THE CASE FOR FINANCIAL LITERACY
“As important as reading and math and social studies and science, I think today more than ever financial literacy has to be part of that. To continue to have a population that is relatively illiterate in these matters I think has real negative consequences to our democracy.”

— Arne Duncan, Secretary of Education, November 2011
FINANCIAL LITERACY ON THE NATIONAL AGENDA

PRESIDENT'S ADVISORY COUNCIL ON FINANCIAL LITERACY

“Expand and improve financial education for students from kindergarten through post-secondary education.”

RECOMMENDATIONS

- Mandate financial education in all K-12 schools.
- Require college students to take a more comprehensive course in financial literacy than the present entrance and exit requirements, as a condition of receiving Federally funded or Federally guaranteed student loans.

U.S. DEPARTMENT OF EDUCATION

Education Default Prevention and Management Team

“Financial literacy a key element in any default prevention and management plan”

U.S. DEPARTMENT OF THE TREASURY

Financial Literacy and Education Commission

Developed a national strategy for financial education, including online resources and tools for financial literacy across lifespan (MyMoney.gov)

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STATES COMING ON BOARD

**MISSOURI** Graduation requirement. Classes in Personal Finance offered in grades 10, 11 and 12, as a practical arts, social studies, or stand-alone course.

**UTAH** Financial Literacy Core. Juniors and seniors learn “skills to become wise and knowledgeable consumers, savers, investors...in a global workforce and society.”

**TEXAS** Requires 3 1/2 Social Studies credits, which must include Economics with an emphasis on the free enterprise system and its benefits.

**ILLINOIS** Each student required to take consumer education for 50 minutes per day for nine weeks in any of grades 9-12.

**NEW HAMPSHIRE** Curriculum standard: “Students will be able to explain the importance of money management, spending credit, saving, and investing in a free market economy.”

**TENNESSEE** Personal finance course required to inform students how individual choices influence career goals and future earnings potential.

**GEORGIA** State Board of Education Performance Standards explicitly includes Personal Finance in all grades, including high school.

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Adults who attended school in states that required financial education are associated with higher savings rates and wealth accumulation than adults from states without mandated programs (Parrish and Servon, 2006).

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WHAT’S DRIVING THE ISSUE

Rising Rates of Student Loan Defaults

Default Rates by Institution Type

91% increase between 2005 and 2009.
AS COLLEGE COSTS RISE, STUDENT CREDIT CARD USE INCREASES

- More students paying for tuition, books, and expenses with credit cards
- Agreements between banks and colleges make it easy for students to get credit
- By 2009, there were 2 million student credit cards in circulation

84% of undergraduates have credit cards.

$1,879 to $3,173 increase in average student credit card balance

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DRAMATIC INCREASE IN STUDENT DEBT

Rising Student Debt Over Time

- 1996: $12,750
- 2000: $17,350
- 2004: $18,650
- 2008: $23,200
- 2010: $25,250

98% increase

Unemployment for recent graduates climbed to 9.1% in 2010 – the highest annual rate for college graduates aged 20 to 24.

More Education = More Debt

- Average cost to complete a graduate degree: $61,000
- Average cost for medical or dental school: $165,962

Student Debt Surpasses Credit Debt

- Credit card debt: $828 billion
- Student loan debt: $850 billion

Total student loan debt in U.S. exceeds credit card debt by $22 billion.
AVERAGE DEBT LEVELS VARY BY STATE

Average Debt Levels for New College Graduates - 2010
(Public and Private 4-year or above)

- Dark Red: $25,360 - $31,048
- Medium Red: $20,571 - $24,821
- Light Red: $15,509 - $19,957

*Data not available due to non-reporting at the institution level, exclusion of institution types from the survey, or omission of selected year from survey collection.

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EXAMINING RACIAL DISPARITIES IN FINANCIAL RISK

**Correlating Race and Financial Risk**

- Students having difficulty making credit card payments are more likely to be female, black, and/or Hispanic.
- Non-white students are most likely to have credit card debt.
- Non-black students are more likely to be financially knowledgeable than their black counterparts.

**HBCUs Hit Particularly Hard**

Students more likely to:
- come from low-income families
- be highly dependent on financial aid
- be educationally disadvantaged

- Higher average student loan debt over 4 years compared to average debt of all college graduates.
- More access to predatory products, such as payday loans, without education about the long-term costs of these financial products.
- Lower levels of endowment and higher default rates among their students.

**Higher Default Rates Among Students of Color**

High default rates in stark contrast to the promise of positive returns on education.

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**SOURCE:** U.S. Department of Education, National Center for Educational Statistics, 1993/03 Baccalaureate and Beyond
FACTORS CONTRIBUTING TO FINANCIAL RISK

Financially at-risk students are more likely to:

- be financially independent
- receive need-based financial aid
- hold $1000 or more in other debt, and
- acquire credit card(s) by mail, at a retail store, or at a campus table

NOTE: “Financially at-Risk” defined as:
- holding $1000 or more in credit card debt
- being delinquent on credit card payments by 2+ months
- reaching the limit on his or her credit cards, and
- paying off balances only some of the time or never

Debt risk informed by:

- Attitudes towards possessions and spending
- Personal expectations about future income
- Financial knowledge

Strongest predictor and most amenable to change.
# Multiple Opportunities to Provide Financial Literacy

## High School Students
- Feel unprepared to manage their own banking and personal finances.
- Want to learn more about how to manage their money, particularly:
  - investing (88%)
  - saving (87%)
  - budgeting (82%)
  - checking accounts (80%)
  - financing a car or a home (79%)
- 52% wished that their current high school offered financial literacy to prepare for college costs.

## College Students
- 84% want more information on financial management.
- Want to learn about:
  - getting a loan (30.8%)
  - getting a part-time job (51.6%)
  - getting summer employment (48.7%)
- 31% of incoming freshmen and 40% of first-generation freshmen arrive on campus with “very distracting and troublesome” financial problems.

## Young Adults
- Describe their financial health as either “a little flabby” or “seriously out of shape.”
- Top financial topics they wish they had learned more about:
  - living within a budget
  - the importance of saving
- Don’t feel adequately prepared to make good financial choices about:
  - using debt wisely
  - saving for the future
  - investing their money

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# High School Students Ready for Financial Education

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<tr>
<th>High School Students</th>
<th>High School Parents</th>
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<td>Nearly three quarters say it is their responsibility to fund part or all of their higher education costs.</td>
<td>62% expect their children to help with college financing.</td>
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<td>47% expect to receive financial aid in order to supplement what they are saving.</td>
<td>90% think there is a need for financial literacy in the classroom.</td>
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<td>92% of those who plan to borrow money are concerned with their potential debt burden.</td>
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<td>Among students who have access to high school courses on planning for college expenses, only 32% feel adequately prepared.</td>
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Relatively few teachers believe they are adequately prepared to teach personal finance topics.

K-12 teachers and prospective teachers acquire very little formal education in personal finance.

Only 12% of K-12 teachers had taken a workshop on teaching personal finance.

Over 60% of teachers and prospective teachers do not feel qualified to teach their state’s financial education standards.

Teacher education faculty and K-12 teachers in states with mandates are not familiar with state financial education standards.
“The number one reason for students leaving college is debt and financial stress, followed by poor academic performance and poor social fit.”

GROWING CONTRIBUTOR TO COLLEGE ATTRITION

Noel-Levitz (2011)
18% of students are in a bad financial position, and the pressure to earn extra money will probably interfere with studies.

14 percent of students who left college cited financial reasons, compared to 2 percent who cited academic reasons.

Academic Success and the Well-Being of College Students (November, 2007)
Students with poor money management, credit management, and saving behavior reported poor health, frequent depression, a low average GPA, and low academic satisfaction.

The Journal of Blacks in Higher Education (Spring, 2006)
69% of African Americans who enrolled in college but did not finish said that they left college because of high student loan debt as opposed to 43% of white students who cited the same reason.
IDENTIFYING THE LINK BETWEEN STUDENT FINANCIAL CONCERNS AND RETENTION
REFERENCES


Financial Literacy and College Success at Minority-Serving Institutions PowerPoint by Dr. Lana Low at the 2009 IHEP Symposium highlights the following:


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REFERENCES, CONT’D


