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Young adults found to lack personal finance skills

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Princess Wynn, 17, is waiting for answers from the colleges she got into. A senior at St. Jean Baptiste High School in Manhattan, she's waiting to find out how much financial aid she will receive.

Her parents can't help her cover all of the tuition, so she might have to apply for loans.

However, Wynn doesn't know much about student loans or how they work. She is also thinking of getting a credit card when she turns 18. But she says she is worried she might get in trouble with it.

"I like to spend," she said. "I like to buy sneakers."

Wynn is not uncommon among people her age, consumers on the verge of adulthood who don't know a lot about the financial challenges they will soon face.

A new study suggests that fewer students are prepared to confront the difficult decisions that may lay ahead. More than half of college-bound students lack basic skills in the management of personal finance, according to the recently released JumpStart Coalition's biennial survey for Personal Financial Literacy.

At a time when the United States is, by many estimates, on the verge of a recession, the study suggests that young adults entering the world of financial independence are sending alarming signals.

"People of all income levels are having to adapt to the changes that are being made," said Dr. Lewis Mandell, professor of finance and managerial economics at SUNY Buffalo, referring to the current downturn of the economy.

Mandell, who conducted the study, said that in the short run, students will have more difficulty finding jobs and maintaining their standards of living. In the long run, he continued, the crisis will pass but some things will be different. Most important, energy and consumer prices are going to be higher.

"People who understand finances better are anticipating the changes and already making changes to their lives in a way that's going to cost them the smaller amount of disruption," he said. "People who are not financially literate don't pay attention and react at the wrong time." He added, "It's going to have an immense impact on their lives."

The study posed questions to almost 7,000 high school seniors in 40 states. According to the results, on average the students answered correctly 48.3 percent of the questions, a decrease from the senior class of 2006, which answered 52.4 percent correctly.

The study showed that most high school seniors don't know what are the best choices for them regarding banking, saving and investing, skills they may need the most considering the uncertainties about the future.

"These are the skills that people need for survival," Mandell said. "We lost the ability to teach people life skills."

Mandell likens the scenario to someone who lacked agricultural skills in America 200 years ago, when they would be vital to survival.

"Now those skills are no longer agricultural or manufactural, but they involve really sophisticated decision making, in particular in finance," he said.

In one of the multiple choice questions, students were asked which was the best way to put away money for a period of 18 years. Only 17 percent gave the correct answer: stocks. About 5 percent answered a checking account, 37 percent said a U.S. government savings bond and 41 percent said a savings account.

Only 40 percent knew they would lose their health insurance if their parents became unemployed. And only 48 percent knew that a credit card holder who pays only the minimum amount on monthly card balances will pay more in annual finance charges than somebody who pays their balance in full.

For the first time, the survey, which was funded by the Merrill Lynch Foundation, was also given to about 1,000 college students. Their performance wasn't much better. These students answered on average 62 percent of the questions correctly. Their scores increased with their rank in school. For example, freshmen scored 59 percent, while seniors got 65 percent of the answers right.

Vanessa King of the Bronx, N.Y., is concerned about sending her 17-year-old daughter to college in the fall.

"She's afraid" of getting in trouble with money, "and I am concerned about her money management," King said. "I'm concerned about credit cards. I'm glad she's going to be close to home, at St. John's University."

Among other findings, only 36 percent of the students know that a house financed with a fixed-rate mortgage is a good hedge against a sudden increase in inflation, compared with 45 percent of students who said they knew this in 2006.

Mandell said the current unusual economic conditions may have made it difficult for students to identify things that would be true in normal times. For example, stock prices tend to go up, and buying a house with a fixed-rate mortgage is considered one of the best investments against inflation.

Laura Levine, executive director of the Jumpstart Coalition, said the group she leads advocates for financial education to be integrated into schools. She said young people should learn about savings and investments, risk management and insurance, credit and debit, in a comprehensive way.

"We are not trying to teach kids to memorize facts, what we want to teach them is how to solve problems," she said.

Alicia Antonio, 17, a senior at Grover Cleveland High School in Queens, N.Y., will start college at St. John's University next fall. She says she had a hard time figuring out how to apply for financial aid and to find the resources to finance her education.

"They don't prepare you for that in high school," she said. "We take an economics class, but every senior needs to take it for the credit. No one really pays attention, because it's your last year and they only speak about the economy in the past."

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