MASFAA 2016

Beyond Participation:

Analyzing Financial Literacy Education Outcomes and Long Term Impact

Agenda

What We Believe

Results

Impact

Building For Tomorrow

Thoughts and Questions

What We Believe

The “theory” of financial education:

“[H]olding all else equal, financial education leads to greater financial knowledge, greater financial knowledge then leads to better financial behavior, and better financial behavior ultimately leads to improved consumer outcomes”

Taken from: “*Do Financial Education Programs Work”?* Federal Reserve Bank of Cleveland. April 2008.

Financial Education/Training

Financial Knowledge/Literacy

Financial Behavior/Outcomes

Does this theory hold true?

Results

Study 1: State mandated financial education

Brown, Collins, Schemiser, Urban (2015), examined three states (Georgia, Idaho, and Texas) where a new personal financial education mandate was implemented.

- Primary source of data for was the Federal Reserve Bank of New York/Equifax Consumer Credit Panel (CCP).
- Observe roughly 60,000 in Georgia, 17,000 in Idaho and 167,000 in Texas.
- Observed over the course of four years.

Overall, they found young people (18-22) who were in school after the implementation of state mandates show evidence of modestly greater credit scores and lower delinquency rates.

Brown, Alexandra; Collins, J. Michael; Schmeiser, Maximilian; and Urban, Carly. "State Mandated Financial Education and the Credit Behavior of Young Adults." FINRA Investor Education Foundation, 2015.

Study 2: Linking financial knowledge, behaviors and outcomes

Courchane and Zone (2005), three step model to establish links:

- Step 1: Subjective and objective measures (regression equations) related to financial knowledge.
- Step 2: Estimate behaviors as a function of financial knowledge (using interactive variable).
- Step 3: Estimate credit outcomes (i.e. existence or non-existence of “impaired credit”) as a function of financial behavior.

Overall, their findings were consistent with assumptions, that there exists a significantly positive casual link that runs from **knowledge, to behaviors to outcomes**. In this case, participation in well designed (targeted) financial education program will have a positive impact on behavior, which will then have a positive impact on credit (e.g. less impaired credit).

Source: Courchane, Marsha, and Peter Zorn. 2005. “Consumer Literacy and Creditworthiness.” http://www.chicagofed.org/cedric/files/2005_conf_paper_session3_courchane.pdf

Study 3: Fin Lit and long/short term behavior in various age groups

Henager and Cude (2016) looked at financial literacy and financial behaviors among various age groups.

- Defined financial literacy as objective financial knowledge as well as subjective financial knowledge (or confidence) and subjective financial management ability.
- Data from 2012 National Financial Capability Study State-by-State Survey (FINRA). n= 23,727.
- Both short term and long term financial behavior index were created.

Overall, Greater financial literacy was positively associated with the index of **long-term financial behaviors,** (planning for retirement, having a retirement account, and having investments) and **short term financial behaviors** (having an emergency fund, spending less than or equal to income, not overdrawing a checking account occasionally).

** Source: Henager and Cude, 2016.*

Impact

Positive trends for millennials

According to a recent student conducted by Facebook IQ*:

Financial Success is…

46% "being debt free"

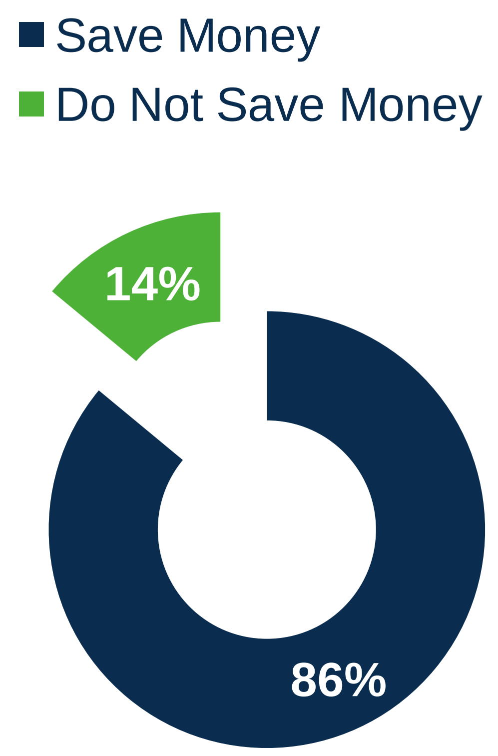
21% "owning a home"

16% "buying experiences"

13% "being able to retire"

4% "buying nice things"

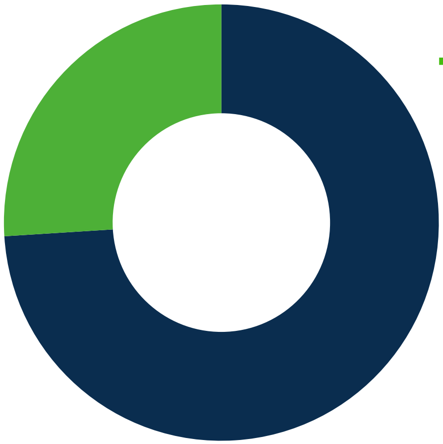
Millennials that save money



* *"Millennials and money: The unfiltered journey" by Facebook IQ, January 2016.*
http://insights.fb.com/2016/01/25/millennials-money-the-unfiltered-journey/

Millennials- the money conscious generation?

Study by T. Rowe price, which analyzed spending and saving habits of 3,000 working millennials:



74% **"Are more comfortable saving and investing money rather than spending it"**

75% report the track their expenses carefully

67% stick to a budget

40% have increased their 401k contribution over the past 12 months

"When [Millennials] have the means to do the right thing, it appears that they often do…[T]hey are exhibiting financial discipline in managing their spending and are defying stereotypes that this generation is prone to spend-thrift, short-sighted thinking,"

- Anne Coveney, a senior manager at T. Rowe Price

"Millennials: the money conscious generation?" http://www.forbes.com/sites/maggiemcgrath/2015/06/22/millennials-the-money-conscious-generation/#707112dd1bcb

Building For Tomorrow

Action 1: Highly targeted programs deliver the greatest impact

Truly knowing the audience is critical

- For example, with low income population, financial education instruction should focus on available resources (e.g. welfare benefits, tax considerations, etc.)
- Needs assessment should be conducted beforehand.

Change in short and long term behavior

- Focus on behaviors that can be changed in the short term (and with relative "low barriers") vs. those that require fundamental changes in others aspects of participants lives.

"*Do Financial Education Programs Work"?* Federal Reserve Bank of Cleveland. April 2008.

Action 2: Importance of active participation for retaining knowledge

We tend to remember:

90% of what we say and do

70% of what we say

Cone of Learning

After 2 Weeks We Tend to Remember		Nature of Involvement
	Doing the Real Thing	Active
90% of What We Say and Do	Simulating the Real Experience	
	Doing a Dramatic Presentation	
70% of What We say	Giving a Talk	
	Participating in a Discussion	
50% of What We Hear and See	Seeing it Done on Location	Passive
	Watching a Demonstration	
	Looking at an Exhibit	
	Watching a Movie	
30% of What We See	Looking at Pictures	
20% of What We Hear	Hearing Words	
10% of What We Read	Reading	

Source; Cone of Learning adapted from Edgar Dale, 1969

* Financial Literacy in Higher Education: The Most Successful Models and Methods for Gaining Traction. *COHEAO Financial Literacy Awareness White Paper. March 2014.*

Action 3: Need for better program evaluation

"[The] field needs to identify what metrics we should track toward gains in knowledge, confidence, behavior, and access to financial products. For example, what should financial education programs measure? Knowledge of facts and calculation strategies? Ability to create a financial plan? Confidence to find answers on financial topics? Delinquency rates? Credit scores? Debt service (financial obligation) ratios? Income volatility? Retirement saving participation? Emergency plan strategies? Emergency fund adequacy? … [Defining] a minimum quality research and evaluation standard and increasing the use of fully-experimental and quasi experimental research studies are steps in the right direction."

- Billy Hensley, Director of Education, National Endowment for Financial Education (NEFE), *Enhancing Links between Research and Practice to Improve Consumer Financial Education and Well-Being*

Our focus moving forward

- Designing Highly Target Programs
  - What group/groups of students would this work for on the collegiate level?
- Doing the Real Thing
  - Talking about a credit report vs. having students go in and run their own report
- Developing Program Evaluation

Thoughts/ Questions

Thank you

References

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