Financial literary bailout for the younger generation

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In the aftermath of the global financial crisis, financial literacy is still low among young adults. According to a new study published in the *Journal of Consumer Affairs*, only twenty-seven percent of people aged 23-28 can answer three basic questions about interest rates, inflation, and risk diversification, and other basic financial concepts. Furthermore, this result was amplified when studying the answers of young women, African-Americans, and Hispanics, and those with low educational attainment. The results were compiled from a national study, and were consistent with the findings from the Financial Capability Survey, the results of which were released last December by Secretary Geithner and Secretary Duncan.

The research, headed by Dr. Annamaria Lusardi, shows that financial literacy is largely influenced by parental education levels and financial habits. Lusardi analyzed financial literacy questions based on knowledge of simple concepts, such as the capacity to do a two-percent calculation, and the workings of inflation and risk diversification. Dr. Lusardi points out, "In today's demanding financial environment young people represent a powerful consumer group. They must make complicated financial decisions at an early age, and financial mistakes made early in life can be costly. Student loan or credit card debt can have a devastating long-term impact on quality of life and career choice."

Young people who are financially literate are more likely to have college educated parents (in particular, college educated mothers), and their parents were likely investors in stocks and retirement savings during their formative years (when respondents were twelve to seventeen years old). For instance, according to the study a college-educated young male whose parents had stocks and retirement savings when the respondent was a teen-ager (12-17 years old) was about forty-five percent more likely to know about risk diversification than a female with less than a high school education, whose parents were not wealthy. Additionally, young people who had high school teachers interested in students and peers who planned to go to college were more likely to display higher financial literacy later in life.

Lusardi says, "If we do not address financial illiteracy among young people through high school literacy classes, we will fail to equip young people with the tools they need to make financial decisions, and we may pay the cost down the road. Not everybody has an opportunity to learn from their parents or their friends. Young people at the start of their career, or who are in the process of buying their first home need to be financially knowledgeable before they engage in financial contracts."

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