Got Debt?

UNIVERSITIES RESPOND TO STUDENTS’ PERSONAL FINANCIAL ILLITERACY

by Kevin Boatright
Want a t-shirt? Sign up for another credit card. Tapped out this month? Get a payday loan. Burdened by student loans? Stretch payments into middle age, or default altogether.

What’s wrong with this picture? Plenty, and it’s become apparent most students have no clue about managing money and planning their financial future. As a result, they’re making poor choices, digging a deep hole of debt and facing the prospect of bankruptcy.

Lack of savvy about money can also affect admissions, retention and the ability to contribute someday to an alma mater. The consequences of a sub-prime knowledge base are huge, and can linger for a lifetime.

**An Imminent Crisis**

Lois Vitt of the Institute for Socio-Financial Studies defines personal financial literacy as “the ability to read, analyze, manage and communicate about the personal financial conditions that affect material well-being.” Unfortunately, many students don’t get a passing grade in this critical subject.

A survey released in April 2008 by the Jump$tart Coalition indicated high school seniors correctly answered fewer than half of 31 core questions designed to assess financial literacy. The same survey found that college students correctly answered less than two-thirds of the questions.

Why is this? One reason is most young people learn about money from their parents. Their role models are Baby Boomers or Gen Xers, generations notorious for overspending and under planning. Even worse, today’s students are immersed in a culture of consumerism “that views shopping as entertainment and spending as patriotic,” says Vitt.

At the same time, standard pensions have largely disappeared, replaced by voluntary retirement programs with a bewildering array of options. The future of Social Security is also tenuous. In addition, Americans love plastic. “Consumers now owe about $1.7 trillion in credit card and other debt,” according to the National Association of State Boards of Education (NASBE) in a gloomy 2006 report entitled Who Will Own Our Children? That’s “an amount roughly equal to the gross national products of Great Britain and Russia combined.” The report warns that “this level of personal debt and lack of savings is not sustainable over the long term, both for individuals and for the country.”

**University Impact and Response**

In an economic environment where family income is stalled and savings rates hover around 1 percent, the ability of teenagers to attend and remain in college is compromised. Predictably, more than 60 percent of new public university graduates are issued an “invoice” along with their degree. The amount of the invoice varies, but average Stafford Loan debt is pushing $20,000 for young alumni, not including credit card debt and private or parent loans.

Starting a post-college life attached to a ball and chain of debt makes it difficult for new graduates to save for retirement or plan for the future. Among Gen X and Gen Y adults, only 38 percent have saved anything for retirement, and the costs of insurance, housing and gasoline are increasing dramatically.

**STARTING A POST-COLLEGE LIFE ATTACHED TO A BALL AND CHAIN OF DEBT MAKES IT DIFFICULT FOR NEW GRADUATES TO SAVE FOR RETIREMENT OR PLAN FOR THE FUTURE.**

Depressed yet? The NASBE report also raises the specter of a “threat to social cohesion if large segments of society become prisoners of debt and/or are unable to secure their well-being into retirement.”

There is hope, however, and a number of public universities are responding to the crisis with education, informed advice, and training for high school teachers in states that share this sense of urgency.

**Goal: Make Better Decisions**

One way to remediate the lack of knowledge is formal coursework, and a growing number of universities are adding personal finance classes to their catalogs.

Tom Wayne is chief financial officer of the Bank of Oak Ridge, near Greensboro, North Carolina. He’s taught one class a year for the past six years at UNC-Greensboro, including Management of Personal Finance.

“The biggest surprise for me,” says Wayne, “was the students’ lack of knowledge about even the most basic concepts: budgeting, planning, how to calculate loan payments.” His banking experience has been useful, especially when discussing the pros and cons of different home mortgages.

Last fall, 26 students enrolled in Wayne’s class. There were 10 business administration and accounting majors, but 13 other departments were represented. That’s an indication personal finance is as much a concern for theatre majors as it is for management students.

Wayne’s syllabus is blunt. “The goal of this course,” it says, “is that the students will make better personal financial
decisions, such as how to earn money as well as know how to save, spend, invest, and control it in order to achieve a set of financial goals. Topics include credit card abuse, tax planning, interest rates and retirement. Outcomes include a summary of personal financial goals for the next two to five years, with a tangible action plan for achieving those goals.

“Students said they weren’t taught this anywhere else,” says Wayne. “Several said it should be a required class for all students at UNC-Greensboro.”

“Lack of Knowledge is Appalling”

Brenda Eichelberger, an instructor of management at Portland State University (PSU), is also passionate about this topic. In addition to PSU, she has also taught personal finance courses at a community college and a large local company.

“The situation is even worse than depicted,” says Eichelberger. “Employers assume graduates know this information, but it’s not true. The lack of knowledge is appalling. It can be overwhelming to students who don’t understand the basics and don’t know where to begin.”

In her class, students track everything they spend for one month. “Once they realize that three-dollar-a-day lattés add up to a thousand dollars a year,” she says, “they begin to understand how to save money.”

Students also prepare a personal financial plan. “With one student,” says Eichelberger, “I read her plan and I cried. She was a single mother working full-time while attending community college. One of her three children has Down Syndrome and needs permanent care. This person had lost all hope. The class provided her with light at the end of the tunnel, and that was very gratifying to me as a teacher.”

Eichelberger has also been a guest lecturer. “I once spoke for an hour to a group about retirement planning,” she says. “Four years later, I ran into someone working at my credit union who told me the lecture saved his life. He signed up for the company’s 401(k) plan that same day. The lecture even influenced who he married! He looked for a spouse who was financially responsible.”

Portland State also offers a web-based personal finance course and an independent study course for high school students.

“An Important Life Skill”

For-credit classes can’t solve the whole problem, of course. That’s why some universities have established offices that provide confidential, on-demand services to current students.

In 2005, the University of North Texas created a Student Money Management Center. A 2007 article in U.S. News & World Report applauded the program, and it has also been recognized by the Texas Higher Education Coordinating Board and the National Association of Student Personnel Administrators.

Paul Goebel directs the center and is assisted by two staff members and five students. Bonita Jacobs, vice president for student development, led the initiative, which is funded by student fees and grants.

The center provides personal consultations, group presentations, and web-based information. The Center also manages a loan program designed to help students meet short-term expenses so they can stay in school.

The program has grown tremendously in just three years, says Goebel, and has reached alumni as well as parents—chiefly at new student orientation.
"Money management is an important life skill," says Goebel. "Major life decisions, such as starting a family or purchasing a home, are affected when a student leaves college with bad financial habits and unmanageable debt."

Goebel says, "One statement I hear time and again is 'I don't want to live like my parents'—in debt and living paycheck to paycheck. It takes a high level of maturity for a student to admit that."

Teaching the Teachers

Goebel is currently working with more than a dozen other universities to help launch similar centers. One of them is Bowling Green State University in Ohio, which started its center during 2007–2008. According to Director Duane Whitmire, the focus is financial education and a three-way conversation. "The student works one-on-one with a trained professional," he says, "and with a trained undergraduate, so there's a peer-to-peer relationship." Impetus for the program came from President Sidney Ribeau, now president at Howard University.

Bowling Green is also among the universities in Ohio helping the state implement its new "Ohio Core" requirement. A 2007 legislative act mandated personal finance instruction for all high school graduates, starting in 2010. Instruction can be a stand-alone course or part of an existing course, and can be for one or two semesters. Ohio is one of just nine states to have such a requirement.

Many teachers need help preparing for a personal finance course says Tom Rutan, associate director of the Office of Curriculum and Instruction for the Ohio Department of Education. "These are licensed teachers in social studies, business education or family and consumer sciences," he says, "but many are less prepared for this role than they'd like to be. So we've established regional teacher academies in the summer to address this immediate need."

The academies use a standard curriculum and often take place on university campuses with support from the institution. Presenters include university faculty, bank executives, CPAs and other professionals.

"Ohio has a P-16 learning environment," says Rutan. "There's strong collaboration among state government, higher education and the Department of Education. Ideally, this can become part of the curriculum from pre-school on up, in math and social studies. Even with young children, you can teach about wants vs. needs. If you want a puppy you need to feed the puppy. That requires money and it requires planning."

Rutan credits State Treasurer Richard Cordray and legislative leaders for pushing the Ohio Core personal finance requirement. "Ultimately," says Rutan, "the treasurer and all of us want better-educated students who eventually can teach their children well."

Changing a Culture

Benjamin Franklin had it right: "A penny saved is a penny earned." (Ironically, it now costs the U.S. Mint more than one cent to produce each penny, and the penny itself may soon be extinct.)

In 2008 a different Ben—Bernanke, chair of the Federal Reserve—said, "The financial preparedness of our nation’s youth is essential to their well-being and of vital importance to our economic future." He went on to note "how critically important it is for individuals to become financially literate at an early age so that they are better prepared to make decisions and navigate an increasingly complex financial marketplace."

State colleges and universities are working to address this key public policy issue—through instruction, student services and collaboration with schools. In time (and "time is money," said Franklin), these efforts may help current and future students, while changing a culture in need of a financial wake-up call.

Kevin Boatright is director of communications in the Office of Research and Graduate Studies at the University of Kansas.

Useful Links

| University of North Texas | unt.edu/moneymanagement/ |
| Bowling Green State University | bgsu.edu/offices/sa/smms/index.html |
| Jump$tart | jumpstart.org |
| National Association of State Boards of Education | nasbe.org/index.php/file-repository?func=fileinfo&id=133 |
| National Council on Economic Education | ncee.net |
| Federal Deposit Insurance Corporation | fdic.gov/consumers/consumer/moneysmart/young.html |