Research Priorities for Financial Literacy and Education

Improving Financial Literacy and Reshaping Financial Behavior Conference

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National Research Symposium

- October 2008, Washington, DC
- Treasury/USDA for the Financial Literacy and Education Commission
- 29 scholars
- two-day facilitated work session
- focus on knowledge, gaps, needs

Discussion Topics

- behavior theory application
- consumer economic socialization
- financial education and program evaluation
- financial risk assessment

*Handbook of Consumer Finance Research (*Xiao, 2008)

Sample of Research Priorities

- must-know principles
- measures for financial education success
- education/regulation/decision framing
- effect of social/psychological factors
- coping strategies during financial crisis
- risk management

Consumer Economic Socialization

Jing Jian Xiao
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Behavior Theory Application: Overview

- To identify behavior science theories that apply to financial behavior
- To discuss if financial education contributes to financial behavior
- To discuss if financial behavior contributes to well-being
- To propose future research needs

Xiao, J. J. (2008). Applying behavior science theories to financial behaviors. In J. J. Xiao (ed.). *Handbook of consumer finance research* (pp. 69-81). New York: Springer.

Theory of Planned Behavior

- Purpose: to predict and understand behavior
- To predict: behavior is mainly determined by behavioral intention
- To understand: behavioral intention is mainly affected by three factors: attitude toward the behavior, subjective norm, and perceived control. Perceived control also affects behavior directly.
- Applications in financial behavior contexts

Xiao, J. J., & Wu, J. (2008). Completing debt management program in credit counseling: An application of the theory of planned behavior. *Financial Counseling and Planning, 19*(2), 29-45.

Transtheoretical Model of Change

- Purpose: to facilitate behavior change to desirable directions
- Unique features:
  - 5 refined stages of change;
  - 10 processes of change;
  - Stage matched interventions
- Applications in financial behavior context

Xiao, J. J., et al. (2004). Applying the transtheoretical model of change to debt reducing behavior. *Financial Counseling and Planning, 15*(2), 89-100.

Behavior Finance

- Purpose: to identify actual saving and investing behavior patterns of consumers
- Major patterns found:
  - decisions tend to be "local"
  - intention does not mean action
  - choices can be overwhelming

Barr, M. S., Mullainathan, S., & Shafir, E. (2008). *Behaviorally informed financial services regulation.* White paper. Washington, DC: New America Foundation.

Human Needs Theory

- Assumption: human needs are hierarchical in the order that higher level of needs emerge when lower level of needs are met.
- Behavioral hierarchies are found in financial behaviors, such as saving motives, financial product possessions, and financial asset shares
- Implications for consumers at different life cycle stages

DeVaney, S. A., Anong, S., & Whirl, S. P. (2007). Household savings motives. *The Journal of Consumer Affairs, 41*(1) 174-186.

Financial Education and Behavior

- Assumption: effective financial education should foster good financial behavior
- Research suggests complicated situations
- Financial education course may (or may not) prevent risky financial behavior
- Financial knowledge may (or may not) prevent risky financial behavior

Xiao, J. J., et al. (2009). Risky credit behaviors of college students. Working paper.

Financial Behavior and Well-being

- Assumption: good financial behaviors should contribute to financial and general well-being
- Research indicates that action results in happiness
- Risky financial behaviors are associated with risky health behaviors
- Good financial behavior contributes to financial satisfaction
- Good financial behavior contributes to satisfaction of other life domains
- In turn, financial and other satisfaction contribute to satisfaction of life as a whole

Xiao, J. J., Tang, C., & Shim, S. (2009). Acting for happiness: Financial behavior and life satisfaction of college students. *Social Indicator Research, 92,* 53-68.

Research Needs

- Conduct interdisciplinary literature review on key financial behaviors
- Define good financial behaviors
- Conduct theory-based longitudinal studies
- Develop theory-based, action-oriented financial education programs
- Explore relationships between different types of financial behaviors

Consumer Economic Socialization

Tahira K. Hira
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Consumer Economic Socialization

- **Socialization**

  The process by which individuals acquire the knowledge, skills, and value dispositions that enable them to participate as more or less effective members of groups and society (Brim 1966)
- **Consumer Socialization**

  Socialization that fosters individuals' effective functioning as consumers in the marketplace (Ward1974)
- **Economic Socialization**

  Socialization that enables individuals to understand the economy and how to successfully function within it
- **Financial Socialization**

  Socialization that contributes to the financial viability and well-being of the individual (Danes 1994)

Financial Socialization

- Is much more inclusive than learning to effectively function in the marketplace. It is the process of acquiring and developing values, attitudes, norms, knowledge, and behaviors that contribute to the financial viability and well-being of the individual (Danes 1994).
- My primary interest and focus is *financial socialization*

Who is doing this research?

- Economists
- Psychologists
- Marketing scholars
- Communication scholars
- Family and Consumer Scientists

The Differences Are

- How the individual is identified: *consumer*, *saver*, *investor*, *financial manager*
- Which behavior is of interest: *purchasing*, *economic*, *financial*
  - single focus: purchasing, saving
  - Multi-focus: buying, saving, risk management, investing, planning
- What is the end goal?

Empirical Research Methods

- Researchers from all three disciplines use somewhat similar approaches to data collection
  - Primary surveys – mail, web base, distributed to different groups (students, agency clients, agencies, etc.)
  - Secondary surveys :
    - Cross sectional
    - Panel data
    - Longitudinal studies
  - Personal interviews
  - Telephone interviews

Socialization Agents

- All disciplines recognize similar types of socialization agents
  - Family, parents
  - Peers
  - School
  - Workplace
  - Media
  - Culture & Society

Research Priorities

- Investigate the effectiveness of current strategies and programs designed to influence financial behavior
- Determine what specifically parents are or are not doing to socialize their children to handle financial matters
- Explore how to utilize existing socialization knowledge to develop strategies and programs to foster the socialization pr

Financial Education/Program Evaluation

William Walstad
University of Nebraska-Lincoln

Research Gaps

- Defining program success
- Delivery methods & Timing of education
- Target populations
- Measurement & evaluation methods
- Financial education as a policy tool
- Theory and practice-divide

Defining Program Success

- What are basic financial goals for programs?
- What should adults and youth know and able to do related to personal finance?
- What outcomes should researchers measure?

Priority: Better understanding of purpose of financial education and what knowledge and skills people need to learn

Delivery Method & Timing

- What is the comparative effectiveness of alternative delivery methods?
- When is the best time to provide financial education at different stages in life?
- How intense should the education be?

Priority: More investigation of alternatives relate to delivery, timing, and intensity of financial education

Target Populations

- Is the wide diversity in financial education effective, or should it be more targeted?
- Should financial education focus on general understanding or address specific needs?
- What best practices can be used to improve program participation and retention?

Priority: More study of the effectiveness of financial education on target populations

Measurement & Evaluation Methods

- How can participants best be assessed to capture various individual or program outcomes?
- What feasible methods for data collection and analysis would improve studies and reduce bias?
- How can both the short-term and long-term effects be measured?

Priority: Develop more reliable and valid measures, and collect robust data, to assess short-term and long-term outcomes

Financial Education as a Policy Tool

- Is financial education sufficient as a policy tool to change financial behavior?
- How can regulatory policy best complement or supplement financial education?
- Which approach is most cost effective?

Priority: More study of the effectiveness of financial education in conjunction with regulatory or other policy tools

Theory and Practice Divide

- How can theory about financial behavior best be applied to practices in financial education?
- Are intervention strategies based on behavioral economics more effective than education?
- What influence does financial education have on knowledge, attitudes, and ultimately behaviors?

Priority: More study of the extent and process through which financial education affects financial behavior and decision-making.

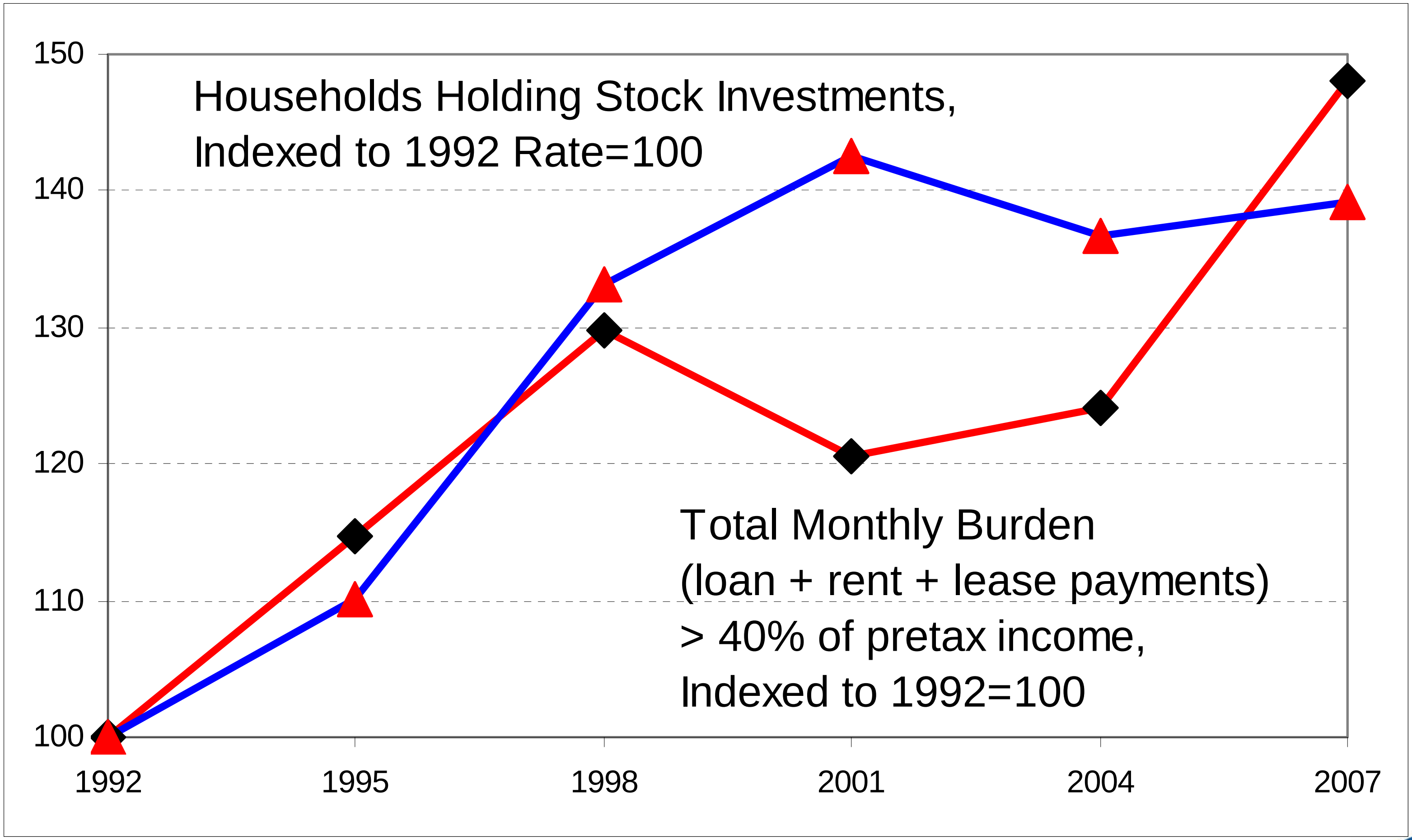
Financial Risk Assessment

Sherman D. Hanna
Ohio State University

Financial Risk Assessment

- Why do some households take inappropriate levels of risk?   E.g.
- Not saving enough
- Too much credit
- Overly conservative retirement portfolios when young
- Overly aggressive portfolios when approaching retirement

Stock Ownership, Total Burden Since 1992



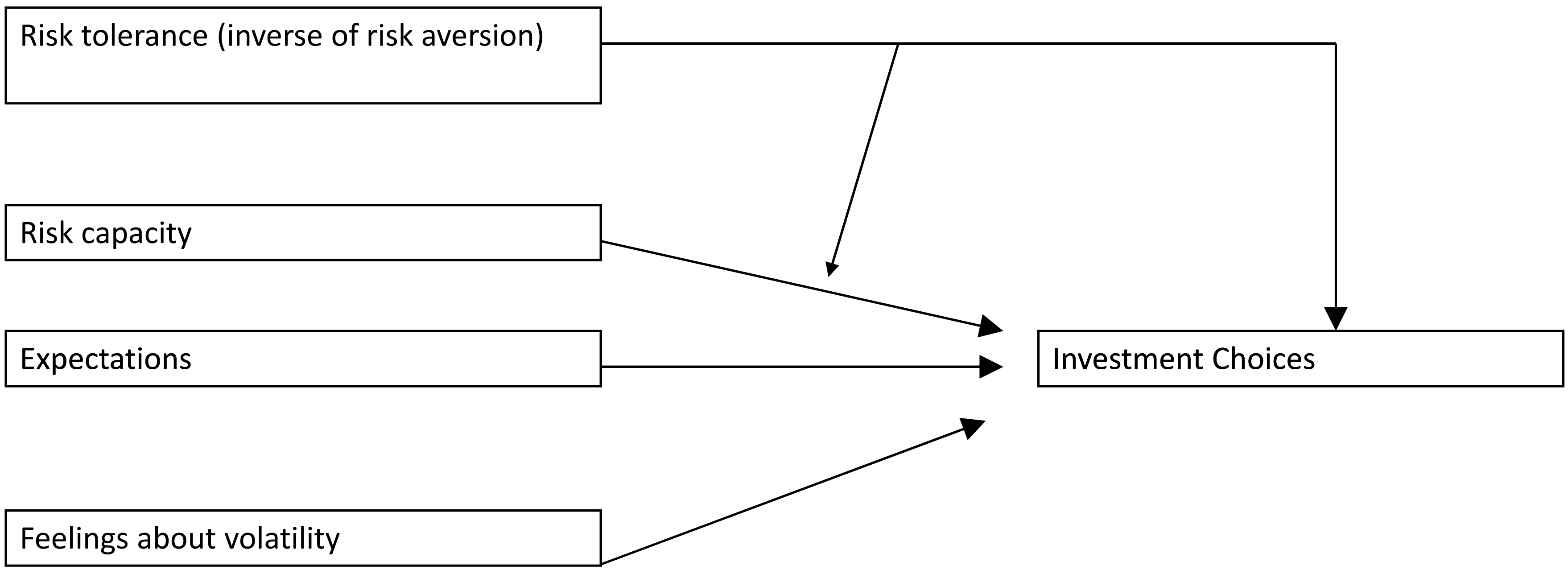
Why Were Households Taking More Risks in 2007 than in 1992?

- Household exposure to risk increased during the Roaring 90’s & then between 2004 and 2007
- Example 3: Real house prices increased by 70% between 1992 and 2007
- Example 4: Aggregate Personal Savings as % of Disposable Personal Income: 7.7% in 1992, 0.6% in 2007
- With limited savings for emergencies, what happens if income drops?

Did Consumer Preferences Change?

- Stigler & Becker (1977). De gustibus non est disputandum. *American Economic Review*
- Don't rely ***first*** on the assumption that preferences are the cause of behavior differences

Conceptual Model of Investment Choices Involving Risk



Research Priorities

- How do macroeconomic shocks alter risk exposure and risk management choices at the household level?
- We need more research about how people perceive their risks
- Are poor decisions due to poor decision-making process or incorrect expectations?

Some Recommended Uses

- reference the report
- guide research funding
- frame conference content
- inform research priorities

More Information

Journal of Financial Counseling and Planning

www.afcpe.org (available June 2009)

Full Report and One-page Handout

www.treasury.gov/ofe (click on FLEC)