BEYOND FINANCIAL EDUCATION
Supporting Positive Financial Behaviors through Financial Coaching

J. Michael Collins
University of Wisconsin–Madison

Making ends meet can be a real struggle, and in some cases people cannot pay for necessities such as food and shelter. This is not just about lack of income. Two households in the same neighborhood with otherwise similar income and education can display widely different levels of financial "wellness," at least in terms of being able to manage the ups and downs of income and expenses. One family with a limited income might struggle but generally pay bills on time, manage to make bigger purchases when needed, and even have a little money for extras such as entertainment or travel. Another family may struggle much more, frequently miss due dates for bills, be pestered by collectors, and be unable to make larger purchases because they are denied credit. Little about the latter family could be described as healthy.

As others have pointed out in this book, being unable to make ends meet can contribute to general anxiety and harm mental health. It can also have tangible effects on children and families. Financial hardships can also contribute to physical health problems and an overall reduced quality of life. Policies and programs have experimented with a range of approaches during the last several decades to help people become better at personal financial management, with mixed success. Existing approaches show promise, but also shortcomings, including people's initial reluctance to take part and challenges to long-term adherence to new habits. One emerging approach that may help people sustain positive financial practices is financial coaching. Learning from the challenges of past strategies, coaching focuses on people's own goals and motivations, with the ultimate goal of developing greater autonomy and confidence in their ability to manage their finances.

FINANCIAL EDUCATION: NECESSARY BUT NOT SUFFICIENT

During the last two decades, and particularly since the recession in the late 2000s, one widely trumpeted solution for improving financial decision-making is to provide financial education for adults who otherwise have little formal financial education or training. There are dozens of models for financial education in the United States, and many curricula, videos, online learning, and other tools are freely offered in communities. Demand for financial education ought to be robust—a number of surveys and studies show many people lack a basic knowledge of financial products, financial management, and financial planning. Studies also show that limited financial literacy is associated with negative behaviors such as high debt or failing to plan for retirement—that is, people who score poorly on financial knowledge quizzes also tend to show signs of worse financial outcomes.

Yet, the evidence is weak for the positive effect that financial education programs can have on personal financial behavior. For example, in 2014, Daniel Fernandes, John Lynch, and Richard Netemeyer reviewed more than 100 studies to assess the efficacy of financial education interventions.[1] They conclude that very few programs have much of an impact on financial behavior later in life. It appears that educational interventions, particularly those aimed at adults with an established pattern of behavior and habits, are unable to change the kinds of financial decisions that people make.

FOCUSING ON FINANCIAL BEHAVIOR

People learn behavior through a variety of contexts, but social context is particularly important. Parents and extended family shape many people's experiences with finances. People may emulate practices modeled by a parent, for example saving up for a family car or paying bills systematically every Sunday evening. They may also try to avoid the problems a parent or other family member fell into. Other financial behaviors are shaped by relationships—a spouse or partner, but also peers, coworkers, and friends. These can be powerful forces that determine the major financial choices in people's lives.

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1 Daniel Fernandes, John Lynch, and Richard Netemeyer, "Financial Literacy, Financial Education, and Downstream Financial Behaviors," *Management Science* 60 (8)(2014).

Another factor that strongly influences financial behavior is financial access. The marketplace for loans, savings, insurance, and other financial products and services is central to every financial choice. Access to financial products and services is uneven by location and by market segment, with lower-income areas and households having quite different options than more affluent areas and families. For example, workplace retirement savings accounts make decisions about saving much easier and more convenient than leaving people to find savings products and regularly save on their own. But lower-income workers are much less likely to have a retirement benefit or option provided by their employer. For these workers, the range of available financial products, features, and costs is limited.

Beyond financial access, the regulation of high-cost or predatory financial services also plays a role. A marketplace with clear and effective guard rails to help keep people from getting into trouble can help, but this may be easier said than done. Well-meaning financial regulations can overreach, resulting in too many restrictions, little interest by the private sector in making sound products and services available, and denying people access to financial services from which they can directly benefit.

THE ROLE OF ADVICE

Faced with these factors, how do we get beyond financial education to more effectively help people make better financial decisions? One potential solution is to engage third-party, trusted advisers to help people when faced with financial challenges. Ideally, these objective sources of financial information and advice can help individuals make their own financial decisions—much like a medical professional guides patients to try certain drug treatments or change certain health behaviors. Financial advice might come from a technical expert, such as a tax accountant or a sales professional from a financial firm helping people select from among various products. However, financial advice provided by someone who benefits from the sale of particular financial products or services can create high levels of distrust, as some people will be driven into choices that are in the best interest of the salesperson, not their own. Interestingly, survey data show that people with higher incomes, higher levels of education, and higher levels of measured financial literacy are the most likely to seek out and use financial advice. Financial advice, therefore, is primarily serving as a complement to existing personal financial knowledge and capability, rather than a supplement when someone lacks that knowledge.

CHANGING AND SUSTAINING BEHAVIORS OVER TIME

Even after people develop the capacity to make positive financial choices, they may still struggle. A variety of challenges can get in the way of people's desired course of action, such as failures of self-control or simple forgetfulness. We all face situations where we put off tasks until "tomorrow," sometimes procrastinating indefinitely. Therefore, in some sense, acquiring financial capability is a never-ending task; people need to learn financial information and how to make good financial choices, but they also need the ability to maintain and adapt behaviors over time. Financial counselors, often supported through public programs, can play a role in this regard. Counselors can help solve problems, especially complicated and emotionally charged issues like home foreclosure or credit default. But counseling is ultimately problem-solving mediated by an expert and may not enhance the ability of people to manage their finances in the long run.

Based in part on studies in psychology and behavioral economics, there is some hope that consumers of financial products and services can be guided to make optimal financial choices through nudges, how choices are framed, and reminders. For example, the easiest financial choice is to do nothing. When a financial decision has automatic features, people often choose the default option. For example, if a goal is to use retirement savings accounts more, people could be encouraged to save at a set level of income by their employer through default settings. This will result in more people saving. However, though the approaches are promising, they may not change how someone actively makes financial decisions in his or her life. Take the example of the person who was defaulted into saving for retirement. Their saving was probably not carefully considered or part of an overall plan. They may not have gained much knowledge about retirement savings or financial management; some may not even be able to recall they have a retirement savings account. This is more worrisome when retirement comes and the onus of managing that retirement fund shifts to the saver. People need to take control of their own finances to enhance their ability to manage financial choices.

The Consumer Financial Protection Bureau has defined financial well-being as being able to meet current and ongoing financial obligations, feeling secure about future finances, and having a sense of autonomy about making choices that facilitate lifetime enjoyment. This perspective emphasizes feeling in control of basic financial management decisions, being resilient to setbacks, and being on track with personal financial goals. A sense of personal financial freedom is part of what people perceive as financial well-being. This goes beyond simple education or advisers developing a plan for a client. It involves getting people actively engaged in their own financial management.

ENTER FINANCIAL COACHING

Financial coaching reflects a shift toward engaging people in becoming more active managers of their own finances. It is not about teaching specific personal finance content, but rather helping people to form goals, take actions, and follow through with the behaviors that they themselves deem important. Coaching is not prescriptive. However, coaching techniques share common processes that engage clients in developing patterns of behavior that are sustainable.

Financial coaching applies techniques emerging from research in positive psychology, a branch of psychology focused on improving life experience. Coaching techniques have been used in athletics, health, personnel management, and other settings for decades, and are often embedded into mentoring, counseling, motivational interviewing, or other approaches. More recently, coaching is developing a unique identity related to personal finance, especially in the United States. Typically, financial coaches and clients work on four main issues:

1. **Alliance:** forming a partnership between the coach and client;
2. **Agenda:** letting the client decide what is important and define his or her own goals;
3. **Awareness:** allowing clients to explore their own beliefs and motivation to change behaviors; and
4. **Actions:** clients act on their plans under the supervision of the coaching relationship.

Coaching should result in greater financial planning, which might include spending or saving plans, reviewing financial documentation or credit reports, and developing action steps to better manage credit or debt. With practice, and the support of and monitoring by the coach, clients are likely to have greater persistence even in the face of challenging behaviors. They are likely to better exert self-control and reduce procrastination. Over time and with some repetition, these steps will begin to focus client attention on problem behaviors and increase the rate of positive behaviors.

The promise of financial coaching is that as people purposefully work toward their financial goals, they increase their self-awareness and self-regulation. People can build a stronger capacity to develop and implement their own solutions as new financial challenges occur. In the long run, people can develop skills and behaviors they can improve independently without needing a coach or counselor, and perhaps even shift the trajectory of their financial decisions.

Ultimately the goal of coaching is greater financial well-being, as measured by reduced stress levels, an increased sense of control, improved ability to absorb a financial shock, and expanded ability to find and evaluate information to make financial decisions. Coaching could engender a greater sense of freedom related to financial decision-making.

Public and nonprofit programs have increasingly been applying coaching techniques to financial capability services, including a funding program from the Consumer Financial Protection Bureau. In part, practitioners have turned to coaching strategies in response to disappointing results in financial education or financial access programs alone in changing behavior. Financial coaching is very much a loosely defined "model" and many components and features are still in development. The intensity of coaching, the length of the coaching relationship, and the extent of supports provided to clients can vary dramatically from a few sessions in a short period to many sessions over many months. Given that coaching involves one-on-one meetings and coaches need to be trained and supported, this is a potentially expensive strategy to improve financial wellness.

In practice, the term "coaching" is sometimes also used to describe programs that are more prescriptive and less client-centered than would be expected in a coaching approach. This is in part due to the technical nature of some personal finance issues, which might require the coach to also be an expert who can instruct and counsel clients on decisions. This balance—between allowing the coaching relationship to evolve organically and more overtly directing the actions of the client—is at the crux of the still-evolving format of financial coaching.

The excitement about financial coaching is grounded in its logic model—that it addresses the issues people seem to struggle with and emphasizes personal growth and autonomy. Although evidence is emerging from health coaching and other settings that point to the benefits of financial coaching for behavior change, solid evidence does not yet exist. However, pilot programs and studies are in progress that can show how coaching influences savings and credit management. Future studies of financial coaching must be carefully designed to test the mechanisms behind various coaching approaches.

Evaluating client-directed goals can be tricky. One person's goal could be to access credit (borrowing more) and another's to pay down debt. Some clients will want to boost savings and others use savings to make a major purchase. Standard measures of financial outcomes may not be sufficient to evaluate coaching models. Instead, measures of financial health and well-being may be more relevant. Reduced stress and anxiety, a greater sense of control and feeling on track to meet long-term financial goals may be the dominant results of coaching experiences. Discussions about the effects of financial coaching can spur a more critical analysis of just what financial capability means, and the extent to which predetermined behaviors such as saving or paying down debt are inadequate to match the wide ranging goals of families.

CONCLUSION

It is tempting to oversimplify household financial management and capability issues. One view is that poverty mechanically results in financial hardships. In this perspective, focusing on building personal financial capability is a distraction—a drop in the bucket given larger socioeconomic challenges. Another view puts responsibility squarely in the hands of individual financial consumers. This approach implies that people are responsible to seek out information about financial decisions on their own and make informed choices. Neither view fully reflects reality. Financial

LORETTA'S COACHING EXPERIENCE

Loretta is a 45-year-old single mother who had struggled with her finances—calls from collectors every few months and little savings cushion to catch her when she had shortfalls. A couple of years ago, she worked with a financial counselor who told her which bills to pay first, and she took a financial education workshop where she made a monthly budget. Neither helped much. A few months ago, she started working with a financial coach based at a local nonprofit organization.

She expected the coach to offer her suggestions or tell her what she was doing wrong. Instead, the coach asked a lot of questions and listened to what she had to say, even before looking at a credit report or financial statement. At first Loretta said her goal was to pay off her debt, but as she talked with her coach, she changed her mind. What she really wanted was to have an emergency savings fund because it would best help her manage the ups and downs of her income and expenses. Her coach checked in with her every couple of weeks, and Loretta reported on her progress. The times she was tempted to spend extra money, she would think of having to tell her coach she missed her goal. Some weeks she had to admit she made little progress, but her coach simply asked her what she would do next week and did not judge her for failing. Loretta gained new confidence and focus on managing her cash flow. In six months she had saved enough to cover a car repair, something that normally would have caused her to miss payments on another bill. Money was still tight for Loretta, but she was feeling like she could manage her finances more independently than before.

well-being is not just a reflection of income or assets; people at a given level of income or net wealth vary in their ability to manage their own finances. But knowledge is not enough. Social context and access to carefully regulated financial products clearly play a role in supporting financial choices and behaviors. Financial coaching suggests a hopeful balance of enhancing personal financial capability with the ultimate goal of enhanced life experience and well-being.

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__J. MICHAEL COLLINS__ is an associate professor of public affairs and human ecology at the University of Wisconsin—Madison where he serves as faculty director of the Center for Financial Security. He has an MPP from Harvard's Kennedy School of Government and a Ph.D. from Cornell University.