RESEARCH BRIEF

The ROI of Financial Education

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Executive Summary

Financial education programs have become a trending topic on many campuses as the nation's collective student loan debt soars into the trillions and becomes our country's second-highest level of personal debt.[1] Additionally, with greater debt comes greater risk of student loan default, particularly among those students who leave school prior to program completion. It makes sense, then, that schools are focusing efforts to financially educate students as part of targeted outreach or overall student lifecycle initiatives.

Yet, the very nature of financial education dictates that its results are often not immediately seen among this population; college students may not feel the need to immediately apply personal finance concepts like saving or investing, and the effect of financial literacy on student loan default is measured years after the student leaves the institution. These factors make it hard to know which strategies are effective or will gain schools the greatest return on their efforts. The Return on Investment (ROI) of financial education, so to speak, is hard data to gather, leaving many schools to ask if such programming is worthy of their limited, valuable resources.

FINANCIAL EDUCATION is a critical piece of the student success equation

By examining existing research and analyzing trends in higher education, we can find supporting evidence for including financial education as a critical piece of the student success equation. Among the benefits to be gained, we can see that the ROI of financial education manifests itself in the following ways:

- Meets student needs by addressing financial stress, a leading factor in student attrition, as well as by fulfilling student requests for such education;[2,3]
- Creates additional touchpoints throughout the student lifecycle to promote student satisfaction and therefore increase persistence;[4]
- Contributes to institutional goals of educating the whole student and preparing them for life, forming a strong sense of post-graduate satisfaction for students; and
- Provides data that shows improved financial behaviors among students who are exposed to financial education versus those who are not.[5]

Financial Education: Addressing Student Needs

The popularity of financial education is growing, a positive trend that coincides with self-recognition among students that personal financial management is a critically needed skill: an overwhelming 99 percent of college students ranked such skills as very or extremely important. Despite this fact, only 23 percent of students actively seek out information to improve their regular financial habits.[3] Educators will most likely not be surprised by these contradictory messages; after all, many students simply don't have the time or energy to focus on topics that are not part of their required curriculum or do little to keep them engaged. Financial education is, from a student perspective, often presented in dry, lengthy lessons that come across to learners as impersonal, therefore irrelevant, and uninteresting. It is precisely for that reason schools should take a closer look at integrating financial education into the student experience.

PERSONAL FINANCIAL MANAGEMENT

99% Ranked as VERY or EXTREMELY important

23% Seek help to improve financial habits

Consider the following statistics from an Inceptia study regarding the top five student stressors that can impact degree or credential attainment and academic performance:

Stressor	Mean Score*	Percentage who ranked stressor as causing Extreme or High Stress
Need to Repay Loans	3.83	52%
Cost of Education	3.74	59%
Borrowing Money for College	3.67	49%
Need to Find a Job After School	3.66	54%
Academic Challenge of Courses	3.48	52%

*1 = No Stress; 2 = Not Much Stress; 3 = Some Stress; 4 = High Stress; 5 = Extreme Stress;

Out of 11 possible sources of stress, including family life, work commitments, academics, time management, and personal finance, students themselves ranked financial factors as the top four stressors.[6]

Students are telling us in no uncertain terms that they need help managing their money and their student loans to academically survive, not just through this data, but also via their candid survey responses[7]:

> *"The financial stress has caused me to think about dropping out. Also has made me think that I just couldn't do my classes and caused me to do poorly on assignments and tests when thinking about it too much."*
>
> *"When all I can think about is money and how much I'm going to owe or how I can't afford supplies, it's hard to stay focused in school."*
>
> *"I have set myself back by taking fewer credit hours in order to stay alive financially."*
>
> *"I can't afford to take the classes, but I can't afford NOT to take the classes."*

At best, these stressors can result in presenteeism: the act of showing up to class but not truly engaging due to distraction. At worst, these stressful thoughts and feelings can be detrimental to student persistence toward course or degree completion, with 54 percent of respondents indicating reduced course loads or negative academic performance as a result.[6]

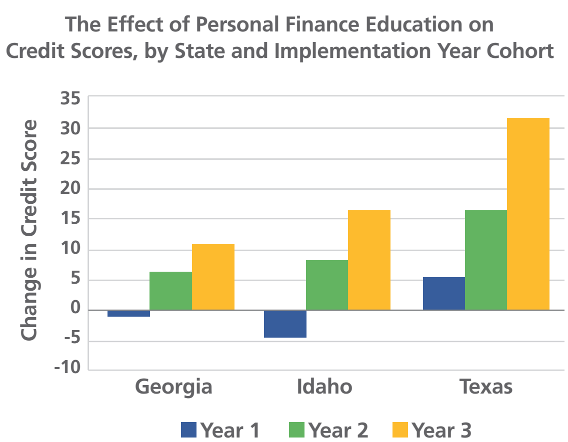
With this student feedback in mind, we can return to the issue of financial education as a critical part of student learning. We know students resoundingly find financial management skills to be important. We know students are suffering personally and academically without them. Yet we also know students typically will not self-educate in order to increase their financial literacy and reduce financial stress. This convergence of research makes it evident that postsecondary financial education programming is not only a missing piece in addressing overall student wellness, but making this required learning is the key to helping students help themselves. Financial capability can alleviate the leading sources of student stress, allowing students to fully commit to academic achievement while also providing the confidence to manage personal finances while in school and beyond.

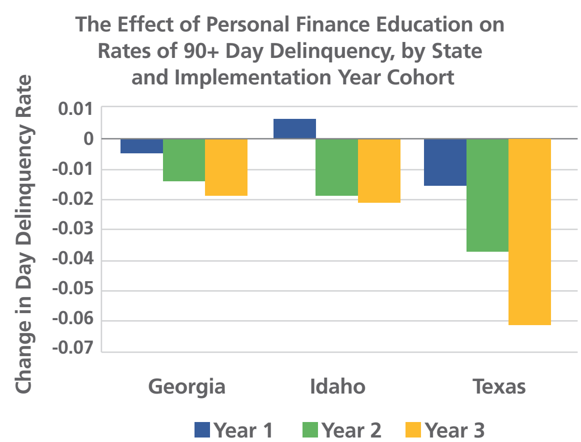
> *"…Colleges…have an obligation to ask how we can continue to improve the experience of gaining financial literacy and those outcomes for our students. We must do this as institutions concerned with transparency, accountability and access, and as institutions whose primary and time-honored concern is to educate the whole person."*
>
> –Steven Bahls, President, Augustana College[8]

Can Financial Education Really Make a Difference?

To answer this question, a recent FINRA study examined the effects of mandated financial education on behavioral outcomes over time. By examining the financial habits of students for the four year period from ages 18 to 22, researchers were able to identify significant differences in credit behavior between students from states with financial education mandates versus those without. Specifically, students who had been exposed to mandatory financial education in Georgia, Idaho and Texas demonstrated the following financial gains in increased credit scores and reduced credit account delinquency[5].

	Credit Score Improvement by Points	Credit Score Improvement by Percentage	Credit Delinquency Decrease by Percentage
Georgia	11	2%	10%
Idaho	16	3%	16%
Texas	32	5%	33%





This data confirms research conducted previously by the National Endowment for Financial Education in which students who had participated in mandatory financial education in high school surpassed their non-educated peers in being:

- More likely to save
- Less likely to max out credit cards
- Less likely to make late credit card payments
- More likely to pay off credit cards in full each month
- Less likely to be compulsive buyers[9]

The results of these studies are extraordinary in that they not only provide concrete evidence that mandated financial education can and does impact financial behaviors, they also show effects are often seen downstream. These lagging indicators of financial education outcomes speak to the previous point that college students may not employ their learning immediately, which makes it hard to gather metrics at the time of program implementation. This research, however, shows that positive results can be attained with focused, mandatory financial education that is assessed over time to determine true program efficacy.

> *"If we could do **one** thing to change the trajectory of the next generation, it would be to **help them become fluent** in basic financial and economic principles."*
>
> –Andrew Ross Sorkin,
> New York Times Financial Columnist[10]

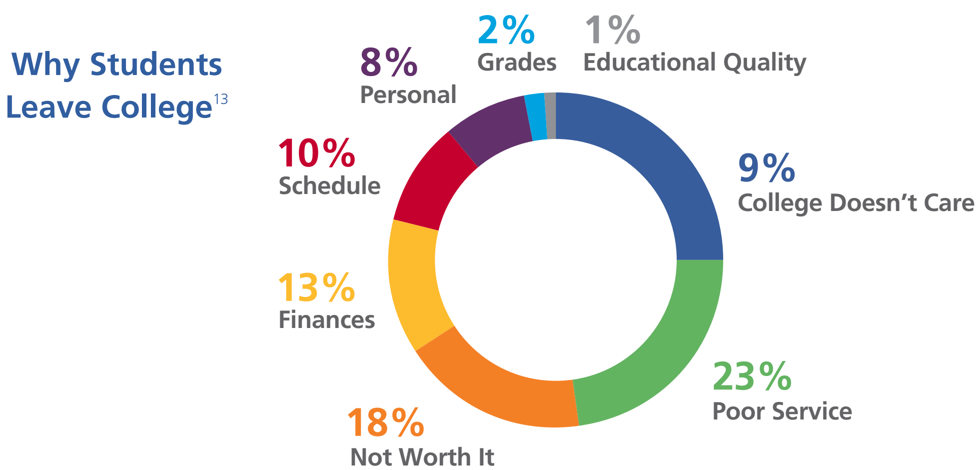
Financial Education: Addressing Institutional Needs

According to the 2016 NASFAA Benchmarking Report, 57 percent of survey respondents indicated having a financial literacy program in place.[11] A 2016 iontuition study also indicates that 74 percent of financial aid professionals believe financial literacy programs play a critical role in student success.[12] Given what we know about the crucial nature of this topic, these numbers are particularly encouraging. However, it's worth noting there is no program standardization for postsecondary financial education, making it difficult to determine the depth of knowledge gain among programs. Additionally, each institution may choose to offer their program in myriad different ways, from mandatory to passive, from First Year Experience to Senior Seminar, from student programs to academic integration, etc. This diversity can result in unclear program outcomes and expectations and can fall victim to budget restraints if not actively tied to overall institutional goals.

However, if financial education can be tied to larger goals, the benefits extend to both students and the school. The challenge, then, is to find ways to integrate financial education into the bigger picture of retention, persistence, and graduation/post-graduation goals.

Retention and Student Service

First, if we look at the goals of increased retention rates for students, we can make a correlation between improved student satisfaction and persistence. In a 2013 study on college attrition, Neal Raisman found that almost half of all students leaving school are doing so because they feel like the college doesn't care or because they have provided poor service.[2]



Raisman notes that the main factors in student attrition all reflect how the student feels they are being treated. Essentially, it is an issue of academic customer service, with students willing to transfer institutions or leave school altogether if they feel dissatisfied.

"Students leave a school because they do not receive the service they expect or need to succeed and feel a true member of the college community…they are right in demanding the services to which they feel entitled from being treated as a valuable and worthwhile member of the community…and all the other aspects that feed into their demand of a good return of three major investments – financial, emotional and affective."[2]

While financial education alone cannot resolve these issues as a whole, it is addressed here as a component of the three major investments to which students are entitled. Students must feel that they are receiving the full value of their education, but they cannot do so without the skills required to assess financial decisions and outcomes. Financial education can empower students to make such cost-benefit analyses, while also addressing these additional attrition factors.

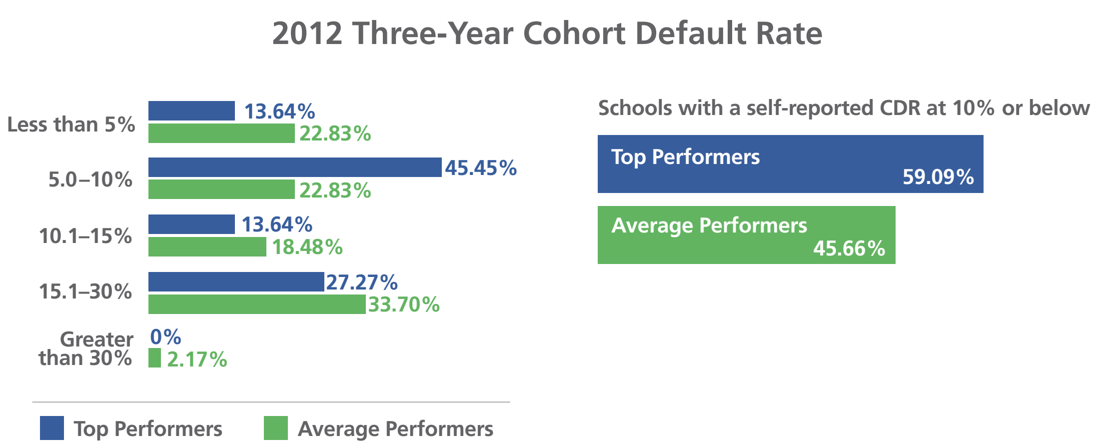
- **College doesn't care:** Introducing financial education indicates concern for the whole student by providing life skills that can directly impact their personal wellbeing outside of the classroom.
- **Poor service:** A financial education program provides greater opportunities to initiate student touchpoints and invite increased interaction throughout the student lifecycle.[4] Such increases can reinforce the concept of student care while also giving students wider exposure to positive staff/faculty interactions.

- **Not worth it:** Again, with the ability to analyze the value of their education, students can make links between the investment they are making today and the potential return in future earnings.
- **Finances:** Financial education can very directly help alleviate student financial stress by providing the knowledge to adopt and implement healthy financial behaviors for both personal and education-related finances.
- **Grades/Educational Quality:** As previously noted, with student financial stress being a negative detractor from academic progress, the introduction of financial education to create a financial plan allows a student to focus on academic achievement. Also, a school that demonstrates commitment to student financial wellness also demonstrates commitment to preparing students for life.

By Raisman's estimations, resolving these issues of student service could help save up to 84 percent of students lost to attrition. When evaluating this data from a monetary standpoint, this equates to savings of $840,000 for every $1 million in attrition costs.[2] The implications indicate a significant link between financial education and student satisfaction with overwhelmingly positive outcomes for retention and revenue. (For financial cost of attrition calculations, see Appendix A.)

Graduation and Default Prevention

Next, if we look at the graduation/post-graduation goals for an institution, we see that financial education has a role to play here, too. Correlation has been found between financial education programs and improved cohort default rates (CDRs), as almost 60 percent of schools with strong financial literacy programs have CDRs below 10 percent.[12] Only 46 percent of schools who rate their financial literacy program as average can say the same, and there are no schools with strong programs whose CDR is above the 30 percent threshold.



These numbers indicate financial education can be a powerful first step in a default prevention plan for colleges and universities that seek to keep (CDRs) at acceptable levels. To do this, financial education can work in two ways:

1. Provide students the fundamental financial knowledge necessary to adopt desired financial behaviors while in school and beyond.

2. Integrate student loan management and exit counseling concepts into the program learning objectives.

> *"100% of our students will become financial decision makers, like it or not, and the **success of their decisions will be based on their economic and financial literacy or lack thereof."***
>
> **–Wendy Garcia-Buchanan, 2013 Alfred P. Sloan Teaching Champion[15]**

This second step is a critical piece in tying financial education to decreased CDRs, as the online federal student loan Exit Counseling has proven to be an ineffective resource in preparing students for federal student loan repayment. Although required, it is largely unenforced, with many students overlooking school notifications or other opportunities to learn more about loan repayment. Of the students who do complete the online exit counseling, they have described the experience as irrelevant, confusing, disengaging, and so lengthy as to be harmful to the user experience.[14] The end result is an influx of graduating students each year who continue to accumulate greater loan debt than the class before them with very little knowledge about loan repayment and the consequences of delinquency or default.

Financial education programs can address this issue prior to graduation when students have more time and attention to devote to student loan management. Teaching students how to track loans while in school is not only tremendously valuable in monitoring accumulating debt levels but also teaches students to use resources like credit reports, the National Student Data System, and servicer sites to take charge of their eventual repayment. As students move closer to graduation, introduction of loan repayment options can be added to the discussion as part of the loan management process. In this way, financial education can contribute to decreased CDRs as students leave school with a clear understanding of student debt and how it can be repaid.

Finally, as it pertains to alumni relations, financial education can help bridge that gap between current student and future alumni member. With rising debt levels, students are not as readily able to give back to their alma mater if they cannot afford it or if they feel their school did not adequately prepare them for life after college. Students who are exposed to financial education with loan management principles may not only be able to alter borrowing habits to graduate with less debt, but may recognize their college as having prepared them well to handle such financial decisions.

Additional Considerations

A new environment of data reporting and transparency has resulted in the development of the U.S. Department of Education's College Scorecard and Shopping Sheet. Both tools are designed to give students and families greater insight into a school's performance by viewing data on a number of different factors including graduation, retention, and loan default rates. As previously explored here, financial education has a valuable role to play in helping schools to attain favorable numbers in all of these areas.

Additionally, the inclusion of financial education programming for students can serve as a differentiating factor for students who are exploring college options. With 84 percent of students saying they are very or extremely interested in learning better financial management skills,[3] a strong selling point during the admissions process would be highlighting any related services that your school may offer. Again, this is another key point in helping students to feel that they are cared for and are receiving a quality education.

84%
of students want better financial management skills

Finally, an improvement in personal financial management for students can trickle over into an improvement in education-related financial management as well. Students who can take stock of their overall financial health are better prepared to manage their student accounts, plan to cover their tuition, borrow only what they need, and link academic performance to financial cost. The ROI of financial education extends not just to the institution, but to students as well.

Conclusion

The benefits of financial education may not always be immediately seen, but it is important to know that planting the seed can and does produce desired financial behaviors. As the research has shown, students are already looking to colleges and universities to provide them with the skills they did not learn at home or in high school; if those needs are not met or the student feels that their school does not care, they will go elsewhere.

Providing financial education does not always have to equate to great cost, but the dividends on that investment can be priceless: increases in student satisfaction, retention, and revenue, and decreases in CDR, attrition, and bad debt. Above and beyond the monetary gain, schools who provide financial education are preparing students for life outside the classroom and creating future generations who will learn how to be financially empowered from their parents – those same students you see today. The ROI of financial education is positive and real for both schools and students; the sum result of doing well by doing good.

Providing Financial Education

- Increases student satisfaction
- Increases student retention
- Increases revenue
- Decreases cohort default rate
- Decreases attrition
- Decreases bad debt

Appendix A

Calculating the Value of Financial Education Programming[16]

This simple calculation provides a one-dimensional, numbers-driven approach to determining the ROI of financial education. This calculation does not take any additional factors into consideration, and therefore it is not recommended that programming decisions be based solely on this.

Cost of Attrition

1. Calculate your school's full time credit hours multiplied by the per credit rate:
   - Example: 12 credits X $350 = $4,200 in tuition each semester
2. Calculate the annual revenue from full time enrollment:
   - Example: 1000 new FT students generate $4.2 million gross revenue per semester ($8.4 million a year)
3. Calculate your Year 1 attrition rate and identify how many left due to reasons that could have been impacted by financial education
   - Example: At the end of Year 1, 200 students left the school
     100 left for financial education related reasons
4. Calculate lost revenue
   - 100 students left for financial education related reasons X $4,200 lost revenue per semester X 6 semesters
   - Over the next three years, your institution experiences a gross loss of $2,520,000

Choosing to implement a financial education program at the average annual cost of $21,840[11] which results in retaining 10 of those 100 students equates to recognized revenue in the amount of $186,480.

About the Author

Carissa Uhlman

As the vice president of student success, Carissa Uhlman is committed to helping school partners realize the link between student loan education, overall fiscal responsibility, and student success. With over 15 years of higher education experience, Carissa has held roles in academics, records, admissions, advising, student services, and financial aid. As a former financial literacy consultant at DeVry University, Carissa saw the benefits of incorporating financial wellness into the student success equation. Utilizing that knowledge, she created a financial literacy program for adult learners at Franklin University. Carissa's expertise in financial literacy helps administrators guide students toward a path of financial success.

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About Inceptia

Inceptia, a division of National Student Loan Program (NSLP), is a nonprofit organization committed to offering effective and uncomplicated solutions in financial aid management, default prevention, and financial education. Our mission is to support schools as they launch brilliant futures for students, armed with the knowledge to become financially responsible citizens. Since 1986, we have helped more than two million students at 5,500 schools reach their higher education dreams. Each year, we help more than 278,000 students learn how to pay for college, borrow wisely, resolve their delinquency issues, and repay their student loan obligations. Our solutions are designed to support student success by helping financial aid administrators maximize resources, so they can spend more time focusing on students. More information at Inceptia.org.

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