

Financial Well-Being: The goal of financial education

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Dubis Correal, Acting Deputy Assistant Director, Office of Financial Education



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Consumer Financial Protection Bureau

The CFPB helps consumer finance markets work by making rules more effective, by consistently and fairly enforcing those rules, and by *empowering consumers to take more control over their economic lives.*



Educate

An informed consumer is the first line of defense against abusive practices.



Enforce

We supervise banks, credit unions, and other financial companies, and we enforce federal consumer financial laws.



Study

We gather and analyze available information to better understand consumers, financial services providers, and consumer financial markets.

Consumer Education and Engagement Division

Consumer Education & Engagement

Consumer Engagement

Financial Education

Financial Empowerment

Older Americans

Servicemember Affairs

Students

Create opportunities for people to make **better choices about money** to reach their own life goals.

Financial education that
supports financial well-being

Growing consensus that financial well-being is the ultimate goal of financial literacy/capability

- “Financial capability empowers individuals to ... improve their present and long-term **financial well-being**.”
 - Executive Order, President’s Advisory Council on Financial Capability (2010)
- “Vision: Sustained **financial well-being** for all individuals and families in the United States.”
 - U.S. National Strategy for Financial Literacy (2011)
- “Financial literacy is a combination of awareness, knowledge, skill, attitude and behaviour necessary to make sound financial decisions and ultimately achieve individual **financial well-being**.”
 - OECD International Network for Financial Education (2012)

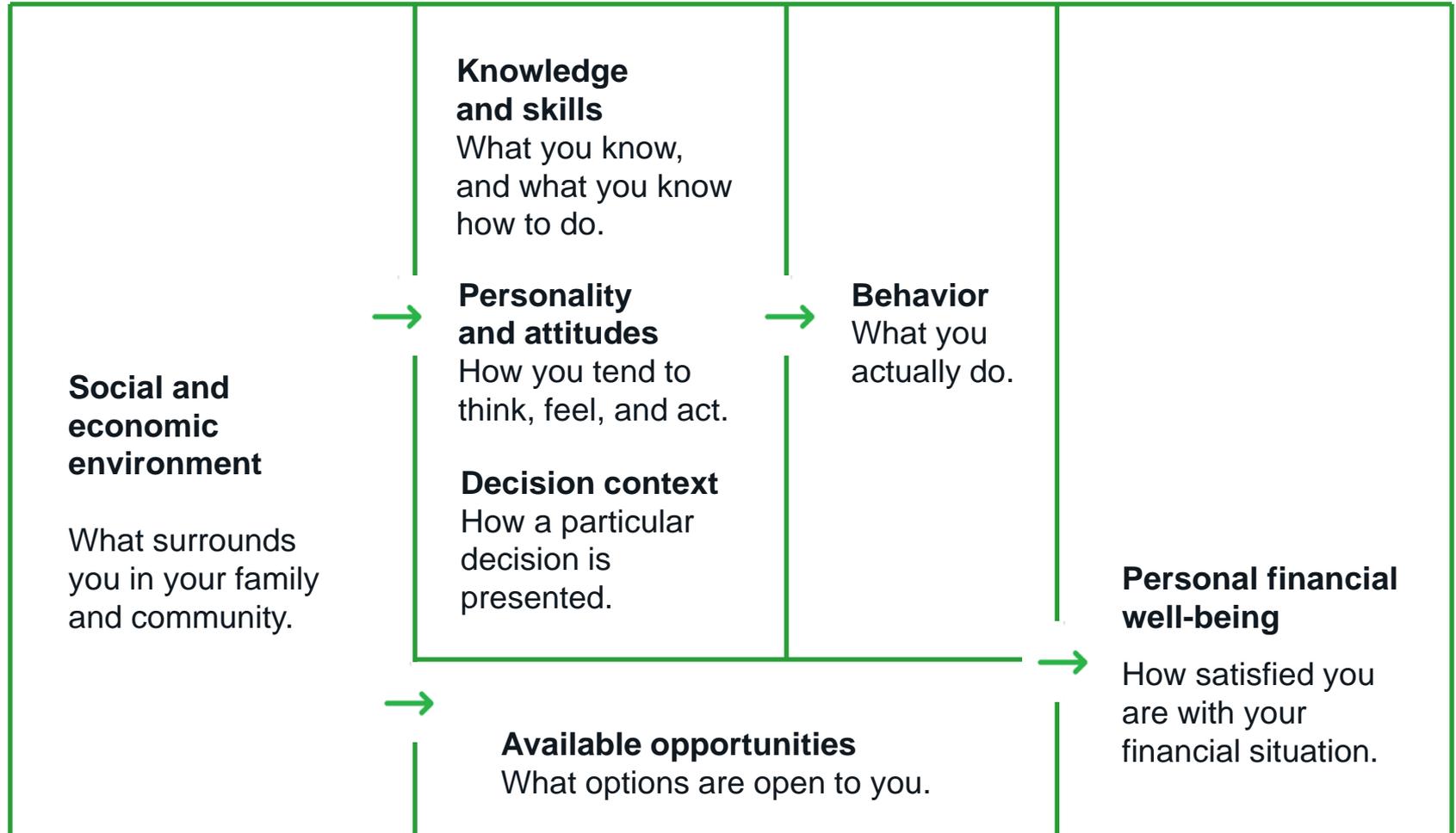
What financial well-being is

A state of being wherein a person can fully meet current and ongoing financial obligations, can feel secure in their financial future, and is able to make choices that allow enjoyment of life.

Elements of financial well-being:

- ✓ Having control over day-to-day, month-to-month finances
- ✓ Having the capability to absorb a financial shock
- ✓ Being on track to meet financial goals, and
- ✓ Having the financial freedom to make choices that allow one to enjoy life

What influences financial well-being



How financial education programs can support financial well-being

1. Know the individuals and families to be served

- Start with learning their challenges, goals, and situation and tailor support accordingly.

2. Provide timely, relevant and actionable information

3. Improve key financial skills

- By supporting individuals in learning the “how to” of effective personal financial management applied to their own situation.

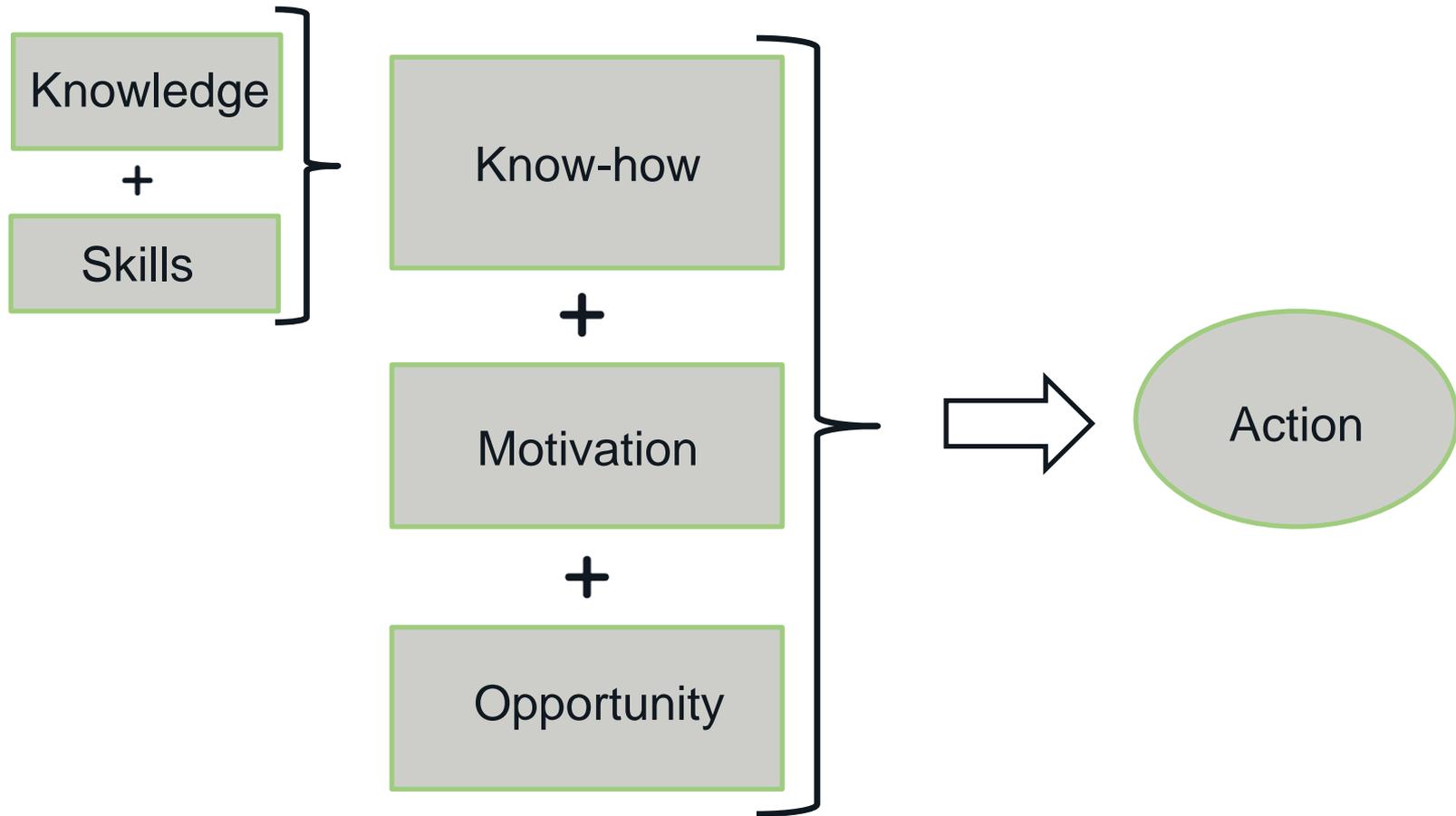
4. Build on motivation

- Help people clarify motivations and connect desired behaviors and action steps to desired outcomes.
- Support development of financial self-efficacy.

5. Make it easy to make good decisions and follow through

- Help create a context for people where they are more likely to take desired actions.

Model of financial action: From research to practice



Principle # 3: Improve key financial skills

Examples: Coaching & financial shortcuts or “rules of thumb”

Financial coaching study



Urban Institute* randomized control trial of two financial coaching programs:

- **Branches**

- faith-based nonprofit organization that provides financial services, child care, and other services in Miami, Florida
- recruited coaching clients who were municipal government agency employees

- **The Financial Clinic**

- nonprofit organization in New York City offering financial coaching, income tax preparation and legal support for working poor families
- recruited coaching clients from income tax filing assistance programs and from credit, debt, and budgeting workshops offered in the community

Impact on money management behavior

Generally, people offered access to coaching:*

- Were more likely to pay bills on time
- Had an increased frequency of savings deposits

The Financial Clinic coaching clients:

- 32% more deposits into savings
- 36 % more likely to use a financial spending plan or budget
- 16% more likely to pay bills on time

Branches coaching clients :

- 19% more deposits into savings
- 60% more likely to have set aside emergency funds
- 20% less likely to borrow from family and friends

*All results reported are the impact on participants offered coaching compared to members of the control group.

Impact on savings, debt, and credit scores

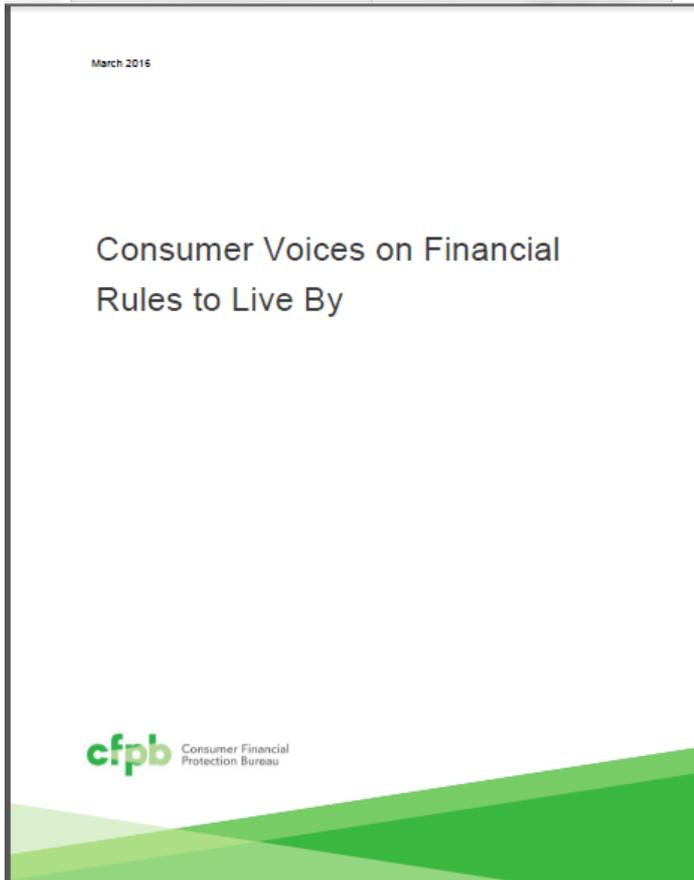
The Financial Clinic coaching clients:

- Increased savings by \$1,187 (per person)
- Increased credit scores by 21 points (per person)
- amount of past-due debt in collections decreased by \$633 (per person)

Branches coaching clients:

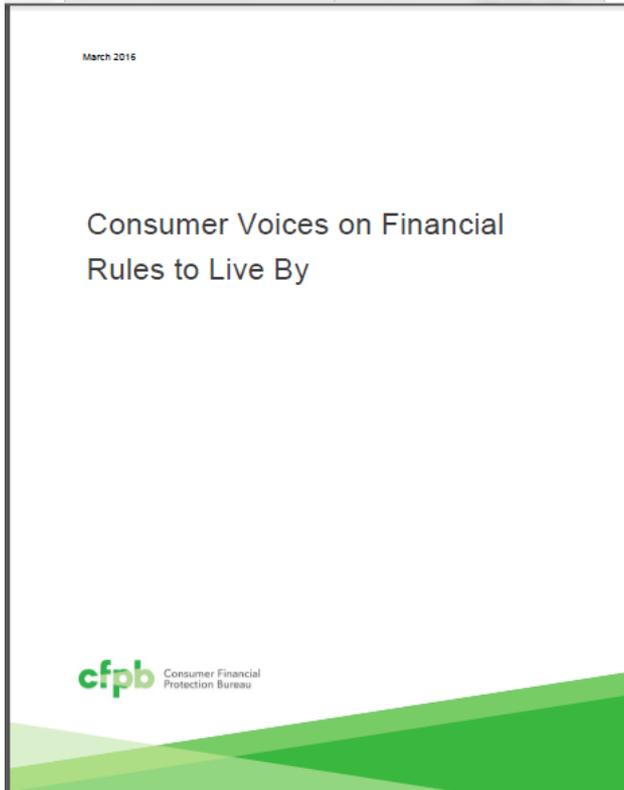
- Reduced debt by \$10,644 (per person)

Financial shortcuts or “rules of thumb”



- Consumers face many complicated decisions in managing their financial lives
- Financial educators have been exploring approaches that attempt to make the decision-making process easier for consumers

Financial shortcuts or “rules of thumb”



- Many consumers know about common financial rules of thumb.
- Many are frustrated by what they see as unrealistic goals stated in common rules, as they struggle with competing priorities across their financial lives.
- There is a sense that financial rules cannot be applied equally to all people in all circumstances.
- Many commonly held rules are too broad or ill-defined to offer clear guidance to everyone.
- A promising strategy is to help consumers develop their own financial rules of thumb customized to their personal situation -- “**financial rules to live by.**”

Financial shortcuts or “rules of thumb”

- One example: emphasizing financial shortcuts – sometimes called “rules of thumb”
- Specific, actionable guidelines consumers can apply to their decisions.
- There is some research evidence that providing financial rules of thumb to consumers can work better than more detailed and complex financial education in some situations
- We wanted to explore this strategy by asking consumers what they think

Measuring financial well-being

The CFPB Financial Well-Being Scale

Questions	Response Options
<p>How well does this statement describe you or your situation?</p> <ol style="list-style-type: none">1. I could handle a major unexpected expense2. I am securing my financial future3. Because of my money situation, I feel like I will never have the things I want in life4. I can enjoy life because of the way I'm managing my money5. I am just getting by financially6. I am concerned that the money I have or will save won't last	<ul style="list-style-type: none">• Completely• Very well• Somewhat• Very little• Not at all
<p>How often does this statement apply to you?</p> <ol style="list-style-type: none">1. Giving a gift for a wedding, birthday or other occasion would put a strain on my finances for the month2. I have money left over at the end of the month3. I am behind with my finances4. My finances control my life	<ul style="list-style-type: none">• Always• Often• Sometimes• Rarely• Never

Available at www.consumerfinance.gov/financial-well-being

Developmental building blocks of financial capability for children and youth

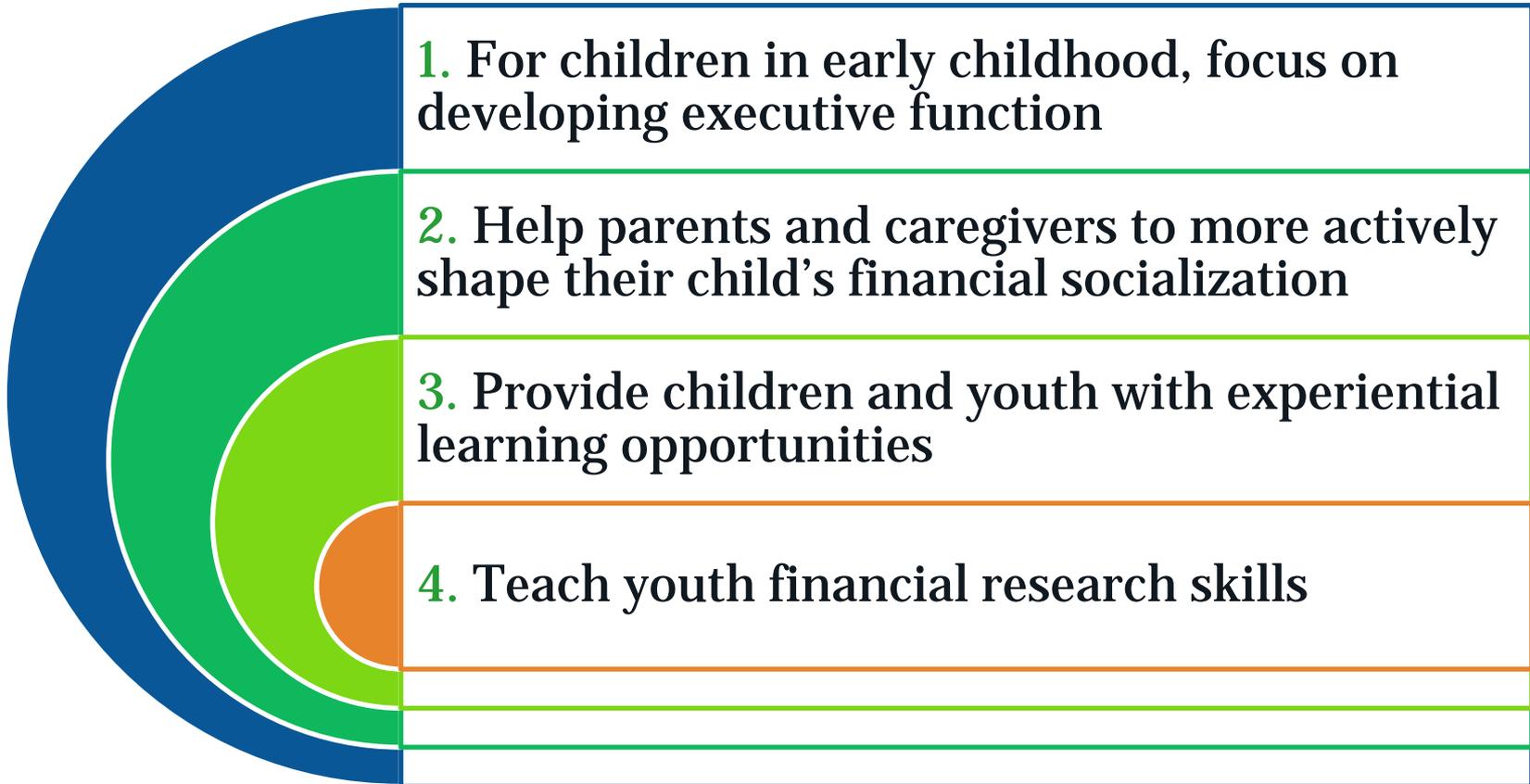
Building blocks of financial capability

	1 Executive function	2 Financial habits and norms	3 Financial knowledge & decision-making skills
What it is	Self-control, working memory, problem-solving	Healthy money habits, norms, rules of thumb	Factual knowledge, research and analysis skills
What it supports in adulthood	Future orientation, perseverance, planning and goal setting, general cognitive flexibility	Decision shortcuts for navigating day-to-day financial life and effective routine money management	Deliberate financial decision-making strategies, like financial planning, research, and intentional decisions
Examples of financial application	Saving, setting financial goals, developing and executing budgets	Having a system to pay bills on time	Effective comparison shopping

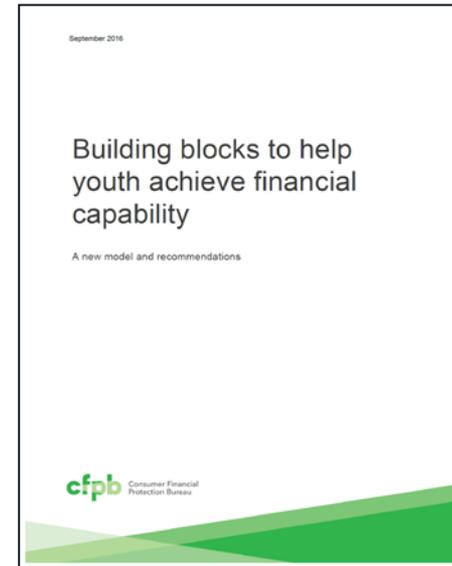
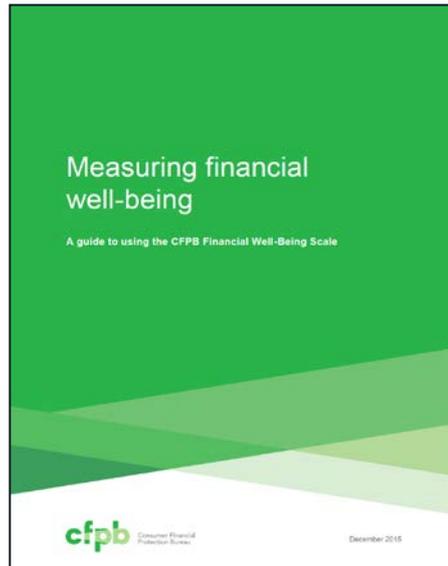
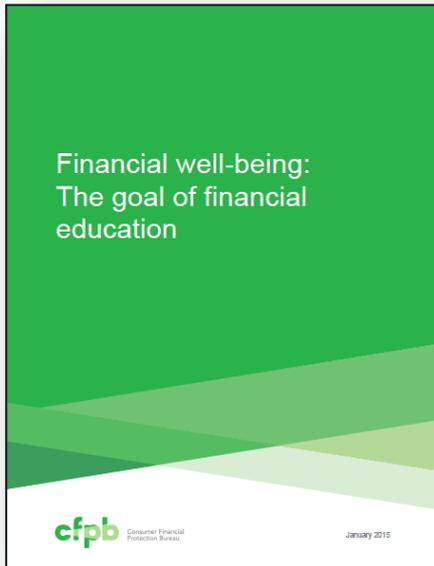
Development is a continuous process

	1. Executive function <i>Self-control, working memory, problem solving</i>	2. Financial habits and norms <i>Healthy money habits, norms, rules of thumb</i>	3. Financial knowledge and decision making skills <i>Factual knowledge, research and analysis skills</i>
Early childhood (ages 3–5)		Early values and norms	Basic numeracy
Middle childhood (ages 6–12)	  	  	 Basic money management 
Adolescence and young adulthood (ages 13–21)	Development continues	Development continues	

How financial education programs for youth can build the foundations for adult financial well-being



Reports and resources



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Thank You