

Financial Education – Does It Work and How Do We Know?

Research Findings from a Study of Financial Education Among Soldiers

By Casey Bell, Dan Gorin, Jeanne Hogarth

Division of Consumer & Community Affairs, Federal Reserve Board¹

Financial education has risen on the agendas and priority lists of a number of agencies and organizations, including the Federal Reserve Board, as evidenced by recent hearings on financial literacy in Congress and speeches by Federal Reserve Chairman Ben Bernanke.² The issue is also a “hot topic” among academics and researchers, and numerous programs have arisen to address financial education gaps, targeting a variety of topics from student loans and credit card debt to home buying and retirement planning.³ Yet, despite the increased attention from policy makers and educators—both via the school system and community-based education efforts—we know that consumers continue to face financial difficulties. In addition, questions around the effectiveness of financial education still loom large.

In an effort to address these questions, the Federal Reserve Board conducted a research study focusing on the effectiveness of a financial education program for military personnel.⁴ Beginning in 2003, we collaborated with Army Emergency Relief (AER), the U.S. Army post at Ft. Bliss in El Paso, Texas to provide financial education for young enlisted soldiers and to evaluate the impact of that education on the soldiers’ financial management behaviors. Soldiers attending the Army’s air defender advanced individualized training (AIT) at Ft. Bliss were offered a two-day financial education course taught by staff from San Diego City College; funding for the course was provided by AER.⁵ At the end of the two-day course, soldiers completed a survey of financial behaviors that served as a baseline for the evaluation; most of the surveys were conducted from 2006 through 2008. A second group of soldiers at Ft. Bliss, who did not participate in the financial education course, served as a comparison group. Follow-up surveys were conducted in January 2008 and January 2009 to provide second data points for those who took the financial education course. Specifically, we explored the differences in behaviors between those who took the course and those who did not, focusing on six topics

covered in the course: budgeting, credit, consumer awareness, car buying, insurance, and retirement savings using the Thrift Savings Plan (TSP), which is a 401(k)-type retirement savings and investment plan for federal employees and the military.

Who Is in the Study?

Soldiers in this study were in their early 20’s, and predominantly male (86 percent). As might be expected when studying a population in their early 20’s, 70 percent of the soldiers in our baseline survey were single; by the time of the follow-up surveys, 54 percent were still single. About 40 percent of the soldiers in this study had some post-secondary education.

Because the financial education course was delivered during the soldier’s AIT (generally taken within the first year of military service), the majority of the soldiers (more than 90 percent) in the baseline survey had less than one year of military service. By the time of the first follow-up survey, about two-fifths (40 percent) had more than one year, but less than three years of service. Pay grade, or rank, is closely correlated with length of service. At the time of the baseline survey, 78 percent of the respondents were in the lowest two pay grades, but by the time of the first follow-up, only 45 percent were still in the lowest grades, while the other 54 percent were now in the next two higher pay grades.⁶

Did Financial Education Make a Difference?

To assess whether or not financial education made a difference, we identified 13 positive financial management behaviors (for example, tracking spending, having an emergency fund, comparison shopping, saving for retirement) and 15 negative behaviors (for example, paying overdraft fees, paying bills late, being called by a bill collector, losing security clearance). Overall, the research found that soldiers in the financial education group reported more of the positive behaviors and fewer of the negative behaviors than soldiers in the comparison group.

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We wanted to know more specifically which behaviors were influenced by the financial education program. In order to separate the effects of the financial education course from other influences on money management, we included independent variables measuring years in the military, pay grade, gender, education, race/ethnicity, marital status, pre-military experiences (awareness of family's finances, having a high school financial education course, and having a savings account in high school), and having a credit card (as a proxy for experience).

Soldiers who had the financial education course were more likely than the comparison group to report using an informal spending plan, suggesting they kept some sort of 'mental account' of how much they could afford to spend (as opposed to doing nothing). However, these soldiers were less likely to report using a formal, written budget, relative to the comparison group. Also, those who took the course were more likely to know the difference between discretionary and non-discretionary spending—in other words, they understood the difference between spending money on needs versus wants. When buying a car, those who took the financial education course had higher down payment-to-loan ratios than those in the comparison group.

Other variables that seemed to influence soldiers' financial management behaviors included previous experience (having a savings account in high school, being aware of parents' financial situation), education, marital status, number of years in the military (a proxy for experience), pay grade (a proxy for income), race/ethnicity, being male, and perceiving oneself as a good money manager.

Research Design Considerations

Measuring behavior change can be extremely challenging and we recognize several limitations to our study. For example, our measures occur at two points in time, but we have not captured what may be happening between these two points. By looking at the lapsed time

between taking the course and the follow-up survey, we may be able to explore some of the effects of timing on behavior change.

Our study focused on behaviors that soldiers either did or did not report, such as budgeting, saving, or paying credit card bills. But we know that for some financial behaviors, people can be at different stages in the decision making process. We did not measure where soldiers were on the behavior continuum or whether they moved from one stage to another. For example, if a soldier in the class moved from being unaware of the retirement savings plan to thinking about signing up for the plan, or gathering information to make a decision, we could say the class had an effect; however, we did not measure these more subtle behavioral changes. Thus, we may have missed some of the impacts of the financial education program by focusing on actual behaviors rather than also including planned behaviors.

The class was delivered primarily as a lecture. Alternative formats, such as simulations, experiential events, activity-based learning, and case studies may increase the relevance as well as the retention of information. It may also be that the timing of this course was not optimum for learning. Most soldiers took this course on the weekends, rather than as part of their regular training in AIT. As most high school and college instructors know, it is hard to find time in the curriculum to squeeze in a financial education course. And when the course is an add-on to an already busy and tiring schedule, the content may not sink in very well.

Conclusion

The financial education program had some positive effects on soldiers' financial management behaviors over the longer term. We believe it's important to continue to evaluate financial education programs and to improve our measures of financial capability. We also believe that while education is necessary, it alone is not sufficient to establish financially secure families and households. Important complements include access to information, access to financial counseling and advising, and public policies that provide consumer protection. The Federal Reserve Board remains committed to further research and support for all of these elements in order to help families attain financial stability and security. **CI**