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What PISA 2015 financial literacy results imply for policy

Young people are already using money and financial services and will soon have to take decisions with long-term financial consequences. Results from the PISA 2015 financial literacy assessment show that many students, in countries and economies at all levels of economic and financial development, need to improve their financial literacy. This chapter analyses which students show weaknesses in financial literacy and what these disparities imply for policy and practice.

Globalisation and digital technologies have made financial services and products both more complex and more widely accessible, at the same time as responsibility for many crucial financial decisions, such as investing in additional education or planning for retirement, is increasingly assumed by individuals.

From buying mobile phone credit to deciding how to spend pocket money, financial decisions are common in the lives of young people. Young people are likely to encounter situations where they need to set their spending priorities, be aware that some items that they want to buy will incur ongoing costs, and be alert that some purchasing offers are simply too good to be true. PISA 2015 data show that many 15-year-old students hold a bank account, and that in all participating countries and economies, more than one in two students reported that they earn money from some kind of formal or informal work activity on the side of school hours.

Students' level of financial literacy today is also relevant for their choices in the immediate future. In some countries, students performing at the highest levels of proficiency in financial literacy are more likely than lower-performing students to report that they expect to complete university education, after taking into account their socio-economic status, performance in mathematics and reading, and other student characteristics. Students' level of financial literacy is also correlated with their self-reported behaviour in hypothetical spending situations, suggesting that financially literate students may be more forward-looking and more likely to recognise the value of saving and investing in their human and financial capital.

The PISA 2015 assessment included a test of 15-year-olds' financial literacy – their understanding of financial concepts and risks, and the skills to make effective decisions and participate in economic life – while also assessing their proficiency in core PISA subjects. The main results of the 2015 assessment are broadly consistent with the results of the 2012 assessment, which covered a partially different set of countries. The 2015 assessment results highlight some policy suggestions and reinforce the strong messages of the previous assessment.

ADDRESS THE NEEDS OF LOW-PERFORMING STUDENTS

Results from the PISA 2015 financial literacy assessment show that many students, in countries and economies at all levels of economic and financial development, need to improve their financial literacy.

On average across OECD countries and economies, as many as 22% of students perform below Level 2, which can be considered the baseline level of proficiency in financial literacy that is required to participate in society. Students who perform below the baseline display only basic financial literacy skills, such as identifying common financial products and terms, and interpreting information related to basic financial concepts. They can recognise the difference between needs and wants and they make simple decisions on everyday spending; but they are not yet able to apply their knowledge to make financial decisions in contexts that are immediately relevant to them, such as recognising the value of a simple budget, or undertake a simple assessment of value-for-money. The percentage of students performing at or below Level 1 is at least 20% in Brazil (53%), Chile (38%), Lithuania (32%), Peru (48%), Poland (20%), the Slovak Republic (35%), Spain (25%) and the United States (22%).

At the other end of the performance spectrum, only 12% of students are top performers in financial literacy. In only about half of the countries and economies that participated in the PISA 2015 financial literacy assessment (Australia, the Flemish Community of Belgium, Beijing-Shanghai-Jiangsu-Guangdong [China] [hereafter "B-S-J-G (China)"], the participating Canadian provinces [British Columbia, Manitoba, New Brunswick, Newfoundland and Labrador, Nova Scotia, Ontario and Prince Edward Island], the Netherlands, the Russian Federation [hereafter "Russia"] and the United States) can more than 10% of students solve some of the most challenging financial literacy tasks in PISA, understand the risks inherent in certain financial products, and demonstrate a basic knowledge of financial consumer rights and responsibilities.

Low-performing students need to be supported to improve their abilities to fully participate in economic life. They need to acquire the knowledge and skills that will allow them to plan for the short and long term, take into account the implications of financial decisions for individuals as well as for society, and understand the wider financial landscape, such as knowing the purpose of income tax or insurance.

TACKLE SOCIO-ECONOMIC INEQUALITIES EARLY ON

Perhaps unsurprisingly, students performing at or below Level 1 are over-represented among socio-economically disadvantaged groups. Disadvantaged students in Australia, the Flemish Community of Belgium, Chile, the Netherlands, Peru and the United States are at least twice as likely as advantaged students to be low performers, even after taking into account their mathematics and reading performance.

Financial literacy is not relevant just for those who have large sums of money to invest. Everyone needs to be financially literate, especially those who live on tight budgets and have little leeway in case they make financial mistakes. Moreover, the development of digital financial services means that financial services are becoming increasingly accessible for everyone, particularly for previously excluded segments of the population and youth (OECD, 2017). While disadvantaged students are among the least financially literate, they probably need some financial knowledge and skills the most. In most participating countries and economies, disadvantaged students are more likely than advantaged students to earn money from working outside school hours, such as in holiday jobs or part-time work.

Large disparities in skills among 15-year-olds signal that not all students are offered an equal opportunity to develop their financial literacy. If socio-economic disparities are not addressed early, they are likely to lead to even larger gaps in financial literacy as students become adults. Low-performing disadvantaged students need to be supported to ensure that they can safely navigate the (increasingly digital) financial system as they become more independent.

PROVIDE EQUAL OPPORTUNITIES FOR LEARNING TO BOYS AND GIRLS

The countries and economies participating in the PISA 2015 financial literacy assessment vary in the extent of gender-related differences in financial literacy performance. In the majority of participating countries and economies there are no gender differences, but in some countries and economies boys perform better than girls while in others girls perform better than boys. This heterogeneity contrasts with gender differences among adults, which are predominantly in favour of men (OECD, 2013, 2016). Even though evidence is drawn from different measurement tools and should be compared with caution, differences in gender gaps across adults and young people suggest that men and women in different generations may have had different opportunities and incentives to develop their financial skills.

In addition to mean differences, boys and girls show different weaknesses at different points of the performance distribution. In 9 out of 15 countries and economies, more boys than girls perform at or below Level 1, while in 2 countries, more boys than girls perform at the top (Level 5).

Gender differences are likely to be related to different factors, including boys' and girls' different performance in mathematics and reading, and different levels of exposure to money matters. Not only should boys be helped to reach a minimum level of financial skills and girls be helped to reach the top, but both girls and boys should have access to relevant opportunities to develop their financial skills.

HELP STUDENTS TO MAKE THE MOST OF AVAILABLE LEARNING OPPORTUNITIES AT SCHOOL

Financial literacy performance is strongly correlated with performance in core PISA subjects, like mathematics and reading, which can be seen as forming the underpinning for developing further financial knowledge and skills. More than 60% of the variation in financial literacy scores in Australia, the Flemish Community of Belgium, B-S-J-G (China), Chile, the Netherlands, Peru, Poland and the United States is related to student performance in mathematics and reading. Students should be helped to make the most of what they learn in subjects taught in compulsory education, and to foster transversal competencies, such as problem solving and critical thinking, in order to acquire knowledge and develop skills that can be applied to financial situations and decisions.

At the same time, however, students' performance in financial literacy varies for any given level of performance in mathematics and reading. In the Flemish Community of Belgium, B-S-J-G (China), the Canadian provinces and Russia, where mean financial literacy performance is above the OECD average, students perform better in financial literacy than would be predicted on the basis of performance in mathematics and reading alone. Students in these countries may have developed financial literacy competencies beyond what they have learnt in mathematics and reading at school, possibly through dedicated financial education initiatives in or outside of school. In contrast, students in Australia, Brazil, Chile, Italy, Lithuania, the Netherlands, Poland, the Slovak Republic and Spain perform worse in financial literacy than students in other countries with similar performance in mathematics and reading. This suggests that students in these countries should be helped and encouraged to better use the skills widely taught in school to attain higher levels of financial literacy.

One way of helping students improve their financial literacy could be to complement what they learn through core subjects in school with more specific financial literacy content. As shown in Chapter 2, several countries have started integrating some financial literacy topics into existing subjects, such as mathematics or social sciences. As dedicated financial literacy approaches are relatively new (where they exist), the PISA financial literacy assessment cannot yet provide conclusive evidence on what strategies yield superior outcomes in financial literacy. More evidence is needed to show the extent to which infusing financial literacy elements in existing subjects is effective as compared to other approaches in raising students' levels of financial literacy. Promising approaches that have been evaluated are presented in Box IV.2.4.

Fostering the development of financial literacy skills in school could also be a way to offer students learning opportunities beyond those provided by parents and peers, to help overcome socio-economic inequalities, and to expose students to more balanced messages than those they may receive through media and advertising.

TARGET PARENTS AT THE SAME TIME AS YOUNG PEOPLE

What students know about financial literacy depends to a large extent on their families. In Australia, the Flemish Community of Belgium, B-S-J-G (China), Chile, the Netherlands, Peru and the United States, at least 10% of the variation in financial literacy performance is related to students' socio-economic status, which is a reflection of parents' education, parents' occupations, home possessions and educational resources available in the home. To some extent, families with high socio-economic status are providing students better opportunities to acquire financial literacy skills than socio-economically disadvantaged families.

Parents have a role to play in developing their children's financial literacy not only through the resources that they make available to them but also through direct engagement. Parents are among the most important sources through which young people can develop values, attitudes, habits, norms, knowledge and behaviours about money and finances (Gudmondson and Danes, 2011). In all countries and economies with available data, more than one in two students reported that they discuss money matters with their parents on a weekly or monthly basis. In 10 countries and economies, discussing money matters with parents is associated with higher financial literacy than never discussing the subject, even after taking into account students' socio-economic status.

While developing polices and initiatives aimed at directly improving the financial literacy of young people, countries should continue to strengthen their initiatives targeting adults through national strategies for financial education. Engaging parents and families is a way of targeting one of the most important sources of learning for young people, and it can complement what young people can learn from other sources. As not all parents may be equally equipped to transmit financial attitudes, knowledge and skills to their children, targeting disadvantaged adults and those with low levels of financial literacy at the same time as targeting young people can be another way of reducing inequalities in financial literacy.

PROVIDE YOUNG PEOPLE WITH SAFE OPPORTUNITIES TO LEARN OUTSIDE OF SCHOOL

Students may be developing the skills to take financial decisions for their current and future lives not only thanks to schools and families but also via direct experience and learning by doing. Indeed, many 15-year-old students in the participating countries with available data are already in contact with money and basic financial services. On average across OECD countries, over half of students hold a bank account, almost one in five has a prepaid debit card, around six in ten earn money from formal or informal work activities, around six in ten receive pocket money, more than eight in ten receive gifts of money, and about one in two reported that they save regularly.

Evidence that there is a positive relationship between performance in financial literacy and holding a bank account or receiving gifts of money may suggest that some kind of experience with money or financial products could provide students with an opportunity to reinforce financial literacy, or that students who are more financially literate are more motivated to use financial products – and perhaps more confident in doing so. Parents are very likely to be involved in these experiences, as they may have given their children money through allowances or gifts, opened a bank account for them and taught them how to use it.

Even under the supervision of parents, it is important that young people can access financial products and services that are safe and regulated, that they begin to know their rights and responsibilities as consumers, and that they start to have an understanding of the risks associated with the different products and services, so that they can safely approach the financial system even before they acquire full legal rights to enter into financial contracts by themselves. Again, socio-economically disadvantaged students should be supported even more, as they have lower financial literacy, are less likely to have first-hand experience with holding a bank account, and are less likely to receive gifts of money than advantaged students.

Young people can be further supported to learn by doing through after-school initiatives. In some countries, governments and not-for-profits are offering young people videos, competitions, interactive tools and serious games – via digital and/or traditional platforms – as described in Chapter 2. These initiatives are used not so much to disseminate information but to provide young people with applied knowledge and allow them to safely experience financial situations and decisions before they encounter them in real life. Most of these initiatives, however, have not yet evaluated their impact on participants' financial literacy. It should thus be a policy priority to collect more evidence on their effectiveness.

EVALUATE THE IMPACT OF INITIATIVES IN AND OUT OF SCHOOL

Financial literacy has emerged relatively recently as a relevant skill for students and society at large, and it competes with other important skills, from global citizenship to computational thinking, to be integrated into already overcrowded school curricula and students' time schedules. In spite of the challenges, more and more financial education initiatives are being developed in and outside of school, making it even more important to determine which approaches work best. Governments and other not-for-profit and private stakeholders involved should prioritise evaluating the impact of their initiatives in a rigorous way and disseminating the findings to advance knowledge in the field. The OECD and its International Network on Financial Education (INFE) can build on these findings and act as a clearinghouse with the aim of identifying more effective approaches to improve students' financial literacy.

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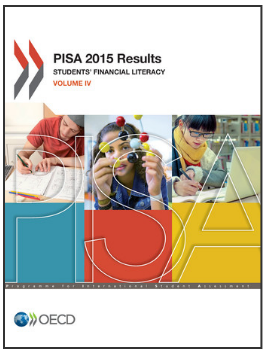

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