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GOALSETTER RESEARCH

Are You (Financially) Smarter than a 12th Grader?

Ivy League Financial Literacy Study Exposes Critical Gaps

URGENT CALL

to Educate Teens and Young Adults on Personal Finance Before Costly Mistakes Set In

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EXECUTIVE SUMMARY

In the United States, the state of financial literacy is a growing concern that affects millions of individuals and has far-reaching consequences. A significant portion of the population, spanning across generations, lacks the essential knowledge and skills needed to make informed financial decisions.

This deficiency in financial literacy not only hampers personal financial success but also exacts a substantial economic toll on Americans each year. The lack of understanding around financial management leads to costly mistakes, resulting in excessive interest payments, fees, and debt burdens. It is estimated that Americans collectively pay billions of dollars annually in unnecessary interest charges and fees due to poor financial decision-making.

This widespread lack of financial literacy significantly hinders upward mobility, as individuals find themselves trapped in cycles of debt, unable to build savings, or invest wisely for their future. It limits their ability to seize opportunities for homeownership, higher education, or entrepreneurship, thereby inhibiting the achievement of their financial goals.

No single socio-economic group is immune from the danger that a lack of financial literacy poses. Even the wealthiest individuals in our country are impacted. According to AMG National, 90% of wealthy families lose their wealth by the third generation, suggesting that generational wealth and generational knowledge are inextricably intertwined for all families in America.

Cultivating a financially literate population contributes to ensuring the economic security of our nation. A financially literate population makes sound financial decisions and fosters economic stability at a broader level. With a generation well-versed in managing resources effectively, we can anticipate a society better equipped to weather economic challenges, contribute to sustainable growth, and ultimately fortify the economic foundation of our nation.

As we look to the future, the impact of Generation Z and Generation Alpha on our economy cannot be overstated. These digital-native youth will soon become the backbone of our workforce and economic contributors, making it imperative to equip them with the financial knowledge and tools necessary to succeed in an increasingly complex financial landscape.

As part of our mission to help close the American wealth gap, we conducted a financial literacy assessment among undergraduate students of prestigious academic institutions. The results exposed a concerning deficiency in the understanding of core personal finance concepts even among some of those considered the most academically astute.

OUR APPROACH

As part of its assessment, Goalsetter gauged the financial literacy of 1065 undergraduate students from Harvard, Stanford, and the University of Pennsylvania using an online quiz aligned with JumpStart.org and Council for Economic Education (CEE) national K-12 standards for financial literacy standards.

Concepts tested included:

1. Budgeting concepts like the 50/30/20 rule[1].
2. How to save and invest, including emergency funds, the benefits of compound interest, and the basic concepts of investing, like the Rule of 72[2].
3. Risks and consequences of debt, including credit cards, loans, and interest rates.
4. Income and how taxes impact net worth.
5. Credit scores[3] and how they impact personal financial decisions and credit
6. worthiness, including loan approvals and interest rates.
7. Retirement planning, Individual Retirement Accounts (IRAs)[4] and the benefits of starting to save for retirement early.

1. The 50/30/20 rule is a simplified budgeting approach that suggests dividing your after-tax income into three main categories: Needs (50%), Wants (30%), Savings and Debt Repayment (20%)
2. The rule of 72 is a formula used to estimate how long it will take for an investment to double in value, given a fixed annual rate of return.
3. A credit score is a numerical representation of an individual's creditworthiness, which is used by lenders and creditors to assess the risk of lending money to that person.
4. An IRA, or Individual Retirement Account, is a type of tax-advantaged investment account designed to help individuals save and invest for retirement. IRAs are popular retirement savings vehicles in the United States and offer various tax benefits to encourage long-term saving. There are several types of IRAs, including Traditional IRAs, Roth IRAs, SEP IRAs, and SIMPLE IRAs, each with its own rules and advantages.

KEY FINDINGS

Failing grades across the board

On average, students scored 51% on the financial literacy quiz, with underclassmen scoring even lower at 48%, both of which would be considered failing grades. **Overall, only 13% of quiz takers scored above what would be considered a C- on the quiz.**

Student scores for different financial literacy concepts

Source: Goalsetter

They know how to spend, but many don't know how to save

Not surprisingly, 93% of students surveyed have a debit card, indicating their familiarity with spending. However, only 48% of students who took the quiz understood the power of compound interest, pointing to their lack of understanding of core investing principles. An even lower percentage of respondents (47%) knew the 50/30/20 rule of budgeting.

They don't understand debt management

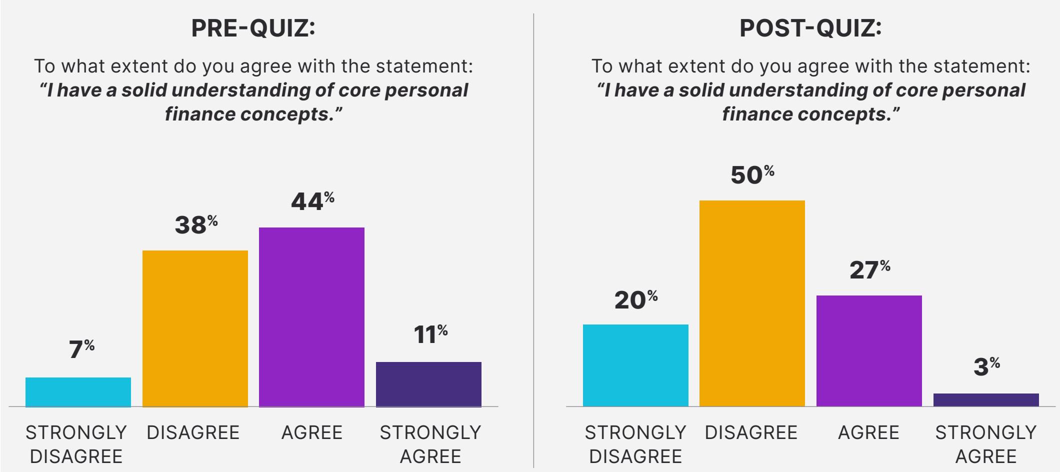
While 70% reported having a credit card, the majority don't understand recommended strategies for managing credit card debt. Additionally, 83% believe that investing with the hopes of earning more than the credit card APR is a viable debt repayment strategy and 56% are not aware that leveraging a loan to pay off debt is a more viable financial option.

Many aspire to early retirement, too few understand how to get there.

Fifty-eight percent (58%) of students want to retire early, yet among these students, only 51% know that an IRA—one of the most common retirement vehicles in America—is a tax-advantaged retirement account. Others mistakenly believe that an IRA is something that they can only access through the government or an employer, or are unaware that it has annual contribution limits.

They don't know what they don't know.

Prior to taking the quiz, 55% of students believed that they had "a solid understanding of core personal finance concepts." After responding to the 15 quiz questions, this percentage dropped to 30%.



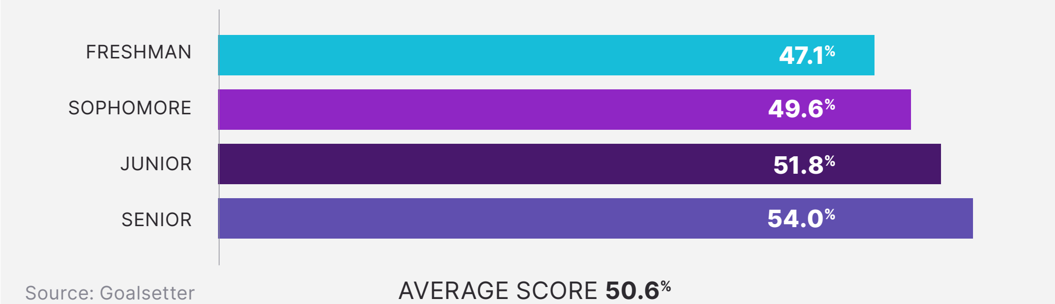
Source: Goalsetter

The knowledge gaps and lack of awareness suggest an opportunity to educate our teens and young adults on core personal finance concepts before they make critical decisions and find it difficult to recover from costly mistakes.

"ARE YOU (FINANCIALLY) SMARTER THAN A 12TH GRADER?"

Young adults at some of America's most elite universities score an "F" on high school financial literacy standards. If they are failing, what does this say about the financial acumen of the rest of the nation's teens and young people?

On average, these students scored a mere 51% on the 15-question quiz. Scores were lowest among underclassmen at 48% but only increased to 52% and 54% among juniors and seniors, respectively. These findings are in line with a 2022 study conducted by the TIAA Institute in conjunction with the Global Financial Literacy Excellence Center that found that two-thirds of Gen Z respondents answered only 50% or fewer of that study's financial literacy questions correctly.



Source: Goalsetter

While no specific content area stood out as a particular weakness or strength, only three questions were answered correctly by a "passing" percentage of students. These include:

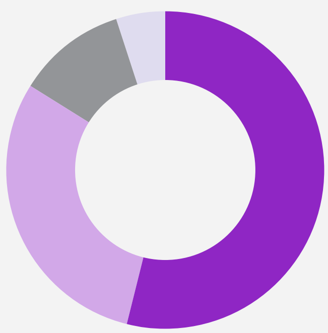
- Gross income and its direct correlation to income taxes paid. (82%) B-
- Payment history as the most important contributing factor to credit score. (73%) C
- Emergency funds and saving 3-6 months of essential expenses for unexpected costs. (68%) D+

BUDGETING AND SAVING

Although many college students do not have appreciable income while they attend school, the lack of knowledge related to how to spend and save their money suggests that many will have to learn the hard way as they exit the friendly confines of their universities and into the roles of taxpaying Americans.

- Two-thirds of participants understand that they should have 3-6 months of expenses in an emergency savings fund, but only 47% understand the 50/30/20 rule for allocating their income to needs, wants, and savings.
- 93% of students surveyed have a debit card, indicating their familiarity with spending. However, only 48% of students who took the quiz understood the power of compound interest, pointing to their lack of understanding of core investing principles.
- Only 54% know the difference between a High-Yield Savings Account (HYSA) and a regular savings account. Thirty percent thought that a HYSA requires a time commitment where their money would not be accessible to them.

What is the difference between a High-Yield Savings Account (HYSA) and a regular savings account?



- **An HYSA typically has a higher interest rate than a regular savings account.** ***54%*** *(correct)*
- An HYSA requires that you leave your money in for a certain amount of time; a regular savings account lets you take it out at any time. ***30%*** *(incorrect)*
- A Regular savings account is protected by the federal government, an HYSA is not. ***11%*** *(incorrect)*
- A HYSA allows you to put more money into your account. ***5%*** *(incorrect)*

Source: Goalsetter

Financial knowledge is out-of-step with key milestones and life goals many young people aspire to.

- Of the 87% of students who told us they want to own a home, only 48% know that Private Mortgage Insurance needs to be paid on top of traditional home insurance when a borrower takes out a conventional mortgage loan with a down payment of less than 20%.

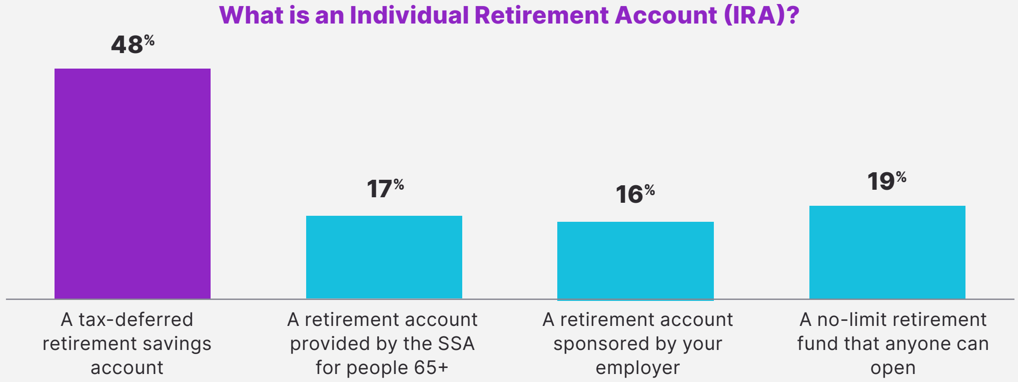
5. A high-yield savings account is a type of savings account offered by banks or financial institutions that typically offers a higher interest rate compared to a regular savings account. These accounts are designed to help individuals grow their savings at a faster rate by providing a more competitive annual percentage yield (APY).

INVESTING AND RETIREMENT

The lack of understanding that many young individuals have when it comes to investing and retirement is a pressing issue that can have long-term financial consequences. In addition to limited education in schools, youth are lacking proper conversations at home, fueling their propensity to focus on short-term goals or search for get-rich-quick methods. As a result, they are susceptible to either making poor investment decisions or not planning properly for the future.

- Only 48% of respondents know the correct definition of an IRA. Seventeen percent believed that an IRA is something provided by the Social Security Administration and another 16% believed that employers provide IRAs. When asked if it was true or false that compound interest always results in a higher total amount than simple interest, only 48% said this was true.

What is an Individual Retirement Account (IRA)?



Source: Goalsetter

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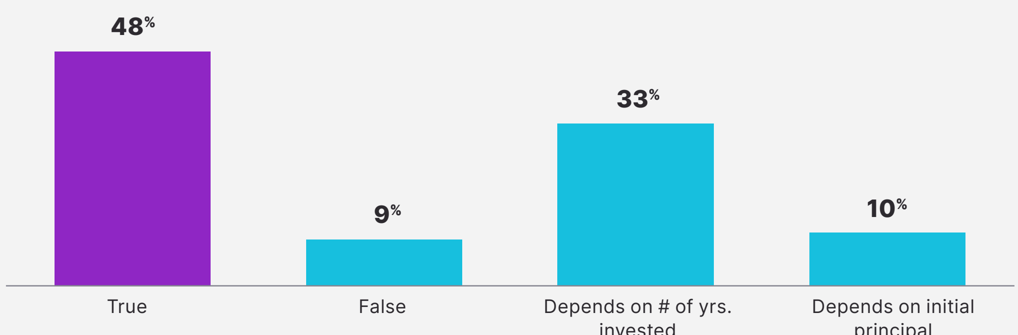
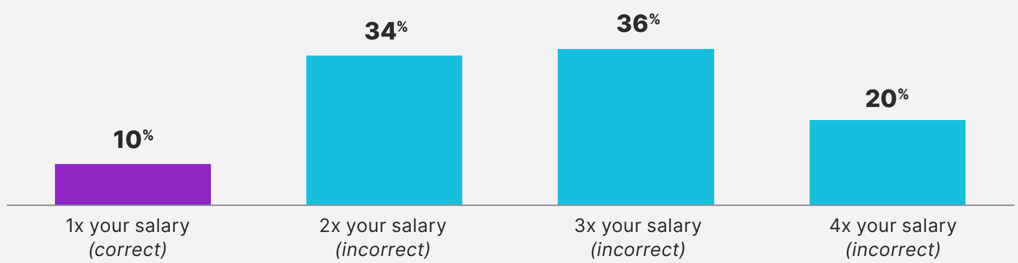


Source: Goalsetter

- One in four (26%) of those who want to retire early don't know how stocks and bonds differ from each other.

Interestingly, among all the students who took the survey, only 10% know the recommended amount of money to save towards retirement by the time they hit 30 is 1X their salary. The vast majority (90%) believed they needed to save at least 200% of their annual salaries by the age of 30.

What is the recommended amount that wealth management firms say you should have saved for retirement by the time you turn 30?



Source: Goalsetter

Why This Matters - While it may be good to have lofty goals, many young people may feel this level of saving is out of reach, causing some to give up before they even start. Resetting expectations to a more achievable goal of 1x their salary would go a long way in helping young people establish a course for the type of retirement they want to have.

MANAGING CREDIT & DEBT

The majority of quiz takers have a credit card, but most don't have the knowledge needed to truly understand how to successfully manage debt.

Among the seventy percent of students who reported having a credit card:

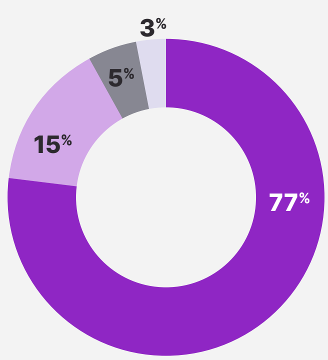
- 77% understand that payment history is the biggest contributing factor to credit score, but;
- Only 49% understand that experts recommend keeping credit card balances under 30% of the total credit card limit.

70%

"I have a credit card"

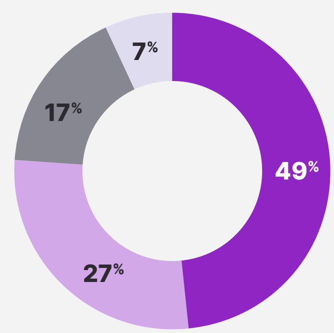
What's the largest contributing factor to your credit score?

- ***Payment history 77%*** *(correct)*
- Debt to income ratio
- Credit mix
- Salary



Financial experts recommend that you keep your credit card balance under what percentage of your total credit card limit?

- ***Credit card balances should be 30% or less.*** *(correct)*
- Credit card balances should be 20% or less.
- Credit card balances should be 50% or less.
- Credit card balances should be 70% or less.

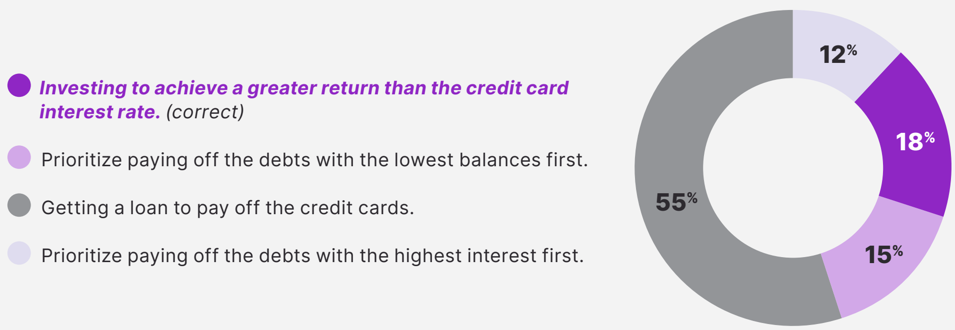


Source: Goalsetter

Responses revealed that students with credit cards do not see their credit card balances as an equal or even more destructive form of debt than lower-interest rate loans. If they were to find themselves in a situation where their credit card debt has become unwieldy:

- Approximately 82% believed that investing to achieve a greater return than the credit card interest is a sound strategy for debt repayment.
- Nearly 55% do NOT see a loan as a viable and recommended strategy for repaying credit card debt.

Which of the following is NOT a generally recommended strategy for credit card debt repayment?



Source: Goalsetter

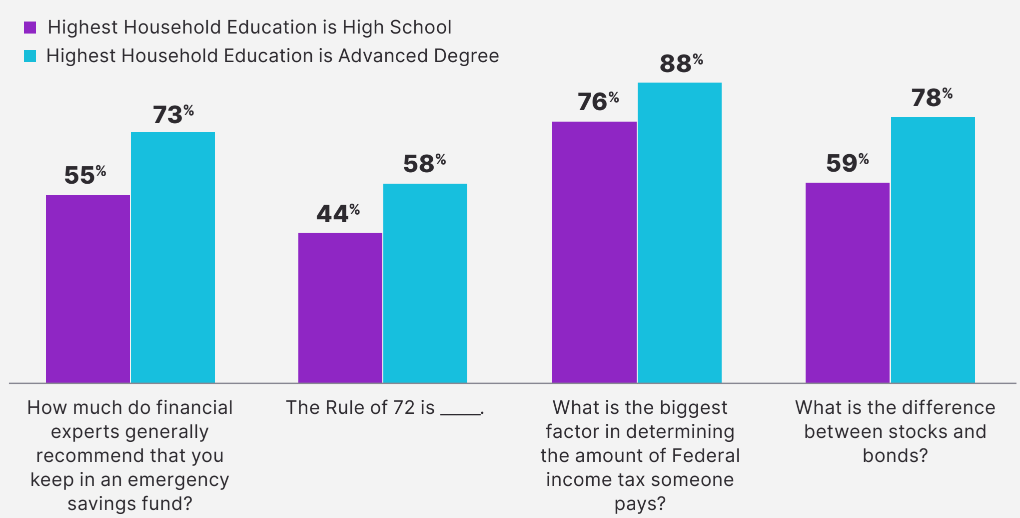
WEALTH GAP IS WIDE, EVEN AMONG THE MOST ACADEMICALLY ELITE

Often referred to as the “education wealth gap,” parental education attainment level is one of the most influential factors in a child’s financial success. Even within this elite group of students, those same daunting education gaps persist.

Students in households where the highest level of education attained by parents/guardians was a high school diploma, were consistently outscored by those in households with higher education levels.

- Among students from a household with parents holding a high school diploma or less, only 55% know the guidelines for emergency fund savings vs. 73% of students from a household with a parent holding an advanced degree.
- From the same group, only 44% know the Rule of 72 vs. 58% of students from advanced degree households.
- 76% understand the factors which determine a person’s income tax liability, vs. 88% from advanced degree households.
- 59% understand the difference between stocks and bonds vs. 78% in advanced degree households.

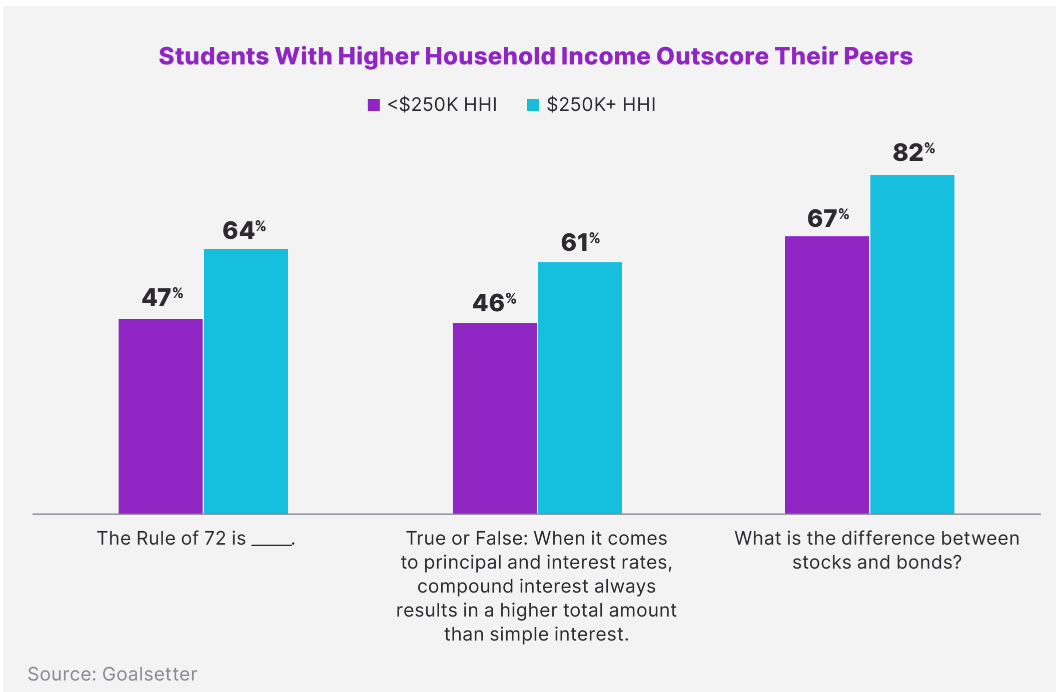
Parental Education Level Impacts Financial Literacy



Source: Goalsetter

Students in households with incomes of $250,000 or more also outscored their peers from less wealthy households. This is especially true of factors related to building wealth.

- 64% of students from the wealthiest households understand the Rule of 72 vs. 47% for those with household income of less than $250K.
- 61% (vs. 46%) understand the power of compound interest; and
- 82% (vs. 67%) understand the difference between stocks and bonds.



IT TAKES A VILLAGE
Strategies for Closing the Knowledge Gap

Ensuring the financial foundation of our youth is crucial, not only for their own well-being but also for the overall prosperity and stability of our future economy. Therefore, it falls upon us all to contribute to their success.

Financial education by all, for all.
Schools, colleges, universities, and financial institutions can and should provide comprehensive financial education that covers investing, retirement planning, and long-term wealth building. Further, incorporating financial education products into family banking accounts that are provided by financial institutions is a proactive way of educating the entire family. From gamification of simple concepts to application of more advanced methods, discussing and engaging kids in conversations about finances from a young age can help put them on the right track before costly mistakes are made.

Learn before you Burn™.
While allowing our children to have debit cards may make our lives as parents easier, it can also become an enabler of bad habits and easy cash. With the rise of digital banking and teen banking apps, money has become an abstract concept, existing only as numbers on a screen or in an app. This lack of physical representation can make it challenging for children to grasp the concept of money as something real and finite. In the same way that we wouldn't allow our children to drive a car based on their time spent on car racing video games, we shouldn't facilitate children having banking cards without tangible financial knowledge about smart spending, saving, and investing principles to prepare them for life beyond mom's wallet.

Solving for tomorrow, today.
The financial challenges and decisions that youth face today are vastly different than those of 20 or 30 years ago and we must solve for them as such. In past times, young people were lured into debt through aggressive marketing on college campuses from credit card companies that only promised low limits and high rates. Today, technology has been become the weapon of choice when it comes to targeting younger generations as consumers and the risks are much higher. As a result, the debt crisis for students today look different than excessive college tuition debt. We need to solve for the problems accordingly by meeting our children where they are with the information they need - online and in the palm of their hand.

Individuals and communities can assess their financial literacy and compare scores and identify areas for improvement by taking the quiz at http://goalsetter.co/takethequiz.

Percentages may not sum to 100% due to rounding.