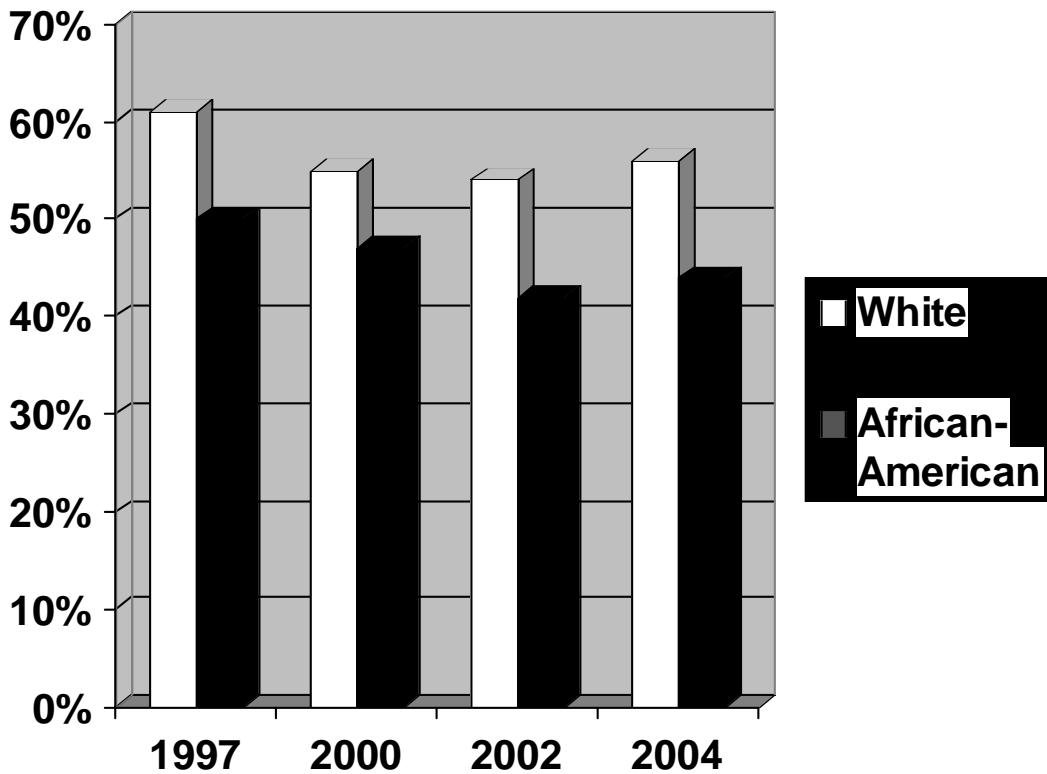




# INTRODUCTION

Since 1997, the Jump\$tart 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 31 question, 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.

At the request of Operation HOPE, Inc., a separate analysis was conducted to measure the financial literacy of African-Americans who were included in the overall Jump\$tart survey. Of the 4,074 students who took the pencil and paper national survey in 2004, 506 or 12.4% 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-AMERICANS FINANCIAL LITERACY SUFFERS RELATIVE TO WHITES

Table 1 summarizes financial literacy scores by race in the four 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, has fallen to 79.3 percent in 2004. Furthermore, while 8 percent of White students scored a grade of "C" or better (75 percent correct), less than one percent of African-American students did so. At the other extreme, 86.4 percent of African-American students "failed" the exam (less than 60 percent correct) compared to 57.8 percent of White students.

The disadvantage in financial literacy suffered by African-Americans, 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.

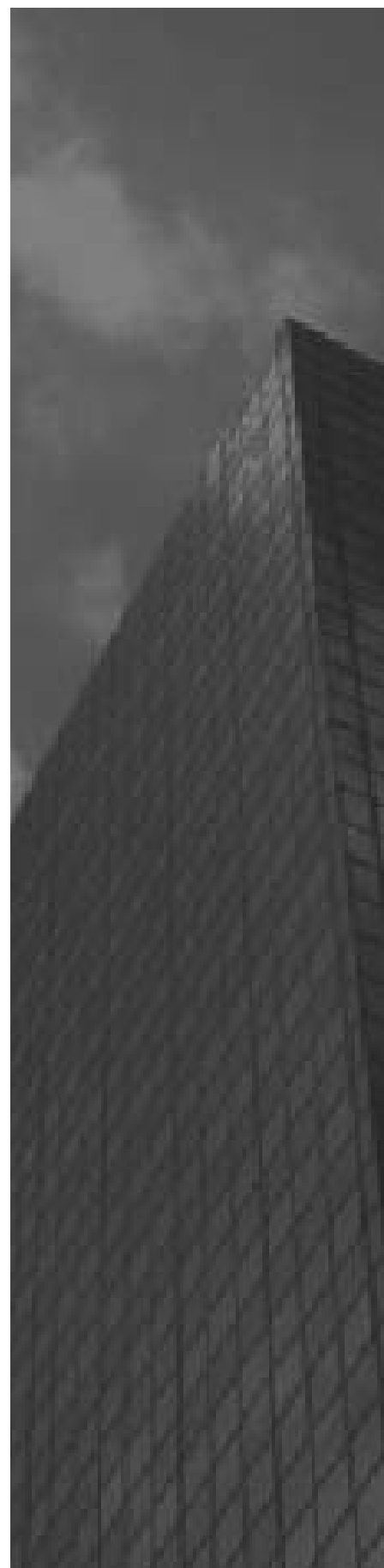
**Table 1**  
**Financial Literacy Scores by Race**

	1997 Mean Score	2000 Mean Score	2002 Mean Score	2004 Mean Score	2004 Proportion of Students	2004 Percent C or Better	2004 Percent Failing
Race							
White	60.9	54.5	53.7	55.5	62.2	8.0	57.8
African-American	50.4	47.0	42.1	44.0	14.3	0.7	86.4
Hispanic American	55.1	45.3	44.8	48.3	9.5	1.1	75.6
Asian-American	55.8	53.5	50.6	48.3	2.8	8.3	75.0
Native American	48.8	38.6	45.5	46.7	1.4	2.0	80.4
<i>African-American as Percent of White</i>	<i>82.8</i>	<i>86.2</i>	<i>79.3</i>	<i>79.3</i>			

## FINANCIAL LITERACY OF AFRICAN-AMERICANS NOT 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.

It is clear that higher-income African-Americans are no more financially literate than those with lower incomes. In fact, the highest financial literacy scores among African-Americans were obtained by those in the lowest family income category - below \$20,000 per year. 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 76.2 percent of Whites. In contrast, the lowest income African Americans had financial literacy scores that were 87 percent that of Whites in the same income group.



**Table 2**  
**Mean Financial Literacy Scores**  
**by Family Income and Race**

Family Income (thousands of dollars)	<b>Under 20</b>	<b>20-40</b>	<b>40-80</b>	<b>Over 80</b>
White	52.9%	54.7%	56.4%	57.6%
African-American	46.0%	43.4%	45.3%	43.9%
<i>African-American</i> <i>As % of White</i>	87.0%	79.3%	80.3%	76.2%

## AFRICAN-AMERICANS DO RELATIVELY BETTER IN SPENDING AND WORSE IN SAVING

Table 3 divides the 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. Measured as a percent of the scores of White students (in the last row of the table), African-Americans do relatively best in Spending, with 84 percent of the White score in 2004. The worst relative score is in Saving where they do only 75.9 percent as well as their White counterparts.

**Table 3**  
**Subject Results By Race**

	Income Score	Money Management Score	Saving Score	Spending Score
All Students 2004	62.9%	45.4%	41.0%	55.4%
All Students 2002	61.5	46.0	41.6	53.1
All Students 2000	57.6	46.8	45.3	55.1
<b>All Students 1997</b>	<b>71.9</b>	<b>54.2</b>	<b>47.4</b>	<b>56.8</b>
Race				
White	66.7	47.9	43.5	56.4
African-American	52.1	37.5	33.0	47.4
Hispanic American	57.4	42.5	37.6	51.3
Asian-American	56.6	39.3	40.4	51.1
Native American	52.2	38.2	39.8	49.0
<i>African-American</i> <i>as % of White</i>	78.1	78.3	75.9	84.0

## 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-Americans of the same age are more likely to use credit and debit cards, are less likely to have a bank account or other types of savings 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.

Perhaps as a reflection of their lower financial literacy scores, young African-Americans are less sure of their money management skills than are young Whites. They are also less likely to have learned what they know of money management either at home or at school. In fact only 44.4 percent of young African-Americans had a full or partial course in money management at school as compared to 52.5 percent of White students. In addition, just a quarter of African-American students have had the opportunity to play a stock market game, an experience which results in significantly higher literacy scores, than White students, 31.8 percent of whom have played such a game in school.

More than twice as many African-Americans as Whites receive a regular allowance from their parents that is not dependent upon completing chores. While receipt of a regular allowance was formerly thought to promote financial literacy through forced budgeting, consistent results from the Jump\$tart surveys have shown that it detracts from financial literacy, serving instead as an "entitlement" which may discourage self-reliance.

Finally, students were asked to evaluate themselves in terms of their level of orientation toward spending rather than thrift. Among African-Americans, 27.7 percent evaluated themselves as "spending-oriented" in contrast to 22.7 percent of Whites. A roughly equivalent percentage of both groups felt that they were less thrifty than their parents.

**Table 4**  
**Effects of Financial Experience, Behavior and Education**

	White	African-American
Uses a Credit Card	30.9%	36.8%
Uses a Debit Card	44.1%	47.4%
Works (part-time and/or summers)	86.5%	78.4%
Has a Bank Account	84.9%	64.9%
Has Investments	33.0%	27.0%
Is Somewhat or Very Sure of Money Management	69.1%	64.8%
Learned Money Management at Home	60.9%	55.6%
Learned Money Management at School	18.9%	16.7%
Receives an Allowance, not for Chores	7.9%	16.2%
Is Spending-Oriented	22.7%	27.7%
Is Less Thrifty than Parents	36.8%	37.8%
Has Money Management in School	52.5%	44.4%
Has Played a Stock Market Game	31.8%	25.0%

## CONCLUSION

In contrast to young White adults, African-Americans of the same age have lower levels of financial literacy and the trend is not improving. This deficiency is true for all income groups, with relative scores decreasing for African-Americans with higher family incomes.

The data seems 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 and investing vehicles.

Part of the problem may be due to the schools where African-Americans are less likely than Whites to receive education in money management or be given the opportunity to play a stock market game, which is very useful. Part of the problem may occur at home where fewer African-American students report learning from their parents and a higher proportion report receiving a regular (no chores required) allowance which is associated with lower financial literacy scores. 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.

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.

