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Sue Thomson

Australian Council for Educational Research, sue.thomson@acer.edu.au

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Deputy CEO (Research) at the Australian Council for Educational Research

Equity issues in student financial literacy

The impact of the COVID-19 pandemic on national economies has underlined the necessity for strong personal financial literacy. With people suddenly able to draw money from their superannuation or freeze their mortgage repayments in order to meet expenses, it is vital that they have the skills to evaluate the costs and benefits associated with such options. Financial education therefore has a role, in conjunction with consumer protection and regulation policies, in equipping people to attain the appropriate skills and knowledge in financial literacy.

The pandemic has also accelerated the shift from in-person to online financial transactions. While the spread of digital financial services may open up new opportunities for poor and financially excluded people to access the formal financial system, it can also expose consumers to new security threats and risks of fraud that are compounded when low financial literacy is combined with poor digital skills and low cybersecurity awareness (OECD, 2017).

The increasing availability of ‘buy now, pay later’ services and other forms of online credit – especially unlicensed instruments that often target young and/or inexperienced consumers, such as a variety of payday lenders or debt repayment companies – will pose further challenges for financial consumer protection and education (Consumers Council of Canada, 2015; OECD, 2017).

Growing income and wealth inequality will mean that socioeconomically disadvantaged groups will need strong levels of financial literacy to avoid being left further behind. Providing young people with financial education is essential to help bridge disparities in financial literacy due to differences in students' current socioeconomic status, and will potentially reduce differences in their future socioeconomic status.

To better understand young people's readiness to make responsible financial decisions once they leave school and enter further education or employment, many countries participate in a triennial survey of 15-year-old students. The Programme for International Student Assessment (PISA) financial literacy assessment provides not only insights into the level of money-related skills and knowledge that students possess, but also into their attitudes, behaviours and experience with financial matters, and the environments in which they learn about financial matters.

In 2018, PISA measured financial literacy for the third time. Australia and 19 other countries participated in the financial literacy assessment.

Australian students generally performed well in financial literacy, achieving an average score of 511 points, which was higher than the average for the participating OECD countries, and only lower than the scores for Estonia, Finland, Canada and Poland. In PISA, results are also reported in terms of proficiency levels, which give us a better understanding of what students can actually do. Fourteen per cent of Australian students were classed as high performers, achieving at the highest level of proficiency (Level 5). These students can analyse complex financial products and apply their understanding of a wide range of financial terms and concepts to contexts that may only become relevant to their lives later on, such as borrowing money from loan providers. Students at this level can also describe the potential outcomes of financial decisions, showing an understanding of the wider financial landscape, such as income tax.

But not all students performed this well. Level 2 is considered the baseline level of financial literacy proficiency, and 16 per cent of Australian students performed below this level. Students below Level 2 are considered low performers – they are considered to have limited skills and are not yet able to apply their knowledge to real-life situations involving financial issues and decisions. At this level, students generally display basic financial literacy skills: they can identify common financial products and terms, and interpret information relating to basic financial concepts, such as recognising the purpose of an invoice. They can recognise the difference between needs and wants and they make simple decisions on everyday spending, such as recognising value by comparing prices per unit, but lack any ability to look ahead and plan for the future.

Socioeconomic background was a strong predictor of performance in financial literacy in all countries. In Australia, the average student from an advantaged background scored 89 points higher than the average student from a disadvantaged background, which is the equivalent of about three years of schooling. In terms of proficiency levels, 26 per cent of advantaged students were achieving at level 5 (high performers), compared to just 6 per cent of disadvantaged students. In contrast, 26 per cent of disadvantaged students were low performers, compared to just 7 per cent of advantaged students.

Disadvantaged students reported lower exposure to financial education than did advantaged students. Only 55 per cent said they'd been exposed to it in maths lessons, compared to 65 per cent of advantaged students, and 24 per cent reported exposure to financial education in another class, compared to 34 per cent of advantaged students.

Australian students are, internationally, high consumers of banking products. More than two thirds (68 per cent) of Australian students hold an account with a bank, building society or credit union, second only to Finland, where 89 per cent of students do. The proportion of Australian 15-year-olds with a credit or debit card (61 per cent) was fourth highest

to Finland (78 per cent), Estonia (75 per cent) and Canada (67 per cent), and the proportion with mobile access to their account was highest among participating countries (55 per cent compared to 46 per cent in Canada and 43 per cent in Estonia).

Again though, much lower proportions of disadvantaged students had a bank account (56 per cent compared to 77 per cent of advantaged students) or had a credit or debit card (55 per cent compared to 66 per cent), but the proportion who had mobile access to their account was similar (51 per cent compared to 56 per cent).

Where do students get money from? Largely, it seems, as gifts from friends or relatives, with 79 per cent of disadvantaged students and 92 per cent of advantaged students identifying this as the primary source of money. Many students of this age also have part-time jobs after school or during the school holidays, with 48 per cent of disadvantaged students and 53 per cent of advantaged students identifying this as a source of income. And, of course, about half of both advantaged and disadvantaged students get pocket money – either in exchange for doing chores or not.

And how do they make decisions about spending it? Most Australian students (89 per cent) responded that they were able to decide independently what to spend their money on. For disadvantaged students, however, there are more restrictions than for advantaged students. Fewer disadvantaged students (62 per cent compared to 71 per cent of advantaged students) said they are able to spend small amounts independently but need to ask their parents or guardians for permission for larger amounts, and a higher proportion of disadvantaged students need to ask parents or guardians for permission to spend any money (36 per cent compared to 28 per cent of advantaged students).

What about confidence? PISA 2018 asked students to rate their level of confidence in dealing with the following non-digital money matters:

- making a money transfer (e.g. paying a bill)
- filling in forms at the bank
- understanding bank statements
- understanding a sales contract
- keeping track of my account balance
- planning my spending with consideration of my current financial situation

Australian students were a little more confident than the average student across the OECD in dealing with these sort of money matters. The level ranged from 76 per cent of students who felt confident or very confident that they could keep track of their account balance, down to 31 per cent of students who were confident in understanding a sales contract. Students from a disadvantaged background were substantially less confident about planning spending according to their financial position (58 per cent compared to 75 per cent of advantaged students), and in keeping track of their account balance (70 per cent compared to 82 per cent).

PISA 2018: Financial literacy in Australia – by Sue Thomson, Lisa De Bortoli, Catherine Underwood and Marina Schmid – is available to download from the **ACER Repository**. (<https://research.acer.edu.au/ozpisa/48/>), or from www.acer.org/ozpisa (www.acer.org/ozpisa).

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