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Teens Come Up Short When Asked About Money

By JEANNINE AVERSA
The Associated Press
Wednesday, April 5, 2006; 11:49 AM

WASHINGTON -- They like to spend it, but young people don't know much about how money works.

On average, high school seniors answered correctly only 52.4 percent of questions about personal finance and economics, according to a nationwide survey released Wednesday. Still, that was a smidgen better than the 52.3 percent in the previous survey in 2004 and was up from the lowest-ever score of 50.2 percent in 2002.

"This indicates that, despite the attention now paid to the lack of financial literacy, the problem is not about to resolve itself anytime soon," said Lewis Mandell, a professor of finance and managerial economics at the University of Buffalo School of Management who conducted the survey and analyzed its results.

The latest survey _ the fifth _ was released by the Federal Reserve.

The surveys, done every two years, were sponsored by the Jump\$tart Coalition for Personal Financial Literacy, which wants students to have the skills to be financially competent.

In the survey, 55.8 percent said they would have no liability if their credit card was stolen and a thief ran up \$1,000 worth of debt. (Liability is limited to \$50 after the credit-card issuer is notified.) Only 15.1 percent knew they could be responsible to pay \$50. Two years ago, 18.1 percent gave the correct answer.

Only 14.2 percent correctly said that stocks likely would offer the higher growth over 18 years of saving for a child's education. That was down from 17.2 percent who knew the right answer in the 2004 survey. In this year's survey 44.8 percent thought a U.S. savings bond _ one of the most conservative investments _ would offer the highest growth.

"Clearly the survey demonstrates the large gap between what students know and learn from life experiences and the need on the part of adults to find the right combination that will make financial literacy meaningful to young adults leaving the safety of high school," said Laura Levine, executive director of the Jump\$tart Coalition.

Federal Reserve Chairman Ben Bernanke said financial literacy for both the young and old is a topic of vital importance to the nation's economic future.

"Increasingly, personal financial security requires the ability to understand and navigate the financial marketplace. For example, buying a home, saving for retirement or for children's education, or even effectively managing the family budget now requires more financial sophistication than ever before,"

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Bernanke said.

Some other results in the survey:

_Just 22.7 percent knew that income tax may be charged on the interest earned from a savings account at a bank if a person's income is high enough. Nearly 51 percent said that earnings from savings account interest may not be taxed. In the last survey, 23.9 percent chose the correct answer.

_Nearly 38 percent correctly said that retirement income paid by a company is called a pension. That's up from 34.2 percent who answered right in the last survey. Still, close to 59 percent in the current survey thought it was called Social Security or a 401(k).

_Only 28.6 percent knew that a bond issued by one of the 50 states is not protected by the federal government against loss. In the previous survey, 35.3 percent chose the right answer _ that such bonds are not federally protected against loss.

Seniors from higher-income families scored better than those from lower-income households, Mandell said.

For instance, 12th-graders from families with incomes greater than \$80,000 a year scored an average of 55.6 percent, while students from families at the lowest rung _ less than \$20,000 a year _ had a score of 48.5 percent.

By race, white students scored an average of 55 percent. Blacks and Hispanics scored 44.7 percent and 46.8 percent respectively. Asians scored an average 49.4 percent.

Given the ever-expanding financial decisions people face, it is especially crucial that they sharpen their financial skills, experts said. "It's not a subject that anyone can afford to fail," said Richard Yamarone, economist at Argus Research.

On the Net:

Federal Reserve: <http://www.federalreserve.gov/>

JumpStart Coalition: <http://www.jumpstartcoalition.org/>

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