Financial well-being:
The goal of financial education

CVM / OECD Regional Seminar on Emerging Trends in Financial Education

December 12, 2017
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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**
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.
Create opportunities for people to make **choices** about **money** to better reach their own life goals.
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.”

- “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.”
Financial well-being is the ultimate goal of financial education

- What is financial well-being?
- How can it be measured?
- What is the state of financial well-being in America?
- What helps people have more of it?
What is financial well-being?

How can it be measured?

What is the state of financial well-being in America?

What helps people have more of it?
What is financial well-being?

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.

<table>
<thead>
<tr>
<th></th>
<th>Present</th>
<th>Future</th>
</tr>
</thead>
<tbody>
<tr>
<td>Security</td>
<td>Control over your day-to-day, month-to-month finances</td>
<td>Capacity to absorb a financial shock</td>
</tr>
<tr>
<td>Freedom of choice</td>
<td>Financial freedom to make choices to enjoy life</td>
<td>On track to meet your financial goals</td>
</tr>
</tbody>
</table>
What influences financial well-being?

- **Social and economic environment**: What surrounds you in your family and community.
- **Knowledge and skills**: What you know, and what you know how to do.
- **Personality and attitudes**: How you tend to think, feel, and act.
- **Decision context**: How a particular decision is presented.
- **Behavior**: What you actually do.
- **Available opportunities**: What options are open to you.
- **Personal financial well-being**: How satisfied you are with your financial situation.
What is financial well-being?

How can it be measured?

What is the state of financial well-being in America?

What helps people have more of it?
A tool to measure financial well-being

**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

- 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:
  
  - Develop initial pool of questions
  - Cognitive interviews
  - Psychometric analyses
  - Validation

- 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

<table>
<thead>
<tr>
<th>Questions</th>
<th>Response Options</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>How well does this statement describe you or your situation?</strong></td>
<td>- Describes me completely</td>
</tr>
<tr>
<td>1. I could handle a major unexpected expense</td>
<td>- Describes me very well</td>
</tr>
<tr>
<td>2. I am securing my financial future</td>
<td>- Describes me somewhat</td>
</tr>
<tr>
<td>3. Because of my money situation, I feel like I will never have the things I want in life</td>
<td>- Describes me very little</td>
</tr>
<tr>
<td>4. I can enjoy life because of the way I’m managing my money</td>
<td>- Does not describe me at all</td>
</tr>
<tr>
<td>5. I am just getting by financially</td>
<td></td>
</tr>
<tr>
<td>6. I am concerned that the money I have or will save won’t last</td>
<td></td>
</tr>
</tbody>
</table>

| **How often does this statement apply to you?**                                                                                          |                                                        |
| 1. Giving a gift for a wedding, birthday or other occasion would put a strain on my finances for the month                           | - Always                                               |
| 2. I have money left over at the end of the month                                                                                       | - Often                                                |
| 3. I am behind with my finances                                                                                                        | - Sometimes                                            |
| 4. My finances control my life                                                                                                         | - Rarely                                               |
|                                                                                                                                         | - Never                                                |
Using the scale

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
What is financial well-being?

How can it be measured?

What is the state of financial well-being in America?

What helps people have more of it?
National Financial Well-Being Survey

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

<table>
<thead>
<tr>
<th>Category</th>
<th>Measures</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Financial status and circumstances</strong></td>
<td>CFPB Financial Well-being Scale and Score; ability to meet basic needs; experience of material hardship</td>
</tr>
<tr>
<td><strong>Individual characteristics</strong></td>
<td>Education; Age; Physical health; Race/ethnicity; and Sex</td>
</tr>
<tr>
<td><strong>Household and family characteristics</strong></td>
<td>Housing satisfaction; Housing status; Marital status; Financially supporting children; Census region</td>
</tr>
<tr>
<td><strong>Income and employment characteristics</strong></td>
<td>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</td>
</tr>
<tr>
<td><strong>Savings and safety nets</strong></td>
<td>Liquid savings; Ability to absorb an unexpected expense; Have non-retirement investments; Have health insurance; Have friends/family safety net for emergency needs</td>
</tr>
<tr>
<td><strong>Financial experiences</strong></td>
<td>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</td>
</tr>
<tr>
<td><strong>Financial behaviors, skills, and attitudes</strong></td>
<td>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</td>
</tr>
</tbody>
</table>
Financial well-being varies widely and reflects underlying financial circumstances
Financial well-being varies widely

<table>
<thead>
<tr>
<th>Financial well-being score range</th>
<th>Financial circumstances</th>
<th>Percent of U.S. adult population with scores in this range</th>
</tr>
</thead>
<tbody>
<tr>
<td>≤ 40</td>
<td>Nearly universal financial insecurity</td>
<td>13%</td>
</tr>
<tr>
<td>41 to 50</td>
<td>Large majority experiences financial insecurity</td>
<td>21%</td>
</tr>
<tr>
<td>51 to 60</td>
<td>A majority are not in financial distress</td>
<td>30%</td>
</tr>
<tr>
<td>61 to 70</td>
<td>Large majority experiences financial security</td>
<td>22%</td>
</tr>
<tr>
<td>&gt;70</td>
<td>Nearly universal financial security</td>
<td>14%</td>
</tr>
</tbody>
</table>
Scores reflect difficulty making ends meet...

- 11 to 20: 93% have difficulty, 7% do not
- 21 to 30: 96% have difficulty, 4% do not
- 31 to 40: 94% have difficulty, 6% do not
- 41 to 50: 74% have difficulty, 26% do not
- 51 to 60: 32% have difficulty, 68% do not
- 61 to 70: 7% have difficulty, 93% do not
- 71 to 80: 3% have difficulty, 97% do not
- 81 to 90: 2% have difficulty, 98% do not
- 91 to 100: 0% have difficulty, 100% do not

Financial well-being score range:

- ≤ 40
- >70

Have difficulty making ends meet

No difficulty making ends meet
...and experiencing material hardship

Financial well-being score range

- 11 to 20
  - Experienced material hardship: 87%
  - No material hardship: 13%

- 21 to 30
  - Experienced material hardship: 92%
  - No material hardship: 8%

- 31 to 40
  - Experienced material hardship: 79%
  - No material hardship: 21%

- 41 to 50
  - Experienced material hardship: 55%
  - No material hardship: 45%

- 51 to 60
  - Experienced material hardship: 21%
  - No material hardship: 79%

- 61 to 70
  - Experienced material hardship: 8%
  - No material hardship: 92%

- 71 to 80
  - Experienced material hardship: 2%
  - No material hardship: 98%

- 81 to 90
  - Experienced material hardship: 3%
  - No material hardship: 97%

- 91 to 100
  - Experienced material hardship: 2%
  - No material hardship: 98%
What is financial well-being?

How can it be measured?

What is the state of financial well-being in America?

What helps people have more of it?
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

- Self employed: 54
- Full-time or part-time for employer or military: 54
- Homemaker: 51
- Student: 44
- Sick/Disabled: 45
- Unemployed or laid off: 60
- Retired: 60

Financial Well-Being Score: 25 to 85
## Financial well-being score by household income

<table>
<thead>
<tr>
<th>Income Range</th>
<th>Financial Well-Being Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than $20K</td>
<td>46</td>
</tr>
<tr>
<td>$20 to 29.9K</td>
<td>49</td>
</tr>
<tr>
<td>$30 to $49.9K</td>
<td>51</td>
</tr>
<tr>
<td>$50 to $74.9K</td>
<td>55</td>
</tr>
<tr>
<td>$75 to $99.9K</td>
<td>56</td>
</tr>
<tr>
<td>$100K plus</td>
<td>60</td>
</tr>
</tbody>
</table>

25
Financial well-being score by liquid savings

Financial Well-Being Score

- <250: 41
- 250-499: 47
- 500-999: 47
- 1K-4,999: 52
- 5K-19,999: 59
- 20K-74,999: 63
- 75K+: 68

25 35 45 55 65 75 85

CFPB: Consumer Financial Protection Bureau
Financial well-being score by capacity to absorb an unexpected expense

- I am certain I could come up with the full $2,000 (62)
- I could probably come up with $2,000 (50)
- I could probably not come up with $2,000 (46)
- I am certain I could not come up with $2,000 (39)
- I don’t know (49)
Average financial well-being scores by negative debt and credit experiences
Average financial well-being scores by financial product use

Have checking or savings account
- Yes: 56
- No: 48

Use non-bank, short-term credit (payday loan, pawn, auto title)
- Yes: 55
- No: 42

Use non-bank transaction products (re-loadable card, check cashing, remittance)
- Yes: 55
- No: 49
Average financial well-being scores by financial behaviors and attitudes

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
Average financial well-being scores by financial knowledge and skill

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
- 49
- 58
- 60
Opportunities to improve financial well-being

- 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

Knowledge + Skills

Know-how

Motivation

Opportunity

Action
Developing the principles and key resources included

Financial well-being research + Model of financial action

5 Principles

**What we know about what works:**
Literature review to identify effective programs and approaches

**Practitioner strategies:**
CFPB FinEx convening to gather implementation strategies from practitioners
Principles for effective financial education

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

- **Financial well being: The goal of financial education**

- **CFPB Financial Well-Being Scale: Scale development technical report**

- CFPB Financial Well-Being Scale: User guides, questionnaires, and scoring materials

- **Financial Well-Being in America**

- National Financial Well-Being Survey public use data file

- **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/](http://consumerfinance.gov/data-research/research-reports/effective-financial-education-five-principles-and-how-use-them/)