Intergenerational transfer of financial literacy

Bob Lissington[a]

and

Claire Matthews[b*]

School of Economics and Finance
Massey University
Private Bag 11-222, Palmerston North, New Zealand 4442

[a]Lissington@clear.net.nz

[b]Ph +64 6 3569099 Extn 2329
C.D.Matthews@massey.ac.nz

* *Corresponding author*

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Abstract:

Financial literacy levels are the focus of increasing concern around the world. One way in which financial literacy is gained is via intergenerational transfer from one's parents and grandparents, but it is unknown to what extent this is occurring. This paper reports the results of a series of interviews with high net worth individual. We find that the intergenerational transfer of financial literacy is less formal than might be expected in high net worth families, and tends to be via observation and experience rather than formal passing on of knowledge. We also find that despite concerns about the ability of their intended heirs to manage their expected inheritance, only a small proportion take some form of action to deal with those concerns.

Keywords: Financial literacy, Inter-generational; New Zealand

JEL Codes: D14

Background and Overview

Financial literacy has been defined in a variety of ways, and involves several characteristics: knowledge, ability or skills, behavior, and experiences. There is little evidence that a real underlying demand for financial knowledge and financial literacy presently exists globally. This demonstrates a general lack of understanding and appreciation by individuals, businesses and governments of the value and potential positive impact that a lift in financial literacy could provide for individuals, their families, and their communities, as well as to the national well-being.

A massive shift in wealth is expected in the near future as the baby-boomers start to transfer their wealth to the next generation. Accompanying this transfer are concerns surrounding the ability of the younger generations to handle this newly acquired wealth. Therefore, it is important that alongside this transfer of wealth, there is also an effective transfer of financial literacy. Schervish & Lines (2006) estimate that over US$41 trillion will change hands between generations in the period between 2001 and 2055 in the United States alone. With this large expected transfer of wealth, comes a change in parental attitudes brought about by conflicting concerns. The traditional desire to leave an inheritance that provides financial support has to be balanced against the fear that wealth will sap satisfaction, deplete motivation and diminish personal happiness. (Merrill Lynch and Capgemini 2008).

Wealthy parents believe they can resolve these issues by encouraging their children in open discussions regarding family values, promoting their financial literacy, fostering open dialogue around sensitive issues, and boosting candour between generations regarding what is or is not a reasonable and equitable expectation from the impending transfer. (Schervish & Danko 2006; Merrill Lynch & Capgemini, 2008). However, it would appear that some families are better at passing on financial literacy between generations than others. Merrill Lynch Capgemini (2008) gave the example that self-made multi-millionaire, Cornelius Vanderbilt, the richest man in the USA died in 1877 leaving US$100 million. His son, William, doubled this before his death in 1885. At a family reunion less than a century later, there was not one millionaire amongst the 120 direct descendants.

Financial literacy is a catalyst for the successful accumulation of personal and intergenerational wealth. Without financial literacy, generations are destined to repeat expensive, yet avoidable financial mistakes that occur through ignorance, continuation of poor financial habits and the traditional trial-and-error approach to gaining financial wisdom.

Stanley & Danko (1996) found children of affluent parents did not automatically perform as well as their parents in terms of accumulating wealth. Parents who consciously or unconsciously encouraged financial dependency by heavily subsiding their children's standards of living tended to produce "Under Accumulators of Wealth" (UAW). These UAW children grew up in households with high consumption, few economic constraints, little planning or budgeting, and no discipline. By contrast "Prodigious Accumulators of Wealth" (PAW) came from households where their parents were frugal, well disciplined, independent and instilled similar values in their children.

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. It is also influenced by an individual's parents, family, friends, teachers, employers, and community. Some families appear better at passing on financial literacy between generations than others.

Current low levels of financial literacy infer that either financial literacy transfer is not occurring or that the current methods of transfer are infrequent and ineffectual. The better we understand these factors and behavioural influences are understood, the better to the opportunities to advance society through economic growth.

While there is an important need for the pending transfer of wealth through inheritance to be accompanied by an effective transfer of financial literacy, there has been little research to understand exactly what financial knowledge, habits, attitudes and values have passed between generations, when this occurs, or why it does or does not occur. This paper addresses some of these issues and seeks to gain a better understanding of the impact of past experiences, culture, values, attitudes and beliefs on the inter-generational transfer of financial literacy for individuals with a high net worth in New Zealand.

Prior Research

There is no consistent or widely held definition for financial literacy, although there do appear to be some repeated conceptual themes and characteristics common to most definitions (Schagen & Lines, 1996; Hilgert, Hogarth & Beverly, 2003; FINRA, 2003; Moore, 2003; National Council of Economic Education (NCEE), 2005; Mandell, 2007; Lusardi and Mitchell, 2007; Lusardi & Tufano, 2008; Lusardi, 2008; Hung, Parker & Yoong, 2009). Since no single definition was found that incorporates all the key elements required a working definition has been developed for use with this study:

> Financial literacy is the ability to use basic economic and financial concepts to reinforce positive financial behaviour, and make informed decisions regarding the effective use and management of money and resources for a lifetime of financial well-being.

Financial literacy should be considered a basic survival skill that is as important as "teaching kids to look both ways before crossing the street" (McCormick & Godsted (2006) cited Pulley, p10). Therefore, the reasons for financial literacy levels need to be explored and then to be addressed. Is financial literacy transfer occurring but ineffectively, or are the number of opportunities to gain financial knowledge and skills limited, or are the opportunities to implement limited? McCormick & Godsted (2006) believe any financial literacy learning experience or education received is better than none at all.

There are many examples related to when people learn financial literacy, but the question of whether financial literacy is best learnt when young or as an adult has not been definitively answered. The literature would tend to support an andragogical learning approach as being more effective than a pedagogical approach. Indeed, Ramsden (1996) suggests adults facing real life situations are better motivated to learn and apply financial knowledge and skills than school children. This is also considered by Marton, Housell & Entwistle (1997) and Prosser & Trigwell (1999). While children are often seen as being more receptive, Prosser and Trigwell (1999) believe there is a danger they will fail to see the relevance or importance of gaining financial literacy at an early age, especially if they don't have the opportunity to start to use this newly acquired knowledge and skills (see also Cooke & Abernethy 1999).

Some researchers suggest that it is better to introduce sound economic and financial principles at an early age, so good habits and practices can be developed to empower consumers to gain experiences they can draw on throughout life. Starting at an early age and continued regularly, this provides individuals with the best chance of accumulating wealth, thanks to the power of compounding interest. If this was to happen, the results would be profound not just for the individuals, but for their communities and the nation’s economic and financial systems (Malin 2006; McCormick & Godsted 2006; Tschache 2009).

McCormick & Godsted (2006) believed there are several financial skills children should be encouraged to develop early that would serve them well throughout their life time. These skills are:

- “Goal Setting - beginning to develop the ability to plan for future purchases and to take the steps necessary to achieve those goals.
- Inter-temporal choice - presenting scenarios to children so that they understand that there are times when it is better to wait for something instead of acquiring it immediately.
- Earning - giving children the opportunity to earn, rather than always receiving gifts, helps them to see the value in the time and effort they would expend towards purchasing an object.
- Saving - developing habits in children where it becomes second nature to put a portion of their earnings away, and promoting activities where the act of savings becomes a form of instant gratification.
- Spending - learning how to be savvier in the way children make choices as consumers, comparing costs and considering marketing claims.
- Giving - helping children to see that philanthropy can be a natural part of being financially literate, thereby setting the stage for a nation of givers in the future” (p.11).

These skills may be transferred from older generations and may be part of the transfer of financial literacy between generations. Intergenerational transfer of financial literacy is usually the transfer of knowledge, skills, habits, beliefs, values and attitudes from parents to their children. However, the transfer of financial literacy could equally be carried out by grandparents, neighbours, friends or work colleagues. In any case, it will usually happen on a one-to-one basis.

Counter to the traditional view of intergenerational transfer of financial literacy from parents to children, it is now possible for financial knowledge to transfer from younger generations to older generations, i.e. from children to their parents, thanks largely to the early adoption of computers and internet skills by the younger generation.

Sher (2002) said that his father gave him some great advice, “never get advice from anyone more messed up than you are” (p.158) to which he reflected that too many people seek advice from a friend, family member or work colleague because it was free, rather than pay a professional for proper advice. One problem is that people usually lack the ability to recognise if someone they seek advice from has any real financial knowledge, skills and experience, or possesses a higher level of financial literacy than they do.

Financial literacy transfer can also happen as a result of a formal educational process through schools, tertiary institutions or government agencies. It may also happen informally through employers, community and government agencies, banks, insurance and investment companies, as well as through social media such as television or internet.

Employers can provide financial information but they typically don’t see it as their role, and they tend to avoid becoming involved, beyond providing any information required of them, as they do not want to be seen as “offering advice” for which they could later be criticised or have liability attached (Willis, 2008). Banks, insurance and investment companies provide financial information, product statements and required disclosure, but see little immediate financial return in providing financial education in any formal or structured way (Marcolin & Abraham 2006).

Some financial service advisers may try to educate their clients in a limited way in order to win or retain clients, but they often lack the time, inclination and/or skills to provide quality, structured learning (Bettman, Luce & Payne 1998). However, Marcolin & Abraham (2006) argue that financial advisers have a real opportunity to step in to educate clients (and their children and grandchildren) as part of a comprehensive package of services they could provide.

Malin (2006) believes that central banks should play a role in lifting their nation's financial literacy, as they come from an impartial position, and are motivated by public good rather than politics or profits. However, central banks will need to develop a long-term vision and will require a clear mandate and operational budget to do so.

Traditionally financial literacy was considered similar to other skills, like a trade, passed down from one generation to the next, by parents wanting to educate their own children. Kiyosaki (1997) believes the subject of money is better taught at home, rather than in schools that traditionally focus on scholastic and professional skills, rather than on financial skills. It is the passing on of positive or negative habits, sayings, attitudes and values, that Kiyosaki feels strongly influences generations financially, by positively reinforcing or limiting their thinking and belief in themselves.

The Jump$tart Coalition surveyed thousands of US teenagers over several years and found that 91% would first ask their parents for financial advice. This contrasted with only a third of parents reporting that they spoke regularly with their teens about finances. Their findings indicate clearly that younger generations look first to their parents for financial advice, but unfortunately parents aren't providing it (Hung et al., 2003; Mandell, 2008). This could reflect parents who were brought up believing it was impolite or unwise to discuss money matters with others, or simply that they were confused, or felt ill-equipped or lacking in confidence to discuss financial matters with their children (Beverly & Clancy, 2001; Danes & Haberman 2007). As a result there seems to be an abdication of responsibility to other educators, but unfortunately few of these alternatives are well equipped to handle this challenge.

Bowen (2002) found that "there was no relationship between [financial] knowledge scores of teens and their parents" (p.99). This is counterintuitive, as you would expect that parents who were knowledgeable about money matters would also have teens knowledgeable about basic money matters. This mismatch is worrying on another level as Bowen's (2002) results hint that parents aren't passing on their financial wisdom to their children, and that younger generations are working to improve their knowledge without their parents' help.

The Jump$tart survey (Mandell, 2008) found that greater parent/guardian communication was associated with higher student knowledge scores; unfortunately it also found that greater parent/guardian financial knowledge was associated with lower total communication (as reported by them). This means those best placed to pass on financial knowledge are less likely to do so. This is worrying as it infers that parents with less financial knowledge are communicating more on financial matters with their children. The Jump$tart surveys also found female students communicate more on financial matters than males, and that mothers/female guardians report greater financial communication than fathers/male guardians overall and on most topics - the exceptions were investments and the current financial situation (Hung, et al., 2003; Lusardi and Mitchell, 2009), where they found females generally knew less about financial and investment matters.

These findings from the Jump$tart surveys are counter to Kiyosaki's recommendations, as it shows that only a very small percentage of US students learn economic and financial matters in their homes, and that it mostly comes from friends, media and personal experience or the incremental learning that comes from a process of trial-and-error. This is disappointing, as valuable knowledge from lessons learnt (both successes and failures) is not being passed on. If this is allowed to continue, then future generations are destined to continue to make the same financial mistakes as their parents and grandparents (Hung et al., 2003).

Financial education seems to focus on knowledge of basic day-to-day monetary, accounting and banking skills, rather than how to best apply those skills, how to identify and consider associated risks, or develop some "street smarts" or entrepreneurial skills in order to make fully informed decisions. It appears that no clear commonly used learning objectives exist within our education systems for children to become financially literate, learn how to survive in business or the commercial world, or to survive the hard lessons in life. Few teachers appear on rich lists, unless it is inherited family wealth (Stanley & Danko 1996, Jappelli 2009).

Malin (2006) believes schools around the world prepare students little, if at all, to make informed decisions on life's foreseen and unforeseen eventualities. Foreseen events include work, retirement and death and unforeseen events include redundancy, illness, disability, accidents, divorce and widowing. The consequences of such deficiencies are "play[ed] out over a lifetime, often with tragic consequences" (p.2).

Financial literacy can either be gained through past personal experiences, both good and bad, or can be passed on by others in an informal manner (word-of-mouth, advice, publications) or formal manner (education, seminars.) There are arguments for, and against, effective formal financial literacy education (Russell, Brooks & Nuir, 2006; Willis, 2008; Jappelli, 2009). There is plenty of research showing that people's financial knowledge has improved, comparing pre- and post-programme results, but there also appears to be a real danger that financial education could increase personal confidence levels well beyond a person's real ability, leading to unintended, but dire consequences (Hung et al., 2003l Willis, 2008).

However, there is evidence that some people rarely learn from their financial mistakes or successes. This could be put down to the fact that feedback, or the results of one's actions, are delayed, making it hard to connect current outcomes with distant past decisions. Alternatively, the results/feedback may be ambiguous and confusing, or it may be hard for them to link the outcomes back to past decisions (Agarwal, Driscoll, Gabaix & Laibson, 2008).

Furthermore, according to Sher (2002), one does not need to attend seminars and formal courses to learn financial literacy. Rather one should be observant, interested and committed to learning as "any event, person or situation is a potential teacher" (p.97). Sher believes our education system was failing future generations by not making them observant or inquisitive enough, especially when it comes to identifying what it takes to build long-term financial success. Sher (2002) likened life to a game of cards, with both good and bad hands dealt at random, so it is the skill of the player rather than the hands dealt that determines the winners. Therefore we need to give people the required skills to better handle life's uncertainties.

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.

It is through greater financial understanding brought about by financial education, that society is likely to address the current trends of mounting debt, increasing bankruptcy rates, and uncertain long-term affordability of social security, healthcare and retirement funding systems. These trends are putting additional strain on economies and represent a marked shift in savings and spending habits. While they may be a reflection of modern society, these attitudes to life and money, clearly represent a lack of financial literacy (McCormick & Godsted, 2006).

Data and Methodology

The wealthy are expected to be better at transferring literacy between generations, in part due to the importance of doing so to enable the next generation to effectively manage the wealth to be transferred to it. In addition, there is a perception that the wealthy have higher levels of financial literacy, which has enabled them to build the wealth they have. This study has therefore focussed on the intergenerational transfer of financial literacy for the wealthy. A limited number (31) of confidential face-to-face interviews were conducted, with individuals with high net worth (defined as being at least $1 million).

Locating suitable individuals for the study was done by contacting financial planners in the first instance, and explaining the purpose of the study 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 Biernacki & Waldorf (1981) refer to it as snowballing sampling. There were some barriers to participation experienced, with a few people declining to be interviewed. Reasons for non-participation appeared to include a feeling that they had nothing to contribute, some were intimidated at the prospect of being involved in a higher educational research project, while others felt financially illiterate with a consequent risk of being exposed to embarrassment if they participated.

Each interview consisted of collecting basic background demographical information, a set of five internationally standard financial literacy questions, followed by a series of questions with standardised responses and open-ended questions. The semi-structured approach to these interviews meant that there was a greater degree of consistency in the questioning, ensuring a higher degree of confidence and reliability in the subsequent results and analysis. The use of standardised answers for several of the questions enabled answers to be grouped together to allow for greater analysis, as well as speeding up the response time. An audio recording was made of each interview as Seidman (1998) believed that in-depth interviews should be recorded to ensure reliability in transcribing the participant's response into written text. Each interview was approximately 45 minutes in duration.

Overall the participants reacted well to the interview process and did not find it overly long or intrusive. Most participants 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, from the feedback received they enjoyed the interview, finding the whole process thought provoking and worthwhile.

Subgroups were created to enable additional analysis. Two of the subgroups were gender-based (Male and Female). Those with a net worth of more than $2m were put into a high net worth subgroup (HNW). Another subgroup was of the participants aged 65 or over (HAge), and the final subgroup was based on education, with those with a tertiary qualification put into a high education subgroup (HEd).

The proportion of participants in each subgroup is shown in Table 1. It is important to note that one participant could potentially be a member of up to four subgroups. Table 1 also provides key demographic characteristics for all participants, as well as the subgroups.

As shown in Table 1 the age spread of the participants tended to favour the 50-59 age sub-group at 55%, with 68% being under the New Zealand 'retirement age' of 65[1]. The average age of participants was 61.9 years, while the average age of participants in the HAge sub-group was 76.9 and the average age of HNW group participants was 62.7 years. The participants were predominantly male.

[1] New Zealanders become eligible for the universal pension (New Zealand Superannuation) at age 65.

The majority (55%) of participants had a net worth between $1m - $2m. The HNW sub-group consisted largely of males (92.7%) and 64% were aged less than 65. Of the 14 HNW sub-group individuals, 29% were "effectively retired" before the age of 65. Of the HNW sub-group 64% were either "retired" or "effectively retired" meaning that just over a third were still working full-time jobs.

Table 1 – Demographic Information[2]

	Total *(N=31)*	**HNW** *(N=14)*	**HAge** *(N=10)*	**HEd** *(N=18)*	**Female** *(N=8)*	**Male** *(N=23)*
Proportion in subgroup	*100%*	*45%*	*32%*	*58%*	*26%*	*74%*
Gender						
Female	26%	7%	0%	44%	100%	0%
Male	74%	93%	100%	56%	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 (years)	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%

Of the 31 participants, 42% did not have a tertiary qualification, with 23% having no school or tertiary qualification. For the HNW sub-group, 43% did not have a tertiary qualification,

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

with 29% having no formal qualification. For 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 as it has indicative value. However, the sample size does limit the generalisability of the findings, and this applies more strongly to the subgroups.

Results and Discussion

We begin with the transfer of financial literacy to the participants in the study. Participants were asked whether or not they had received any financial advice or lessons from their parents/grandparents. Nearly half (42%) of participants stated they had not received any financial lessons or advice from their parents or grandparents. This was confirmed when the same proportion said they could not recall any family financial sayings. However, it was interesting to note that on reflection, an additional five participants (58% in total participants) could not provide any evidence or actually recall any family sayings.

Table 2 – Parental financial advice/lessons and sayings

	Total *(N=31)*	**H NW** *(N=14)*	**H Age** *(N=10)*	**H Ed** *(N=18)*	**Female** *(N=8)*	**Male** *(N=23)*
Received Lessons						
Yes	58%	50%	20%	72%	75%	52%
No	42%	50%	80%	28%	25%	48%
Financial Sayings						
Yes	58%	64%	20%	72%	75%	61%
No	42%	36%	80%	28%	25%	39%
Ave sayings	1.7	1.7	2.0	1.5	0.8	2.2
Recall no sayings	58%	64%	80%	56%	63%	57%
Recall 1 saying	13%	21%	10%	11%	13%	13%
Recall 2 sayings	13%	0%	0%	22%	25%	9%
Recall >2 sayings	16%	14%	10%	11%	0%	22%

Surprisingly only 16% could recall more than two family sayings. On average, those participants that could recall family sayings could only recall 1.7 family sayings. The highest was for two participants who were able to recall 6 family sayings. Both were HNW and HEd participants. One recalled investment related sayings (listed on page 19), while the six sayings recalled by the other provided a good representation of the varied family sayings recalled by other participants and are as follows:

1. Save for a rainy day.
2. If you can't afford to pay for something, don't buy it. Hire Purchase is a bad thing.
3. Pay debt off as fast as you can.
4. Pay yourself first.
5. Safety first.
6. Spread the risk - Don't put all your eggs in one basket.

It is possible that had all the participants been given more time, or even prior warning, they may have been able to come up with more family sayings. Interestingly, 80% of the HAge sub-group could not recall any family sayings, with the next highest being the Female sub-group (75%), followed by the HEd sub-group on 72%. What was commented on, on several occasions, was the fact that many of those who said they had gained financial lessons from parents and grandparents had done so more from observation of actions and behaviour, rather than through conversation and discussion. One participant identified the issue clearly by saying that he *"observed experiences and knowledge"* but had not received any formal instruction.

Participants were asked about the extent to which their beliefs had been influenced by their parents/grandparents. Only one-third (32%) of the participants said that they believed their parents or grandparents had a large influence on their attitudes, rules and beliefs around work, debt, saving, education and charity. No one from the HAge sub-group believed that they were largely influenced, while 50% of the HEd sub-group said that they were largely influenced by their parents and grandparents.

Figure 1 – Parents' financial position

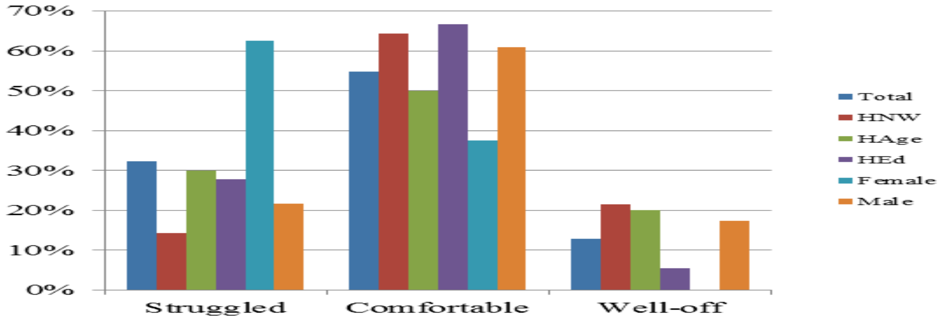
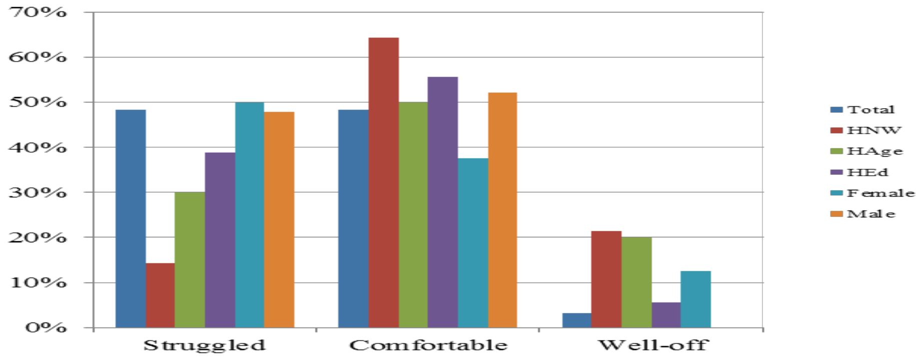


Figure 2 – Grandparents' financial position



Part of the influence of parents and grandparents could come from their relative financial well-being, and participants were asked to describe their parents' and grandparents' financial position relative to others of that period. The results are shown in Figures 1 and 2. Few participants (12%) stated that either their parents or grandparents were "well-off", with most describing their financial position as "comfortable". Overall, 32% of participants said that their parents had struggled. There were some differences in the subgroups. For example, only 14% of the HNW sub-group participants stated that their parents had struggled and 21% said that their parents were "well-off". The HNW sub-group also said that 64% of their grandparents were "comfortable" and 21% were "well-off". This seems to suggest that the individuals with higher net worth had a better start when compared to the others.

A higher proportion of females described their parents' financial position as "struggled", fewer were "comfortable" and none described their parents as being "well-off". The financial position of Female grandparents showed similar trends; however, a small percentage (13%) stated their grandparents were "well-off".

Other participants commented that: *"My Grandfather was incredibly conservative."; "My parents taught me not to waste money and try to save."; "My parents were incredibly* *conservative, never used HP, they had a mortgage but only ever owned one house. They never brought anything they couldn't pay for. And to Dad, money in the bank was hugely important."*

One recalled that *"You don't buy anything unless you can afford, maintain and protect it. That came from my father, and that came from his background. They didn't have anything as kids, they were the bare feet kids. Left school quite young, anything they had was very carefully protected and guarded, rather than lose it. Everything about his up-bringing has made him risk adverse. Everything."*

Another means of intergenerational transfer of financial literacy is via experience. The participants were all asked to comment on the impact of five large financial events in the past 100 years in terms of the impact it had on either themselves, their parents or grandparents. The five events are the Great Depression (1929 -1938), World War II (1939 -1945), the 1987 share market crash, the 2001 - 2002 share market crash and the New Zealand finance company sector collapse (2006-2009)[3].

Of the five financial events, the one with the greatest impact was clearly the Great Depression (94%) as shown in Figure 3. A distant second was the 2006-9 New Zealand finance company collapses (45%), followed by the 1987 share market crash (42%), World War II (26%), and finally the 2001-2 share market crash (16%). All of these events created negative impacts, although World War II also provided positive impacts. The positive impacts came from the post-war prosperity that saw New Zealand benefit from the high demand for meat and wool, and are illustrated by one participant's comment that *"At the time a negative way, as my father was a prisoner of war for five years. But when he came back he got to participate in what was then a boom for NZ, as he was in the building industry. Then, so I can say it was both a plus and a minus."*

The Great Depression seems to have had a huge impact on some families, with the resulting change in behaviour lasting for many years. One participant said *"My ex-husband's grandmother lost her house in the Depression and never owned another house as she was*

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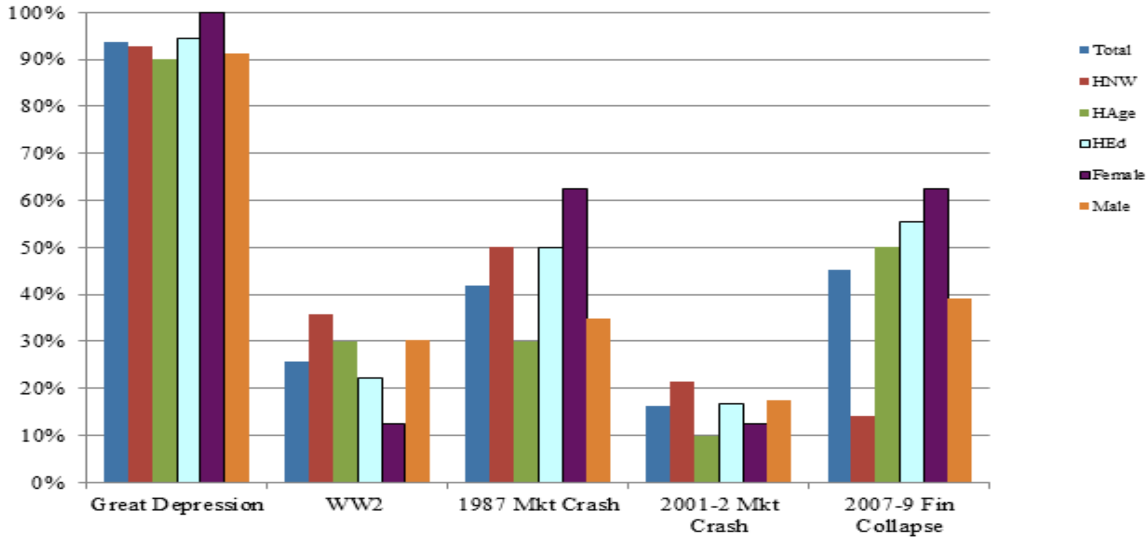
[3] The finance company collapse was a uniquely New Zealand event that preceded, but was unrelated to, the Global Financial Crisis. Over this period 52 finance companies failed, involving losses of approximately $6.4 billion of depositors funds for more than 150,000 investors (Source: http://www.interest.co.nz/saving/deep-freeze-list/)

never prepared to go into debt again." This clearly illustrates an intergenerational effect since few of the participants personally experienced the Great Depression.

Figure 3 – Impact of major financial events



The 1987 share market crash hit the New Zealand market particularly hard, falling about 60% from its 1987 peak and it took several years for the New Zealand market to recover. This saw a large number of investors lose money and several prominent NZ companies disappeared overnight. This was enough to put a lot of New Zealanders off investing in the share market, a fact supported by several participants who commented that *"The [1987] Stock Market crash was a rude shock which put me off shares for a long time. Even now I don't have a lot of shares. I have avoided shares as a result."; "After that [1987 Share market crash] I was more prepared to sell shares rather than hold them as part of my long-term investment strategy."* One participant who worked in bank lending at the time of the 1987 share market crash recalled, *"I had some shares and they went down the toilet. I earned a distrust of the share market. It was fuelled entirely by speculation at the time. It was a real boom and bust cycle. You could see it happening. There was rampant, unsustainable financial activities going on. All the loans were back-end loaded, they were all about expecting inflation and capital gain to provide profit. But it led to huge wealth destruction."*

Two possible reasons for the low impact generated by the 2001-2 share market adjustment were alluded to during the interviews. One was the possibility that time had softened the relative pain and reduced memories, compared to the most recent event, being the New Zealand finance company collapses which were still relatively fresh. The other was that for most investors who were invested in shares, they simply stayed invested until the markets recovered, therefore there was little or no impact as a loss would have only been suffered if they had panicked and sold out. A couple of participants commented that *"We only lost value in shares. We didn't actually sell anything, we held everything we had."; "I didn't sell them. Dad said "things will come back, don't worry".* This compared sharply to the finance company collapse and the 1987 share market crash when companies were liquidated and losses were realised by debenture holders and shareholders, thus removing any possibility of future recovery. In the case of the finance companies, one participant admitted that *"We went into those chasing interest rates and we hadn't educated ourselves in the [finance] companies. We went into that with our eyes closed in terms of researching the quality of the companies we were investing in."* As a response many investors moved away from investing in finance companies, one response stated that *"Ever since [the finance company collapse], once it [debentures] matured, we have taken our money out of finance companies and not reinvested. We have avoided them and invested elsewhere."*

As discussed previously, 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.

Frugality is a recurring theme that surfaced during the interviews. Several participants had observed or experienced, and had later adopted the same habits as their parents. One participant 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 participant 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."*

One participant from the HNW and HEd sub-groups commented that his father had very strong embedded beliefs that drove his investment behaviour and that had proved to be a successful formula. He himself had adopted all of those same rules except for the one relating to being debt averse. Having a clear understanding of the uncertainties and associated risks, using spreadsheets and "what-if" scenarios to analyse the degrees of risk involved and to gain comfort with a range of price changes possible due to market volatility, then after factoring in the cost of lending, would even consider borrowing to invest if it could be shown that sustainable profit margin existed. Those embedded investment beliefs were:

1. *Invest yourself - Don't trust mutual fund managers, they are just an added layer of expense.*
2. *Be prudent with your investments.*
3. *Be debt adverse / Take known calculated risks*
4. *Only purchase shares in companies that have productive assets.*
5. *For those companies, fully analyse the company and understand their product choice.*
6. *Understand the downside risk – analyse impact of price changes.*

One participant from the both HNW and HEd sub-groups stated that his father always discussed his investment strategies and beliefs regarding successful investing with him and said that his father was *"always willing to share his triumphs"* and also added that his father did make mistakes and that he has *"made some big ones, but he does not talk about them very often."* This participant went on to explain that his father had exited the share market just before the 1987 crash and that his father was *"... delighted as he would soon be able to buy back a larger portfolio and therefore he could increase his holdings in a large number of stocks because he didn't take the bath that everyone else took."* The interesting part of this story is that at the same time his mother had also been investing in shares, and he himself had just began investing in shares, but they were not informed of his father's decision to exit the share market. He said his father *"... did not tell us that he had had the thought that things were going to go pear shaped, and afterwards even gloated over the family dinner that he had done a remarkable thing and that we had been stupid."* When asked during the interview if this was his father's way of providing a lesson or was his father not totally confident at the time, the participant replied that he *"...had no way of knowing."*

Only two participants stated that they had received a substantial inheritance. One person commented that knowing he would receive a substantial inheritance at some point in the future, allowed him to tolerate higher levels of risk and helped generate his own wealth. *"I have had every reason to be comfortable and knew that I have a fall-back position."*

These results tend to point to the fact that inheritance or future inheritance had little impact on participants own net worth, and most had accumulated their wealth on their own. One participant stated his father was aware of the 3-generation rule, and *"wanted me to make it for myself."* He is referring to the saying that one generation makes the money, the second generation keeps it, and the third generation spends it. It is unclear what impact inflation may have had on some of these responses, given that a $50,000 inheritance in today's terms would be considered very small, yet in the 1970s when the average house price was $10,000 it would have been considered quite large. This is why the participants were asked to describe any inheritance in their own terms.

Excluding the HAge sub-group, the majority of participants in the other sub-groups (Female 44% - Male 65%) said that they did not expect to receive an inheritance in the future. Looking at the total group, a third of those who had not yet received an inheritance, described their expected inheritance as "small", while 58% expected it to be "moderate". Of those expecting to receive an inheritance sometime in the future, 17% stated that they expected to receive less than $100,000 and 75% expected to receive between $100,000 and $500,000. Of those expecting to receive an inheritance sometime in the future, 92% described the expected impact of any future inheritance as "little", and only 8% described it as "reasonable". For most participants, one could therefore conclude that the likely impact of an expected inheritance will have very little or no real impact on their perceived financial position, or on their motivation towards wealth creation and accumulation.

A huge transfer of wealth is expected to occur over the next couple of decades and the keys to the successful transfer of wealth between generations are ownership structures and proper estate planning documentation.

The majority of participants had intentions of transferring their wealth to the next generation, one refused to comment on any matters to do with inheritance, three participants had no heirs, and one person wished to skip a whole generation and pass his wealth straight to his grandchildren. When asked how much wealth they intended passing on, the majority said "all", but over a third said "some". It became apparent through the comments made during the interviews that those who said “some” were intending to spend a portion of their wealth in the years ahead rather than leave it to descendants or charity. One comment from a HNW participant illustrated this clearly when explaining the reason why he intended to only pass on some of his wealth to his children. *“Fortunately we have given our kids good starts and they are doing quite well in their own right, so I’m going to enjoy the successes I have had in the past.”* Of the three participants without children, who stated that they did not intend to pass their wealth to future generations, they all intended to make some distribution to charities. Of those who said that they intended to leave “some” of their wealth to future generations, 55% said they did not intend leaving a distribution to charity, 18% of those said they would and 27% were unsure if they would make a distribution to charity. This indicates that they were planning to do something else with their wealth, such as spend it. A couple of participants referred to this approach as SKI-ing – Spending the Kids Inheritance.

Over a third of total participants said that they had concerns about their heirs’ ability to handle any inheritance. When asked why, reasons included *“... marital issues, age, greed, all the human vices, and selfishness.”* The HEd sub-group had the greatest level of concern at 47%, and the HAge sub-group was the lowest on 30%. These results should be considered alongside another question that asked *“How important is it to give your descendants strategies for financial success?”* 71% of the total participants said it was “very important” and 94% said it was either “important” or “very important”.

It could be expected that many of those with concerns would have made an effort to give their heirs some assistance, but unfortunately 70% of those with concerns actually stated that they had not provided their heirs with any assistance. This highlights a huge gap, which should in itself be a cause for greater concern. No clear evidence emerged as to why these people with concerns about their heirs had done nothing to alleviate their concerns. Some of those with concerns stated that those concerns were based around age and financial immaturity. One participant commented that *“My teenage children are not at the stage in life when financial prudence comes into anything.”* Another stating that *“I wouldn’t want them to get too much, too soon, too young.”* One HNW participant added that *“Wealth is a good thing if it’s earned. Sudden wealth is problematic. Growing wealth is aspirational and keeps you motivated.”*

This raises the issue of the age it can be deemed that people have reached financial maturity yielded a wide range of results (21 years – 55 years), the average for the total group was 28.6

years. Of those, 13% couldn't come up with an actual age, saying that it "depends" on the character of the individuals involved. This "depends" result was much higher from the HNW sub-group, at 21%. Members of the HEd sub-group are significantly more likely to answer "greater than 30", than the participants without any tertiary qualifications when asked "What is a suitable age for financial maturity?" Although there is no significant difference in the answers given by the HEd sub-group, there was a significant difference for those participants without any tertiary qualifications with more answering "30" and "less than 30", than "depends" or "greater than 30" when asked about a recommended age of financial maturity. There is a significant difference between married participants as they are significantly more likely to answer "less than 30" than both single and separated participants when asked the same question. Overall, here is a significant difference for all participants with more answering "30" and "less than 30", than "depends" or "greater than 30" when asked the question.

Of those with no concerns, 29% had also provided their heirs with some form of assistance. Perhaps one could speculate that this is why they no longer had any concerns, or it could be that they believe their heirs are now of an age that they no longer have any concerns, or possibly that they have already put the right structures into place. One HNW participant stated that *"It could be a concern that my children could handle it, but it is fortunate that their inheritance is in a trust."*

A related issue is the question of education._Participants seemed united in a belief that education is very important. Some stated that*: "Education gives you options"; "Education is paramount, and can be done while you're working."* Those who had not received any formal qualification did not appear to have had financially negatively effects, and in fact some were more motivated to succeed in order to prove a point. However, some hinted that if they had their time again they would want more education, saying things such as *"I'm a little bit of a hypocrite here, given my time again I would strongly recommend getting an education."* and *"It's of high importance, but it should have been higher. In hindsight, I had the opportunity to go on to tertiary study, it's only now 30 years later that it's become more obvious I needed more."* Participants wanted their children to get the best education possible. One participant stressed the importance of education, stating, *"Education is what is guaranteeing our children high quality employment and incomes."* The importance of on-going lifelong education was also recognised, with one participant commenting, *"People do need to be well educated, and* *continue with their education. It's also stimulating."* Most participants agreed education was only one factor leading to financial success, with one noting there were other factors more important than education, such as attitude *"If you believe in yourself you can overcome any lack of education."*

Communication is an important part of passing on financial literacy, so participants were asked about their communication with others on financial matters. When questioned about how comfortable the participants were discussing matters with others, this question was split into three sub-questions, those being family, friends and trusted advisers. For total participants, each of the sub-groups rated being "very comfortable" discussing financial matters with trusted advisers (61%), then family (45%) and friends (39%). It should be noted that one participant had no direct family members. When "very comfortable" and "comfortable" responses were combined this order did not change, trusted advisers (84%) still ranked higher than family (77%) and friends (68%). One HAge and HNW participant said that his father *"didn't talk much about it. Not until he formed the trust and I became a trustee. It was probably good that I did get involved as a trustee while he was alive, as he was able to explain things and I became interested at that stage in how the trust and investments worked."*

Table 3 – Communicating financial matters with others

	Total *(N=31)*	**H NW** *(N=14)*	**H Age** *(N=10)*	**H Ed** *(N=18)*	**Female** *(N=8)*	**Male** *(N=23)*
Discuss with family						
Very Comfortable	45%	43%	20%	39%	38%	48%
Comfortable	32%	21%	70%	22%	38%	30%
Uncomfortable	10%	14%	10%	17%	0%	13%
Very Uncomfortable	10%	14%	0%	17%	13%	9%
N/a	3%	7%	0%	6%	13%	0%
Discuss with friends						
Very Comfortable	39%	43%	20%	28%	50%	35%
Comfortable	29%	21%	40%	33%	38%	26%
Uncomfortable	29%	36%	30%	33%	13%	35%
Very Uncomfortable	3%	0%	10%	6%	0%	4%
Discuss with trusted advisers						
Very Comfortable	61%	50%	30%	67%	75%	57%
Comfortable	23%	36%	50%	17%	25%	22%
Uncomfortable	13%	14%	20%	17%	0%	17%
Very Uncomfortable	3%	0%	0%	0%	0%	4%

It is interesting to note that the HAge sub-group was the only sub-group that didn't reflect that same trend across the board. They rated family (90%) above trusted advisers (80%) and friends (60%) and this was the sub-group with the lowest ratings for both trusted advisers and friends. This suggests that a generational attitudinal effect may exist, which could be worthy of further investigation.

It was found that when it came to discussing financial matters with family, the greater the length of time a participant had been in a relationship, the more likely they were to feel comfortable discussing financial matters with other family members. Members of the HAge sub-group are significantly more likely to answer "comfortable" than any other answer when asked how comfortable they were discussing financial matters with family. Participants aged under 65 are significantly more likely to answer "very comfortable" than any other answer when asked how comfortable they were discussing financial matters with family.

Despite the vast majority of participants saying that they were "comfortable" or "very comfortable" discussing financial matters with family, there was little actual evidence to support that they actually did so. Several made comments to the contrary, such as: *"I don't talk to my family a lot about that sort of things. They don't divulge much and I don't ask."; "Interestingly enough I never heard my parents talk about saving money."; "My daughter lost her husband recently, I don't know what insurance he had ... She has never divulged and I've never asked."* There seemed to be an almost Victorian attitude towards talking about money, it seems to be right up there with sex, politics and religion. One HNW and HEd participant putting it quite succinctly as *"... I'm sure financial matters are more sensitive than sex."*

There were one or two that did talk to their children about financial matters, but this seemed to be more the exception than the rule. A HNW and HEd participant did provide some evidence that they were trying to pass on their knowledge and skills to their children, commenting that *"Unlike my father, I like to be very open with [my children] about what I am doing with my investments and why I am doing it. So I actively involve them in all that I do. They will have to manage whatever mess is left over once I'm gone. So they need to be shrewd, capable individuals and I am working actively to ensure that."* The same participant commenting that he felt his father had not passed on as much knowledge as he could have, adding that *"I don't think my father empowered me to be as shrewd as I am, or maybe he did, maybe he's been more successful than I have given him credit for. He didn't do it actively. I did things by the school of hard knocks, and I don't necessarily believe my children need to learn that way."* Another HNW participant commented on the fact that the communication process needed to be two way, saying that he had noticed that his son *"... has started to ask more, some bizarre questions, but good business questions which shows he's thinking about things."*

As successive generations disappear it appears that a great wealth of financial literacy is inadvertently being lost due to several unknown barriers to communicating existing. One participant's comments seemed to sum up the issues involved when he said *"What my father achieved at the end of his life through a very tight, frugal lifestyle was to build up his capital wealth, which was his long-term objective in life. He did that through very astute investment in the share market, but he never passed on how he analysed companies, how he made his decisions, a fact we rue today, especially since he was good at it."*

Conclusion

Ignorance, misunderstanding, and intimidation create situations of indecision, poor or bad decisions, or total avoidance of the financial system. These are all factors which all contribute to the current low levels of financial literacy experienced globally. This lack of financial literacy maintains a financial under-class built upon financial exclusion. The importance of financial literacy for individuals, communities and countries in which they live, cannot be understated. Financial literacy leads to a higher standard of living, reduced indebtedness, improved levels of savings and investment, sustained business success, and fewer business failures. It also assists with achieving greater self-sufficiency with enhanced resilience and less dependency on the state for healthcare, education and retirement funding. Improved financial literacy will help reduce the gap between "those who have" and "those who have not".

Some of the results were surprising in that they didn't produce the anticipated outcomes given the participants are high net worth individuals. This shows that still more thought and research is required to better understand how financial literacy is developed and how the process of knowledge and skill transfer could be more effective.

The net worth of those interviewed was largely accumulated through their own efforts, with few instances of it being inherited. It was clear that much of what they have learnt from their parents and grandparents came more from observation rather than discussion or formal instruction. 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 which still appeared to have a huge influence even today. Most participants had undertaken a reasonable degree of estate planning to ensure that their wishes would be carried out. Most participants felt comfortable communicating with trusted advisers, family and friends, however there were only a few examples that evidenced that this had actually occurred to a great extent.

The sample is small, with just 31 participants, but it has indicative value, and raises issues worthy of further investigation. However, a degree of caution is required when making definitive statements, especially with regards to the HAge and Female sub-groups as their numbers are particularly small. The limitations from the sample size could be overcome by extending the number interviewed, which would also increase the numbers within each sub-group.

It was interesting to note that the average number of family financial sayings recalled was generally very low, supporting the notion that, much of the learning was done more from trial and error, or experience, or through observation of actions and behaviour, rather than through conversation and discussion.

Only one-third (32%) of the total participants said that they believed their parents or grandparents had a large influence on their attitudes, rules and beliefs around work, debt, saving, education and charity. The majority considered that much of what they had learnt had come more from observation and experience rather than from direct discussions, and financial matters did not seem to be discussed within their families often or in any detail.

There was an expectation that individuals with high net worth and high levels of financial literacy would communicate frequently or effectually. This study showed that the transfer of financial literacy is either not occurring or if it is happening, then it is occurring infrequently or is ineffectual. Despite most participants saying that they were comfortable discussing financial matters with trusted advisers, family and friends it was unclear if many had actually done so, as there was little anecdotal evidence that much communication around financial advice or issues had actually occurred. Few participants could actually recall more than two family sayings relating to financial matters. There was also evidence that some family members regretted not having discussed financial matter more with their parents while they had had the opportunity and have now lost a lot of valuable financial literacy as a result. It is clear that some barriers to communication existed at the family level, given that the vast majority of participants were more comfortable discussing financial matters with trusted advisers than with their own family.

Unless those who have developed good financial skills, knowledge and financial acumen are encouraged to communicate what they have learned over the years, mostly through their own trial-and-error, then the prospects of being able to lift the nation's general level of financial literacy is very low. Perhaps the older generation have never felt confident in their own financial abilities, or perhaps the opportunity to discuss financial matters has never came up. It may be that there has been little interest shown by younger generations, or perhaps the younger generation have been afraid to ask, put off by the fact that money appeared to be taboo and was never discussed at the dinner table. Until we can discover why financial matters are not being discussed more openly and more frequently, then we will be forever dogged by low financial literacy rates.

Also of concern was the fact that a third of participants said they had some worries about their heirs' ability to handle any inheritance, but less than a third of those with worries stated that they had provided their heirs with any advice or assistance. This needs to be investigated further to better understand the reasons for the lack of action on a matter of concern to the participant.

Future research could look at some of the gaps this study did not explore in any depth, such as: whether financial literacy is better learnt when young or as an adult; who is best or most effective at providing financial literacy education and transfer; the effectiveness of various financial literacy delivery methods. There is also a need to investigate a possible link between entrepreneurship and financial literacy. It would also be useful to extend the study to include those with lower net worth in order to compare the results for the different levels of wealth.

Despite participants simply saying that financial discussions had occurred, it could be worthwhile in a future study to try to gauge the types of topics covered, and the frequency with which financial matters have been discussed with family, friends and trusted advisers, as there was no way of determining from the results how much this had actually occurred.

In summary, this study found that past financial events that affected earlier generations, such as the Great Depression, had a large influence on the financial behaviour and attitudes of subsequent generations that had not personally experienced it. Despite the expectation that the wealthy are more successful at transferring financial literacy and are more open to discussing financial matters, this study revealed that this had occurred only in a limited way, and certainly not at the level that was originally anticipated.

National financial literacy levels urgently need to be lifted and this is more likely to occur through better design and application of good economic policies and practices. These should include feedback that monitors, reviews and modifies, rather than it being left to traditional learning by osmosis which has proven to be slow and haphazard in both its application and uptake. Once the right information, habits and skills have been identified, then delivery processes need to be put in place to target opportunities when knowledge transfer is most likely to occur.

It is obvious that the transfer of financial literacy even within families of high net worth individuals is still not common, and is infrequent and inefficient. We need to discover how best to short-circuit the traditional (and often destructive) trial-and-error approach to learning, and how to apply financial knowledge. In order to do this there needs to be a better understanding of how culture impacts upon attitudes, beliefs and values; how attitudes, beliefs and values interact upon each other; and how culture, attitudes, beliefs and values impact upon financial literacy.

Unless things change there is a real risk that a great amount of financial literacy will inadvertently be lost over the coming years due to an unknown number of communication barriers currently preventing or reducing the effective transfer of financial literacy. All of this is happening during the same period in which there is expected to be a vast amount of wealth being transferred between generations. Without change, history will simply repeat itself, often with tragic consequences and the opportunity to make lasting economic progress will be lost.

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