Relationship between Financial Well-Being, Life Stress, and the Uptake of Financial Coaching

Research Brief

Final

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Executive Summary

Over the past 20 years, financial coaching has grown in popularity as a strategy for helping people to improve their financial self-efficacy, achieve their financial goals, and increase perceptions of financial well-being. Initial research has demonstrated its effectiveness in achieving positive outcomes, including reduced debt and increased savings for low-income clients. However, one persistent challenge in the field is encouraging client participation.

Our research uses administrative data from Oakland, California's Brilliant Baby program to empirically explore the relationship between financial well-being, perceived stress and financial coaching uptake among economically vulnerable clients. To do so, we used a regression model to evaluate the relationship between coaching uptake (attending at least one coaching session within 151 days of enrolling in the program) and the variables used to predict enrollment – client responses to CFPB's Financial Well-Being Scale and their perceived level of stress, as well as in interaction between these two variables and the outcome.

We found the following:

- There is a ***significant negative relationship*** between financial well-being of the primary parent/guardian and the uptake of financial coaching, but only for families with household income of under $20,000 annually. This indicates that when a family has very low income, they are more likely to take up coaching if they have low financial well-being.
- Specific elements of the CFPB Financial Well-Being Scale, such as having extra money to use towards wants and needs, and having financial control, are also ***significantly negatively related*** to coaching uptake, but only for very low income families.
- Perceived stress is not significantly related to financial coaching uptake, regardless of a family's level of financial well-being.
- Implementing program characteristics are also likely related to coaching uptake.

These results indicate that very low income clients with low levels of financial well-being may attend coaching at high rates if a program is designed in a way that meets their needs. Identifying what aspects of financial coaching are most valuable in attracting very low income, low financial well-being families will require more qualitative research. However, from the present research, we infer that program design choices, such as providing coaching attendance stipends and using a pure coaching model that provides participants with more control over their financial path, may encourage very low-income, low-financial well-being clients to attend coaching. This finding has implications for the field of financial coaching as programs attempt to increase their yield of those recruited who attend coaching sessions.

1. Background

The Financial Well-Being Scale (CFPB, 2017a) is a 10-item scale that was created with the intent of uncovering the best way to document the financial well-being of all Americans. Defined by the CFPB and the Urban Institute, financial well-being includes elements of control over daily and monthly expenditures, ability to manage financial shock, and financial freedom that allows for an enjoyable life (CFPB, 2017b). Using the CFPB's Financial Well-Being Scale, researchers found that the combination of financial knowledge and access to financial services is related to a higher level of financial well-being, particularly among low-income clients (Huang and Sherraden, 2019).

One such financial service that is increasingly used with low-financial-well-being clients is financial coaching. In financial coaching, certified coaches facilitate client progress towards client-defined goals, with the intended outcomes of helping people improve their self-efficacy, supporting them in achieving their financial goals, and increasing their perceptions of financial well-being. In the past 15 years, financial coaching has grown in popularity. In 2007, a report to the Annie E. Casey Foundation found that 46 major programs were providing financial coaching (Collins, Baker, & Gorey, 2007), while in 2019, the Asset Funders Network reported that 318 organizations in 202 cities had participated in its Financial Coaching Census (Lienhard, 2019).

Despite its increasing popularity, there has been little research on access to financial coaching[1]. The Urban Institute, in an evaluation for the CFPB, notes that, "one of the biggest challenges facing financial coaching programs was getting clients into a first session" (Theodos, et al., 2015). Specifically, 63 percent of the treatment group in one program evaluated by the Urban Institute did not attend even one coaching session (Theodos et al., 2015).

In the present study, we use administrative data from the Oakland Promise Brilliant Baby Program (Brilliant Baby) to answer questions related to which types of clients are more likely to take up financial coaching when it is offered. Brilliant Baby program in Oakland, California is an innovative two-generation early intervention that, within the first months of life, grants economically vulnerable children college savings accounts (CSAs) seeded with $500; provides their parents with access to client-directed financial coaching, coaching stipends and savings financial incentives; and provides families with other community-based resources designed to reduce financial stress and increase parenting bandwidth. Because Brilliant Baby has financial well-being as an outcome, and includes voluntary coaching within the context of a larger program, it is uniquely positioned to help us answer our research questions. Those questions are:

1. What is the relationship between financial well-being and the uptake of financial coaching?
2. How do responses to individual questions from the CFPB Financial Well-Being Scale relate to the uptake of financial coaching?
3. What is the relationship between perceived stress and the uptake of financial coaching?
4. How does the interaction between financial well-being and perceived stress relate to the uptake of financial coaching?

Our initial hypothesis was that clients with lower levels of financial well-being and higher levels of perceived stress would be less likely to attend financial coaching, as the extra mental and psychological load borne by clients with a high-stress, financially insecure life would make the prospect of engaging in financial coaching appear to be an unattractive obligation rather than a benefit of the program.

2. About the Study

When a participating family signs up for the Brilliant Baby program, they enroll both the baby and the primary parent/guardian of the baby into the program. The primary parent/guardian completes a single baseline survey to complete the enrollment, which includes information about the baby, the primary parent/guardian, other adults and children in the household, and a number of baseline "outcome"

[1] Collins and O'Rourke (2012) found that financial coaching impacts clients' abilities to focus on their goals and engage in positive financial behaviors like following a budget. The Urban Institute, in an evaluation for the CFPB (Theodos, et al., 2015), found that financial coaching improved perceptions of financial well-being, while improving savings and debt, reducing delinquency, and slightly improving credit scores – all for low income clients.

questions, including the CFPB's abbreviated scale for financial well-being and a single question on perceived stress. The baby then receives a CSA in her name, and the primary parent/guardian is automatically enrolled to financial coaching. Primary parent/guardians of the child receive a call from the coach within two weeks to set up their first coaching appointment. Families for whom the primary parent/guardian attends the initial coaching session (with or without a partner) are counted as having "taken up" coaching. Our analysis seeks to identify what factors related to families who do or do not take up the financial coaching element of the program.

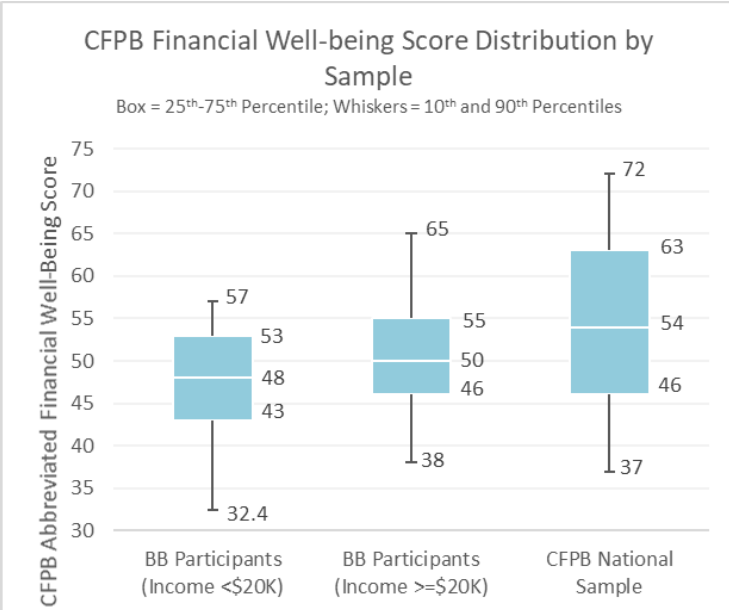
The data we used included enrollment survey records and coaching attendance records for 303 Brilliant Baby families. We set the deadline for coaching uptake at 151 days after a family's program enrollment, as by that threshold 90 percent of those who would attend coaching had done so. This meant that any family who attended a coaching session within 151 days of coaching enrollment was counted as having "taken up" coaching, while parent/guardians who had not attended any sessions were counted as not taking up coaching.

Our analysis was descriptive, and involved using a probit regression to model the probability of coaching uptake given a client's financial well-being, level of perceived stress, income level, and other control variables. We also measured the relationship between financial well-being, stress, and income and how that relationship was correlated with financial coaching uptake. We dealt with missing data by using post-test stratification to apply non-response weights to our sample. The bullets below describe the key variables in our data set:

- Financial well-being was measured using the Abbreviated (5-question) CFPB Financial Well-Being Scale (FWB Scale). Each of the individual questions in the scale was also included as its own variable.
- Perceived stress was measured using a single question from the Perceived Stress Scale.
- Controls include the Brilliant Baby partner organization responsible for a family's enrollment, family race, family income, number of adults and children in the household.

With respect to income, we found that Brilliant Baby respondents as a whole scored lower on the FWB Scale than did the CFPB's national sample (CFPB, 2017b), and Brilliant Baby respondents with an income below $20,000 had the lowest overall scores, as can be seen in Figure 1. Therefore, we created a variable that measured whether family income was $20,000 or over a year (versus below $20,000 a year) and used it as a predictor in our models, along with the FWB Scale score, responses to individual FWB Scale questions, and perceived stress.

Figure 1: FWB Distributions of BB Sample and National Sample



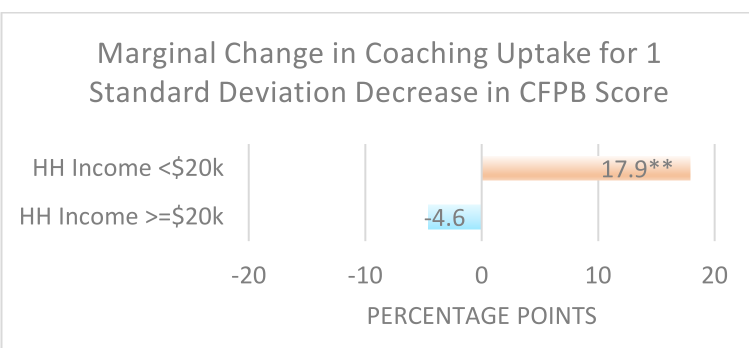
3. Findings

Our research yielded four findings:

3.1. Finding 1: Lower Income families are more likely to take up coaching if their financial well-being is low

Figure 2 demonstrates that if a lower-income (less than $20,000 in household income) parent's financial well-being score decreased by one standard deviation (roughly 10 points), they were almost 18 percentage points *more* likely to take up financial coaching. The stars next to "17.9" in the figure indicate that the change was statistically significant, meaning that this difference is likely not due to random chance in Brilliant Baby's enrollment of respondents.

Figure 2: Change in Coaching Uptake for Increase in FWB Score by Income

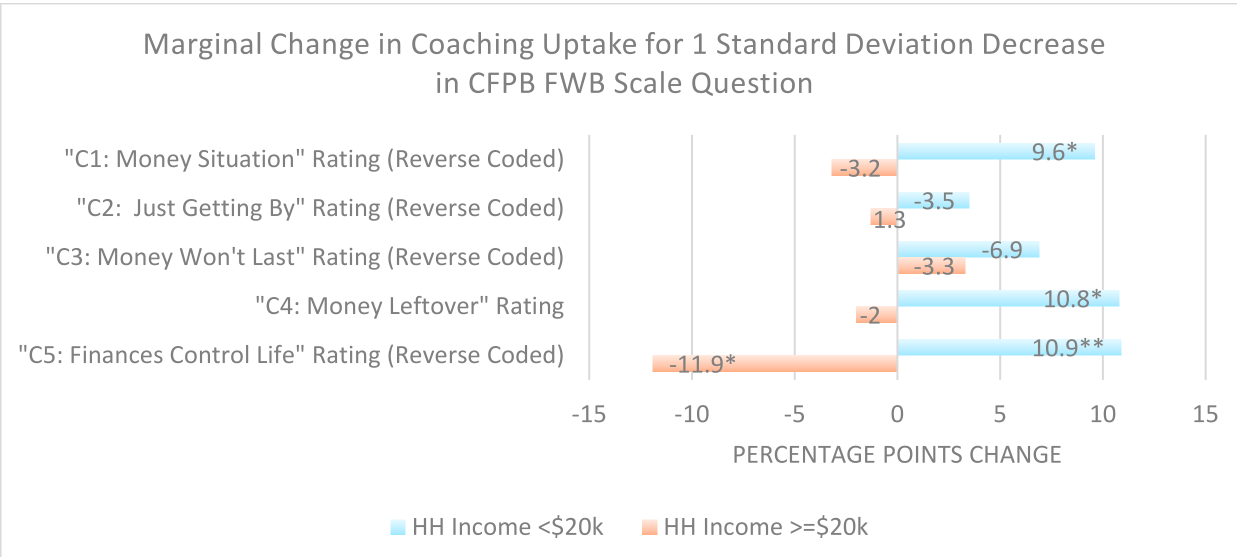


3.2. Finding 2: Low levels of financial well-being on three FWB Scale questions were most correlated with coaching uptake for lower income families

The three questions for which we see a significant negative relationship between question response and coaching uptake for lower income families were:

- Because of my money situation, I will never have the things I want in life.
- I have money left over at the end of the month.
- My finances control my life.

Figure 3: Change in Coaching Uptake for Increase in FWB Question Score



For instance, a parent/guardian whose family income is under $20,000 is 11 percentage points more likely to uptake financial coaching if her response to the question "I have money left over at the end of the month" decreases by one standard deviation (approximately 1.4 points – or moving from "Sometimes" to "Rarely" or "Never"). Conversely, for "My finances control my life", families with income *over $20,000* were actually *less likely* to take up coaching if their score on this question was lower. There was no relationship between question score and coaching uptake for the other two questions in the abbreviated scale.

3.3. Finding 3: Perceived Stress not related to coaching uptake

There is no significant relationship between stress and coaching uptake, for households at any level of income. Coefficients for households with incomes below $20,000 and those with incomes at or above $20,000 were not statistically significant.

3.4. Finding 4: Program implementation characteristics also likely related to coaching uptake

Brilliant Baby's 13 different partner organizations had differing rates of coaching uptake by clients, ranging from 30 percent to 80 percent. It seems likely that much of the variation in these organizations is due to different practices in enrollment and referral to coaching. Such organizational practices may include whether or not the coach is housed in the organization (meaning participants may already know their coach and be more susceptible to taking up coaching), how often a coach follows up with participants, and whether the organization is a home visiting or medical home setting.

4. Conclusion

Our hypothesis, that clients with lower levels of financial well-being and higher levels of perceived stress would be less likely to attend financial coaching, was incorrect. Instead, clients with very low incomes and low levels of financial well-being were actually more likely to attend financial coaching. This is an important point, as the opinion that financially insecure families may not be ready or able to engage in financial coaching is a commonly held opinion, even in the financial coaching field. This finding refutes that theory and encourages programs to find ways to reach families who are vulnerable due to both low-income and low financial well-being.

Identifying what aspects of financial coaching are most valuable in attracting very low income, low financial well-being families will require more qualitative research, but we may be able to infer some important points from our analysis on this topic. Perceived life stress may not be keeping participants away from coaching per our hypothesis, but it does not appear to be driving clients to participate in coaching either. We can therefore infer that the problems clients are looking to solve in coaching are indeed financial. The elements of the FWB Scale for which financially less-well scores were related to increased participation in coaching by low income clients appear to both be related to the concept of having extra money with which to do what one wants or needs. Therefore, we hypothesize that the coaching stipends of up to $300 in the first three months may have been a major factor drawing low income low financial well-being clients to coaching. This may be an important lesson to other programs, in that a financial contribution to a client for their time may work to engage them in the process believed to be beneficial for them long-term. The strong association between the FWB Scale item about financial control (item C5) and coaching uptake may suggest a few hypotheses, including that coaching with a focus on helping clients gain back control of their financial lives may be most attractive to very low-income, low financial well-being clients. Another possible hypothesis is that the pure coaching model provided by Brilliant Baby offers the client control that the participant desires, and it is therefore more likely to draw in clients struggling to gain that control.

Finally, it is important to note that what does seem to matter in coaching uptake, at least within Brilliant Baby's program model, is the organizational partner through whom a family enrolls in the Brilliant Baby program. The next frontier in this research is unlocking what aspects of a financial coaching program create the value that drives client participation.

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