

Media Statement

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Personal Financial Health - The Prognosis for 2006

By the Retirement Commissioner Diana Crossan

Introduction

The 2006 Christmas holiday stood out to me because there were just as many conversations on the beach, in the bach, or over dinner, about personal finances as there were about the windy weather.

It seemed everyone had a story to tell about rising house prices, or were wondering what the Reserve Bank announcements meant and whether they should buy or sell their house now.

The conversations are a small demonstration of what is likely to become the main theme for personal finance for New Zealanders this year: the mounting pressure for people with high levels of debt to move their finances from the red into the black.

Economist and commentators are debating whether, and by how much, the economy will slow down this year. Recent business confidence surveys show that optimism is currently very low.

While some households are managing debt well, others are struggling. Westpac has estimated the average household spent 14 per cent more than it earned in 2005.

In these circumstances, the holiday conversations indicate that many people are wise to the risks that economic conditions might pose to their personal finances.

But what they are looking for are clues on how to get better at managing their money. The Retirement Commission helps people do that vital financial planning. The Commission's main aim is for New Zealanders to be financially well prepared for retirement and that means getting financially sorted during working life.

This can be a challenge in the current environment. Easy access to debt, unlimited access to consumer goods and a throwaway mentality means that many people from

all walks of life find it easier to spend money these days, than people have in the past.

People living only for today and without a longer term financial focus may find themselves in difficulty later in life, and possibly over the next few years if economic conditions change against them. High consumption today will be at the expense of less to spend later, and debt payments could weigh heavily on some household budgets.

2006 - what will it bring?

The market

Dr Alan Bollard has repeatedly called for New Zealanders to reduce debt by easing up on credit card debt and to moderate investment in an "over-inflated" housing market. Pre and post-Christmas spending is yet to be fully evaluated but initial indications are mixed with some retailers experiencing a downturn in spending while others enjoying an increase.

The pundits predict the housing market to slow in 2006 and as many point out, this could be a self-fulfilling prophecy. Few experts are advising people not to buy a home. Becoming freehold on a significant asset like a home can be one good way of preparing for retirement. But people should think carefully about how much debt they take on through property investment. Those who stretched themselves with investment property may find themselves servicing higher cost debts.

Some commentators, including the Reserve Bank itself, say New Zealanders are over-investing in the property market, so suggest they consider other investments such as shares and business rather than property.

Research results

One key to moving New Zealanders with risky debt levels into healthier net worth situations is well targeted financial education. Overseas research has shown that better informed consumers make better financial decisions. However to target education programmes we need good, up-to-date data.

The 2001 Household Savings Survey has been one foundation for the Commission's education programmes but this year will bring more recent statistics. Results of the country's first adult financial literacy survey will be released in March. The joint ANZ-Retirement Commission survey announced in December 2004 has assessed personal financial knowledge, skills and competence. It will provide data about where New Zealanders' level of personal financial knowledge really stands.

In addition this year, there will be the first release of information from SoFIE - Statistics of New Zealand's Longitudinal Survey of Family, Income and Employment.

Information gathered in SoFIE will, over time, help us understand more about the factors (such as educational qualifications, family situation, sources of income, or age) which most strongly affect social and economic well-being. This information will also be fed into financial education planning.

The financial plan for 2006

The individual

The Retirement Commission's message to individual New Zealanders is clear - taking action to sort finances now means a better life in retirement.

As 2006 could be a year of belt-tightening for some, this is an excellent time for people to calculate their net worth and work out how to stick to their long term financial goals even if economic conditions change.

For those with concerning debt levels the most important step to take this year is to look closely at your capacity to manage if the situation changes - and to take particular care to avoid high interest debt (eg. credit cards, if you cannot afford to pay the full balance off every month.)

For savers and investors the key will be to make sound decisions and to avoid knee-jerk reactions to a slowing economy like pulling money out of long term savings vehicles.

Whatever your financial status, know your current situation and your comfort level with taking financial risk. Make financial decisions with your eyes wide open.

The Retirement Commission's website www.sorted.org.nz has all the tools and information to get people started.

The finance sector

The financial advice sector has a central role in helping New Zealanders reduce overall debt and increase net worth. A trusted financial services sector helps New Zealanders become more financially savvy, and helps them know more about placing their savings in investments other than property.

The Commission would like to see a lot more recognised, relevant training and qualifications for the industry, an independent complaints process, transparent fees and remuneration and a quality control system for advice and products.

We look forward to the policy developments of the Government's Taskforce on Financial Intermediaries and the Product and Provider Review being managed by the Ministry of Economic Development. These proposals are due before Cabinet by the

end of the year with legislation planned for 2008. The KiwiSaver initiative for workplace saving will also continue to be developed for launch in April 2007.

The long term future

The Retirement Commission believes financial education of children is the key to ensuring future generations have financial know-how.

This is a challenge requiring shared long term commitment and investment from educators, and the financial services sector, particularly given easy access to credit and the abstract nature of transactions with online banking, internet shopping, cash machines and the plethora of credit cards. Today's financially illiterate 17-year-old could become tomorrow's 18-year-old with a substantial loan.

Parents can obviously help instil money management values into children and there are interactive learning games, tools and information for parents and children available on the Sorted website.

Schools also have a role in financial literacy although the subject is yet to be officially in the curriculum. Through the Personal Financial Education in Schools project the Commission is working with the Ministry of Education to embed financial education into the curriculum by 2009. In 2006 a curriculum document will be completed and we will also audit of existing financial education resources.

As well as schools we are taking steps to see education in the workplace developed.

So in conclusion, personal finance issues will be very topical in 2006 and decisions that will affect the long term may be harder to make this year.

Those who are over-extending themselves financially and ignore calls to rein in spending may well suffer in an economic slow down. And for the rest of us as January is already over and memories of the beach and the bach are starting to feel remote, it's about seizing the opportunity now to take stock of our financial situations and make some decisions that will set us up well for the future.

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