FINANCIAL LITERACY AND FINANCIAL DECISION-MAKING OF AUSTRALIAN SECONDARY SCHOOL STUDENTS

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INTRODUCTION

Financial literacy is regarded as an essential life skill. Major Australian financial institutions have emphasised the importance of consumers having adequate financial literacy to deal with an increasingly complex financial landscape.[1] The Australian Securities and Investments Commission (ASIC) is implementing the Australian National Financial Strategy. Under the Strategy, there have been initiatives to embed financial education programs in the Australian national school curriculum. Such educational strategies are important because effective financial decision-making is a necessary and critical skill. Young people need have the skills and knowledge to make sound financial decisions now and as adults and to support them to engage confidently and successfully in economic life.[2] They must navigate a much more complex financial landscape and assume greater financial responsibility at a younger age than previous generations and this poses considerable challenges.[3]

A current issue for policy makers in Australia is the relative scarcity of data on young people's financial decision-making. In particular, there is little current evidence about the social and economic contexts and influences, such as peers, families and advertising that shape the financial decisions of young people around the world and in Australia.[4] It is important to determine how financial decision-making is currently experienced by young people in their daily lives and how this relates "to steps they are likely to take in the near future as adults".[5] A better understanding of the contexts in which young people make financial decisions, and their experiences of financial decision-making will provide important and useful information that can shape financial education policies – the core goal of which is to ensure all Australians are able to make confident, sound financial decisions.[6] Sound financial decision-making is recognised as a key factor for long term financial wellbeing.[7] Financial wellbeing is integral for social inclusion, an important determiner of overall health and wellbeing.[8]

This study investigates how financial decision-making at a time of transition from secondary school to adult life is conceptualised by young Australians. The data for the study is derived from interviews with young Australians aged 16 and 17 years from focus groups. Participants from 9 Australian schools that are diverse in their geographic location and student cohort were chosen for the study. These interviews explored the context and attitudes relating to their financial decision-making.

[1] See eg, ANZ Bank, *Financial Inclusion and Capability*, available at http://www.anz.com.au/about-us/corporate-responsibility/framework/financial-capability.

[2] See eg, Ministerial Council for Education, Early Childhood Development and Youth Affairs, *National Consumer and Financial Literacy Framework* (2009); Organisation for Economic Cooperation and Development (OECD), *PISA 2012 Assessment and Analytical Framework: Mathematics, Reading, Science, Problem Solving and Financial Literacy* (OECD Publishing, 2013).

[3] See eg, Australian Securities and Investments Commission (ASIC), *National Financial Literacy Strategy*, Report 229 (2011); OECD, n 2.

[4] Sohn SH, Joo SH, Grable JE, Lee S and Kim M, "Adolescents' Financial Literacy: The Role of Financial Socialization Agents, Financial Experiences, and Money Attitudes in Shaping Financial Literacy Among South Korean Youth" (2012) 35(4) *Journal of Adolescence* 969; OECD, n 2; ASIC, n 3.

[5] OECD, n 2, p 145.

[6] ASIC, n 3.

[7] ASIC, n 3.

[8] Centre for Social Impact for the National Australia Bank, *Measuring Financial Exclusion in Australia* (National Australia Bank, May 2012) http://cr.nab.com.au/docs/nab_fin_exclusion_report_final_2012_web-2_1.pdf.

CONTEXT FOR THE STUDY

Financial decision-making

It is important for people of all ages to be capable of making effective financial decisions. A person who pays off their credit card balance in full each month because of their knowledge of the effect of high interest rates and the consequences of debt demonstrates effective financial decision-making. The factors and experiences that shape individual financial decision-making differ and develop over the life course.[9] Effective financial decision-making and the skills required to make such decisions are not static concepts, rather, they are better conceptualised as an "expanding set of knowledge, skills and strategies, which individuals build on throughout life, rather than as a fixed quantity".[10] It is also critical to understand the social contexts and influencing factors that impact on financial decision-making.[11] One benefit of understanding these contexts is that school education programs can be tailored for salience, reflecting current needs of students.

The need for people to be equipped with the skills and confidence to make sound financial decisions, from a young age, is suggested to arise from a set of global economic and social trends.[12] The consequence of these trends is that individuals must make more complex financial decisions and assume greater responsibility for their personal finances.[13] The first trend is that governments worldwide are increasingly "risk shifting" financial responsibility from the State to the individual, including limiting access to social welfare benefits and State-sponsored healthcare.[14] The second trend is that young people must make more complex financial decisions at an earlier age than their parents.[15] This includes the costs of tertiary or further education or training and choosing from a complex array of available financial products and services.[16] It is also argued that there is a generational gap caused by a rapidly changing economic and technological environment, which limits the role of intergenerational financial learning from family members.[17]

Economic participation of young Australians

Evidence on the economic participation of young Australians indicates the importance of effective decision-making by these people. Studies find that young Australians are active economic participants.[18] Young Australians are high users of basic bank accounts – four out of five Australians aged 12-20 had a transaction account with a bank and 57% had a debit or EFTPOS card.[19] Young Australians are strong consumers of goods and entertainment[20] and most own, or use a mobile

[9] OECD, n 2.

[10] OECD, n 2, p 145.

[11] Sohn et al, n 4.

[12] Sohn et al, n 4.

[13] OECD INFE, *Financial Education and the Crisis: Policy Paper and Guidance* (OECD Publishing, 2013).

[14] OECD, n 2, p 145.

[15] OECD, n 2.

[16] OECD INFE, n 13.

[17] OECD, n 2.

[18] Kell P, "'MoneySmart Rookie Campaign Launch': A Speech by Peter Kell, Deputy Chairman, Australian Securities and Investments Commission" (Speech delivered at the MoneySmart Rookie campaign launch, University of Technology, Sydney, 18 June 2013).

[19] VISA Australia, *Generation Z: Insights into the Lifestyles and Aspirations of Young Australians* (VISA Australia and UMR Research Ltd, 2013).

[20] Vittles P, Rintoul D, Power B and Keevy M, *Young People (12-17 Years) & Financial Debt, Report to the National Youth Affairs Research Scheme* (National Youth Affairs Research Scheme (NYARS), Canberra, 2008).

phone.[21] However, consumer activity can lead to compromised financial outcomes if young people lack the knowledge and skills to make sound financial decisions[22] or because they do not understand their consumer rights. A recent study of Australian youth mobile phone usage found "bill shock" as well as confusion and anxiety about financial issues and contractual obligations associated with mobile phone plans.[23] One quarter of Australians aged 12-17 have some form of financial debt and while the proportion of those with large debts is relatively small, the impact of such debt on health and wellbeing can be severe.[24] Savings habits are also lacking, as the same study finds that over half of young Australians are spending all, or most, of the money they earn each month on consumer goods.[25] The study finds there are substantial societal and cultural pressures, including advertising and targeting by companies, that contribute to the spending habits of young Australians.[26]

Contexts for financial decision-making

Financial decision-making is recognised as being influenced by one's social and economic circumstances and family and peers.[27] Previous research finds that interactions with peers, family, culture and media shape the financial knowledge of young people, particularly their attitudes as consumers.[28] The role of parental financial modelling is found to play a pivotal role in how young people manage income and negotiate debt[29] and studies find that discussing financial matters with parents is positively associated with greater financial literacy in adulthood.[30] Peer influences, including the pressure to "fit in" with peer groups[31] are acknowledged to also play a role in the financial decision-making of young people.[32] Education is another influencing factor in the acquisition of the knowledge that shapes financial decisions. Two studies have found that high school financial literacy education changes behaviour positively with respect to savings.[33]

STUDY

Method

A database of 100 schools in Victoria with varying student cohorts and socio-economic profiles was identified using school annual reports made to the Victorian Department of Education. Nine schools were chosen from a range of regional, rural and metropolitan areas for their relative mix of students, geographic locations and learning outcomes, using detailed information from each school annual

[21] Walsh S, White K, Cox S and Young R McD, "Keeping in Constant Touch: The Predictors of Young Australians' Mobile Phone Involvement" (2011) 27 *Computers in Human Behaviour* 333; Weerakkody N, "Mobile Phones and Children: An Australian Perspective" (2008) 5 *Issues in Informing Science and Information Technology* 459.

[22] Lusardi A and Mitchell O, "Financial Literacy and Retirement Preparedness – Evidence and Implications for Financial Education" (2007) 42(1) *Business Economics* 35.

[23] Fieldgrass L, *Mobile Matters: The Youth Advocates Project, Developing a Youth Participatory Action Research and Advocacy Program* (Brotherhood of St Laurence and the Australian Communications Action Network, 2011) p 5.

[24] Vittles et al, n 20.

[25] Vittles et al, n 20.

[26] Vittles et al, n 20.

[27] Sohn et al, n 4; OECD, n 2.

[28] Hilgert M, Hogarth J, and Beverley S, "Household Financial Management: The Connection between Knowledge and Behaviour", *Federal Reserve Bulletin* (July 2003) pp 309-322.

[29] Vittles et al, n 20.

[30] Australia and New Zealand Bank (ANZ), *Adult Financial Literacy in Australia* (December 2011) http://www.anz.com.au/resources/f/9/f9fc9800493e8ac695c3d7fc8cff90cd/2011-Adult-Financial-Literacy-Full.pdf.pdf?CACHEID=f9fc9800493e8ac695c3d7fc8cff90cd.

[31] Vittles et al, n 20.

[32] Sohn et al, n 4.

[33] Varcoe et al, "Using a Financial Education Curriculum for Teens" (2005) 16(1) *Financial Counselling and Planning* 63; Bernheim BD, Garrett D and Maki D, "Education and Saving: The Long Term Effects of High School Financial Curriculum Mandates" (2001) 80(3) *Journal of Public Economics* 435.

report. While it is not suggested that students in the sample are highly representative, this methodology aims to ensure that a broadly representative mix of Victorian secondary schools was selected. Teachers and principals from each school were requested to coordinate a group of students, approximately half male and half female, that was broadly representative and with a mix of abilities from the Year Eleven cohort aged 16-17 to participate in small group interviews. This measure was designed to draw on the expertise and knowledge of teachers about the student body.

All participation was voluntary and the appropriate consent procedures with students, parents and guardians were followed. Focus groups consisted of between three to eight students, with an average of six and in total 68 students participated in the interviews. The interviewer explained the objectives of the Australian Financial Literacy Strategy, particularly the Strategy focus on education in schools, to provide a contextual framework and explanation of the study for participants. Key questions in the focus groups were how participants currently thought about having their own money, their financial decision-making, and how financial matters "fit into" their thoughts and decisions about the future. Participant responses were de-identified and excerpts included below are identified only by the geographic area of their school; regional, rural or metropolitan.

Findings and discussion

Participants across all regions said having their own money was important because it enabled them to be mobile, independent and autonomous. Having their own money meant they had discretion about their spending.

> It gives you your own freedom to do what you want. (Metropolitan)
>
> You don't feel restricted like you don't have enough money to do certain things. (Metropolitan)

Having an independent income source meant less reliance on parents and certain participants stated that the experience of asking parents for money was a negative one. The income of participants came from a variety of sources, including money from parents and formal and informal employment, such as babysitting or house chores. It was evident that more students from regional and rural schools had part-time jobs, compared with participants from metropolitan areas.

Independence, of both a financial nature but also with respect to personal growth and change, was a central and recurring theme in the focus groups. A recent study of young Australians aged 16-18 finds that attaining financial independence from parents and families is of central importance to young people.[34] At this age, the main reason young people engage in part-time work is to develop financial independence.[35] However, it is evident that achieving such independence is not straightforward for most young people. There can be considerable tension around attaining financial independence from families because of the costs of living and difficulties finding full-time work.[36] While young people's goals for securing this independence include living away from home, working or studying, these goals were frequently not able to be fully achieved, necessitating continued reliance on parents or other family members.[37]

Some participants in our study acknowledged that the transition from high school to independent living required them to move towards becoming more self-sufficient. Money and financial independence was clearly a key factor in the decision-making of many participants as they considered their post-school futures. For regional and rural students, the cost of moving to the city to study at university was said to be a source of some anxiety. Participants from all regions discussed the responsibilities, including financial, related to this transition.

> I don't know, I don't really want to live at home and go to uni. So that kind of worries me about money. (Regional)

[34] Taylor J and Gee N, *Turning 18: Pathways and plans, Life Chances Study Stage 9* (Brotherhood of St Laurence, 2010).

[35] Taylor and Gee, n 34.

[36] Taylor J, Borlagdan J and Allan M, *Turning 21: Life Chances and Uncertain Transitions, Life Chances Study Stage 10* (Brotherhood of St Laurence, 2012).

[37] Taylor Borlagdan and Allan, n 36.

> Yeah and supporting yourself like moving out, my God. Having a parent that pays for everything and not a very good saver, what am I – what is it going to be like? I'm terrified. (Rural)
>
> I tend not to think about it but if I do think about it, then it worries me. (Regional)

Participants discussed that independence after high school was an aspiration and were keenly aware of the role money had in securing this independence. Discussing this transition, some participants explained what they thought about the prospect of adulthood and independence.

> I'd also love to find my own place because I can't wait to be independent. I've always wanted to just look after myself. (Rural)
>
> Then you've just got to grow up so quickly … No one's going to wait around for you. Life just goes on. (Rural)
>
> I've come to grips with it but it still frightens me. (Rural)

In many interviews, participants discussed the importance of having a car and a driver's licence. Having a car was very important to rural and regional students because it meant they could travel independently of their parents.

> Yeah, I'd like to get out as soon as possible but the only thing is, especially here in the country is you really can't move out until you've got your licence. Because I guess if we all had our licence a lot of us would be gone a long time ago. (Regional)

Many participants were actively saving for a car, through part-time work or saving money given to them by their families. It was evident that family, particularly parents and older siblings, has a strong influence on the financial decisions relating to future goals and plans. Older siblings who had left home, for example, were looked to by some participants for guidance on money matters related to living independently.

Participants discussed how financial considerations figured in their future aspirations and goals. For some, these were centred on large goals, such as buying a house. It was evident that some participants were concerned about the costs of living in their short-term futures. This was particularly related to a perceived rise in the cost of living.

> Fuel, food. It's getting more expensive so more to run and you need your car to get to where you need to go. (Regional)
>
> It's so expensive, like everything. Then you know, house prices just keep going up and everything keeps going up and it's just like, ahh. (Regional)

Participants identified that to be financially independent of their families can be difficult and stressful.

> Yes, so if you leave and suddenly got all this workload on you that your parents or relatives are taking off you and then you've got it all by yourself, you've got to handle it all, fit it all in which could be difficult. (Regional)
>
> Just those little things and on top of all that being homesick and just not having someone there when you need them, that scares me. (Rural)

Related to this discussion were comments from some participants that at this stage of life, it was difficult to know what would make them happy and content. Other participants discussed the positive and exciting prospects of their futures, including living independently. However, many participants acknowledged that this was tempered by practical, financial considerations. A strong and consistent theme running throughout the interviews, and evident in all geographic regions, is that when young people are thinking about money in the context of their future plans and goals and the transition to adulthood, they conceptualise this in terms of independence. Part-time work and setting savings goals were the two key activities that participants currently used to achieve a level of independence. These are therefore important contexts in which young people are conceptualising their financial decision-making.

Conclusion

The analysis of interview data from these focus groups finds that at 16 and 17 years of age the participants are turning their attention to their post-secondary school futures. They are currently active in making financial decisions and thinking keenly about their futures. Many are engaged in

goal-oriented savings behaviours directly related to achieving independence after school. The study finds that young people are keenly aware of the role money has in securing their independence. The interviews provided insights into how participants are thinking about the role of money in their future goals and plans. In particular, participants showed a good level of awareness about the practical, financial realities of living away from home. This was most evident in the interviews with rural and regional participants. The study finds strong engagement by young people with financial issues, evidencing a willingness to engage with the challenges relating to financial independence.

Studies find that the traditional concept of a "linear" pathway from adolescence to adulthood, and from dependence to independence, is typically too simplistic and in fact the pathway is complex.[38] For example, studies show that young adults continue to live with parents after finishing high school and that young Australians are prolonging the period of financial dependence on their parents.[39] Recent research also shows that financial dependence on family is related to the socio-economic circumstances of the family and that young people from more affluent families are more financially dependent than those from socio-economically disadvantaged families.[40] Our findings suggest that the young people interviewed are keenly aware of the tensions involved in negotiating the transition from secondary school and the role that money plays in this transition. It has been suggested that young people must prioritise economic security in response to changing economic and social conditions, including job insecurity.[41] Our study finds that young people are actively attending to these concerns prior to finishing school, particularly in the country, where a strong theme of saving for a car emerged. This suggests that young people are actively pursuing avenues of independence and autonomy in preparation for completing school. Contrary to any popular conception that might suggest young people are apathetic or disengaged, our findings suggest that young people are very aware of the challenges facing them with respect to their futures. Our study suggests engagement and awareness by young people with respect to achieving individual financial independence.

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[38] Taylor, Borlagdan, and Allan, n 36; Leccardi C, "Facing Uncertainty" (2005) 13(2) *Young* 123.

[39] Cobb-Clark D, "Leaving Home: What Economics has to Say about the Living Arrangements of Young Australians" (2008) 41(2) *Australian Economics Review* 160.

[40] Cobb-Clark D and Gorgens T, *Parents' Economic Support of Young-Adult Children: Do Socioeconomic Circumstances Matter?*, Melbourne Institute Working Paper Series Working Paper No 4/12 (Melbourne Institute of Applied Economic and Social Research, February 2012) http://www.melbourneinstitute.com/downloads/working_paper_series/wp2012n04.pdf.

[41] Harris A, Wyn J and Younes S, "Beyond Apathetic or Activist Youth: 'Ordinary' Young People and Contemporary Forms of Participation" (2010) 18(1) *Young* 9.