

Racial Differences in Financial Literacy and the Student Loan Decision among Millennials

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Current Student Loan Debt

Forbes Survey of 2021 (Friedman, 2021):

- Total Student Loan Debt: \$1.71 trillion
- Total U.S. Borrowers with Student Loan Debt: 45.3 million
- Average Student Loan Debt: \$37,000

Student Loans and Millennials

Millennials (age 22-37) carry more student loan debt than previous generations (Fry, 2012)

- In the last twenty years, student loan debt has increased by more than a trillion dollars, over 50x what it was in 2000 (Bustamante, 2020).
- College tuitions rates are rising faster than inflation
 - More employers are expecting a college education (Akers & Chingos, 2014).

Financial Education & Financial Literacy

Financial decisions and behaviors are influenced by:

- Financial Education – formal or informal financial learning (home, school, workplace, etc.)
- Financial Literacy - knowledge (objective and subjective) and application (Huston, 2010)

More financial education increases financial literacy and the likelihood of participating in positive financial behaviors (Xiao et al., 2020).

Racial Differences

Student loans play two roles among racial differences:

1. Allow individuals opportunities they could not afford otherwise
 - Jackson and Reynolds (2013) - use of student loans increases enrollment and college completion rates among Black students
2. Come at a price on the other side of graduation –
 - Black students take on greater amounts of student loan debt and are in repayment longer than Whites (Baker et al., 2017; Jackson & Reynolds, 2013; Scott-Clayton & Li, 2016).

Various demographic groups are financially illiterate, specifically women, minority groups, and those with less formal education (Lusardi, 2008)

- Differences were not significant after accounting for wealth (Lusardi et al., 2010)

Purpose and Importance of this Study

Purpose:

- Understand how the Millennial generation is a factor in taking out student loans
- Examine how race is a factor in financial literacy and taking out student loans among young adults

Importance:

- Develop a greater understanding of where generation and racial differences lie
- Determine how this information can be used to help underserved communities and demographic groups

Research Questions

1. What is the difference in financial literacy among racial/ethnic groups?
2. What is the influence of race/ethnicity on the student loan decision among Millennials?
3. What is the influence of financial education participation on the student loan decision among Millennials?
4. What other socio-economic characteristics are associated with the student loan decision?

Data & Sample

Data:

2018 National Financial Capability Study

Sample:

N = 1956 Millennials (age 22-37 in 2018)

Dependent Variables

Financial Literacy: sum of six questions

1. Subjective Financial Knowledge – personal perception of financial knowledge
2. Objective Financial Knowledge – factual financial knowledge
3. Financial Self-Efficacy
4. Financial Capability
5. Spending less/equal/more than one earns
6. Having emergency savings account

Student Loan Decision: Individual holds a student loan

Independent Variables

Race/Ethnicity: White, Black, Hispanic, Asian/Other

Financial Education Participation: Yes, participated in financial education

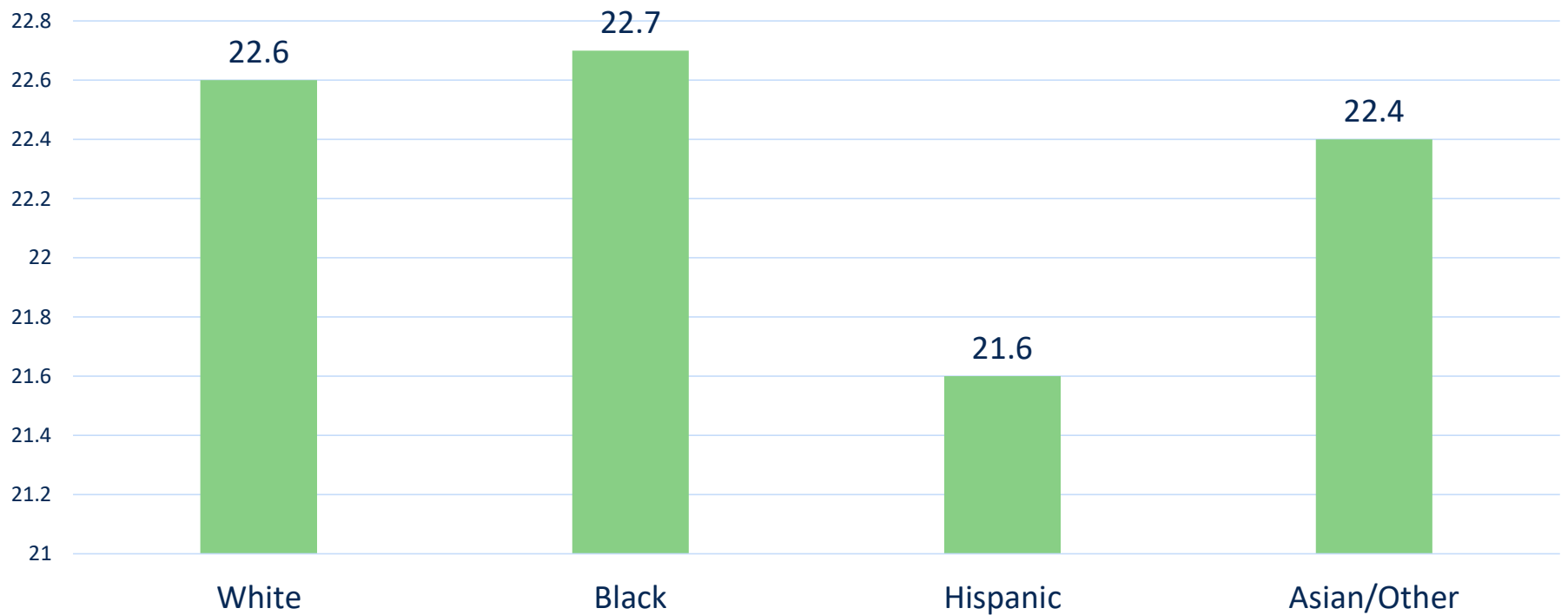
Risk Tolerance: Low vs. High risk tolerance

Socio-demographics: Education, gender, marital status, employment status, homeownership, income level

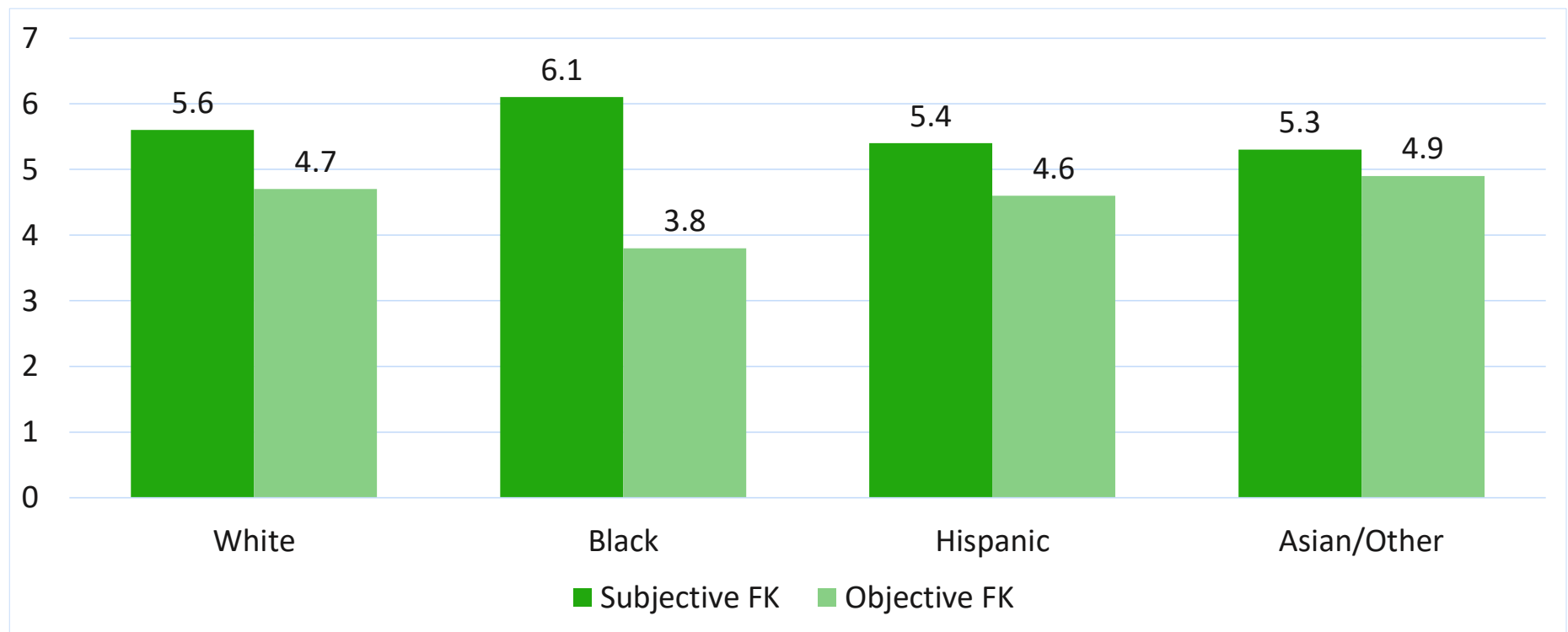
Sample Characteristics

- Participated in Financial Education – 39.6%
- Race/Ethnicity: White – 61.9%, Black – 17.6%, Hispanic – 10.0%, Asian/Other – 10.5%
- Gender: Male – 61.8%
- Marital Status: Married – 63.3%
- Education: Some college – 36.8%
- Employment Status: Working – 74.9%
- Homeownership: Renters – 61.2%
- Income Level: \$75,000-\$100,000 – 23.9%, \$25,000-\$50,000 – 20.7%

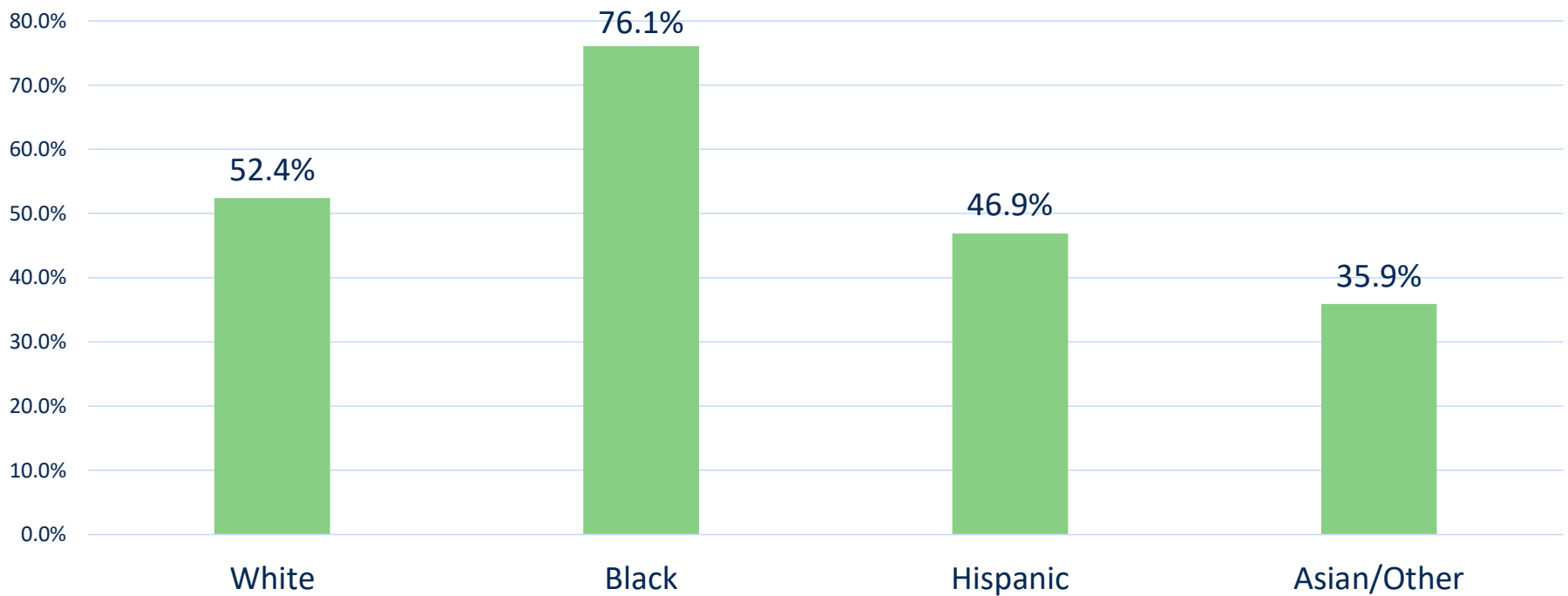
Financial Literacy Score across Race/Ethnicity



Financial Knowledge across Race/Ethnicity



Race and the Student Loan Decision



OLS Results – Determinants of Financial Literacy

- Race (not significant)
- Financial education participation (+)
- Risk tolerance (+)
- Homeownership (+)
- Education: High School (–), Some College (–)
- Income Level: <\$25,000 (–), \$25,000-\$50,000 (–), \$50,000-\$75,000 (–), \$75,000-\$100,000 (–)

Logit Results – Determinants of Student Loan Decision

- Black (White) (+)
- Financial education participation (+)
- Risk tolerance (+)
- Married (+)

- Asian/Other (White) (–)
- Objective Financial Knowledge (–)
- Spending less than one earns (–)
- Education: High School (–), College Graduate (–)
- Income level: \$75,000-\$100,000 (–)

Discussion – Financial Literacy

Race was not a significant factor in determining financial literacy among Millennials

- Previous research has found that financial resources are factors in financial literacy (Lusardi et al., 2010)

Participating in financial education was statistically significant in determining financial literacy

- Financial education is making an impact in financial literacy and thus financial decision making

Discussion – Student Loan Decision

Black individuals were more likely to hold a student loan

- Could be due to personal financial resources and lack of assistance in certain communities

Asian/Other were less likely to take out a student loan

- Some cultures place greater value of education and financial success

Discussion – Student Loan Decision

Millennials who participated in financial education were more likely to take out a student loan.

- Received financial education and may know the consequences of student loan use, but do not have the financial resources to avoid student loans if they want to attend school.

Other sociodemographic factors

- Risk tolerance and Marriage were positively associated with taking out a student loan.
- High School education, College Graduates, and Income level \$75,000-\$100,000 were negatively associated with taking out a student loan.

Implications

- **Financial educators** – seek to provide best information in financial education, including on student loan use.
- **Financial counselors and practitioners** – reach out to socio-demographic groups with lower financial literacy and greater debt use to try and guide them.
- **Policy makers** – examine student loan use, terms, and college tuition changes to understand why student loan debt continues to rise and help future generations avoid deeper student loan debt.

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Thank you! Questions?

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