Financial Literacy of College Students: Focus on First-Generation Students

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The aim of the present study is to understand the financial literacy of first-generation college students and their level of interest in financial education. College students, especially the first-generation ones, need sufficient exposure to finance education since they will need to have sophisticated financial skills after they start their professional careers and embark on a new stage in their lives. These skills will help them manage their income from a new job, investment and retirement options, and student loans. We use a convergent mixed-methods design in this research. A survey was conducted to help explore the interest of first-generation students in finance education and their current knowledge about financial issues. We also conducted interviews with personal finance industry experts to obtain further information on the need for financial education for college students. The results have important implications on improving financial literacy for first-generation college students.

Keywords: financial literacy, financial education, college students, first-generation college students

INTRODUCTION

Financial literacy is critically important because finances are such a complex and important part of adult life. Lack of effective education is one of the root problems affecting the financial literacy of future and current college students (Peng et al., 2007). Some studies have been conducted to understand the state of financial literacy among college students (Bernheim et al, 2001; Borden et al., 2008; Chen & Volpe, 1998; Lyons, 2004; Xiao et al., 2014). There are some recurring themes present in the studies. Some conclude that there is a direct relationship between education and comprehension of finances (e.g., Xiao et al., 2011). Those who have more education have a better understanding of terminology and thus, make better financial decisions (Quirk, 2015). Overall, three aspects of financial literacy – the financial stability of the United States population, education, and hardships of first-generation college students – can be argued to be closely relate to financial literacy of first-generation of college students. Since first-generation students face unique challenges in their college lives in general and their financial lives in particular (Pascarella et al., 2004), we set out to explore the level of financial literacy and the interest of these students in receiving financial education.

LITERATURE REVIEW

Financial Stability of U.S Population

Past studies suggest that there is a relationship between having financial literacy and being financially stable. Sam Allgood and William Walstad (2016) seek to find the difference between Americans' actual and perceived financial behaviors. They show that those who believe they had a high level of financial literacy are more likely to pay off their credit card balance in full each month, and respondents with a high financial literacy level are more likely to own a home, make their payments regularly, and compare offers from several leading entities.

Their results also show that adults with a high level of financial literacy partake in investment behaviors and most likely have additional retirement accounts apart from the one with their employer. Furthermore, those who have medical, auto, and life insurance have a high level of financial literacy, and individuals with a high level of perceived financial literacy are more than willing to seek professional help for their financial needs. Lin's (2019) research on thousands of Americans from across the nation indicates financial literacy has declined, with the percent of respondents that were financially literate decreasing from 42% to 34% between 2009 and 2018. This is an interesting statistic since 71% of the respondents believe that they have a greater understanding of finances, indicating the gap between self-reported knowledge about personal finance and people's actual financial knowledge. Overall, the results also show a widening gap between those who are successful in the area of personal finance and those who have continued hardships. An example of this is the saving habits of participants in higher-income groups, whose behaviors have not changed since 2009. This is different from those in lower-income groups, who have saved less since 2009. That study also finds there is a decrease, over time, in participants' ability to answer simple questions about finances. The author concludes that there is a direct association between the ability to answer the simple questions correctly and other key measures of financial capability.

Lusardi (2009) notes that there has been a culture shift in the way people deal with their finances, especially retirement planning. There has been a vast increase in various forms of investment options. This makes decision-making for individuals more complex. Without extensive knowledge of these new products and services, any errors made can potentially be catastrophic. Lusardi and Mitchell (2014) show that for individuals 50 years of age and older, only one-third know how to calculate interest rates and understood how risk diversification operates and what inflation affects. Women and the elderly are classified as two demographic groups that lack the most knowledge. Another article by Lusardi et al. (2014) dives more deeply into the knowledge of individuals aged fifty and older. In the U.S., most adults have individual retirement accounts or 401(k) plans and have debt, either personal or in the form of mortgage. Also, older individuals need to handle their retirement allocations more cautiously for them to last through the retirement years. Even with those circumstances, American adults over the age of fifty who completed surveys from the 2004 Health and Retirement Study were only able to correctly answer two simple questions regarding inflation and compound interest (Lusardi et al., 2014). Those who have less knowledge about finances are more unlikely to plan for retirement and invest in stocks, and more likely to use high-borrowing channels, default on risky mortgages, and end up with little wealth close to retirement. In contrast, individuals with knowledge about financial issues are more likely to find mutual funds with decreased fees, which makes it easier to increase retirement account earnings.

Overall, findings from these studies indicate those who have a high level of financial literacy are more likely to participate in healthy financial behaviors and have financial stability, and those who lack financial education are more likely to struggle with their financial behaviors throughout their adult life and experience the repercussions. In addition, there is evidence that many people believe they make sound financial decisions, while their actual financial behaviors show the opposite. As such, it appears that financial education is critically important in helping improve financial literacy.

Financial Literacy and Education

There also are some studies on the role of financial education. Quirk (2015) points out college students are one of the more important groups to educate on this topic. These students will most likely start working after graduating from college. For many, that will be the first time they manage their income, investment accounts, and retirement options. Teaching students these skills before they enter the workforce will allow them to make better financial decisions. Student debt and loans are another reason for financial education. Quirk (2015) also discusses the main benefits of financial education. The benefits are that students will be able to assess their present finances and behaviors, develop financial goals, and make a financial plan. Students who receive this education are more likely to save money, use credit cards more responsibly, and spend money less impulsively. High school courses are shown to be less effective compared with college-level courses. College students will be more engaged in a topic if it is easily comprehensible and if they believe it provides value for them.

Eichelberger et al. (2017) investigate the correlation between college graduation rates and financial education. These two topics are related since students need to know how to be responsible with their money during their college years. Throughout the United States, there is a decline in college retention and completion rates. The authors indicate that problems with finances negatively affect retention rates, and that financial hardships are the main reason for low graduation rates. In a survey given to freshmen college students, the students listed financial problems as their primary worry and academics as their second. Many studies (e.g. Taft et al., 2013) show that college students are not prepared to be making important financial decisions due to lack of financial education.

Hardships and First-Generation Students

First-generation students are likely to have more struggles throughout their college years due to financial illiteracy. Covarrubias et al. (2019) discuss how the role of family plays a big part in first-generation student struggles. First-generation students, especially Asian or Latino students, have the responsibility to stay constantly connected to their families, even after starting college. The authors cite a study where they used longitudinal daily diaries to see how many days Mexican American, White, and Chinese American high school students reported that they either helped around their house, translated, or cared for other siblings. The study showed that the Mexican American and Chinese American students reported more days of doing said tasks than their White counterparts. Other evidence shown by the authors indicates that family responsibilities and financial distress clash with academic responsibilities for Latino first-generation students.

A related study by Carales et al. (2020) find Latino students are weary of seeking financial assistance and loans to finance their education due to familial roles. However, Latinx students who are unwilling to take out loans have a decreased possibility of graduating with a degree. These students also usually are from low-income backgrounds. The increase in the cost of attendance for college has also strained their parents' monetary resources, which forces Latino students to take out loans. These authors also discuss the effects of student loans on persistence and degree completion. Some negative outcomes of student loans are influence on borrower health, financial management, credit card debt, years to homeownership, and the ability to save money. There seems to be a pattern that students underestimated the cost and/or did not know the number of their loans. National Center for Education Statistics (2017) finds twenty-four percent of college students in the U.S. are both first-generation and have a low-income background. The 2015 National Financial Capability study (Lin, Judy, et al. ,2019) indicates that a multitude of students think twice about their decisions with loans and are also not graduating with their degrees.

Eichelberger et al.'s (2007) results show that there is a need for more education for college students about finances, especially for expanding their knowledge and comprehension of loan products, budget planning, and time commitment to attend higher education institutions. Through the individual interviews, the authors gathered that many students believe that without financial knowledge, they feel incapable of using resources provided without seeking help from mentors and/or staff members. These problems are more prevalent in underrepresented students like first-generation students. Another worry among students is their overall lack of basic financial skills, which refers to their unawareness of the need to learn about spending and financial responsibilities. The authors then suggest some specific ideas that might help these issues, including mandatory workshops, interactive online resources and handouts, and individual advising.

McCallen and Johnson (2020) find there are some demographic aspects that dimmish students' success in college. These aspects include being older than 24, having a full-time job, delay of undergrad enrollment, enrolled part-time, financial independence, and/or taking care of dependents. According to the authors, students having any one of these situations and being from a low-income background, being first-generation, or being African American or Latino decrease the possibility of degree completion. Family stress can also be an added factor to the decrease in graduation rates among students with the above-mentioned demographics. Qualitative results show that faculty and/or staff at institutions are found to be important resources for supporting students in their undergraduate success, mainly due to conveying inspiration and providing emotional, and navigational capital. For the quantitative results, a positive correlation was shown between students' relationships with faculty and staff and their college success. The authors emphasize practices designed to improve teaching quality and professors' ability to respond to the needs of first-generation students", especially emotional needs and not just educational ones.

Together these studies contributed to different aspects of our understanding of students' financial literacy and the role of financial education for first-generation college students. Financial education plays an important role in the future of college students, especially first-generation students. We also have some understanding of how students respond to different methods of financial education and potential long-term impact of such education. Knowledge about the decline in the overall state of financial stability and financial literacy in the United States is a point of concern. This is important to know since it allows researchers to develop critiques of current financial educational programs in place and help develop new programs that would be more effective. Students' input is still somewhat lacking, especially from first-generation students, on how financial courses are taught and approaches they want to see implemented.

METHODOLOGY

A convergent mixed-methods design was used. First, a survey was conducted among first-generation students at a public university in the Midwest part of the United States. Then, we interviewed experts in the industries of banking and financial planning. The survey questionnaire includes questions about students' financial literacy and behavior. The interview questions focuses on the industry experts' experiences with the financial knowledge of the public they have encountered throughout their career. As such, we combined the survey approach used by Quirk (2015) and the interview approach used by Covarrubias et al. (2019). For the survey, we were able to collect data from twenty-eight responses. As this is still a preliminary study, this was deemed to be a sufficient sample for the purpose of gathering preliminary evidence of the current state of financial literacy and behavior of first-generation college students. Twenty-four of those responses were female and only four were male. Most of the participants (50%) are in the age range of 21 to 23 years. Approximately, 46% are 18-20 years old and only one is 24 years old or older. Alternatively, most of the participants (43%) are classified as Seniors, while 32% are juniors. Only an estimated 18% are classified as sophomores and the smallest group is freshmen at 7%. At almost 86%, the majority are females, with only 14% being males. For the interview portion of the data collection process, three experts were interviewed. One from the banking industry and two from the financial planning services industry. For the present study, "expert" is defined as someone who has 10 or more years of experience in one of these industries. We used descriptive statistical analysis to interpret the quantitative data from our questionnaire. Data collected from our interviews was analyzed using narrative and thematic analysis. This focused on our interviewees' experiences and how they answered our research questions.

RESULTS

For the purpose of understanding financial resources, we first examine job experiences of the respondents. A little more than half (57%) of the participants had 2 to 4 years of work experience (fulltime, part time, internships, or summer jobs). Thirty-six percent had 5 or more years of work experience and only 7% had 0 to 1 year of experience. The participants were asked if they had a checking or savings account. Approximately 93 had a checking account and 7% did not have one. Seventy-five percent of the respondents had a savings account and 25% did not. In terms of experiences with college-level financial education, approximately, 54% of the respondents had taken a college-level finance course, and 46% had not. We provided a shortlist of financial terms and asked students to select which word they would associate with the term "financial literacy". The options were money, retirement planning, budgeting, or investing. Out of the 28 responses, 43% of the participants chose "budgeting", and 43% chose "money". Only 14% chose the "investing" option, and no participants chose "retirement planning".

Approximately 93% of the respondents indicated they would be interested in learning more about finances, while only 7% indicated they would not. The participants were given three ways of learning financial skills to choose from – hands-on techniques in the classroom, seminars and conferences, and from industry experts. Around 61% of the participants chose the first option, 21% chose the second option, and 18% chose the third option.

For the qualitative portion of this study, industry professionals were interviewed. The interviewees provided information on their job title, the company they work for, the length of employment with the company, and their job responsibilities. Two out of the three interviewees were professionals in the financial planning services industry. One of them had the title "financial advisor" (FA) and the other had two titles – "independent representative" (IR) and "division leader". Together they have over 50 years of experience in the financial industry. The third interviewee is in the banking industry and has approximately 14 years of industry experience. The third interviewee's title is "assistant branch manager" (ABM). The FA's job responsibilities mostly included helping families and individuals plan and monitor their long-term financial goals, which could be anything from saving for college to saving for retirement. The IR's responsibilities include helping families and individuals become debt-free and financially independent. This also includes educating their clients on finances. The ABM's job responsibilities include assisting the branch manager, ensuring the bank is adhering to regulations and compliance policies, and training staff to follow policies and procedures diligently.

The interviewees were asked about reoccurring requests or questions from their customers or clients. The FA stated that the number one question they receive is if their clients are on track for their financial goals. The second most asked question is how their investments are doing. Their third most asked question is how particular news events affect their investments. The IR stated that most questions they receive deal with opinions on certain stocks and the emerging cryptocurrencies. The ABM mentioned that their customers most frequently ask about accessing information from their accounts, online banking, and overdrafts. The ABM also explained that the questions they receive sometimes depend on the age of the customer. Older customers tend to ask about certificates of deposit and concerns about interest rates. The interviewees were also asked to comment on whether there are indicators that their customers or clients lack financial literacy. The FA stated that their clients show a moderate grasp of what their investments are, how they are structured, and how they work. The IR stated sometimes clients only have their money in a bank or do not have a plan for retirement or the future. The ABM pointed out that it happens that customers claim their balance is lower than they thought, or they rely only on online banking and banking mobile apps, and titling on their accounts or authorized users.

Regarding what they believe college students should be more educated on, both the FA and the ABM stated they wished college students were educated more on budgeting. Additionally, the ABM stated that college students should know more about saving, general knowledge of banking, debit card transactions, and planning for the future. The FA added that college students should know that "investing is not a game". The IR wants college students to talk more freely about finances, especially with loved ones. Other issues mentioned are knowing dollar-cost averaging, how to be financially independent, and "the rule of seventy-two".

DISCUSSION

This study seeks to explore first-generation college students' financial literacy and interest in financial education. The quantitative results indicate that first-generation college students want and need to learn more about financial issues. Hands-on techniques in the classroom was the most chosen option for how students want to learn about budgeting, investing, and retirement planning. This is expected since most of the participants indicated they have taken a college-level finance course. The results also showed that most of the first-generation students work throughout their college years. This usually requires them to possess a checking account or savings account. Most have a checking account, but 25% of the participants do not have a savings account. The qualitative results showed that industry professionals can tell whether their customers/clients comprehend financial topics. Two out of the three professionals interviewed believe college students should learn more about budgeting. Additionally, they also believe college students should be educated on the basics of banking and how to be financially independent.

The fact that most of the participants still feel a need to learn about finances even after taking a course implies that they have not received sufficient financial education. It could also mean that the current curriculum in place is not reaching students in an effective way or that students want to learn about finances in a new way. This is important because students respond to courses better if they believe they have something to gain from them. Turning to students to see how they want to learn can bring a new perspective into the classroom and as a result, students will more easily retain techniques and information. Since most of the participants were seniors and have had work experience, they should have the skills needed to manage their income and future debt. This goes along with what the industry professionals commented in their interviews. They too believe that college students need more financial education. From their own experiences, they have gathered that young adults do not know the basics when it comes to banking, investing, and planning for the future.

The findings in this study varied when it came to meeting our prior expectations. One result was the number of participants that have work experience. This result was to be expected since most (66%) first-generation college students work throughout their college career (RTI International, 2019). This is due to the increased cost of attendance, possibly having a low-income background, and unwillingness to borrow (Carales et al., 2020). Another expected result was from the interviews. We were expecting the interviewees to say they can tell when their clients do not have a good understanding of financial issues. Because the interviewees have a great amount of experience in their industries, they are very knowledgeable about the customers they serve. They were able to give us various examples of questions they received from or conversations they had with clients, and find evidence that many people do not have a sufficient understanding about financial matters. One of the interviewees stated that they believe their clients, for the most part, understand their finances and come with knowledgeable questions. This is likely due to the target market for financial advisors being mostly older adults, which means they have had time to continuously learn and improve their financial habits. One unexpected result was that one of the participants was not interested in learning more about finances. This could be because they feel that their financial education is substantial enough or because they do not have a genuine interest in learning more. Another unexpected result was two out of the three interviewees explicitly stated that college students should learn about budgeting. A reason they both stated this is that budgeting is one of the more basic financial skills. According to Take Charge America (Take Charge America Team., 2016), a nonprofit financial education agency, budgeting is the “foundation of financial health” and “one of the essential financial skills for young adults”. This was unexpected because we thought each interviewee would state different skills.

The research conducted in this study can be used by educators in higher education institutions to understand some unique aspects of first-generation students regarding their financial literacy and potential ways of helping them improve. Specifically, it helps us think about the resources they need to graduate and further succeed in their career and achieve their personal financial goals. Financial skills are needed and necessary for all college students but especially those who are first-generation. These demographic groups are among the most important to educate on finances, since college students are likely to enter the workforce and have a new income, retirement options, and loans to manage (Quirk, 2015).

There appears to be a need to continue research on financial education techniques. There should be a collaborative effort between students, professors, and industry professionals to build curriculum for personal finance classes. Collaboration at this level would help each group affected by the changes have an opportunity to have their concerns, suggestions, and opinions heard.

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