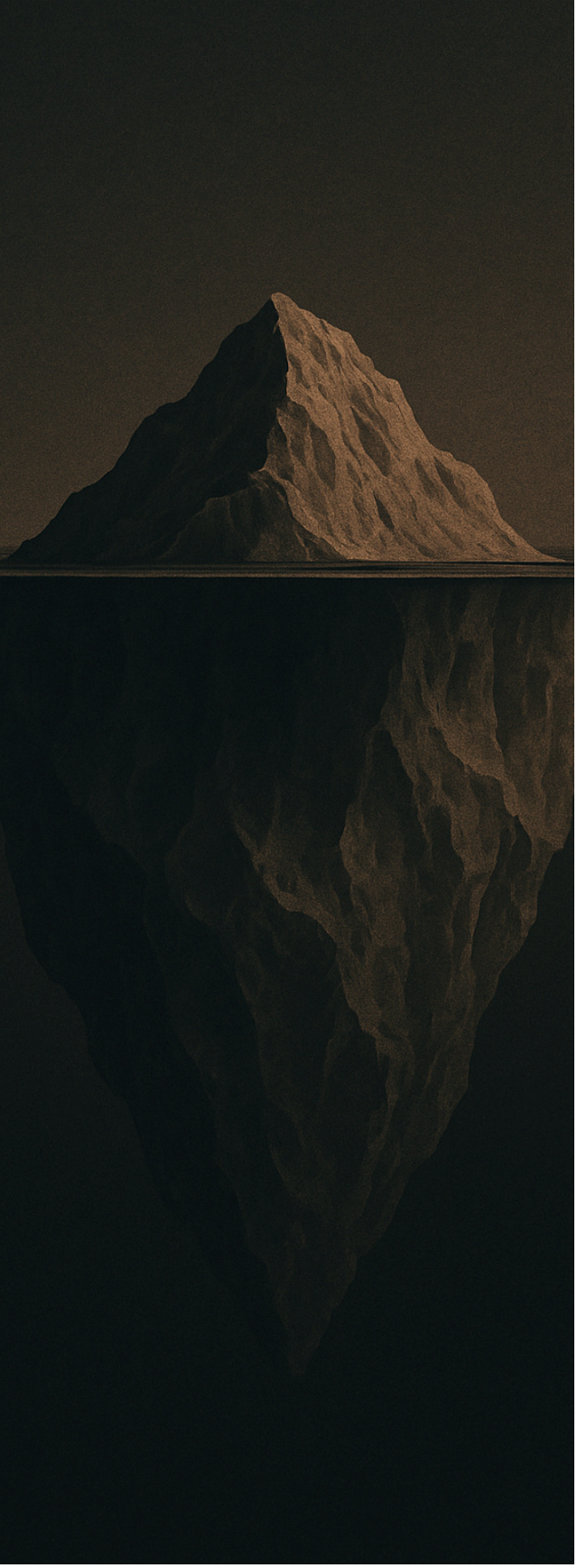

SMITHS ECONOMIC PAPERS
PAPER 01 · 2026

The Death of Net Worth

Why high-net-worth New Zealand households can still be financially fragile.

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EXECUTIVE SUMMARY

Wealth is not the same as safety

New Zealanders are taught to measure financial success with a single number: net worth, the value of everything you own minus everything you owe. It is a useful number. It is also a dangerously incomplete one.

Net worth is a **stock** measure. It tells you what a household owns at a single moment. It says nothing about whether that household could survive a redundancy, an interest-rate reset, a serious illness or a market fall without dismantling its long-term plan. A family can hold a $2m house, two strong incomes and a healthy KiwiSaver balance and still be one shock away from forced selling, because almost none of that wealth is liquid, insured, or accessible when it is actually needed.

This paper draws on the *wealthy hand-to-mouth* literature (Kaplan, Violante & Weidner, 2014), heterogeneous-agent macroeconomics (Kaplan, Moll & Violante, 2018), household fragility research (Lusardi, Schneider & Tufano, 2011) and New Zealand balance-sheet data to argue that resilience, not net worth, is the true measure of household financial strength. We introduce a framework, **the Household Fragility Frontier**, and a scoring tool, the **Financial Resilience Index**, to make that resilience visible and measurable.

SMITHS FINDING 01

"Net worth counts what a household owns. Resilience measures whether its economic life can survive a shock. The two can point in opposite directions, and in New Zealand they often do."

~1 in 3

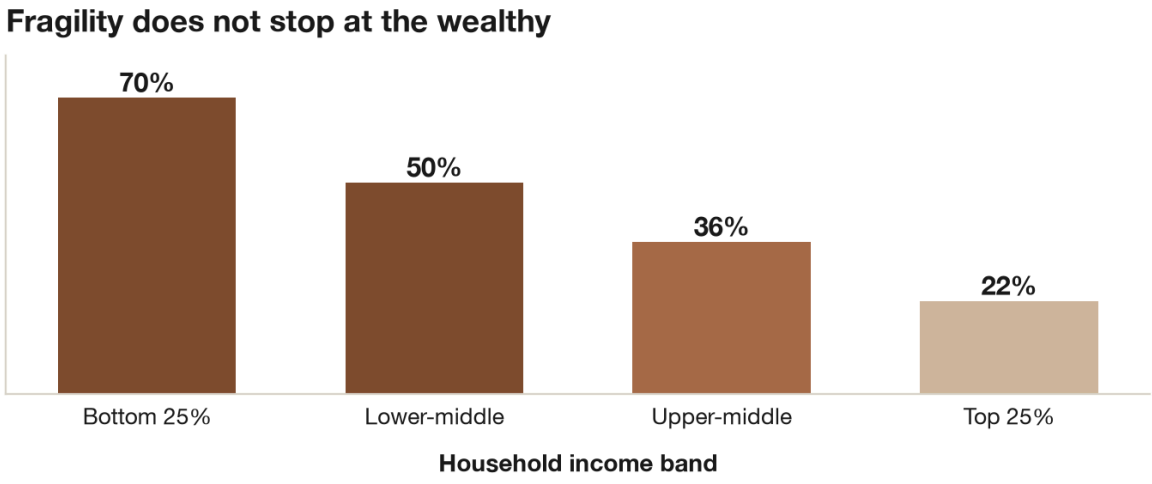
of US households are "hand-to-mouth"; about two-thirds of those are wealthy hand-to-mouth, asset-rich yet cash-poor (Kaplan, Violante & Weidner, 2014)

39%

of New Zealanders could not access $5,000 within a week without going into debt (FSC Financial Resilience Index, 2023; n=2,030, fielded March 2023)

48%

of total NZ household assets is owner-occupied and other real estate, the single largest class (Stats NZ, year ended June 2024)



Illustrative share of households, by income band, that could not raise a modest emergency sum within 30 days. Even in the top income quarter, roughly one in five is financially fragile (after Lusardi, Schneider & Tufano, 2011).

Illustrative of the pattern documented internationally (Lusardi, Schneider & Tufano, 2011): fragility reaches well into higher-income groups. The bars are representative, not measured New Zealand percentages. The real New Zealand anchor: the FSC found 39% could not access $5,000 within a week without going into debt (2023).

THE ECONOMIC PROBLEM

A number that hides more than it shows

Personal finance has long treated net worth as the scoreboard. It is simple, it is comparable, and it rises over a lifetime in a way that feels like progress. But as a measure of financial *health* it has three deep flaws.

1. It treats every dollar as equal

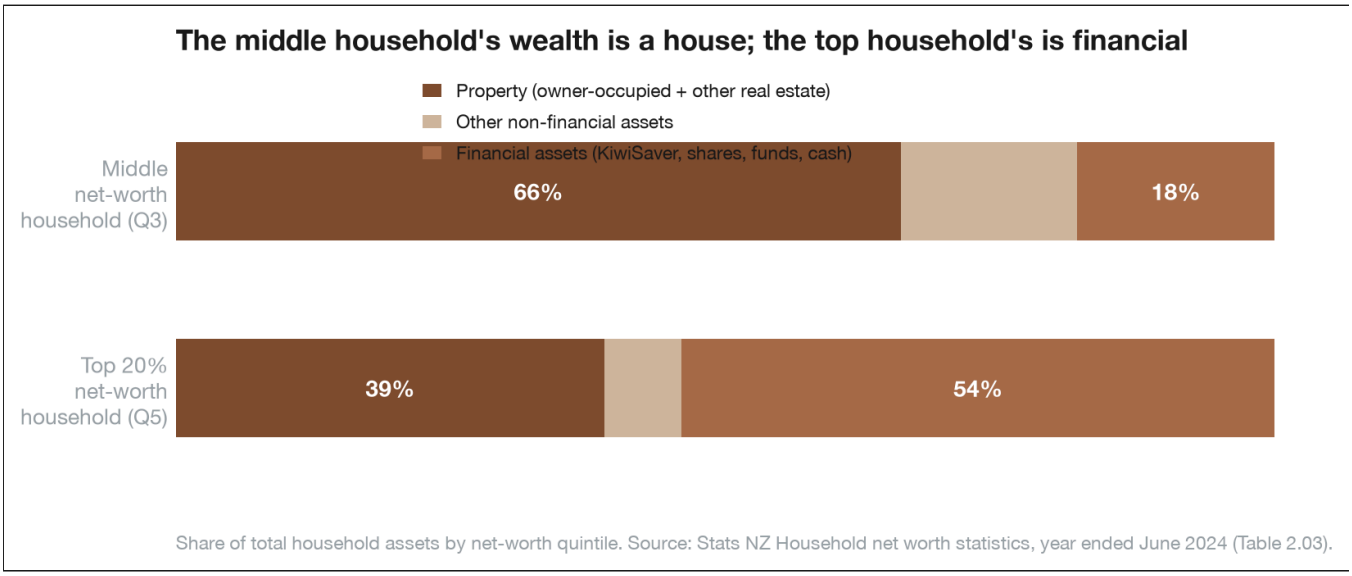
Net worth adds a dollar of cash to a dollar of house equity to a dollar of locked-in retirement savings as if they were interchangeable. They are not. A dollar in the bank can meet a shock tomorrow. A dollar of house equity cannot, at least not without months, transaction costs, or a loan secured against it. The composition of wealth matters more than its total.

2. It ignores the liabilities behind the assets

A $3m property portfolio financed with $1.4m of mortgage debt produces $1.6m of net worth and a large, ongoing claim on future income. When mortgage rates reset, that claim grows, even though the net-worth figure has not moved. Net worth records the balance; it does not record the *pressure*.

3. It says nothing about shocks

The real test of a household balance sheet is not a calm Tuesday. It is the week a job is lost, a diagnosis arrives, or a fixed mortgage rate expires into a higher one. Net worth is silent on all of it. It is a photograph of a still pond, taken before the stone is thrown.



Real, cited. Asset composition by net-worth quintile (Stats NZ, year ended June 2024). The middle household's wealth is overwhelmingly a house; only the top fifth has escaped into financial assets it can draw on. Composition, not just level, is the story.

This is not a stylised worry. New Zealand's own wealth data shows that composition, not just level, is what separates households. In the Stats NZ Household Economic Survey (year ended June 2024), the *middle* net-worth household held about two-thirds of its assets in property and only around 18% in financial assets such as KiwiSaver and other pension funds, shares and investment funds. The *top* fifth of households inverts that: financial assets are the majority of their wealth, about 54%, with property under 40%. Owner-occupied and other real estate made up 48% of all household assets nationally, up from 43% in 2021. The typical New Zealand balance sheet is therefore a house with a thin financial margin around it, and that margin is precisely what a shock attacks; only the wealthiest households have escaped into financial assets they can actually draw on.

> **The right question is not "how much are you worth?" It is "what would force you to make a bad decision, and how close are you to it?"**

That second question is the subject of this paper. Answering it requires moving from a stock measure to a measure of **capacity**: the capacity to absorb a shock and keep the long-term plan intact.

THE THEORY BEHIND IT

Forty years of economics, in one idea

The claim that high wealth can coexist with high fragility is not an opinion. It sits on a well-established body of economic theory and evidence.

The wealthy hand-to-mouth

Across eight developed economies, roughly a third of households live hand-to-mouth, consuming almost all of their income each period, and about two-thirds of those are *wealthy* hand-to-mouth: they hold sizable illiquid wealth (housing, retirement accounts) yet almost no liquid savings. They are wealthy on paper and hand-to-mouth in practice, with median illiquid wealth far larger than their cash. The status is not a permanent trait; it lasts about three and a half years on average, tied to the mortgage-and-children phase of the life cycle. New Zealand has no published wealthy hand-to-mouth replication, despite a housing-heavy balance sheet that should produce the pattern in abundance. Estimating the New Zealand share, ideally from Stats NZ HES or IDI microdata, is open territory this series intends to claim.

Kaplan, G., Violante, G. L. & Weidner, J. (2014). The Wealthy Hand-to-Mouth. Brookings Papers on Economic Activity (US: ~1/3 hand-to-mouth, ~2/3 of those wealthy hand-to-mouth, persisting ~3.5 yrs).

High spending response, low risk-sharing (HANK)

In heterogeneous-agent New Keynesian models, these households have a high marginal propensity to consume out of small income changes but little ability to share risk, because reaching their illiquid wealth is costly. Their balance-sheet wealth does not protect their cash flow.

Kaplan, G., Moll, B. & Violante, G. L. (2018). Monetary Policy According to HANK. American Economic Review.

Interest-rate exposure and the refix shock

Auclert formalises why a mortgage refix is not just a personal-finance nuisance but a macroeconomic channel. A household's *unhedged interest-rate exposure* is its maturing assets minus its maturing liabilities; a household whose fixed rate is about to roll has a large negative exposure. When rates rise, its cash flow is squeezed exactly where the marginal propensity to consume is highest, so spending falls hard. This is why New Zealand's short fixed-rate mortgage culture transmits monetary policy so forcefully, and why refix timing belongs on a household balance sheet beside net worth, not in a footnote.

Auclert, A. (2019). Monetary Policy and the Redistribution Channel. American Economic Review, 109(6), 2333–2367.

The hidden balance sheet

Three more results explain why liquid buffers, not net worth, decide whether a household holds together under stress.

Buffer-stock saving and liquidity constraints

Carroll and Deaton show that households facing income risk and borrowing limits hold a precautionary buffer of *liquid* assets. Crucially, a household can sit right at its liquid-buffer target while holding large illiquid wealth, which means observed net worth can vastly overstate real precautionary resources.

Deaton, A. (1991). Saving and Liquidity Constraints. Econometrica. Carroll, C. D. Buffer-Stock Saving.

Financial fragility, measured as a behavioural instrument

Lusardi, Schneider and Tufano do not measure fragility with a balance-sheet ratio. They use a survey instrument: could the household come up with about US$2,000 in 30 days? The answer is not yes or no but a four-way scale, certainly able, probably able, probably unable, certainly unable, and the structure is the point. About a quarter of Americans were certain they could not; once "probably unable" is included, close to half were financially fragile. Among those who could cope, a further slice would do so only by pawning or selling possessions or taking payday loans. The instrument also records *how* a household would cope, and the order is revealing: savings first, then family and friends, then formal and high-cost credit, then working more, then selling assets. Reading down that ladder is reading a household running out of good options. Critically, the failures reach well up the income distribution: this is not a measure of poverty, it is a measure of liquidity. The New Zealand anchor is the same in spirit: the FSC found 39% of New Zealanders could not access $5,000 within a week without going into debt (2023).

Lusardi, A., Schneider, D. & Tufano, P. (2011). Financially Fragile Households. Brookings Papers on Economic Activity. NZ figure: Financial Services Council, Financial Resilience Index 2023.

Human capital and insurance as the hidden balance sheet

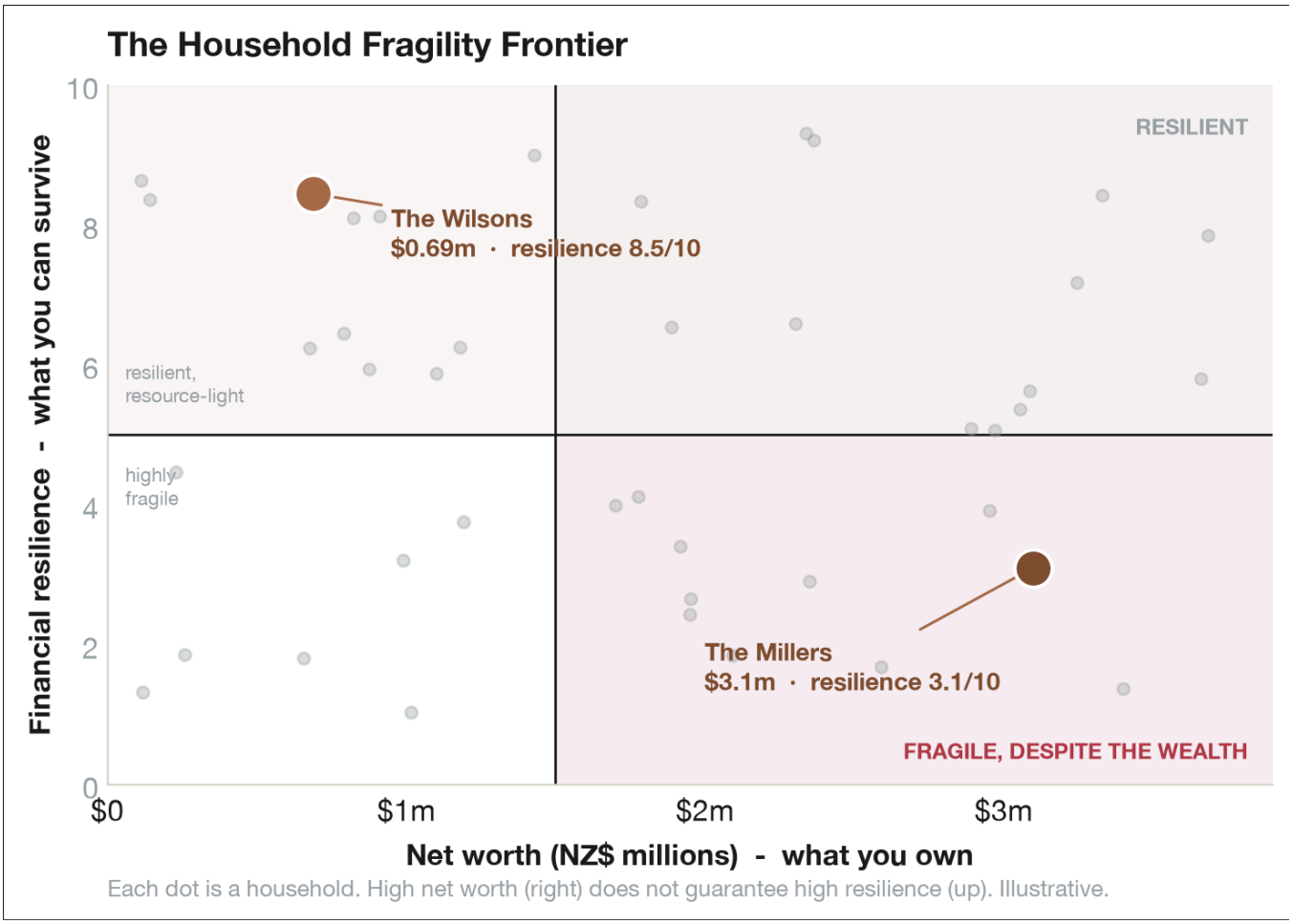
For most working households, the present value of future earnings (human capital, in Becker's sense) is the largest asset of all. Arrow showed that insurance exists to transfer resources across states of the world. A household whose wealth is mostly uninsured future earnings is exposed, however large its net worth looks today.

Becker, G. S. (1964). Human Capital. Arrow, K. J. (1963). Uncertainty and the Welfare Economics of Medical Care. AER.

THE SMITHS FRAMEWORK

The Household Fragility Frontier

If net worth is one axis of a household's position, resilience is the other. Plotting both at once reveals what a single number hides.



The Household Fragility Frontier. Net worth runs left to right; financial resilience runs bottom to top. Illustrative.

The horizontal axis is familiar: net worth, what a household owns. The vertical axis is the one personal finance usually ignores: financial resilience, how much stress the household can absorb before its plan breaks. Four zones follow:

- **Resilient (upper right).** Wealthy and shock-absorbing. Liquid, diversified, insured, low debt pressure.
- **Fragile despite the wealth (lower right).** High net worth, low resilience. The focus of this paper. Asset-rich, liquidity-poor, leveraged, under-insured.
- **Resilient but resource-light (upper left).** Modest net worth, high resilience. Stable income, good liquidity, low debt, well insured.
- **Highly fragile (lower left).** Low on both. Little wealth and little capacity to absorb a shock.

The uncomfortable insight is the lower-right zone. A household can move *right* for years, building net worth through a rising house and growing mortgage, while drifting *down* into fragility. The scoreboard says they are winning. The frontier says they are exposed.

MEASURING IT

The Financial Resilience Index

Resilience can be scored. We combine six dimensions into a single index from 0 to 10, weighted by how directly each one governs a household's ability to survive a shock.

DIMENSION	WEIGHT
Liquidity (months of expenses on hand)	20%
Income stability and diversity	20%
Debt servicing and refix exposure	20%
Insurance cover vs needs	15%
Asset accessibility	15%
Asset diversification	10%

Each dimension is scored 0 to 10, then weighted and summed. Choosing the weights is an index-construction problem. A psychometric route (Rasch modelling or item-response theory, as used to build financial-wellbeing scales) would estimate them from response patterns; a data-driven route would let an outcome regression set them (see appendix A.5). We instead use fixed, interpretable judgement weights, for transparency and because a client can see and challenge each one. The cost is honesty about the limitation: the split is defensible, loading on cash-flow capacity as the literature directs, but it is not estimated.

The index is deliberately simple. Its value is not precision to a decimal place; it is that it forces the right conversation. Two households with identical net worth can score 8 and 3, and the difference is entirely in the things net worth never showed: how much cash, how stable the income, how heavy the debt, how good the cover, how reachable the assets, how concentrated the bets.

Reading the score

The score is read as a traffic light, not a grade. It locates a household on the vertical axis of the frontier and points straight at the dimension dragging it down. A high total with one very low dimension is still fragile, because a shock attacks the weakest link first.

8–10
Resilient. Liquid, insured, diversified and low debt pressure. A shock is a setback, not a crisis.

5–7
Exposed. One or two weak dimensions. A single shock can be absorbed; two at once may not be.

0–4
Fragile. Thin liquidity or cover, heavy debt or concentration. A single shock can force a bad decision.

Bands are indicative. The index is a conversation tool, not a regulated risk rating; scoring detail is in the Technical Appendix.

Two families, two very different truths

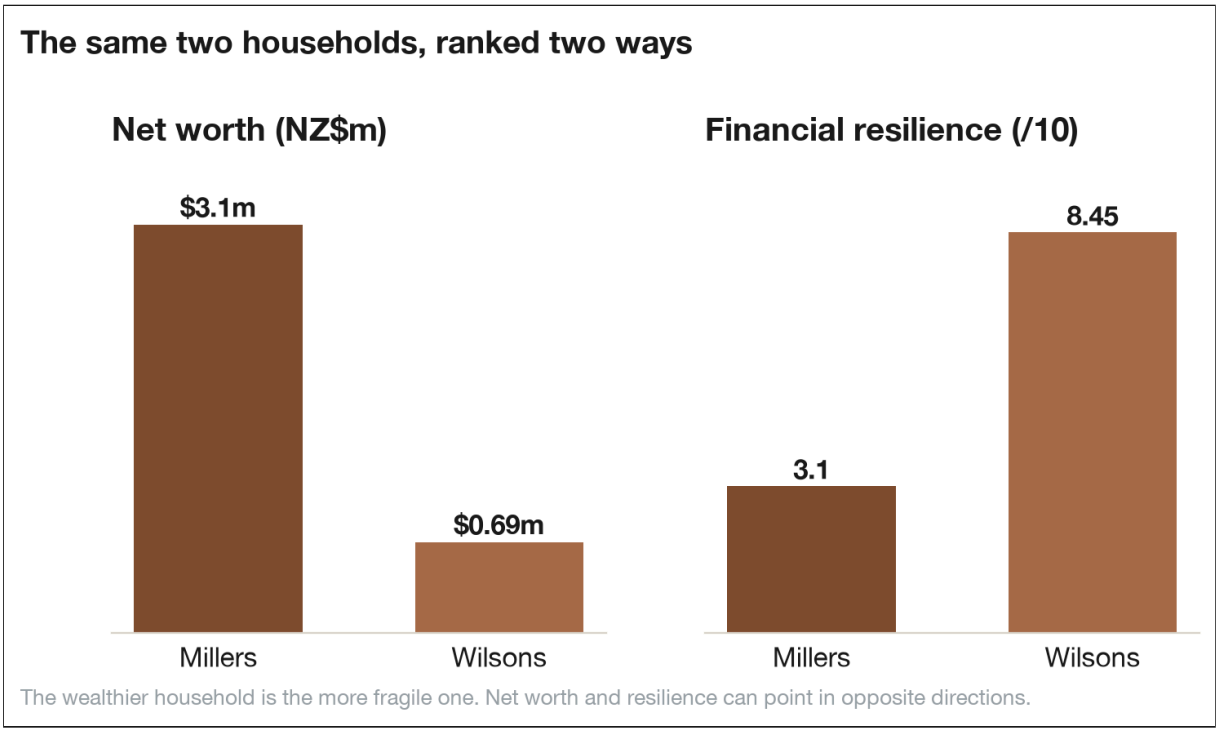
Consider two real-shaped New Zealand households. One looks far wealthier. The other is far harder to break.

The Millers · resilience 3.1 / 10	
Home (mortgage-free)	$2.80m
Rental property	$0.60m
Cash and term deposits	$0.05m
KiwiSaver / funds	$0.10m
Rental mortgage	−$0.45m
Net worth	**$3.10m**

Retired, 70s. Income just short of expenses. Almost all wealth in property, tiny cash buffer, an interest-only rental mortgage maturing soon, no income or trauma cover. One repair or health event forces a sale.

The Wilsons · resilience 8.5 / 10	
Home	$0.95m
Cash / emergency fund	$0.06m
KiwiSaver / growth funds	$0.25m
Listed shares	$0.12m
Mortgage and student loan	−$0.69m
Net worth	**$0.69m**

Professionals, 30s. Two stable incomes, five months of expenses in cash, diversified liquid assets, full life, health and income-protection cover. A shock hurts, but the plan survives.



The Millers own four times the net worth. The Wilsons have nearly three times the resilience.

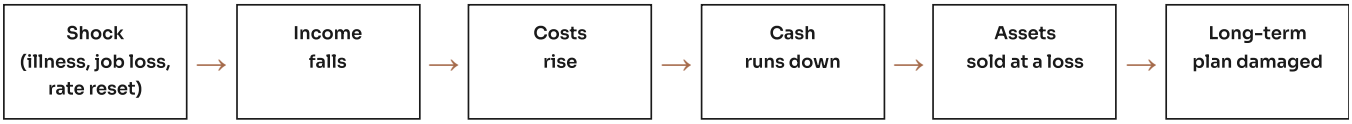
The Millers are not careless. They have done what New Zealand culture rewards: bought property, paid down the home, watched net worth climb. Yet almost every dollar is locked in bricks, the cash buffer would not cover a single bad month, and a maturing interest-only mortgage sits like a fuse. The Wilsons own a fraction as much, but what they own is liquid, insured and diversified, so a shock bends their plan without breaking it.

Illustrative households built to representative New Zealand parameters. Resilience scored on the index above.

HOW FRAGILITY ACTUALLY BREAKS A HOUSEHOLD

One shock, many channels

Fragility is not abstract. A single event travels through a household balance sheet along a predictable chain. The question is how many links hold.



For the fragile household, every link is exposed: thin cash, undiversified income, heavy debt, no insurance, illiquid assets. The chain runs to its end, and the damage is permanent, because assets sold in a downturn do not come back when markets recover.

For the resilient household, the chain is interrupted early. Insurance replaces lost income. The cash buffer absorbs the cost shock. Diversified, accessible assets mean nothing has to be sold at the wrong time. The same event becomes a setback, not a catastrophe.

> **Resilience is simply the number of points at which a household can break the chain before it reaches the long-term plan.**

This reframes every financial tool. A cash buffer, an income-protection policy, a diversified fund, a manageable mortgage: each is a circuit-breaker on a different link of the same chain.

WHERE THE CHAIN CAN BREAK	THE TOOL THAT HOLDS IT
Income falls	Income-protection insurance, a stable and diversified income
Costs spike (illness, repair)	Trauma cover, health insurance, the cash buffer
Cash runs down	An emergency fund sized to two or three years of essentials
Assets must be sold at a loss	Diversified, liquid managed funds outside locked-in savings
Debt becomes unmanageable	A manageable mortgage and a planned approach to refix risk

Each row is a point at which a resilient household interrupts the shock before it reaches the long-term plan.

The asymmetry is the whole point. Building net worth and building resilience are different projects. The first is measured on a statement; the second is measured only when life tests it. A household can score well on one and badly on the other, and the gap stays invisible until the day it matters most.

THE CORE INSIGHT

"Every dollar of net worth is recorded once. Every link in the shock chain is tested in real time. Plan for the chain, not the statement."

ARGUING AGAINST OURSELVES

The strongest objection to this paper

A claim worth making is worth attacking. The central argument here, that net worth is a poor measure of solvency and resilience, has a serious counter. It deserves a fair hearing.

The objection

An honest critic will push back. Net worth, they will say, still predicts a great deal: wealthier households do cope better on average, and illiquid wealth is not truly stranded, because a mortgage redraw, a revolving facility or a home-equity line can turn house equity into cash in days, without a sale. If that is right, net worth is a decent proxy for resilience after all, and this paper overstates its case. The objection is serious and partly correct. On a calm Tuesday, an asset-rich household with an approved redraw facility is genuinely more resilient than its cash balance alone suggests, and a model that ignored borrowing capacity would understate it.

Why the conclusion survives it

The defence is that this access is *state-contingent*, and the states are correlated with the shock. Credit lines are widest in good times and narrowest in exactly the event that makes a household need them. A redundancy or an income drop fails the servicing test that approves a redraw. A regional downturn that costs the job is the same downturn that softens the house price the facility is secured against and tightens every lender at once. Borrowing capacity is therefore not a buffer that sits safely beside the shock, it is a buffer that shrinks *with* the shock, and is smallest at the moment of maximum need.

The wealthy hand-to-mouth literature makes the same point structurally. These households are classified as constrained precisely because the cost of reaching their illiquid wealth, including the cost of borrowing against it, bites hardest when income is low. So the conclusion does not merely survive the objection, it sharpens: net worth proxies resilience in calm times and decouples from it in a shock, which is the only time resilience is actually being tested. A measure that agrees with the truth except when it matters is not a measure of the thing that matters.

There is a second, quieter version of the objection: that even if borrowing capacity fails, the underlying assets can simply be sold. But a forced sale is not a neutral conversion of wealth into cash. It crystallises a loss if the asset has fallen, it carries transaction costs and tax consequences, and for the family home it can mean dismantling the very thing the plan was built around. The option to sell exists, but exercising it under duress is itself the damage this paper is trying to prevent. Resilience is precisely the capacity to avoid having to take that option at the worst possible moment.

> **Access to illiquid wealth is not free insurance. It is a line of credit that is repriced or withdrawn in the same conditions that trigger the claim.**

Granting the objection its full force therefore changes nothing important. It concedes that net worth and resilience travel together in ordinary times, which no one disputes, and leaves untouched the claim that they separate under stress. The task ahead is not to abandon net worth but to add the missing axis, so that the parts of a balance sheet can be judged by what they do for a household on its worst day, not only by what they add to its best-case total. That is the work of the rest of this paper.

WHAT IT MEANS FOR YOUR MONEY

Implications across the balance sheet

Wealth structure

The goal is not only to grow net worth but to grow *resilient* net worth: enough liquidity to meet shocks, enough diversification that no single asset can sink the household.

Insurance

Insurance is not a product bolted onto a plan. It is the mechanism that protects the largest asset most households own, their future income, and keeps a health or death shock from becoming a balance-sheet shock. Resilience can also be *over*-bought: over-insurance is a real cost and some cover is poor value, so the aim is enough protection for the shocks that would actually break the plan, not the most protection possible. (Insurance is the subject of Paper 03.)

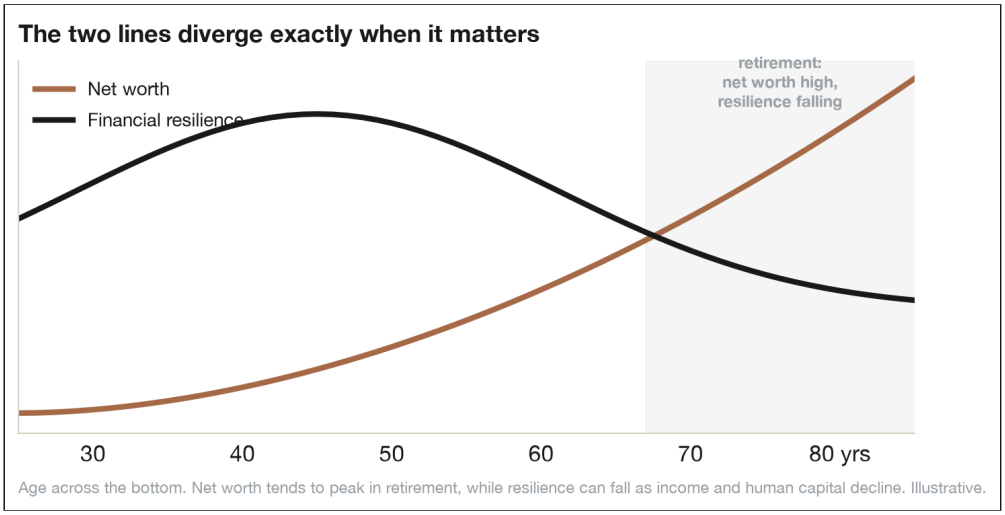
KiwiSaver and managed funds

Locked-in KiwiSaver is excellent long-term wealth and poor short-term resilience. A layer of accessible managed funds can be the difference between riding out a shock and raiding retirement savings or selling growth assets at the bottom.

Property

Property builds net worth and, when it dominates the balance sheet, fragility at the same time. That tension is the subject of Paper 02, The Property-Wealth Illusion.

In every case the lesson is the same: a financial plan optimised only for net worth can quietly maximise fragility. A plan optimised for resilience builds wealth that survives contact with the real world.



Net worth and resilience often move together early in life and apart later, which is exactly when a household can least afford the gap.

The retirement years are where the gap bites hardest: net worth at its peak, income gone, human capital spent, and most wealth locked in a house that cannot be eaten.

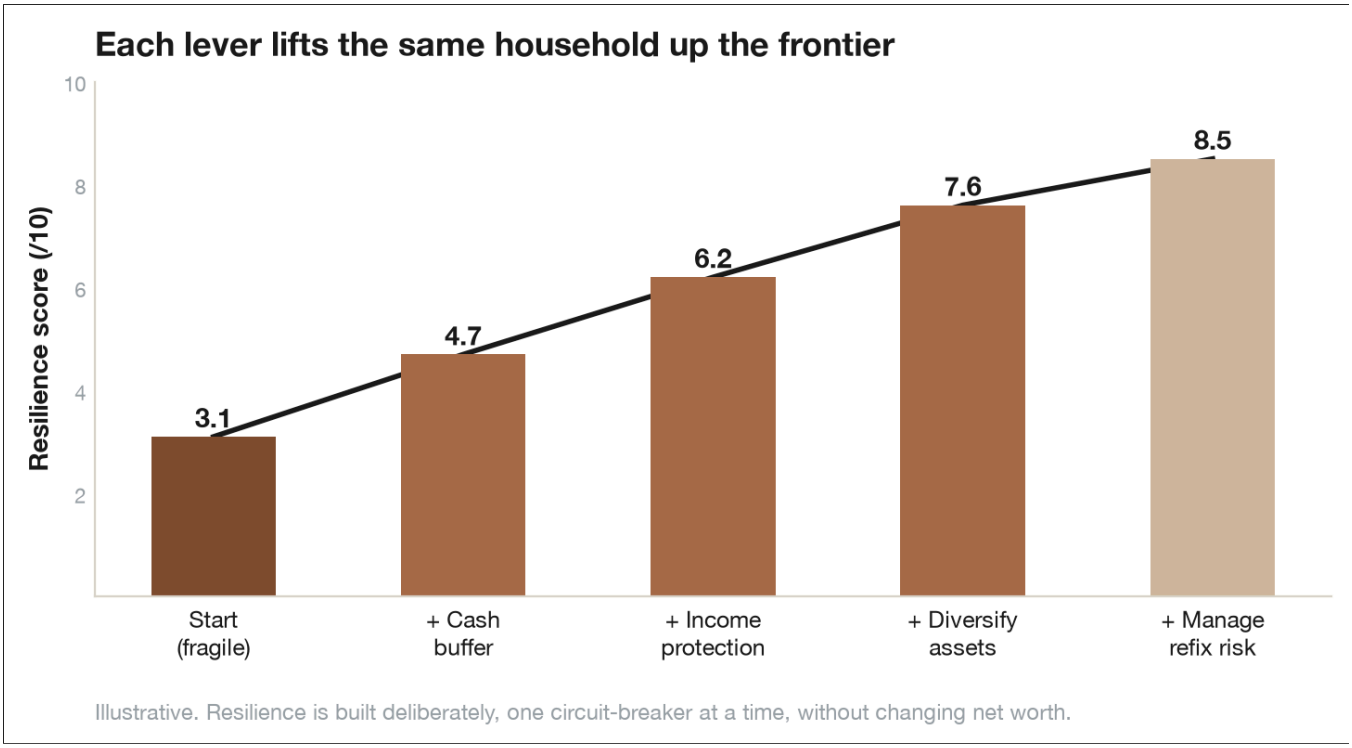
WHAT THIS MEANS IN PRACTICE

From a number to a plan

Applying the frontier to a real household is a short, structured exercise.

- **Map the balance sheet by liquidity, not just by value.** How much could be turned into cash in 30 days, and at what cost?
- **Score the six dimensions.** Liquidity, income stability, debt servicing, insurance, accessibility, diversification.
- **Find the weakest link.** Resilience is set by the lowest scores, not the average. A single zero, no insurance, no cash, can dominate.
- **Move up the frontier deliberately.** Build a cash buffer, insure the income, diversify away from one concentrated asset, manage refix risk.
- **Re-score over time.** Resilience is not fixed. It rises and falls with debt, markets, health and life stage.

Crucially, none of these moves require a household to be wealthier. They change the *shape* of the balance sheet, not its size. A household can hold the same net worth at the end of the exercise as at the start and be far harder to break, because the same wealth has been made liquid, insured, diversified and less leveraged.



Each lever is a circuit-breaker on a different link of the shock chain. Applied in turn, they lift the same household from fragile to resilient without adding a dollar of net worth.

IN ONE SENTENCE

"Build wealth you can actually use when life tests it, not just wealth that looks good on a statement."

TECHNICAL APPENDIX

Model, assumptions and data

A.1 The Financial Resilience Index

For household *h*, each dimension *d* is scored s_d on a 0 to 10 scale from observable metrics (liquidity from months of essential expenses held in cash; debt servicing from the debt-to-income ratio and the share of debt repricing within 12 months). The index is the weighted sum:

$$FRI = 0.20 \cdot Liquidity + 0.20 \cdot Income + 0.20 \cdot Debt + 0.15 \cdot Insurance + 0.15 \cdot Accessibility + 0.10 \cdot Diversification$$

Weights load on the three cash-flow dimensions (liquidity, income, debt servicing) because the household fragility and HANK literatures identify short-run cash-flow capacity, not net worth, as the binding constraint during a shock.

A.2 Case-study scoring

DIMENSION	MILLERS	WILSONS
Liquidity	2	9
Income stability	4	9
Debt servicing	3	8
Insurance cover	6	9
Asset accessibility	2	8
Asset diversification	1	7
Weighted FRI	**3.1**	**8.45**

A.3 Scoring anchors

Each dimension is anchored at three reference points; scores between anchors are interpolated.

DIMENSION	SCORE 0	SCORE 5	SCORE 10
Liquidity	<1 month of expenses in cash	~3 months in cash	2–3 years of essentials liquid
Income stability	Single, volatile income	One stable income	Two stable, diversified incomes
Debt servicing	High DTI, most debt repricing soon	Moderate DTI, staggered refix	Low DTI, little near-term refix
Insurance cover	No life, income or health cover	Partial cover, gaps remain	Full cover matched to needs
Asset accessibility	Nearly all wealth locked/illiquid	Some accessible assets	Ample wealth reachable in 30 days
Asset diversification	One asset dominates the sheet	Two or three asset classes	Broadly diversified holdings

A.4 How the weights could be estimated, and why we do not

Fixed judgement weights are a choice, not a necessity. A more empirical route is to let an observed adverse outcome reveal the weights. Suppose a household is observed to suffer a resilience failure *y*, a forced asset sale or a KiwiSaver hardship withdrawal, coded 1 if it occurred. One would estimate, on real microdata, a specification of the form:

$$\Pr(failure) = \Lambda(\beta_0 + \beta_1 \cdot Liquidity + \beta_2 \cdot Income + \beta_3 \cdot Debt + \beta_4 \cdot Insurance + \beta_5 \cdot Accessibility + \beta_6 \cdot Diversification)$$

where Λ is the logistic function and the fitted coefficients, rescaled to sum to one, become the weights. The dimensions with the largest marginal effect on the probability of failure would carry the most weight, replacing our judgement with estimation. **We have not run this regression.** It requires household-level microdata linking the six inputs to realised failures, the IDI and Stats NZ HES calibration named as future work below; the specification above is illustrative, included to show the index is falsifiable in principle. We would expect the liquidity, debt-servicing and insurance terms to dominate, consistent with the cash-flow emphasis of the fragility and HANK literatures, but that is a hypothesis, not a result.

A.5 Assumptions and limitations

- Case-study households are illustrative, built to representative New Zealand parameters, not survey records.
- Weights are fixed interpretable judgement, not estimated; the regression in A.4 is a specification, not a fitted model.
- Dimension scores involve judgement; the index is a decision aid, not a regulated risk measure.
- The frontier is a conceptual model. Empirical calibration to Stats NZ HES and IDI microdata, including a New Zealand wealthy hand-to-mouth share, is the direction for future work.
- The index is static; a dynamic version would model resilience over the life cycle and through stress scenarios.

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Paper 02 · The Property-Wealth Illusion

Why a balance sheet dominated by one house builds net worth and fragility at the same time, and what a resilient property position actually looks like in New Zealand.

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About the author and series

Henry W. Smith (BBusMan) is a financial adviser and the author of the Smiths Economic Papers, a series that applies established economic theory to the real financial lives of New Zealand households, published by Smiths Insurance & KiwiSaver.