



Increasing Financial Literacy for College Students: A Crucial Retention Tool

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Ideally, students would be financially literate when they enter the world of higher education; however, several recent studies indicate the opposite is true—students are woefully unprepared to manage their finances while in college. Unfortunately, such financial illiteracy often leads to financial crises resulting in reduced retention rates. In fact, financial trouble is *the* leading reason for dropouts—even more than academic failure.

A recent nationwide study of 14,500 students enrolled in 15 colleges found that 38 percent of college dropouts left for financial reasons versus 28 percent for academic disqualification.¹ According to the U.S. Department of Education, more than 30 percent of students leave during the first year, and almost 50 percent never graduate. More than 1.5 million college students in the United States were expected to drop out of college in 2008 due to money issues.²

Part of this problem comes from a significant shift over the past two decades in financing options for higher education. Today, there is a greater reliance on student loans, money earned by students working while in school and credit cards instead of grants. Without a good understanding of personal finances, many of these students end up borrowing far beyond their needs and abilities to pay, resulting in record numbers of student loan defaults.

The U.S. Department of Education estimates that roughly 75 percent of all U.S. college students balance school with work; 46 percent are working 25 or more hours a week, and one in five works full time. In addition to the stress of combining work with school, these students are also more likely to place their education on hold when personal financial issues arise. Sadly, most students never return to complete their education.

Credit card usage among undergraduates further illustrates the dangers of financial illiteracy. A study by the Jump\$tart Coalition revealed a serious knowledge gap regarding credit cards:

- 21 percent owe \$3,000 - \$7,000 on their personal credit cards
- 75 percent of credit card holders have charged the maximum amount allowed on one card
- 64 percent do not know what the interest rate is on their credit cards
- Bankruptcies for those under 25 years of age have increased from 15,000 cases in 1995 to 150,000 cases in 2000

Despite the grim outlook, there is hope, and it lies in financial education. By incorporating financial education into higher education offerings, you can significantly improve the financial literacy of students and retention rates of students in your institution.

A 2006 multi-state university research project examining students' overall financial management practices concluded that: "...some students are financially at risk, and



thus there continues to be a need for ongoing campus financial education...College campuses may want to require that a personal finance course or financial life skills course be included as a general education requirement for classes.”

Some colleges have already implemented financial education into their curricula and the results have been positive for both the students and the faculty. Missouri Southern State University, Benedictine University, Jamestown Business College and the 46 campuses of Louisiana Community and Technical College System have all added financial education into their curricula—some were so successful, they added money management modules to the core curriculum, regardless of major. Such programs set students up for success in college and beyond.

A solid financial education program in higher education can be offered in the classroom, online, or a combination, to reach students in a manner that they enjoy and will use. The program should reach the majority of students, and should be mandatory, if possible. The program must be sustainable and not dependent upon one passionate faculty member. And the program needs to provide key money management lessons-- those that are key to students today-- and in their future.

¹ 4th quarter 2007, 14,500 students at 15 colleges by Duck9

² Bill Pratt, author of *Extra Credit*, July 2008

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