

# Financial well-being: The goal of financial education

**CVM / OECD Regional Seminar on Emerging Trends in Financial Education**

December 12, 2017



Consumer Financial  
Protection Bureau

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# Consumer Financial Protection Bureau

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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**

We encourage financial education and capability from childhood through retirement, publish research, and educate financial companies about their responsibilities.



## **Enforce**

We take action against predatory companies and practices that violate the law and have already returned billions of dollars to harmed consumers.



## **Study**

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

# Consumer Education and Engagement Division

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## Consumer Education & Engagement

Consumer Engagement

Financial Education

Financial Empowerment

Older Americans

Servicemember Affairs

Students

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



Consumer Financial  
Protection Bureau

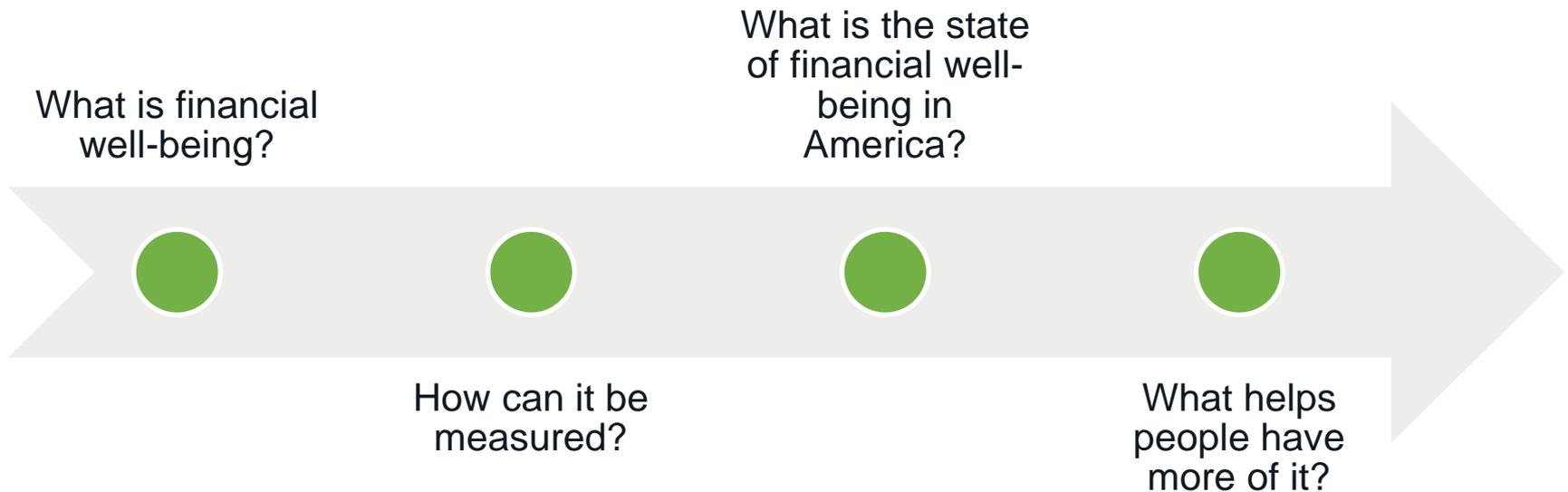
# Growing consensus that financial well-being is the ultimate goal of financial literacy/capability

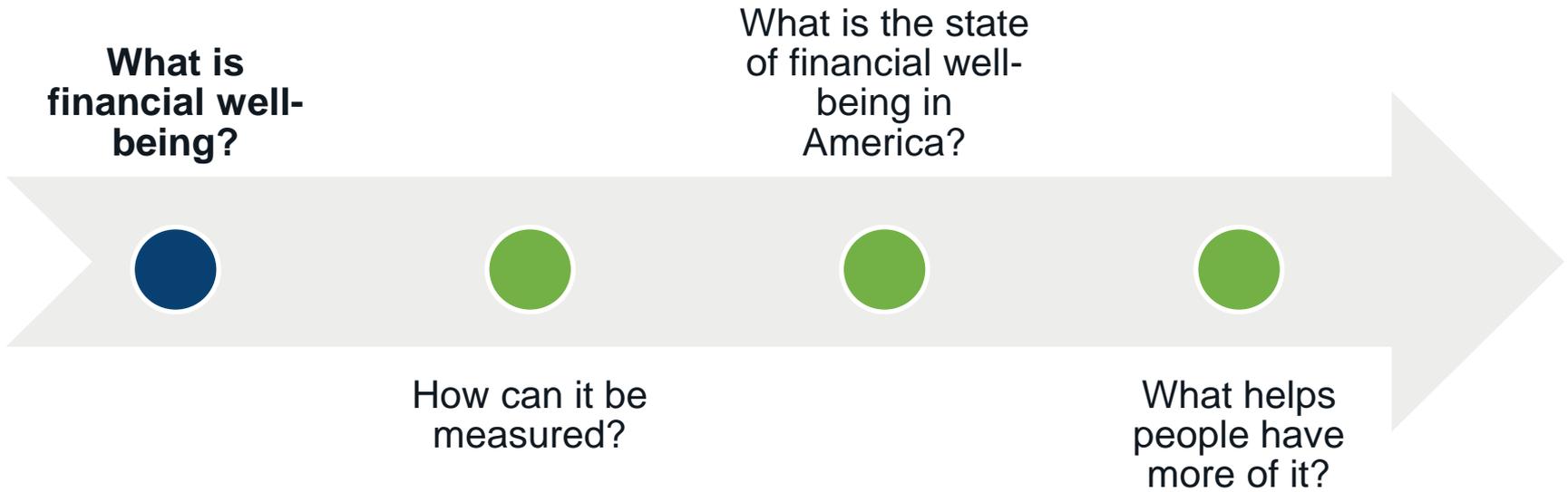
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- “Financial capability empowers individuals to ... improve their present and long-term **financial well-being**.”
  - Executive Order, President’s Advisory Council on Financial Capability (2010)
- “Vision: Sustained **financial well-being** for all individuals and families in the United States.”
  - U.S. National Strategy for Financial Literacy (2011 & 2016)
- “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)

# Financial well-being is the ultimate goal of financial education

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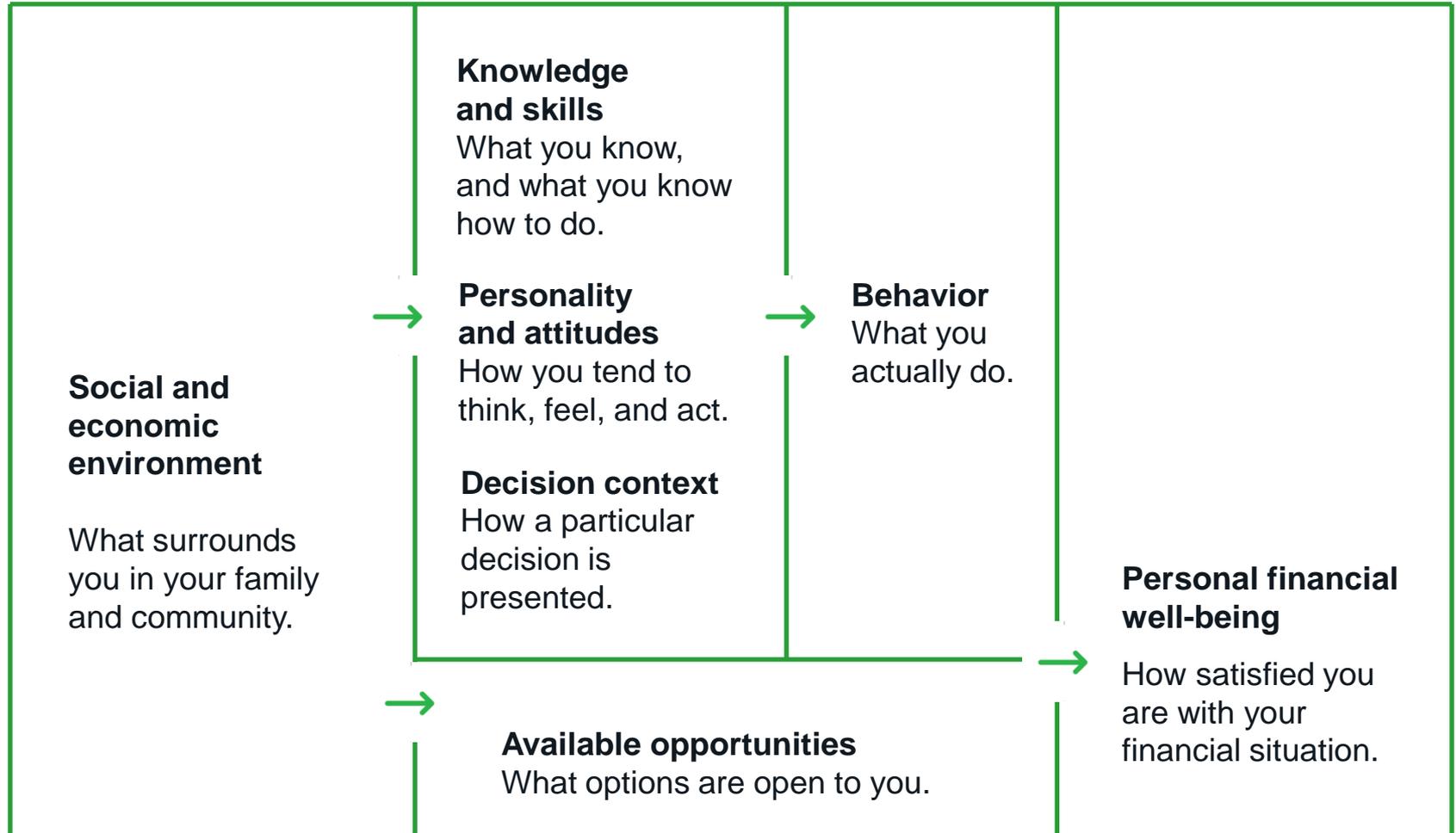
# What is financial well-being?

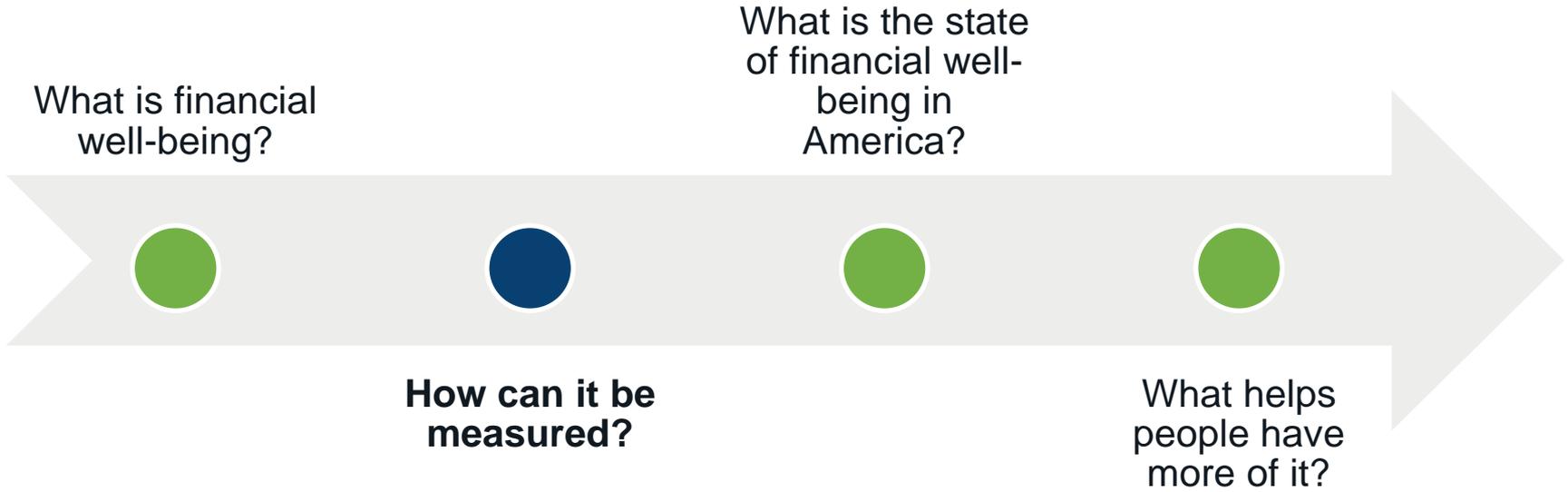
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*A state of being reflecting a person's ability to meet current and ongoing financial obligations, feel secure in their financial future, and make choices that allow enjoyment of life.*

	Present	Future
Security	Control over your day-to-day, month-to-month finances	Capacity to absorb a financial shock
Freedom of choice	Financial freedom to make choices to enjoy life	On track to meet your financial goals

# What influences financial well-being?





# A tool to measure financial well-being

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**Purpose:** To allow practitioners and researchers to quantify, and therefore observe, something that the respondent already has a sense of.

## **Requirements:**

- ✓ Based on consumers' perceptions of financial well-being.
- ✓ Highly reliable and valid measure of the financial well-being construct.
- ✓ A rigorous and simple way to measure important but hard-to-quantify subjective factors.
- ✓ Produces one score that is relevant across adult ages and contexts and comparable across consumers.
- ✓ Can be used as a common metric across very different types of financial capability programs and interventions.
- ✓ Free and publicly available.

# State-of-the-art methods used

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- Worked with a **team of subject matter** and **scale development experts** to develop questions and scoring method.
- The questions were selected through a state-of-the-art process that involved:



- The scoring method used for the CFPB Financial Well-Being Scale is based on an Item Response Theory (IRT) analysis.

# The CFPB Financial Well-Being Scale

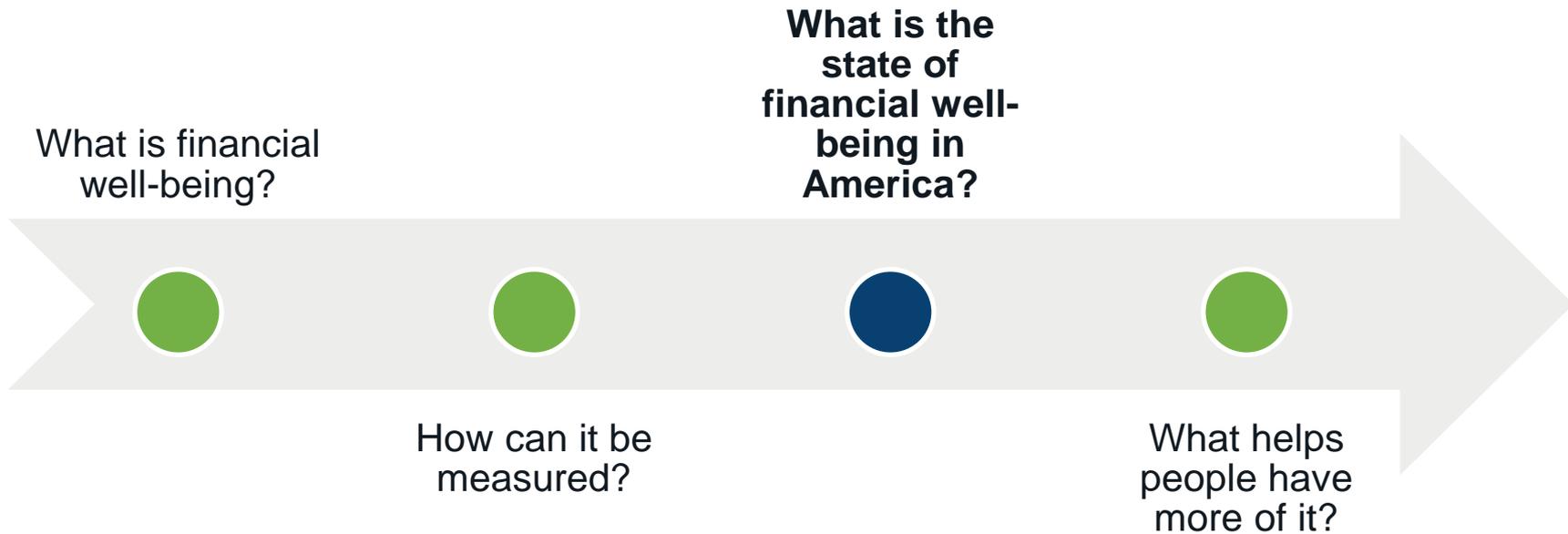
Questions	Response Options
<p><b>How well does this statement describe you or your situation?</b></p> <ol style="list-style-type: none"><li>1. I could handle a major unexpected expense</li><li>2. I am securing my financial future</li><li>3. Because of my money situation, I feel like I will never have the things I want in life</li><li>4. I can enjoy life because of the way I'm managing my money</li><li>5. I am just getting by financially</li><li>6. I am concerned that the money I have or will save won't last</li></ol>	<ul style="list-style-type: none"><li>• Describes me completely</li><li>• Describes me very well</li><li>• Describes me somewhat</li><li>• Describes me very little</li><li>• Does not describe me at all</li></ul>
<p><b>How often does this statement apply to you?</b></p> <ol style="list-style-type: none"><li>1. Giving a gift for a wedding, birthday or other occasion would put a strain on my finances for the month</li><li>2. I have money left over at the end of the month</li><li>3. I am behind with my finances</li><li>4. My finances control my life</li></ol>	<ul style="list-style-type: none"><li>• Always</li><li>• Often</li><li>• Sometimes</li><li>• Rarely</li><li>• Never</li></ul>

# Using the scale

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The CFPB Financial Well-Being Scale can be used in a variety of ways, including:

- Initial assessment
- Tracking individual progress
- Assessing program outcomes
- Survey research



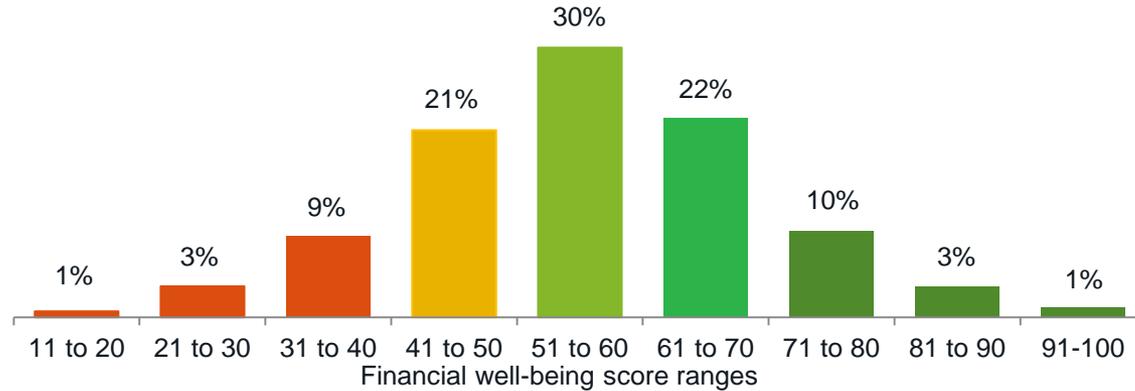
# National Financial Well-Being Survey

A nationally representative survey of almost 6,400 adults 18+, including questions on topics such as...

Category	Measures
<b>Financial status and circumstances</b>	CFPB Financial Well-being Scale and Score; ability to meet basic needs; experience of material hardship
<b>Individual characteristics</b>	Education; Age; Physical health; Race/ethnicity; and Sex
<b>Household and family characteristics</b>	Housing satisfaction; Housing status; Marital status; Financially supporting children; Census region
<b>Income and employment characteristics</b>	Employment status; Household income; Federal poverty status; Income volatility; Receiving Social Security retirement benefits; Military service (service member or dependent); Veteran status; Employer-provided benefits
<b>Savings and safety nets</b>	Liquid savings; Ability to absorb an unexpected expense; Have non-retirement investments; Have health insurance; Have friends/family safety net for emergency needs
<b>Financial experiences</b>	Turned down for credit; Contacted by debt collector; Have checking or savings account; Use non-bank, short-term credit; Use non-bank transaction product; Housing cost burden; Negative financial services experience; Experienced any negative financial shocks; Have student loan; Financial socialization; Responsibility for own finances
<b>Financial behaviors, skills, and attitudes</b>	Confidence in ability to achieve a financial goal; Have a habit of saving; Effective day-to-day money management behaviors; Planning horizon of 5+ years; Propensity to plan for finances; Financial knowledge; Financial skills

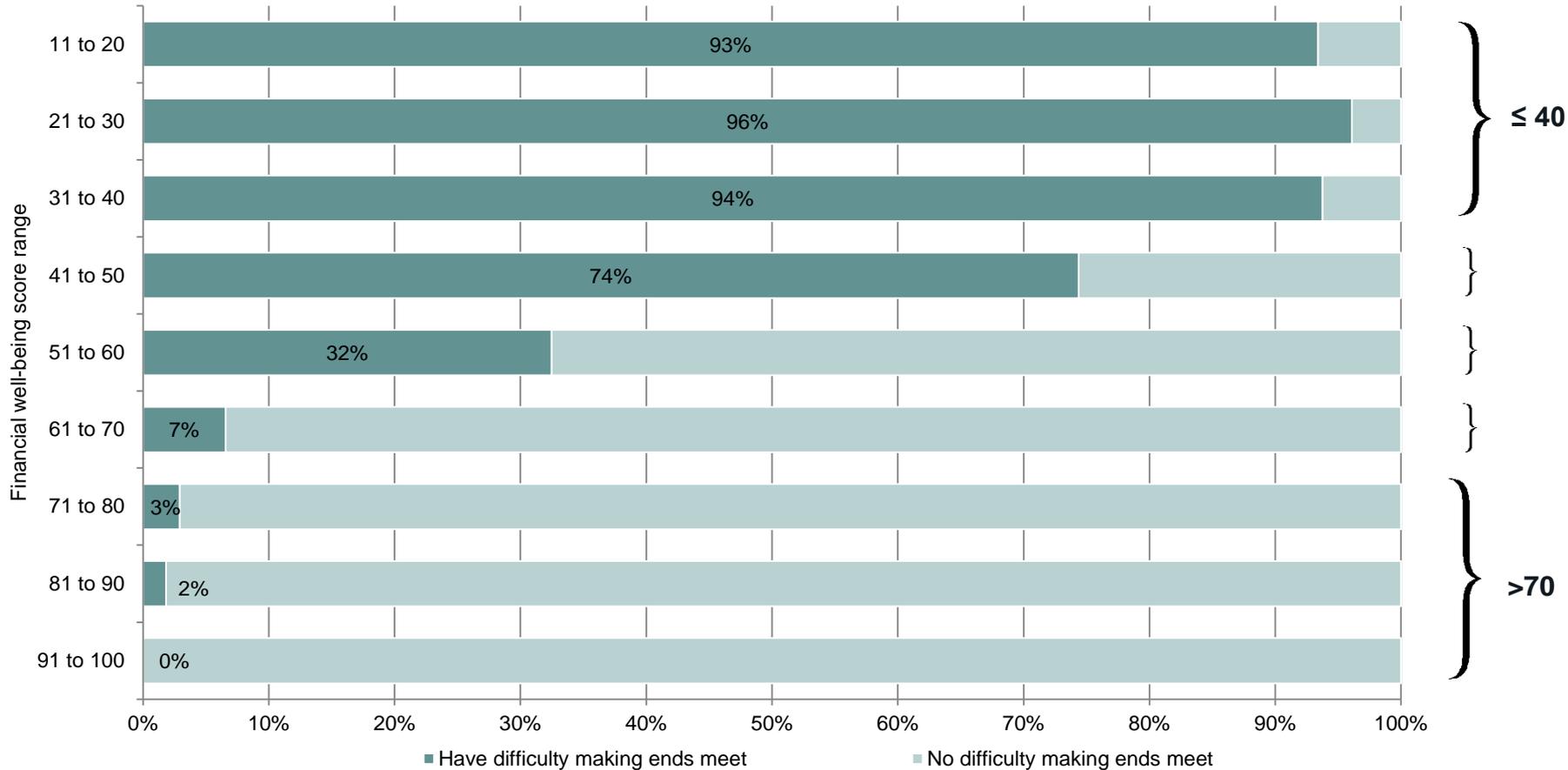
Financial well-being varies widely and reflects underlying financial circumstances

# Financial well-being varies widely

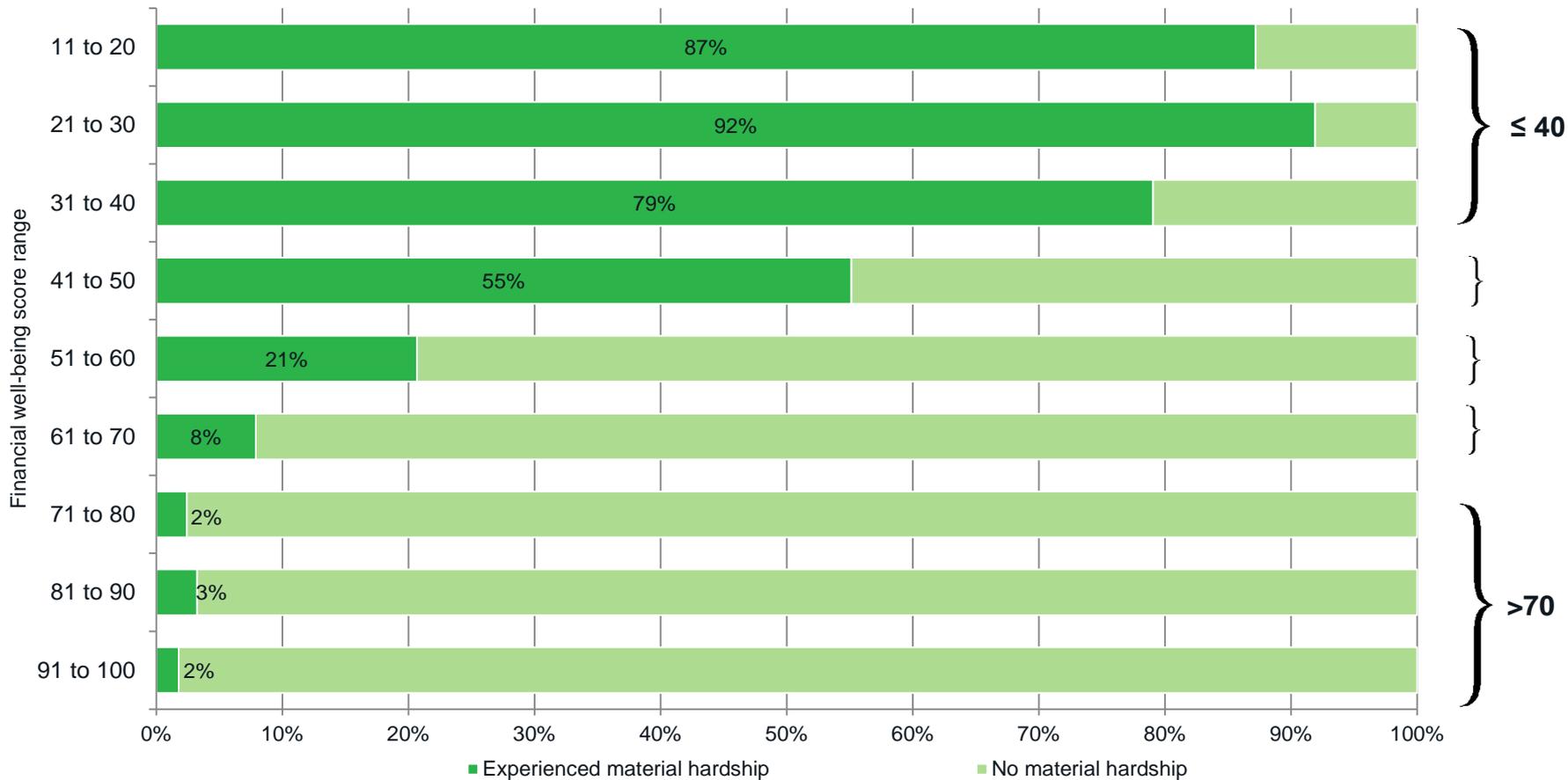


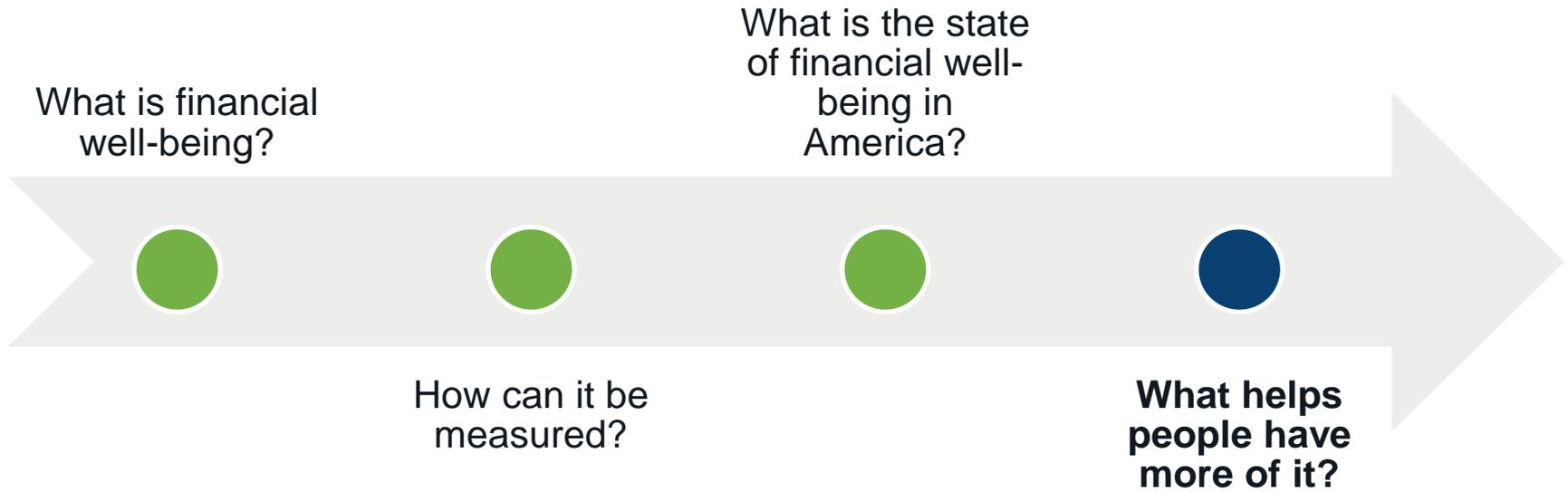
Financial well-being score range	Financial circumstances	Percent of U.S. adult population with scores in this range
≤ 40	Nearly universal financial insecurity	13%
41 to 50	Large majority experiences financial insecurity	21%
51 to 60	A majority are not in financial distress	30%
61 to 70	Large majority experiences financial security	22%
>70	Nearly universal financial security	14%

# Scores reflect difficulty making ends meet...



# ...and experiencing material hardship

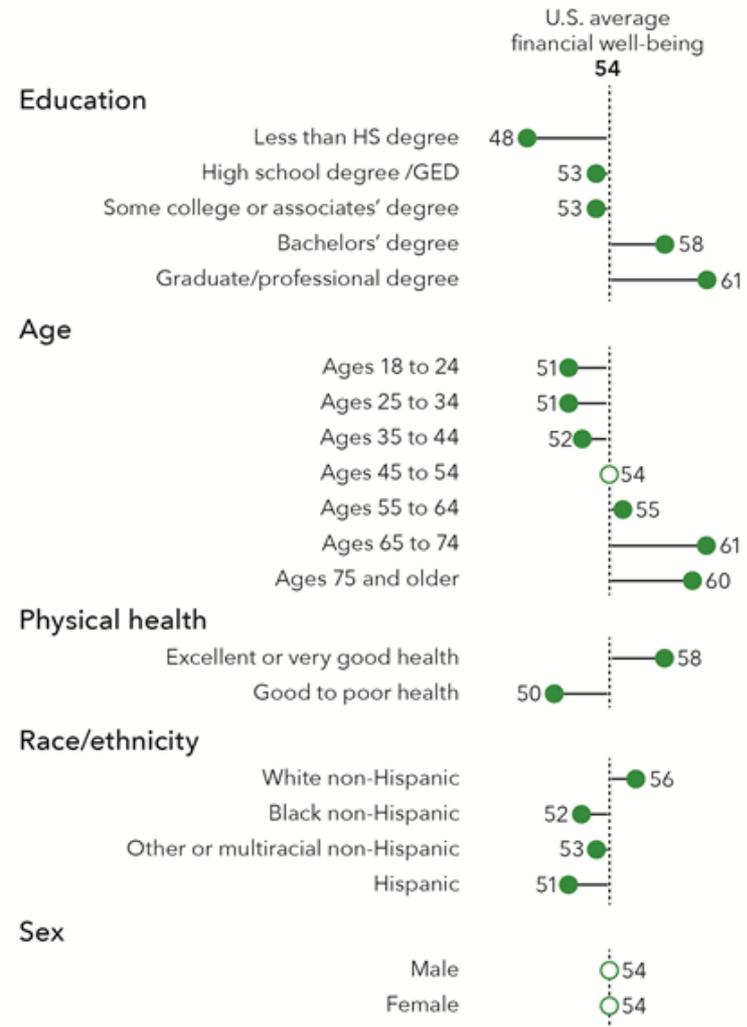




Many factors are associated  
with financial well-being, but  
no one factor determines it

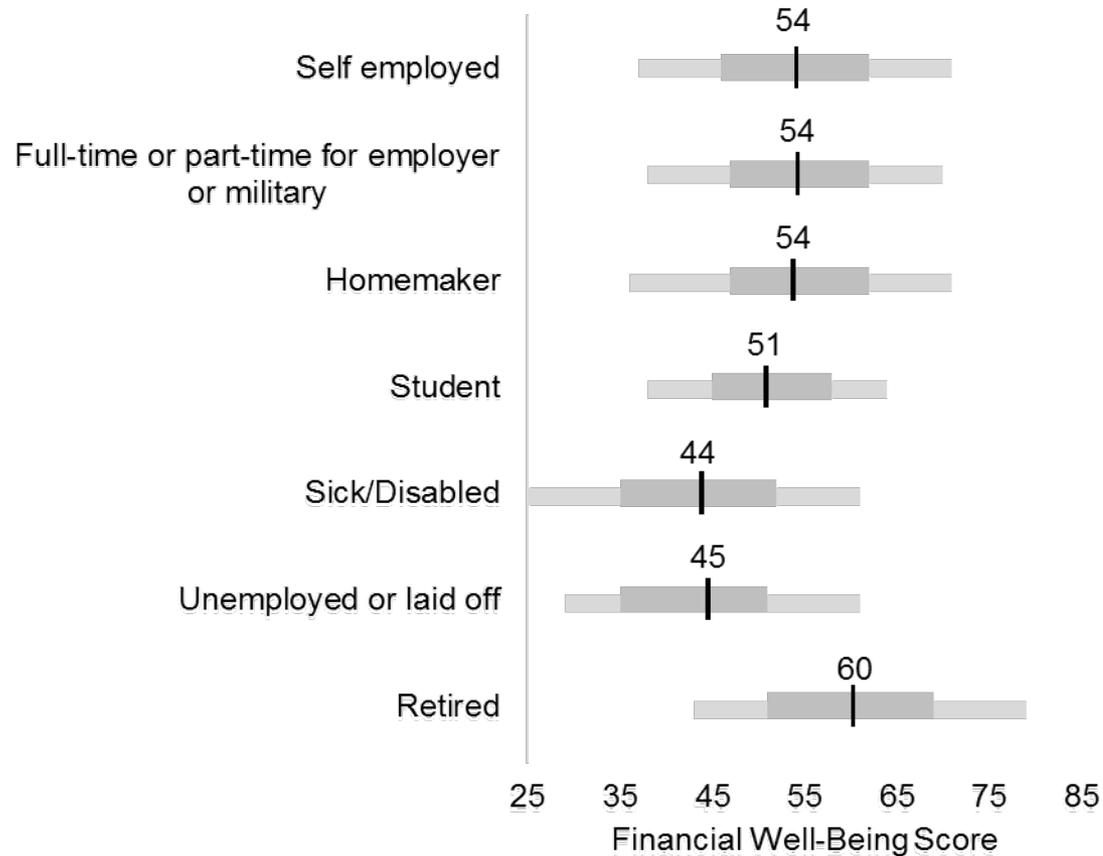
# Individual characteristics

- Education
- Age
- Physical health
- Race/ethnicity
- Sex

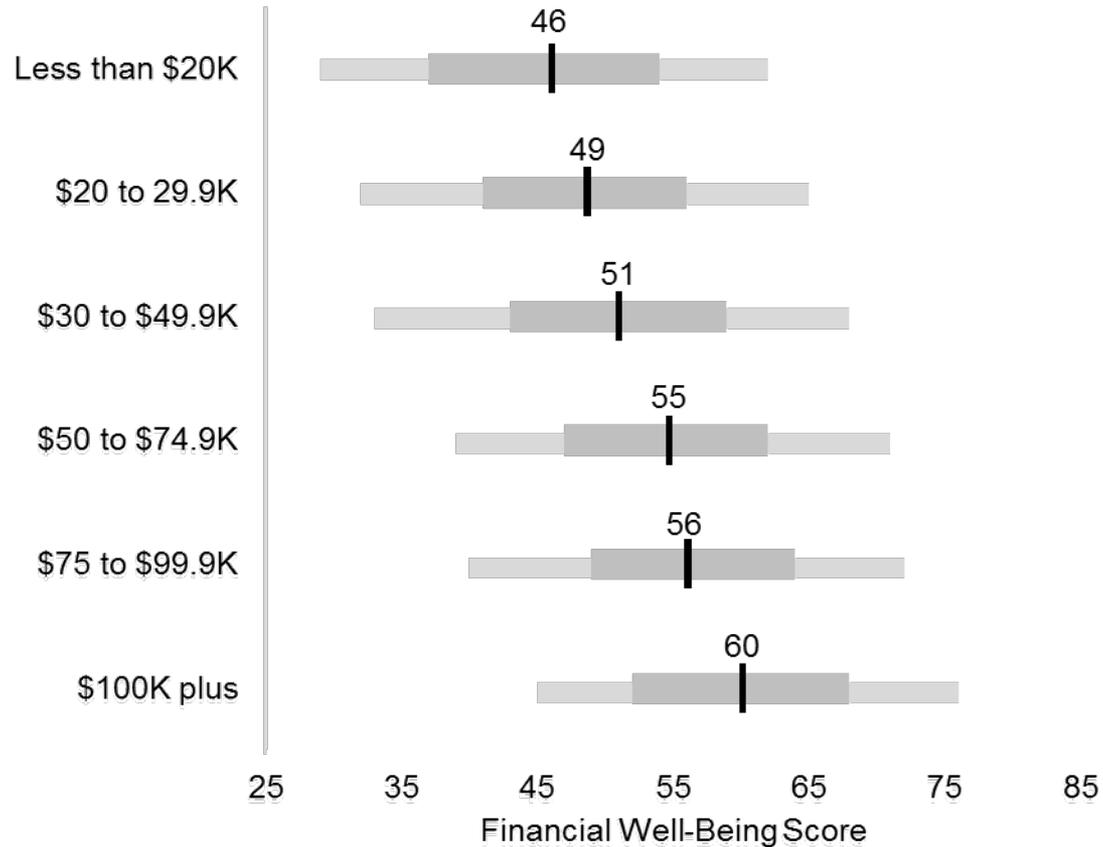


# Financial well-being score by employment status

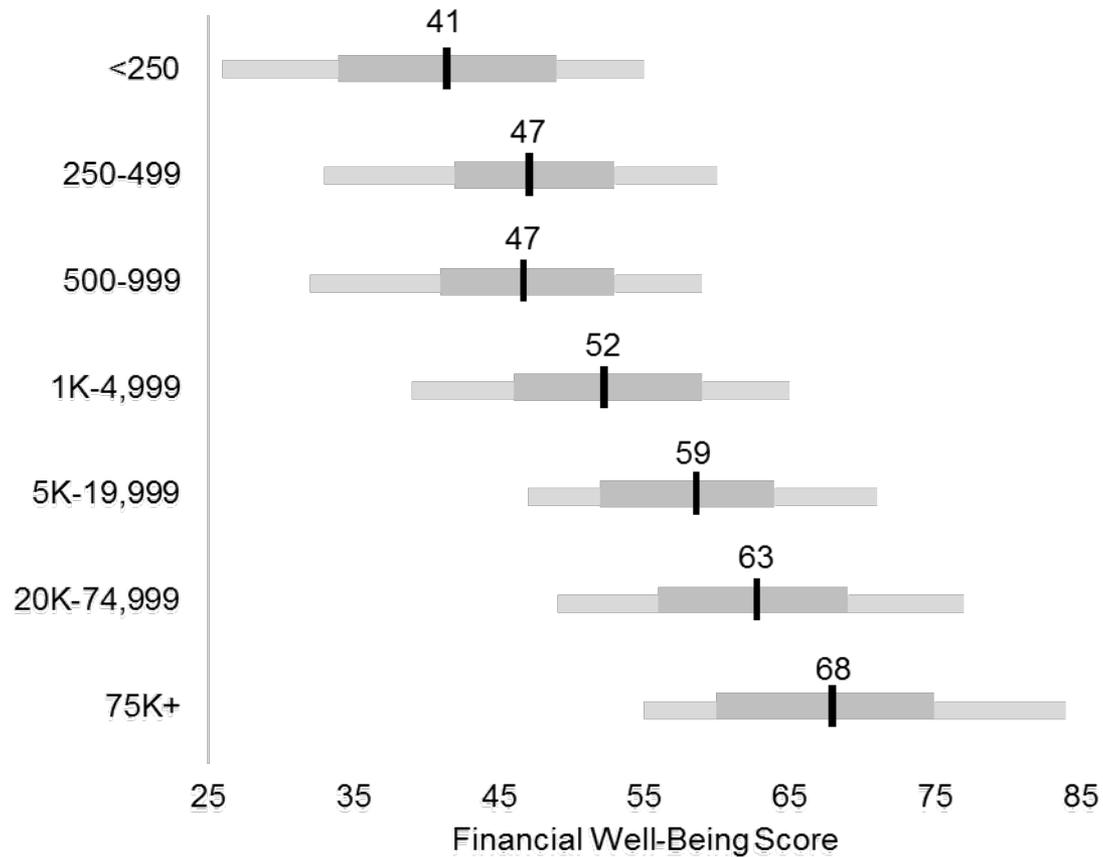
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# Financial well-being score by household income

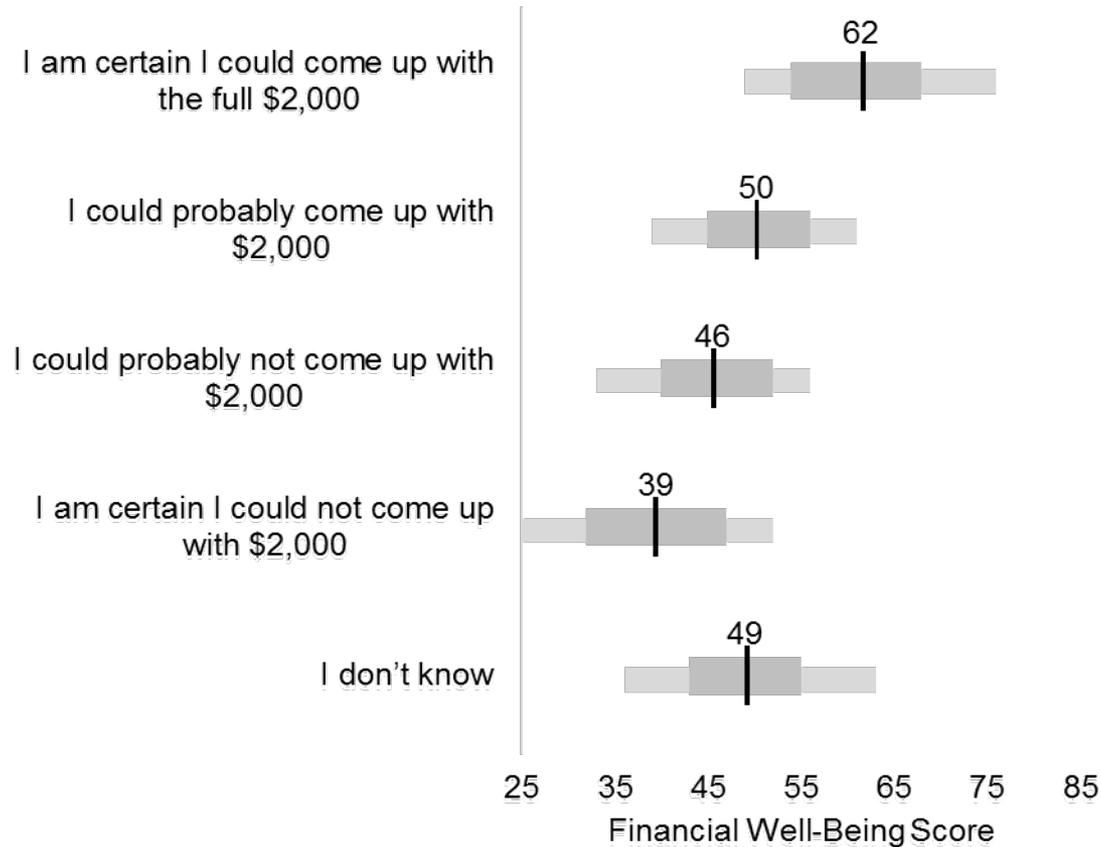


# Financial well-being score by liquid savings



# Financial well-being score by capacity to absorb an unexpected expense

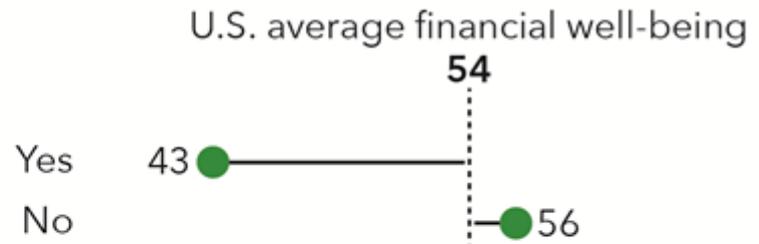
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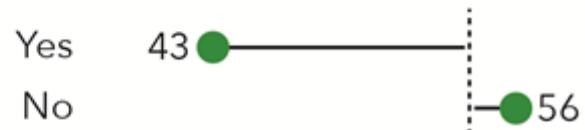
# Average financial well-being scores by negative debt and credit experiences

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Turned down for credit

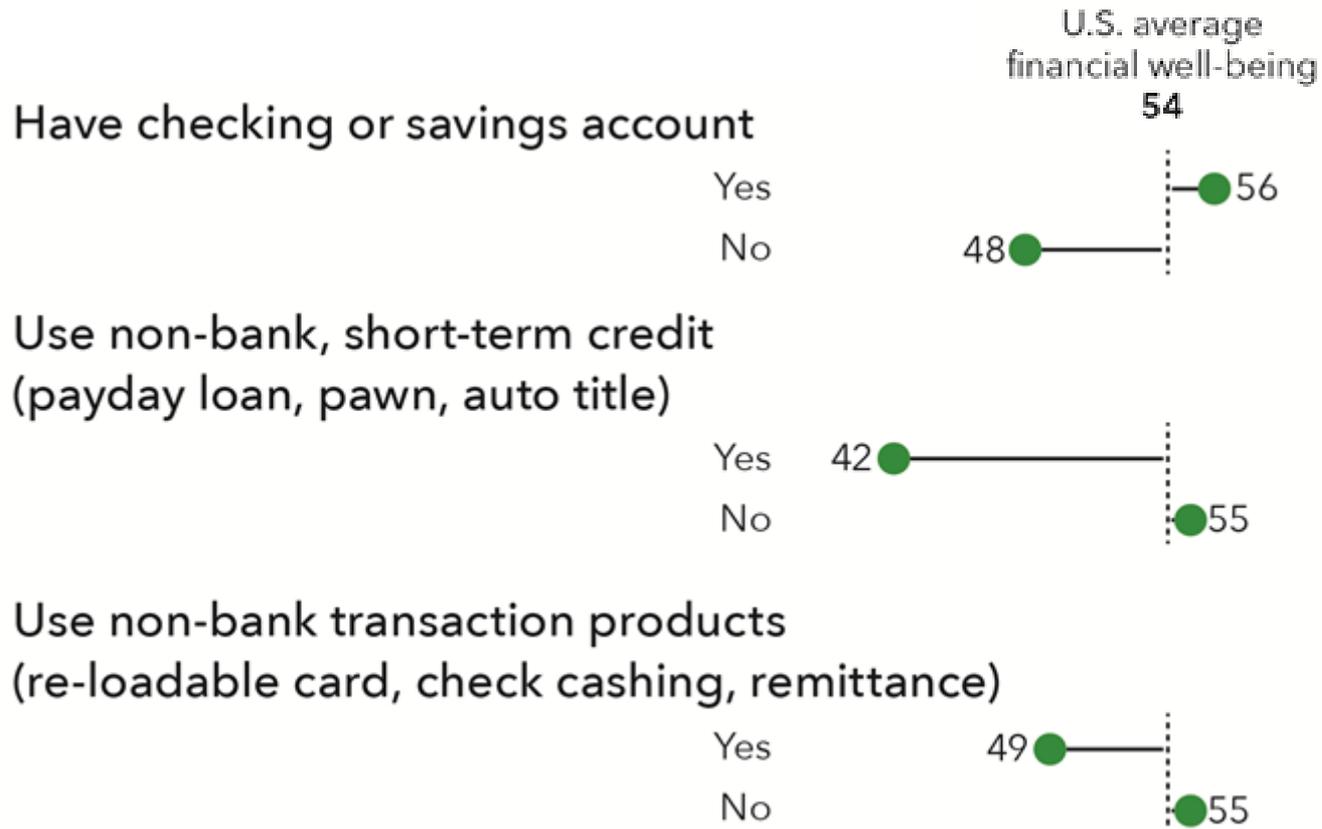


Contacted by debt collector



# Average financial well-being scores by financial product use

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# Average financial well-being scores by financial behaviors and attitudes

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Confidence in ability to achieve a financial goal

Not High  
High

Have a habit of saving

Yes  
No

Effective day-to-day money management behaviors

Above median level  
At or below median level

U.S. average financial well-being

54

50

63

48

60

48

61

# Average financial well-being scores by financial knowledge and skill

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## Financial knowledge

Above median level

At or below median level

## Financial skill

Above median level

At or below median level

U.S. average financial well-being

54

51

58

49

60

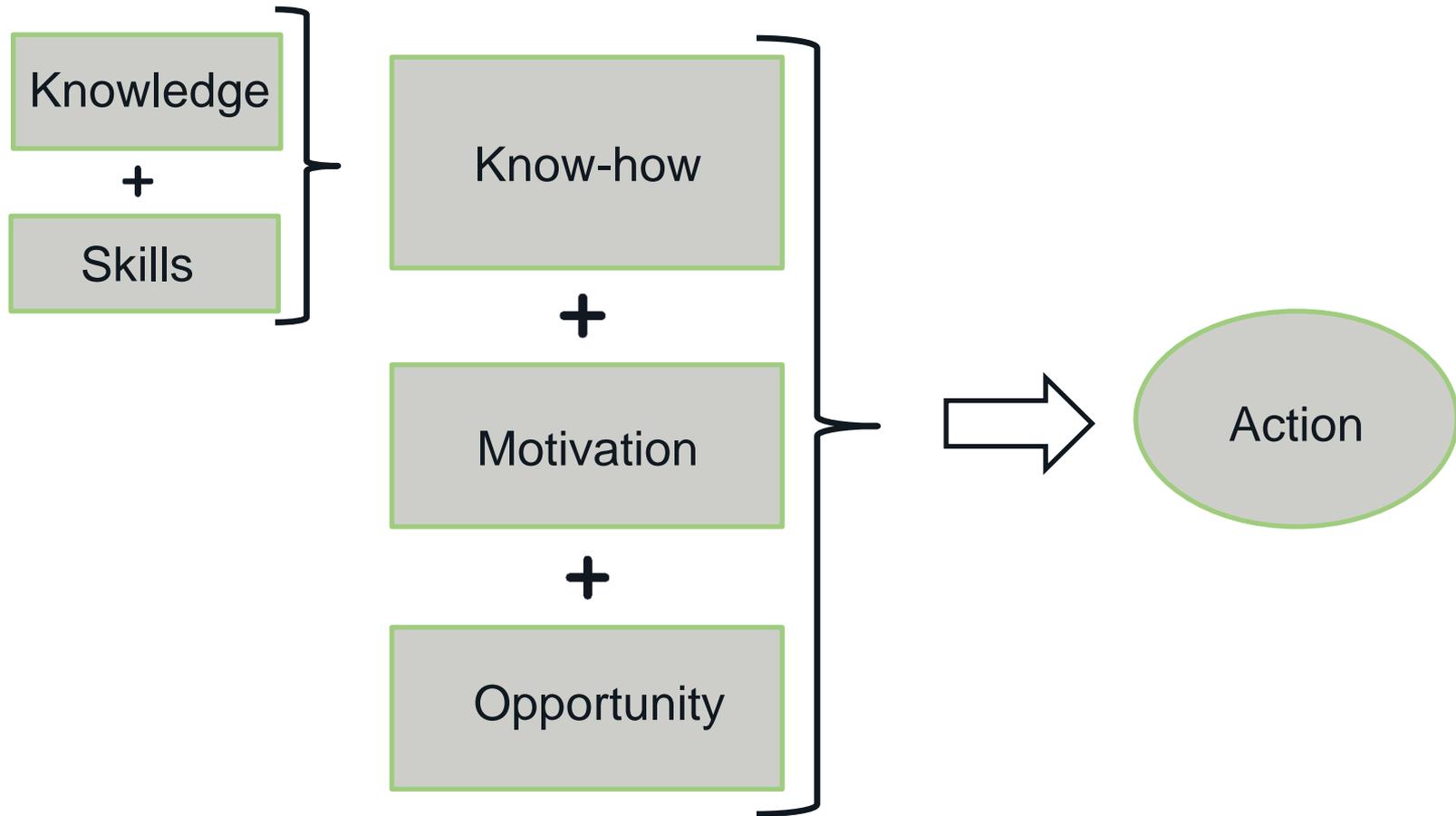
# Opportunities to improve financial well-being

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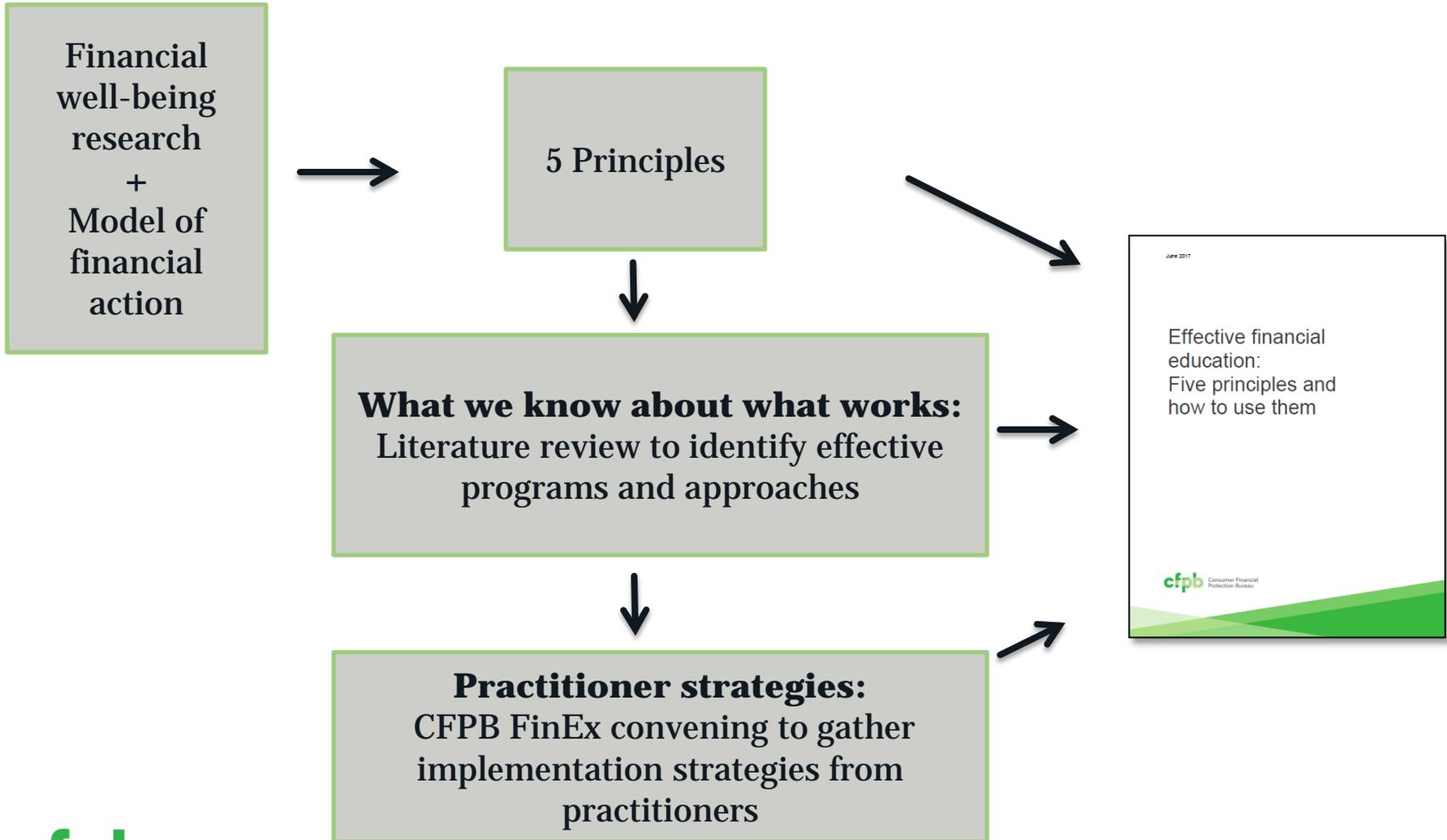
- Many characteristics associated with financial well-being are the target of financial capability programs:
  - The strongest relationships to financial well-being appear to be related to **savings and safety nets**
  - Certain experiences with **debt and credit** seem to be strongly – and negatively – associated with financial well-being
  - Many of the strongest positive relationships with financial well-being correspond to **financial attitudes, behaviors, and skills**
- A growing body of evidence exists on effective strategies to improve financial decision-making and financial outcomes.
- *Effective financial education: Five principles and how to use them* combines insights into financial well-being with actionable strategies for financial educators.

# Model of financial action: From research to practice

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# Developing the principles and key resources included



# Principles for effective financial education

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-  **1. Know the individuals and families to be served**
  - Start with learning their challenges, goals, and situation and tailor support accordingly
-  **2. Provide actionable, relevant and timely 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 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 that makes it easier for people to achieve their goals.

# Resources

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- *Financial well being: The goal of financial education*  
[consumerfinance.gov/data-research/research-reports/financial-well-being/](https://consumerfinance.gov/data-research/research-reports/financial-well-being/)
- *CFPB Financial Well-Being Scale: Scale development technical report*  
[consumerfinance.gov/data-research/research-reports/financial-well-being-technical-report/](https://consumerfinance.gov/data-research/research-reports/financial-well-being-technical-report/)
- CFPB Financial Well-Being Scale: User guides, questionnaires, and scoring materials  
[consumerfinance.gov/data-research/research-reports/financial-well-being-scale/](https://consumerfinance.gov/data-research/research-reports/financial-well-being-scale/)
- *Financial Well-Being in America*  
[consumerfinance.gov/data-research/research-reports/financial-well-being-america/](https://consumerfinance.gov/data-research/research-reports/financial-well-being-america/)
- National Financial Well-Being Survey public use data file  
[consumerfinance.gov/data-research/financial-well-being-survey-data/](https://consumerfinance.gov/data-research/financial-well-being-survey-data/)
- *Effective financial education: Five principles and how to use them*  
[consumerfinance.gov/data-research/research-reports/effective-financial-education-five-principles-and-how-use-them/](https://consumerfinance.gov/data-research/research-reports/effective-financial-education-five-principles-and-how-use-them/)