Financial education key to reducing student loan stress

26 October 2018

It is estimated that a quarter of American adults currently have student loans to pay off, and most do not have the financial literacy to manage debt successfully. The average student in the Class of 2016 has $37,172 in student loan debt. Graduates from the University of Missouri have an average debt of $21,884.

In a new study, Lu Fan, assistant professor of personal financial planning at the University of Missouri, found that borrowers are not receiving adequate education to manage their student debt. She suggests that more needs to be done to educate borrowers about managing debt as well as the various repayment options that might be available to them.

"A majority of borrowers, 55 percent, reported being worried about their student loans; however, only 30 percent of borrowers said that they had received financial education about paying off their student loans," Fan said. "Moreover, only 40 percent of borrowers reported having financial influence from their parents. Given the number of people who need student loans to attend college, we need to do better at educating borrowers."

Using the 2015 National Financial Capability Study dataset, Fan and Swarn Chatterjee, professor at the University of Georgia, found that having student loan debt caused mental stress for borrowers. The researchers looked at more than 2,600 responses from the dataset, focusing on respondents who had a student loan, were between the ages of 24 and 65, were no longer a student, were employed, and were the primary decision makers in their household.

The researchers found that women were less likely to be late on student loan payments but were more likely to feel worried about their student loans. Men were less anxious about their debt and more likely to submit payments late. They also found that people with loans who did not complete college were more likely to be worried about paying off loans than those with degrees.

Fan believes that borrowers are not receiving the information they need to make the best financial decisions, and that policymakers and loan providers should do more to educate borrowers.

"My hope is that policymakers use this information when developing financial educational programs," she said. "Better educational resources created for specific audiences—parents, young adults, women and households that have experienced a drop in income—will lead to more educated borrowers."


Provided by University of Missouri-Columbia