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Financial Literacy: Can It Be Taught? Should Colleges Even Try?

By Beckie Supiano

These days, it's widely accepted that colleges have some responsibility for their students' financial lives.

College affordability and student-loan debt are now mainstream political issues, peppering the speeches of the president and presidential hopefuls alike. While the job market for new degree-holders has shown signs of improvement, the path from graduation to financial independence is, for many, uphill and uncertain. Students have a lot at stake — especially those from disadvantaged backgrounds.

Many colleges have taken those concerns to heart. One common response is offering some kind of financial-literacy program, whether optional or required, inside the classroom or out. Students who know more about their finances, the thinking goes, will make better decisions about college loans, credit cards, and more. And if there's one thing colleges should be well equipped to do, it's educating students.

But what, exactly, are such programs meant to accomplish? And are they succeeding? Colleges are still in the early days of answering those questions, and the quality of their programs varies widely. "Financial literacy" is also a slippery idea. Advocates differ in how they define both the term and what the goals of such programs should be. Measuring how students respond to the training presents challenges, as does getting students to show up and pay attention in the first place.

Nicholas W. Hillman, for one, is skeptical that colleges' efforts are making a difference. "My hunch is that financial-literacy interventions are popular but lack rigorous evaluations of their true effectiveness," says Mr. Hillman, an assistant professor in the education school at the University of Wisconsin at Madison, by email. Such training, he says, "sort of reminds me of DARE programs in schools — they've never really been found to reduce drug/alcohol use, but what principal in their right mind would close down their school's program?"

There's some confusion about what "financial literacy" even means, says Beth Akers, a fellow in the Brookings Institution's Brown Center on Education Policy. Sometimes the term describes teaching students what a checking account is or how credit cards work, Ms. Akers says, but she thinks of it as more encompassing. Ultimately, she says, it should allow students to thoughtfully consider their choices. That goal probably requires a cultural change on campuses, Ms. Akers says, rather than a single notification or money-management class.

Numeracy and Literacy

The philosophy of teaching financial literacy is undergoing a big shift, says Joyce Serido, an associate professor of family social science at the University of Minnesota-Twin Cities. In its early days, the field focused on providing information, but that is now "passé," says Ms. Serido, who is the principal investigator of the Arizona Pathways to Life Success for University Students project. The name of the game is now changing behavior.

The world doesn't need one more financial-literacy resource, Ms. Serido says. The real need is to connect people to the resources that are already out there, and to help make sense of them.

Some programs embrace the decision-making model, but experts agree that colleges are all over the place in how sophisticated their approach to financial education is.

Ms. Serido counts herself lucky that her own department has a history of focusing on how information applies to students' lives. It's not unusual, she says, for business or economics majors to have a better grasp of companies' finances than of their own.

The old approach to financial literacy focused on whether students understood inflation, risk, and compound interest, Ms. Serido says. That's basic numeracy, she says, and it's a necessary component of being financially literate. But "I'm not so sure that being able to compute compound interest is the same as understanding the power of compound interest," she says. Grasping the math might lead a student to see that a low-interest savings account isn't doing much for her money. But figuring out what to do instead takes a more complex skill.

Not all experts agree that financial literacy's new direction is the right one, however. Annamaria Lusardi is a professor of economics and accountancy at George Washington University's business school. She teaches a personal-finance course and directs the university's Global Financial Literacy Excellence Center. "We should not underplay the importance of knowledge," Ms. Lusardi says.

Ms. Lusardi agrees that financial literacy is about making decisions. But she thinks that students must gain knowledge before they can make good choices. Students will face a host of financial decisions as their lives unfold and the world around them continues to change, she says. Personal finance, like any college course, creates a framework for thinking through new problems.

While some colleges offer it as a quick noncredit seminar, Ms. Lusardi argues that personal finance is an academic subject, just like corporate finance. No one follows up with people who took physics in college to see if they're thinking scientifically, she says. For that matter, no one tracks students who took corporate finance to see if they become good chief financial officers. What makes personal finance any different?

Ms. Lusardi has another concern about the idea of measuring behavioral outcomes: Who decides which outcomes are desirable? Personal finance, she says, is personal. "There are lots of situations," she says, "when what is best for you really depends on your circumstances."

Avoiding Destructive Behavior

For those who believe changing behavior is the goal, measuring the true impact of financial literacy is tricky. Figuring out what works is "the challenge of this field right now," says Phil Schuman, director of financial literacy for the Indiana University system. The traditional method — giving students pre- and post-tests — is insufficient, he says, as it measures only whether they know definitions, not what they do as a result.

Some evidence is emerging on whether financial literacy changes behavior. J. Michael Collins, faculty director of the Center for Financial Security at the University of Wisconsin at Madison, has examined credit-report data from the Federal Reserve for 18- to 22-year-olds, who are just starting to build their credit histories.

Mr. Collins and his colleagues compared the reports of young people whose states require financial education in high school to those in other states and those who attended high school before the requirement took effect. There was no real difference in how much the young adults borrowed, Mr. Collins found, but those who'd received financial education were somewhat less likely to miss payments, and had slightly better credit as a result.

The Arizona project Ms. Serido runs has found that financial education plays a role in well-being, helping differentiate young adults who flourish after college from those who struggle. Researchers typically ask whether financial training helps students thrive, Ms. Serido says, but she now wonders if that's the wrong question. So far, her data suggest that the training's real power is in helping students avoid truly destructive behavior.

Future vs. Present

Relatively few college programs are set up in that way, but financial literacy is part of wellness, says Mary K. Johnson, vice president for financial literacy and student-aid policy at Higher One, a company that helps colleges process student payments and refunds. "Ninety percent of money management is really psychological," she says. Programs should help students understand their relationship with money — what factors cause them to overspend, for instance.

Such education also has to meet students where they are at key moments. Instead of providing information or counseling students about how to make future decisions, financial-literacy programs should "help students create structures that will help them manage their money," says Ben Castleman, an assistant professor of education and public policy at the University of Virginia.

"When it comes to money, we run into this tension between what we want in the future and impulses in the present," Mr. Castleman says. The trick is helping students resolve that tension for themselves.

How would that work? A college could help students set up savings accounts they could direct toward their own particular goals, like saving for graduate school or to buy a car, Mr. Castleman says.

Colleges could start by offering the accounts as a perk to students in work-study programs, Mr. Castleman says. Providing the accounts could even be set up as an experiment, letting researchers determine if a wider group of students would benefit from having them.

Staying Awake

For now, campus financial-literacy efforts face other, enduring challenges. Chief among them is engaging students with material that even those teaching it admit can be dry. "I'm surprised I'm able to stay awake," says Indiana's Mr. Schuman. Personality, not just subject-matter expertise, matters.

Indiana is also trying to be creative in branding financial-education efforts. One recent move is an ad on a campus bus showing a wise pig battling a "debt monster." When classes start up in the fall, staff members in the financial-literacy center will hop on the bus periodically to quiz students on money management and hand out prizes.

Another key is keeping the material relevant. "It's just hard to get a 22-year-old interested in when they're 70," says Bill Gale, director of the retirement-security program at the Brookings Institution. That means talking to middle and high schoolers about paying for college and to college upperclassmen about salaries and benefits.

Such education, in other words, has to be part of a sustained effort. "If there's one thing we know about financial education," Ms. Johnson says, "it's not a one and done."

Eric Johnson, assistant director of communications in the financial-aid office at the University of North Carolina at Chapel Hill, says he used to be more of a believer in financial literacy. Mr. Johnson, who is not related to Ms. Johnson, still thinks it's valuable, and something colleges should teach. But he's less sure it addresses the real financial problems students face.

Sure, educators can explain a complex process like applying for financial aid. But another option is for policy makers to simplify it — an idea many experts support.

Then there are the problems that neither education nor education policy is likely to fix. "There's no amount of financial literacy that can make up for the fact the job market is not performing as well as it used to be," Mr. Johnson says. Financial literacy won't solve broader economic problems. But done well, it can at least help students cope with them.

Beckie Supiano writes about college affordability, the job market for new graduates, and professional schools, among other things. Follow her on Twitter @becksup, or drop her a line at beckie.supiano@chronicle.com.

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11209892 · 2 days ago

Why is it that students, and their parents don't want to take responsibility what is clearly their issue?

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Joe Joe · 2 days ago

Colleges teaching "financial literacy" is like Las Vegas casinos running Gamblers' Anonymous meetings. Both colleges and casinos depend heavily on the ignorance of their customers for continued profits.

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gentleman · 2 days ago

Financial Literacy Programs work best when they are individually tailored to the unique needs of each University. I was the acting controller at a University that had a large percentage of first generation students that did not have the parental support that more traditional college students have. We established a voluntary, 5 week program that met for 1 hour each week. We used student instructors to lead groups that were structured with a small group presentation/discussion format. We asked campus stakeholders like our dining services to donate snacks and other businesses to donate gift cards that we raffled off to each week's attendees. We had a formal graduation program that honored all "'graduates". While the Office of Finance was the original sponsor of the program, we successfully transitioned the program to a student run campus club. I agree that quantifying actual tangible results is difficult, but with a small seed investment, you can start a program that will be impactful for your students. I do know what will be the outcome should colleges continue to ignore this problem. For more info on the program
https://www.facebook.com/Monar...

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Reythia · 2 days ago

Two thoughts:

First, as this article notes, classes in financial literacy don't actually reduce the amount of loans students actually take out? Why not? Because most of them actually use most of that loaned money to pay for college! That is, it's not (mostly) being wasted or used on trivial things.

Second, I find it ironic that schools are considering mandating an extra class in financial literacy to combat the fact that many of their students go into debt to pay for college. How, precisely, is adding ANOTHER class' tuition fee going to help students who are already struggling financially?

Sorry, but the primary problem that most students are struggling financially isn't because they're any dumber (or smarter) about money than their parents and grandparents were. It's because when their parents and grandparents were college aged, they could (a) get a well-paying job with just a HS diploma or (b) pay their way through college by working a lot over the summer and/or on weekends. Neither of those situations currently exist, which is why so many more students end up heavily in debt when they go to college. If colleges REALLY want to help, the best thing they could do is reduce the total price of college.

• Reply • Share ›

Unemployed_Northeastern → Reythia • 2 days ago

^This.

• Reply • Share ›

Joe Joe → Reythia • 2 days ago

^THIS (again)

• Reply • Share ›

Mella08 • 2 days ago

Parents are supposed to (1) set an example of good decision making and (2) teach financial literacy. This starts when children are old enough to understand the concept of the value of work. Schools can teach it but it won't stick until students overspend and then recognize what they have done (sadly). Colleges can reinforce what they should have learned but can't really convince anyone to live within their means until it hits them where it hurts.

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John Pelletier • 2 days ago

If a college is allowing students to finance their education with student loans, then that college has a moral obligation to help the students understand how credit works, including credit scores. This requires more than brief mandatory entrance and exit counseling for students with federal loans. Student feedback indicates that most do not comprehend the information provided in these sessions and view the the information as one more requirement of the financial aid process rather than a learning opportunity. If a college is going to be financed by student loan dollars, it should be required to provide financial literacy education. Such education should be provided by highly trained individuals and the efficacy of the program from a knowledge and behavior perspective should be measured. We know that college students often have not received personal finance training in grades K-12 or at home. Yet despite this fact, colleges are loading them up with debt, but are not giving them the tools that they need to responsibly manage the debt burden they are taking one. I am proud to be affiliated with Champlain College where we require all undergraduates to participate in personal finance instruction as a graduation requirement. It is the right thing to do.

• Reply • Share ›

Henry88 • 2 days ago

I think that plastic (credit cards) is a major contributing factor. When young people paid cash, they could see their wallet getting thinner. Now it is just swipe and maybe sometime in the distant future they'll have to reckon with it.

• Reply • Share ›

Bill → Henry88 • 2 days ago

Not just students, but all of us. Instant access to revolving credit is a problem for a lot of people.

• Reply • Share ›

outreachatesc • 2 days ago

I'm just wondering where financial literacy was shared or taught prior to the current generation of students?

1 • Reply • Share › Show 1 new reply

oh7dp • 2 days ago

What a joke. Most college students--even the rich-- get a brutal lesson in economics just by attending college. Many of them are vastly overcharged for a mixture of adjuncts and full professors distracted by research. They choose their school based on some list built by US News and the fanciness of the gym room. Then they eventually discover that "financial aid" isn't really aid but a scheme to push high interest loans as an indirect form of taxation.

There are a lucky few who pay a respectable price after loads of discounting but they're usually smart enough to keep their mouth shut because the suckers stop inviting them to the keggers they throw to self-medicate as they start to realize just how much debt they've taken on.

1 • Reply • Share ›

mbelvadi • 2 days ago

Once again higher ed is expected to remediate the failures of the public K-12 system. Much less than 50% of the population will attend college, and surely financial literacy is a basic skill that all citizens should have, so the focus should be on teaching it in high school, not college. Non-college-goers may not have student loans, but they have car loans, credit cards, etc. and are probably much more likely to use payday loans and other such scams and arguably need the financial literacy far more than college students do.

7 • Reply • Share ›

selfdeflection → mbelvadi • 2 days ago

Not K-12 responsibility, I would say. This is something parents traditionally teach. In years past, this was something everyone understood: the importance of saving, budgeting, self-control (and this was even truer of those at financial risk.) Family businesses and farms taught these lessons immediately and brutally. Now we have so many safety nets and so little expectation of resourcefulness and autonomy that the very idea of folks being responsible for knowing about and doing what's in one's own interest is radical. And it has nothing to do with fancy investment vehicles; what's missing are the basics. This is what families should be doing, beginning before children even start school.

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11228663 → mbelvadi • 2 days ago

Why point the finger at one or the other? Financial education should be an ongoing thing from K-16. That's like saying "They don't know the proper use of a comma? That's the fault of their 3rd grade teacher and the parents."

We're so worried about making education about training future workers that we completely ignore taking the steps to make them competent members of society. You could argue that there are some who benefit from students being completely clueless about debt, credit and other finance basics. But we can do better as a society and as educators than to kick the can at someone else when we should be integrating this at every level.

1 • Reply • Share ›

Hyptiotes mbelvadi • 2 days ago

We don't need any financial literacy education. Americans are doing great. If you need money, there are lots of options to help you save. You can go to the local payday loans of course. If you need some furniture, but can't afford it, stop by rent-a-center. A car? Lease it, because you can drive something that you otherwise couldn't afford. When I want a computer, I just go to one of those online bidding sites and keep trying for it until I win it for only $26! Buy off-brand cigarettes and buy your lottery tickets in bulk to increase your chances of winning. If you still don't have enough money, you can always raid your 401K or ask your mom and dad for some early inheritance until the earliest time you are eligible for social security. Second and third mortgages are always an option plus reverse mortgages when you get old. If you need financial planning, just ask an insurance guy and they'll sell you a variable annuity that means you never run out of money. Nope, Americans have no need for a financial literacy class.

2 • Reply • Share › Show 3 new replies

trendisnotdestiny • 2 days ago

Supiano's article probably should mention Helaine Olen's book, Pound Foolish as well as Henry Giroux's work. Nonetheless, it is an important topic.

Should Financial Literacy be taught? Sure. But, at present, this education is aimed at the individual as a single economic actor (homo economicus), whereby his/her decisions are assumed to be directly related to positive outcomes. This is problematic because the underlying financial system is rigged (Warren, 2015).

True "Fin-Lit" should be about helping young adults attach to real lived experience rather than costly textbooks, anti-septic definitions that appear to apply to young people's lives but tend to be expensive diversions (college tuition is higher than it has ever been).

A third factor beyond the prevailing lens in which Fin Lit should be taught (poor history of theory - historical borrowers of theory from social science) and the lack of real, applied information (i.e. student loan debt analyses), is that the job market has been gamed as well. Our government uses self serving data to massage numbers in an effort to persuade us that they are creating jobs. However, we know that this is a formalized version of lying.

In fact, Jonathan Schmitt's CEPR January 2015 Report chronicles "Failure on Two Fronts": 1) Broken US Job Market --- the US job market has never recovered since 2000 and fell off a cliff in 2008. With all of this non-disposable student loan debt, one might think it important to have jobs available to help student avoid debt peonage. In addition, most employment gains celebrated by politicians in a post-war America are due to women entering the workforce or because of how employment figures are calculated (individuals who have or because of how employment figures are calculated (individuals who have stopped looking for jobs are not counted in the figures - how the number crunchers know this is a scam, but it also points to a big problem between what power thinks is happening and what is really happening. 2) Massive Inequalities - widening wage gap (plus a stagnant wage rate) leads to a wage distribution where those at the top have really grown but the middle and lower ends have lost ground.. Nothing new if you have been following Elizabeth Warren's work.

Finally, the market for financial literacy is mostly funded by large institutions, TBTF banking interests, and new for-profit companies looking to exploit the individualistic DIY financial education market --- Its pretty sad that the kind of education one needs to survive financially is being delivered by those who brought us Neoliberal Finance.

Any financial education course worth its salt is going have to address the history of financialization, neoliberalism (applied and theory), and how debt is used as a tool of subjugation (Hertz, 2004). Larger macro collective financial ideas need to be a part of any financial literacy course! But our corporate overlords do not want that.

1 ^ | v • Reply • Share › Show 1 new reply

IkeRoberts • 2 days ago

Managing personal and family finances, as well as how to feed you family a safe, healthy and interesting diet, were formerly know as "home economics." These are important life skills deserving of serious teaching. The questions is where they are to be taught. Segregating high school girls into classes on these subjects, as was done in the past, seems an unlikely and undesirable approach.

The article seems to focus on college economics courses as the baseline, which is a different subject. No wonder the people interviewed find academic economic courses a poor basis for developing sound personal finances.

1 ^ | v • Reply • Share ›

oh7dp → IkeRoberts • 2 days ago

Yup. The Keynesians keep preaching that we can spend as much as we want because it creates jobs. That might work for some governments but it won't work for the family home. Macroeconomics is actually anti-teaching of financial literacy. It should be banned from that area.

^ | v • Reply • Share › Show 1 new reply

corwinamber • 2 days ago

Start by auditing campus policies -- do they profit from letting students charge tuition on expensive credit cards? Then point out it is generally wiser to have checking accounts and a single credit card from a low/no fee credit union than a bank, and perhaps use a default process of enrolling students in a state or local credit union as part of arranging loans/tuition payments or workstudy payments (nudge, behavioral finance strategy, cf Thaler "Misbehaving"). Find affordable ways to borrow/loan textbooks. At some campuses low income students wait weeks to get the money to buy textbooks, undermining their success in courses that actually use them.

^ | v • Reply • Share ›

willynilly • 2 days ago

If all students were serious, well motivated and thinking at all about their future, it would likely be best to try to teach financial literacy in the junior and/or senior year of high school. Immediately upon completion of high school, individuals are faced (or should be) with their first independent financial decisions. They are 18 years of age, they are adults but some still regard themselves as "kids" and continue to defer financial matters to their parents. The initial range of decisions individuals "should" be making upon high school completion are: College selection and cost considerations; employment and salary requirements, re: cost of living at home, costs living independently; military enlistment, securing skill training with lifelong carryover value, savings programs, goals after the military; or doing nothing, cost impact on parents. Our youth need to confront these issues much earlier than have past generations - either late in their high school experience or early in college for those who elect formal post secondary experiences. College candidates (18 year old's) must begin to be directly involved in college costs even though their parents are the likely payees. College tuition and all the other related costs can be a huge drain on a family impacting its stability on those who are still living in the home. College choice and cost thereof is a HUGE consideration and decision and best made when the potential student is an active participant. The other benefit to such participative planning is the high likelihood that no family or no potential enrollee, upon completion of a thorough analysis, would ever select a for-profit rip off school as the institution of choice. Careful review and analysis rules those dumps out every time.

• Reply • Share ›

Richard Sherry willynilly • 2 days ago

Congratulations on one of your longest transitions-into-your-real-topic I've seen in months. You get the "delayed gratification" prize this week.

1 • Reply • Share ›

fullprof99 • 2 days ago

Right. My institution added a financial literacy course to its gen ed program, which turns out to be just three more credits that students aren't taking in more rigorous courses. Financial aid advisers probably could be handling students' needs in this area on a one to one basis much more efficiently and expeditiously than the generalized stuff being taught in the course. Ask students what they think, and they are pretty uniformly cynical about the course, seeing it mostly as (surprise, surprise) the "U" trying to get another three credits of tuition out of them, though that was not at all the aim of the well-meaning faculty members who pushed through the new requirement.

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shawnpg fullprof99 • 2 days ago

Just curious, who's teaching the courses?

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selfdeflection • 2 days ago

Things we are now supposed to teach in college:
Financial literacy, multicultural competence, resilience, team-building, wellness behaviors, use of technology, prosocial skills, career seeking, website building, leadership, conflict resolution, media literacy, sexual assault and alcohol awareness, communication skills (how to talk and write [!]), personal decision making...the list gets longer each time someone notices how lacking our students are in basic adult competencies. All of these need to be mastered long before students get to college. We are not parents, therapists or rehab workers. Can we have no expectations at all of our students? We simply can't remediate every deficit.

6 • Reply • Share ›

Hyptiotes → selfdeflection • 2 days ago

And the army of staff and specialists needed to teach this is a significant reason why college tuition has gone up.

2 • Reply • Share ›

shawnpg • 2 days ago

The best financial literacy "opportunities" are in advisement meetings.

"So, you seldom attend class, you have a 2.04 GPA (thanks to three As in your online classes), you've been here two years, and you want to change majors AGAIN? Look, at this rate, the job you get with a degree will be no better than one you could get without. You should go."

Or

"Yes, I know your me General Liberal Arts major doesn't REQUIRE you to take a basic economics course, but...."

Or

"What are your career goals and have you spoken to anyone in that field about their educational path?"

We know how debt disasters happen, but it's part of the business model. I see this whole movement as an enormous CYA campaign; like the surgeon general's warning on a pack of cigarettes.

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Dave M • 2 days ago

thank goodness there was an explanation for the graphic on the bus. I didn't have the faintest idea what that thing was supposed to be.

2 • Reply • Share › Show 2 new replies