Financial literacy habits and attitudes

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This Version: November 2012

Abstract

Wealth is the foundation upon which individuals, businesses and employment flourish, and financial literacy underpins the attainment of wealth. A better understanding of the interrelationship of culture, attitudes, values and beliefs on the transfer of financial literacy is needed, so that better policies and practices can be developed to assist effective transfer. This paper values, attitudes and beliefs of high net worth individuals related to financial literacy, to gain a better understanding of the impact of culture, values, attitudes and beliefs on the inter-generational transfer of financial literacy. Recurring themes were found, including the value of education, the importance of planning, and the need to be frugal. These values, attidudes, beliefs and habits play a key role in financial decision making.

Keywords: Financial literacy, Financial attitudes, New Zealand

JEL Codes: D14, D91

Introduction

Wealth is the foundation upon which individuals, businesses and employment flourish. A financial under-class exists due to a lack of financial literacy that results from an ingrained state of ignorance, misunderstanding and intimidation which creates situations of indecision, poor or bad decisions, or total avoidance of the financial system which in turn help to maintain a state of financial exclusion. Improved financial literacy will help reduce the gap between those who have, and those who have not.

Traditionally parents were responsible for the transfer of financial knowledge, attitudes, habits, beliefs and values, however some of this responsibility in recent times appears to have been abdicated to others. The wealthy appear to be more successful at this transfer than the poor, who obviously "do not know what they do not know", and so are unable to change their financial behaviour. Some behaviours such as frugality, debt avoidance and living within one's means can be traced back to parents and grandparents.

Retirement planning is deemed to be a worthy barometer for measuring financial literacy, accordingly the low level of preparedness for retirement reflects the low levels of financial literacy that exists. In New Zealand a "cradle-to-grave" mentality has existed for many years and many have thought that it was not necessary to provide for themselves in retirement.

Whether or not a person is capable of accumulating and retaining wealth is not only based upon their attitudes and financial behaviour, such as goal setting, retirement planning, working hard, controlled spending and saving, but also on their ability to understand and implement a reasonably high level of financial literacy.

Literature Review

Traditionally parents were responsible for the transfer of financial knowledge, attitudes, habits, beliefs and values; however, some of this responsibility in recent times appears to have been abdicated more to others. (Lissington & Matthews, 2012). The transfer of financial literacy even within families of high net worth individuals is still not common, and is less frequent and less efficient than might have been expected (Lissington & Matthews, 2012). Concerns regarding low levels of financial literacy mean there is a need to discover how best to short-circuit the traditional (and often destructive) trial-and-error approach to learning, and how to enable the application of financial knowledge. In order to do this there needs to be a better understanding of culture, attitudes, beliefs and values interact with each other; and how these factors impact on financial literacy.

It has been said that retirement planning is a worthy barometer for measuring financial literacy (Mitchell & Utkus 2003; Lusardi & Mitchell 2007), as it requires a high degree of understanding of financial concepts, such as consumption today versus consumption tomorrow, pay yourself first, the time value of money, and the risk return trade-off. With regards to financial literacy being effective, retirement planning also implies that a degree of action has occurred, such as calculations made to identify one's current financial position, the income required in retirement, and expected life expectancy (Mitchell & Utkus 2003). Action is better to take place immediately following planning, as implementation delays diminish one's chances of success, and increases the amount of savings required later, as less time is available.

Lusardi & Mitchell (2009) found adults displaying better financial knowledge were more likely to plan for retirement, and were more likely to be successful with that planning, as well as being more likely to invest in more sophisticated assets. Investing in more complex investments requires a greater understanding and acceptance of the various risks involved. Greater risk attracts greater returns. However, there is little certainty that investors investing in more complex products do fully understand all risks involved and the likely probability or impact of those risks.

A different study undertaken by Mitchell & Utkus (2003) in the U.S. found that most workers experienced an unexpected decline in their standard of living post-retirement, with 30% of pre-retirees fully prepared for retirement. They found that 30% were likely to close the savings gap before retirement, and 40% appeared "unlikely to achieve a reasonable standard of replacement income by age 65" (p.15). This low level of preparedness is reflective of the low levels of financial literacy existing within an economy and would correspond to a high degree of reliance on the state to help fund retirement income and provide other social welfare assistance (OECD 2005).

Sher (2002) interestingly suggests that the reason a small percentage of people are not able to comfortably retire is that education has failed them, as they have not learnt "how to make enough money, how to keep it and how to use it wisely" (p.21). Here Sher is referring to the failure of the formal education system to adequately prepare students for the many financial decisions ahead of them, a topic explored later. This raises the issue of whether that is the role and responsibility of the education system or of parents, employers, communities, or governments.

It has been recognised (Merrill Lynch & Capgemini 2008) that there have been major advances in financial literacy of high net worth individuals, which has been driven by three factors:

1. "The availability of information via the internet which has allowed people to educate themselves more easily than before;
2. Globalization, which has broadened investment horizons and opportunities;
3. Increasing household liquidity, created from listing or private equity buyouts of family businesses.

As a result, these high net worth individuals have become more engaged than ever before in their investments, but less self-directed, due to the sophistication and level of expertise required" (p xxviii).

It is clear that lack of financial literacy has led to the situation where there exists an economic under-class within a nation (Malin, 2006; Mandell, 2008; Russell, Brook & Nuir 2006). Unless there is some positive intervention the existence of an under-class could be expected to continue, and the gap between the "Haves" and the "Have Nots" will keep increasing. Sherraden (2002) believes that a state of "financial exclusion" exists where low-income children are disadvantaged as their chances of gaining this knowledge from their parents is limited (cited in Russell et al. 2006).

Financial literacy appears to be largely shaped by culture, values, beliefs and habits, many of which have been passed down, consciously and unconsciously, through generations and influenced by an individual's parents, family, friends, teachers, employers or community. It would appear that some families are better at passing on financial literacy between generations than others.

A person's financial behaviour is a complex function of that person's knowledge, their skills and habits. All of this is influenced by their values, beliefs and attitudes, which are formed within the context of their current environment, their upbringing and their culture (Schagen & Lines 1996; Capper 2000). A person demonstrates behaviour through the process of taking action and this action is normally preceded by a decision to act, or in some cases a decision not to act. Davies & Thurston (2005) believe that good financial decisions are objective and employ a process of careful consideration and the use of knowledge and logic in such a way that a fully informed decision can be made. Some behaviour such as frugality, debt avoidance and living within one's means could be traced back to the parents' and grandparents' attitudes and experiences during the Great Depressions (Lissington & Matthews 2012) and still appeared to have a huge influence even today.

Decisions (or indecision) translate into action (or inaction) which in turn leads to outcomes (immediate or delayed) that could be either positive or negative. It is these experiences that provide feedback to reinforce or alter the currently held attitudes, beliefs and values. Obviously the intended outcome of any decision would be a positive one, and a positive outcome would be one where resources have been used effectively to deliver or return a benefit. It is logical to expect that over time a range of decisions would deliver a variety of outcomes, some good and some bad. However, it has been found most recently by Tschache (2009), and also by McCormick & Godsted (2006) and Malin (2006) that over a period of time the majority of outcomes are expected to be positive, which would then be clearly demonstrated by an improvement in a person's financial well-being over their lifetime.

Whether or not a person is capable of accumulating wealth is also indicative of their ability to understand and implement a reasonably high level of financial literacy. Before a person can achieve a high level of net worth and a reasonable standard of living pre- and post-retirement, they must first accumulate, then retain and maintain that wealth. There are a limited number of ways that people can accumulate wealth. Sher (2002) listed six methods of accumulating wealth, being; to inherit it, marry into it, steal it, invest, work for it or go into business.

Stanley & Danko (1996) stated that no one could accurately predict who would achieve a high level of net worth simply as a result of their occupation or type of business they own, rather it was determined more by a person's character and that character is formed as a result their culture, values, attitudes, beliefs and habits. Murray (1999) believes that people need to behave their way to wealth by realising that the only variable in the quest for wealth accumulation that can be controlled is one's behaviour. Murray reinforces this belief by stating that "Wealth is not determined by investment performance, but by investor behavior."

Stanley & Danko (1996) believe that affluent people lead a typical lifestyle conducive to accumulating wealth and they identified seven common denominators amongst the wealthy, being:

1. Whatever your income, live below your means
2. Allocate time, energy, and money efficiently, in ways conducive to building wealth
3. Believe that financial independence is more important than displaying high social status.
4. Don't rely on parents to provide economic outpatient care.
5. Have economically self-sufficient adult children.
6. Be proficient in targeting market opportunities.
7. Choose the right occupation.

Murray (1999) believes the main reason that people fail to achieve wealth is they fail to understand risk. Murray also cites a Warren Buffet quote that "Risk is not knowing what you are doing". This supports Sher's belief that inadequate financial education underpins people's inability to have a comfortable retirement.

A better understanding of the interrelationship of culture, attitudes, values and beliefs on the transfer of financial literacy is needed, so that better policies and practices can be developed to assist effective transfer. Once these key fundamentals have been identified, more effective financial literacy transfer methodologies can then be developed.

This paper highlights some of the values, attitudes and beliefs held by high net worth individuals that affect financial literacy. This is used to gain a better understanding of the impact that culture, values, attitudes and beliefs have on the inter-generational transfer of financial literacy on individuals with a high net worth in New Zealand.

This will help clarify some of the rationale and behaviour of high net worth individuals, and shine some light on why financial literacy levels are so low, and ascertain what could be done to improve them.

Method and Analysis

No New Zealand or international databases exist from which data could be gathered, so it was necessary to collect raw data by undertaking a limited number (31) of confidential face-to-face interviews, with individuals with high net worth of at least $1 million. The decision was made to focus on individuals with high net worth due to the constraints on time and size of the project. The review of literature also supported this approach, as individuals with high net worth were considered more likely to be highly financially literate, which was confirmed.

The first step in locating participants was contacting financial planners, and explaining the purpose of the survey as a way of gaining their cooperation in seeking suitable referrals. A list of names was provided and interviews arranged. At the conclusion of each interview, the researcher asked whether the interviewee could refer and introduce the researcher to other possible participants. This form of participant selection is well used and is known as snowballing sampling (Biernacki & Waldorf 1981).

Some barriers to participation were experienced, with a few people declining to be interviewed, and the impression gained was that they felt that either they had nothing to contribute, were intimidated by being involved in a higher educational research project, or that they felt financially illiterate, and were concerned that they would be embarrassed by participating in the study. One participant, who was interviewed, did not have their results included as their net worth was under the $1 million selection criteria.

Each interview consisted of collecting basic background demographical information, a set of five internationally standard financial literacy questions, a series of questions with standardised responses, as well as open-ended questions aimed at uncovering past experiences, sayings and things that would reflect their culture, values, attitudes and beliefs around money matters.

The semi-structured approach to the interviews meant there was a greater degree of consistency in the questioning, ensuring a higher degree of confidence and reliability of the subsequent results and analysis. The use of standardised answers for several questions enabled answers to be grouped allowing greater analysis, as well as speeding up the response time. An audio recording was made of each interview as recommended by Seidman (1998), who believes in-depth interviews should be recorded to ensure reliability in transcribing the participants' responses into written text. Interviews were approximately 45 minutes in duration.

Overall, the respondents reacted well to the interview process and did not find it overly long or intrusive. Most respondents appeared comfortable throughout the interview, answering the interview questions with a degree of spontaneity as well as offering frank, open discussion around many of the issues raised. Generally, feedback received indicated participants enjoyed the interview, finding the whole process thought provoking and worthwhile.

The results of the standardised questions were collated, and it was decided to create sub-groups to better identify and analyse trends. The Female and Male sub-groups were an obvious choice to which was added the Higher Net Worth sub-group (HNW), being those with a Net Worth greater than $2.0 million; the Higher Age sub-group (HAge) being those aged 65 or over; and the Higher Educated sub-group (HEd), being those with a tertiary qualification.

Table 1 – Analysis Sub-groups

Total *(N=31)*	**HNW** *(N=14)*	**HAge** *(N=10)*	**HEd** *(N=21)*	**Female** *(N=8)*	**Male** *(N=23)*
100%	45%	32%	68%	26%	74%

Some cross tabulation analysis and Chi-square testing was done, but little of any significance was found. The few exceptions have been commented on, where appropriate.

There appears to be no significant relationship or correlation between any of the demographic characteristics factors – sex, age, educational qualifications, working status, income, net worth.

Table 2 – Demographic Information[1]

	Total *(N=31)*	**H NW** *(N=14)*	**H Age** *(N=10)*	**H Ed** *(N=21)*	**Female** *(N=8)*	**Male** *(N=23)*
Gender						
Female	26%	7%	0%	56%	100%	0%
Male	74%	93%	100%	44%	0%	100%
Age						
<50	6%	14%	0%	6%	0%	9%
50 -59	55%	50%	0%	67%	75%	48%
60 -69	10%	0%	10%	11%	25%	4%
70 -79	16%	29%	50%	6%	0%	22%
>80	13%	7%	40%	11%	0%	17%
Average age	61.9	62.7	76.9	58.8	55.1	64.3
Net Worth						
$1m -$2m	55%	0%	50%	61%	88%	43%
$2m -$5m	29%	64%	40%	28%	13%	35%
$5m -$10m	13%	29%	10%	11%	0%	17%
>$10m	3%	7%	0%	0%	0%	4%
Education						
None	23%	29%	60%	0%	0%	30%
School Certificate	6%	7%	0%	0%	0%	9%
University Entrance	13%	7%	10%	0%	0%	17%
Diploma	16%	7%	10%	28%	50%	4%
Degree	32%	36%	20%	56%	50%	26%
Masters	3%	7%	0%	6%	0%	4%
PhD	6%	7%	0%	11%	0%	9%

Thirty one individuals were interviewed with most (74%) of the respondents being male. As shown in Table 2, the age spread of the respondents tended to favour the 50-59 age sub-group at 55%, with 68% being under the New Zealand retirement age of 65. The average age of respondents was 61.9 years, while the average age of respondents in the HAge sub-group was 76.9 and the average age of HNW group respondents was 62.7 years.

Most (55%) respondents had a net worth between $1m - $2m. The HNW sub-group consisted largely of males (92.7%) and 64% were aged less than 65. In the HNW sub-group, 29% were

[1] Please note that due to rounding errors in some of the tables, data may add to more than 100%.

“effectively retired” before the age of 65, while a total of 64% were either “retired” or “effectively retired”, meaning that just over a third were still working full-time jobs.

Of all respondents, 42% did not have a tertiary qualification, and 23% had no school or tertiary qualification. The HNW sub-group was similar, with 43% not having a tertiary qualification and 29% having no formal qualification. The HAge sub-group, 60% had no formal qualification, with 30% having a tertiary qualification.

While the sample size of 31 is small, it is useful for its indicative value. However the sample size could be limiting when making definitive statements and conclusions, especially with regards to the HAge and female sub-groups as their numbers are particularly small.

Results and Discussion

Culture provides the background upon which values, attitudes and beliefs are shaped, and it is within this environment that financial knowledge, skills and habits are formed. They all provide the foundation upon which financial decisions are made and implemented, and the resulting experiences, good and bad, in turn justify or modify those values, attitudes and beliefs. Values, attitudes and beliefs are influenced by family and friends, and are reflected in a multiple of factors such as goal setting, work, spending habits, giving, risk tolerance and wealth accumulation.

As noted earlier, the ability to plan for retirement involves a respondent using a wide range of advanced financial knowledge and skills. Table 3 shows that a large proportion (81%) of total respondents believed that goal setting was important or very important to their overall success. After the HAge sub-group which was unanimous in the response, the next highest was the HNW sub-group at 93% and the HEd sub-group was lowest on 72%. This aligned with the next question asking about the frequency of goal setting. The HNW sub-group was the highest on 86% and again the HEd sub-group was lowest on 67%. Retirement planning could be considered an important component of goal setting and 77% of the total respondents had done some form of retirement planning, with the overall score being dragged down by the HAge sub-group, of whom only 50% stated that they had done any retirement planning. It appears that, for many of this older generation, retirement was something that the NZ government would provide as a part of their “cradle-to-grave” social security system and therefore it was not necessary for them to provide for themselves. Others were aware that after coming through a period of high inflation in the early 1980s, their proportional burden of debt had been severely reduced, resulting in them paying off their mortgages faster, allowing them to accumulate sufficient assets earlier, and thus giving them little concern for retirement planning. One respondent made the comment that *"My parents grew up in the "cradle to the grave" attitude, and they believed that the pension would have been enough to keep them going. They would have had a full expectation that they would be okay in their retirement."*

Table 3 – Importance of goal setting and retirement planning

Retirement Planning	**Total** *(N=31)*	**HNW** *(N=14)*	**HAge** *(N=10)*	**HEd** *(N=21)*	**Female** *(N=8)*	**Male** *(N=23)*
Yes	77%	79%	50%	78%	88%	74%
No	23%	21%	50%	22%	13%	26%
Retirement Planning Goal						
Lump-sum Goal	19%	21%	20%	17%	25%	17%
Income Goal	52%	57%	30%	50%	50%	52%
Both Income & Lump-sum goals	10%	7%	0%	17%	25%	4%
None	19%	14%	50%	17%	0%	26%
Goal setting						
Very important	45%	64%	50%	33%	38%	48%
Important	36%	29%	50%	39%	38%	35%
Little importance	16%	7%	0%	22%	13%	17%
No importance	3%	0%	0%	6%	13%	0%
Setting goals						
Never	0%	0%	0%	0%	0%	0%
Infrequently	10%	14%	0%	6%	0%	13%
Sometimes	19%	0%	20%	28%	25%	17%
Often	52%	57%	80%	44%	50%	52%
Always	19%	29%	0%	22%	25%	17%

The majority (62%) had planned to achieve a required "level of income in retirement" target, compared to achieving a retirement lump-sum target (29%), including a small proportion (10%) that had set both lump-sum targets and income goal targets. One respondent remarked that *"The calculator I have running is based on the lump sum required to hopefully generate the lifestyle desired in retirement, by using spreadsheets and the 4% rule [return of 4% on* *investment capital].”* It was interesting to note more of the Male sub-group (26%) had done no retirement planning, compared to the Female sub-group (13%).[2]

Money itself can be a big motivating factor or driving force for many individuals with high net worth. Most (71%) respondents stated that they believed money was important or very important to their sense of success, with the proportion being highest for the HNW sub-group (86%), which further supports the importance of money to the wealthy.

Table 4 – Money as a sense of success

Money as sense of success	Total *(N=31)*	H NW *(N=14)*	H Age *(N=10)*	H Ed *(N=21)*	Female *(N=8)*	Male *(N=23)*
Very important	23%	21%	20%	17%	13%	26%
Important	48%	64%	60%	44%	38%	52%
Little importance	26%	14%	20%	33%	38%	22%
No importance	3%	0%	0%	6%	13%	0%

Money was reported to be less important for the Female (50%) and the HEd sub-group (61%). The absence of money as a motivating factor may be a fundamental difference between high and low net worth individuals, and these results suggest differences in the importance of money by gender and education may influence the wealth of these groups.

Earned income comes either from paid employment or through one's business earnings and profits. One HAge respondent suggested that rewards followed one's effort and that *"If you're not prepared to put in the hours yourself, it [the business] will not work"*, and later added that *"You can't make a fortune on wages, you have to own your own business."* There is a recurring emphasis on having a positive attitude to work as well as putting in a decent day's effort. Another respondent remarked that *"I'm still my best worker."* Others also stated that: *"I have a strong work ethic. I believe I owe allegiance to the person who pays to put the bread on the table. It's more about fulfilling the role, rather than watching the clock, or getting the best hourly rate possible."; "I'm very Presbyterian in my work ethic. I believe in a hard day's work. I work solidly for my employer and I really believe in giving it my all."*

[2] The number of female respondents is small and it would be hard to draw any real conclusions from this result, so caution is needed in generalising results.

One respondent pointed out that *"There is power in a lifetime of earning, it's your greatest asset."* Of total respondents, 90% believed that their earned income was "important" or "very important" to their overall success. Both the Female and HEd sub-groups were 100% and the Male sub-group was lowest on 87%. This powerful attitude towards work indicates that financial success was not based upon elements of luck, but rather on working hard. One HNW respondent commenting that *"I've always said you create your own luck."*

Table 5 – Importance of earned income[3]

Earned income	**Total** *(N=31)*	**H NW** *(N=14)*	**H Age** *(N=10)*	**H Ed** *(N=21)*	**Female** *(N=8)*	**Male** *(N=23)*
Very important	74%	71%	50%	83%	88%	70%
Important	16%	21%	40%	17%	13%	17%
Little importance	10%	7%	10%	0%	0%	13%

Income is one side of the savings equation, and expenditure is the other. Controlled spending and negotiating a discount are directly related a habit of frugality. There appears to be a correlation between the importance of earned income and controlled spending, with 81% of total respondents believing that controlled spending was "important" or "very important" to their overall success. The Female sub-group was the highest at 88% and the HAge sub-group was lowest on 70%.

Table 6 – Importance of controlled spending and over spending

Controlled spending[4]	**Total** *(N=31)*	**H NW** *(N=14)*	**H Age** *(N=10)*	**H Ed** *(N=21)*	**Female** *(N=8)*	**Male** *(N=23)*
Very important	68%	64%	50%	67%	75%	65%
Important	13%	14%	20%	17%	13%	13%
Little importance	19%	21%	30%	17%	13%	22%
Over spending[5]						
Never	45%	50%	50%	39%	38%	48%
Infrequently	19%	14%	30%	17%	13%	22%
Sometimes	26%	21%	20%	33%	38%	22%
Often	10%	14%	0%	11%	13%	9%

3 No respondent indicated that their earned income was "No importance".
4 No respondent indicated that the control of their spending was of "No importance".
5 No respondent indicated that their frequency of over spending was "Always".

Control over spending is apparent, with 45% of total respondents stating that they never overspend, and 50% of both the HNW and HAge sub-groups stating that they never overspent. Some typical comments that support this include: *"Our spending has always been controlled by the fact that if you can't pay cash for it you can't afford it."; "My parents taught me not to waste money and try to save."; "Don't overspend your income."* It is interesting to note that some respondents were making an effort to encourage their children to develop good financial habits early. One HNW respondent stated that *"Our children (12 & 9) receive pocket money and we expect them to budget it to buy things they want. They know about "specials" and about saving, they both have their own bank accounts."*

Although a high proportion (81%) of total respondents said that controlled spending is "Important" or "Very important". A surprisingly smaller proportion (64%) stated that they "Never" or "Infrequently" overspent. This disparity is further highlighted with the difference between the importance of controlled spending (88%) and the frequency of overspending (often + sometimes = 50%) for the Female sub-group.

Table 7 – Negotiating discount

Negotiate discount	**Total** *(N=31)*	**H NW** *(N=14)*	**H Age** *(N=10)*	**H Ed** *(N=21)*	**Female** *(N=8)*	**Male** *(N=23)*
Never	7%	7%	20%	0%	0%	9%
Infrequently	19%	21%	30%	22%	13%	22%
Sometimes	19%	21%	20%	28%	13%	22%
Often	29%	14%	0%	33%	50%	22%
Always	26%	36%	30%	17%	25%	26%

When asked about the frequency of negotiating a discount, 55% stated that they "often" or "always" asked for a discount. While the Female sub-group was the highest at 75%, it should be noted that half (50%) of the HAge sub-group "never" or "infrequently" asked for a discount. This could be a generational attitude where older people were not in the habit of asking for a discount, and held an expectation that they would always be offered the supplier's best price. The next highest sub-groups were males (31%) and HNW (28%), with one respondent commenting that she always brought quality or high fashion and pointed out that those items were seldom on sale or discount. This quest for quality and high fashion could in part account for the interesting HNW result.

Several respondents mentioned that they didn't like hire purchase. This approach seemed to be based upon the principle of having the money before you considered making a purchase and several respondents remarked that: *"You don't buy anything unless you can pay for it."; "If I can't afford something, like a television, then I won't buy it. I have never used hire purchase."; "I really don't believe in hire purchase."* Credit cards, where they were used, also tended to be paid off promptly so as not to incur any interest or additional costs. One respondent clearly stated this by saying that *"My credit card debt is paid monthly. I don't want to pay interest and overheads as it is lost money."* Another stated that he *"... would never have a credit card. I use a debit card instead."*

Frugality is another recurring theme that often surfaced during the interviews. Several respondents had observed or experienced, and had later adopted the same habits as their parents. One respondent remarked that *"From a young age, we experienced close budgeting and frugal living, and that has certainly influenced the lifestyle we enjoy now."* The same respondent also commented that *"We are more consumer-orientated than our parents were, and more likely to make a purchase upon wants and desires, than they would."*

Table 8 – Handling unexpected events and expenses

Unexpected events	**Total** *(N=31)*	**H NW** *(N=14)*	**H Age** *(N=10)*	**H Ed** *(N=21)*	**Female** *(N=8)*	**Male** *(N=23)*
Reserves	84%	86%	80%	78%	63%	91%
Flexi-loan	3%	0%	0%	6%	13%	0%
Credit card	7%	0%	0%	11%	25%	0%
Changed budget	3%	7%	10%	6%	0%	4%
None	3%	7%	10%	0%	0%	4%

Unexpected expenses can derail financial plans. When asked about the strategies employed to handle unexpected events and expenses, most (84%) respondents indicated that they had reserves to call upon. Examples include: *"We always have money in reserve."; "I've always got some tucked away for a rainy day."; "I do have a savings account which is my cash crisis* *account."* Other strategies mentioned were the use of flexi-loan facilities with banks, the use of a credit card as well as recalculating their budget.

By asking a few insurance-related questions it was possible get an impression about the respondent's attitude towards risk and the concept of transferring risk to other parties, in this case insurance companies. Property insurance appears to be seen as essential by all the respondents, as all had insured their property, one commenting that *"We insure so that our capital wealth is maintained, so that we don't lose it through acts of God."* Another indicating their reasoning by saying that *"We're totally risk averse, the last thing we want is to lose what we've got."* When combining those who currently have personal insurance with those that used to have cover in the past, the next most popular insurance was life (94%), then came medical (90%) and well behind that was income protection cover (58%). New Zealanders are thought to be underinsured, with New Zealand having the third lowest penetration of insurance among 31 OECD countries (Wang & Matthews 2011). These results are higher than those found by Wang & Matthews (2011), which was a more general study with life/death at 75%, income cover at 48%, and medical cover at 78%.

The reasoning behind having life insurance can be demonstrated by one respondent who commented that *"We cover ourselves to the extent that should either of us die, then the quality of lifestyle would be preserved."* Others indicated their motivation for taking life insurance came as a result of lending requirements, with one respondent stating that *"My life insurance comes from borrowing things from banks, they tend to want assets and life insurance as well."* Fortunately most had the ability to pay for the necessary insurance.

Table 9 – Insurance cover

	Total *(N=31)*	HNW *(N=14)*	HAge *(N=10)*	HEd *(N=21)*	Female *(N=8)*	Male *(N=23)*
Property insurance						
Yes	100%	100%	100%	100%	100%	100%
Life insurance						
Yes	65%	50%	50%	78%	63%	65%
No	7%	14%	0%	6%	13%	4%
Used to have	29%	36%	50%	17%	25%	30%
Medical insurance						
Yes	87%	86%	80%	89%	88%	87%
No	10%	14%	10%	11%	13%	9%
Used to have	3%	0%	10%	0%	0%	4%
Income protection						
Yes	55%	43%	20%	72%	75%	48%
No	42%	50%	70%	28%	25%	48%
Used to have	3%	7%	10%	0%	0%	4%

For life insurance, the group with the lowest level of cover was the HNW sub-group (86%), who were also the lowest in the medical (86%) suggesting the HNW sub-group was more prepared to self-insure or carry the risk themselves. One HNW and HAge respondent stated that *"I had an endowment policy. In other words it becomes a type of investment. Sure, you don't get such big cover, but you have something at the end of the day."* The same respondent also added *"That may not have been a good policy to have when kids were young. We were lucky we had good health. In reflection, when I look back, I think hello we were lucky, we were vulnerable. My son-in-law's demise has made me realise how vulnerable we were."*

It is interesting to note that although the percentage of those having life insurance is relatively low, there is a large percentage that used to have life insurance, those being mainly from the HNW (38%) and HAge (50%) sub-groups. Obviously they felt the need for life cover has reduced or had been eliminated. One HNW respondent commented that *"Life insurance isn't important to me now. I took out life insurance at the time when I owed money to the bank."*

The insurance with the lowest up-take was Income Protection. The HAge sub-group had the lowest uptake of ever having Income Protection insurance (30%). One factor could be because this was a relatively new form of insurance cover, or unpopular with the older generations given the lower level of "Used to have". The lack of current level for this sub-group, however, appears logical, since their age means a lower reliance on earned income.

The Female sub-group had the highest uptake at 75%, and there is no clear explanation for this fact. One HNW respondent added that he would place the importance of income protection insurance in front of anything else, illustrating this point by asking *"What would you insure first if you had just started work and had brought a car, your car or your income? 75% of people would say they would insure the car, which is worth say $5,000, when your future earning capacity could be $2.7 million."*

Medical insurance seemed to be have also been quite popular with most respondents, however one HNW and HAge respondent commented that *"No, we never had medical insurance, in fact I sort of build up my own fund. At the age of 50 I put $1,500 a year aside in a separate investment fund so that it has built up now into something over $100,000. So now I can stop paying it since I feel I have adequate cover. My attitude towards it has probably changed as I'm now treating it like an investment."*

During the interviews several respondents (45%) volunteered the fact that their insurance excesses were deliberately higher than standard, as they were happy to carry a greater share of the risk themselves, and pay smaller premiums as a result. The purpose, they believed, was to ensure that the insurance was in place for the bigger, less frequent events, rather than the smaller more common every day events. One Female respondent stated that she believed in insuring against a catastrophe, saying that *"You don't want to be going off to the insurance company to claim a few dollars for a small thing. It's a hassle. It's better to have a higher excess and pay a lower premium. You need to cover yourself for something you're unable to cope with".* Another respondent commented that *"I keep my excesses high. I never claim anything, I'm always amazed, some people have a mental model going on where they have added up all their premiums they have paid and make sure they make claims to cover them."*

Despite a reasonably positive response when asked about their attitudes, rules and beliefs around the concept of charity and giving, most (58%) respondents said that they had no intention of making bequests to charities upon their death. Some respondents felt that they had given regularly throughout their lifetime and that was sufficient, while some made it clear that "charity begins at home." One business owner stated that *"For me, charity starts at home. The strategy is to support in-house [my staff], then the local community."* Another respondent observed that *"While my parents were building their wealth, they didn't donate a lot, but since they retired, they have both proven to be quite generous."* One person didn't want to make any charitable distributions upon their death, commenting that they didn't want the family to think they had been brainwashed by the church. *"I would hate them to think that the church has got into my head and somehow got the money out of me."*

Table 10 – Bequests to charities

	Total *(N=31)*	**HNW** *(N=14)*	**HAge** *(N=10)*	**HEd** *(N=21)*	**Female** *(N=8)*	**Male** *(N=23)*
Yes	29%	22%	50%	39%	50%	22%
No	58%	61%	50%	44%	50%	61%
Unsure	10%	13%	0%	17%	0%	13%
No comment	3%	4%	0%	0%	0%	4%

Many respondents believed that they were fortunate to be in a strong financial position and therefore felt morally obliged to give. One respondent stated that *"Giving is a moral obligation. It's important to support the community, in both time and money."* Another HNW and HEd respondent stated that *"Charity is very important. I'm lucky, and some people are not. I think I'm a benevolent capitalist. I believe that some people are just in an unfortunate position and I need to spread my luck around."*

The decision as to which charity to support is a difficult one. A good portion of respondents had a clear strategy towards giving (52%), while for the reminder their giving was more ad hoc. Only a few (19%) were motivated to give when asked, while most (58%) did so when they felt it was needed. A respondent stated that they *"... support those charities that have touched our family the most, and the ones where we would probably be in most need of their services."* Another HNW and HEd respondent stated that *"My strategy for giving is to support organisations that have the capacity to empower others to produce wealth, such as education."* Another factor was that many were happy to give to a range of causes, but wanted to remain anonymous. One such person stated that *"I believe in giving where you can, but I like to do it discreetly."*

Nearly all those interviewed had a healthy respect for wealth. Some respondents struggled with understanding what wealth meant, one stating that wealth needed to be considered more than in just financial terms by commenting that *"I struggle with what you mean by wealth, I personally believe that wealth is all-round, and money is one small part of it. To be wealthy you need to be healthy, happy and satisfied as well as having the finances."*

Some recognised that they were fortunate or lucky to have the wealth that they did have, and many expressed their desire to share that with others in one way or another. Several HNW respondents portrayed the attitude that they did not feel wealthy, one person with a net worth between $5 - $10 million stated that *"I don't think I'm wealthy."*

Many of those interviewed preferred to understate their wealth and not to outwardly display it. One HNW and HEd respondent stated that *"I believe in living a simple life. I do not flash my money around. I drive a car which is second-hand, I don't believe in expensive cars."* Another HNW and HEd respondent said that *"Wealth is not a bad thing, but we don't want to flaunt it."*

There are many methods available to people to help them accumulate wealth, and the respondents interviewed had employed a variety of these methods when achieving their high level of net worth. Due to time constraints it was not possible to investigate every known factor for accumulating wealth, and we focused on a sub-set of these factors.

The underlying assumption is that high net worth individuals have a clear understanding of the differences between savings, investing and speculating, and they can identify and evaluate the risks involved, developing ways of managing the key factors critical for success.

Making regular contributions in the form of saving is a positive if somewhat slow long-term approach to accumulating wealth. The self-discipline involved in developing saving and controlled spending habits are critical to overall success on several different levels.

Table 11 – Saving, and saving mode

Importance of Saving	**Total** *(N=31)*	**H NW** *(N=14)*	**H Age** *(N=10)*	**H Ed** *(N=21)*	**Female** *(N=8)*	**Male** *(N=23)*
Very important	55%	57%	40%	61%	63%	52%
Important	23%	29%	40%	17%	0%	30%
Little importance	19%	14%	20%	17%	25%	17%
No importance	3%	0%	0%	6%	13%	0%
Saving Mode[6]						
Saved in business	16%	21%	10%	6%	13%	17%
Saved Surplus	45%	57%	70%	44%	38%	48%
Fixed amount	39%	21%	20%	50%	50%	35%

[6] No respondent indicated that their saving mode was "Percentage".

A large proportion (77%) of respondents believed savings was important or very important to their overall success. Several made comments regarding saving such as: *"Establish a regular savings pattern early."; "Saving, you've got to do that."; "I make a commitment to make a regular payment to savings. Every pay day, as well as contributing to superannuation, we also put a set amount of our salary in savings and as that builds up it gets moved into our investment portfolio."* The highest being the HNW sub-group on 86% and the Female sub-group was lowest on 63%. No respondent stated that they regularly saved a fixed percentage, which was interesting, given that one respondent commented that *"Both my maternal grandfather and father told me to save 10% of what you earn and you won't have any worries in retirement"*, but subsequently reported that he saved a fixed amount. One possible way to explain this apparent contradiction is that he initially calculated an appropriate percentage then saved that fixed amount regularly.

By far the most popular method of savings stated, was to save any surplus after living costs (45%) followed by 39% who regularly saved a fixed amount. One respondent stated that *"We always paid ourselves first."* Here the key discipline is to put aside your savings, before commencing any spending. For many on low incomes, too often there isn't anything left over to go into savings. Perhaps the higher percentage saving their surplus is a direct result of higher than average incomes, given that only 29% had incomes below NZ$100,000.

Some respondents recognised the importance of compound interest in helping them accumulate wealth. One HNW respondent said that *"I'm keen that people should build up wealth over time by gradually accumulating interest on term deposits, or dividends. Instead of taking dividends in cash, take them as shares"*. It was interesting to note that some respondents commented that they preferred to save within their business. *"I found I made better returns by keeping it in the business, knowing that one day I will sell the business and capitalise on it that way."* They believed that if they left their money in their business in the form of retained earnings to fund future growth opportunities, this would provide them with better returns than alternative investments, and be a nest-egg to accumulate wealth, which they could access when they sold their businesses.

Making a decision to save regularly does impact upon other choices and also restricts consumption. This was illustrated by one respondent who stated that *"By putting away as much as we can, building up funds as fast as we can. This does restrict some of what we do* *day to day."* Another noted that they *"... made a conscious decision in our thirties to put 10% of our income away, and reduce our lifestyle. But that was a deliberate decision at a time when it wasn't easy to do it. Reducing your lifestyle is never easy."* Many recognised that their efforts to save were hampered initially by the need to raise a family and pay the bills. One respondent from the HAge sub-group said that he had *"... done more saving later in my career. I've probably saved more in my latter years than my earlier years."* Several pointed out the fact that *"Nobody teaches you to save [these days], it goes back to the old post office savings account at school."* School children used to be encouraged to save a small amount each week, several respondents commented on this now defunct, habit-forming saving scheme, such as: *"I think I started with, in today's terms, 50 cents a week."; "Savings is a junior's entrance into other ways of growing your wealth."* Another respondent from the HNW sub-group commented that *"Savings are a passive way of doing not much. Investing is an active way of growing your wealth."*

Table 12 shows the importance of various factors the respondents felt contributed to their success. In comparison, the contribution that savings made to success was quite low compared to the other factors.

Table 12 – Important contributors to success[7]

	Total *(N=31)*	**H NW** *(N=14)*	**H Age** *(N=10)*	**H Ed** *(N=21)*	**Female** *(N=8)*	**Male** *(N=23)*
Spouse/Partner's contribution	94%	93%	90%	94%	88%	96%
Earned income	90%	93%	90%	100%	100%	87%
Formal education	81%	79%	70%	94%	100%	74%
Goal setting	81%	93%	100%	72%	75%	83%
Controlled spending	81%	79%	70%	83%	88%	78%
Savings	77%	86%	80%	78%	63%	83%
Use of debt	68%	64%	60%	50%	63%	70%

It is possible that a respondent's wealth had come from their partner/spouse's efforts or inheritance, so the respondents were asked how important to their own success their partner/spouse's contribution was, and what form that contribution took.

[7] These results reflect combined totals of "important" or "very important" responses.

From Table 13 it is apparent across all sub-groups that their spouse/partner's contribution was a very important factor (Female 88% - HAge 60%) towards their overall success. Overall, nearly all respondents (94%) said their partner/spouse's contribution was either "important" or "very important".

Table 13 – Spouse/Partner's contribution[8]

	Total *(N=31)*	**HNW** *(N=14)*	**HAge** *(N=10)*	**HEd** *(N=21)*	**Female** *(N=8)*	**Male** *(N=23)*
Very important	74%	64%	60%	78%	88%	70%
Important	19%	29%	30%	17%	0%	26%
Little importance	3%	0%	10%	0%	0%	4%
N/a	3%	7%	0%	6%	13%	0%

The role that their spouse or partner played was either as a second source generator of income; as help in their business; or in a supportive role - by running the family home and/or providing moral support. One HNW respondent stated that *"In terms of financial contribution, it has been of very little importance, but in terms of philosophy and outlook on life, very important."* Another HNW respondent added that *"I couldn't do my job and earn the income I do without my wife's contribution."* It is interesting to note the value placed on the non-financial contribution made by a partner/spouse.

One way to accumulate wealth is through the prudent use of someone else's money. Borrowing from a bank, or from others, can prove profitable when investing in appreciating or income producing assets after adjusting for the cost of interest. Many saw the prudent use of debt as a way to help them accumulate wealth. One respondent stated that *"If I didn't have debt, I wouldn't be here now."* Another HNW respondent stated that his father was *"Absolutely debt adverse. Whereas, I would borrow to make a good investment."*

There appears to be a clear understanding of the differences between "good debt" and "bad debt" amongst the individuals with high net worth. One respondent stated that *"People should avoid bad debt, such as loans for cars compared to good debt, loans for houses."* Another HNW respondent added that *"Good debt is taking a loan for something that would keep its value or appreciate, where bad debt is taking a loan for something that would depreciate, such as a motor vehicle."* And another respondent stated that he *"only borrowed on an asset*

[8] No respondent indicated that their spouse/partner's contribution was of "no importance".

that builds in value." Another HNW respondent, who after analysing the merits of an investment added that *"If a deal is a good one, and a really good one, then any way at all of accumulating the assets [needed] to acquire it, is worth doing ... I would borrow to make a good investment."*

Table 14 – Interest rate change and re-negotiating debt

Interest Rate Change	**Total** *(N=31)*	**H NW** *(N=14)*	**H Age** *(N=10)*	**H Ed** *(N=21)*	**Female** *(N=8)*	**Male** *(N=23)*
Yes	10%	14%	0%	6%	0%	13%
No	81%	71%	90%	83%	100%	74%
N/a	10%	14%	10%	11%	0%	13%
Re-negotiate debt						
Never	19%	0%	40%	17%	0%	26%
Infrequently	36%	0%	60%	22%	25%	39%
Sometimes	23%	14%	0%	33%	25%	22%
Often	10%	71%	0%	17%	38%	0%
Always	3%	14%	0%	0%	0%	4%
N/a	10%	0%	0%	11%	13%	9%

It was interesting to note that when faced with a change in lending interest rates, of those respondents who used debt, a very large percentage did not change their repayments. When interest rates rose, borrowers had no choice but to increase their repayments, but when interest rates fell borrowers had the option of decreasing their repayments or keeping their repayments the same. A very high proportion (89%) opted for maintaining their repayments at the higher level, which is in keeping with the comments made about repaying debt as quickly as possible.

When asked about the frequency of re-negotiating debt, 55% stated that they either "never", "infrequently" or "sometimes" re-negotiated their debt arrangements. It was noted that all of the HAge sub-group "never" or "infrequently" negotiated debt. There are several possibilities as to why this was the case, ranging from the belief that loan arrangements were set in stone; that due to the high inflation period of the early 1980s rapidly rising incomes made debt repayment easier; the preference for short term loan periods; or the rapid repayment of debt made such loan re-negotiations unnecessary. A very telling exception to this was that 87% of the HNW sub-group stated that they "always" or "often" re-negotiated their debt arrangements. This could be that they may have larger loans or longer term debt than the other sub-groups, and therefore it was beneficial to re-negotiate debt more frequently.

The final question asked of respondents was "If you received $500,000 today, what would you do with it? And why?" The question was designed to see whether they would give it away, spend it, save it, or invest it. Their answers would help indicate what type of investments they favoured. The amount was deliberately kept to a size that was neither too trivial nor too big that it fell into the life-changing lottery-win category that could cause answers to drift off into the realm of fantasy. Rather, the amount was to be enough to make them think hard about what should be done with it. One HNW respondent stated that *"I don't need the money, I have no debt. I would invest it (in property), then give the income to charity. I wouldn't give charity the whole lot as once it's gone it's gone. That would give me quite a lot of satisfaction."*

Respondents from both the HNW sub-group, and those respondents with less than $2 million, were significantly more likely to answer "Add to their current investment portfolios" than to give any other answer when asked how would they handle a $500K wind-fall. With regards to handling a $500K wind-fall, the greater the number of children a respondent had, then the more significantly unlikely they are to "invest in their current investment portfolios" as compared to the other alternatives.

Table 15 – Handling a $500,000 wind-fall[9]

	Total *(N=31)*	**HNW** *(N=14)*	**HAge** *(N=10)*	**HEd** *(N=21)*	**Female** *(N=8)*	**Male** *(N=23)*
Add to current investment portfolio	36%	43%	60%	33%	25%	39%
Add to current property portfolio	19%	29%	0%	17%	25%	17%
Add to invest & property portfolios	7%	0%	10%	6%	0%	9%
Sub-total	**62%**	**72%**	**70%**	**56%**	**50%**	**66%**
Retire debt	3%	0%	0%	0%	0%	4%
Retire debt & invest	7%	7%	10%	6%	13%	4%
Retire debt & invest & spend	10%	0%	0%	17%	25%	4%
Give away	7%	14%	10%	6%	0%	9%
Put in bank	7%	0%	10%	6%	0%	9%
Investment/property portfolios & give away	3%	7%	0%	6%	0%	4%
Spend it & bank balance	3%	0%	0%	6%	13%	0%
Total	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**

[9] No respondent stated in the response to question 49 that they would consider spend it all.

It was interesting to note that the vast majority preferred to just add it to their existing portfolios, whether that was their property portfolio or diversified investment portfolio that included shares and bonds or both. Only two respondents wanted to put it in the bank and leave it there, both of whom had also stated that they had losses associated with the recent 2007-9 finance company collapses. There were some respondents (19%) who had remaining debt and saw this as an opportunity to repay debt. Two HNW respondents were comfortable with their current level of wealth and were quite happy to give the $500,000 wind-fall to charity. It is understandable that members of the HNW sub-group are significantly more likely to "give away" their $500K wind-fall than respondents with less than $2 million. Respondents with annual income in excess of $100,000 are significantly more likely to answer "Add to their current investment portfolios" than to give any other answer when asked how would handle a $500K wind-fall.

Conclusion

It is clear that culture provides the background upon which values, attitudes and beliefs are shaped, and it is within this environment that financial knowledge, skills and habits are formed. Recurring themes of frugality, debt avoidance and living within one's means could be traced back to the parents' and grandparents' attitudes and experiences during the Great Depressions (Lissington & Matthews 2012) which still appeared to have a huge influence even today. The importance of financial literacy cannot be understated as a high level is necessary before people realise the importance of retirement planning, an understanding of the risks involved and take the necessary action to implement. 77% of the high net worth individuals interviewed had undertaken some form of retirement planning. This also correlates with the 71% who "Often" or "Always" set goals. Many of the high net worth individuals surveyed (71%) believed that money was important or very important to their sense of success, and this could be a definitive difference between high and low net worth individuals and worth investigating further.

The large majority (90%) felt that their earned income was an important factor in their success. This is supported by strong attitudes towards work and the understanding that hard work and effort leads to financial success, rather than pure luck. Along with positive work habits, controlled spending and negotiating a discount are a direct reflection of a longestablished habit of frugality. Several respondents stated that they had observed or experienced this, and had later adopted the same habits as their parents.

There also exists a strong attitude towards avoiding debt as well as repaying back debt as quickly as possible. This was often coupled with quite a strong anti-hire purchase and anti-credit card mentality. Several respondents would only consider making a purchase if they had the money beforehand. Most respondents had some form of reserves available to meet any unexpected events or expenses.

Most high net worth individuals surveyed appeared to be "high risk" averse, with 100% having their property insured and a higher than average percentage having a range of life and medical covers. Most had a strong desire to protect what they had, helped by the fact that they had the ability to pay for insurance. Many chose to apply high excesses, accepting a higher portion of the risk themselves, thus insuring against the big events, in an effort to reduce the cost of premiums.

Attitudes to charity and giving, again was quite varied, a large percentage not wanting to leave any charitable bequests either because they believed charity began at home, or that they had already given generously throughout their lifetime.

Generally most high net worth respondents had accumulated their wealth through their own efforts, by way of business opportunities, prudent borrowing, careful investing, controlled spending, and regular saving, rather than through inherited wealth. Many avoided displaying their wealth and some even considered that they were not wealthier than most. Most had long, stable relationships in which they considered that their partner/spouses had contributed positively in their own way towards their overall success.

This study highlighted that there is opportunity for further investigation into issues such as; why savings was rated relatively low as being a contributor towards success, whether there is benefit to be gained by renegotiating debt more frequently, and the part money plays as a motivating factor for both high and low net worth individuals. Another area worthy of further research is whether or not a gender difference exists with regard to the lack of retirement planning and over-spending.

There were several recurring themes that continually came through the interviews such as the value of education; the importance of working hard; being careful and prudent with investing;

the importance of planning, with one of the strongest themes being the need to be frugal. As well as these themes there were several common human traits that also shone through, such as being humble, honest, respectful and charitable, as well as acting with integrity.

It is clear that these value, attitudes, beliefs and habits play a large part in financial decision making and are reflective in the level of financial literacy. It would be interesting to discover whether these same values and traits exist in individuals with low net worth, and what lessons could or should be used in financial literacy education.

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