Developing the Personal Financial Literacy of College Students

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ABSTRACT

Implementing a personal financial literacy course within an undergraduate program presents numerous challenges including: turf battles; its supposed lack of academic content; it is best taught in high school or by parents; etc. At Kent State University, a low key approach seems to have avoided many of the typical objections to a personal finance course. A new course, Me and My Money, has generated excellent student acceptance for those who have taken the elective course, possibly due in part to overall economic concerns. Regardless, efforts have begun to foster financial literacy, and a second phase is commencing with the goal of assuring all Kent State graduates have sufficient financial literacy to effectively manage their personal financial affairs.

INTRODUCTION

Kent State University ("Kent") is a public Carnegie Research University, Level II, located in northeast Ohio, approximately 40 miles southeast of Cleveland and 15 miles northeast of Akron, Ohio. In terms of enrollment, it is the second largest university in the State, with nearly 25,000 of its 35,000 students located on its Kent campus. The University operates seven regional campuses.

For many years, personal finance was taught only as an elective course available to students of the business college through the economics department. That particular course had not been taught in a number of years, when in the fall of 2006 the finance department, sensing a student need, converted an existing individual investments class into a personal financial literacy course. Thirty-four students were enrolled in that initial class. Since then the individual investments course's reputation has grown and enrollment has averaged 61 students per section this past academic year. In total, seven sections have been taught over three years to 292 business students, a minuscule proportion of the University's total population. Students who took the class said that they "learned a lot of valuable information" and suggested "every student should have to take this course – its awesome." Another student noted "Everyone is going to need to know this information . . . not just business majors," which prompted some "out of the box" thinking.

With personal financial illiteracy rising among Americans, continuing concerns over the misuse of credit cards by college students, and rapidly increasing student loan indebtedness there was an evident need. Considering that the October, 2005 change in the bankruptcy laws no longer permit the discharge of student loans through the bankruptcy process (BAPCPA, 2005), there was an undeniable need to promote financial literacy among all Kent students. In 2008, the average Kent graduate earned a below national average starting salary of $35,000, but left college with student loan indebtedness of $23,500, slightly above the national average. Add to that amount an estimated credit card debt balance of over $5,000, and the average student was starting their working career behind the proverbial financial eight-ball.

PEDAGOGY

A new elective course was proposed. The course, as conceived, was a derivative of an existing individual investments course, but with less business jargon and a "math-light" approach, so as to appeal to non-business students. *Me and My Money* is an elective course, specifically designed for students who have never taken a business course and directed towards those nearing graduation when their financial fears and needs are most pronounced (Blumenthal, 2009; Lusardi, 2008). The course debuted the Spring, 2009 semester as a once-a-week three-hour evening class. The class was purposefully scheduled in an Arts & Sciences classroom building, in recognition of a perceived anti-business bias among many of the targeted students.

Several ads were placed in the *Kent Daily Stater* during registration, and with word-of-mouth promotion, initial enrollment totaled 57 students representing 27 different academic majors. Seniors were targeted, and comprised 53% of the enrollment, while 32% were juniors and the remainder underclassmen. On the first day of class, students confirmed their fears were weighing heavily upon them as many faced the realities of working, paying bills, etc.

The course content was similar in nature to the goals established by the Financial Literacy & Education Commission that fundamental skills should include: "1) budgeting and saving; 2) shopping for financial products; 3) delaying gratification; 4) understanding credit cards; 5) setting financial goals through life; and 6) understanding options and resources . . ." (Financial Literacy & Education Commission, 2006, p. 95).

The *Me and My Money* curriculum was developed around practical day-to-day needs, and utilized the "light" version of *Focus on Personal Finance* by Kapoor, Dlabay and Hughes, 2nd edition. The text-related <u>Homework Manager</u> on-line homework system was employed, since <u>Homework Manager</u> supposedly provided on-line easy to use assistance and reference to students as they worked on their weekly assignments.

Deviating from the text's structure, the class began with a focus on securing gainful employment, beginning with a review of the student's resume and in-depth discussion of how to mount an effective job search campaign. Generally, Kent students generally expressed displeasure with the school's placement/career advising services. Once resume structures and search protocols were addressed, students were asked to contemplate and quantify their starting salary expectations at graduation. Using a class consensus students were then required to construct a spreadsheet detailing lifetime earnings, subject to certain assumptions, including 3% annual raises. In other words, it was assumed that the students would be average performers, simply keeping pace with historic inflationary trends. Students also had to project their savings in an employer sponsored 401(k) plan, assuming a 6% annual contribution level, and a 3% employer match. The projection exercise prompted discussions about the time value of money ("TVM"), in terms of earnings, savings, and investment returns (Kapoor, et al, 2008).

The initial spreadsheet exercise was also designed to provide confidence to non-business students regarding their ability to construct a spreadsheet, and fully understand the benefits of TVM, in a personally relevant manner. For most, it was the first time students actually contemplated their lifetime earning potential. Variations of the model demonstrated the potential effects of improved career performance, including the consequential effects of earning a master's degree. Those initial projections provided a linked basis for subsequent class discussions.

The consensus of the class was that their starting salary, at age 22, would be $43,000. This meant that with 3% annual raises, at normal Social Security retirement age (67) they would be earning $162,609 annually. Over their 45 year working career total earnings could reach $4,149,563. Students also saw, that with consistent savings, and investing at an average return of 10% per annum, assuming historic long-term return rates on equities, that they could amass a retirement savings of $4.4 million. If principal was drawn from their saving at a 4% rate, students soon realized that their annual retirement benefit would equate to 109% of their ending salary. They also saw how investing at a 5% annual return would yield just $1.1 million in savings, and that investing on a "risk-free" basis earning only a 2.0% annualized return that their retirement nest egg would total just $551,000.

Their annual gross income of $43,000 became the basis for constructing a detailed budget. Again, nearly none of the students had ever attempted to construct, much less live by a budget. The results were eye-opening, and disheartening to many of the students. While $43,000 seemed an immense amount to most of the students, reducing it to a monthly take-home basis, prompted discussions about taxes, benefits and other paycheck withholdings. In-turn students began to realize just how much money they would have to live on, including housing and food expenses, transportation costs, and debt service requirements. The class used implied average student indebtedness to determine loan and credit card payments, to calculate debt service requirements and analyze options related to such debts.

From there, class discussions turned to the effective use and cost of financial services. In addition, the importance and structure of FICO (credit) scores was reviewed, as well as the critical process of purchasing decisions, and why financial discipline needs to be constantly practiced. Suzy Welch's 10-10-10 concept was cited as a possible methodology for decision making; i.e., questioning what is the consequence of a decision in 10 minutes, in 10 months and in 10 years (Welch, 2009).

The concept of a personal net worth statement followed, since periodic tracking of an individual's net worth is a relatively simple measure to calculate and track progress towards longer-term wealth accumulation goals (Kiyosaki & Lechter, 1997). The benefits of tracking net worth every six months were demonstrated in terms of an easily understood personal metric.

Students were reminded that wealth, in and of itself, can not assure happiness, but wealth does permit choice. With choice, the prospects for personal happiness expand exponentially (Botti & Iyengar, 2006).

Class members were required to consider a lease/buy decision regarding a new vehicle, which helped confirm the merits of the choice observation. Likewise the class had to consider what it would take to buy a home (Opdyke, 2006), in the post sub-prime era of tighter lending standards, which are likely to continue for many years, thereby defining the housing industry of the future.

The class discussed the role of insurance in their personal financial planning, starting with the ever-increasing costs associated with health care. Life insurance needs were explored, as were shortcomings associated with various forms of life insurance. Likewise, the need for and costs associated with disability income coverage were reviewed. The role of insurance in protecting one's property and against one's own negligence was discussed in great detail.

Towards the end of the semester, the course provided an introduction and overview to investing. Concepts of risk tolerance, valuations, and investment alternatives were presented and discussed. Greater emphasis was placed on understanding mutual funds since mutual funds can provide desired diversification and a lower-risk avenue for the uninitiated investors to build their confidence and knowledge of investing. Mutual funds are typically how students will initially enter into personal investing activities through participation in employer-sponsored 401(k) or health savings accounts, or through personal IRA or Roth IRA accounts.

The planned curriculum concluded with consideration of basic estate planning needs and activities, including the need for a living will and a healthcare/durable power of attorney. An overview of various strategies to protect students' estates was provided, on the presumption that the students might have involvements with their parents' or grandparents' estates, and eventually would personally succeed in their own accumulation of an estate.

Throughout the semester, each class was begun with an "In personal financial news . . . " segment. That segment was used to demonstrate the constantly changing environment in which personal finances operate and help establish the invasive nature of financial concerns into everyone's daily life.

Me and My Money students had the good fortune of attending a rare Suze Orman on-campus lecture in early March. Ms. Orman's comments about the current economic situation helped solidify, in the students' minds, the importance of taking control of their financial future (Orman, 2008)

Being an academic course, an objective basis for assessing the student's progress was necessary. Besides tracking student performance on assignments performed on Homework Manager, periodic in-class quizzes were used to help assure pre-class readings were read. Attendance also became important, since much of the class discussions supplemented text related lessons, or introduced topics not addressed in the text. Three multiple-choice exams were given during the semester, since students in the individual investment analysis class felt more, rather than less, exams, were desired due to the extent of material discussed.

LESSONS LEARNED, REACTION, AND ADJUSTMENT

Final grades consisted of 22% A's, 27% B's, 24% C's, 6% D's, and the remainder F's and withdrawals. The instructor committed a serious error when he told students during the first class session that the class was about them, and not necessarily about grades. Some misinterpreted the instructor's message. Eight students seldom bothered to attend the class, while nine seldom did their assignments on Homework Manager. A strong positive correlation was observed between those who attended scheduled class sessions and performance on the three examinations.

Following the end of the first semester, student reaction and input was sought. As a result, a number of changes are planned for the two sections being offered fall semester of 2009. Students expressed their feeling that the text was very readable (68%) and a majority (63%) indicated that they would be holding onto their copies for future reference. The on-line Homework Manager product is being dropped since 52% labeled the program as a "waste of their time." For the fall classes, more in-class exercises and take-home assignments are being planned. Students strongly (91%) recommended twice a week class sessions, due to the vast amount of information presented. While a twice a week class has been scheduled for the fall, a once-weekly evening section is being offered for working and commuter students. Overall students felt that the course content was all necessary, though the emphasis might be adjusted away from technical issues, such as taxes. Thirty-five per cent of students felt that the exams were “too difficult,” while 47% felt that the exams were “just right” in terms of difficulty or were “easy” (3%).

LIBERAL EDUCATION REQUIREMENT

Concurrent with the initial class offering, efforts were initiated to designate the personal financial literacy course, *Me and My Money*, a liberal education requirement, or “LER.” The timing was opportune. The University had initiated a “21st Century LER ‘Kent Core’ Committee” to create a revised set of guiding principles premised on a learner-centered approach to education focused on the programmatic learning outcomes of knowledge, responsibility, insight and engagement (the KRIE principles). *Me and My Money* received approval as an elective applied literacy LER, within the KRIE criteria, commencing with the Fall, 2010 semester.

To secure the LER status, numerous approvals were required from the Finance Department, College of Business Administration, the LER Committee, and the University.

While LER status was achieved for *Me and My Money,* efforts have commenced to require all Kent students take a mandatory personal financial literacy course in their senior year. Likewise efforts have begun to assure all incoming freshmen are introduced to basic financial concepts including the use and misuse of student loans and credit cards, and the need to develop their personal FICO score while pursuing undergraduate studies. Students need to be aware of the importance of their FICO score, since many employers use FICO scores, along with GPA and other measures, to determine a students’ employability (Orman, 2008).

At Kent, most academic departments and colleges readily acknowledge the need for personal financial literacy. The LER approval process brought to light only minimal concerns about the *Me and My Money* course since the initial approval simply added the class as another LER elective. Seeking mandatory status for a personal financial literacy course may engender some turf battles, especially as the University adopts Responsibility Center Management (“RCM”). RCM is a method of allocating revenues and costs to Colleges and departments. Each marginal student becomes a source of revenue available to help Colleges and departments cover faculty and other expenses.

LONG-TERM PROSPECTS

Long-term, funded in-part through the proceeds of RCM, creation of a University Center for Student Financial Literacy (“Center”) is envisioned. The role of the Center would be to develop student based course material, including a Kent-specific text, and to recruit qualified adjuncts who could effectively teach financial literacy in class sections not to exceed 35 students. The literature suggests smaller classes taught by seasoned instructors, utilizing a well-defined curriculum will best serve student needs (Ice & Epplin, 2008) The proposed Center would also coordinate freshman financial orientation efforts, and render advice and counseling to students who encounter financial difficulties.

The proposed Center would be primarily funded by student tuition under RCM, but private industry support and foundational grants will be sought. The additional funding would be used to underwrite the creation of a Kent specific text, plus related on-line homework and support systems. Also envisioned is providing each student who completes the *Me and My Money* class with a pre-paid subscription to one of the personal finance magazines (i.e., Kiplinger's; Money; or Smart Money). The intent is to help promote a life-long interest and learning about personal financial matters.

As personal financial literacy becomes an integral part of Kent's undergraduate curriculum, financially successful students should become better positioned to fund future University development activities, which in-turn will strengthen the overall institution (Lusardi, 2008).

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