Using a Financial Health Model to Provide Context for Financial Literacy Education Research: A Commentary

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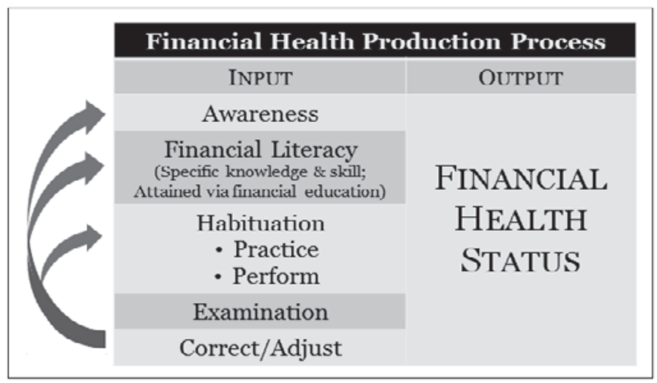
In the article, "*Enhancing links between research and practice to improve consumer financial education and well-being*" Billy J. Hensley, Director of Education at National Endowment for Financial Education® (NEFE®), outlines his perspective on the current relation between financial education and financial outcome (downstream financial behavior) by drawing on a recent study by Fernandes, Lynch & Netemeyer (2014). Evidence from this meta-analysis study indicates that financial education has little to no impact on financial outcome and the three main conclusions Hensley highlights from the Fernandes et al. (2014) study relate to education timing and decay, weak linkage between education and behavior, and the need for improvement both in terms of education programs and research design.

While I think the Fernandes et al. study is very well done and certainly raises some issues that those of us interested in financial literacy and financial education should be attuned to, I question the implicit assumption that for financial education to be deemed successful it must have an appreciable impact on one's financial outcome (or health). Education is one method used to increase both a person's knowledge and ability or skill to use that knowledge (human capital). Financial education is designed to enhance human capital specific to personal finance (i.e., financial literacy). The hypothesis is that attained human capital allows people to make better and more informed choices. But, the actual behavior and resulting financial outcome depends on many internal (e.g., whether the person chooses to use their expertise, competing intertemporal goals) and external (e.g., market conditions, regulations, product & service access, socio-economic status) factors. If our collective goal is to help individuals and families maintain or improve their financial health, then I think we need to take a step back and establish a framework to position the context of our work.

A Model of Financial Health

To be physically healthy, one must engage in activities that promote physical fitness such as proper diet, exercise, sleep, risk management, and access to medical treatment. Equating physical health to financial health, to be financially healthy one must adopt activities that promote financial fitness such as income generation, money management, prudent borrowing and investing, risk management, and access to professional guidance. So, how do we get people to maintain or improve their physical or financial health? I conceptualize that it is a production process that requires continuous awareness, education, habituation, examination and adjustment (see Figure 1), and is not a direct result of financial education.

Figure 1. Financial Health Model



The first stage of health production is awareness. While most people are born into a physically and financially healthy state, many people have to be made aware that certain activities are required to maintain (or build) their health over a lifetime. Financial awareness can help people realize the need to enhance their human capital related to personal finance. Specific human capital is required to ensure that people have the expertise they need to know what to do (knowledge) and how to do it (skill). In Figure 1, financial education is depicted as the preferred method of attaining this specific human capital because it is more efficient than other methods of human capital attainment, such as experience by trial and error. The third stage is habituation. Ideally, people need the opportunity to practice financial skills so they can form habits that increase their odds of performing well when it matters. Additionally, regular checkups (or emergency treatment) with a financial health professional allow people the opportunity to make sure they are on the right path to financial fitness and provide guidance with how and where corrections need to happen. As depicted in Figure 1, these adjustments may involve

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intervention to provide additional awareness, financial literacy, motivation to practice, and/or alleviation of performance issues. Like physical health maintenance or improvement, the financial health production process is ongoing and needs to be modified in response to both internal and external changes in one's environment.

Using the Financial Health Model to Inform Research and Practice

According to my financial health model, financial literacy (specific human capital) is an input within a multi-stage continuous process to produce financial health. Financial education (a production process itself) is one option people have to acquire the knowledge and skill needed to aid in producing financial health. Within this framework, it seems unreasonable to expect that a substantial portion of output (financial health status) variation will be explained by a production process (financial education) for one input (financial literacy) among many in the system. In any case, the model clearly shows that there is not a direct link between financial education and financial health status, which may help to further explain the weak linkage found by Fernandes et al. (2014) and discussed by Hensley.

There are critical diagnostic issues that impede both financial health provision and research agendas when we assume a direct link between financial education and financial health status. Assume an individual takes a financial literacy class and no impact is detected with regard to the individual's financial health status. We have at least two possible internally-related reasons to explain this outcome; either the individual is not financially literate, or the individual is financially literate but did not habituate (either through lack of practice, performance, or both). Of course, there is always the possibility that the issue is external to the health production system itself. For example, a person may be financially literate in terms of knowing what and how to save for retirement but is not currently in an appropriate situation to exhibit evidence of having this human capital.

Experiments that focus only on evaluating the success of financial education based on financial health status ignore the process that leads from knowledge to outcome. This is a problem because the treatment recommended by a financial health professional would be very different for each scenario. If financial literacy has not been acquired, then the problem may be with the education design and/or delivery. If financial literacy has been attained, then the problem may be with the habituation process. The efficacy of financial literacy education should not be judged solely by its impact on financial health status, but rather on its ability to produce knowledge and skill specific to personal finance (i.e., financial literacy) that is an input into the process of making better financial decisions.

As both Hensley and Fernandes et al. point out, current measures of financial literacy are inadequate. The majority of financial literacy instruments are limited to measuring knowledge at the expense of measuring skill (ability to apply knowledge). We need comprehensive and valid financial literacy measures that adequately cover the appropriate human capital dimensions and personal finance topic areas (see Huston, 2010 for further discussion on measuring financial literacy from this perspective) before we can appropriately evaluate the efficacy of financial education and conduct research to identify financial education best practices.

Furthermore, we need to be very deliberate in making the distinction between financial awareness and financial education activities. Consider the types of educational interventions included in the Fernandes et al. (2014) study, which includes high school courses, counseling, seminars/workshops, multiple sources of education, and exposure to information such as a newsletter or a fair. Many of the activities categorized under this financial education umbrella would be more appropriately classified as financial awareness efforts. This lack of distinction between financial awareness and financial literacy education may be contributing to the decay detected between financial education and outcome.

I think this issue of decay is not unexpected and calls attention to the need for incorporating critical thinking techniques— such as the ability to identify credible information sources and using decision systems to contextualize concepts— into a financial literacy education curriculum rather than focusing on facts and recipes. If the curriculum focuses on the system of the recipe rather than memorizing the steps, then when missing ingredients are encountered the learner will know where and how to find appropriate substitutes when putting the recipe into practice. These systemic approaches that provide a solid financial literacy foundation may help reduce decay.

I definitely agree with Hensley's notion that "*...this is not a recommendation that comprehensive education be replaced by just-in-time approaches*." While I certainly understand the logic and potential benefit of the just-in-time financial education suggested in the Fernandes et al. study, it would seem that this combination of information asymmetry and potential conflict of interest between the provider and recipient would outweigh any potential gain from this approach. As with our physical health, financial health needs change throughout the life cycle and we need to provide unbiased, quality opportunities for all stages and ages. The formal education system (K-12 and college) can be used to start building the foundation, but perhaps we should focus on introducing financial health benefits, analogous to medical benefits, for workers and retirees to gain the financial health provisions needed throughout their lives. To reduce potential agency problems, qualified and unbiased financial service providers are needed within this financial health care system. This type of approach would help to address decay issues by reducing the time between learning and implementation.

Perhaps the greatest contribution of the Fernandes et al. (2014) study is the wakeup call this excellent research provides us. Our financial health community—marketers, educators, product and service providers (agents, advisers, planners, counselors, coaches and therapists), evaluators, and researchers alike— must do a more thoughtful and accurate job of defining and positioning the work we do within the financial health field. A common framework and nomenclature should be devised so that appropriate interventions, treatments, and research will be valid, relevant, and helpful in aiding individuals and families maintain and build their financial health.

Each of the financial health production inputs—awareness, financial literacy, habituation, and examination—needs further development in terms of both practice and research. There should be strategic marketing and promotion efforts to increase awareness and get critical financial health issues on the public radar. There should be comprehensive financial education specifically designed and tested to efficiently enhance consumers' financial literacy. We should strive to establish evidence-based best practices that motivate and empower people to rehearse and use their financial literacy to develop positive, life-cycle appropriate financial habits. As with physical health production, we should encourage people to check in regularly with financial health professionals, have urgent care available when needed, and use these opportunities to diagnose and provide appropriate course correction. Financial health providers and researchers in each productive input area need to work together and learn from each other to expand the body of knowledge, create educational opportunities that address both the functional and perceptual aspects of personal finance human capital attainment, establish evidence-based best practices, and act as advocates to influence regulators as well as financial product and service providers in the best financial interest of consumers.

References

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