AN OVERVIEW OF THE PISA FINANCIAL LITERACY ASSESSMENT

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Why is financial literacy relevant for young people?

- Big decisions at a young age: e.g., whether to continue education
- Financing cost of education and training
- Shifting demographics—increased longevity
- Shrinking welfare systems; increased personal responsibility
- Changing labor markets and reduced job security
- Increasingly complex financial markets
- Access to financial products at young ages
Increase in life expectancy changes everything

- Life expectancy is high, and has kept growing.
- Young people today will need to be able to support themselves for many years.

Source: OECD Factbook 2013: Economic, Environmental and Social Statistics - © OECD 2012
Are students well prepared for future challenges?
Can they analyze, reason and communicate effectively?
Do they have the capacity to continue learning throughout life?

Every three years the OECD Programme for International Student Assessment (PISA) answers these questions and more. It assesses to what extent students near the end of compulsory education have acquired some of the knowledge and skills essential for full participation in society.
Over half a million students representing 28 million 15-year-olds in 65 countries/economies took the test

- Mathematics, reading, science, problem solving, and financial literacy
- Parents, principals, and system leaders provided data on school policies, practices, resources and institutional factors that help explain differences in performance
This is the first large-scale international study to assess the financial literacy of 15-year-old students.

Financial literacy assessment framework

The framework was the first step in constructing a financial literacy assessment of international scope by providing an articulated plan for developing items, designing the instrument and providing a common language for discussion of financial literacy.
A multiple-year project

- A group of experts was put together by the OECD to design the 2012 module on financial literacy.
- They represented many countries and many stakeholders (Treasury departments, central banks, regulators, practitioners, academics).
- Experts worked on the assessment for about two years.
Definition of financial literacy

“Financial literacy is knowledge and understanding of financial concepts and risks, and the skills, motivation and confidence to apply such knowledge and understanding in order to make effective decisions across a range of financial contexts, to improve the financial well-being of individuals and society, and to enable participation in economic life.”
Organizing the domain

A model for organizing the domain

1. Content:

   The areas of knowledge and understanding

2. Process:

   Approaches and mental strategies

3. Contexts:

   Situations in which the knowledge and understanding are applied
Content

Money and transactions
- Coins and notes
- Different ways of making payments
- Understanding bank statements

Planning and managing finances
- Saving and spending
- Credit and debt
- Financial decision making

Risk and reward
- Investment and saving
- Diversification
- Using credit
- Volatility of the market
- Exchange rates

Financial landscape
- Consumer rights and responsibilities
- Understanding of the wider financial, economic and social system
Processes

- Identifying financial information
  - Contracts, advertisements, charts, tables, forms and instructions. e.g. identify the features of a purchase invoice, or recognise the balance on a bank statement
- Analyse information in a financial context
- Evaluate financial issues
  - e.g. Compare the terms offered by different mobile phone contracts
- Apply financial knowledge and understanding
  - Draw on knowledge, logic and plausible reasoning to make sense of, and form a view about, a finance-related problem
  - e.g. Work out whether purchasing power will decline or increase over time when prices are changing at a given rate.
Contexts

- **Education and work**
  - e.g. Tasks around payslips, planning to save for tertiary study, participating in workplace savings schemes

- **Home and family**
  - e.g. Buying household items or family groceries, keeping records of family spending

- **Individual**
  - e.g. Choosing products and services such as clothing, toiletries or haircuts, or buying consumer goods such as electronic or sports equipment

- **Societal**
  - e.g. Being informed about consumer rights and responsibilities, and understanding the purpose of taxes
Examples of what this might mean for 15-year-olds

Balance their priority and plan what to spend money on
- …if they go to the movie theater, will they still have enough money for the bus fare home? Or would it be better to buy pizza and invite friends home?

Remember that some of the purchases have ongoing costs
- …a games console will need new games, a motorbike will need fuel and tyres and services and so on.

Being alert to possible fraud
- …Some emails that look like they came from their bank might not be legitimate, they should know what to do if they are not sure

Knowing what risk is and what insurance is meant for
- …If their phone gets stolen, they should ask their parents if it is covered by their household insurance

Make an informed decision about credit
- …they should know that if they buy a computer on credit they will have to pay interest on the loan as well as paying the advertised price for the computer
- …and they will realise that the less they repay of that loan each month, the more they will pay in interest

Make an informed decision about credit
18 countries-economies participated in the 2012 Financial Literacy Assessment:

Australia, Belgium (Flemish Community), Shanghai-China, Colombia, Croatia, Czech Republic, Estonia, France, Israel, Italy, Latvia, New Zealand, Poland, Russia, Slovak Republic, Slovenia, Spain, and the United States.

Data was released on July 9, 2014.
Financial literacy skills for the 21st century
Some questions

- Financial literacy across countries
  - Who does well in financial literacy?

- Financial literacy within countries
  - Who are the students at the top and bottom?

- Other differences in financial literacy?
  - Are there differences between male and female students?

- Does the use of financial products affect financial literacy?
  - Are bank accounts important?
Strong performance in financial literacy

Flemish Community (Belgium)
Australia
Czech Republic

Average performance of 15-year-olds in financial literacy

Estonia
New Zealand
Poland
Latvia
United States
Slovenia
Spain
Israel
Slovak Republic

Low performance in financial literacy

Russia
France
Croatia
Italy

Colombia
Distribution of student performance

Top performers

Baseline

OECD average-13

L5 10%

L4 22%

L3 30%

L2 23%

L1 15%

Financial literacy performance levels

- 625 and above
- 550 to <625
- 475 to <550
- 400 to <475
- Less than 400 points
Differences only partially explained by GDP per capita

\[ R^2 = 0.1632 \]

GDP per capita explains only 16% of the country level variation in financial literacy.
Top performers in financial literacy, by gender

9.7% of students are top performers in financial literacy (OECD average)

Boys are more likely to be top performers than girls, particularly in New Zealand, Israel, Poland, France and the Flemish Community (Belgium)
Percentage of low-performing students in financial literacy

Across the OECD on average, 15% of students do not reach the baseline level of financial literacy – meaning that they can solve only simple tasks.

Boys are more likely to be low performers than girls, particularly in France, Israel, Slovenia and the Slovak Republic.
Relationship between socio-economic status and financial literacy, mathematics, and reading performance

Percentage of variation in performance explained by socio-economic status

Countries: Estonia, Italy, Russian Federation, Croatia, Australia, Fl.Com. (Belgium), Poland, Shanghai-China, Colombia, Latvia, Czech Republic, OECD average-13, Israel, Spain, France, Slope, United States, Slovak Republic, New Zealand

- Financial literacy
- Mathematics
- Reading

Relationship between socio-economic status and financial literacy, mathematics, and reading performance.
Gaining financial literacy through experience: Relevance of bank account holding (accounting for socio-demographics)

On average across OECD countries and economies, students who hold a bank account score 21 points higher than students with similar socio-economic status who do not.
What have we learned?

Some preliminary findings

- Countries differ a lot in the level of financial literacy of young people
- There is a sizeable group of young people who perform below the baseline level, and many are male students
- In some countries, gender differences are rather pronounced
- Students with a bank account generally display higher financial literacy
There is a lot more to learn

Very rich data

- There is so much that can be done using these data both within and across countries
- Rich set of information about schools, exposure to financial education, teachers’ training, parents, etc.
- PISA data has had a large impact on education policies
Final thoughts

- Financial literacy is like reading and writing
  - As it was not possible in the past to participate in society without being able to read and write, so it is not possible to thrive in today’s society without being financially literate

- Building human capital for the 21st century
  - Everyone deals with finance and finance is sufficiently complex that we cannot leave it to the individual to learn by himself/herself
For more information, see:


Longer working paper available at www.gflec.org
US release of PISA financial literacy data,
The George Washington University, July 9, 2014
Contact and further information

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