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Financial literacy and financial well-being among the higher education workforce

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Executive summary

This report examines financial well-being and financial literacy, and the relationship between the two, among the full-time higher education workforce.

Debt is ubiquitous among college and university employees—82% carry some form of debt, and 51% are debt constrained to some degree. Debt is most common among younger individuals. Only 12% of those under age 40 have no debt compared with 36% of those age 60 and older. Beyond this, debt that can be indicative of financial problems is more common among those under age 40—42% carry unpaid credit card balances, 30% have unpaid medical bills, 31% have a personal loan from family or a friend, and 26% have alternative financial service debt.

Approximately 90% of full-time higher education employees are saving for a non-retirement reason, including almost all of those under age 40. By far, the most common non-retirement reason for saving is to build an emergency fund—65% are saving for this reason. With that said, less than one-half (42%) of college and university employees say they definitely have non-retirement savings sufficient to cover one month of living expenses if needed in case of sickness, job loss, or another emergency; only 33% of those under age 40 definitely have this level of non-retirement savings.

Financial literacy among full-time college and university employees compares favorably with that of U.S. adults in general but is nonetheless low for many. Financial literacy was gauged by a set of five questions covering fundamental economic concepts—41% of higher education employees correctly answered four or five of the questions compared with 32% of U.S. adults. On the other end of the spectrum, 33% of higher education employees could correctly answer only up to two of the questions.

College and university employees with lower financial literacy tend to have lower financial well-being. More specifically, compared to their peers with a very high level of financial literacy, higher education employees with a very low level of financial literacy are:

- Over two times more likely to have difficulty making ends meet.
- Over two times more likely to carry alternative financial service debt.
- Two times more likely to carry credit card debt unpaid from previous bills.
- Over three times more likely to be significantly debt constrained.
- Three times more likely to lack emergency savings sufficient to cover one month of living expenses.
- Almost three times more likely to spend ten hours or more per week thinking about and dealing with issues and problems related to personal finances.

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Introduction

Everyone wants to achieve and maintain a state of financial well-being for oneself and one's family. Employee financial well-being is thus increasingly a point of focus among employers, including colleges and universities. However, achieving financial well-being is not just a matter of having a good job and enough money. Certainly, resources matter, as does access and opportunity in the financial system. But so too does the ability to make sound, appropriate financial decisions.

With that said, the past several years have been particularly challenging to the financial well-being of many. The economic consequences of the COVID-19 pandemic still linger. In higher education, colleges and universities continue to work through challenges created or amplified by the pandemic. Recently, the United States has experienced inflation rates not seen in decades while the economy has experienced depressed financial markets.[1] Making appropriate financial decisions is particularly important in such an environment as decisions made can exacerbate or mitigate financial challenges and have a long-lasting impact on financial well-being.

Financial literacy, in turn, is knowledge and understanding that enable sound financial decision making and effective management of personal finances. Financial well-being initiatives often include a financial literacy component.

This report examines financial well-being and financial literacy, and the relationship between the two, among the full-time higher education workforce.[2] Debt is a particular point of focus as many individuals report being debt constrained. Savings behavior is also examined, as well as several indicators of financial well-being. The findings are clear that financial well-being among the higher education workforce tends to be better among those with greater financial literacy, highlighting the value of campus programs to improve personal finance knowledge.

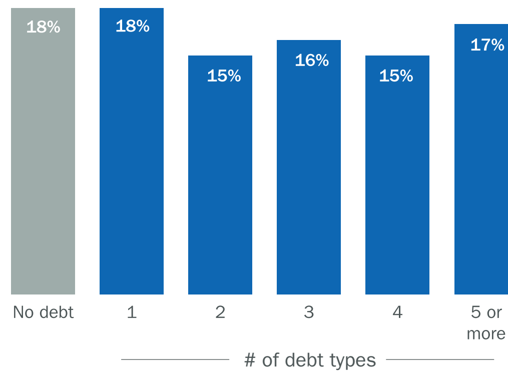
Debt

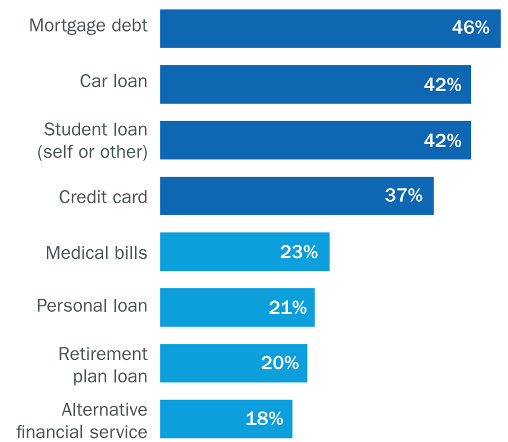
As with U.S. adults in general, debt is ubiquitous among full-time higher education employees—82% carry some form of debt (Figure 1). While 18% carry no debt, an essentially equal number (17%) carry five or more types of debt. The most common sources of debt among college and university employees are housing debt, i.e., a mortgage or home equity loan (46%), car loans (42%), student loans (42%), and credit card debt unpaid from previous bills (37%). Twenty-nine percent have outstanding student loans for themselves and 25% for a spouse, partner, child, or other family member.

1 The Consumer Price Index for All Urban Consumers (CPI-U) was 8.2% higher in September than one year earlier. The NASDAQ Composite Index was down 33% from January 3 through September 30.

2 The College and University Professional Association for Human Resources (CUPA-HR) and the TIAA Institute surveyed the higher education workforce in early 2022. Specifically, a sample of 1,327 faculty, staff, and administrators employed full time by a public or private nonprofit college or university completed the online survey between March 1 and April 11, 2022. Survey respondents were selected from members of the Dynata and OpinionRoute online research panels. Responses were weighted to be representative of the full-time higher education workforce.

Figure 1. Debt

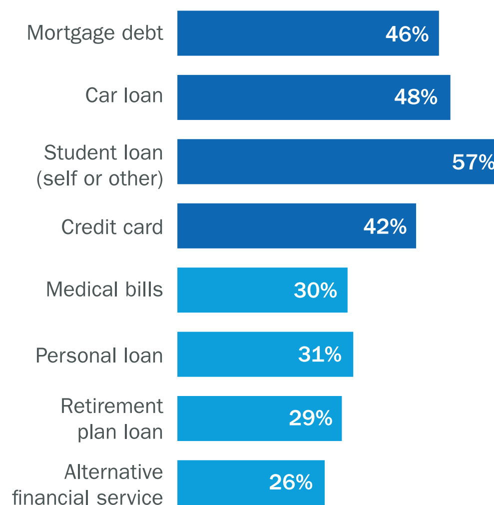


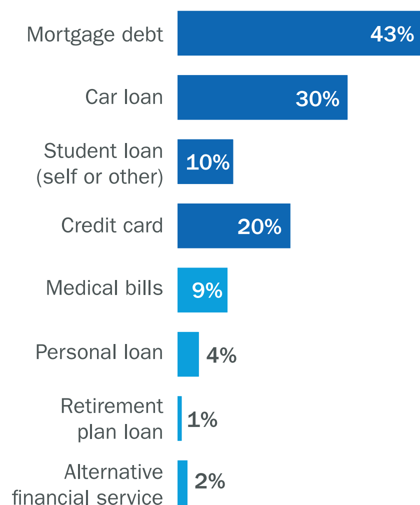


Source: *Higher Education Financial Wellness Survey*, CUPA-HR and TIAA Institute (2022).

Debt is most common among younger individuals. Among those age 60 and older, 36% have no debt and 37% carry one source of debt. In contrast, only 12% of those under age 40 have no debt and 44% carry four or more sources of debt. Along with this, the debt profile of those under 40 differs from that of those 60 and older (Figure 2). Not surprisingly, student loan debt is much more common among those under 40—57% as opposed to 10% among those 60 and over. Thirty-nine percent of those under 40 have student loan debt for themselves; only 5% of those 60 and older do.

Figure 2. Debt





Source: *Higher Education Financial Wellness Survey*, CUPA-HR and TIAA Institute (2022).

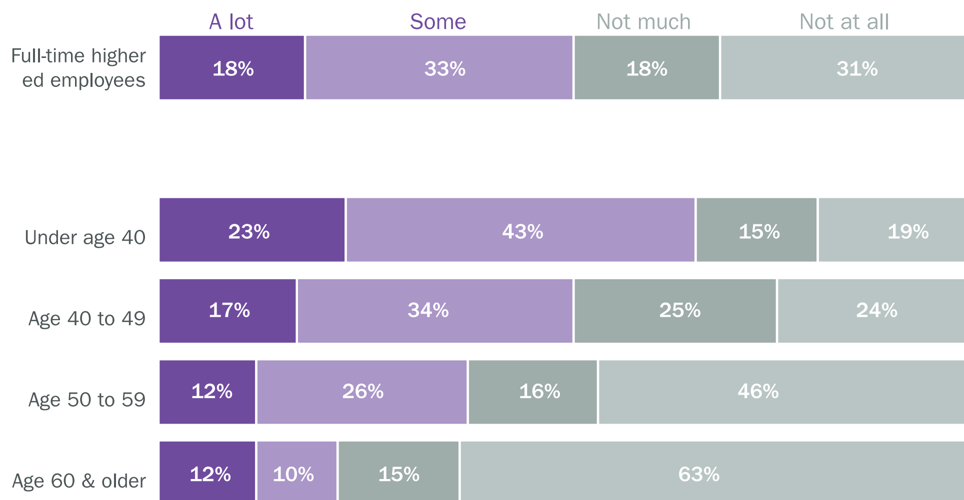
Beyond this, debt that can be indicative of financial problems is more common among those under age 40—42% carry unpaid credit card debt, 30% have unpaid medical bills, 31% have a personal loan from family or a friend, 29% with a retirement account have taken a loan from it, and 26% have alternative financial service debt from a pawn shop, a payday loan, a title loan, etc.

Debt constraint

One-half of full-time higher education employees are debt constrained, i.e., their level of debt and debt payments prevent adequately addressing other financial priorities (Figure 3).[3] Debt constraint is more common among younger individuals. Two-thirds of those under age 40 are debt constrained, with 23% reporting a significant degree of constraint. The analogous figures among those age 60 and older are 22% and 12%, respectively.

Figure 3. Debt constraint

Degree that debt prevents adequately addressing other financial priorities



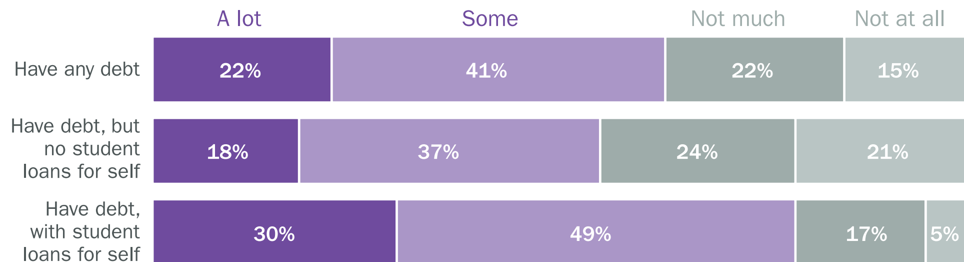
Source: *Higher Education Financial Wellness Survey*, CUPA-HR and TIAA Institute (2022).

It is also noteworthy that student loans disproportionately impact debt constraint. Thirty percent of those with student loan debt for themselves are significantly debt constrained compared with 18% of those with debt but no student loans for themselves (Figure 4).

3 This includes those who report carrying no debt.

Figure 4. Debt constraint and student loan debt

Degree that debt prevents adequately addressing other financial priorities



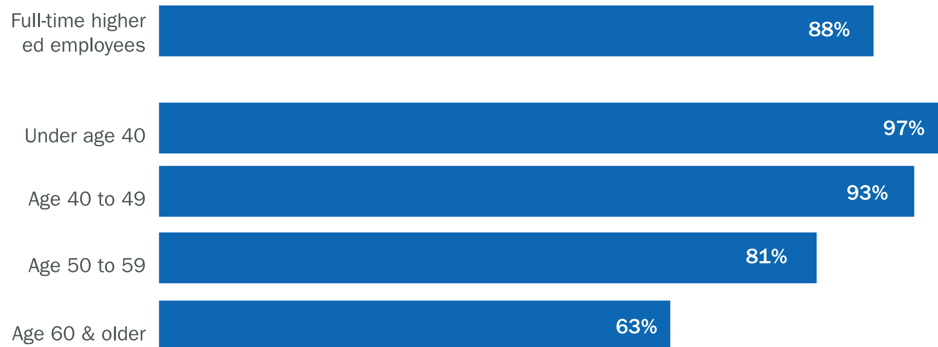
Source: *Higher Education Financial Wellness Survey*, CUPA-HR and TIAA Institute (2022).

Non-retirement savings

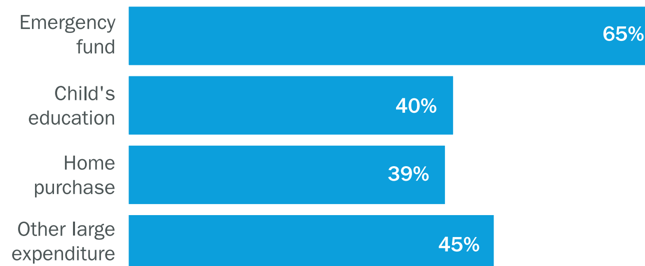
Approximately 90% of full-time higher education employees are saving for a non-retirement reason, including almost all of those under age 40 (Figure 5). Saving for a non-retirement reason is less common at older ages—81% of those in their 50s and 63% of those age 60 and older.

Figure 5. Saving

Currently saving for a non-retirement reason



% saving for each reason

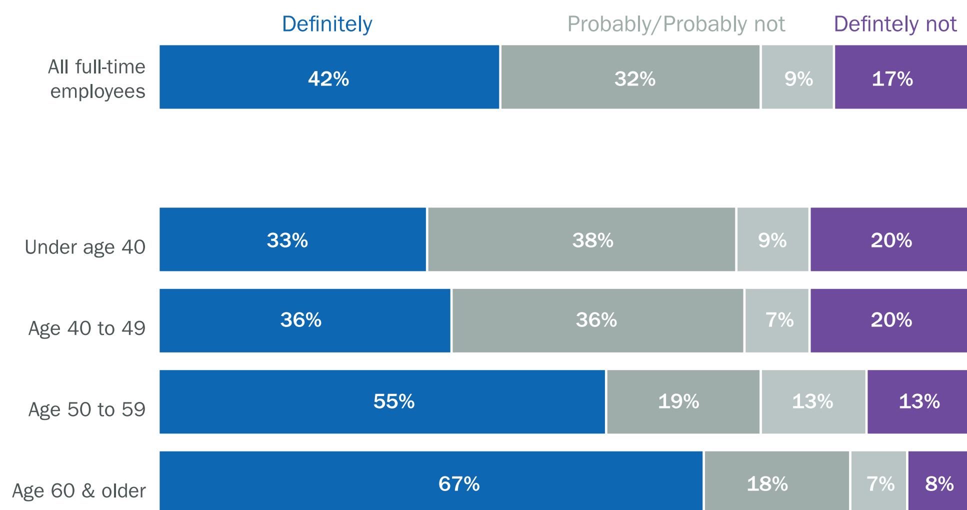


Source: *Higher Education Financial Wellness Survey*, CUPA-HR and TIAA Institute (2022).

Building an emergency fund is by far the most common non-retirement reason for saving among the higher education workforce and within each age group—65% are saving for this reason (Figure 5). With that said, only 42% of college and university employees report they definitely have non-retirement savings sufficient to cover one month of living expenses if needed in case of sickness, job loss, or another emergency; 17% definitely do not (Figure 6). Savings of at least one month of living expenses is most common among those age 60 and older (67%). In contrast, only 33% of those under age 40 definitely have this level of non-retirement savings.

Figure 6. Emergency savings

Have non-retirement savings sufficient to cover one month of living expenses if needed



Source: *Higher Education Financial Wellness Survey*, CUPA-HR and TIAA Institute (2022).

A large expenditure planned within the next two years is the second most common (45%) non-retirement reason for saving among higher education employees. Saving for a home purchase is most prevalent among those under age 40 (56%). Saving for a child's education is most prevalent among those under age 50 (50%).

Financial literacy

How well individuals navigate life's financial decisions depends, at least in part, on their knowledge and understanding of personal finances, i.e., their level of financial literacy. Unfortunately, many Americans function with a poor level of financial literacy, which is problematic since greater financial literacy generally translates into better financial well-being and lower financial literacy is generally associated with lower financial well-being.[4]

4 See Yakoboski, Paul, Annamaria Lusardi, and Andrea Hasler. 2022. *How Financial Literacy Varies among U.S. Adults: The 2021 TIAA Institute-GFLEC Personal Finance Index*.

Financial literacy among the full-time higher education workforce was gauged by a set of five questions covering fundamental economic concepts. These questions have been used in other research for the same purpose. For example, the five waves to date of the FINRA Investor Education Foundation's *National Financial Capability Study* (NFCS) have used the questions to measure financial literacy among U.S. adults.[5]

"Big 5" financial literacy questions

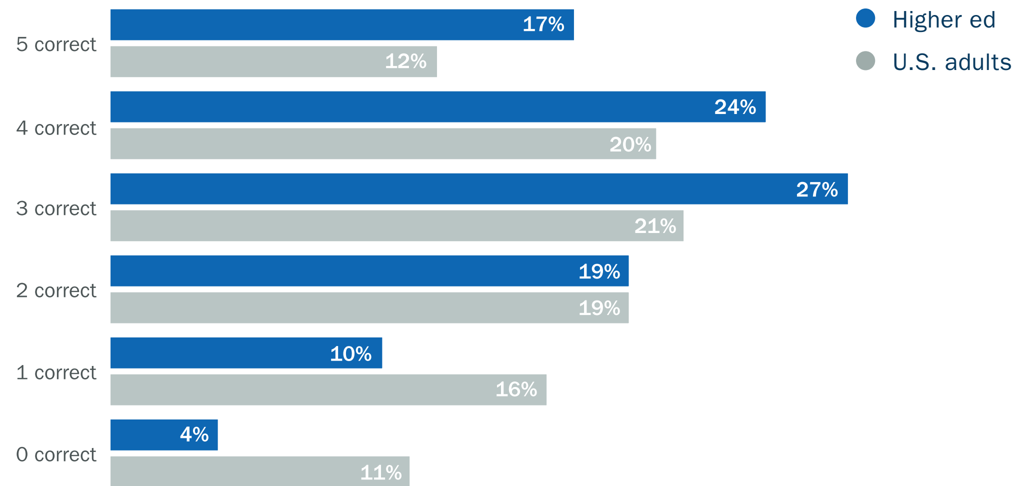
1. ***[Interest rates and compounding]*** Suppose you had $100 in a savings account and the interest rate was 2% per year. After 5 years, how much do you think you would have in the account if you left the money to grow? (multiple choice)
2. ***[Inflation]*** Imagine that the interest rate on your savings 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? (multiple choice)
3. ***[Risk diversification]*** Buying a single company's stock usually provides a safer return than a stock mutual fund. (true/false)
4. ***[Mortgages]*** 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. (true/false)
5. ***[Bond pricing]*** If interest rates rise, what will typically happen to bond prices? (multiple choice)

Financial literacy among full-time higher education employees compares favorably with that of U.S. adults in general but is nonetheless low for many (Figure 7). On average, college and university employees correctly answered 3.1 of the "Big 5" questions compared with 2.6 among U.S. adults. Seventeen percent of higher education employees correctly answered all five questions, and 41% correctly answered four or five; the analogous figures among U.S. adults are 12% and 32%, respectively. On the other end of the spectrum, 33% of college and university employees could correctly answer only up to two of the "Big 5" questions; the analogous figure among U.S. adults is 46%.

5 See Urban, Carly, and Olivia Valdes. August 2022. *Why is Measured Financial Literacy Declining and What Does It Mean? Maybe We Just "Don't Know."* FINRA Investor Education Foundation.

Figure 7. Financial literacy

% correctly answering "Big 5" financial literacy questions

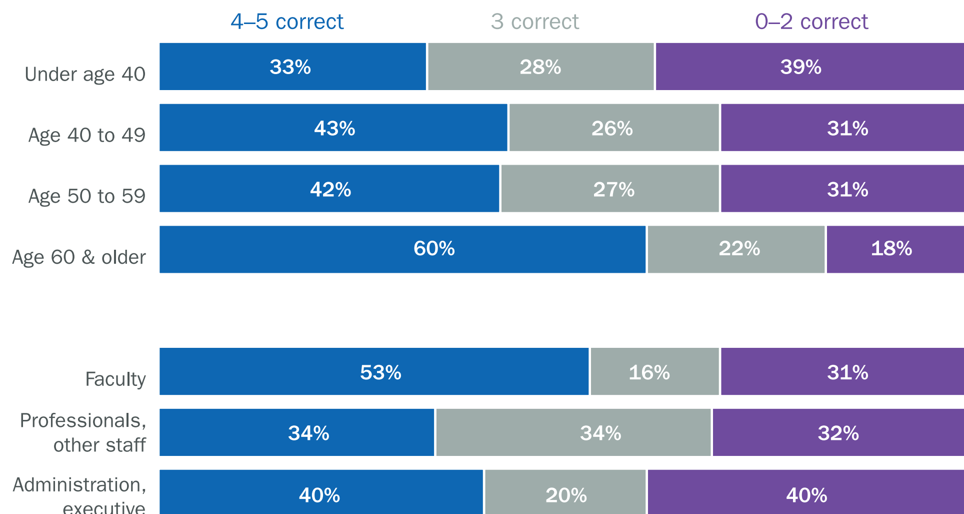


Source: *Higher Education Financial Wellness Survey*, CUPA-HR and TIAA Institute (2022).

Within higher education, financial literacy tends to be lowest among younger employees and greatest among older ones (Figure 8). Thirty-nine percent of those under 40 correctly answered two or fewer of the five financial literacy questions; this is more than double the 18% of those 60 and older correctly answering that few questions. At the same time, 60% of those 60 and older correctly answered four or five questions, while only 33% of those under 40 did so.

Figure 8. Financial literacy in higher ed

% correctly answering "Big 5" financial literacy questions



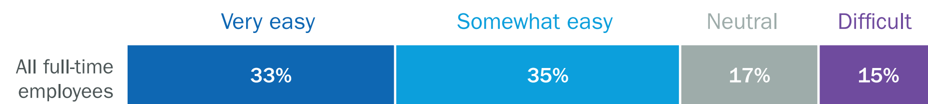
Source: *Higher Education Financial Wellness Survey*, CUPA-HR and TIAA Institute (2022).

Consistent with previous research regarding the relationship between financial literacy and financial well-being, greater financial literacy among college and university employees generally translates into greater financial well-being, and lower financial literacy is generally associated with lower financial well-being. More specifically, compared to their peers with a very high level of financial literacy (i.e., correctly answering all of the "Big 5" questions), higher education employees with a very low level of financial literacy (i.e., correctly answering two or fewer questions) are:

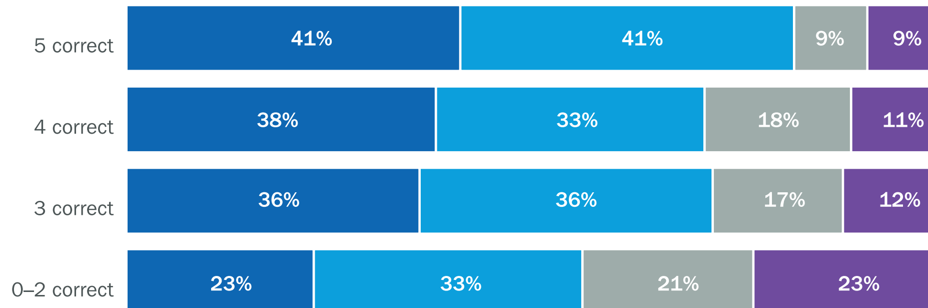
- Over two times more likely to have difficulty making ends meet (Figure 9).
- Over three times more likely to be significantly debt constrained (Figure 10).
- Three times more likely to lack emergency savings sufficient to cover one month of living expenses (Figure 11).
- Almost three times more likely to spend ten hours or more per week thinking about and dealing with issues and problems related to personal finances (Figure 12).

Figure 9. Financial literacy and well-being

Easy or difficult to make ends meet in typical month



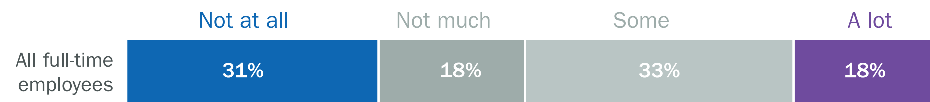
"Big 5" questions answered correctly



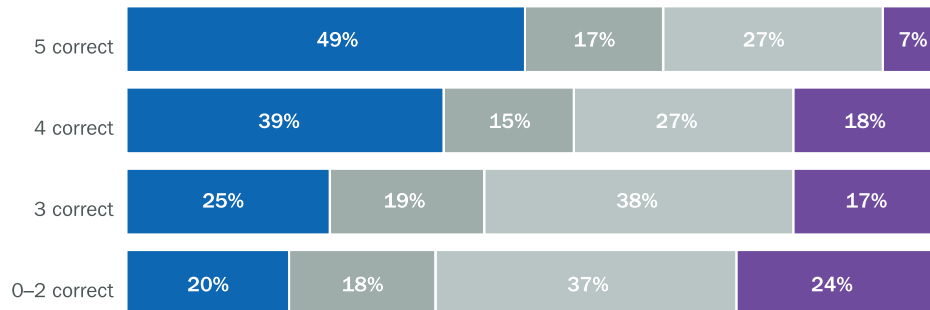
Source: *Higher Education Financial Wellness Survey*, CUPA-HR and TIAA Institute (2022).

Figure 10. Financial literacy and well-being

Degree that debt prevents adequately addressing other financial priorities



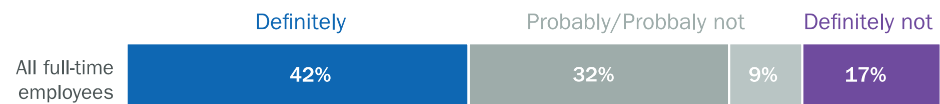
"Big 5" questions answered correctly



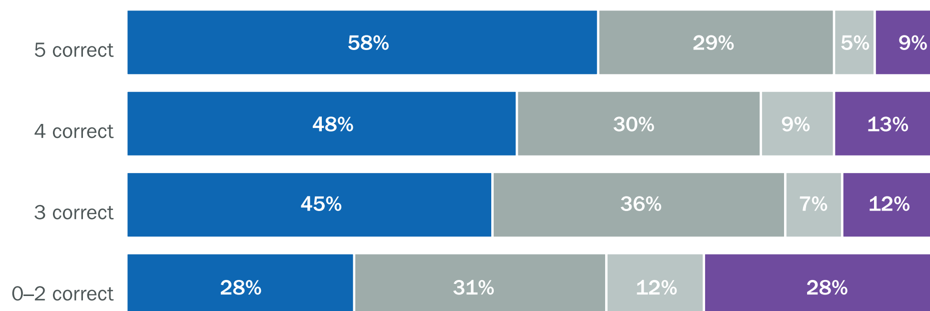
Source: *Higher Education Financial Wellness Survey*, CUPA-HR and TIAA Institute (2022).

Figure 11. Financial literacy and well-being

Have non-retirement savings sufficient to cover one month of living expenses



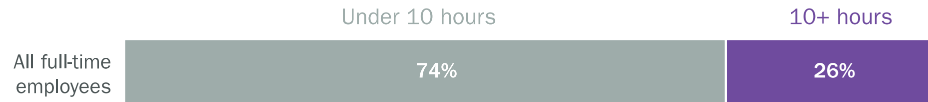
"Big 5" questions answered correctly



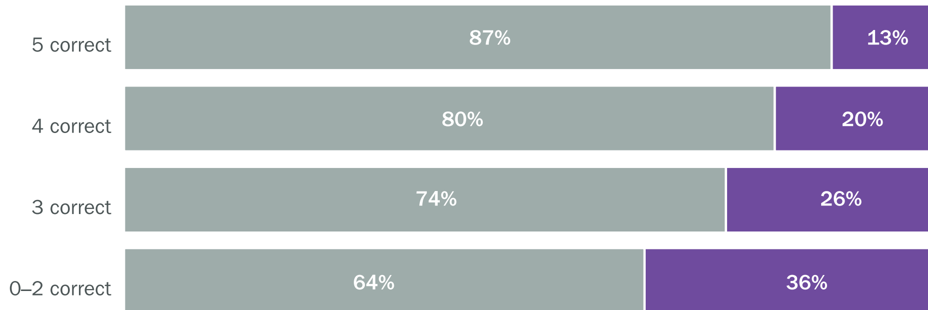
Source: *Higher Education Financial Wellness Survey*, CUPA-HR and TIAA Institute (2022).

Figure 12. Financial literacy and well-being

Hours per week typically spent thinking about and dealing with personal finance issues



"Big 5" questions answered correctly

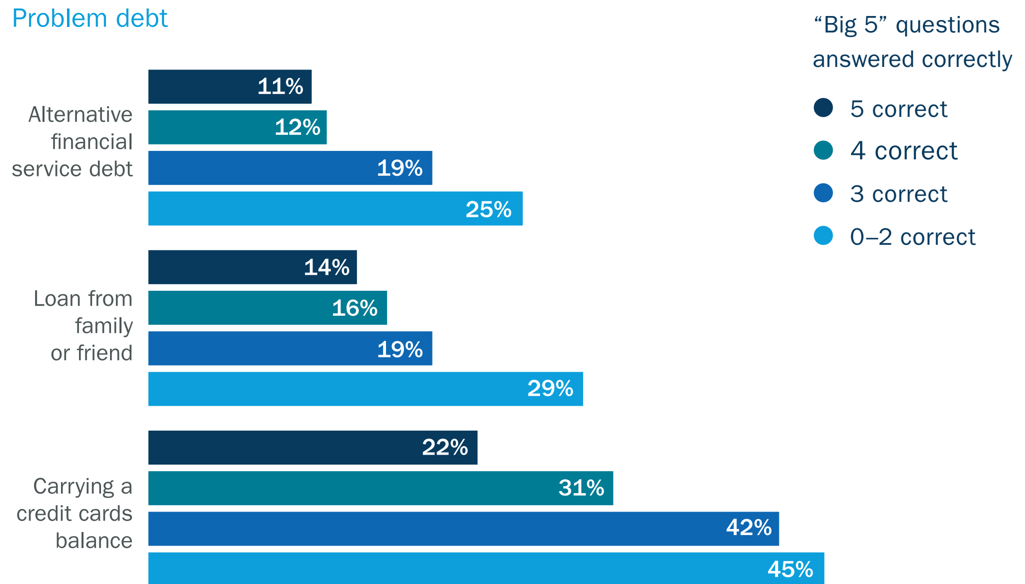


Source: *Higher Education Financial Wellness Survey*, CUPA-HR and TIAA Institute (2022).

In addition, there is a clear relationship between low financial literacy and debt that can be indicative of financial problems (Figure 13). Again, compared to those with a very high level of financial literacy, those with very low financial literacy are:

- Over twice as likely to carry alternative financial service debt.
- Twice as likely to have a loan from a family member or friend.
- Twice as likely to carry credit card debt unpaid from previous bills.

Figure 13. Financial literacy and well-being



Source: *Higher Education Financial Wellness Survey*, CUPA-HR and TIAA Institute (2022).

Discussion

Individuals must make a myriad personal finance decisions—both simple and complex—in the normal course of life. How well they navigate these decisions depends, at least in part, on their financial literacy. Financial literacy is knowledge and understanding that enable sound financial decision making and effective management of personal finances. As such, financial literacy enables and promotes financial well-being. The data is clear—those with greater financial literacy tend to have greater financial well-being, while those with lower financial literacy tend to have lower financial well-being.

This dynamic clearly holds among the higher education workforce. Compared to their peers with a very high level of financial literacy, full-time college and university employees with a very low level of financial literacy are over two times more likely to have difficulty making ends meet and over three times more likely to be significantly debt constrained. They are also three times more likely to lack emergency savings sufficient to cover one month of living expenses and almost three times more likely to spend ten hours or more per week thinking about and dealing with issues and problems related to personal finances.

Financial literacy levels among higher education employees are somewhat greater than among U.S. adults in general, but that does not imply an acceptable situation. One-third of college and university employees could not correctly answer more than two questions from a set of five commonly used to gauge financial literacy levels. The percentage answering two or fewer questions ranges from 18% among those age 60 and older to 39% among those under age 40. This latter data point is particularly troubling as many

consequential financial decisions are faced early in life, decisions with ramifications for financial well-being decades into the future, as well as the present. In addition, basic financial behavior and habits often become established early in adulthood, as do general lifestyle decisions.

These findings signal the importance of financial literacy programming in employer financial well-being initiatives—financial literacy impacts the range of decision making encountered in individuals' financial lives. Other strategies to improve financial behavior and decision making typically target certain issues, for example, improving retirement saving and investing behavior through choice architecture in plan design and professional retirement planning advice. Such strategies are valuable, but it is not feasible to design nudges or provide financial advice for every financial decision that employees make. Such strategies complement financial literacy programming but are not substitutes for it.

About the authors

Paul Yakoboski is a senior economist with the TIAA Institute, where his research focus is lifetime financial security, including issues related to financial literacy and financial wellness, retirement saving and investing, and asset management during retirement. In addition, he researches workforce issues in the higher education and nonprofit sectors. He manages the Institute's survey research program and is director of the Institute's Fellows Program. Prior to joining the TIAA Institute, Yakoboski held positions with the American Council of Life Insurers, the Employee Benefit Research Institute and the U.S. Government Accountability Office. Yakoboski earned his Ph.D. and M.A. in economics from the University of Rochester and his B.S. in economics from Virginia Tech.

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