FINANCIAL LITERACY: IMPROVING EDUCATION
2006 National Jump$tart Coalition Survey

Executive Summary

The positive turnaround in financial literacy scores that was first noted in the 2004 survey, continued—albeit slowly—in 2006. Beginning with an average score of 57.3 percent in 1997, scores fell to 51.9 percent in 2000 and 50.2 percent in 2002 before staging a rebound to 52.3 percent in 2004. In 2006, the mean score increased by a tenth of a percent to 52.4 percent. The increase is certainly not overwhelming but somewhat reassuring given that the gains of two years ago appear to be holding. On a more positive note, the proportion *failing* this exam (a score below 60 percent), *decreased* from 65.5 percent in 2004 to 62 percent in 2006.

When the Jump$tart Coalition® for Personal Financial Literacy first began measuring financial literacy nine years ago, the term was literally unknown. Today, hundreds of organizations promote financial literacy, members of Congress introduce bills supporting it, a Federal commission promotes it, many states have passed initiatives and serious scholarly work is being published.

We have long noted with dismay that students who take a high school course in personal finance tend to do a little worse on our exam than those who do not. The small negative differential is not nearly as important as the lack of a large, positive difference that a full-semester course in money management *should* make in financial literacy. This finding has been a great disappointment to consumer educators and to those who support efforts to make courses in person finance a requirement for high school graduation.

The 2006 study examines two possible reasons why courses in money management have not been more effective. The first deals with motivation. It is possible that our young adults do not realize that 21st Century America is a very changed place from the environment in which they grew up. Many of the social safety nets, which stem from the time of the Great Depression, have been cut, forcing Americans to depend upon themselves for their financial well-being. Welfare and other government social service programs have been reduced or eliminated, corporations have terminated most of their defined benefit pensions and post-retirement health benefits, and parents are less able to help out adult children as the result of their own retirement concerns. Adding to these problems is an aging population, which both lowers the future ratio of workers to retirees and increases the total cost of living a longer lifetime in retirement.

The 2006 survey finds that lack of motivation may be a problem for only a small proportion (less than 10 percent) of high school seniors. Most tend to understand that consumers are largely responsible for any financial difficulties that beset them, that the inability to pay bills is very unpleasant and that one can no longer expect to retire comfortably on Social Security alone.

A second possible problem with current courses in money management may be the limited *breadth* that they present to the students. Given their limited time and other resources, teachers may focus simply on the *facts* of money management and ignore the larger economic picture. In fact, the 2006 survey finds that students who take a full semester course in economics actually do a little better in the financial literacy exam than do students who have taken a full semester of money management or personal finance; neither, however, perform as well as might be expected.

This leads to a conclusion that full-semester classes in *neither* discipline are making our young adults more financially literate. The economists in our complex school systems today don't seem to be finding the time to teach *personal financial decision making;* conversely, personal finance teachers seem to lack the time to teach the economic and institutional context that students need to make informed choices. Further, the better financial literacy performance by students who play a stock market game leads to a further conclusion that the real-life materials can best be taught in an interactive, real-time environment through simulations, games and research projects. That is, of course, usually not possible in today's school systems.

The turnaround in financial literacy continues to be led by the more affluent segments of the population. For example, white students, who constituted 71.3 percent of the sample, had average test scores of 55 percent in contrast to African Americans who averaged just 44.7 percent. And, for the second time, this survey found that the highest income students, with family incomes in excess of $80,000 per year, outperformed all other income groups. Prior to the 2004 survey, the wealthier students, who tend to be more financially protected by their families, did worse on the exam than their less affluent counterparts.

Since standard of living is a multiplicative function of both financial resources (income and wealth) and the ability to use those resources efficiently (financial literacy), we find it increasingly disturbing that those with lower incomes are saddled with the additional disadvantage of not possessing the tools to spend what they have efficiently. For example, while students who plan to attend a four-year college score, on average, 54.9 percent, those who plan no education after high school score only 41 percent. We wonder how these new workforce entrants will be able to make an informed 401(k) choice and whether they realize the importance of saving for retirement.

There are still many important concepts that are not getting through to the next generation.

- Only 14.2 percent feel that stocks are likely to have higher average returns than savings bonds, savings accounts and checking accounts *over an 18 year period*. This is the *lowest* percentage giving the correct answer in the history of these surveys.
- Just 22.7 percent realize that interest on a savings account is taxable if one's income is high enough.
- Only about 40 percent realize that their own health insurance could stop if their parents become unemployed.

- Fully 70.6 percent of students erroneously felt that the finance rate on a $10,000 college loan would be lower if the student went to a state college rather than a private college.
- While many Americans have refinanced their homes to lock in low fixed-rate mortgages, 55.4 percent of our students felt that a long-term bond or a certificate of deposit at a bank offered better protection against a sudden increase in inflation than ownership of a house with a fixed -ate mortgage.

For the second time we asked students how thrifty they feel they are. They seem to be feeling thriftier than they were in 2004 with 54.4 percent characterizing themselves as very or somewhat thrifty, an increase from 52.1 percent in 2004. At the other extreme, 23.5 percent stated that they seldom if ever saved money, a decrease from 25.3 percent in 2004. It is interesting that those at both extremes (very thrifty or very spending-oriented) did worse on both the 2004 and 2006 exams than those in the middle.