

THE ESSENTIAL SKILLS BULLETIN

Do skills actually matter when it comes to employment and earnings?

In a time of economic uncertainty, many Ontarians are still struggling to find meaningful employment. These individuals may be hindered by various barriers to participation in the labour market, including low family income, health concerns, language barriers, inadequate child care and low levels of educational attainment. It has been well established that amongst these barriers, educational attainment is perhaps the greatest determinant of labour force status (whether a person is employed, unemployed or not in the labour force) and income. However, the relationship between an individual's labour force status, income and skill level is less clear. Fortunately, the data from PIAAC provides interesting insights into this relationship and begins to shed light on the question: *do skills actually matter when it comes to employment and earnings?*

PIAAC Scores and Labour Market Status

A close analysis of results from PIAAC reveals that skills do seem to matter when it comes to employment and earnings. When breaking down

the PIAAC data by labour force status, it is evident that those who are employed have higher average scores in literacy and numeracy than those who are unemployed or out of the labour force (those not actively looking for employment).¹ The gap in score points between employed and unemployed individuals does suggest that skills development would be beneficial to those looking for work.

Interestingly, in each jurisdiction, unemployed individuals earned significantly higher average proficiency scores in literacy and numeracy than those who are out of the labour force. Additional research is needed, however, to identify the factors that can explain these differences in scores.

Those who are employed have higher average scores in literacy and numeracy than those who are unemployed or out of the labour force

Figure 1: Average Literacy Scores by Labour Force Status (Canada & Ontario)

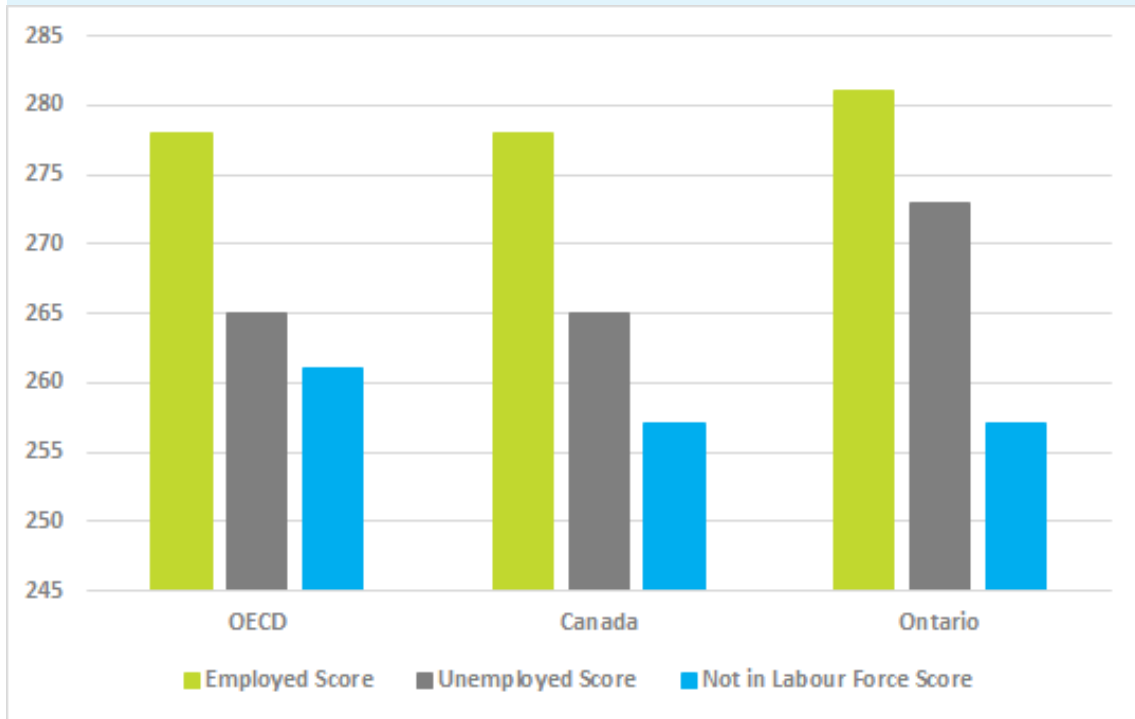
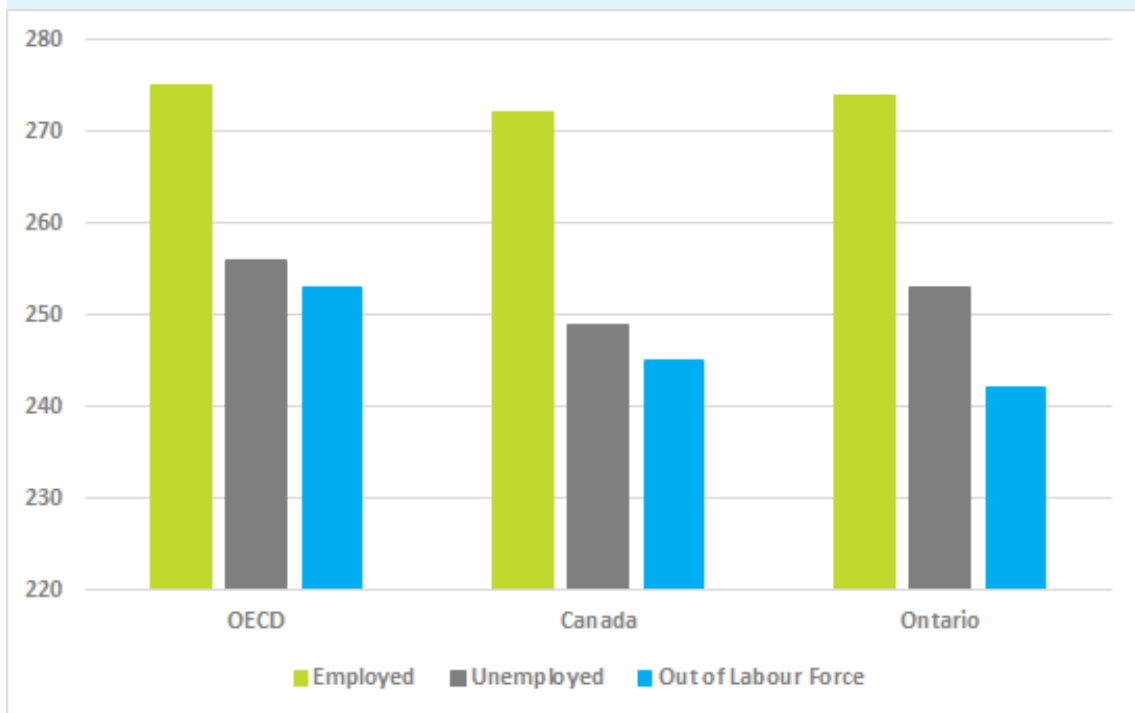
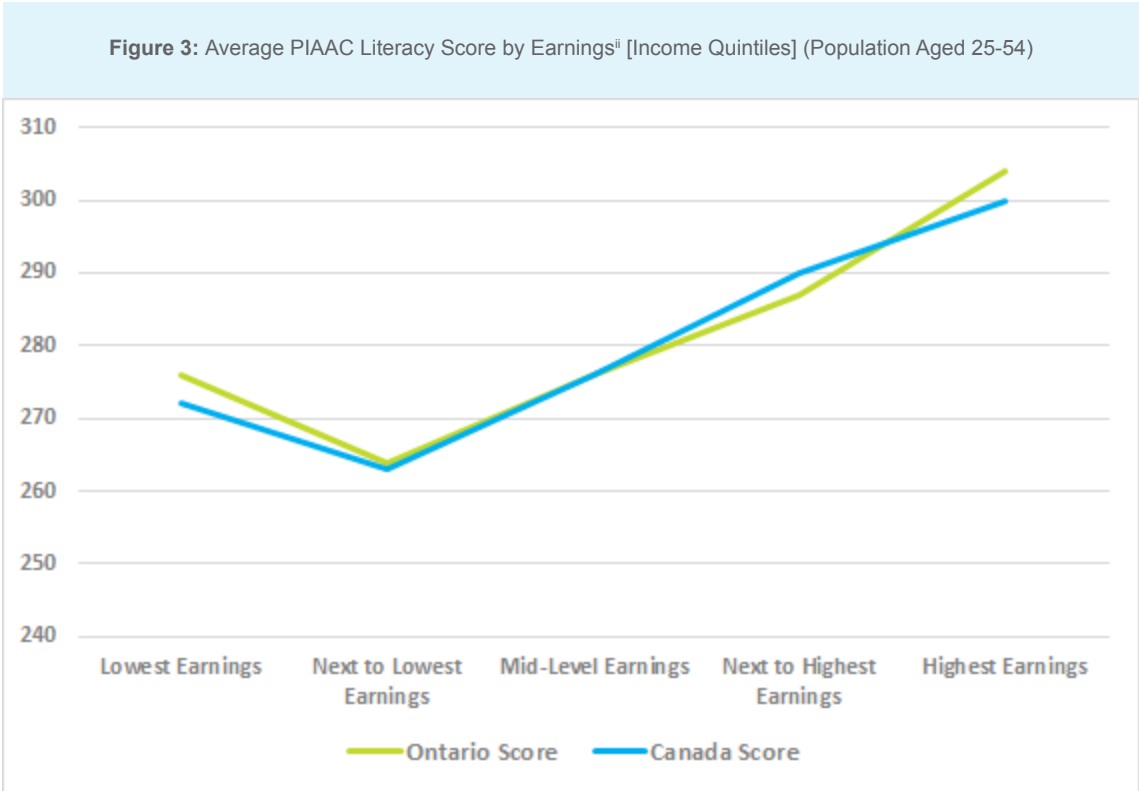


Figure 2: Average PIAAC Numeracy Scores by Labour Force Status (OECD, Canada, Ontario)



Proficiency Levels & Income

According to PIAAC scores, average skill levels also tend to rise as income increases, indicating a positive relationship between skill levels and income. The chart below shows that those with higher income earned higher average scores in literacy than those with lower incomes. However, this is not a linear relationship, as those with lowest incomes earned significantly higher scores than those in the next to lowest incomes. Similar dips in score points between the lowest and next to lowest earnings are found in various age groups and in the OECD average. Further analysis of the data, including the factors associated with higher scores, would shed light on this phenomenon.



Conclusion

The PIAAC data provides interesting insights into the variation in skill levels among people with various levels of income and with different degrees of employment. It appears that those with the least amount of labour force involvement performed poorly relative to those that are employed or looking for work. In Ontario this gap represents about 24 score points in literacy and 32 score points in numeracy. Given the magnitude of this skills gap, it is imperative that the relationship between labour force attachment and skill levels be investigated.

Essential Skills Ontario is currently examining this issue through two of our research projects (Elevate Canada and Career Ladders) which are in part aimed at examining the ways in which literacy and basic skills (LBS) and skills training can be better integrated with labour force demands. This will be accomplished through a through examination of integrated training approaches (Elevate Canada), as well as a career pathways approach to economic mobility (Career Ladders). The PIAAC data highlights the need for such research and the imperative for improving existing training programming in Ontario and Canada, so that programs are in a better position to produce meaningful results for those that need them most.

Endnotes

ⁱThe differences in score points are statistically significant at the 0.05 with the exception of the difference in score points between individuals that are unemployed and out of the labour force in Ontario, which is not significant.

ⁱⁱEarning refers to income quintiles. Income quintiles are derived by grouping the population in the data set into five distinct groups (each representing a fifth of the sample) based on earnings. Each income quintile represents 20% of the population, with the lowest income quintile comprising of lowest 20% in terms of income and the highest quintile comprising the top 20% in terms of income.

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