Elevate

More than Education:

Engaging the New Middle Class to Make Financial Progress

Elevate's Center for the New Middle Class | December 2017

A study by Elevate's Center for the New Middle Class seeking the financial wellness curricula that are most effective for Americans with damaged or non-prime credit.

Abstract

More than Education studies three different financial wellness curricula (videos, articles, and financial wellness tools) to determine what best supports non-prime Americans, or those Americans with credit scores below 700. Most financial literacy programs do not cater to the needs of non-prime, and therefore often fail the very people who need them most. Elevate's Center for the New Middle Class engaged 476 non-prime Americans in five different financial wellness curricula. Findings showed that videos are effective for information retention, and articles are effective for information breadth. However, personalized tools designed to help users improve their finances were even more effective in engagement, empowerment, and behavioral change.

Introduction

The world is not lacking in financial tools, ideas, and services for people who want to manage their finances. Most of these tools and services are designed for and delivered to a particular U.S. consumer. Some of them are designed for people who are already engaged in their finances and want to get more out of them. Others are designed for people who are struggling and are focused on a particular aspect of their finances. Such as paying off student loans, or retiring early.

Very few tools or services rest on a body of data that provides a rational approach to helping Americans with damaged credit rebuild their financial lives. The non-prime consumer has unique challenges, attitudes and needs that require a unique curriculum. Delivering tools and services that meet those needs has a far better likelihood to make a difference in their lives.

n.b. Elevate's Center for the New Middle Class studies the needs, challenges, and attitudes of Americans with non-prime credit, or those with credit scores below 700. This threshold represents the point at which access to mainstream credit products is no longer assured. It also represents people who have exhibited or are currently in the throes of financial hardship or challenges.

Study Objectives

We had four primary objectives for the financial wellness research project:

1. Identify the most effective means of delivering financial education
2. Support Elevate customers in their efforts to improve their financial lives
3. Determine where to invest in better tools
4. Learn what curriculum is most likely to be effective and engaging for the participants

Study History

Several years ago, Elevate provided financial literacy tools to our customers. We called it FinancialU. It included videos that highlighted specific financial literacy principles with corresponding questions to ensure that the customer understood the material. We even incentivized our customers to use “FinU.” The principle was reasonable: we believed that customers who were more likely to engage in financial literacy programs were probably lower risk. So, we offered them a discount on their loans.

After running the program for a couple of years, we were surprised to see low participation. We couldn't understand why more people didn't engage, if for no other reason than to earn the lower rate.

We resolved to launch a new set of tools. We wanted to make sure that they were more effective, more engaging, and would positively impact our customers’ lives. We also wanted to make sure that whatever solution we provided had an opportunity to affect more of our customers. With all of that in mind, we sought a clearer understanding of consumers’ behavior and engagement, to avoid throwing another dart in the dark.

We engaged with the Clinton Global Initiative to study financial literacy tools. We built a team that included the RLJ Companies, Republic Bank, CreditDNA (ScoreNavigator), TransUnion, FELA (LifeCents), and the research partner Maru/Matchbox.

Test Design and Methodology

We needed firm data on which topics and which financial literacy vehicles would be most effective for the non-prime consumer. We were interested in both how Elevate customers and general population non-prime consumers would react.

We identified three styles of curricula: articles, videos, and financial improvement tools. Financial tools are technology platforms that help users improve their situation by providing personalized suggestions based on their personal data, both volunteered and found in credit reports.

For the non-prime American, we defined “financial improvement” as an increase in financial resiliency, the ability for a person to bounce back when faced with a financial setback. Customers who are already non-prime and often struggling to keep their heads above water rarely have the resources to engage in long-term financial planning that is often associated with financial health.

We knew that engaging with customers for a single survey would not help us understand retention of information, overall engagement, and overall financial improvement. So we created a research structure where we followed the survey respondents for each type of curriculum over several weeks and multiple assessments.

In the first survey, we gathered a baseline assessment and exposed respondents to content. In the second and third surveys, we measured the retention of the information from prior surveys and exposed them to additional stimuli. The final survey assessed overall improvement. For those respondents on the financial improvement tools track, we limited the sprint to three surveys but kept the research period to four to five weeks so respondents could engage with the tools on their own time.

Attrition in a multi-stage study is not unusual, and we planned for it. Across all of the studies, we began with a total of 1,811 respondents, and 476 completed all surveys in the sprints, for an overall completion rate of 26 percent.

Executive Summary

We identified four broad key insights from the study.

1. Non-prime Americans have different needs and challenges compared with people with prime credit.

Most financial literacy programs are designed for people with prime credit. Prime consumers have enough slack in their resources to make adjustments for long-term benefits. This is unlikely to work for non-prime Americans because their finances exhibit volatility and lack the slack needed when reserving resources for the medium-term or long-term.

2. Effective financial literacy needs to address the unique challenges of non-prime Americans.

A financial wellness program will be effective for non-prime Americans if it directly addresses their unique challenges. The curriculum needs to compensate for their individual circumstances. It also needs to identify outcomes that are relevant, attainable, and meaningful to them. For example, buying a house may be a far off and unattainable goal, but they may be able to pay off their car or improve their credit score.

3. Non-prime Americans need advice that will focus on the next immediate steps.

Because of their lack of long-term capacity, non-prime Americans need tailored advice that will help them take the next step. Broad advice that focuses on overall principles or is focused too far into the future is ineffective. It often also fails to acknowledge what is even possible for the participant and can often lead to discouragement and disengagement.

4. The best way to engage non-prime Americans with effective financial education is to focus on building their credit.

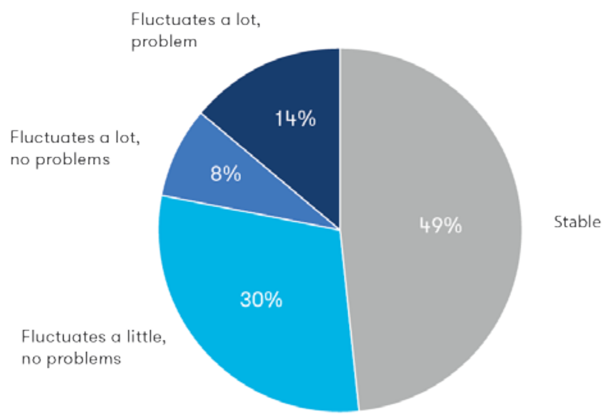
Long gone are the days where building credit was incidental to one's financial life and only needed attention when making large, infrequent purchases. Instead, non-prime Americans understand that their credit scores affect every part of their financial lives and they are hyper focused on what they can do to improve them. Anchoring a financial wellness program on credit score management using experiential engagement, rather than education per se, can better engage non-prime consumers to understand broader financial management principles.

/ Detailed Findings

Unique Challenges of Non-prime Americans

A full 51 percent of non-prime Americans admit that their income fluctuates month to month. Twenty-two percent say that it fluctuates “a lot.” While this doesn't always cause problems with one's finances, it does make planning much more difficult.

Stability of your monthly income…

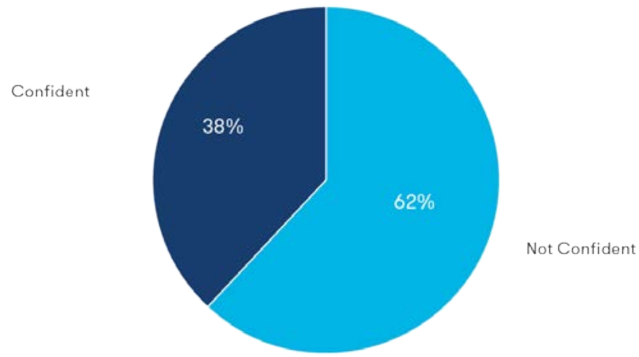


Q.11: Thinking of the previous 12 months, which statement best describes your monthly household income?
Prime/Subprime study, June 2016. CNMC

The second key challenge of non-prime Americans is that they report doubt about being able to come up with $1,200 in an emergency. This leaves them vulnerable to disruptive economic events.

Confidence of coming up with $1,200 in an emergency…

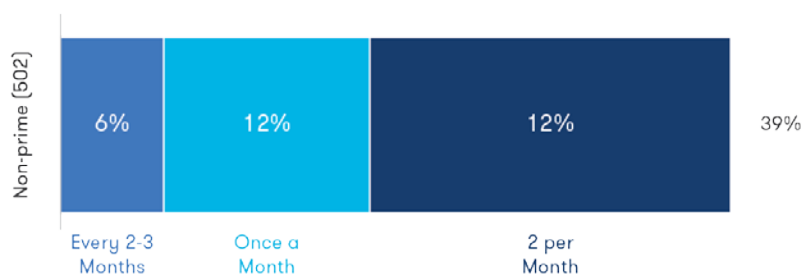
(Top-2 Box)



Q.16: How confident are you that you could come up with $1,200 if an unexpected need arose within the next month? Prime/Subprime study, June 2016. CNMC

This feeling of uncertainty in the face of a financial emergency too often turns real for non-prime Americans. Unfortunately, that very real sense of uncertainty has come through hard experience. Non-prime Americans say that they experience six unexpected expenses per year, which can keep them off balance or disrupt their finances completely. Thirty-nine percent of them have a notable unexpected expense four times a year or more often.

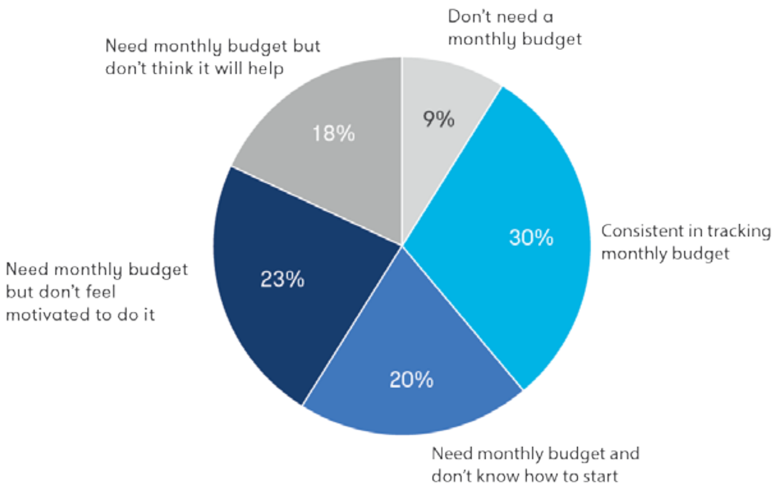
Frequency of unexpected expenses…



Q.16: In the past 12 months, how often has your household experienced an unexpected expense? Prime/Subprime study, June 2016. CNMC

In the face of variable incomes and erratic expenses, planning can feel futile. So, it's not surprising that 61 percent of non-prime Americans say they don't keep a monthly budget. The reasons for them not doing so are split almost evenly: 20 percent "don't know how to start," almost a fourth just aren't motivated, and 18 percent "don't think it will help."

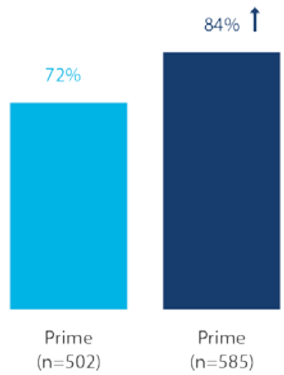
Current budgeting behavior…



n = 506 (aggregated responses across all sprints) Q011. Thinking about the last three months, which of the following statements best describes you?

This question of budgeting is not merely an issue of financial literacy. In previous studies, we found that 72 percent of non-prime Americans say they know how to budget. The question isn't the overall principle so much as its application in volatile circumstances.

I know how to create a budget…
% Top-2 Box: Strongly Agree/Agree

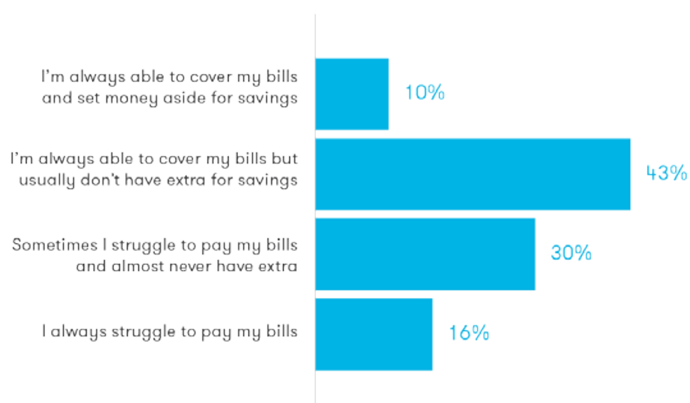


Source: Elevate's Center for the New Middle Class: Prime/Nonprime Study, June 2016.
Q.5: How much do you agree or disagree with the following statements?

This might explain why 90 percent of non-prime consumers say they are not in a position to save money. Not only are they living month to month, they are living in a state of high volatility, which makes a regular savings regimen almost impossible.

Indeed, 46 percent of non-prime Americans say they either "always struggle to pay their bills" or "sometimes struggle to pay their bills and almost never have anything left over." Even the 43 percent who say that they are "always able to cover their bills but usually don't have extra for savings" bely the challenge of coming up with savings at all.

How you're doing financially...



n = 706 (aggregated responses across all sprints) Q009. Which of the following best describes how you are doing financially?

/ Baseline Financial Confidence

Overall Financial Health

When we asked our participants to rate their personal finances, 50 percent of them said that they were good or very good. The idea that one can be non-prime and still have “good” finances might come to a surprise to some. One’s credit score is a representation of one’s financial past. It does not necessarily represent a person’s current sentiment toward their finances. Many non-prime Americans feel financially stable, but because of their non-prime status, they may not have the credit necessary to carry them through unexpected shocks to their financial lives.

How would you rate your personal finances today?

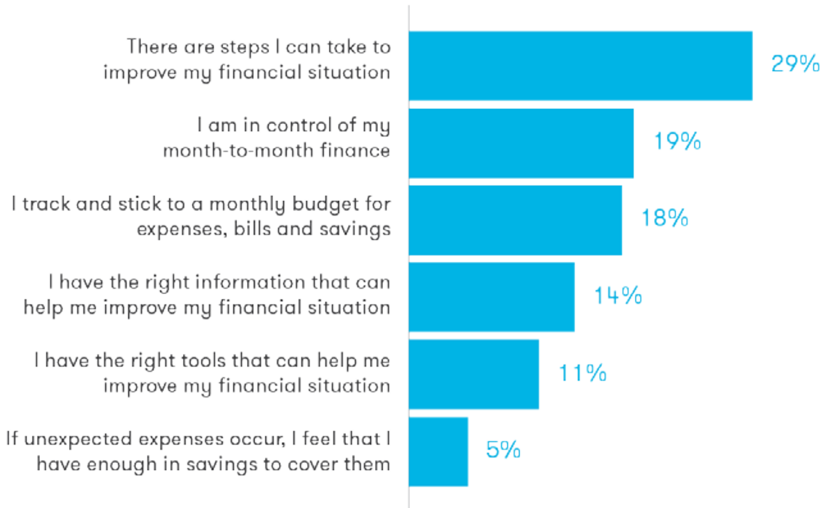
n = 702 (non-prime, aggregated across all sprints) Q012. How would you rate your personal finances today?
CNMC’s CGI project. MARU Research, 2017.

Financial Confidence

When we asked the participants of our study a series of questions to understand their basic financial confidence, we got some sobering results. Only 29 percent of the respondents agreed with the statement that there were steps that they could take to improve their financial situation.

Furthermore, only 14 percent believe that they have the right information and only 11 percent said that they had the right tools that can help them improve their financial situation.

Overall financial confidence…



n = 476; Q010/301. How well do each of the following statements describe you? [Pre-stimuli exposure vs. post-exposure)

Academics and researchers have shown that few people – prime or non-prime –couldn't benefit from improvement in some aspect of their finances. However, it is not always clear if people know what actions they can take to achieve that improvement.

Even with the proliferation of apps, websites, and services to help a person manage their finances, non-prime Americans feel that they don't have access to tools that would actually help them.

Either they are unaware of the many tools available, or – more likely – they don't believe the available tools can actually solve their particular needs.

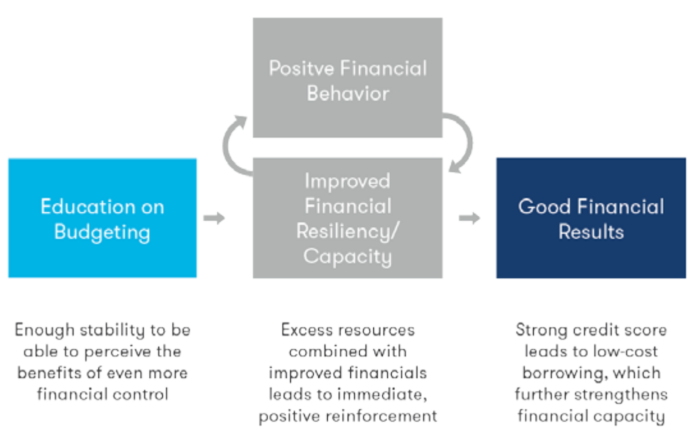
Popular Financial Management Apps

Budgeting	Mint, You Need a Budget (YNAB), PocketGuard, HomeBudget, Spendee, Every Dollar, Mvelopes, Goodbudget, Pocket Expense, Household Account Book
Track Expenses	Wally, Expensify (business expenses), Expense IQ
Savings	Acorns, Unsplurge, Digit
Cashflow Management	Dollarbird, Fudget
Debt Management	IOU, Venmo, Loan Calculator
Personal Finance Management	Credit Karma, Albert, Prism, FlexScore, Hello Wallet
Credit Repair	ScoreNavigator, Lantern Financial, LifeCents
Investment	Personal Capital, Robinhood, Wealthfront
Bill Management	Plastiq

Financial Literacy to Financial Wellness

A basic model for financial literacy exists: it begins with the principle that people lack the knowledge necessary to make good decisions; understanding the true principles of good financial wellness then leads to a change in behavior; finally, with consistent behavior, the financial literacy student experiences positive results.

Optimal financial education path for "prime"



The only problem with the model is that it doesn't work for non-prime Americans.

At least, it's wrong for most non-prime Americans as they engage with most current financial literacy programs. And it's wrong at each stage of the model. First, the foundational premise is flawed: many non-prime Americans aren't functionally financially illiterate. Of course, some really could use better information, but illiteracy isn't the deciding factor in their challenges.

Second, the long-standing belief that people would do better if only they knew better is flawed, and paternalistically unfair. More often than not, the non-prime consumer lacks enough slack in their finances for them to be able to consistently do what they know they need to do. So, results are hard to come by. Never mind that many of the "results" are not relevant to the non-prime American.

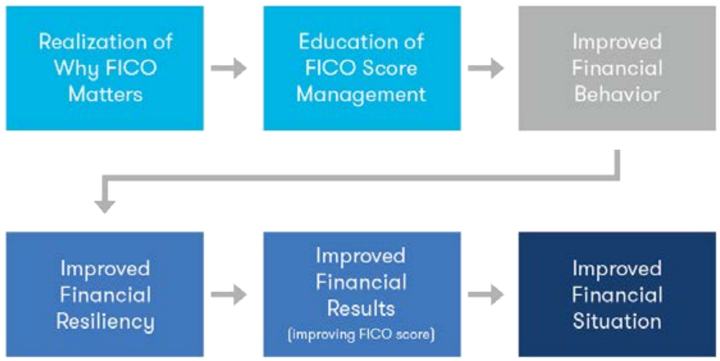
Finally, most financial literacy programs set goals (e.g., 3-months savings cushion, retirement investment targets, etc.) that are well out of reach for people who are trying to (re)build their financial lives – and especially as they begin their journeys.

The needs of prime and non-prime Americans are fundamentally different.

Prime Americans have the slack in their finances (even if it is only found in access to mainstream credit options) that, combined with a little education on budgeting, can deliver almost immediate financial results. After a couple of short months of budgeting, prime customers can see improvements in their financial resiliency (measured in the ability to overcome financial setbacks through savings or lower-cost debt) or financial capacity (measured in consumption or investment).

Non-prime Americans have a much more circuitous route to financial improvement.

Optimal education path for "non-prime"



Often, non-prime Americans have to first come to the realization that their current financial situation prevents them from achieving their goals. One of the most common triggers is the realization that they cannot obtain a desired loan, or at least not on terms that they would like. This prompts them to learn more about what they can to strengthen their credit score. Armed with that information, they change their behavior. With improved resiliency, they begin to see their credit scores improve. Ultimately, they can achieve their goals and improve their financial situations.

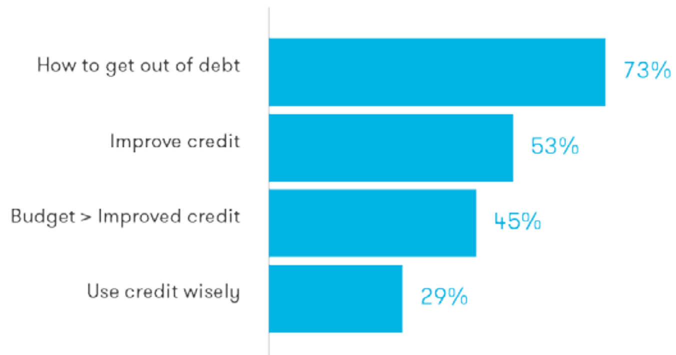
One of the most common triggers is the realization that they cannot obtain a desired loan, or at least not on terms that they would like.

This optimistic path rarely occurs without setbacks. The path to improving one's credit is long and people rarely move forward seamlessly, without running into problems that are difficult to overcome. This is especially true if they lack access to the lubrication of accessible credit. When they run into minor challenges, because they have few (or poor) options absorbing the shocks, they might experience further setbacks. They find themselves running up the down-escalator, where even a short break in the exhausting effort will set them back.

Topic Interest

Non-prime Americans' focus on the here-and-now is also reflected in the financial topics that interest them the most. When faced with various topics and asked to rank them for interest, "getting out of debt" consistently outstripped any of the other topics. Secondarily, people valued information about what they can do to build their credit score.

Interest in article topics…
Ranked 1 or 2

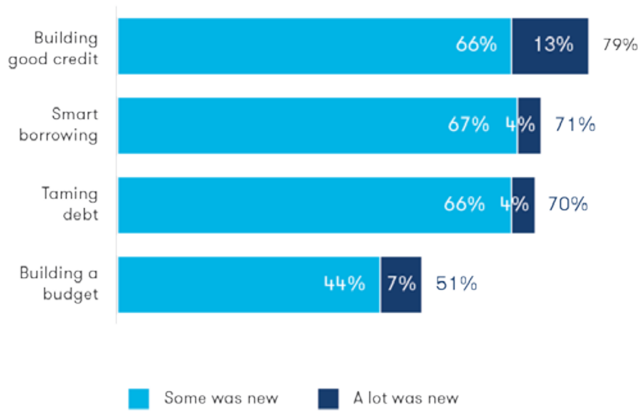


Q100. As you think about which topics are most interesting to you, please rank the following topics in order of which you would like to learn more about, where 1 is most interesting and 4 is least interesting.

These findings held when we asked respondents what interested them, what provided useful information, and what provided specific steps that can improve their financial situations.

Information about building credit scored at the top when we asked how much of the information was new to them.

How much of the information…was new to you?



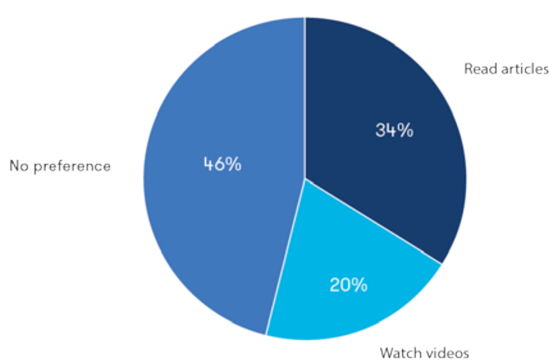
Q102. How much of the information shared in this video was new to you?

Non-prime consumers are focused on the immediate next steps in their financial lives (debt relief) and the next immediate goal (better access to credit through improved credit scores).

Content Format

When we asked respondents whether they preferred a financial literacy curriculum of video or print, the results were mixed. Almost half admitted to having no preference, while a third wanted articles.

Financial literacy media preference…



Q106_A/B/C/D. When learning about financial wellness, do you prefer to watch videos or to read articles on the topics you are interested in?

When we measured how well respondents retained the information from the content, we found that videos performed significantly better.

Overall retention scores…

Based on the responses to questions about the content that respondents saw the prior week.

Videos are effective for delivering a clear principle that will stick with respondents, but their short length limits how much information they can convey. When conveying financial literacy information, it seems, a multi-formatted approach will engage a broader swath of the population.

Financial Wellness Tools

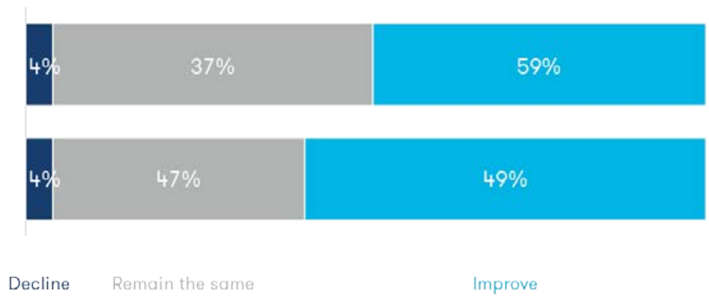
Some might call this the Golden Age of personal financial control. Dozens of new apps and websites are designed to help an individual control a highly complicated aspect of their lives. There's a particular suite of products emerging that are designed to help individuals manage directly their credit reports and their credit score. The principle behind these tools is to guide people in their efforts to maximize their credit score and to improve their access to credit. Some tools do this by forecasting credit score impacts of various actions or guide them through step-by-step efforts to improve their immediate financial situation.

We presented respondents with three of these tools, each of which had a slightly different approach, but all of them are designed to help a person improve their credit. The following results are aggregated because we would like to smooth out the differences in the particular tools and better understand the impact of the overall approach.

The simplest and quickest measure to identify whether the tools improve people's financial well-being was to ask their expectation of their finances in the near-term. Before they participated in any of the curricula, we asked people if over the next three months they believe that their personal finances will improve, remain the same, or decline. We found nearly half of the respondents believed that their finances would improve.

After engaging with the tools, however, optimism jumped to 59 percent.

Over the next 3 months, personal finances will…

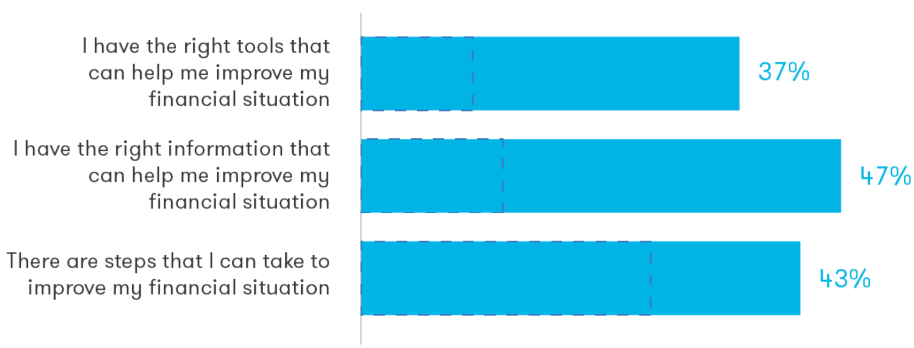


Q013/304. Over the next three months, do you think your personal finances will…?

This is, perhaps, an unsurprising finding given the nature of the tools: they are designed to help users make an immediate impact on their credit scores (specifically) and their finances (in general).

Far more interesting is the impact that the tools had on people's belief that they have the tools available to them to improve their financial situation.

% who agreed…



The dotted line was the "pre" assessment score and the colored bars are the responses after completion of the study. n = 476; Q010/301. How well do each of the following statements describe you? (Scored 9 or 10)

Engaging in their credit report in a very personalized and tailored way provided these respondents with ancillary benefits – namely a sense that they did have the tools, information, and actionable insights necessary to make a difference in their finances.

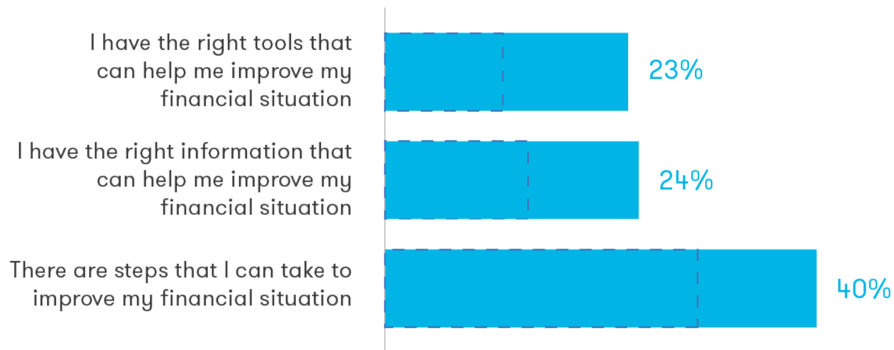
This is notable particularly because the tools were not educational, per se. They did not provide content that was meant to educate customers specifically on financial wellness topics. Instead, they encouraged the participants to engage with their finances in very personalized, tailored, and specific ways. Doing so led to a broader understanding of participants' finances and what they could do to affect the most change.

The experiential learning proved to be more meaningful to the participants than traditional financial literacy techniques.

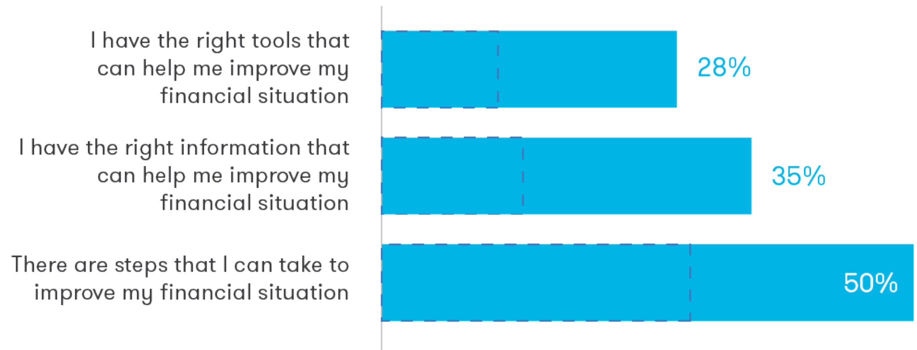
While participants benefited from traditional instruction, they did not end up as empowered as the respondents who engaged with the credit building tools.

Respondents who engaged with video curriculum…

% who agreed



Respondents who engaged with print curriculum…
% who agreed



The dotted line was the "pre" assessment score and the colored bars are the responses after completion of the study. n = 476; Q010/301. How well do each of the following statements describe you? (Scored 9 or 10)

Financial Wellness Tool Engagement

We found that participants engaged with the tools beyond the minimal amount they needed to in order to fulfill the requirements of the survey engagement. In fact, 71 percent of participants engaged with the tool more than once a week.

Participants not only felt more equipped to improve their financial situations when using financial wellness tools vs. educational videos and articles, but they also were more engaged with tools, spending additional time using them and making subsequent visits to the tools more often.

Furthermore, it was encouraging that the time they spent with the tool was meaningful. Fifty-eight percent of participants engaged with the tool more than 30 minutes. And 60 percent of participants engaged with the tool at least the same amount of time or more on subsequent visits.

These data suggest that participants found enough value in the tools to warrant additional visits and more time.

/ Conclusion

A whole cottage industry has risen up around the desire to help people improve their personal finances. There is no end to the recommendations, tools, ideas, and advice available to people. Every one of the tools seems to have its own perspective, mainly – it seems – derived from the experience of its founder. Their feature sets suggest that few of these resources have been tested to support those Americans with non-prime credit.

Non-prime Americans can engage with their finances in specific ways to map to their unique financial needs and challenges. With this broadened understanding, we can provide tools and curricula that are much more effective in engaging them so they can improve their financial lives. This will mean we have to think beyond our own experience and face the data as we see it. We must listen to the non-prime consumer.

Fortunately, we have the technology, the perspective, and the cultural awareness to be able to design products and services that can meet the non-prime American and their needs.

About Elevate's Center for the New Middle Class

Elevate's Center for the New Middle Class conducts research, engages in dialogue, and builds cooperation to generate understanding of the behaviors, attitudes, and experiences of America's growing "New Middle Class." For more information, visit: www.elevate.com/NewMiddleClass

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