Improving Student Financial Well-Being

The connection between financial health and a degree

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At Valencia College, a goal-setting and plan-making exercise has improved financial well-being for community college students.

Financial health is critical to getting a college degree. This isn't simply because of the financial tradeoffs students have to make when they decide to go back to school, or the hidden costs of college. It's because having scarce financial resources imposes a cognitive "bandwidth tax," making it difficult to succeed academically while we're worrying about our finances. One out of three college students in the U.S. say that financial stressors have negatively impacted their academic performance.

The problem is particularly acute for low-income students, for whom the threat of eviction, the persistence of bill collectors, or the need to support family members makes concentrating on tests, homework, and student life nearly impossible. That's why many community colleges, with much higher rates of low-income and working students, already devote resources to improving the financial well-being of their students. For most institutions, this means delivering sessions about managing finances to new students, handing out financial management tip sheets, or even offering dedicated financial management courses. But students have to read the material, understand the lessons, and—hardest of all—put them into practice for these measures to matter. Unfortunately, research shows that this type of financial education rarely results in better financial behavior.

Highlights

- At Valencia College, an online goal-setting and plan-making exercise has improved financial well-being and academic performance for community college students
- One out of three college students say financial stress affects their academic performance
- Traditional financial education for students rarely results in better financial habits

Recognizing the importance of financial health to academic achievement, we partnered with Valencia College in Orlando, FL, to apply what we know from behavioral science to improve student outcomes.

Listening to students

To find out what obstacles stand in the way of better student financial health, the team at ideas42 wanted to hear directly from students about their financial lives. At Valencia College, a large community college where around half of the student body receives some form of financial aid, many students reported challenges in managing their finances. Often students worked multiple jobs while in school, supported family members, and struggled to repay debt. On top of all this, students who received financial aid "refunds" at the beginning of the semester needed to make this lump-sum cash payment (about $1,800 on average) last for the next four months. The stress of financial management felt overwhelming to students, and many told us that managing their finances over the course of the semester was a constant struggle.

Highlights

- Setting goals and thinking about action steps helps students take action to manage their money
- Text messages that remind students of their goals help prevent them from forgetting to take action

Behavioral science helps explain why it's so difficult to manage financial issues while in school. To start, research shows that being in a state with scarce resources actually makes people worse at tasks that require cognitive exertion, such as studying for a test, saving for the future or resisting the temptation to buy an expensive gift. Disbursing financial aid in a lump-sum only makes these challenges tougher, as it takes a tremendous amount of cognitive effort—setting a goal, planning out action steps, following through on action steps, and avoiding temptation along the way—to make this money last throughout the semester. There is unlikely to be a natural moment at the beginning of the semester to make a plan, and often no easy way to track how much is left at any given point in time. To top it all off, the excitement and anticipation on the day when all disbursements are made—and the visibly long lines at the campus ATMs that go with it—make students feel that it's normal to spend and not save. With all of these stresses adding up, it's no surprise that it can be tough for many students to manage their finances.

A strategy takes shape

To help students overcome these obstacles, we designed an online goal-setting and plan-making activity that prompts students to set financial goals and walks them through the key decisions they have to make to put their goals into action. Students could set savings goals ("I want to save $400 for gas"), spending goals ("I want to cut down on Starbucks coffee this semester by making coffee at home"), or both. To encourage follow-through, we noted recent research demonstrating that text messages can be an effective way to prompt action with students, and designed a series of 10-15 text messages that reminded students of their goals and how they said they would achieve them during the semester.

To test whether this approach worked, we randomly assigned half of the students who signed up (the "treatment" group) to participate in a three-step process: first, students set financial goals for themselves and planned out action steps; second, they received a series of encouraging text messages each week prompting them to follow through on their goals; and finally, they reported back on how well they had done at the end of the semester. The other half of students who signed up (the "control" group) completed a simple financial education exercise. Comparing the results between these groups allowed us to compare how well our behavioral design performed relative to a traditional financial education approach.

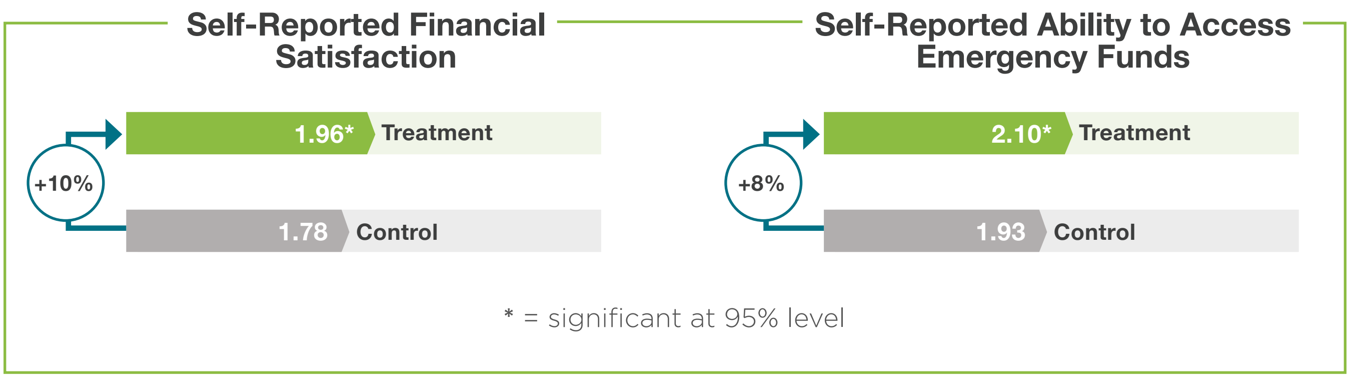
Highlights

- Text messages can be an effective way to prompt student action to save
- Students can have their goals reiterated to them through a timed text campaign throughout a semester

Example: Text messages sent to students

Building financial health

Students who received our design of goal-setting exercises, plan-making exercises, and reminders reported significant improvements in their financial well-being compared to students in the control group. The largest improvements were a 10% gain (from 1.78 to 1.96 on a four-point scale, p=0.036) on average in "satisfaction with present financial condition", and an 8% gain (from 1.93 to 2.10 on a four-point scale, p=0.049) on average in the ability to "come up with $400 when needed."



Implications for the field

Our results have several implications for the field of higher education and for policymakers interested in improving student financial management. First, it is possible to help students manage their finances by removing small behavioral barriers to action using goal-setting and plan-making exercises. Moreover, a low-cost package such as the one we have demonstrated could be easily adapted and scaled for the higher education system as a whole, allowing students to focus on what's most important: getting an education.