Financial Clarity: An Overview of Financial Services and Concepts

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Center for Financial Security
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Our Presenters

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Financial Clarity: Education, Literacy, Counseling, Planning and Coaching
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Financial Education

• 1,200,000,000 results (interchangeably with knowledge, literacy)
• Education is a process not a product
• Organization for Economic Co-operation and Development (OECD) definition
• “The process by which financial consumers improve their understanding of financial products, concepts and risks, and through information, instruction and/or advice develop the skills and confidence to become aware of risks and opportunities, to make informed decisions, know where to go for help, and to take other effective actions to improve their financial wellbeing” (OECD 2005, p. 13).
Financial education... 2

• Providing **information** means giving consumers access to facts and data

• **Instruction** involves insuring that the individual has the opportunity to acquire the skills and knowledge to understand financial terms and concepts

• **Advice** means providing consumers with counsel on financial issues and products so that they can make the best use (*or application*) of the information they have received.
Financial Literacy

- Output of the process
- *Skills* and *Knowledge*. Sandra Houston (skills and knowledge are two dimensions of human capital).
- GAO: financial education + consumer behavior
- Knowledge and skills? Are they synonymous?
- Two different domains. *Knowledge* refers to internalized concepts and principles (cognitive domain). *Skills* allude to the ability to use that knowledge and to apply it in the context (the behavioral aspect of the construct).
- Financial literacy, therefore, involves knowledge about finances and the application of that knowledge (skills) to make informed financial decisions.
Financial Capability (2010 PACFC)

#1
- Recognition that teaching people is necessary but not sufficient

#2
- Conceptualization of the term “capability”
Financial capability

Financial Literacy

Access to financial products

Legal and institutional framework for consumer protection
Financial Counseling and Planning

• Type of client
• Type of problems
• Outcomes
• Different competencies, different training for accreditation or certification
• Different but complementary professions (part of a continuum)
Financial counseling
Only Remedial?

- Remedial, productive and preventive. These forms “are not mutually exclusive”
- **Remedial financial counseling** is used when clients experience some kind of economic distress and are in need of immediate intervention.
- **Productive financial counseling** clients do not need to overcome immediate financial difficulties, but they do need to utilize their resources in the most productive way.
- **Preventive (proactive) financial counseling** has features of both remedial and productive counseling.
- The three forms of counseling use similar processes (i.e., determining needs, setting goals, establishing objectives and devising action plans).
Examples of processes

Figure 7.1. This figure illustrates the developmental stages of preventive and productive financial counseling.

Figure 7.2. This figure illustrates the developmental stages of remedial financial counseling.

<table>
<thead>
<tr>
<th>Building the relationship</th>
<th>Exploratory stage</th>
<th>Medium-long term goals</th>
<th>Action Plan</th>
<th>Monitoring (allowing for adjustments)</th>
<th>Evaluative process of client's outcome</th>
</tr>
</thead>
<tbody>
<tr>
<td>Building the relationship</td>
<td>Diagnostic stage</td>
<td>Short-term immediate solution</td>
<td>Choose predetermined action plan specified by a protocol</td>
<td>Implementation of the action plan</td>
<td></td>
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</tbody>
</table>


Financial Coaching
Financial coaching

- “Unlike financial education or counseling, which seeks to provide *information and knowledge* or help solve problems, coaching focuses on helping clients achieve their goals through *performance improvements and behavior change*. The goal is to support clients in developing the skills and behaviors they need in order to achieve their financial goals” (CFPB, n.d.)
Financial coaching

• New approach to behavior change
• Post-modernism in FCS
• Mostly informed by applied coaching psychology evidence-based principles and theories: Goal theory; Hope theory, Theory of Change, Social Cognitive Theory (self-efficacy, self-regulation), Self-determination Theory, Positive Psychology, CB Theory
• Borrow approaches from mental health profession: MI, NLP, Adult Learning (andragogy), solution-focused, and humanistic approaches
Because coaching …

• Is more holistic: alignment between financial goals and life goals, and values
• Brings external and internal finances
• Help clients to overcome cognitive distortions
• Provides insight and perspective: (1) changing the viewing to (2) change the doing
  • (1) identifying exceptions to the problems, amplifying existing resources, building self-efficacy, problems as platforms for solutions
  • (2) asking “how” instead of “why”; using specific doable action steps, finding ways to leverage resources, accountability. Central to this notion is the skillful use of language (“soft skills”).
• Self-reflective, self evaluation and self monitoring piece (important dynamics between sessions)
Financial Counseling at USU: an integrated practice
Pre-purchase Intervention

- Pre-purchase Financial Counseling: education, counseling and elements of coaching

- Traditionally:
  - Are you ready to buy? Advantages and Disadvantages
  - Budgeting, saving, credit report, types of mortgage, working with a realtor, etc.
  - How much house can you afford?
Synergy between External and Internal Finances

• External Finances: numerical part
• Internal Finances: the intra and inter-relational aspects of money. Meanings, Feelings, Emotions, plus recognitions of cognitive distortions

  E.g. Exploration work. What does buying a home mean to you?
What does mortgage debt mean to you?
Processes at the counseling session for Clients

- Connection
- Confidence
- Solution-talk
- Making Observations (What, how, where)
- Self-reflection and experiential learning
- Envisioning (tell me about your home)
- Helping clients understand readiness to change

- Correction
- Competencies
- Problem-talk
- Making evaluations (why?)
- Pedagogic
- Imposing changes
References


Financial Education: Practitioner's Perspective

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Financial Education

Provide information, instruction, advice:

• Individual – in person/distance learning
• Group – in person/distance learning
  – one time/multiple lessons
• Mass Media – static or interactive
Financial Educators

Use a variety of approaches to impart information/advice:

• Teaching, telling, explaining, illustrating (to)
• Demonstrating, modeling, showing (for)
• Practicing, role playing, case studies (with)

• *May use counseling and coaching skills*
Learner-Centered Approach

Framework: *(Norris)*

- Anchor – what learner already knows/does
- Add – what new information or resources are needed
- Apply – process information, reflect on relevance, practice application
- Away/Advance – Plan for future use of information, homework
Effective Financial Education

Youth:

• Learning & retention increases when education combined with access/products (*Collins et al.*, 2014)

Adults:

• Immediate application (*Fernandes et al.*, 2013)
• Connect learning to internal motivators
• *Knowles*: Andragogy & 6 principles of adult learning
Challenges

- Barriers with outreach and access
- Learner needs differ – goals, preferences
- No universal standards to evaluate quality or effectiveness
- Limited research on educational approaches, audiences, timing, dosage
Opportunities

• Emphasize behaviors in addition to knowledge
• Connect learning and doing/just-in-time
• Repetition across the lifespan
• Integration and ease of access
• Evaluation – delivery, effectiveness, timing, financial capability “mix”
Resources


Financial Advisor: Practitioner's Perspective

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Purpose and Goals of Financial Advising

• Build client’s base by evaluating insurance protection needs.
• Accumulate assets for the future
  – Save and invest for retirement.
  – Save and invest for education.
• Manage wealth.
• Create a retirement income.
• Plan client’s legacy.
Characteristics of Financial Advising

- Financial Advisors are registered, licensed planning professionals.
- Must receive in-depth, ongoing training.
- Expertise includes investments, insurance, financial planning, retirement planning.
- Service and advice is catered to individual financial needs and goals.
- Help can either be focused on specific needs (such as investing retirement money) or it can be comprehensive wealth management services to cover all aspects of financial life.
The Financial Advising Process

1. Gather Information
   • Advisor listens to financial goals and concerns

2. Analyze and recommend
   • Advisor studies client’s information, researches and evaluates alternatives and then shares recommendations

3. Implement
   • Provide information on financial products and services that will help client reach goals

4. Monitor and review
   • Actively monitor plan to make sure it continues to be the best plan for goals over time
Financial Advising - Client Role

• Provide current, accurate information on financial situation to financial advisor
• The more information shared by the client, the better the advisor can analyze and therefore provide best advice.
• All information shared is confidential - by law.

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Q & A

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Please join the Center for Financial Security on February 18th for our next webinar on:

**Financial Coaching Frameworks**

[www.cfs.wisc.edu/](http://www.cfs.wisc.edu/)

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