The State of Financial Capability

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Can You Help Someone Become Financially Capable?
A Meta-Analysis of the Literature

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Financial Literacy, Financial Education, and Downstream Financial Behaviors

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Policy makers have embraced financial education as a necessary antidote to the increasing complexity of consumers’ financial decisions over the last generation. We conduct a meta-analysis of the relationship of financial literacy and of financial education to financial behaviors in 168 papers covering 201 prior studies. We find that interventions to improve financial literacy explain only 0.1% of the variance in financial behaviors studied, with weaker effects in low-income samples. Like other education, financial education decays over time; even large interventions with many hours of instruction have negligible effects on behavior 20 months or more from the time of intervention. Correlational studies that measure financial literacy find stronger associations with financial behaviors. We conduct three empirical studies, and we find that the partial effects of financial literacy diminish dramatically when one controls for psychological traits that have been omitted in prior research or when one uses an instrument for financial literacy to control for omitted variables. Financial education as studied to date has serious limitations that have been masked by the apparently larger effects in correlational studies. We conclude a reduced role for financial education that is not achieved or sustained over time.
Recent Studies Summarize Mixed Evidence

- Who participates and why? Who does not?
- Comparison group is a big challenge
- Time for program and time for impacts to take effects
- Need reliable and valid measures
- Effects of a single program in isolation tend to be small
Financial Capability for Youth

Eau Claire, Wisconsin
- 2011-2012
- 2012-2013

Amarillo, Texas
- 2012-2013
Learning Persists

![Graph showing the persistence of learning over time between control and education groups.](image-url)
Banks in School Boost Child Bank Use

% Banked

Baseline

Follow-up

No Bank (658)  Bank in School (706)
## State Education Experiments in 2007

<table>
<thead>
<tr>
<th>State</th>
<th>Length</th>
<th>Testing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Georgia</td>
<td>1 yr</td>
<td>Yes</td>
</tr>
<tr>
<td>Idaho</td>
<td>0.5 yr</td>
<td>No</td>
</tr>
<tr>
<td>Texas</td>
<td>1 yr</td>
<td>Yes</td>
</tr>
</tbody>
</table>
Credit Outcomes for 18-22 Year Olds Graduating After New Mandate: GA

<table>
<thead>
<tr>
<th></th>
<th>Credit Score</th>
<th>30 Day Late</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 year</td>
<td>4.6</td>
<td>-0.1%</td>
</tr>
<tr>
<td>2 years</td>
<td>6.8</td>
<td>-1.5%</td>
</tr>
<tr>
<td>3 years</td>
<td>7.0</td>
<td>-3.5%</td>
</tr>
</tbody>
</table>
Financial Counseling for Adults in Public Programs

Percent of Debt Past Due

<table>
<thead>
<tr>
<th></th>
<th>Control</th>
<th>Treatment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Initial</td>
<td>0.37</td>
<td>0.37</td>
</tr>
<tr>
<td>6 mo</td>
<td>0.37</td>
<td>0.34</td>
</tr>
<tr>
<td>12 mo</td>
<td>0.35</td>
<td>0.30</td>
</tr>
</tbody>
</table>
Everyone’s Goal = financial security

Choices = tradeoffs
- Savings may not be goal; paying bills, debts, paying for ‘needs’
  - e.g. Emergency savings = cash in pinch or spending on ‘social mobility’
## Compared to What?

<table>
<thead>
<tr>
<th>14 - Day Term</th>
<th>FEE</th>
<th>APR$^1$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overdraft Protection &amp; Non Sufficient Funds (NSF) Fee</td>
<td>$28.95</td>
<td>621.57%</td>
</tr>
<tr>
<td>Overdraft Protection Fee</td>
<td>$27.00</td>
<td>579.71%</td>
</tr>
<tr>
<td>Credit Card Late Fee: 1st Time Late</td>
<td>$25.00</td>
<td>536.76%</td>
</tr>
<tr>
<td>Credit Card Late Fee: 2nd Time Late</td>
<td>$35.00</td>
<td>751.48%</td>
</tr>
<tr>
<td>Utility Late/Reconnect Fee</td>
<td>$46.00</td>
<td>987.65%</td>
</tr>
<tr>
<td>Payday Loan</td>
<td>$15.00</td>
<td>322.06%</td>
</tr>
</tbody>
</table>
More Information Can Encourage Debt Use

![Graph showing pre-post debt levels: Financial Education vs. Controls](image)

- **Pre-post Debt Levels: Financial Education v. Controls**

  - **Y-axis**: Dollar Debt from Credit Report
    - 0
    - 5,000
    - 10,000
    - 15,000
  - **X-axis**: Controls vs. Treatment
  - **Legend**:
    - Pre
    - Post

Looking Ahead
But Not Worse Debt Use?

Pre-post FICO: Financial Education v. Controls

Credit Report Scores

Control  Treatment

Pre    Post

Looking Ahead
Financial Capability Model

Program

Knowledge

Experience

Skills

Attitude

Personality

Behavior

Knowledge → Skills → Attitude → Behavior

Personality
Fin Tech and Mobile Financial Services

- Accelerated use of technology
- Prepaid debit cards
- Electronic payments
- SmartPhone Wallet
- Instant liquidity
Aging: Loss in Cognitive Functioning

Ability to make financial decisions?

- 30% of people in their 80s show cognitive impairment
- 20% of people in 80s show evidence of dementia

That’s 50%. 50-50 chance you will lose cognitive acumen.

http://dash.harvard.edu/handle/1/4554335
Emerging Strategies / Innovations

- Peers (and networks), Couples, Inter-Generational
- Focus on Goals and Intentions
- Attention and Reminders
- Financial Coaching
- Emergency Savings
Important to Watch Progress
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