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Debt Literacy and Social Work

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In the United States today, more than 56% of individuals are in debt (Foster, Meijer, Schuh, & Zabek, 2011). Debt literacy may be defined as the ability to correctly assess debt contracts and compound interest when making financial decisions about loans, credit cards, interest rates, and fees. Often, low-income individuals are vulnerable to experiencing debt and social workers are uniquely placed to assist them. However, little is known about the debt literacy levels of Master of Social Work (MSW) students who are about to become social workers. This study attempts to fill this gap. Data were collected from 48 MSW students and analyzed using Chi-Square goodness-of-fit tests, Chi-Square tests of independence, and Fishers' Exact Test where appropriate. Results indicate that social work students scored low on all debt literacy measures, but were statistically similar to the general population and to service providers in the asset building field. In addition, students with higher self-assessed financial knowledge or who come from households with higher incomes or net worth, tend to have higher debt literacy levels. Implications for social work practice and education are discussed.

Keywords: debt literacy; financial literacy; social work students; low-income households

The current economic climate has put significant financial strain on American families. Household debt has reached a record high, with over 56% of Americans in debt (Foster, Meijer, Schuh, & Zabek, 2011). Many families in both low- and middle-income brackets are barely able to cover the costs of housing, health care, food, and education. While some types of debt are taken on for asset and other human capital development purposes, debt may negatively impact the psychological health of families nonetheless (Bridges & Disney, 2010; Jenkins et al., 2008). In addition, those living at or below the poverty line may be the most vulnerable to experiencing the worst effects of debt hardship. Low-income individuals with lower levels of debt literacy are more likely to borrow at high costs and less likely to participate in financial stock markets, accumulate wealth, and plan for retirement (Bell & Lerman, 2005). Many lower-income households also spend beyond

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their means, rarely save enough for contingencies, and often do not take full advantage of beneficial financial services (Bell & Lerman, 2005). Marital tensions may also arise because of stressful financial situations (Conger et al., 1990; Hampton, 1982), possibly increasing the risk of depression, anxiety, substance abuse, child abuse, and/or other types of socio-emotional-mental concerns.

Social workers, who are historically and professionally connected to disadvantaged, often debt-laden populations, are uniquely placed to help these individuals work through their debt issues. Yet, if social workers have low levels of debt literacy, they may not be able to effectively assist clients with their financial concerns. In order to help individuals get out of debt, it is imperative that social workers are themselves debt literate. However, recent research indicates that social workers are lacking in financial literacy (Gillen & Loeffler, 2012; Loke, 2011; Sherraden, Laux, & Kaufman, 2007), while almost no information exists as to whether social workers are similarly lacking in debt literacy. This study attempts to begin to bridge this gap in the knowledgebase by exploring and describing the debt literacy levels of a group of Master of Social Work (MSW) students approaching graduation from their program.

Financial literacy and college students. Research suggests that college students may have low levels of financial literacy. Examining the financial literacy of 7,138 college students, Lusardi, Mitchell, and Curto (2009) found that 73% of the sample lacked a basic understanding of topics such as calculating simple interest rates, inflation, and diversifying financial risk. Further, the Jump$tart Survey for Personal Financial Literacy, which surveyed 1,030 college students in 2008, found that less than 50% of students correctly answered questions about financial management, savings, and credit (JumpStart, 2012). In another study using the Jump$tart survey, of 92 college juniors and seniors, less than 50% of the respondents answered questions pertaining to financial management, savings, and credit correctly (Boyland & Warren, 2013).

Financial literacy and low-income populations. It has been found that low-income populations have lower levels of financial literacy (Chang & Lyons, 2007; Zhan, Anderson, & Scott, 2006). In fact, research illustrates that the debt literacy levels of low-income populations may be among the lowest of all income groups (Bernheim, 1998; Kotlikoff & Bernheim, 2001). Often they demonstrate less knowledge about loans and repayments (Anderson, Zhan, & Scott, 2004) and do not always consider the annual percentage rate (APR) when applying for and accepting loans (Brobeck, 2002).

While a high level of debt literacy can lead to healthy financial behavior and a better quality of life (Lusardi & Tufano, 2009), low-income populations who score low on debt literacy are more likely to fall victim to abusive and deceptive credit card practices and predatory lending services (Lyons & Scherpf, 2004) that specifically target them because of their financially vulnerable situation. Predatory financial services, such as check-cashing stores, pawnshops, payday lenders, and rent-to-own stores, charge fees as high as 300% or more. These predatory financial services are used by lower-income populations more often than higher-income groups (Aratani & Chau, 2010). Because of their financially vulnerable

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situation, the fees predatory financial services charge may significantly increase the debt-to-income ratio of lower-income families and push them further into the cycle of debt. It is not uncommon for low-income populations to borrow money at a very high interest rate, only to find they cannot afford the payments and must borrow at a high interest rate again. Predatory financial lenders profit substantially from low-income consumers who become trapped in this cycle of increasing high-cost debt. Ultimately, an understanding of basic financial literacy is vital for low-income populations to avoid predatory financial services, pay off debt, and gain financial security (Lyons, Chang, & Scherpf, 2006).

Debt literacy. Debt literacy is a component of financial literacy, and refers to the ability to make simple decisions regarding debt contracts and to apply basic mathematical knowledge about interest compounding to everyday financial choices (Lusardi & Tufano, 2009). A debt literate person is one who possesses the knowledge, education, and current information on managing their financial matters; understands the basic concepts underlying the management of money and assets; and uses that knowledge and understanding to plan and implement financial decisions (Hogarth, 2002). The benefits of being debt literate may include lower fees and charges on credit cards, higher net worth, access to planned savings for emergencies and retirement, and a lower debt-to-income ratio overall (Bartley, 2011). In contrast, individuals with lower levels of debt literacy may not have the minimum levels of literacy and skills to distinguish between products (Smaghi & Smith, 2005), resulting in an increased likelihood of transacting in higher-cost ways (Jappelli, 2010).

Research on debt literacy is new and currently limited. Lusardi and Tufano (2009), in their pioneering work in this area, surveyed a nationally-representative sample of 1,000 Americans with respect to their debt literacy, financial experiences, and their self-assessments of their debt position. The aim was to evaluate respondents' debt literacy as measured by a working knowledge of compound interest and credit cards and their ability to compare and choose lower-cost borrowing options (Lusardi, 2009). A three-item instrument was developed for this research and results indicate low debt literacy levels for the sample, especially among women and the elderly. In this study, only 36% of respondents understood the concept of compound interest and the workings of credit card debt and repayment. In addition, only 7% of respondents grasped the concept of the time value of money and correctly chose the lower-cost borrowing option. Further, Lusardi and Tufano (2009) found a significant relationship between respondents' debt literacy levels and their financial experiences and debt burdens. Respondents who scored lower on the debt literacy questions engaged in predatory financial products and services more often than those whose debt literacy scores were higher. Additionally, respondents with lower debt literacy scores reported that their debt burdens were extreme or could not estimate their debt position.

Lusardi and Tufano's (2009) debt literacy instrument was later adapted in a study of 2,500 non-retired individuals in the United Kingdom. This study explored the associations between debt literacy and net worth, consumer credit usage, and debt (Disney & Gathergood, 2011). In contrast to the results reported by Lusardi and Tufano (2009) on

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the individual debt literacy questions, 55.8% (compared to 36%) answered the question on compounded interest correctly and 45.7% (compared to 36%) answered the question on credit card repayment correctly (Disney & Gathergood, 2011). Further results indicated that those who scored lower in debt literacy have a lower net worth, are burdened with more debt, and are more likely to have trouble paying off their debt (Disney & Gathergood, 2011).

Similarly, a nationally-representative sample of 1,508 households in the Netherlands also found low levels of debt literacy (van Rooij, Lusardi, & Alessie, 2011). Using a five-item instrument, including an adapted version of Lusardi and Tufano's (2009) scale, respondents' understanding of numeracy, interest compounded, inflation, the time value of money, and money illusion were measured. The authors found that approximately 40.2% of respondents were able to answer all five questions correctly. However, 76.2% of respondents answered the interest compounded question correctly, compared to 55.8% of respondents in the U.K. (Disney & Gathergood, 2011) and 36% of respondents in the U.S. (Lusardi & Tufano, 2009). In addition, 72.3% of respondents answered the time value of money question correctly (van Rooij et al., 2011), compared to 7% of respondents in the United States (Lusardi & Tufano, 2009). The results indicated respondents in the U.S. may have lower levels of debt literacy than those surveyed in the U.K. and the Netherlands.

Social work and debt literacy. Given the negative impact debt and the use of predatory financial services may have on lower-income populations, social workers, by virtue of the nature of their work with lower-income populations, are uniquely positioned to assist lower-income individuals and families address and resolve their debt issues. However, research has found that social workers and those in the social service field may have less than ideal levels of financial and debt literacy (Birkenmaier & Curley, 2009; Loke, 2011; Sherraden et al., 2007). Research examining the financial capabilities of 125 social service providers in the asset building field in the state of Washington demonstrated that while frontline social service providers may believe they have a high-level of financial and debt literacy, their objectively assessed financial and debt literacy levels were similar to, or lower than the general population (Loke, 2011; Loke, Watts, & Kakoti, 2013). The same study found that 25% to 40% of asset-building practitioners did not feel comfortable or prepared to address the financial concerns of clients. In regards to debt literacy, 45% of respondents answered the question on compound interest correctly, 41% answered the question on credit card repayment correctly, and 6% answered a question on the time value of money correctly, all of which were statistically similar to the general population (Loke, 2011; Loke et al., 2013).

Social workers must be debt literate in order to effectively assist clients with their debt concerns. However, little information on the debt literacy levels of social workers is currently available. This study attempts to begin to bridge this gap by exploring and describing the debt literacy levels of a group of final-year MSW students. In addition, it compares their debt literacy levels against the general population based on Lusardi and Tufano's (2009) study and with practitioners in the asset-building field (Loke, 2011; Loke et al., 2013).

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METHODS

Sample

A convenience sample of 48 final-year MSW students from a university in the state of Washington was surveyed in this study. Students in two of three sections of a research course during the same academic quarter were offered extra credit for the class if they participated in the study. Every student completed the survey, resulting in a response rate of 100%. Overall, the sample represented about two-thirds of the graduating MSW students for that year. Following IRB approval, respondents completed the self-administered online survey deployed through the SurveyMonkey online survey service.

Comparison samples. Debt literacy levels of this sample were compared against the debt literacy levels found in the general population and against practitioners in the asset-building field in the state of Washington. Parameters for the general population were drawn from Lusardi and Tufano (2009), who surveyed a nationally-representative sample of 1,000 Americans. With respect to the key sociodemographic indicators, approximately 14.1% of respondents were less than 30 years of age and 49.5% reported their gender as female. In addition, slightly more than 26% of respondents indicated their income to be less than $30,000 a year (Lusardi & Tufano, 2009).

Parameters for social service providers were drawn from a statewide survey conducted by Loke (2011), where the debt literacy levels of 125 practitioners were measured. Respondents included frontline and middle management staff from 84 social service agencies. Approximately 60% of respondents reported their position as being frontline staff, 74% indicated they were female, and 81% of respondents had at least some college education. About 26% of respondents indicated they were less than 30 years old, and over half indicated they had less than three years of work experience in asset-building (Loke, 2011; Loke et al., 2013). Information on the income of respondents was not reported in this study.

Measures

Debt literacy. Debt literacy is measured using the three-item instrument developed by Lusardi and Tufano (2009). This instrument was also adapted or used in its entirety by Loke (2011), Disney and Gathergood (2011), and van Rooij et al., (2011). The instrument tested respondents' understanding of compound interest, credit card interest rates and payments, their understanding of the time value of money, and their ability to choose borrowing options with cheaper cost (see Appendix). A debt literacy index was created by summing the number of questions correctly answered and dichotomizing the variable into lower (≤ 1 correct answers) and higher (≥2 correct answers) debt literacy for the purposes of analysis.

Self-assessment of financial literacy and debt situation. Respondents were asked to self-assess their financial literacy on a 7-point Likert scale, wherein 1 = "very low"

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and 7 = "very high." In addition, they were also asked to assess their debt position by answering whether they have: (a) too much debt, (b) the right amount of debt, (c) too little debt, or (d) do not know. These two items originated from the study by Lusardi and Tufano (2009). The study by Loke (2011) did not include the self-assessment of financial literacy or debt position items.

Social demographic variables. Demographic information collected in this study includes respondents' gender measured as a dichotomous variable. Other variables, including age, annual household income, and net worth, were measured at the ordinal levels. Age was subsequently recoded as "30 years or less" and "more than 30 years old," while household income and net worth were recoded into "under $30,000" and "$30,000 or more."

Analyses. As the data were categorical or count in nature, descriptive statistics, Chi-Square goodness-of-fit tests, and Chi-Square tests of independence were used for the analyses. Chi-Square goodness-of-fit analyses were used to compare the frequency distributions of the study sample against the known statistic or parameter of a comparison sample. The purpose was to examine how well the study data resembles or "fits" the comparison data. In this study, the Chi-Square goodness-of-fit tests were used to examine the extent to which data on the debt literacy of the study sample fit the data of the general population and/or the asset-building practitioners. Chi-Square tests of independence can be used to test the relationship between two or more categorical variables. In this study, Chi-Square tests of independence were conducted to examine the association between various measures, including an association between debt literacy and debt position. When the assumptions of the Pearson Chi-Squares were violated, results of the Fishers' Exact Test, which is more precise for small sample sizes, were reported instead.

RESULTS

Sample profile. At the time the data was collected, 70.8% of respondents indicated they were less than 30 years old and 83.3% of respondents indicated they were female. Approximately 70.8% of the respondents indicated an annual income of $30,000 or less, 18.8% reported an income of $30,000 to $49,999, and 10.4% indicated an income of $50,000 or more. The majority of respondents (72.9%) indicated they had a net worth less than $30,000, 6.3% of respondents reported an income of $30,000 to $49,999, 4.2% indicated an income of $50,000 to $74,999, and 12.5% reported an income above $75,000. Regarding the financial knowledge self-assessment, 31.2% of respondents rated themselves as having low levels of financial knowledge (with scores of 3 or lower), 25% rated themselves as having neither high nor low financial knowledge, and 41.7% rated themselves as having a high level of financial knowledge (with scores of 5 and higher). Finally, 45.8% of respondents reported they have "too much" debt, while 47.9% indicated their debt levels were "just right." Table 1 describes the demographic characteristics of the respondents.

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Table 1
Respondent profiles (N=48)

Demographic		*%*
Age		
	Less than 30	71
	31 – 40	17
	41 – 50	4
	51 – 65	4
	More than 65	0
	Missing	4
Gender		
	Male	17
	Female	83
Annual Income		
	Under $30,000	71
	$30,000 to $49,999	19
	$50,000 to $74,999	10
	Above $75,000	0
Net Worth		
	Under $30,000	73
	$30,000 to $49,999	6
	$50,000 to $74,999	4
	Above $75,000	13
	Missing	4
Financial Knowledge Self-Assessment		
	1 – Very low	0
	2	4
	3	27
	4 – Neither high nor low	25
	5	29
	6	10
	7 – Very high	2
	Missing	2
Current Debt Position		
	Too much	46
	Just right	48
	Too little	4
	Missing	2

Note. Totals in each category may not sum to 100 due to rounding

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Understanding of compound interest. Respondents' understanding of compound interest as it relates to credit card payments was measured by the question, "Suppose you owe $1,000 on your credit card and the interest rate you are charged is 20% per year compounded annually. If you didn't pay anything off at this interest rate, how many years would it take for the amount you owe to double?" On this item, 47.9% of respondents (n=23/48) were able to provide the correct answer. This compares favorably against asset-building practitioners in Loke's (2011) study where 45% provided the correct answer. In addition, the study sample also performed better than the general population, as found by Lusardi and Tufano (2011), where only 36% provided the correct answer. However, Chi-Square goodness-of-fit analyses indicated that respondents had statistically similar levels of debt literacy compared to practitioners (χ^2 (1) = .17, p = .685) and to the general population (χ^2 (1) = 2.96, p = .085).

Workings of credit card repayment. To assess knowledge of the workings of credit card repayment options, respondents were asked, "You owe $3,000 on your credit card. You pay a minimum payment of $30 each month. At an Annual Percentage Rate of 12% (or 1% per month), how many years would it take to eliminate your credit card debt if you made no additional new charges?" On this measure, 45.9% of respondents (n=22/48) were able to answer this question correctly. This compares favorably to asset-building practitioners (41%) and to the general population (36%). Nevertheless, Chi-Square goodness-of-fit analyses indicate that respondents were statistically similar to both asset-building practitioners (χ^2 (1) = .46, p = .496) and to the general population (χ^2 (1) = 2.0, p = .156) in their understanding of credit cards and repayment options.

Time value of money. For the question assessing the understanding of the time value of money, respondents were asked, "You purchase an appliance which costs $1,000. To pay for this appliance, you are given the following 2 options: a) pay 12 monthly installments of $100 each; b) borrow at a 20% annual interest rate and pay back $1,200 a year from now. Which is the more advantageous offer?" Respondents had the most difficulty with this item, with only 4.2% (n=2/48) being able to answer the question correctly. In comparison, 6% of asset-building practitioners and 6.9% of the general population were able to correctly answer this question. Statistically, respondents were no different from asset-building practitioners (χ^2 (1) = .29, p = .593) or the general population (χ^2 (1) = .56, p = .455).

Debt literacy index. Analyses of the full three-item instrument reveals more than 33% of respondents (n=16/48) failed to answer any debt literacy questions correctly, 38% (n=18/48) answered only one out of the three questions correctly, 27% (n=13/48) answered two questions correctly, and just one person (2%) answered all three questions correctly. This is similar to the distribution observed among asset-building practitioners in Loke's (2011) study, where 40% of that sample failed to answer any items correctly, 26% answered only one question correctly, 31% answered two questions correctly, and only 3% answered all three debt questions correctly. Information on how many questions respondents answered correctly in Lusardi and Tufano's (2009) study was not available.

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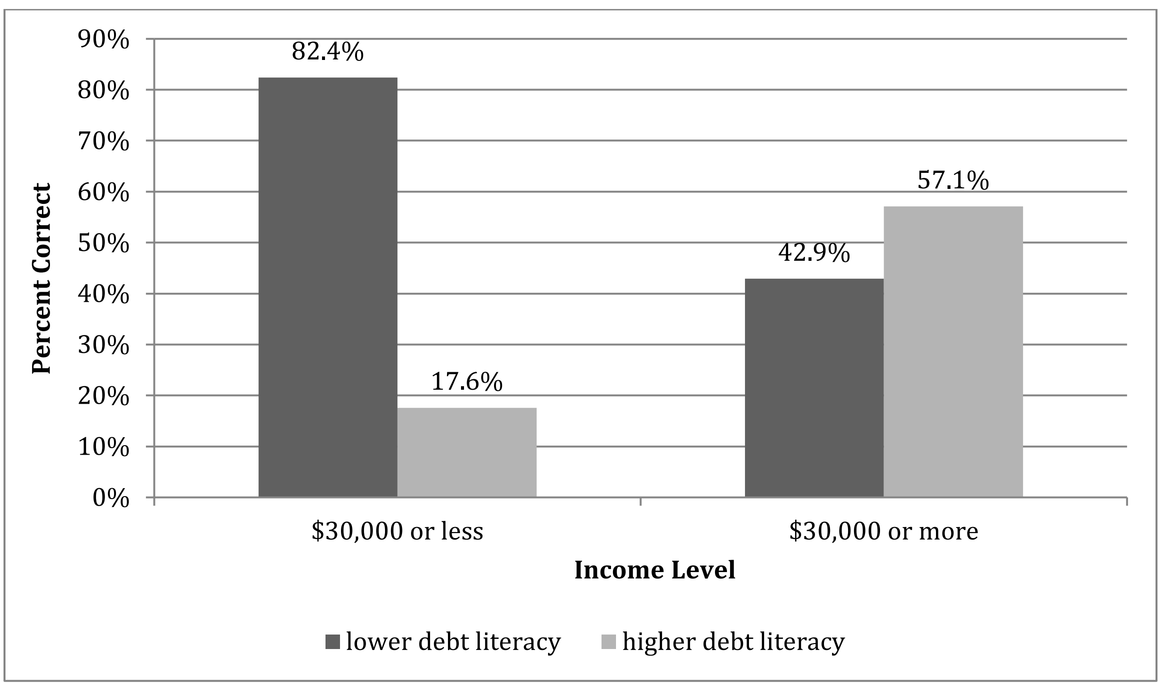
For the purposes of analysis, a debt literacy index was created by classifying those who answered fewer than half (1 or less) of the debt items correctly as having a lower level of debt literacy, while those who were able to answer more than half (2 or more) of the items correctly as having a higher level of debt literacy. Overall, 71% of the respondents (n=34/48) could be categorized as having lower debt literacy, while 29% (n=14/48) could be classified as having higher debt literacy. Among asset-building practitioners, 66% were categorized as having a lower level of debt literacy, while 34% were classified as having a higher level of debt literacy. A Chi-Square goodness-of-fit analysis indicated respondents in this study were no different statistically from asset-building practitioners in this regard (χ^2 (1) = .53, p = .445).

Debt literacy and income. For those reporting annual incomes of less than \$30,000, over 82% (n=28/34) were categorized as having lower debt literacy. However, for those with annual incomes of \$30,000 and above, only 43% (n=6/14) were classified as having lower debt literacy (Figure 1). As one of the cells has expected frequencies of less than 5 in the contingency table, the Fisher's Exact Test was used to test the association between debt literacy and household income. The results indicated that household income was significantly associated with debt literacy (p = .013). Those from higher-income households have a significantly higher proportion of being categorized as having a higher level of debt literacy compared to those from lower income households. The relationship between debt literacy and household income was not compared against either the general population or asset building practitioners because the relevant data were not available.

Figure 1. Debt literacy index and income level



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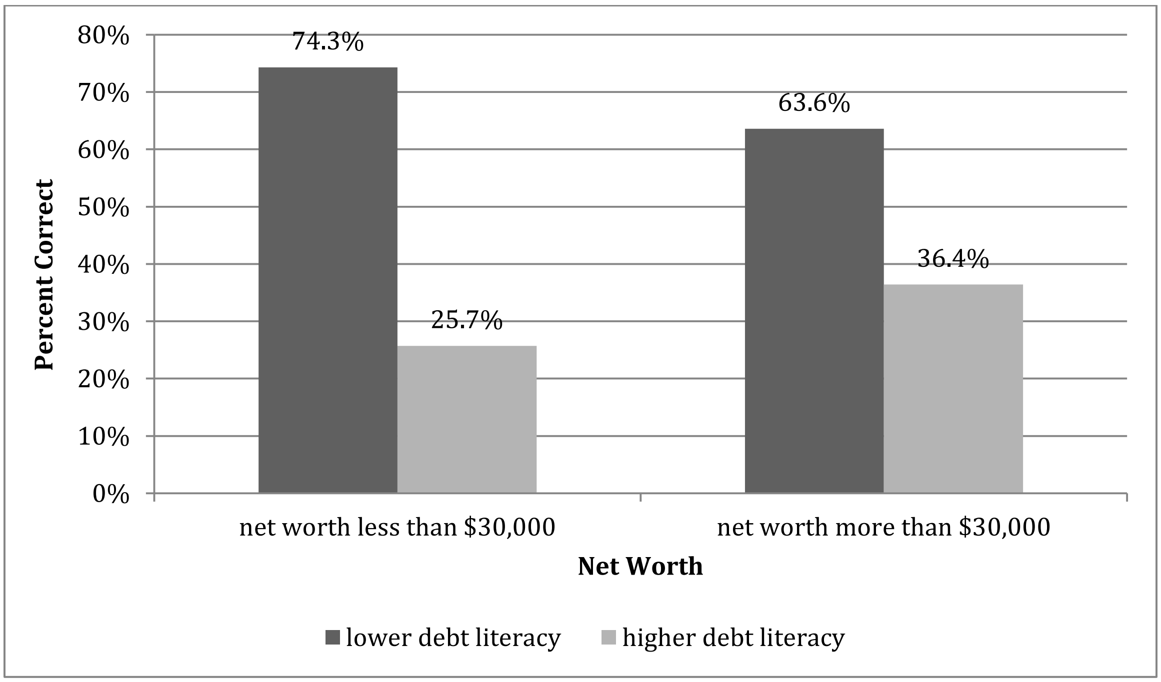
Debt literacy and net worth. In terms of net worth and debt literacy, out of the respondents who indicated they have a net worth of less than $30,000, 74.3% (n=26/35) answered one or fewer debt literacy questions correctly and were categorized as having lower debt literacy levels. This proportion fell to 63.6% (n=7/11) among those with a net worth of $30,000 or more (Figure 2). Debt literacy levels were, however, statistically independent of net worth with Fisher's Exact Test resulting in non-significant findings (p = .70). The relationship between debt literacy and net worth was not compared against either the general population or asset building practitioners because the relevant data were not available.

Figure 2. Debt literacy index and net worth



Debt literacy and financial knowledge self-assessment. Examining respondents' self-assessed financial knowledge and their debt literacy levels, the data indicated that the higher the self-assessed knowledge, the higher the debt literacy levels. Among those who self-assessed their financial knowledge as being low, only 20% (n=3/15) are deemed as having higher debt literacy. This increased to 25% (n=3/12) among those who rated themselves as having neither high nor low levels of financial knowledge. For those self-assessed as having high financial knowledge, 35% (n=7/20) were classified as having higher debt literacy levels (Figure 3). Chi-Square analysis, however, showed that the financial self-assessment and debt literacy are not significantly associated with each other in our sample (χ^2 (2) = 1.021, p = .60).

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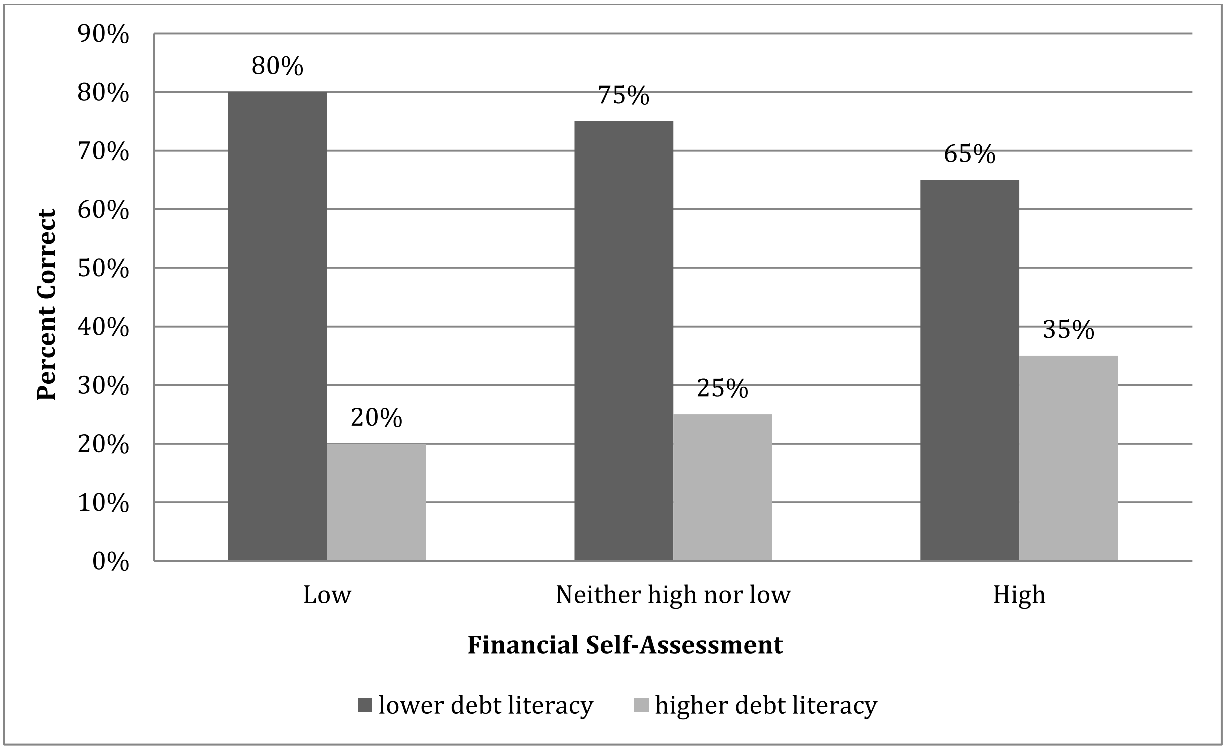
Figure 3. Debt literacy index and financial self-assessment



Debt literacy and debt position. In terms of debt literacy and current debt position, 73% (n=16/22) of respondents who assessed themselves as having too much debt were classified as having lower debt literacy. Among those who self-assessed as having too little or just the right amount of debt, the proportion of respondents classified as having lower debt literacy falls to 65% (n=15/23) (Figure 4). This finding suggested that respondents who felt they had too much debt also had lower levels of debt literacy. This association, however, was not statistically significant ($\chi^2(1) = .296$, $p = .59$). Data on this relationship were not available in the comparison samples.

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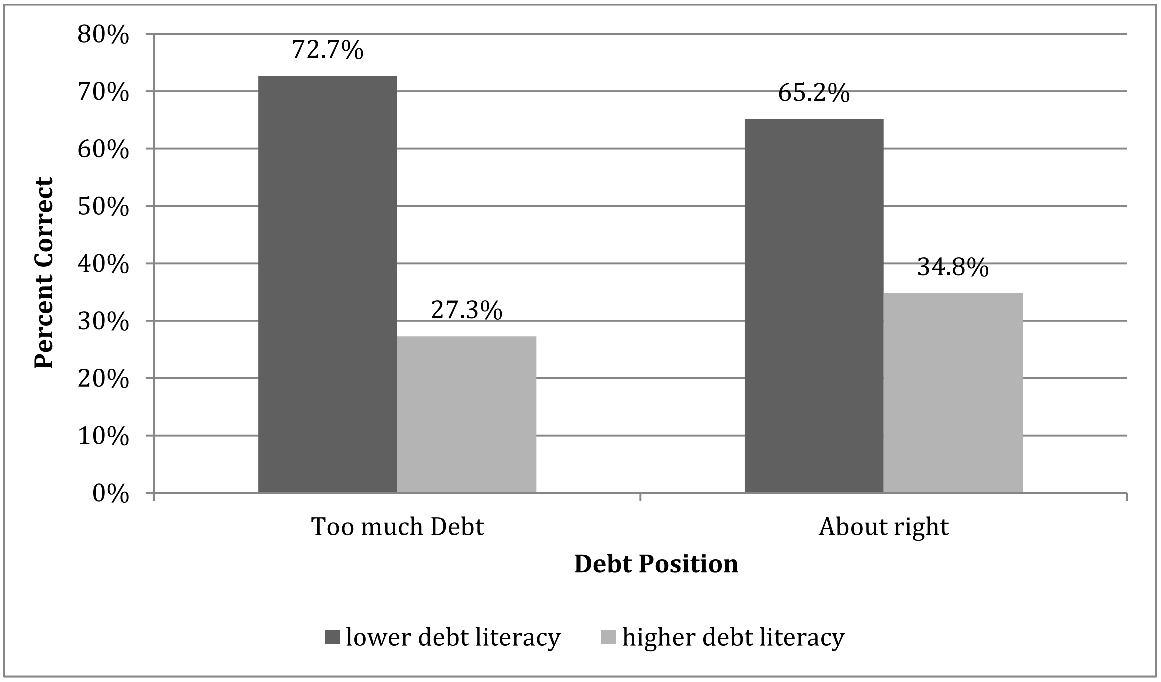
Figure 4. Debt literacy index and current debt position



DISCUSSION AND IMPLICATIONS

In order for social workers to effectively assist clients with debt issues, they first need to be debt literate. By having a higher level of debt literacy, social workers may better recognize and address the financial concerns of their clients either directly or by referring clients to the appropriate financial resources. For example, a social worker who understands budgeting, credit card interest, and late fee penalties may assist a client struggling to make payments on time, set up a budget, and better understand the consequences of late payments. Further, a social worker who is knowledgeable about debt consolidation resources may refer a client who is on the verge of bankruptcy to the appropriate resources. Thus, social workers need a level of debt literacy that allows them to appropriately and effectively assist clients with financial issues.

Social workers are also prone to personal financial concerns and social work students may face several challenges when they begin their careers, such as having large amounts of student debt and relatively low earnings (Whitaker, 2008). In general, the higher the debt-to-income ratio, the greater the possible risk of defaulting on payments. Therefore, it may benefit social workers to have a solid understanding of personal finance and the workings of debt. Understanding personal finance concepts does not guarantee sound financial choices, but it may be a first step for social workers to strengthen their personal financial and debt management skills.

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To begin examining the capacity of social workers to address the financial issues of their clients as well as their own personal finances, this study explores the debt literacy of social work students who were about to graduate from a MSW program. Results indicate that the social work students surveyed in this study have similar levels of debt literacy when compared to the asset-building practitioners surveyed by Loke (2011) and to the general population reported in the study by Lusardi and Tufano (2009). More critically, more than one-third of this sample of social work students did not answer any of the debt literacy questions correctly. In other words, they do not appear to understand the workings of compound interest, credit card repayment, and the time value of money. Further, almost 40% of the social work students surveyed answered only one question correctly, while 27% answered two questions correctly. Only one respondent answered all three questions correctly. The low percentage of respondents who answered the debt literacy questions correctly indicates low levels of debt literacy among the social work students surveyed in this study. Low levels of debt literacy may put individuals at greater risk for paying higher fees and more expensive credit options (Lusardi & Tufano, 2009). For social workers, this may mean not only paying higher fees on educational loans and credit cards for themselves, but also possibly not being able to address the debt concerns of clients effectively.

Consistent with research that found that lower income individuals have lower financial literacy (Chang & Lyons, 2007; Zhan et al., 2006), this study also finds that a significantly higher proportion of respondents from lower-income households were classified as having lower debt literacy compared to those from higher-income households. A similar trend is observed between net worth and debt literacy, with a higher proportion of individuals from lower net worth households classified as having lower debt literacy. However, this association is not statistically significant, possibly due to the small sample size. The data further suggests that debt literacy increases as self-assessed level of financial knowledge increases. Notwithstanding, even among those who rated themselves as having a high level of financial knowledge, only 35% were able to answer two or more of the debt literacy questions correctly. In other words, a majority of the respondents may believe they know more about finances and debt than they do in reality. This belief may lead respondents to carry higher amounts of debt and prevent them from saving for emergencies or the future. Respondents who reported having too much debt were also more likely to have lower debt literacy levels as well.

In addition, social work students and social workers will likely encounter clients who have concerns about debt. As a potential first point of contact for clients in financial crisis, social workers are in an ideal position to directly link clients to financial resources and advise them on issues concerning debt. If social workers are able to provide financial knowledge and resources as direct interventions for families in financial crisis, it may positively impact all members of the family and help break the cycle of intergenerational poverty. However, if social workers do not have an adequate level of financial and debt literacy, they may not be able to effectively assist clients experiencing a financial crisis. Therefore, a need exists for social workers to understand the basic principles of personal finance and debt in order to assist clients more successfully.

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The research indicates that social work students believe financial literacy is an important topic to consider when working with clients (Kindle, 2009) and that there is an interest among social workers in personal finance and in assisting clients with their financial issues (Despard & Chowa, 2012). However, the results of this study indicate that respondents may not have the debt literacy levels needed to work effectively with clients. This low level of debt literacy seen among respondents may be due to the students not being exposed to financial and debt literacy content in their college and social work education. This is likely the case, as most Bachelor of Social Work (BSW) and MSW programs do not include financial or debt literacy in their curriculum. Thus, a need exists for social work programs to consider how they can create social work curriculum content to increase students' financial and debt literacy and their ability to work with clients in this area. This is especially important since the results of this study further indicate that practitioners will likely have few opportunities to develop and enhance their financial and debt literacy after they enter the field, as evidenced by social service practitioners in the asset-building field having statistically similar levels of debt literacy compared to social work students. Recently, a few schools of social work have begun to take steps to increase the financial literacy of social work students and to equip their students with the skills and knowledge needed to work on the financial lives of their clients. However, more can be done.

Guidelines outlining the extent to which social workers delve into the financial lives of their clients and provide debt counseling and budgeting, for example, will need to be developed. If equipped with financial and debt literacy education, social workers will be able to work with clients on basic personal finance-related issues, such as creating a balanced personal budget. Or it may be that the most appropriate role for social workers in addressing the financial concerns of their clients is to assess the level of need and refer the client to appropriate debt management resources, such as personal financial education and/or a debt management consultant. At a minimum, social workers should be able to recognize when financial issues are negatively impacting the lives of their clients and take action to assist clients resolve those financial issues.

Future endeavors may investigate additional ways to integrate financial management into existing social work curriculum to provide social work students easier access to financial education. For example, social work programs may be able to offer a financial education class as an elective (Sherraden et al., 2007). Social work programs could also integrate personal finance and debt literacy-related topics into existing mental health, child welfare, gerontology, medical, and criminal justice social work courses. Another option may be to provide social work students with field placement opportunities that directly expose them to the financial lives of clients. For example, social service programs that focus on asset-building services, such as Individual Development Accounts (IDAs), homeownership, or small business development, may provide social work students opportunities to learn about helping clients work on their the long-term financial goals. Alternatively, social work programs may expose social work students to financial and debt literacy through guest lectures and/or workshops on topics such as predatory lending

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prevention, the Volunteer Income Tax Assistance (VITA) program (a free tax preparation program for low-to-moderate income populations), and low-cost banking options.

LIMITATIONS

Several limitations exist in this study. First, due to the non-random sampling method used for this study and a small sample, generalizing findings to all social work students may not be appropriate. Demographic differences between social work students may vary greatly across regions and may lead to results that are inconsistent with the findings of this study. Further, it is unknown whether respondents have student loans or have started repaying their loans at the time of the study. Specific information about respondents' consumer debt (credit cards, automobile loans, home loans, etc.) or other types of debt (predatory financial product and service usage, borrowing money from family/friends, etc.) is also unavailable. The authors acknowledge that specific information about respondents' type of debt and their debt repayment experience is important to consider when assessing debt literacy level and future studies may examine this relationship more closely.

Additionally, asset-building practitioners in the comparison group may or may not have had formal social work training. However, these asset-building practitioners likely perform duties similar to that of a social worker in similar work settings and with similar client socio-economic profiles. Thus, while it is appropriate to compare the social work students against asset-building practitioners, direct comparison between social work students and social workers in practice may be warranted for future studies.

Thirdly, while this paper focuses on the negative impacts of debt for low-income populations, the authors acknowledge not all debt may lead to negative outcomes and that middle-income households may similarly struggle with debt burdens and low debt literacy levels. Research indicates some forms of debt, such as a low-interest mortgage or student loan, may increase net worth and generate positive long-term outcomes (Peñaloza & Barnhart, 2011). Borrowing to pay for college at a low interest rate may increase employee value and potentially raise future income (Peñaloza & Barnhart, 2011). Additionally, using credit cards, but paying the balance in full may increase overall credit score, allowing future access to credit for purchasing a home, car, or higher education (Peñaloza & Barnhart, 2011). Future research should explore the impact of different forms of debt on long-term outcomes and differences between low-income and middle-income populations in terms of debt and debt literacy levels.

Lastly, the debt literacy levels of respondents are measured using only a three-item instrument. The instrument used in this study has not been tested for validity or reliability. However, no standardized instrument measuring debt literacy currently exists. The instrument appears to have face validity, as it measures respondents' knowledge of the key concepts related to debt, or respondents' understanding of compound interest and the ability to identify lower cost lending options, as well as familiarity of the most common form of consumer debt and its repayment. While the instrument has face validity, it may

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not have content validity, as there may be other dimensions of debt literacy that have not been measured. Future research may explore testing a more comprehensive scale to measure debt literacy.

CONCLUSION

For the first time, information on the debt literacy levels of graduating MSW students is available. Debt-related issues may be of interest to social workers for several reasons. First, social workers may carry large amounts of educational and credit card debt themselves. Even more importantly, the populations that social workers serve are often from lower-income backgrounds, are likely to have debt-related concerns, and be more vulnerable to experiencing high-cost debt. Social workers are thus uniquely placed to assist these individuals with their financial issues and to help them develop healthy financial behaviors.

The results of this study reveal social work students scored low on all debt literacy measures, but were statistically similar to asset-building practitioners and to the general population. In order for social workers to effectively help their clients overcome financial and debt issues, social workers themselves need to be more debt literate. A higher level of debt literacy may equip social workers with a greater knowledge of the workings of debt, enabling them to better assist clients with debt issues. While most social work programs do not currently offer courses to increase the financial literacy of their students, there is a growing movement within the profession and among social work educators calling for the inclusion of financial and debt literacy content in the social work curricula. The findings that social work students have low levels of debt literacy and that social work graduates will likely not obtain financial and debt literacy once they become practitioners adds urgency and further strengthens the impetus to train financially competent and capable social workers while they are in the social work program.

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Appendix

Debt Literacy Questions

1. Suppose you owe $1,000 on your credit card and the interest rate you are charged is 20% per year compounded annually. If you didn't pay anything off, at this interest rate, how many years would it take for the amount you owe to double?

- □ 2 years
- □ Less than 5 years*
- □ 5 to 10 years
- □ More than 10 years
- □ Do not know
- □ Prefer not to answer

2. You owe $3,000 on your credit card. You pay a minimum payment of $30 each month. At an Annual Percentage Rate of 12% (or 1% per month), how many years would it take to eliminate your credit card debt if you made no additional new charges?

- □ Less than 5 years
- □ 5 to 10 years
- □ 10 to 15 years
- □ Never, you will continue to be in debt*
- □ Do not know
- □ Prefer not to answer

3. You purchase an appliance which costs $1,000. To pay for this appliance, you are given the following 2 options: a) pay 12 monthly installments of $100 each; b) borrow at a 20% annual interest rate and pay back $1,200 a year from now. Which is the more advantageous offer?

- □ Option (a)
- □ Option (b)*
- □ They are the same
- □ Do not know
- □ Prefer not to answer

* indicates the correct answer

Source: Lusardi, A., & Tufano, P. (2009). *Debt literacy, financial experiences, and overindebtedness* (NBER Working Paper No. 14808). Cambridge, MA: National Bureau of Economic Research.

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