So Many Courses, So Little Progress: Why Financial Education Doesn't Work — And What Does

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Executive Summary

Financial stress among employees is reaching epidemic proportions: 75% live paycheck to paycheck, personal savings rates are at their lowest since 2007, and non-mortgage debt levels are higher now than during the Great Recession. It's no wonder so many people feel unable to pay off their consumer debt or save adequately for retirement, which only makes the situation worse.

Because stressed employees bring these financial distractions to the workplace, it seems like a good idea for employers to provide some type of education, perhaps a seminar or lunch and learn, so that employees can become better informed about how to manage their personal finances. But for a variety of reasons, this kind of one-size-fits-all financial education has been demonstrated to have little to no effect on changing real-world financial behaviors.

A meta-analysis of more than 200 studies found that educational interventions explained only .1% of the financial behaviors studied. According to recent research, other types of interventions are showing much more promise to effect change. This paper provides an overview of the research regarding the lack of effectiveness of financial education, the reasons why it so often fails, and what does work to improve financial behaviors and outcomes for employees.

Introduction

Businesses are realizing the extent of the financial stress crisis affecting both their employees and their balance sheets. Almost every month, a new study or report is published detailing the growing percentages of American workers living paycheck to paycheck or who have saved too little for retirement. According to the Federal Reserve Bank of New York, the total household debt in the first half of 2017 has already reached $12.8 trillion dollars, more than the $12.7 trillion peak seen during the 2008 mortgage meltdown.[1] And unlike the financial crisis in 2008, this new high is being driven by non-housing related debt, primarily credit card, student loan, and auto loan debt. Executives are waking up to the fact that financially stressed employees bring these concerns and issues to the workplace, resulting in lost productivity from presenteeism, absenteeism, exacerbated health issues and higher employee turnover numbers, and are taking action to reduce these undesirable outcomes.[2]

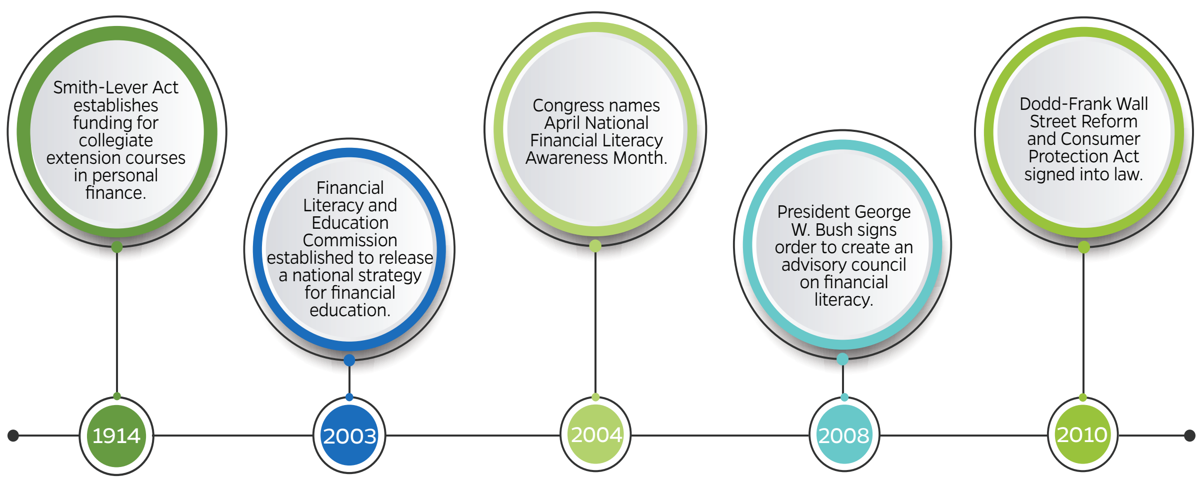
Increasing financial literacy through employee education seems like an obvious solution. If only people really understood how compound interest works, or had more information about how to make good financial decisions, then surely they could avoid getting a low credit score, paying high interest rates on consumer loans, or even borrowing against their 401(k). Like many obvious solutions, however, upon closer inspection it’s clear that financial education alone hasn’t worked--and perhaps it never can. The way our brains are wired to process information typically works against us when it comes to making sound financial decisions, and changing behavior takes more than a single class.

[1] Center for Microeconomic Data. Household debt and credit report (Q2 2017). Federal Reserve Bank of New York. Retrieved from: https://www.newyorkfed.org/medialibrary/interactives/householdcredit/data/pdf/HHDC_2017Q2.pdf.
[2] Menard, M. B. (2017). Improving employees’ financial wellness: Why it matters and what employers can do about it. Questis, Inc. June. Retrieved from https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3011461.

A Brief History Of Financial Education

The concept of financial literacy and its importance as a life skill has been around for a long time. Early American president John Adams wrote, "All the perplexities, confusion, and distress in America arise not from defects in their Constitution or Confederation, nor from want or honor or virtue, so much as the downright ignorance of the nature of coin, credit, and circulation."[3] In 1849, Victorian bank manager James Gilbart promoted financial education as a way to help potential customers of his London & County Bank feel comfortable by knowing what to expect when opening an account.[4] In the US, the Smith-Lever Act of 1914 established the funding that land grant colleges still use to teach cooperative extension courses in personal finance.

Congress, along with nonprofit community organizations, continued to support these educational efforts over the decades and in 2003 established the Financial Literacy and Education Commission, which subsequently released a national strategy for financial education. Thanks to Congress, since 2004 Americans have celebrated April as National Financial Literacy Awareness Month. And President George W. Bush signed an order in January 2008 that created an advisory council on financial literacy.



[3] Page, B. (2012). The history of financial education. Retrieved from http://finedchat.blogspot.com/2012/07/the-history-of-financial-education.html.
[4] Reed, R. (2015). The surprising history of financial education. Retrieved from http://www.rbs.com/news/2015/10/the-surprising-history-of-financial-education.html.

Yet in spite of legislators' concern over Americans' lack of financial literacy, only 17 states require high school students to take a personal finance course.[5] Many authors have pointed out that such educational efforts, although admirable, can also be seen as a form of caveat emptor, placing sole responsibility for reducing financial stress on the individual rather than introducing more regulation of the financial services industry—an industry which regularly offers new and increasingly complex financial products.[6,7]

The subprime mortgage crisis from 2007 to 2010 increased pressure to protect the public from predatory financial practices, and in 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act was signed into law. This act created the Consumer Financial Protection Bureau (CFPB). The CFPB provides tools and resources directly to consumers to help them make better informed decisions, and supports research on effective methods of financial education.

But *Is* Financial Education Effective?

It certainly doesn't look that way once we analyze the body of research to date. Multiple academic studies have shown that claims of a cause and effect relationship between financial education and improved financial behaviors have very little evidence to support them.[8,9,10] When examined more recently by a team of researchers conducting a meta-analysis of 90 previous studies, the correlations between financial education and improved financial behaviors were better explained by other individual difference factors that were not measured in the prior studies, such as familiarity with numerical concepts, financial confidence, and willingness to take risks.[11]

[5] Schwartz, S. (2016). US schools get failing grade for financial literacy education. Retrieved from http://www.cnbc.com/2016/01/28/us-schools-get-failing-grade-for-financial-literacy-education.html.
[6] Willis, L. E. (2008). Against financial-literacy education. Iowa L. Rev., 94, 197. Retrieved fromhttp://scholarship.law.upenn.edu/cgi/viewcontent.cgi?article=1198&context=faculty_scholarship.
[7] Olen, H. (2012). Pound foolish: Exposing the dark side of the personal finance industry. Penguin.
[8] Willis, L. E. (2009). Evidence and ideology in assessing the effectiveness of financial literacy education. San Diego L. Rev., 46, 415. Retrieved from http://scholarship.law.upenn.edu/cgi/viewcontent.cgi?article=1196&context=faculty_scholarship.
[9] Lusardi, A., & Mitchelli, O. S. (2007). Financial literacy and retirement preparedness: Evidence and implications for financial education. Business Economics, 42(1), 35-44.
[10] Poon, M., & Olen, H. (2015). Does literacy improve finance?. Public Understanding of Science, 24(3), 272-284.
[11] Fernandes, D., Lynch Jr, J., & Netemeyer, R. (2014). Financial literacy, financial education, and downstream financial behaviors. Management Science, 60(8), 1861-1883.

Why Isn't It?

The study by Fernandes and colleagues points out that previous research evaluating the effectiveness of financial education often conflates two different kinds of studies: those that measure the degree to which a person is already financially literate, and those that measure whether and to what extent an educational intervention has increased a person's financial knowledge. But neither pre-existing financial literacy nor educational interventions have been demonstrated to improve actual financial behaviors. Financial education explained only one tenth of one percent (.001) of downstream financial behaviors in the 90 studies that were aggregated, and the authors note that financial literacy is highly correlated with other individual differences or personality traits, such as self-efficacy, that can explain positive financial behaviors and outcomes. As in so many other areas of life, just because we know we should do something doesn't mean we actually follow through and do it.

One of the problems with financial education is that it can become obsolete in a relatively short span of time. New financial products are engineered and introduced more quickly than organizations offering financial education can keep up with them. The last 30 years have seen a fivefold increase in bankruptcies along with the rise of payday loans, reverse mortgages, collateralized debt, and credit card fees and interest rates. Old rules of thumb, such as saving 10% of one's salary for retirement, are no longer sufficient in a changing economic environment where pensions are rare and defined contribution plans are the new norm.

> "We don't expect people to be their own doctors or lawyers; why would we expect them to be their own financial advisors?"
>
> - Lauren Willis, Loyola Law School Professor

In fact, the creators of the 401(k), the most prevalent vehicle for retirement savings, have publicly expressed regret at the extent to which these plans now dominate, saying that they did not anticipate that it would replace pensions and that it was not designed to be the primary tool. "'The great lie is that the 401(k) was capable of replacing the old system of pensions', says former American Society of Pension Actuaries head Gerald Facciani, who helped turn back a 1986 Reagan administration push to kill the 401(k). 'It was oversold.'"[12] The average employee is now responsible for figuring out how much to save, where to invest it, and how to make it last through a longer retirement lifespan. As Loyola Law School professor Lauren Willis points out: "We don't expect people to be their own doctors or lawyers; why would we expect them to be their own financial advisors?"[13]

There's no clear link between taking personal finance classes and saving more, paying off debts or raising your credit score."

- The Consumer Financial Protection Bureau

Financial education also appears to suffer from a 'use it or lose it' problem. The Fernandes study found that within 20 months almost everyone who has taken a financial literacy class has forgotten most of what they learned.[10] And in a 2013 working paper, Shawn Cole at Harvard Business School, Anna Paulson at the Federal Reserve Bank of Chicago, and Gauri Kartini Shastry at Wellesley College discovered that high school personal finance classes didn't make any difference when it comes to how we handle our finances.[14] Instead, increased exposure to mathematics courses was associated with and explained positive financial behaviors. And according to the CFPB, "There's no clear link between taking personal finance classes and saving more, paying off debts or raising your credit score."[15]

[12] Martin, T. W. (2017). The champions of the 401(k) lament the revolution they started. Wall Street Journal, January 2. Retrieved from https://www.wsj.com/articles/the-champions-of-the-401-k-lament-the-revolution-they-started-1483382348.
[13] Willis, Lauren E., The Financial Education Fallacy (2011). American Economic Review, 101, No. 3, pp. 429-434. Retrieved from https://ssrn.com/abstract=1869323.
[14] Cole, S., Paulson, A., & Shastry, G. K. (2013). High school and financial outcomes: The impact of mandated personal finance and mathematics courses, manuscript, Harvard Business School. Retrieved from http://www.hbs.edu/faculty/Publication%20Files/13-064_c7b52fa0-1242-4420-b9b6-73d32c639826.pdf.
[15] Emanuel, G. (2106). Not all financial education is effective. Here are 4 ideas that work. NPR, April 16. Retrieved from http://www.npr.org/sections/ed/2016/04/13/473561841/not-all-financial-education-is-effective-here-are-4-ideas-that-work.

Other studies on the effectiveness of financial education have relied on participants' self-report of their financial behaviors, which is problematic because it introduces potential sources of measurement error into the results. In research, self-reported behavior is susceptible to both social desirability and recall biases. Participants in those studies may have wanted to appear to have made more responsible choices than they actually did to 'look good' to the researchers, or they simply may not have remembered accurately what they really did. So, these studies are likely to overestimate any true effect of the education intervention studied. And of course educational interventions can vary a great deal in content, length, and delivery format, which also introduces a large amount of variability and potential measurement error.

A one-time financial education effort seems unlikely to actually change habitual long term decisions and behaviors, according to well-known economist Annamaria Lusardi of The George Washington University School of Business. And education that takes a 'one-size-fits-all' approach may fail to reach groups with more specialized needs. For example, she notes that women typically score lower on measures of financial literacy.[16] Multiple studies report that in spite of wage equality efforts over the last 50 years, women still typically earn less than men for the same work, and spend more time out of the workforce performing unpaid care work.[17,18] These systemic disadvantages, together with a longer lifespan, result in a woman needing to save 18% of her income just to have the same amount of retirement savings as a man working at the same job who saves only 10%.[19] Yet, only 31% of women surveyed by Lusardi had made any attempt at planning for retirement. She concludes that "Both employers and governments have devoted efforts to seminars, educational programs, and retirement planning products in the last decade, but such efforts have had only a very mixed effect on saving patterns. One-size-fits-all programs are unlikely to successfully address saving shortfalls among many different groups. Specifically, insofar as financial illiteracy is widespread among women, it is doubtful that a one-time financial education seminar can reshape long-term planning and saving decisions."

[16] Mitchell, O. S., & Lusardi, A. (2015). Financial Literacy and Economic Outcomes: Evidence and Policy Implications. The Journal of Retirement, 3(1), 107.
[17] Mahler, D. (2017). Measuring what matters. New America Weekly, 172. July. Retrieved from https://www.newamerica.org/weekly/edition-172/measuring-what-matters/.
[18] Robbins, K. G., & Bahn, K. (2017). Radically reconceptualizing care work. New America Weekly, 172. July. Retrieved from https://www.newamerica.org/weekly/edition-172/radically-reconceptualizing-care-work/.
[19] Garnick, D. (2016). Income insights: Gender retirement gap. TIAA. October. Retrieved from: https://ssrn.com/abstract=2888911.

> The depressing truth is that financial literacy is impossible, at least for many of the big financial decisions all of us have to take. If these things are perplexing to people with PhDs in economics, financial literacy is not the right road to go down.”
>
> - Richard Thaler, Behavioral Economist

Lusardi is not the only economist to throw cold water on the idea that financial education and financial literacy can improve financial behaviors and outcomes for most people. In an interview published in The Economist, behavioral economist Richard Thaler stated: “‘The depressing truth is that financial literacy is impossible, at least for many of the big financial decisions all of us have to take.’ Aptly for someone who has built his career on the study of irrational financial behaviour, Mr. Thaler admits that even he finds it hard to know the right thing to do.

‘If these things are perplexing to people with PhDs in economics, financial literacy is not the right road to go down.’”[20] Thaler was awarded a Nobel Prize in 2017 for his work, and is the co-author of the 2008 book *Nudge: Improving Decisions about Health, Wealth, and Happiness.*[21]

When you combine these critiques of the existing research with what we’ve learned during the past 50 years about behavioral economics, the surprising inadequacy of financial education to change behavior starts to make sense. Despite its shortcomings, however, financial education seems unlikely to go away, and research continues to focus on how it can be made more effective.[22] As NPR journalist Gabrielle Emanuel points out, the failure of financial education in changing behavior doesn’t mean we should stop teaching people about managing their money. It just means we need to do it better.[15] And understanding the role of behavioral economics is a good place to start.

[20] Getting it right on the money. The Economist, April 3, 2008. Retrieved from http://www.economist.com/node/10958702.
[21] Thaler, R. H., & Sunstein, C. R. (2008). Nudge: Improving decisions about health, wealth, and happiness. Yale University Press.
[22] Consumer Financial Protection Bureau (2017). Effective financial education: Five principles and how to use them. June.

Behavioral Economics—What's That?

Early theories of individual and group economic behavior were based on the idealistic notion that people make rational financial decisions that are always in their own best interest. Behavioral economics, on the other hand, examines more broadly how cognitive, social, and emotional factors influence our decisions about money and subsequent financial behaviors. As a field of study, it began to garner interest in the 1970s, with the publication of two papers by Daniel Kahneman and Amos Tversky. These combined cognitive psychology with classic economic analysis to explain the imprudent decisions people often make when evaluating financial choices.[23,24] Since then, their ideas have entered popular culture, together with several specific ways that people often think less than rationally about money and finances, known as cognitive biases. Some common cognitive biases in financial decision making include discounting the future, overconfidence, anchoring, confirmation bias, and loss aversion.

Discounting The Future

This cognitive bias refers to the tendency we all have to give more importance to needs and wants in the present over those in the distant future. Discounting the future happens to most of us because the present is concrete and immediate, demanding our attention and resources, while the future is abstract and 'someday', making it much easier to put off until later. Discounting the future can lead to overspending and taking on too much debt, or not saving enough for retirement.

Overconfidence

Another bias is overconfidence, or being excessively optimistic and downplaying the possibility of negative events that could happen. While there are always some people who are overly pessimistic within the general population, more people lean towards overconfidence. Consider previous stock market bubbles, when people believed that their already overvalued dot.com stocks could only go up, forever. Or the person who doesn't buy insurance because they'll never have an accident.

[23] Kahneman, D. (1979). Prospect theory: An analysis of decisions under risk. Econometrica, 47, 278.
[24] Tversky, A. & Kahneman, D. (1974). Judgment under uncertainty: Heuristics and biases. Science, 185, 1124–1131.

Anchoring

Anchoring refers to our tendency to use the first number or other piece of information we encounter as our baseline for comparison. At a restaurant, we see a filet mignon on the menu and think $53 is more than we want to spend on an entree. But the $31 ribeye steak suddenly seems reasonable. Salespeople often use anchoring by showing a buyer the most expensive, top of the line item first, then the cheapest, poorest quality model, ending with a successful sale of the middle of the range option. And of course, anchoring often figures prominently in salary negotiations. Anchoring bias can lead to overpaying, and is difficult to resist.[25]

Confirmation Bias

Confirmation bias is the tendency to give more weight to new information or an opinion that confirms what we already believe to be true, and to ignore contradictory evidence. Confirmation bias makes us disregard new information that conflicts with our existing belief, and is one of the reasons why stock market bulls tend to stay bullish while bears remain bearish, which can influence irrational stock market behaviors as a whole. It also leads us to value what we already have more highly, compared to how a stranger or outsider would rate it.

Loss Aversion

Kahneman and Tversky were the first to identify and quantify the phenomena of loss aversion—our propensity to feel regret over a financial loss more acutely than pleasure at a gain of the same amount. In other words, we feel better when we avoid losing $100 than when we find a $100 windfall. Another example of loss aversion in action is when marketers use a free trial period to induce the fear of having something taken away in prospective buyers. The perception of potential loss can also be influenced by cognitive framing, that is, how the information is presented. Which would you choose: getting a $20 rebate, or avoiding a $20 fee? The amount of money is the same in either case, but most people prefer avoiding the fee to getting the rebate.

[25] Mussweiler, T., Strack, F., Pfeiffer, T. (2000). Overcoming the Inevitable Anchoring Effect: Considering the Opposite Compensates for Selective Accessibility. Personality and Social Psychology Bulletin, 26(9), 1142-1150.

Loss aversion explains why people sometimes sell a conservative stock with solid earnings out of panic when the market as a whole drops. It can lead to people not investing in the stock market at all, resulting in their retirement savings being eroded by rising inflation.

Simply being aware of cognitive biases doesn't always translate into immunity from them, as Thaler previously noted. While cognitive biases result in irrational thinking, they are rooted in our most basic emotions and instincts—which is why they are so difficult to overcome. Even financial professionals are not immune. Some observers believe that a combination of investment bankers' overconfidence and confirmation bias led directly to the subprime mortgage meltdown that precipitated the 2008 financial crisis.[26,27,28] These biases help explain why education alone is usually not enough to change behavior.

Common Cognitive Biases In Financial Decision Making

1. Discounting The Future

The tendency to give more importance to needs and wants in the present over those in the distant future.

2. Overconfidence

The act of being excessively optimistic and downplaying the possibility of negative events that could happen.

3. Anchoring

Anchoring is our tendency to use the first number or other piece of information we encounter as our baseline for comparison.

4. Confirmation Bias

The tendency to give more weight to new information or an opinion that confirms what we already believe to be true, and to ignore contradictory evidence.

5. Loss Aversion

Loss aversion is the tendency to prefer avoiding losses to acquiring equivalent gains.

[26] UBS: The crisis at the heart of the Swiss bank. (2008, July 6). The Telegraph. Retrieved from: http://www.telegraph.co.uk/finance/newsbysector/banksandfinance/2792800/UBS-The-crisis-at-the-heart-of-the-Swiss-bank.htm.
[27] Lewis, M. (2012). The big short. WW. Norton.
[28] O'Hara, C. (2014). Need to beat your bad money habits? A behavior change expert explains how. Forbes Online, June 4. Retrieved from https://www.forbes.com/sites/learnvest/2014/06/04/need-to-beat-your-bad-money-habits-a-behavior-change-expert-explains-how/3/#38cc5b001c46.

So, What Does It Take To Actually Change People's Behavior?

Several organizations have been conducting research to explore exactly this question. For example, at Duke University, psychology and behavioral economics professor Dan Ariely runs the Common Cents Lab, which is based in the Center for Advanced Hindsight. In an initial study of 1,000 low-to moderate-income Americans, researchers there found that most people want a sense of financial security yet have the feeling that financial security is an elusive goal. While the study participants were typically able to list four specific actions they could take to improve their financial situation, most had not yet done so, a textbook example of the Intention/Action Gap. First identified by social scientists, the Intention/Action Gap occurs when people have a major goal and know what to do to reach this goal, but don't take the steps they know they could to achieve it.

The Intention/Action Gap

Funded by the MetLife Foundation, the Common Cents Lab is studying specifically how to help people bridge the Intention/Action gap in the areas of saving for emergencies and for retirement, improving credit scores and reducing debt, and improving cash flow management. Their process for promoting behavior change focuses on three steps: identifying the key behavior, removing barriers, and increasing benefits. It begins by observing people engaged in the process or environment where the behavior happens. Each step of the process is documented through observation, interviews, and surveys to better understand what the person experiences and what is driving the key behavior. The next steps are to define the metric for measuring progress on the behavior, identify and remove or reduce the barrier that is causing the most friction, and then add or amplify the most likely benefit that could motivate behavior change.

In the UK, the Behavioural Insights Team (BIT) is the world's first government institution dedicated to the application of behavioral sciences. A public-private partnership, its work focuses on making public services more cost-effective and easier for citizens to use, improving outcomes by incorporating a more realistic model of human behavior into policy; and wherever possible enabling people to make better choices for themselves through the use of 'choice architecture'. This is a concept pioneered by Richard Thaler, who is one of the company's advisors. Created in 2010, the company has published a framework for applying behavioral principles.[29] It's based on the idea that if you want to encourage a behavior, make it easy, attractive, social, and timely— EAST. The framework is based on the company's own research combined with insights from the wider academic literature.

BIT takes a very empirical approach, and rigorously tests its interventions through a series of randomized controlled trials before scaling them up. One example is increasing tax revenues through changing the wording of letters sent to taxpayers from the Inland Revenue, the UK equivalent to the IRS. Simply adding a true statement that 'most people pay their tax on time' turned out to increased compliance from 33.6% to 35.1%. Adding another statement that 'most people in your area have paid their tax and you are one of the few that are yet to pay' increased compliance to 39%, bringing in millions of pounds of unpaid taxes at almost zero cost. Interestingly, it also reduced the number of taxpayer complaints.[30]

If you want to change behavior, make it EAST:

E	Easy, by removing barriers or reducing friction
A	Attractive, by offering the right incentive
S	Social, by promoting a sense of positive belonging
T	Timely, by linking it to a current situation

[29] Service, O., Hallsworth, M., Halpern, D., Algate, F., Gallagher, R., Nguyen, S., Ruda, S., & Sanders, M. (2014). EAST: Four simple ways to apply behavioural insights. The Behavioural Insights Team. April. Retrieved from http://38r8om2xjhhl25mw24492dir.wpengine.netdna-cdn.com/wp-content/uploads/2015/07/BIT-Publication-EAST_FA_WEB.pdf.
[30] OHalpern, D., & Gallagher, R. (2015). Can 'nudging' change behavior? Using 'behavioural insights' to improve program redesign. In Managing Under Austerity, Delivering Under Pressure, edited by John Wanna, Hsu-Ann Lee and Sophie Yates, pp. 165-179. ANU Press, The Australian National University. Retrieved from http://press-files.anu.edu.au/downloads/press/p328101/pdf/ch11.pdf.

At the same time, a number of nonprofit organizations in the US are applying these concepts to new programs that employ financial coaching as a way of empowering people to make decisions and take actions to increase their financial well-being. Coaching in general is based on Prochaska's well-known model of health behavior change,[31] which has been widely used to successfully reduce addictive behaviors such as tobacco use,[32] and applies this model to other life areas. Coaching employs techniques that are consistent with the concepts and principles of effective behavioral change. A relatively new entrant to the coaching field, financial coaching differs from traditional financial advising in that it tends to focus more on allowing client-centered goals to guide the process, rather than only providing specific expert advice or recommendations.

Typically, coaching involves interventions such as motivational interviewing that work collaboratively with an individual to identify behavioral outcomes, set goals, brainstorm strategies, create concrete action plans, identify strengths, build motivation, and provide accountability.[33] However, because financial coaching is a highly personalized process that meets people 'where they are', there may be times when specific advice or counseling are appropriate, given an individual's circumstances. The coaching model is also congruent with the concept of financial wellness as a holistic approach to personal finance, one that views money as a tool for living life in accordance with a person's values.

While financial coaching is a relatively new field, research is showing promising evidence. Several evaluations of the effectiveness of financial coaching in changing financial behaviors have now been published.[34,35] Although still in its early stages, coaching is showing positive outcomes.

[31] Prochaska, J. O., & Velicer, W. F. (1997). The transtheoretical model of health behavior change. American Journal of Health Promotion, 12(1), 38-48.
[32] Zbikowski, S. M., Hapgood, J., Barnwell, S. S., & McAfee, T. (2008). Phone and web-based tobacco cessation treatment: real-world utilization patterns and outcomes for 11,000 tobacco users. Journal of Medical Internet Research, 10(5).
[33] University of Wisconsin-Madison. (2015). Financial coaching: Review of existing research. Issue Brief 2015-10.1. October. Retrieved from: http://fyi.uwex.edu/financialcoaching/files/2015/10/FinancialCoaching_10.1.pdf.
[34] Moulton, S., Loibl, C., Samek, A., & Collins, J. M. (2013). Borrowing capacity and financial decisions of low-to-moderate income first-time homebuyers. Journal of Consumer Affairs 47(3): 375- 403.
[35] Moulton, S., Collins, J. M., Loibl, C., & Samek, A. (2015). Effects of monitoring on mortgage delinquency: Evidence from a randomized field study. Journal of Policy Analysis and Management 34(1): 184- 207.

The Difference That Personal Financial Coaching Makes

A 2012 randomized controlled trial by the Urban Institute examined data from three financial coaching programs and found positive associations between coaching and behavioral outcomes including goal formation, confidence, budgeting, and saving.[34] In two separate studies, Moulton et al. first explored enrollment in a financial coaching program among low- to moderate-income recent homebuyers and in the initial study found that overconfidence in financial matters reduced program enrollment. In the follow-up study, researchers tested the effects of combining financial coaching with an online financial planning module that included goal setting exercises. First-time homebuyers who completed the planning module and received quarterly contacts from a coach were less likely to become delinquent or default on their mortgages.[34,35]

In 2013, NeighborWorks America and the Citi Foundation partnered on the Financial Capability Demonstration Project, which involved 30 financial coaching programs, and assessed the effectiveness of financial coaching offered by participating community-based organizations.[36] The project began by developing training for the coaching practitioners, and then evaluated the results of the coaching. More than one-half of clients who reported no savings at the start of services reported some savings after participating in coaching. The result was a median savings increase of $668. Clients also saw an average increase in their FICO scores of 59 points, with clients who participated longer being more likely to see increases in their credit scores. Almost two-thirds of clients who reported feeling stressed about their financial situations when they began coaching no longer felt that way after participating in coaching and related programs offered through the project.

In the most rigorous evaluation of financial coaching to date, the Urban Institute recently released a report funded by the Consumer Financial Protection Bureau evaluating coaching outcomes at two community-based nonprofit organizations, The Financial Clinic in New York City and Branches of Miami, Florida.[36]

[36] NeighborWorks America. (2013). Scaling financial coaching: Critical lessons and effective practices. Washington, DC. Retrieved from http://www.neighborworks.org/Documents/HomeandFinance_Docs/FinancialSecurity_Docs/FinancialCoaching_Docs/Full-Project-Report.

Clients were randomly assigned into treatment and control groups, so a cause and effect relationship between coaching and outcomes could be demonstrated. Client populations varied between the two organizations, so outcomes also varied somewhat between each site. At the Financial Clinic, the treatment group accumulated $1,200 in savings, roughly two times that of the control group, and reduced average debt in collections by about two-thirds compared to the control group. At Branches, total debt among the treatment group declined by $10,650, roughly 20% lower than the control group. The study also showed statistically significant improvements in credit scores: Financial Clinic clients offered coaching saw their average credit score increase by 21 points. The report describes other positive findings related to improving participants' financial behavior and reducing stress levels.

As research into what makes financial education effective continues, the CFPB published a 2017 report identifying five principles of financial education that make the biggest difference between success and failure.[21] The five factors, summarized below, sound a lot like coaching:

Principle 1: Tailor information to the specific circumstances, challenges, goals, and situational factors of the individuals served. Avoid a one-size-fits-all approach.

Principle 2: Provide just-in-time-information that is relevant and actionable to a specific situation or goal, so that information and skills are more likely to be retained.

Principle 3: Build generalizable skills, such as knowing where to find reliable information to make decisions and how to process information.

Principle 4: Build on motivation by supporting people to focus on their own values and standards, to persevere in the face of challenges, and to build confidence that they can achieve their financial goals.

Principle 5: Help create habits and systems so that it's easy to follow through on decisions.

These principles are very similar to many of the ideas espoused by the behavioral economists cited previously that can help avoid cognitive biases. Principle 5 is also congruent with the concept of choice architecture. Maybe coaching is the best way to deliver personalized and effective financial education that can actually change financial behaviors and improve outcomes. The research certainly supports that idea.

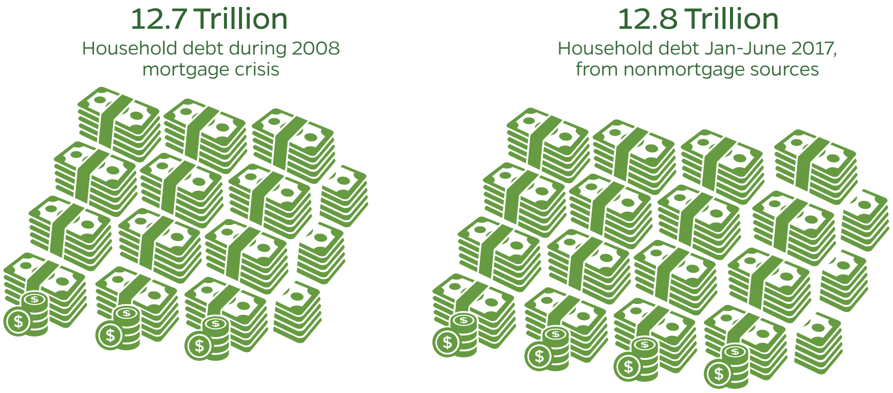
Considerations For Decision Makers

There's no question employers are taking a more active role in helping employees in their journey to financial well-being. It's the right thing to do, and it makes good business sense. As more vendors introduce financial wellness offerings into the benefits marketplace, employers and decision-makers need to evaluate these products and services carefully, especially in regard to financial education. In choosing a financial wellness solution to include as part of an employee benefits package, decision-makers should keep the following considerations in mind:

If financial education is a component, what does that look like and what will work for my organization? We've learned that one-size-fits-all approaches to financial education don't work. Any education component of a solution should be personalized to meet the employee's current situation and self-determined goals, and allow those goals to change and evolve over the course of a lifetime. A just-in-time approach based on the employee's goals, financial situation, or life events is a plus. Education should also include information regarding the company's available employee benefits, because some employees will be unaware of or will not have taken full advantage of them.

Is live access to human coaches or advisors included? Some so-called financial wellness plans offer little more than a breezy listicle and an online calculator. Make sure that access to a financial coach or fiduciary-level advisor, by phone, chat, email, or in-person, is part of the solution. Fiduciary advisors are required to put the best interests of clients first, not just offer 'suitable' advice, which can involve selling dubious and expensive financial products. The personal connection can aid employees in creating an action plan to meet their self-directed goals and also provides a degree of social accountability.

What problems does the solution address for the employee? Does the solution offer an easy way for the employee to create their own financial goals, track their spending, create a spending and/or saving plan, or pay down debt, in order to monitor their progress towards meeting those goals? Debt is especially important to track because it's one of the main reasons employees take out ill-advised loans against their 401(k)s. Linking directly to and aggregating financial accounts so that tracking can occur automatically in real time and employees can see all their assets and liabilities in one place can reduce barriers to action, bridging the Intention/Action Gap.



Debt is one of the main reasons employees take out loans against their 401(k)s.

Does the solution offer any accountability? Having some type of reminder or personal accountability feature that can be enabled or disabled as desired is helpful for keeping goals and action steps in the forefront of employees' minds. If the employee can choose the mode of delivery, via text, email, or a call from the coach/advisor, that's even better for increasing the likelihood that the employee will respond positively to the reminder.

Does the solution offer employees a way to estimate how much income they will have in retirement? Some financial companies do offer general online calculators that can give a rough estimate of how much someone will need to save and invest to reach a putative goal. But these numbers are very abstract to most people who are not financial professionals. A relatable solution will provide a personalized estimate of an employee's monthly or yearly income in retirement—making the abstract concrete and helping to overcome the cognitive bias of discounting the future.

Summary

Most employees are simply not adequately prepared to make the major financial decisions that will affect their lives and those of their families. Based on this necessity, financial wellness is rapidly becoming a standard part of a complete benefits package, one that provides peace of mind for employees and boosts the employer’s bottom line. While financial education in the workplace seems like a good idea on the surface, research has demonstrated that its effectiveness is almost nonexistent when it comes to actually changing financial behaviors and improving outcomes. Interventions that do appear to work consider common cognitive biases, provide accountability, and work collaboratively to engage and encourage employees’ intrinsic motivation to change. Personal financial coaching appears to be one of the more effective approaches for influencing behavioral change and promoting positive financial outcomes, especially for those with low to moderate incomes, and is a component employers should look for in a well-designed financial wellness solution. According to Richard Cordray, the former director of the CFPB: “Forward-looking employers are already playing an important role in shaping a better future for their employees and our country.”

About Questis

Questis is a team of passionate builders, engineers, financial advisors, and visionaries who share one driving goal—to bring the value of financial planning to everyone. By combining the potential of software with the power of actionable, personalized financial guidance, we can bridge the gap between people and their financial well-being. By getting to the root of the problem and by offering customizable solutions that scale with the power of software, we can both redefine financial health and offer actionable ways for people to achieve and surpass their goals.

About The Author

Martha Brown Menard, PhD, currently conducts research for Questis. An award-winning healthcare researcher and program evaluator, Dr. Menard is a guest lecturer at Georgetown University and is the author of a textbook, *Making Sense of Research*. She is a member of the Association for Financial Counseling and Planning Education, the American Evaluation Association and the Interaction Design Foundation.