

Submission to the Thoresen Review of 'Generic Financial Advice'

Alison O'Connell, April 2007

Summary of points made in this submission

1. The experience of the Retirement Commission in New Zealand is a very relevant international example for the Review. The Retirement Commission, set up in 1993, has long experience of informing and educating New Zealanders about personal financial issues from which lessons can be drawn. Topical relevance is provided by the Commission's work on KiwiSaver, New Zealand's new auto-enrolment savings vehicle.
2. This submission draws out some lessons for the Generic Financial Advice Review at this stage, summarised below. More may be found to be relevant to the Review as it continues its work, so further study of the strategy and operations of the Commission may be of benefit.
 - The service should be for everyone, with targeted communication to reach those thought to be most in need.
 - The service should offer 'advice' at some level on all aspects of finance that could be encountered over the lifetime. This should include state benefits and products available in the market but should not be product-led.
 - Critical issues for the definition of 'generic financial advice' are how close the advice can get to a recommendation and how personalised the advice can be. The UK is a difficult environment in which to move beyond general education and information towards personalised advice.
 - The service should be delivered by a single body, not involved in other activities and independent from Government, Government agencies and the financial services industry.
 - Funding for a national Generic Financial Advice service in the UK would have to be either (1) all from Government or (2) from Government and mandatory contributions from all players in the financial services industry.
 - However the new service operates, at its heart will need to be the basics exemplified by the Retirement Commission. Sorted - its design, operation and promotion – provides an excellent template.
3. While there is much optimism around the world about the potential benefits of financial advice or education, what actually works and why is still poorly understood. This is despite more policy attention on financial education in many countries and so a growing need to prove value for money from such initiatives. Claims of success with financial education and quantification of its potential future benefits should be investigated with caution.

4. Because of the lack of clear proof that a new national 'generic financial advice' service will improve financial capability or financial well-being, the new service should not be seen as a panacea for all personal financial problems. Other policy changes may be needed both to improve the likelihood of the population having good financial health and to help make a 'generic financial advice' service as successful as possible.
5. To reflect that little is known about the best way to offer 'generic financial advice' the development of the service should be flexible. This means using small scale pilots to test out what works before committing to large scale investments. This may be particularly valuable in the case of the telephone as a channel for giving advice, as research is not encouraging as to its likely success.
6. To set realistic expectations, evaluation of the effectiveness of the service should be integrated into the early stages of development. A framework is suggested so that the new service can develop with some consistency of measurement with other services internationally, which will help to set benchmarks.
7. Most critical will be a clear statement early on as to the precise objectives of the new service: is the intention that users improve their knowledge of financial matters, take specific financial actions, more generally improve their financial well-being and/or that macro-indicators, such as economic growth, improve?

Author of this submission

8. This evidence is submitted by Alison O'Connell, a researcher:
 - Author of *Measuring the Effectiveness of Financial Education*, a paper commissioned by New Zealand's Retirement Commission and published in April 2007, which reviews evaluations of financial education initiatives around the world.
 - A Governor, and formerly Director, of the UK's Pensions Policy Institute (PPI). Author of *Lessons from New Zealand's Retirement Commission for UK policy on financial awareness and advice*, a report commissioned from the PPI by the Resolution Foundation, published in June 2006.
 - An expert in both New Zealand's and UK's retirement income policy backgrounds, for example, author of the April 2006 PPI publication *NPSS policy and design choices* which explores the lessons for what are now called Personal Accounts in the UK from KiwiSaver, due to start in New Zealand on 1 July 2007.

The author can be contacted by email at: alioc@dsl.pipex.com.

Note on terminology

9. As this submission comes from the point of view of what can be learned from existing financial education initiatives and research, it does not follow the questions outlined in the Call for Evidence exactly. Numbers in brackets at the start of a section show the questions on which the following text has some bearing.
10. (AS3) As the Call for Evidence noted, 'Generic Financial Advice' poorly describes the 'Personal Finance Help' which seems to be what the Review is about. This evidence continues the usage of 'Generic Financial Advice' or GFA, but agrees with the Call for Evidence that a new term should be found.

(AS4) Retirement Commission as a relevant international example

11. The Retirement Commission in New Zealand is a very relevant international example for the Review, as the following paragraphs will illustrate. The description of the Retirement Commission and its work in what follows draws on the report¹ commissioned from the PPI by the Resolution Foundation, published in June 2006, *Lessons from New Zealand's Retirement Commission for UK policy on financial awareness and advice* (which should be read for more detail), and later material from and discussions with the Commission.
12. The Retirement Commission was set up in 1993, so has a long experience of informing and educating New Zealanders about personal financial issues from which lessons can be drawn. It seems to be the oldest, and one of very few, national providers of such help. Similar Government agencies in the UK, Australia and the United States have only started more recently.
13. Despite being called the 'Retirement Commission', it is not just about saving for retirement. The name comes from its mandate to use methods including education and information to *improve the effectiveness of [New Zealand's] retirement income policies*. Experience has suggested that the emphasis on retirement puts off some potential users, and in any case, personal finances are not only about saving for retirement. The Commission's vision is that *New Zealanders are financially sorted*, and it covers the wide range of personal finance issues across the lifetime that the GFA initiative will also have to cover, including: goal-setting, saving, managing debt, mortgages, investing, retirement and trusts.

¹ Available at <http://www.pensionspolicyinstitute.org.uk/news.asp?p=227&s=2&a=0> or http://www.resolutionfoundation.org/pdfs/news_PPI_paper.pdf

14. The main vehicle for the provision of the Retirement Commission's education and information is the Sorted website www.sorted.org.nz, started in 2001. Sorted is a model for others, both strategically and operationally. A website is likely to form part of the GFA initiative, being a cost-effective way to reach a high proportion of the population. The success of the operation and promotion of Sorted can be seen from these example statistics (from the Retirement Commission's Annual Report 2006):
- Since inception there have been over 942,000 unique visitors, from a national population of around 4 million, with over 90,000 unique visits per month.
 - Since inception nearly 2.4 million calculations using personal finance data input by the user have been carried out.
 - 82% of surveyed users said they would undertake financial planning as a result of visiting Sorted; 54% said they would take steps to reduce debt.
15. The Retirement Commission also has experience of other channels from which lessons could be learned, including working with schools and testing a telephone-based service. The newest initiative – a workplace-based financial education and information programme – is especially relevant to the GFA initiative as it is based around KiwiSaver, the auto-enrolment retirement savings vehicle that is similar to the proposed Personal Accounts in the UK.
16. For the Commission, 'education and information' stops short of personalised product-specific advice. This is part of the offering of financial services companies, so the Commission would not receive state funding to compete with the market unless there was market failure. By not offering such advice the Commission maintains its impartiality and avoids liability issues. The Commission helps people make their own decisions rather than tells people what to do.
17. However, while 'education and information' describes the method, the outcome is expected to be more about action on financial planning. The Commission is not just about improving people's knowledge about finances for the sake of it, but about helping them to decide what to do. There is also more of an advice nature to the KiwiSaver material. Therefore the 'grey area' between information, advice and recommendation has been considered by the Retirement Commission, and this experience will be useful to the Review's definition of 'generic financial advice', as later paragraphs will discuss.

Lessons from the Retirement Commission in the UK context for the GFA Review

18. The lessons provided from both the long history of the Retirement Commission and its current work on KiwiSaver should be taken appropriately into the UK's policy context. This section draws out some key lessons for the GFA review at this stage. More may be found to be relevant to the Review as it continues its work, so further study of the strategy and operations of the Commission may be of benefit.
19. (BS1, BS2, CS1) By definition, the Retirement Commission's work is for all New Zealanders, free at the point of delivery, as appropriate for a state-funded body. Research identifies particular groups with lower financial knowledge than others, or less attracted to certain messages, so that key segments of the population can be reached with targeted campaigns. A similar approach seems appropriate for the UK.
20. (BS4) As described above, despite a primary aim to help New Zealanders to be financially well-prepared for retirement, the Retirement Commission's work considers all aspects of personal finances, not just retirement savings. Any one person will be in a unique situation of current and expected future income, expenses, debt, savings, exposure to risk, eligibility for state benefits, partnership, retirement prospects and personal preferences. All these aspects, and how they may change across a lifetime, are relevant to what the possible, let alone 'best', financial advice might be for an individual. This argues for a situation-led, not product-led, approach.
21. Therefore, a service offering GFA should at least consider a comprehensive range of financial subjects, at some level. It may then be possible, if the solution is narrowed down to one or more issues, to refer to a specialist provider e.g., a debt counsellor still within the GFA network. Presumably though, there will be limits on what the GFA service can provide. If an individual presents with a very complicated set of circumstances (e.g., dual taxation), the service could not offer advice, other than to see a specialist outside the GFA network.
22. (BS5) One way to define the difference between generic and regulated advice is that regulated 'advice' tends to be a recommendation for a particular product and provider. The outcome of GFA would not always be a recommendation to buy a product (for example, it might recommend paying down debt faster before even thinking about saving), and even if it did recommend, say, taking out life insurance, presumably it would not recommend one provider over another.

23. One critical question for the review is whether the 'advice' given is close to a recommendation or whether it is phrased as a series of questions for the individual to explore to make up his or her own mind. An example of the former: "Pay down debts by £10 pm" or "opt-out of Personal Accounts". An example of the latter: "Increasing monthly repayments by £10 would reduce the time to pay your debt off by X years. Can you afford to do this? If you put that £10 pm into Personal Accounts, you could have an extra £Y pm pension after age 65. Would you prefer this? Here are some factors to consider..."
24. A second critical question is how generic or personalised can the 'advice' be. This will depend on the extent to which the service will be able to provide accurately personalised advice and on how far customers can understand the implications of more or less personalised advice. For example, the value that could be obtained from saving for retirement as compared to that of Pension Credit and other means-tested benefits available in retirement depends on many aspects of an individual's circumstances now and later in life, and on other unknowables such as investment returns. Would the GFA service rely on ready-reckoner type calculations to make broad-brush recommendations for different types of individual (e.g., low income, single, renting) or perform detailed calculations using each of the parameters unique to that individual? Then, in either case, will the customer understand the 'small print' and the limitations and risks in the recommendation?
25. These issues are illustrated by the recent introduction in New Zealand of KiwiSaver, an auto-enrolment savings product. It is similar to Personal Accounts (PAs), although with some important differences in product design and policy environment that tend to make KiwiSaver simpler to understand and more certain in outcome. As well as calculators on Sorted for users to get a personal illustration of future KiwiSaver benefits, the Retirement Commission has had to consider how to frame its education and information messages on the decision of whether to stay in or opt out of KiwiSaver.
26. As Box 1 demonstrates, the Commission is working on a set of reasons to join KiwiSaver or not (to be ready for the launch of KiwiSaver on 1 July 2007). These reasons are framed as broad issues for the individual to think about. The 'advice' does not make the decision for the individual. The GFA initiative will similarly have to decide the tone and content of its messages around the Personal Accounts decision, recognising that in the UK, compared to New Zealand:
- The complexities and uncertainties of the decision are greater.
 - The regulation, liability and trust issues around mis-selling or mis-advising are more acute.

Box 1: Comparing the opt-out decision for KiwiSaver and Personal Accounts

KiwiSaver is an auto-enrolment savings product similar to Personal Accounts (PAs), but with important differences in product design and policy environment that make KiwiSaver simpler to understand and more certain in outcome:

- The value of the one-off lump sum incentive in KiwiSaver is generally lower than the PA tax relief, so is less of a factor in the decision of whether to opt-out or stay in. The lump sum is also more easily calculated.
- KiwiSaver savings can be withdrawn to put down a deposit on a first home, attracting further incentives and is an important factor for non-homeowners.
- An employee can either pay 4% or 8% of salary into KiwiSaver, rather than a percentage of band earnings subject to a cap. This simplifies the decision around KiwiSaver compared to that for PAs.
- Employer contributions are voluntary in KiwiSaver, not compulsory as in PAs, so whether the employer contributes or not is a factor.
- All KiwiSaver saving will be paid above the universal state pension, the value of which is predictable subject to political risk. How much contributory state pension (basic and second) an individual will receive in the UK is less predictable. The value of saving in PAs may be reduced for people claiming means-tested benefits when PAs pay out (depending, among other things, on what the legislation for such benefits is at the time). This considerably simplifies, and makes more certain, the potential value of KiwiSaver saving as compared to that of saving in PAs.
- KiwiSaver saving can be taken as a lump sum; PAs have annuitisation rules.

The Retirement Commission has had to consider how to help people make the decision about opting out or staying in when automatically enrolled into KiwiSaver, for workplace seminars and the Sorted website. The final material is not yet published, but the Commission has suggested a list of reasons to join KiwiSaver and the following reasons not to²:

- *I have a fair amount of credit card, hire purchase or personal debt that I should pay off first*
- *I already have some investment options I'm happy with that are at least as good or better*
- *I can't afford to spare the 4% minimum of my pay each year*
- *I don't want to have my savings locked away until I'm 65 (or for five years if over 60)*
- *I already have a savings plan in place for my retirement income*
- *My employer isn't going to make any additional contributions so I'd rather put that money into my mortgage until it's paid off*

Box 1 continued

² *Putting KiwiSaver to the test*, Presentation to the 8th Annual SuperFunds Summit 2007. Available at <http://www.retirement.org.nz/files/SuperFunds150307.pdf>

Developing the tone and content of these messages is not trivial, especially if there were to be any pressure exerted by a Government trying to get high numbers enrolled.

Taking into account the differences between KiwiSaver and PAs, many of the reasons not to join KiwiSaver could be valid for PAs, such as paying down debt, affordability, having other savings or preference not to lock savings away (which may be more of a concern in the UK because of annuitisation).

Further, PAs have to compete with means-tested benefits, which bring complexity, uncertainty and a requirement for individual consideration that is not so necessary for KiwiSaver. Given as well the greater focus in the UK on liability and mis-selling issues, with greater regulation of financial sales, UK seems a more difficult environment in which to move beyond 'education and information' to more personalised advice.

27. (ES1) To be seen as different from regulated advice, the GFA service has to be trusted to give independent advice, not related to any provider or any particular view. It should not have an institutional bias towards selling product or towards a particular outcome, such as minimising opt-outs from Personal Accounts. The best way of achieving this would be an independent body: independent of both the financial services industry and Government.
28. The Retirement Commission achieves this as an 'autonomous Crown entity'. This is a form of entity defined in legislation, essentially meaning that within its mandate and regular review of strategy and financial position, it can run its day-to-day operations autonomously from the Government, from any other Government agency and from industry. The Commission benefits from the operational advantages in this model: focus, lack of distraction or confusion with any other role, and specialist financial education expertise.
29. (AS6, ES1) The smaller efforts in the UK along the lines of the Retirement Commission (e.g., the moneylaidbare website) by the FSA in the UK illustrate that it is better to have a specialist body focused on financial education rather than approaching it as an offshoot of regulation – a different and probably new voice is needed both in the educational message, and in communicating with consumers, industry and Government.

30. The Retirement Commission is entirely funded by Government (apart from receiving funding for specific research projects from named companies). It used to be jointly funded by the Government and financial services companies on a voluntary basis. But as the number of companies giving money fell, so a concern grew that the Commission would be perceived to be influenced by a few companies. This experience suggests that the funding for a national GFA service in the UK would have to be either (1) all from Government or (2) from Government and mandatory contributions from all players in the financial services industry. It may not be straightforward to define 'all' players or find a fair way of charging.
31. The Retirement Commission is seen as an important established part of the New Zealand financial scene. It has made an impact on a very small budget: NZD 4.6m in 2005/6 (GBP 1.7m). Scaling up for purchasing power parity and the larger population of the UK would suggest a budget of only around GBP 30m. There seems to be no obvious reason why the UK should not at the very least have an organisation similar to the Retirement Commission with similar aims. Taking the concept further into GFA will add to the cost and complexity, but at the heart of the new GFA service will need to be the basics exemplified by the Retirement Commission, including a website. Sorted - its design, operation and promotion – provides an excellent template.

(AS5, DS6) Effectiveness of financial education not well understood

32. While there is much optimism around the world about the potential benefits of financial advice or education, what actually works and why is still poorly understood. This conclusion comes from a review of evaluations of financial education initiatives around the world which I was commissioned to do by the Retirement Commission in New Zealand. The resulting paper *Measuring the Effectiveness of Financial Education* was published in April 2007, having been reviewed by financial education experts in the US, Australia, the UK and New Zealand³.
33. The conclusion is confirmed by other commentators. It is relevant because of the growing interest in financial education around the world, and therefore the increasing importance of:
- Understanding what works best in order to develop new initiatives as well as improve existing ones, and,
 - Being able to prove value for money from financial education initiatives as Government and/or industry funding increases.

³ Copy attached to this submission and available at http://www.retirement.org.nz/index.php?currentPage=20&file_details=1101

34. The personalised unregulated advice proposed by the GFA initiative may take a step further than existing financial education initiatives, but many of the conclusions in the paper are still valid for GFA. GFA is a new, untested concept, so there is no international research on the specific model proposed. The body of research on financial education is probably the most useful available. 'Financial education' for this purpose refers to any method used to increase an individual's financial knowledge with the aim of improving people's ability to make informed decisions on their finances and to take actions for their financial well-being. The OECD's comprehensive definition of financial education would seem to include GFA⁴.
35. Little evaluation of financial education is currently taking place and the evaluations made so far show mixed and inconclusive results. The evaluations so far seem to agree that:
- There is a low level of financial understanding, with the implication that it can be improved.
 - Financial knowledge or capability is associated with higher age (although is lower in the oldest age group), education, income and wealth.
 - People scoring highly on financial knowledge are probably more likely to be those doing the 'right' things to manage their finances.
36. However, comparing the results of many evaluations (see paper for more detail) suggests that remaining unresolved issues include:
- It is not always the case that financial education is associated with the 'right' financial behaviour or good financial literacy.
 - No study has proved that education (or any intervention) causes better financial literacy or better financial behaviour.
 - It is not clear how the benefits of improved financial literacy vary across the income distribution.
 - The interplay of factors other than financial education that may also affect financial behaviour, such as the influence of family and friends, is not well understood.
 - Financial education may sometimes act in undesirable ways, or, at least, in ways that conventional financial wisdom would suggest is undesirable.

⁴ Page 13 of OECD (2005) *Improving Financial Literacy: Analysis of Issues and Policies* © OECD 2005. Available at http://www.oecd.org/document/28/0,2340,en_2649_37467_35802524_1_1_1_37467,00.html.

37. All this means that a positive impact from financial education has not been unambiguously proven; nor has a clear picture emerged of what works best and why. It is not clear whether this is due to poor evaluation methods or poor programme design, or, that financial education works patchily.
38. (CS2) One consequence of these unknowns is that claims of success with financial education have to be treated with caution and investigated in detail, especially those which try to quantify potential benefits. Even if one particular programme has been proven to be successful, not enough may be understood about why it was successful to be able to replicate the success elsewhere.
39. (CS5) Specifically, there is no rigorous evidence that a new GFA service as proposed would lead to a change in consumer behaviour, or that opening access to such advice would remove or reduce the prevalence of apparently poor financial decisions or the need for crisis intervention.
40. Therefore, the new initiative should avoid exaggerated claims for the success of the new venture, and be prepared to learn what can be achieved slowly from piloting, evaluation and refining.
41. The underlying problem is that evaluation of financial education is inherently difficult. More detail is given in the paper, but the major problems are:
- The integrity of the data collected to evaluate financial education programmes is often questionable, and not comparable between studies.
 - Collecting the data and organising evaluation brings practical difficulties especially for educators who are not trained in evaluation.
 - Isolating the impact of a specific financial education programme is near-impossible, because of all the other influences on an individual's financial actions over time, and the inherent, unexplained variation in individuals' financial behaviour.
 - Many evaluations have difficulties in defining the desired outcome of a financial education initiative and setting benchmarks for realistic improvements in financial literacy or behaviour.
42. By reviewing the financial education evaluations made so far, understanding the limitations, the GFA initiative should be able to learn some lessons for the likely success of the new venture. Some lessons are suggested in what follows.

Generic financial advice not a panacea

43. Because of the lack of clear proof that a new national 'generic financial advice' service will improve financial capability or financial well-being, the new service should not be seen as a panacea for all personal financial problems. Other policy changes may be needed both to improve the likelihood of the population having good financial health and to help make a 'generic financial advice' service as successful as possible.
44. Reducing the level of indebtedness should be given at least as much policy attention as auto-enrolment into retirement savings for that segment of the population at risk of heavy debt burdens. The facilitation of some kind of regular paying down of debt could be of more benefit to some people than auto-enrolling into a savings programme. Regulation to make the costs of taking out or consolidating loans stand out in the simplest terms with no small print would help make the provision of GFA advice about debts easier as well as ensuring people understand the real cost of debt.
45. Further regulation may be necessary to improve the information given to consumers about financial products, including Government benefits. For example, using the same terminology on state and private pensions, including Personal Accounts, would enable a standard glossary to be used, and help consumers put all their retirement saving together.
46. An obvious complementary initiative to GFA is to simplify the financial environment in the UK, so mitigating one of the reasons why GFA is thought to be needed. The most pressing area for simplification is where it is difficult to personalise advice, for example, how much means-tested benefit an individual may be eligible for in later life. Simplification could be achieved by a state pension more certain to take people over the means-test level, for example, combining basic and second state pensions into one with the eligibility rules of the basic and by simplifying means-tested benefits (most obviously scrapping Savings Credit). Such policy changes would narrow the 'funnel of doubt' of how many will be eligible for means-tested benefits in future and make it more likely GFA could be successful by:
 - Reducing personal uncertainties in the advice, making it easier for generic advice to be relevant to and understood by individuals without needing so much 'small print' on the risks and uncertainties.
 - Making it easier to recruit and train advisers able to operate across all the financial issues, including benefits, to which individuals are exposed. Otherwise, the new initiative may have to be designed around a number of specialists which may be less satisfactory for the customer and would probably be a more costly model.

47. Another area where personalised advice is made more complex than it need be is tax incentives for saving. The presence of any tax incentives distorts the market, and tends to distract financial knowledge away from the benefit of saving towards how to make the most out of the particular incentives available. A simpler, as well as more distributive, approach would be lump sum incentives. The value of a lump sum incentive can be understood without needing to know about the particular circumstances of the individual. In the current UK system, the value of pension tax relief varies for each individual as a function of marginal rate of tax and previous history of pension contributions.

Importance of testing development

48. To reflect that little is known about the best way to offer 'generic financial advice', the development of the service should be flexible. This means using small scale pilots to test out what works before committing to large scale investments.

49. An example of this is the use of telephone-based advice. The use of the telephone as a channel for advice is superficially appealing, largely because of the lower cost compared to face-to-face communication. This logic drove the development of telephone channels in, for example, banking, car insurance, or NHS Direct.

50. However, two pieces of research contradict this prevailing view as it might apply to financial education:

- A study of loans granted through Freddie Mac in the United States found that there was a statistically significant lower delinquency rate for loans where there had been pre-purchase face-to-face credit counselling compared to loans where no counselling had been carried out. Credit counselling carried out in the classroom and through home study was also associated with lower borrower delinquency rates but there was no statistically significant impact found following telephone counselling⁵.

⁵ Hirad A. and Zorn P.M. (2001) *A Little Knowledge Is a Good Thing: Empirical Evidence of the Effectiveness of Pre-Purchase Homeownership Counseling* Paper, dated May 2001, presented at Federal Reserve Bank of Chicago conference March 2003. Available at www.chicagofed.org/cedric/.

(Paragraph 50 continued)

- The Retirement Commission offered a freephone telephone service until 2000 when visitor numbers to its website reached 10 times that to the telephone. Research identified that the anonymity of the site was preferred, and the website was, somewhat counter-intuitively perhaps, able to offer a more personalised service than the telephone because of the calculators using personal data input by the user. The Commission trialled a telephone-based financial information service in one region of New Zealand in mid-2005 with significant local promotion. Having set up to answer 1,500 calls from a local population of 67,000 in the course of the 6-week trial, 28 calls were taken. A telephone service is not being developed (see PPI/Resolution paper for more detail).

51. These examples mean that it cannot be taken for granted that telephone will work as a channel for GFA. It may be that there is insufficient 'pull' to the telephone for people who need financial advice, whereas people needing to buy car insurance, wanting cheap banking or with a medical query are primed to make a telephone call. It may be that few people are willing to talk though all their personal financial data in the detail that would be needed to give GFA over the phone, whereas enough people are happy to make a banking transaction that way. It may be that particular segments of the population would be confident enough to ask for GFA over the telephone, but those that really need it would not be.
52. Therefore, the GFA initiative should test telephone as a channel very carefully before relying on it. It may be that the telephone is best used only in specific circumstances such as a website helpline, a routing service to the right adviser for a face-to-face meeting and/or as an advice service for simple cases where the individual is happy to carry out the full fact find, discussion of options and 'small print' over the telephone.

(CS3) Evaluation designed in early

53. To set realistic expectations, evaluation of the effectiveness of the service should be integrated into the early stages of development. Evaluation of financial education initiatives is inherently difficult and it is near-impossible to prove that any specific intervention was solely responsible for the 'right' financial action being taken later on. Therefore, evaluation requires careful consideration. The starting point should be what the objectives of the GFA initiative are.

54. An evaluation framework was suggested in *Measuring the Effectiveness of Financial Education*, the recent paper published by the Retirement Commission. The reviewers of that paper, involved in financial education around the world, supported the idea of the framework to set some consistent standards in evaluation practice. It can be used in both formative and summative ways, that is, with pilots that test out and refine the approach, as well as looking back to evaluate the service over a period.
55. Using such a framework builds on the experience of evaluations elsewhere, while tailoring the approach to what is suitable for the GFA initiative. Some form of standardisation with similar initiatives would help to develop a body of evidence from which reasonable target expectations or benchmarks could be derived. The results would also contribute data to get a picture of the value for money of the GFA service, compared with other initiatives.
56. An important lesson from the evaluation literature is that what is to be evaluated needs careful consideration early on. The need or objective of the GFA initiative should be defined precisely, before how to evaluate progress on those items can be decided. While this sounds straightforward, in practice there can be many potentially desirable objectives from any form of financial education. The danger is that the easy ones are measured rather than the relevant ones.
57. Valid objectives for the GFA initiative could potentially include:
- A target number of people receive generic financial advice.
 - The level of financial knowledge, or capability, or confidence, increases; generally across the population or in specific groups.
 - People's attitudes towards finances improve, e.g., become thriftier, if lack of thrift is deemed to be a problem.
 - People take some specific actions deemed to be needed e.g., make more retirement savings or pay down debt.
 - People take action to improve their personal financial situation overall e.g., a better balance of diversified savings and debt.
 - Macro-economic indicators improve e.g., economic growth is stimulated as more people save more.
 - The financial market becomes more efficient or the costs of regulation reduce as more financially literate consumers demand a better deal from product providers.

58. The development of the GFA initiative would benefit from early clarity on:
- Which of these or other possible objectives are actually the objectives of the new initiative; for which segments of the population or on average.
 - Which are to be measured and how is measurement to be made.
 - What are realistic expectations for improvements on these objectives as a result of the initiative, over what timeframes.
59. (ES2) As an example, Box 2 illustrates the Retirement Commission's current approach to evaluation. As part of the Retirement Commissioner's 2007 Review of Retirement Income Policy, an independent assessment of the effectiveness of financial education in New Zealand is to be carried out, which may yield further insights useful to the GFA initiative.

Box 2: Illustration of the Retirement Commission's approach to evaluation⁶

The Retirement Commission's work is directly aimed at achieving a number of specified outcomes, one of which is:

New Zealanders are well educated in financial matters and can make informed financial decisions throughout their lives.

While recognising the difficulties in evaluation, the Commission use a number of ways to quantify progress:

We have found it challenging to identify useful, quantifiable and attributable outcome measures that can be used to judge future performance. So many other factors influence outcomes that to suggest that the Commission's activities alone have resulted in a particular outcome is not only misleading, but may take credit (or blame) for the work of many other individuals or agencies.

The major measures of impact will be changes in attitudes, levels of knowledge and actions taken as a result of accessing our education programmes and information.

There are a number of regularly repeated benchmarked surveys and analyses used.

Measures of different types are illustrated as either to be maintained (+/- 5%) or increased in future, for example:

- Usage: percentage of Sorted users surveyed who revisit the Sorted website
- Knowledge: percentage of survey respondents who correctly state that New Zealand Superannuation is not asset-or income-tested
- Action: percentage of Sorted users surveyed who say they are either starting or changing a debt reduction plan (as a result of visiting Sorted)

⁶ Statement of Intent 2006/7 pages 8 and 9. Available at <http://www.retirement.org.nz/Statement-of-intent-1.html>