

Financial Coaching as an Asset-Building Strategy for Low-Income Families

In the last decade coaching has become more widely used in a variety of contexts, from business management to family relationships. Recently coaching has been explored as a technique to provide longer-term comprehensive services to families of modest means in need of improvements in their management of credit, savings and other financial issues. This document provides an overview of how coaching can be applied as one strategy to promote asset building among clients in community-based programs.

What is Financial Coaching? Financial coaching means providing regular one-on-one sessions with clients in order to ‘coach’ performance improvements to meet goals mutually set by the coach and client. Coaching is differentiated from counseling in that coaches only provide advice and encouragement, and do so in a process largely driven by the client. Coaching is not designed to be a therapeutic relationship or to manage a crisis. Coaching is well suited to asset building programs because clients often need encouragement and support to adhere to positive financial behaviors. A coach can provide a much-needed boost to self-control along with the flexibility to change strategies as the client’s financial situation changes.

Coaches tend to use phrases like:

- > “How would you like to reach your goal?”
- > “What will you do next?”
- > “Have you thought about ____?”

Based on a review of more than two dozen programs nationally, financial coaching:

- (1) focuses on improving long-term financial behavior;
- (2) facilitates clients to set and achieve financial goals largely on their own;
- (3) helps clients practice new behaviors and monitors those behaviors over time; and
- (4) targets clients with a minimum level of financial skills and experience.

It is important to remember that coaching is not a replacement for counseling, financial education or case management. It is a specific strategy that complements these techniques for some clients. For example, clients in a five-year long asset building program may take advantage of coaching for one or two years to achieve specific goals, typically after already achieving a minimum level of financial skills and knowledge through education and counseling. Likewise, coaching is a complement to financial planning. While a planner may help craft a series of steps for a client to complete, a coach will work to help the client figure out how to complete each step in the plan. Coaches frequently may refer clients back to a counselor, planner or other service provider for specific interventions.

Financial coaching works best for clients with at least a modest record of performance upon which they can improve. In the context of asset building programs, the ideal coaching client has been exposed to financial literacy topics, has some experience with saving and is interested in making improvements in their financial situation. Clients not at this stage may benefit from a variety of non-coaching services before they are ready to begin financial coaching.

Delivering Financial Coaching. Coaching models vary significantly from program to program, depending on the needs of clients and resources available in the community. Each has advantages and disadvantages depending on the context and type of clients served. There are primarily four

models for nonprofit programs providing coaching services to lower-income clients: (1) volunteer coaches, (2) paid financial planners as coaches, (3) trained in-house staff, and (4) a combination of these with a series of structured handoffs.

Volunteer Coaches: In this model coaches are recruited from professionals in the community, often from financial institutions. Volunteers are trained on the coaching process and key financial issues, as well as the cultural issues of the client base. Volunteers commit to a minimum time period of coaching and are matched to a client. While it might seem volunteers would offer low-cost delivery, training, coordination and support costs can be substantial. If clients need a consistent coach for more than a year, then volunteers willing to make very long-term commitments must be identified.

Summary of Volunteer Model

| Benefits | Challenges | Ideal for... |
|--|---|--|
| <ul style="list-style-type: none"> • Business professionals are engaged in issues of family economics • Direct costs of coaching sessions lower than paid coaches • Volunteers may bring strong financial knowledge | <ul style="list-style-type: none"> • Costs of administration can be significant • Volunteers may not be consistent or willing to make long-term commitments • Professionals may lack community context • Volunteers may not be skilled in coaching techniques | <ul style="list-style-type: none"> • Communities with strong financial industry • Organizations with relationships with corporate leadership • Programs with clients in need of shorter-term highly focused coaching sessions |

Paid Financial Planners as Coaches: Many high-wealth families use the services of professional financial planners. Financial planning professionals tend to be well-compensated for their expertise and are usually not affordable to low-wealth clients. By subsidizing the costs, coaching programs make financial planning professionals available to lower-income clients. While clearly this approach could deliver high quality services to clients, and communicate to clients they deserve to take their finances as seriously as high-wealth people do, the paid planner model can be expensive to deliver. Like the volunteer model, the paid planner model requires training and coordination, in addition to paying for the planners' services. Also, while professional planners are highly knowledgeable about personal finance, they may not necessarily be skilled at coaching or the issues of low-income clients. In communities with a local training program for planners, student planners may be one source of planners as coaches. Novice financial planning professionals are required to obtain a minimum number of hours of time with clients before they can be certified, and a portion of these hours can be provided pro bono. Pro bono services from established or novice planning professionals share the risk that clients may not have consistent access to a coach over longer periods of time.

Summary of Planner as Coach Model

| Benefits | Challenges | Ideal for... |
|--|--|--|
| <ul style="list-style-type: none"> • Planners are engaged in issues of lower-income families • Planners have strong financial knowledge and skills in designing a financial plan • Access to professionals signals to clients that they deserve high quality services | <ul style="list-style-type: none"> • Costs per session can be significant • Planners may not be trained in coaching, and thus, prone to giving advice • Planners may lack understanding of low-wealth clients and communities | <ul style="list-style-type: none"> • Organizations with relationships with local planning association • Programs with clients needing help with more complex tax, insurance estate planning and investment issues (such as small business owners) • Communities with a local training |

| | | |
|---|---|----------------------|
| <ul style="list-style-type: none"> Some sessions might be delivered pro bono | <ul style="list-style-type: none"> Pro bono sessions may not be consistently available over time | program for planners |
|---|---|----------------------|

In-House Coaching Model: In this model an asset building program trains existing or new employees to become coaches, and coaching sessions are provided by staff. Coaching can be provided for as long as needed, and the consistency of the coaching relationship can be maintained. Staff hired from the client community may also have an ideal understanding of the client population and culture. Asset building programs must have a long-term commitment to the financial coaching model before making a significant investment in having coaches on staff. Existing counseling or financial education staff frequently will need detailed orientation to the coaching process and approach. Ideally senior management will also need to be trained on coaching in order to appreciate this style of service provision with its focus on client self-determination and changing format of staff accountability. Staff generally also lack the level of knowledge on financial topics available from planning professionals or volunteers from financial institutions. In-house coaches may require access to financial professionals for technical questions.

Summary of In-House Coach Model:

| Benefits | Challenges | Ideal for... |
|--|--|--|
| <ul style="list-style-type: none"> Staff provide more consistent source of coaching Staff have experience serving the client population Predictable costs | <ul style="list-style-type: none"> Staff will require ongoing training on coaching process and financial topics Staff may gain skills/credentials and then leave for private sector planning work Model requires high volume of coaching clients per employee to justify costs of training and administration | <ul style="list-style-type: none"> Communities where planners and volunteer coaches are scarce Organizations committed to financial coaching model Programs in which clients need longer-term financial coaching assistance |

Blended Model: Blended models combine the three models described above. Asset building programs can hire and train an in-house coach and coaching coordinator to ensure clients receive support for a longer period than can be delivered by volunteer or pro bono coaches. Paid or pro bono financial planning professionals may be tapped when clients have specific needs, such as creating an initial financial plan. Volunteer coaches might deliver another specific service, such as help budgeting or paying down debt. The in-house coach can then maintain the coaching relationship over time. This model is often the most cost-effective, assuming that an organization has staff capacity, access to skilled volunteers, and the resources to hire professional planners or recruit pro bono planners as needed.

Summary of Blended Coaching Model:

| Benefits | Challenges | Ideal for... |
|---|---|--|
| <ul style="list-style-type: none"> Services can be tailored to use planners, volunteers or in-house staff depending on client needs Mix of paid and volunteer or pro bono coaches may be cost effective | <ul style="list-style-type: none"> Model has significant coordination, training and administration demands There is potential for clients to be mishandled during transitions between providers | <ul style="list-style-type: none"> Organizations with consistent access to volunteer or pro bono financial professionals Programs in which clients require ongoing coach but have short-term specialized needs |

Special Issues in Coaching Lower-Income Clients. Financial coaching for low-income families is generally similar to financial coaching provided to higher net worth clients. In both cases the coach must initially establish a trusting relationship and support the changing needs of their clients. Financial coaching for low-income households additionally requires coaches with an understanding of the culture of the client base. Low-income clients may have heightened anxiety about financial issues, and so the initial coaching sessions are critical for building trust and a rapport. Because lower-income clients may qualify for and need referrals to social services and other programs, coaches serving this population need to know what is available and understand qualifications for accessing services. If serious mental health, domestic violence or other issues arise during the coaching, clients may require targeted counseling in tandem with coaching services. Coaches must be trained in how to make appropriate referrals as needed.

Delivering Coaching. Existing coaching programs using any of the models described above suggest financial coaching should include common elements regardless of the model employed. The following strategies will help coaching programs to better service clients more cost-effectively:

- Educational Workshops: Coaching clients may lack an understanding of basic financial topics. It is more cost-effective to teach basic terms and content in a group setting rather than in the one-on-one coaching session.
- Supervision: Regardless of the model employed, coaches need to be supervised with regular opportunities to review cases with supervisors. Coaches may become involved in emotionally difficult issues and benefit from the support of a mental health professional to both process their own feelings and assess issues on which clients need more intensive help.
- Client Peer Groups: One-to-one, face-to-face coaching with no peer-to-peer component misses out on opportunities for coaching clients to coach each other, learn mutually and help each other focus on attaining goals. Coaching programs should offer or even require clients to take part in peer group sessions.
- Face-to-Face and Telephone Delivery: One-to-one coaching is the most costly method to provide services. Coaching by phone is common among financial coaches serving high wealth clients because it is more convenient and cost-effective. Ideally face-to-face coaching sessions can be replaced by phone coaching sessions after an initial start-up period.
- Charging Fees: Coaching clients who pay even a nominal fee better understand the value of coaching services and may take the coaching relationship more seriously. Charging fees also requires financial management on behalf of the client and can help offset some program costs.
- Training Coaches: All financial coaches need (1) an understanding of coaching fundamentals, (2) knowledge of personal finance, (3) communication and facilitation skills, and (4) familiarity with the client population being coached. Although no one training program has become a standard in the field, having coaches gain credentials or certifications helps establish the field and provides a signal to clients that their coach is qualified.

- Measuring Outcomes: The outcomes of financial coaching are more diffused than other financial service delivery models. Ultimately coaching clients are successful if they can achieve the goals they established. In addition to goal tracking, coaching programs should conduct regular client perception and knowledge surveys, as well as collect annual credit report data information credit use and financial management.
- Collaborations: As financial coaching is a relatively new approach, coaching programs can benefit from opportunities to share lessons learned and develop best practices.

Launching a Coaching Effort. Financial coaching for lower-income families is a relatively new innovation in the asset building field. The design of programs is still evolving but at least three service delivery models have emerged, as well as models blending in-house coaches, financial planning professionals and volunteers. The first step for any asset-building program considering financial coaching is to assess its client's needs, the length of coaching relationships requires and resources available internally and in the community. If clients need coaching services for a year or less and tend to have financial goals oriented around issues such as budgeting and credit management, and the community has a source of volunteers with expertise in financial issues, the volunteer model may be most appropriate. If there is a local financial planners association with an interest in serving low-wealth families, the paid or pro bono planner model may be a good fit. If clients require long-term coaching and a program has the capacity to sufficiently train staff, in-house coaches may be the solution.

Not all asset-building programs need to consider offering financial coaching. Coaching models may be ideal for established asset-building initiatives where existing clients or alumni have advanced through more basic financial literacy and account access issues and then need support to make further progress on their own. Programs targeting clients in crisis or clients with multiple social service needs are not likely to be a good match for a coaching approach. In general coaching should be viewed as a complement to existing strategies and is not meant to be a "silver bullet" for asset building. It can, however, help clients improve their financial behaviors, hopefully allowing time to practice new skills under the guidance of a coach, and engrain these behaviors for the rest of the client's lifetime.

Launching a Financial Coaching Program:

- > assess the coaching needs of clients: a few months or years?
- > assess the coaching topics in demand: simple (budgeting) or complex (tax and small business)?
- > assess staff capacity to serve as coaches: do they have a foundation in coaching processes and family financial management issues?
- > assess community resources: is the local financial planning association interested? Is there a local planning training program?
- > assess community resources: are leaders from financial industries interested in promoting volunteers?