Finding A Yardstick: Financial Capability Outcome Measures

J. Michael Collins
University of Wisconsin-Madison
January 2015
Field (broadly defined) is Maturing

• All fields develop standardized measures
  – Health care, public health, nutrition
    • Ex. Outcomes per health care expenditure

• This “Field” is not there yet...
  – Programs that include a personal financial component or share goals related to economic outcomes

• Having “yardsticks” will help define what this field is...and what it does
How Will Better Measures Help?

• Diagnosis
  – triaging
  – matching to appropriate resources

• Advocacy / Collaboration
  – document common characteristics
  – coordinate strategies

• Outcome Assessment
  – demonstrate biggest bang for buck
Begin With the End in Mind

- We measure different things depending on our goals...
  
  Management ≠ Evaluation ≠ Post award reporting ≠ Public relations

<table>
<thead>
<tr>
<th>Goal</th>
<th>Frequency</th>
<th>Precision</th>
<th>Cost</th>
<th>Communication Value</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Performance Management</strong></td>
<td>Ongoing (contractual)</td>
<td>Medium</td>
<td>Medium</td>
<td>Low</td>
</tr>
<tr>
<td><strong>Research / Evaluation</strong></td>
<td>Rare / sporadic</td>
<td>High</td>
<td>High</td>
<td>Low</td>
</tr>
<tr>
<td><strong>Funder Reporting</strong></td>
<td>Periodic (quasi-contractual)</td>
<td>Medium</td>
<td>Lower</td>
<td>Higher</td>
</tr>
<tr>
<td><strong>Fundraising / Media (PR)</strong></td>
<td>Sporadic</td>
<td>Low</td>
<td>Low</td>
<td>Very High</td>
</tr>
</tbody>
</table>
Measuring as a Task

1. Measures we use all the time
   - Weight or blood pressure
     • Weight for monitoring heart function
     • Weight for competing in diet competition

2. Tests - use only sometimes
   - MRI or blood draw

   • Both are important, but different purposes and uses
     - Likely we are more focused on frequent “all the time” type measures
I. Compared to self (changes)

II. Compared to others

III. Combination of I. & II.

Rarely can we directly measure: Need a **Proxy**
The “Right” Measures Trap

• Smoking is bad
  – What is the financial equivalent of smoking?
    • A behavior that is just “never a good idea”
    • Ex: A payday loan maybe better than eviction.

• Caution: putting qualitative value on certain outcomes or behaviors as “good” or “bad”

• Respect differences in preferences, culture, context
  – Measurements often reflect the values of the measurer

• Goal: measure generalized “constructs”
Picking Measures

• **Feasibility**— easy to use; use in field (e.g. Cortisol in saliva; DNA swabs)

• **Quality**— users can use it correctly (fidelity)

• **Cost** — time, expertise, recording, storing

• **Accuracy** — valid measure with minimal error
  – Observed Measure = True score + Error
Searching for Truth

• **Face Validity** – “sniff” test. Appropriateness.

• **Predictive Validity** – measure of trajectory

• **Concurrent Validity** – measure correlates with other measures (behaviors)
Many Potential Measures Related to Personal Financial Condition

- **Subjective**—feeling, perceptions
- **Objective**—dollars
- **Behavior**—actions
- **Attitude**—positive/negative

Also many different *modes* for collecting these measures…
Quality of Measures

• Many measures we take for granted are measured with a lot of “noise”

• Worse in small numbers. Examples:
  – Savings
  – Debt Levels
  – Weekly Income

• Are these worth collecting? Maybe.
  – Often need administrative data or means to validate measures. *Have to think ahead.*
<table>
<thead>
<tr>
<th>Pros</th>
<th>Cons</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Self Reported Survey</strong></td>
<td>Self-report bias; lack of cooperation, especially for follow-up—need incentives.</td>
</tr>
<tr>
<td>Can be collected in service delivery</td>
<td></td>
</tr>
<tr>
<td><strong>Credit report/score</strong></td>
<td>Proprietary; 'thin' files; slow to change.</td>
</tr>
<tr>
<td>Widely used</td>
<td></td>
</tr>
<tr>
<td><strong>Account balances</strong></td>
<td>Very “noisy” snapshot; requires client consent</td>
</tr>
<tr>
<td>Directly observe behavior; validity</td>
<td></td>
</tr>
<tr>
<td><strong>Public records</strong></td>
<td>Low probability events; uneven reporting.</td>
</tr>
<tr>
<td>Accessible</td>
<td></td>
</tr>
</tbody>
</table>
Example 1: Financial Capability Scale

1. Over the last 3 months, have you followed a **personal budget**, **spending plan**, or **financial plan**?

2. How **confident** are you in your ability to achieve a financial goal you set for yourself today?

3. Have you set aside funds that would cover your expenses for **3 months** if you or someone in your family lost a job, got sick or had another **emergency**?

4. Do you currently have an automatic deposit or electronic transfer set up to put money away for a future use such as saving for **retirement or education**?

5. Over the past **3 months**, would you say your household’s **spending on living expenses** was less than its total income?

6. In the last 3 months, have you avoided **any late fees** on your loans and bills?
Example 2: Credit Report

1. Credit score
2. # 30 day delinquencies
3. # items in collections
4. # judgments (public records section)
5. $ revolving credit limit
6. $ revolving credit outstanding
7. Ratio: #5 to #6
Beware of Bottlenecks

1. Is the data collection process too much of a burden for clients?

2. Can data be collected and entered into a database in a timely and accurate way?

3. Can people be followed or tracked over time?

4. Is there a clearly defined audience for the analysis?

5. Is time frame for follow-up long enough to detect effects?

6. Are the benefits from using the data greater than the cost?
‘Field’ Needs Leadership...

1. Building Capacity
   – Training & education
   – Developing systems

2. Technology
   – Software, web-based services

3. Fidelity & Consistency & Quality
   – Need “rules” (and enforcement)
   – Context/process, wording, mode, timing

4. Standardization & Aggregation
   – Across time, program and geography
Moving Forward

• No measure is perfect
  – Some measures are better than none
  – Don’t let the perfect be the enemy of the good.

• Balancing strategies for collecting data
  – Self reported data
  – Administrative data

• Not about ‘Winners’ and ‘Losers’ (*mine vs. yours*)
  – Complements not substitutes
  – Constant improvements and refinements
J. Michael Collins
jmcollins @ wisc.edu
608.616.0369

cfs.wisc.edu
ssc.wisc.edu/~jmcollin

Twitter: @jmcollinswisc