

# Financial Education Exchange

## Pathways to financial well-being: the role of financial capability

September 27 | 2:00-3:00 p.m. ET

Janneke Ratcliffe, Office of Financial Education



# DISCLAIMER

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This document was used in support of a live discussion. As such, it does not necessarily express the entirety of that discussion nor the relative emphasis of topics therein.

# About the Bureau

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- The Bureau of Consumer Financial Protection regulates the offering and provision of consumer financial products and services under the Federal consumer financial laws, and educates and empowers consumers to make better informed financial decisions.

# Financial Education Exchange (CFPB FinEx)

An online and in-person opportunity to access Bureau tools and resources, and connect with the Bureau and your peers engaged in financial education.

Our goal is to help you improve the financial well-being of the people you serve.

## Regional convenings:

- Dallas, TX
- Fort Worth, TX
- Maryland
- Denver, CO
- Kansas City, MO
- Atlanta, GA
- Sacramento, CA
- Madison, WI
- St. Louis, MO
- Tacoma, WA
- Nashville, TN
- Boston, MA

Monthly e-newsletters

Annual surveys



Number of financial educators signed up:  
**3160**

## Monthly webinars include:

- Fraud prevention for older adults
- Disaster recovery and preparedness
- Resources for servicemembers
- Accessing credit scores
- Managing spending
- Debt collection resources
- Credit card spending
- Libraries as a Financial Education Resources
- Financial Coaching
- Financial Education Programs Serving Immigrant Populations
- Federal Financial Education Resources
- Take Control of Your Auto Loan
- Financial Rules to Live By
- Resources for Parents
- Tips for Strengthening Financial Education Curriculum
- Resources for Parents and Caregivers
- Resources for Financial Caregivers
- Measuring Financial Well-Being
- Owning a Home
- Tax Time Savings
- Your Money, Your Goals Toolkit

**To sign up, email  
CFPB\_FinEx@cfpb.gov**

# Resources for financial educators webpage

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## Financial education for adults

We help you help the people you serve. For adult financial educators, the tools here show our latest thinking on consumer financial behavior and effective financial education practices.

### Featured event

### Free webinar about pathways to financial well-being

Thursday, Sept. 27, from 2-3 p.m. ET

[View details and enroll](#)



## About us

We're the Consumer Financial Protection Bureau (CFPB), a U.S. government agency that makes sure banks, lenders, and other financial companies treat you fairly.

[Learn how the CFPB can help you](#)

## CONNECT WITH US

Join the CFPB Financial Education Exchange (CFPB FinEx) to get the latest news, invitations to webinars, and to learn from your peers.

### Email address

The information you provide will permit the Consumer Financial Protection Bureau to process your request or

Find it at [consumerfinance.gov/adult-financial-education](https://consumerfinance.gov/adult-financial-education)

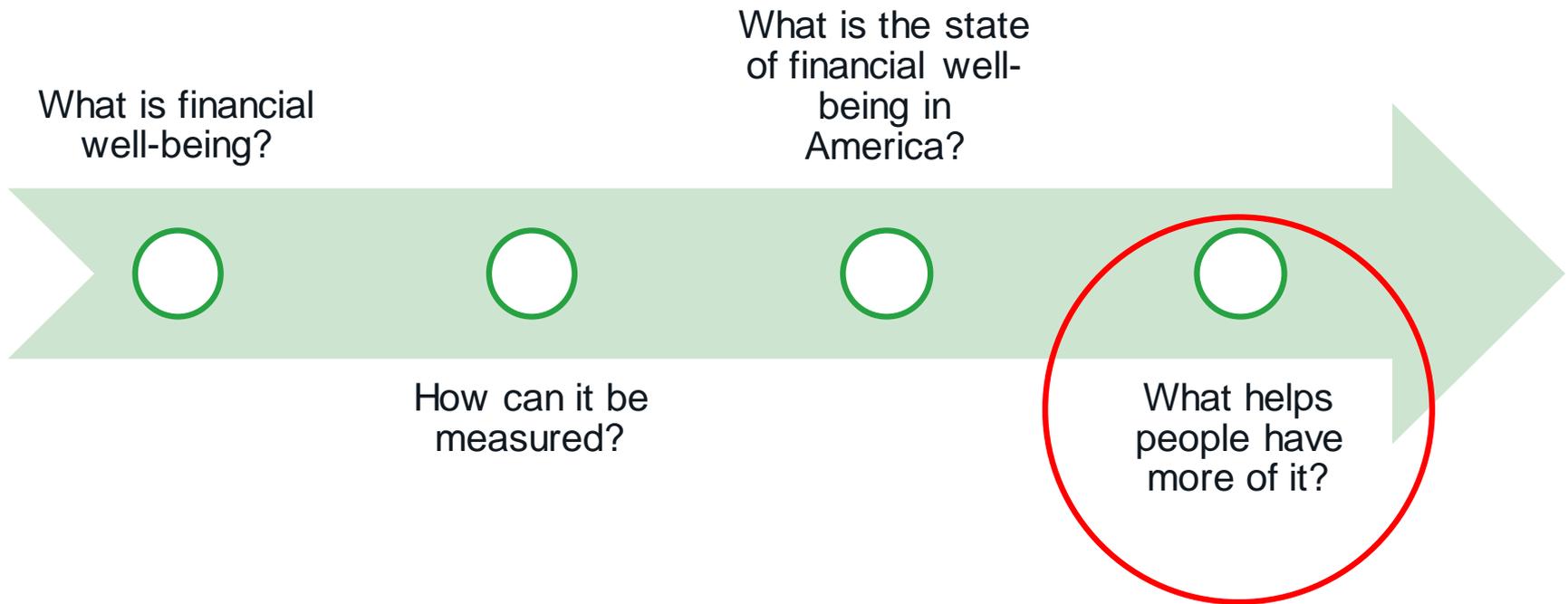
*Today's topic:*

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# **Pathways to financial well-being: the role of financial capability**

# 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.*

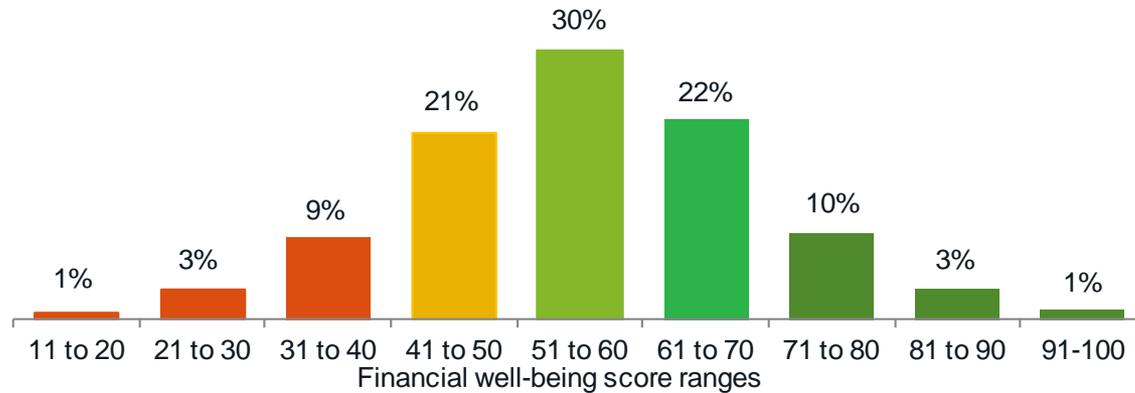
	Present	Future
Security	Control over your day-to-day, month-to-month finances	Capacity to absorb a financial shock
Freedom of choice	Financial freedom to make choices to enjoy life	On track to meet your financial goals

# How do you measure it? 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>

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

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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%

**What helps people have more of it?**

**What is the relationship between financial capability and financial well-being?**

# About the study

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**Data:** The study used data from *the Bureau's 2016 National Financial Well-Being Survey*, a nationally representative survey of almost 6,400 adults age 18 and older in the United States.

**Analysis:** Structural equation model estimation to test hypotheses about the associations between financial well-being and financial skill, financial knowledge, financial behavior, and financial situation.

**Limitations:** The data reveal associations between different factors, but do not support conclusions about causal relationships between them.

# Key concepts: definitions and measurement

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Concepts	What is it	How we measured it
<b>Financial well-being</b>	An individual's ability to meet current and ongoing financial obligations, feel secure in their financial future, and make choices that allow enjoyment of life.	10-item Financial Well-Being Scale
<b>Financial situation</b>	The objective facts of a person's financial situation.	A measure that combined self-reported (1) financial resources (e.g., liquid savings, financial products owned); (2) ability to make ends meet; (3) presence (or absence) of material hardship; and (4) self-reported credit standing.
<b>Financial behavior</b>	Actions an individual does or does not take	A measure that combined of self-reported day-to-day money management behaviors (both managing money and following through on financial commitments), financial planning, and saving habits.
<b>Financial knowledge</b>	Knowledge of general financial facts and concepts (e.g., risk diversification)	10-item version of the Knoll-Houts Financial Knowledge Scale.
<b>Financial skill</b>	Ability to find reliable financial information, process that information, act on it, and adapt as needed to stay on track to achieving goals.	10-item Financial Skill Scale

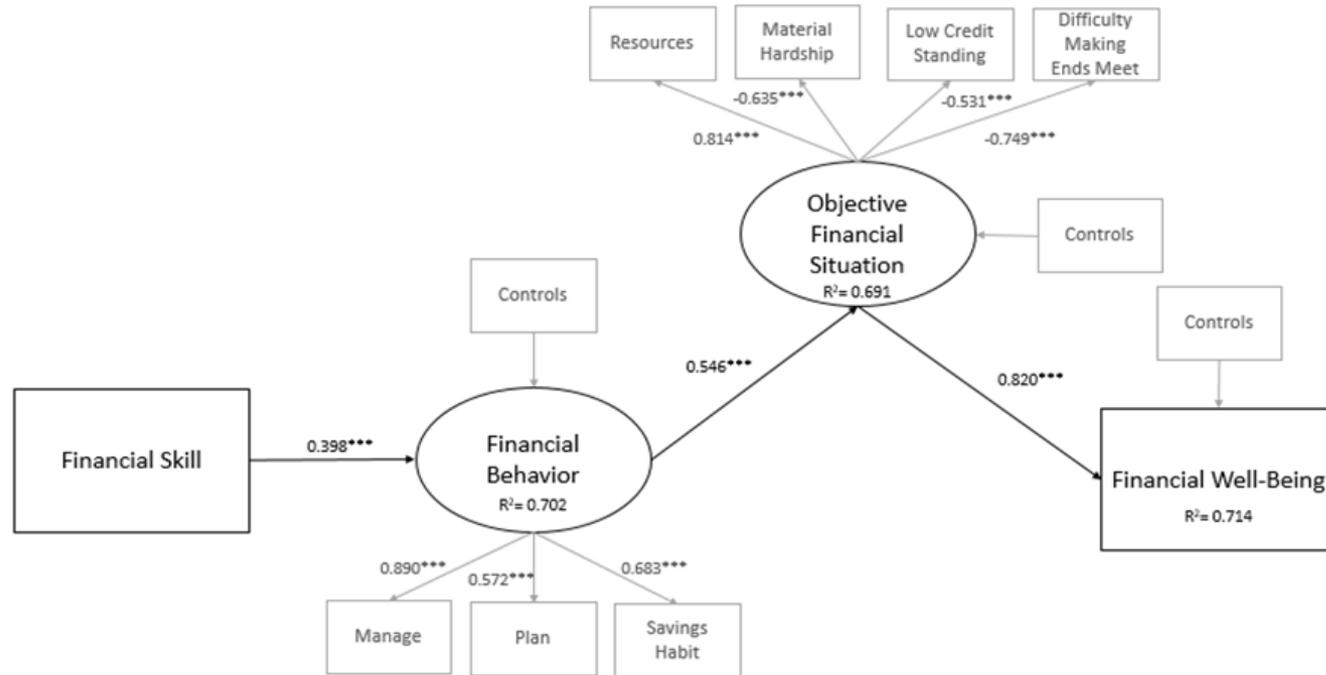
# Financial Skill Scale - Questions

Questions	Response Options
<b>How well does this statement describe you or your situation?</b>	
1. I know how to make complex financial decisions <sup>†</sup>	
2. I am able to make good financial decisions that are new to me	• Describes me completely
3. I know how to get myself to follow through on my financial intentions <sup>†</sup>	• Describes me very well
4. I am able to recognize a good financial investment	• Describes me somewhat
5. I know how to keep myself from spending too much	• Describes me very little
6. I know how to make myself save <sup>†</sup>	• Does not describe me at all
7. I know where to find the advice I need to make decisions involving money	
<b>How often does this statement apply to you?</b>	
1. I know when I do not have enough information to make a good decision involving my money <sup>†</sup>	• Always
2. I know when I need advice about my money	• Often
3. I struggle to understand financial information* †	• Sometimes
	• Rarely
	• Never

\* Denotes questions for which the response options are “reverse coded.”

† Denotes questions that are part of the abbreviated (5-question) scale.

# Results of the model



SOURCE: Analysis of the 2016 National Financial Well-Being Survey data.

CONTROLS: Income, retirement status, financial self-efficacy, frugality, perceived economic mobility, and self-control.

NOTE: N = 6,394. Standardized coefficients for the model of the associations among financial well-being, objective financial situation, financial behavior, and financial skill. Only significant paths shown. \*  $p < .05$ . \*\*  $p < .01$ . \*\*\*  $p < .001$ . In the table below, <sup>c</sup> Indicates control variables.

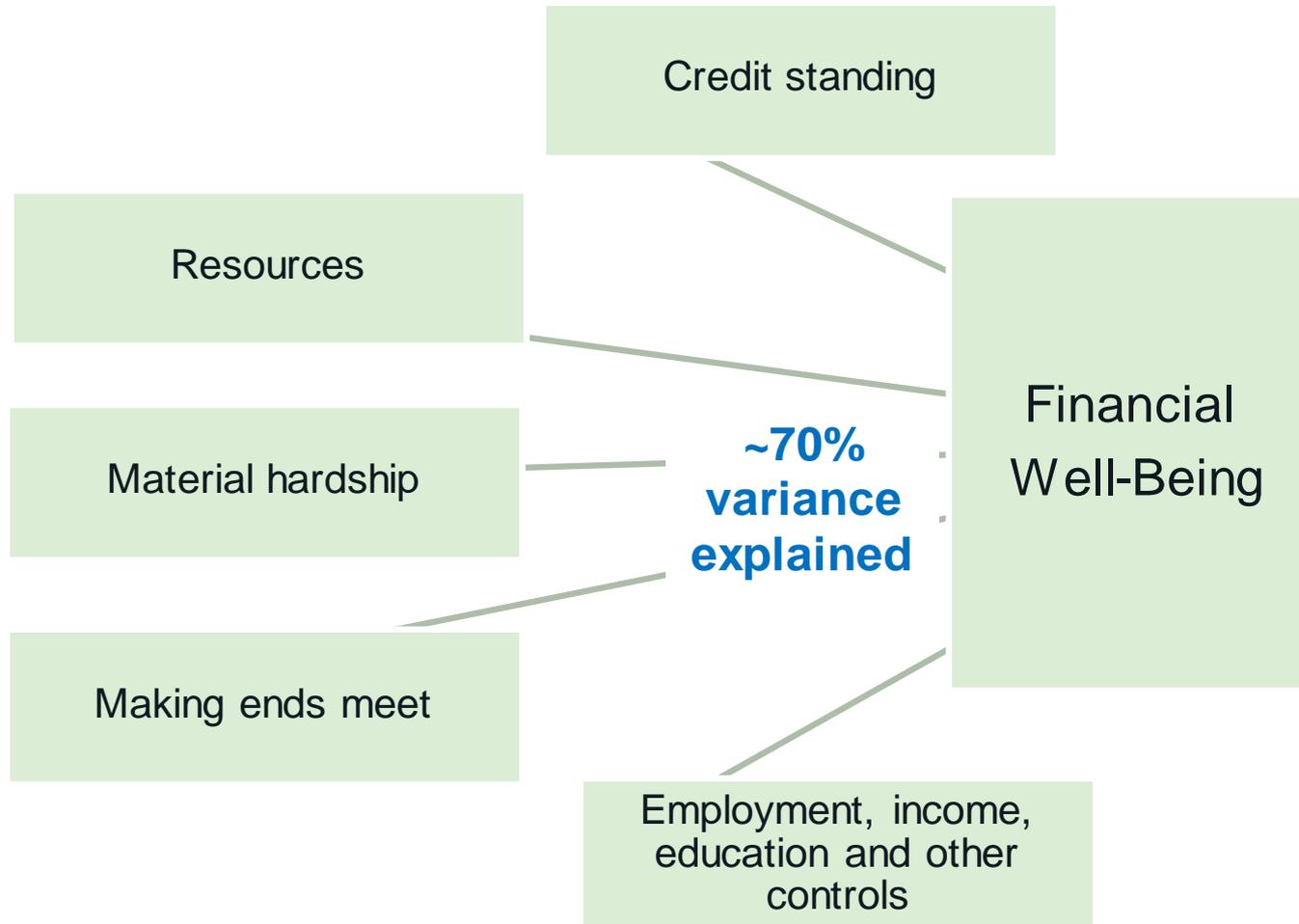
MODEL FIT:  $\chi^2$  (df) = 1666.253 (54); RMSEA = 0.068; CFI = 0.911, TLI = 0.862, SRMR = 0.045.

# Findings

#1 There is strong association between a respondent's objective or "real-world" financial situation and their sense of financial well-being.

# Financial well-being scores reflect real underlying financial circumstances and more

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# Findings

#2 Income and behavior have the strongest associations with respondent's objective or "real-world" financial situation.

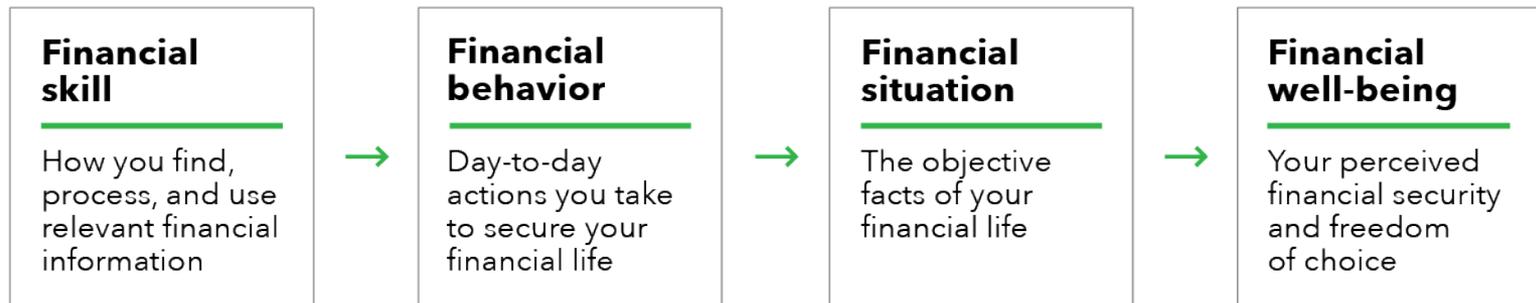
# Findings

#3 Financial skill was strongly associated with financial behavior, more strongly than financial knowledge and financial behavior were associated

# Implications for financial education

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The resulting model of inter-connected pathways suggest that financial education can help consumers improve their financial situations and ultimately, financial well-being, by helping them to improve their financial skill and financial behavior.



# Implications for financial education

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Controlling for an array of personal financial and demographic characteristics:

- Actions people take have a strong relationship with their financial outcomes, in particular:
  - ✓ Effective Money Management
  - ✓ Planning
  - ✓ Habitual Saving
- Financial skill (and related financial self-efficacy) likely contribute more to financial decisions and actions than general knowledge of financial facts. In particular, knowing ***how to***:
  - ✓ Find reliable information to make financial decisions.
  - ✓ Process financial information to make financial decisions.
  - ✓ Execute financial decisions, adapting as necessary to stay on track.

# Implications for financial education: Specific Financial Behaviors

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- **Effective Money Management**
  - ✓ Pay all bills on time
  - ✓ Stay within budget or spending plan
  - ✓ Pay off credit card balance in full each month.
  - ✓ Check statements, bills and receipts to make sure there were no errors.
  - ✓ Follow through on financial commitments to others.
  - ✓ Follow through on financial goals you set for yourself.
  
- **Propensity to plan**
  - ✓ Consult budget to see how much money you have left.
  - ✓ Actively consider the steps you need to take to stick to budget.
  - ✓ Set financial goals for what you want to achieve with your money.
  - ✓ Prepare a clear plan of action with detailed steps to achieve financial goals.
  
- **Savings habit**

# Implications for financial education practice

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Steps to help consumers improve their financial skill and financial behaviors:

1. **Build financial skill**
2. **Provide financial information at “teachable moments” to support development of financial skill *and* financial knowledge:**
3. **Don’t overlook the skill of implementing and sticking to a plan**
4. **Provide opportunities to practice to build skills and financial confidence**

## See Report *Effective financial education: Five principles and how to use them*

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Lays out five evidence-based principles and related strategies that can support financial educators in designing and delivering programs that support consumers in taking action toward their goals:

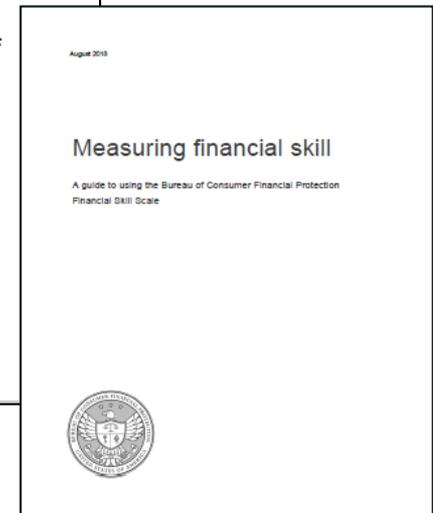
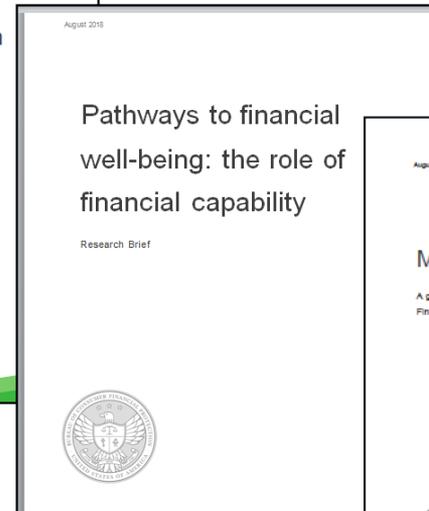
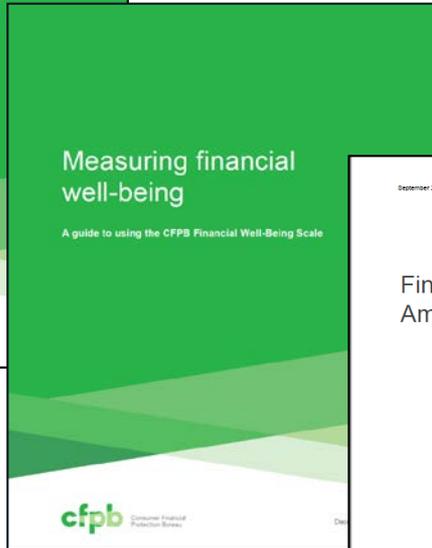
- (1) Know the individuals and families to be served,
- (2) Provide actionable, relevant, and timely information,
- (3) Improve key financial skills,
- (4) Build on motivation, and
- (5) Make it easy to make good decisions and to follow through on them.

[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/)

# Resources

# Financial Well-Being reports

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# Find out your financial well-being

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## Find out your financial well-being

Answer ten questions to measure your current financial well-being and see steps you can take to improve it.



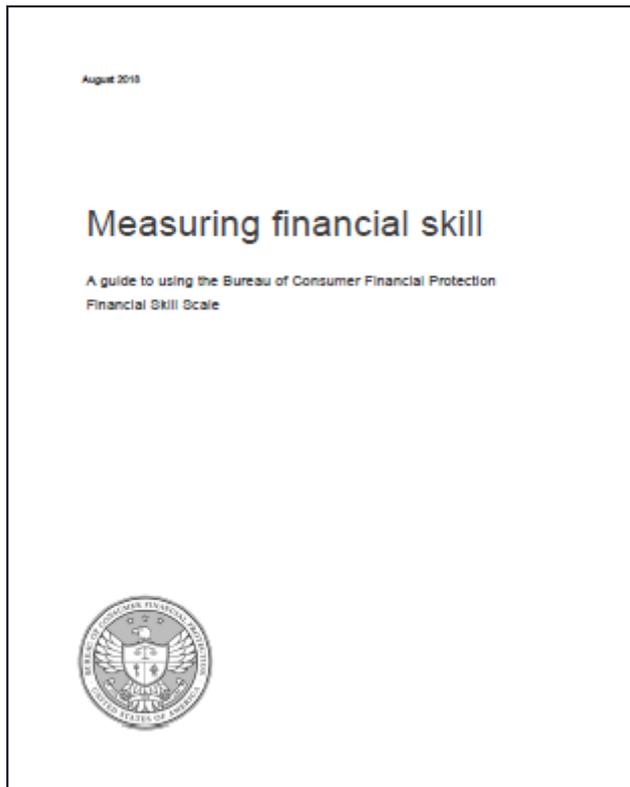
**Interactive tool that allows consumers to:**

- Answer the questions and get their score
- Find steps they can take to improve their financial well-being
- See how their score compares to other U.S. adults

**[consumerfinance.gov/financial-well-being](https://consumerfinance.gov/financial-well-being)**

# Financial Skill Scale Resources

## User Guide



## Scoring Materials

**FINANCIAL SKILL SCALE**  
**Questionnaire** \_\_\_\_\_  
NAME OR NUMBER

**Part 1: How well does this statement describe you or your situation?**

This statement describes me	Not at all	Very little	Somewhat	Very well	Completely
1. I know how to make complex financial decisions	<input type="checkbox"/>				
2. I am able to make good financial decisions that are new to me	<input type="checkbox"/>				
3. I know how to get myself to follow through on my financial intentions	<input type="checkbox"/>				
4. I am able to recognize a good financial investment	<input type="checkbox"/>				
5. I know how to keep myself from spending too much	<input type="checkbox"/>				
6. I know how to make myself save	<input type="checkbox"/>				
7. I know where to find the advice I need to make decisions involving money	<input type="checkbox"/>				

**Part 2: How often does this statement apply to you?**

This statement applies to me	Never	Rarely	Sometimes	Often	Always
8. I know when I do not have enough information to make a good decision involving my money	<input type="checkbox"/>				
9. I know when I need advice about my money	<input type="checkbox"/>				
10. I struggle to understand financial information	<input type="checkbox"/>				

**Part 3: Tell us about yourself.**

11. How old are you?  18-41  42+

12. How did you take the questionnaire?  I read the questions  Someone read the questions to me

Financial skill scale | JUNE 2018

[consumerfinance.gov/financial-skill-scale](https://consumerfinance.gov/financial-skill-scale)

# Resources on building financial skills

## Comparing auto loans worksheet



**CFPB AUTO LOAN SHOPPING SHEET**

### Comparing auto loans

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**Directions:** Bring this sheet with you to show you are serious about getting the best loan. The factors you can negotiate are indicated with an icon .

Determine your upfront costs	Example	Choice 1	Choice 2
A. <b>Price of the vehicle</b> 	\$20,000		
B. <b>Additional features, services or add-ons</b>  <small>These are optional and will increase the total cost of the loan.</small>	+ \$300	+	+
C. <b>Taxes, title and non-negotiable fees</b> <small>State and local taxes, and title fees.</small>	+ \$1,400	+	+
D. <b>Negotiable fees</b>  <small>You can negotiate fees such as delivery charges, origination fees, document fees, and preparation fees.</small>	+ \$100	+	+
E. <b>Cost of the vehicle before interest</b> <i>(add rows A, B, C &amp; D)</i>	= \$21,800	=	=

**Calculate how much you will need to borrow**

F. <b>Down payment</b>  <small>A larger down payment will lower the total cost of your loan.</small>	- \$3,000	-	-
G. <b>Trade-in value</b>  <i>(if you already have a vehicle)</i> <small>A higher trade-in value will lower the total cost of your loan.</small>	- \$3,000	-	-
H. <b>Total amount to finance</b> <i>(subtract rows F &amp; G from row E)</i>	= \$15,800	=	=



Consumer Financial Protection Bureau

Finish finding the total cost on page 2 

## Goal-focused budgeting worksheet

FINANCIAL PLANNING WORKSHEET

### MY NEW MONEY GOAL



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Sometimes we set new goals, have changes in income, or switch priorities in our lives. Making a plan is the easiest way to navigate these changes.

You wouldn't start a road trip without mapping it out first, and the same is true with your finances. This guide will help you gain a clear view of where your money goes now so you can more easily decide where you want it to go in the future.

These are  's goals as of  /  /

YOUR NAME MM / DD / YYYY

**1 What is my new money goal?**

I want \$  by  /  /

GOAL AMOUNT MM / DD / YYYY

because I want to save for

WHAT ARE YOU SAVING FOR?

*Keep this in a visible place, like on your refrigerator or near your desk to remind you of your new money goal!*

**2 What am I saving now?**

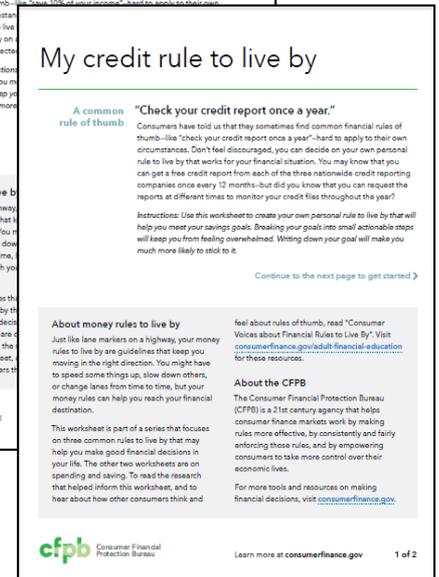
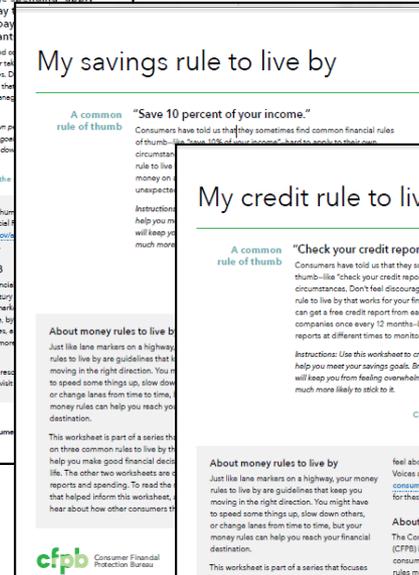
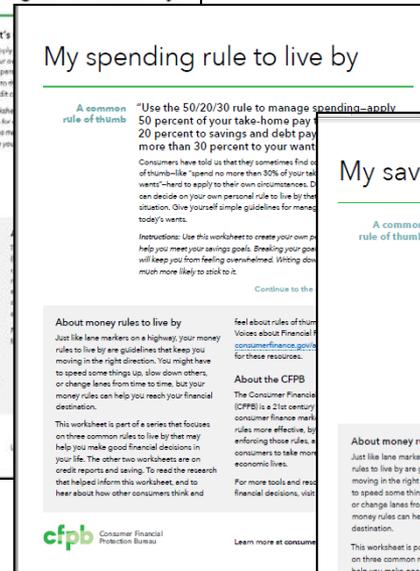
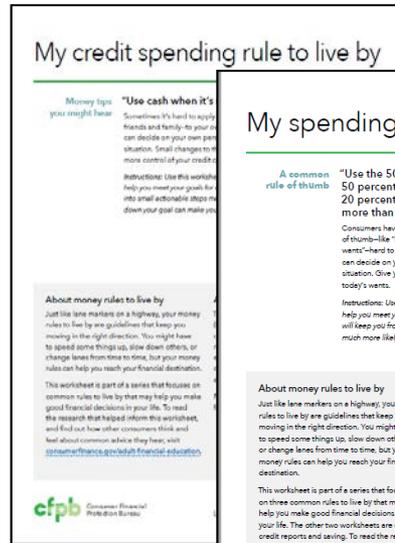
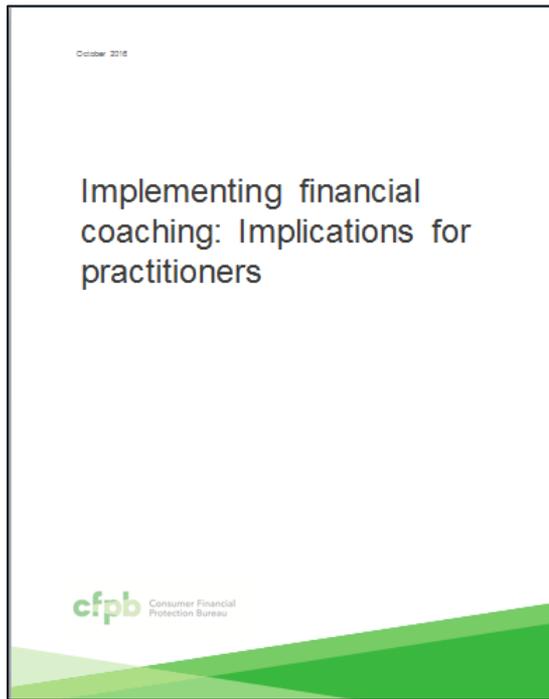
List your savings goals in the spaces below. Include some money for retirement and rainy days. Try to give each goal a dollar amount and set a target for when you'd like to reach each goal. Then write down the monthly amount you'll need to reach your goals. After completing the income, savings, and expenses sections on the pages that follow, write down how much you plan to commit this month.

Priority	Goal	Total needed	Months to goal	Monthly amount	This month's commitment
	Emergency savings				
	Retirement				
	My new goal				
	Other:				
	Other:				
	Other:				

# Resources on financial confidence

## Financial coaching resources

## Financial rules to live by worksheets



# Financial Well-Being: Reports and guides

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*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: The goal of financial education*

[consumerfinance.gov/data-research/research-reports/financial-well-being/](https://consumerfinance.gov/data-research/research-reports/financial-well-being/)

*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/)

Resources for Financial Educators webpage:

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