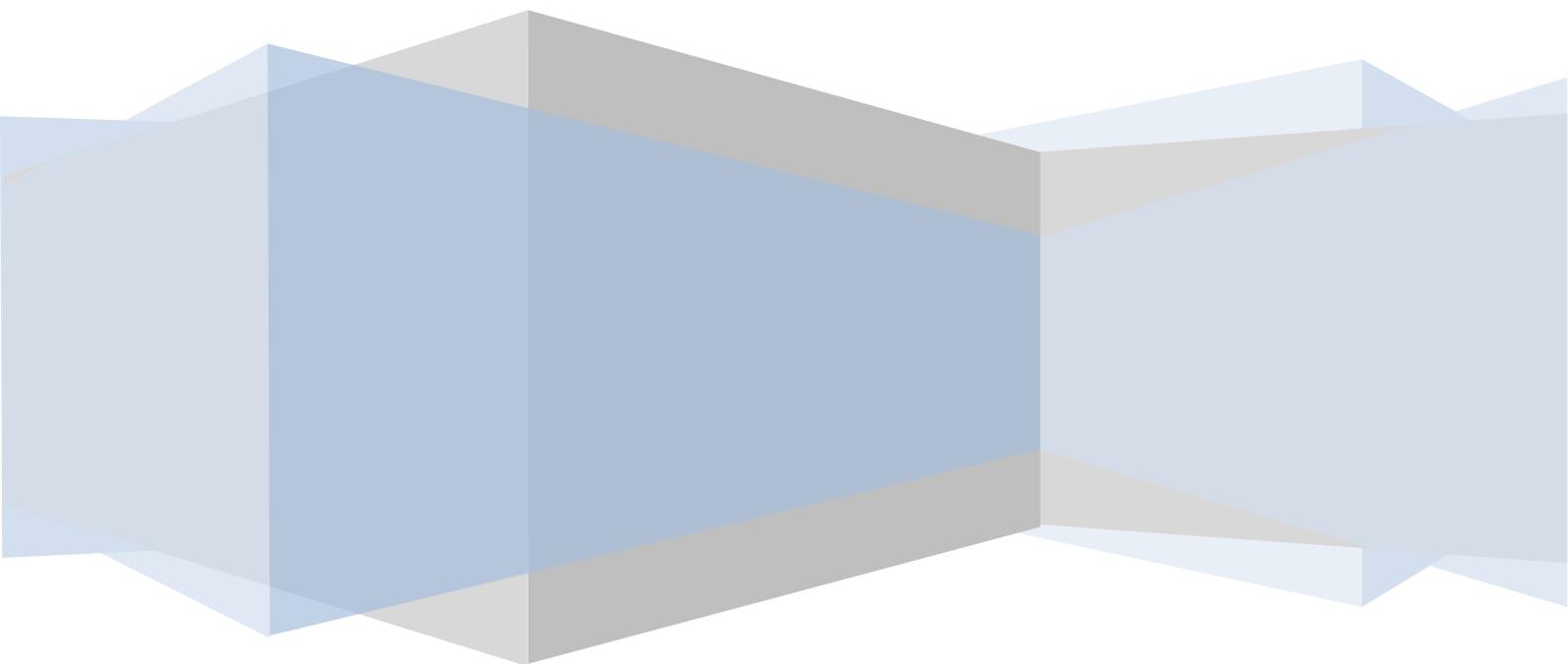


MoneyWhizz

Adult Financial Literacy

An analysis

Frank Conway



State of Financial Literacy

Among

Adult Population

In Ireland

Frank Conway

January 2016



INTRODUCTION - Across the globe, advances in financial technology are severing the traditional links between how we earn and manage our cash. Service providers such as traditional banks to more nimble start-ups means that our fingers and not our feet are increasingly central to how we manage our cash on a day-by-day basis. These range from paying bills through mobile apps to securing funding through more innovative crowd-based services.

Within society, we are becoming less dependent on cash. New services from Apple, Google and Samsung positioning such brands central in cash management as '*tapping*' and '*dipping*' of near field communications (NFC)-enabled devices replace traditional cash registers. In fact, a debate is emerging as to the role of cash along with its need. In some countries, cash use is rapidly disappearing as services offered from privately-owned companies including credit card companies, mobile phone service providers, mobile phone manufactures as well as application developers replace the role that was once the domain of the state.

There is little doubt that the convenience of these new services makes life easier for many. But there is also a growing disconnect; our money is becoming less and less visible. This is especially important when it comes to the management of our cash. Unfortunately, how we acquire money has not changed in millennia; it must be earned. And this is the critical point. Without visibility, we are more likely to become disconnected from money management that is central to our long-term financial well-being.

Why financial knowledge matters

Financial skills matter for a number of reasons, not least because it empowers families make more informed financial decisions. But of critical importance is the fact that our long-term financial well-being will be increasingly dependent on our personal financial skills. With greater life expectancy coupled with the demise of defined pension schemes, how well off we will be in our post-employment lives will be a product of our life-long relationship with money. On this point, it is critical families implement '*family budget time*', develop a financial plan, develop an informed understanding of personal spending habits, master the detail of how they spend their after-tax income and clearly understand their financial rights for when things go wrong. More than ever, the financial well-being of families will be highly dependent on their own personal efforts.

In this survey, MoneyWhizz has sought to establish some basic understandings of how people understand essential financial concepts.

Key findings:

- Almost half of respondents (47%) failed to correctly identify an appropriate use of credit where it could be used for personal advancement (Q. 9).
- Over six-in-ten people (64%) failed to interpret the correct situation where inflation would have the most negative impact on personal finances. (Q. 7).
- One-in-three (31%) failed to identify the appropriate level of Life protection for specific life stages (Q. 1).
- One-in-five (20%) failed to correctly identify which information is available on a personal credit report (Q. 2).
- Half of respondents (45%) incorrectly identified the most suitable place for short-term savings (Q. 8).
- Four-in-ten (41%) incorrectly identified the best means of managing their money to counter periods of high inflation (Q. 10).
- One-in-four (26%) are prepared to borrow to pay for goods and services, even in a situation where they already have savings on hand earning little or no interest (Q.9).

On the positive side:

- A majority of respondents (93%) correctly identified the negative impact inflation has on personal savings where the rate of inflation is greater than the rate of interest paid.
- Interestingly, an overwhelming majority (99%) of respondents correctly identified that stocks are uninsured (Q. 4).
- A majority of respondents (93%) correctly identified that pension contributions offer positive tax benefits even though a cohort incorrectly answered that private pensions have no tax liability whatsoever. Private pensions have various thresholds over which tax is applicable (Q. 6).

Overall, the general level of financial literacy is below where it should be if consumers are expected to make informed financial decisions. It is imperative that consumers are aware of how they would be impacted during periods of high inflation, have an in-depth knowledge of tax thresholds on their private pensions and develop a capacity to retire with sufficient financial resources in place to sustain them. Additionally, families entering a period of high cost during their family life-cycle should ensure they have adequate financial protections in place to provide them and their loved ones with adequate financial cover if and when events arise. There are also some worrying and significant gaps in basic financial skills, and this is especially highlighted where over one-in-four would be prepared to borrow at high cost instead of using savings where they may be earning little or no interest payments.

Frank Conway, Founder of MoneyWhizz – the financial literacy initiative said: “Unfortunately, this survey reveals that many adults have important knowledge gaps across key areas of personal financial awareness which can have massively negative implications for their long-term financial well-being”

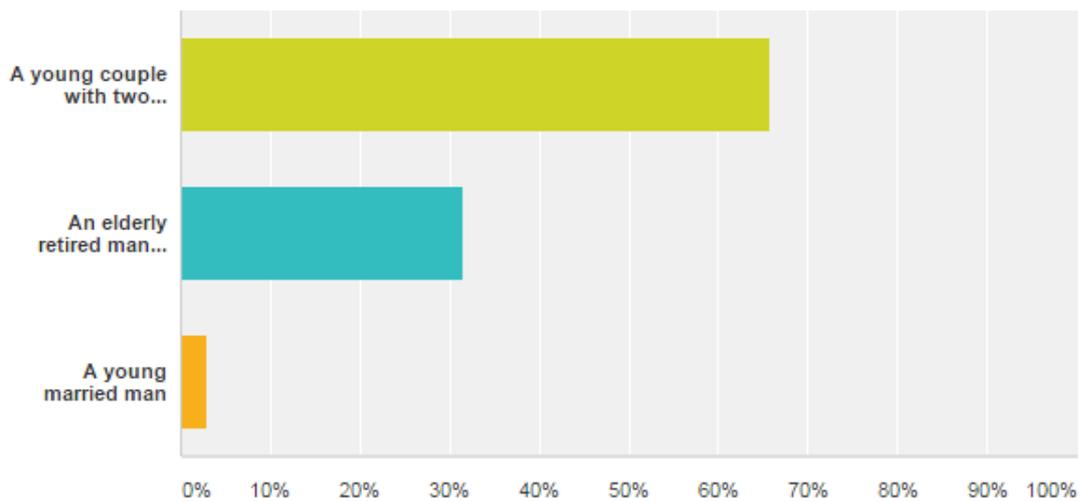
He added: “It is vital that financial education and personal budgeting is introduced at an early level, especially in schools as an essential life skill.”

Survey Questions, Answers and Response Interpretations.

Q. 1 Who would require the highest amount of life insurance if each of the following persons had the same amount of take home pay?

The correct answer is number 1. A young family with two children will have the greatest need for adequate Life protection in order to meet the significant financial needs of the young, growing family in the event of a sudden loss of a parent (and income earner).

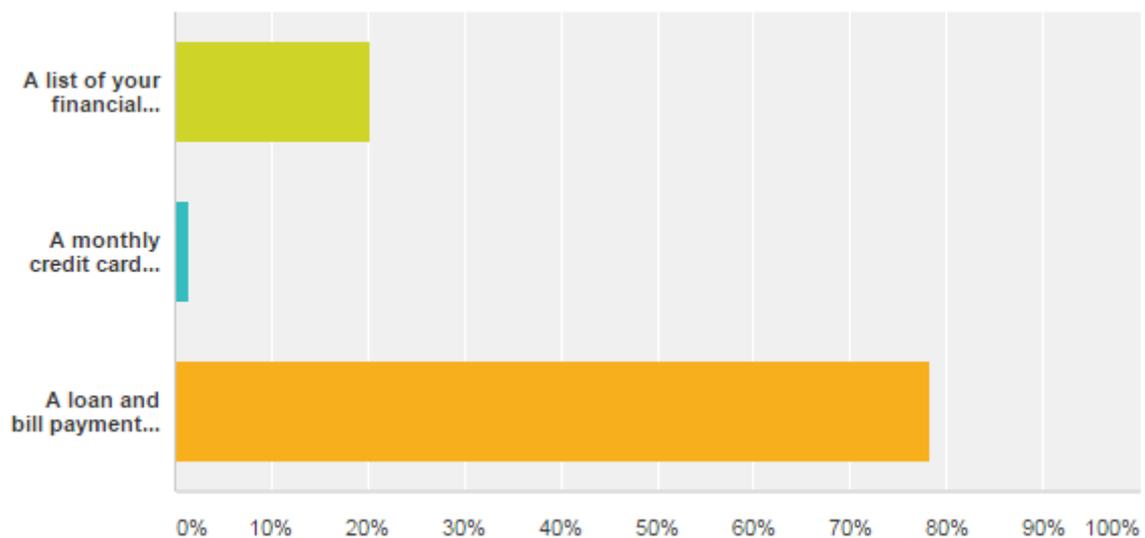
Answer Choices	Responses
▼ A young couple with two children	65.71%
▼ An elderly retired man whose wife is also retired	31.43%
▼ A young married man	2.86%



Q.2 - What is a personal credit report?

The correct answer is number 3. A personal credit report records how we manage the repayment of a formal credit arrangement such as a personal loan or mortgage. It does not include personal financial assets. At present, personal credit information is managed through the Irish Credit Bureau but this arrangement is currently being transferred to a new Central Credit Register. Banks, Credit Unions and other specific credit providers (including local authorities) report consumer credit information to the Irish Credit Bureau.

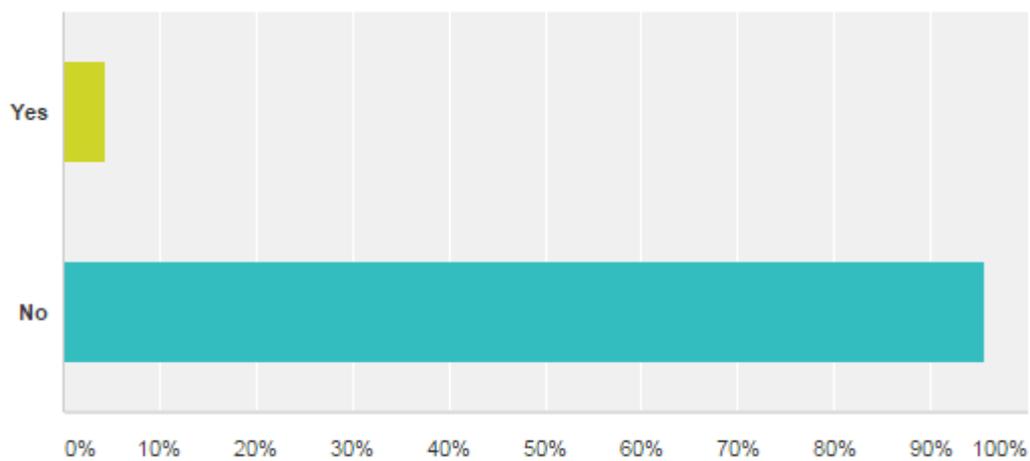
Answer Choices	Responses
▼ A list of your financial assets and liabilities	20.29%
▼ A monthly credit card statement	1.45%
▼ A loan and bill payment history	78.26%



Q.3 - Will your savings have at least as much buying power in a year's time if the interest rate you get on your savings is 3% and the inflation rate is at 5%?

The correct answer is identified by the majority of respondents. Inflation can have a devastating and negative impact on personal savings and personal wealth over the long term. This is one reason why those planning their long-term finances must develop them factoring in inflation risk.

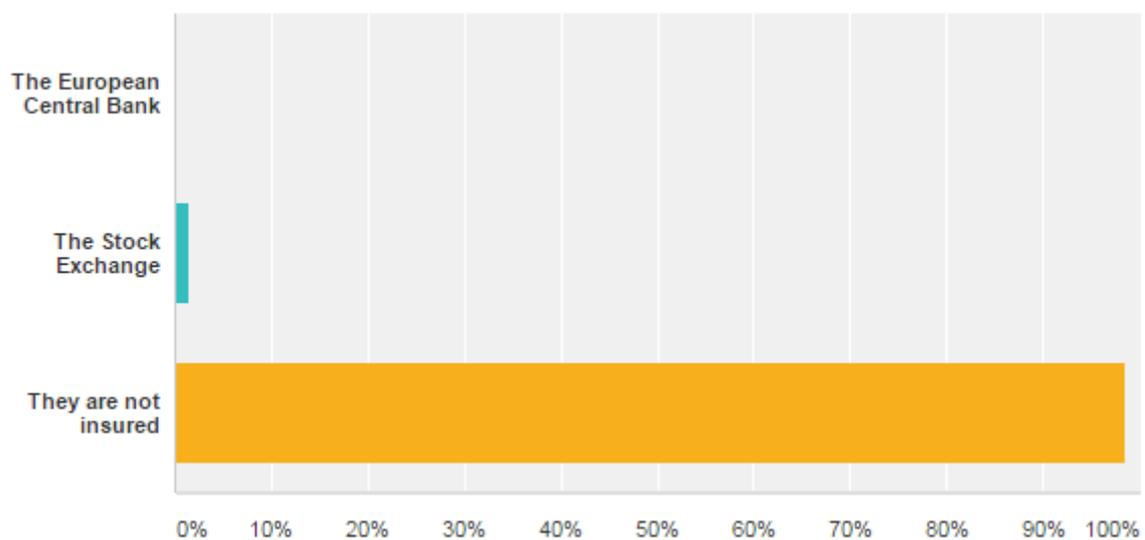
Answer Choices	Responses
Yes	4.29%
No	95.71%



Q.4 - Stocks on the stock market are insured by:

The correct answer is identified by the majority of respondents. Stocks (or Equities) are among the highest risk investments classes available to the general public. Stock values rise and fall constantly and will be impacted by a wide range of factors including sector risks, economic risks and so forth. It is imperative consumers conduct adequate research to attain a strong understanding of the various risks associated with individual stock investing before parting with their cash. In fact, it is vital that all consumers have a grounded understanding of personal investing risks regardless of whether they opt for self-direct investing or do so through a professional adviser.

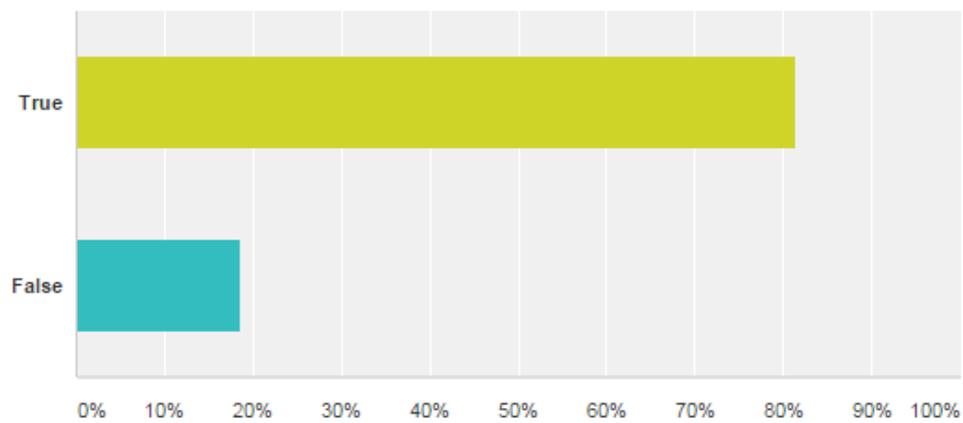
Answer Choices	Responses
The European Central Bank	0.00%
The Stock Exchange	1.43%
They are not insured	98.57%



Q. 5 - By using unit pricing at the supermarket, you can easily compare the cost of any brand and any package size;

The correct answer is 1. Unit pricing is designed to provide consumers with a fast and efficient means of comparing prices across a range of goods.

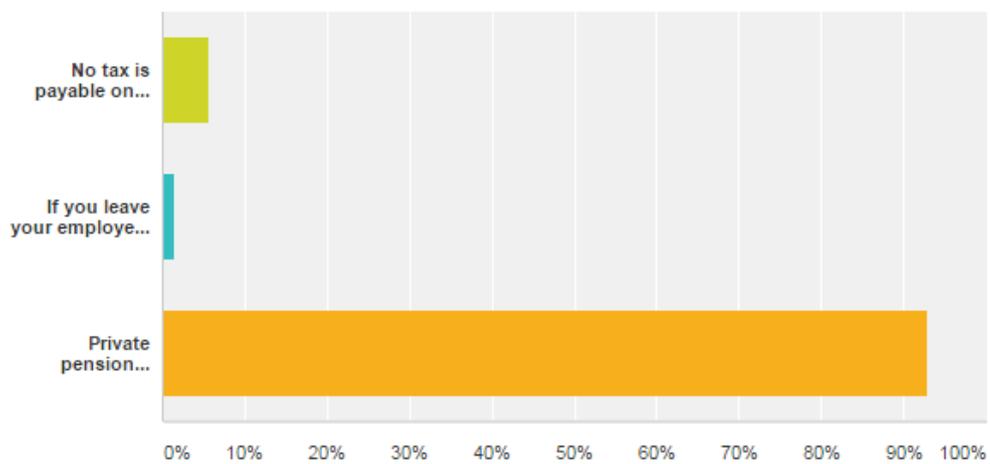
Answer Choices	Responses
True	81.43%
False	18.57%



Q. 6 - If you have a private pension plan, which one of the following is correct?

The correct answer is number 3. Private pension contributions do offer tax benefits as contributions are tax efficient. However, private pensions offer tax-free benefits to a point, over which taxes are applied.

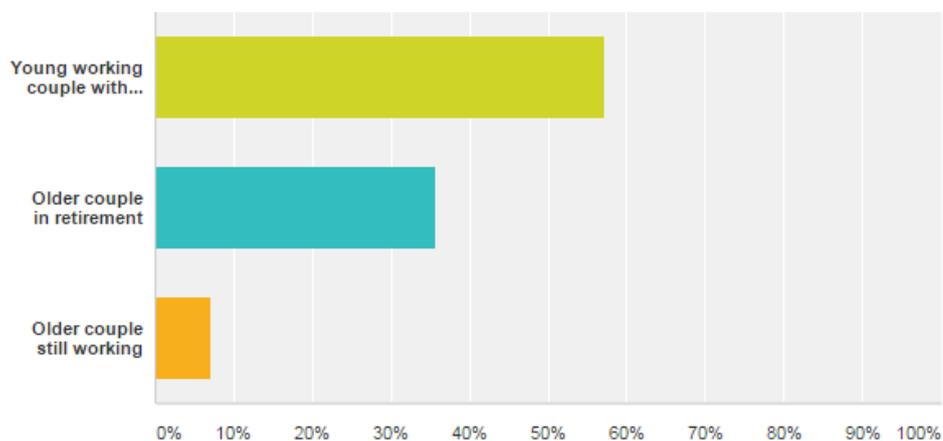
Answer Choices	Responses
▼ No tax is payable on private pension accounts	5.71%
▼ If you leave your employer, they retain your pension	1.43%
▼ Private pension contributions offer tax benefits	92.86%



Q. 7 - Which group would have the biggest problem during periods of high inflation that lasts several years?

The correct answer is 2. **Inflation** is a sustained increase in the general price level of goods and services in an economy over a period of time. When the price level rises, each Euro buys fewer goods and services. For those in retirement, inflation poses the most significant financial risk since they are on fixed incomes and will no means to increase their income to offset the impact of inflation.

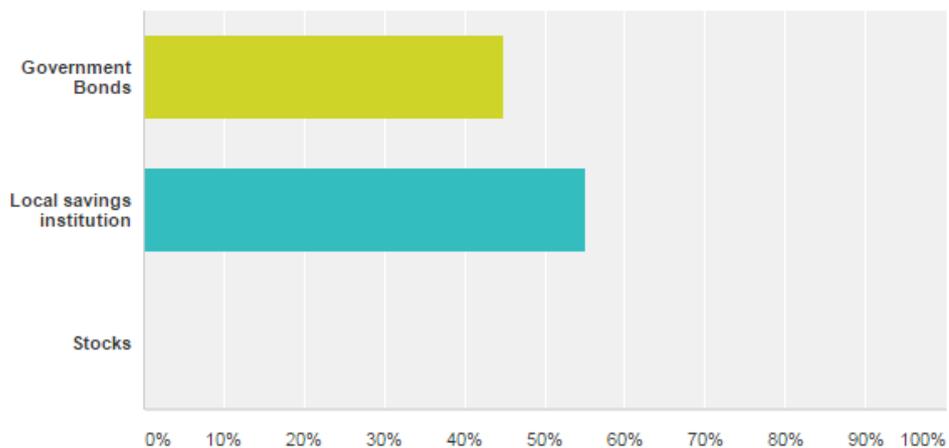
Answer Choices	Responses
Young working couple with children	57.14%
Older couple in retirement	35.71%
Older couple still working	7.14%



Q. 8 - Mary has saved €12,000 for her post-secondary education expenses by working part-time. Her plan is to start school next year and she needs all of the money she saved. Which of the following is the safest place for her savings for school?

The optimum answer is 2. Mary will need her savings in short order and should choose an option that does not restrict her access to her money in any way when she needs it. A local savings institution will provide Mary with the most flexible option of accessing her cash when she needs it. While various Government bonds also offer a safe savings option, they are typically designed as long-term savings options with access restrictions and therefore not suited to no-notice access customers.

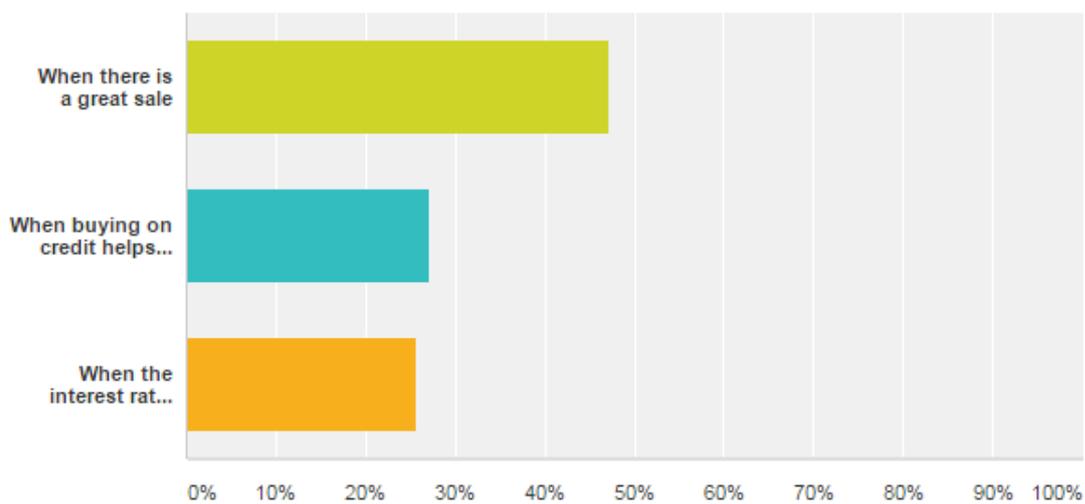
Answer Choices	Responses
Government Bonds	44.93%
Local savings institution	55.07%
Stocks	0.00%



Q. 9 - Under which of the following circumstances would it be financially beneficial to borrow money to buy something now and repay it with future income?

The correct answer is 2. Borrowing money costs families dearly through interest charges. In this question, while there may be some advantages to buying goods that are discounted through sales, the payment of interest will drive up the cost of those goods in the long term, especially if credit cards and moneylenders are used. However, not all debt is bad. In situations where debt can be put to a positive and beneficial use that lead to a possible increase in personal income, in such cases, a debt can make a lot of sense financially. Of particular concern though is that over one-in-four would use high cost debt over personal savings even where the interest on those savings is marginal.

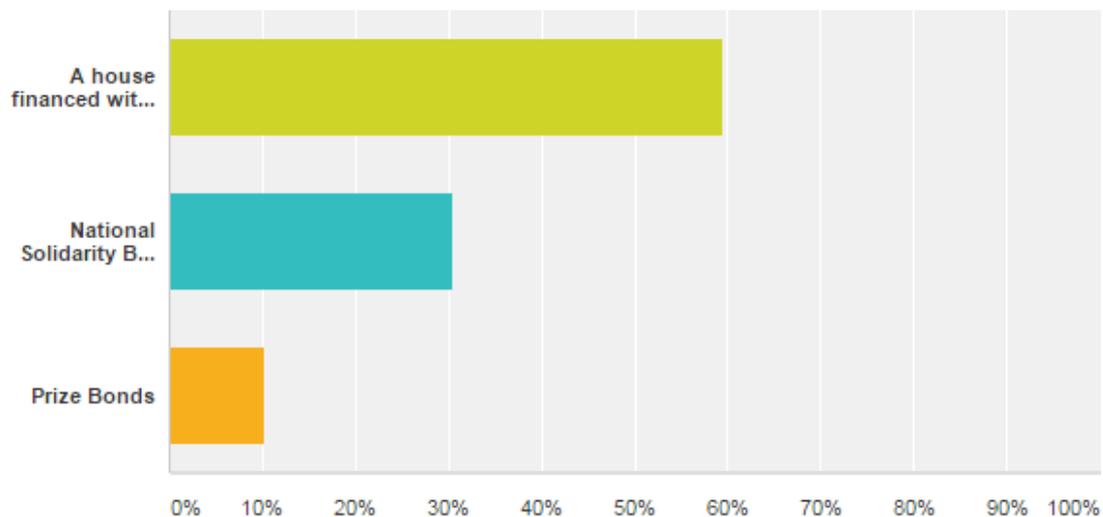
▼ When there is a great sale	47.14%
▼ When buying on credit helps someone attain a better paying job	27.14%
▼ When the interest rate on a loan is greater than the interest rate on a savings account	25.71%



Q. 10 - Which of the following types of investments would best protect the purchasing power of a family's savings in the event of a sudden increase in inflation?

The correct answer is 1. Typically, during periods of high inflation, the cost of mortgages and other loans rise as a means to offsetting consumer spending and limiting the increase in inflation. For those with fixed rate mortgages, monthly repayments will not increase whereas those with variable rate mortgages will typically see monthly repayments rise. In this case, those with fixed rate mortgages can protect their finances through the stability of a predictable monthly repayment. A national solidarity bond on the other hand will not deliver holders any increase in interest payments and will effectively see income reduce in real terms where inflation rises.

Answer Choices	Responses
▼ A house financed with a fixed-rate mortgage	59.42%
▼ National Solidarity Bond	30.43%
▼ Prize Bonds	10.14%



END.

Survey Methodology: This survey was conducted between December 2015 and January 2016 from online participants. A total of 201 valid responses were completed.

About MoneyWhizz – MoneyWhizz delivers a full range of financial planning seminars across Ireland including Personal Financial Planning, Personal Investing, Retirement Planning, Protecting against Fraud and Financial Exploitation and Home Purchase. A Special Schools Financial Education curriculum has been developed which is currently being included by teachers and schools as a financial education resource. This special schools programme is aligned to OECD financial literacy specifications.

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