# Financial Security in Low- to Moderate-Income Communities: The Consumer Financial Protection Bureau's Well-Being Scale in a Direct Services Setting

## Research Brief

Final

**By: Michael Dedmon, The Financial Clinic**
**Valliappan Lakshmanan, The Financial Clinic**
**Haidee Cabusora, The Financial Clinic**

## Executive Summary

The Financial Clinic (the Clinic) launched Change Machine in 2015 as a comprehensive tool for financial coaches and social service organizations with the ambition of offering financial security building services.[1] Since 2016, coaches using the platform have been given the option to guide clients through the Financial Well-Being Scale (FWBS) as a part of the financial coaching engagement. So far, over 2,700 individual coaching clients have completed the scale. This brief explores the financial well-being of this unique sample of financial coaching participants and how it is related to how they build financial security when working with a coach.

We analyze the FWBS scores of 2,744 low- to moderate-income coaching clients, as well as a select set of demographic and financial characteristics collected during the coaching engagement. Of primary interest is: 1) *understanding the financial well-being of these clients*; and 2) *identifying whether there is a relationship between their level of financial well-being when they begin coaching and their engagement in coaching as well as their progress towards financial security*. To do this, we conduct a descriptive analysis of: 1) the overall financial well-being of coaching clients on Change Machine; 2) the relationship between financial well-being and these clients' engagement with financial coaching (as measured by total coaching meetings attended, total financial security building actions completed, and total financial security outcomes achieved); and 3) the relationship between well-being and their achievement of six financial security outcome areas ("Assets", "Banking", "Credit", "Debt", "Taxes", and "Financial Goals") identified by The Financial Clinic's coaching curriculum as key to building financial security.

What we found:

- Despite reporting both lower objective financial security, and lower average financial well-being than the overall adult population, clients on Change Machine come to coaching with a wide range of financial well-being, with nearly a quarter of clients registering "High" or "Very High" scores.
- There is no statistically-significant relationship between financial well-being and engagement with financial coaching. Clients with high FWBS scores do not attend more meetings, complete more financial security building actions, or achieve more outcomes than clients with low scores.
- While coaching clients with different levels of financial well-being achieve financial security outcomes at similar rates overall, clients with higher financial well-being achieve more personal financial goals than those with lower well-being.[2]

## Background

In the wake of the 2008 financial crisis, the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 established the Consumer Financial Protection Bureau (CFPB), coinciding with growing concerns about Americans' financial security and education. As the financial security field has expanded, both the increasing diversity of populations served and the

---

[1] For more information about the coaching platform, visit Change-machine.org

[2] Coaching clients identify personal financial goals with a financial coach during their engagement. Personal financial goals are encouraged to be passionately-held, action-oriented, and forward-thinking.

wide variety of delivery methods of financial security building — e.g., financial coaching, counseling, and education — have made it difficult to establish a set of common metrics to evaluate programs and assess client progress.

In 2015, the CFPB launched the Financial Well-Being Scale (FWBS) in order to provide the financial security field with a common, consumer-driven metric that allows for a standardized comparison between individuals and over time. The CFPB included the FWBS in a 2016 nationwide survey of adults in the United States.[3] This survey found that the score, while correlated with many traditional financial measures such as employment status and income, gave practitioners a more complete picture of how individual clients perceive their financial situation than any one of these measures.

As the number of financial coaching programs has grown, major questions have arisen over the best way practitioners should be measuring financial security. Increasingly, research combines financial scales with survey data and other objective metrics (e.g., credit report data) to assess the impact of financial security building programs. In 2015, in a CFPB commissioned study, the Urban Institute evaluated two financial coaching programs offered by The Financial Clinic (New York City) and Branches (Miami, Florida). Although conducted prior to the launch of the FWBS, the Urban Institute utilized a mix of survey and credit report data to assess program impact.[4] Prosperity Now (formerly the Corporation for Enterprise Development), a national nonprofit focused on economic opportunity, also conducted a study using both the FWBS and the Financial Capability Scale (FCS) to measure individual effect of financial coaching.[5]

In spite of a growing body of research directed at how financial coaching and other program delivery models may or may not impact financial security or well-being, there is a lack of research on how financial well-being might serve as a predictor for how well individuals may be served by a particular financial education intervention. Given that the FWBS offers additional perspective on an individual's financial situation — as the CFPB demonstrated in its nationwide survey — practitioners may ask how these scales can be used to understand how individuals will experience financial coaching. Where existing studies have used some combination of objective metrics and subjective data to assess the impact of financial security building programs, none (that we know of) have sought to utilize the additional information provided by the FWBS as both a baseline and indicator for potential improvement. The FWBS also offers an attractive alternative for both program evaluation and client baselining given that it is both easy to administer and free.

[3] Consumer Financial Protection Bureau, 2017, *Financial Well Being in America*, 6. https://www.consumerfinance.gov/data-research/research-reports/financial-well-being-america/

[4] Theodos, B., Stacy, C.P., & Daniels, R., (2018)., Client led Coaching: A Random Assignment Evaluation of the Impacts of Financial Coaching Programs, *Journal of Economic Behavior and Organization, 155, 140-158*

[5] Cohen, P., Hoagland, E., & Wiedrich, K., 2017, *Measuring Financial Capability and Well-Being in Financial Coaching Programs*, Retrieved from Prosperity Now: https://prosperitynow.org/sites/default/files/resources/Measuring%20Financial%20Capability%20and%20Wellness%20in%20Financial%20Coaching%20Programs_0.pdf

When the CFPB introduced the FWBS, the Clinic saw the value in using the scale to understand how clients were benefiting from financial coaching as well as a tool for learning more about the communities they and their partners serve. Since 2016, the Clinic integrated the scale into its online financial coaching platform, Change Machine, and has collected over 2,700 individual surveys.

Motivated by the scalability of the FWBS and the growing body of research utilizing both the FWBS and similar scales to evaluate financial security building programs, this study seeks to address a current gap in the research about how the FWBS might be understood as a baseline for the financial coaching model.

Our main research questions are:

- What is the financial well-being of a large sample of LMI financial coaching participants?
- What is the relationship between financial well-being at intake and participant engagement with financial coaching (number of meetings attended, number of financial security actions completed, and number of financial security outcomes achieved)?
- What is the relationship between financial well-being at intake and financial security outcomes (e.g. "Assets," "Debt," "Credit") achieved by clients?

## About the Study

The data we analyzed is composed of 2,744 individuals receiving financial coaching with at least one completed FWBS. These individuals were served by 23 community service organizations licensing the Change Machine platform across 18 states.[6] Coaching clients can come to meet with a coach for a variety of reasons and from any financial circumstances. The median income of coaching clients in the Change Machine sample is between $20-29,000, the average age is 41 years old, and 72% are women. Sixty-five percent identify as African American or Hispanic, 49% say that they have received a high school diploma/GED or less education, and around 39% report $100 or less in liquid assets. To measure a coaching client's engagement with financial coaching, we used the total number of meetings a client attended, the total number of financial security building actions they completed (e.g. create a budget, review credit report, research cheaper banking options), and the total number of financial security outcomes they achieved. The financial security outcomes we considered are the six identified by The Financial Clinic's financial coaching curriculum: Assets, Banking, Credit, Debt, Taxes, and Financial Goals.[7]

We conducted a descriptive analysis of individual FWBS scores to understand the well-being of coaching clients in the Change Machine sample, and the relationship between well-being, measures of engagement with financial coaching, and client financial security building. To answer our first research question, we began by comparing our sample to the CFPB's sample of the adult population. We did this both by comparing each sample's score percentile distribution,

[6] All data was collected by financial coaches using the Change Machine platform.

[7] The six outcome areas that comprise the Financial Clinic's coaching curriculum are triggered in Change Machine as coaching clients complete related actions with their financial coach. For example, a client that makes two deposits of any amount to an existing account, or creates a new, or increases the amount of, an existing auto-transfer, achieves the "Asset" outcome.

and also by comparing the distribution of scores across the six score ranges suggested by the Bureau in their *Toolkit for Financial Educators* report ("Very Low", "Low", "Medium Low", "Medium High", "High", and "Very High").[8] We performed two sample *t*-tests to verify the differences we observed in the distribution of scores were statistically significant.

To answer our second research question, we performed simple OLS regressions to assess the relationship between well-being score and the client engagement with financial coaching. Using the "Very Low" score group as a comparison, we assessed whether clients with scores in each of the higher ranges reported higher average values across the different measures of financial coaching (e.g. meetings, financial security building actions, financial security outcomes). For our final research question, we compared the percent of clients within each score range that achieved each of the six outcome areas of the Clinic's curriculum to understand if well-being is related to the type of outcome clients achieve when working with a financial coach. To test these differences for statistical significance, we performed a chi-square test of independence across the score ranges for each outcome area, and as before, we performed a simple regression to identify significant differences between the "Very Low" score group and the others.

## Findings

The results of our analysis suggest that while coaching clients on Change Machine, on average, report much lower financial well-being than the overall adult population, their well-being scores varies considerably. We were unable to detect a statistically significant relationship between financial well-being and engagement with financial coaching. Lastly, our results suggest that coaching clients in the two highest score ranges ("High" and "Very High") achieve more personal financial goals than clients with lower scores, but that financial well-being is unrelated to achieving other outcomes. We now go into in a bit more detail on these three findings.

*Finding 1:* Overall, our sample of coaching clients report lower financial well-being than U.S. adults, but also are represented in all score ranges.

The mean well-being score for coaching clients was 50, compared to a mean score of 56 for the adult population sampled by CFPB, and the Welch's t-test confirmed the statistical significance of the difference ($t(2470)= -21.9$, $p<.001$). While roughly the same number of Change Machine clients register scores in the lowest score range (Very Low) as the adult population overall, over half (52%) have scores in the three lowest ranges compared to just 27% of adults overall. Similarly, comparatively few coaching clients register scores in the "High" and "Very High" range compared to adults overall (23% to 49%). Table 1 reports the total number and percent of sample in each score range for both datasets as well as the results of the two-sample *t*-tests.

While the *t*-test indicated no statistically significant difference in the proportion of individuals with "Very Low" scores between the two samples, it is notable that a substantial number (40%) of coaching clients on Change Machine register a "Medium Low" financial well-being score. Individuals with a "Medium Low" well-being score, according to the Bureau's research, often

[8] Consumer Finance Protection Bureau, 2019, *Getting Started with Measuring Financial Well Being: A Toolkit for Financial Educators.* https://files.consumerfinance.gov/f/documents/cfpb_financial-well-being_toolkit.pdf

report owning low amounts of liquid assets and are more often rejected for credit applications than those with higher scores. There was no statistically significant difference in the proportions of respondents registering “Medium High” scores between the two samples, but the coaching clients’ comparatively lower well-being is again evident in the disparity at the higher score ranges. Forty-nine percent of respondents in the national sample register scores in the “High” or “Very High” ranges, compared with just 23% of coaching clients on Change Machine.

**Table 1: Financial Well-Being Score, by score range**

| WB Score Range | Financial Clinic N | Financial Clinic Percentage | Adult Population N | Adult Population Percentage | Difference *t*(df) (p-value) |
|---|---|---|---|---|---|
| Very Low (0-29) | 88 | 3% | 193 | 3% | *t*(9136)=1 (p=.314) |
| Low (30-37) | 272 | 10% | 290 | 5% | *t*(9136)=10.89 (p<.001)*** |
| Medium Low (38-49) | 1082 | 39% | 1110 | 19% | *t*(9136)=21.4 (p<.001)*** |
| Medium High (50-57) | 678 | 25% | 1327 | 23% | *t*(9136)=1.5 (p=.127) |
| High (58-67) | 401 | 15% | 1572 | 27% | *t*(9136)=-13.05 (p<.001)*** |
| Very High (68-100) | 223 | 8% | 1231 | 22% | *t*(9136)=-16.66 (p<.001)*** |

***p<.05, **p<.01, ***p<.001**

However, despite the fact that coaching clients have, overall, lower financial well-being scores than the adult population overall, it is notable that nearly 1 in 4 coaching clients on Change Machine register “High” or “Very High” scores.  This illustrates the diversity of experience clients bring to financial coaching and reinforces the importance of self-perception in assessing a client’s financial well-being, providing further support for the use of the scale as a useful way to personalize client experience with finances and orient actions toward personal goals rather than a one-size-fits all approach.

*Finding 2:* There is no statistically-significant relationship between financial well-being and engagement with financial coaching.

While improving financial well-being is often considered the goal of financial coaching, we were interested in understanding more about the relationship between a coaching client’s baseline financial well-being and their engagement with coaching subsequently. Our analysis suggests that a client’s financial well-being at the beginning of their work with a financial coach is not correlated with our measures of coaching engagement (number of meetings attended, number of financial security building action steps completed more meetings, complete more financial security building action steps, or financial security outcomes achieved).

*Finding 3:* Higher financial well-being is related to achieving personal financial goals, but appears unrelated to achieving other financial security outcomes.

While, overall, coaching clients achieved financial security outcomes at similar rates regardless of their financial well-being level, clients with higher well-being seemed to achieve relatively more personal financial goals than those with lower scores. Coaching recipients with scores in the "High" and "Very High" ranges achieved a disproportionate amount of the "Financial Goal" outcomes, accounting for 36% of the total achieved by all clients. Following indicative results from the chi-square ($\chi^2$) test of independence, we performed a simple OLS regression using the "Very Low" category as a reference. These results also support the insight that clients registering "High" ($t(2738)=2.9$ p=.004) and "Very High" FWBS scores achieve more financial goals than clients with lower scores ($t(2738)=2.79$ p=.005).

A higher well-being score could be evidence of a higher degree of confidence in a client's control over their financial lives and their capacity to achieve financial goals, and in fact the Bureau intended the scale to capture these kinds of sentiments.[9] In the same way, higher financial well-being may be associated with a higher degree of objective financial security, including higher income and more liquid assets, and it is likely these factors make it comparatively easier to achieve one's financial goals. This result is interesting, but deserves much more analysis. A deeper look of the type of financial goals set by clients across FWBS score ranges could be one way to deepen this analysis, and could help clarify how certain goals might be connected to a client's financial well-being.

## Conclusion

Our research reinforces the notion that financial well-being is a holistic construct and, despite displaying relatively low measures of objective financial security, Change Machine clients report a wide range of well-being scores. That 23% of coaching clients report well-being scores in the "High" and "Very High" ranges indicates that well-being is not merely a reflection of objective circumstances, but of how an individual perceives their financial security. This supports the CFPB's intuition behind creating the scale in the first place: practitioners need criteria more suited to capture the real target of financial coaching and financial security building beyond objective financial metrics. Additionally, we believe that this further supports orienting financial education and financial coaching towards achieving personal goals that matter to the client – goals that improve perceived well-being -- rather than a one-size-fits-all approach focused on general metrics.

Our analysis was unable to identify a statistically significant relationship between financial well-being and a client's engagement with financial coaching. This may reflect the highly personalized motivation for and experience of working with a financial coach.. We also saw that coaching clients on Change Machine with higher well-being scores achieved more financial

[9] Consumer Financial Protection Bureau, 2017, *Financial Well Being in America,* Retrieve From: https://files.consumerfinance.gov/f/documents/201709_cfpb_financial-well-being-in-America.pdf

goal-related outcomes than clients with lower scores. We are not able to identify why this is the case, but can hypothesize that a coaching client with a higher score may feel more confidence in their ability to achieve their goals or feel more in control of their financial life and these factors might support achievement of financial goal-related outcomes. Testing this hypothesis, possibly by linking specific survey elements of the FWBS to goal achievement could be an interesting path for future research. In addition, our experience as financial coaching practitioners suggests that exploring the relationship between specific types of financial goals clients identify with a coach, financial well-being, and goal achievement would be a compelling next step for this area of research.

Lastly, while these findings are necessarily limited and do not identify any kind of causal effect, we think that they are compelling to researchers and practitioners alike. Scales like the FWBS offer a dynamic way to measure the impact of coaching, but they also could be a useful diagnostic tool to assess coaching clients at the beginning of an engagement and orient service delivery to match their needs. If it is the case that higher scores are associated with certain behaviors or outcomes, coaches may be able to use this information to help target their support to better meet clients where they are. We offer here an initial, exploratory analysis of some relevant questions, and encourage the financial security field to consider more uses of scales like the FWBS.