

Ramapo College of New Jersey

Making Finance Personal: An Analysis of the Current Status of Personal Financial Literacy Among Students

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Table of Contents

1. ABSTRACT3

2. INTRODUCTION4

 Background4

 The Issue6

3. METHODOLOGY8

 Introduction8

 Population8

 Data Collection9

 Limitations9

4. PRESENTATION OF DATA11

 Data11

5. FINDINGS AND CONCLUSIONS15

 Introduction15

 The Results15

 Recommendations17

6. REFERENCES19

7. APPENDIX A: Personal Financial Literacy Survey20

8. APPENDIX B: Survey Results23

9. APPENDIX C: Map of Personal Financial Education Across the U.S.31

ABSTRACT

If the goal of education is to prepare students for life after graduation, then most schools

INTRODUCTION

Background

The ability to plan, save, and invest is a necessary skill in pursuing and achieving the American dream. In order to support and strengthen the U.S. economy, citizens need to be capable of understanding financial information and making informed financial decisions. It is vital that these skills are developed at a young age in order to create a strong foundation on which one can learn to continually improve their financial status in the present and the future. Those who have a firm grasp of how to manage their money are more likely to succeed and excel in the financial marketplace. Thus, financial literacy is crucial in ensuring the success of the U.S. economy.

According to Peggy G. Carr, the Acting Commissioner of the National Center for Education Statistics, financial literacy is defined as “the demonstrated knowledge and understanding of financial concepts and risk and the behaviors and attitudes that allow a person to make effective financial decisions.” It is imperative that young professionals possess this knowledge as they begin their careers. The Council for Economic Education states that through effective personal finance education students gain a better understanding of the U.S. and the world economy, a greater propensity to save for retirement, a reduced amount of personal debt, an increased likelihood of emergency savings, and a less likelihood of using high-cost methods of borrowing. According to Daniel Schulman, the president and CEO of PayPal,

literate at a young age, young professionals will be better equipped to contribute to their communities and invest in their futures.

There are numerous organizations that were established to ensure that every American is financially literate. The Financial Literacy and Education Commission, a Congressionally chartered body made up of more than 20 Federal entities that are coordinating and collaborating to strengthen financial capability and increase access to financial services for all Americans, held a public meeting on Thursday, December 14, 2017. According to the meeting minutes, Treasurer Jovita Carranza outlined the work over the next six months, which includes “recommending populations of focus, review existing financial education activities for effectiveness and quality, and recommending improvements in FLEC procedures.” This is positive progress towards more effective personal finance education. Additionally, the minutes stated, “both the U.S. Department of Education and the OECD presented data which showed that more than one-fifth of the U.S. 15 year-olds do not have the basic level of financial skills and knowledge they need as measured by [the 2015 Programme for International Student Assessment (PISA)].” This is a concerning statistic.

There are six national K-12 standards for financial literacy provided by the Council for Economic Education: earning income, buying goods and services, using credit, saving, financial investing, and protecting and insuring. These standards include benchmarks outlining what students should know and understand at various grade levels, as well as how the student might demonstrate this understanding. These benchmarks can be used as a basis for the creation of a curriculum of personal finance courses. The state of New Jersey is one of only 7 states that requires testing of personal finance concepts and is one of only 17 states that requires a course in personal finance for high school graduation. New Jersey has personal financial literacy standards

as part of their 21st Century Life and Careers framework. According to the New Jersey State Administrative Code (N.J. A. C. 6A:8), every high school student is required to take at least 2.5 credits in “financial, economic, business, and entrepreneurial literacy,” effective with the 2010-2011 grade nine class. This 2.5 credit requirement addresses two key areas: personal finance and economics, and guidance for the course work that satisfies this requirement is outlined in Standard 9.2, Personal Financial Literacy. This requirement can be met by completing a standalone, half-year course or by completing one or more elective courses that integrate the content and skills required. There are 7 strands of New Jersey’s personal financial literacy requirements: income and careers; money management; credit and debt management; planning, saving, and investing; becoming a critical consumer; civic financial responsibility; and insuring and protecting. These 7 strands align near perfectly with the 6 national standards established by the Council for Economic Education.

The Issue

Every two years, the Council for Economic Education (CEE) conducts a **Survey of the States**, a comprehensive survey that assesses the state of economic and financial education across the nation. The CEE is a leading nonprofit organization that focuses on K-12 economic and financial education in the U.S. This survey serves as a method of monitoring the progression of economic and financial education since the survey’s conception in 1998. While there has been improvement since 1998, the pace of progress has slowed recently. Between the 2016 and 2018 survey, not a single state has added personal finance to their K-12 standards. As of 2018, only 17 states require students to take a personal finance course in order to graduate. A graph and map of the nation showing the degree to which each state has K-12 personal finance course availability is provided in the appendix. This map and graph provides data visualization of the state of

personal finance education in 2018 as well as a historical comparison of personal finance education since 1998. The results of the 2018 survey have shown no growth in personal finance education, a concerning fact. Rhetoric is not meeting action. Real legislative change is not being made in spite of the call from policy makers and the public. Action needs to be taken in response to the request for more personal financial education. Only 7 states currently have standardized testing of personal finance concepts. Often educators will not focus on curriculum that is not tested on. Thus, it is necessary to implement standardized testing on personal finance concepts across the nation.

METHODOLOGY

Introduction

In order to determine how much personal financial knowledge students had acquired and retained through their education culminating in an undergraduate bachelor's degree, a survey was designed and distributed to students. The personal financial literacy survey was issued to students in the class of 2018 at Ramapo College of New Jersey. The survey was designed to include questions that measured students' knowledge of each of New Jersey' standards of personal financial literacy outlined in the P-12 21st Century Life & Careers Standards. The results from this survey were analyzed in order to come to a potentially valuable conclusion regarding in which areas of personal financial literacy students were proficient or lacking knowledge. These conclusions could lead educators to reconsider current methods of teaching students about personal finance. The contents and results of the survey are located in the appendix.

Population

The participants of this study were students in the class of 2018 at Ramapo College of New Jersey. In order to survey a diverse population of young professionals, the survey was distributed to students from all areas of the college: the Anisfield School of Business (ASB), Contemporary Arts (CA), the Salameno School of Humanities and Global Studies (SSHGS), Social Science and Human Services (SSHS), and Theoretical and Applied Science (TAS). The survey was distributed to 62 students. This population is the first class of students in New Jersey to have graduated following the implementation of a required personal financial literacy course for high school graduates. These students are now graduating in 2018 and will join the workforce

as young professionals. This survey will gauge the personal financial knowledge of students and their preparation for their financial future.

Data Collection

The method of data collection used in this study was a brief survey of 14 questions. These questions were designed to gather demographic information and assess students' knowledge and retention of personal financial content that had been taught through their education. The questions in the survey each assessed knowledge of a benchmark of the New Jersey standards of personal financial education. The method used to collect data from the survey was the website www.qualtrics.com. This application offers easy and powerful survey creation with real-time reporting and analysis. Qualtrics' survey software has the capability to export its reports and provides sophisticated data visualization.

PRESENTATION OF DATA

Data

A copy of the survey and the data visualization of the results are located in the appendix. These graphs visualize the percentage of responses for each question and have been exported from the Qualtrics survey software. The following section of this study presents the data from the survey results, which will then be further interpreted in the findings and conclusion of this study.

Q1 –What school at Ramapo are you a part of?

The majority of respondents to the survey were students from TAS, ASB, and SSHGS, while there were few from SSHS and CA. 30.65% were from TAS, 29.03% were from ASB, 20.97% were from SSHGS, 12.90% were from CA, and 6.45% were from SSHS.

Q2 – How much information do you recall from your high school personal finance course?

50% of respondents recall a little, 27.42% recall none at all, 12.90% recall a moderate amount, 6.45% recall a lot, and 3.23% recall a great deal. This distribution of responses shows that students lack confidence in their ability to recall K-12 personal finance education.

Q3 - Juan is considering job offers from four companies, each of which will pay him \$50,000 a year. If Juan is most interested in his ~~care~~ advancement, at which company would he most likely chose to work?

The correct response to this question was answer D. 79.03% of the respondents chose the correct response. This question assessed students' comprehension of the concept of earning income.

Q4 - Most of the payments to Social Security recipients come from which source?

The correct response to this question was answer A. 59.68% of the respondents chose the correct response. This question assessed students' comprehension of the concept of earning income.

Q5 - Alex is thinking of buying a five-year-old car from Owen. Owen advertised the car as like new. Which of the following would give Alex the most reliable source of information on how dependable the car might be?

The correct response to this question was answer C. 88.71% of the respondents chose the correct response. This question assessed students' comprehension of the concept of buying goods and services.

Q6 - A car is priced at \$25,000 at two dealerships. Each car has a warranty. One dealership offers a longer warranty on its cars. What will be the likely effect of the longer warranty?

The correct response to this question was answer D. 70.97% of respondents chose the correct response. This question assessed students' comprehension of the concept of using credit.

Q11 -Which of the following statements about taxes on financial investments is correct?

The correct response to this question was answer C. 54.84% of respondents chose the correct response. This question assessed students' comprehension of the concept of financial investing.

Q12 -One way the government helps promote-functioning financial markets is to ensure investors have

The correct response to this question was answer C. 48.39% of respondents chose the correct response. This question assessed students' comprehension of the concept of financial investing.

Q13 -Paul paid for auto insurance every year but never had an accident or filed a claim. Did he get anything of value for the money he paid?

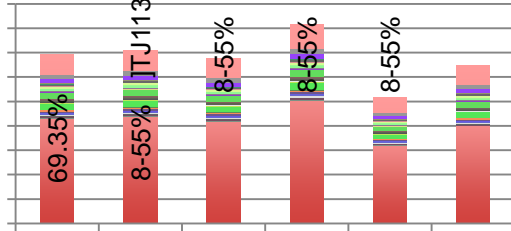
The correct response to this question was answer C. 46.77% of respondents chose the correct response. This question assessed students' comprehension of the concept of protecting and insuring.

Q14 -Lucas got a loan from ABC Credit Union to buy a car. Which of these is true about Lucas's decision to buy auto insurance?

The correct response to this question as answer A. 82.26% of respondents chose the correct response. This question assessed students' comprehension of the concept of protecting and insuring.

The following charts shows the percentage of correct responses to questions assessing each of the six standards of personal financial education set by the Council for Economic Education. Each standard was assessed through two of the survey's questions. The percentage of correct responses from these questions were then averaged in order to determine how well

students retained information they were taught in K-12 personal finance course in the state of New Jersey, which are parallel to the national standards.



The average percent of correct responses for questions assessing students' comprehension of the concept of earning income was 69.35%, buying goods and services was 70.97%, saving was 67.74%, using credit was 81.46%, financial investing was 51.62%, and protecting and insuring was 64.52%.

FINDINGS AND CONCLUSIONS

Introduction

Through the analysis of the data collected by this survey, conclusions can be drawn that may be used to edit and improve the financial education of students. By assessing whether students had sufficient personal financial knowledge, and in which areas students struggled and excelled, it can be determined which areas educators should focus on teaching students in order to strengthen their knowledge of personal finance. If the results of the survey indicated the majority of students received a perfect score, it could be concluded that the current personal financial education is effective. However, if the results of the survey indicated the majority of students received a low score, it could be concluded that the current personal financial education is not effective.

The Results

Given the state's requirement of the completion of a personal finance course for K-12 graduation, it is expected that students' responses to a survey of personal financial literacy should reflect a strong knowledge of personal finance concepts. However, the average percentages of correct responses to the survey assessing students' comprehension of personal finance concepts indicated that curriculum is not fully preparing students for their financial futures. The average percent of correct responses to the survey was 67.61%. While it is unrealistic to expect every survey respondent to receive a perfect score, it is reasonable to expect the respondents of this survey to have responded correctly to at least 75% of the survey, given their completion of personal financial literacy curriculum mandated by the state.

The personal finance concept with the lowest percent of correct responses, 51.62% was financial investing. While financial investing can help individuals to increase their income and

wealth in the future, there are many individuals who do not choose to invest their money, due to a lack of understanding concepts of rates of return and wariness of investment risk. Due to many individuals' perception that financial investing is not relevant to them, it is understandable that respondents to this survey did not display a strong retention of this concept. Students comprehension of the concept of financial investing should be improved in order to better equip students to make wise financial investments to increase their financial wealth.

Survey questions regarding protecting and insuring financial assets had the second lowest percent of correct responses, 64.52%. This personal finance concept is critical in ensuring that individuals protect themselves from the financial risk of lost income, assets, health, or identity. Students often are not encumbered with the financial burden of insurance, leading them to lack motivation to learn and retain information regarding protecting and insuring. Therefore, it is understandable that respondents to this survey did not display a strong retention of this concept. In order to prepare students for protecting and insuring their assets, the future relevancy of this concept should be emphasized to students to improve knowledge retention.

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The personal finance concept with the second highest percent of correct responses, 69.35%, was earning income. The respondents of this survey demonstrated a reasonable comprehension of this concept, which includes the value of wages and salaries, as well as other sources of income. Survey responses reflected students' understanding of undertaking activities that increase income and job opportunities. This concept of personal financial literacy is often at the forefront of students' minds, as they continue their education in order to create job opportunities for themselves and make an income to support their financial future.

Survey questions assessing students' comprehension of the concept of using credit had the highest percent of correct responses, 70.97%. Students demonstrated an understanding of the evaluation of credit history and expected ability to pay in the future. One potential reason that students demonstrated a strong understanding of this concept is due to the fact that many members of the Ramapo College class of 2018 have credit cards that they have been using for several years. Thus, they have experience using credit and have been educated by their bank regarding the responsibilities that using credit entails. The financial crisis led to a surge in bank-sponsored programs providing financial knowledge. This education from banks may have supplemented the education students received in a personal financial literacy course.

Recommendations

To strengthen personal finance education, America must take action. There are still many states that do not require students to complete a personal financial literacy course, leading many students to lack a firm understanding of concepts that are critical to supporting a stable, healthy financial future. The Council for Economic Education (CEE) recommends that individuals request a course in their school or district, call for more teacher training, and promote standards and course requirements at a state level. More information on how to enact these changes can be

found by contacting local CEE affiliates at www.councilforeconed.org/resources/local-affiliates.

A standardized test of personal financial literacy should be implemented in K-12 education across the nation in order to reliably measure students' comprehension of personal finance concepts. Implementing standardized testing encourages the inclusion of personal financial literacy in K-12 curriculum.

In order to determine the effectiveness of current personal financial literacy courses, a similar survey of students' understanding of personal finance concepts should be distributed to college students across the nation in the same graduating class. A comparison of average scores could indicate whether states with more personal financial literacy course and testing requirements have higher scores. This would indicate that a personal financial literacy education is effective and could lead to a stronger call for action regarding legislative change to support personal financial literacy education. Thus, additional action must be taken in order to prepare students for their financial future.

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APPENDIX A

8. Which of the following is

APPENDIX B

Personal Financial Literacy Survey Results

Q1 – What school at Ramapo are you a part of?

Q2 – How much information do you recall from your high school personal finance course?

Q3 - Juan is considering job offers from four companies, each of which will pay him \$50,000 a year. If Juan is most interested in his career advancement, at which company would he most likely chose to work?

Q4 - Most of the payments to Social Security recipients come from which source?

Q5 - Alex is thinking of buying a five-year-old car from Owen. Owen advertised the car as like new. Which of the following would give Alex the most reliable source of information on how dependable the car might be?

Q6 - A car is priced at \$25,000 at two dealerships. Each car has a warranty. One dealership offers a longer warranty on its cars. What will be the likely effect of the longer warranty?

Q7 - Noah has \$15,000 in his savings account at the major bank in his city. Which of the following best explains why Noah feels his money is safe?

Q10 - Consumers have rights regarding their credit reports that include

Q11 - Which of the following statements about taxes on financial investments is correct?

APPENDIX C

Map of Personal Financial Education Across the U.S

