Session 32

Findings in Financial Literacy

Suzanne Bartholomae, Elizabeth Coogan, and Andrea Hasler | Nov.-Dec. 2017
U.S. Department of Education
2017 Federal Student Aid Conference
Presenters

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U.S. Department of Education

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Global Financial Literacy Excellence Center (GFLEC)

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Assistant Professor and Extension State Specialist
Iowa State University
Session Overview

- Surveys
- Resources
- Collaboration
- Research
SURVEYS
Knowledge Before Taking Out Student Loans

Thinking back to the time before you took out any loans to fund your education, how would you characterize your degree of knowledge and understanding about student loan/Federal Student Aid issues?

Source - Customer Survey 2016 Borrowers In Default Presentation

- Delinquency (2016):
  - None: 26%
  - Very little: 45%
  - Average: 25%
  - Above-average: 1%
  - Expert: 3%

- Default (2016):
  - None: 33%
  - Very little: 41%
  - Average: 23%
  - Above-average: 3%
  - Expert: 3%

- In School (2016):
  - None: 17%
  - Very little: 36%
  - Average: 34%
  - Above-average: 11%
  - Expert: 2%
Customers Borrowed More Than Expected

When you first enrolled in school, you may have had an idea of how much you expected to borrow in student loans. Now that you are finished, did you end up borrowing more or less than you initially anticipated?

<table>
<thead>
<tr>
<th>Borrowed More/Less/Same than Expected</th>
<th>A Lot More</th>
<th>More</th>
<th>About What Expected</th>
<th>Less</th>
<th>A Lot Less</th>
<th>Not Sure</th>
<th>Don't Know</th>
</tr>
</thead>
<tbody>
<tr>
<td>Default (2016)</td>
<td>46%</td>
<td>21%</td>
<td>10%</td>
<td>3%</td>
<td>2%</td>
<td>9%</td>
<td>9%</td>
</tr>
<tr>
<td>Delinquency (2016)</td>
<td>46%</td>
<td>21%</td>
<td>10%</td>
<td>4%</td>
<td>2%</td>
<td>7%</td>
<td>10%</td>
</tr>
</tbody>
</table>

Source - Customer Survey 2016 Borrowers In Default Presentation
Customers Would Make a Change

If you could go through the process of financing your education all over again, would you take the same actions or make a change?

<table>
<thead>
<tr>
<th></th>
<th>Take Same Actions</th>
<th>Make a Change</th>
<th>Don't Know</th>
</tr>
</thead>
<tbody>
<tr>
<td>Default (2016)</td>
<td>4%</td>
<td>86%</td>
<td>10%</td>
</tr>
<tr>
<td>Delinquency (2016)</td>
<td>7%</td>
<td>81%</td>
<td>12%</td>
</tr>
<tr>
<td>In Grace (2015)</td>
<td>36%</td>
<td>36%</td>
<td>28%</td>
</tr>
</tbody>
</table>

Source - Customer Survey 2016 Borrowers In Default Presentation
NPSAS and Financial Literacy

• The National Postsecondary Student Aid Study (NPSAS) examines how students finance postsecondary education
• Data collected through student interviews, institutional student records, other administrative records
• Conducted every 3-4 years since 1986-87
  • most recent during the 2015-16 academic year
• Website: https://nces.ed.gov/surveys/npsas/
NPSAS Financial Literacy Questions

• Students’ understanding of broad financial concepts

• Compounding interest savings

• Diversification when investing

• Federal student loan repayment
Financial Aid Toolkit

FinancialAidToolkit.ed.gov consolidates FSA resources into a searchable online database for organizations and individuals who interact with, support, or counsel students and families on making financial preparations for postsecondary education.
The Financial Awareness Counseling Tool (FACT) is on studentloans.gov
No student wants to interrupt his or her education because of financial problems. This checklist provides useful money management tips.

Financial Literacy Guidance

COLLABORATION
Opportunities to Improve the Financial Capability and Financial Well-being of Postsecondary Students

Submitted by The U.S. Financial Literacy and Education Commission 2015
The Higher Education Financial Wellness organization unites educators with a passion for student financial wellness and connects those who value the significance in students’ understanding of how to manage their personal finances. [http://www.hefwa.org/](http://www.hefwa.org/)
Collaboration at FSA
Andrea Hasler

• Assistant Research Professor in Financial Literacy
• PhD in Finance, MSc and BA in Business and Economics from the University of Basel

• Dissertation: Households’ financial decisions and retirement planning
• Visiting scholar at NYU Stern

• Lecturer at University of Basel
• Previous research analyst providing global equity market research
About GFLEC

- Founded in 2011 at The George Washington University School of Business by Prof. Annamaria Lusardi

- GFLEC is one of the leading research centers in financial literacy globally. Through our research and expertise, we seek to inform policy as well as develop and promote financial literacy programs around the world

- We focus on groundbreaking research to advance knowledge in the area of financial literacy, with particular emphasis on financial education in schools, in the workplace, and in the community

- We seek to make research findings more accessible to policymakers and practitioners in order to help shape the national and international dialogue around financial literacy

- We work with partners in Washington, D.C., throughout the United States, and across the globe
Overview of our education programs and initiatives

Besides research, GFLEC develops personal finance education material for schools and the workplace, and builds initiatives to advance financial literacy.

- Financial Literacy Micro-Credentials
- Personal Finance Course
- Financial Literacy Fast Lane Toolkit
- Financial Literacy Curriculum for Girl Rising
- International Federation of Finance Museums (IFFM)
- Workplace financial wellness programs
Financial Literacy

The Big Three Questions and Definition
“Financial literacy is the knowledge and understanding of financial concepts and risks, and the skills, motivation and confidence to apply such knowledge and understanding in order to make effective decisions across a range of financial contexts, to improve the financial well-being of individuals and society, and to enable participation in economic life.”
A simple measure of financial literacy

The Big Three

1. “Suppose you had $100 in a savings account and the interest rate was 2% per year. After 5 years, how much do you think you would have in the account if you left the money to grow?”

2. “Imagine that the interest rate on your savings account was 1% per year and inflation was 2% per year. After 1 year, with the money in this account, would you be able to buy...”

3. “Do you think the following statement is true or false? Buying a single company stock usually provides a safer return than a stock mutual fund.”
Current Research Findings
Financial Literacy among Millennials in the US
Overview of Millennials

- 70 to 80 million individuals born between the late 1970s and mid-1990s
- This analysis is focused on 23 – 35 year old individuals
- Most diverse generation
  - Minorities are broadly represented (38%)
  - 11% of all Millennials have at least one immigrant parent
- Millennials are highly educated
  - 44% have at least a bachelor’s degree
- Will soon make up the largest share of the labor market
  - By 2025, 3 out of 4 workers globally will be Millennials
- Financially, they have faced the Great Recession early in their lives and careers, and struggled with large increases in the cost of education
Financial literacy across age

Financial knowledge increases very slowly with age/cohort
Less than 1/3 know the 3 basic concepts by age 40 even though most important decisions are made well before that age

Source: 2015 NFCS
Financial literacy among Millennials

Answers to 5 financial literacy questions

<table>
<thead>
<tr>
<th>Question</th>
<th>Correct</th>
<th>Don’t Know</th>
</tr>
</thead>
<tbody>
<tr>
<td>Numeracy</td>
<td>72%</td>
<td>13%</td>
</tr>
<tr>
<td>Inflation</td>
<td>44%</td>
<td>25%</td>
</tr>
<tr>
<td>Risk Diversification</td>
<td>38%</td>
<td>47%</td>
</tr>
<tr>
<td>Mortgage</td>
<td>72%</td>
<td>19%</td>
</tr>
<tr>
<td>Bond Prices</td>
<td>41%</td>
<td>21%</td>
</tr>
</tbody>
</table>

Only 23% answered the Big 3 questions correctly (numeracy, inflation, and risk diversification)

Source: 2015 NFCS
Perceived vs. actual financial knowledge

Perceived Financial Knowledge

<table>
<thead>
<tr>
<th>1-very low</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>7-very high</th>
</tr>
</thead>
<tbody>
<tr>
<td>1%</td>
<td>1%</td>
<td>5%</td>
<td>15%</td>
<td>36%</td>
<td>74%</td>
</tr>
</tbody>
</table>

Actual Financial Knowledge

- Answered the first three correctly: 23%
- Answered 5 question correctly: 7%

How would you assess your overall financial knowledge?

Answers to 5 financial literacy questions

Source: 2015 NFCS
Financial fragility among Millennials

36% are financially fragile

- 20% I am certain I could not come up with $2,000
- 16% I could probably not come up with $2,000
- 3% Don’t Know

How confident are you that you could come up with $2,000 if an unexpected need arose within the next month?

- 33% I am certain I could come up with $2,000
- 28% I could probably come up with $2,000

Source: 2015 NFCS
Perceived over-indebtedness

How strongly do you agree or disagree with the following statement? "I have too much debt right now."

- Disagree 1-3: 34%
- Neutral 4: 14%
- Agree 5-7: 51%

Source: 2015 NFCS

51% of Millennials feel they have too much debt

Only 1 in 5 are satisfied with their financial condition

Perceived over-indebtedness is highest among those with short-term debt
Concerns for student debt repayment

Almost half of all Millennials have a student loan.
Among those, almost half are concerned about repayment.

48%

% of Millennials with a student loan and concerned about repayment

Source: 2015 NFCS
The majority of those with student loans would make a change in their decision. 30% would take the same action, 13% don't know, and 57% would make a change. Source: 2015 NFCS

If you could go through the process of taking out loans to pay for your education all over again, would you take the same actions or make a change?
Programs and Initiatives
at GFLEC and The George Washington University
Principles of effective financial education programs

• Tailored to audience
  • One size does not fit all
  • Need for more targeted programs, particularly for vulnerable groups

• Teacher training
  • Start in school, widespread financial illiteracy requires robust interventions

• Standalone and mandatory courses
  • Need of large and scalable programs
  • Rigorous personal finance curricula
Micro-Credentials for high school teachers

- A pilot program to train high school educators teaching financial education
- Program in collaboration with Digital Promise
- Goal: enable educators to strengthen their pedagogy and better use personal finance professional development resources
Personal finance course

• GFLEC designed the curriculum joint with a mathematician
• Using a rigorous quantitative approach
• Integrating interest rates, consumer borrowing, saving and investing, retirement planning, personal taxes, mortgage borrowing, etc.
• Paying attention to gender differences in financial literacy
• Material available for free on our website
Financial literacy fast lane toolkit

• Online toolkit
• Launch: August 2018
• Sponsored by PwC USA
• Goal: Reshaping the implementation of financial literacy in high schools
• Description: A national teacher and community resource center for financial education. This site will bring together the best resources available to advocate, train, and implement a successful financial education program in secondary schools.
• Users: Any decision-maker around financial education (educators, parents, school administrators, and school, district or state officials)
• Focus: Providing best resources and strategies to overcome the many barriers faced in the implementation of financial education.
GW Financial Wellness Working Group

• Cross-departmental collaboration to promote financial literacy and well-being of GW students through education, awareness, and coaching

• Coordination of efforts and resources across departments and set-up of a university-wide network

• Initiative of the Colonial Central Registrar and Student Financial Services

• List of important topics to cover:
  • Debt: Loans (student, car, mortgage, personal, etc.), credit card
  • Budgeting: How to’s, revenue vs. expenses, behavior/habits
  • Planning/Life after GW: Life skills
  • Access & Affordability: GW’s responsibility to our students, identifying support resources, online toolkit/repository of information for students and administrators
  • Benchmarking/data
Working group starting points

• Status Quo
  • Strengths/weaknesses of your school’s organization
  • Who are your students and what is important to them
  • How much do they know about personal finance topics (survey)

• Evaluation
  • Understanding your school’s institutional culture
  • What are the barriers and how could they be improved
  • Get insights from involved and interested institutions/departments

• Initiation of a Working Group
  • Regular meetings
  • Clear vision, mission, SMART goals
  • Well structured and organized
  • Building a network and creating measurable outcomes
  • Providing resources, creating content with best impact
Suzanne Bartholomae

- Assistant Professor and Extension State Specialist, Iowa State University
- Department of Human Development and Family Studies

- Leads community-based financial wellness interventions
- Maintains applied research program in financial well-being

- Collaborator on the Study on Collegiate Financial Wellness
- Published on the evaluation of financial education programs
Cooperative Extension and Financial Education
Financial Capability and College Student Success

A financially capable student is one who…

“uses money management techniques and savings strategies on a daily basis so that unforeseen budgetary constraints or financial emergencies do not interfere with the student’s ability to complete her education and achieve a degree of financial stability”

Source: A Resource Handbook on Building Financial Capabilities of Community College Students, Federal Reserve of Boston, 2015
Research on the Role that Financial Capability Plays in Student Success
What Influences Financial Well-Being?

Financial Capability and College Student Success

• Measures of Student Success
  • College completion vs Dropout
  • Persistence (the process that motivates individuals to leave colleges and universities before graduating)
  • Academic performance
  • Future financial stability and ability to repay student loans

• Financial challenges and emergencies are major disruptors of academic progress

• Factors influencing student success
Study on Collegiate Financial Wellness

Online Survey
- Administered Spring 2017
- Invited 271,191 students
- Responses rate 10.5%

<table>
<thead>
<tr>
<th>Institutional Type</th>
<th>Number of Institutional Respondents</th>
<th>Number of Student Respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>2-year public</td>
<td>21</td>
<td>6,234</td>
</tr>
<tr>
<td>4-year public</td>
<td>38</td>
<td>19,312</td>
</tr>
<tr>
<td>4-year private</td>
<td>6</td>
<td>2,993</td>
</tr>
<tr>
<td>Total</td>
<td>65*</td>
<td>28,539</td>
</tr>
</tbody>
</table>

*90 campuses
Financial Education and Advising Experience

**Ever Received Financial Education (% Yes)**

- **Before College**
  - Reoccuring personal finance course/workshop: 15%
  - One-time personal finance session/workshop: 23%

- **Since Enrolling in College**
  - Reoccuring personal finance course/workshop: 10%
  - One-time personal finance session/workshop: 17%

**% Ever Met with Following:**

<table>
<thead>
<tr>
<th></th>
<th>All Institutions</th>
<th>2 Year</th>
<th>4 Year Public</th>
<th>4 Year Private</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial Aid Counselor</td>
<td>43.1%</td>
<td>47.3%</td>
<td>39.4%</td>
<td>58.4%</td>
</tr>
<tr>
<td>Peer Financial Counselor</td>
<td>13.8%</td>
<td>17.8%</td>
<td>12.3%</td>
<td>15.2%</td>
</tr>
<tr>
<td>Financial Services Advisor</td>
<td>27.9%</td>
<td>26.5%</td>
<td>27.0%</td>
<td>36.1%</td>
</tr>
</tbody>
</table>
Financial Behaviors

“Frequently” Engaged in **POSITIVE** Financial Behaviors

- Tracked spending: 58%
- Planned ahead for major purchases: 59%
- Monitored account balances: 77%

“Frequently” Engaged in **NEGATIVE** Financial Behaviors

- Overdrew bank account: 3%
- Purchased things they could not afford: 2%
- Made late payments on bills or educational expenses: 4%

Source: Study on Collegiate Financial Wellness (2017)
Financial Self-Efficacy

Indicators of Financial Self-Efficacy (% Agree/Strongly Agree)

- Able to make good financial decisions: 88%
- Confident I can manage finances: 83%
- Feel in control of my finances: 72%
- Able to get information I need about finances: 72%
- Confident in my ability to plan for my financial future: 70%

Source: Study on Collegiate Financial Wellness (2017)
Financial Knowledge

Score Range: 0 to 6

% of Financial Knowledge Scores Answered Correctly

- 6; 7%
- 5; 18%
- 4; 24%
- 3; 21%
- 2; 14%
- 1; 10%
- 0; 6%

Average Financial Knowledge Scores

- 3.10 2 Year
- 3.38 4 Year Public
- 3.08 4 Year Private

Source: Study on Collegiate Financial Wellness (2017)
Knowledge of Financial Decisions

Student Loans by Type and Institution

Current Amount of Student Loan Debt (Self-Reported)

Source: Study on Collegiate Financial Wellness (2017)
Prevalence of Financial Stress

I feel stressed about my personal finances in general
(% Agree/Strongly Agree)

72% 2 Year
67% 4 Year Public
73% 4 Year Private

Source: Study on Collegiate Financial Wellness (2017)
Prevalence of Financial Stress by Institutional Type

**Indicators of Financial Stress**

(\% Agree/Strongly Agree)

- **I have enough money to participate in most of the same activities as my peers.**
  - 2 Year: 49\%
  - 4 Year Public: 72\%
  - 4 Year Private: 70\%

- **I have enough money to participate in most activities that I enjoy.**
  - 2 Year: 54\%
  - 4 Year Public: 76\%
  - 4 Year Private: 74\%

- **I worry about being able to pay my current monthly expenses.**
  - 2 Year: 56\%
  - 4 Year Public: 39\%
  - 4 Year Private: 45\%

- **I worry about having enough money to pay for school.**
  - 2 Year: 73\%
  - 4 Year Public: 59\%
  - 4 Year Private: 68\%

Source: Study on Collegiate Financial Wellness (2017)
Financial Stress Linked to Student Success

Students with high financial stress are more likely to...

- Have lower academic performance
- Doubt their ability to complete college
- Reduce their semester course load
- Stop out for a semester to work to pay for expenses
- Withdraw from school
- Increase their time to graduation
- Experience poor physical and mental health

Source: Study on Collegiate Financial Wellness (2014)
Initiatives and Resources in Iowa and Cooperative Extension
Developing Student Financial Well-being at Iowa State

- Microsystems
  - Personal Finance Classes (1 & 3 cr.)
  - Student Loan Education Office
  - Orientation

- Exosystem
  - Office of Student Financial Aid
  - Financial Counseling Clinic
  - Financial Counseling and Planning Major
  - Student Legal Services

- Macrosystem
  - Culture of Debt Resistance
  - Universal CashCourse
Developing Student Financial Well-being at Iowa State

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Cooperative Extension as a Resource

- Credibility and trustworthiness
- Evidence-informed programs (Quality of information)
- Evidence-based programs (Impact/Evaluation)
- Quality and capacity of Educators

Land Grant University Website Directory

State Contact List:
https://nifa.usda.gov/land-grant-colleges-and-universities-partner-website-directory

eXtension Webinars/YouTube Channel:
https://learn.extension.org/events/tag/mfln%20personal%20finance#.Va0k2hNViko

https://www.youtube.com/channel/UCVU_O8Cq313tXCZ5RJBMyMw
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Research Appendix

ADULT & CONTINUING EDUCATION

CAMPUS FINANCIAL LITERACY PROGRAM DEVELOPMENT

COMMUNITY COLLEGES & FINANCIAL LITERACY
EFFECTIVENESS & BEST PRACTICES


Research

EFFECTIVENESS & BEST PRACTICES


EMERGENCY AID PROGRAMS


EVALUATING FINANCIAL EDUCATION PROGRAMS


FAFSA & FINANCIAL AID


Research

FAFSA & FINANCIAL AID

FINANCIAL BEHAVIOR

FINANCIAL COACHING
FINANCIAL COACHING


FINANCIAL STRESS


GRADUATE PROGRAMS

• Council of Graduate Schools and TIAA joined forces with leading universities to conduct research on their students’ financial challenges and to develop innovative student financial education. Retrieved from: http://www.studentfinancialsuccess.org/public/ms/sfs/index.html.
NEED FOR FINANCIAL LITERACY


NEED FOR FINANCIAL LITERACY


PEER COACHING, COUNSELING, AND MENTORING


PEER COACHING, COUNSELING, AND MENTORING
• Tinto, V. (2006). *Research and Practice of Student Retention: What Next?* Retrieved from [http://csr.sagepub.com/content/8/1/1.short](http://csr.sagepub.com/content/8/1/1.short)

STUDENT LOAN COUNSELING

STUDENT LOAN DEFAULT
Research

STUDENT LOAN DEFAULT


• McMillion, R. (2004). Student Loan Default Literature Review. TG (Texas Guaranteed Student Loan Corporation).


SURVEYS


Research

UNDERSTANDING STUDENT FINANCES


WORKPLACE FINANCES
