

A Path to Financial Literacy: Potential Impact of a Personal Finance Course

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INTRODUCTION

Concern about financial literacy in the U.S. has grown significantly in recent years as consumer debt levels rise and the rate of change in financial services and technology has increased (Braunstein and Welch, p. 445). Lower personal savings rates (including their impact on retirement) and increased filings for personal bankruptcy have also been important factors in drawing attention to financial literacy on a national level. Various initiatives and programs, however, are being developed across the U.S. by numerous stakeholder groups to promote financial education and improve financial literacy. These efforts include the development of college-level courses in personal finance as well as state-mandated financial education curriculum for public school districts. In addition, the Financial Literacy and Education Commission has been created, through federal legislation, to establish and maintain, among other things, a website of financial education materials and programs.

This paper focuses on the potential impact of a personal finance course as a method to improve financial literacy for undergraduate students. This type of course, though not widely available, is becoming more prevalent. Some colleges and universities offer a Personal Finance course within the business curriculum. Generally, this course is available to all students at the college and is not allowed to satisfy course requirements for any business major, including finance and accounting. Other schools provide a financial planning education program that is registered with the Certified Financial Planner Board of Standards, Inc. (CFP). As of October 2004, there were 310 registered programs at 191 colleges and universities in the U.S. (www.cfp.net).

THE PERSONAL FINANCE COURSE

A new course in Personal Finance is completing its second semester in the undergraduate curriculum at the college. This course is open to all undergraduates—across all grade levels and disciplines. While the course has been approved for use as a general education requirement for graduation, it can not be applied to meet requirements for any specific major, including all business majors. The course has tended to fill up quickly and enrolls approximately 25 students per semester. Seniors are approximately one-third of each class so far.

The Personal Finance course follows a standard curriculum, uses a standard text (Keown, 2004), and requires a standard end-of-semester project, which is an individualized personal financial plan. For the plan, each student develops, researches, and implements three financial goals—one that can be accomplished within 12 months and two other financial goals that are either medium term (one to ten years) or long term (longer than 10 years). Students also prepare personal balance sheets, income statements, and financial ratios.

A few other projects have also been included in the course. For instance, a research project on personal finance services is required and takes the students into the local community.

This project is designed for a two-person team. Students analyze and research a particular financial service—a credit card from a retail company or an airline, for instance—and compare advantages and disadvantages from three separate providers. As background for making their choices about which provider is best, students identify about eight factors in their decision-making process (such as, convenience, online access, or fee structure). Students also need to conduct an in-person interview with one of the local providers. On the day that the projects are due, students share their findings with the rest of the class; there are no duplicate topics by design. Students also post highlights to WebCT for their classmates to read later.

A personal finance book review is another project and, currently, a popular feature of the course. The book review is based on one of approximately 10 specified personal finance books. Each book on the list is a current/recent best seller, written for a 20-something audience, and/or provides a woman's perspective on personal finance. For each title, the same series of questions is applied—What is the book about and who is the target audience? What kind of background is needed to best use the material? What were the two most important examples/ideas for you? How was the research done? Do you have any suggestions for the next edition? What grade would you give this book? On the day that the projects are due, students share their results with the class, often comparing their perspectives with those of someone else who also read the same book. Again, students post summary information to WebCT.

ASSESSING THE POTENTIAL IMPACT OF A PERSONAL FINANCE COURSE ON FINANCIAL LITERACY

A pre-test and post-test are designed to gauge the potential impact of a Personal Finance course on financial literacy. This instrument (see Table 1) is intended to measure changes in behaviors tied to personal finance decision-making, given that the students complete the requirements for the course. The survey items correspond to many personal finance areas, such as cash management, credit management, savings, investments, retirement, and insurance. The survey is closely based on “How Good Are Your Money Management Skills?,” which is a consumer self-assessment instrument provided by AARP and is available on its website (www.aarp.org). The survey has been administered, on a pilot basis, to approximately 25 undergraduates in a Personal Finance course each semester, representing first-year through senior year students across a wide variety of college majors. Students represent traditional age undergraduates as well as non-traditional age undergraduates.

During the pre-test, students indicate their level of experience with 24 listed personal finance items before the course started. For instance, students indicate if they “saved money on a regular basis” or if they “shopped for the best interest rate on their savings products” before the semester began—with scaled responses to indicate yes, no, once in a while, or usually. The “before” picture is indicated with a plus sign (+). The same instrument is given to the students at the end of this semester to assess the changes that may have occurred and/or the plans that may be in place to make changes in the listed personal finance items. The “after” picture is indicated with an ampersand (@). In both cases, the category that received the most responses for the class is indicated.

The pre-test results suggest that there is considerable room for improvement in financial literacy. For instance, many of the students do not indicate any version of “yes” for many of the investment, retirement, or credit management items. These results may be consistent with a

mostly traditional-age undergraduate audience. The impact of a personal finance course on the undergraduates' personal finance behaviors is expected to be noticeable, especially where additional knowledge can change the behavior.

The post-test results, also indicated in Table 1, suggest that changes are being made in the students' personal finance behaviors. For instance, improvements are seen in such items as keeping financial records, reconciling bank accounts, and saving on a regular basis. Further, the students note an improvement in information about repaying their college loans. Some items, however, have not changed after completing a Personal Finance course. These items—such as, having a mutual fund—require an increase in wealth in addition to an increase in financial education. Other items may require an improved employment status as well as an enhanced financial education. For example, students indicate that they, generally, do not contribute to employer-sponsored retirement plans either before or at end of the course. Participation in such a plan requires, at the minimum, a full-time job which most traditional-age undergraduates do not yet have. Consequently, a distinction needs to be made among the results, given what the students can accomplish primarily through improved financial education compared to what they can change only with additional resources as well as an improved financial education.

SELECTED REFERENCES

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Table 1
Money Management: A Survey*

Please note: + pre-test (before the course) @ post-test (at course's end)	No	Once in a while	Usually or often	Yes	Does not apply
I have a financial record-keeping system in place to track income and expenses	+			@	
I have a household spending plan/budget and use it	+	@			
I reconcile my checks and ATM withdrawals on a regular basis		+		@	
I pay my bills on time				+ @	
I compare offers from credit card companies before applying for credit				@	+
I pay more than the monthly minimum on my credit card bill each month				+ @	
I have requested and reviewed a copy of my credit report	+			@	
I have identified immediate and long-term savings goals	+			@	
I save money on a regular basis		+		@	
I have an emergency fund that covers three to six months of my living expenses	+ @				
I put my money in low-risk savings products, such as savings accounts, money market funds	+			@	
I shop for the best interest rate on my savings products	+			@	
I have calculated how much money I will need to retire comfortably	+ @				
I have calculated how much money I will need to repay my student loans	+			@	
I contribute regularly to an employer-sponsored retirement savings plan	+ @				
I save money in a tax-advantaged savings account for retirement, such as an IRA	+ @				
I put my money in different types of investments to boost return and reduce risk	+ @				
I have a mutual fund	+ @				
I do not dip into my retirement savings to cover other expenses					+ @
I have a will	+ @				
I have adequate health insurance				+ @	
I have adequate disability insurance	+ @				
I have adequate life insurance	+ @				
I educate myself about financial issues		+		@	

***Source: Survey is based on "How Good Are Your Money Management Skills?" by AARP**