Over 60 Year Olds and Financial Literacy - Malta

A Review of and Observation on the Findings of the OECD / INFE Financial Literacy Survey on Malta - 2018

ĠEMMA
know, plan, act.

A ĠEMMA Research Publication

Date: February 2021

Introduction

This is a short briefing note on the financial literacy abilities of Maltese who are aged over 60 years. This briefing note is based on an OECD / INFE survey on financial literacy carried out by ĠEMMA in 2018. The population sample is slightly over 1,013 respondents. The full research report can be downloaded from this link: https://gemma.gov.mt/wp-content/uploads/2019/05/MPU-MFCS-Financial-Literacy-Study-Research-Findings-Report-storm-coverpage.pdf.

Planning and Managing Finances

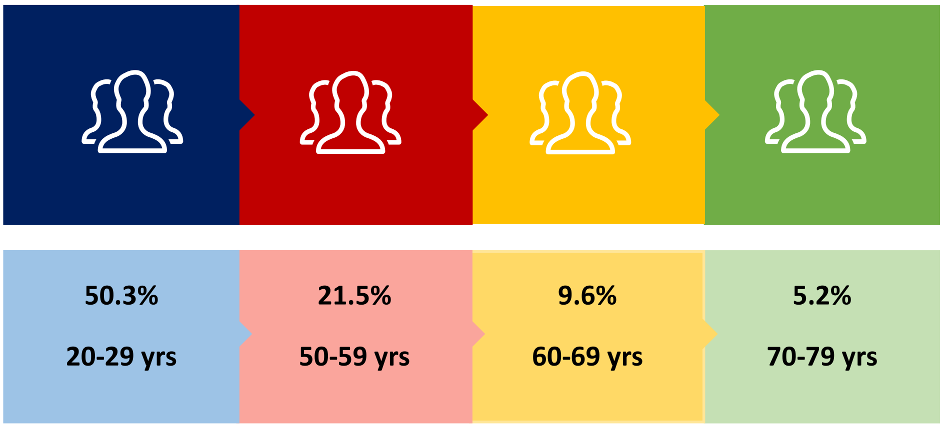
Persons aged 60-69 and 70-79, 97.2% and 90.5% respectively, make their own money decisions (Table 9.1). The slight dip with regard to the 70-79-year-old population may be the result of increased frailty, with money responsibility being shared or handed over to a trusted person. In fact, in a further question (Table 10.1) 3.4% of this age cohort state that someone else makes these decisions.

75.1% and 65.5% of the 60-69 and 70-79 age cohorts respectively state that day-to-day decisions about money are made with someone else. This suggests that money decisions by households are made as a family unit. The lower percentage with regard to the 70-79 age cohort may be the result of single person households.

Table 11.1 is a multiple response question. The answers to the following questions are of particular note particularly given the local banks' drive to digitalise bank services. To the question of what banking apps are used, only 9.6% and 5.2% from the 60-69 and 70-79 age cohorts answered positively. To a complementary question on whether these two age groups used standing orders for regular outgoings, 4.0% and 6.0% answered positively. These findings give rise to policy questions – whether the digitalisation of banking services will create a digital divide that excludes elderly people from the use of banking services.

The data suggests that elder people tend not to keep track of household finances: respectively for the 60-69 and 70-79 age cohorts, only 41.8% and 38.8% keep note of their spending; 16.9% and 20.7% plan their expenses; and 36.2% and 32.8% keep note of upcoming bills.

<u>Use of Banking App</u>



The research suggests that nearly 50% of persons in the 20-29 years cohort use an app or a money management tool to keep track of their money matters (Table 11). As can be seen from the figure above, the use of a digital or other tool falls significantly as a person ages – reaching slightly more than 20% and 5.2% with the 50-59 and 70-79 age cohorts respectively. This data indicates that policies intended by banks to nudge persons towards the internet and other forms of digital banking may result in unwanted implications, in that a large part of the elderly population is inadvertently pushed into a digital divide status. The survey does not identify the reasons why there is such an abrupt reduction in the use of digital tools and Apps. The result presented is particularly surprising for the 50-69 years age cohort particularly given that in 2000, when the PC and the Internet became affordable and accessible, and in 2008, when smart phone technology took off these age cohorts were still only in their 30s and 40s respectively.

In terms of the 70-79 year old cohort, the reasons are more likely to be directly related to affordability and digital skills. The average pension income as at 2018 was approximately €8,000. A high convenience charge applied to pensioners for using traditional banking services and the inability of using digital tools due to lack of skills may result in significant negative policy impacts – such as having elderly people frozen out from the banking system, being forced to keep their money at home, etc.

Of note is that 61.6% and 62.9% of the 60-69 and 70-79 age cohorts respectively use Maltese as the preferred language when reading on investment products (Table 12.1). This finding denotes that for entities that engage with elderly people, as well as ĠEMMA in its financial education campaigns, or financial institutions that promote or use financial products, effective interaction is best attained if made, and the material presented is, in Maltese.

Active Savings, Making Ends Meet and Financial Shocks

Table 13.1 is a multiple response question. The saving instrument used by elderly persons is overwhelmingly the savings/deposit account: 93.2% and 93.1% with respect to the 60-69 and 70-79 age cohorts. Of note is that over 35% are actually engaged in stocks and shares investment (39.0% and 39.7% of the 60-69 and 70-79 age cohorts) and in buying bonds or fixed deposits (35.6% and 36.2% of the 60-69 and 70-79 age cohorts). Not surprisingly, investment in modern instruments such as bitcoin and ICO is at 0.9% for the 60-79 age cohort – the age cohort with the highest investments in cryptocurrencies being that between 20-29 at 5.6%.

Of note is the finding that elderly people have a rainy day fund of at least one month, as 78.5% and 75.8% of the 60-69 and 70-79 age cohorts stated that they are able to face a major expense that is equivalent to their monthly income without having to borrow money. The percentage of elderly people who stated that in 2018 they were in a position where their income did not cover their living expenses in the previous 12 months were 26.6% and 34.5% for the 60-69 and 70-79 age cohorts (Table 20.1). To make ends meet, the action with the highest response was cutting back on spending (87.2% and 95.0% of the 60-69 and 70-79 age cohorts) and withdrawing from savings (76.6% and 82.5%) of the 60-69 and 70-79 age cohorts – multiple response question, Table 21.1.

<u>Action to make ends meet:</u>

	20-29 years	40-49 years	70-79 years
Cut spending	85.1%	90.0%	95.0%
Withdraw from savings	51.4%	52.5%	82.5%
Transfer savings into current account	40.5%	40.0%	20.0%
Use credit card	20.3%	50.0%	17.5%

The use of a credit card to make up for a shortfall in income was 53.2% for the 60-69 age cohort – same level of use as the 40-49 (50.0%) and the 50-59 (50.9%) age groups. 17.5% of persons who are 70-79 years old stated that they will make use of a credit card in such circumstances.

Financial Goals

As expected, elderly people – who own a home (as at 2011 Census, approximately 76% of the Maltese population own a home), most likely own a car, have educated their children, etc. – do not have a financial goal: 5.6% and 3.4% of the 60-69 and 70-79 age cohorts (Table 15.1). Be that as it may, given the increased healthy life expectancy, the increased activity in the labour market, and the fact that the 60-69 age cohort is known as the "young old", one would have expected that this age cohort would have a far higher financial goal aspiration.

Within the context of this very low financial goal aspiration, elderly respondents stated in a multiple response question (Table 16.1) that if they were to have an important financial goal to meet, they would either reduce spending (50.0% and 75.0% of the 60-69 and 70-79 age cohorts), dip into saved or invested funds (50.0% and 75.0% of the 60-69 and 70-79 age cohorts), or prepare a financial plan (60.0% and 25.0% of the 60-69 and 70-79 age cohorts).

Retirement Plans

The 60-69 and 70-79 age cohorts who do not have a retirement plan stand at 74.6% and 77.6% respectively. In truth, there is little that can be done for individuals in the 70-79 age cohort who do not have a pension plan. At this stage of their life, those persons who got it wrong are supported by the government social network.

The 60-69 age cohort constitutes a concern. The increase in the retirement age was announced in 2007. Retirement age was increased by 1 year (62 years) for those born between 1952 and 1955, and a further year (63 years) for those born between 1956 and 1958. There was a policy failure, however, because at the time of the increase in retirement age and the other pension reforms there was no complementary programme directed to educate people on the importance of having a retirement plan. It is pertinent to note that the number of persons in the 50-59 age cohort who say that they do have a retirement plan falls to 37.6% (Table 17.1).

It is interesting to note that in responsing to a question of how retirement is funded, only 74.6% and 77.6% of the 60-69 and 70-79 cohorts state that they have a government / old age pension (Table 18.1 – multiple response question). The research leads one to conclude that approximately 25% of the population do not have a contributory pension or a means-tested pension. This finding does not seem to correspond with the official data. This is a matter that ĠEMMA should look into in the preparation of a forthcoming OECD / INFE survey.

Of note – and this is expected to increase – 16.4% of the 60-69 aged respondents state they will finance their retirement through continuing to work (Table 18.1 – multiple response question). Responses to the same multiple response question show that elderly persons complement their pension income by withdrawing from savings (81.9% and 86.2% of the 60-69 and 70-79 age cohorts) and from income generated by financial or non-financial assets (42.4% and 38.8% of the 60-69 and 70-79 age cohorts). The 2018 OECD / INFE study is the first that Malta has carried out, and hence it is not possible to draw out a trend. Be that as it may, given the high negative responses to the question of whether persons have a pension plan, the data thus suggests that to meet a quality of life that fits into their needs during retirement elderly persons are dipping into their savings.

This is substantiated by the fact that the cohort of persons aged 60-69 years and 70-79s who are not satisfied with their present financial situation stand at 67.8% and 71.6% respectively – of which 50.3% and 56.9% respectively completely disagree (Table 28.3).

This data raises a number of points. Is the dipping into one's savings and assets because of a contributory pension the value of which is deflated? Is this the result of the fact that seeking a high quality of life during retirement that equals that enjoyed when one was in employment a self responsibility? It is pertinent to underline that the education message being presented to young generations is that it is government's responsibility to provide a contributory pension that allows a person to live in dignity during retirement – together with the other aspects of the social welfare system such as free health, free chronic medicines, free public transport, etc. The message is unequivocal in that should a person wish to have an income during retirement that is equal or close to the income enjoyed whilst in employment, then that person has the responsibility to save for retirement – primarily in private pension schemes. This, it should be noted, is an opportunity that was not available to persons who are 60 years of age and over, as private pensions following the 1979 reforms were abolished and the first schemes were only re-introduced in 2015 as a result of the legal framework introduced through the 2007 pension schemes.

Using Financial Products and Services

Practically everybody in the 60-69 and 70-79 age cohorts has a savings acount – 97.2% and 99.1% – within the same percentage levels for persons aged 30 to 59 years. Interestingly, more elderly people have a credit card than younger cohorts (less than 90%) – 95.5% and 94.0% for the 60-69 and 70-79 age groups.

Financial Attitudes and Behaviour

Elderly people, perhaps naturally, prefer or find it more satisfying to spend rather than to save money – Agree and Completely Agree responses add up to 42.9% and 30.2% for the 60-69 and 70-79 age cohorts. The next ranking cohort is the 50-59 age cohort at 29.6% (26.1). This implies that, unlike the elderly cohorts, the rest of the population places greater importance on saving. On the other hand, 79.1% and 78.4% of the 60-69 and 70-79 age cohorts answered that they neither agree nor disagree with the statement that money is there to be spent (Table 27.1).

Money is there to be spent

	20-29 years	40-49 years	70-79 years
Completely Agree	3.4%	4.7%	0.9%
Agree	24.9%	16.0%	10.3%

A worrying note is that 50.3% and 56.9% of the 60-69 and 70-79 age cohorts are not satisfied with their present financial situation – followed by the 50-59 age group at 21.0% (Table 28.3). This observation is further reinforced by the fact that 47.4% and 46.5% of the 60-69 and 70-79 age cohorts state that their financial situation limits them from doing things that are important to them. This contrasts sharply with the rest of the population – followed by the 50-59 age group at 44.3% (Table 30.1). In fact 56.0% and 69.8% of the 60-69 and 70-79 age cohorts express concern about paying normal expenses – much higher than the rest of the population, followed by the 50-59 age cohort at 30.1% (Table 33.1).

This concern of elderly people with regard to their financial situation is further reinforced by the fact that 67.2% and 74.1% of the 60-69 and 70-79 age cohorts state that their finances control their life. Once again, this concern is significantly far higher than the rest of the population – next highest being the 50-59 age group at 36.1% (Table 34.1). Consistent with these findings to the question of having any money left over at the end of the month, 57.1% and 68.1% of the 60-69 and 70-79 age cohorts answered 'rarely'. Again, this is significantly higher than the rest of the population – the next highest age group being the 50-59 at 27.4% (Table 36.1).

Tend to worry about paying my normal expenses

	20-29 years	40-49 years	70-79 years
Always	6.8%	14.0%	41.4%
Often	21.5%	12.0%	28.4%

Whilst 47.4% and 46.5% of the 60-69 and 70-79 age cohorts keep a close watch on their financial affairs, this is considerably lower than the rest of the population – followed by the 18-19 age group at 50.0% (Table 29.2). The data suggests that very few persons in the 60-69 and 70-79 age cohorts have a debt – with 96.0% and 95.7% respectively answering they completely disagree to the question that they have too much debt. This finding presents no surprises – by the age of 60 years and over, mortgages would have been paid and expenditure tends to be on short term financial goals such as an overseas holiday (Table 32.1). Of note is that 86.4% and 89.7% of the 60-69 and 70-79 age cohorts carefully consider whether they can afford something before buying it (Table 35.1). This behaviour is

found amongst the rest of the population – the least ranking being the 18-19 age group at 70.6% (35.1%).

<u>I have money left at the end of the month</u>

	20-29 years	40-49 years	70-79 years
Always	20.9%	18.7%	2.6%
Often	29.9%	19.3%	4.3%

Level of Financial Knowledge

40.1% and 42.2% of the 60-69 and 70-79 age cohorts self-assessed themselves to have a very low knowledge of financial matters – compared with 13.3% and 15.6% of elderly persons in the 40-49 and 50-59 age cohorts (Table 38.1).

About the Author

David Spiteri Gingell is the Manager of the Government's of Malta financial capability education platform (www.gemma.gov.mt). David was the chair of various pension reform groups between 2004 and 2012, and since 2013 David is a member of the Pension Strategy Group. David drafted the National Strategy for Retirement and Financial Capability 2017-2019 and the new 2021-20254 Strategy which will be issued in quarter two of 2021.

David held senior positions in government, the private sector, and overseas.