

Boosting Financial Literacy

Three researchers make the case for increased financial literacy education, led by CPAs.

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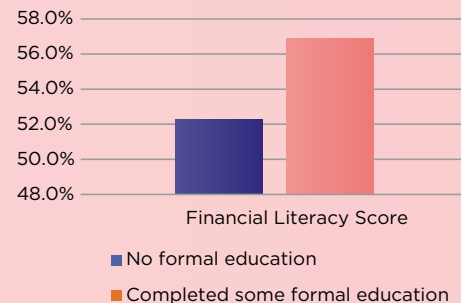


Financial literacy, or more specifically the lack thereof, has been in the news for some time. Financial literacy can be defined as the possession of appropriate knowledge and skills required to manage one’s own financial resources properly. This lack of financial literacy is ever more concerning, given the global trends towards more complex financial decisions that individuals must make. For example, Canada and other countries have seen a trend of defined benefit pension plans replaced by defined contribution pension plans, shifting the financial risk for retirement income from the corporation to the individual. In addition, individuals have greater access to financial transactions through internet purchasing, the advent of cryptocurrencies, crowdfunding, and crowd financing. Put together, individuals today are making considerably more financial decisions throughout their lives due to increased access to new financial products and longer lifespans. Yet, despite its growing importance, existing academic research has consistently shown that the average financial literacy of individuals is quite low across various demographics and countries.

As part of a larger research study into the financial literacy of post-secondary students, a 2020 survey of undergraduate students at a university in Alberta confirms relatively poor financial literacy, as students were on average only able to answer approximately half of the financial literacy questions correctly. Consistent with previous research, the results show that older and male students have higher levels of financial literacy. When regression analysis is applied to the survey responses, the results indicate that gender, age, and parental education levels are significantly positively related to financial literacy.

What can be done to increase financial literacy? Students who accessed a class, seminar, or high school course on personal finance were more likely to answer the financial literacy questions on the survey correctly. Even students’ informal education, such as a short video or pamphlet, helped improve students’ financial literacy.

Impact of Classes, Seminars or High School Course on Personal Finance on Financial Literacy

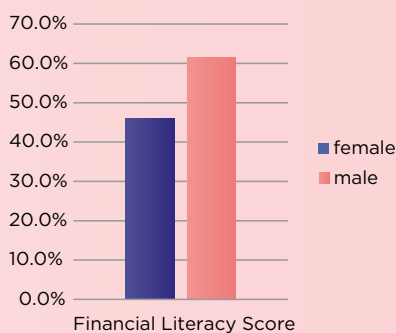


Also, the survey results indicate that experience with financial products positively impacts financial literacy, as students who own more financial products tend to perform better on the financial literacy questions.

This result strongly points to a simple solution to the financial literacy problem: additional education for the public would improve financial literacy. Introducing more financial literacy topics into public education and providing free or low-cost personal finance seminars to the public, thereby exposing Canadians to essential personal finance knowledge, would improve the general population’s financial literacy. This is where CPAs can get involved. With their extensive financial expertise and high level of public trust, CPAs are well poised to provide financial literacy courses and seminars to post-secondary students and the general public. CPA Canada currently offers a financial literacy program where personal finance seminars on various topics, from fraud to budgeting, are provided to the community by CPA volunteers, and CPA Alberta is actively involved in helping organize these sessions in the community. For more information on this program or how to get involved, contact CPA Alberta’s Director of Member Relations, Larry Brownoff CPA, CA, at lbrownoff@cpaalberta.ca.

As with many difficulties in life, increased availability of information and further education introduce new perspectives and mindsets necessary to solve problems. On the surface, the solution to this financial literacy challenge is a simple one: access to information and education. However, the best ways of effectively educating Canadians on personal finance issues have not been well established, and more research in this area is needed. The financial literacy survey provided to post-secondary students in Alberta, referenced above, is part of a larger study on effective ways to improve financial literacy for the public. The goal of this study which has been financially supported by the foundations associated with CPA Alberta (CPA Education Foundation) and AIMCo (AIMCo Foundation for Financial Education) is to determine the most effective way to increase financial literacy of post-secondary students in Alberta. An increased focus on financial literacy in public education—which CPAs are well positioned to take a lead role in—will result in more Canadians making educated decisions concerning their financial planning, improving the Canadian economy by reducing household debt, and increasing the level of savings, thus enhancing the quality of life for Canadians.

Gender



Financial Literacy Score by Age of Student

