Undergraduate Persistence to Degree

Dynamics of Student Socialization, Knowledge, and Financial Stressors
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- Dynamics of Socialization, Knowledge, and Financial Stressors

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  - Associate Professor
  - Personal Financial Planning
Asking the Difficult(?) Questions

- What is the intended goal of financial literacy programs or initiatives?
- Improved Outcomes (i.e. Behavior)
Slightly More Difficult?

- How do you define financial literacy?
- Does this differ fundamentally from financial capability?
- The Role of Knowledge (complicated)
Defining Knowledge (Objective)

Question 1

Suppose you had $100 in a savings account and the interest rate was 2% per year. After 5 years, how much do you think that you would have in the account if you left the money to grow?

No mental gymnastics required:

A) More than $102
B) Exactly $102
C) Less than $102

So that was pretty easy
Defining Objective Knowledge

Question 2
Imagine that the interest rate on your savings account was 1% per year, and inflation was 2% per year. After 1 year, how much would you be able to buy with the money in this account?
A) More than today
B) Exactly the same
C) Less than today

Question 3
If interest rates rise, what will typically happen to bond prices?
A) They will rise
B) They will fall
C) They will stay the same
D) There is no relationship between bond prices and interest rates
Defining Knowledge (Still)

**Question 4**
A 15-year mortgage typically requires higher monthly payments than a 30-year mortgage, but the total interest paid over the life of the loan will be less.

A) True  
B) False  
C) Don’t know

**Question 5**
Buying a single company’s stock usually provides a safer return than a stock mutual fund.

A) True  
B) False  
C) Don’t know
That was just **objective** knowledge

- **Subjective Financial Knowledge** (Somewhat similar to Confidence)
- On a scale of 1 to 7, where 1 means very low and 7 means very high, how would you assess your overall financial knowledge

- Subjective knowledge: Essentially what people *think* they know about personal finances
Carrying this forward, individuals can be lumped into one of four distinct categories:

- **Over-Confident**: "I know what I am doing!"
  - He has no clue what he is doing. (20%)

- **Confident**: "I know what I am doing."
  - She actually knows what she is doing (20%)

- **Under-Confident**: "I am not sure if I know what I am doing."
  - You actually know quite a bit...dummy. (40%)

- **Correct**: "I have no idea what I am doing."
  - Correct (20%)

Most People who are not financial service professionals
Sending this to College

• Are College Students Overconfident, Underconfident, or just the living embodiment of poor decisions in action?
• The Vulnerable College Student
# How Some College Students Stack Up

<table>
<thead>
<tr>
<th>Variable</th>
<th>Student Sample (n = 327)</th>
<th>NFCS Full Sample (n = 25509)</th>
<th>NFCS Restricted to 18-24 year olds (n = 2,581)</th>
<th>NFCS Restricted to Full Time Students (n = 1,091)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Question 1 Correct</td>
<td>87.2</td>
<td>76.9</td>
<td>65.6</td>
<td>72.1</td>
</tr>
<tr>
<td>Question 2 Correct</td>
<td>67.6</td>
<td>64.1</td>
<td>35.1</td>
<td>49.9</td>
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<tr>
<td>Question 3 Correct</td>
<td>27.5</td>
<td>29.4</td>
<td>17.3</td>
<td>19.25</td>
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<tr>
<td>Question 4 Correct</td>
<td>74.9</td>
<td>77.6</td>
<td>59.0</td>
<td>67.2</td>
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<tr>
<td>Question 5 Correct</td>
<td>55.9</td>
<td>51.2</td>
<td>30.1</td>
<td>41.06</td>
</tr>
<tr>
<td>HOHS</td>
<td>5.5</td>
<td>22.1</td>
<td>5.9</td>
<td>9.7</td>
</tr>
<tr>
<td>HOLS</td>
<td>40.9</td>
<td>20.1</td>
<td>10.6</td>
<td>17.5</td>
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<tr>
<td>LOHS</td>
<td>3.4</td>
<td>18.6</td>
<td>21.4</td>
<td>18.9</td>
</tr>
<tr>
<td>LOLS</td>
<td>50.1</td>
<td>39.2</td>
<td>62.1</td>
<td>53.9</td>
</tr>
<tr>
<td>Mean Knowledge (0-5)</td>
<td>3.13 (1.34)</td>
<td>2.99 (1.45)</td>
<td>2.07 (1.35)</td>
<td>2.49 (1.39)</td>
</tr>
<tr>
<td>Mean Confidence (1-7)</td>
<td>4.38 (1.07)</td>
<td>5.17 (1.28)</td>
<td>4.78 (1.37)</td>
<td>4.88 (1.29)</td>
</tr>
</tbody>
</table>
A (Hypothetical) Desired Outcome

• Student Degree Attainment within a reasonable time frame for an acceptable cost
• Acceptable Cost is Subjective to a degree
• The Current State of College Financing
Early Exploration

- Factors Related to Student Persistence to Degree:
  - Academic Integration (GPA)
  - Social Integration (Campus involvement)
  - Commitment to the Institution
  - Financial Aid
  - Socioeconomic Status
  - Employment
Addition of Personal Financial Factors

- Loan Debt
- Credit Card Debt
- Presence of Other Loans
- Dependent Status
- Credit Card Use Behavior (Robert’s and Jones, 2001)
- Model 1: Psychological Burden of Financial Aid
- Model 3: Reduction of Credit Hours
- Model 4: Drop Out
Results

- Financial Factors (as well as many critical demographic factors from prior studies) were highly significant.
- More Responsible Credit Card Behavior (+)
- Financial Aid (Mixed to a degree)

But this really only spoke to a few specific points about overall debt burden
A Financial Stress Scale*

- Behind on Payments
- Low Credit Score
- Contacted by Creditors
- Declare bankruptcy
- No emergency savings
- Paycheck to Paycheck
- Repossession
- Unsteady Work
- Difficulty covering expenses
- Difficulty with unexpected expenses
- Retirement security
- Make less $ than peers
- Large debt
- High interest rate loans
- Turned down for loan
- Holiday expenses
- Childcare expenses
- Loss of a job
- Investments loss in value
- Borrow from family/friends
- Service disconnected
- Taxes

* Source: Northern, O’Brien, & Goetz, 2010
The Student Sample (n = 323)

- 66% Female
- 87% white
- 70% households with parent having a college degree or higher
- 86% working
- Evenly Divided among class levels
- Stress Scale: 26.3 (Range: 14-56)
- 50% own credit cards
- 76% Receive financial aid
Models for Analysis

• Model 1: Reduced Hours (n = 114)
• Model 2: Dropped out (n = 34)
• Model 3: Difficulty due to Psychological Burden of Debt (n = 110)
Model 1: Reduced Hours

• (-) for those possessing a credit card (58%)
• (-) with increasing self-reported health (35%)
• (+) with increasing financial stress (scale) (12%, per unit increase)

• NS: Knowledge, Confidence
Model 2: Drop Out

- (-) if GPA exceeds 3.0 (75%)
- (+) if independent financially (766%)
- (-) if credit card owner (57%)
- (+) with increase in Financial stress (9%)

- NS: Knowledge, Confidence
Model 3: Psychic Burden

- (-) if parents have college degree or more (72%)
- (-) if Financially Independent (55%)
- (-) if credit card owner (43%)
- (+) with increase in financial stress (12%)

NS: Knowledge, Confidence
Other Connections From These Data

• Impact of Financial Stress on Self-reported Health
• Subsequent Impact of Student Loan Debt Burden on Stress (in excess of $20k)
• North Dakota has the lowest average student loan debt statistics at $22,379
• Connections between Knowledge and Behavior; Confidence and Self-Efficacy