issue briefs

Family Financial Education

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APPLICATIONS OF FINANCIAL COACHING

There has been increasing interest in Financial Coaching in recent years, including articles in the popular press and in applied research. Coaching models are based on the goals and intentions of the client, or coachee. Knowledge of personal finances does not always translate into positive money management behaviors. Coaching can help people tap into their own motivation and values to maintain positive financial behaviors over time, becoming more self-reliant. Financial coaching provides a framework and support for assisting people in achieving their personal financial goals, thus bridging the gap between knowledge and action.

Overview of Financial Coaching

Financial coaching is an application of techniques emerging from research in positive and coaching psychology, as well as behavioral economics. Coaching methods have been applied in other domains such as health, management, and careers. Financial coaching first began appearing in the literature in the mid-2000's (Collins & Baker, 2007).

A financial coach typically works with a client (also referred to as a "learner," "partner" or "coachee") to improve performance or a set of financial capability behaviors over a period of time. Coaching encompasses both the "being" and "doing" aspects of successful goal attainment. As such, the focus of coaching is driven by the unique goals of each client and what the client wants to achieve, along with who the client wants to be as they work towards their goal. The coach facilitates goal setting, helping clients form specific intentions to implement steps towards their goals, and then supports the structure for clients to monitor their own progress. In the long run, coaching helps people develop skills and insight so that they can take on future challenges independently.

Rather than diagnosing problems or recommending products, the coach guides the client to articulate their goals for the future (Gollitzer & Sheeran, 2006). This process helps the client become more future-oriented in their actions, such as paying down debt or saving for a longer-term goal. Coaches do not dwell on past problems or revisit mistakes, though they may assist clients in identifying patterns of behavior. Unlike a counselor who may help solve problems, the coach provides a structure for clients to develop their own solutions. The coach

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does not have to be an expert on financial issues, but does need to be skilled in active listening, asking powerful questions, and deepening clients' awareness of their goals and motivations.

Through coaching, the coach encourages clients to practice positive financial behaviors, offering feedback so clients can improve their capabilities (Auerbach, 2006). Coaches help clients overcome behavioral challenges, especially self-control problems (for example, failing to defer spending), procrastination (avoiding unpleasant tasks like financial planning that are easily put off), and limited attention (for example, by setting up processes to take care of routine tasks such as bill payment) (Cohn & Fredrickson, 2010). Coaches can help clients build self-confidence, thus reducing clients' stress related to financial management. With fundamental skills and increased insight acquired through the coaching model, clients can achieve long-term financial sustainability.

Best Practices for Financial Coaching

- Client-centered and goal-focused, with an emphasis on self-awareness, monitoring, and action.
- Regular meetings or check-ins with clients where goals and progress are documented.
- Coaches and clients may sign a coaching contract to ensure expectations are clear.
- Coaches need a safe, secure, and trusted location for coaching sessions.
- Selective referrals to resources, informational workshops, and educational opportunities for clients.
- Ultimate responsibility for searching for and selecting financial products must rest with the client.
- Coaches must refrain from recommending specific financial products or services.
- Based on clients' interests and capabilities, integrate web and mobile technology (e.g., text reminders) to improve client follow through and video conferencing to increase accessibility.

The A|4 Model

A number of models are used to structure coaching, ranging from solution-focused to cognitive-behavioral to bio-psycho-social approaches. Many of these coaching models have a well-defined philosophy, structure, and practitioner guidelines; however, there are no existing coaching models related specifically to financial coaching. With this in mind, the UW Center for Financial Security has developed the "A|4" approach with four elements: Alliance, Agenda, Awareness, and Action.

The A|4 financial coaching model begins with forming an **Alliance**, which is the co-created partnership between the coach and the client. The coach is not an expert on what's best for the client, and the client understands that he or she is accountable to "the alliance," not the coach. Relationship-building and positive affirmation are central to increasing openness to problem-solving and decreasing defensiveness when developing and maintaining the coaching alliance, particularly with individuals in poverty (Hall et al., 2014).

Next is the **Agenda**. This is what the client wants to work on with the coach and is entirely defined by the client, not the coach. While the focus is on long-term change, individual coaching sessions focus on smaller action steps along the way. The coach's role is to facilitate goal-setting that is vision-based, not overly prescriptive, and is clearly tied to the client's present motivation (Grant & Cavanagh, 2007).

After setting an agenda for the coaching session, the client and coach explore the client's **Awareness**, which drives the client's determination for change. The majority of the coaching session is spent exploring and increasing client insight, highlighting a key difference between coaching and counseling as the coach resists diagnosing problems and offering solutions. The coach facilitates an optimal balance between the client's positive emotions and dissatisfaction with their current state (Fredrickson & Cohn, 2009). This exploration may trigger a revision of the agenda as the client aligns their values with their behaviors.

Finally comes **Action**, which is the plan, intended steps, and desired behaviors that the client will undertake and are, ideally, determined by the client. The actual action steps taken by the client in-between coaching sessions are less important than the process of practicing self-control around intentional behaviors (Sultan et al., 2011). Clients then report back on their progress and new insights. Again, clients are not accountable to the coach per se, but to the shared alliance with the coach.

Coaching sessions can be conducted in-person or at a distance via telephone or video-conferencing. Each approach has its benefits and drawbacks. Regardless, at each session or check-in, the coach works on deepening the client's awareness, as well as forwarding the action. Since the coach is also responsible for collecting benchmarks and assessment data, the coach will need to incorporate measurement into their coaching agreement. Together, the coach and client celebrate progress, until the point when the client can independently set an agenda and achieve intended actions on his or her own.

Coaching as a Complement

There are various methods for delivering financial education and increasing positive financial behaviors. Skilled financial educators are aware that individual learner needs differ and, ideally, can best match their approach to each unique situation.

Financial Information. There is a vast range of options for increasing access to financial facts, best practices, tools, and other resources. Strategies include workshops, newsletters, websites, fact sheets, webinars, and more, all with the goal of increasing an individual's knowledge. Interactive approaches provide the added benefit of being able to better customize the information to an individual's learning style, lifestyle, and goals.

Financial Counseling. We often think of financial or budget counselors as working with individuals who are in crisis, such as overwhelming debt or not being able to make ends meet. Typically occurring in one session, a counselor seeks to solve problems, provide a range of solutions, and link clients to resources. Learners sometimes seek out financial counseling because they have a goal, perhaps to become a homeowner or purchase a car. Again, the counselor can assist in goal attainment by providing information, options, and resources to improve financial management behaviors.

Financial Planning. While financial management certainly involves some degree of financial planning, this term is most frequently reserved for Certified Financial Planners®. The CFP® certification refers to practitioners who meet and maintain standards of proficiency and ethics established and enforced by CFP Board (www.cfp.net). Financial Planners may make recommendations for actions and products in areas such as investments, insurance, taxes, or retirement planning, based on their client's lifestyle, goals, and financial situation.

Measuring Outcomes of Financial Coaching

Many financial capability programs have proscribed outcomes, for example, homebuyer programs define success as buying a home. Coaching programs, by definition, are defined by the goals of the client. This means client goals may not fit into pre-determined categories. Some clients may have goals related to saving, others may focus on controlling spending or paying down debt. As a result, the outcomes measures for coaching need to maintain an awareness of client goals and objectives, measuring confidence in goal attainment, planning-type behaviors and measures of reliance and autonomy. The Financial Capability Scale is one set of measures that can be useful in this regard.

The Future of Financial Coaching

The application of coaching techniques for financial capability services continues to grow, including a new funding program from the federal Consumer Financial Protection Bureau. In part, practitioners have turned to coaching strategies in response to disappointing results in facilitating behavior change from financial education or financial access programs. Financial coaching is developing as a model, but still not well defined, though lessons from health coaching and related fields are instructive for the future direction of financial coaching. The A|4 financial coaching framework is provided as one model to guide further standardization, implementation, and evaluation.

There are no national standards for financial coaching trainings, although the AFCPE has a new financial coaching certification program using both distance and in-person education. While a number of coaching models can be applied to financial topics, the "right" model for any given coach depends on the client population served and the personality and disposition of the coach. The field is still developing, but holds great promise.

Websites:
http://fyi.uwex.edu/financialcoaching/
http://www.instituteofcoaching.org/
http://www.afcpe.org/certification/certification-programs/financial-coaching-programs/
http://www.cfs.wisc.edu/financial-coaching.htm

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The University of Wisconsin-Extension (UWEX) Cooperative Extension's mission extends the knowledge and resources of the University of Wisconsin to people where they live and work. Issue Briefs are an ongoing series of the Family Financial Education Team. This brief was drafted by J. Michael Collins, Associate Professor in Consumer Finance and Extension State Specialist, Center for Financial Security and Peggy Olive, Financial Capability Specialist.