

## Exploring New Frontiers in Financial Capability Research for Vulnerable Populations Center for Financial Security 2012 Workshop—Summary of Proceedings

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*Presented with support from the Social Security Administration Financial Security Literacy Research Consortium*

The Center for Financial Security at the University of Wisconsin-Madison hosted the *Exploring New Frontiers in Financial Capability Research for Vulnerable Populations* workshop on June 5<sup>th</sup> and June 6<sup>th</sup>, 2012. The workshop convened researchers, practitioners, advocates, and policy makers from across the nation in Madison, Wisconsin to explore new research, programs and policy initiatives for improving financial capability among vulnerable populations. This brief synthesizes presentations and discussions from the event into seven key themes.<sup>1</sup> The themes focus on lessons for both practice and research on financial capability in the United States.

### **#1) Financial capability interventions should be well targeted and recur over the life course.**

Key financial decisions occur over the life span in a landscape of financial services and products that is constantly changing. This environment requires consumers to remain informed and empowered throughout their lives. Therefore, financial interventions and education materials should be available, appropriate and accessible from multiple sources for a range of populations.

A framework for household financial security over the life course was presented by Ida Rademacher, Chief Program Officer, Corporation for Enterprise Development (CFED): 1) Learn financial skills, 2) Acquire assets to increase earning capacity (earn, save, invest), and 3) Protect gains through insurance and avoiding predatory practices. This framework is useful for exploring themes from the workshop.

#### *Learn Financial Skills*

Learning financial skills could begin with financial education in the school system that starts in

### KEY THEMES & HIGHLIGHTS

- Financial capability interventions should be well targeted and recur over the life course.
- Improving the financial capability of vulnerable and underserved populations requires a range of programs and intervention strategies.
- Target interventions to meaningful “just in time” moments for greater impact.
- Make thoughtful use of behavioral interventions and choice architecture; be mindful of unexpected impacts and unintended consequences, especially since financial products and decisions are not homogeneous.
- Financial capability research requires more investment in measurement and evaluation as well as developing new generations of researchers.
- Evidence-based policymaking requires ongoing applied research on consumer financial decisions, including debt, use of savings and insurance.

<sup>1</sup> View the Workshop Agenda, Speaker Bios, Presentation Materials, and Graduate Symposium at <http://financialcapability.wordpress.com/>

elementary schools and continues throughout the education process. Prior research suggests that financial literacy interventions in isolation have limited effects on behavior. Promising directions for improving behavior include combining education or counseling over longer time periods of time with access to financial products and services.

Once in the workforce, financial skills can be further developed with the co-location of financial services at workplaces or in combination with public benefit programs. For example, [Stand By Me](#), Delaware's Financial Empowerment Partnership, provides one-on-one financial coaching in addition to other financial services to low- and moderate-income individuals through a variety of locations. Stand By Me Director, Mary DuPont, explained that providing financial coaching services at the workplace has the potential to benefit both employees and employers since reducing financial stress can improve work performance. The cumulative effects of education on personal finance in schools, workplaces and in connection with products have the potential to induce more profound effects than financial education alone.

*Acquire Assets to Increase Earning Capacity (Earn, Save, Invest)*

Post-secondary education is a key strategy for building earning capacity and human capital, but the price can be steep. Student loans can be both an investment and a liability. Research presented by Rachel Dwyer of The Ohio State University indicates that the return on investment in a college education and the likelihood of graduation are influenced by socio-economic status,

and whether a school is public or private. Further, according to Min Zhan of the University Illinois at Urbana-Champaign, college completion is also associated with race and both financial and non-financial assets.

In terms of retirement planning, even established working families can struggle when faced with planning for retirement, especially in determining how much to save. According to University of Wisconsin-Madison economics professor John Karl Scholz, current methods of determining appropriate levels of retirement savings should be improved with a life-cycle model that incorporates additional information. Scholz's research suggests that most Americans are on track with retirement savings, particularly given the important role played by Social Security, if the goal is to support a level of spending calibrated for family size and other changes that come with age. But some vulnerable populations, perhaps particularly those from more recent generations, may not be as well prepared.

Once a major pillar of retirement, fully-funded defined pensions are becoming rarer and more complicated, as noted by professor Robert Clark of North Carolina State University. Significant increases in workplace mobility have affected the ability of work-based retirement plans to accumulate retirement savings. The burden of making choices about retirement plans has shifted to the worker given the transition to defined contribution plans. Public employee plans face ongoing pressures such that no employees can take the once prized defined benefit pension for granted.

**A GROWING NUMBER OF DATASETS ARE AVAILABLE ON FINANCIAL CAPABILITY**

**RAND: American Life Panel Survey**

- Internet survey with nationally representative panel that began in 2006; includes information on financial capability and behavior

**Wisconsin Longitudinal Study**

- Sample of 1957 Wisconsin HS graduates (n=10,317) with recent waves that include family members; Data domains: financial, education, social, health, family, children with disabilities, end of life

**FINRA: National Financial Capability Survey**

- Launched in 2009 to establish a baseline of financial capability in the US with a national sample (n=1500), a state by state sample (n =28,000), and a military sample; 2012 wave includes items on student loans, debt, financial education, and money management with new technology

**CFSI: U.S. Financial Diaries Project**

- In-depth look into the finances of 300 low- and moderate-income families (June 2012– June 2013) in four locations: New York, Kentucky/Ohio, Mississippi, and California; Field researchers visit households twice per month to collect detailed data

***Financial capability research requires more investment in measurement and evaluation as well as developing new generations of researchers.***

*Protect Gains*

There are many ways to insure against financial risk. Research by Boston College's Norma Coe suggests that long-term care is currently a major uninsured risk for many households, as the rates of private insurance are quite low. The failure to obtain long-term care insurance is affected by misinformation including expectations about future needs and the care giving role of family members. Research in this area suggests that even personal experience with relatives only results in small changes in insurance coverage.

In order to protect assets of all kinds, the general public needs adequate financial literacy to avoid becoming the victim of financial frauds and Scams, explained Wisconsin Assistant Attorney John Greene, Director of the Consumer Protection and Antitrust Unit. Expanding consumer education and protection efforts in this area is an important area in need of greater attention.

**#2) Improving the financial capability of vulnerable and underserved populations requires a range of programs and intervention strategies.**

One intervention strategy is providing financial advice. Angela Hung of RAND explained that trusted advice can be powerful. Those with lowest financial capability, however, are least likely to seek advice but may benefit from such assistance. There is evidence that unsolicited advice is ineffective effective, indicating the importance of partnerships and creative outreach strategies.

Another supportive intervention is financial counseling, such as debt or credit counseling. Receiving counseling, technology assisted counseling, and starting a debt management plan are all associated with better credit outcomes in research conducted by Michael Staten of the University of Arizona. Although there is demand for debt relief, current products are unable to serve a significant portion of the population, as the industry is struggling to reinvent its business model and comply with the evolving regulatory framework.

Social work and human service providers are uniquely situated to be trained in financial capability in order to support their clients. Nonetheless, current social work programs do not offer adequate education and training in this area. There is a growing recognition of the need to provide these skills to practicing social workers through continuing education and to students through coursework. The Financial Social Work Initiative under Jodi Jacobson at the University of Maryland is one of the first programs of its kind.

Persons with disabilities are a population in need of innovation for improving their financial capability. According to Walt Schalick of the University of Wisconsin-Madison, they face unique challenges related to finances that have been largely ignored by the government, research and policy. It is important that financial capability building interventions and financial education materials are appropriate and accessible.

New technologies present many opportunities for connecting vulnerable populations to financial resources, tools, and services. Interactive tools, games and calculators have the capacity to engage consumers as well as reach a broader audience through mobile devices and apps.

Struggles for economic mobility and disparities in wealth influence financial capability. Tom Shapiro of Brandeis University presented compelling evidence on racial wealth disparities. The wealth gap between whites and blacks has increased in last 25 years, and in one sample currently stands at \$150,000. Factors influencing the racial wealth gap include income, homeownership, and inheritance. Interventions that aim to improve economic mobility and wealth differentials should address employment and education disparities and housing segregation. While Diana Elliot of the Pew Economic Mobility project explained that the majority of children do not move up in relation to their parents, there is a lot of stickiness at both the top and bottom of the economic status continuum. The stickiness is magnified by race and education.

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### **#3) Target interventions to meaningful “just in time” moments for greater impact.**

Relevant information transferred at these meaningful moments has salience and a greater capacity to influence behavior. Examples of meaningful moments appropriate for intervention include tax time prompts in tax filing software that increase intentions to save, as shared by Michal Grinstein-Weiss of the University of North Carolina. Another approach is counseling for homebuyers, as shared by Stephanie Moulton at The Ohio State University. These are moments when people are making important decisions and can benefit from decision making tools, information and advice in various forms.

### **#4) Make thoughtful use of behavioral interventions and choice architecture, but also be mindful of unexpected impacts and unintended consequences, especially since financial products and decisions are not homogeneous.**

Behavioral influences play a significant role in a range of financial decisions and behaviors beyond simple information or advice. For example, Eric Johnson, Columbia School of Business, presented evidence of how present bias impacts the decision of when to claim Social Security. Claiming early is the focal option because the question at hand is whether to retire now. Claiming decisions depend on how choices are presented. For example, a pre-decision checklist can help people re-frame their choices in such a way that they show more willingness to defer retirement to acquire larger benefits.

Stephanie Moulton of The Ohio State University showed that people who are worst at estimating their own debt levels are also less likely to seek or take up financial counseling.

Josh Wright of ideas42 emphasized that small product design details can shift financial choices dramatically, especially related to savings programs. But policymakers also need to be cautious about program design, as the effects of behaviorally designed interventions may fade over time, or may drive some consumers to make sub-optimal choices.

Professor John Lynch from the University of Colorado suggested that behavioral nudges, defaults and similar approaches are most appropriate when product choices are relatively homogenous and most consumers are made better off with a particular set of decisions. For more complicated or wider ranging financial product decisions, structured decision making tools may be appropriate in order to winnow down choice sets and make the analysis required by the consumer less cognitively taxing.

### **#5) Financial capability research requires more investment in measurement, longer-term evaluations and encouraging new researchers to enter the field.**

As it stands, the financial capability field lacks any well-defined, widely agreed-upon measures of financial well-being or health. Anecdotal evidence suggests some behaviors are costly in absolute terms, but the ultimate harm or benefit of choices is not well understood. A host of new data are available (see textbox on page 2), but more field work is needed to validate reliable measures of consumer behavior and financial outcomes. This will also aid longitudinal evaluations of interventions and products, especially over the life course. New technology including mobile banking and the ability to collect surveys remotely, as well as vast administrative databases also offer new research opportunities.

Collaboration across disciplines such as economics, law, social work, public policy and disciplines has the potential to offer new insights to the field. The cross-discipline nature of the work can, however, make it more difficult to access existing funding streams. Funding for financial capability programs and research is limited, often isolated from other fields and inflexible in terms of the time required to undertake meaningful new work. Of particular need is support that attracts young researchers to the field as graduate students or junior faculty.

### **#6) Evidence-based policymaking requires ongoing applied research on consumer financial decisions; including debt, use of savings and insurance.**

An ongoing theme at the workshop was that policymakers, practitioners and researchers were surprised to learn about synergistic work with their own work that was not well known across the field.

The challenge for researchers is to stay connected to rapid changes in policy and regulation, as well as the work of innovative practitioners. There are too few opportunities for interaction between these groups. Researchers are encouraged to maintain an ‘open door’ for discussions with professionals in the field to keep up with new ideas and issues in the marketplace.

It is equally challenging for policy makers and practitioners to keep up with research. All-too-often work is published in obscure reports or working papers years before being released in a peer-reviewed journal. It is too hard to stay current on published journals—which are also not widely or affordably accessible outside of academia. Researchers need to work on additional forms of translational outreach including briefs, press releases, websites, blogs, podcasts and webinars.

One lesson of the workshop is the mutual gain from interactions between professionals across fields. New program and policy ideas, innovative financial product discussions and the foundation for new research studies are inspired by events such as the “Exploring New Frontiers in Financial Capability Research for Vulnerable Populations” 2012 workshop. The Center for Financial Security thanks all affiliates, presenters, discussants and participants in the event for a lively two days of dialogue. We also look forward to future events where further insights are developed using a format that mixes research and practice across fields and disciplines.

#### Learn More:

- New tools for policymakers and consumers are available from the [Consumer Finance Protection Bureau](#) (CFPB).
- The Financial Literacy & Education Commission (FLEC) is comprised of 21 federal entities working to promote financial well-being; access additional government resources and stay up to date on policy initiatives on the FLEC website [MyMoney.gov](#).

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*The University of Wisconsin-Madison Center for Financial Security is an applied, multidisciplinary research center that seeks to inform practitioners, policymakers, and the general public about strategies to build financial capability over the life course.*

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