

## **Testimony of Dr. Angela Lyons, Assistant Professor of Economics**

### **"Financial Literacy Education: What Do Students Need to Know to Plan For the Future?"**

#### **Hearing before the Subcommittee on Education Reform Committee on Education and the Workforce**

#### **United States House of Representatives**

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### **Introduction**

Good afternoon Mr. Chairman and members of the Committee. My name is Angela Lyons. I am an Assistant Professor of economics in the Department of Agricultural and Consumer Economics at the University of Illinois at Urbana-Champaign. I am also an Extension Specialist for University of Illinois Extension and the Co-Director for the University of Illinois Center for Economic Education.

I appreciate the opportunity to share with you today some of my research findings as well as my thoughts on what I believe students need to know to plan for their financial futures. I recognize that the primary focus of the committee is to develop a better understanding of the financial education needs of students in grades K-12. However, in order to develop effective financial education initiatives and programs for students in K-12, it is critical that we develop a better understanding of what exactly it is that we are trying to prevent.

Over the last three years, I have been working to develop a number of research-based programs that focus on promoting and providing financial education to high school and college students in the state of Illinois and nationally. The main objective of these programs has been to identify and target "financially at-risk" students and their parents and provide them with the skills and tools necessary to become responsible financial consumers.

To support the development of these resources, I have conducted a number of studies related to the credit usage and financial education needs of college students. The most recent study was conducted this past Spring. An online survey was launched to investigate the credit usage and financial education needs of college students in the Midwest. Over 150,000 students on ten college

campuses were invited to participate in the study and over 30,000 students responded.

## **Results—Where are Students At Today?**

The findings from my research indicate that while the majority of students are financially responsible, there are a growing number of students who are financially at-risk, especially with respect to the misuse and mismanagement of credit. Prior research has not been able to clearly identify who these students are. However, my research shows that there are identifiable groups on college campuses that are more at risk than others for experiencing financial difficulties. These "at-risk" groups have specific needs for financial education programs. Addressing these needs insures that they are not at a financial disadvantage after graduation and are able to make informed financial decisions.

The results from my research specifically indicate that financially at-risk students are more likely than others to be financially independent from their parents, to receive need-based financial assistance, to borrow more in general, to have acquired their first credit card before arriving on campus, and to have acquired a credit card at a campus table, retail store, or over the phone rather than from their parents. These students are also more likely to have lower grade point averages and to be working more hours. With respect to demographics, they are more likely to be female, black, and/or Hispanic.

The findings from this research further provide insight into a few of the consequences of financial mismanagement. For example, with respect to their ability to complete their college degree, over 33% of financially at-risk students reported having to reduce their course credit hours or drop out for a semester due to their financial situation. With respect to the impact on their health, over 50% of financially at-risk students reported experiencing some type of physical and/or mental discomfort as a result of their financial situation compared to approximately 33% of the overall sample of students.

In this same study, students were asked about how important and how well they understood the topics of "personal finance and budgeting" and "credit cards and terms." Approximately 87% of financially at-risk students indicated that they believed the topic of "personal finance and budgeting" was important; however, only 58% reported that they felt they had an understanding of the topic. The findings are similar with respect to the topic of "credit cards and terms"—74% believed the topic was important while only 61% felt they understood the topic. Students were also asked about "saving and investing" and "planning for retirement." For these topics there was an even greater disparity between the percentage gaps between the level of importance and level of understanding.

The findings from this research further reveal that there are differences in the level of financial education of financially at-risk students as well as differences in their preferences for how they would like to receive financial education. Students who have taken a personal finance course are significantly less likely to be financially at-risk as are those who have sought out or are willing to seek out financial information from their parents rather than friends or the media. In general, at-risk students are more likely to seek out financial information than students who are not at risk.

## **What Do Students Need to Know?**

Given these general findings, what *do* students need to know? Following the online study, I held two advisory sessions to further investigate the financial education needs of students between the ages of 17 and 24. One meeting was held in Illinois and the other was held via teleconference with national researchers, educators, and financial professionals who had been identified as leading experts in the area of financial education for youth. Discussion focused on what students needed to know to use and manage their finances responsibly.

The experts agreed that every student needed to know primarily five key financial areas to become a responsible financial manager.

1. Students need to understand the power of their choices and be able to set financial goals.
2. Students need to be able to develop a budget and know their spending limits especially with respect to credit.
3. Students need to understand the basics of credit management and the relationship between credit and savings.
4. Students need to know how to establish a good credit history, check their credit report and protect themselves against identify theft.
5. Students need to understand the "bigger picture" with respect to financial management and the value in being financially responsible.

In discussions with both the experts and the students, a significant number of comments were made in regards to the disconnect between parents and their children when it comes to talking about finances. There is the belief that students will get information through observation or osmosis, but that doesn't happen. We talk to our children about "sex, drugs, and rock 'n roll," but we don't talk to them about money.

I have also found that students are not provided with enough opportunities to be financially engaged. To obtain a driver's license, a student typically has to take a driver's education course, get some practical experience on the road, and then take a test. Yet, with little instruction or guidance, students can obtain a credit

card, checking account, or mutual fund. Practical experience can be critical to setting a student on a successful path to financial independence.

## **How Do We Provide Financial Education?—Recommendations**

The recent economic slowdown and the rise in the number of bankruptcies for those under the age of 25 have generated concern that students are financially ill-prepared to face today's complex financial marketplace. Proposed legislation to privatize Social Security has intensified these concerns. It is clear that students are facing a significant number of financial challenges. Now, more than ever, there is a need for financial education.

The findings presented in this testimony have implications for educational outreach and policy for students nationally. I would like to put forth three areas where I feel there is opportunity for the committee to help support and further financial education for students at the national level.

First, resources are needed to support the development of financial education programs that specifically target students who are financially at-risk. These students typically come from demographic groups that have historically been constrained by the credit markets and who have had limited access to the financial markets (i.e. minority and ethnic groups, women, and students from families with limited resources). There is evidence from my research that financial education reduces the likelihood of being financially at-risk. There is further evidence that these financially at-risk groups have specific financial education needs with respect to programs and services. Thus, a "one size fits all" financial education program may not be effective for all students.

School administrators, educators, and policy makers need to identify which students are most likely to be at financial risk and which students may have specific financial education needs. This information can be used to provide appropriate financial interventions and to prevent these students from being at a financial disadvantage when they graduate. Also, resources can be better allocated to develop programs and services that specifically target those students who need them most. These resources can better help students to build financial knowledge, make informed financial decisions, use financial services responsibly, and development a sense of financial independence.

Second, there is a need for educational outreach that targets both students *and* parents. Good financial habits last a lifetime. One of the most important and practical discussions parents can have with their student is about how to manage money and use credit wisely. Communicating with students about financial responsibility is one of the first steps to helping them develop long-term financial security. However, parents are also struggling with a number of financial

challenges. A substantial number are overextended with debt and struggling with how they are going to pay for their student's college education. Some also invested too aggressively in the market and now are having to postpone retirement due to market fluctuations. Thus, effective financial education for students needs to address both the financial education needs of the students and their parents.

Finally, greater effort is needed at the national level to bring awareness to the fact that financial education is just as important as reading and arithmetic. My research shows that only 27% of college students have taken a personal finance course. However, over 75% of college students indicate that they would register for a financial education course if offered—an indication that while the majority of students have not taken a personal finance course, they recognize the value and importance of financial education. In the end, I believe that we have a good understanding of what students need to know. The question now is how do we effectively incorporate financial education in the classroom? This is the challenge. I thank you for the opportunity to appear today and would be happy to answer questions.

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