Dumb and Getting Dumber

by Lewis Mandell, Ph.D.

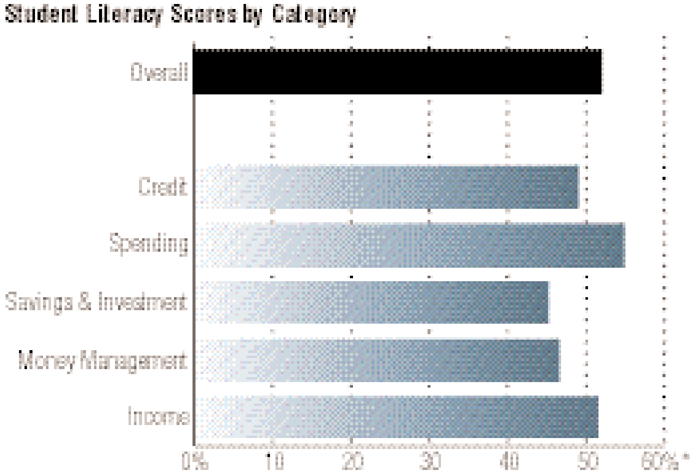
Each year America's high schools graduate thousands of young adults who are unprepared to make important financial decisions affecting their lives. Compounding matters, our society is becoming more financially complex, offering a variety of choices and options that can be confusing to the uninformed. Yet the level of youth financial literacy today can only be described as dismal.

By failing to provide our children with a sound understanding of personal finance, we can expect many of them to make financial missteps, misjudgments, and errors as adults. Poor retirement planning, clumsy investing, debilitating debt, and even bankruptcy are often the result.

How prevalent is personal-financial illiteracy among America's young people? The answer is startling. Last April, I announced the results of a survey that measured the personal finance knowledge of 723 12th graders nationwide. The 30-question survey, which the Jumpstart Coalition for Personal Financial Literacy sponsored, tested students' understanding of basic financial concepts, such as taxes, credit, investing and saving, and retirement planning.

On average, the students answered just 51.9 percent of the questions correctly—a failing grade based upon the typical grade scale used by schools (Fig. 1). Even more alarming is the fact the students' poor showing represented a five percentage-point decline in the score achieved by high school students who completed a similar survey in 1997.

Figure 1
Student Literacy Scores by Category



Source: Jumpstart Coalition for Personal Financial Literacy, 2000 Personal Financial Survey
**A test score below 60% typically indicates failure.*

What they don't know

A look at some of the student responses on the survey reveals just how unprepared teenagers are to make the financial decisions that await them after high school.

For instance, only 23 percent correctly said that stocks were most likely to offer the highest returns over 18 years. Instead, 73 percent said a savings bond or a savings account would offer the highest growth.

- Only 21 percent knew that they might have to pay income tax on savings account interest. Three years ago, 32 percent answered the question right.
- Forty-six percent knew that retirement income a company pays is called a pension, but 30 percent thought it was called Social Security. In the 1997 survey, about 64 percent answered the question right.
- Just 32 percent knew that people turned down for credit based on a credit report can check their credit record for free, down from about 36 percent in the previous survey.
- Forty-six percent mistakenly said that a bank certificate of deposit is not protected by the government, and 21 percent thought that U.S. savings and Treasury bonds are unprotected.

Why do our high school students continue to score so poorly on this exam? Why are the results worsening? Some of the decline, I believe, can be attributed to the pressure placed on high schools to narrowly, and almost exclusively, focus on subjects designed to help their students achieve passing rates on basic exit exams. This has left little room, or incentive, for the development of progressive courses such as personal finance. In fact, some of the high schools we contacted refused even to administer our personal financial survey to their students, fearful that poor scores on our exam would require them to focus some of their resources on courses other than those targeted toward the exit examinations.

Unfortunately, as the survey results also show, common parental methods used for instructing children in personal finance — such as allowances, discussing finances with children, and letting teens handle and manage money — are mostly ineffective. Students who received a regular allowance, for example, scored worse than did students who did not receive an allowance (48.9 percent compared to 51.9 percent, a negative difference of nearly three percentage points, Fig. 2). Students whose parents often discuss money matters in front of them scored no better (52.6 percent) statistically than did students whose parents sometimes (52.5 percent) or rarely (52.4 percent) did so.

Students who own stocks in their own name are no more financially sophisticated than students who don't own any stock (both scored 52.6 percent on the survey). And students who own a credit card scored worse in the survey (49.1 percent) than did teens who don't use a credit card (53.3 percent, Fig. 2).

What needs to be done

Since 1997, personal finance has been incorporated into the curriculum standards of only a handful of states, such as Idaho and Illinois. The low number is alarming, considering that 50 percent of high school graduates directly enter the workplace rather than go on to college, with the percentages even higher among minority students.

Obviously, more needs to be done. State legislators and education leaders must recognize that high school is the appropriate time and place to provide young adults with meaningful instruction in personal finance. They must mandate the inclusion of highly interactive, creative, and applied high school courses in personal finance. And organizations that already work with high school students should develop courses that produce sound, basic financial decision making that is relevant to young adults.

The survey results did point out one area of student improvement that gives us reason for hope and direction for the future. Those students who participated in the Stock Market Game *(www.smg2000.org)*, a highly interactive and fun instructional tool, scored nearly four percentage points better on the survey (55.1 percent) than did students who completed an entire course in money management or economics while in high school(51.4 percent, Fig. 2).

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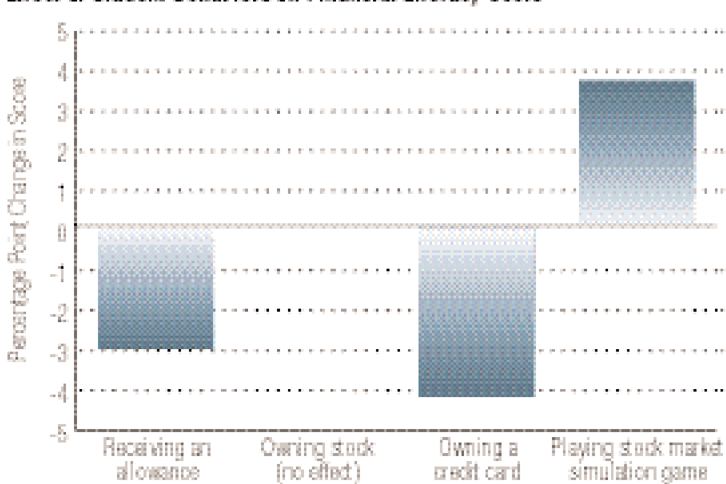
Figure 2

Effect of Student Behaviors on Financial Literacy Score



Source: Jumpstart Coalition for Personal Financial Literacy, 2000 Personal Financial Survey

Based on that result, we can conclude that highly interactive, reality-based courses in money management — which provide intensive and applied instruction in personal finance — are more effective for developing financially savvy teens. These types of courses should become the standard for personal finance and money management instruction at the high school level.

Knowledge of personal finance is not something students can develop by memorizing terms and phrases. It's a skill that students learn when given the opportunity to apply concepts and practices as part of a thoughtfully designed high school curriculum.

Until that happens, we can expect students to continually score poorly on a test of personal finance knowledge. Moreover, we can expect that, as adults, many will make poor financial decisions that can negatively, and sometimes permanently, affect their lives.✷

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