

Inequality and Financial Literacy: Some insights from OECD's work on financial education

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Inequality has been on the rise in OECD countries and beyond

- In many OECD countries, income inequality is at its **highest levels in 30 years**, are widening and further rising due to the COVID-19 crisis, the war in Ukraine and climate change.
- The top 10% of income earners take home **over ten times more pay than the bottom 10%**, up from seven times 25 years ago. Only in Turkey, Chile, and Mexico has inequality fallen, but in the latter two countries the incomes of the richest are still more than 25 times those of the poorest.

BUT, inequality is not just about income, it is also about:

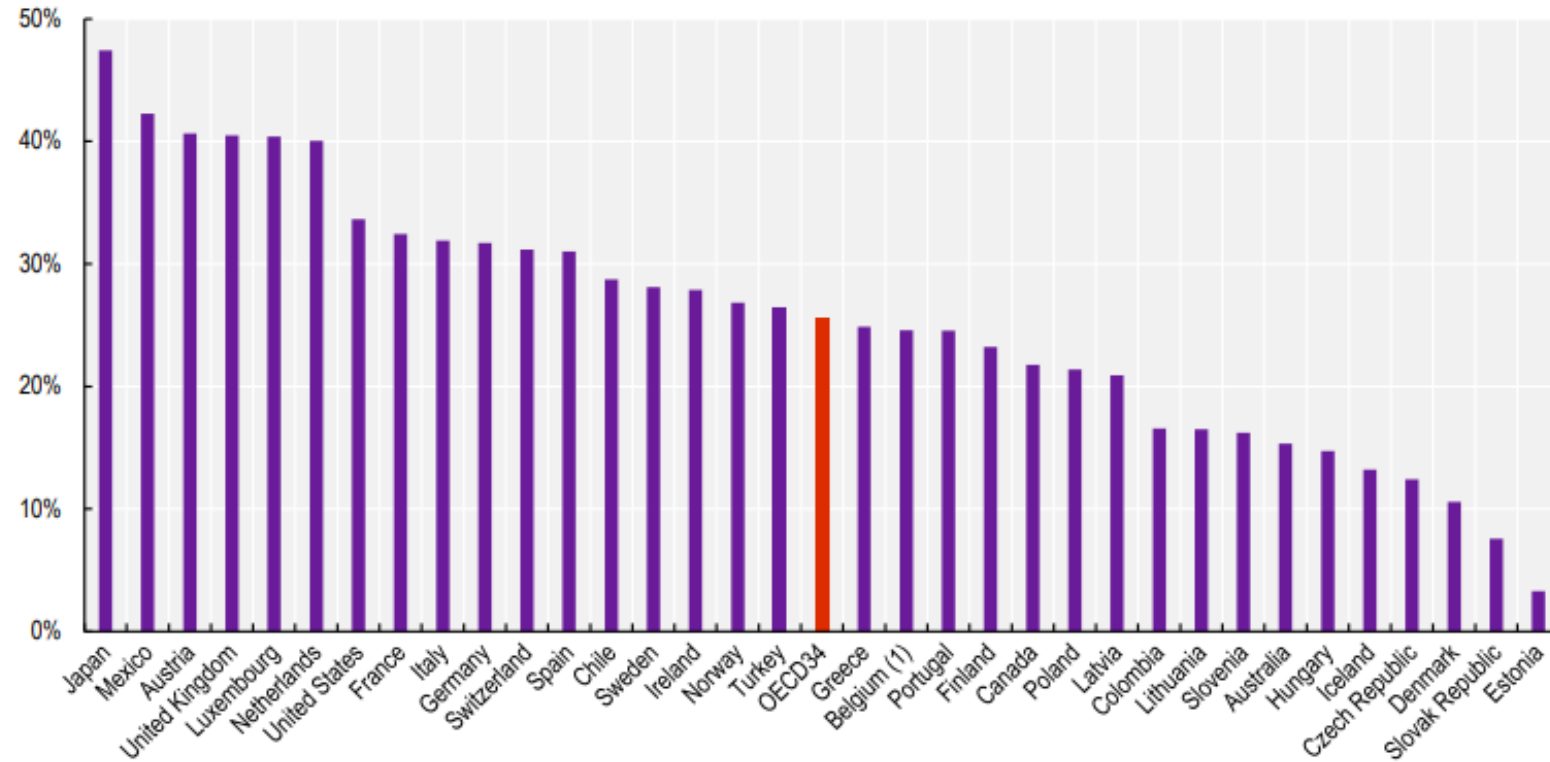
- **Gender:** inequalities in education, employment, entrepreneurship etc. [women earn 16% less than men, female top-earners are paid 21% less]
- **Climate change:** poorer households and those in poor countries are the most affected by climate change
- **Access to finance/Taxation:** access to finance is lower for low-income individuals and microenterprises, and tax evasion exacerbates inequalities
- **Health:** driven by differences in living and working conditions and access to and quality of health care
- **Education:** children whose parents did not complete secondary school have four times less chances of making it to university than children who have at least one parent with a university education.

- The OECD's work on inequality has focused on the relation to growth
 - “beyond growth” and “inclusive and sustainable growth” (**Better Life Index**)
 - well-being: the OECD Centre on Well-being, Inclusion, Sustainability and Equal Opportunity (**WISE**)



Gender gap in pensions in selected OECD countries [*latest year available*]

Relative difference between men and women aged 65+ (among pension beneficiaries)



Note: The gender gap in pensions is calculated as the difference between the mean retirement income of men and women (aged 65+) over the mean retirement income of men (aged 65+), among pension beneficiaries. Calculations are based on the LIS, except for: France, Latvia and Portugal where the HFCS (Wave 3) was used; and Iceland, Sweden and Turkey where results come from the EU-SILC (published on Eurostat's website). Data come from the latest available survey, conducted in: 2013 for Japan, Luxembourg, the Netherlands, Norway and the Slovak Republic; 2014 for Australia; 2015 for Hungary and Slovenia; and after 2015 for all the other countries. Data refer to 2017 for Iceland and 2018 for Turkey. (1) In Belgium when partner A's pension rights are less than 25% of those of partner B, the pension of A is not paid out and B receives a family pension (calculated at 75% of wages instead of 60%).

Source: OECD calculations based on the LIS and the HFCS; Eurostat (for the EU-SILC).



What about financial literacy and its link to inequality?

Financial literacy is defined as “a combination of financial awareness, knowledge, skills, attitudes and behaviours necessary to make **sound financial decisions and ultimately achieve individual financial well-being.**” (OECD)

- Financial literacy is linked to **wealth accumulation**, and **wealth inequality**
 - Various studies have shown links between financial literacy and **wealth accumulation**
 - A study by Lusardi, Michaud and Mitchell (2017) in the US finds that **financial knowledge is a key factor for wealth inequality** (financial knowledge enables individuals to better allocate lifetime resources in a world of uncertainty and imperfect insurance) and estimates that about 30–40% of retirement wealth inequality is accounted for by financial knowledge.



- > **Financial illiteracy and financial exclusion** can reinforce existing inequalities:
 - > OECD data show that, on average, women, young people, people with lower education or migrants have lower financial literacy levels. They also typically have lower incomes or accumulated wealth. **BUT** this is a correlation, not causation
 - > Low financial literacy means low financial resilience and lower financial well-being
 - > Low financial resilience and low financial well-being can exacerbate inequalities. This could imply a **positive feedback loop between inequality and financial illiteracy**, however there is scarce research on this link [*OECD has not researched this relationship*].



Financial Literacy Comparative Measurement exercise, unique in its reporting depth

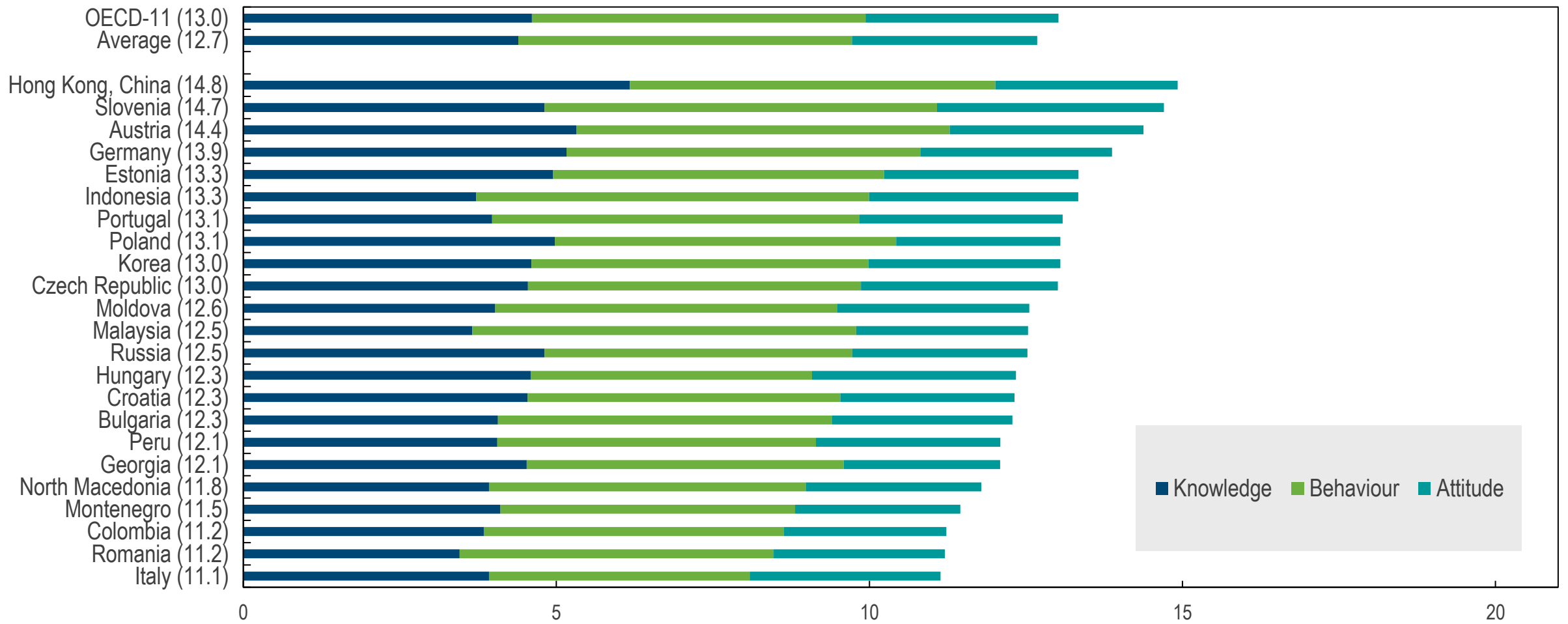
- 26 countries and economies (of the OECD Member countries), drawn from Asia, Europe, and Latin America
- In total, 125,787 adults were interviewed aged 18 and over
- Sample sizes range from 1,000 to 84,000.





Financial literacy levels are limited [*new data will be released in November 2023*]

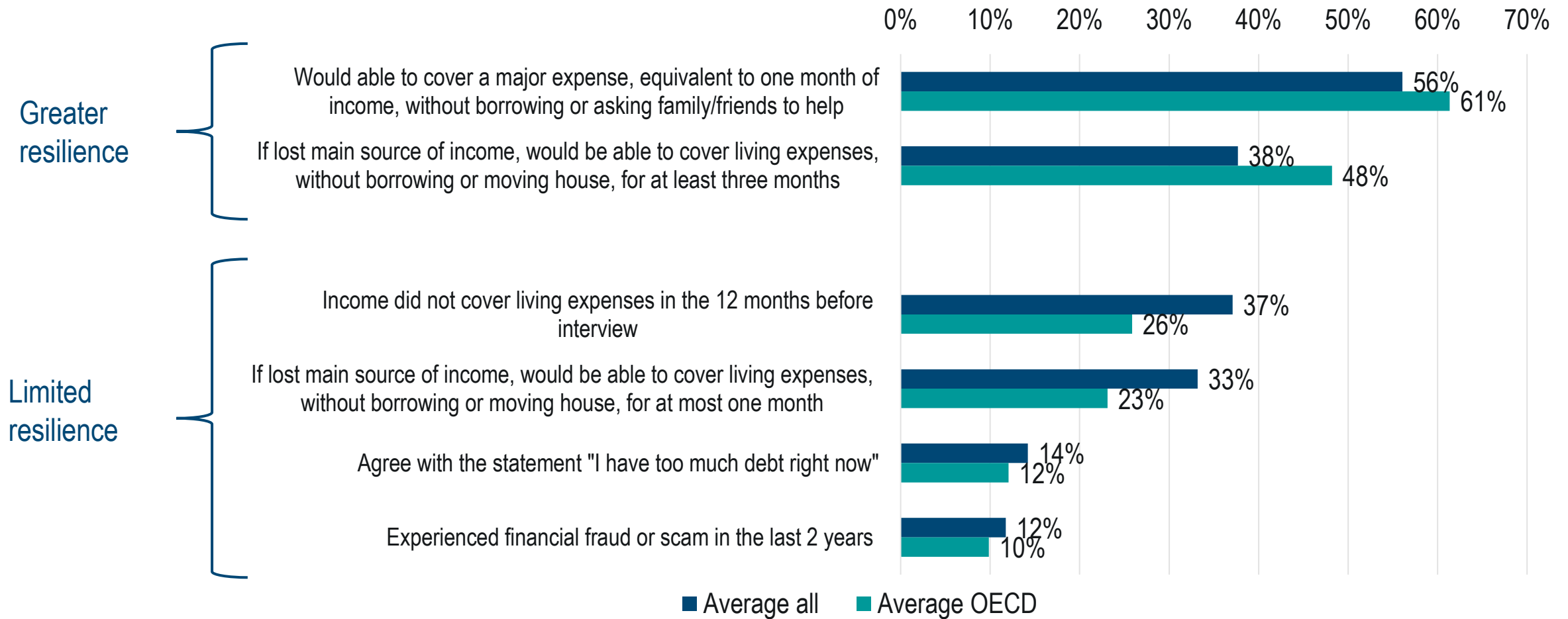
Financial literacy score (out of 21)



Source: OECD (2020), OECD/INFE 2020 International Survey of Adult Financial Literacy

Limited financial resilience [*pre-pandemic*]

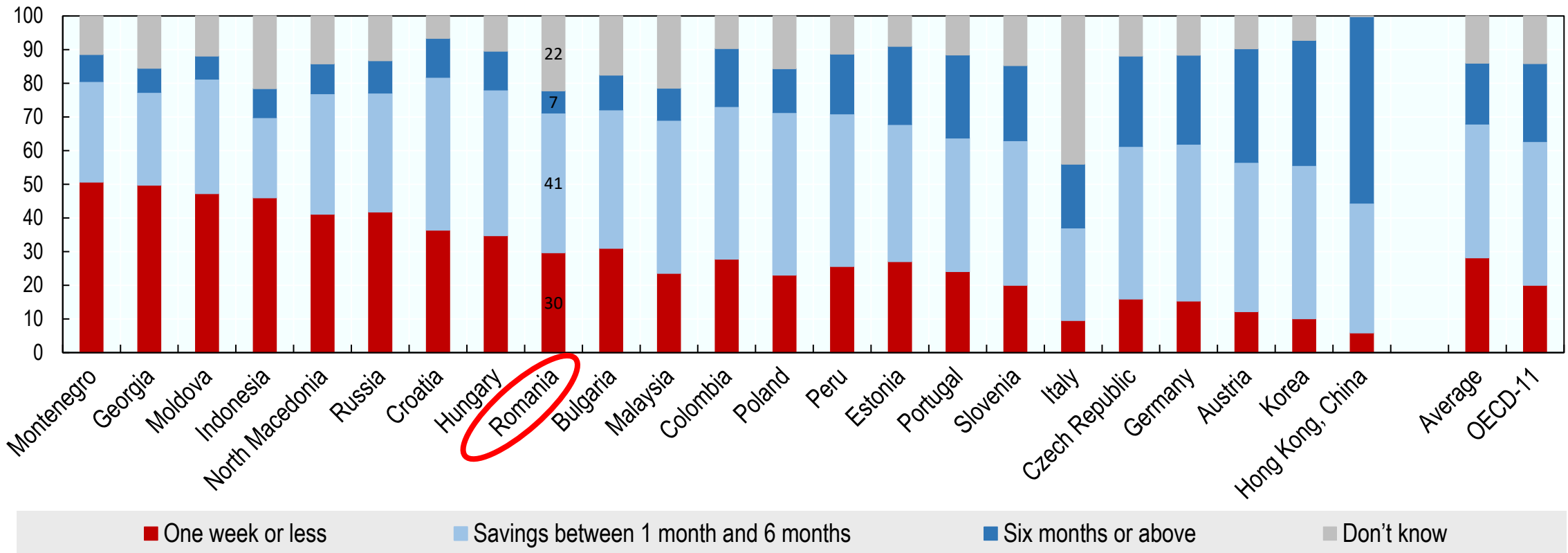
Percentage of adults reporting the following behaviours, or agreeing with the following statements





Limited availability of financial cushion important determinant for resilience and well-being

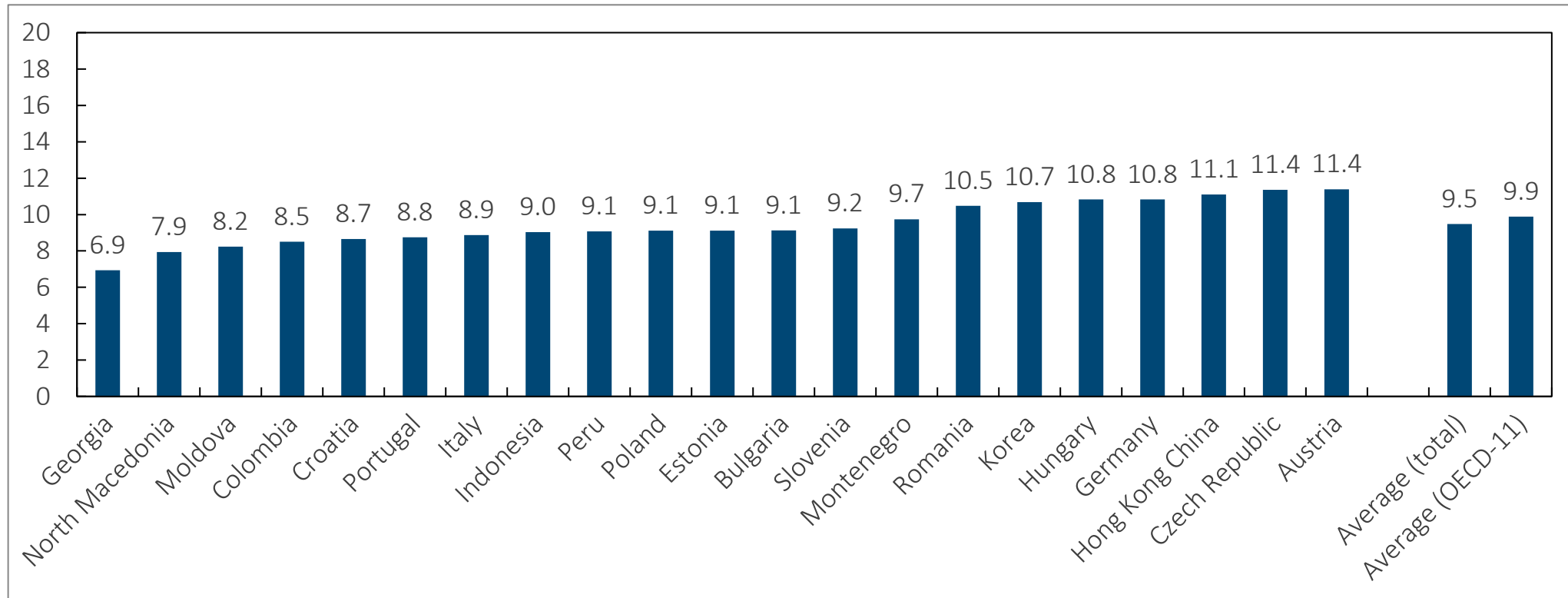
Differences in available financial cushion of savings (% respondents who reported available savings if their income suddenly stops)





Limited financial well-being as well [*pre-pandemic*]

Average levels of financial well-being (out of 20)



Source: OECD (2020), OECD/INFE 2020 International Survey of Adult Financial Literacy

- The average score of all the participants is 9.5; the average of OECD Members slightly higher at 9.9.
- Individuals do not consider their financial situation to contribute positively to their well-being, but rather to add stress and worry.
- A low score means that respondents are more insecure over control of their finances, feel less confident about their ability to absorb financial shocks in the future, are more inclined to agree that their finances restrict their life choices and they are ultimately lagging behind their long-term financial plans.

Gender

- Men appear to have statistically greater financial knowledge and financial well-being scores
- Women are less able than men to cope with income or expenditure shocks
- Women feel less in control of their finances, more concerned not to have enough money, and more inclined to agree that their finances restrict their life choices

Age

- Young people (aged 18-29) have lower financial literacy, as well as knowledge/behavior/attitude scores
- Seniors (aged 60 and above) have lower financial literacy and financial well-being across almost all economies

Digital use

- Respondents who used digital devices or services have consistently and significantly, higher financial literacy, knowledge, behaviour, and well-being scores

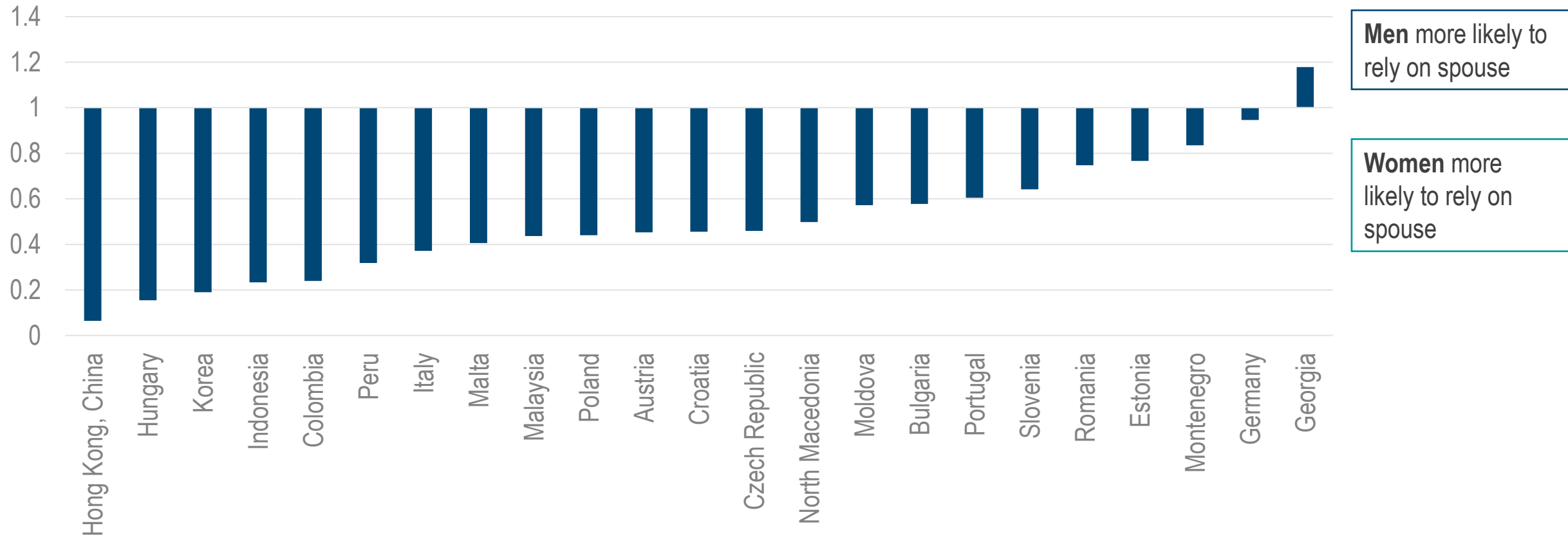
Financial Resilience and income levels

- Individuals who report availability of savings of more than three months have consistently and significantly higher scores across the board – across all economies and each of the financial scores. This is linked to income levels.
- **Students belonging to higher socio-economic status perform better in financial literacy**



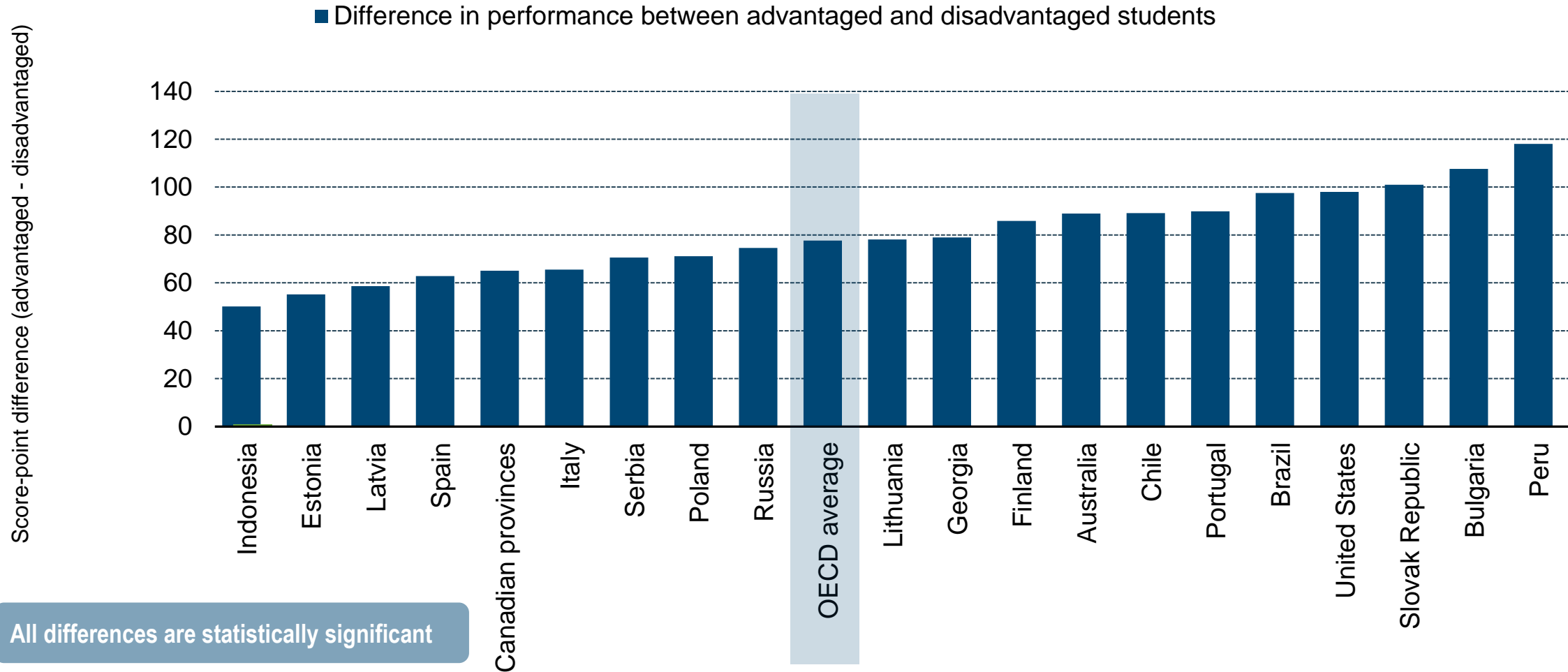
Women are less able than men to fund their retirement independently

Odds ratios: Likelihood of men with respect to women to report that they would /do rely on a spouse or partner to fund retirement





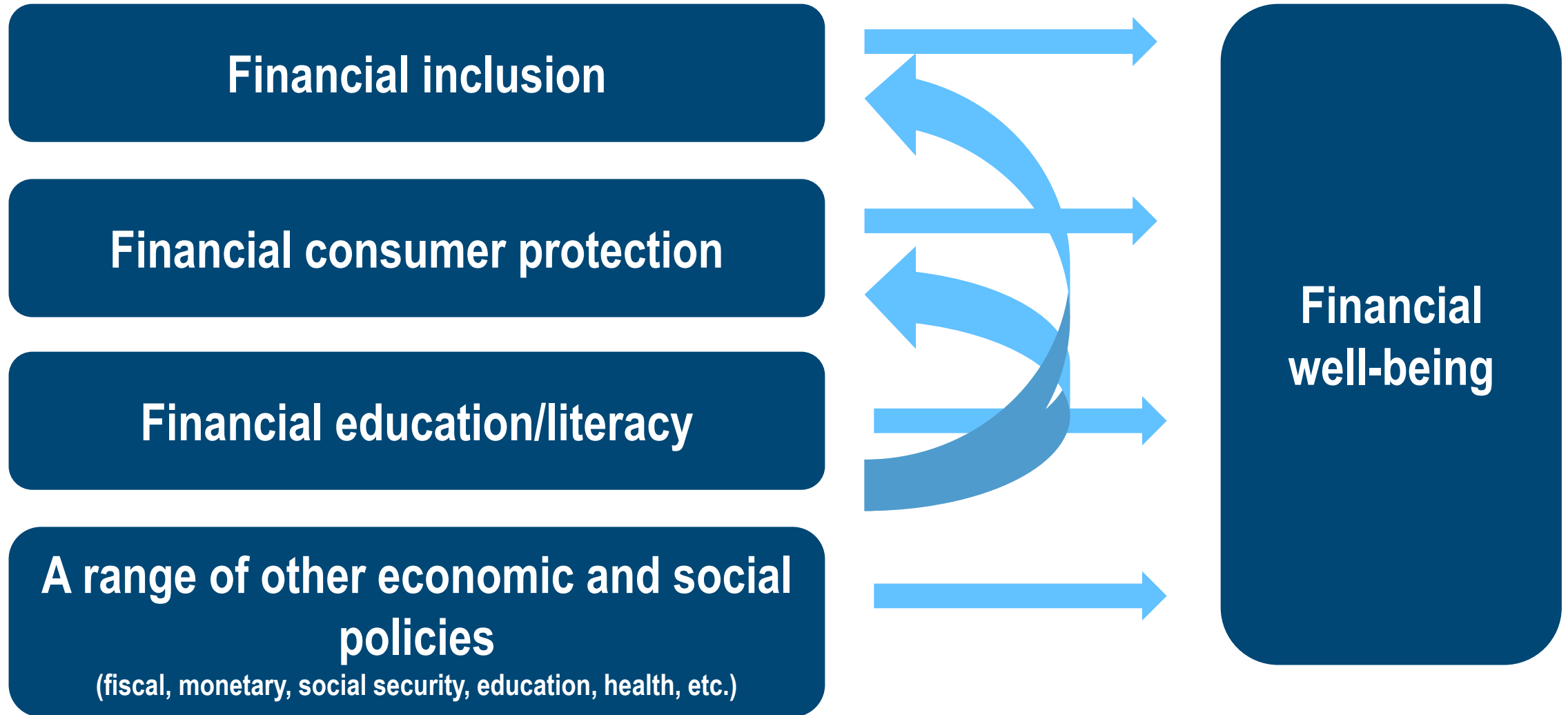
Clear link between socio-economic situation of students and their levels of financial literacy





Role of financial education in supporting financial well-being [*and reducing inequalities?*]

Integrated and multi-dimensional approach to consumers' financial well-being



Thank you

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