

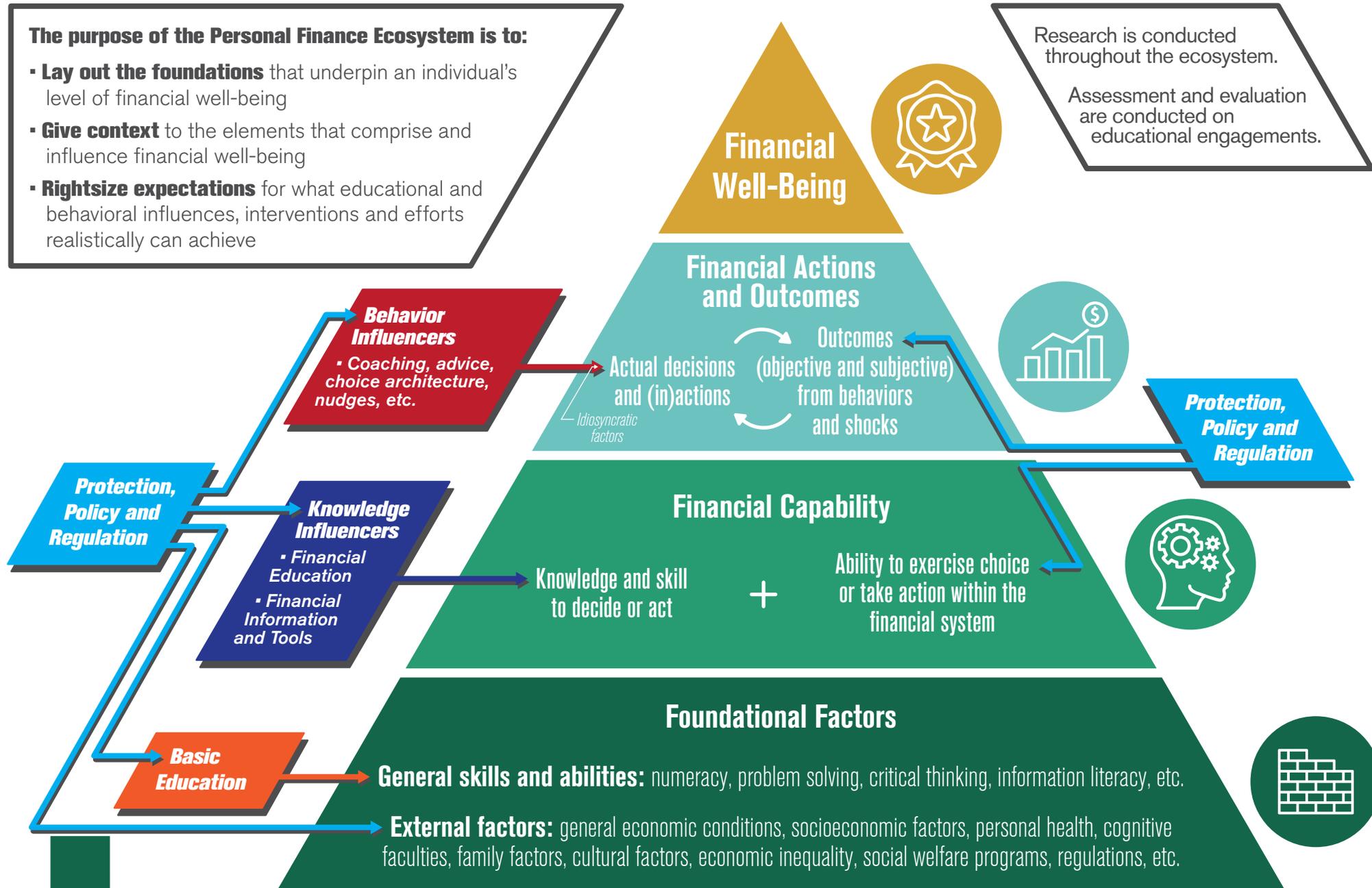
This is an evolving framework and is subject to change. Please visit www.nefe.org for the latest version.

The purpose of the Personal Finance Ecosystem is to:

- **Lay out the foundations** that underpin an individual's level of financial well-being
- **Give context** to the elements that comprise and influence financial well-being
- **Rightsize expectations** for what educational and behavioral influences, interventions and efforts realistically can achieve

Research is conducted throughout the ecosystem.

Assessment and evaluation are conducted on educational engagements.



Each element inside the pyramid is experienced by all individuals.

Everyone has a current level of financial well-being, is making financial decisions and experiencing outcomes, has a current level of financial capability, and is impacted by their general skills and abilities and external factors.

An individual's financial well-being depends on the complex combination of the strengths and weakness in the elements that comprise the pyramid.

Pyramid Base:

- *An individual with low levels of critical thinking or information literacy has a shakier foundation on which to build their financial capability.*
- *The level of financial capability an individual has rests upon a host of external factors that can positively or negatively impact that potential capability.*

Scaffolding of Higher Levels:

- *An individual with high levels of knowledge—but lack of access—will have a lower level of financial capability, and thus decisions and outcomes are constrained.*
- *A high enough income may be able to compensate for low knowledge or suboptimal decisions.*
- *The choices and actions available to an individual depend upon their financial capability but also the current set of outcomes they are experiencing.*

Financial Well-Being *(aka Financial Wellness)*



Self-defined by the individual.

Typically includes factors such as satisfaction with ability to manage current situation, ability to exercise choice and feel in control, and future prospects.

Financial Actions and Outcomes



The decisions made—and actions taken—by the individual as well as the resulting outcomes and the impacts of any external shocks.

Outcomes can be objective (e.g., credit score) or subjective (e.g., confidence).

Shocks can be positive (e.g., work raise) or negative (e.g., large health care bill, victim of fraud).

There is a feedback loop between actions and outcomes.

Idiosyncratic factors materially impact an individual's behavior—and satisfaction. They include motivation, affect, financial stress, cognitive bias, values, beliefs, attitudes, time discounting, risk tolerance and related factors.

Financial Capability



The individual's ability to act in their own self-defined best interest.

It is comprised of two key elements:

- The **knowledge and skill to decide or act** (aka financial literacy)—*knowledge and skill can be built through external knowledge interventions or self-directed inquiry and experience*
- The **ability to exercise choice or take action** (e.g., access to appropriate financial instruments)

Foundational Factors



The individual's general skills and abilities (e.g., critical thinking) and external factors (e.g., economic inequality, health).

Foundational factors are critical to an individual's financial well-being and are impacted externally by basic education as well as regulation, policy and protection.



Knowledge Influencers and Behavior Influencers are two broad categories of activities intended to impact individuals' knowledge and behaviors.

Knowledge Influencers seek to bolster financial capability through strengthening financial knowledge and decision-making skills. It cannot, however, overcome access issues (which require policy or innovation).

Behavioral Influencers seek to directly impact an individual's decisions and behaviors, including compensating for certain idiosyncratic factors. Behavioral Influencers may have an upstream effect on knowledge and decision-making skills, but their goal is not explicitly to bolster that element of the individual's experience.

Knowledge Influencers **A variety of engagements implemented with the purpose of increasing the individual's overall financial knowledge and decision-making skill or to inform them about a specific, narrow topic.**

There are two main types:

- Financial Education
- Financial Information and Tools

Behavioral Influencers **A variety of interventions and modalities implemented with the purpose of helping an individual make a decision or cultivate desired behaviors.**

Behavioral influencers include informational interventions (e.g., just in time), nudges and choice architecture, expert advice or guidance (e.g., from financial planners), and financial coaching or therapy (including psychoeducational groups).

Fintech innovations and apps designed to impact behavior or decisions also are included here.

While this framework is designed to encompass the broader personal finance landscape, at NEFE, our specific focus is on knowledge influencers: Financial Education and Financial Information and Tools.

Financial Education **A systematic approach to cultivating financial knowledge and financial decision-making skills.**

It implies the use of appropriate pedagogy, learning objectives and assessment techniques, as well as being of adequate duration to allow the learner to incorporate new knowledge into their existing schema.

Financial Information and Tools **A variety of tools, resources and activities that inform the individual about a topic or decision.**

Examples include small-dose lessons not part of a broader program or curriculum, articles or reference resources, tips and tricks, calculators and decision aids.

They often are used in self-directed inquiry or in conjunction with behavioral interventions. They can and should be used as a part of a financial education program or initiative, but on their own do not constitute education as they lack pedagogy, learning outcomes and assessment techniques as well as sufficient duration for the learner to fully assimilate the information into lasting knowledge.

The Role of Research, Evaluation and Policy

Research is and should be conducted on each element in this ecosystem, as well as, the relationship and directional linkages between elements and catalysts. It can quantify barriers and the overall impact of influencers and policy, protections and regulation.

Assessment and Evaluation need to be explicitly tied to objectives from an educational engagement and are conducted at the learner and programmatic levels. They can be used to measure the success of the engagement on the learner outcomes or the impact of a program.

Protection, Policy and Regulation can impact external factors, the financial services marketplace (e.g., access), education and behavioral influencers.



Impacting Financial Well-Being

If the goal is to influence an individual's financial well-being, then each element of the ecosystem must be explored for areas of relative strength and weakness. Care should be taken to consider the role of idiosyncratic factors and subjective outcomes as well-being is self-defined.

Impacting Financial Behaviors and Outcomes

Many times the goal is to influence the outcomes an individual experiences (e.g., raise a credit score) via impacting their decisions and behaviors. It should be noted that objective outcomes such as income level and credit score materially impact the choice set the individual faces going forward. Additionally, certain outcomes take consistent behaviors over time to achieve. Finally, positive and negative shocks can change an individual's circumstances suddenly and necessitate a new set of decisions and actions. Behavioral interventions can increase financial knowledge on a specific topic via effective financial information, however, the appropriate expected outcome of a behavioral intervention is behavior change, not knowledge gain.

Impacting Financial Capability

Financial knowledge alone cannot overcome issues of lack of access to appropriate and affordable financial products and services. It can, however, help the individual to optimize the situation they are in. The purpose of financial education is to systematically grow an individual's knowledge base and decision-making skill. The appropriate expected outcome of a knowledge intervention is knowledge gain, not necessarily behavior change.

Quality and Dose Matter

Both knowledge influencers and behavioral influencers can be of varying quality. Low quality interventions cannot be expected to have intended knowledge gains or behavior impacts.

Small-dose and one-time interventions (e.g., single workshop, five-minute video before a decision) cannot be expected to have the same impact as comprehensive programming or engagements.

A Note About Family and Friends

Family and friends are strong influences on many individuals' knowledge and behaviors. However, they are not included as catalysts for change in this framework because by nature the influence may or may not be intentional and varies widely. Family and friends are included in external factors.

Next Steps for NEFE and the Personal Finance Ecosystem

www.NEFE.org

- **Be intentional in how we use the terms financial education and financial information**
- **Use realistic expectations for what can be achieved using education, information and behavioral interventions**

- **Compile scholarly literature reviews for the research published in each area of the ecosystem and on linkages and relationships between elements**
- **Compile existing assessments, instruments, indexes, metrics, etc. used to measure or quantify the various elements of the ecosystem**

