



# The Latest Financial Capability Research for Practitioners

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# About NEFE



- 501(c)3 private operating foundation located in Denver, CO
- Began as the College for Financial Planning (1972); established NEFE as an independent foundation in 1997
- Launched High School Financial Planning Program in 1984
- Funds research, provides educational materials, advances public awareness



# NEFE Research

- NEFE's Research Funding Program furthers the field of financial education through interdisciplinary research
- NEFE funds projects that:
  - Are based on original research questions that necessitate rigorous, empirical analysis
  - Generate new data or utilize existing datasets
  - Involve the direct study of U.S. households and individuals or issues and trends pertaining to them (i.e., the scope is domestic)
  - Research may investigate the impacts of financial education directly or result in findings that are impactful to the financial education field

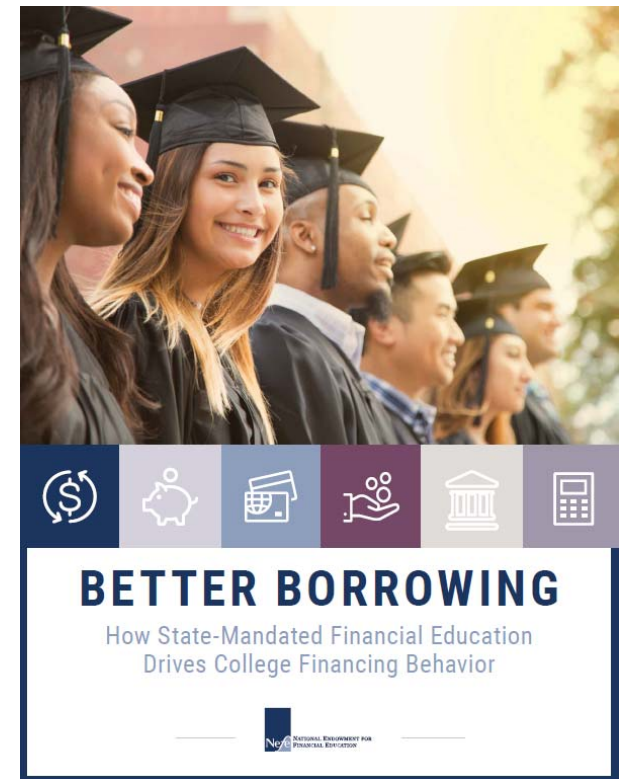


# Financial Education Mandates & College Financing

# “The Effects of State Mandated Financial Education on College Financing Behaviors” (2018)



- Montana State University: Carly Urban, Ph.D., associate professor of economics, and Christiana Stoddard, Ph.D., professor of economics
- Research funded by NEFE to understand:
  - How personal finance graduation requirements in HS change whether or not young adults attend college
  - Methods individuals use to finance their postsecondary educations



## In Brief



In states with mandated personal finance graduation requirements, financial education causes students to make better decisions about how to pay for college.

It increases applications for aid, federal aid taken, and grants, while decreasing credit card balances.

**Financial education makes better borrowers.**



# Study Data: NPSAS

## NPSAS SAMPLE AVERAGES

**90 percent** of incoming four-year freshmen apply for some type of aid.

**55 percent** have a Stafford loan.

**11 percent** have private loans.

Conditional on having a loan, average private loan amounts are **\$7,065**. Average Stafford loans are **\$2,871**.

Nearly **three in four** receive some type of grant or scholarship (typically Pell grants).

**45 percent** work in some capacity while a college freshman.

About **10 percent** hold a balance on a credit card in their freshman year.

NPSAS sample is nearly **55 percent** female, **70 percent** white, and just over 18 years of age; and **97 percent** of students are dependents.

EFCs average about **\$14,700**, meaning parents potentially are able to contribute approximately that amount annually.

About **20 percent** have parents without any college education.

- Draws on data from the **National Postsecondary Student Aid Study**
- Compares students at four-year institutions from states with personal finance graduation requirements before and after implanting the requirement, to comparable students in states without a mandate



# Effective Mandates & Their Impact

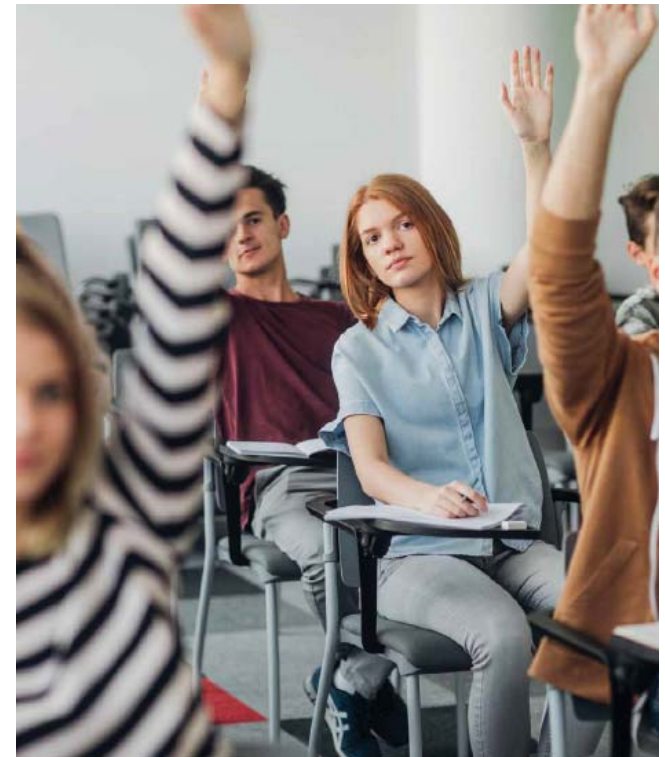
- If students in a state are required to complete financial education coursework in order to graduate, that is considered a mandate
- Mandates implemented since 2012 seem to be more effective
  - Older mandates show mixed evidence of impact
  - Newer mandates lower defaults, improve credit scores, decrease non-student debt, and modestly increase student debt
- Simply offering a course, but not requiring students to take it, is not considered a mandate
  - Does not appear to have the same positive effects as state requirements for all students



# College Enrollment Decisions Unaffected



- Students are no more or less likely to:
  - Go to college
  - Choose a college with a different tuition level
  - Choose a different type of education
- Student preference may be fixed, and financial education offered in high school may be “too late” to influence these preferences





# Impact on Aid

## Increase in aid applications

- Students receiving mandated financial education are **3.5% more likely to apply for aid**
- Notable because **91%** of students in states without mandates **already apply for aid**

## Mixed effects on grants and scholarships

- Students exposed to financial education are **1.4% more likely to have aid packages with grants or scholarships**
- No more or less likely to use a grant than those without mandates
- Most students understand the value of accepting grant aid (“free money”)



# Impact on Student Loans

## Federal loans increase

- 9.5% more likely to take out a Direct loan
- Acceptance of **Subsidized** Direct loans increase 12.9%

## Are more federal loans necessarily better?

- Increase in Direct loan holding indicates students understand the better borrowing terms offered by subsidized federal student aid when compared to other sources (private loans, credit cards)

## Private loan balances decrease

- No evidence that fewer students are taking out private loans because of mandated financial education
- Those who do take out private loans reduce their loan amounts by \$1,300 on average and by \$2,350 for students with higher EFCs



# Work & High-Cost Borrowing

Working while in college decreases

- Students from low-EFC families are **7.8% less likely** to be working while in school
- May free up time to study, improve academic performance, and shorten total time in college (another cost saver)

Credit card use improves

- **21% less likely** to hold a credit card balance while enrolled in higher education
- May mean students are covering their expenses with lower-cost options



# In Summary

- Causal effect of financial education graduation standards on how incoming four-year college students make initial decisions about financial aid
  - Increases the likelihood that students will apply for financial aid
  - Increase acceptance of both grants and subsidized federal loans
  - Decrease private loan amounts for borrowers
  - Decrease the likelihood of carrying a credit card balance
- On average, exposure to financial education:
  - Increases applications for aid by 3.5%
  - Increases the likelihood of taking out a Direct loan by 9.5%
  - Increases likelihood of having a grant by 1.4%
  - Decreases the likelihood of carrying a credit card balance by 21%
  - Reduces private loan balances by roughly \$1,300 for borrowers



# Beyond Averages

## Students from families with **below-median EFC (less than \$5,000)**

- More acceptance of subsidized Direct loans
  - Acceptance rate three times higher than more affluent students
- Fewer carried a credit card balance
- Fewer working while enrolled

## Students from families with **above-median EFC (more than \$5,000)**

- Reduced private loan borrowing by roughly \$2,400 (among those who borrow loans)
- No more or less likely to hold a credit card balance or work while enrolled

Understanding these differences can inform policy that encourages a more tailored approach over one-size-fits-all postsecondary education financing strategies

# Qualitative: In Their Own Words

- Students described how their parents don't know enough to help them figure out how to finance college
- Credited specific teachers or individuals as key in getting information
- Frequently articulated the need to know about the specifics of their own situations
  - Budgeting/financial skills
  - Pell grants
  - Which school to attend
  - Which major to declare



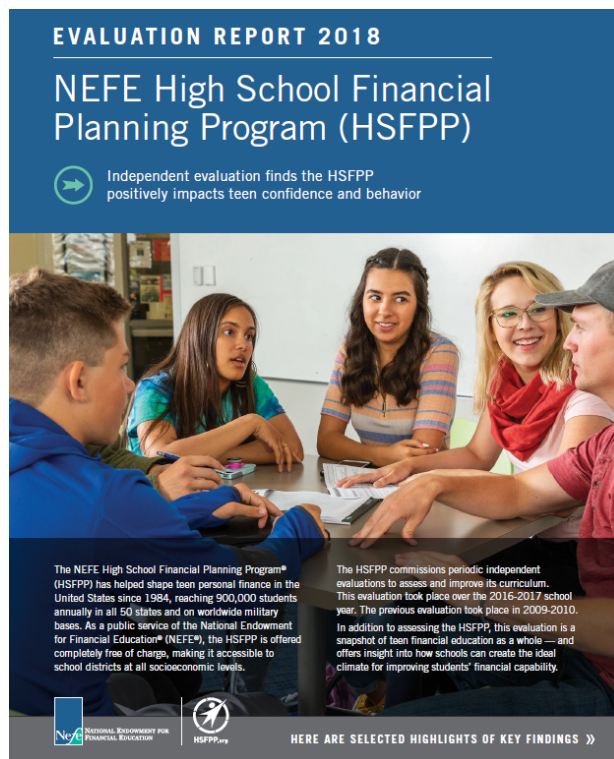


# Evaluation for Effectiveness: Competency-Based Financial Education in the Classroom

NEFE High School Financial Planning Program | [www.hsfpp.org](http://www.hsfpp.org)



# NEFE High School Financial Planning Program | [www.hsfpp.org](http://www.hsfpp.org)



- Evaluation took place over 2016-17 school year
- Conducted by the Economics Center at the University of Cincinnati
- Evaluated the effectiveness of the HSFPP on students' knowledge, behavior and confidence
- Evaluated the program's educator support resources



# Demographics: Two Groups of Classrooms

## HSFPP Group

- Teachers and their students who use the HSFPP materials for at least 75% of their financial education course
- 42 teachers representing 1,700 students
- Schools were in communities with:
  - Lower educational attainment
  - Higher percentage of minority students
  - Higher percentage households in poverty

## “Other Programs” Group

- Also received financial education, but HSFPP was used for less than 25% of their curriculum
- 51 teachers representing 2,800 students

**Study did not include students who received no financial education whatsoever**



# Key Findings

## Students do better if...

- Their district requires financial education
- They have financial accounts (e.g. checking, savings, investments)
- The program lasts 7 weeks or longer (vs. 1-3 weeks or 4-6 weeks)
- They are in a higher grade level and have more relevant life experience
- Their community has higher overall education and socioeconomic attainment\*

\*Most educational disciplines benefit in environments with higher overall education and socioeconomic attainment; however, well-designed and implemented education also succeeds in all types of communities.

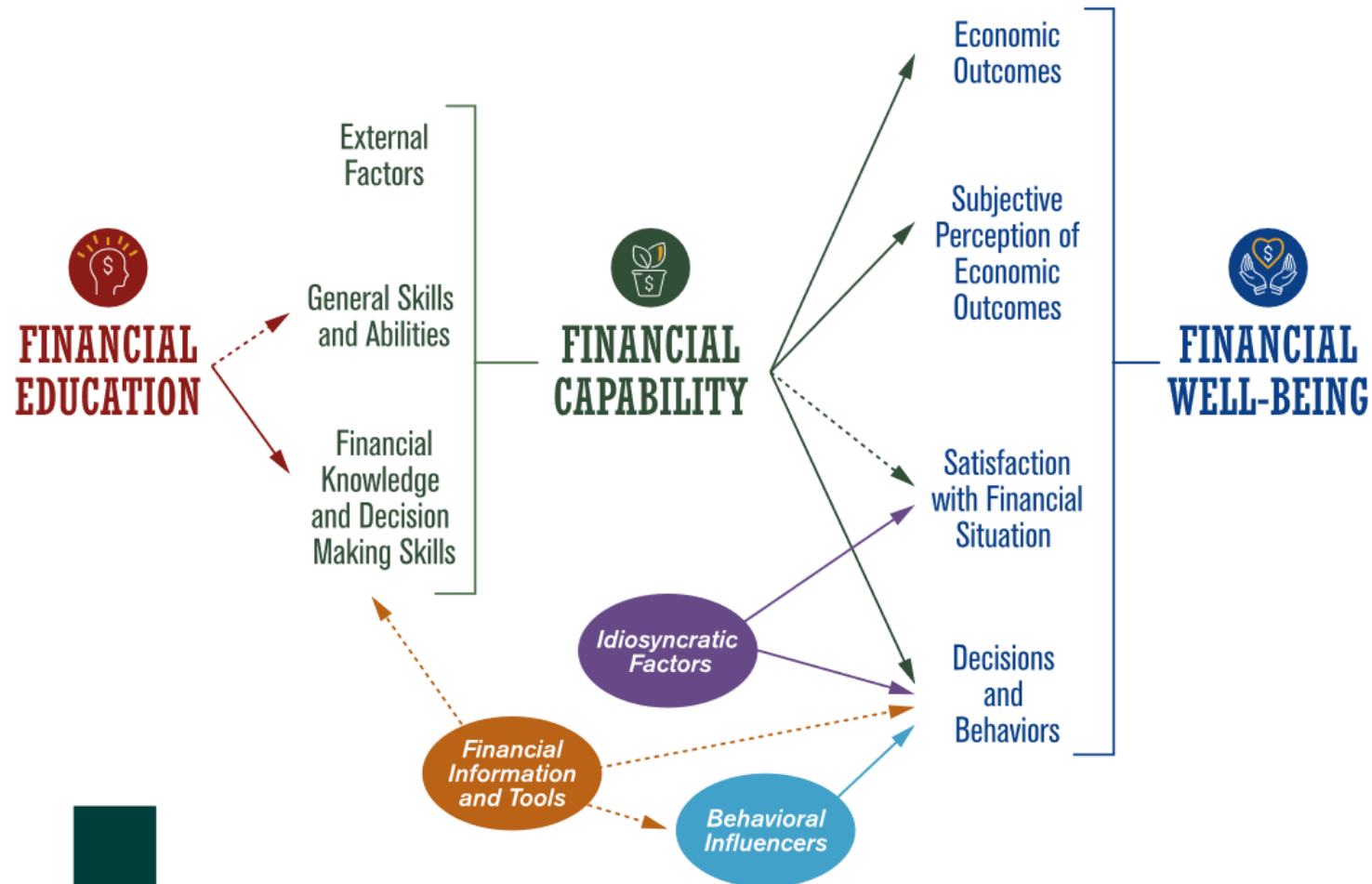


# Lessons for the Field

- Despite optimum conditions, any type of financial education based on knowledge and literacy will fade over time — but programs that create behavior change have longer-lasting effects
- HSFP students better at demonstrating and forming positive behaviors
  - Material is plan-driven and competency-based
  - Doesn't just teach information or show students how to manage a financial task
  - Guides them to do it for themselves so they can apply it to their own lives and do it again successfully in the future
- In order to effectively reach teens, financial educators must
  - Continuously update content to be relevant to financial decisions students are making today
  - Explore how to bridge achievement gaps between low-income and more affluent schools
  - Implement competency-based instruction to personal financial education



# NEFE's Personal Finance Ecosystem



This is an evolving framework and is subject to change. Please visit NEFE.org for the latest version.





# Financial Well-being (aka Financial Wellness):

*The individual's self-defined goal state*

- Major elements include:
  - Personal economic outcomes (e.g., objective measures like tax bracket, credit score)
  - Subjective perception of economic outcomes (e.g., accurate perception of their tax liability and what their credit score is and means)
  - Satisfaction with financial situation (including outlook)
  - Decisions and behaviors
  - There is interplay between the elements as well

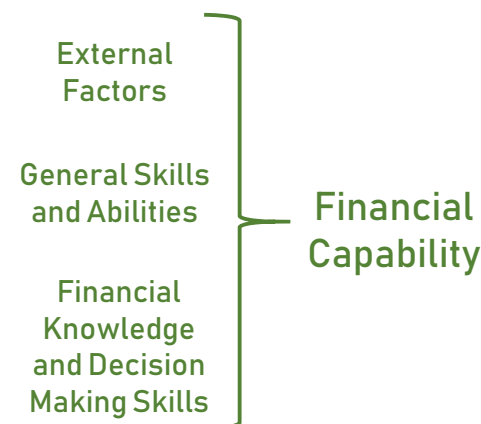




# Financial Capability

*The individual's ability to act in their own self-determined best financial interest*

- Major elements include:
  - Financial Knowledge and Decision Making Skills
  - General Skills and Abilities: numeracy, cognitive faculties, problem solving, critical thinking, self-efficacy, confidence, etc
  - External Factors: economic conditions (e.g., unemployment), socioeconomic factors, financial products and services, personal health, family factors, economic inequality, social welfare programs, etc







## Financial Education

A systematic approach to cultivating financial knowledge and financial decision-making skills. Implies use of appropriate pedagogy, learning objectives, and assessment techniques as well as being of adequate duration and structure to allow the learner to incorporate new knowledge into their existing schema.

## Financial Information & Tools

A variety of tools, resources, and activities that inform the individual about a topic or decision. Often used in self-directed inquiry. Can and should be used as part of a financial education program or initiative but on its own does not constitute education. Examples include one-off, or small-dose lessons not part of a broader program or curriculum, articles or reference resources, tips and tricks, calculators and decision aids.

## Behavioral Influencers

Includes informational interventions (e.g., Just in Time), nudges and choice architecture, expert advice or guidance, financial coaching or therapy (individual or group) and Fin Tech.

## Idiosyncratic Factors

The other factors that materially impact people's behaviors and satisfaction and include their motivation, affect, cognitive bias, values, beliefs, attitudes, time discounting, risk tolerance and related factors.



# Discussion: Research to Practice

# Research to Practice



In what format are new research findings most useful to you?

*(ex. 1-2 page summaries; classroom activities; short snippets; webinar trainings, etc.)*

Have you adapted or incorporated research findings into your financial education work? In what way?

# NEFE Resources



- Executive summaries and full research papers: [www.nefe.org/research/](http://www.nefe.org/research/)
- High School Financial Planning Program: [www.HSFPP.org](http://www.HSFPP.org)
- Evaluation Toolkit: [toolkit.nefe.org/](http://toolkit.nefe.org/)



# Thank You!

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