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It has been well documented that many college students have an alarmingly low level of financial literacy. These students have insufficient knowledge, attitudes, and behaviors relating to personal financial management. The recent economic crisis further illustrated that many young adults are not financially prepared to cope with the financial reality of being self-sufficient. Many states have implemented requirements for personal finance education in high school, and some colleges have included personal finance as a general-education requirement. However, studies have shown that levels of awareness of personal finance issues still vary greatly by major, student motivation, and financial background. This paper suggests that college students would greatly benefit from experiential learning to help generate knowledge, change behavior, and guide future actions.

Keywords: financial literacy, personal finance, college students, financial education

The recent economic crisis has changed the way the majority of the American people think about financial education. However, current financial literacy statistics show a decrease in the level of financial knowledge for many subpopulations within the United States (National Financial Educators Council, 2012). Some of these statistics include: 85% of college graduates plan to move back home after graduation, 54% of college student survey respondents had overdrawn their bank account, and only 59 % of young adults aged 18 to 21 pay their bills on time every month. Research continues to indicate that most college students, like many other subpopulations, have inadequate levels of financial literacy (Goetz, Cude, Nielsen, Chatterjee, & Mimura, 2011).

Credit Card Debt

Credit card debt is the most common financial concern for young adults because of the high interest rates and fees. College students are a preferred target audience for credit card marketers for several reasons, including the fact that many have limited resources at present with the expectation of larger earnings in the future. They also have not developed brand loyalties or have strict financial habit or attitudes. Although recent regulations were designed to place limits on credit card marketing to college students, many students still obtain credit cards since the implementation of the law in 2009 (Goetz et al., 2011).

High utilization of credit cards can be disastrous for some students because they become overwhelmed with debt before graduation, and often end up paying double the original amount due to interest and fees (Ludlum et al., 2012). A multi-campus survey conducted by Ludlum et al (2012) found that 70% of undergraduate college students had a credit card, with the majority of those having two or more credit cards. Usage of the cards varied somewhat, with almost half saving their credit card for emergencies. Thirty six percent used it less than five times a month, but nearly 13% used their cards frequently. How students use their credit cards can have a significant impact on their credit scores and long-term financial well-being (Robb & Pinto, 2010). Furthermore, the knowledge and understanding of personal financial concepts appears to significantly influence how individuals use their credit cards (Robb, 2007).

Historical Methods of Personal Finance Education

Although there is an increasing demand for financial literacy, currently only four states require high school students to complete a one-semester course related to personal finance education. Twenty additional states have requirements that personal finance instruction be incorporated into other subject matter. (Jump$tart.org, 2012) This means that over half of the U.S. states currently have no requirement for students to receive personal finance education in high school.

Most college students gain their basic financial knowledge and develop personal finance behaviors on their own or from family members. Unfortunately, as a result many young-adult college students begin their first attempts at living on their own with limited financial knowledge and diminished capabilities for controlling their own personal finances. Many of these young adults need a more extensive financial education in order to handle their own money effectively, but they are not aware that personal finance courses are offered at their university (Mckenzie, 2009).

Implications for Personal Finance Education

Survey results indicate that 49% of teens state that they want to learn more about money management, but only 14% had taken a personal finance class (National Financial Educators Council, 2012). Research has found that there is a dire need for more basic, consumer-oriented information for college students (Ludlum et al., 2012). However, educators realize that offering financial education classes does not mean that everyone will voluntarily take advantage of it. (Goetz et al., 2011).

The Financial Literacy and Education Commission lists as its top priority for 2012 to "evaluate the delivery of financial education for youth and adults in order to identify effective approaches, delivery channels, and other factors that enhance effectiveness" (National Financial Educators Council, 2012, p.3). A student's ability to manage debt and the related financial stress is an issue that should also concern higher education faculty and administration. Universities need to identify and create programs that will fulfill the need for financial education for students with differences in existing financial knowledge, skills, and abilities (Chinen & Endo, 2012).

Universities need to find both more effective and more creative ways to reach students, and could consider revising the personal finance course to meet general education requirements (Chinen & Endo, 2012). In addition, the timing of the personal finance classes might have a significant impact on how students receive the classes. Students absorb the material better if they perceive the issues being taught as relevant to their lives at the time, therefore it may be difficult for students to benefit from this type of class without more experience (Robb, 2007).

A more effective way of developing students' financial understanding and awareness might be to incorporate a change in understanding and behavior, so learning can actually take place (Marriott, Pogue, & Osgerby, 2010). One method of doing this is by implementing experiential learning which is simply learning by experience. Experiential learning focuses on learning through reflection on personal experience with the aim of guiding future actions. This process helps guide future actions and helps students advance from being passive learning to becoming active doers (Marriott et al., 2010).

Learning should be meaningful. Personal finance instructors can help create meaningful learning by relating what is being learned to what the learner already knows. Doing this adds understanding to previously acquired knowledge and leads to comprehension and understanding, which should then influence actions (Marriott et al., 2010). The most effective learning occurs when students are actively involved in their educational experiences. Faculty members should develop styles and techniques that adopt active learning methodologies and engage students (Maskulka, Stout, & Massad, 2011).

Personal finance faculty could create assignments which require students to apply information learned to various situations – including their personal lives or those of their family or friends. This should help the students not only understand the concepts butter, but also realize the importance of learning and practicing sound financial managements skills in order to better their personal lives financially both during and after college. If more personal finance faculty adopted this philosophy, then perhaps young adult college students would attain the knowledge and skills necessary not just to get a job upon graduation, but to actually succeed in the management of their personal finances as well.

Summary

Researchers have indicated lack of financial literacy and over-usage of credit cards by young adults. Government agencies have listed financial education as a priority, and there are numerous online resources available for consumers needing assistance with various areas of finance. However, college students either do not understand the importance of personal financial literacy, or lack the time or initiative to learn this valuable skill set on their own. Perhaps it is time for universities to provide the much needed information using experiential learning techniques, which should help students control their financial future.

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