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
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About the Bureau

- 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.
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

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
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

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Find it at consumerfinance.gov/adult-financial-education
Today’s topic:

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

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>Security</th>
<th>Present</th>
<th>Future</th>
</tr>
</thead>
<tbody>
<tr>
<td></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>
# How do you measure it? 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></td>
</tr>
<tr>
<td>1. I could handle a major unexpected expense</td>
<td>• Describes me completely</td>
</tr>
<tr>
<td>2. I am securing my financial future</td>
<td>• Describes me very well</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 somewhat</td>
</tr>
<tr>
<td>4. I can enjoy life because of the way I'm managing my money</td>
<td>• Describes me very little</td>
</tr>
<tr>
<td>5. I am just getting by financially</td>
<td>• Does not describe me at all</td>
</tr>
<tr>
<td>6. I am concerned that the money I have or will save won’t last</td>
<td></td>
</tr>
<tr>
<td><strong>How often does this statement apply to you?</strong></td>
<td></td>
</tr>
<tr>
<td>1. Giving a gift for a wedding, birthday or other occasion would put a strain on my finances for the month</td>
<td>• Always</td>
</tr>
<tr>
<td>2. I have money left over at the end of the month</td>
<td>• Often</td>
</tr>
<tr>
<td>3. I am behind with my finances</td>
<td>• Sometimes</td>
</tr>
<tr>
<td>4. My finances control my life</td>
<td>• Rarely</td>
</tr>
<tr>
<td></td>
<td>• Never</td>
</tr>
</tbody>
</table>
What is the state of financial well-being in America?

<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>
What helps people have more of it?

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

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

<table>
<thead>
<tr>
<th>Concepts</th>
<th>What is it</th>
<th>How we measured it</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Financial well-being</strong></td>
<td>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.</td>
<td>10-item Financial Well-Being Scale</td>
</tr>
<tr>
<td><strong>Financial situation</strong></td>
<td>The objective facts of a person’s financial situation.</td>
<td>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.</td>
</tr>
<tr>
<td><strong>Financial behavior</strong></td>
<td>Actions an individual does or does not take</td>
<td>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.</td>
</tr>
<tr>
<td><strong>Financial knowledge</strong></td>
<td>Knowledge of general financial facts and concepts (e.g., risk diversification)</td>
<td>10-item version of the Knoll-Houts Financial Knowledge Scale.</td>
</tr>
<tr>
<td><strong>Financial skill</strong></td>
<td>Ability to find reliable financial information, process that information, act on it, and adapt as needed to stay on track to achieving goals.</td>
<td>10-item Financial Skill Scale</td>
</tr>
</tbody>
</table>
# Financial Skill Scale - Questions

<table>
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<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></td>
</tr>
<tr>
<td>1. I know how to make complex financial decisions†</td>
<td>• Describes me completely</td>
</tr>
<tr>
<td>2. I am able to make good financial decisions that are new to me</td>
<td>• Describes me very well</td>
</tr>
<tr>
<td>3. I know how to get myself to follow through on my financial intentions†</td>
<td>• Describes me somewhat</td>
</tr>
<tr>
<td>4. I am able to recognize a good financial investment</td>
<td>• Describes me very little</td>
</tr>
<tr>
<td>5. I know how to keep myself from spending too much</td>
<td>• Does not describe me at all</td>
</tr>
<tr>
<td>6. I know how to make myself save†</td>
<td></td>
</tr>
<tr>
<td>7. I know where to find the advice I need to make decisions involving money</td>
<td></td>
</tr>
</tbody>
</table>

| **How often does this statement apply to you?**                            |                                                        |
| 1. I know when I do not have enough information to make a good decision involving my money† | • 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

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, c 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

Financial Well-Being

~70% variance explained

Credit standing

Employment, income, education and other controls

Making ends meet

Material hardship

Resources
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

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.

<table>
<thead>
<tr>
<th>Financial skill</th>
<th>Financial behavior</th>
<th>Financial situation</th>
<th>Financial well-being</th>
</tr>
</thead>
<tbody>
<tr>
<td>How you find, process, and use relevant financial information</td>
<td>Day-to-day actions you take to secure your financial life</td>
<td>The objective facts of your financial life</td>
<td>Your perceived financial security and freedom of choice</td>
</tr>
</tbody>
</table>
Implications for financial education

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

- 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
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
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/
Resources
Financial Well-Being reports
Find out your financial well-being

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
Financial Skill Scale Resources

User Guide

Scoring Materials

consumerfinance.gov/financial-skill-scale
Comparing auto loans worksheet

Goal-focused budgeting worksheet
Resources on financial confidence

Financial coaching resources

Implementing financial coaching: Implications for practitioners

Financial rules to live by worksheets
Financial Well-Being: Reports and guides

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

Financial Well-Being in America
consumerfinance.gov/data-research/research-reports/financial-well-being-america/

Resources for Financial Educators webpage:
consumerfinance.gov/adult-financial-education

To sign up for the CFPB Financial Education Exchange: CFPB_FinEx@cfpb.gov