Submission to:

Review of Australia's Higher Education System

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19 December 2022

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Introduction

Griffith University has demonstrated expertise in financial literacy, and it is a field of increasing interest to researchers, educators and policymakers. In Australia, the *National Financial Literacy Strategy 2014-17* set the first strategic priority as to educate the next generation, particularly through the formal education system. This led to financial literacy education being embedded in the school curriculum. The objectives were to increase the number of teachers trained (core action 1.2) and to increase the engagement and confidence of teachers to teach consumer and financial literacy through the Australian Curriculum (core action 1.4). In addition to teachers, the *National Financial Literacy Strategy* referenced increasing the number of VET students participating in financial literacy education, and more generally, to extending opportunities to engage students in the post-compulsory years of education. The most recent National Financial Capability Strategy 2022 underscore the importance of supporting young Australians to navigate 'financial firsts'.

Accordingly, we make this submission to the Review of Australia's Higher Education System to address with regard to key areas for review 1 and 2 in regard to the role of Higher Education to redress gaps in the supply of financial education to its students. It can be argued that universities have a moral obligation to support students in managing their finances, due to the large financial burden placed on them as they engage in tertiary study.

As members of the **Griffith Centre of Personal Finance and Superannuation (GCPFS)** we have extensive research experience addressing financial literacy, financial stress of university students, tax literacy, small business, and First Peoples (a list of publications is provided below). For example, West and de Zwaan have multiple publications on the financial stress and wellbeing of university students, de Zwaan has published on the financial burdens of compulsory placement on students, and de Zwaan and West have developed a deep understanding of financial literacy of high school students in a recent funded project and report. West and de Zwaan also write extensively on the measurement instruments used to analyse financial literacy performance.

Professor Freudenberg and Dr Belle Isle's research with others has considered how a person's tax knowledge is an important component of financial literacy, both in terms of individuals, but as well as for those undertaking business activities. Through the Griffith Tax Clinic, Freudenberg and Belle Ilse have conducted community workshops for various organisations to improve the tax literacy and confidence. This has included tax workshops for High School students, First Peoples, recent immigrants and those about to commence a small business. Through these workshops they have developed tools and checklists to consider not only tax obligations, but also how tax can influence a businesses' cash flow. They have conducted workshops for High School teachers to increase their knowledge and confidence in being able incorporate tax into the curriculum.

Associate Professor Bodle has led a team of researchers to learn how Indigenous business owners become economically sustainable in running successful small businesses, and translate it into best practices. Through the ARC-funded project, 'Empowering Indigenous businesses through improved financial literacy' aims to compare the level of financial and commercial literacy of Indigenous and non-Indigenous small business owners. It will accomplish this by analysing the financial performance and contrasting the support and resources available to Indigenous and non-Indigenous business owners, in independent and franchised businesses that are in urban, regional and remote areas of Australia.

In addition to research expertise in financial literacy, we undertake various activities that support financial literacy and benefit the broader community. This includes the Griffith Tax Clinic, operated by Freudenberg and Belle since 2019. In this program, 76 students have undertaken training to deliver tax support to over 500 clients, through meetings and workshops. Feedback from clients is that the assistance they received reduced their anxiety, improved their knowledge, improved their confidence in keeping proper records, and would recommend the service to others. West hosts the Financial Literacy Action Group's annual Information Exchange, which brings together service providers in Logan that address financial hardship and provide financial literacy support. Further, Bodle has contributed to enhancing our Business curriculum with First Peoples perspectives and leads initiatives to support First Peoples research.

We provide a list below of research undertaken by the contributing authors:

Students

- **de Zwaan, L**. & **West, T.** (2022) Financial literacy of Young Australians, Report prepared for the Financial Basics Foundation, available here.
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Financial Literacy

- Worthington, A**.** & **West, T**. (2022) Financial Literacy and Financial Education in Australia and New Zealand, Handbook on Financial Literacy, Routledge.
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Indigenous financial literacy

- **Bodle, K.,** Brimble, M., Weaven, S., Frazer, L., & Blue, L. (2018) Critical success factors in managing sustainable indigenous businesses in Australia, *Pacific Accounting Review*, *30*(1), 35-51.

Tax Literacy

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Small Business Literacy

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- **Belle Isle, M. & Freudenberg, B.** (2021) Taxing my cash flow: The influence of tax on small service sector business cash flow, *Journal of Australasian Tax Teachers Association,* 16(1), 1-37.
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Debt

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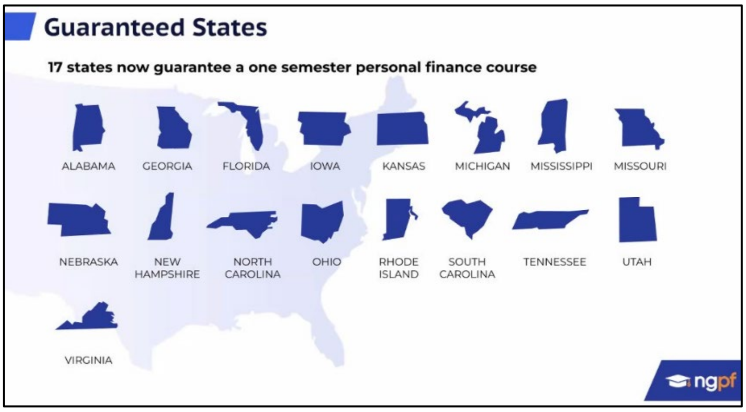
KEY AREAS FOR REVIEW

1. Meeting Australia's knowledge and skill needs, now and in the future

> "Enhance the delivery of quality education that meets the needs of students across all stages of lifelong learning and develops the skills needed now, and in the future. This will include recommendations for new targets and reforms recognising that more than nine in ten new jobs will require post-school qualifications, and fifty per cent of new jobs are expected to require a bachelor's degree or higher."

We agree that the Australian Higher Education sector should focus on quality education that "meets the needs of students across all stages of lifelong learning and develops the skills needed now, and in the future". **The Australian Higher Education sector can better meet this objective with the inclusion of compulsory financial literacy classes, which may include extracurricular workshops and/or a personal finance elective.** University years are a key transitional period, with students required to navigate new financial responsibilities as they become independent adults (Britt, Mendiola, Schink, Tibbetts & Jones, 2016). Compulsory classes are not an overly ambitious goal—17 states in the United States have mandates for a one-semester personal finance course at universities, with a goal to include all 50 states by 2030 (see Figure 1 below).

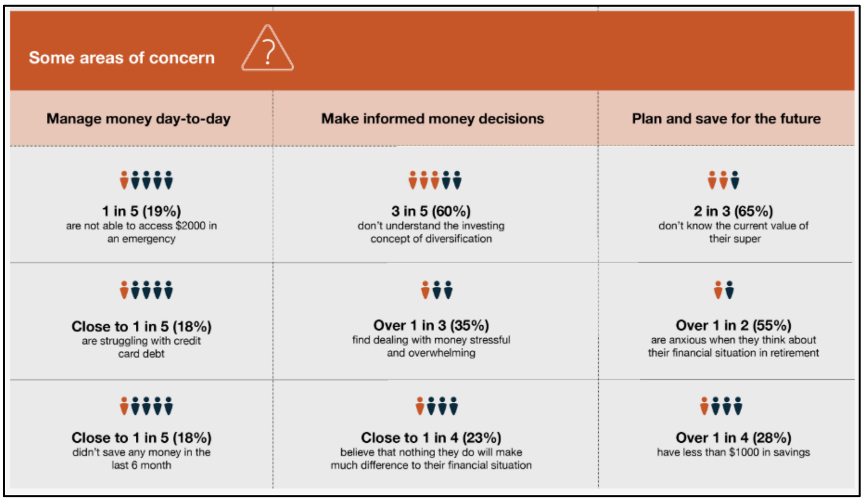
Figure 1. U.S. states with mandated personal finance courses.



Source: www.SFEPD.org

Developing financial capability is an important undertaking. Increasingly complex financial choices and products brings into sharp focus the need for consumers to be empowered with knowledge and consequences of their financial decisions. A significant number of Australians struggle to manage their money. 1 in 3 people find dealing with money stressful and overwhelming and there are multiple other areas of concern as shown in Figure 2 below.

Figure 2. Areas of Concern



Source: National Financial Capability Strategy, 2018

Evidence suggests that financial illiteracy is widespread across different countries and settings (ANZ, 2011; Financial Services Authority, 2006; Mandell, 2008). Young adults in particular have been found to have lower levels of financial literacy than people from older age groups (Ali, Anderson, McRae & Ramsay, 2014). The financial literacy of young adults is particularly critical as financial habits formed in early adulthood are likely to persist (Shim, Xiao, Barber & Lyons, 2009) and financial behaviour has been shown to have a major impact on financial wellbeing (ANZ, 2018). Studies have established a correlation between low financial literacy and poor financial outcomes later in life (Lusardi & Mitchell, 2009; van Rooij, Lusardi & Alessie, 2011), and research shows that money attitudes and unsound financial management practices are predictors of debt and financial problems amongst young Australians (Dowling, Corney & Hoiles, 2009; Phau & Woo, 2008).

Financial literacy has been recognised as a core life skill that students should possess in an increasingly complex world to meet real-life challenges (OECD, 2005; Thomson, 2014). In addition, financial literacy is considered an essential skill for employment, not the least because employment results in the need to lodge tax returns and manage superannuation, but also because financial literacy is necessary in many careers (Coben, Dawes & Lee, 2005; Davies 2002). Despite this, financial literacy has not traditionally been included as a generic learning outcome embedded in tertiary courses.

In Australia, the Australian Qualifications Framework (AQF) specifies that generic learning outcomes are 'the transferrable, non-discipline specific skills a graduate may achieve through learning that have application in study, work and life contexts' (AQF, 2013, p.11). Four broad categories of generic learning outcomes are recognised in the AQF: fundamental skills such as literacy and numeracy; people skills such as communication skills; thinking skills such as problem solving; and personal skills such as self-direction (AQF, 2013). Numeracy is understood as a fundamental basic skill that is essential to educational, social and economic success (Nicholas, Fletcher & Davis, 2012) and is a key component of the generic learning outcomes (Lonsdale & McCurry, 2004); however, financial literacy, a more advanced and applied knowledge with its basis in numeracy, is not considered in the AQF.

The national approach to addressing financial literacy deficits in the Australian community (discussed further in section 2) has evolved since 2011. Until 2021, the Australian Securities and Investment Commission (ASIC) led the *National Financial Literacy Strategy*.[1] The core objective of the Strategies have been to create opportunities for all Australians to increase their understanding of financial issues, manage financial risks and make the most of their money. The first *National Financial Literacy Strategy* set the foundation for "using educational pathways to build financial literacy for all Australians" (ASIC, 2011, page 6). The second *National Financial Literacy Strategy* set the first priority to "educate the next generation, particularly through the formal education system", which resulted in financial literacy education information being integrated across Australia's network of approximately 9,500 schools (Blue et al., 2014). To facilitate embedding financial literacy in schools, financial literacy was included in the national school curriculum from 2011, and ASIC developed the MoneySmart Teaching program, which provides teaching resources and professional development for teachers.

Even though earlier versions of the Strategy focused on school curriculum, PISA tests of 15-year-old school students show a decline in average financial literacy scores from 526 in 2012 to 504 in 2017. Worryingly, school students indicated they would reply to scam emails, provide their 'lost' online banking details or click on a link provided within an email and follow the instructions instead of contacting their bank (Singhal, 2017). Regarding general financial literacy indictors, evidence consistently shows that being young, female, a single parent, in poor health, unemployed and with low income and wealth increases the likelihood of low levels of financial literacy (West & Worthington, 2017). In fact, the *National Financial Capability Strategy 2018* highlighted four cohorts that need financial literacy support that include Indigenous Australians, young people, women, and older people.

Universities have a unique opportunity to continue the learning journey and engage with young people when they are facing financial decisions for the first time and making career decisions that have life-long implications. The ANZ Adult Financial Literacy Survey found that 18-24-year-olds perform poorly at forward financial planning and keeping track of finances, have a lower ability to choose suitable financial products, and have a weaker awareness of financial liability (ANZ, 2011). Studies also find that while young people are confident in their capacity as consumers (Financial Literacy Foundation, 2007), their more limited ability to manage income and understand their consumer rights places them at risk of poor decision-making. Research on Australian university cohorts find broad agreement that students are knowledgeable and confident with simple financial concepts, but complex, unfamiliar or long-term financial matters are particularly challenging (Cull & Whitton, 2011; ASIC, 2011 Beal & Delpachitra, 2003). The consequences of poor decision-making for young people include the risk of serious financial error, leading, in some cases, to debt stress (ASIC, 2011).

In Australia, financial literacy education at university is uncommon. Gerrans and Heaney (2016) introduced a personal finance course at the University of Western Australia. They assessed the efficacy of the course on students' financial literacy using pre- and post-testing and found

[1] In 2018 the strategy was renamed to the National Financial Capability Strategy.

completion of the subject led to an increase in both objective and subjective financial literacy. Worthington (2013) provides a broad review of the range of financial literacy programs offered in Australia, and their findings show that while financial literacy is considered at the school level, university financial literacy programs such as the one reported by Gerrans and Heaney (2016) are a rarity.

In addition to the inclusion of compulsory financial literacy classes, we suggest that the tertiary education sector should consider the addition of tax literacy workshops, micro-courses, or electives across all degrees. The tertiary sector prepares students in their specific area of study, it does not necessarily provide them with the required skills to comply with the tax system. Based on prior research, post graduate students have the highest tax literacy when compared to those with an undergraduate degree, trade qualification, or secondary school certificate (Belle Isle, Freudenberg and Sarker, 2021). However, it should be acknowledged that the level of tax literacy achieved was average for postgraduates. In comparison undergraduate and trade qualified individuals answered 40% correct and those completing year 12 answered one in every four tax literacy questions correctly.

Knowledge of taxation is a necessary life skill regardless of chosen workforce. Research suggests that those with higher levels of tax literacy are more likely to be compliant taxpayers, who hold a better understanding of the importance of tax policy in the operation of a civilised society (Nichita et al.). Tax knowledge should be included at all levels of education, with Australia making a progressive step in doing so by including tax and superannuation concepts as part of the consumer and financial literacy education in the national curriculum. Resources have been developed to assist primary and secondary educators to bring tax and superannuation into the classroom. However, from a tertiary perspective, tax knowledge is limited to those enrolled in Business or Commerce degrees choosing a major with taxation law as a core subject or as a free choice elective for other students this includes those aspiring to be primary and secondary educators at completion of studies.

The tertiary sector has an opportunity to enhance the financial, taxation and superannuation literacy of upcoming educators to ensure that those providing knowledge or making use of resources created by the Australian Taxation Office and ASIC have the skill and know-how to design pedagogy that will increase literacy of students through all levels of education. Micro-credentials or course content created specifically for degrees in education could be included with delivery provided by academic experts from Business Schools. This could have a positive effect on improving financial, tax and superannuation literacy for future generations. Relying on individuals completing postgraduate study to achieve higher levels of literacy does not benefit society, considering that only 10% of young adults attain a master's or doctoral degree (OECD, 2019).

There are many opportunities for universities to extend the formalisation of financial education. Universities, for example, could provide the following:

a. Students could complete a financial literacy module before being able to defer tuition fees (HECS-HELP) (with an opt-out option)
b. Extra-curricular workshops are offered on different topics, such as tax, budgeting, superannuation, insurance, inflation and the economy, investing
c. University-wide, online, elective courses are available on practical personal finance
d. Staff undertake financial literacy programs as part of a wellbeing program; and
e. Programs have 'developing financially capable students' added to the list of graduate attributes, providing appropriate support programs.

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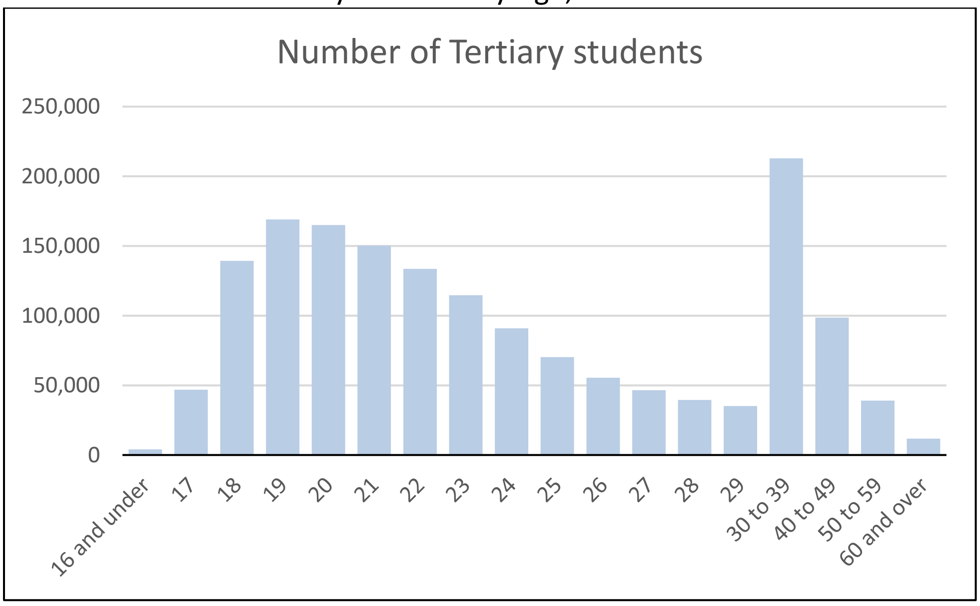
2. Access and opportunity

"Improve access to higher education, across teaching, learning and research. This will include recommendations for new targets and reforms to support greater access and participation for students from underrepresented backgrounds (including First Nations Australians, those from low socio-economic backgrounds, people with disability, and regional and rural Australians)."

We agree that Universities should attract and retain students from underrepresented backgrounds that include First Nations Australians, those from low socio-economic backgrounds, people with a disability and people from regional Australia. People with these backgrounds often face enormous intersectional challenges to participating in study, not the least of which have to do with money. Financial illiteracy is a concern for university students as they are embarking on major financial and life-cycle events, such as borrowing to study or moving out of home and are faced with a wide range of financial products and services.

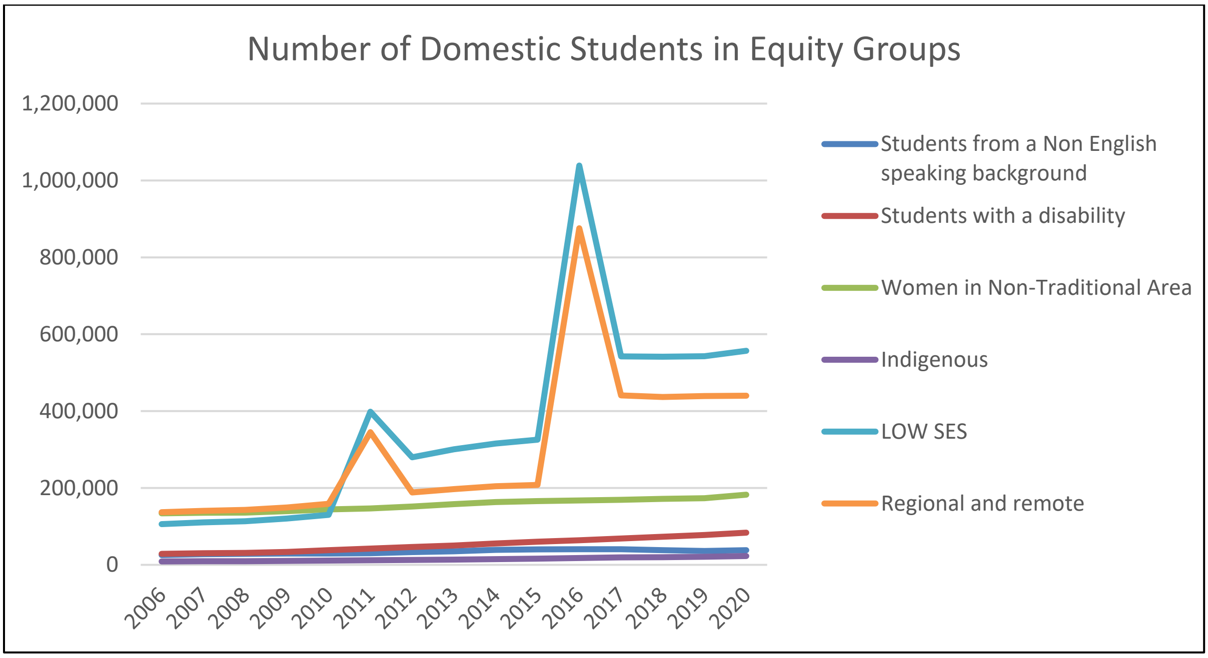
Universities are well placed to support the development of financial capabilities for equity groups that include young people (67% are under age 25), as well as older students (see Table 1). The four equity groups are also growing as a proportion to other students (see Table 2).

Table 1. Australian Tertiary Students by Age, 2020



Source: Department of Education and Training, Higher Education Statistics, 2020

Table 2. Growth in Equity Groups of Australian Tertiary Students, 2006-2020



Source: Department of Education and Training, Higher Education Statistics, 2020

A recent survey of 18,584 students in Australian Universities conducted by Universities Australia shows that a significant proportion of students are "doing it tough" (Universities Australia, 2018). Most domestic students are worried about their finances, with one-third indicating that expenses are greater than estimated incomes. Indigenous students are most likely to be worried about their finances (72%), followed by low SES students (63%), regional students (64%), and the remainder (58%). Alarmingly, 25% of Indigenous students indicated they regularly went without food or necessities, followed by 19% of regional students, 18% of low SES students, and 15% of the remainder. 14% of International students also indicate they go without food or necessities. Only 38% of domestic undergraduate students feel they are in control of their finances. Furthermore, most of the domestic undergraduate students work, and the share of students working more than 20 hours has increased since earlier surveys. Some of these students report missing classes and that work has a negative impact on study.

Previous surveys of Australian university students provide strong evidence to support the notion that the financial circumstances of students have a substantial impact on their study. These surveys include the Australian Vice Chancellors' Committee survey in 2000 entitled *Paying their way: A survey of Australian Undergraduate University Student Finances;* the 2014 study by the Halliday-Wynes and Nguyen and the National Centre for Vocational Educational Research entitled *Does financial stress impact on young people in tertiary study?* in 2014 and the *Universities Australia Student Finances Survey* deployed every 5 years.

Other studies of financial stress of tertiary students have similar findings around the world. The toll of financial stress on students is exhibited in terms of less campus and social engagement, which contributes to lower retention rates (Engle and Tinto, 2008). In the US, a study by Joo et al. (2008) found that students had reduced their course load or dropped out to work more hours to make loan or credit card payments. Britt et al. (2015) linked financial stress to lower grade point averages.

Moreover, the decision to participate in higher education for many students requires accumulating student debt. While the Income Contingent Loan system is designed so that repayment is not required until a minimum income threshold is reached, Universities are not taking responsibility for educating students about the implications of this debt and its parameters. Especially in times of austerity, Governments discuss changes in some of the parameters, of which the financial implications for debtors can be substantive. For example, in 2018 legislation passed the Parliament to reduce the initial threshold from $56,000 to $45,000, and prior to this, the Australian Liberal Party discussed changing the inflation adjustment rate to the Government Bond rate instead of the CPI. Accordingly, universities have a moral obligation to provide students with financial literacy workshops that include detailed information on HECS-HELP (and other) loans, and how they interact with the earnings and tax system.

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