

Survey highlights need for financial education as just 30% of Irish Consumers Understand Basic Personal Finance Concepts

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- Results find Irish males more financially literate than their female counterparts

A national survey, commissioned by the Irish Association of Pension Funds (IAPF) and conducted by Red C Research, has identified clear gaps in the Irish public's understanding of basic personal finance issues. The research which will be delivered to the IAPF's Defined Contribution Conference, sponsored by Zurich, tomorrow (Wednesday May 16th), was undertaken by the IAPF and was based on international research which focused on levels of adult financial literacy. The findings of the Irish survey overall signalled a need for further education of a key personal finance issues on a national basis. Three questions were asked of participants and in just total three in ten (31%) Irish adults answered all the questions correctly; and 53% answered two of the questions correctly. When compared with our worldwide counterparts Ireland's results were noticeably below average, on most measures - with 53% of Germans getting all questions correct. Japanese and American participants scored slightly poorer than the Irish at just 27% and 30% respectively.

Following the findings, the IAPF has called on Government to provide a greater level of financial education in Irish schools, particularly at 2nd level.

According to Jerry Moriarty, Director of Policy with the IAPF, "*Consumers are often faced with important financial decisions, and in recent times have had to address significant personal finance problems. Simply put - having an enhanced understanding would lead to better decision-making. While first-time buyers may no longer need to "know what a tracker mortgage is" as they are no longer available, there are plenty of other aspects of household financial planning that people encounter on a daily basis. With mortgages the biggest commitment people will take on and pensions the biggest asset they will have, it is crucial that people know how inflation, interest rates and diversification of investments can impact their financial security.*"

The Questions

- Participants were first asked whether they would have more or less than €102 after 5 years assuming they lodged €100 at the start in a savings account at an annual interest rate of 2%. Approximately seven in ten (69%) of Irish adults correctly answered this question with 28% getting it wrong. In the Netherlands and Germany 85% and 82% of people respectively got the correct answer. Of the other countries surveyed, only the USA fared worse with 65% getting it right.
- The participants were then asked to assume that the interest rate on their savings account was 1% per year and the inflation was 2% per year. They were then asked after saving for 1 year, with the money in this account, would they be able to buy more than today, exactly the same as today, or less than today? Three quarters (76%) of Irish adults correctly answered this question which was pretty close to the best (the Germans at 78%) in the international survey.
- Finally they were asked whether buying a single company stock or a unitised fund usually provides a safer return. Just over half (56%) of Irish adults correctly answered this question with almost 1/5 (19%) not understanding the question. This was the toughest question and again only the German's bettered us at 62%, with only 40% of the Japanese getting it right.

Jerry continued, "*Considering that females are generally regarded as the primary consumers and do better at school, the results were concerning in that they concluded that Irish males appear to be more financially literate than their female. In question one, 75% answered correctly compared with just 63% of women. Similarly questions 2 and 3 (respectively) signalled the same trend with 81% of men to 70% of women and 59% of men to 52% of women answering correctly.*"

The IAPF research also found that overall, age is a positive factor with older people doing well and scoring substantially better than those that still attend or have just left our education system. When contrasted, the various socio-economic groups showed little differences, though farmers shone brightly with an 89% result on the inflation question.

Jerry concluded, *“Our research tells that older Irish males are most financially literate in the case of interest rates and inflation, but least financially literate in the case of risk diversification. That’s unfortunate when you consider that older people typically have large pensions or lump sums to invest and really need to understand the choices they are making. This trend was also experienced in the international research”*.

*Some comparisons are made with international research quoted in a paper given by Annamaria Lusardi, Director of the Financial Literacy Center, The George Washington School of Business (‘Saving and Pension: The importance of financial literacy’, World Pension Summit, 3rd November, 2011).

The research was managed by Weafer research Associates and the fieldwork was conducted by Red C Research between 23rd-25th April 2012 with over 1,000 interviews conducted.

Note to the Editor

About IAPF

Established in 1973, the Irish Association of Pension Funds (IAPF) is a non- profit, non-commercial organisation whose aim is to promote financial security for all retired people.