

THE FINANCIAL LITERACY OF YOUNG AFRICAN-AMERICAN ADULTS

Results of the 2008 Jump\$tart Surveys

A Report Prepared for
Operation Hope

by

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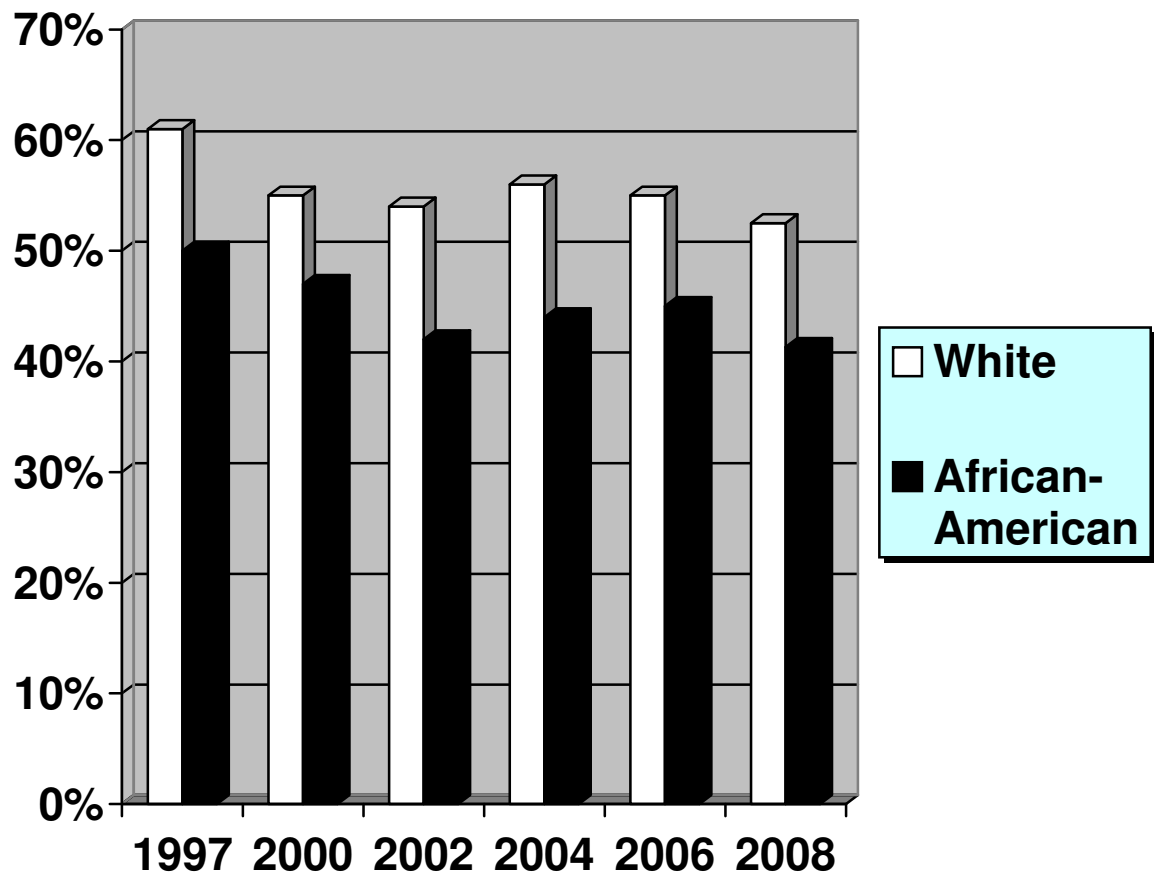
Foster School of Business, University of Washington

for the

Jump\$tart Coalition for Personal Financial Literacy

Based Upon 2 Surveys Sponsored by Merrill-Lynch

October 31, 2008



The Financial Literacy of Young African-American Adults

Introduction

Since 1997, the JumpStart Coalition for Personal Financial Literacy has been measuring the financial literacy of young adults in their last year of high school. The widely reported results tell a dismal story. Few high school seniors are capable of passing a multiple choice examination which measures their ability to make informed financial choices in matters that are critical to persons of their age. To compound this problem, scores have declined significantly since the test was first administered in 1997 to an all-time low in 2008.

At the request of Operation Hope, a separate analysis was conducted to measure the financial literacy of African-Americans who were included in the overall JumpStart survey. Of the 6,856 students who took the pencil and paper national survey in 2008, 931 or 13.6% were African-American, providing a large enough sample to provide meaningful results. It is useful to measure the financial literacy of high school seniors since it is the last opportunity most will have to receive any type of formal education in financial literacy. Please note that a survey of high school seniors omits measurement of those who drop out before their senior year and probably *overstates* the financial literacy of young minority adults who are disproportionately represented among those who do not complete high school.

African-American Financial Literacy Suffers Relative to Whites and the Gap is Growing

Table 1 summarizes financial literacy scores by race in the six national surveys taken since 1997. It shows that while no racial group is financially literate, African-American students are, on average, only about 80 percent as literate as their white student counterparts. This ratio, which was as high as 86.2 percent in the 2000 survey, fell to 79.4 percent in 2002 and 79.3 percent in 2004, increased slightly to 81.2 percent in 2006, and fell again in 2008 to 78.7 percent. Furthermore, while 7.1 percent of White students scored a grade of “C” or better (75 percent correct), just 1.4 percent of African-American students did so. At the other extreme, 89 percent of African-American students “failed” the exam (less than 60 percent correct) compared to 64.4 percent of White students.

Table 1
Financial Literacy Scores of High School Seniors by Race

	1997	2000	2002	2004	2006	2008	2008	2008	2008
	Mean	Mean	Mean	Mean	Mean	Mean	Proportion	% C or	%
	<u>Score</u>	<u>Score</u>	<u>Score</u>	<u>Score</u>	<u>Score</u>	<u>Score</u>	<u>of Students</u>	<u>Better</u>	<u>Failing</u>
	57.3%	51.9%	50.2%	52.3%	52.4%	48.3%	100.0%	4.7%	73.9%
Race									
White	60.9	54.5	53.7	55.5	55.0	52.5	55.0	7.1	64.4
African-American	50.4	47.0	42.1	44.0	44.7	41.3	13.6	1.4	89.1
Hispanic American	55.1	45.3	44.8	48.3	46.8	45.1	20.1	2.5	83.4
Asian-American	55.8	53.5	50.6	48.3	49.4	47.2	3.7	1.7	77.2
Native American	48.8	38.6	45.5	46.7	44.1	37.7	2.2	0.5	88.8
<i>African-American as</i>									
<i>Percent of White</i>	82.8	86.2	79.4	79.3	81.3	78.7			

The disadvantage in financial literacy suffered by African-Americans (illustrated on the cover of this report), has very important implications since financial well-being is a product of financial resources multiplied by the efficiency with which one utilizes these resources, a measure that we call “financial literacy.” If a group with fewer financial resources also has less financial literacy, its overall financial well-being ends up being even lower.

Financial Literacy of African-Americans is Now Related to Income

To see whether the lower financial literacy scores of African-Americans was due primarily to lower incomes, an analysis was made of these scores by both race and income. The results may be seen in Table 2.

When contrasted with the financial literacy of Whites with the same incomes, the highest income African-Americans (those with family incomes above \$80,000) had financial literacy scores that were just 71.9 percent of Whites. In contrast, the lowest income African Americans had financial literacy scores that were 95.6 percent that of Whites in the same income group.

Table 2
Mean Financial Literacy Scores of High School Students
by Family Income and Race

Family Income (thousands of dollars)	Under 20	20-40	40-80	Over 80
White	47.6%	52.4%	53.0%	54.8%
African-American	45.5%	38.8%	43.3%	39.4%
<i>African-American As Percent of White</i>	<i>95.6%</i>	<i>74.0%</i>	<i>81.7%</i>	<i>71.9%</i>

African-Americans Do Relatively Better in Spending and Relatively Worse in Saving

Table 3 divides the high school survey questions into the four JumpStart standards areas: Income, Money Management, Saving and Spending to see whether there are some areas in which African-American students do relatively better. A fifth category, Credit, is broken out as a subset of the spending questions which relate to the use of debt.

Measured as a percent of the scores of White students (in the last row of the table), African-Americans do relatively best in Money Management (budgeting, insurance, etc.), with 83.5 percent of the White score in 2008. The worst relative score is in Income where they do only 75.6 percent as well as their White counterparts.

Table 3
Subject Results of High School Students by Race

	Income	Money Management	Saving	Spending	Credit
	<u>Score</u>	<u>Score</u>	<u>Score</u>	<u>Score</u>	<u>Score</u>
All Students 2008	56.1%	40.9%	43.2%	50.8%	44.1%
All Students 2006	59.2	46.5	42.6	59.9	51.8
All Students 2004	62.9	45.4	41.0	55.4	48.8
All Students 2002	61.5	46.0	41.6	53.1	47.5
All Students 2000	57.6	46.8	45.3	51.1	49.1
All Students 1997	71.9	54.2	47.4	56.8	---
 <u>Race</u>					
White	61.6	43.6	45.9	55.4	48.4
African-American	46.6	36.4	37.1	43.2	37.6
Hispanic American	51.9	37.6	41.7	46.6	40.1
Asian-American	52.7	39.0	44.2	49.5	42.7
Native American	40.1	38.6	36.5	36.6	31.2
 <i>African-American as Percent of White</i>					
	75.6	83.5	80.8	78.0	77.7

Some Possible Causes of Lower Financial Literacy among African-Americans

The Jump\$tart surveys contain a wealth of information about financial experience, behavior and education that may have an effect on financial literacy. Table 4 summarizes the results from a number of questions that may help explain the relative financial literacy deficiency suffered by young African-Americans and suggest ways in which this deficiency can be overcome.

In contrast to young White adults, African-American high school seniors of the same age are *more* likely to use credit and debit cards, are *less* likely to have a bank account and are *less* likely to work part-time or summers while they are still in high school. This orientation toward consumption and away from saving may help explain higher relative scores of African-Americans on spending rather than saving questions.

Table 4
Financial Experience, Behavior and Education of High School Seniors
By Race

	White	African-American
Uses a Credit Card	34.2%	39.1%
Uses a Debit Card	43.5%	58.2%
Works (part-time and/or summers)	83.0%	76.1%
Has a Bank Account	84.4%	70.3%
Has Investments	28.0%	29.0%
Has Money Management in School	22.0%	23.0%
Has Played a Stock Market Game	28.0%	18.0%

In terms of coursework related to financial literacy, White (22 percent) and African-American (23 percent) students had about the same exposure to a full semester course in money management. However, only 18 percent of African-American students have had the opportunity to play a stock market game, an experience which results in significantly higher literacy scores, in contrast to White students, 28 percent of whom have played such a game in school.

Financial Literacy of College Students

In 2008, for the first time, a nationwide financial literacy survey of college students was undertaken. As anticipated, college students in general turned out to be far more financially literate than high school seniors with a mean score of 61.9 percent compared to 48.3 percent for high school seniors. Also improving was the racial gap between blacks and whites which closed to 88.9 percent for college students as opposed to 78.7 percent for high school seniors. However, the proportion of African American college students showing proficiency in financial literacy by achieving a score of “C” or better was only one third of that of White college students. This was even below that of White high school seniors (see Table 5).

Table 5
Financial Literacy Scores of College Students
By Race

	College Mean <u>Score</u>	College % of <u>Students</u>	College % C or <u>Better</u>	College % <u>Failing</u>	H.S. Mean <u>Score</u>	H.S. % C or <u>Better</u>	H.S. % <u>Failing</u>
	61.9%	100.0%	17.5%	35.7%	48.3%	4.7%	73.9%
<u>Race</u>							
White	63.3	75.4	20.1	31.7	52.5	7.1	64.4
African-American	56.3	8.5	6.9	51.7	41.3	1.4	89.1
Hispanic American	59.8	5.9	6.7	43.3	45.1	2.5	83.4
Asian-American	57.1	6.6	10.4	49.3	47.2	1.7	77.2
Native American	67.7	0.7	57.1	28.6	37.7	0.5	88.8

Conclusions

In contrast to young White adults, African-Americans of similar age and educational backgrounds have lower levels of financial literacy. The trend among high school seniors, who have been tracked since 1997, is not significantly improving although African American college students are far more financially literate than their high school counterparts.

The high school data seem to indicate that young African-Americans place relatively more emphasis on spending than on saving. While this is true of Americans in general, it appears to be somewhat more pronounced among African-Americans. Indicators include higher relative scores in questions related to spending rather than saving as well as higher use of credit and debit cards and lower use of saving accounts.

Part of the problem may be due to high schools in which African-Americans are less likely than Whites to play a stock market game, which is very useful in improving financial literacy. Both groups are equally likely to take a full semester course in personal finance although such a course has yet to make much of a difference. Part of the problem may occur at home where previous studies show that fewer African-American students have reported learning from their parents. Also, fewer African-American students report having a part-time or summer job in high school, depriving them of an additional opportunity to develop valuable financial literacy skills.

African American college students have been found to be less financially literate than White College students in spite of the fact that a much lower proportion of African Americans attend college. In addition, African American high school seniors are less financially literate than White High School seniors with similar family incomes. Putting these two findings together indicates that the financial literacy differential relates to more than just differences in income and educational attainment and may have cultural roots as well. Research is needed to help understand this so that remedial action can be undertaken.

While all young Americans are in need of and deserve to learn financial survivorship skills, this is particularly important for African-Americans who currently lag in both the financial resources and financial literacy needed to enjoy a secure stake in our “ownership” society.