

Understanding Financial Capability

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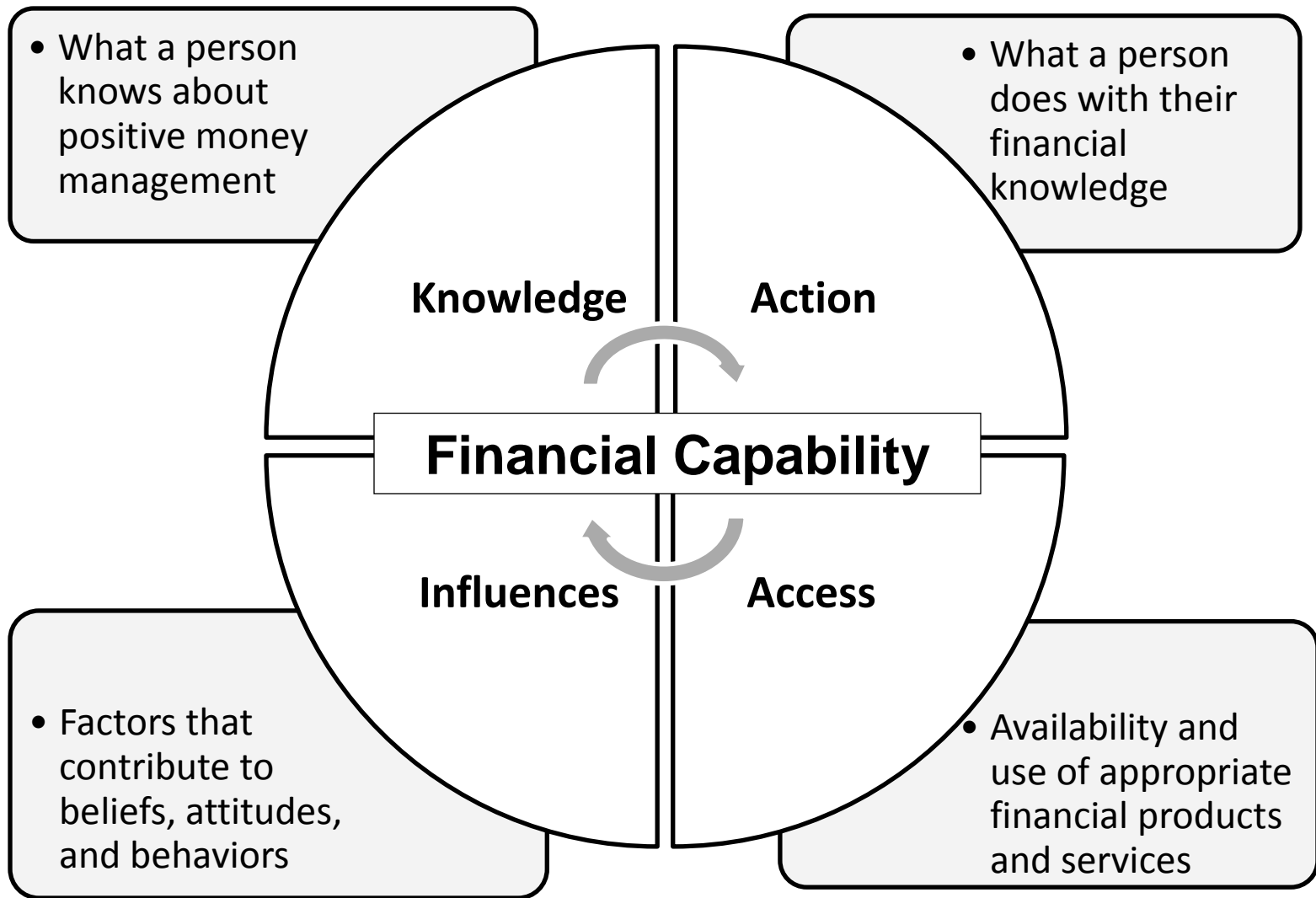


From *Financial Literacy* to **Financial Capability**

Financial Capability = The ability to...

- Acquire resources
- Evaluate options and decisions
- Apply positive financial behaviors

...throughout the lifespan in order to
develop financial security.



Financial Capability Survey for Wisconsin

- www.usfinancialcapability.org - clickable map
- **Highlights:**
 - 55 percent of Wisconsinites are living paycheck-to-paycheck (same as US average)
 - 57 percent of Wisconsinites do not have a rainy day fund to cover three months of unanticipated financial emergencies. (60 percent nationwide).
 - 19 percent used payday loan or similar (24 percent nationwide).
 - On average 3/5 financial literacy questions correctly (about average)



Wisconsin

NATION

REGION

STATE >

Financial Capability Study

Select a State to Begin



Wisconsin

[See All Wisconsin Data >](#)

[Spending Vs. Saving](#)

[No "Rainy Day" Funds >](#)

[Non-Bank Borrowing](#)

[Financial Literacy](#)

[Comparison Shopping](#)

Many Americans are not planning ahead for their financial future.

In Wisconsin, 57% of individuals lack a rainy day fund to cover expenses for three months, in case of emergencies such as sickness, job loss or economic downturn.

Individuals without this emergency savings lack a buffer against financial emergencies or shocks, threatening their financial stability.

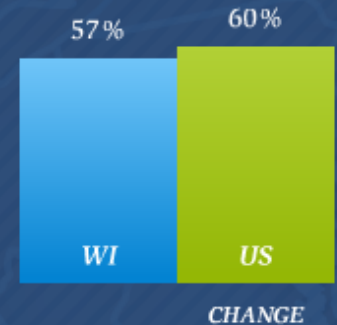


Table 1. Making Ends Meet and Planning Ahead

Measure	WI	Nation	Region
Making Ends Meet			
Spending over the past year			
less than income	41%	42%	42%
equal to income	38%	35%	36%
more than income	17%	20%	18%
Difficulty covering expenses and paying bills in typical month			
Very	16%	18%	19%
Somewhat	43%	43%	42%
Not at all	39%	36%	37%
Large unexpected drop in income in past year	35%	40%	41%
Overdraw checking account occasionally (has checking)	23%	26%	25%
Late mortgage payments in past 2 years (has mortgage)			
One	7%	8%	7%
More than one	10%	13%	13%
Taking from retirement account in past year (has retirement plan)			
Loan	8%	10%	11%
Hardship withdrawal	7%	8%	8%
Planning ahead			
Have emergency funds to cover 3 months expenses	39%	35%	34%
Ever tried to figure out retirement savings needs (non-retirees)	39%	37%	36%
Setting aside money for children's college education (have dependent children)	35%	31%	30%

[Source: Summary of Selected Findings: Wisconsin, FINRA Investor Education Foundation.](#)

Table 2. Managing Financial Products and Financial Literacy & Decision-Making

Measure	WI	Nation	Region
Managing Financial Products			
Has checking account	91%	91%	90%
Has savings account, money market, or CDs	79%	74%	74%
Non-bank borrowing methods used in the past 5 years			
Auto title loan	7%	6%	5%
Payday loan	9%	9%	9%
Advance on tax refund (RAL)	4%	6%	6%
Pawn shop	8%	12%	9%
Rent-to-own	3%	7%	5%
One or more non-bank borrowing method in past 5 years	19%	24%	21%
Credit cards			
No cards	22%	24%	25%
1 card	17%	15%	15%
2 or more cards	58%	58%	57%
Credit card use in past year have credit card(s)			
Always paid in full	44%	41%	42%
Carried a balance and was charged interest	55%	56%	56%
Paid minimum only	35%	40%	39%
Charged a late fee	21%	26%	25%
Charged an over the limit fee	12%	15%	14%
Took cash advance	12%	13%	12%

[Source: Summary of Selected Findings: Wisconsin, FINRA Investor Education Foundation.](#)

Five Financial Knowledge Questions

1. Suppose you had \$100 in a savings account and the interest rate was 2% per year. After 5 years, how much do you think you would have in the account if you left the money to grow? (more than, exactly, less than \$102; don't know)
2. Imagine that the interest rate on your savings account was 1% per year and inflation was 2% per year. After 1 year, how much would you be able to buy with the money in this account? (more, same, less than today; don't know)
3. If interest rates rise, what will typically happen to bond prices? (rise, fall, stay the same; don't know)
4. A 15-year mortgage typically requires higher monthly payments than a 30-year mortgage, but the total interest paid over the life of the loan will be less. (true, false; don't know)
5. Buying a single company's stock usually provides a safer return than a stock mutual fund. (true, false; don't know)

Financial Decision-Making

	WI	Nation	Region
5 financial knowledge measures			
# correct out of 5	3.14	2.99	3.01
# "don't know" out of 5	1.11	1.21	1.20
Compared credit cards (has credit card)	37%	32%	32%
Compared auto loans (has auto loan)	47%	44%	41%
Obtained a copy of credit report in past year	39%	42%	41%
Obtained credit score in past year	40%	41%	40%

[Source: Summary of Selected Findings: Wisconsin, FINRA Investor Education Foundation.](#)

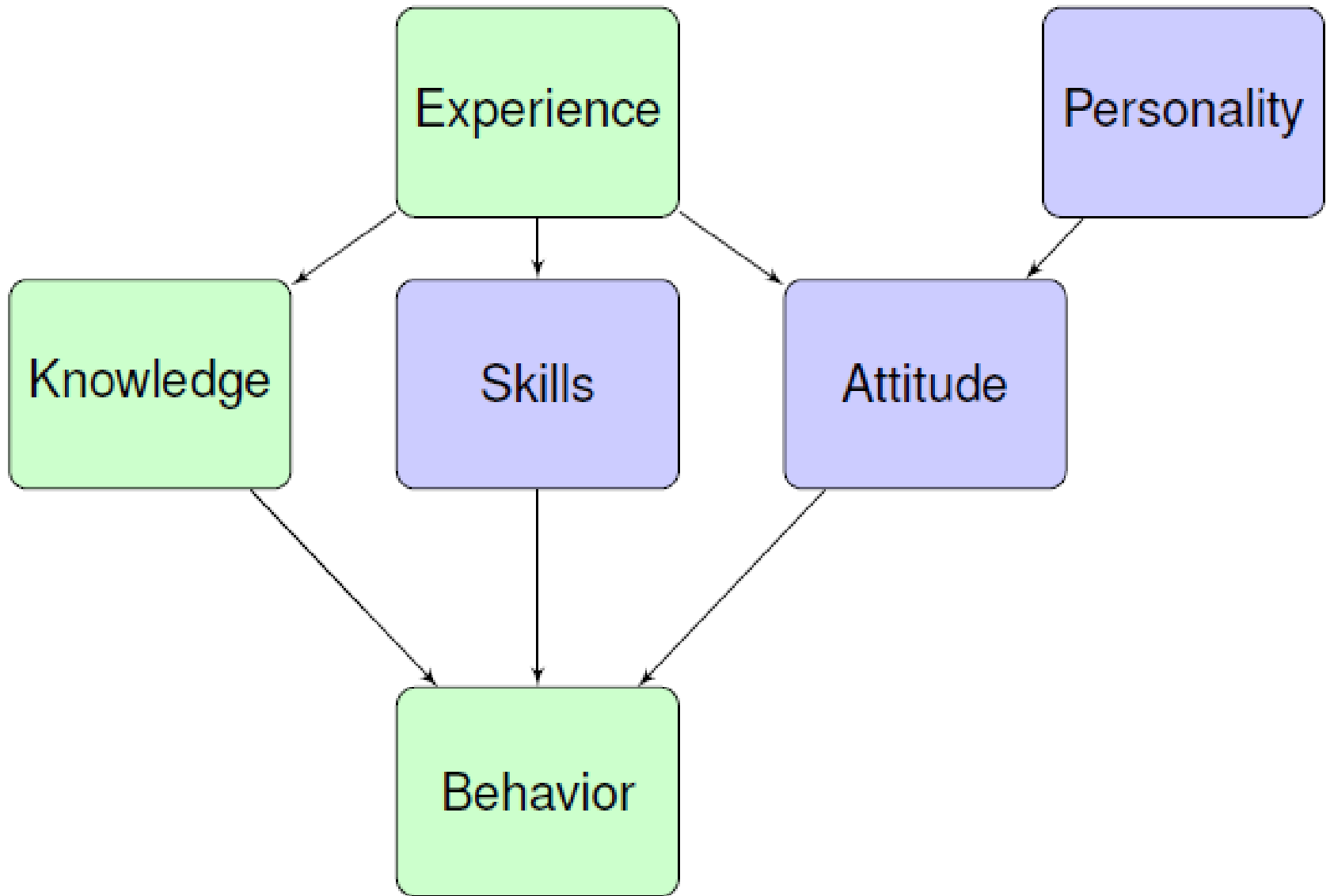
2012 Survey

- Replicates many of 2009 surveys items
- State-by-State Sample
 - Including Wisconsin
- Also Military Sample
- Added questions to measure level of financial education
- Also sub-sample linked to American Life Panel
 - Should generate a host of new research studies

Special Issues for Vulnerable Households?

- Low-income (+negative event)
- Low literacy/numeracy
- People w/ disabilities
- Cognitive decline
- —
- Different experiences in financial markets
- Adapting to technology
- Facing new financial decisions
- Stress and emotions





Kempson, Collard and Moore, European Credit Research Institute, 2006.

Financial Education Means Learning to Make Tradeoffs

\$100 Monthly Bill is Due

- Overdraft Fee: \$29 (620% APR)
- Utility Reconnect Fee: \$46 (987% APR)
- Payday Loan Fee: \$15 (322% APR)

estimated 'annualized' APR

Alternatives to Saving

- Education can help people to understand options *
- Save more = borrow more?
- Paying bills, debts, paying for 'needs'

* Caution about 'optimal' option

Financial Capability Strategies

Information Models

- Disclosures
- Print/Web
- Interactive Web
- Workshops
- One:One

Advice Models

- Technical expert (credentialed)
- Transactional guide (may have sales focus)
- Counseling (acute problem solving)

Mechanism Models

- Defaults
- Automatic Deposit
- Product constraints

Of Course, All Education has Its Limits

Limits of wellness programs...



Education, Exercise monitoring, Food Access, Counseling, Etc



Conclusions

- Capability is different from literacy
 - Education still important, but more to the story
- Be careful in terms of what people “should” do.
- Overall well-being focus (finance is boring)
 - Wellness approach
- Information can be helpful—but not always
 - Keep it simple
 - Goals, Intentions, Reminders
- Context matters

More Information

<http://fyi.uwex.edu/financialseries/about/>

Insights on current topics in financial education.

THIRD Monday of the month at NOON.

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