

ASSA Annual Meeting

January 4, 2016



AN OVERVIEW OF THE PISA FINANCIAL LITERACY ASSESSMENT

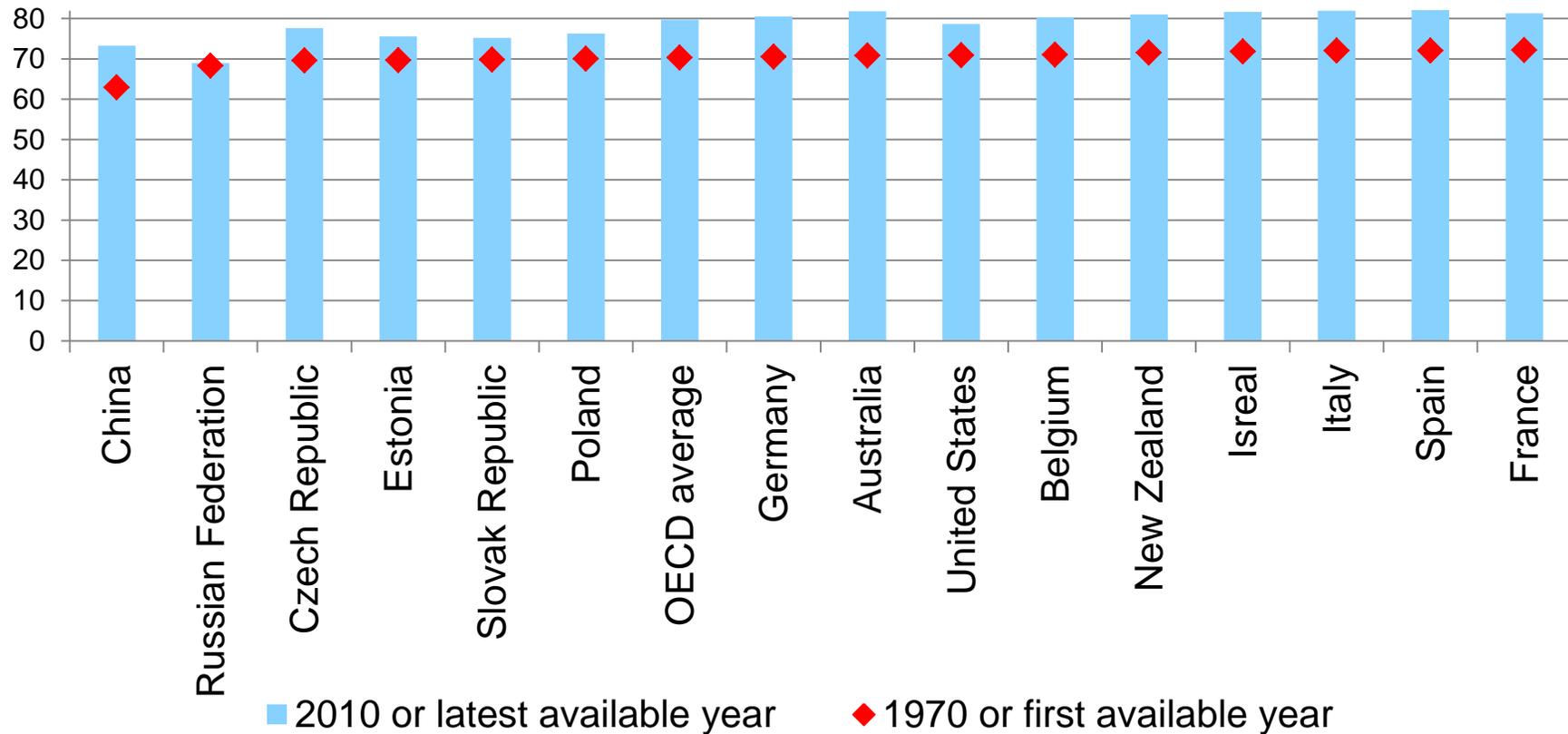
Annamaria Lusardi

The George Washington University School of Business
Academic Director, Global Financial Literacy Excellence Center (GFLEC)

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



Source: OECD Factbook 2013: Economic, Environmental and Social Statistics - © OECD 2012

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

Programme for International Student Assessment (PISA)

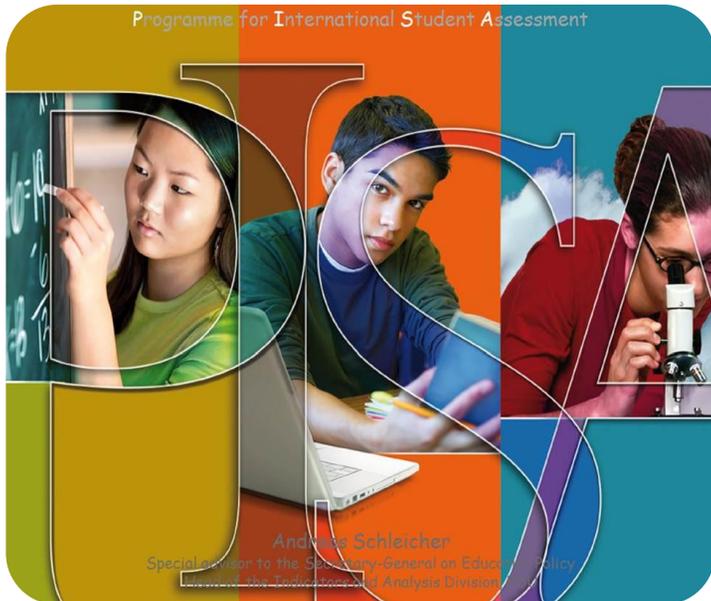
Are students well prepared for future challenges?

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.



2012 Programme for International Student Assessment (PISA)

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

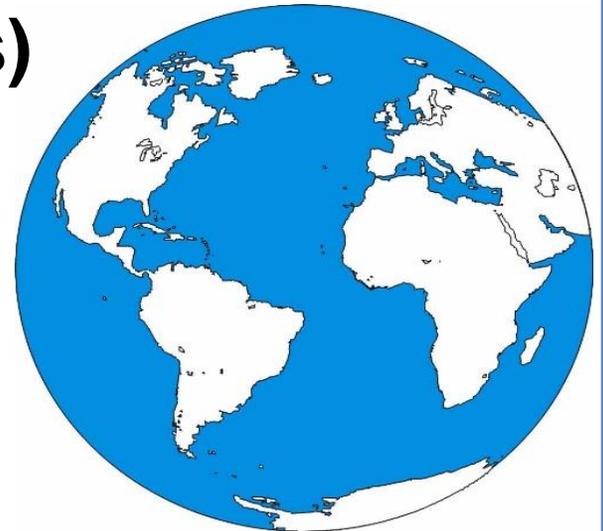
New module on financial literacy in 2012

- 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.

Financial Literacy Assessment Framework

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

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

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

e.g. Compare the terms offered by different mobile phone contracts

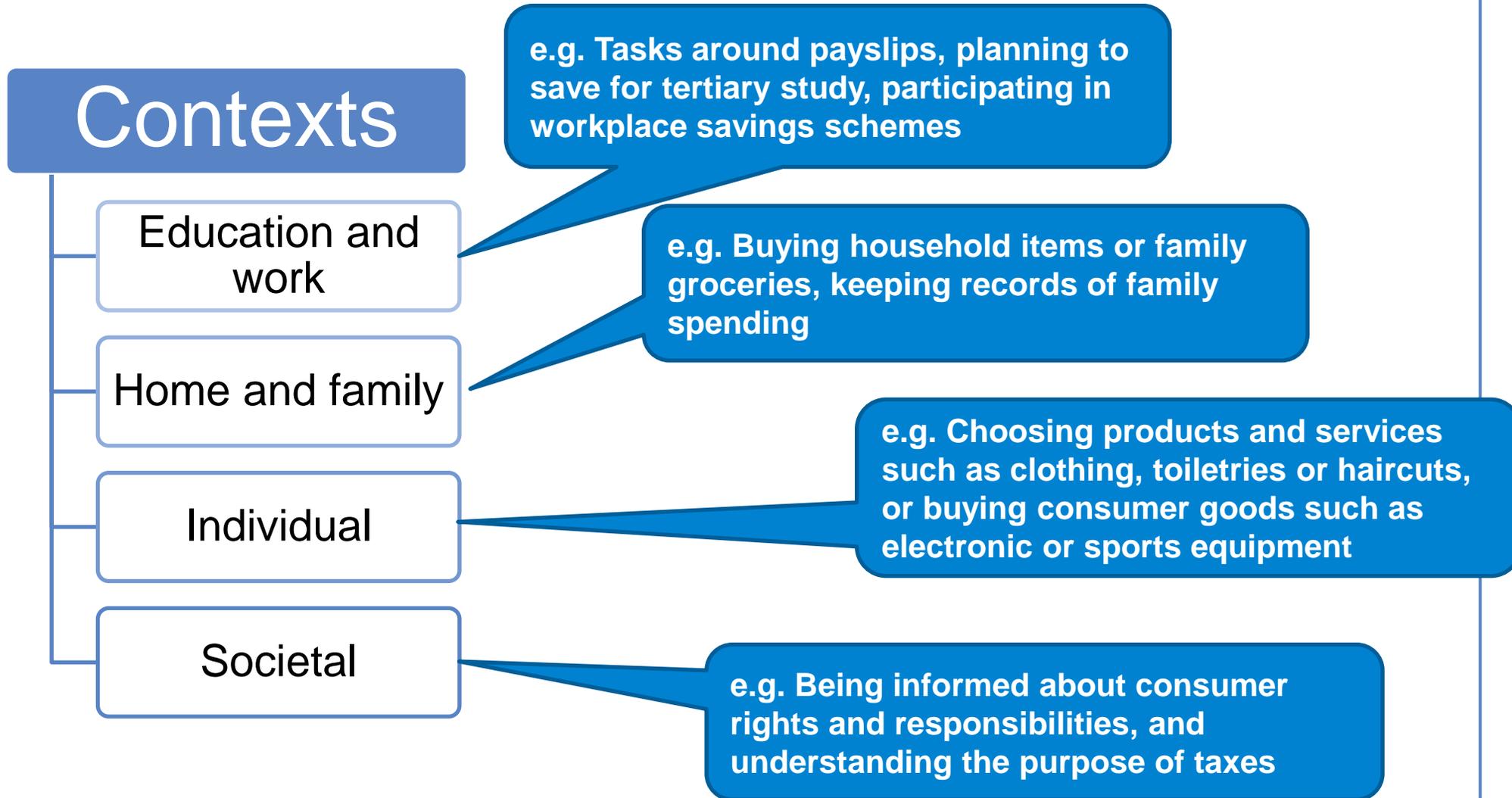
Evaluate financial issues

Draw on knowledge, logic and plausible reasoning to make sense of, and form a view about, a finance-related problem

Apply financial knowledge and understanding

e.g. Work out whether purchasing power will decline or increase over time when prices are changing at a given rate.

Contexts



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

Participating countries-economies

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



PISA 2012 Results: Students and Money

FINANCIAL LITERACY SKILLS
FOR THE 21ST CENTURY

VOLUME VI



Programme for International Student Assessment

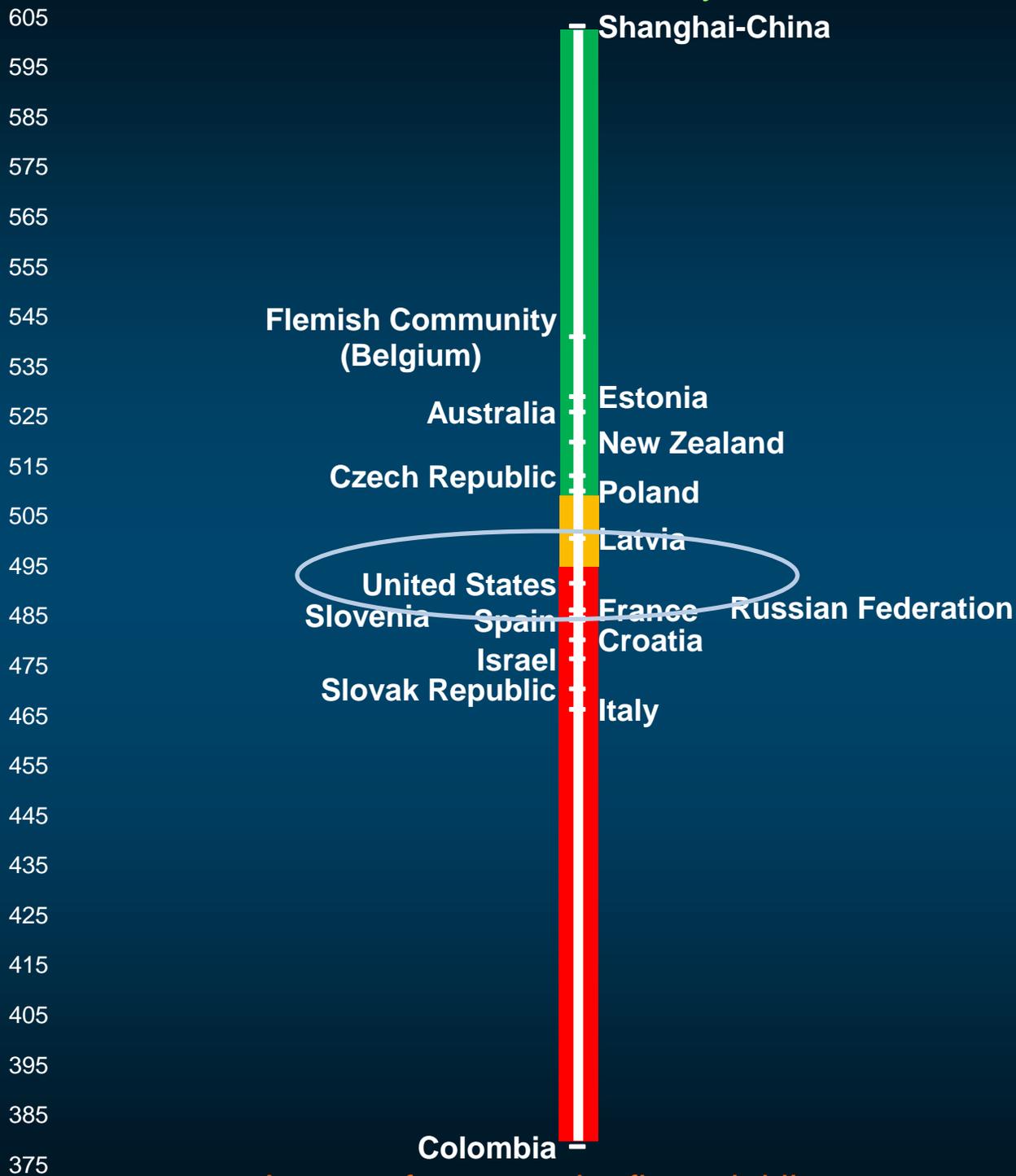
Some questions

- 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?

Mean score

Strong performance in financial literacy

Average performance of 15-year-olds in financial literacy

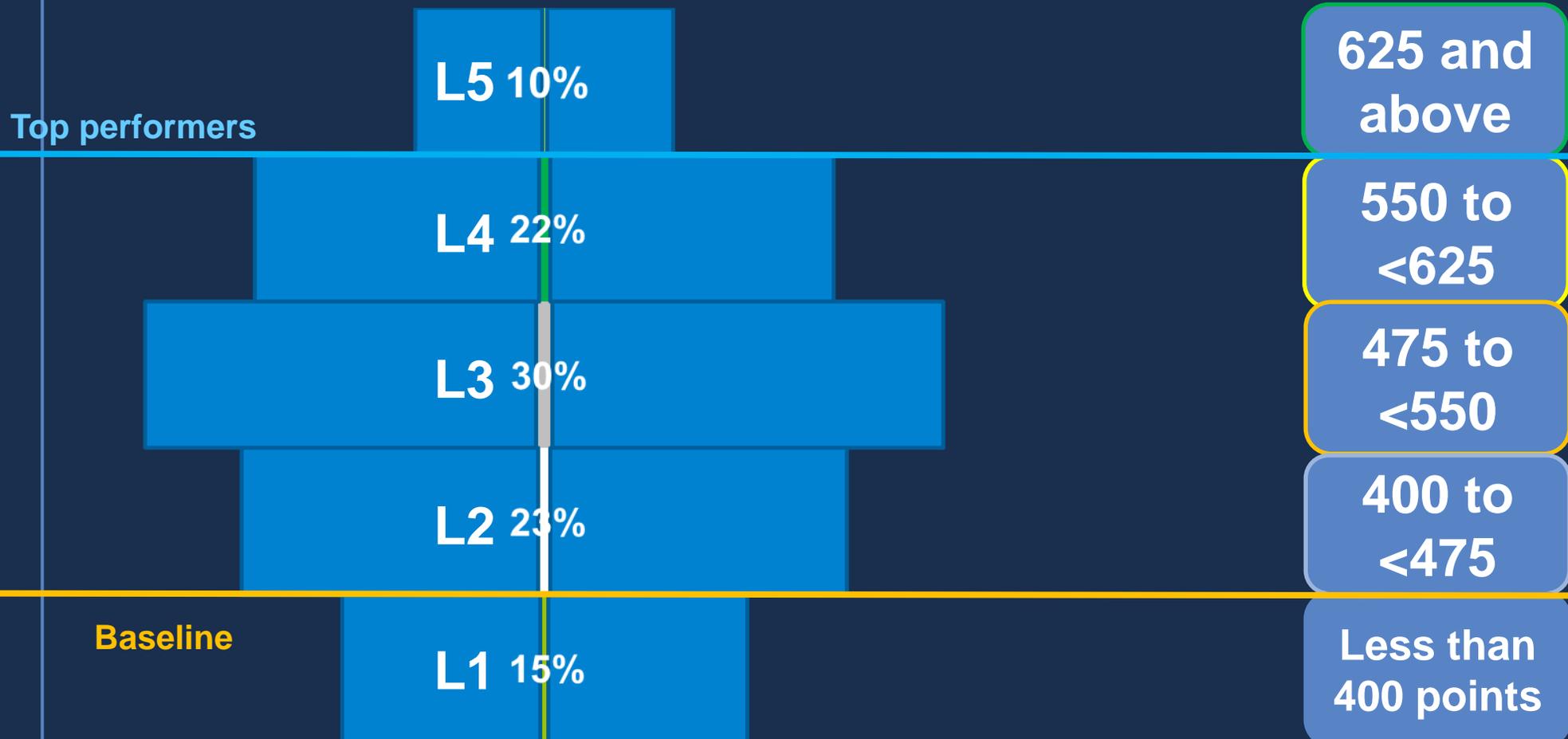


Low performance in financial literacy

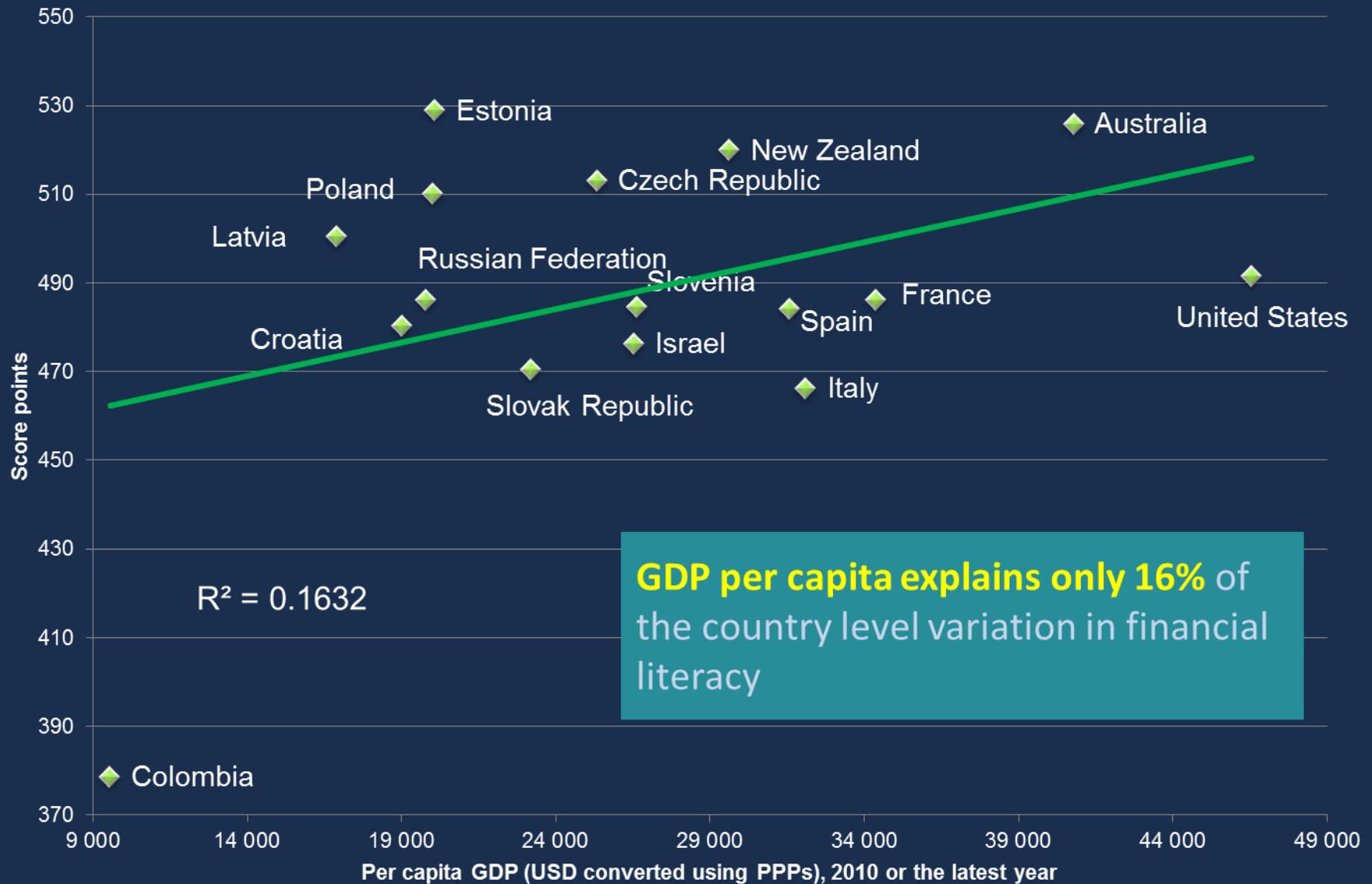
Distribution of student performance

Financial literacy performance levels

■ OECD average-13



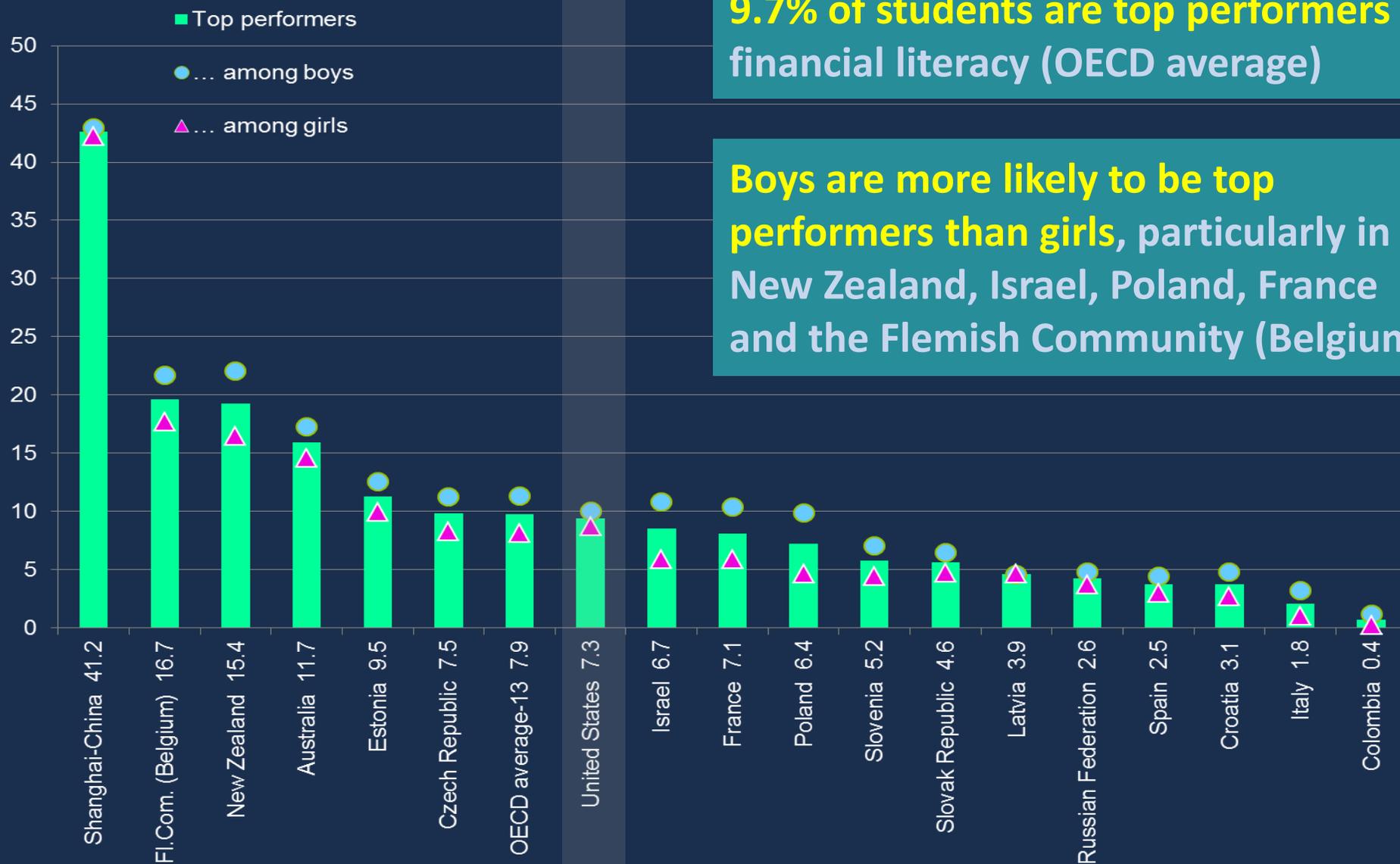
Differences only partially explained by GDP per capita



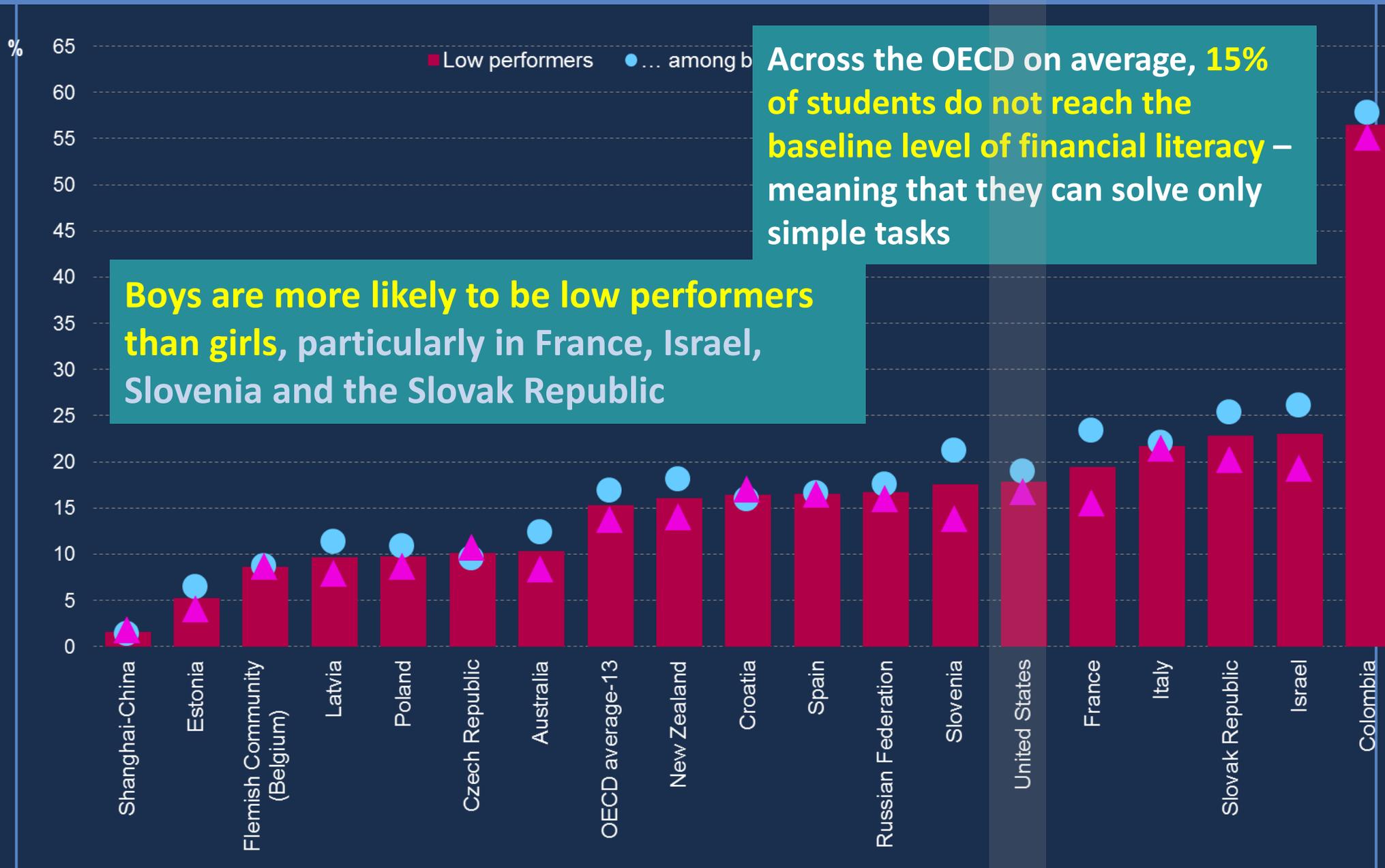
Top performers in financial literacy, by gender

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

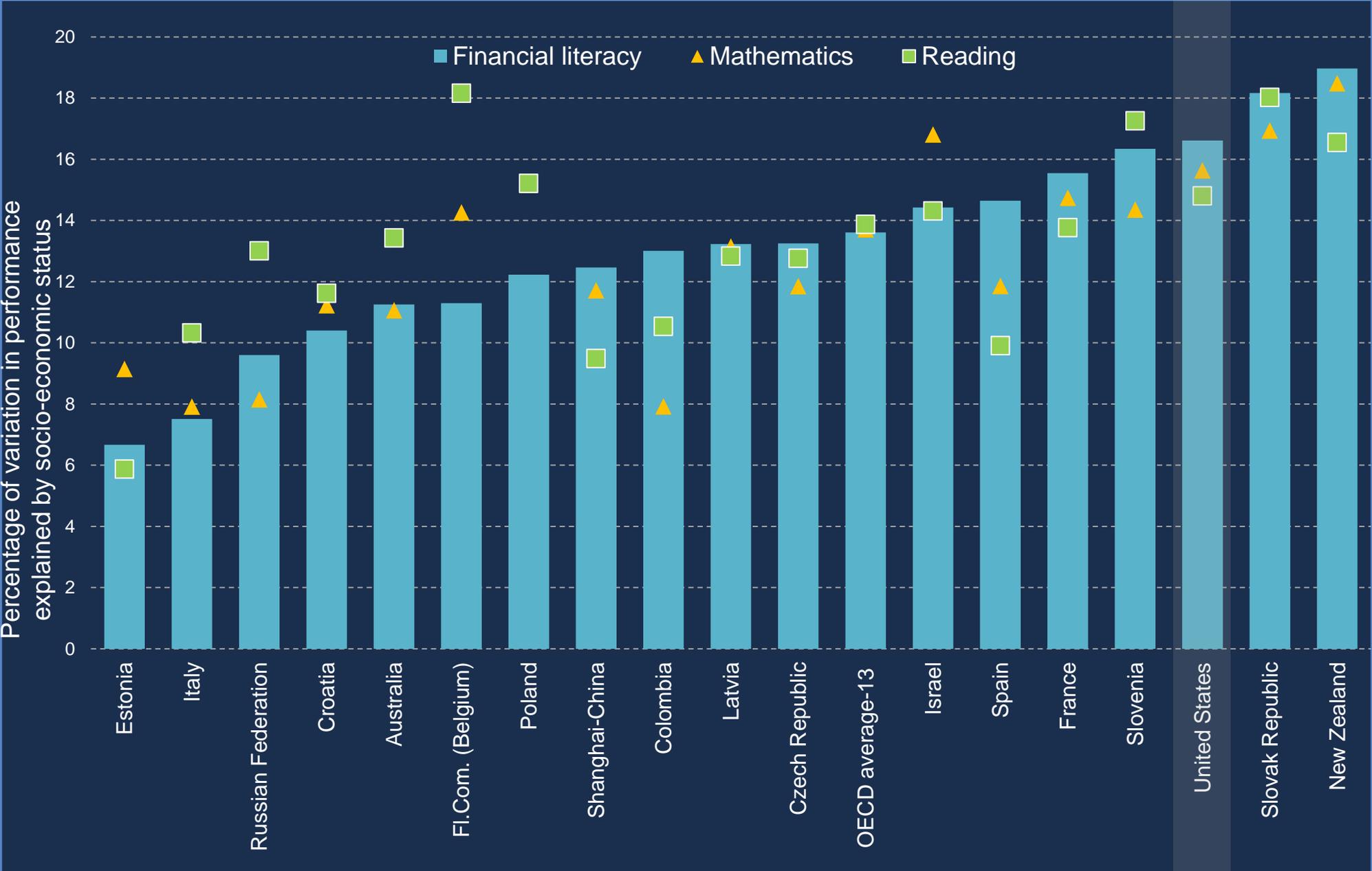
Boys are more likely to be top performers than girls, particularly in New Zealand, Israel, Poland, France and the Flemish Community (Belgium)



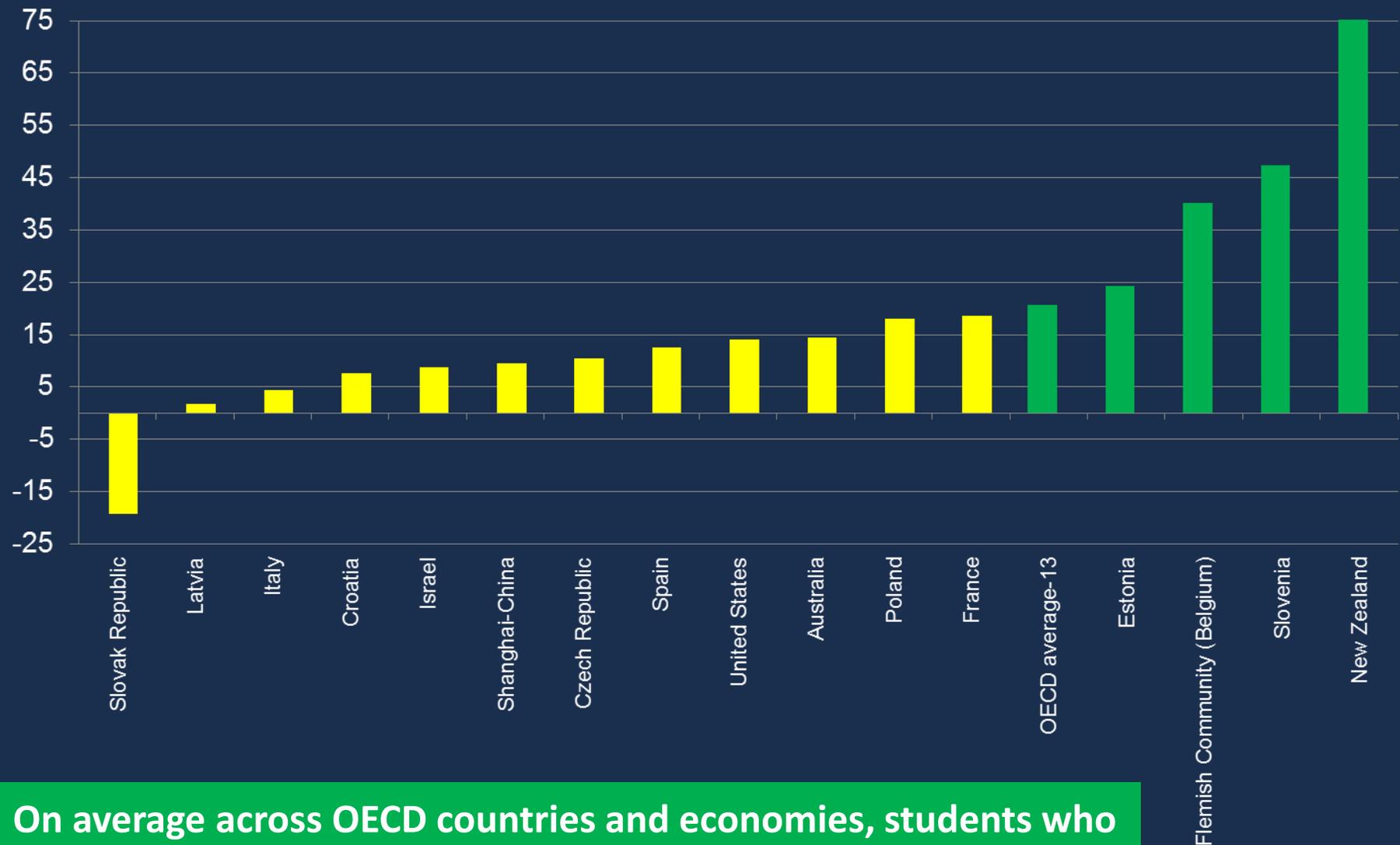
Percentage of low-performing students in financial literacy



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

For more information, see:

Annamaria Lusardi, “Financial Literacy Skills for the 21st Century: Evidence from PISA”

Calston Warne Lecture, published in the *Journal of Consumer Affairs*, vol. 49(3), Fall 2015

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

Annamaria Lusardi

Global Financial Literacy Excellence Center (GFLEC)

E-mail: alusardi@gwu.edu

Webpage: www.gflec.org

Blog: <http://annalusardi.blogspot.com/>

Twitter: [@A_Lusardi](https://twitter.com/A_Lusardi)

Facebook: Global Financial Literacy Excellence Center Page

