

Research Brief



# College Students are Put to the Test: The Attitudes, Behaviors and Knowledge Levels of Financial Education

January 2013

## Executive Summary

Nearly one thousand first year students representing five institutions of higher education across the country completed the Inceptia National Financial Aptitude Analysis during the fall of 2012. The 85-item survey explored student financial knowledge levels, their attitudes and confidence related to money management and their current financial behaviors. The survey results confirmed a low level of financial knowledge among current college students with an average overall knowledge score of 65.8 percent, as well as highlighted the importance of simple financial management tools such as budgeting and financial goal-setting to overall student financial success. Creating a budget and having written financial goals were both highly correlated with positive financial behaviors as well as beliefs in money management ability. As more and more institutions look to provide financial literacy programming to students amidst a landscape of increasing tuition and student loan borrowing rates, the survey results support the need for directing scarce resources towards these endeavors.

In America, financial literacy work has largely been focused on knowledge – either exploring the level of knowledge an individual possesses or measuring an intervention’s impact (or lack thereof) on knowledge gain. At Inceptia, we believe that a student’s financial well-being is not only impacted by their knowledge, but also relies on their attitudes, behaviors and confidence related to money management. With this philosophy in mind, Inceptia conducted the National Financial Aptitude Analysis in autumn 2012 to assess current students’ attitudes about their finances, their belief in their ability to manage their money, their financial knowledge on a variety of topics and their self-reported money management behaviors.

## **Methodology**

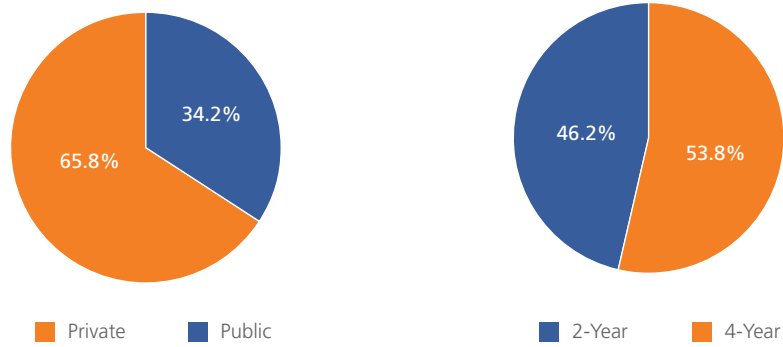
Inceptia’s National Financial Aptitude Analysis was administered via an online survey at five institutions of higher education, yielding 962 student responses. Institutions were recruited via the First Year Experience email listserv hosted by the National Resource Center for The First-Year Experience and Students in Transition.

The Inceptia National Financial Aptitude Analysis utilized 50 questions to determine the levels of financial knowledge held by respondents. The knowledge questions in the survey were designed based on the Financial Literacy and Education Commission’s (FLEC) five core competency areas<sup>1</sup>: Earning, Protect, Spending, Borrowing and Saving/Investing. FLEC is chaired by the United States Secretary of the Treasury and boasts members from 19 other federal agencies. FLEC is tasked with developing a national strategy for financial education.

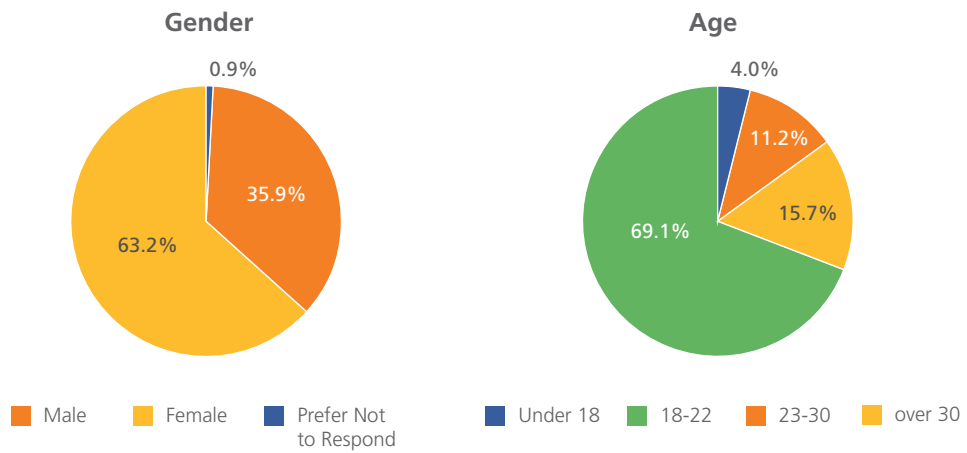
Along with standard demographic questions, the survey also included 27 survey items designed to measure students’ beliefs in their ability to manage their finances, students’ attitudes towards money and self-reported financial behaviors.

All students who responded to the Inceptia National Financial Aptitude Analysis were currently enrolled in their first semester at their college or university. Of those responding, 65.8 percent were enrolled in a private institution and 34.2 percent attended a public institution. Additionally, student respondents were nearly evenly split between two and four year institutions at 46.2 percent and 53.8 percent, respectively. These representations, as well as basic student respondent demographics, are shown in the charts on the next page.

## Respondents by Institution Type



## Respondent Demographics



n=962

## Results

### *Knowledge*

The Inceptia National Financial Aptitude Analysis instrument included 50 knowledge questions with an overall average score earned by respondents of 65 percent, or a D on a traditional grading scale (A = 90 percent or above, B = 80 percent or above, etc.). This average score mirrors similar studies that have been conducted related to financial literacy (e.g. the Jump\$tart Coalition’s most recent financial literacy survey produced an overall score of 62 percent).<sup>2</sup>

To better understand the overall average knowledge score, knowledge item responses were grouped based on FLEC core competency area and overall correct scores for each were calculated. To make the analysis clearer and for the ease of comparison between competencies, these scores were then assigned a letter grade using a traditional grading scale. The table below outlines these core competency grades and provides sample topics for each area.

Competency Area	Sample Topic	Average Score	Letter Grade
<b>Earning</b>	Gross vs. net pay, benefits, taxes, etc.	83.9%	B
<b>Protect</b>	Identify theft, scams, etc.	62.7%	D
<b>Spending</b>	Needs vs. wants, budgets, etc.	62.9%	D
<b>Borrowing</b>	Cost of borrowing, credit score, etc.	61.3%	D
<b>Saving/Investing</b>	Compound interest, stocks, etc.	52.0%	F

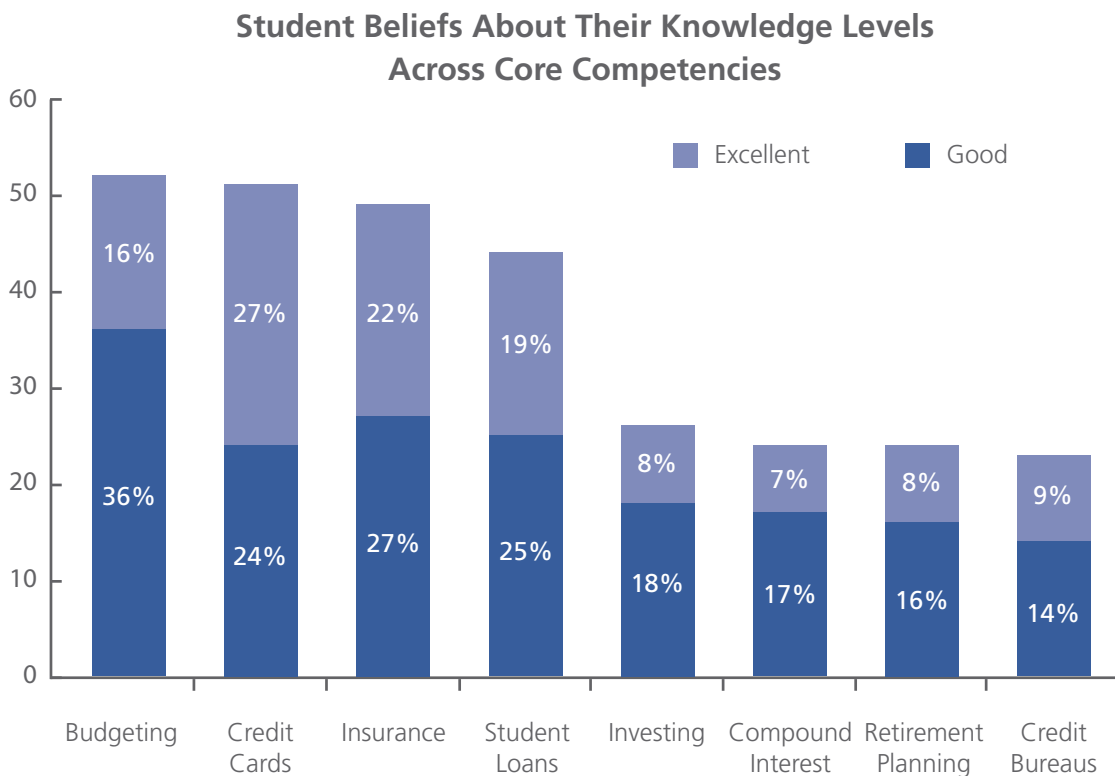
### *Confidence and Attitudes*

As the field of behavioral finance has developed, so has scholarly interest in the role that confidence, or self-efficacy, plays in financial decision-making. For this reason, the National Financial Aptitude Analysis also explored students’ self-efficacy levels pertaining to their money management decisions and practices. Overall, financial efficacy scores were fairly high with two thirds of students reporting that they feel confident about their ability to manage their own finances.

The following chart shows the percentage of student respondents who answered “Somewhat True of Me” or “True of Me” to specific statements related to their financial efficacy.

Efficacy Statement	Percent of Respondents Answering “True of Me” or “Somewhat True of Me”
I feel capable of using my future income to achieve my financial goals.	74%
I feel capable of handling my financial future.	64%
I feel in control of my current financial situation.	50%

In addition to asking students about their beliefs regarding managing their finances now and in the future, the National Financial Aptitude Analysis also questioned students about their confidence in their understanding of topics across the core competency areas. The survey asked students to rate their knowledge on a five point scale ranging from Poor to Excellent. Interestingly, students’ self-scoring was relatively low. In fact, only the topics of budgeting and credit cards garnered over 50 percent of students ranking their understanding as Excellent or Good. These results are shown in the chart below.



## ***Behavior***

To get a thorough picture of overall financial well-being, students were also asked to respond to a number of behavior-related questions. These questions covered various topics including financial goal-setting, budgeting, spending and working. Especially powerful results were found related to the topics of budgeting and financial goal-setting, two basic but critical tools in sound money management. These results are outlined below.

## ***Budgeting***

Just over half (51 percent) of student respondents reported that they regularly budget or track their spending. Budgeting is widely touted as a powerful tool in financial management and our analysis found that having a budget was also positively correlated with feeling in control of your financial situation, feeling capable of achieving financial goals, feeling capable of handling your financial future and saving. For our analysis, we determined that correlations between 0.4 and 0.7 suggested a strong relationship and correlations above 0.7 suggested a very strong relationship. These results are shown in the table below.

<b>Belief or Behavior Statement</b>	<b>Correlation with "I have a Budget." *</b>
I save on a regular basis.	.672
I feel in control of my financial situation.	.809
I feel capable of achieving my financial goals.	.813
I feel capable of handling my financial future.	.830

\*All correlations are significant at  $p < .001$ .

### Financial Goal-Setting

Setting financial goals is a critical part of the financial planning process and it appears students understand the importance of this activity with a full 86 percent reporting they have financial goals. Of those with goals, only 25 percent have actually written them down, an activity that has been empirically shown to improve one's chances of achieving a goal.<sup>3</sup> The National Financial Aptitude Analysis results also emphasize the importance of goal-setting and more specifically, having written goals, by linking these actions to positive money management behaviors. These results are listed in the table below.

Belief or Behavior Statement	Percent of Students with <i>No Goals</i> Who Exhibit Behavior	Percent of Students with <i>Goals</i> Who Exhibit Behavior	Percent of Students with <i>Written Goals</i> Who Exhibit Behavior
I track my spending.	22%	44%	68%
I contribute to savings.	19%	34%	47%
Last time I borrowed I compared interest rates and lenders.	5%	18%	28%
I created a budget for this academic year.	13%	45%	70%
I have checked my credit report.	24%	40%	59%

Additionally, student respondents who reported having financial goals also had significantly higher average knowledge scores in each of the five core competency areas compared with students who did not have goals; with a slight additional increase in knowledge scores in four of the core competency areas if the goals were written down.



## Conclusion

Today's college students face a difficult economic climate and financial literacy will be critical as they begin to navigate their college careers and work towards a successful financial life after graduation. The 2012 Cooperative Institutional Research Program (CIRP) administered nationally by the Higher Education Research Institute recently reported that 81 percent of first year students believe that "being very well off financially" is a very important personal goal.<sup>4</sup> This desire coupled with the financial literacy levels of first year college students highlighted by the Inceptia National Financial Aptitude Analysis further emphasize the need for institutions to focus efforts towards educating their students for a lifetime of financial success.

The Inceptia National Financial Aptitude Analysis also emphasized the importance of learning simple personal finance practices, such as following a budgeting and creating financial goals, when it comes to students' financial self-efficacy and exhibiting positive financial behaviors. Institutions should focus scarce resources towards arming their students with the skills and confidence to learn more about their financial situations and take control of their financial futures. Teaching students the basics through online education, campus workshops or one-on-one sessions will help students to form positive financial behaviors and set them up for a lifetime of financial success.

## About the Author

Kate Trombitas, Inceptia's vice president of financial education previously served as the associate director of The Ohio State University Student Wellness Center, where she founded Scarlet & Gray Financial, a peer-to-peer financial education program. Her expert financial advice for college students was recently featured in the 9th edition of Gardner, Jewler, and Barefoot's *Your College Experience: Strategies for Success*. To contact Kate, you may send her an email at [katet@inceptia.org](mailto:katet@inceptia.org).

## Additional Contributors

Ted Lannan is a Senior Market Research Analyst for Inceptia. Ted's specialty is turning raw data into usable information. Most of his 30 year career has been in primary market research. Throughout the years he has designed and executed virtually every kind of market research project and has moderated over 150 focus groups. To contact Ted, you may send him an email at [tedl@inceptia.org](mailto:tedl@inceptia.org).

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## Sources

- 1 Federal Register for Financial Literacy and Education Commission's Core Competencies. <http://www.scribd.com/doc/36534958/U-S-financial-Literacy-US-Dept-of-the-Treasury-FLEC-Core-Competencies-FRN>
- 2 Jump\$tart survey results, 2008. <http://www.jumpstart.org/assets/files/2008SurveyBook.pdf>
- 3 Written goal study, 2008. <http://cdn.sidsavara.com/wp-content/uploads/2008/09/researchsummary2.pdf>
- 4 Higher Education Research Institute 2012 Cooperative Institutional Research Program <http://www.heri.ucla.edu/pr-display.php?prQry=111>

## **The Inception Of A Movement.**

For more than 25 years, as the not-for-profit loan guarantor National Student Loan Program (NSLP), we provided guidance to both schools and students. As the student loan landscape changed, we changed – we created Inceptia. Inceptia, a division of NSLP, is dedicated to providing much-needed support to help schools effectively fulfill their roles and responsibilities. Our mission is to provide guidance to schools, along with the means to help their undergraduate, graduate and professional students succeed. Through comprehensive analytics, student success tools, financial education, default prevention and financial aid management, we are confident we can help all students, not just borrowers, become financially responsible adults. We are here to make it possible for more schools to launch brilliant futures.

- Inceptia offers schools an in-depth Financial Aptitude Analysis to determine the financial health of students and faculty.
- For students, Inceptia then develops a customized program which includes Online Financial Education and Financial Education Seminars that help them become financially responsible adults.
- For higher education professionals, Inceptia offers a Personal Financial Management Certification program that helps professionals effectively guide others on personal financial matters.

