PERSPECTIVES

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Boosting Financial Literacy in America: A Role for State Colleges and Universities

by Thomas L. Harnisch

Introduction

Financial illiteracy is a growing economic and social concern garnering greater attention from consumer advocates, scholars, governmental agencies and policymakers. Despite the rapidly changing, increasingly sophisticated array of financial decisions confronting Americans today, there still exists widespread levels of financial illiteracy—especially among low-income and minority populations. This divergence between more complex consumer decisions and financial illiteracy has led to a rising trend of suboptimal, often unsustainable consumer behaviors, resulting in record-high levels of debt and record low-levels of economic security for individuals, families and communities throughout the nation.

The Government Accountability Office (GAO) defines financial literacy as " . . . the ability to make informed judgments and take effective actions regarding the current and future use and management of money."[1] Individuals should be empowered with the basics of finance and economics so that they will make appropriate choices based on their needs and budget parameters. This will help consumers make informed decisions, but may not prevent them from making unbiased or even imprudent choices.

Studies of consumer knowledge, such as the Jump$tart Coalition's survey on "The Financial Literacy of Young American Adults," have revealed that many Americans lack an understanding of the most

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rudimentary financial concepts, principles and practices. This widespread lack of financial understanding has made millions of consumers susceptible to misleading and fraudulent business practices. It has also contributed to national economic predicaments, such as the extensive consumer overleveraging that led to the subsequent economic downturn in the latter part of the last decade.

A New Approach. Given the recognized need for increased financial literacy and improved consumer behavior, policymakers have focused on mandating financial education and consumer economics curricula in primary and secondary schools, but inconclusive or null results in financial literacy tests have led some to reconsider this approach. Valid concerns remain that students do not pay attention to or retain these lessons because many of them are not financially independent and do not make key financial decisions at that point in their lives. Further, financial education as a stand-alone measure at the K-12 level may not be enough to match the complexities and rapidly changing nature of the 21st century marketplace.

Historically, American state colleges and universities have had an undefined role in financial education. Financial literacy has often been seen as a "life skill" that remains a distant priority for administrators and faculty members. For some, it is not even a suitable topic for discussion in the contemporary college environment. Yet rising tuition costs, changing demographics, and an uncertain job market—combined with the complexity of decisions faced by students both during and after college—have led some to reconsider the role of financial education at state colleges and universities.

State colleges and universities have a unique opportunity to provide leadership on this critical topic by weaving financial education into the fabric of their campus communities. By delivering value-added financial literacy programs and services, college leaders can help students understand how to finance college and encourage prudent financial habits. Financial education programs can also contribute to the community-based, public-purpose mission of state colleges and universities and facilitate the integration of a new generation of informed citizens into the American economy.

Given the overarching ramifications that financial literacy plays in the modern economy, this paper contends that a renewed emphasis on

financial literacy is central to individual, family and communal economic security. New responsibilities and opportunities given to consumers, such as retirement planning, have increased the need for more sophisticated consumer financial knowledge. State colleges and universities can fulfill a meaningful role by offering financial education programs and services to students, faculty, staff and members of their communities. Included in this paper is a series of replicable practices that promote improved financial literacy.

The Case for Financial Literacy

Financial literacy is associated with the health and well-being of individuals, families, communities and markets. Financial education can help individuals plan for their future and contribute to a sustainable, vibrant lifestyle during work years and retirement. Effective financial education can help individuals develop efficient household budgets, create savings plans, manage debt and formulate strategic investment decisions for themselves and their families.[2] It also provides more opportunities to save and invest, helps people obtain goods and services at lower costs and helps develop better consumers.[3]

Conversely, low levels of financial literacy may lead to poor health, decreased quality of life and lower college attainment levels.[4] The cost of poor financial decision-making and planning often gets shifted on to other members of the community, state and nation through higher prices for financial products, the diversion of economic resources and greater use of public "safety net" programs.[5]

Market efficiency is also dependent on financially literate consumers. Educated consumers are better able to demand products that meet their short- and long-term financial needs, with providers competing to create products whose characteristics best respond to those demands.[6] Federal Reserve Chairman Ben Bernanke asserts that financial literacy and consumer education, coupled with strong consumer protections, make the financial marketplace "effective and efficient" and assists consumers in making better choices.[7]

Consumers are facing a more complex financial environment, and face severe consequences for financial mistakes. There have been sweeping changes over the last decade in the dynamics of home buying,

employee benefits, college savings and bankruptcy protections. These changes have been accompanied by steep price increases for investing in a college education, purchasing health coverage and buying homes in some markets.

In addition, increases in information access and consumer advice, paired with a vast Internet marketplace have opened new purchasing opportunities, but have further complicated the consumer decision-making process. Taken together, these changes have created a landscape that demands financially-literate consumers and creates serious, long-term consequences for those who fail to recognize these changes and who put themselves at risk of making financially imprudent decisions.

Home buying. During most of the last decade, there was increased access to credit, particularly for home purchases—a "democratization" of credit, according to the Federal Reserve.[8] This democratization included a greater number of credit providers offering a more complex array of financial instruments for homes purchases. These trends were accompanied by sharp increases (and decreases) in housing prices nationwide.

Many individuals, however, did not understand the downsides of certain financial instruments, such as adjustable-rate mortgages. Others chose to ignore warnings about overleveraging or were persuaded to sign up for risky mortgage schemes. Taken together, these forces increased the risk of mortgage delinquencies and defaults and led to a series of negative events for individuals, businesses and communities throughout the nation in the second half of the decade.

Employee benefits. American retirement and health care systems have fundamentally transformed over the last decade. Retirement plans have shifted from a defined benefit (i.e., pensions) to a defined contribution (i.e., 401(k)) approach. The pension-based retirement system of the 20th century, which provided a high level of security and predictability for many Americans, has given way to a system largely susceptible to market fluctuations. While this new system provides workers greater control over their retirement portfolio, it also strips them of the security offered by pension plans. This new control over retirement increases the impetus for financial understanding and planning before retirement years.

The health insurance market is also changing. Many employers have dropped coverage for their employees and the loss of millions of jobs has led to more individuals and families without health care coverage. Additionally, the price of purchasing health insurance outside of an employer-based plan has escalated rapidly. The dynamics of this market are further complicated by a host of health insurance policy changes, incentives and subsidies contained in the health care reform legislation passed by Congress this year.

Paying for college. Postsecondary education remains an increasingly expensive, yet ever more vital investment for individuals and families. College tuition has seen sharp increases in the last decade, yet the cost of *not* attaining postsecondary education and training remains even greater. It continues to be critically important to understand how to navigate the myriad of state and federal tax-advantaged savings programs, as well as the cadre of scholarships, grants, loans and other programs available to students and their families. Taking advantage of these incentives in the years leading up to college can bring substantial financial benefits to families, yet only one-third of the 40 percent of families that set aside money for their children's education do so.[9]

Bankruptcy law changes. Increasingly stringent bankruptcy laws are also changing the consumer landscape. In 2005, federal lawmakers passed legislation making it more difficult for individuals to write off their debts and made filing for bankruptcy more expensive; a move spurred by the five-fold increase in bankruptcies between 1980 and 2003.[10] While the stricter standards caused a sharp decline in bankruptcies after its passage, the number of bankruptcies has steadily increased and is approaching levels set at earlier in the decade.[11] Some growing consumer debts, like college loans, remain very difficult to discharge in bankruptcy.

These shifts in the consumer environment demand a more refined financial understanding. Absent a solid foundation of knowledge in the basics of personal finance, more individuals and families may accumulate unsustainable debt, experience home foreclosure, have financial insecurities in retirement, or not be able to finance a college education. The relationship between financial illiteracy and fundamental, consumer-centric changes in the financial landscape could have serious negative ramifications for communities, states and the nation.

Financial literacy is low in the United States, especially in vulnerable populations. Financial illiteracy is prevalent throughout the United States, and especially common to individuals with no postsecondary education and among low-income populations. The Hispanic and African-American communities are disproportionately financially illiterate. Financial literacy tends to decrease with age and women tend to have lower levels of financial literacy than men.[12]

To illustrate this lack of basic financial awareness, Dartmouth Professor Annamaria Lusardi included three basic financial literacy questions pertaining to interest rates, inflation, and risk diversification in the 2004 "Health and Retirement Survey" (completed by a sample of people age 50 and older). Only half of the respondents were able to correctly answer the first two questions on interest rates and inflation, and the question on risk diversification was correctly answered by only 33 percent.

A recent financial capacity survey, released by the U.S. Treasury Department and the Financial Industry Regulatory Authority Investor Foundation, revealed a " . . . troubling picture of the current state of financial capability in the U.S. adult population." The survey found that many Americans are failing to meet existing financial demands, engage in little or no planning for future events and potential emergencies, have modest knowledge of their current financial portfolio, and do not have an acceptable understanding of the financial decision-making process.

Troublesome Consumer Trends

- Almost half of Americans reported having trouble keeping up with monthly expenses.
- 49 percent of respondents said they had set aside sufficient funds for three months in case of sickness, job loss or economic downturn.
- 42 percent have tried to figure out how much they need to save for retirement.
- 41 percent have saved for their children's education, with one-third of those using tax-advantaged savings accounts.
- 15 percent of Americans are "unbanked," which means they lack a checking account. This includes roughly 30 percent of African-Americans and Hispanics.

Source: "Financial Capability in the United States," *Financial Industry Regulatory Authority/U.S. Department of Treasury,* 2009.

The Jump$tart Coalition Survey of high school and college students has revealed very low levels of financial literacy among tomorrow's consumers. According to the latest national Jump$tart survey of high

school seniors, the financial literacy of high school students has fallen to its lowest level ever, with an average score of 48 percent, a decrease from a high of 57 percent in 1997.[13] The survey revealed that many young Americans are unaware of basic financial concepts and commonly accepted financial principles, such as compound interest and the long-term rates of return of stocks and savings accounts.

The Jump$tart survey cites even lower scores for minority populations. While the overall average score was 48, white students achieved an average of 52 percent, as compared to 45 and 41 percent for Hispanic and African-American students, respectively. An alarming 89 percent of African-Americans and 83 percent of Hispanics failed to score a passing grade on the financial literacy test.

Poor Performance on Jump$tart Coalition Survey

- The average financial literacy score of high school students has fallen to its lowest point ever, at just 48 percent (this does not include students who dropped out before their senior year of high school).
- The mean score of white high school students was 53 percent, compared to 45 and 41 percent for Hispanics and African-Americans, respectively.
- College students scored 62 percent, with graduating college seniors scoring 65 percent.

Source: Mandell, Lewis. "The Financial Literacy of Young American Adults: Results of the 2008 National Jump$tart Coalition Survey of High School Seniors and College Students," *Jump$tart Coalition for Personal Financial Literacy,* 2008.

The survey also exposed a relationship between financial knowledge and overall educational performance and attainment. Students who performed well on the SAT and ACT were more likely to perform well on the exam than students who performed poorly on those tests. College students scored nearly 15 percentage points higher than high school seniors. Further, scores improved with every subsequent year of college, with seniors earning a just-passing average score of 65 percent.

Most Americans, however, do not complete four years of college. According to the most recent statistics from the U.S. Census Bureau, while 89 percent of Americans age 25 to 29 have completed four years of high school, only about 30 percent have completed four years of college. The attainment rates are worse for most racial and ethnic minorities.[14] As a result, the Jump$tart report concludes that 75 percent of young people are likely to lack the skills needed to make beneficial financial decisions.[15]

Low levels of financial literacy, combined with the changing consumer environment, have contributed to an increase in risky consumer behavior. The overleveraging of home purchases, record-low levels of savings and record-high levels of household debt, the growing use of "alternative" lending outlets, and failure to take advantage of employee benefits are four examples of risky financial practices that may be prompted in part by widespread financial illiteracy.

Overleveraging home purchases. Data analysis from the Federal Reserve Bank of Atlanta revealed a statistically strong relationship between financial literacy (specifically numerical ability) and measures of mortgage delinquency and default, even after controlling for numerous key variables. The data showed that 20 percent of borrowers in the bottom quartile of the financial literacy index experienced foreclosure, compared with only 5 percent of those in the top quartile. Bank officials concluded that intensive financial education could "substantially improve" financial decisions later in life and have a positive impact on financial markets.[16]

"It is no great surprise to learn that the current financial crisis began with the sub-prime mortgages that were marketed primarily to those with less income, education, and presumably less financial literacy than those who were eligible for prime mortgages. Financial literacy clearly has ongoing macroeconomic ramifications."

—Lewis Mandell. "The Financial Literacy of Young American Adults: Results of the 2008 National Jump$tart Coalition Survey of High School Seniors and College Students," *Jump$tart Coalition for Personal Financial Literacy,* 2008.

Little saving, record borrowing. During the last decade, Americans saved less and borrowed in record amounts. Financial illiteracy, in tandem with expanded credit access, is likely a core reason for these disturbing trends. Leading up to the onslaught of the recession that began in 2008, the U.S. personal savings rate was estimated to be around 1.5–2 percent, a sharp decline from the average 4–5 percent rate in the '90s and the 9–10 percent average in the 1980s.[17]

According to the U.S. Federal Reserve, the ratio of debt to personal disposable income (household leverage) increased from 55 percent in 1960 to 65 percent by the mid-1980s; it then escalated rapidly to 133 percent in 2007.[18] The most recent decade saw household debt spiral upward at a very fast pace, as total household debt rose 117 percent from 1999 to its peak in early 2008.[19]

High-interest "alternative" lending. This borrowing increase has included a rise in the use of high-interest lending. Currently, more than 1 in 5 Americans have used alternative lending practices (payday loans, advances on tax refunds, pawn shops) in the past five years. This practice has been attributed to a lack of consumer knowledge and understanding of the terms and conditions of these transactions.[20]

One example of these "alternative" lending services is payday loans. These lenders offer credit at excruciatingly high interest rates and fees. According to the Consumer Federation of America, there are about 25,000 payday loan outlets in the U.S., equaling an annual loan volume of $28 billion. Payday loans usually range from $100 to $1000, with interest rates on two-week loans ranging from 390 to 780 percent.[21] The use, proliferation and dangers of payday lending practices have led some states to regulate or outlaw the lending practice.[22]

Failure to take advantage of employee benefits. Financial illiteracy may lead some to fail to take full advantage of employer benefits, which can have serious negative repercussions later in life. One in four employees fail to take advantage of the "employer match" in 401(k) plans.[23] As a result, many people are turning down "free money" from employers to put toward their retirement. Further, financial literacy is strongly linked to participation in voluntary and automatic enrollment 401(k) plans.[24]

As a result of these practices and the economic recession, financial insecurity among Americans stands at a 25-year high, according to a survey by the Rockefeller Foundation. An estimated 20 percent of Americans were classified as economically insecure in 2009, up from 12.2 percent in 1985.[25]

Federal and state lawmakers have recognized these trends and passed financial literacy legislation and new consumer protection measures. A substantial amount of legislation and initiatives have been introduced at the federal and state levels intended to encourage financial education, increase consumer financial literacy and provide new consumer protections.

Federal. Congress approved legislation in 2003 creating a Financial Literacy and Education Commission, resulting in a central hub for financial education derived from over 20 different federal agencies (mymoney.gov). The website brings useful information together for

financial planning and management at all phases of life, from the birth of a child to the death of a family member. As part of this legislation, Congress also allowed people to see their credit records once a year free of charge (annualcreditreport.com).[26]

In that same year, President George W. Bush created the President's Advisory Council on Financial Literacy. The council unveiled a series of programs to assess and promote financial literacy, entrepreneurism and responsible consumer practices. Among its 15 recommendations, the council called for mandating financial education in all schools for students in grades kindergarten through 12, as well as a post-secondary honor roll to recognize colleges that are providing high-quality financial education to students.[27]

The Obama administration is continuing this focus on financial literacy and education. The administration is seeking to implement financial literacy into the reauthorization of the Elementary and Secondary Education Act (ESEA), known currently as the No Child Left Behind Act. The administration seeks to work with school districts to connect them with funding outlets in the nonprofit and private sector, but has rejected calls for financial education mandates. Further, the administration is working on developing a competitive grant program which would allow schools to compete for grant money aimed at developing financial education programs.[28]

The recently enacted Wall Street Reform and Consumer Protection Act includes financial education provisions, housed in a new Bureau of Consumer Protection, an independent agency within the Federal Reserve. Within the Office of Consumer Protection will be an Office of Financial Education, which will include resources on financial counseling, credit evaluation, savings and borrowing information, and activities to help Americans reduce debt, design savings strategies and build wealth. For the college population, the law creates an ombudsman for private education loan holders to help borrowers resolve complaints with lenders.[29]

State. State lawmakers, in turn, have included financial education in K-12 education curriculum requirements. Legislators throughout the country have written dozens of bills seeking to improve levels of financial literacy and increase consumer awareness. In total, 44 states currently have some form of K-12 personal finance content standards in place. However, only 15 states require a course in personal finance.[30]

Council for Economic Education Annual Survey

	Economics		Personal Finance	
	1998	2008	1998	2008
Number of States with Content Standards	38	49	21	44
Number of States Requiring Implementation of Content Standards	28	40	14	34
Number of States Requiring a Course to be Offered	16	21	0	15
Number of States Requiring a Course to be Taken for Graduation	13	21	1	13
Number of States Requiring Testing	25	19	1	9

Source: "Survey of the States," *Council for Economic Education,* 2009.

There is debate as to the efficacy of and potential alternatives to financial education. Some researchers view financial education efforts (mostly at the K-12 level) as having inconclusive, null or even counterproductive results. This has led to calls for discontinuing or changing financial education and pursuing alternative solutions for improving consumer behavior trends. Others, however, doubt that the alternatives to financial education will be better.

Loyola Law School (Los Angeles) Professor Lauren Willis asserts in Against Financial Literacy that financial education programs have shown no evidence of improved financial literacy. She further maintains that financial education efforts are flawed because they cannot keep pace with rapidly evolving marketplaces and the vast diversity of financial products, services and situations.

Willis concludes that the costs of providing financial education "certainly swamp any benefits" and argues for (1) "substantive prohibitions and mandates" on financial products; (2) increasing resources available to consumers, such as expert advice; (3) framing financial choices, or "choice architecture" to help consumers make better decisions; and (4) arranging the incentives of sellers with the needs of consumers.[31]

Other scholars have a different view. Dartmouth Professor Annamaria Lusardi believes the evidence on the effectiveness of financial literacy education programs is mixed and should not be discontinued simply because students are not performing well on tests. Lusardi believes financial literacy has shown to be effective is some groups, such as those

at the bottom of the wealth distribution. She does not dismiss having vigilant regulators, but even the most thoughtful regulations, she argues, must confront a very complex, constantly changing marketplace.

In response to assertions about the weak effectiveness of financial literacy programming at the K-12 level, Lusardi argues that Willis' solutions may be unworkable, could constrain consumer choice, or bring more lawsuits. She argues that the best option is to continue to test and improve financial education efforts.[32] Another scholar in the field, Professor Julia Heath at the University of Memphis, believes both avenues (regulation and education) should be simultaneously pursued to best improve consumer behaviors.[33]

"In my view, there is no alternative to financial literacy education. The idea is not to transform each person into a financial wizard, but to give him/her the tools to navigate the current financial system."

–Annamaria Lusardi, Professor of Economics at Dartmouth University.

A rapidly changing college landscape may increase the impetus for including financial education at the postsecondary level. While the financial environment has changed for consumers and retirees, much has changed in the college environment as well. Today's students are more diverse, often hold one or more jobs while attending college, may only attend part-time or have substantial family considerations. Further, students are facing increasing financial pressures both during and after college, including uncertain employment prospects after finishing their college term. Taken together, these dynamics have created an environment that may be receptive to financial literacy education efforts, given the relevancy to their lives.

A changing college population. The college-going population has changed dramatically from those of 10, 20 and 30 years ago. Recent data from the Pew Research Center found that the freshman enrollment of Hispanics and African-Americans—ethnic groups that have performed poorly on financial literacy tests—grew by 15 and 8 percent, respectively, in 2007–2008, while white student enrollment grew by only 3 percent.[34]

Further, a recent survey by *Public Agenda* reveals that just 25 percent of students attend the sort of residential college often envisioned, while 23 percent have dependent children.[35] Therefore, the college experience for

many students is not a separate event from the "real world," but merely one component of it. Thus it is crucial that students receive financial education before they sign financial agreements, such as home buying. The college environment, therefore, is an especially appropriate venue to offer financial education to help students manage their finances and plan for their future.

Growing financial stresses during college. Students today often hold part-time or full-time jobs to support themselves and their families while attending college. Currently, 45 percent of students attending four-year colleges and universities work more than 20 hours a week. Among those attending community colleges, six in 10 work more than 20 hours a week, and more than a quarter work more than 35 hours a week.[36]

The balance between work and school may affect college retention and six-year graduation rates, which currently hover around 57 percent for four-year degrees. The number one reason students leave college, according to *Public Agenda,* is the stress of attending college and working at the same time. The need to work also remains the top reason students fail to return to college. Yet some students may not understand that they could be sacrificing substantial long-term financial gains for minimal short-term gains.

Credit card debt during college is also an area of concern. A recent survey by Sallie Mae revealed that nearly every indicator measured in 2008 showed an increase in credit card usage since 2004. The median debt for freshman students tripled from 2004, and the average senior had a balance of over $4,000. The average amount charged for school-related expenses, according to the survey, doubled since 2004.

"The number one reason students give for leaving school is the fact that they had to work and go to school at the same time and, despite their best efforts, the stress of trying to do both eventually took its toll. More than half of those who left higher ed before completing a degree or a certificate say that the 'need to work and make money' while attending classes is the major reason they left. Balancing work and school was an even bigger barrier than finding money for tuition."

"With Their Whole Lives Ahead of Them: Myths and Realities About Why So Many Students Fail to Finish College," *Public Agenda* (2008).

Increasing student debt. Many college students also face staggering post-college financial challenges. According to The Project on Student Debt, 67 percent of students graduating from four-year colleges and universities took out student loans in 2008. The average debt levels for graduating seniors with student loans rose to $23,200 in that year—a 24 percent increase from 2004. Among Pell Grant recipients, 87 percent received student loans.[37] The two-year default rate on student loans, meanwhile, is the highest in a decade at 6.7 percent.[38]

High Debt Among Today's Youth

- 1.4 million students graduating from four-year colleges and universities (67 percent of all students) had student loan debt in 2008, up from 1.1 million in 2004.
- Average debt for graduating seniors with student loans rose to $23,200 for graduating seniors, a 24 percent increase from 2004.
- 10 percent of people who graduated in 2007-2008 with student loans had borrowed $40,000 or more.

Source: "Student Debt and the Class of 2008," *The Project on Student Debt,* 2009.

Unclear post-college employment prospects. Unemployment and underemployment also remain a concern among college graduates. For young graduates, the Pew Research Center estimates that 41 percent of 18- to 29-year olds reported working full time in 2010, a 9 percent drop from 2006. They were also more likely to lose their job during the recession than workers over 30.[39] More students may be finishing college with debt and unable to find adequate work opportunities. It may be imperative, therefore, to teach them how to manage circumstances related to being unemployed and develop strategies for savings in the event of a future layoff.

Financial literacy programs can advance both the health and community-based mission of the university. Such efforts should extend beyond the student population. Financial literacy programs may also be useful to university employees, while at the same time contributing to the local and regional stewardship mission of state colleges and universities.

Improving the Institution's Standing While Helping Student Succeed. Colleges can use financial education programs to reaffirm to students the long-term value of postsecondary education and the importance of finishing their programs. Institutions can improve retention and

graduation rates by assisting students with the challenges of balancing work and school and reducing the number of students who face financial crisis during their collegiate experience. Further, such efforts may help students graduate in a timely manner by helping them develop priorities and plans for financing college. Financial education services may also decrease student loan default rates. Further, these programs and services can put students on a financially stable path for their post-college careers and build a base of active, engaged alumni.

Furthering the institutional mission. Financial education is a public good that can lead to greater security for individuals, families and communities at large, and as such offers a superb opportunity for public universities to contribute to their regional stewardship-oriented missions. As taxpayer-funded entities with "public purpose" missions, state colleges and universities can extend financial education services not only to students, but also to staff, faculty and the community at large.

Specifically, college officials may want to elevate the financial education services they currently provide to faculty and staff. A recent survey by TIAA/CREF revealed that approximately 40 percent of faculty and non-faculty at colleges and universities say they prefer to make retirement decisions jointly with a professional or require the services of a financial professional to make the decisions for them. Further, almost a quarter of these employees are not fully confident that they will have enough money to take care of medical expenses during retirement.[40] Therefore, it would be prudent to include faculty and staff in a campus financial education strategy.

Alumni and members of the community at large may also have an interest in financial education offered by their local public college or university. Public colleges and universities are often looked to for leadership on critical public issues. Colleges and universities can work with local businesses and community-based groups to promote financial literacy and encourage financially prudent behavior in the community.

What Colleges Can Do

There are many ways college campuses can boost financial literacy within the campus community. Colleges and universities can consider multiple approaches and evaluate their effectiveness.

Activities Directed to the Campus Community.

1. **Develop a campus-wide, coordinated financial literacy program directed toward students, faculty and staff.** Campus leaders can work with student, faculty and staff groups to develop a coordinated, place-based financial education strategy. Colleges should harness the assets of the university, including, but not limited to, enrollment, financial aid, career and alumni offices, as well as faculty and staff with expertise in economics, business and finance.[41] Schools may want to consider integrating financial literacy into campus life and on-campus activities. The National Student Loan Program recommends that successful campus financial literacy plans should identify institutional needs, obtain stakeholder buy-in, set goals and identify intended outcomes. The Federal Reserve also offers a comprehensive, user-friendly brochure on how to build a campus financial education strategy.

2. **Integrate financial literacy into the curriculum.** Financial education often meets at the intersection of math, business, economics, finance and student life. There are ample opportunities to include financial literacy in college curricula. Administrators should work with faculty to identify methods of integrating financial education into university curriculum.

3. **Examine and seek to improve efforts to help students complete the FAFSA.** The Free Application for Federal Student Aid (FAFSA) is the gateway for federal student aid opportunities. Eligible students can receive grants, loans and work-study opportunities. Yet many students, often those from low-income backgrounds, simply do not fill out the requisite application to receive public funds. According to the American Council on Education, every year over a million students who would likely qualify for Pell Grants fail to receive aid because they do not complete the application.[42] Colleges and university officials, especially those with sizable low-income student populations, should continue to find innovative ways to reach these students and help them receive federal financial aid.

   One such effort is College Goal Sunday, a program open to all college-bound students that offers onsite help for completing the FAFSA. The program also offers assistance with grants and scholarships, and helps address non-traditional and low-income

student concerns. Sites are available in communities nationwide during a specified Sunday each January/February, and offer opportunities for students and families to complete financial aid paperwork and other important college preparatory items.

4. **Help students exhaust all financing options before approving private or "alternative" student loans.** Some students fail to exhaust less expensive federal student loan options and either mistakenly or intentionally apply for private or "alternative" student loans. These loans often have high, variable interest rates and are much more expensive without the protections and benefits of federal student loans. Some universities make the effort to contact students who have not exhausted their federal loan eligibility before certifying private loans.

5. **Start an office dedicated to individual student financial counseling outside of the financial aid office.** Some universities offer one-on-one financial counseling through either student volunteers or paid staff. These counselors provide education and chart courses of action on topics such as developing a budget, managing debt and understanding credit cards. Many of these offices choose to remain separate from the financial aid office.

   Texas Tech University's acclaimed Red to Black program has helped students with financial challenges. The comprehensive program offers walk-in appointments to assist students with key, relevant topics, such as:

   - Establishing credit
   - Creating a budget
   - Organizing finances
   - Repaying debt
   - Expenses during or after college
   - Planning premarital finances

6. **Develop an online resource hub and use social networking to promote it.** Some universities offer online hubs of financial education information, along with relevant resources and services. This allows students to see unbiased financial information while offering "place-based" relevancy for students, faculty and staff.

For example, the University of Minnesota Extension has a comprehensive website for college financial literacy. The website contains information on basic financial management, links to useful Web pages, information for parents, and other materials such as an online course for building strong financial strategies for young families. Colleges may also tap into social networking sites, such as Facebook or Twitter, as to enhance the visibility of campus financial literacy programs.

7. **Extend financial literacy education to students' parents.** Parents continue to be strong forces in students' lives throughout the college years, and they are the main source of financial advice for students. Campuses may want to consider financial management education sessions for both incoming students and their parents at student orientations. Online resources for parents and college-bound students may also be helpful.

8. **Offer personal finance courses.** Some colleges and universities can offer low-cost, noncredit personal finance courses that are open to students and members of the community. These courses can help students understand financial concepts and principles that are relevant to their lives. For example, Anne Arundel Community College in Maryland offers a group of noncredit courses, both online and classroom-based, aimed at helping students and members of the community navigate financial planning, retirement, and stocks and bonds.

9. **Encourage student/staff participation in free online financial literacy courses.** The National Endowment for Financial Education (NEFE) offers a free, customizable course for college financial education. To enroll, colleges and universities simply need to fill out an enrollment form. The website offers a range of resources on key financial topics, and allows institutions to change the website to reflect their school.

10. **Expand information access to boost retirement account participation for college and university employees**. Many employees at colleges and universities would like more information on employee benefits, particularly retirement. In an effort to boost participation in Supplementary Retirement Accounts (SRA), researchers at Dartmouth University identified a set of barriers (such as income)

that employees faced in participating in these accounts. After identifying these barriers, the researchers designed a planning aid and a set of best practices (simple enrollment process; using "teachable moments"; targeting subgroups; using planning aids) that were effective in improving participation rates in SRAs.[43]

Activities Directed to the Wider Community.

1. **Offer a financial assistance hotline for students and members of the community.** University volunteers and staff can reach out to students and members of the community by providing hotline services for those that need financial assistance. As an example, in 2009, the City University of New York (CUNY) teamed up with New York Mayor Michael Bloomberg's office to create a weeklong financial empowerment "phone bank" for city residents. The phone bank was staffed with volunteers from not-for-profit organizations and credit unions. The hotline, which received more than 9,000 calls, provided free money management advice and referrals to free or low-cost financial education providers.[44]

2. **Market state and federal college savings programs.** Colleges and universities can promote state and federal tax-advantaged college savings programs. Colleges and universities can use admissions, alumni and a host of other networks to help community members understand and use these programs.

3. **Provide research on student and local spending trends.** Scholars in colleges and universities are able to provide useful, applied research on relevant local spending and savings. They can conduct research on students' consumer behaviors and serve as a valuable resource for local and state officials in their efforts to increase financial literacy.

   For example, the University of Arizona developed the Arizona Pathways to Life Success for University Students (APLUS) program. This research-oriented program examines the relationship of students' financial attitudes and behaviors to their overall well being, using information typically not captured in campus surveys. APLUS is currently conducting research on student responses to the economic recession, how students' attitudes and behaviors have changed during their college career, and the influence of family on financial behavior.

4. **Take advantage of university outreach.** Some universities and university systems have extension services (i.e., network and satellite campuses) that can reach remote populations unable to access a main campus. This infrastructure can provide important place-based financial education to rural populations.

Conclusion

Financial illiteracy is an economic and social challenge with substantial long-term repercussions for individuals, families and communities. The widening gap between illiterate consumers and greater individual responsibilities has contributed to riskier consumer trends. Students, in particular, face daunting financial challenges before, during and after their postsecondary education experience. Public colleges and universities can use their "public purpose" mission to implement meaningful, value-added financial education services and programs not only to students, but other individuals both on- and off-campus. Through the delivery and evaluation of these programs, state colleges and universities can equip individuals with the skills needed to be effective participants in the economy, advance the institution, and fulfill their role as meaningful contributors to the health and vitality of their communities their state and the nation at large.

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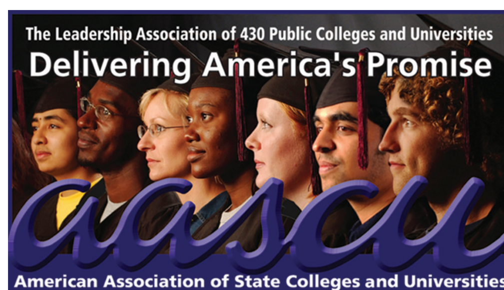

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