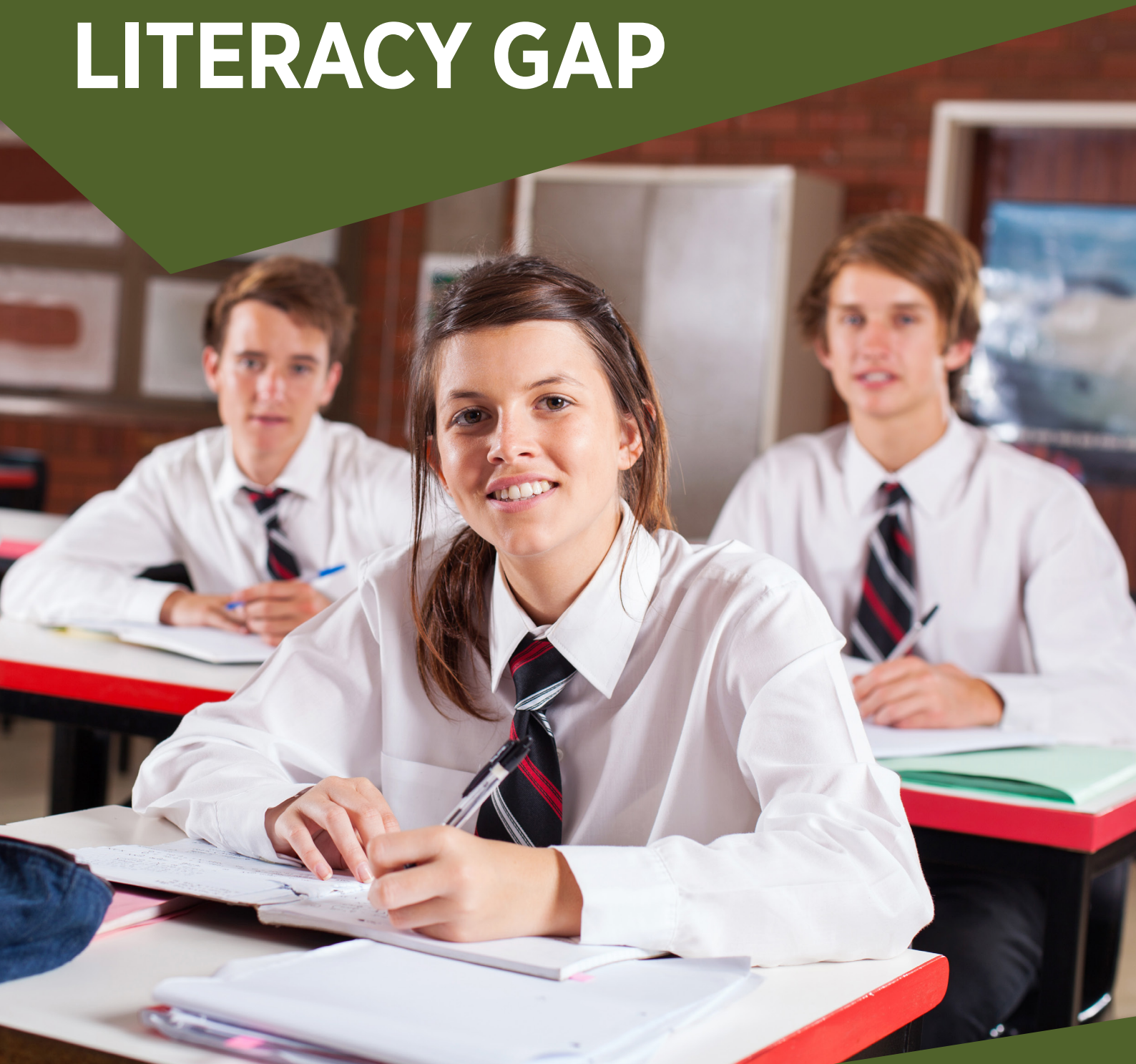
MONEY SCHOOL

Three strategies to help your school close

OUR YOUTH FINANCIAL LITERACY GAP



Despite testing well for financial literacy, young Australians are making poor financial decisions

International benchmarking indicates Australian students have above-average financial literacy.

In 2012, the Programme for International Student Assessment (PISA) ranked Australia's Year 10 students' financial literacy as fourth out of 13 participating countries in the Organisation for Economic Co-operation and Development (OECD), placing us above the average result[1].

Based on this, it would be reasonable to expect that our young people are financially savvy.

They're not.

Contrary to expectations from the benchmarking, young Australians aren't making good money decisions. They're not saving and they're taking on bad debt.

While young Australians score well in the tests, their bank balances tell another story:

- The average savings account balance of 16 to 20 year olds is **$258**.[2]
- The average savings account balance of 21 to 25 year olds is **$548**.[2]

Given the average wage of a 21 to 25 year old is $791 a week[3], their savings represents a woeful **1.3%** of their annual wage.

$548

the average savings account balance of a 21-25 year old

Even worse than the fact that they're spending at least 98.7% of everything they earn, young people are also borrowing heavily from their future – and not for income-producing assets:

- One in three under 25s is carrying forward **$2,500** in credit card debt each month.[2]
- 215,000 under 25s have car loans, with an average loan value of **$11,010**.[2]

It's little wonder young Australians can't afford to buy their own homes.

$2,500

credit card debt carried forward each month by 1 in 3 under 25's

These poor money choices don't appear to be the result of a 'footloose and fancy-free' lifestyle. Young people report feeling stressed about money on a daily or weekly basis.

The Australian Securities and Investments Commission (ASIC) conducts an Australian Financial Attitudes and Behaviour Tracker survey periodically. The first of these was conducted in March to August 2014, and found that of those under 35, **44%** were significantly more likely to find dealing with money stressful and overwhelming than those aged 35 and older (23%).[3]

A separate Impact Leader Study in 2013 found that **one in two under 25's** experience money stress on a daily or weekly basis.[4]

44%

of under 35s find dealing with money stressful and overwhelming

Why is technical financial proficiency not translating to good practice for young Australians? Why are they making such poor financial choices?

Three key issues stand out: formal education, parenting and school banking

There are several probable contributing factors to the poor financial practices of our young people:

1 Personal finance is not comprehensively taught to all students. In addition, some demographic groups have lower technical competency.

ASIC is attempting to close the financial education gap though implementation of the **2014-17 National Financial Literacy Strategy**[5] and, more specifically with respect to future generations, by rolling out the MoneySmart Schools Program. This program is an excellent resource for any school seeking to integrate more personal finance activities into their existing curriculum.

Even MoneySmart Schools face two key risks:

- Students not completing the subjects covering personal finance activities – for example, mathematics, economics and business studies – will miss out on this knowledge.
- There is no compulsory subject that brings together all the financial literacy concepts as a single, actionable plan.

Further, the PISA 2012 benchmarking[1] found that students in the following categories scored significantly lower on the literacy tests than the Australian average, indicating they're missing even some of the basic technical skills:

- Students at provincial schools: **6% lower**.
- Students at remote schools: **13% lower**.
- Students with Indigenous heritage: **10% lower**.
- Students from families of lower socio-economic status: linear relationship **(lower status = lower literacy)**.

2 Parents have a significant influence over behaviour, and today's parents weren't taught about money at school. Without structured training, many lack the ability to help their children put financial education into practice.

This is akin to the problem of teaching nutrition:

If a student learns about healthy eating at school but is served fast food every night for dinner, they have little chance of implementing what they've learned.

So it is with money. A student can learn all the best practices for saving, budgeting and investing, but if their parents live week-to-week and buy everything on credit, there are no role models at home to help the student apply their knowledge.

> MoneySmart senior executive Robert Drake on guiding children to make smart financial decisions: ***"Parents do have a really important role, sometimes it's by being a role model, kids pick up a lot by just watching their parents."***

3 We rely on banks to deliver part of our children's financial education. Banks are businesses with vested interest in the spending, saving and investing decisions our children will make. They are not independent educators.

School banking is a staple at 2,500 primary schools across Australia with the most common program being the Commonwealth Bank of Australia (CBA) Dollarmites. It's an attractive proposition for most schools because:

"The CBA ... pays cash-strapped schools a $5 kickback for every kid they sign up, plus a 5 per cent commission on whatever the child deposits (up to $10), with 'a minimum commission payment of $25 per quarter'." Scott Pape, The Barefoot Investor.[6]

Banks make the bulk of their profit from lending. Shareholders demand profit growth, and so banks meet their fiduciary duties by lending as much as they can within the boundaries of sound risk management and legal governance. For this reason, going to a bank for financial advice is essentially asking to be advised to either put your money in savings – so the bank can loan $10 to someone else for every $1 you have – or take out a loan, whether it's a mortgage, personal loan or credit card.

Banks want children in their school banking programs so they will be the preferred provider when the children are old enough to apply for a loan. **Banks are not the institutions to turn to for independent and unbiased financial education.**

> Scott Pape on banks educating students about money:
> ***"It's the financial equivalent of McDonald's sponsoring home economics."***

What can we do about these issues? How can we ensure our children gain and use best practice personal finance skills?

Solutions fall into three broad categories: enhanced curricula, parent training and independent educators

There are many possible solutions to address the problem of financial literacy. Here are three key opportunities that, if delivered together, can have a significant impact on financial outcomes for young Australians.

1 Update curricula to incorporate MoneySmart and 'connect the dots' about personal finance across subjects.

The MoneySmart Schools Program provides the framework and activities for curricula enhancement throughout primary and secondary education. It is comprehensive, independent, government-funded education with proven results.

Schools can apply to join the MoneySmart Program online and will be asked to complete the following:

- **a teacher workshop** introducing financial literacy concepts to the staff (online or face-to-face),
- appoint a **key contact person**,
- obtain **support** from the Principal, and
- provide an **implementation plan** outlining what the school is currently doing for consumer and financial literacy.

More detail can be found at **https://www.moneysmart.gov.au/teaching/moneysmart-schools/becoming-a-moneysmart-school**.

Not only does the program provide activities for students, it also provides education and guidance for the teachers themselves so they can become financially savvy too.

2 Teach parents about money, and show them how to be role models for their children.

Children will do most of their practical learning about money with their parents. This is appropriate, given that beliefs and values have a major impact on financial decisions. But if the parents aren't financially savvy, and they don't actively seek out education to help them become better financial role models for their children, classroom education will not be reinforced by applying the skills at home.

To close the financial literacy gap in Australia, we need to educate not only our young people, but their parents too.

Parents need access to a structured, comprehensive personal finance education that does not intimidate or overwhelm them. They need simple, practical activities they can use with their children to help embed classroom knowledge. They also need the right language and framework to help their children to fit their technical skills into the beliefs and values of their family.

Parents can access the following financial education resources:

- The MoneySmart website contains an excellent library of resources for parents that know what they're looking for.
  http://www.moneysmart.gov.au/

- The Smith Family offers Saver Plus, a 10-month financial education and matched savings program that assists families to gain financial skills, establish a savings goal and develop long term savings habits. It is only available for families that meet specific criteria.
  https://www.thesmithfamily.com.au/what-we-do/our-work/at-home/saver-plus

- Money School offers a comprehensive structured curriculum for adults, showing them how to build their own financial plan and how to teach their children about money.
  http://www.moneyschool.org.au/

3 Ensure school banking is complemented by independent education that helps students develop a 'healthy skepticism'.

School banking is a beneficial program when it is balanced with independent and unbiased education. Students and parents need access to training and activities from educators that do not endorse or sell financial products and therefore cannot have a conflict of interest between education and the financial choices the students will make.

In short, education must also be provided by non-banking organisations like MoneySmart, The Smith Famly and Money School to ensure impartiality.

Why is financial literacy imperative for our youth right now?

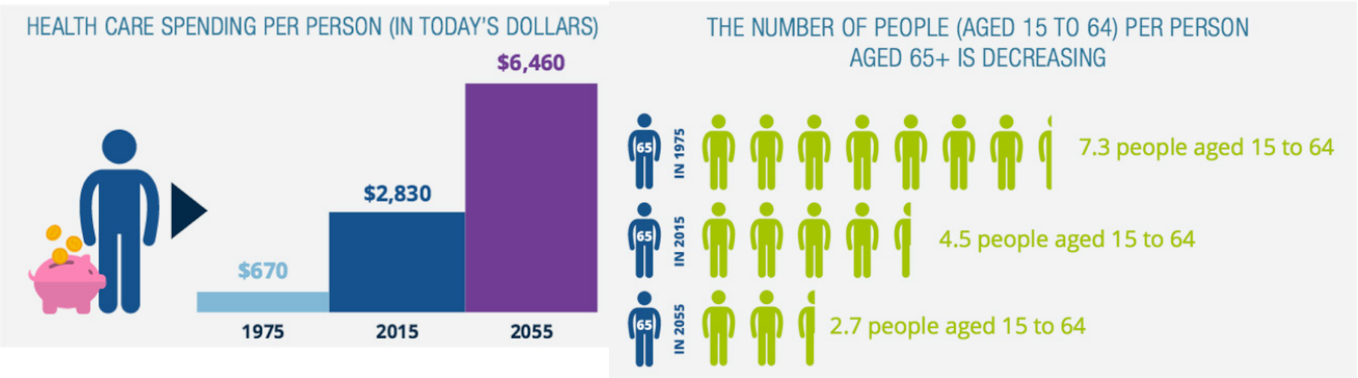
Financial literacy has been an issue for decades, but it's never been more important that we tackle this issue for three reasons: population changes, an inequitable pension and growth forecasts.

1 Our ageing population will put more pressure on young people.

As the Baby Boomer generation moves towards retirement, Australia's population will, on average, age. The 2015 Intergenerational Report[7] predicts that by 2055, life expectancy will be in the mid 90's, and without a large (and so far unexpected) spike in our birth rate, this will result in:

- the ratio of tax-paying citizens to retirement-age citizens dropping by 40%, and
- spending on health care more than doubling per capita.

Simply put, there will be fewer people working to pay taxes to support the growing healthcare and welfare costs associated with this demographic shift.



Source: 2015 Intergenerational Report: Australia in 2055

2 Relying on the pension will not be feasible by the time today's teenagers are nearing retirement, if it is an option at all.

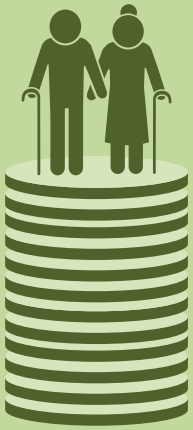
The Australian aged pension is already woefully inadequate. In the OECD 'Pensions at a Glance 2015' Report[8], **Australia ranked second-last out of 33 OECD countries for social equity with 36% of our pensioners living below the poverty line.**

With falling tax receipts and increased health spending, it is unlikely that the pension will become more equitable in the future, therefore retiring on the aged pension will not be an option for today's youth. They will need to be financially prepared to support themselves through 30+ years of retirement.

3.5%

of Australia's GDP spent on pensions

vs



7.9%

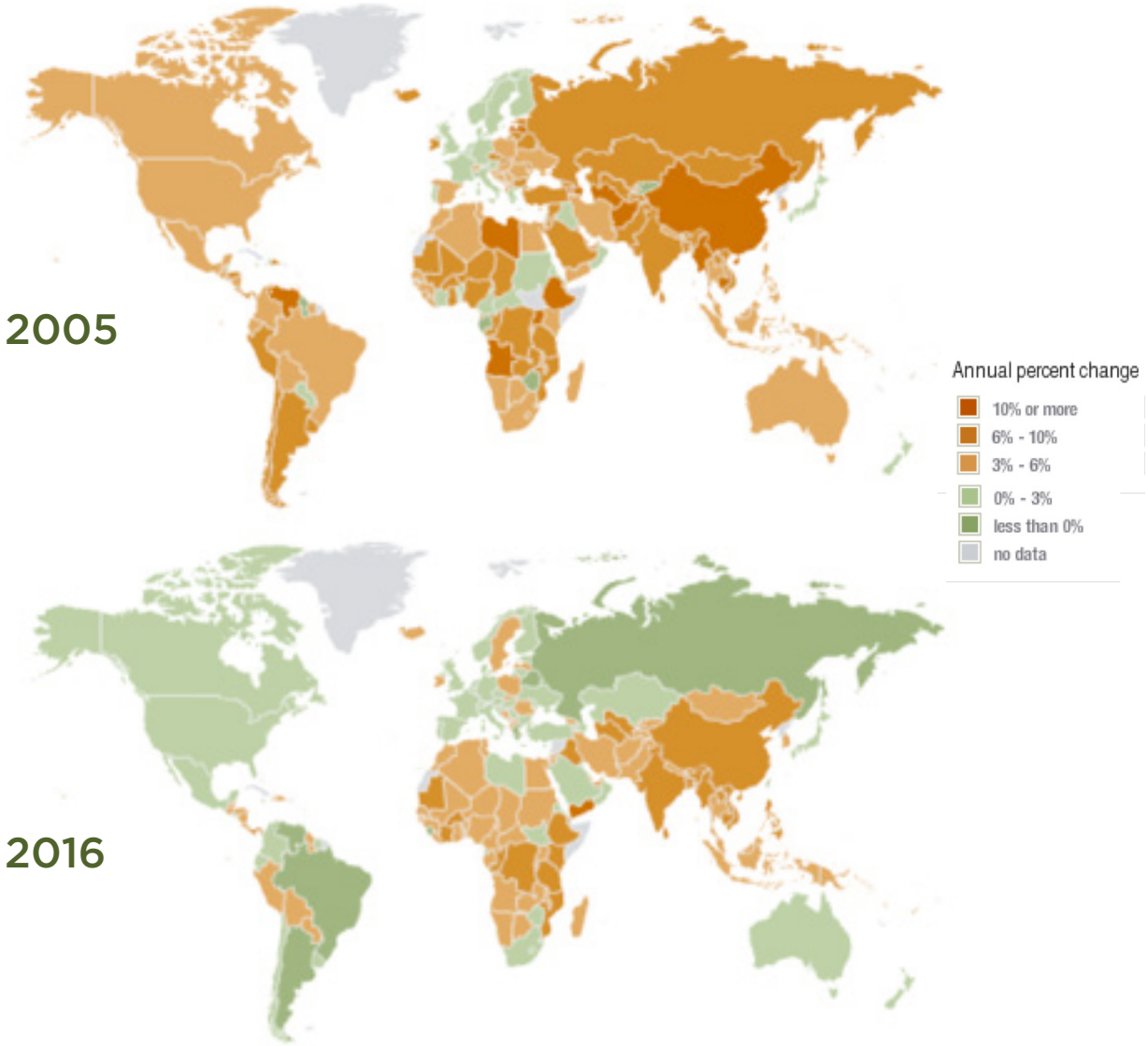
on average for OECD countries

3 After an unprecedented 24-year run of economic growth, returns are not likely to be as robust in the next decade.

From 1991 to 2015, Australia experienced an uninterrupted run of economic growth. This is unprecedented and has only happened to one other country in the world[7]. During that period, returns of 7-10% on superannuation funds have become expected.

It is unlikely that this rate of growth will continue.

Since the Global Financial Crisis, the world has experienced slower growth and there is little prospect of a turnaround in the medium term. With lower returns, those hoping to be self-funded retirees will need a greater asset base to meet their income needs.



World maps from International Monetary Fund[9]

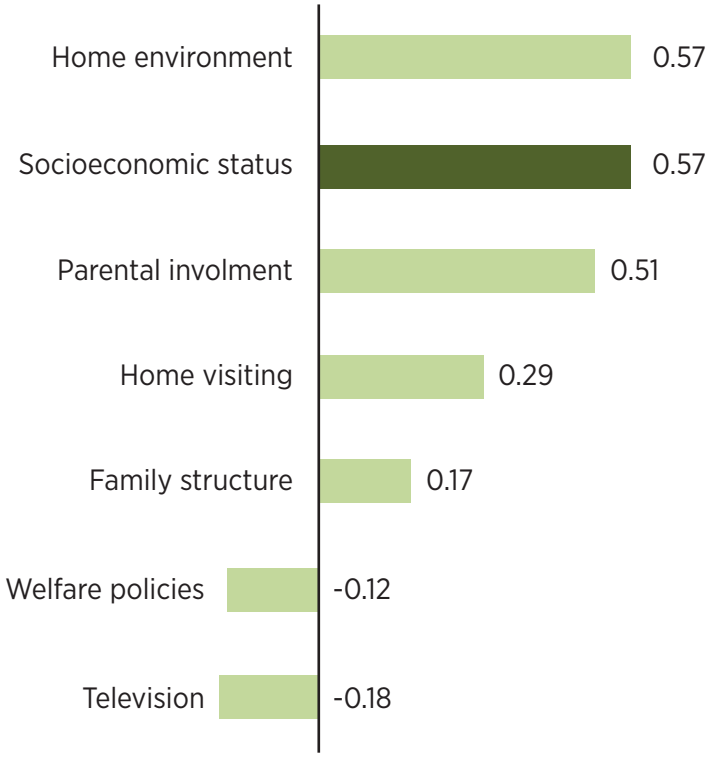
Why is student and parent financial literacy imperative for your school?

Socio-economic status impacts student achievement.

In 2009, Professor John Hattie's 'Visible Learning' meta-analysis ranked 138 influences on student learning and achievement[10]. These influences fell into six categories – the student, the home, the school, the curricula, the teacher, and teaching and learning approaches.

Of the seven factors analysed in the 'home' category, socio-economic status was equal #1 in terms of potential to impact a student's achievement level (tied with home environment).

When your school helps the families of your student become more financially literate, you are helping them improve their socio-economic status. This can positively influence student achievement.



Home effects: Influences and effect sizes related to student achievement[10]

> *Younger generations are not only likely to face ever-increasing complexity in financial products, services and markets, but they are more likely to have to bear more financial risks in adulthood than their parents. In particular, they are likely to bear more responsibility for the planning of their own retirement savings and investments, and the coverage of their healthcare needs; and they will have to deal with more sophisticated and diverse financial products.*
>
> PISA 2012 Report on Financial Literacy[1]

We cannot wait. We must make swift and effective changes now to ensure young Australians have a secure financial future. Get your school teaching its students and their parents about money today.

References

1. OECD (2014), PISA 2012 Results: Students and Money: Financial Literacy Skills for the 21st Century (Volume VI), PISA, OECD Publishing. http://dx.doi.org/10.1787/9789264208094-en, http://www.oecd.org/pisa/keyfindings/PISA-2012-results-volume-vi.pdf
2. Elsworth, Sophie (2013), Young adults drowning in debt, Herald Sun, http://www.heraldsun.com.au/business/save-kids-who-drown-in-debt/story-fni0cp8i-1226679435719
3. ASIC Report 419: Australian Financial Attitudes and Behaviour Tracker Wave 1: March – August 2014, http://www.financialliteracy.gov.au/media/558518/australian-financial-attitudes-and-behaviour-tracker_wave-1.pdf
4. Carter, Lucy (2013), Gen Y has little understanding of financial planning, struggles with debt: study, Australian Broadcasting Commission, http://www.abc.net.au/news/2013-11-20/new-research-generation-y-financial-planning-debt/5105552
5. ASIC Report 403: National Financial Literacy Strategy 2014-17, http://www.financialliteracy.gov.au/media/546585/report-403_national-financial-literacy-strategy-2014-17.pdf
6. Pape, Scott (2015), Chances are you had one of these accounts, Barefoot Investor, https://barefootinvestor.com/chances-are-you-had-one-of-these-accounts-and-you-got-screwed/
7. 2015 Intergenerational Report: Australia in 2055 http://www.treasury.gov.au/~/media/Treasury/Publications%20and%20Media/Publications/2015/2015%20Intergenerational%20Report/Downloads/PDF/2015_IGR.ashx
8. OECD (2015), Pensions at a Glance: OECD and G20 indicators, OECD Publishing, Paris. http://www.keepeek.com/Digital-Asset-Management/oecd/social-issues-migration-health/pensions-at-a-glance-2015_pension_glance-2015-en#page1
9. International Monetary Fund Data Mapper, GDP, http://www.imf.org/external/datamapper/index.php?db=FM
10. Hattie (2009) Visible Learning, http://www.visible-learning.org/

About Money School's financial literacy program for parents

We deliver online training for adults.

To complement classroom training and the MoneySmart Schools Program, we have developed the **'Achieving Financial Independence'** online course for parents that want to raise financially savvy children.

The course is self-paced, assumes no prior knowledge and cuts through the jargon of the personal finance world to make managing money simple. It includes activities parents can use at home with their children to help them apply the skills every person needs to be able to look after their finances confidently and competently.

The course includes **four hours of videos and two workbooks:**

- **'My Financial Plan'** for adults to fill out as they work through the videos, and
- **'Money and Me'** for children to fill out as the family does the activities recommended in the course.

How it works

Schools that want to engage parents in financial literacy can promote our course to the school community at a special price (**40% discount** off RRP).

For every course purchased via your school's promotion, Money School will return **$50 back to your school** as fundraising for whatever purpose you choose. Encourage your students to share the promotion with extended family and friends to increase your school's fundraising.

There is no cost to your school to use our product for fundraising. We solve many of the traditional headaches fundraising involves:

- no inventory management,
- no money handling,
- little volunteer time required, and
- it can be repeated year after year.

For schools wishing to provide a support system for parents participating in the course, Money School offers optional presentations and community group facilitation. These can be tailored to your school's needs and incur a cost that may be covered by the fundraising earned through course sales.

Content

Nine modules covering the core skills and knowledge to achieve financial independence

Delivery

Fifteen videos supported by spreadsheets and written content

Your Plan

The workbook forms your financial plan; complete the activities throughout the course

Children's Plan

Activities to teach these skills to your children; introduce them to financial planning

About Money School

We're a mother-daughter team on a mission to improve financial literacy.

Fran is an accountant. 20 years ago, she was a single parent struggling to raise two daughters on $30,000 a year. She came late to investing, starting in her late 40's. Now in her mid-60's, Fran is a self-funded retiree.

Fran taught her children about investing as she learned. This inspired her eldest daughter **Lacey** to buy her first investment property at 19. Now in her mid-30's, Lacey is financially independent.

Our story was recently published in the '16 Inspirational WA Women' book released on 8 March, 2016.

We are independent from the finance industry and we do not receive kick-backs or commissions for recommending specific financial products.

Praise from Money School students

The Money School perspective is refreshing – linking financial decisions back to our beliefs and values makes so much sense and provides clear guidance to help our children make their own smart and value based money decisions. The presentation was engaging and the enthusiasm with which it was delivered was contagious. Lacey offered practical advice and activities that I was able to share with my girls immediately. 10 out of 10!

Brenda Moore, Executive Director Valuations & Business Modelling, EY Perth

Lacey ...delivers sometimes difficult to grasp concepts in a clear, concise, no-nonsense manner together with a sense of humour which makes it easy to understand. She makes great sense of the financial maze that is our complicated world.

Jen Taylor, Owner, Body Kneads

Enrolled intending to learn how to teach my son about money and walked away with so much more. The course covers the fundamentals of how to increase wealth and is presented in a pragmatic and uncomplicated style. It is obvious that Lacey & Fran know their stuff. The skills I have learned whilst doing the course can be applied immediately and I'm confident will yield positive outcomes.

Donna de Mello, Owner, Admin Elsewhere

This course is an investment in your future and your children's future. It's worth its weight in gold, and so is Lacey! Best spent time and money.

Cara Spence, Industrial Relations Manager, Synergy

MONEY
SCHOOL

P: 0410327186 | E: info@moneyschool.org.au | W: moneyschool.org.au