

Financial education programs, income-based repayment plans promote prosperity

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People with student loan debt who participate in financial education programs and income-based repayment plans are more likely to save, invest and own homes after college, University of Illinois social work Professor Min Zhan found in a new study. Credit: L. Brian Stauffer

Young adults with student loans who participate in financial education

programs become better financial managers who are able to build their personal wealth after college, researchers at the University of Illinois found in a recent study.

Social work professor Min Zhan and graduate [student](#) Gaurav Sinha analyzed data on 1,924 young adults in the U.S. to explore which factors helped those with [student loans](#) prosper after college.

About 59% of the borrowers had federal student loans, 11% had private loans and the remaining 30% of borrowers had combinations of both types of loans.

Young adults' ability to build wealth was measured by whether they owned a home, saved for retirement and owned investments or securities. A plurality of respondents—41% - had annual household incomes of \$35,000-\$75,000. About 44% were homeowners.

Zhan and Sinha found that people who participated in financial education programs were 1.5 times more likely to own employer-sponsored retirement accounts, were twice as likely to have other types of retirement and investment accounts, and were more likely to own homes as well.

"Whether the financial education programs were general information offered by their employers or loan-specific seminars offered by their colleges, participating in these programs increased young adults' likelihood of saving for retirement, investing and owning a home," Zhan said. "These programs may help young adults make informed decisions about [financial matters](#), which, in turn, boosts their wealth-building."

Nearly 60% of the respondents had earned a bachelor's degree and 77% were employed, according to the study, published recently in the journal *Social Development Issues*.

However, less than half of the respondents—45% - were using income-based repayment plans to repay their student loans.

When respondents were asked whether they had calculated the prospective monthly payment prior to taking out their most recent student loan, only 39% of borrowers said they had done so.

"Our findings indicate that simply knowing the amount that they'd be paying on their student loans boosted an individual's likelihood of saving for retirement, investing or owning a home," Zhan said.

Just over a third—37% - of the sample scored high on financial literacy, based upon their answers to six questions that assessed their knowledge of general financial concepts such as interest rates. Four to six correct answers indicated high financial literacy, while zero to three [correct answers](#) suggested low financial literacy.

While income-based repayment plans helped people with student loan debt save for retirement and invest, Zhan and Sinha found that these programs were not positively associated with home ownership.

They hypothesized that while income-based repayment plans may have mitigated the financial stress associated with student loan debt, borrowers still may not have had sufficient resources to purchase homes.

Certain groups of young adults with student loan debt faced greater challenges building wealth, including women and those who lacked health insurance.

Women—who composed 60% of the study sample—were less likely to have [retirement](#) and investment accounts, and fewer of them were homeowners than their male peers, the researchers found.

About half—49% - of all the respondents were married, and 52% had at least one dependent child.

"Having a bank account and/or certificates of deposit had particularly strong associations with all indicators of wealth-building among people with student loans," Zhan said. "These findings support our hypotheses that lack of both monetary resources and financial literacy, and a lack of access to mainstream financial services are barriers to wealth-building for [young adults](#)."

The study sample included people ages 24-35 who participated in the 2015 National Financial Capability Study, a survey conducted every three years that assesses the financial knowledge and practices of a nationally representative sample of U.S. adults ages 18 and over.

The survey, which began in 2009, assesses participants' general knowledge of financial concepts along with their use of credit cards, conventional financial institutions and alternative financial services.

More information: "Wealth building among young adults with student loan debt: What factors make a difference?" *Social Development Issues*, 2019.

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