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# DIPLOMAS, DEBT AND DEFAULT:

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HOW FINANCIAL WELLNESS HELPS  
COLLEGE STUDENTS BREAK THE CYCLE



# Diplomas, Debt and Default: How Financial Wellness Helps College Students Break the Cycle

Universities are increasingly prioritizing financial literacy for students, often with the primary goal of reducing student loan debt, delinquencies and defaults.

Other objectives include decreasing student financial stress, improving retention and providing valuable skills that will help students manage finances for a lifetime.

Most students take out a loan while earning a bachelor's degree. In fact, about 65 percent of students who graduated from four-year public and private nonprofit colleges in 2017 had student loan debt.<sup>1</sup>

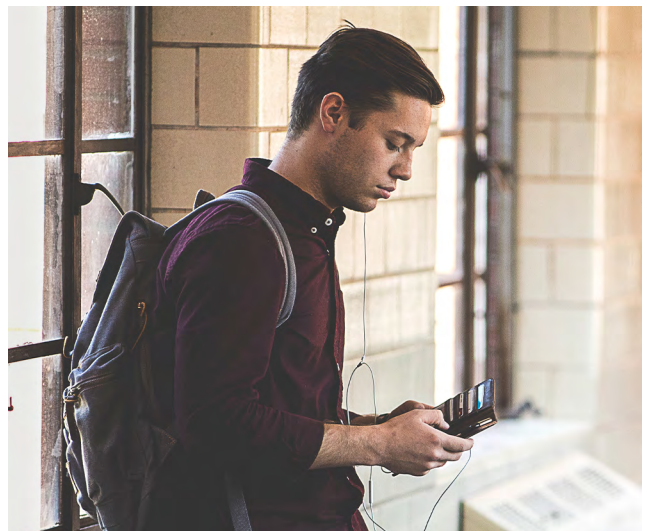
According to the Federal Reserve Bank of New York's *Quarterly Report on Household Debt and Credit*, U.S. student loan debt increased by \$37 billion in Q3, up to a total of \$1.44 trillion total as of September 30, 2018.<sup>2</sup>

The quarterly report indicated that student debt in serious delinquency — 90 or more days — rose to 9.1 percent in the third quarter from 8.6 percent in the previous quarter — the biggest jump in seven years.

## College Students and Financial Stress

The *Chegg, Inc. 2018 State of the Student Report* revealed that 60 percent of college students feel anxious frequently or all the time.<sup>3</sup> Two-thirds of students stated they cannot comfortably afford housing at their college and 34 percent said they find it challenging or impossible to afford food.

In April 2017, The *Journal of Student Financial Aid* published results and conclusions from a study of nearly 2,500 undergraduate students that sought to determine the influence of financial stress, debt loads and financial counseling on retention rates.<sup>4</sup> Results indicated that financial stress contributes to an increased likelihood of discontinuing college.



# Diplomas, Debt and Default: How Financial Wellness Helps College Students BREAK THE CYCLE



## The Burden of Student Loan Debt

**44.5 million** Americans collectively hold \$1.5 trillion in student debt, second only to mortgages in overall consumer debt.<sup>1</sup>

**65%** of students graduating from four-year public and private nonprofit colleges in 2017 had student loan debt.<sup>2</sup>

## Students and Financial Stress

**70%** of students **feel stressed** about their finances in general.<sup>3</sup>

**34%** said they find it **challenging** or **impossible** to afford food.<sup>4</sup>

**63%** **worry** about paying for school.<sup>3</sup>

**60%** said they are **responsible** for **at least half** the cost of attending college.<sup>5</sup>

**66%** **cannot comfortably afford** housing at their college.<sup>4</sup>

**55%** said they are mostly responsible for **determining** their loan options.<sup>5</sup>

## Student Loan Delinquency and Defaults

Student loan debt in serious delinquency rose to **9.1 percent** in the third quarter of 2018 from **8.6 percent** in the previous quarter — **the biggest jump** in seven years.<sup>2</sup>

**40%** of borrowers **may default** on their student loans by 2023.<sup>6</sup>

## Lack of Financial Literacy

**90%** of students say they are **moderately knowledgeable** about student loans.<sup>5</sup>

However, just **32%** know that interest begins accruing at **disbursement**.<sup>5</sup>

Only **21%** know that the average loan payment is **greater than \$200 per month**.<sup>5</sup>

## Break the Cycle with Financial Literacy Education



College students who participate in their university's financial wellness programs are more likely to have **increased credit scores, reduced credit delinquency** and **more savings** — and are more likely to graduate.<sup>7</sup>



A 2016 meta-analysis of 126 studies found that financial education has a **significant impact** on both financial behaviors and financial literacy.<sup>8</sup>



Multiple studies show that young people who are low on financial literacy make **poorer borrowing decisions**.<sup>9</sup>

**16.4%**

Only 16.4 percent of U.S. students are **required to take a personal finance course** to graduate from high school, and students from low-income families are half as likely to have taken a personal finance course.<sup>10</sup>

<sup>1</sup> Federal Reserve Bank of New York's Quarterly Report on Household Debt and Credit, November 2018.

<sup>2</sup> The Institute for College Access and Success Student Debt and the Class of 2017 Annual Report, September 2018.

<sup>3</sup> The Ohio State University, Study on Collegiate Financial Wellness, 2017.

<sup>4</sup> Chegg, Inc. 2018 State of the Student Report.

<sup>5</sup> Ascent Student Loans, "Investing in the Future A Survey of College Students Regarding the Value and Financing of Higher Education," May 2018.

<sup>6</sup> The Urban Institute, "Underwater on Student Debt: Understanding Consumer Credit and Student Loan Default," August 2018.

<sup>7</sup> The Brookings Institution, "The Looming Student Loan Default Crisis is Worse than We Thought," January 11, 2018.

<sup>8</sup> The Journal of Economic Education, Perspectives on evaluation in financial education: Landscape, issues, and studies, 2017.

<sup>9</sup> German Institute for Economic Research, Does Financial Education Impact Financial Literacy and Financial Behavior, and if So, When? May 2017.

<sup>10</sup> Journal of Economic Literature, The Economic Importance of Financial Literacy: Theory and Evidence, March 2014.

<sup>10</sup> Next Gen Personal Finance, Who has access to financial education in America today? A nationwide study of 13 million students across 11,000 high schools. Updated April 6, 2018.

*CollegeAtlas* reported that in 2015, 60 percent of students who dropped out of college were responsible for paying their own tuition, and the inability to balance multiple life demands was a top contributor in the decision to discontinue college.<sup>5</sup>

A 2017 study on *collegiate financial wellness* by The Ohio State University included responses from nearly 30,000 college students at 90 two- and four-year institutions across the U.S.<sup>6</sup> The study indicated that seven out of 10 students reported feeling stressed about their finances in general and 63 percent worry about paying for school.

A study by the *University of Missouri* released in October 2018 reveals that even when out of college, having student loan debt causes anxiety and stress.<sup>7</sup> The study showed that 55

percent of graduates with student loan debt reported being worried about their student loans, but only 30 percent said that they had received financial education about paying off their student loans and only 40 percent reported having financial influence from their parents.

According to a May 2018 nationwide *survey* of college students by Ascent Student Loans, 60 percent said they are responsible for covering more than half of the total cost of their education, and 55 percent said they are mostly responsible for determining their loan options.<sup>8</sup>

This is likely why 85 percent of students work while enrolled, according to an *HSBC 2018 survey*.<sup>9</sup> On average, students work 4.2 hours per day, nearly two hours more than time spent in class, survey data reveals.



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## Debt Inequality

The Institute for College Access and Success (TICAS) *Student Debt and the Class of 2017 Annual Report* released in September 2018 shows that 2017 graduates of public and private four-year colleges owed an average of \$28,650.<sup>10</sup>

Students in the Northeast have the most student loan debt, with nearly 75 percent of college graduates in New Hampshire have outstanding student loans averaging \$36,367 — the highest rate in the country, the report indicates. Pennsylvania, Connecticut, Delaware, Minnesota and Massachusetts rounded out the top six states with the highest average amount of undergraduate student debt: Recent grads in these states carry over \$31,500 on average, according to the TICAS report.

The American Association of University Women (AAUW) report, *Deeper in Debt: Women and Student Loans*, updated in early 2018, analyzed data from the 2015-16 National Postsecondary Student Aid Study, finding:<sup>11</sup>

- Women make up 56 percent of enrolled college students, but hold 65 percent of outstanding student loan debt;
- 71 percent of women have student loan debt when graduating with bachelor's degrees compared to 66 percent of men; and
- Black women graduate with the most debt – at \$30,400 – compared to \$22,000 for white women and \$19,500 for white men.



This imbalance has far-reaching implications, largely because of gender and race wage inequality. Prudential's *2018 Financial Wellness Census* surveyed more than 3,000 Americans between the ages of 25 and 70.<sup>12</sup> Twenty-five percent of women surveyed said they were still paying off student loan debt, compared to 18 percent of men. Women also reported having substantially higher loan balances than men. Only 54 percent of women said they have put aside money for retirement, reporting an average of \$115,412. By contrast, 61 percent of men said they have saved an average of \$202,859 for retirement.

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## Rising Cost of Higher Education

The average tuition at U.S. public and private four-year colleges is highest in the world, according to a September 2017 report by the *Organisation for Economic Co-operation and Development*.<sup>13</sup> On average, U.S. public college tuition is \$8,202 annually and U.S. private college tuition averages \$21,189 annually, according to the report.

Since the late 1980s, the cost of an undergraduate education has risen 213 percent at public schools and 129 percent at private schools (adjusting for inflation), according to the College Board *Trends in College Pricing 2017 report*.<sup>14</sup>

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## College Students and Financial Stress

The *Federal Reserve* states that 44.5 million Americans collectively owe \$1.5 trillion in student debt, second only to mortgage debt.<sup>15</sup> At this growth rate, analysts predict national student loan debt could reach \$2 trillion by 2021.



With that, more defaults are expected. Reports from *The Urban Institute* and *The Brookings Institution* released in 2018 found:<sup>16</sup>

- 40 percent of borrowers may default on their student loans by 2023.
- 250,000 borrowers default on their student loans each quarter.
- It takes an average of 19.4 years to pay off student loans.
- Black college graduates default at five times the rate of white graduates, 21 percent versus 4 percent, and are more likely to default than white college dropouts.
- Hispanic and Latino graduates default at more than twice the rate of white graduates (8.6 percent).

A *study* released in December 2018 by the personal finance website NerdWallet shows that many U.S. households are delaying student loan payments because of rising basic expenses.<sup>17</sup> According to the study, in the third quarter of 2018, 2.6 million student loans recipients had their federal student loans on forbearance — which puts payments on hold to avoid default, but doesn't stop interest from accumulating during that period.

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## Post-College Impact of Student Loan Debt

The nonprofit research institute RTI International examined the outcomes of people who received bachelor's degrees in relation to their student loan debt. RTI's new report, *Debt Burden After College: The Effect of Student Loan Debt on Graduates' Employment, Additional Schooling, Family Formation, and Home Ownership*, revealed that student loan debt was significantly related to employment and family formation four years after graduating.<sup>18</sup>



RTI researchers found that, for every additional \$5,000 graduates had borrowed for undergrad, they:

- Had an additional 5 percent in earnings;
- Were 4 percent more likely to have a job related to their major and 7 percent more likely to have a job that required a bachelor's degree;
- Had an 8 percent decrease in the likelihood of having been married and a 5 percent decrease in the likelihood of having a child;
- Had a 7 percent increase in the likelihood of their net worth being negative.

## Lack of Financial Knowledge

The Ascent study found a glaring lack of basic loan knowledge. While 90 percent of students surveyed said they were moderately knowledgeable about student loans, just 32 percent knew that interest begins accruing at disbursement, and only 21 percent correctly stated that the average loan payment is greater than \$200 per month.

The Brookings Institution collaborated on a [study](#) of student financial literacy with RTI International and the RAND Corp., analyzing data from the National Center for Education Statistics and its National Postsecondary Student Aid Study (NPSAS.)<sup>19</sup>

NPSAS asked students multiple-choice questions about inflation, interest and risk diversification. Only 28 percent correctly answered all three questions, compared with 53 percent of American adults. The study authors concluded that U.S. undergraduate students demonstrated low levels of financial literacy.

For most students, financial literacy is not being taught at home. A [report](#) from the National Foundation for Credit Counseling revealed that 42 percent of adults gave themselves a C,D or F grade for their personal finance knowledge.<sup>20</sup>

Another [study](#) by the FINRA Foundation found that nearly two-thirds of Americans could not pass a basic financial literacy test.<sup>21</sup> The study concluded that Americans have low levels of

financial literacy and have difficulty applying financial decision-making skills to real-life situations.

The NerdWallet study, which included a September 2018 survey of more than 2,000 U.S. adults, found that 66 percent didn't know that student loan interest accrues during forbearance.



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## Cost Versus Value

The Ascent Student Loans May 2018 survey shows that 51 percent of students don't believe the value of a college education has kept up with the rising cost.

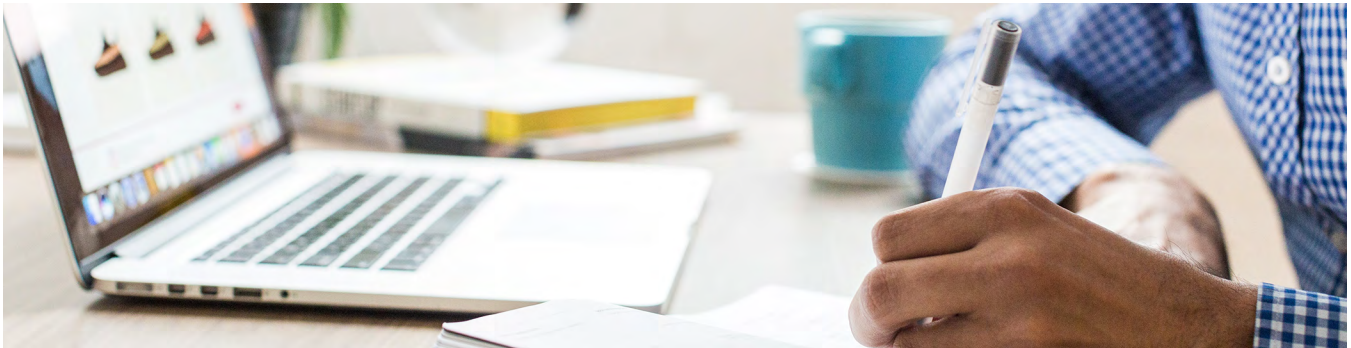
However, 65 percent of all U.S. jobs will require post-secondary education by 2020, according to a [report](#) by the Georgetown Center on Education and the Workforce.<sup>22</sup> Four out of five of the fastest growing occupations — healthcare professional and technical, STEM, education and community services — encompass jobs of which 80 percent require postsecondary education, the report states.

And, of course, there's a reason that college is considered an investment. On average, college graduates earn \$1 million more in their lifetimes than high school graduates, according to data from the U.S. Department of Education's [College Scorecard database](#).<sup>23</sup>

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## How Financial Literacy Education Can Help Break the Cycle

A [study](#) published in The Journal of Economic Education in April 2017 found that college students who participated in their university's financial wellness programs were more likely to have increased credit scores, reduced credit delinquency and more savings.<sup>24</sup> The study stated that students who had access to university financial wellness programs were more likely to stay in school and graduate.



A 2016 [meta-analysis of 126 studies](#) found that financial education has a significant impact on both financial behaviors and financial literacy,<sup>25</sup> and [multiple studies](#) show that young people who are low on financial literacy make poorer borrowing decisions.<sup>26</sup>

Only 16.4 percent of U.S. students are required to take a personal finance course to graduate from high school, according to a 2017 [study](#) by the nonprofit Next Gen Personal Finance.<sup>27</sup> The study also revealed that high school students from low-income families are half as likely to have taken a personal finance course.

Given the growing student loan debt nationally and lack of financial education in high school, easily accessible financial wellness education at the collegiate level is more important than ever. A multitude of studies show that the majority of students taking out student loans are not aware of and/or don't understand loan terms and long-term financial implications.

In the end, colleges and universities that implement a financial wellness program will benefit from reduced loan defaults and increased student retention. That is why Duke University, University of Kentucky, the University



of Incarnate Word and more than 600 other colleges and universities are offering iGrad's online financial wellness platform to students.

The University of Incarnate Word (UIW) began offering iGrad to its students in early 2018. Located in San Antonio, the private Catholic university has over 8,500 domestic undergraduate and graduate students, including a large non-traditional population.

Cristen Alicea, UIW financial aid assistant director, said that *preventing student loan defaults* is a primary motivator in offering iGrad's financial literacy platform.

"Our student population is over 50 percent Hispanic, and 99 percent of our students receive financial aid," Alicea said. "Studies show that 44 percent of Latino borrowers default or are delinquent on their student loans. Since financial literacy relates to the default number, iGrad works together with our default management program."

Duke University launched its personal finance initiative that includes iGrad's online platform because its research showed that students were graduating unprepared to manage their personal finances. The 16,000-student private university established a primary goal of reducing student loan borrowing while promoting financial literacy as a life skill.

iGrad is part of the *Personal Finance @ Duke* educational initiative, which also offers live workshops, individual financial counseling, and personal finance educational resources.

"iGrad's online financial wellness platform is especially useful because each student's experience is tailored to their unique interests," said Duke Director of Student Lending Irene Jasper. "Not only that, we are provided with data that helps us develop more relevant financial literacy programming on our campus."

To learn more about iGrad's student financial wellness online platform, request a demo [here](#).

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## About iGrad

iGrad is a San Diego-based private company that offers financial wellness solutions to colleges and universities, employers and financial institutions. Its platform for higher education, also called iGrad,<sup>™</sup> is used by more than 600 colleges and universities. iGrad has been named Education Program of the Year three times by The Institute for Financial Literacy, is a three-time winner of the Best Product Award from University Business Magazine and has won the Outstanding Consumer Information Award from the Association for Financial Counseling and Planning Education. The company's Enrich financial wellness platform is used by more than 300 employers and financial institutions nationwide to provide comprehensive financial wellness education and action plans to employees and customers. For more information about the iGrad platform, visit <http://schools.igrad.com>. For more information about the Enrich platform for employers and financial institutions, visit [www.enrich.org](http://www.enrich.org).

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