

Nefe Digest

January/February 2014

Pushing the Limits:

New NEFE-Funded Research Shows It is Time for Financial Education to Evolve

NEFE's 2013 Education Forum (Page 2)

From the Desk of Billy Hensley (Page 3)



“Everyone agrees that the facts on financial-education delivery have changed. The obvious solution is that more education will solve this problem. However, meta-analytic evidence supports that there are limited knowledge gains in heap-structure teaching.”

This statement, made by John G. Lynch, Jr., Ph.D., of the University of Colorado-Boulder at NEFE's 2013 Education Forum, surprised some experts and raised a question that others in the field have been dreading for years. What if “heaping on” more of the same types of financial education will not produce a change in behaviors? Or, even more alarming: *What if financial education doesn't work?*

Continued on page 2.



NATIONAL ENDOWMENT FOR FINANCIAL EDUCATION

Lynch was prepared to ruffle a few feathers when NEFE approved his research proposal for funding. His team's final report, *The Effect of Financial Literacy and Financial Education on Downstream Financial Behaviors*, summarized the results of a scientifically-robust review of research exploring the link between financial education, literacy, and behaviors.

For this investigation, Lynch and two other experts—Daniel Fernandes, Ph.D., of Erasmus University in the Netherlands and Richard G. Netemeyer, Ph.D., of the University of Virginia-Charlottesville—conducted a meta-analysis to compare findings from 201 studies of financial literacy and interventions that engaged 585,168 participants. The researchers compared studies with different designs and different kinds of statistical analyses, all exploring the same core question: *What is the connection between financial education, financial literacy, and the choices that people make about their finances?*

This first-of-its-kind systematic meta-analysis, in tandem with three additional experiments, re-examined findings from earlier investigations. At the same time, it revealed information with important implications for successfully shaping financial behavior. Key findings from the research revealed:

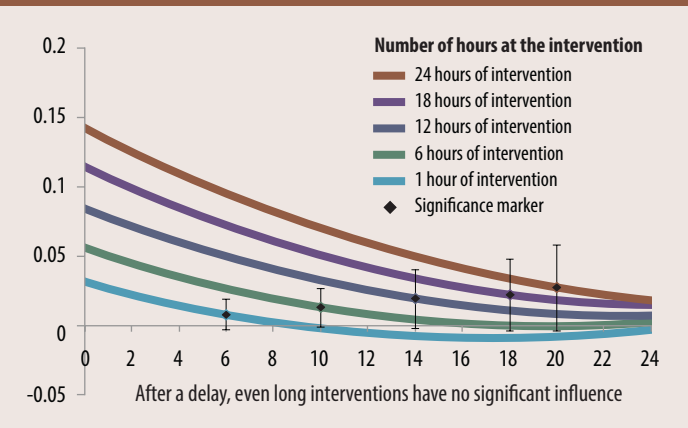
The Amount and Timing of Financial Education Matters

Education that closely precedes a financial decision has more impact than interventions that occurred months or years prior. Because people tend to forget what they've learned over time, more education isn't always better unless timed close to points of decision. Therefore, financial literacy is best achieved through lifelong learning and not just one-off interventions.

Financial Behaviors and Literacy as Measured to Date are Weakly Linked

Educational interventions and financial literacy as measured in the meta-analysis are linked only weakly to healthy financial behaviors — and appear to be less effective than financial literacy interventions in workplace education or career counseling.

Interventions Decay: The Case for Timely Financial Education



Findings from Past Investigations Merit Revisiting

Different types of financial literacy studies have yielded more varied results than science would predict. Researchers question to what extent those differences stem from the need for better research designs and analyses. Specifically, the researchers found that prior studies of financial education may have failed to account for behavioral traits that correlate strongly with healthy financial decision making, regardless of interventions.

After completing the meta-analysis, Lynch and his fellow researchers conducted three additional studies to further explore the idea that these finance-relevant traits—such as frugality, or comfort

Traits That Correlate With Healthy Financial Behaviors

- Confidence in a financial information search
- Propensity to plan
- Willingness to take financial risks
- Numeracy
- Avoidance of unnecessary credit and checking fees

with numerical information—might be wild cards not properly accounted for in prior research. In their final report, the researchers concluded that future financial education possibly could be more effective if it focused on teaching “soft skills like propensity to plan, confidence to be proactive, and willingness to take investment risks more than content knowledge about compound interest, bonds, etc.”

For more information or to view the final research paper *The Effect of Financial Literacy and Financial Education on Downstream Financial Behaviors*, visit www.nefe.org/research.

NEFE's 2013 Education Forum

In September 2013, financial literacy experts from the fields of policy, research, and education gathered in Washington D.C. for NEFE's Education Forum. The event engaged thought leaders in discussion of the NEFE-funded research project, *The Effect of Financial Literacy and Financial Education on Downstream Financial Behaviors*.

Due to the significant and potentially controversial nature of the research findings, NEFE felt it was important to provide a framework for discussion and debate. What resulted was a lively conversation about the implications of this research. At the end of the forum, attendees charged the field to evolve with changing trends and research findings as they continue to work toward a more robust understanding of financial literacy.

Continued on page 4.

From the Desk of Billy Hensley



Funding a study that questions the efficacy of the work of your field might seem like a risky venture. For NEFE, it was an opportunity to advance the overall efforts of financial educators. We sat down with Billy Hensley, Ph.D., director of education at NEFE, to discuss the impact of the NEFE-funded research project, *The Effect of Financial Literacy and Financial Education on Downstream Financial Behaviors*.

What does this research mean for NEFE and for the financial literacy field?

This research gives both NEFE and the field a greater understanding of the level of effectiveness of personal finance education. As an organization that provides educational interventions and resources, NEFE wants to make sure that the way we educate learners is impactful and relevant. The financial literacy field has greater evidence about the importance of making our instructive efforts timely and relevant to the populations we serve. In addition, this study illustrates where improvements can be made to research protocols and to the content and context of financial education interventions.

“It’s important to not become complacent in our work.”

What surprised you most about the research findings?

There were several points that surprised me, including how intuitive the discussion was on the importance of timely and relevant education. The surprise is not that financial education interventions should be timely, but that the data clearly demonstrated this. I’ve always felt that the best research confirms common sense; this meta-analysis does just that.

What prompted you to fund something that challenges the way financial education is administered?

It’s important to not become complacent in our work. NEFE staff and NEFE board members were interested in funding a research project that would provide a more

accurate display of the research seeking to measure personal finance behavior change. The time was right for the first-ever meta-analysis within our field. However, I want to be clear that this project is not a devaluation of previous reviews of research; this grant reviewed previous work with a more comprehensive and objective analysis.

Why did you choose to build the 2013 Education Forum around this research?

It’s essential for people from various research, theoretical, governmental, and practitioner points of view to thoroughly discuss what these findings mean and how they can inform the work of our field going forward. It would have been easy for NEFE to place the report on the shelf and move on to the next project; however, that is not the NEFE way of doing things. By having this discussion with multiple thought leaders from various points of view in the field, the articulated next steps have greater depth.

How do you plan to use these findings in future research and program initiatives at NEFE?

Naturally, this project will inform future grant funding, specifically leading us to focus on addressing gaps in the research literature. I do feel that there are many things happening on the local and regional levels that impact consumers that have yet to be captured, studied, or evaluated in a peer-reviewed forum. So, NEFE will continue to encourage and help people understand the need for effective program evaluation.

In 2010, NEFE sponsored The Quarter Century Project, which gathered experts to discuss the past 25 years of research in financial education. Learn more at www.nefe.org/quartercenturyproject.

Implications for Future Research

- Establish shared standards for reporting on financial education and measuring changes in financial literacy.
- Examine teacher training as a distinct variable that might affect the impact of interventions on literacy and behavior.
- Explore which financial education interventions work for which populations and in what contexts.
- Study how various marketing strategies and campaigns affect financial behavior (e.g., ads promoting credit card use or retirement savings).

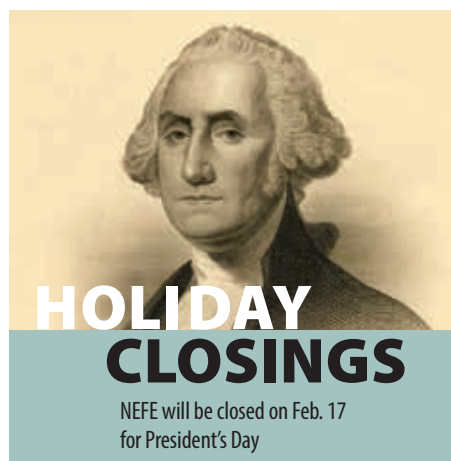
Implications for Financial Educators

- Identify teachable moments to deliver timely and relevant information.
- Explore ways to learn from workplace and career educators, who have demonstrated a greater impact on later financial behaviors.
- Share effective interventions and best practices with key stakeholders in the field.
- Use research findings to guide appropriate changes in the delivery of effective financial education.



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National Academy of Social Insurance.	Jan 29-30	Washington, D.C.
American Association of Community Colleges	Jan 29-Feb 1	St. Petersburg, Fla.
Southeastern Association of Educational Opportunity Program Personnel Annual Conference (SAEOPP)	Feb 1-5	New Orleans, La.
Cornerstone Credit Union Foundation 2014 FOCUS Summit	Feb 6-7	Dallas, Tx
National Conference on Family Literacy	Feb 17-18	Washington, D.C.

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