RESEARCH BRIEF

The State of Student Finances 2021:
Multiyear Comparisons and Pandemic Effects

Carissa Uhlman
Vice President of Student Success

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Inceptia
A DIVISION OF NSLP

Executive Summary

In 2018, Inceptia published the results of our first round of a behavioral assessment to examine student financial behaviors at the outset of participation in college-sponsored financial education programming. Based on surveys conducted with over 60,000 students from across the country, this study highlighted the difference between self-perceived knowledge versus application, providing educators with insight to target interventions to foster behavior modification.

While the plan was always to conduct a follow-up study, the events of 2020 created unique circumstances that allowed us to view, on a mass scale, a snapshot of how a global pandemic factored into shifting financial behaviors amongst college students. Thus, this research brief serves two purposes: comparing year-over-year changes in a relatively stable economic climate, versus insights from within the unfolding COVID-19 upheaval.

These results, gathered from almost 70,000 respondents between January 2018 and February 2020 (referred to as pre-COVID results) and through March to December 2020 (referred to as post-COVID results), show that while students appear to be increasingly reliant on loans and credit cards, they are also becoming better-informed consumers as compared to students from our 2018 survey.

- 40% of students in our pre-COVID research and 54% of post-COVID respondents report borrowing student loans, versus 33% from our previous study
- 45% of pre- and 55% of post-COVID respondents have between one and five credit cards, compared to 41% of students from 2018
- Current respondents know their student loan balance (55% pre- and 64% post-COVID), while only 42% of previous respondents reported the same
- 38% of pre- and 43% of post-COVID respondents studied and compared their credit card offers before applying, as opposed to 34% of 2018 respondents

The data also points to a surprising uptick in positive financial behaviors from our post-COVID respondents as opposed to their pre-COVID peers.

- 10% increase in those with fully-funded emergency savings
- 12% jump in obtaining credit reports
- Six percent increase in calculating retirement needs

Combing through and comparing three data sets, in times of stability and uncertainty, provides a fascinating glimpse into behavioral finance. Particularly, this multiyear research indicates where shifts are most likely to occur, versus areas that remain remarkably static, and thus where financial educators may choose to focus targeted interventions.

About the Study

In this, our second State of Student Finances research brief, our goal remains consistent: to present financial educators and advocates with insights into financial behaviors and the misalignment with perceived competence. We also shine a light on which pieces of the financial puzzle may prove most challenging for students.

Before analyzing the data, it is worth noting first that our findings show a remarkably rapid shift in behaviors due to the pandemic, as indicated by our respondents between March and December of 2020. This data supports fall 2020 survey results in which 60% of students reported that the pandemic served as a catalyst to improve their financial literacy.[2] Indeed, throughout this research brief, we can very clearly see that this group of respondents is taking steps to become more financially aware and empowered.

Yet students are still struggling and may continue to do so for some time. At time of publication, we are still living within the pandemic, the ripple effects of which remain to be seen. With this in mind, not all the strategies outlined within this paper may remain evergreen, nor may they be feasible given limited campus resources. However, we offer them with the intention of serving students now, in whatever capacity these solutions may be adapted to fit individual needs.

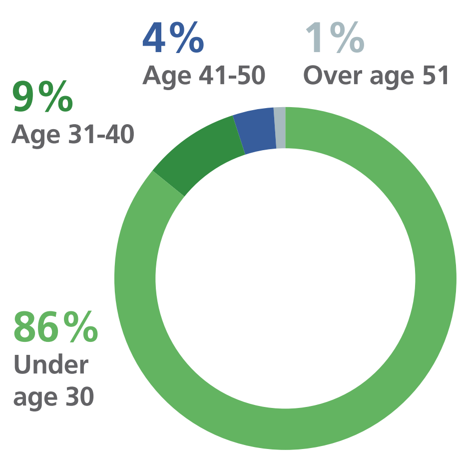
> "Analyzing the choices that students make about money, the steps they take to be financially well, or the ways in which they view their own competency can provide a valuable baseline regarding their levels of financial capability. In addition, it can better inform the learning objectives and areas of focus for financial education programming, aligning our efforts to meet the needs of our students." [1]

Methodology

Inceptia's 2021 behavior assessment results were collected between January 2018 and December 2020 from over 65,000 college students across the country. This population was further segmented to identify responses collected between March and December 2020 for the purposes of examining the effects of the pandemic on financial behaviors; these results are referred to as "post-COVID responses."

The voluntary survey was presented to students prior to beginning our online financial education program. As with our previous survey results, the majority of respondents are under thirty and roughly two-thirds have not previously participated in formal financial education programming.

Age of Assessment Respondents



Previously Participated in a Personal Finance or Financial Education Class/Seminar

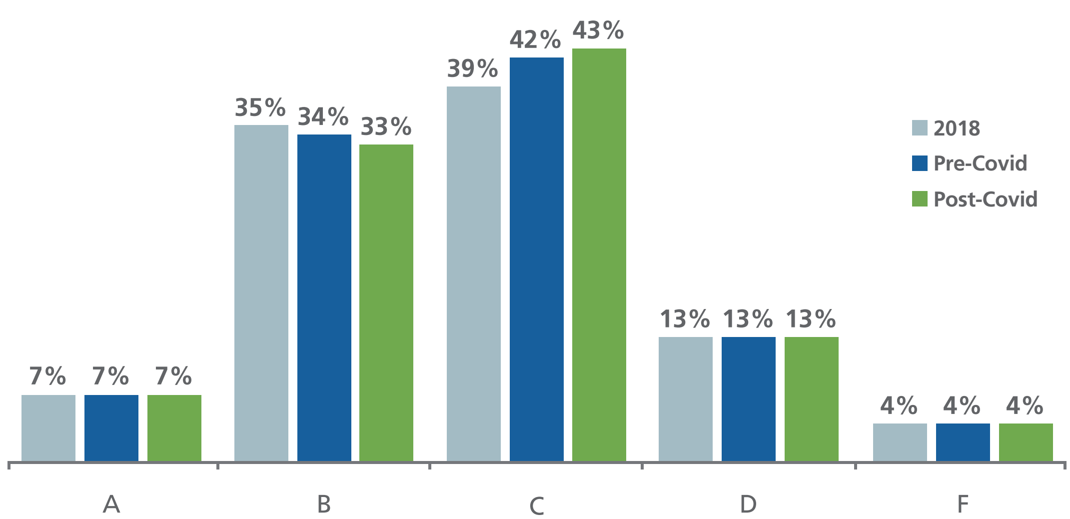
Student Grade Card

A key data piece in this research is student self-perception of financial knowledge. By asking respondents to “grade” their level of financial knowledge, we obtain a baseline understanding of financial confidence among respondents. When compared to applied behaviors, this self-ranking illustrates the gap between what is known versus what is practiced, and where we can target our financial education efforts.

As compared to the 2018 results, we can see that current responses remain remarkably similar. This bell-shaped curve reflects the natural tendency for most of us to see ourselves as solidly in the middle, with small percentages on either end.

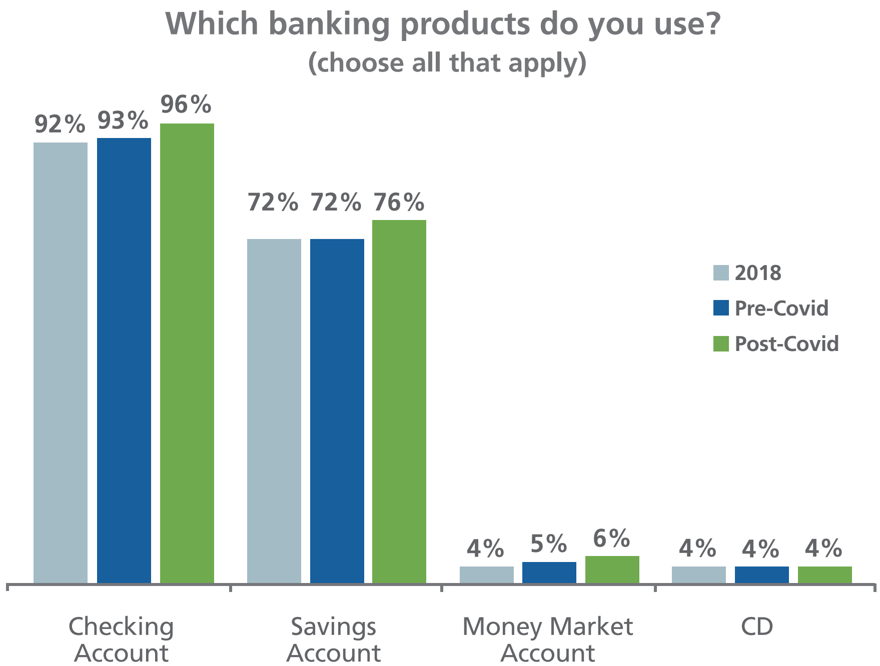
However, what our previous research indicated was that the ratings did not align with behaviors; although over 90% of students give themselves passing grades, they fail in some key indicators of financial preparedness. As the results show throughout this research brief, this remains largely unchanged prior to the pandemic. Post-pandemic results, on the other hand, indicate surprising shifts.

How would you grade your overall financial knowledge?



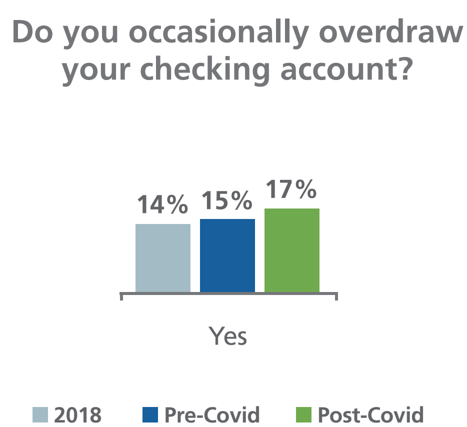
Banking and Payments

In this first area of review, we start with a positive indicator of financial capability with the remarkably high number of banked students. Over 90% of respondents utilize at least one banking product to manage their money, a trend that has remained steady since our 2018 survey. Further, the post-COVID group shows increased use of checking, savings and money market accounts.

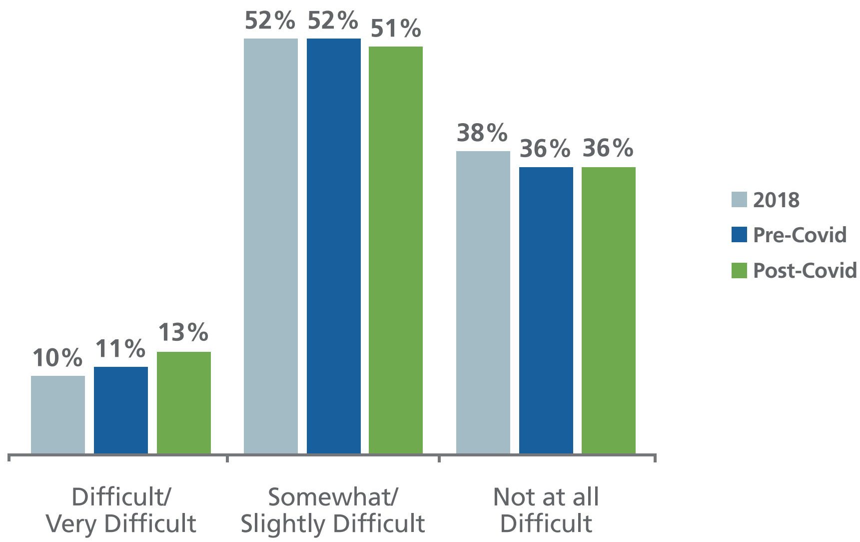


However, we also see signs that students are experiencing missteps in managing these accounts. When asked about overdrawn checking accounts, we see between a one to three percent increase since 2018.

There is also a slight increase in the number of students experiencing difficulty in covering monthly expenses. Not surprisingly, the greatest increase was reported by the post-COVID group, up three percent from 2018 and two percent from pre-COVID peers.



In a typical month, how difficult is it for you to cover your expenses?



Implications and Opportunities

An increase in overdrawn checking counts, even if small, indicates that students may benefit from learning about ways to prevent overdrawing:

- Overdraft protection
- Opt out of overdraft coverage
- Utilize/sign up for low-balance alerts

It is expected to see the increase in students struggling to make monthly payments in this time of economic turmoil. But what do they need – help with budgeting? Information on campus and local resources to provide economic support? Emergency scholarships? When we can see that students are struggling with expenses, the best way to provide the right help is to go directly to the source and ask. Because each campus population is different, surveying your student body can give you the answers you need to provide the information that will be most effective.

Saving and Planning

The area in which the most significant behavioral shifts occur is saving and planning.

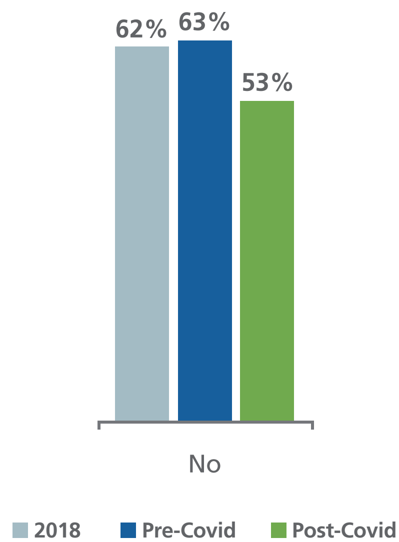
The 2018 and pre-COVID results are almost identical, with a little less than 40% of students with adequate savings to navigate a financial emergency. However, in just the time between March and December 2020, we see that number increased by an impressive 10%. Almost half of our post-COVID respondents had funded emergency savings to cover at least three months of expenses.

We see this trend continue as it pertains to retirement planning. Our previous study indicated that very few students had actively calculated their "retirement number," an unsurprising fact due to the majority of respondents under the age of 40. However, the number of respondents over the age of forty who had not prepared for retirement was a prime indicator that applied behaviors did not align with perceived financial preparedness.

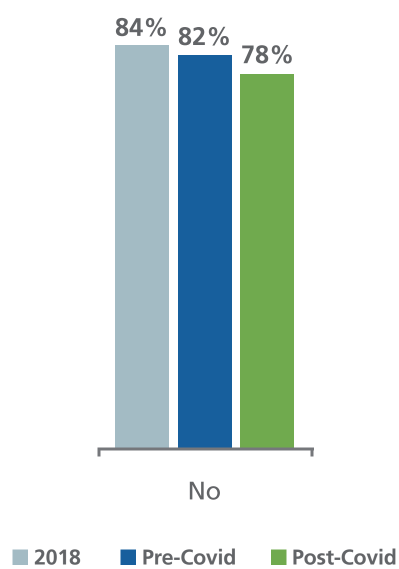
With 82% who have not projected their retirement needs, our pre-COVID responders are much the same. The post-COVID students, though, report taking a more proactive approach to future planning, with only 78% who have not made these calculations, or an increase of four to six percent in students who have run the numbers.

Despite the positive uptick in retirement planning from the post-COVID survey, we can see areas of concern when we break down the responses by age groups.

Have you saved 3 months worth of expenses?

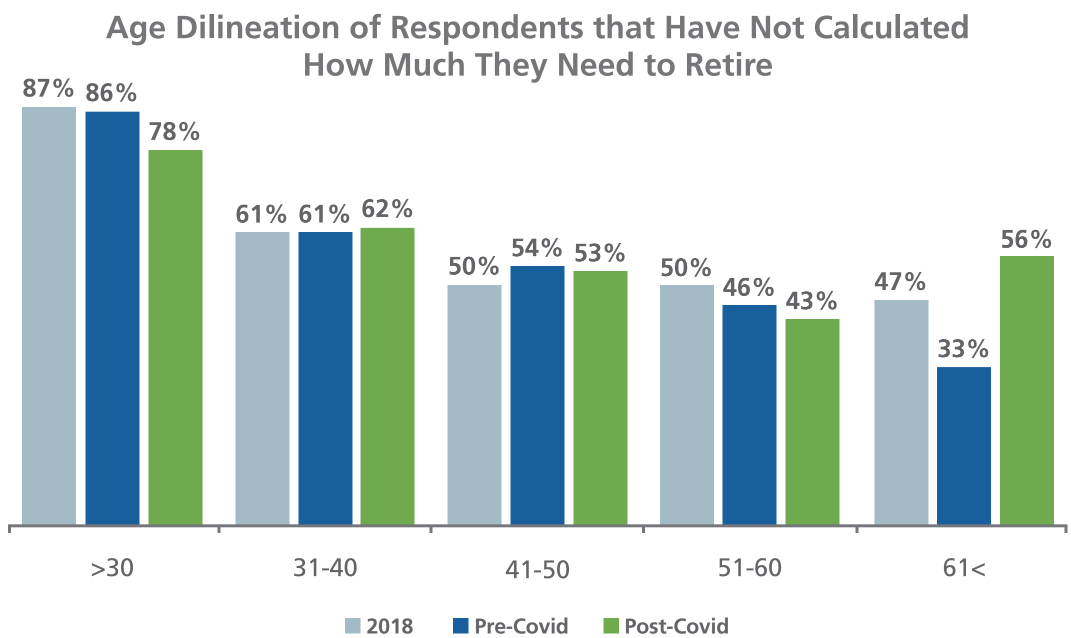


Do you know how much you need to retire?



Here, we see that the post-COVID students 30 and under and 51-60 have taken significantly positive steps in planning for retirement. However, in the case of those 61 and over, the number of students who have not planned ahead has increased alarmingly.

The pre-COVID group also shows mixed results when compared to our previous study, with a four percent jump among those 41-50, but a four percent decrease among the 51-60 group.



Implications and Opportunities

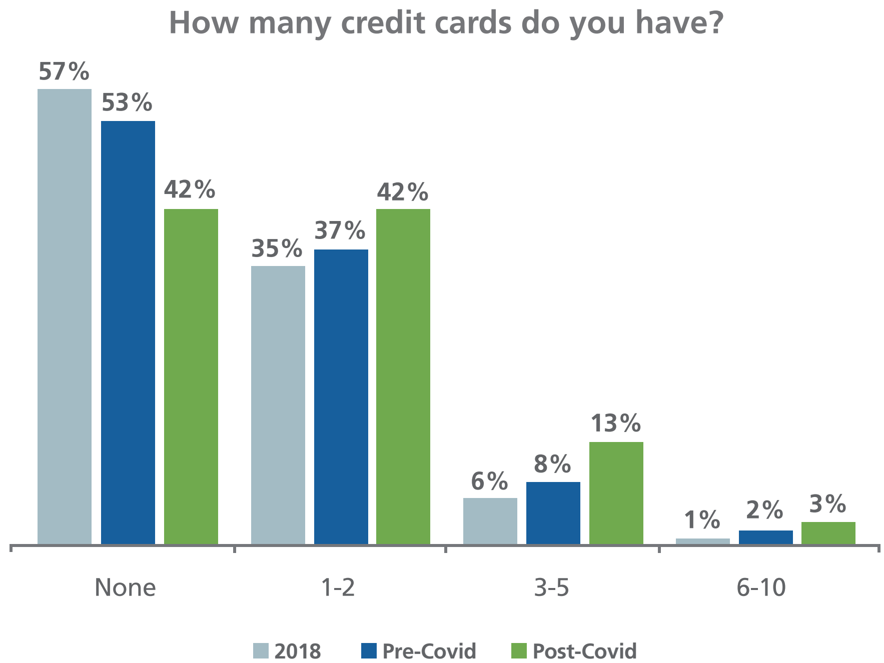
It may be surprising to see that, during the pandemic, emergency funds actually increased. However, when we keep in mind that 60% of students were spurred into taking steps to become more financially aware as a result of COVID[2], it shows that awareness translated into tangible savings.

Asking students about retirement, despite the majority of respondents being under the age of 30, allows us to gauge the capacity to anticipate future needs. Although we recognize this may be viewed as an act of privilege for many students, we are best serving students when we present the opportunity for all to build future-focused goals and habits.

Even if students are not currently in a position to begin this planning, we should do our best to present retirement planning concepts in a way that is sensitive to current restraints of time and resources. Retirement planning will not always look the same, either. It may not just be discussion of IRAs and 401(k)s, but also of net worth calculations, health care options and examining cost of living.

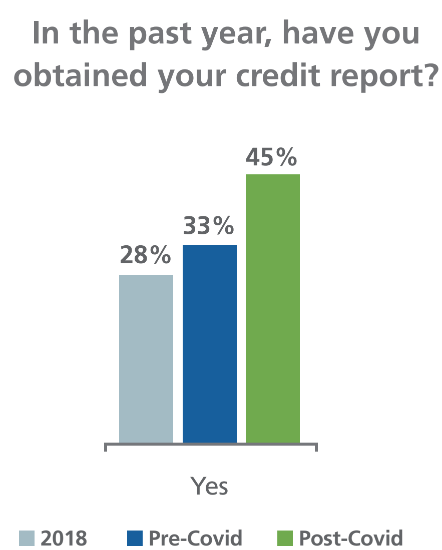
Credit

Here, we see that credit card utilization has increased since 2018. The number of students with no credit cards decreased by 4% prior to COVID, and by an additional 11% post-COVID. The number of students with either one to two or three to five cards increased the most during the pandemic, up seven percent in each category.



Despite this increase in credit card usage, positive trends in credit monitoring are on the rise. Since 2018, the number of students checking their credit report annually increased by five percent pre-COVID, and 13% post-COVID.

It should be noted that the increase in credit monitoring may be attributed to increased access to credit reports during the pandemic.[3]



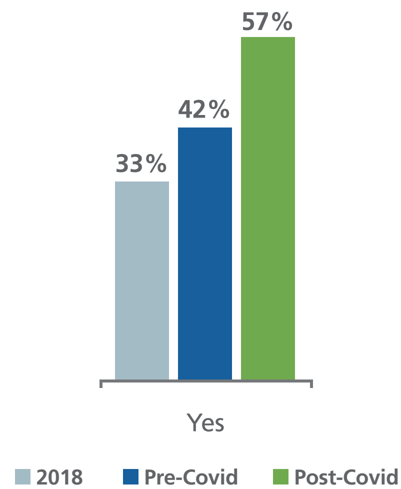
Additionally, the action of monitoring credit scores increased by nine and 24%, respectively.

Students are also increasingly making informed choices when it comes to choosing a credit card. The number of respondents who compared credit card offers before applying increased by four percent pre-COVID and nine percent post-COVID.

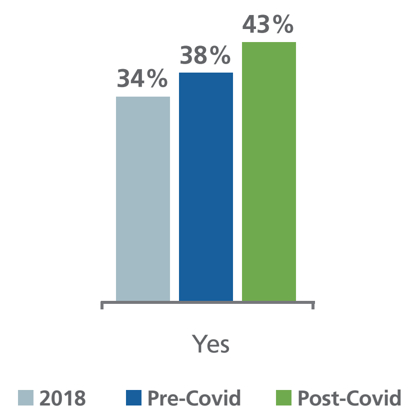
Although it is encouraging to see these positive trends, we also see red flags in credit management. Keeping in mind that the pandemic caused major disruptions in the economy resulting in employment uncertainty and/or job loss, we see that our post-COVID group reported higher numbers in:

- Making only the minimum payment
- Carrying a balance with interest
- Incurring late payment fees
- Charging over the limit

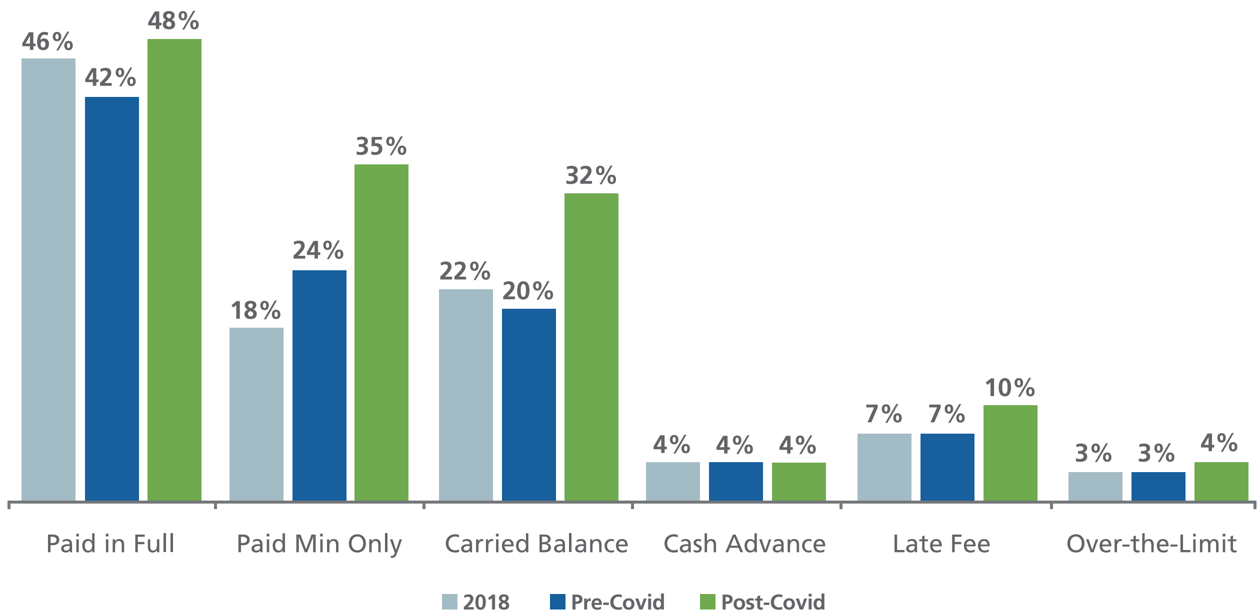
In the past year, have you checked your credit score?



Did you compare credit card offers before obtaining your most recent card?



(If you used credit cards) In the past 12 months, which of the following describes your experience with credit cards?
(select all that apply)



Implications and Opportunities

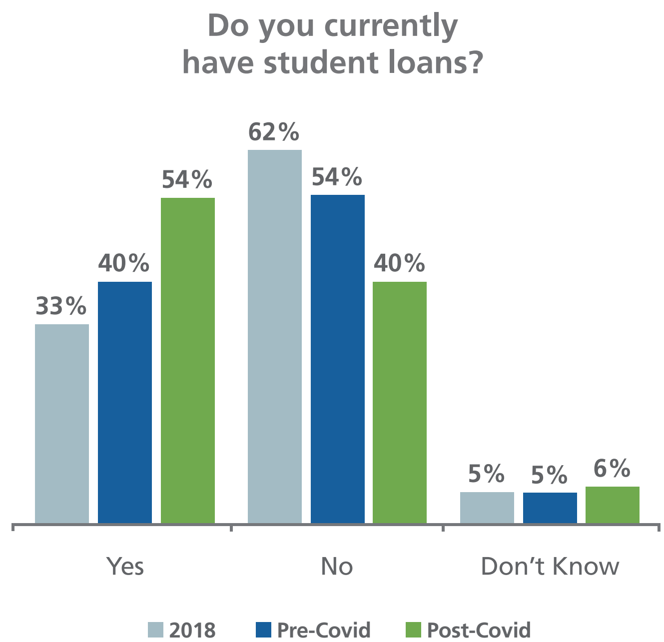
While most of these credit behaviors are trending in a positive direction, there is always room for improvement. As previously mentioned, major credit bureaus offer free weekly access to credit reports during the pandemic. Do all students know this? Do students know that, regardless of the pandemic, free reports are available annually? Do they know how to access free credit reports?

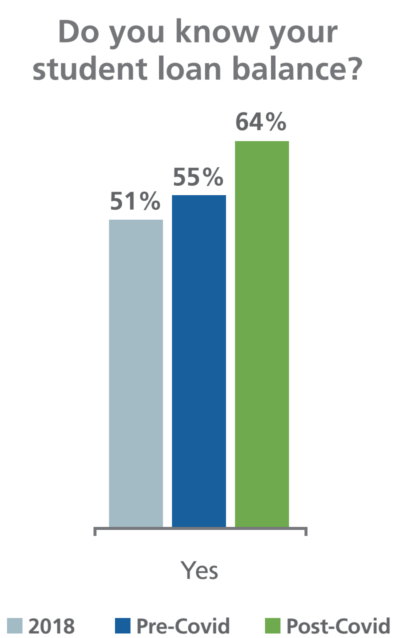
As for the increase in students who are carrying a balance, and incurring late and over-the-limit fees, this aligns with our previous data regarding monthly expenses. It would make sense that students struggling to make monthly payments would also experience trouble managing credit card debt. The same suggestion applies here: ask your students what help they need. Is it more information about credit card usage and fees? Or is it access to free credit counseling? Or awareness of campus or community resources that can provide financial assistance?

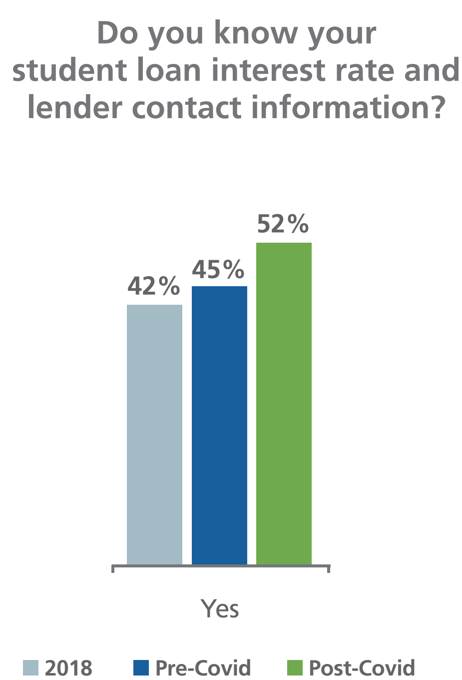
Student Loans

In our previous study, fewer respondents had borrowed student loans: 33% in 2018, compared to 40% for our pre-COVID group. Post-COVID students indicate a significant increase in borrowing, with that number climbing to 54%.

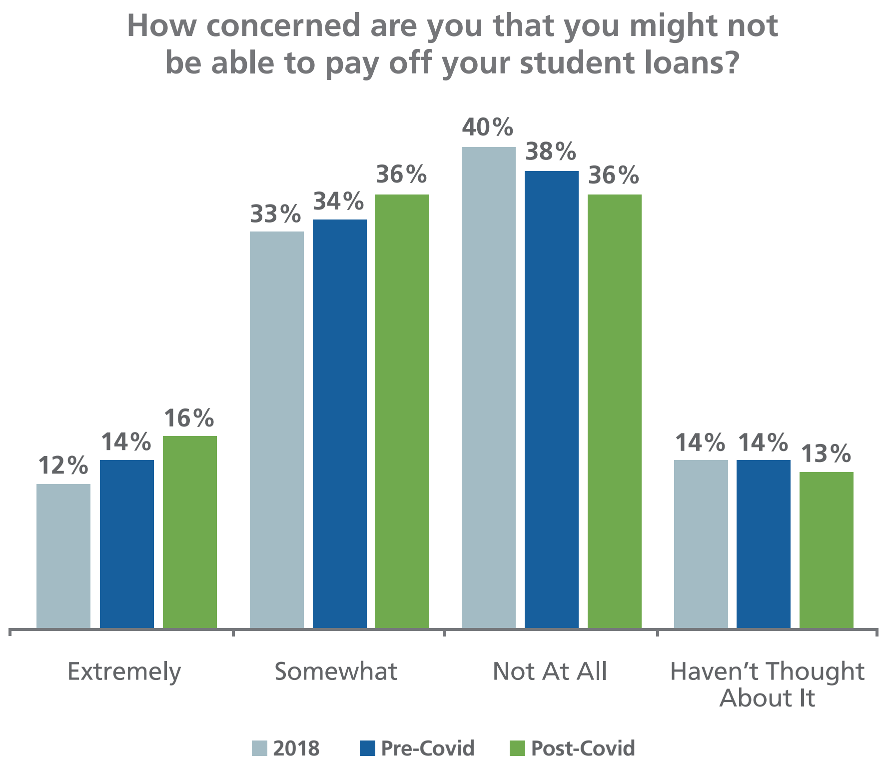
Despite this increased borrowing, these students also indicate that they are more carefully monitoring both their loan balance and their interest rates, as well as tracking lender information.







Yet even though our post-COVID respondents are more closely monitoring their student loans, they also indicate greater uncertainty about their ability to successfully navigate repayment. The number of students either extremely or somewhat concerned about repayment increased seven percent since 2018, and four percent over pre-COVID students.



Implications and Opportunities

Talking about loan repayment doesn't have to wait until students leave school or graduate. Offer students the opportunity to do "temperature checks" or intermittent loan reviews to better understand and prepare for repayment. The mere act of learning about and planning for repayment may help to alleviate the increasing concern students are experiencing.

Conclusion

As with our 2018 study, we see that students largely perceive themselves as middle of the road when it comes to personal finance; the self-ranked grade report has remained practically identical since our first set of survey responses in 2016. Whereas this previously appeared to represent the tendency to overestimate one's level of expertise, the general improvement in financial behaviors since that 2018 study indicates that students are more cautious and unsure of their knowledge. They are making positive strides but are not as confident, faced with many factors that may be beyond their control.

We posit that these conditions are best met and countered with education.

We are in a unique time and circumstance in which students are responding to economic instability by seeking financial education. This is borne out through the data. They want to learn and are proactively managing their money with an eye toward an uncertain future.

While we know the catalyst for this positive trend is also the very thing that has stretched institutional resources thin, any opportunity to engage students in financial education programming is an opportunity for real progress. Large-scale efforts are not always necessary when you have the benefit of motivated learners. In this regard, we encourage educators and advocates to not let perfect be the enemy of good. Do what you can with what you have and your students will benefit.

As we have seen, from 2018 to early 2020, from the beginning of the pandemic through the end of the year, much can change in a very short amount of time. Financial education can be the tool to help students navigate such difficult times, both now and in the future.

"Information is the resolution of uncertainty."
– Claude Shannon

Sources

1. Uhlman, C. (2018). The State of Student Finances 2018: Results from a Multiyear Assessment. Retrieved from www.inceptia.org.
2. Kiernan, J. (2020). 2020 College Student Financial Survey. Retrieved from https://wallethub.com/blog/college-banking-credit-cards/65596.
3. Tully, C. (2020). Credit reports are now free, every week. Retrieved from https://www.consumer.ftc.gov/blog/2020/05/credit-reports-are-now-free-every-week

About the Author

Carissa Uhlman

Carissa's nearly fifteen year collegiate career included roles in admissions, advising, records, student services, and financial aid. She served as the financial literacy consultant for DeVry's Columbus Metro, and she also created an adult learner financial literacy program at Franklin University. She now enjoys building financial education partnerships with colleges and universities across the country in her role as vice president of student success.

Carissa received her BA in Communications and Business from Malone University, her Masters of Human Resource Management from Keller Graduate School, and her business Credential of Readiness from Harvard Business School.

About Inceptia

Inceptia, a division of National Student Loan Program (NSLP), is a nonprofit organization committed to offering effective and uncomplicated solutions in verification, financial aid management, financial education, and repayment wellness. For more than 35 years, Inceptia and NSLP have helped millions of students achieve their higher education dreams at schools nationwide. Our mission is to support schools in helping students learn how to pay for college, navigate financial aid, borrow wisely, and resolve their student loan repayment challenges. Our solutions are designed to support student success by helping financial aid administrators maximize resources, so they can spend more time focusing on students. Learn more at Inceptia.org.

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