



Improving the Financial Literacy of College Students through Active Learning: A Student-Centered Approach

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“Ah-ha” moments

Use online calculators to estimate payments for each option (2). Average cumulative graduate education debt was about \$40,000 in 2008 (3). Repayment on a \$40,000 principal Direct Unsubsidized loan with 6.8% interest looks like:



START YOUR PAYMENTS

Consequences of Procrastination

Time Value of Money

- ▶ Bob (20) invests \$2,000/yr for 10 years and then stops
 - Starting today until he is 30
 - Total of \$20,000 invested
- ▶ Betty (20) waits 10 years, then invests \$2,000/yr for the next 35 years
 - Invests from 30 until she is 65
 - Total of \$70,000 invested
- ▶ Who's better off at age of retirement?

Age	Investor A		Investor B		Investor C		Investor D	
	Contri- bution	Year-End Value	Contri- bution	Year-End Value	Contri- bution	Year-End Value	Contri- bution	Year-End Value
8	-0-	-0-	-0-	-0-	-0-	-0-	500	550
9	-0-	-0-	-0-	-0-	-0-	-0-	750	1,430
10	-0-	-0-	-0-	-0-	-0-	-0-	1,000	2,673
11	-0-	-0-	-0-	-0-	-0-	-0-	1,250	4,315
12	-0-	-0-	-0-	-0-	-0-	-0-	1,500	6,397
13	-0-	-0-	-0-	-0-	-0-	-0-	1,750	8,962
14	-0-	-0-	-0-	-0-	2,000	2,200	-0-	9,858
15	-0-	-0-	-0-	-0-	2,000	4,620	-0-	10,843
16	-0-	-0-	-0-	-0-	2,000	7,282	-0-	11,928
17	-0-	-0-	-0-	-0-	2,000	10,210	-0-	13,121
18	-0-	-0-	-0-	-0-	2,000	13,431	-0-	14,433
19	-0-	-0-	2,000	2,200	-0-	14,774	-0-	15,876
20	-0-	-0-	2,000	4,620	-0-	16,252	-0-	17,463
21	-0-	-0-	2,000	7,282	-0-	17,877	-0-	19,210
22	-0-	-0-	2,000	10,210	-0-	19,665	-0-	21,131
23	-0-	-0-	2,000	13,431	-0-	21,631	-0-	23,244
24	-0-	-0-	2,000	16,974	-0-	23,794	-0-	25,568
25	-0-	-0-	2,000	20,872	-0-	26,174	-0-	28,125
26	2,000	2,200	-0-	22,959	-0-	28,791	-0-	30,938
27	2,000	4,620	-0-	25,255	-0-	31,670	-0-	34,031
28	2,000	7,282	-0-	27,780	-0-	34,837	-0-	37,434
29	2,000	10,210	-0-	30,558	-0-	38,321	-0-	41,178
30	2,000	13,431	-0-	33,614	-0-	42,153	-0-	45,296
31	2,000	16,974	-0-	36,976	-0-	46,368	-0-	49,825
32	2,000	20,872	-0-	40,673	-0-	51,005	-0-	54,808
33	2,000	25,159	-0-	44,741	-0-	56,106	-0-	60,289
34	2,000	29,875	-0-	49,215	-0-	61,716	-0-	66,317
35	2,000	35,062	-0-	54,136	-0-	67,888	-0-	72,949
36	2,000	40,769	-0-	59,550	-0-	74,676	-0-	80,244
37	2,000	47,045	-0-	65,505	-0-	82,144	-0-	88,269
38	2,000	53,950	-0-	72,055	-0-	90,359	-0-	97,095
39	2,000	61,545	-0-	79,261	-0-	99,394	-0-	106,805
40	2,000	69,889	-0-	87,187	-0-	109,334	-0-	117,485
41	2,000	79,089	-0-	95,905	-0-	120,267	-0-	129,234
42	2,000	89,198	-0-	105,496	-0-	132,294	-0-	142,157
43	2,000	100,218	-0-	116,045	-0-	145,523	-0-	156,373
44	2,000	112,550	-0-	127,650	-0-	160,076	-0-	172,010
45	2,000	126,005	-0-	140,415	-0-	176,083	-0-	189,211
46	2,000	140,805	-0-	154,456	-0-	193,692	-0-	208,133
47	2,000	157,086	-0-	169,902	-0-	213,061	-0-	228,946
48	2,000	174,995	-0-	186,892	-0-	234,367	-0-	251,840
49	2,000	194,694	-0-	205,581	-0-	257,803	-0-	277,024
50	2,000	216,364	-0-	226,140	-0-	283,358	-0-	304,727
51	2,000	240,200	-0-	248,754	-0-	311,942	-0-	335,209
52	2,000	266,420	-0-	273,629	-0-	343,136	-0-	368,719
53	2,000	295,262	-0-	300,992	-0-	377,450	-0-	405,591
54	2,000	326,988	-0-	331,091	-0-	415,195	-0-	446,150
55	2,000	361,887	-0-	364,200	-0-	456,715	-0-	490,766
56	2,000	400,276	-0-	400,620	-0-	502,386	-0-	539,842
57	2,000	442,503	-0-	440,682	-0-	552,625	-0-	593,826
58	2,000	488,953	-0-	484,750	-0-	607,887	-0-	653,209
59	2,000	540,049	-0-	533,225	-0-	668,676	-0-	718,530
60	2,000	596,254	-0-	586,548	-0-	735,543	-0-	790,383

Consequences of Procrastination

Time Value of Money

40	2,000	69,899	-0-	87,187	-0-	109,334	-0-	117,485
41	2,000	79,089	-0-	95,905	-0-	120,267	-0-	129,234
42	2,000	89,198	-0-	105,496	-0-	132,294	-0-	142,157
43	2,000	100,218	-0-	116,045	-0-	145,523	-0-	156,373
44	2,000	112,550	-0-	127,650	-0-	160,076	-0-	172,010
45	2,000	126,005	-0-	140,415	-0-	176,083	-0-	189,211
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51	2,000	240,200	-0-	248,754	-0-	311,942	-0-	335,209
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53	2,000	295,262	-0-	300,992	-0-	377,450	-0-	405,591
54	2,000	326,988	-0-	331,091	-0-	415,195	-0-	446,150
55	2,000	361,887	-0-	364,200	-0-	456,715	-0-	490,766
56	2,000	400,276	-0-	400,620	-0-	502,386	-0-	539,842
57	2,000	442,503	-0-	440,682	-0-	552,625	-0-	593,826
58	2,000	488,953	-0-	484,750	-0-	607,887	-0-	653,209
59	2,000	540,049	-0-	533,225	-0-	668,676	-0-	718,530
60	2,000	596,254	-0-	586,548	-0-	735,543	-0-	790,383
61	2,000	658,079	-0-	645,203	-0-	809,098	-0-	869,421
62	2,000	726,087	-0-	709,723	-0-	890,007	-0-	956,363
63	2,000	800,896	-0-	780,695	-0-	979,008	-0-	1,052,000
64	2,000	883,185	-0-	858,765	-0-	1,076,909	-0-	1,157,200
65	2,000	973,704	-0-	944,641	-0-	1,184,600	-0-	1,272,930
Less Total Invested:	(80,000)		(14,000)		(10,000)		(6,750)	
Equals Net Earnings:	893,704		930,641		1,174,600		1,266,170	
Money Grew:	11-fold		66-fold		117-fold		188-fold	

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 - Starting today until he is 30
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 - Invests from 30 until she is 65
 - Total of \$70,000 invested
- ▶ Who's better off at age of retirement?
 - Bob – by more than \$205,000
 - Simply by starting early!!

Happy Financial Capability Month

- ▶ President's Advisory Council on Financial Capability for Young Americans
- ▶ The Financial Literacy and Education Commission



Realities of Student Financial Literacy in the U.S.

- **Student loan debt is 1.16 Trillion!! This is more than the national credit card debt!**
- **30% of college students with loans drop out without a degree.**
- **30% of 18–24 year old's income goes towards debt repayment.**

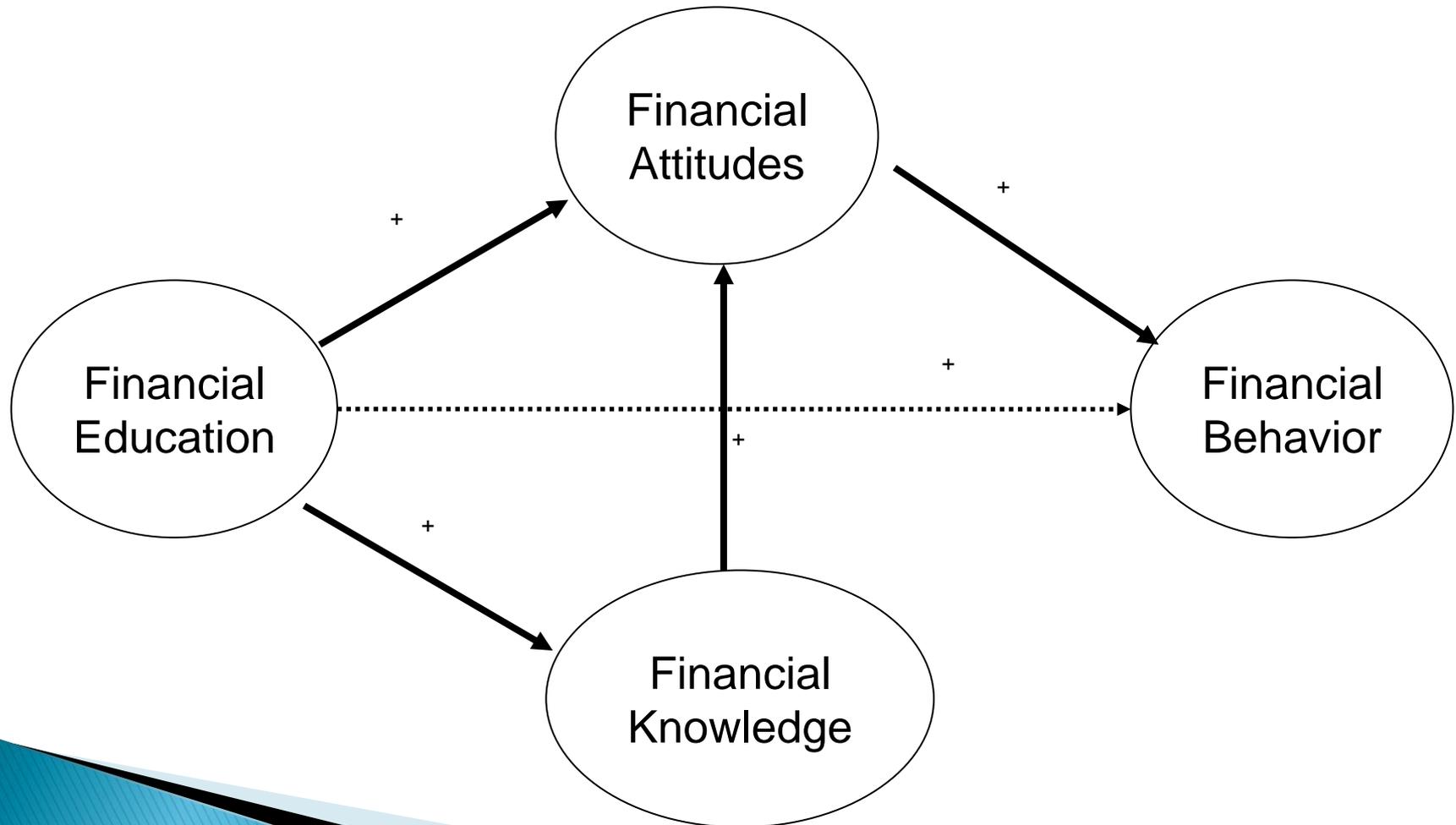
Realities of Student Financial Literacy in the U.S.

- Members of the class of 2011 graduated with an average of **\$26,600 in student loan debt.**
- Less than 1 / 3, of college students possess **basic** financial knowledge (e.g., interest rates, inflation, and risk diversification).
- **81% of college students underestimate how long it will take to pay off a credit card balance.**

Realities of Student Financial Literacy in the U.S.

- 1 / 3 of parents are more comfortable talking with their kids about smoking, drugs, bullying, and sex than about money.
- Students in debt tend to lack self-control, self-esteem, and financial knowledge, and experience feelings of isolation, depression, anxiety, and stress.
- In 2010, more individuals filed for bankruptcy than graduated from college
- *"The number one problem in today's generation and economy is the lack of financial literacy."(Alan Greenspan, Economist & Former Chairman of the Federal Reserve)*

Beyond increased knowledge: Changing attitudes and behaviors



Emerging Adult Financial Capability Survey (EAFCS)

- ▶ Pre-post data from 3 courses across campus (N=1500) using the EAFCS to look at the financial capability of emerging adults.
- ▶ Collaborations at two other universities (N=1400) as well as a university in Portugal (N=1700)
- ▶ Student retention, graduation rates, time to graduation, student debt

Change in Attitudes leads to Change in Behaviors

- ▶ Students who felt in control of their finances, had significantly less total debt
- ▶ Students who felt like their finances were a significant source of worry or hassle had significantly more total debt

Change in Attitudes leads to Change in Behaviors

- ▶ Students who reported that purchasing things was very important to their happiness
 - were less likely to budget and track spending
 - felt significantly less sure about their ability to manage their own finances
 - had higher credit card debt
 - were more likely to use credit cards to make purchases they could not afford

Engaging Students Differently: A Paradigm Shift

- ▶ Investment game
- ▶ Debt snowball
- ▶ Student reflection journals – taking students from where they are now, to where they want to be in the future
- ▶ Tracking their spending for a month
- ▶ Plugging spending leaks = thousands of \$

Final Thoughts

- ▶ Goal is NOT to teach students to increase their knowledge about personal finances.
- ▶ Goal IS to engage students with material in a way that shapes, changes, and improves their financial attitudes and ultimately their financial behaviors.
- ▶ Paradigm shift – so they view money differently and manage their money in a way to build wealth and improve their financial well-being.

My Invitation

- ▶ During this month of Financial Capability:
 - Think about 1 thing you could either begin doing or cut out that would have a tremendous positive impact on your financial well-being. Then DO IT!