Advancing Financial Coaching for Low-Income Populations: Midstream Lessons from EARN

by Ben Mangan

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EARN Research Institute

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INTRODUCTION

As the economy continues to be in turmoil, and recession feels like depression for tens of millions of low-income workers, financial coaching has emerged as a tool with great promise to create prosperity for low-income Americans. The field of financial coaching for low-income people is growing quickly; however, there is no organized approach among the nonprofit service providers, coaching trainers, and funders who are becoming involved in these efforts.

The rapid growth of this still undefined field presents tremendous opportunities, but also real risks for low-income recipients of coaching, for nonprofit organizations interested in coaching, and for the funders who are making coaching work possible. EARN has been a pioneer in financial coaching, and we believe that our mid-stream learnings can advance the burgeoning field. EARN is currently the only nonprofit in the nation employing a full-time financial coach directly serving clients, while also training the staff of other nonprofits in financial coaching. We believe this unique approach provides valuable insights into how to maximize opportunities and limit pitfalls as financial coaching grows.

DEFINING FINANCIAL COACHING FOR LOW-INCOME WORKERS

In the past three years, numerous groups around the U.S. have begun offering programs described as financial coaching, to low-income people. There has been great confusion over how to define financial coaching as these offerings expand. EARN believes coaching is truly distinct from financial counseling, financial literacy, and financial planning. We see three key elements that distinguish financial coaching from counseling, literacy, and planning:

1. Financial coaching is anchored in behavioral change, not in a transfer of information about finances. Planning, literacy, and counseling are all anchored in helping someone determine what they need to do to achieve financial goals. Determining what people need to do is important and necessary. EARN argues that focusing on how people will achieve financial goals is of even greater importance for helping low-income people achieve prosperity. As EARN defines it, coaching is focused on how a low-income person will reach their financial goals – through behavioral changes which they identify and focus on with their coach. Coaching's laser-focus on driving behaviors to accomplish goals is a key differentiating factor.

2. Financial coaching is client-directed. In contrast, when delivering financial literacy, financial planning, and financial counseling, the service provider drives the process. Coaching is rooted in a belief that the client ultimately has the answers on what behavioral changes will be

required to succeed in meeting financial goals. Only the recipient of coaching knows what will effectively motivate behavioral changes needed to reach financial goals.

3. Being client-directed makes financial coaching inherently empowering to clients. Traditional models of serving low-income people often involve power imbalances that can decrease the confidence and self-esteem of service recipients. Through client feedback, EARN has learned that when delivered as defined here, coaching places the decision-making in the hands of clients. EARN's coaching clients find this immensely empowering. Their confidence increases significantly, and they believe they make better financial decisions as a result.

Defining coaching correctly is important for many reasons. First, at this stage in its development, financial coaching is still an experiment in creating prosperity. A clear definition of the experiment's core elements will be critical for meaningful study of coaching's relative effectiveness as a tool in creating prosperity for low-income people. Further, the chronically under-resourced social sector needs to understand the relative costs and benefits of offering various services – like financial coaching and financial literacy – to ensure prudent investments for change.

EARN'S INVESTMENT IN TESTING FINANCIAL COACHING

In 2007, EARN developed a groundbreaking program using financial coaching to focus exclusively on helping low-wage clients improve financial behaviors over time. Known as WealthCare, EARN's coaching program is a structured approach to imbuing clients with the financial behaviors that are known to promote control and leverage of finances toward the goal of wealth accumulation. EARN's coaching model is innovative and standard-setting in its explicit acknowledgement that a focus on eliciting and repeating desirable financial behaviors over time is a primary mechanism by which low-wage workers can build economic prosperity in a sustained way.

EARN has some unique strengths in the way that we offer financial coaching. EARN has full-time coaches on staff who spend all their time using this methodology to coach clients – not counsel them, plan for them, or educate them.

In addition, EARN has worked with leading coaches and financial planners to craft and offer in-depth, high-quality training in financial coaching techniques for front-line staff at nonprofit organizations that serve low-income families and individuals.

EARN continues to use our focused learnings from our direct coaching services to low-income people, in order to improve and adjust our training for the staff of community-based organizations. Nearly two years into our work, EARN is ready to offer some lessons that we believe will improve the field of financial coaching for low-income people and advance the growing national conversation on this topic.

EARLY FINDINGS AND COMPELLING QUESTIONS

Formal evaluations of EARN's coaching work are ongoing. These evaluations will answer questions about coaching's effectiveness in creating prosperity gains for low-income clients. Nonetheless, EARN's financial coaching work has already surfaced many significant questions about how coaching ought to be delivered. EARN's findings also offer a guide on how to ensure quality in delivering coaching, and on what the social sector's expectations should be in providing financial coaching training to staff and volunteers at community-based organizations.

Key Questions for Advancing Financial Coaching

Question 1: What is the most appropriate target market for coaching?

Practitioners are considering a wide range of audiences that may benefit from some combination of financial coaching, financial literacy and financial counseling, including the following:

- Recipients of public benefits
- Participants in matched savings programs
- Graduates of matched savings programs
- Prospective and new small business owners
- Prospective and new first-time homeowners
- Low-wage workers with some baseline level of economic stability

Some in the social sector argue that financial coaching is good for everyone. But taking a monolithic approach to providing financial coaching is risky. At times of crisis, many of these potential target audiences have a far greater need for financial counseling or even legal assistance than for financial coaching. Coaching can be a very effective tool once some of these populations are generally more stable.

Question 2: How do we ensure quality in the delivery of coaching?

The coaching field's fastest-growing facet is in-depth training in coaching techniques for front-line staff of community-based organizations (CBOs). This kind of training is intended to prepare CBO staff to effectively coach the clients they serve in financial matters. It is important to remember that front-line nonprofit staff members are typically among the busiest, most capacity-strapped employees in the social sector. We must ask: Is it realistic to expect people who routinely operate at over 100% utilization to add yet another complex professional discipline to their work? So much is already expected of these employees, and so much is at stake for the people they serve.

We must also face the reality that many people who are good at delivering other financial disciplines such as financial literacy, planning, or counseling will not be well-suited to financial coaching. Rather than focusing on transferring information, effective financial coaches must be skilled in listening empathically, acting as a focused sounding board, and guiding clients toward their own decisions. Based on feedback from EARN's coaching trainings, this work is challenging and concretely different in content.

Some front-line nonprofit staff may never be well-suited to be coaches; current training models need to consider how to manage this fact. This is also true for coaching models that would rely on volunteers. Screening and monitoring performance for potential coaches (whether staff or volunteers) is a costly, robust, and potentially delicate task.

With a growing number of organizations pursuing coaching, EARN believes the field requires a respected national entity to establish, maintain and recognize generally accepted quality standards in financial coaching for low-income clients. This entity should be national in scope, should demonstrate a very long term commitment to financial coaching, and should have appropriate resources to carry out the duties of responsibly "owning" the quality standard for financial coaching.

Question 3: How do we define success in financial coaching?

When EARN first began our work in coaching, our definition of success included a combination of elements. For our direct staff coaching, our success criteria were around having clients reach important economic milestones. For our front-line nonprofit training, the success critera related to large-scale dissemination of our coaching methodology around the nation.

In considering our work to date, we have sharpened our view of how to define success – driven in large part by the issues described here on ensuring quality and defining quality in coaching. EARN asserts that success in coaching should be measured in two specific categories:

1. Financially-oriented outputs and outcomes that result from a focused 12-18 month engagement between a client and a staff member who spends 100% of their time providing behavior-based financial coaching.

2. The residual benefit imparted to a client when they work with a nonprofit staffer who has received financial coaching training and has been able to implement the coaching methodology into their regular work with clients.

Measuring the outputs and outcomes from full-time coaches' work with clients over a 12-18 month period should involve robust evaluation of clients' relative behavior changes and how these lead to changes in financial position. EARN's evaluation, for instance, includes quantitative and qualitative measures on household net worth, savings behaviors, and attitudinal shifts before and after clients' 12-18 month engagements with our coaches.

A more difficult question is how to measure the residual benefit delivered to clients who work with CBO staff who have received financial coaching training. EARN strongly believes, however, that it is unfair to expect the same level of outcomes for clients who are being served by highly utilized, front-line nonprofit staff as one would expect for clients working with full-time financial coaches

To understand the relative costs and benefits of the coaching training model, it is critical that we answer this question of residual benefit. The relative levels of benefit delivered to clients, and the associated costs – both monetary costs and opportunity costs – will be important in studying whether coaching training models are worth delivering at scale.

EARN'S RECOMMENDATIONS FOR ADVANCING FINANCIAL COACHING

EARN's initial findings from our coaching program have crystallized recommendations for providers and for supporters of coaching as both groups consider expanding their efforts.

Recommendations for Practitioners

EARN has identified five principles that we believe are required for success in offering financial coaching:

1. Anchor coaching in behavior change: As is frequently the case with new initiatives, the financial coaching field has been characterized by diverse approaches which vary in fundamental ways. Many approaches favor addressing clients' information deficits. But we argue that financial coaching entails a specific approach: the client works with the coach at a pace and on content that is driven by the client and that is heavily weighted toward improving financial behaviors as opposed to addressing knowledge deficits. We believe that financial coaching programs which do not focus on reinforcing patterns of behavior known to

result in wealth accumulation are unlikely to achieve sustained results in driving the behavior changes that improve the well-being of low-income people.

2. Thoughtfully consider the use of coaching: Clients who have demonstrated ability and comfort with saving toward a financial goal are certainly good prospects for financial coaching. So are clients who have started to address high levels of debt, or who are methodically rebuilding their credit. But clients do not necessarily need to have already demonstrated this kind of positive financial behavior in order to be candidates for coaching. Coaching can help clients repair credit and address debt for the first time, as long as they are in a position to focus on longer-term goals. For clients who feel stuck or overwhelmed, coaching can help to identify and prioritize goals and to come up with actionable steps and milestones toward success. EARN also believes that coaching techniques can potentially be applied in crisis situations, though this requires a great deal of skill on the part of the coach. In many cases, clients embroiled in crisis may initially need far more directive assistance to avoid evictions, foreclosures or other emergencies.

3. Pay attention to cultural relevance: Coaching programs must be appropriate for the experiences of low-income people, and the coaching must be delivered in ways that are culturally and linguistically appropriate. This means either recruiting coaches who have long experience working with the target population, or establishing a training method to instill the appropriate sensitivities. Training coaches for cultural relevance should be an ongoing enterprise in order to maintain quality standards.

4. Support coaching through organizational culture: Because coaching is such a unique discipline that requires staff to learn many new skills, organizations that offer coaching must meaningfully support staff as they go through training. For staff members who will be expected to provide coaching, the organization should encourage them to engage in the substantial up-front and ongoing training that is required for success in coaching. Organizations that begin to offer coaching must also accept and practice what can be a significant philosophical shift for them: transferring power back to clients by letting them make their own decisions within the context of their work with coaching-trained staff.

5. Commit to rigorous evaluation: All high-quality programs should use assessments to evaluate the program's results and to indicate where modification is needed. Financial coaching programs are no exception. In fact, given the newness of the field, further innovation will require outcome assessment to be integrated into program design.

Recommendations for Supporters

EARN believes that organizations which seek to support the growth of coaching should observe four principles:

1. Define coaching as a discipline: Groups interested in proliferating this discipline should push for generally accepted, concise definitions of coaching, as compared to financial literacy, financial planning, and financial counseling. Clarifying these terms is a pre-requisite to effectively testing the efficacy of coaching. Greater transparency and clarity of terms can also foster stronger partnerships between groups offering various combinations of coaching, counseling, planning, and literacy.

2. Keep asking hard questions about success and quality: Funders have special leverage and influence in driving these lines of conversation related to coaching, which EARN believes will yield better economic outcomes for low-income clients.

3. Coordinate efforts more intentionally: Greater coordination among coaching funders can improve the scope and quality of the experiments underway to drive prosperity through financial coaching. In addition, we believe that increased coordination will also improve efforts to define financial coaching more clearly.

4. Consider owning standards of quality: Funders should consider establishing a pronounced leadership role to steward national quality standards in financial coaching. Leadership on standards would elevate the quality and consistency of the coaching offered by nonprofits around the nation.

CLOSING

EARN is committed to continuing our experiment in coaching. We are increasing the number of people served directly by our staff coaches, and we are expanding our financial coaching training to serve more staff members from other nonprofits. EARN believes the unique combination of serving people directly while training others in coaching will provide continued insight on how to advance the discipline. EARN looks forward to releasing relevant research as our coaching work continues.

ABOUT THE AUTHOR

Ben Mangan is the President, CEO and Co-Founder of EARN. He has more than 15 years of experience in public policy and management, in the areas of education, affordable housing, business development and strategy. Prior to co-founding EARN, Mr. Mangan was the Midwest Practice Leader for Ernst & Young's Public Private Development Group in Chicago and also served as the Director of Organizational Strategy for an international internet firm based in London.

Ben Mangan and EARN have been featured in major media such as the New York Times, BusinessWeek, MarketWatch, NPR's Morning Edition, Fast Company, CNNMoney, the San Francisco Chronicle and others.

Mr. Mangan is a sought-after speaker on wealth creation for the poor and social sector excellence, guest lecturing at Harvard Business School, MIT, Stanford, and UC Berkeley, among others. He has won numerous awards, including the Fast Company Magazine Social Capitalist of the Year Award, and the James Irvine Foundation Leadership Award.

In addition to leading EARN, Mr. Mangan is a regular blogger on both the Huffington Post and the San Francisco Chronicle's online edition, SFGate.

He is originally from Brooklyn, NY, and holds a Bachelor of Arts in History from Vassar College as well as a Master of Public Policy from Harvard University's Kennedy School. He has completed executive education programs at Harvard Business School and Stanford Graduate School of Business.

ABOUT EARN

EARN, the nation's leading provider of microsavings, is an award-winning California non-profit that gives low-income workers the power to create economic prosperity for generations to come. Since 2001, EARN has helped tens of thousands of low-wage families through innovative financial products including matched savings accounts, checking accounts for the unbanked, micro-loans, and money management coaching. EARN's powerful combination of lasting assets and financial know-how enables families to build wealth and achieve life-changing goals such as saving for college, purchasing first homes, or starting small businesses.

The EARN Research Institute evaluates the impact of EARN's work and publishes original data, sharing lessons learned and best practices. EARN uses this unique grounding in rigorous research and direct service experience to transform the financial services landscape and to champion effective public policies. EARN's ultimate vision is that millions of well-informed, low-income American families will achieve financial success through proven strategies, fair public policy, and their own hard work.

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FOR FURTHER INFORMATION

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