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Selected Socioeconomic Factors and their Impacts on Financial Education in Rural Communities

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Abstract
The study examined the impact of selected socioeconomic factors on financial education. Using a questionnaire, data were obtained from a convenience sample of 204 participants from several Alabama Black Belt Counties, and analyzed using descriptive statistics and logit analysis. The results showed that a majority had not taken financial education classes; therefore, many were willing to take the classes. In line with the preceding finding, therefore, only a few (nearly 21%) got at least, 25% of financial term literacy questions correct. In addition, two socioeconomic factors, number of persons in household and educational level, had a statistically significant effect on whether or not participants had taken prior financial education classes. Educational level, however, had a greater effect than number of persons in household (p = 0.000 versus p = 0.018). Consequently, it was recommended that policies and programs that encourage financial education in particular and higher education in general be put in place for residents in the study area. This is likely to significantly improve financial knowledge or literacy, ultimately leading to better personal finance decision making. Key resources to use in this effort are the community-based organizations, research institutions, and government agencies.
Keywords: Financial education, Socioeconomic factors, Black Belt, Rural communities

1. Introduction

Over the past decade, the issue of financial education has become an important priority on the agendas of educators, community groups, government agencies, private organizations, and policy makers. This increased interest in financial education has primarily been based on the argument that well informed, financially educated consumers are better able to make sound financial decisions for their families, and increase their economic security and well-being. Financially secure families are also better able to contribute to vital, thriving communities thus fostering community economic development (Braunstein & Welch, 2002; Hilgert, Hogarth & Beverly, 2003; Hogarth, Beverly, & Hilgert, 2003). However, high levels of consumer debt, low personal saving rates, and increases in personal bankruptcy rates have generated concern that consumers are inadequately prepared for today's financial marketplace (Lyons, Chang & Scherpf, 2005).

A number of studies have also shown that the scope and diversity of the family's financial decisions has become more complex and the lack of sufficient information needed to make good financial decisions is a problem for many. The burden is particularly overwhelming for low-income and minority populations who easily fall prey to predatory lending practices and financial scams. Therefore, financial education is very important as it provides individuals with the knowledge and tools to make sound financial decisions and create financial stability over time, and even more critical for low-income households, to ensure long-term financial security (Parrish & Servon, 2006; Bell & Lerman, 2005; Lyons, Chang & Scherpf, 2005; Lusardi & Mitchell; 2009).

Financial education is defined as the process of building knowledge, skills and attitudes to become financially literate. It introduces people to good money management practices with respect to earning, spending, saving, borrowing, and investing. Financial education builds skills to use financial products and services, and promotes attitudes and behaviors that support more effective use of scarce financial resources (Cohen & Nelson, 2011). Research continues to show growing evidence of widespread financial illiteracy across the Nation and a corresponding relationship between financial literacy and savings behavior. Lusardi & Mitchell (2006) found that only half of Americans near retirement age can correctly answer basic questions about compound interest and inflation and even fewer can answer basic questions on risk diversification.

Similarly, Jacob, Hudson & Bush (2000) stated that many people are not aware of the importance of financial literacy, and that it is crucial that individuals take responsibility for their financial planning activities with respect to 401(k) plans (a type of retirement accounts), Individual Retirement Accounts (IRAs), and other savings instruments. They added that many more are not are not familiar with basic financial terms such as compound interest, inflation, and risk diversification and thus they have challenges making sound financial decisions. Also, Cole & Fernando (2008) emphasized that many households are financially illiterate and often receive little

assistance when making financial decisions. Generally, households that have low levels of financial literacy are those that tend not to engage in financial planning, borrow at high interest rates, and have fewer assets.
One way to become financially literate is to take financial education classes, and taking financial education classes is likely affected by socioeconomic factors. Insofar as we are aware, no studies have been conducted on the effect of socioeconomic factors on financial education using regression analysis in the Alabama Black Belt, a rural region with many low- to moderate-income residents and with abysmal socioeconomic characteristics. It would be expedient, therefore, to ascertain the relationship between household and/or individual characteristics and financial education; a study of this nature will add to the financial education literature. Taking into consideration the foregoing, the purpose of the study was to analyze the impact of selected socioeconomic factors on financial education. Specific objectives were to (1) identify and describe socioeconomic factors, (2) develop a model for financial education, and (3) estimate the extent to which socioeconomic factors influence financial education.

2. Literature Review

A study by Fonseca, Mullen, Zamarro & Zissimopoulos (2010) used data from the RAND American Life Survey to examine potential explanations for gender gap in financial literacy. They focused on the role of marriage and division of financial decision-making among couples and how it correlates with levels of financial literacy and educational level of each partner. They found that that there was a financial literacy gap between males and females with females being more financially illiterate; however, improvement in education, income, and marital status reduced the gap by almost 25%. They also found that financial decision-making within couples was sensitive to the relative educational level of spouses for both males and females.
Similarly, Mottola (2012) found that females were more likely to engage in costly credit card behaviors than males. Using data from the U.S. Census Bureau's 2008 American Community Survey, females were found to be five percentage points more likely to carry a balance, four points more likely to pay the minimum payment on their credit cards, and six points more likely to be charged a late fee. After accounting for the effects of important demographic characteristics like age, income, and education, 32% of females with low levels of financial literacy were found likely to engage in problematic credit card
behaviors, compared to 29% of males with low financial literacy. However, there were no differences in behavior between males and females with high financial literacy.
In another study, Chen &Volpe (2002) assessed gender differences in personal financial literacy among college students and reported that on average females were less financially literate than males even after controlling the impact of other factors. For both males and females, however, they found that major field of study had a significant effect on financial literacy; that business majors were likely to know more about personal finance than non-business majors. They also reported that there were differences in opinions between gender with more males ranking themselves more financially literate than females, and more males ranking personal finance as an important subject than females.
Also, Hogarth, Beverly, & Hilgert (2003) used data from the survey of consumers to explore patterns of financial behaviors, and the characteristics of households exhibiting these patterns. They focused on cash flow management, saving, and investment as the primary financial behavior indices. Their comparisons within each financial behavior index showed that those with the highest scores were mostly married, White, had the highest average years of education, and had the highest mean and median household incomes. In addition, the investment index showed the largest differences among the indices compared. For instance, only 15% of those with a low investment score had a college degree compared with 65% of those with a high investment score had a college degree. Also, those with a low investment score were on average younger than those with a high investment score.
Lusardi & Mitchell (2009) analyzed the relationship between financial literacy and retirement planning. They reported that better educated respondents were more knowledgeable about retirement planning than their less educated respondents. Those who had at least some college education had more accurate knowledge on compound interest, inflation, risk diversification, and the stock market. Females exhibited much lower levels of financial literacy than males as related to stock markets, inflation, risk diversification and basic asset pricing. Respondents aged 50 and above were consistently better informed, although the age differences were not statistically significant.
In a related study, Agnew & Szykman (2005) evaluated asset allocation and information overload among participants in investment instruments. It was found that participants lacked basic financial knowledge. Many knew little about mutual funds, and they could not explain the simple differences between stocks, bonds, and money market mutual funds. Young participants knew less than older participants; married individuals did better than their single counterparts. The authors concluded that individuals with below average financial knowledge were overwhelmed by the amount of financial information needed to make investment decisions.

Similarly, Americans for Consumer Education and Competition (2001) explained that there is a poor understanding of income, money management, spending and credit, savings, and investment among Americans. For instance, high school seniors were deficient in their knowledge of personal finance, and were able to answer only 35% (or five questions) of 13 questions on personal finance correctly.

Furthermore, ANZ (2011) examined the associations of financial literacy with demographic and other characteristics using the 2011 adult financial literacy survey. It focused on five behavior indicators namely, keeping track of finances, planning ahead, choosing financial products, staying informed, and financial control. The results revealed strong positive associations between age and most of the behavioral indicators from the 25-34 age group up, with no association for the 18-24 age group. Household income also showed a relatively strong positive association with financial control such as having savings and investments. Additionally, education had a strong positive association with choosing financial products and staying informed.

Moreover, Lusardi (2005) assessed the effect of financial education programs on saving and investment behaviors of African-American and Hispanic households. He found that financial education had some effect on savings, particularly for those at the bottom of the wealth distribution, and those with low education. However, only African Americans were affected by financial education while the behavior of Hispanics were largely unaffected by the financial education programs.

Also, Garman, Kim, Kratzer, Brunson & Joo (1999) analyzed workplace financial education as related to financial wellness. They found that older workers, married workers, workers closer to retirement were more likely to attend workshops. Seventy-five percent of the workshop participants made better financial decisions and were also more confident in making investment decisions, and 56% indicated their financial situations had improved because of the financial education workshops.

From the literature review, it appears that gender, race, age education, household income, and marital status influence financial literacy. In other words, on average, males are more financially literate than females; Whites are more financially literate than Blacks; older persons are more financially literate than younger; more educated persons are more financially literate than less educated persons; higher income households are more financially literate than lower income households; and married persons are more financially literate than non-married persons. However, financial literacy in itself does not indicate whether or not one had taken financial education classes before. One could be financially literate through experience or by being self-taught, rather than attending some formal classes. Thus, it is not unequivocal that these socioeconomic factors impinge on financial education the same way they impinge on financial literacy. Consequently, this study seeks to examine the impact of socioeconomic factors on whether or not participants had taken prior financial education classes.

3. Methodology

3.1 Data Collection

A questionnaire was developed, and used to collect the data for the study. It had sections on financial education issues and demographic information. The questionnaire was then submitted to the Human Subjects Committee of the Institution for approval before being administered. Furthermore, to ensure clarity of the questions, the questionnaire was pilot tested on ten individuals. As a result of the pilot test, it was modified before being administered. The pilot tested questionnaires were not included in the results of the study.

The questionnaire was administered to low- and moderate-income individuals using convenience sampling, a sampling technique used when there is a lack of sampling frame. Convenience sampling has a limitation though; and that is, it can lead to under-representation or over-representation of particular groups. Nonetheless, it is still used in research because of its ability to yield quick and useful information that would not be possible using other techniques. Convenience sampling was used in this study, because of the lack of a known sampling frame from which subjects could be drawn. In the fall of 2011 and winter of 2012, data were collected using in-person interviews at several program activity sites in several Alabama Black Belt Counties, U.S. The area of the study, the Black Belt, is a place of residence for many rural low-income families; has abysmal socioeconomic characteristics relative to the state and nation, and with higher than average proportion of Blacks. Extension agents in the various counties assisted with collecting the data, which came from a sample of 204 respondents. Extension agents were asked to assist with the data collection because they have close ties to the various counties; they live and work there. All of the 204 questionnaires obtained were useable, and considered adequate for the study.

3.2 Data Analysis

The data were analyzed by using descriptive statistics and logit regression analysis. The regression model used is stated as follows:

$Y_i = \ln(P_i/1\text{-}P_i) = \beta_0 + \beta i X_{ij} + \varepsilon$

Where

$Y_i = \ln(P_i/1-P_i)$ = the natural log (or log odds) of the probability of the ith observation for the dependent variable belonging to a particular group to the probability of the observation not belonging to that particular group

β_0 = constant

βi = regression coefficients

i = number of observations

j = number of independent variables

ε = the error term

The empirical model is stated as follows:

$FED = \ln(P_{FED}/1-P_{FED}) = \beta_0 + \beta NPH + \beta GEN + \beta RAC + \beta AGE + \beta EDU + \beta HHI + \beta MAS + \varepsilon$

Where:

$FED = \ln(P_{FED}/1-P_{FED})$ = the natural log (or log odds) of the probability that a respondent had taken prior financial education classes to the probability a respondent had not taken prior financial education classes. A value of 1 was assigned to respondents who indicated they had taken prior financial education classes, and a value of 0 was assigned to those who had not taken prior financial education classes.

NPH = 0 if the respondent indicated one person in the household, 1 if the respondent indicated two persons in the household, 2 if the respondent indicated three persons in the household, and 3 if the respondent indicated four or more persons in the household

GEN = 0 if respondent was male, and 1 if respondent was female

RAC = 0 if respondent was Black, and 1 if respondent was White

AGE = 0 if respondent was 35 years or less, 1 if respondent was 36-50 years, and 2 if respondent was over 50 years

EDU = 0 if respondent had high school education or less, and 1 if respondent had some college education or college degree

HHI = 0 if respondent indicated they earned $10,000 or less; 1 if respondent indicated they earned $10,001-20,000; 2 if respondent indicated they earned $20,001-30,000; 3 if respondent indicated they earned $30,001-40,000; 4 if respondent indicated they earned $40,001-45,000; 5 if respondent indicated they earned more than $45,000

MAS = 0 if respondent was not married, and 1 if respondent was married

In short, the estimated model hypothesizes that the natural log of the probability that a respondent had taken prior financial education (FED) classes to the probability that the respondent had not taken prior financial education classes is influenced by a vector of socioeconomic variables, namely, the number of persons in household (NPH), gender (GEN), race (RAC), age (AGE), education (EDU), annual household income (HHI), and marital status (MAS). Financial education classes as defined here include having taken classes in the following areas: understanding budgeting, understanding investments, understanding retirements, and understanding credit and credit management. Apart from education, it was assumed that the expected signs of the independent variables are not known a priori. Regarding education, it is expected that the relationship between having taken financial education classes and education is positive. The reason is that as one gets more education the likelihood that one will be exposed to financial education increases. Table 1 shows the independent variables and their expected signs. The model was tested for multicollinearity, but none was detected. Next, a binary logistic regression analysis was run. The criteria used to assess the model were the model chi-square, Nagelkerke R^2, beta coefficients, *p* values, and odds ratios.

4. Results and Discussion

Table 2 shows the socioeconomic characteristics of the respondents. About 78% of the respondents reported they had 1-3 persons in their households, and the average number of persons in the household was two (not shown in Table). Regarding gender, 74% of the participants were females; 87% were African Americans, and 77% were between 21 and 50 years. About 61% had high school education or below; 33% earned $20,000 or less and almost 50% earned over $20,000 to $40,000. The participants comprised 29% married persons and the rest were singles. The socioeconomic characteristics reflect a low number of persons in households, higher proportion of African Americans, relatively younger participant group, with relatively lower educational level, with relatively lower annual household income level, and a higher proportion of single, never married persons.

Table 3 depicts respondents' knowledge and perceptions on financial education classes. Twenty-seven percent of the respondents indicated that they had taken financial education classes, and about 71% indicated that they had not taken financial education classes. Of those who had taken financial education classes, 71% stated "understanding budgeting" as a topic covered in their financial education classes; about 45% mentioned "understanding investments" as a topic covered in their financial education classes; 36% stated "understanding retirement" as a topic covered in their financial education classes, and about 62% mentioned "understanding credit and credit management" as a topic covered in their financial education classes. The reason for a majority

not having taken financial education classes may be attributed to individuals not knowing the importance of financial education or not having the opportunity to take the classes. Of respondents who had not taken financial education classes, 78% were willing to do so. The topics in which participants expressed interest were identical to the ones alluded to above: "budgeting" (56%); "credit and credit management" (45%); "investing" (46%); and "retirement" (56%). It is encouraging to know that more than three-quarters of the participants were willing to take financial education classes to improve their financial literacy. This is in alignment with Garman et al. (1999) who reported that individuals who attended financial education workshops improved their financial literacy as well as their financial situations.

Table 4 reflects participants' knowledge of financial terms, namely, credit, compounding, inflation, stock, bond, mutual fund, 401(k) or 403(b) [both types of retirement accounts], interest, dividends, certificate of deposit , and risk diversification; a total of twelve questions. Only about 8% each answered 3 and 6 questions correctly; 3% answered 9 questions correctly, and less than 1% answered all 12 questions correctly. The rest of the respondents were either outside the cut-off points or could not answer any questions correctly. The low percentage of respondents that answered the financial term questions correctly supports the need for financial education among such populations. The results are identical with Americans for Consumer Education and Competition (2001) which reported that many respondents answered only five questions of 13 questions on personal finance correctly. They are also identical with Lusardi & Mitchell (2009) and Agnew & Szykman (2005) who found that respondents with low levels of education, younger, and singles did not know the basics of compounding, risk diversification, mutual funds, stocks, and bonds.

Table 5 reflects estimates of socioeconomic factors affecting whether or not respondent had taken prior financial education classes. The model chi-square tests the overall significance of the model, and this was highly significant (p = 0.000). This means that at least one or all the socioeconomic variables jointly explain the dependent variable (whether or not respondent had taken prior financial education classes). The Nagelkerke R^2 was 0.188. This means the socioeconomic variables explain about 20% of the variation in whether or not a respondent had taken financial education classes before. At a first glance this will appear low; however, it is acceptable as binary logistic models estimated with cross-sectional data do not normally have high R^2 values (Pindyck & Rubinfeld, 1997). The coefficient of the number of persons in household (NPH) was significant (p = 0.018), and the coefficient of education (EDU) was highly significant (p = 0.000). This suggests that number of persons in household and education contribute immensely to whether or not respondent had taken financial education classes before. Moreover, it suggests that as the number of persons in a household increases, the less likely it is for the respondent to have taken financial education classes, and also, more educated respondents are more likely to have taken financial education classes.

However, gender (GEN), race (RAC), age (AGE), annual household income (HHI), and marital status (MAS) were all statistically insignificant. Though not statistically significant, generally, they appear to follow the expected signs for what pertains in the literature for financial literacy. In this case also, females appear to be less likely to have taken prior financial education classes (negative relationship). Whites appear to be more likely to have taken prior financial education classes (positive relationship). Higher income respondents appear to be more likely to have taken prior financial education classes (positive relationship). Married persons appear to be more likely to have taken prior financial education classes (positive relationship). The only exception is age, where it appears that older persons are less likely to have taken prior financial education classes (negative relationship).

The odds ratio for the number of persons in the household of 0.675, for example, means that if the number increases by one, then a respondent is less than unity (i.e., one) times likely to have taken prior financial education classes . In other words, a respondent in a larger household is less than unity times to have taken prior financial education classes than a respondent from a smaller household This may be attributed to the fact that those with more people in their households do not have or make the time to take such classes; maybe, it is just better to have smaller households. Similarly, for education, the value of 4.510 means that if education is increased by one year, then the respondent is nearly 5 times more likely to have taken prior financial education classes. In other words, highly educated respondents are 5 times more likely to have taken prior financial education classes than those less educated. The reason for this may be attributed the benefits of education; that is, highly educated people are generally knowledgeable about issues, especially in this case financial issues, as the literature (e.g., Fonseca, Mullen, Zamarro & Zissimopoulos, 2010; Mottola, 2012; Hogarth, Beverly, & Hilgert, 2003; Lusardi & Michell, 2009) also bears out.

5. Conclusion

The study analyzed the impact of socioeconomic factors on financial education. Specifically, it identified and described socioeconomic factors, developed a model for financial education, and estimated the extent to which

socioeconomic factors influenced financial education. The results revealed a relatively low number of persons in households, more females, relatively younger participant group, with relatively lower educational level, with relatively lower annual household income level, and a higher proportion of single persons. The results also revealed that a majority of respondents had not taken prior financial education classes; yet, many were willing to take the classes. Not surprisingly, therefore, only a few got financial term literacy questions correct. The logit analysis showed that socioeconomic factors, specifically number of persons in household and education, impacted whether or not respondents had taken prior financial education classes.

Based on the above, there is a need for policy makers and assistance providers or practitioners to put in place financial education programs in the study area as this will enhance residents' financial knowledge or literacy. Also, since education has a very large influence on financial education, it is suggested that policy makers and assistance providers or practitioners adopt and implement policies that encourage financial education classes to be taught in secondary and tertiary institutions in the study area as this will result in better financial literacy and financial decisions in adulthood. Put it another way, financial education classes should be implemented in the community at large and in the schools in particular. Key resources to use in this endeavor are the community-based organizations, research institutions, and government agencies.

What this study has contributed is an insight into how socioeconomic factors affect financial education, especially in a rural area such as the Alabama Black Belt. Its key contribution is the indication that education strongly influences or affects financial education. Future studies may include replicating the study, adding more socioeconomic factors, using a larger sample size, and/or covering a wider area. Such studies will add to or strengthen the knowledge base on financial education.

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Table1. Independent variables and their expected signs

Variable	Expected Sign
Number of Persons in Household (NPH)	+/-
Gender (GEN)	+/-
Race (RAC)	+/-
Age (AGE)	+/-
Education (EDU)	+
Annual Household Income (HHI)	+/-
Marital Status (MAS)	+/-

Table 2. Responses regarding selected socioeconomic characteristics of respondents

Variable	Frequency	Percent
Number of Persons in Household		
1-3	159	77.9
4-6	44	21.6
7-9	1	0.5
Gender		
Male	53	26.0
Female	151	74.0
Race	178	87.3
Black	26	12.7
White		
Age		
20 years or less	7	3.4
21-35 years	87	42.6
36-50 years	70	34.3
51-65 years	32	15.7
Over 65 years	8	3.9
Educational Level		
Some Grade School	4	2.0
High School	17	8.3
Some College	104	51.0
Associate degree	37	18.1
Bachelor's Degree	34	16.7
No Response	8	3.9
Annual Household Income		
$10,000 or less	21	10.3
$10,001-20,000	46	22.5
$20,001-30,000	79	38.7
$30,001-40,000	23	11.3
$40,001-45,000	21	10.3
Over 45,000	14	6.9
Marital Status		
Married	60	29.4
Single Never Married	108	52.9
Separated	11	5.4
Divorced	17	8.3
Widowed	8	3.9

Table 3. Respondents' knowledge and perceptions on financial education classes

Variable	Frequency	Percent
Financial Education Classes		
Yes	55	27.0
No	145	71.1
No Response	4	2.0
Topics Covered (multiple answers)		
Understanding Budgeting	39	70.9
Understanding Investments	25	45.4
Understanding Retirements	20	36.4
Understanding Credit and Credit Management	34	61.8
Willingness to take Financial Education Classes		
Yes	113	77.9
No	32	22.1
Topics to be Covered (multiple answers)		
Budgeting	63	55.8
Credit and Credit Management	51	45.1
Investing	52	46.0
Retirement	63	55.8
No Response	1	0.5

Table 4. Participants' knowledge of financial terms

Variable	Frequency	Percent
Answers to Financial Terms		
Getting at least 3 or 25% of questions correct	17	8.3
Getting at least 6 or 50% of questions correct	17	8.3
Getting at least 9 or 75% of questions correct	7	3.4
Getting at least 12 or 100% of questions correct	1	0.5

Table 5. Estimates of Socioeconomic factors affecting whether or not respondent had taken prior financial education classes

Variable	β	*P* Value	Odds Ratio
NPH	-0.393	0.018	0.675
GEN	-0.491	0.214	0.612
RAC	0.296	0.555	1.345
AGE	-0.053	0.824	0.948
EDU	1.506	0.000	4.510
HHI	0.043	0.763	1.044
MAS	0.188	0.643	1.207
Constant	-1.073	0.023	0.342
Chi-square ($P = 0.000$)		28.212	
Nagelkerke R^2		0.188	