

Experimental Evidence on Financial Interventions

Discussion

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October 2015

Research on Financial Literacy Is Evolving

- Prior studies often lacked causal models.
- Poor measures.
- Small samples.
- Non-standard interventions or no implementation fidelity.

Why?.... Capacity / Funding stream? Disciplinary focus?
Unfocused research agenda? ...(*Questions for another day*)

These Studies Set High Standards

Advances . . .

- High quality interventions that are well documented.
- Range of reliable measures and tests.
- Sufficient power.
- Can produce causal models with effects sizes .
 - Approaching standards common in education, workforce, and related fields.

Interventions Depend on Consumer Need



Information

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Advice

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Advice

Coaching

Not Just 'Education'

- INFORMATION: Knowledge, Skills, Problem Solving = Education / Training
- ADVICE: Navigate Processes, Complete Technical Tasks = Counseling
- COACHING: Overcome Self-control, Biases, Procrastination = Accountability / Support Structure

An Evaluation of the Impacts and Implementation Approaches of Financial Coaching Programs

— Theodos, Simms, Treskon, Stacy, Brash, Emam, Daniels & Collazos (Urban Institute)

- A ‘big’ project!
 - Two cities (NYC and Miami, FL).
 - Two programs.
 - Different target populations.
 - Rigorous measures (survey, credit reports, admin data). First
- ‘real’ study of coaching-influenced programs

...Clients have different goals; programs seem to ‘meet clients where they are at’.

Mechanisms. Goal-driven Behavioral Supports

- Coaching methods: active listening & client defined goals.
- Also some counseling methods: serving as expert (especially on credit).
- Tension between prescriptive vs. more client-centered approach.
 - Does this matter? Maybe if longer-term, adaptive behaviors are the goal.
 - But...signs many clients in distress.

Discussion

- Significant increase in **saving** and decrease in **debt**; while *improving* credit management.
- Also some shifts in attitudes and perceived ability.
- No shift in measured financial knowledge. *That makes sense.*

Cautions

- Did programs 'stretch' to recruit? Would standard flow of clients look the same?
- Program models developed over time?
- Differentiated from counseling model—to what extent are behaviors result of overcoming biases or procrastination vs. 'tell me what to do'?

Rules of Thumb vs. Principles

“Assessing Financial Education Methods: Principles Vs. Rule-of-Thumb Approaches” by Mitchell, Skimmyhorn, Davies & Mun

- Builds on Drexler, Fischer, & Schoar (2014) *AEJ: Applied*
 - Promise of cheaper, faster (as good? better?)
 - One size does not fit all - match to learner (Lusardi & Mitchell, 2014, *JEL*).
- Financial education among very capable student population.
- Test more advanced learners with ‘sophisticated’ principles-based training material vs rules of thumb?
- What are tradeoffs of ‘hueristic shortcuts’ compared to a more technical (mathematical) approach?

Focusing on Methods

- USMA trains leaders; motivation and capability high.
- Also more homogeneous and less financially stressed (*& all taking economics*).
 - 8 hours in both treatments; common textbook and topics.
 - 'Rules of thumb' used 17 heuristics—less calculation driven.
- Show objective and subjective knowledge gains.
- 'Rules of thumb' has lesser association with self-efficacy, seeking advice, and increasing savings (all self report). But knowledge gains similar.
- No heterogeneous treatment effects.

....expected?

Or unexpected?

Table 1: Personal Finance Curriculum & Methods

Subject	Principles Based (PB) Methodology	Rules of Thumb (ROT) Methodology
Personal Finance for Service Members	Goal Setting: Group Brainstorming Exercise	Goal Setting: Group Brainstorming Exercise to develop SMART goals
	Net Worth: Powerpoint Presentation of Equation	Net Worth Exercise: Online Calculator
	Taxes: PPT and Board Work to Calculate Marginal vs Average Tax Rates	Taxes: PPT showing where to find taxes on pay stub
	Budgeting: Group Brainstorming Exercise	Budgeting: 20/50/30 Brainstorming Worksheet
Personal Finance Basics/Major Financial Decisions	TVM: Excel Based Exercise with Explanation of Equations; Example Board Problems Using Equations	TVM: Online Calculator Exercise with Explanation of Equations; Example Board Problems Using Online Calculators
	Credit Card Balance Example Using Excel Based Equation	Credit Card Balance Example Using Online Calculator
	Pay Day Loan Example Using Excel Based Equation	Pay Day Loan Example Using Online Calculator
	New versus Used Car: Excel Based Exercise with NPV Equations	New versus Used Car: Online Calculator Based Exercise without Providing NPV Equations
	Rent vs Buy Exercise: Online Calculator	Rent vs Buy Exercise: Online Calculator
Investing for your Future	Diversification Exercise: Excel Based Efficient Portfolio Presentation and Online Calculator Based Exercise	Diversification Exercise: Online Calculator Based Exercise
	DCA Exercise: Excel Based Equations	DCA Exercise: Online Calculator
	Emergency Fund Exercise: Excel Based Equations	Emergency Fund Exercise: Online Calculator
Retirement & Insurance	Traditional vs Roth IRA Exercise: Excel Based	Traditional vs Roth IRA Exercise: Online Calculator
	Insurance Needs Exercise: Excel Based	Insurance Needs Exercise: Online Calculator

Discussion

- Is principles-based method more effective?
- Is rules method good enough? How much do people really need?
- Is there heterogeneity for audiences with lower levels of human capital?
- Are principles-based methods more effective in higher human capital settings?
- Math may be the 'linchpin'?
- Goal: Financial Capability—to be able to make decisions in the future given the situational context (across products, life course, marketplace etc.)
- Maybe better to have principles? Still unclear.

Summary

- These papers are **advances** for the field.
- Hope to see more RCT and other more rigorous designs (and funding for them).
 - Perhaps combining interventions, access to products. Longer
 - term, narrowing on mechanisms, stronger measures of behavior and adaptive / translational decisions
- Start determining costs and benefits—direct costs and opportunity costs of all these interventions are real
- Policy makers (say they) need better assessments of what is being achieved

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