories contain positive events as well as negative events would appear to be very prevalent, particularly among those speaking a language other than English at home and those employed on a casual basis</li> </ul>
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 <i>line of credit</i> facilities”	<p><b>Features of Unsecured Credit or Debt:</b> <i>(Refer Stage 3: In-depth Survey, Section 6.1)</i></p> <ul style="list-style-type: none"> <li>There was generally a high level of awareness of the implications and key features of unsecured credit and debt</li> <li>There was evidence of limited knowledge concerning the high interest rates imposed if unsecured credit is not paid in full within the interest-free period</li> <li>Thirty two</li> </ul>
Understanding that some loans and purchase agreements are secured whilst others are unsecured, and the implications for default	<p><b>Secured and Unsecured Loans:</b> <i>(Refer Stage 3: In-depth Survey, Section 6.1)</i></p> <ul style="list-style-type: none"> <li>Thirty two percent of people were unable to state the difference between unsecured and secured loans, while 9% confused these terms with fixed and variable interest</li> </ul>

### **3.2 Understanding of Where Money Comes From and Goes**

*Areas that were examined regarding people's understanding of where money comes from and goes to, included the ability to read a pay-slip, recognition of household expenses and regular financial commitments, and understanding of how companies and other organisations are financed.*

#### ***Overview***

*Ability to Read a Pay-slip:* Nearly all employees surveyed by telephone reported that they were able to read and comprehend a pay-slip, with only 2% reporting problems in doing so. This was broadly confirmed by the in-depth and self-completion survey, which found that more than 90% of people could work out take-home pay and gross pay for overtime from a pay-slip.

*Household Expenses and Regular Commitments:* Most people were aware of ways of coping with financial commitments, with saving (62%) and budgeting (54%) being the most frequently mentioned strategies.

*How Companies and Other Organisations are Financed:* There was limited understanding of how companies are financed, with 56% recognising that equity financing would result in dilution of ownership interest, and 46% recognising that debt financing would gain funds but also incur debt.

#### ***Groups Showing Below Average Results***

Groups that were below average on a number of measures included:

- Those with household income under \$20,000
- Those with Year 10 education or lower
- Those aged 70 and over
- Those with savings under \$5,000
- Those speaking a language other than English at home.

### 3.2.1 Basic Requirements

<b>Basic Requirements</b>	
<b>Objectives</b>	<b>Key Findings</b>
Ability to read a pay-slip	<p><b>Reading Pay-Slip:</b> <i>(Refer Stage 2: Telephone Survey, Section 6.2)</i></p> <ul style="list-style-type: none"> <li>• Only 2% of respondents said they would experience difficulty in reading and understanding a pay-slip</li> </ul> <p><i>(Refer Stage 3: In-depth Survey, Section 6.2)</i></p> <ul style="list-style-type: none"> <li>• Although ability to work out take-home pay and gross pay for overtime from a pay-slip was high (over 90%), ability to work out employer contributions to superannuation was lower (74%)</li> <li>• Those more likely to have difficulty reading and understanding a pay-slip included: <ul style="list-style-type: none"> <li>– Those with gross annual household income under \$20,000</li> <li>– Those with highest level of education less than Year 10</li> <li>– Those aged 70 and over</li> </ul> </li> </ul>
Recognition of household expenses and regular financial commitments	<p><b>Coping with Household Commitments:</b> <i>(Refer Stage 3: In-depth Survey, Section 6.2)</i></p> <ul style="list-style-type: none"> <li>• Recognition of budgeting and saving as ways of coping with regular and irregular financial outlays was generally high, although awareness of budgeting was lower among single parents and those with highest level of education less than Year 10</li> </ul>

### 3.2.2 Advanced Competence

<b>Advanced Competence</b>	
<b>Objectives</b>	<b>Key Findings</b>
Understanding of how companies and other organisations are financed, including shares	<p><b>How Companies are Financed:</b> <i>(Refer Stage 3: In-depth Survey, Section 6.2)</i></p> <ul style="list-style-type: none"> <li>• Understanding of how companies are financed was relatively low, particularly among: <ul style="list-style-type: none"> <li>– Those with highest level of education less than Year 10</li> <li>– Those with household income under \$20,000</li> <li>– Those with savings under \$5,000</li> <li>– Those speaking a language other than English at home</li> </ul> </li> </ul>



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## 4. FINANCIAL COMPETENCE

*Financial competence was assessed in a range of ways, including behaviour and knowledge regarding basic financial services, financial records and information, spending money and budgeting, and risk and return.*

### 4.1 Understanding the Main Features of Basic Financial Services

*Competence regarding basic financial services was examined in terms of awareness of the availability and basic features of various financial products, associated fees and the degree to which people shopped around. The ability to use financial products strategically was also assessed.*

#### **Overview**

*Product Awareness:* Most respondents were aware of banking methods other than branch banking, with the most frequently mentioned alternatives being Internet banking, ATM, telephone banking and EFTPOS. Almost all respondents (97%) held an everyday bank account.

*Fees and Charges:* The level of reported understanding about fees and charges was quite high for products such as credit cards, mortgages and ATM use, but lower for superannuation and other managed investments. A gap was evident between the low level of knowledge of fees and charges amongst the lowest Financial Literacy Quintile and the average for the population as a whole.

Knowledge of fees and charges was lower than average amongst people under 35 years of age, those with lower education, unskilled workers or non-workers, or single people. For superannuation, casual and part-time workers, and those with low incomes and low savings, had a limited understanding of fees and charges.

*Insurance:* Seventy-six per cent (76%) of respondents correctly identified the coverage provided by Third Party Property Insurance in a practical example.

*Investment:* There were a number of gaps in awareness of investment product features. Despite 73% of respondents understanding the dangers of trying to predict future returns based on short-term (the past two years) investment performance; 25% did not.

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The impact of fees on return was correctly identified by 59%. It was least understood by those aged 70 and over, and those with a lower level of education.

A proportion of respondents appeared to be vulnerable to making inadequately informed investment decisions, reflecting a lack of understanding of different investment products. Overall, 32% of respondents thought that saving money in a bank account would be an appropriate retirement investment vehicle, and 10% considered term deposits appropriate.

*Internet Banking:* There was a high level of awareness of Internet banking (82%) and its benefits. Fifty-two per cent (52%) felt they knew how to use Internet banking and 28% actually used it - the reason for the gap does not appear to be a lack of awareness of its benefits.

*Shopping Around:* The level of shopping around was highest for mortgages (56%), managed investments (56%) and insurance (51%), but relatively low for other products and services. This was particularly the case for superannuation (where many people have no choice of provider) (23%), choosing a financial specialist (24%) and choosing an everyday account (32%). Shopping around was particularly low amongst those living in rural areas, those with lower education levels, renters and unskilled workers.

*Use of Advisers:* In choosing between a fee-based or commission-based adviser, affordability and impartiality were the key factors. While 69% would prefer a fee-for-service adviser mainly due to impartiality, many of the 21% who preferred a commission-based adviser perceived that it would help motivate the adviser to do well with the money. A further 9% were unable to express a preference for either of these two types of adviser.

### ***Groups Showing Below Average Results***

The groups with relatively low levels of financial literacy were shown to frequently have below average awareness of product features, highlighting how vulnerable those groups can be to making financial decisions based on partial knowledge.

Groups that tended to be below average on a number of measures included:

- Those with lower education
- Students
- Those aged 18-24
- Those on low income.

### 4.1.1 Basic Requirements

<b>Basic Requirements</b>	
<b>Objectives</b>	<b>Key Findings</b>
<p>Awareness of the availability and basic features of:</p> <p>“Basic banking”</p> <p>“Electronic banking” (e.g. ATMs; EFTPOS; telephone banking; Internet banking)</p> <p>“Superannuation”</p> <p>“Other investments” (e.g. shares; term deposits; managed investments; life insurance with an investment element)</p> <p>“Risk insurance products” (e.g. house and contents insurance, including coverage and exclusions; health insurance)</p>	<p><b>Product Ownership:</b> <i>(Refer Stage 2: Telephone Survey, Section 7.1)</i></p> <ul style="list-style-type: none"> <li>• The most commonly held products or services were everyday accounts (held by 97% of adults), vehicle insurance (80%) house or contents insurance (75%), and superannuation (71%)</li> <li>• Amongst the least commonly held products or services were margin loans (2%), home equity loans (8%) and mortgages on investment properties (10%)</li> <li>• Fifty-one per cent (51%) of people reported having a financial specialist, in the form of an accountant, financial planner/adviser or tax specialist</li> <li>• Different needs across age groups were evident, with the incidence of loans being higher in younger age groups, and the incidence of investments increasing in older age groups</li> <li>• Groups below average on product ownership tended to be: <ul style="list-style-type: none"> <li>– Students</li> <li>– Renters</li> <li>– Those with lower incomes</li> <li>– Those with lower levels of savings</li> <li>– Non-workers</li> <li>– Retirees</li> </ul> </li> </ul> <p><b>Insurance:</b> <i>(Refer Stage 3: In-depth Survey, Section 7.1)</i></p> <ul style="list-style-type: none"> <li>• Seventy-six per cent (76%) answered correctly regarding the coverage provided by Third Party Property Insurance in a real world example, the balance were incorrect or unsure of the actual insurance coverage offered</li> </ul> <p><b>Investment:</b></p> <ul style="list-style-type: none"> <li>• There were a number of major gaps in awareness of investment product features</li> <li>• Overall, 89% of respondents correctly answered regarding the meaning of diversification of investments. Stage 2 results showed that only 51% of people thought it “very important” to diversify</li> <li>• Most respondents (73%) understood the dangers of trying to predict future returns from past returns, disclosure of which is used by fund managers to attract investors. However, although it appears that most would not try to predict future returns from past returns, whether they might use past returns as a basis for comparing funds remains unclear</li> <li>• There was a relatively low level of understanding of the meaning of a capital guaranteed investment, with 40% of respondents being unsure or incorrect</li> <li>• Only 39% of respondents correctly selected the most likely growth investment over the next 12 years, in the form of shares, when given a range of alternatives, including a managed fund invested largely in cash or a fixed interest account (this may reflect in part the recent poor performance of share markets)</li> </ul> <p><b>Banking:</b></p> <ul style="list-style-type: none"> <li>• 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%)</li> </ul>

<b>Basic Requirements</b>	
<b>Objectives</b>	<b>Key Findings</b>
	<ul style="list-style-type: none"> <li>• The groups with relatively low financial literacy were frequently lower than average in terms of awareness of features of financial products. Particular groups in that category included: <ul style="list-style-type: none"> <li>– Those with no occupation</li> <li>– Those 18 to 24 years of age</li> <li>– Students</li> <li>– Single parents</li> <li>– Single people living alone</li> <li>– Retirees</li> <li>– Those with primary/some secondary education</li> <li>– Those with household income under \$20,000</li> </ul> </li> </ul>
Awareness of the sorts of fees that apply to these services	<p><b>Knowledge of fees and charges:</b> <i>(Refer Stage 2: Telephone Survey, Section 7.1)</i></p> <ul style="list-style-type: none"> <li>• Superannuation was the product with the lowest level of knowledge of fees and charges, with 55% of people with superannuation knowing little or nothing about fees and charges in that product area.</li> <li>• Around 40% of people with shares or managed investments did not know about fees and charges for those products</li> <li>• A notable proportion of people did not know about fees and charges for newer channels, including BPay (47% knowing fees and charges not very well or not at all), telephone banking (43%) and Internet banking (33%)</li> <li>• Knowledge of fees and charges was relatively high for credit cards, where 12% of people holding such cards did not know the fees and charges, mortgages (15%) and own bank's ATM (16%)</li> <li>• Those below average on knowledge of fees and charges were generally: <ul style="list-style-type: none"> <li>– Non-workers</li> <li>– Those with lower levels of education</li> <li>– Single people</li> <li>– Unskilled workers</li> <li>– Those under 35 years of age</li> </ul> </li> <li>• In the case of superannuation, those with below average knowledge also tended to be younger, casual or part-time workers</li> </ul>
Awareness of the impact of fees on return	<p><b>Impact of Fees on Return:</b> <i>(Refer Stage 2: Telephone Survey, Section 7.1)</i></p> <ul style="list-style-type: none"> <li>• Overall, 59% of people with superannuation or investments correctly identified the impact of fees on return. People with lower levels of education and those aged 70 and over were less likely to answer correctly</li> </ul>
Awareness that one should shop around before purchasing financial products	<p><b>The level of shopping around:</b> <i>(Refer Stage 2: Telephone Survey, Section 7.1)</i></p> <ul style="list-style-type: none"> <li>• Overall, the level of shopping around tended to be low, with those shopping around “a lot” or “a fair bit” ranging from 23% for superannuation, to 56% for mortgages and investments other than superannuation. The low superannuation result partly reflected people who reported having no choice in their superannuation</li> <li>• Along with superannuation, the lowest incidence of shopping around was for arranging a new financial specialist (24%) and arranging an everyday account (33%)</li> <li>• Along with mortgages and investments other than superannuation, the highest incidence of shopping around was for insurance (51%)</li> <li>• Those people below average on shopping around were: <ul style="list-style-type: none"> <li>– Those in rural areas</li> <li>– Those with lower home value</li> </ul> </li> </ul>

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<b>Basic Requirements</b>	
<b>Objectives</b>	<b>Key Findings</b>
	<ul style="list-style-type: none"><li>– Those with lower education level</li><li>– Renters</li><li>– Unskilled workers</li><li>• Across virtually all financial products, the main reasons for not shopping around were that the person was satisfied to stay with their current provider or that they would “just go with what is recommended”. In the case of superannuation, the main reason given was “have no say in it/only one scheme available” (39%)</li></ul>

## 4.1.2 Advanced Competence

<b>Advanced Competence</b>	
<b>Objectives</b>	<b>Key Findings</b>
<p>Ability to make strategic use, to maximise personal financial advantage, of:</p> <p>“Basic banking”</p> <p>“Electronic banking” (e.g. ATMs; EFTPOS; telephone banking; Internet banking)</p> <p>“Superannuation”</p> <p>“Other investments” (e.g. shares; term deposits; managed investments; life insurance with an investment element)</p> <p>“Risk insurance products” (e.g. house and contents insurance, including coverage and exclusions; health insurance)</p>	<p style="text-align: right;"><i>(Refer Stage 3: In-depth Survey, Section 7.1)</i></p> <p><b>Ability to make strategic use of financial products and services:</b></p> <p><b>Banking:</b></p> <ul style="list-style-type: none"> <li>• 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%)</li> <li>• 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%). Stage 2 showed that actual usage (28%) is somewhat lower than awareness of how to use Internet banking (52%)</li> <li>• 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</li> <li>• Respondents had a sound understanding of the advantages of moving some money from an everyday account into a term deposit</li> </ul> <p><b>Insurance:</b></p> <ul style="list-style-type: none"> <li>• 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%). Fifty per cent (50%) mentioned that private health insurance should be considered, and 41% mentioned income insurance</li> <li>• Of the issues to consider when renewing insurance, the main issue mentioned was whether the amount of cover was still sufficient (63%).</li> </ul> <p><b>Investment:</b></p> <ul style="list-style-type: none"> <li>• While a number of people showed a sound understanding of appropriate retirement investment vehicles, with 68% mentioning extra money in superannuation, a substantial proportion mentioned saving money in a bank account (32%)</li> <li>• Understanding of the benefits and shortcomings of property investment was sound although not extensive. 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%)</li> <li>• When asked about the advantages of a managed fund investment, the most frequently mentioned advantages were reported as making more money/receive higher interest (39%), providing a diverse portfolio (33%) and that the investment was more accessible than if tied up in property (21%). However, it was a concern that 19% of respondents with investments were unable to identify any disadvantages of a managed fund, such as a potential fall in the value of the investment at time of retirement</li> <li>• 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 48% suggested seeing a financial planner/adviser or accountant</li> </ul>

<i>Advanced Competence</i>	
<i>Objectives</i>	<i>Key Findings</i>
	<ul style="list-style-type: none"> <li>• When it came to choosing between a fee-based or commission-based adviser, affordability was a key issue, followed by impartiality</li> <li>• Overall, 69% of respondents would prefer a fee-for-service adviser, due predominantly to the perception of greater impartiality. On the other hand, of the 21% who would prefer a commission-based adviser, almost half perceived that the commission would make the adviser more motivated to do well with the money</li> <li>• The groups with relatively low financial literacy that were frequently below average in terms of more advanced competence regarding financial services were: <ul style="list-style-type: none"> <li>– Those aged 18 to 24</li> <li>– Those with primary school/some secondary education</li> <li>– Those who passed Year 10 education or lower</li> <li>– Students</li> <li>– Those with savings under \$5,000</li> <li>– Those with household income under \$20,000</li> <li>– Single parents</li> <li>– Those aged 70 and over</li> </ul> </li> </ul>

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## 4.2 Understanding of Superannuation

*Understanding of superannuation was assessed through a number of areas, including the compulsory nature of employer contributions, rights of employees to make additional contributions, taxation benefits and insurance. The ability to check superannuation records was also assessed.*

### *Overview*

*Understanding of superannuation and compulsory employer contributions:* There was a good understanding of some of the basics of superannuation with 97% of people surveyed knowing that their employers were required to make superannuation contributions on their behalf, while 91% understood they can make additional superannuation contributions.

However, the survey also highlighted limited awareness of fees, charges and taxes in relation to superannuation:

- fifty-five per cent (55%) of fund members claimed to know little or nothing about the fees and charges that apply to superannuation; and
- only 54% of those with superannuation were aware that it is taxed at a lower rate than other investments.

*Checking employer contributions:* Eighty-eight per cent (88%) of people were able to correctly identify an employer contribution on a superannuation statement. Only 34% of people knew the correct contribution level required by employers, but most could suggest ways of checking whether correct contributions had been made.

*Ability to check records (e.g. Annual Statements) from superannuation funds to determine whether current contribution levels and percentage returns are appropriate for anticipated needs:* Around 30% of people either did not read their annual superannuation statement or read but did not understand them “very much” or “at all”. There was generally limited understanding of what constitutes an appropriate level of superannuation.



### 4.2.1 Basic Requirements

<b>Basic Requirements</b>	
<b>Objectives</b>	<b>Key Findings</b>
Understanding that superannuation sets aside money for retirement, and involves compulsory employer contributions	<p><b>Adequacy:</b> <i>(Refer Stage 2: Telephone Survey, Section 10)</i></p> <ul style="list-style-type: none"> <li>Of those with superannuation, 50% considered it would be adequate for their retirement. Given the limited extent of planning (37% had worked out how much they needed to retire), the reality is that this is unlikely to be the case, indicating that many may have a false sense of security regarding superannuation</li> </ul> <p><b>Fees and Charges:</b></p> <ul style="list-style-type: none"> <li>Lack of knowledge of the fees and charges that apply to superannuation was an issue, with 55% of fund members knowing little or nothing about them. (This could have a considerable effect on people’s ability to manage their superannuation, and could have an effect on long-term returns and implications for fund manager selection)</li> </ul> <p><b>Compulsory Contributions:</b></p> <ul style="list-style-type: none"> <li>Self-employed people with superannuation were polarised as to whether they are required by law to make superannuation contributions, with 44% saying “yes” and 44% saying “no” – 12% could not say</li> <li>97% of employed knew that employers are required to make contributions to superannuation on their behalf</li> </ul>
Understanding that personal contributions can be made to superannuation as an option	<p><b>Personal Contributions:</b> <i>(Refer Stage 2: Telephone Survey, Section 10)</i></p> <ul style="list-style-type: none"> <li>91% understood that they could make additional superannuation payments <i>(Refer Stage 3: In-depth Survey, Section 9)</i></li> <li>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</li> </ul>
Ability to check that an employer has been making compulsory contributions to superannuation	<p><b>Employer Contributions:</b> <i>(Refer Stage 2: Telephone Survey, Section 10)</i></p> <ul style="list-style-type: none"> <li>Only 34% of fund members knew the correct contribution level required by law to be made on their behalf. <i>(Refer Stage 3: In-depth Survey, Section 9)</i></li> <li>The ability to check that superannuation payments have been made is not a problem for the majority, with 88% correctly identifying the amount shown on an example annual statement. The groups with relatively low financial literacy were those less likely to be in the workforce (e.g. education less than Year 10, and household income under \$20,000)</li> </ul>

## 4.2.2 Advanced Competence

<b>Advanced Competence</b>	
<b>Objectives</b>	<b>Key Findings</b>
Ability to check records (e.g. Annual Statements) from superannuation funds to determine whether current contribution levels and % returns are appropriate for anticipated needs	<p><b>Ability to Check Records:</b> <i>(Refer Stage 2: Telephone Survey, Section 10)</i></p> <ul style="list-style-type: none"> <li>• People experienced a comprehension problem with statements from superannuation funds, with 21% indicating they did not understand them “very much” or “at all”. A further 9% did not read their statements, 35% of whom said they “couldn’t be bothered”.</li> </ul> <p><i>(Refer Stage 3: In-depth Survey, Section 9)</i></p> <ul style="list-style-type: none"> <li>• There is limited understanding of what constitutes an appropriate level of superannuation, with only 69% giving the correct answer to the problem given – a fairly obvious example of someone who has insufficient retirement funds</li> </ul>
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	<p><b>Insurance:</b> <i>(Refer Stage 3: In-depth Survey, Section 9)</i></p> <ul style="list-style-type: none"> <li>• Overall, the ability to understand the level of life insurance required is reasonable, with 83% providing an appropriate response when presented with a simple example of relative needs</li> </ul>
Understanding that taxation can be minimised through personal contributions to superannuation vs. other forms of investment	<p><b>Taxation:</b> <i>(Refer Stage 2: Telephone Survey, Section 10)</i></p> <ul style="list-style-type: none"> <li>• Only 54% of those with superannuation knew that superannuation was taxed at a lower rate than other investments.</li> <li>• 73% of those with investments or superannuation considered the tax implications when making an investment</li> </ul> <p><i>(Refer Stage 3: In-depth Survey, Section 9)</i></p> <ul style="list-style-type: none"> <li>• The taxation implications of superannuation are not top-of-mind when making decisions about making additional contributions to superannuation with just 17% mentioning tax advantages</li> </ul>

### 4.3 Understanding of Mortgages

*Knowledge of mortgages was assessed by examining the understanding that adults have of different types of interest rates available, as well as a number of terms and conditions that apply to mortgages.*

*Knowledge in the overall area was also assessed by looking at ability to use property for personal financial advantage, by investigating knowledge of advantages and disadvantages of purchasing an investment property.*

#### **Overview**

*Understanding of fixed interest rates vs. variable interest rates:* Most people who needed to know about the differences between fixed and variable interest rates (i.e. mortgage holders or considerers) were able to compare the two loan types, with around 88% identifying relative advantages.

*Understanding of terms and conditions for early termination and other variations:* Respondents understood very well or fairly well the terms “early termination fee” (79%), “redraw facility” (74%) and “home equity loan” (61%).

*Ability to use property for personal financial advantage:* People demonstrated a good general understanding of the advantages of using property for financial advantage. People were generally less clear about the disadvantages, with a relatively low proportion (12%) identifying potential for a fall in the market.

#### **Groups showing below average results**

There was a noticeable gap in the overall understanding of mortgages between the lowest and highest Financial Literacy Quintiles. Groups that tended to be below average in their understanding included:

- Those with household income under \$20,000
- Those with a low level of education
- Unskilled/farm workers.

### 4.3.1 Basic Requirements

<b>Basic Requirements</b>	
<b>Objectives</b>	<b>Key Findings</b>
Understanding of fixed interest rates vs. variable interest rates	<p><b>Fixed and Variable Interest Rates:</b> (Refer Stage 2: Telephone Survey, Section 11)</p> <ul style="list-style-type: none"> <li>• The great majority of mortgage holders and considerers are aware of implications of fixed interest loans compared with variable interest loans</li> <li>• Only 12% of mortgage holders or considerers could not say what the disadvantages of fixed interest loans were in comparison with variable interest loans, particularly: <ul style="list-style-type: none"> <li>– Those aged 70 and over</li> <li>– Those with household income under \$20,000</li> <li>– Retirees</li> </ul> </li> </ul> <p><b>Redraw Facilities:</b></p> <ul style="list-style-type: none"> <li>• 75% of mortgage holders and considerers believed they understood about redraw facilities “very well” or “fairly well”. Groups with low understanding included: <ul style="list-style-type: none"> <li>– Unskilled/farm workers</li> <li>– Those with a low level of education</li> <li>– Those aged 70 and over</li> </ul> </li> </ul> <p><b>Equity Loans:</b></p> <ul style="list-style-type: none"> <li>• 61% of mortgage holders and considerers claimed to understand what a home equity loan is “very well” or “fairly well”. Groups with low understanding included: <ul style="list-style-type: none"> <li>– Unskilled/farm workers</li> <li>– Those with household income under \$20,000</li> <li>– Those with no occupation</li> </ul> </li> </ul>
Understanding of terms and conditions for early termination and other variations	<p><b>Early Termination Fees:</b> (Refer Stage 2: Telephone Survey, Section 11)</p> <ul style="list-style-type: none"> <li>• 79% of mortgage holders and considerers believed they understood about early termination fees either “very well” or “fairly well”. The following groups reported a much lower level of understanding: <ul style="list-style-type: none"> <li>– Those aged 18 to 24</li> <li>– Those with household income under \$20,000</li> <li>– Those with a low level of education</li> <li>– Those aged 70 and over</li> </ul> </li> </ul>

### 4.3.2 Advanced Competence

<b>Advanced Competence</b>	
<b>Objectives</b>	<b>Key Findings</b>
Ability to use property for personal financial advantage (e.g. purchase investment property)	<p><b>Property Investment:</b> (Refer Stage 3: In-depth Survey, Section 10)</p> <ul style="list-style-type: none"> <li>• Respondents, across all groups, demonstrated a good understanding of the advantages and disadvantages of purchasing an investment property</li> <li>• Respondents were however, more likely to identify potential increase in property values as an advantage (59%), rather than potential decrease as a disadvantage (12%)</li> </ul>

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#### **4.4 Understanding of Financial Records and Appreciation of Importance of Reading and Retaining Them**

*Financial competence regarding financial records and information was examined in a number of ways, including the ability to check the accuracy of official records, understanding of the need to keep records, the ability to read statements and the need to monitor performance over time.*

##### **Overview**

*Transactional Product Statements:* Over 85% of people claimed that they could read and understand records relating to bank accounts, ATMs, credit cards and store cards. However, 25% of respondents had difficulty with a practical example requiring reading a bank statement accurately and adding three numbers.

*Superannuation Statements:* A number of superannuation consumers appeared to be at risk of not being properly informed about their superannuation. The inability of many people to accurately read information from an annual superannuation statement, given a practical example, suggests that a number of barriers may exist to effective understanding of the status of superannuation funds.

Twenty-nine percent of people were unable to accurately identify asset allocation and 38% were unable to identify the five-year investment performance from a superannuation statement.

*Monitoring Investment Performance:* While only 10% of respondents were unaware of at least some of the issues to consider in the event of a managed fund performance fall, many people do not expect such variations. For example, 63% of people understand that short-term reductions in the value of investments can be expected even with good investments.

##### **Groups Showing Below Average Results**

In general, there was a substantial gap to be bridged to bring the lowest Financial Literacy Quintile up to the average level of understanding recorded overall. However, unlike several other measures of financial literacy, older people did not appear to have difficulties understanding financial records.

Particular groups that were below average on checking accuracy of financial records and information included:

- Single parents
- Those engaged in home duties/non-workers
- Those on low income
- Those with lower education levels.

## 4.4.1 Basic Requirements

<b>Basic Requirements</b>	
<b>Objectives</b>	<b>Key Findings</b>
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”	<p><b>Checking Financial Records:</b> <i>(Refer Stage 2: Telephone Survey, Section 7.2)</i></p> <ul style="list-style-type: none"> <li>The great majority (over 85%) of users of bank accounts, ATMs, credit cards and store cards received, read and understood the financial records applicable to each of these transactional products</li> <li>For each of these products there is a small proportion who either did not receive the relevant records (4% -5%), received but did not read the records (2% -5%), or read but understood little of the relevant records (1% -3%)</li> <li>The situation was quite different for the other financial products, with many more not receiving financial records, and fewer reading and understanding those records</li> <li>Twenty-four per cent (24%) of those with investments (other than superannuation), 19% of those with loans (other than a mortgage), 12% of those with insurance and 9% of those with superannuation claimed not to receive statements</li> <li>Ten per cent (10%) of those with investments (other than superannuation) and 9% of those with insurance received and read their records, but understood little or nothing of them</li> <li>Most notably, 21% of those with superannuation received and read their superannuation statements but understood little or nothing of them</li> <li>Groups least able to understand their superannuation statements included:               <ul style="list-style-type: none"> <li>Single parents</li> <li>Singles living in shared households</li> <li>Those with household income levels below \$35,000</li> </ul> </li> <li>Fifteen per cent (15%) of superannuation holders aged under 35 received but did not read their statements</li> <li>Across all products, a common reason for not reading statements was that “someone else reads them” - in the case of superannuation statements, 35% said this was because they “couldn’t be bothered”</li> </ul> <p><i>(Refer Stage 3: In-depth Survey, Section 7.2)</i></p> <p><b>Banking:</b></p> <ul style="list-style-type: none"> <li>Using a bank statement 25% of respondents were unable to accurately work out the amount withdrawn from ATMs. The result was better when respondents were asked to use an ATM receipt to calculate an ATM balance prior to a withdrawal: 92% gave the correct answer</li> </ul> <p><b>Superannuation:</b></p> <ul style="list-style-type: none"> <li>When asked to interpret information from an annual superannuation statement, it was evident that many respondents were unable to do so accurately: only 40% of respondents were able to correctly identify all four pieces of information from the statement, in the form of the employer contribution, asset allocation, five year fund performance and whether life insurance was included</li> <li>11% were unable to correctly identify the employer contribution</li> <li>When asked to identify the asset allocation mix, 29% were unable to do so</li> <li>Only 62% of respondents were able to accurately identify the average fund performance over 5 years</li> <li>Eleven per cent (11%) of respondents were unable to say whether life insurance was provided, based on the statement</li> </ul>

<b>Basic Requirements</b>	
<b>Objectives</b>	<b>Key Findings</b>
	<ul style="list-style-type: none"> <li>• Groups most frequently below average on basic requirements were:               <ul style="list-style-type: none"> <li>– Those with household income under \$20,000</li> <li>– Single parents</li> <li>– Those who completed Year 10 education or lower</li> </ul> </li> </ul>
Understanding of the need to keep records	<p><b>Record Keeping:</b> <i>(Refer Stage 2: Telephone Survey, Section 7.2)</i></p> <ul style="list-style-type: none"> <li>• The majority of people understood the need to keep their records and generally did so for in excess of one year</li> </ul>

## 4.4.2 Advanced Competence

<b>Advanced Competence</b>	
<b>Objectives</b>	<b>Key Findings</b>
Ability to reconcile a bank statement	<p><b>Bank Statements:</b> <i>(Refer Stage 2: Telephone Survey, Section 7.2)</i></p> <ul style="list-style-type: none"> <li>• Most adults reported they would find reconciling a bank statement “easy” (54%) or “very easy” (33%)</li> <li>• However, 9% reported that they would find it difficult and 2% felt that reconciling a bank statement would be “very difficult”</li> <li>• Non-workers, unskilled workers and farm workers would have the most difficulty reconciling a bank statement</li> <li>• Those aged 70 years or over were least likely to have difficulties</li> </ul>
Ability to read an Annual Statement from a superannuation fund to see the asset classes invested in and the percent return over time	<p><b>Superannuation Annual Statement:</b> <i>(Refer Stage 2: Telephone Survey, Section 7.2)</i></p> <ul style="list-style-type: none"> <li>• Far fewer were confident in their ability to understand an annual statement for a superannuation fund. 31% of those with superannuation would find it difficult and 6% very difficult</li> <li>• Single parents and non-workers would have the greatest difficulty</li> <li>• Those less likely to have difficulties understanding an annual statement from a superannuation fund included: <ul style="list-style-type: none"> <li>– Those aged 60 and over</li> <li>– Retirees</li> <li>– Students</li> <li>– Professionals</li> <li>– Those with \$250,000 or more in mortgage debt</li> <li>– Those with \$250,000 or more in savings</li> </ul> </li> </ul> <p><i>(Refer Stage 3: In-depth Survey, Section 7.2)</i></p> <ul style="list-style-type: none"> <li>• As described in the findings on basic requirements for this section, a substantial proportion of respondents showed an inability to accurately read the annual superannuation statement. That included an inability by many to identify the asset classes invested in and the fund performance over time</li> </ul>
Understanding of official financial records, such as prospectuses and Annual Statements for investment products	<p><b>Prospectuses:</b> <i>(Refer Stage 3: In-depth Survey, Section 7.2)</i></p> <ul style="list-style-type: none"> <li>• Eighty-four per cent (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</li> </ul>
Understanding of the need to monitor performance of investments over time	<p><b>Monitoring Performance:</b> <i>(Refer Stage 3: In-depth Survey, Section 7.2)</i></p> <ul style="list-style-type: none"> <li>• Ninety-three per cent (93%) of respondents were able to suggest factors to consider in the event of a managed fund’s performance dropping</li> </ul>



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## 4.5 Attitudes to Spending Money and Saving

*Financial literacy regarding spending money and saving was assessed in a number of ways, including the need to save in general, saving for retirement and ways to save. It also included an assessment of understanding of budgets, the ability to forecast and recognise the impact of irregular major outlays, and the ability to budget strategically.*

### **Overview**

The survey found that 67% of people tried to save on a regular basis.

*Retirement Saving:* Overall, only 37% of people had worked out how much they needed to save for their retirement. Despite this, 50% of those with superannuation felt that it would allow them to live at least as comfortably in retirement as they were living now. Females, young people, single people, those in casual employment and those in lower socio-economic groups were less likely to have worked out how much to save for retirement.

While the survey revealed a generally sound approach to making personal contributions to superannuation, only 17% of people mentioned the tax advantages offered.

While the majority of people were aware of ways to save for retirement, such as superannuation, shares or bonds and property, 32% recommended a bank account and 10% recommended a term deposit. In addition, only 39% of respondents correctly selected the most likely growth investment over the next 12 years, in the form of shares, when given a range of alternatives, including a managed fund invested largely in cash or a fixed interest account (this may reflect in part the recent poor performance of share markets) (see Section 4.1.1).

*Monitoring Expenses and Budgeting:* Most people were aware of saving (62%) and budgeting (54%) to cope with regular and irregular financial outlays. Seventy six per cent (76%) of people kept an eye on expenses. For some there is a financial capacity and/or management issue with 26% reporting they had trouble setting money aside for major financial outlays. Males, singles in shared households, those casually employed and renters were less likely to keep an eye on expenses. Limited awareness of budgeting was evident amongst single parents, those with lower household income and young people.

*Budgeting Strategically:* Only 27% of people recognised that interest can be maximised by retaining money as long as possible by paying bills exactly on the due date (although this may be due to the current low interest rate environment and the fact that many everyday

bank accounts have not paid interest on balances less than several thousand dollars for some years now).

***Groups Showing Below Average Results***

The groups that were lower than average on many measures regarding competence in saving and budgeting, included:

- Those aged 18-24
- Those in casual employment
- Those with savings under \$5,000
- Those with lower levels of education.

## 4.5.1 Basic Requirements

<b>Basic Requirements</b>	
<b>Objectives</b>	<b>Key Findings</b>
Understanding of the purpose of saving	<p><b>Savings Behaviour:</b> <i>(Refer Stage 2: Telephone Survey, Section 7.3)</i></p> <ul style="list-style-type: none"> <li>• One third of adults did not try to save on a regular basis, although their reasons for not doing so may reflect financial capacity rather than financial literacy</li> <li>• Groups less likely than average to save on a regular basis included: <ul style="list-style-type: none"> <li>– Males</li> <li>– Those aged 70 and over</li> <li>– Singles in a shared household and single parents</li> <li>– Those casually employed</li> <li>– Retired people</li> <li>– Those in sales occupations</li> <li>– Those with education less than Year 10</li> <li>– Those with low incomes</li> <li>– Those with savings under \$5,000</li> </ul> </li> </ul> <p><i>(Refer Stage 3: In-depth Survey, Section 7.3)</i></p> <ul style="list-style-type: none"> <li>• There was a high level of awareness (96%) of saving and budgeting as ways of coping with both regular and irregular financial outlays</li> </ul>
Understanding of why you need to save for retirement	<p><b>Retirement Planning:</b> <i>(Refer Stage 2: Telephone Survey, Section 7.3)</i></p> <ul style="list-style-type: none"> <li>• Only 37% of the adult population “agreed” or “strongly agreed” that they had worked out how much they needed to save for their retirement</li> <li>• The proportion of people who had worked out how much they would need to save for their retirement increased with age, however at no point reached two thirds of any age group</li> <li>• Females, young people, single people, those in casual employment and those with lower socio-economic circumstances were less likely to have worked out how much to save for their retirement</li> <li>• 5% of the adult population aged under 65 and not retired “strongly agreed” or “agreed” that superannuation, planning and saving for retirement didn’t really matter as the government would make up the gap</li> <li>• 50% of adults with superannuation believed that their superannuation will have them living as comfortably or more comfortably than they are living now</li> </ul> <p><i>(Refer Stage 3: In-depth Survey, Section 7.3)</i></p> <ul style="list-style-type: none"> <li>• 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%)</li> <li>• Of some concern was the 32% of people who recommended saving money in a bank account for retirement (this may in part reflect the current downturn in superannuation fund performance)</li> <li>• 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%)</li> <li>• 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</li> </ul>

<b>Basic Requirements</b>	
<b>Objectives</b>	<b>Key Findings</b>
Understanding of how to use budgets to plan and control personal spending	<p><b>Budgeting:</b> <i>(Refer Stage 2: Telephone Survey, Section 7.3)</i></p> <ul style="list-style-type: none"> <li>• 76% of people reported keeping a close eye on expenses</li> <li>• 16% of the adult population “agreed” or “strongly agreed” that they spend all their income as soon as they get it and don’t really plan for the future</li> <li>• Those in casual employment, non-workers, renters and those with low levels of savings were amongst the groups more likely to agree they spend all of their income as they get it and don’t really plan for the future</li> <li>• Self-reported budgeting behaviour differed by work status, living arrangements, age and sex</li> <li>• Males, singles in shared households, those employed casually and renters were among the groups less likely to keep an eye on expenses</li> <li>• Twenty-six per cent (26%) “agreed” or “strongly agreed” they had trouble setting money aside for major financial outlays</li> <li>• Single parents, non-workers and those with low levels of savings were more likely to agree that they had problems setting money aside for major financial outlays</li> <li>• 7% of adults “agreed” or “strongly agreed” that they felt out of control with their borrowing and credit generally</li> <li>• Young people, renters, unskilled or farm workers, those with low savings and those with middle levels of mortgage debt were more likely to feel out of control with their borrowing and credit generally</li> <li>• 52% of adults felt that using a credit card to purchase a discretionary item (a DVD player) was “convenient as long as it did not cost you interest”, while a further 30% felt that it was “just too likely to get you into debt”. Eight per cent (8%) felt it was “a good way to have something now, even if it costs interest”, and 9% could not say</li> <li>• Adults with higher incomes (\$50,000–\$69,999) were more likely to hold the least cautious view towards the use of credit cards</li> <li>• A cautious attitude towards credit card usage varied with age, younger people generally holding the most cautious attitude, and mid-life people holding the least cautious attitude</li> </ul>
Ability to forecast and recognise the impact of irregular major financial outlays (e.g. vehicle registration; holidays)	<p><b>Planning for Financial Outlays:</b> <i>(Refer Stage 3: In-depth Survey, Section 7.3)</i></p> <ul style="list-style-type: none"> <li>• 59% of respondents suggested using a budget to cope with regular or irregular financial outlays</li> <li>• Groups less likely to suggest using a budget included: <ul style="list-style-type: none"> <li>– Single parents</li> <li>– Those with highest level of education of Year 10 or below</li> <li>– Those with household income under \$20,000</li> <li>– Those aged 18 to 24</li> </ul> </li> <li>• Nearly all 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</li> </ul>

#### 4.5.2 Advanced Competence

<i>Advanced Competence</i>	
<i>Objectives</i>	<i>Key Findings</i>
Ability to budget strategically to make payments as late as possible and keep money earning interest as long as possible	<p><b>Budgeting Strategically:</b> <i>(Refer Stage 3: In-depth Survey, Section 7.3)</i></p> <ul style="list-style-type: none"> <li>• Only 27% of respondents recognised the interest to be gained by making payments as late as possible (although there may be little to be gained in the current interest rate environment)</li> <li>• Groups less likely to mention this benefit included: <ul style="list-style-type: none"> <li>– Those aged 18 to 24</li> <li>– Those with highest level of education of Year 10 or below</li> <li>– Those looking for work</li> </ul> </li> </ul>

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#### **4.6 Awareness of Risks Associated with Some Financial Products and Appreciation of the Relationship between Risk and Return**

*Financial competence regarding risk and return was assessed in the context of understanding the relationship between investment risk and return, understanding of market fluctuations and the need for diversification when investing as a means of managing investment risk. Risk was also examined in the context of borrowing money jointly.*

##### **Overview**

The concept that high returns are associated with higher than average risks was understood by 85% of respondents.

While the concept of diversification appears well understood and 91% of people thought it was important to some extent, only 51% of people thought it was “very important” to diversify across investment types over a period of five years or more.

*Market Fluctuations and Diversification:* Only 63% of people understood that short-term market fluctuations can be expected even with good investments.

*Understanding Risk for Different Investments:* The principle that high return investments are risky in the short-term is well understood, with 92% indicating that a term deposit is a better short-term investment than property and shares. However, a relatively low proportion (12%) of people identified potential for a fall in the market as a possible disadvantage of investing in property.

The term “capital guaranteed” investment is relatively poorly understood – 60% gave the correct answer.

*Using Past Performance to Predict Future Returns:* Twenty-seven per cent (27%) of people were prepared to try to predict future returns based on past investment performance. Such people could be open to placing too much importance on past performance figures commonly used by fund managers.

*Attitudes to Investments that are “Too Good to be True”:* There appeared to be a high susceptibility to “too good to be true” offers. When presented with an investment unrealistically offering rates well above the market at no risk, 47% of people were prepared to make some level of investment. Respondents were more cautious when the

example given was more extreme in its claims, suggesting that people may be susceptible to more subtle approaches.

*Insurance Risk:* The majority of people had some understanding of the need for insurance. However, only 44% of people focused on obtaining the right level of cover when renewing insurance, while the rest would simply pay the amount specified on the renewal or go with the cheapest.

*Risks in Joint Borrowing:* Thirty-five per cent (35%) of people did not understand the term “Co-Borrower” and 25% did not know that a primary card holder is responsible for the debt incurred by a secondary card holder.

*Exchange rate movements* and their likely impact were reasonably well understood in the context of a simple question about travelling overseas, with 86% giving the correct response about the price impact of a fall in the Australian dollar. Faced with a question concerning the more complex issue of the price impact on exporters of a rise in the Australian dollar, 47% of people answered correctly.

### ***Groups Showing Below Average Results***

The following groups were below average on a number of measures relating to understanding risk and return:

- Females
- Those aged 18-24
- Those engaged in home duties/non-workers
- Semi-skilled/unskilled/farm workers
- Those on low income.

## 4.6.1 Basic Requirements

<b>Basic Requirements</b>	
<b>Objectives</b>	<b>Key Findings</b>
Awareness that high return investments are also likely to involve high risk	<p><b>Investment Risk and Return:</b> (Refer Stage 2: Telephone Survey, Section 7.4)</p> <ul style="list-style-type: none"> <li>The concept that high returns are associated with higher than average risks was well understood with 85% of the population agreeing to the proposition</li> <li>Groups with below average knowledge of these issues were: <ul style="list-style-type: none"> <li>Those with less than \$5,000 in savings or investments</li> <li>Semi-skilled workers</li> <li>Those with personal income under \$20,000</li> <li>Those under 25 years of age</li> <li>Those participating in home duties</li> <li>Females</li> <li>Those with low education levels</li> </ul> </li> </ul> <p>(Refer Stage 3: In-depth Survey, Section 7.4)</p> <ul style="list-style-type: none"> <li>The principle that high return investments are relatively 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</li> </ul>
Understanding that market values can fall as well as rise	<p><b>Investment Risk and Return:</b> (Refer Stage 2: Telephone Survey, Section 7.4)</p> <ul style="list-style-type: none"> <li>Sixty-three per cent (63%) understood that short-term market fluctuations can be expected even with good investments</li> </ul> <p>(Refer Stage 3: In-depth Survey, Section 7.4)</p> <ul style="list-style-type: none"> <li>The understanding that market values can fall as well as rise is high for managed investments, but is low for property with just 12% identifying it as a potential disadvantage of investing in property</li> </ul>
Awareness that if it sounds “too good to be true”, then it probably isn’t true	<p><b>Investment Risk and Return:</b> (Refer Stage 2: Telephone Survey, Section 7.4)</p> <ul style="list-style-type: none"> <li>Potential for susceptibility of investors is high with 47% of consumers indicating that they would be prepared to make some level of investment even when it was offering “well above market rates and no risk”.</li> </ul> <p>(Refer Stage 3: In-depth Survey, Section 7.4)</p> <ul style="list-style-type: none"> <li>When faced with an obvious “over the top” investment proposition respondents were generally 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 did show a degree of susceptibility</li> </ul>
Awareness that individuals are responsible for debts of spouse/other family members with whom they have a joint financial product	<p><b>Co-Borrowing:</b> (Refer Stage 2: Telephone Survey, Section 7.4)</p> <ul style="list-style-type: none"> <li>81% of the population understood that all parties to a loan are responsible for the entire loan.</li> <li>The specific term “Co-Borrower” was understood “very well” or “fairly well” by 65% of people</li> <li>75% of consumers knew that a primary card holder is responsible for the debt incurred by a secondary card holder</li> </ul>



Understanding of the value of diversification when investing	<p><b>Investment Risk and Return:</b> <i>(Refer Stage 2: Telephone Survey, Section 7.4)</i></p> <ul style="list-style-type: none"> <li>• 91% of respondents with investments recognized the importance of diversification to some extent, although only 51% considered it <i>very important</i> <i>(Refer Stage 3: In-depth Survey, Section 7.4)</i></li> <li>• Diversification of investments as an idea is well understood (89% correctly defined)</li> </ul>
Understanding of the purpose of insurance	<p><b>Insurance:</b> <i>(Refer Stage 3: In-depth Survey, Section 7.4)</i></p> <ul style="list-style-type: none"> <li>• The level of understanding of insurance coverage that may be required is reasonable with 83% giving the correct response to a hypothetical example</li> </ul>

## 4.6.2 Advanced Competence

<b>Advanced Competence</b>	
<b>Objectives</b>	<b>Key Findings</b>
Ability to identify potential risks and determine whether they need to be eliminated or mitigated against  Understanding of managed investments	<p><b>Movements in Investment Value:</b> <i>(Refer Stage 3: In-depth Survey, Section 7.4)</i></p> <ul style="list-style-type: none"> <li>• 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</li> <li>• The groups having the most difficulty with the concepts tested were: <ul style="list-style-type: none"> <li>– Home duties/non-workers</li> <li>– Those with savings under \$5,000</li> <li>– Those aged 18 to 24</li> <li>– Those aged 70 and over</li> <li>– Household income under \$20,000</li> <li>– Semi-skilled/unskilled/farm workers</li> <li>– Students</li> <li>– Single parents</li> <li>– Females</li> </ul> </li> </ul>
Understanding of guarantees on investments	<p><b>“Capital Guaranteed”:</b> <i>(Refer Stage 3: In-depth Survey, Section 7.4)</i></p> <ul style="list-style-type: none"> <li>• The level of understanding of the term “capital guaranteed” was not high with only 60% giving the correct answer</li> </ul>
Understanding that short-term ups and downs in value are less important for long-term investments	<p><b>Predicting Future Returns:</b> <i>(Refer Stage 3: In-depth Survey, Section 7.4)</i></p> <ul style="list-style-type: none"> <li>• Seventy-three per cent (73%) of respondents understood that future returns cannot be accurately predicted from past returns</li> </ul>
Understanding of currency issues, including the impact of fluctuations in exchange rate for the Australian dollar	<p><b>Currency Issues:</b> <i>(Refer Stage 3: In-depth Survey, Section 7.4)</i></p> <ul style="list-style-type: none"> <li>• Currency issues have a reasonable level of understanding on a simple example where 86% responded correctly, but the ability to understand the more complex issue regarding impact on exporters was poorly answered with only 47% giving the correct answer. Overall, this issue is understood well at a personal level, but less well in a broader economic context</li> </ul>

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## 5. FINANCIAL RESPONSIBILITY

*Financial responsibility was examined in terms of the approach to making personal life choices, understanding of consumer rights and responsibilities, and understanding of access to sources of assistance.*

### 5.1 Ability to Make Appropriate Personal Life Choices About Financial Issues

*Approaches to making personal life choices were assessed in the form of people's understanding of the differences between long-term and short-term needs, prioritising different needs to balance income and expenditure within financial capacity, and the ability to make informed choices when experiencing a drop in income. Understanding was also assessed of the difference between good (manageable and planned) debt and bad (unmanageable and unplanned) debt.*

#### **Overview**

*The Need for Planning:* Nearly all respondents (98%) appeared to understand that prioritising different needs is required to balance income and expenditure within financial capacity. Eighty per cent (80%) of people agreed that both short- and long-term financial plans were important. Those who were not convinced of the importance of long-term financial plans were more frequently found amongst single people or those with household incomes under \$20,000.

*“Good” and “Bad” Debt:* Seventy-nine per cent (79%) of people understood the difference between good (manageable and planned) debt and bad (unmanageable and unplanned) debt. However, this distinction was not well understood by those with a low level of education, semi-skilled/unskilled/farm workers, and those with low income.

*Managing in the Event of Major Loss of Income:* Seventy-six per cent (76%) of people reported that they could manage for a period of time, in the event of a major loss of income. Those least likely to feel that they could manage in such an eventuality were single parents and renters, those with savings of \$5,000 to \$49,999, and those with non-mortgage debt of \$10,000 to \$100,000.

In the event of such a major loss of income, most would rely upon either their family (39%) or their bank/financial institution (43%).

*Short-Term and Long-Term Investments:* While most people (92%) understood appropriate short-term investments, only 39% understood appropriate long-term investments. That was particularly an issue for those with low education levels and amongst young people.

### ***Groups Showing Below Average Results***

Particular groups that were below average on a number of measures, regarding making personal life choices included:

- Those with low income
- Those aged 18-24
- Those with low education levels
- Renters
- Students.

## 5.1.1 Basic Requirements

<b>Basic Requirements</b>	
<b>Objectives</b>	<b>Key Findings</b>
Understanding the differences between long-term and short-term needs	<p><b>Long and Short-Term Financial Plans:</b> <i>(Refer Stage 2: Telephone Survey, Section 9.1)</i></p> <ul style="list-style-type: none"> <li>Overall, 80% of people agreed that both short- and long-term financial plans were important. Another 13% disagreed that short-term financial plans were important, and 7% disagreed that long-term financial plans were important</li> <li>The groups most likely to disagree that long-term plans were important were: <ul style="list-style-type: none"> <li>Singles living alone</li> <li>Those with household incomes under \$20,000</li> </ul> </li> <li>Those most likely to disagree that short-term financial plans were important were those aged 70 and over <i>(Refer Stage 3: In-depth Survey, Section 8.1)</i></li> <li>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%)</li> <li>Groups less likely to understand appropriate long-term investment options included: <ul style="list-style-type: none"> <li>Those with a low level of education</li> <li>Young people</li> <li>Casual employees</li> <li>Students</li> </ul> </li> </ul>
Ability to prioritise different needs to balance income and expenditure within financial capacity	<p><b>Prioritising Needs:</b> <i>(Refer Stage 3: In-depth Survey, Section 8.1)</i></p> <ul style="list-style-type: none"> <li>Nearly all respondents (98%) appeared to understand that prioritising different needs is required to balance income and expenditure within financial capacity</li> </ul>
Understanding the difference between good (manageable and planned) debt and bad (unmanageable and unplanned) debt	<p><b>“Good” and “Bad” Debt:</b> <i>(Refer Stage 3: In-depth Survey, Section 8.1)</i></p> <ul style="list-style-type: none"> <li>While the difference between good (manageable and planned) debt and bad (unmanageable and unplanned) debt was recognised by most people (79%), a minority failed to do so. This problem was greater in most of the groups with low financial literacy levels identified at Stage 2, particularly those with a low level of education, semi-skilled, unskilled/farm workers and those with low household income</li> </ul>
Ability to make informed choices when experiencing a drop in income	<p><b>Managing If There Was a Major Loss of Income:</b> <i>(Refer Stage 2: Telephone Survey, Section 9.1)</i></p> <ul style="list-style-type: none"> <li>In general, people perceived that they could manage for a period of time, in the event of a major loss of income, with 76% agreeing or strongly agreeing</li> <li>The groups most likely to feel that they could not manage in such an event were: <ul style="list-style-type: none"> <li>Single parents</li> <li>Renters</li> <li>Those with savings of \$5,000 to \$49,999</li> <li>Those with non-mortgage debt of \$10,000 to \$99,999</li> </ul> </li> </ul>

<b>Basic Requirements</b>	
<b>Objectives</b>	<b>Key Findings</b>
	<p><b>Who People Would Turn to If Sudden Loss of Income Caused Difficulty:</b> (Refer Stage 2: Telephone Survey, Section 9.1)</p> <ul style="list-style-type: none"> <li>• If a sudden loss of income caused difficulty in meeting financial commitments, 43% of people would go to a bank/financial institution, while another 39% would approach their family. A small proportion would go to a financial planner/adviser (6%) or financial counsellor (1%)</li> <li>• The groups least likely to turn to a bank/financial institution in the event of such difficulties, were: <ul style="list-style-type: none"> <li>– Those aged 18 to 24</li> <li>– Those aged 70 and over</li> <li>– Singles – living in shared household</li> <li>– Students</li> <li>– Renters</li> <li>– Those with household income under \$20,000</li> <li>– Those with savings under \$5,000</li> </ul> </li> </ul> <p>(Refer Stage 3: In-depth Survey, Section 8.1)</p> <ul style="list-style-type: none"> <li>• 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</li> </ul>

### 5.1.2 Advanced Competence

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.

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## 5.2 Understanding of Consumer Rights and Responsibilities

*Understanding of consumer rights and responsibilities was assessed in terms of a range of issues including understanding of the right to have clear information about products, access to independent dispute resolution schemes, and knowledge of relevant requirements that need to be met by providers of financial products, advice or prospectuses.*

### **Overview**

*Consumer Rights and Responsibilities:* When asked whether they were clear about their rights if they experienced a problem with a financial institution, 60% of people agreed that they were. This result held broadly across socio-economic groups.

Consumers seemed to have a good appreciation of some of their responsibilities, with:

- ninety-one per cent (91%) understanding the importance of making honest and complete disclosure of their needs and circumstances; and
- eighty-nine per cent (89%) appreciating the importance of PIN security and the ramifications of breaching it.

*Consumer Information:* Eighty per cent (80%) of people felt well informed when they make financial decisions. Those least likely to feel well informed were non-workers, renters, semi-skilled workers and those with no occupation.

*Independent Dispute Resolution:* There was a low level of unprompted awareness of independent dispute resolution schemes, with the Banking Ombudsman (21%) being most frequently mentioned. However, care should be taken in interpreting this finding as when a customer of a financial institution experiences a problem and makes a complaint, the institution is generally required to provide information about independent dispute resolution schemes (see Section 5.3.1).

*Regulation of Financial Services:* While only 23% recognized that the finance sector is regulated by independent bodies, 83% understood that financial institutions are required to observe specific standards and 21% understood that systems are in place for identifying, managing and measuring risks.

*Commission Disclosure:* Seventy-two per cent (72%) of the people were aware of the need for providers of financial advice to disclose commission received.

*Insurance Cooling-Off Period:* The cooling-off period for most types of common insurance policies was not well understood, with only 13% understanding that a 14-day cooling-off period existed.

***Groups Showing Below Average Results***

Some of the groups that were below average on measures of understanding consumer rights and responsibilities included:

- Those aged 18-24
- Those with lower levels of education
- Those with lower income
- Those with savings under \$5,000
- Those aged 70 and over.



## 5.2.1 Basic Requirements

<b>Basic Requirements</b>	
<b>Objectives</b>	<b>Key Findings</b>
Understanding that consumers do have rights	<p><b>Consumer Rights:</b> <i>(Refer Stage 2: Telephone Survey, Section 9.2)</i></p> <ul style="list-style-type: none"> <li>Many consumers were not clear about their rights if they have a problem with a financial institution, with only 60% indicating that they were clear about their rights in this situation. This appears to apply across all socio-economic groups</li> </ul>
Understanding that consumers have a right to clear information about products both pre-purchase and ongoing post-purchase	<p><b>Right to Clear Information:</b> <i>(Refer Stage 2: Telephone Survey, Section 9.2)</i></p> <ul style="list-style-type: none"> <li>The extent to which consumers understood that nearly all aspects of the financial services industry are covered by legislation to protect them was not well understood, with only 59% agreeing that this is the case</li> <li>80% of consumers generally felt well-informed when making financial decisions</li> </ul>
Awareness of, and ability to, access independent dispute resolution schemes for financial products	<p><b>Independent Dispute Resolution:</b> <i>(Refer Stage 2: Telephone Survey, Section 9.2)</i></p> <ul style="list-style-type: none"> <li>Unprompted awareness of industry specific independent dispute resolution schemes was very low with the Banking Ombudsman the highest at 21%, Insurance 12%, Managed Funds/Superannuation 7% and Financial Planning 3% (although the FPA was mentioned by 11%). However, care should be taken in interpreting this finding as when a customer of a financial institution experiences a problem and makes a complaint, the institution is generally required to provide information about independent dispute resolution schemes (see Section 5.3.1). <i>(Refer Stage 3: In-depth Survey, Section 8.2)</i></li> <li>65% of respondents were at least broadly aware of independent dispute resolution services, and indicated that they would be prepared to use those services (e.g. the Banking Industry Ombudsman) if they made a complaint to a bank which was refused <ul style="list-style-type: none"> <li>54% of respondents specifically mentioned the possibility of contacting an ‘ombudsman’</li> <li>Some groups, particularly those aged 18 to 24, those with less than Year 10 education, students and those with savings under \$5,000 were less likely to refer to any form of independent dispute resolution service in dealing with a dispute with their bank</li> </ul> </li> </ul>
Understanding of consumer responsibilities and the implications of not meeting them, including: “Duty of disclosure for risk insurance” “Safeguarding of PINs for transaction banking”	<p><b>Consumer Responsibilities:</b> <i>(Refer Stage 2: Telephone Survey, Section 9.2)</i></p> <ul style="list-style-type: none"> <li>Consumers understood well that they have a duty of honest disclosure when taking out a financial product or service and may face penalties for not doing so, with 91% agreeing with this</li> <li>89% of card holders understood that they would be responsible for any unauthorised withdrawals from their account if the PIN number was on a piece of paper in their wallet when stolen</li> </ul>

## 5.2.2 Advanced Competence

<b>Advanced Competence</b>	
<b>Objectives</b>	<b>Key Findings</b>
<p>Understanding and ability to check, before handing over money for an investment, that:</p> <p>“Financial products should only be purchased from licensed financial businesses”</p> <p>“Advice should only be sought from persons employed by licensed advisory businesses”</p> <p>“Prospectuses must be lodged with ASIC”</p> <p>“Persons providing advice about financial products must disclose any commissions, important side-benefits and potential conflicts of interest”</p>	<p><b>Regulatory Requirements of Financial Product and Service Providers:</b></p> <p><i>(Refer Stage 2: Telephone Survey, Section 9.2)</i></p> <ul style="list-style-type: none"> <li>• It was “very well” understood (by 93% of people) that providers of financial products and services have a legal duty to provide clear information about their products</li> <li>• 59% of people understood that only licensed financial businesses are allowed to sell financial products. This represents a potential problem, as it potentially exposes people to unlicensed operators</li> <li>• There was an incorrect belief that the Australian Securities and Investments Commission checks the accuracy of all prospectuses with 66% of people considering this to be true.</li> <li>• 72% understood that providers of professional advice about financial products must disclose if they are receiving commission as a result of their advice.</li> </ul>
<p>Awareness of 14-day cooling-off period for insurance</p>	<p><b>Cooling-off period for insurance:</b></p> <p><i>(Refer Stage 2: Telephone Survey, Section 9.2)</i></p> <ul style="list-style-type: none"> <li>– The existence of a 14-day cooling-off period for most types of common insurance products was not widely known, with only 13% of people reporting that this is the case.</li> </ul>

### 5.3 Ability and Confidence to Access Assistance When Things Go Wrong

*Understanding of access to assistance was assessed by a number of measures, including understanding of regulation of financial services, whom to turn to in the event of difficulties with a financial services provider and ability to make complaints effectively. Other aspects covered included awareness of the distinction between different types of financial advisers and the ability to compare different sources of financial advice and information.*

#### **Overview**

*Regulation of Financial Services:* While only 23% recognized that the finance sector is regulated by independent bodies, 83% understood that financial institutions are required to observe specific standards and 21% understood that systems are in place for identifying, managing and measuring risks.

*Who to Turn To:* There was a relatively low level of awareness amongst consumers, when faced with a general question about the range of possible sources of assistance available to them in resolving disputes or other difficulties with financial products or service providers. In a situation where a formal complaint was refused by a bank, 58% would contact an independent dispute resolution body, and 39% would move the account to a different bank. (In practice, where a formal complaint is refused by the bank, the consumer is given information about the banking ombudsman scheme and how to contact it).

*Ability to Make Complaints Effectively:* Forty per cent (40%) of people were not confident about their ability to make a complaint against a bank or financial institution.

*Fee for Service and Commission Based Advisers:* Sixty-nine per cent (69%) of people would prefer to use a fee-for-service adviser, compared with 21% preferring to use an adviser who charges commission. In addition to affordability factors, a key reason given by those preferring a commission-based adviser was the perception that such an adviser would be more motivated to do well with the person's money.

## 5.3.1 Basic Requirements

<b>Basic Requirements</b>	
<b>Objectives</b>	<b>Key Findings</b>
Understanding that the finance sector is regulated	<p><b>Finance Sector Regulation:</b> <i>(Refer Stage 2: Telephone Survey, Section 9.3)</i></p> <ul style="list-style-type: none"> <li>The extent of knowledge of how the Australian finance sector is regulated was low with only 23% of people knowing it is “regulated by independent bodies which monitor financial institutions”. Another 30% of consumers gave “can’t say” as their response from a list of options that were read out</li> </ul>
<p>Understanding of who one can call on to help with more complex issues (e.g. advisers; accountants)</p> <p>Awareness of where/whom to contact if things go wrong (e.g. consumer complaints department of financial institution; consumer association; financial counsellor; ombudsman)</p>	<p><b>Who To Turn To For Assistance with a Problem:</b> <i>(Refer Stage 2: Telephone Survey, Section 9.3)</i></p> <ul style="list-style-type: none"> <li>Overall, a high proportion of consumers were unable to say who they would turn to for assistance with a problem: <ul style="list-style-type: none"> <li>For banking type problems, 21% of people could not say to whom they would turn for assistance with a problem. The ombudsman (banking or unspecified) was mentioned by 34% of consumers</li> <li>For insurance problems, 26% indicated “can’t say”, while 23% mentioned an ombudsman (industry or unspecified)</li> <li>For managed funds/superannuation, 36% of people responded “can’t say”, while 14% mentioned an industry or unspecified ombudsman</li> </ul> </li> <li>Groups below average in knowing about access to assistance included: <ul style="list-style-type: none"> <li>Those aged 18 to 24</li> <li>Those with less than Year 10</li> <li>Students</li> <li>Those with savings/investments under \$5,000</li> </ul> </li> <li>There was a very large gap between the level of knowledge shown by adults overall for access to assistance compared to those in the lowest quintile. The lowest quintile generally had double the level of “can’t say” for most issues compared to the total population, and in making a complaint against a bank or financial institution, only 11% of this group indicated they were confident on this issue compared to 40% of the overall population <i>(Refer Stage 3: In-depth Survey, Section 8.3)</i></li> <li>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</li> <li>If the initial complaint to the bank failed, the option of complaining through various independent bodies would be considered by most respondents</li> <li>18% of people would initially not take any action that could be described as making a complaint – most would simply move to another bank</li> </ul>
Ability to make complaints effectively	<p><b>Effectiveness of Complaints:</b> <i>(Refer Stage 2: Telephone Survey, Section 9.3)</i></p> <ul style="list-style-type: none"> <li>While 59% of consumers indicated that they were either “very confident” or “fairly confident” about their ability to make a complaint against a bank or financial institution, 40% of consumers said that they were either “not very confident” or “not at all confident” <i>(Refer Stage 3: In-depth Survey, Section 8.3)</i></li> <li>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</li> </ul>

<b>Basic Requirements</b>	
<b>Objectives</b>	<b>Key Findings</b>
Awareness of the distinction between financial advisers charging fee-for-service vs. taking commission, and understanding of its implications	<p><b>Financial Advisers – Fee vs. Commission:</b> <i>(Refer Stage 3: In-depth Survey, Section 8.3)</i></p> <ul style="list-style-type: none"> <li>• Most respondents would prefer to use a financial adviser who charges a fee for service, largely on the basis of receiving impartial advice. However, 21% 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</li> </ul>

### 5.3.2 Advanced Competence

<b>Advanced Competence</b>	
<b>Objectives</b>	<b>Key Findings</b>
Understanding that regulation of the finance sector is no guarantee of the safety of all financial products	<p><b>Regulation of Finance Sector:</b> <i>(Refer Stage 3: In-depth Survey, Section 8.3)</i></p> <ul style="list-style-type: none"> <li>• Knowledge that in the current regulatory environment financial institutions are required to observe specific standards was quite high (83%)</li> <li>• 12% could not pick 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</li> </ul>
Ability to assess and compare different sources of financial advice and information	<p><b>Comparing Sources of Financial Assistance:</b> <i>(Refer Stage 3: In-depth Survey, Section 8.3)</i></p> <ul style="list-style-type: none"> <li>• Based on a number of different measures it appears that a sizeable minority of respondents had difficulty assessing and comparing different sources of financial advice and information</li> </ul>
Understanding of the processes and procedures for resolving disputes	<p><b>Resolving Disputes:</b> <i>(Refer Stage 3: In-depth Survey, Section 8.3)</i></p> <ul style="list-style-type: none"> <li>• On the basis of both their awareness of the organisations through which disputes are resolved and also their understanding that complaints of this sort need to be in writing, almost one third (32%) of respondents had a good understanding of the processes and procedures for resolving disputes</li> </ul>

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## 6. PERCEPTIONS OF DIFFICULTIES AND EDUCATION NEEDS

*In addition to those measures covered in the framework, a number of questions were included to identify financial skills gaps by collecting respondents' perceptions of their own difficulties in relation to dealing with finances, and how these may be addressed (it should be noted that these were covered only in the Stage 3 in-depth interview, and therefore in a qualitative way across all demographic groups).*

### **Overview**

*Difficulties in Dealing with Finances:* The majority of respondents, regardless of whether they fall into the problem groups, appear to have some level of difficulty in dealing with their finances. Only 5% of respondents claimed to have no difficulty in dealing with their finances.

The most commonly mentioned difficulty related to people being unable to control their own behaviour and budgeting (mentioned by 21% of people). Other difficulties mentioned often included confusing paperwork (17%), and not earning enough money (17%). The former finding is of particular relevance, given the earlier finding that some groups have difficulties with comprehension of financial statements.

*Measures to Help Prevent or Deal with Finance Difficulties:* Analysis suggests that older people in particular need assistance in identifying measures to assist them with their difficulties in dealing with their finances.

The most commonly mentioned measure to help or prevent difficulties respondents were having in dealing with finances related to controlling their own behaviour and budgeting. Clearer communication from financial institutions was also mentioned often.

*Finance Education Topics Needed and Means of Delivery:* Generally, there was a strong demand for further education, with only 14% considering that they did not need further education in relation to finance. The most common educational need identified was investing (47%), followed by superannuation (20%), budgeting (15%) and taxation (10%).

The most commonly suggested means for delivery of further education were via financial advisers, stockbrokers or accountants, via financial institutions, or via the Internet or TAFE courses.

<b>Essential Skills</b>	
<b>Objectives</b>	<b>Key Findings</b>
To determine financial skills gaps and seek ways to address these needs:  “Difficulties in Dealing with Finances”	<b>Difficulties in Dealing with Finances:</b> (Refer Stage 3: In-depth Survey, Section 11) <ul style="list-style-type: none"> <li>• Only 5% of respondents claimed to not have any difficulties in dealing with their finances</li> <li>• The most common difficulties mentioned were being unable to control their own behaviour/budget (21%), confusing paperwork/ documentation/ contracts (17%), and not earning enough money (17%)</li> </ul>
“Measures to help prevent or deal with Difficulties”	<b>Help in Preventing or Dealing with Difficulties:</b> (Refer Stage 3: In-depth Survey, Section 11) <ul style="list-style-type: none"> <li>• 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 institution (16%), earning more money (15%) and advice from the financial advisers (14%)</li> <li>• 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</li> </ul>
“Education Needed in Relation to Finance”	<b>Education Needed on Finance:</b> (Refer Stage 3: In-depth Survey, Section 11) <ul style="list-style-type: none"> <li>• 47% of respondents felt they needed further education in investing, followed by 20% mentioning superannuation, 15% budgeting and 10% taxation</li> <li>• Only 14% of respondents felt they needed no further education</li> <li>• The most common means of delivery suggested for further education were via a financial adviser/ stockbroker/ accountant (27%), and via communications from financial institutions (26%). Internet (22%) and TAFE courses (17%) also received regular mentions</li> </ul>

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## APPENDIX A – METHODOLOGY

### A.1 Overview

The research was divided into three broad stages:

- Stage 1: **Stakeholder Survey** – During this stage an initial draft framework for adult financial literacy in Australia was refined, supplemented and developed in response to feedback obtained from in-depth interviews with 33 key stakeholders.
- Stage 2: **Telephone Survey** – Following extensive development and testing of the questionnaire, a telephone survey covering such aspects of adult financial literacy as could be investigated over the phone was conducted with a national random sample of 3,548 adults.
- Stage 3: **In-depth Interview Survey** – A central location survey incorporating both a self-completion questionnaire and an in-depth interview was conducted with a sample of 202 respondents in Sydney and Melbourne, covering such aspects of adult financial literacy as could not be investigated over the phone, as well as perceptions of gaps in financial understanding and how those gaps could be addressed.

### A.2 Stage 1: Stakeholder Survey

Interviews were conducted with 33 key stakeholders from the following categories within the finance sector:

- Consumer groups: 9
- Dispute resolution: 6
- Educators: 5
- Industry associations: 5
- Industry experts: 3
- Regulators/Government: 3
- Media: 2

A list of potential key stakeholders to be approached for interview was developed by the Steering Committee, and sought to cover a very broad representation of people with considerable experience and knowledge of the ways in which people's financial literacy (or the lack of it) may affect their ability to deal with financial products and services in the broadest sense.



The great majority of these interviews were conducted face-to-face at respondents' premises and were up to 60 minutes in duration. In a few cases it was only possible to conduct the interview by phone or to collect comments on the framework by fax or e-mail. All interviews were conducted by senior researchers from Roy Morgan Research.

Where appropriate, the interviews were audio-recorded to assist in gaining a complete understanding of the points raised by each stakeholder.

### **A.3 Stage 2: Telephone Survey**

#### **A.3.1 Sample**

The telephone survey sample was designed so as to allow for a high degree of statistical reliability when comparing the results of those sub-groups considered likely to be of importance for this particular topic, such as the unemployed, single parents or retirees.

A random representative sample of 3,500 adult Australians was recommended, so as to provide confidence intervals of less than  $\pm 2\%$  at the 95% confidence level. (A total of 3,548 interviews were achieved.)

The sampling frame used for the survey was the latest available electronic white pages (November 2001 edition of Australia On Disk). The sample was stratified by State, and by metropolitan/non-metropolitan area within each State. (For stratification purposes, the ACT was combined with NSW and the NT was combined with SA.) The number of interviews conducted in each stratum was proportional to population.

Within each stratum, the sample was further controlled by setting broad age/sex quotas proportional to the actual population distribution of each stratum. Following the survey the data were post-weighted by age, sex and area to ensure that any slight variations due to differential response rates, etc, were accounted for prior to analysis.

Within each randomly selected household one person aged 18 years or over was interviewed.

The achieved sample matched the age, sex and area characteristics of the Australian population very closely. Further details on the unweighted characteristics of the sample are provided in the Stage 2 Telephone Survey Report. Of the key characteristics examined, the sample was acceptably close to the pattern for the Australian population overall.

### **A.3.2 Questionnaire Development**

The framework of financial literacy developed at the conclusion of Stage 1 was a considerably longer and more complex document than the one upon which it had been originally based. Further, it had been recognised from the outset of the project that a telephone survey would not be appropriate for measuring all aspects of financial literacy. Hence, the development of the telephone questionnaire was a lengthy, iterative process, involving considerable discussion, pre-testing and qualitative testing, prior to a final pilot test. Many questions were revised during this process, and several were dropped from this phase with the intention of being covered in the subsequent in-depth stage of the overall study.

The final telephone questionnaire was significantly longer than originally envisaged, reflecting largely the increased length and complexity of the final framework in comparison to the original draft on which it had been based. This resulted in a questionnaire of around 145 finance questions and 25 demographic questions.

With a survey of this size and complexity it was necessary to minimise interview duration by following a schedule where not everyone was asked every question (the full questionnaire is shown in Appendix 4 of the Stage 2 Telephone Survey Report). Core questions were asked of all respondents, whilst other questions were either only asked of people for whom such questions were relevant (e.g. those with a credit card), or randomly allocated to a 50% sub-sample of respondents.

The questionnaire development process included initial pre-testing, qualitative in-depth testing (adopting a cognitive interviewing approach) with approximately 30 respondents, and subsequent pilot testing, also with a sample of approximately 30 respondents.

### **A.3.3 Fieldwork**

Following pre-testing, qualitative testing and piloting, the Stage 2 Telephone Survey of the Adult Financial Literacy Survey was conducted from Friday 23 August to Sunday 15 September 2002 via Computer Assisted Telephone Interviewing (CATI). Interviewing was conducted on weekday evenings and weekends among persons aged 18 years and over. Completed interviews numbered 3,548, with an average interview duration of just over 24 minutes.

### **A.3.4 Analysis Approach**

In order to produce concise and consistent analysis of the significant amount of information and issues raised in this stage of the research, an approach to analysis was used which best identified the distribution of financial literacy and illiteracy, and which identified demographic groups which were above and below average in the various measures of financial literacy examined within that stage.

In addition, in order to help understand the distribution of financial literacy throughout the community, an overall measure of financial literacy for all respondents was required. The distribution of this single overall measure was then examined, and the characteristics of those people consistently scoring lower or higher than average on this measure were closely examined. Section 5.1 of the Stage 2 Telephone Survey Report (Financial Literacy Decile and Quintile Analysis) contains further details and results of this analysis.

## **A.4 Stage 3: In-depth Interview Survey**

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 1–1½ hours. The fieldwork was conducted between 29 January and 2 February 2003.

### **A.4.1 Sample**

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 was offered to encourage participation in the exercise.

The sample for Stage 3 comprised a representative sample of the adult population in Melbourne and Sydney. 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.

### **A.4.2 Questionnaire Development**

Both the self-completion questionnaire and the in-depth interview form were developed by Roy Morgan Research and involved an extensive process of internal review and testing and consultation with the Steering Committee.

The final 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 final in-depth interview form 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 a senior, experienced interviewer.

Many questions in both instruments 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 instruments was based on the framework and investigated aspects of adult financial literacy, which were too complex to attempt via a telephone interview.

#### **A.4.3 Analysis Approach**

The Stage 2 Telephone Survey (with a sample of 3,548 respondents) had already identified a number of groups who performed poorly on criteria relevant to their needs.

Whilst the Stage 3 In-depth Interview Survey comprised a sample of only 202 respondents, the results verified the findings from Stage 2. Analysis of the Stage 3 In-depth Interview Survey therefore primarily focused on the performance of the key low financial literacy groups, including several groups that were marginally poor performers in Stage 2.

## APPENDIX B – ADULT FINANCIAL LITERACY FRAMEWORK

<b>Mathematical Literacy and Standard Literacy</b>		
	<b>Basic requirements</b>	<b>Advanced competence</b>
<b>Essential mathematical, reading and comprehension skills</b>	<ul style="list-style-type: none"> <li>• Ability to add, subtract, multiply and divide (with or without calculator)</li> <li>• Ability to understand and calculate percentages (with or without calculator)</li> <li>• Ability to read and comprehend basic English</li> <li>• Understanding of financial terms</li> </ul>	<ul style="list-style-type: none"> <li>• Ability to understand compound interest</li> <li>• Ability to understand averages</li> </ul>

<b>Financial Understanding</b>		
	<b>Basic requirements</b>	<b>Advanced competence</b>
<b>Understanding of what money is and how money is exchanged</b>	<ul style="list-style-type: none"> <li>• Understanding of the range of ways to pay for goods and services, including:               <ul style="list-style-type: none"> <li>– Cash</li> <li>– Cheques</li> <li>– Money orders</li> <li>– Credit cards</li> <li>– Debit cards</li> <li>– Store cards</li> <li>– EFTPOS</li> <li>– Direct debit</li> <li>– Loans</li> <li>– Laybys</li> </ul> </li> <li>• Ability to compare the advantages and disadvantages of different forms of payment</li> </ul>	<ul style="list-style-type: none"> <li>• Understanding of the implications and key features of unsecured credit and debt, including both fixed:               <ul style="list-style-type: none"> <li>– Personal loans</li> <li>– Lease</li> <li>– Hire purchase</li> </ul>               ...and revolving:               <ul style="list-style-type: none"> <li>– Credit cards</li> <li>– Store cards</li> <li>– Overdrafts</li> <li>– Other “line of credit” facilities</li> </ul> </li> <li>• Understanding of ways to compare interest rates and the effects of fees and other charges</li> <li>• Understanding that some loans and purchase agreements are secured whilst others are unsecured, and the implications for default</li> <li>• Understanding of the concept and implications of personal guarantor and co-borrower arrangements</li> <li>• Understanding of how credit records are generated and the implications of bad records for future borrowing</li> </ul>
<b>Understanding of where money comes from and goes</b>	<ul style="list-style-type: none"> <li>• Ability to read a pay-slip</li> <li>• Recognition of household expenses and regular financial commitments</li> </ul>	<ul style="list-style-type: none"> <li>• Understanding of how companies and other organisations are financed, including shares</li> </ul>

<b>Financial Competence</b>		
	<b>Basic requirements</b>	<b>Advanced competence</b>
<b>Understanding of the main features of basic financial services</b>	<ul style="list-style-type: none"> <li>• Awareness of the availability and basic features of:               <ul style="list-style-type: none"> <li>– Basic banking</li> <li>– Electronic banking (e.g. ATMs; EFTPOS; telephone banking; Internet banking)</li> <li>– Superannuation</li> <li>– Other investments (e.g. shares; term deposits; managed investments; life insurance with an investment element)</li> <li>– Risk insurance products (e.g. house and contents insurance, including coverage and exclusions; health insurance)</li> </ul> </li> <li>• Awareness of the sorts of fees that apply to these services</li> <li>• Awareness of the trade-off between fees and return</li> <li>• Awareness that one should shop around before purchasing financial products</li> </ul>	<ul style="list-style-type: none"> <li>• Ability to make strategic use, to maximise personal financial advantage, of:               <ul style="list-style-type: none"> <li>– Basic banking</li> <li>– Electronic banking (e.g. ATMs; EFTPOS; telephone banking; Internet banking)</li> <li>– Superannuation</li> <li>– Other investments (e.g. shares; term deposits; managed investments; life insurance with an investment element)</li> <li>– Risk insurance products (e.g. house and contents insurance, including coverage and exclusions; health insurance)</li> </ul> </li> </ul>
<b>Understanding of superannuation</b>	<ul style="list-style-type: none"> <li>• Understanding that superannuation sets aside money for retirement, and involves compulsory employer contributions</li> <li>• Understanding that personal contributions can be made to superannuation as an option</li> <li>• Ability to check that an employer has been making compulsory contributions to superannuation</li> </ul>	<ul style="list-style-type: none"> <li>• Ability to check records (e.g. Annual Statements) from superannuation funds to determine whether current contribution levels and % returns are appropriate for anticipated needs</li> <li>• 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</li> <li>• Understanding that taxation can be minimised through personal contributions to superannuation vs. other forms of investment</li> </ul>
<b>Understanding of mortgages</b>	<ul style="list-style-type: none"> <li>• Understanding of fixed interest rates vs. variable interest rates</li> <li>• Understanding of terms and conditions for early termination and other variations</li> </ul>	<ul style="list-style-type: none"> <li>• Ability to use property for personal financial advantage (e.g. purchase investment property)</li> </ul>

<b>Financial Competence (continued)</b>		
	<b>Basic requirements</b>	<b>Advanced competence</b>
<b>Ability to understand financial records and appreciation of the importance of reading and retaining them</b>	<ul style="list-style-type: none"> <li>• Ability to check accuracy of official financial records, such as:               <ul style="list-style-type: none"> <li>– Bank statements</li> <li>– ATM service statements</li> <li>– Credit card statements</li> <li>– Superannuation statements</li> <li>– Insurance policies and renewal notices (e.g. understand coverage, exclusions and duty of disclosure)</li> <li>– Loan documentation</li> </ul> </li> <li>• Understanding of the need to keep records</li> </ul>	<ul style="list-style-type: none"> <li>• Ability to reconcile a bank statement to allow for items not yet reconciled</li> <li>• Ability to read an Annual Statement from a superannuation fund to see the asset classes invested in and % return over time</li> <li>• Understanding of official financial records, such as prospectuses and Annual Statements for investment products</li> <li>• Understanding of the need to monitor performance of investments over time</li> </ul>
<b>Attitudes to spending money and saving</b>	<ul style="list-style-type: none"> <li>• Understanding of the purpose of saving</li> <li>• Understanding of why you need to save for retirement</li> <li>• Understanding that there are a variety of places and ways in which to save money</li> <li>• Understanding of how to use budgets to plan and control personal spending</li> <li>• Ability to forecast and recognise the impact of irregular major financial outlays (e.g. vehicle registration; holidays)</li> </ul>	<ul style="list-style-type: none"> <li>• Ability to budget strategically to make payments as late as possible and keep money earning interest as long as possible</li> </ul>
<b>Awareness of risks associated with some financial products and appreciation of the relationship between risk and return</b>	<ul style="list-style-type: none"> <li>• Understanding of the purpose of insurance</li> <li>• Awareness that both savings and borrowing are offered on differing terms and interest rates that vary over time</li> <li>• Awareness that high return investments are also likely to involve high risk</li> <li>• Understanding that market values can fall as well as rise</li> <li>• Awareness that if it sounds “too good to be true”, then it probably isn’t true</li> <li>• Awareness of the dangers of under-insurance</li> <li>• Awareness that individuals are responsible for debts of spouse/other family members with whom they have a joint financial product</li> <li>• Understanding of the value of diversification when investing</li> </ul>	<ul style="list-style-type: none"> <li>• Ability to identify potential risks and determine whether they need to be eliminated or mitigated against</li> <li>• Understanding of managed investments</li> <li>• Understanding of guarantees on investments</li> <li>• Understanding that short-term ups and downs in value are less important for long-term investments</li> <li>• Understanding of currency issues, including the impact of fluctuations in exchange rate for the Australian dollar</li> </ul>

<b>Financial Responsibility</b>		
	<b>Basic requirements</b>	<b>Advanced competence</b>
<b>Ability to make appropriate personal life choices about financial issues</b>	<ul style="list-style-type: none"> <li>• Understanding of the difference between long-term and short-term needs</li> <li>• Ability to prioritise different needs to balance income and expenditure within financial capacity</li> <li>• Understanding of the difference between good (manageable and planned) debt and bad (unmanageable and unplanned) debt</li> <li>• Ability to make informed choices when experiencing a drop in income</li> </ul>	<ul style="list-style-type: none"> <li>• Ability to assess the financial implications of personal life choices in terms of career choices and life-long learning opportunities</li> </ul>
<b>Understanding of consumer rights and responsibilities</b>	<ul style="list-style-type: none"> <li>• Understanding that consumers do have rights</li> <li>• Understanding that consumers have a right to clear information about products both pre-purchase and ongoing post-purchase</li> <li>• Awareness of and ability to access independent dispute resolution schemes for financial products</li> <li>• Understanding of consumer responsibilities and the implications of not meeting them, including: <ul style="list-style-type: none"> <li>– Duty of disclosure for risk insurance</li> <li>– Safeguarding of PINs for transaction banking</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• Understanding and ability to check, before handing over money for an investment, that: <ul style="list-style-type: none"> <li>– Financial products should only be purchased from licensed financial businesses</li> <li>– Advice should only be sought from persons employed by licensed advisory businesses</li> <li>– Prospectuses must be lodged with ASIC</li> <li>– Persons providing advice about financial products must disclose any commissions, important side-benefits and potential conflicts of interest</li> </ul> </li> <li>• Awareness of 14-day cooling-off period for insurance</li> </ul>
<b>Ability and confidence to access assistance when things go wrong</b>	<ul style="list-style-type: none"> <li>• Understanding that the finance sector is regulated</li> <li>• Understanding of who one can call on to help with more complex issues (e.g. advisers; accountants)</li> <li>• Awareness of where/whom to contact if things go wrong (e.g. consumer complaints department of financial institution; consumer association; financial counsellor; ombudsman)</li> <li>• Ability to make complaints effectively</li> <li>• Awareness of the distinction between financial advisers charging fee-for-service vs. taking commission, and understanding of its implications</li> </ul>	<ul style="list-style-type: none"> <li>• Broad understanding of the level of regulation of the finance sector</li> <li>• Understanding that regulation of the finance sector is no guarantee of the safety of all financial products</li> <li>• Ability to assess and compare different sources of financial advice and information</li> <li>• Understanding of the processes and procedures for resolving disputes</li> </ul>



**APPENDIX C – KEY STAKEHOLDERS IN STAGE 1**

<b>NAME</b>	<b>POSITION</b>	<b>ORGANISATION</b>
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