

Policy Review: Financial Education

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1. Background

Student debt has been one of the primary issues in higher education that is impacting the American youth. Many students and their families are strongly dependent on loans in order to fund the rising cost of tuition and other educational expenses. The future remains crippling for these families and remains to be controversial due to the lack of Financial Education (FE). Many students would not pursue higher education because the resources they need are unavailable or they think they are not eligible. Students often grapple with navigating the systems due to misinformation and intricacy of financial aid forms. Statistics have shown that 60% of college students have insufficient knowledge about financial aid policies or never taken any courses related to it (Council for Economic Education, 2011). 32% of households received informal FE, while 44% had never taken it (Kim et al., 2021). In addition, 30% of college students who are in debt have dropped out of college with higher unemployment rates, resulting in default on their loans (Nguyen, 2012). According to Brown et al. (2013), FE reduces the risks of student debt and has the power to affect decisions of the youth due to the level of information given. Failure to understand these policies increases the risk of student debt, therefore making college even less affordable and difficult to repay loans.

2. Policy

According to Bean et al. (2011), in order to understand the policy further, two important key terms are emphasized: 1.) Financial Education and 2.) Financial Literacy (FL). To define FE, it is: “the process by which people improve their understanding of financial products, services and concepts, so they are empowered to make informed choices, avoid pitfalls, know where to go for help and take other actions to improve their present and long-term financial well-being” (Bean et al., 2011, p. 3). Statistics have shown that student loans have exceeded over one trillion dollars since 2011, in which a large fraction of 60% among college students remain in debt (Bean et al., 2011). In addition, the default rates have increased to 10% that poses a greater risk of terminating the Title IV status (Thomason, 2013). The danger of losing this status will prevent borrowers from being eligible for federal aid such as Pell Grant, Higher Education Opportunity Program (HEOP), or Federal Work Study (Bean et al., 2011). According to Burdman (2012), higher education institutions (HEIs) play a critical role in providing accurate information and helping students navigate during the complex stage of making financial choices before attending college. Students must be confident and informed by understanding the important tools given to them by higher education professionals (HEPs). HEPs must also be skilled and adequately trained in this area, resulting in better outcomes for the students’ financial future.

Looney (2011) argued that the definition of FL has various inconsistencies that become an inherent challenge to establish solutions for colleges and universities. FL is defined as “the solutions for colleges and universities. FL

is defined as “the ability to use knowledge and skills to manage one’s financial resources effectively for a lifetime of financial security” (Bean et al., 2011, p. 3). Through FL, it enables students to think critically and understand the risks by utilizing these financial resources firsthand (Kezar & Yang, 2010). Thus, FL strongly influences the student behavior, increases their success, and lowers default (Looney, 2011).

Many HEIs provide financial counseling to students; however, this depends on the educational program itself (COHEAO, 2014). There are several FE models that exist in HEIs as an intervention, but may or may not work for some. The most commonly used models are: 1.) financial aid and counseling centers on campus; 2.) programs through third-party financial officers; and 3.) distance learning programs and tools (COHEAO, 2014). As part of the student services rendered on campus, HEPs are professionally trained and knowledgeable about federal regulations, financial aid policies and its procedures (COHEAO, 2014). They are able to synthesize complex issues and identify them before structuring a comprehensive plan, such as emergency loans, payment timelines, student account holds, and re-evaluation of the students’ financial situation (Grable et al., 2012). In addition, HEPs are also aware about the current trends of student risks through professional development and refresher training. Individual financial aid counseling is also provided in HEIs to address student concerns such as financial distress, help them set goals, create a savings plan, or present substantial options for them (COHEAO, 2014). Students are encouraged to come in person and speak with a financial aid counselor, through virtually online or phone.

Third-party programs such as Working in Support of Education (W!SE), is one of the professional development resources in New York City for both students and HEPs to increase FL (W!SE, n.d.). It provides a comprehensive curriculum with a Financial Literacy Certification Test (FLCT) to be taken after the course (W!SE, n.d.). Some HEIs require their employees to take this standardized test earning a credential or advanced certificate. In addition, cross-departmental collaboration develops partnerships across other offices to reach more students (COHEAO, 2014). The benefits of FE are best utilized when it is widespread through program marketing and exposure (COHEAO, 2014). One example is College Goal Sunday that is open to the general public and available in various U.S. states (Looney, 2011). It provides free in-person professional assistance in completing the Free Application of Federal Student Aid (FAFSA), giving an opportunity to connect with financial aid officers to discuss eligibility, admissions requirements, and important guidelines about the application process (Looney, 2011). Building a team of professionals with the necessary background in financial aid services align a positive vision for HEIs and help achieve student retention. Collaborating with government agencies, local financial companies or communities, and other HEIs bring additional knowledge and resources to enrich FE programs for students (COHEAO, 2014).

Lastly, distance learning FE programs or tools are cost-efficient and accessible for students who are residing in

remote areas or have limited mobility (Bean et al., 2011). An example of this is the United States Department of Education's (USDE) website called Studentaid.gov that provides students, parents, and HEPs relevant information on financial aid and the FAFSA process (Looney, 2011). This website is widely used by colleges and universities to guide students effectively through net price calculators based on their financial need (Looney, 2011). Making use of these online tools help students understand the cost of education and strategies in managing their finances. In addition, assessing the students' needs through their engagement with such programs allows them to track their financial progress and formulate robust strategies to enhance the program. Through online surveys and focus groups, qualitative information measures the efficacy of the program (COHEAO, 2014). For instance, developing a FL quiz with the help of the federal government gives a better understanding of important definitions or concepts and make budgeting tools more useful for students and their families (Financial Literacy & Education Commission, n.d.).

3. Analysis

Results have shown that mandatory FE had a significant impact on improving the debt behavior and leads to a decline in delinquency and loans by 0.6% (Brown et al., 2013). However, despite the reduction on all types of debt, student loans only had an incremental change (Brown et al., 2013). In addition, FE largely diminishes as borrowers age in which the likelihood of debt among 22-year-old students is reduced by 1.4% and 0% for 27-year-olds (Brown et al., 2013). Brown et al. (2013) also emphasized that FE programs differ across states that causes the numbers to fluctuate. Thus, the effectiveness of FE remains undetermined and more qualitative research is needed.

In comparison to Boat and Evans' (2017) study, FE had a 2.5% reduction in loan aversion in which prospective college students would be more than willing to borrow and invest in higher education. In relation to the types of aid that the federal government provides, FE had also reduced the loan aversion rates by 8% among high school seniors (Boat & Evans, 2017). Awareness on financial aid eligibility and payment plans allow students to make better financial choices and take advantage of the aid that they are qualified for (Liebman & Ezro, 2015). While there are many opportunities on these debt options, loan aversion can be detrimental to their success (Boat & Evans, 2017). If students avoid borrowing, it could delay their enrollment and less likely to persist in completing their degrees (DesJardins et al., 2006).

Limitations for FE continue to be complex for many HEIs. Underrepresented students remain disproportionate, because FE resources on campus are much limited compared to their affluent counterparts (Burdman, 2005). Students with great financial need should be the top priority for HEIs (COHEAO, 2014). Students often struggle to complete financial aid forms due to changes in their household such as incarceration, death, or hospitalization (Burdman, 2005). They also lack support from their counselors and are unable to receive proper assistance from them. Oftentimes, some HEIs are understaffed and are unable to provide attention to these students. Counselors also lack training and therefore, it presents a greater challenge for students to fill out the FAFSA themselves without proper guidance (Burdman, 2005). In addition, students living in remote areas are unable to receive internet access and are missing financial aid opportunities (Burdman, 2005). Another hindrance is that these financial aid forms are not translated for non-

English speaking families, and translators are also hard to come by (Burdman, 2005).

Without understanding the complexity of student loans, students will continue to struggle in finishing their degrees and their financial future remains unsecured (Burdman, 2005). The existing information gap continues to be a widespread problem because of the lack of FE. HEIs have different ways of communicating with students about loans (Burdman, 2005). Some HEIs automatically offer loans to students who qualify for financial aid, while others only offer to those who have expressed interest or by specifically contacting the financial aid office to request them (Burdman, 2005). As this information divide persists between high school and college students, HEIs have the responsibility to stay abreast of financial aid policies in order to help students make confident financial decisions before attending college (Burdman, 2005).

4. Recommendations

FE programs in HEIs can be improved to effectively assist students in this crucial step in understanding how to fund their education, as well as its risks and benefits. According to a report by the U.S. Financial Literacy and Education Commission (USFLEC, 2019), there are four recommendations for HEIs: 1.) providing accurate information to students about borrowing; 2.) engaging students in FE and FL; 3.) targeting specific student groups through data; and 4.) preparing students for financial obligations once they graduate.

The lack of transparency and inconsistent information on financial aid policies have a negative impact on student success and exacerbates the ongoing problem of student debt. Financial aid offers or award letters as well as annual debt letters are useful tools to communicate about the cost of attendance (COA) and payment options (USFLEC, 2019). These award letters indicate how much aid the student is going to receive while in college; however, these offers do not have sufficient information about the tuition costs (USFLEC, 2019). HEIs must exercise transparency and clarity on tuition prices by presenting an itemized COA, so that students and their families can make optimal financial decisions allowing them to differentiate the costs from other institutions.

Professional development and mandatory training can improve FE and FL skills for students (USFLEC, 2019). According to a study by Gutter and Copur (2011), college students who took a finance course in high school are able to make better judgments on spending. FE courses that are systematic and carefully planned out increase the financial well-being of the students (USFLEC, 2019). As a recommendation, HEIs should integrate compulsory FE courses that teach financial concepts and skills to both students and HEPs. In addition, FE should also be introduced during orientations and first-year experiences, so students can adopt the best practices in managing their finances while in school (USFLEC, 2019). This keeps the students engaged and informed as early as acceptance through graduation.

Another recommendation is for HEIs to use relevant data to evaluate various student populations and better understand what their needs are (USFLEC, 2019). For instance, at-risk students belonging to low-income households, students of color, and first-generation students are more likely to experience the pitfalls of financial burden because of debt (OECD, 2015). Targeting specific student groups and analyzing their income, background, loan and aid history, and family status are significant facts to identify their FE

and FL needs (USFLEC, 2019).

Lastly, HEIs must adequately prepare students on their financial responsibilities after college and the benefits of such investment. HEIs must provide structured guidance (one-on-one support) to respond to individual needs and clearly communicate about important deadlines and timely information, such as reduced summer tuition and extended enrollment periods (USFLEC, 2019). In addition, HEIs should provide emergency financial assistance to help students complete their education during an unprecedented event. HEPs must be professionally trained or licensed to advise students on loan repayment options and assist them in creating a budget to set a repayment goal (USFLEC, 2019). Students who are nearly graduating are planning on their careers and will need guidance in assessing their financial situation as they determine their projected salary. Understanding these payment plans can inform students and efficiently prepare them for their future.

5. Conclusion

FE is an important policy that helps students and their families avoid the pitfalls of financing higher education. However, FE does not eliminate the issues of student debt because the incentives to borrow will continue to exist. With effective implementation of FE programs in HEIs, it enables students to make informed and confident decisions before college through accuracy and transparency, mandatory training, targeting relevant data, and strategic planning.

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