



# **Financial Education: Developing Informed Financial Consumers**

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Cleveland

**Savings Strategies and Innovations for Low-  
Income Households**

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# Core Competencies / Content

1. EARNING
  - Managing a budget
  - Taxes
2. SPENDING
  - Developing goals
3. SAVING
  - Financial Services
4. BORROWING
  - Credit Management
5. PROTECTING
  - ID Theft



# Financial Capacity Building

## Information Models

- Disclosures
- Print/Web
- Interactive Web
- Workshops
- One:One

## Advice Models

- Technical expert (credentialed)
- Transactional guide (may have sales focus)
- Counseling (acute problem solving)
- Coaching (Self Control, Monitoring, Executive Attention)

## Mechanism Models

- Defaults
- Automatic Deposit
- Product constraints

•Reminders:  
Reinforce Salience

# Education / Information

- Role of numeracy
  - Low functional financial literacy linked to numeracy problems and math coursework
- Information in context of decisions
  - Timing & mode
- Past research – effects are small at best
  - Selection issue – who signs up?

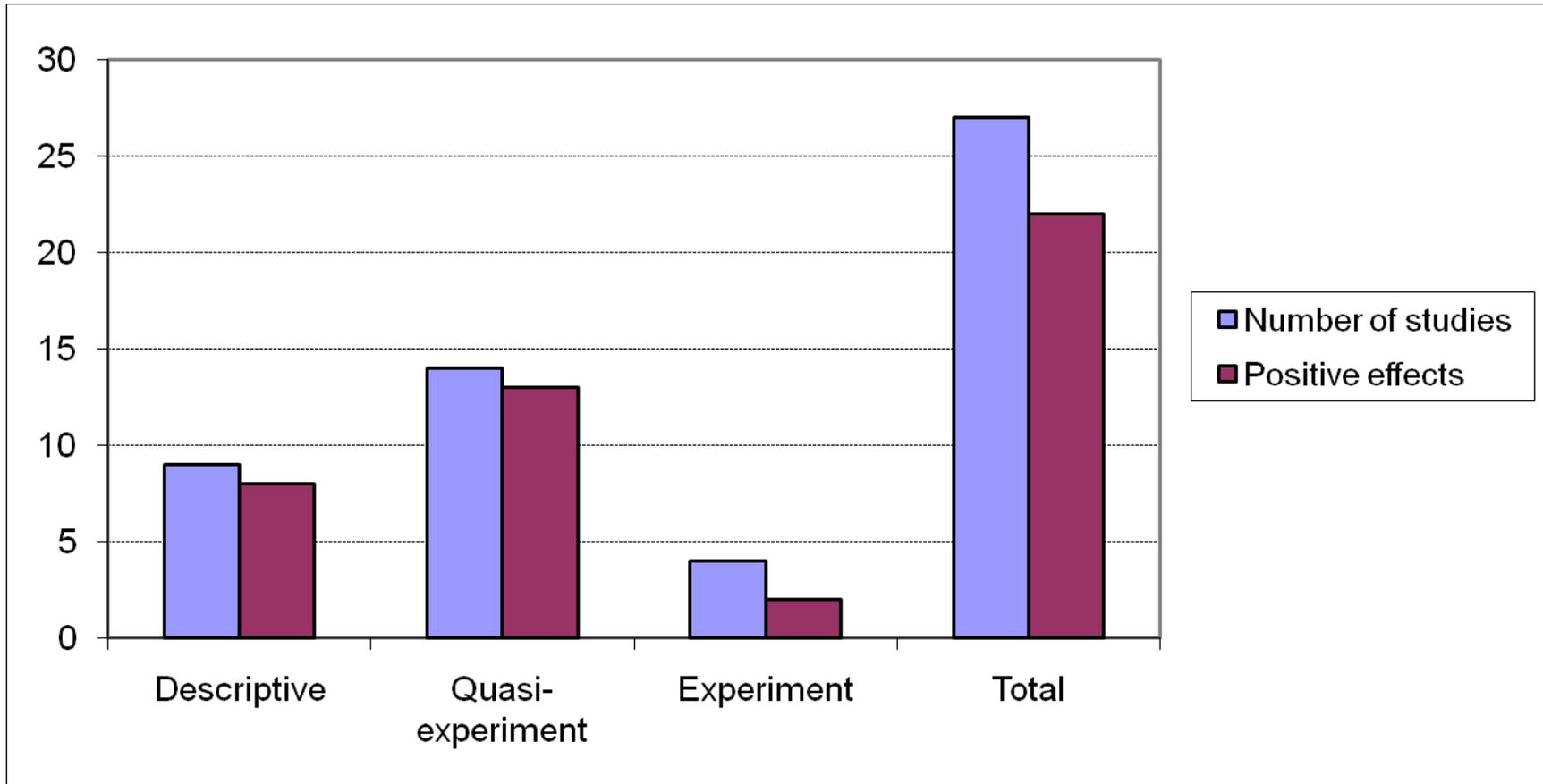
# Evaluation Literature

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- Many avenues for bias
  - Selection bias
    - Problem of unobserved factors: E.G. ‘motivation’
      - Meier and Sprenger (2007) show *overestimation* of results due to time preferences
  - Self-reported outcomes
    - upward bias...
  - Short follow-up periods
    - durability unknown
- Methods seem to matter...a lot
  - Effects of descriptive studies appear large
  - Quasi-experiments show modest effects
  - Randomized experiments very small effects

# Studies by Type and Findings:

Most find positive outcomes



# Working with Low-income Clients

- Not financial or estate planning
  - Fewer financial assets; less likely to have employer benefits
- May be eligible for public benefits or special private programs
- Credit management critical
- Lack of experience with financial institutions, products
- Pressure on time and limited resources
- Linking/Integrating public programs

# Advice Models

- Technical or legal
- Role of fiduciary vs. sales
- Counseling
  
- Financial Coaching
  - Client Directed'
  - Goal Focused - Performance improvement
  - Not an 'expert' - Monitoring & Accountability

- Financial Coaching - <http://fyi.uwex.edu/financialcoaching/>

# Measuring Outcomes

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- Knowledge, attitudes, beliefs, and skills
  - Credit, budgeting and products
  - Factual quiz versus self-report
- Goals – attainable, measurable & confidence in achievement
- Self-Control - *regular* savings or debt repayment behavior
  - Executive attention - bill payment
- Products / service usage
  - Self report + administrative data (account balances, etc)
- Credit Behavior
  - FICO score and report

## Finding a Valid Comparison Group

- Motivated clients – separate service from choice to participate
  - Ideal: Randomize offer

# Looking Ahead

- Evidence based practice
  - Need more rigorous studies
- Complementary strategies
  - Life course approaches
  - Integration
  - Modes & technology & Timing
- **Wall Street Reform and Consumer Protection Act...**
  - Federal and state focus on financial education, counseling and research



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