

CHAPTER 3 UNDERSTANDING INCOME

Introduction

Chapters 3 through 6 divide the questions contained in the *Personal Financial Survey* into the four categories of the *Personal Finance Guidelines* established by the JumpStart Coalition, namely income, money management, savings and investment, and spending. The guidelines are reproduced in Appendix A of this book.

Since the survey was administered in high schools in a single class period, the available class time allowed us to include just 30 substantive questions. As a result, we were not able to evaluate student knowledge in all of the specific areas of the guidelines. However, to gain some insight into student capabilities in these areas, we group related questions together within chapters of this book rather than analyze them in the order in which they appear in the survey questionnaire.

In choosing the 30 questions for this survey, members of the JumpStart Coalition attempted to balance coverage of the areas contained in the guidelines with focus on the more critical areas of personal financial literacy. Our review and analysis of specific survey results will attempt to maintain this balance.

The *Personal Finance Guidelines for Income* tell us that students who have learned from a curriculum that follows these guidelines will be able to:

1. analyze how personal choices, education/training, technology and other factors affect future income.
2. identify sources of income, including entrepreneurial activity.
3. explain how tax policies, personal taxes, and transfer payments affect disposable income.

All of personal financial management begins with income. Young people must be able to estimate future income in order to make reasonable life decisions, including the timing of marriage and children, as well as significant consumption decisions. People do have control over future income since it can be influenced by decisions involving education, training and even location.

Beyond income earned by their labor, other sources of income may come into play, as well, including investment income, profits from entrepreneurial activity and retirement income from pensions and Social Security. While future retirement income may be the furthest thing from the mind of an 18-year-old, he or she is likely to be asked to choose an investment strategy for a 401k or other defined contribution pension plan well before the age of 30.

Finally, the impact of taxes greatly affects future take-home pay, so it is critical for students to understand just how large a bite taxes will take from future income before they make major consumption decisions.

The Importance of Education, Skill and Location

The first three questions address decisions that can affect future income. These include the decision to seek higher education, the decision to improve on-the-job skills and the decision of where to locate.

Question 18. If you went to college and earned a 4-year degree, how much more money could you expect to earn than if you only had a high school diploma?

- a) about 10 times as much
- b) a lot more, about 70 percent more
- c) a little more, about 20 percent more
- d) no more, I would make about the same either way

The correct answer to this question is b) "a lot more, about 70 percent more." A college education is an investment in human capital that makes people more valuable in the workplace. These days, aside from a tiny number of star athletes or entertainers, the highest paid workers are the *knowledge workers*, who use their brains and education. In our high-tech economy, many of the high-paying jobs that used to be done by hand by skilled workers are now done by robots in automated factories or are done overseas by workers who are willing to work for a fraction of U.S. wages. This has created a situation in which those with college degrees have seen their incomes increase substantially over the past 15 years and those without college degrees have seen their *real* (after inflation) incomes fall.

Overall, 52.2 percent of students answered this correctly, 5.1 percent responded "no more," 23.4 percent estimated 20 percent more, and 18.3 percent overestimated that those with college degrees would make 10 times as much. Table 3-1 summarizes these results.

It is interesting to look at both the 18.3 percent who grossly overestimated the payoff to a college education (up from 12.8 percent in 1997) and the 28.5 percent who substantially underestimated it. Hispanic Americans were more likely than any other group to overestimate the value of a college education, with 24.4 percent feeling that a college graduate would make 10 times as much as a high school graduate.

Not surprisingly, students who felt that college graduates were not likely to earn more than high school graduates were disproportionately represented by students who did not intend to pursue further education (18.2 percent), and those whose expected income was under \$15,000 (24.0 percent). Males were more likely to correctly estimate returns to education (55.7 percent) than females (50.3 percent).

Students who had taken coursework in personal finance tended to answer this question more accurately than those who had taken economics. Those who often discussed money matters with their parents also did substantially better on this question, offering, perhaps, some insight into the *types* of money matters that they discussed ("go to college!"). Finally, those who received an allowance without having to do chores did better on this question than did others even though their overall literacy was not as high.

Table 3-1
Analysis of Question 18
College Versus High School Earnings

	(a) 10 Times as Much	(b)* 70% More ¹	(c) 20% More	(d) No More
All Students 2000	18.3%	52.2%	23.4%	5.1%
<i>All Students 1997</i>	<i>12.8%</i>	<i>59.4%</i>	<i>24.3%</i>	<i>3.4%</i>
<u>Parents' Income</u>				
Less than \$20,000	19.1	48.9	27.7	4.3
\$20,000 to \$39,999	20.4	51.5	24.2	3.8
\$40,000 to \$79,999	14.0	60.5	22.5	3.0
\$80,000 or More	13.2	58.5	22.6	5.7
Don't Know	25.2	43.2	21.9	9.7
<u>Highest Level of Parents' Education</u>				
Neither Finished H.S.	27.5	51.6	13.2	7.7
Completed H.S.	18.8	46.6	28.4	6.3
Some College	16.4	49.2	31.1	3.4
College Grad or More	14.7	62.3	18.6	4.3
Don't Know	27.5	45.0	20.0	7.5
<u>Sex</u>				
Female	19.8	50.3	25.3	4.7
Male	16.9	55.7	21.7	5.7
<u>Race</u>				
White	17.7	53.9	24.4	4.0
African American	20.7	43.1	29.3	6.9
Hispanic American	24.4	47.1	19.3	9.2
Asian American	14.6	64.6	18.8	2.1
Native American	14.3	42.9	21.4	21.4
Other	16.0	56.0	28.0	---
<u>Educational Plans</u>				
No Further Ed.	18.2	54.5	9.1	18.2
2-year or Jr. College	19.0	48.3	25.9	6.9
4-year College	16.8	54.5	24.9	3.8
Other Training or Ed.	25.9	46.6	20.7	6.9
Don't Know	27.0	54.1	8.1	10.8

¹ In 1997, the choice was 75 percent.

Table 3-1 (continued)
Analysis of Question 18
College Versus High School Earnings

	(a) 10 Times as Much <u>More</u>	(b)* 70% <u>More</u>	(c) 20% <u>More</u>	(d) No <u>More</u>
<u>Planned Occupation</u>				
Manual Work	14.3	57.1	14.3	14.3
Skilled Trade	25.6	41.0	23.1	10.3
Service Worker	18.6	51.4	20.0	10.0
Professional Worker	19.1	52.4	25.6	2.9
Other or Don't Know	15.2	57.6	20.5	6.8
<u>Expected Full-Time Income</u>				
Under \$15,000	16.0	40.0	20.0	24.0
\$15,000 to \$19,999	20.8	41.5	32.1	5.7
\$20,000 to \$29,999	17.9	55.8	23.1	3.2
\$30,000 or More	18.1	55.4	22.7	3.8
Don't Know	19.8	48.6	23.4	8.1
<u>Classes in H.S.¹</u>				
Entire Course, Money Mgt. or Personal Finance	14.9	57.4	20.8	6.9
Portion of Course, Money Mgt. or Personal Finance	18.8	55.0	21.3	5.0
Entire Course, Economics	18.6	52.5	23.6	5.4
Portion Course, Economics	18.9	54.3	21.3	5.5
Stock Mkt. Game in Class	17.1	61.7	18.3	2.9
<u>Discuss Money Matters</u>				
<u>with Parents</u>				
Never	18.4	42.9	26.5	12.2
Rarely	20.9	48.8	24.0	6.2
Sometimes	17.4	53.0	24.9	4.6
Often	17.9	57.0	21.1	4.0
<u>Allowance</u>				
Money as Needed	18.8	52.1	24.1	5.0
Allowance for Chores	17.5	52.0	24.6	6.0
Allowance, No Chores	19.7	60.5	15.8	3.9

¹ Percents may total more than 100 percent with multiple responses possible.

Question 29. Heather and Alexis are employed by the same company and earn the same pay. Heather spends her free time taking work-related classes to improve her computer skills, while Alexis spends her free time socializing with friends and working out at a fitness center. After five years what is likely to be true?

- a) Alexis will make more because she is more social.
- b) Heather and Alexis will continue to make the same money.
- c) Heather will make more money because she is more valuable to her company.
- d) Alexis will make more because Heather is likely to be laid off.

The answer to this question is c) "Heather will make more money because she is more valuable to her company." The need to acquire *human capital* in the form of education and skills no longer ends at age 18 when students graduate from high school or at age 22 when some graduate from college. Constant changes in technology compel American workers to learn new ways of doing their work more effectively. Office workers and professionals are always having to learn new computer programs. Factory workers are often confronted with new machinery or are asked to cross-train on another piece of machinery to make them more versatile. Even truck drivers are adjusting to tracking their loads with tiny computers that use satellites to pinpoint their location.

The constant drive to become more productive is caused in part by worldwide competition. American workers are paid more than workers in most parts of the world, particularly those in developing countries who will work for extremely low wages. Since free trade allows countries to import those goods that offer consumers the best value, American workers must offer something extra to justify their higher rate of pay. This something extra generally involves a higher level of skill, often in the operation of sophisticated equipment, which enables them to be more productive in their work.

Overall, close to three-quarters of all the students got this answer correct. Nearly 11 percent felt that Heather and Alexis would continue to make the same amount of money and a total of just 13.8 percent felt that Alexis would make more than Heather. Table 3-2 summarizes the results.

Few groups did not do well on this question. Women did somewhat better than men on this question, as did students who aspired to be professional workers.

Table 3-2
Analysis of Question 29
Who Will Make More?

	(a) Alexis— <u>More Social</u>	(b) <u>Same</u>	(c)* Heather— <u>More Valuable</u>	(d) Alexis— <u>Heather Laid Off</u>
All Students 2000	9.1%	10.9%	74.8%	4.7%
<i>All Students 1997</i>	<i>1.6%</i>	<i>4.8%</i>	<i>92.1%</i>	<i>1.4%</i>
<u>Parents' Income</u>				
Less than \$20,000	16.1	14.0	65.6	4.3
\$20,000 to \$39,999	9.4	13.2	71.1	6.3
\$40,000 to \$79,999	6.4	8.9	81.2	3.5
\$80,000 or More	7.5	5.6	82.2	4.7
Don't Know	9.6	12.7	72.0	5.1
<u>Highest Level of Parents' Education</u>				
Neither Finished H.S.	13.2	12.1	68.1	6.6
Completed H.S.	12.5	14.8	68.8	3.4
Some College	5.6	8.3	79.4	6.7
College Grad or More	6.9	8.6	81.5	3.0
Don't Know	14.6	17.1	61.0	7.3
<u>Sex</u>				
Female	6.8	11.7	76.8	4.4
Male	11.8	10.1	73.1	5.0
<u>Race</u>				
White	8.8	8.6	79.9	2.7
African American	8.8	15.8	68.4	7.0
Hispanic American	10.0	15.8	63.3	10.0
Asian American	4.2	12.5	77.1	6.3
Native American	35.7	14.3	42.9	7.1
Other	8.0	12.0	72.0	8.0
<u>Educational Plans</u>				
No Further Ed.	33.3	8.3	50.0	8.3
2-year or Jr. College	6.8	5.9	78.8	8.5
4-year College	8.1	10.5	78.0	3.2
Other Training or Ed.	8.6	19.0	63.8	8.6
Don't Know	23.7	21.1	50.0	5.3

Table 3-2 (continued)
Analysis of Question 29
Who Will Make More?

	(a) Alexis— <u>More Social</u>	(b) <u>Same</u>	(c)* Heather— <u>More Valuable</u>	(d) Alexis— <u>Heather Laid Off</u>
<u>Planned Occupation</u>				
Manual Work	25.9	7.4	55.6	11.1
Skilled Trade	15.0	25.0	55.0	5.0
Service Worker	16.9	11.3	69.0	2.8
Professional Worker	5.8	9.9	78.9	5.4
Other or Don't Know	9.6	11.1	76.3	2.2
<u>Expected Full-Time Income</u>				
Under \$15,000	23.1	15.4	46.2	15.4
\$15,000 to \$19,999	17.0	18.9	56.6	7.5
\$20,000 to \$29,999	3.8	8.2	84.2	3.2
\$30,000 or More	8.6	11.6	76.3	3.5
Don't Know	11.7	8.1	73.0	7.2
<u>Classes in H.S.¹</u>				
Entire Course, Money				
Mgt./Personal Finance	12.9	9.9	74.3	3.0
Portion of Course, Money				
Mgt./Personal Finance	8.7	9.3	77.6	4.3
Entire Course, Economics				
Portion Course, Economics	10.6	11.4	73.1	4.5
Stock Mkt. Game in Class	7.9	9.7	78.2	4.2
	8.4	11.8	75.8	3.4
<u>Discuss Money Matters</u>				
<u>with Parents</u>				
Never	12.2	24.5	57.1	6.1
Rarely	10.6	8.3	76.5	4.5
Sometimes	8.2	9.9	78.0	3.5
Often	8.7	10.3	75.4	5.6
<u>Allowance</u>				
Money as Needed	8.4	11.8	75.3	4.5
Allowance for Chores	9.0	9.8	76.2	5.1
Allowance, No Chores	13.3	9.3	72.0	4.0

¹ Percents may total more than 100 percent with multiple responses possible.

Question 5. Jerry has a good job on the production line of a factory in his home town. During the past year or two, the state in which Jerry lives has been raising taxes on its businesses to the point where they are much higher than in neighboring states. What effect is this likely to have on Jerry's job?

- a) He is likely to get a large raise to offset the effect of higher taxes.
- b) Higher business taxes can't have any effect on Jerry's job.
- c) Higher business taxes will cause more businesses to move into Jerry's state, raising wages.
- d) Jerry's company may consider moving to a lower-tax state, threatening Jerry's job.

The answer to this question is d) "threat to job." States compete fiercely to attract employers from other areas. Competition is particularly intense for manufacturers, particularly those such as auto companies, which offer good salaries and benefits.

A state with very high business taxes, compared to other, nearby states, is going to find it difficult to attract or even retain employers such as factories. In our question, Jerry will find that, if he does not move to a state with lower business taxes and more job opportunities, his income prospects will be limited. With fewer and fewer factory jobs available in his state, the supply of people seeking such jobs will be greater than the job possibilities, and employers will not have to raise wages to find all the employees they want. If Jerry stays in the state, he will probably lose some of the future income he could have made if he moved to a state with more factory jobs available.

Overall, slightly more than 60 percent of the students answered this question correctly. Table 3-3 summarizes the results. Students who had a course in economics scored well on this question, but students who spoke about money matters with their parents on a frequent basis did worse than those who rarely spoke about money with their folks.

Table 3-3
Analysis of Question 5¹
What Is the Effect on Jerry's Job?

	(a) <u>Large</u> <u>Raise</u>	(b) <u>No</u> <u>Effect</u>	(c) <u>Higher</u> <u>Wages</u>	(d)* <u>Threat</u> <u>To Job</u>
All Students 2000	12.4%	13.2%	12.7%	61.2%
<u>Parents' Income</u>				
Less than \$20,000	22.6	15.1	21.5	40.9
\$20,000 to \$39,999	13.3	11.4	7.6	67.7
\$40,000 to \$79,999	8.0	13.0	9.0	70.0
\$80,000 or More	9.3	9.3	15.0	66.4
Don't Know	12.7	17.2	16.6	53.5
<u>Highest Level of</u> <u>Parents' Education</u>				
Neither Finished H.S.	15.4	15.4	14.3	54.9
Completed H.S.	17.0	12.5	14.2	56.3
Some College	7.3	12.4	14.0	66.3
College Grad or More	10.8	13.8	9.5	65.9
Don't Know	17.1	12.2	14.6	56.1
<u>Sex</u>				
Female	13.6	13.6	14.2	58.5
Male	10.9	13.0	11.2	64.8
<u>Race</u>				
White	9.3	13.3	11.5	65.9
African American	12.1	15.5	15.5	56.9
Hispanic American	22.9	12.7	16.1	48.3
Asian American	18.8	10.4	10.4	60.4
Native American		7.1	21.4	71.4
Other	16.7	16.7	12.5	54.2
<u>Educational Plans</u>				
No Further Ed.	25.0	---	8.3	66.7
2-year or Jr. College	13.7	15.4	17.9	53.0
4-year College	11.1	12.1	11.1	65.7
Other Training or Ed.	14.0	19.3	15.8	50.9
Don't Know	18.4	18.4	15.8	47.4

¹ Question 5 in the 2000 questionnaire does not have a comparable 1997 question.

Table 3-3 (continued)
Analysis of Question 5¹
What Is the Effect on Jerry's Job?

	(a) Large Raise	(b) No Effect	(c) Higher Wages	(d)* Threat To Job
<u>Planned Occupation</u>				
Manual Work	21.4	10.7	14.3	53.6
Skilled Trade	5.1	15.4	12.8	66.7
Service Worker	15.7	14.3	14.3	55.7
Professional Worker	10.6	12.6	12.1	64.7
Other or Don't Know	16.3	14.1	13.3	56.3
<u>Expected Full-Time Income</u>				
Under \$15,000	26.9	11.5	7.7	53.8
\$15,000 to \$19,999	22.6	26.4	11.3	39.6
\$20,000 to \$29,999	13.9	8.2	15.2	62.7
\$30,000 or More	9.5	13.8	9.2	67.5
Don't Know	11.6	12.5	22.3	53.6
<u>Classes in H.S.²</u>				
Entire Course, Money				
Mgt./Personal Finance	19.8	11.9	11.9	56.4
Portion of Course, Money				
Mgt./Personal Finance	12.4	17.4	9.3	60.9
Entire Course, Economics				
Portion Course, Economics	10.5	14.2	12.1	63.2
Stock Mkt. Game in Class	9.1	16.4	10.3	64.2
Stock Mkt. Game in Class	10.8	10.8	9.1	69.3
<u>Discuss Money Matters with Parents</u>				
Never	24.5	12.2	18.4	44.9
Rarely	8.3	12.1	10.6	68.9
Sometimes	12.7	13.4	13.1	60.8
Often	11.2	13.7	12.9	62.2
<u>Allowance</u>				
Money as Needed	11.9	13.2	15.3	59.6
Allowance for Chores	11.4	12.9	9.8	65.9
Allowance, No Chores	16.0	14.7	10.7	58.7

¹ Question 5 in the 2000 questionnaire does not have a comparable 1997 question.

² Percents may total more than 100 percent with multiple responses possible.

Sources of Income

Over time, the mix of income sources is likely to change for people. In order to project future income with any degree of accuracy, young people must be aware of this mix and how it changes with the accumulation of wealth.

Question 28. Which of the following best describes the primary sources of income for most people age 20-35?

- a) profits from business
- b) dividends and interest
- c) rents
- d) salaries, wages, tips

The correct answer is d) "salaries, wages and tips." Most young people have only one major source of income—selling their labor in exchange for salaries, wages and sometimes tips. Few have saved enough to make much money from stocks, which pay dividends, or bonds and savings accounts, which pay interest. Nor have many been able to put up the large down payment needed to invest in rental housing, which generates rents.

Finally, while some people in this age range may own businesses, it is unlikely that they have been able to invest enough money in the business to generate great profitability. In addition, they may think a business is profitable when much, if not all, of the income taken from the business by the owner is really the salary that the owner would have earned if he or she worked for someone else.

Overall, 71.2 percent of students answered this question correctly, according to Table 3-4. Students who had taken coursework in economics did relatively well on this question, as they did on others that were definitional in nature.

Table 3-4
Analysis of Question 28
Primary Income Sources for Young People

	(a) Profits from <u>Business</u>	(b) Dividends & <u>Interest</u>	(c) <u>Rents</u>	(d)* Salaries, Wages & <u>Tips</u>
All students 2000	11.0%	9.5%	7.7%	71.2%
<i>All Students 1997</i>	3.5%	4.5%	2.9%	89.1%
<u>Parents' Income</u>				
Less than \$20,000	17.0	14.9	12.8	55.3
\$20,000 to \$39,999	9.5	7.6	7.6	75.3
\$40,000 to \$79,999	7.4	5.9	6.4	80.2
\$80,000 or More	11.2	7.5	5.6	75.7
Don't Know	13.5	14.8	7.7	63.9
<u>Highest Level of Parents' Education</u>				
Neither Finished H.S.	18.9	14.4	11.1	55.6
Completed H.S.	10.9	7.4	10.3	71.4
Some College	8.3	7.8	7.2	76.7
College Grad or More	9.1	7.3	4.3	79.3
Don't Know	19.5	26.8	12.2	41.5
<u>Sex</u>				
Female	11.3	10.2	8.6	69.9
Male	10.9	8.9	6.8	73.4
<u>Race</u>				
White	8.2	5.8	6.2	79.9
African American	12.3	12.3	12.3	63.2
Hispanic American	16.9	16.9	11.9	54.2
Asian American	22.9	18.8	6.3	52.1
Native American	7.1	21.4	14.3	57.1
Other	16.0	8.0	8.0	68.0
<u>Educational Plans</u>				
No Further Ed.	18.2	---	9.1	72.7
2-year or Jr. College	14.4	8.5	11.9	65.3
4-year College	9.3	8.9	5.7	76.2
Other Training or Ed.	15.5	17.2	13.8	53.4
Don't Know	13.2	13.2	13.2	60.5

Table 3-4 (continued)
Analysis of Question 28
Primary Income Sources for Young People

	(a) Profits from <u>Business</u>	(b) Dividends & <u>Interest</u>	(c) <u>Rents</u>	(d)* Salaries, Wages & Tips
<u>Planned Occupation</u>				
Manual Work	21.4	17.9	10.7	50.0
Skilled Trade	15.0	12.5	12.5	60.0
Service Worker	11.3	5.6	16.9	66.2
Professional Worker	10.4	8.6	5.6	75.5
Other or Don't Know	10.4	11.9	7.5	70.1
<u>Expected Full-Time Income</u>				
Under \$15,000	20.0	8.0	12.0	60.0
\$15,000 to \$19,999	9.3	18.5	9.3	63.0
\$20,000 to \$29,999	14.6	7.0	6.3	72.2
\$30,000 or More	10.0	10.2	6.7	73.0
Don't Know	9.1	6.4	11.8	72.7
<u>Classes in H.S.¹</u>				
Entire Course, Money				
Mgt./Personal Finance	11.9	13.9	6.9	67.3
Portion of Course, Money				
Mgt./Personal Finance	12.3	11.1	8.0	68.5
Entire Course, Econ.	11.8	8.1	8.5	71.5
Portion Course, Econ.	8.5	10.4	7.9	73.2
Stock Mkt. Game in Class	11.2	7.3	6.7	74.7
<u>Discuss Money Matters</u>				
<u>with Parents</u>				
Never	12.2	16.3	14.3	57.1
Rarely	6.8	10.6	8.3	74.2
Sometimes	13.5	8.5	4.6	73.4
Often	10.4	8.8	9.6	71.2
<u>Allowance</u>				
Money as Needed	10.3	10.8	7.7	71.2
Allowance for Chores	10.6	5.9	8.6	74.9
Allowance, No Chores	16.0	14.7	5.3	64.0

¹ Percents may total more than 100 percent with multiple responses possible.

Anticipating Taxes and Other Deductions

Before committing to significant expenditures, it is important to estimate just how much income is likely to be available to pay for them. This means that *net* income, after all mandatory deductions have been made, is more important to estimate than *gross* income before deductions. Students who eventually take full-time jobs may be amazed at how much of their gross income is taken out for income tax, Social Security payments, premiums for things such as health, life and disability insurance and sometimes even charges for parking the car at work. And even after net pay is calculated, sales taxes reduce the purchasing power of that amount even further. The final three questions in the income section test students' knowledge of how taxes and other deductions are likely to diminish the value of their future paycheck.

Question 26. Wendy worked her way through college earning \$15,000 per year. After graduation, her first job pays \$30,000. The total dollar amount Wendy will have to pay in federal income taxes in her new job will:

- a) be lower than when she was in college
- b) stay the same as when she was in college
- c) go up a little from when she was in college
- d) double, at least, from when she was in college

The correct answer is d) "double, at least, from when she was in college." The federal income tax system is *progressive*, meaning that taxes increase as a percentage of income as income goes up. If income doubles, taxes will at least double and may more than double.

Table 3-5 shows that only 38.3 percent of all students answered this question correctly, a significant decrease from 1997 when the percentage was 49.4 percent. Many large consumption decisions made by young people are based upon estimates of their future disposable income. If they do not factor in the increasing burden of taxes, they will tend to overestimate their take-home pay and may find themselves in some difficulty in the future. The question was phrased to allow those who feel that federal taxes are only proportional ("double, at least") to be scored "correct" since tax brackets are large and some students whose income doubles may remain in the same tax bracket. Therefore, more than half of students feel that taxes are less than proportional, i.e., *regressive*.

Students who use their current part-time jobs as a way of estimating future income taxes will be in for a very great disappointment. In fact, more than half the students who work only during the summer feel that, in income doubles, taxes will increase only a little rather than doubling at least. As we will see repeatedly in this book, learning personal finance strictly through experience can often be terribly misleading.

Table 3-5
Analysis of Question 26
If Income Doubles, Taxes Will _____?

	(a) Be <u>Lower</u>	(b) Stay <u>Same</u>	(c) Increase <u>a Little</u>	(d)* Double <u>at Least</u>
All Students 2000	8.8%	11.3%	40.4%	38.3%
<i>All Students 1997</i>	4.3%	4.7%	41.6%	49.4%
<u>Parents' Income</u>				
Less than \$20,000	9.6	13.8	43.6	33.0
\$20,000 to \$39,999	9.5	10.8	41.1	38.6
\$40,000 to \$79,999	9.0	6.0	37.5	47.5
\$80,000 or More	7.8	11.7	41.7	38.8
Don't Know	8.3	17.2	43.3	31.2
<u>Highest Level of Parents' Education</u>				
Neither Finished H.S.	13.0	7.6	42.4	37.0
Completed H.S.	9.8	13.2	43.1	33.9
Some College	6.7	11.2	44.7	37.4
College Grad or More	6.6	11.8	36.4	45.2
Don't Know	19.5	9.8	36.6	34.1
<u>Sex</u>				
Female	8.6	9.6	43.8	38.0
Male	9.3	13.6	37.7	39.5
<u>Race</u>				
White	8.5	8.5	40.3	42.7
African American	7.0	22.8	40.4	29.8
Hispanic American	10.8	13.3	40.8	35.0
Asian American	6.3	12.5	47.9	33.3
Native American	14.3	14.3	50.0	21.4
Other	12.5	20.8	41.7	25.0
<u>Educational Plans</u>				
No Further Ed.	25.0	16.7	50.0	8.3
2-year or Jr. College	11.9	13.6	44.1	30.5
4-year College	7.1	9.8	40.0	43.1
Other Training or Ed.	10.3	15.5	44.8	29.3
Don't Know	15.8	18.4	31.6	34.2

Table 3-5 (continued)
Analysis of Question 26
If Income Doubles, Taxes Will _____?

	(a) Be <u>Lower</u>	(b) Stay <u>Same</u>	(c) Increase <u>a Little</u>	(d)* Double <u>at Least</u>
<u>Planned Occupation</u>				
Manual Work	21.4	14.3	35.7	28.6
Skilled Trade	10.3	25.6	33.3	30.8
Service Worker	14.1	15.5	35.2	35.2
Professional Worker	6.8	8.8	41.3	43.1
Other or Don't Know	9.7	11.9	46.3	32.1
<u>Classes in H.S.¹</u>				
Entire Course, Money				
Mgt./Personal Finance	10.9	18.8	35.6	34.7
Portion of Course, Money				
Mgt./Personal Finance	12.4	9.9	42.2	35.4
Entire Course, Economics				
Portion Course, Economics	10.3	14.0	40.7	35.0
Stock Mkt. Game in Class	7.9	12.1	41.2	38.8
	7.4	9.7	40.9	42.0
<u>Discuss Money Matters</u>				
<u>with Parents</u>				
Never	8.2	18.4	46.9	26.5
Rarely	9.8	11.4	43.9	34.8
Sometimes	8.6	10.0	43.2	38.2
Often	9.3	11.7	35.9	43.1
<u>Allowance</u>				
Money as Needed	8.8	12.6	40.8	37.8
Allowance for Chores	8.6	9.4	43.0	39.1
Allowance, No Chores	11.8	10.5	38.2	39.5
<u>Employment History</u>				
Work FT Sum. PT School	8.2	13.2	35.8	42.8
Work FT Summers Only	7.5	9.0	53.7	29.9
Work PT Sum. PT School	9.2	10.2	42.7	37.9
Work PT Summer Only	11.0	7.7	34.1	47.3
Have Never Worked for Pay	9.4	14.2	47.2	29.2

¹ Percents may total more than 100 percent with multiple responses possible.

Question 16. Your take-home pay from your job is less than the total amount you earn. Which of the following best describes what is taken out of your total pay?

- a) federal income tax, sales tax, and Social Security contribution
- b) federal income tax, property tax, and Medicare and Social Security contributions
- c) Social Security and Medicare contributions
- d) federal income tax, Social Security and Medicare contributions

The correct answer is d) "federal income tax, Social Security and Medicare contributions." Answers a) and b) are not correct because sales tax and property tax are not deducted from paychecks. Answer c) does not include federal income tax, which tends to be the largest deduction from a working person's paycheck.

Overall, 56.1 percent of students answered this question correctly (Table 3-6). Of those who answered incorrectly, 20 percent thought that sales tax was taken from paychecks, and 15.2 percent thought that property tax was deducted from one's paycheck. Females did better on this question than males, and those who had an entire course in money management or personal finance did substantially better than students who had other types of personal finance or economic education.

Table 3-6
Analysis of Question 16
Deductions from Pay

	(a)	(b)	(c)	(d)*
	<u>Income Tax, Sales Tax, & Soc. Security</u>	<u>Income, Property Tax, Medicare & Soc. Security</u>	<u>Social Security & Medicare</u>	<u>Income Tax, Soc. Security & Medicare</u>
All Students 2000	20.0%	15.2%	8.0%	56.1%
<i>All Students 1997</i>	<i>13.1%</i>	<i>13.5%</i>	<i>5.1%</i>	<i>68.3%</i>
<u>Parents' Income</u>				
Less than \$20,000	21.3	20.2	3.2	55.3
\$20,000 to \$39,999	16.7	16.7	8.3	58.3
\$40,000 to \$79,999	18.4	10.0	6.5	65.2
\$80,000 or More	19.6	16.8	13.1	50.5
Don't Know	24.5	17.4	9.7	48.4
<u>Highest Level of Parents' Education</u>				
Neither Finished H.S.	23.1	15.4	7.7	53.8
Completed H.S.	17.0	15.9	8.0	59.1
Some College	21.9	14.0	6.7	57.3
College Grad or More	18.6	15.6	9.1	56.7
Don't Know	25.0	12.5	10.0	52.5
<u>Sex</u>				
Female	22.3	14.5	6.2	56.9
Male	17.2	16.3	10.2	56.3
<u>Race</u>				
White	18.5	14.9	8.9	57.7
African American	26.3	14.0	5.3	54.4
Hispanic American	22.7	14.3	6.7	56.3
Asian American	18.8	12.5	2.1	66.7
Native American	14.3	35.7	28.6	21.4
Other	28.0	16.0	4.0	52.0
<u>Educational Plans</u>				
No Further Ed.	36.4	9.1	18.2	36.4
2-year or Jr. College	25.2	18.3	8.7	47.8
4-year College	18.4	14.1	7.1	60.4
Other Training or Ed.	19.0	15.5	5.2	60.3
Don't Know	21.1	23.7	21.1	34.2

Table 3-6 (continued)
Analysis of Question 16
Deductions from Pay

	(a) Income Tax, Sales Tax, & Soc. Security	(b) Income, Property Tax, Medicare & Soc. Security	(c) Social Security Medicare	(d)* Income Tax, Soc. Security & Medicare
<u>Planned Occupation</u>				
Manual Work	25.0	17.9	21.4	35.7
Skilled Trade	15.4	38.5	10.3	35.9
Service Worker	21.4	14.3	5.7	58.6
Professional Worker	20.3	13.3	6.8	59.7
Other or Don't Know	18.7	14.2	9.7	57.5
<u>Expected Full-Time Income</u>				
Under \$15,000	20.8	25.0	12.5	41.7
\$15,000 to \$19,999	24.1	27.8	5.6	42.6
\$20,000 to \$29,999	22.6	12.9	8.4	56.1
\$30,000 or More	17.0	14.0	7.5	61.5
Don't Know	24.1	13.4	9.8	52.7
<u>Classes in H.S.¹</u>				
<u>Entire Course, Money</u>				
Mgt./Personal Fin.	18.8	12.9	3.0	65.3
<u>Portion of Course, Money</u>				
Mgt./Personal Fin.	13.7	21.1	8.7	56.5
<u>Entire Course, Econ.</u>				
Portion Course, Econ.	22.7	15.3	6.7	55.2
Stock Mkt. Game	18.2	12.5	10.8	58.5
<u>Discuss Money Matters</u>				
<u>with Parents</u>				
Never	24.5	14.3	12.2	49.0
Rarely	17.8	14.7	8.5	58.9
Sometimes	18.8	16.3	7.8	57.1
Often	22.3	14.3	7.6	55.8
<u>Allowance</u>				
Money as Needed	23.6	14.6	8.2	53.6
Allowance for Chores	15.4	15.7	6.3	62.6
Allowance, No Chores	21.1	15.8	13.2	50.0

¹ Percents may total more than 100 percent with multiple responses possible.

Question 2. Which of the following is true about sales taxes?

- a) The federal government will deduct it from your paycheck.
- b) It makes things more expensive for you to buy.
- c) You don't have to pay the tax if your income is very low.
- d) The national sales tax percentage rate is 6 percent.

The correct answer is b). Sales taxes make things more expensive for you to buy since you have to pay the sales tax in addition to the price of many things that you buy. Answer a) is not correct since the federal government will not deduct it from a paycheck. Answer c) is not correct since the merchant has no way of knowing what a customer's income is when he or she buys something, and answer d) is incorrect since there is no national sales tax on most good that we buy, although there may be a federal "excise tax," which is similar to a sales tax, on things like alcohol, tobacco and some luxury goods.

Table 3-7 shows that a total of 48.8 percent of students answered this question correctly, a dramatic drop from the 71.7 percent who answered it correctly in 1997. More than 21 percent felt that sales tax is deducted from paychecks, and an amazing 26.2 percent said that the national sales tax rate is 6 percent.

Males did much better than females on this question. Only 35 percent of Hispanic Americans answered this correctly. Students with an entire course in economics did better than other students who had taken coursework related to personal finances. Finally, those who received an allowance without having to do chores for it did better on this question than any other group of students.

Table 3-7
Analysis of Question 2
Sales Taxes

	(a) Deducted <u>From Paycheck</u>	(b)* Make Purchases <u>More Expensive</u>	(c) Don't Pay if <u>Income is Low</u>	(d) National Rate is 6% ¹
All Students 2000	21.9%	48.8%	2.8%	26.2%
<i>All Students 1997</i>	8.7%	71.7%	3.5%	16.1%
<u>Parents' Income</u>				
Less than \$20,000	32.3	36.6	2.2	29.0
\$20,000 to \$39,999	22.8	45.6	1.9	29.7
\$40,000 to \$79,999	15.4	57.2	2.5	24.9
\$80,000 or More	14.0	60.7	5.6	19.6
Don't Know	27.4	42.0	2.5	28.0
<u>Highest Level of Parents' Education</u>				
Neither Finished H.S.	35.6	44.4	1.1	18.9
Completed H.S.	26.1	43.8	2.3	27.8
Some College	17.8	52.2	3.9	26.1
College Grad or More	14.7	54.3	2.2	28.9
Don't Know	29.3	41.5	4.9	24.4
<u>Sex</u>				
Female	25.7	43.7	1.8	28.8
Male	17.5	55.0	3.8	23.7
<u>Race</u>				
White	16.6	54.4	2.2	26.8
African American	27.6	39.7	3.4	29.3
Hispanic American	38.3	35.0	4.2	22.5
Asian American	28.3	50.0	2.2	19.6
Native American	14.3	35.7	7.1	42.9
Other	16.0	52.0	---	32.0
<u>Educational Plans</u>				
No Further Ed.	16.7	25.0	---	58.3
2-year or Jr. College	30.8	42.7	4.3	22.2
4-year College	19.8	52.0	2.2	26.0
Other Training or Ed.	24.6	43.9	3.5	28.1
Don't Know	18.4	44.7	5.3	31.6

¹ Percent rate changed from 1997 questionnaire.

Table 3-7 (continued)
Analysis of Question 2
Sales Taxes

	(a) Deducted <u>From Paycheck</u>	(b)* Make Purchases <u>More Expensive</u>	(c) Don't Pay if <u>Income is Low</u>	(d) National <u>Rate is 6%¹</u>
<u>Planned Occupation</u>				
Manual Work	17.9	57.1	---	25.0
Skilled Trade	28.2	43.6	2.6	25.6
Service Worker	23.9	43.7	4.2	28.2
Professional Worker	21.8	50.1	2.9	25.2
Other or Don't Know	19.3	48.9	1.5	30.4
<u>Expected Full-Time Income</u>				
Under \$15,000	30.8	53.8	---	15.4
\$15,000 to \$19,999	33.3	40.7	7.4	18.5
\$20,000 to \$29,999	20.9	48.1	1.3	29.7
\$30,000 or More	19.2	51.6	3.2	25.9
Don't Know	23.4	45.9	.9	29.7
<u>Classes in H.S.¹</u>				
Entire Course, Money				
Mgt./Personal Fin.	22.5	49.0	2.0	26.5
Portion of Course, Money				
Mgt./Personal Fin.	17.4	48.4	1.2	32.9
Entire Course, Econ.	21.5	51.2	2.4	24.8
Portion Course, Econ.	24.2	47.3	2.4	26.1
Stock Mkt. Game	22.0	52.5	2.8	22.6
<u>Discuss Money Matters</u>				
<u>with Parents</u>				
Never	22.4	40.8	12.2	24.5
Rarely	23.5	53.0	1.5	22.0
Sometimes	18.3	51.4	2.1	28.2
Often	25.7	44.6	2.4	27.3
<u>Allowance</u>				
Money as Needed	22.8	48.7	1.6	27.0
Allowance for Chores	23.8	43.8	3.5	28.9
Allowance, No Chores	13.2	67.1	5.3	14.5

¹ Percent rate changed from 1997 questionnaire.

¹ Percents may total more than 100 percent with multiple responses possible.

CHAPTER 4

UNDERSTANDING MONEY MANAGEMENT

Introduction

The Jump\$tart Coalition's *Personal Finance Guidelines for Money Management* tell us that students who have learned from a curriculum that follows these guidelines will be able to:

1. identify the opportunity cost of a financial decision as applied to income, spending and saving
2. establish and evaluate short- and long-term financial goals and plans regarding income, spending and saving
3. develop, analyze and revise a budget
4. explain relationships among taxes, income, spending and investing
5. develop a risk management plan including life, automobile, property, health and income protection/disability insurance

The four questions from the *Personal Financial Survey* in the area of money management focused on items 2 and 5, above. Other questions in the survey, which are covered in other chapters, touch on opportunity cost, budgeting and taxes (items 1, 3 and 4).

Financial Goals and Plans

Question 25. Retirement income paid by a company is called:

- a) Social Security
- b) rents and profits
- c) 401k
- d) pension

The correct answer is d). Retirement income received from a company is called a pension. Social Security is retirement income received from the federal government, and a 401k is a retirement plan funded by contributions from employees (sometimes matched by employers), which is put into an account at a bank or investment company and which is owned by the employee, who can move it from one employer to another. Rents and profits may be received by retired persons but may also be received by persons who are still working.

Overall, only 46 percent of students answered this question correctly, down from 63.8 percent in 1997 (Table 4-1). Of those who answered the question incorrectly, 18.9 percent answered "401k," which would be far more accurate than Social Security since it is also retirement income related to companies.

Some of the confusion over this question may arise because retirement income other than Social Security is received by a relatively small proportion of all retirees. It may also arise because Social Security is funded by payments by the employee and the employer and is collected by the employer.

Of all groupings and backgrounds, only Asian American students answered the question correctly with a score above 60 percent (64.6 percent). Sadly, just 16.7 percent of students who planned no further education, and who probably will be faced with making a pension-related decision most quickly, knew the correct answer to this question.

Table 4-1
Analysis of Question 25
Name for Retirement Income from a Company

	(a) Social <u>Security</u>	(b) Rents & <u>Profits</u>	(c) <u>401k</u>	(d)* <u>Pension</u>
All Students 2000	30.3	4.4	18.9	46.0
<i>All Students 1997</i>	<i>28.9</i>	<i>0.8</i>	<i>6.5</i>	<i>63.8</i>
<u>Parents' Income</u>				
Less than \$20,000	40.4	6.4	8.5	44.7
\$20,000 to \$39,999	28.5	3.8	19.6	48.1
\$40,000 to \$79,999	25.7	4.0	26.2	44.1
\$80,000 or More	27.4	2.8	17.0	52.8
Don't Know	33.8	5.7	15.9	44.6
<u>Highest Level of Parents' Education</u>				
Neither Finished H.S.	35.9	8.7	9.8	45.7
Completed H.S.	36.0	5.1	21.7	37.1
Some College	26.7	5.0	20.0	48.3
College Grad or More	27.3	2.6	19.5	50.6
Don't Know	26.8	---	22.0	51.2
<u>Sex</u>				
Female	33.9	4.9	15.6	45.6
Male	26.1	3.9	22.8	47.2
<u>Race</u>				
White	27.7	4.0	22.2	46.1
African American	29.8	3.5	17.5	49.1
Hispanic American	46.7	6.7	10.0	36.7
Asian American	22.9	---	12.5	64.6
Native American	28.6	7.1	35.7	28.6
Other	16.0	12.0	16.0	56.0
<u>Educational Plans</u>				
No Further Ed.	58.3	8.3	16.7	16.7
2-year or Jr. College	31.4	---	18.6	50.0
4-year College	27.6	4.0	18.8	49.6
Other Training or Ed.	39.7	15.5	17.2	27.6
Don't Know	37.8	5.4	27.0	29.7

Table 4-1 (continued)
Analysis of Question 25
Name for Retirement Income from a Company

	(a) Social <u>Security</u>	(b) Rents & <u>Profits</u>	(c) <u>401k</u>	(d)* <u>Pension</u>
<u>Planned Occupation</u>				
Manual Work	32.1	10.7	17.9	39.3
Skilled Trade	30.8	7.7	17.9	43.6
Service Worker	35.2	7.0	18.3	39.4
Professional Worker	29.4	3.6	19.6	47.4
Other or Don't Know	28.9	3.7	18.5	48.9
<u>Expected Full-Time Income</u>				
Under \$15,000	23.1	11.5	23.1	42.3
\$15,000 to \$19,999	46.3	9.3	11.1	33.3
\$20,000 to \$29,999	30.4	1.9	16.5	51.3
\$30,000 or More	27.8	4.1	20.8	47.3
Don't Know	32.4	5.4	19.8	42.3
<u>Classes in H.S.¹</u>				
Entire Course, Money				
Mgt./Personal Finance	26.5	9.8	20.6	43.1
Portion of Course, Money				
Mgt./Personal Finance	22.2	6.8	18.5	52.5
Entire Course, Economics				
Portion Course, Economics	28.5	4.9	20.3	46.3
Stock Mkt. Game in Class				
	31.5	3.0	14.5	50.9
	27.8	2.8	13.6	55.7
<u>Discuss Money Matters</u>				
<u>with Parents</u>				
Never	49.0	4.1	20.4	26.5
Rarely	26.5	6.8	14.4	52.3
Sometimes	33.0	3.2	19.5	44.3
Often	26.3	4.8	20.3	48.6
<u>Allowance</u>				
Money as Needed	31.7	4.5	16.9	47.0
Allowance for Chores	29.3	3.1	19.5	48.0
Allowance, No Chores	28.0	9.3	28.0	34.7

¹ Percents may total more than 100 percent with multiple responses possible.

Question 22. Inflation can cause difficulty in many ways. Which group would have the greatest problem during periods of high inflation?

- a) young couples with no children who both work
- b) young working couples with children
- c) older, working couples saving for retirement
- d) older people living on fixed retirement income

The correct answer is d) "older people living on fixed retirement income." People who work generally find that their incomes will be increased during periods of inflation to keep up with increases in prices. Therefore, those hurt most by inflation are people who live on fixed incomes, which do not increase to help them buy things that keep getting more expensive.

What exactly is a "fixed" retirement income? Technically, it is income that stays the same in terms of dollars paid regardless of inflation.

This is a fairly sophisticated question, so it is not surprising that 60 percent got it wrong. For many young people, inflation is a "theoretical concept" with which they have had little direct experience. The downside of not understanding this question is that they will soon be joining the workforce and will be asked to make a choice between retirement investments that yield a fixed income and those that are more likely to keep up with inflation. With the decreasing ability of Social Security to pay for retirement needs in the future, more and more of our youngsters will be dependent upon making wise investments of their 401k savings to provide for a comfortable retirement. Also, even though inflation has been relatively low in recent years, it could easily become a problem again in the future. Finally, even a low rate of inflation of, say, 3 percent will cause prices to double every 24 years. As retirees live longer, they become more vulnerable to even small rates of inflation.

Table 4-2 shows that students with higher incomes and Whites did substantially better on this question than did others. However, in no subgroup except for the highest income (over \$80,000) did at least 50 percent of students answer this question correctly. Students who studied economics did do slightly better at this question than those who studied personal finance, but not nearly as well as those who played the Stock Market Game.

Table 4-2
Analysis of Question 22
Group with Greatest Inflation Problem

	(a) Young, Working <u>No Children</u>	(b) Young, Working <u>with Children</u>	(c) Older, <u>Working</u>	(d)* Older, <u>Retired</u>
All Students 2000	11.2%	37.7%	11.7%	38.6%
<i>All Students 1997</i>	<i>5.4%</i>	<i>46.0%</i>	<i>8.3%</i>	<i>40.2%</i>
<u>Parents' Income</u>				
Less than \$20,000	14.0	44.1	12.9	29.0
\$20,000 to \$39,999	12.7	37.6	14.0	35.7
\$40,000 to \$79,999	6.5	35.0	11.0	47.5
\$80,000 or More	6.5	34.6	7.5	51.4
Don't Know	17.3	40.4	12.2	30.1
<u>Highest Level of Parents' Education</u>				
Neither Finished H.S.	16.5	41.8	14.3	27.5
Completed H.S.	14.2	35.2	14.8	35.8
Some College	9.6	38.2	9.0	43.3
College Grad or More	6.1	37.4	10.9	45.7
Don't Know	22.0	41.5	12.2	24.4
<u>Sex</u>				
Female	12.0	41.9	10.9	35.2
Male	10.5	33.0	12.9	43.5
<u>Race</u>				
White	8.7	36.0	12.0	43.3
African American	15.5	32.8	12.1	39.7
Hispanic American	18.6	38.1	15.3	28.0
Asian American	10.4	60.4	4.2	25.0
Native American	15.4	30.8	30.8	23.1
Other	12.0	40.0	---	48.0
<u>Educational Plans</u>				
No Further Ed.	16.7	41.7	25.0	16.7
2-year or Jr. College	14.5	40.2	17.9	27.4
4-year College	8.5	38.2	10.0	43.3
Other Training or Ed.	15.5	37.9	10.3	36.2
Don't Know	28.9	23.7	15.8	31.6

Table 4-2 (continued)
Analysis of Question 22
Group with Greatest Inflation Problem

	(a) Young, Working <u>No Children</u>	(b) Young, Working <u>with Children</u>	(c) Older, <u>Working</u>	(d)* Older, <u>Retired</u>
<u>Planned Occupation</u>				
Manual Work	21.4	25.0	17.9	35.7
Skilled Trade	2.6	51.3	5.1	41.0
Service Worker	16.9	35.2	15.5	32.4
Professional Worker	9.7	38.8	12.4	39.1
Other or Don't Know	12.7	35.1	9.0	43.3
<u>Expected Full-Time Income</u>				
Under \$15,000	24.0	56.0	16.0	4.0
\$15,000 to \$19,999	15.1	47.2	11.3	26.4
\$20,000 to \$29,999	11.6	33.5	14.2	40.6
\$30,000 or More	9.2	36.4	11.9	42.6
Don't Know	12.5	40.2	8.0	39.3
<u>Classes in H.S.¹</u>				
<u>Entire Course, Money</u>				
Mgt./Personal Finance	12.9	35.6	14.9	36.6
<u>Portion of Course, Money</u>				
Mgt./Personal Finance	9.9	37.7	14.2	38.3
<u>Entire Course, Economics</u>				
Portion Course, Economics	11.1	35.7	13.1	40.2
<u>Stock Mkt. Game in Class</u>				
	9.1	40.2	9.8	40.9
	12.0	31.4	6.9	49.7
<u>Discuss Money Matters</u>				
<u>with Parents</u>				
Never	16.3	26.5	16.3	40.8
Rarely	13.1	39.2	10.8	36.9
Sometimes	10.2	37.1	11.0	41.7
Often	10.8	40.6	12.4	36.1
<u>Allowance</u>				
Money as Needed	10.9	39.9	11.7	37.5
Allowance for Chores	10.6	37.3	12.5	39.6
Allowance, No Chores	17.1	30.3	10.5	42.1

¹ Percents may total more than 100 percent with multiple responses possible.

Understanding Insurance

Question 30. If each of the following persons had the same amount of take-home pay, who would need the greatest amount of life insurance?

- a) a young, single woman without children
- b) an elderly retired man, with a wife who is also retired
- c) a young married man without children
- d) a young single woman with two young children

The correct answer is d) "a young single woman with two young children." The primary purpose of life insurance is to provide income for those who are dependent upon a breadwinner. The younger the dependent, the greater the total amount of money needed to provide for that dependent until he or she is old enough to provide for him or herself. Therefore, a young single parent tends to have the greatest need for life insurance because he or she is the sole source of money needed by young children for a long time.

A young, single woman without children (a) may have no need for life insurance whatsoever unless she is supporting a parent or other relative who is dependent upon her income. An elderly retired man with a retired wife (b) may need some life insurance to enable his wife to maintain her standard of living if he dies. However, older people have shorter life expectancies than younger people and will generally require less insurance money since they will likely be dependent for less time. A young married man without children (c) is unlikely to have dependents.

Table 4-3 reveals that answers were largely split between the young, single woman with two young children (50.6 percent) and the elderly retired man with a retired wife (33.9 percent). Females did much better on this question than did males, perhaps because of gender bias that causes males to think of themselves as the primary breadwinner and in greatest need of insurance. Other than that, no clear pattern of responses emerged.

Table 4-3
Analysis of Question 30
Greatest Need for Life Insurance

	(a) Young Single Woman, <u>No Children</u>	(b) Elderly, Ret. <u>Man, Ret. Wife</u>	(c) Young Married Man, <u>No Children</u>	(d) Young Single Woman, <u>Two Children</u>
All Students 2000	7.6%	33.9%	7.2%	50.6%
<i>All Students 1997</i>	4.2%	33.3%	4.5%	58.0%
<u>Parents' Income</u>				
Less than \$20,000	11.7	33.0	5.3	50.0
\$20,000 to \$39,999	4.4	37.7	10.1	47.8
\$40,000 to \$79,999	6.0	30.5	5.5	58.0
\$80,000 or More	7.5	37.4	8.4	46.7
Don't Know	10.3	32.9	7.1	49.7
<u>Highest Level of Parents' Education</u>				
Neither Finished H.S.	12.1	33.0	6.6	48.4
Completed H.S.	7.5	35.3	7.5	49.7
Some College	6.1	29.4	7.8	56.7
College Grad or More	6.9	36.2	7.3	49.6
Don't Know	9.8	36.6	4.9	48.8
<u>Sex</u>				
Female	8.3	30.5	6.5	54.7
Male	6.9	38.5	8.1	46.6
<u>Race</u>				
White	6.4	33.0	6.4	54.1
African American	7.0	35.1	8.8	49.1
Hispanic American	13.3	33.3	9.2	44.2
Asian American	4.2	41.7	4.2	50.0
Native American	15.4	53.8	7.7	23.1
Other	4.2	33.3	12.5	50.0
<u>Educational Plans</u>				
No Further Ed.	25.0	41.7	---	33.3
2-year or Jr. College	7.7	39.3	8.5	44.4
4-year College	6.5	33.2	6.1	54.3
Other Training or Ed.	12.1	36.2	10.3	41.4
Don't Know	10.5	26.3	15.8	47.4

Table 4-3 (continued)
Analysis of Question 30
Greatest Need for Life Insurance

	(a) Young Single Woman, No Children	(b) Elderly, Ret. Man, Ret. Wife	(c) Young Married Man, No Children	(d) Young Single Woman, Two Children
<u>Planned Occupation</u>				
Manual Work	14.8	40.7	11.1	33.3
Skilled Trade	12.5	35.0	10.0	42.5
Service Worker	14.1	32.4	11.3	42.3
Professional Worker	6.1	32.9	6.3	54.7
Other or Don't Know	6.7	36.6	6.0	50.7
<u>Expected Full-Time Income</u>				
Under \$15,000	16.7	41.7	8.3	33.3
\$15,000 to \$19,999	13.0	27.8	13.0	46.3
\$20,000 to \$29,999	5.7	40.5	4.4	49.4
\$30,000 or More	7.3	31.4	7.8	53.5
Don't Know	7.2	34.2	6.3	52.3
<u>Classes in H.S.¹</u>				
Entire Course, Money				
Mgt./Personal Finance	8.9	36.6	7.9	46.5
Portion of Course, Money				
Mgt./Personal Finance	4.9	37.0	11.1	46.9
Entire Course, Economics				
Portion Course, Economics	7.4	32.8	10.2	49.6
Stock Mkt. Game in Class	7.9	34.8	6.7	50.6
	6.8	31.1	4.0	58.2
<u>Discuss Money Matters</u>				
<u>with Parents</u>				
Never	16.7	33.3	8.3	41.7
Rarely	6.1	34.1	6.1	53.8
Sometimes	7.5	38.8	8.2	45.6
Often	6.8	29.5	6.8	57.0
<u>Allowance</u>				
Money as Needed	7.7	34.1	8.5	49.7
Allowance for Chores	7.1	32.5	6.3	54.1
Allowance, No Chores	9.3	41.3	5.3	44.0

¹ Percents may total more than 100 percent with multiple responses possible.

Question 7. If you have caused an accident, which type of automobile insurance would cover damage to your own car?

- a) collision
- b) comprehensive
- c) term
- d) liability

The correct answer is a) "collision insurance." Liability insurance covers you for damages that you have caused to others, while comprehensive insurance covers things such as fire and theft of your car. Term insurance relates to life insurance, not automobile insurance.

Overall, only about half of all students correctly identified collision insurance as the type that covers damage to the driver's own car. When a different version of the question was asked in 1997, the correct answer was liability insurance and two-thirds of the students answered it correctly.

Table 4-4 shows that differences in responses by demographic category were not very pronounced. The second most frequent response, given by 33.2 percent, was that liability insurance covered damage to the driver's car, while 12.2 percent responded that comprehensive insurance was the correct answer. Only 3.3 percent of all students answered "term insurance," indicating that students could at least differentiate automobile insurance from other types of insurance.

Males were more likely to answer this question correctly than females, perhaps because of their statistically higher incidence of automobile mishaps. Students of personal finance did better than students who had studied other subjects and even better than those who played the Stock Market Game.

The last section of Table 4-4 shows that, in this instance, at least, experience with automobile insurance does enable students to better differentiate between the various types and purposes. Those who paid for their own insurance did better on this question than those who did not and better yet than those who did not drive.

Table 4-4
Analysis of Question 7
Auto Insurance Covering Damage to Your Car

	(a)* <u>Collision</u>	(b) <u>Comprehensive</u>	(c) <u>Term</u>	(d) <u>Liability</u>
All Students 2000	51.2%	12.0%	3.3%	33.2%
All Students 1997	20.7%	10.2%	2.5%	66.7%
<u>Parents' Income</u>				
Less than \$20,000	52.1	10.6	3.2	34.0
\$20,000 to \$39,999	49.1	13.2	3.8	34.0
\$40,000 to \$79,999	57.4	10.9	3.5	28.2
\$80,000 or More	49.5	12.1	1.9	36.4
Don't Know	45.2	12.9	3.9	38.1
<u>Highest Level of Parents' Education</u>				
Neither Finished H.S.	49.5	9.9	3.3	37.4
Completed H.S.	52.8	12.5	2.3	32.4
Some College	53.9	13.9	4.4	27.8
College Grad or More	50.4	10.8	3.4	35.3
Don't Know	41.5	14.6	2.4	41.5
<u>Sex</u>				
Female	47.9	10.4	3.1	38.5
Male	54.9	13.9	3.6	27.6
<u>Race</u>				
White	55.2	12.2	2.7	29.9
African American	43.1	6.9	10.3	39.7
Hispanic American	49.2	13.3	2.5	35.0
Asian America	35.4	14.6	2.1	47.9
Native American	57.1	7.1	---	35.7
Other	32.0	16.0	8.0	44.0
<u>Educational Plans</u>				
No Further Ed.	41.7	25.0	---	33.3
2-year or Jr. College	41.9	15.4	2.6	40.2
4-year College	53.1	11.5	3.2	32.2
Other Training or Ed.	54.4	8.8	3.5	33.3
Don't Know	52.6	10.5	7.9	28.9

Table 4-4 (continued)
Analysis of Question 7
Auto Insurance Covering Damage to Your Car

	(a)* <u>Collision</u>	(b) <u>Comprehensive</u>	(c) <u>Term</u>	(d) <u>Liability</u>
<u>Planned Occupation</u>				
Manual Work	57.1	21.4	---	21.4
Skilled Trade	52.5	17.5	2.5	27.5
Service Worker	42.3	16.9	5.6	35.2
Professional Worker	53.4	9.6	3.6	33.4
Other or Don't Know	48.5	13.4	1.5	36.6
<u>Expected Full-Time Income</u>				
Under \$15,000	34.6	15.4	3.8	46.2
\$15,000 to \$19,999	48.1	18.5	3.7	29.6
\$20,000 to \$29,999	52.5	12.0	1.9	33.5
\$30,000 or More	53.1	11.6	4.0	31.3
Don't Know	48.6	9.9	2.7	38.7
<u>Classes in H.S.¹</u>				
<u>Entire Course, Money</u>				
Mgt./Personal Finance	52.9	11.8	2.9	32.4
<u>Portion of Course, Money</u>				
Mgt./Personal Finance	55.3	12.4	1.9	30.4
<u>Entire Course, Economics</u>				
Portion Course, Economics	52.7	13.1	2.9	31.4
<u>Stock Mkt. Game in Class</u>				
Stock Mkt. Game in Class	52.7	15.2	4.8	27.3
Stock Mkt. Game in Class	47.2	11.8	3.9	37.1
<u>Discuss Money Matters</u>				
<u>with Parents</u>				
Never	38.8	16.3	8.2	36.7
Rarely	52.3	15.9	1.5	30.3
Sometimes	52.7	9.9	3.5	33.9
Often	52.2	11.6	2.8	33.5
<u>Allowance</u>				
Money as Needed	52.9	12.1	2.6	32.4
Allowance for Chores	52.3	10.5	3.1	34.0
Allowance, No Chores	42.7	16.0	6.7	34.7

¹ Percents may total more than 100 percent with multiple responses possible.

Table 4-4 (continued)
Analysis of Question 7
Auto Insurance Covering Injuries to Others

	(a)* <u>Collision</u>	(b) <u>Comprehensive</u>	(c) <u>Term</u>	(d) <u>Liability</u>
<u>Auto Use</u>				
No License	43.0	10.6	4.2	42.3
License, No Car	44.0	12.0	---	44.0
Family Car, Help				
Pay Insurance	58.5	7.5	5.7	28.3
Family Car, Don't Help				
Pay Insurance	46.2	11.3	3.8	38.7
Own Car, Pay Insurance	55.9	15.8	2.7	25.7
Own Car, Don't Help				
Pay Insurance	54.3	10.4	2.9	32.4