



Next Generation of Financial Capability:

Young Adults in Higher Education





About The Author

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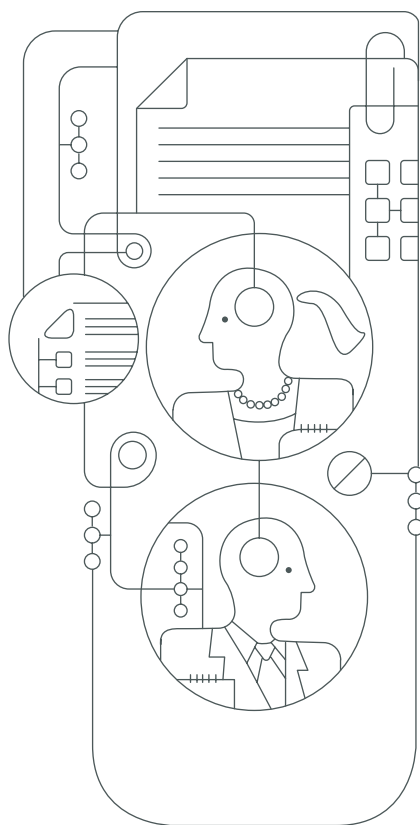


Executive Summary

For the past six years, EVERFI has been studying the financial knowledge, behaviors, and perspectives of young adults matriculating to college. This is a critical time frame because so many students are taking on increased responsibility for their own fiscal decisions through loans, credit cards, and personal finance management. Overall researchers have found that while young adults in higher education were taking on increasing responsibility for their finances, they displayed a clear lack of skills, knowledge, and confidence in their abilities to do so. Since our last report two years ago, very little has changed and our data still paints a rather uninspiring picture.

While responses showed that most students had recently taken out student loans and had experience with transactional bank accounts, many did not feel particularly confident in their financial capability. They reported experiencing high levels of stress when considering fiscal obstacles in their life and struggled with the basic financial literacy questions. A minority of students reported any memorable experience with financial education, even in states with strict mandates for this type of instruction. Researchers did not find a direct effect of personal finance education on financial knowledge scores or reported stress levels. However, direct financial experience (particularly with checking accounts) was linked to increased fiscal knowledge scores. Data also suggested a relationship between reported financial stress and feelings of confidence (or self-efficacy) in one's abilities. It seems that education is not the only factor driving what a student "knows" about their finances, it also hinges on their personal experiences and perspectives.

When researchers focused on several specific states that were well represented in the study sample, that had strong mandates for economic and personal finance education, and also had strong state-wide usage of EVERFI's financial education courses, there were some indicators of increased financial capability. While financial capability education and personal experience are key components of the development of these traits, there is more work to be done ensuring that state-level policies for fiscal training are universally mandated in the K-12 curriculum with developmentally appropriate and efficacious programs. Many young adults heading to college do not feel prepared to handle their impending financial challenges and those unprepared students are more likely to experience financial stress. EVERFI posits that this stress can be mitigated with a combination of education, personal experience, and increased confidence in their abilities.



Introduction

EVERFI's research into the financial capability of students in higher education has found that these young adults are accruing high levels of student loan and credit card debt, displaying poor understanding of financial topics, experiencing financial stress and anxiety, and becoming less proactive and responsible in their goals and plans for the future.

Young adults are of particular interest in terms of their financial capability because of the high degree of experience and development that occurs during this critical time period. Students, parents, administrators and public policymakers share considerable concerns about the deficiencies in financial knowledge and capabilities among today's young adult population (Williams & Oumlil, 2015). Individuals increasingly face financial pressures at an early age and are required to make critical fiscal decisions before gaining adequate experience or receiving any type of financial education (Lusardi, 2015).

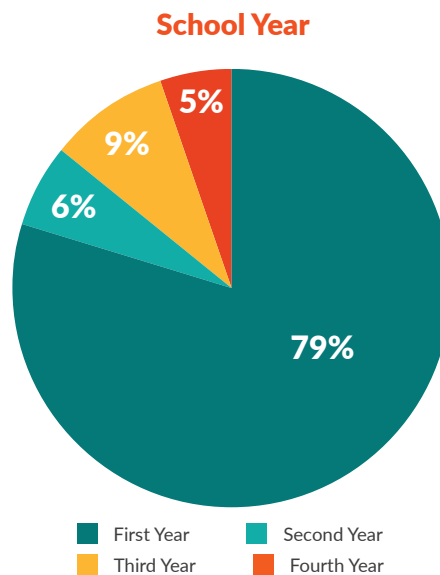
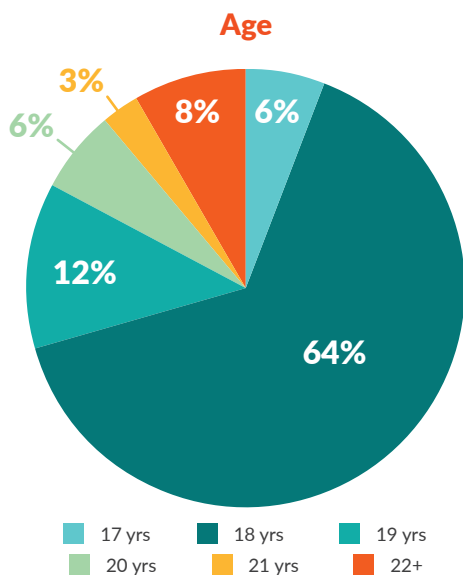
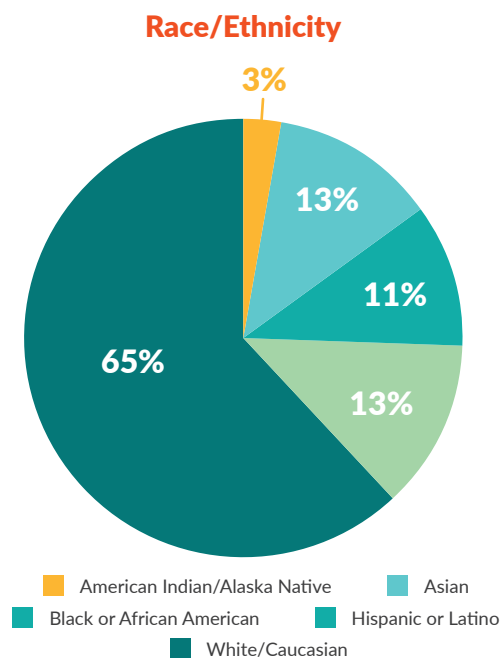
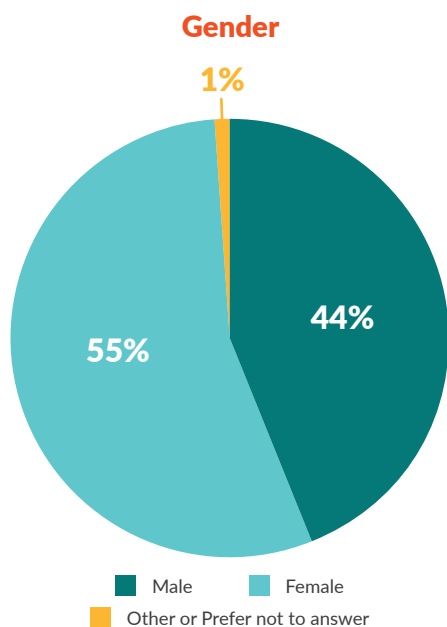
However, even adults are unprepared to make financial decisions. Research by Lusardi and colleagues (2017) found that only 48% of all American adults could correctly answer at least half of a set of financial literacy questions and 52% scored a 50 out of 100 or lower. The results were even less promising for young adults in their early 20's, and we know these individuals are saddling themselves with increasing student loan debt and often becoming overwhelmed by stress regarding the challenges of personal finance management (Britt, et al., 2017).

Institutions of higher education agree that the development of overall financial capability is a priority for the sustained engagement and success of their student body, but many agree that early efforts in this domain are in need of expansion and improvement. The economic consequences of these financial capability deficits are slowly becoming more evident, as many of today's young adults are struggling more than older generations with basic money management and overall financial skills.

This report will investigate data from students in higher education on their financial knowledge, behavior, attitudes, and distress in an attempt to paint a clear picture of the financial capability of young adults in college.

Methods & Demographics

EVERFI and researchers collected survey data from a nationally representative sample of incoming college students, totaling over 104,000 respondents from more than 410 institutions located in 44 states. The survey instrument focused on respondents' financial knowledge, experience, behaviors and perspectives. Students who were taking online education courses on personal wellness were given a chance to provide responses to survey items and response dates spanned across the fall semester of 2017. Almost all students came from 4-year colleges and universities, but about 2% (2,100 students) were from 2-year institutions and these students were generally older than the rest of the sample.



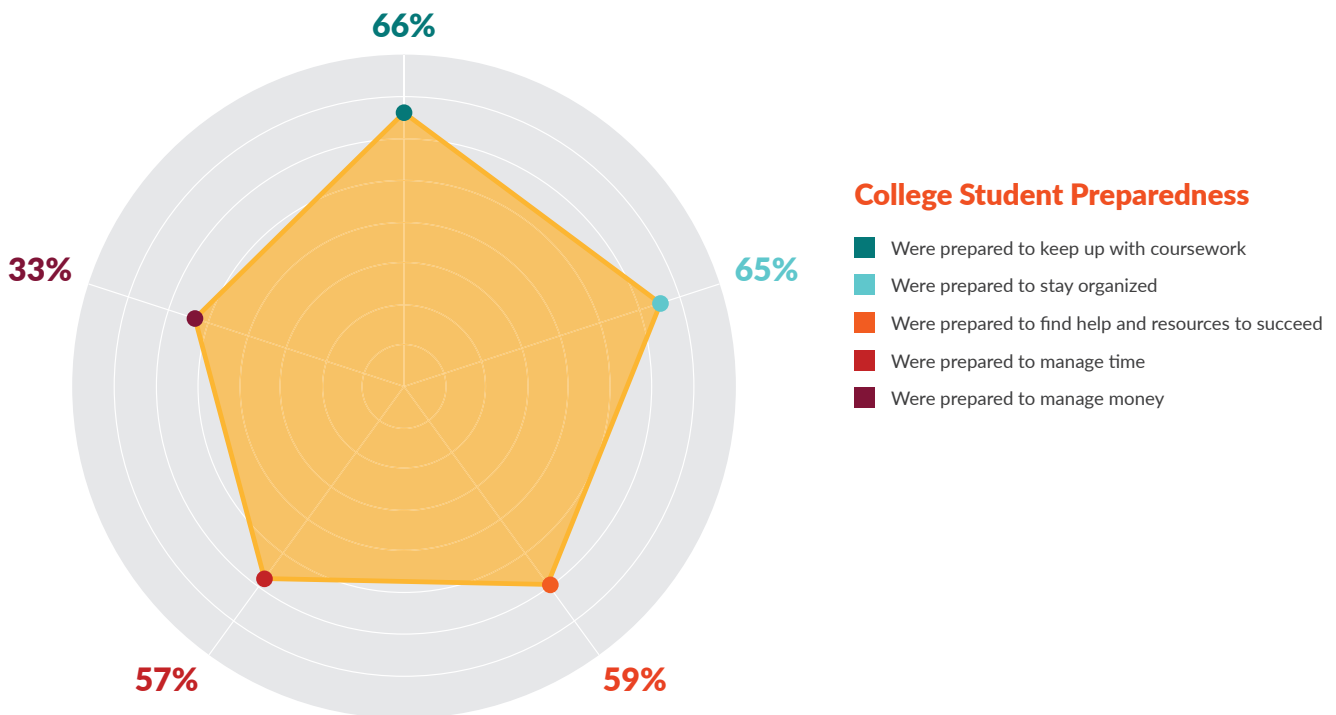
Survey questions covered a variety of topic areas relating to financial literacy, which included their experience with checking accounts, student loans, credit cards, budgeting, saving, and planning for the future. Students were also asked about how much stress they felt when engaging in personal finance behaviors and how likely it would be they would perform certain fiscal actions in the near future and in the next five years. Finally, students were asked to answer some basic questions about their knowledge of financial topics such as interest, credit reports, and emergency savings.

Results Brief

Analyses of the aggregate survey response data set paints a rather uninspiring picture of the financial capability of young adults in the U.S. Despite most students having to make their own fiscal decisions regarding loans, credit cards, and personal money management, only 40% of four-year students and 45% of two-year students report having ever taken a personal finance course. These young adults seem desperately in need of knowledge, skills, and resources to help promote healthy fiscal decision making and ensure positive development throughout and beyond higher education.

Financial Experience

A vast majority of the aggregate sample (90%) reported having experience with a transactional bank account (checking account), but only 60% of those were personal accounts, as opposed to joint or custodial accounts (66% for two-year students). For all students, only 59% claimed that they had checked their account balances in the past year and even fewer had created (40%) or used a budget (43%) to manage their personal finances. In fact, when asked about which aspects of college life they felt prepared to tackle, students consistently reported being the least prepared to manage their own finances.

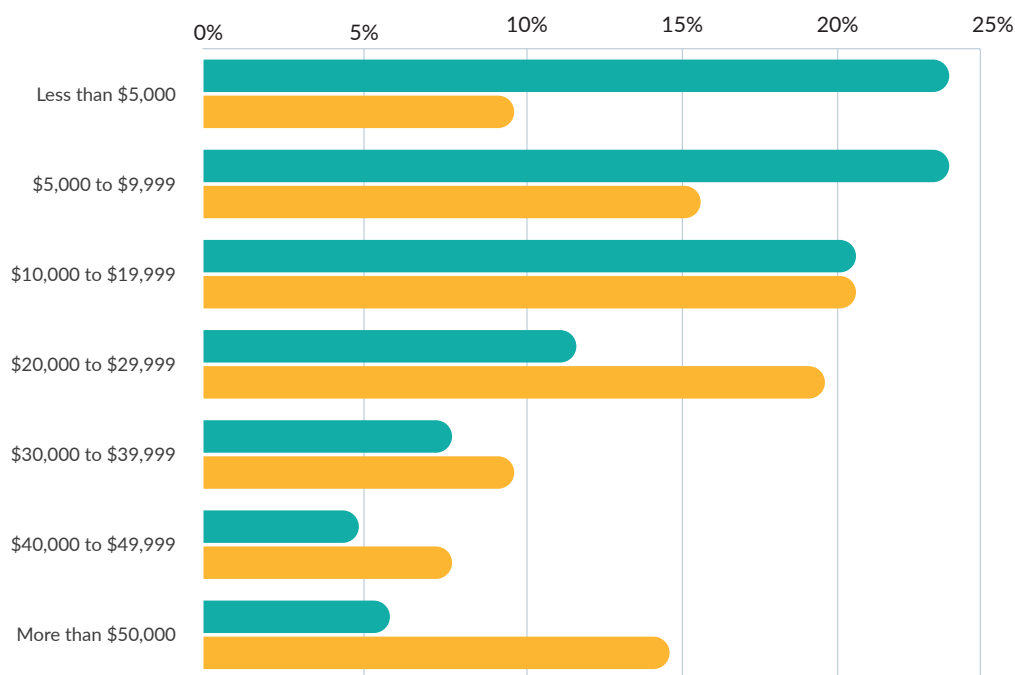


Overall, students from two-year institutions tended to report healthier attitudes and future plans than their four-year peers, but all students showed room for improvement in terms of personal finance management. Of the total sample, only 62% reported that they stopped spending when resources were low, 25% made a purchase to improve their mood, and about 10% bought something they really couldn't afford. Poor, impulsive decision making like this is especially problematic when 15% of the sample claimed they currently lived "paycheck to paycheck" (25% for two-year students) and while money management resources are widely available, only 14% have ever used a program or application for this purpose.

Student Loans

More than 60% of the sample have or will take out loans for college, but this percentage was much smaller for those students attending two-year institutions (39%). For those students who do plan on accumulating debt, their expected total debt upon graduation is listed below. Clearly, students attending two-year institutions are planning on accumulating much less loan debt than their peers at four-year colleges and universities.

Reported Total Student Loan Debt Upon Graduation



While most of these students (around 65%) do plan to pay off their student loans on time and in full, only 39% plan to consolidate their loans to achieve this. No matter what the total balance, repayment of student loans after graduation represents a significant financial challenge for these young adults and most do not currently feel prepared to overcome that obstacle. Over half of the students taking out loans (54%) reported that they “worried about their debts”, while only 31% of the students without loans felt the same anxiety.

For those who did plan to take out student loans, our survey provided respondents with a list of possible resources and asked which of those would help them feel less stressed or better prepared to pay off those debts. They are listed below in order of most to least selected by students.

Which of the following do you think would help you feel less stressed or better prepared for paying off your college loans? (Select all that apply)

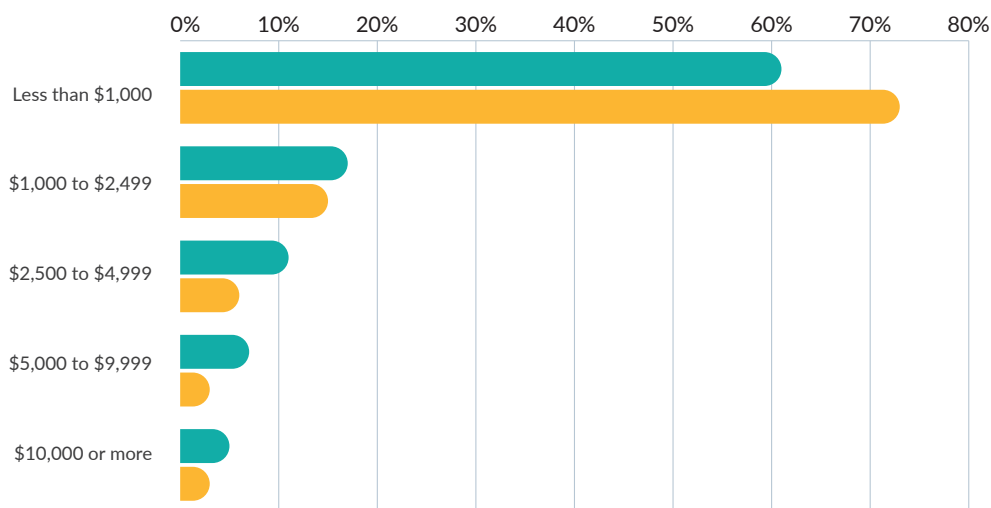
- Making a plan to pay off my loans – 66%
- A better understanding of loan repayment options – 60%
- Having easy access to my balances so I can see my total repayment amount – 56%
- Reminders of what my student loan payments are likely to be – 52%
- Knowing how to limit the amount of loans I take out – 48%
- Finding the right person to talk to on campus – 42%
- More information about my responsibilities and consequences before taking out a loan – 37%
- Nothing, the information I receive now meets my needs – 15%

While it is encouraging that most students valued proactive, data-driven approaches to successful loan repayment, only 15% of students taking out loans currently felt they had the education, information, and/or support to be able to pay off those debts.

Credit Cards & Debt

Only 37% of the aggregate sample reported currently having any credit cards, but astonishingly, 80% of those students acquired their first card when they were 18 or younger, suggesting many of these young adults are starting their credit card experiences around the same time they transition to higher education. Students from two-year institutions were more likely to have more than one credit card (46%) than their four-year peers (30%), were more likely to have paid a credit card bill late (44% vs 13%) and generally carried a higher total balance (shown below).

Approximate Total Student Loan Debt Upon Graduation



Not only does this data suggest that education around credit card acquisition and use is essential at this developmental stage, but that it is particularly crucial for students attending two-year institutions who may be more likely to use this a method for financing their education.

Financial Knowledge

Along with questions about their attitudes and behaviors, participants were asked to answer six basic financial knowledge questions, developed by Annamaria Lusardi, Director of the Global Financial Literacy Excellence Center (GFLEC) referencing topics such as credit history, net worth, interest rates, and student loans.

1

As a general rule, how many months' expenses do financial planners recommend that you set aside in an emergency fund?

1 to 3 months' expenses

3 to 6 months' expenses

6 to 12 months' expenses ► **14% correct**

12 to 15 months' expenses

2

If you have too many credit cards, what should you do?

Close as many as possible

Request a higher credit limit

Be cautious about closing cards ► **29% correct**

12 to 15 months' expenses

3

If a late payment is sent to a collections agency, how long will it remain on your credit history even if you have paid it off?

Less than a year

1 to 3 years

4 to 5 years

6 to 7 years ► **62% correct**

4

What is the formula for calculating your net worth?

Assets minus liabilities ► **47% correct**

Liabilities minus assets

Assets plus liabilities

Assets divided by liabilities

5

Imagine that the interest rate on your savings account was 1% per year and inflation was 2% per year. After one year would your ability to buy something with the money in this account be:

More than today

Less than today ► **16% correct**

Exactly the same

Don't know

6

Which of the following about Federal student loans is NOT true?

For certain federal loan programs, the interest on your loan is paid by the government while you are in school or during grace periods.

Your parents must sign a promissory note before loan funds are distributed ► **34% correct**

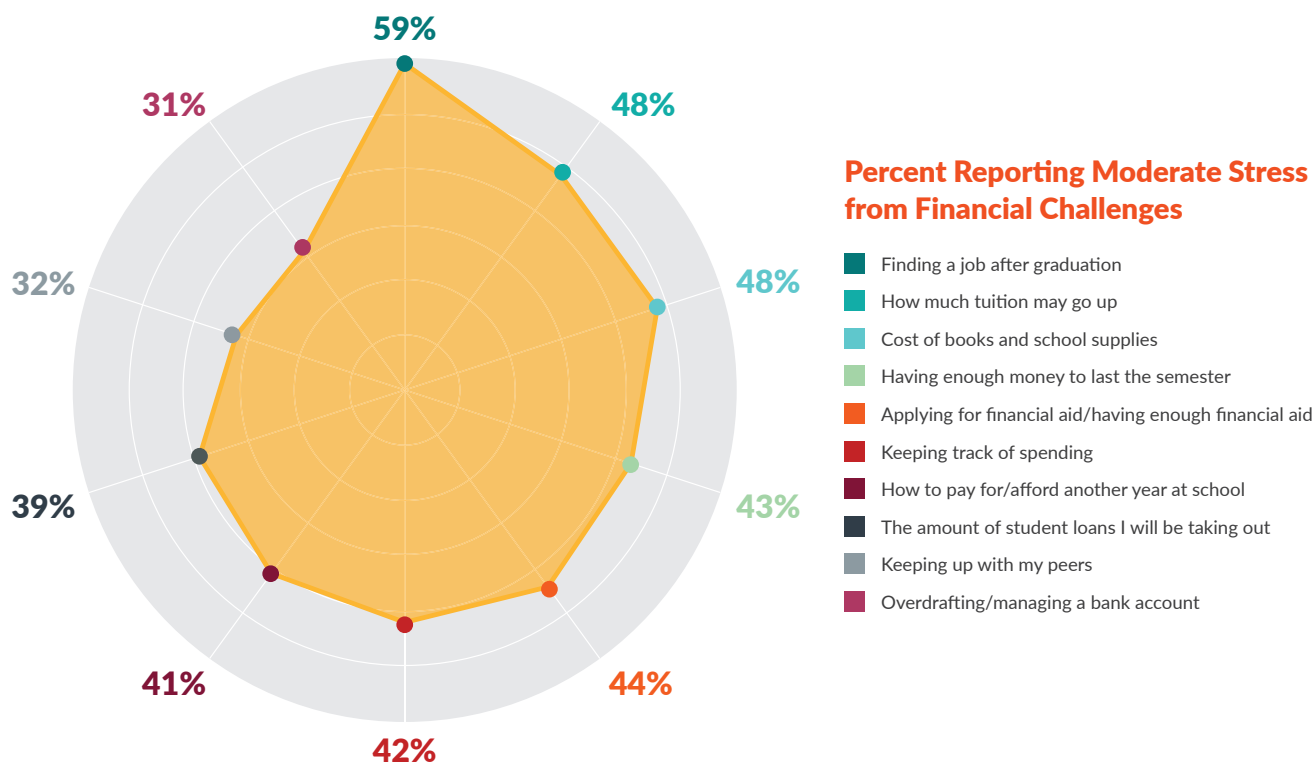
Entrance loan counseling for all first-time borrowers is required

As prior research from EVERFI and other organizations have found, respondents struggled with the basic financial literacy questions, answering only 2 out of 6 multiple-choice questions correctly on average (with a standard deviation of 1.2). Respondents were most likely to understand how long events remained on their credit history, but least likely to be able to understand the impact of compound interest or determine the appropriate size of an emergency savings fund.

There was not a significant difference in knowledge scores comparing those who reported any experience with a personal finance course in high school and those who did not, but this could be because the question did not consider the quality, intensity, length, or focus of the course or the student's level of engagement with the content. In fact, two-year students actually scored lower on average (1.7) than their four-year peers (2.0), despite being more likely to have taken such a course. However, direct financial experience (particularly with checking accounts) was linked to increased fiscal knowledge scores (1.9 to 2.0). It seems that education is not the only factor driving what a student "knows" about their finances, it also hinges on their personal experiences.

Financial Stress

Obviously, the challenges of paying for one's education and engaging in personal finance management (perhaps for the first time) can represent a source of significant emotional distress for students in college. Our instrument provided students with a list of ten financial tasks associated with higher education and asked them to rate how much anxiety they generated (on a scale from 1-Not at all stressful to 7-Extremely stressful). Below are the percentage of students who found each of the tasks at least moderately stressful (above 4 on a scale of 1 to 7). As we have found in prior years, students reported the highest levels of stress when considering how they would finance their education and find a job after graduation.

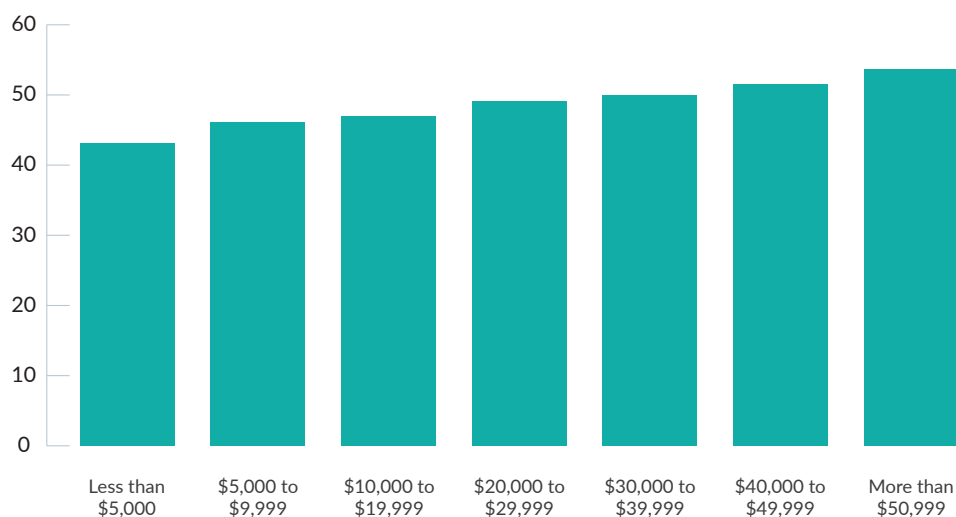


Researchers also generated an overall Stress Score for each student by summing responses (1 through 7) for these ten financial tasks. These scores ranged from 11 to 69, with an average score of 43 and a standard deviation of 14, with higher scores representing higher levels of reported financial anxiety.

While experience with a personal finance course did not impact reported stress levels, students with credit cards had a lower score (41) than those without (44) and “banked” students (with a checking account) had slightly lower average scores (43) than those without (44). Familiarity with these financial resources may provide some level of anxiety reduction for young adults as they allow for more options when managing expenses.

Students from two-year institutions reported less stress (40) than four-year students (43), but much of this difference was likely driven by student loan rates among these groups. Those respondents from the aggregate sample who have or will have college loans reported much higher levels of financial stress (48) than those who will not (35). Further, for those students with expected loan debt, stress scores increased in line with the total repayment amount (below). A similar, but less pronounced, trend was also found in increasing stress scores with credit card debt.

Stress Score by Student Loan Debt



While there weren’t direct effects of personal finance education on reported stress levels, there was a relationship between stress and preparedness in that students who reported they were Very Prepared to manage money in college reported lower stress scores (39) than those who reported they were Not at All Prepared (45). Most interestingly, researchers found a strong, negative linear relationship between financial knowledge scores and financial stress scores, $r = -.69$, $p < .001$. Put another way, as financial knowledge scores increased in this sample, reported stress experienced from financial decision making decreased. Despite there being little difference in knowledge scores among this population, these findings clearly indicate a relationship between what young adults know about fiscal decision making and how much they are distressed by those challenges.

Average Knowledge Score by Reported Stress Level



Virginia

In our sample, 3,276 students reported that they graduated high school in the state of Virginia, which (according to their Department of Education website) keeps their Economics and Personal Finance Standards of Learning (SOL) separate from the History and Social Science SOLs. Virginia also requires economics and financial literacy education for all middle and high school students to further the development of knowledge, skills, and attitudes needed for responsible citizenship in a constitutional democracy. For EVERFI's part, our financial literacy courses are currently used in 208 elementary schools, 142 middle schools, and 415 high schools. That leads to more than 400,000 students actively engaged with our content. Strong state-level policies that are enforced at the district level with courses required for graduation provide above-average financial capability for Virginia students. An astounding 84% reported taking a personal finance course.

The average knowledge score was 2.2 and average stress score was 41. Financial education may account for the lower stress score and improved knowledge. Only 33% reported having a credit card and 93% of those with credit cards had a balance under \$2,500.

Ninety-four percent of those VA graduates reported having a checking account, 70% of those were personal accounts and 65% of those students with accounts recently checked their balances. Nearly 60% of VA graduates reported feeling prepared to manage their money in college and 45% used a budget in the past year. Only 39% reported that they "worry about their debts" and only 12% live paycheck to paycheck.

Conclusion and Implications

There is obviously room for education and growth in regard to the financial capability of young adults in higher education in the United States. However, increased knowledge alone is not the only solution to develop financial literacy. It should include information as well as personal experience. Like most topic areas incorporated in the K-12 academic experience, full understanding can only be achieved for students with continuous, developmentally appropriate content and exercises that build on previous knowledge and allow for direct interaction to increase engagement. In this way, financial literacy education can improve knowledge, attitudes, and behaviors related to personal finance management and increase student's feeling of self-efficacy and reduce the distress they experience.

As the National Council for Economic Education's (NCEE) Survey of the States (2018) states, the main driver for economic and personal finance education are academic requirements. However, they also note that there has been little to no increase in these types of education requirements across the country in the past few years. Researchers also found little evidence of link between state-level policies and financial capability measures of graduates from those states as there is likely a disconnect between mandates and the individual student experience. It seems then that there needs to be a combination of solid state mandates and policies for financial education, making it a priority for schools, as well as good implementation and enforcement of those policies within the states. Where we see the two of those combined is where young adults seemed the most primed for financial success.

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