Financial Advice Models and Financial Coaching

Financial Advice Models

Financial advice is a complement to other interventions, such as education or product defaults. Financial advice can help people apply, understand, provide technical expertise, or help with self-control problems depending on the form it takes.

**Financial Coaching**
- Focuses on improving specific actions towards goals
- Includes financial planners, counselors, and human services professionals

**Financial Counseling**
- Often focuses on more specific personal financial issues
- May include technical expertise and money management

**Financial Education**
- Typically expertise is provided for a fee
- Use when financial information is costly or difficult to acquire and process

Who Uses Advice?

Using the FINRA National Financial Capability Study, we estimated the take-up of these forms of financial advice: (1) debt advice, (2) investment advice, (3) loan advice, (4) insurance advice, and (5) tax advice. Take-up was estimated controlling for income, education, financial literacy, and other factors as shown in the figure below using a regression model.

**Findings:**
- Overall, lower income people are among the least likely to receive any form of financial advice. However, people who have experienced a recent drop in income are more likely to seek all but loan advice.
- Males are also more likely to report using investment, loan, or insurance advice than females.
- Higher educated people are more likely to use investment and insurance advice. Race or ethnicity has mixed effects.
- Financial literacy—perhaps a potential substitute for advice—turns out to be related to more take-up of investment, insurance, and tax advice.

Implications:
- If expanding access to advice is a policy goal, more efforts may be needed to increase the availability of low quality advice for households with low levels of educational attainment and low incomes.
- Incomes.
- Financial advice may increase if financial literacy levels increase across the population.

**Goals of Coaching:**
- Achieve client defined goals
- Planning specific actions towards goals
- Monitoring self
- External monitoring, self-control and executive attention

**Typical Coaching Activities:**
- Achieve client defined goals
- Planning specific actions towards goals
- Monitoring self
- External monitoring, self-control and executive attention

**Goals of Counseling:**
- Establish baseline behaviors
- Achieve client defined goals
- Planning specific actions towards goals
- Monitoring self
- External monitoring, self-control and executive attention

Financial Coaching

A Financial Coach provides regular one-on-one advice with clients using behavior-performance improvements to meet goals mutually set by the coach and client. Coaching is differentiated from counseling in that coaches are not experts, but instead they provide monitoring or accountability and work in a process largely driven by the client's intended goals.

Coaching is not designed to be a therapeutic relationship. Coaching supports adherence to positive financial behaviors. Coaches potentially reinforce self-control over time.

Based on a review of more than two dozen programs examined, financial coaches:
- Focus on improving long-term financial behavior.
- Focuses on improving long-term financial behavior.
- May create a conflict of interest.
- Focuses on improving long-term financial behavior.
- Includes financial planners, counselors and human services professionals.

Volunteer Model: Adult volunteers are recruited from the community and trained in the skills of financial coaching.

Client/Student Model: College students are trained as coaches, meeting with coaching participants from the community often in a "clinic" setting. Supervised by a professional advisor or coach provides support and oversight to the student coaches.

Training:
- In-service training includes a variety of sessions, including coaching, career coaching, and financial coaching. Coaching is a relatively new innovation in the financial capacity building field. Coach training is necessary for those who are not financial "experts" since coaching is led primarily by the participant, and the coach is there to guide, provide feedback, and work with the participant to help them make the best possible financial decisions. There are a number of emerging financial coaching training programs, but as of yet no one standard approach.

Evaluation:
- Financial coaching has not been evaluated. The model shows promise based on early pilots and anecdotes from other approaches. Currently programs do not have reliable measurement metrics. Further, because coaching relies on self-monitoring, selection effects make randomized experiments a challenge.

See: http://fyi.uwex.edu/financialcoaching for more information on coaching research, tools, training, and models.