



# The impacts of mandatory financial education: Evidence from a randomized field study

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## ARTICLE INFO

### Article history:

Received 30 July 2010

Received in revised form 5 January 2012

Accepted 21 August 2012

Available online 23 September 2012

### JEL classification:

D1

I3

### Keywords:

Financial education

Asset accumulation

Financial security

## ABSTRACT

Financial education is commonly assumed to affect knowledge and behavior, yet its impacts remain relatively untested. Very low-income families in a subsidized housing program were randomly assigned to a mandatory financial education program and tracked for 12 months. Financial education led to improvements in self-reported behaviors, but no measurable effects on savings or credit, except for participants in education expanding their use of credit, albeit with no evidence of problems in the study period. This study also illustrates the methodological issues that arise in social experiments with small samples, including non-compliance, attrition and self-report bias.

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## 1. Background

The subprime mortgage meltdown and Madoff investment scandal are just two of a long string of examples of apparent failures of people to make well-informed financial choices. Surveys consistently show the extent to which consumers lack the ability to perform basic financial calculations, and this seems to be especially acute for those with low-incomes and low educational attainment (Agnew and Szykman, 2005; Bernheim, 1998; Lusardi and Mitchell, 2007). Hilgert et al. (2003) show people who report low levels of financial knowledge in surveys are less likely to report regular saving, paying their bills on time, or maintaining a budget. Similarly, Courchane et al. (2008) show low objective and subjective financial knowledge levels are correlated with poor credit behavior. Consumers' understanding of interest rates appears to be a particular area of weakness, and a major concern as policymakers attempt to regulate credit markets (Campbell, 2006; Lusardi and Tufano, 2009).

The combination of real world events and empirical research have led many observers to promote an expansion of financial education, especially for low-income and/or lesser educated populations (Kozup and Hogarth, 2008). Financial education is required for financially distressed consumers going through the bankruptcy process and for some mortgage borrowers. State-level high-school financial education mandates have also been enacted, some of which have been associated with modest improvements in financial behaviors and knowledge in past research (Bernheim and Garrett, 2003). Other programs have focused on financial education related to under saving for retirement by delivering seminars in the workplace (Duflo and Saez, 2003). Although firms often simultaneously promote retirement planning seminars and introduce new retirement savings programs, there is some evidence that workplace-based financial education promotes savings (Bernheim et al., 2001).

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Despite the growing interest in and resources devoted to financial education initiatives, however, the effects of financial education on low-income populations or in a mandated context are relatively under-studied.

One of the limitations of existing financial education studies is simply the lack of a valid control group. Collins and O’rouke (2010) provide a review of financial literacy evaluations, finding most studies use non-random comparison groups. The problem with these studies is that highly motivated people are likely to enroll in financial education, introducing unobserved selection bias into the sample. Participants in financial education may end up being more future-oriented and patient than nonparticipants and this may in fact be more responsible for positive effects associated with financial education than the program content itself (Meier and Sprenger, 2007). The primary example of a study using a randomized design is Duflo and Saez (2003), a study focused on retirement education in the workplace. There are no studies with randomized designs focused on the population seemingly of most interest—low-income people mandated to receive education as requirement to participate in a social welfare program—a highly salient population from a public policy perspective if financial education requirements are to be replicated.

Low-income families enrolled in the Federal Housing Choice Voucher (Section 8) program receive financial assistance from the U.S. Department of Housing and Urban Development to rent housing from private landlords. Clients in the program receive vouchers based on their household income and family size. The Family Self-Sufficiency (FSS) program allows families to earn income above standard limits without losing their housing vouchers, an incentive to work and earn more income. But the FSS program also requires clients to complete a financial education course, providing a unique opportunity for a field study. The five-course sequence covers relevant basic personal finance concepts such as budgeting, credit reports and credit management, banking and financial planning delivered in classroom setting for a total of about 12 h over two months.

In 2005, the nonprofit Community Development Corporation of Long Island, New York (CDCLI) identified 181 FSS clients who needed to complete financial education by the end of 2007. In order to manage class sizes and the workload for case-workers, the agency needed to stagger the flow of clients through its financial education classes. This created an opportunity to use random assignment of clients to educational cohorts and produced a control group without the typical selection biases. A total of 144 clients agreed to participate in the evaluation and were randomly assigned to either the treatment or control group (37 did not consent—22 left the program, six had disabilities and physically unable to take the course, nine refused to consent for the study but did take the course). Members of the control group were wait listed and were prohibited from attending classes for 12 months. CDCLI collected data at baseline and 12 months after baseline for each client, including credit reports, bank account records and self-reported surveys.

This then provides the basis for a unique field study combining administrative and survey data from a small but highly relevant population of program participants. Because the agency had a backlog of clients to move through education, a natural control group existed as one cohort completed the course and the next cohort awaited access to financial education. The results of this experiment offer insights into what role education might have on key behaviors such as credit management, savings and financial planning.

The results are consistent with clients who were offered or participated in education acquiring more debt, although this result was not robust to matching estimates. There is no evidence educated clients had problems managing their expanded use of debt, and the effects of treatment on the treated suggest an increase in credit scores. Self-reported behaviors among clients assigned to the education courses show improvements in financial planning activities such as forecasting expenses, budgeting and paying bills. Overall a relatively modest intervention with an economically distressed population does show at least modest effects on behavior.

## 2. Data

Data on consenting clients includes bank account balances (checking and savings accounts), credit report items (number of delinquent payments of any kind listed in the report, outstanding revolving or other debt, number of open credit cards listed, debt outstanding as a share of total credit limits, FICO score) and then questions from a self-reported survey collected at baseline and then 12 months later.

While 144 out of 181 clients consented to participate in the study, the final sample comprised of 127 clients. Seventeen of the 144 clients who initially agreed to participate were lost to attrition because they were uncooperative or were no longer in the program at follow-up. The problem of attrition is common in longitudinal evaluations, and the nature of attrition bias can be difficult to estimate. Administrative records indicate that eight of the 13 clients in the treatment group who were lost to attrition were terminated or withdrew from the program, compared to one of the four clients lost to attrition in the control group. Termination could result from noncompliance with program terms or because the client’s income increased beyond program limits. One possibility is that assignment to financial education may have influenced clients to withdraw from the program. Alternatively, remaining in the program at follow-up could also signal higher levels of motivation relative to clients who were non-compliant, who withdrew, or who were terminated. Thus, the direction of attrition bias is unclear, and the estimates derived from the simple randomized comparisons require further analysis.

In addition to clients who are not observed at follow up, another challenge is variation in treatment. Among those who were assigned to treatment—the so-called intent to treat (ITT)—only 58 percent completed all five financial education sessions, as shown in Table 1. Most non-compliant clients missed one or two sessions, but a few completed just one session. The subset of clients who were assigned to education classes and completed them—the treatment on treated (TOT) represented

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