Overview

The Personal Finance Ecosystem is a visual roadmap that lays out the foundations that underpin an individual’s state of financial well-being. It was developed by the National Endowment for Financial Education® (NEFE®) to demonstrate financial education’s role in an individual’s financial well-being and within the broader environment. In doing so, it gives context to the factors that influence financial well-being and manages expectations for what interventions and efforts aimed at influencing financial well-being realistically can achieve.

Purpose

This is a research-informed framework developed for use by practitioners, researchers and policymakers. In practice, it also can be used with individuals to help them understand the unseen forces at play in their financial lives as well as highlighting opportunities for intentional change.

The Personal Finance Ecosystem can also be used to:

- contextualize financial education among other interventions and illustrate various considerations when examining an individual’s financial well-being;
- make deliberate decisions about how to evaluate personal financial education efforts and determine appropriate KPIs;
- determine the impact of specific catalysts of change on an individual; and
- show intended cause and effect (not studied cause and effect) and galvanize researchers around establishing scientific links.

The Personal Finance Ecosystem can orient those who are new to the financial well-being field and can set expectations for the plurality of factors and interventions that could relate to—and inform—an individual’s financial life and experiences. For those who are established in the field, the Personal Finance Ecosystem can inform the elevation of practice, advancement of research, establishment of partnership and development of talking points for philosophical debate.

Note that this framework is not intended to be used as a research model: it simply lays out factors that may influence financial well-being as NEFE sees them.
Key Concepts

FINANCIAL WELL-BEING: An ever-changing, personal state that typically includes factors such as satisfaction with the ability to manage one’s current financial situation; the ability to exercise choice and feel in control of finances; and the outlook for future prospects. In the Personal Finance Ecosystem, financial well-being is self-defined by the individual. A comparable way to think of financial well-being is to relate it to the pain scale at a doctor’s office. What matters most is how the patient feels and how they assess their own pain. Two people enduring the same affliction may score themselves very differently based on pain tolerance and any number of other factors. Each individual gets to say how they feel about their situation, and may feel fine despite very significant challenges. Importantly, NEFE intentionally refrains from saying an individual achieves financial well-being, as if it were a final destination. Rather, financial well-being is a state that changes. Someone who feels financially fragile still has financial well-being, just as someone who is diagnosed with a health condition still has a measure of physical health that can be improved or worsened based on any number of factors or interventions. This distinction goes beyond semantics: NEFE holds that language matters to remind people that financial well-being will fluctuate over time and is not a static end state. The Consumer Financial Protection Bureau has done extensive work with financial well-being and NEFE conceptualizes it much in the same way.¹

Every individual always has some level of financial well-being, so financial well-being never starts or ends.

FOUNDATIONAL FACTORS: The wide variety of aspects that influence each part of the framework at a fundamental level. These factors can broadly be grouped into general skills and competencies; values and beliefs; family and culture; and socioeconomics and geography. While the factors are germane for all individuals, the way in which they collectively influence a specific individual are unique. Note that foundational factors are broadly categorized for ease of information sharing, but the groupings themselves are not consequential, so long as the factors themselves are foundational.

General Skills and Competencies include basic literacy and numeracy, problem solving skills, critical thinking, information literacy, executive function, self-advocacy, communication, persistence, and other similar competencies.

Values and Beliefs include internal factors like motivation, affect, attitudes, cognitive bias, time discounting, risk preference, stress, trust in the financial system, and other mental constructs.

Family and Culture include personal factors like family socialization and family composition, as well as culture.

Socioeconomics and Geography include overarching factors like the state of the economy, socioeconomics and systemic inequality, and issues specific to a particular region or locale.

FINANCIAL KNOWLEDGE AND ACCESS: The individual's ability to act in their own self-defined, best financial interest. It is comprised of two key elements: the financial knowledge and skills to decide or act (i.e., financial literacy) and the opportunity to take action and exercise choice within financial society (i.e., access and inclusion).

Financial knowledge is the objective mastery of financial definitions, terms and concepts. Financial skills determine whether an individual can make decisions with that knowledge. For example, a person might know that a credit score of 800 is good, but not know the steps to improve their own credit rating. Skills puts knowledge into action.

Access and Inclusion refers to participation in financial society, which NEFE defines as the opportunity and awareness to take action and exercise choice within financial markets, the financial services industry, and all aspects of financial life. NEFE acknowledges there are numerous barriers to full inclusion for many individuals, most of which are systemic.

THE FINANCIAL ACTIONS AND OUTCOMES CYCLE: A feedback loop comprised of the individual’s mindset and available choices, followed by the decisions made and actions taken by the individual as well as the resulting outcomes and the impacts of any external shocks (i.e., unexpected events). Note that whether an individual makes choices that positively impact their state of financial well-being can be influenced by other elements of the Personal Finance Ecosystem.

Key definitions follow:

➤ Mindset and Available Choice Set: Broadly defined as a set of mental attitudes, an individual's mindset at the time they make a financial decision or transaction influences the choice they make. Some aspects of an individual's mindset are based on foundational factors. Their mindset might change from moment to moment (e.g., mood), be based on a particular situation (e.g., heightened stress from unexpectedly needing to move to a new city) or may persist over time (e.g., a belief in one's ability to solve problems). A person's level of financial knowledge and skills influences the mindset they bring to a specific choice. The degree to which they have an opportunity to exercise choice in the marketplace also influences their mindset. And, because the mindset is part of a cycle, it also depends on the results of the most recent actions taken and decisions made.

The available choice set at any given time depends on the outcomes from previous actions or unexpected shocks; the degree to which they have access to—and are included in—financial society; and/or whether they have access to financial information. For example, a job seeker with a high school diploma will have a different set of opportunities available to them than a college graduate. Or, someone with a low credit score will not have access to the same contract terms as someone in with a high credit score. Foundational factors such as the state of the economy or a person's family or culture can also inform available choice sets and how they are perceived.

➤ Decisions and Actions: The presence or absence of decisions made and actions taken by an individual. Decisions and actions might include making a purchase, taking a job or selecting a place to live.

➤ Resulting Outcomes: Outcomes themselves can be objective (e.g., credit score) or subjective (e.g., confidence). Outcomes can result from decisions and actions (or indecisions and inactions) as well as from external financial shocks. Shocks can be positive (e.g., wage increase) or negative (e.g., large health care bill, victim of fraud).
Catalysts for Change

For individuals, organizations and institutions wishing to increase others’ financial well-being, four leverage points are identified, each acting on a different part of the Personal Finance Ecosystem. Interventions at these leverage points are collectively termed Catalysts for Change. All four are equally important, but one may end up being more impactful for a particular individual.

- **Knowledge Influencers** seek to bolster financial capability through strengthening financial knowledge and decision-making skills.

- **Structural Policy Changes** intend to impact financial capability by way of increasing participation in financial society through better access and inclusion to financial markets and services.

- **Behavior Influencers** aim to directly impact an individual’s decisions and actions.

- **Social and Material Supports** strive to change the outcome an individual would otherwise experience in a specific situation or circumstance, such as through public benefits or community assistance programs.

**Policies and interventions aimed at components of foundational factors are beyond the scope of this framework, but are still critically important. They are not included here because they typically do not have the primary end goal of influencing financial well-being (though it can be a byproduct), whereas the Catalysts for Change tend to be explicitly focused on financial well-being.**

**KNOWLEDGE INFLUENCERS** (acting upon Financial Knowledge and Skills): A variety of engagements implemented with the purpose of increasing the individual’s overall financial knowledge and decision-making skills or to inform them about a specific, narrow topic. There are two main types: Financial Education and Financial Information and Tools.

- **Financial Education**: A systematic approach to cultivating financial knowledge and financial decision-making skills. Education 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 individuals 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 and intent for the learner to fully assimilate the information into lasting knowledge.

**STRUCTURAL POLICY CHANGES** (acting upon Access and Inclusion): Includes public policy aimed at increasing access and inclusion within financial society. Examples include government regulations and community initiatives, such as the adoption of rent reporting which creates new opportunities for people who were previously credit invisible to become scorable. In turn, these people have access to a new set of products and services. Certain financial technology innovations may also improve access and inclusion. It’s important to note that barriers to full participation in financial society are largely systemic, and systemic issues can only be addressed with fundamental structural change.
BEHAVIOR INFLUENCERS (acting upon Decisions and Actions): A variety of interventions implemented with the purpose of helping an individual make decisions or cultivate certain behaviors. Behavior influencers include informational interventions (e.g., just in time), nudges and choice architecture, expert advice or guidance (e.g., from certified financial planners) and financial coaching, counseling or therapy (including psychoeducational groups).

Behavior influencers are distinguished from knowledge influencers by their intent. Most of the time these interventions are trying to manifest behavior rather than check for knowledge gain. As such, behavior influencers may influence knowledge and decision-making skills, but their goal is not explicitly to bolster that element of the individual’s experience.

SOCIAL AND MATERIAL SUPPORTS (acting upon Resulting Outcomes from Decisions, Actions, and Unexpected Events): Includes direct assistance to individuals from entities such as government or community organizations. Sometimes used to ameliorate the effect of a financial shock or provide assistance needed to meet basic needs, outcome supports act as a safety net. Examples include unemployment insurance when someone loses a job, healthcare paid for by Medicaid or delivered through community-funded clinics, the Supplemental Nutrition Assistance Program (SNAP), and other public benefits.

The Role of Research and Evaluation

Research and Evaluation are and should be conducted on how each element in the Personal Finance Ecosystem impacts financial well-being, as well as on the relationships and directional linkages among core elements and Catalysts for Change. It can quantify the overall impact of the Catalysts for Change and policies, protections and regulation, and can also help to identify barriers to financial well-being. Other areas for research could include:

- Testing relationships and pathways throughout the Personal Finance Ecosystem framework to enhance understanding of various avenues to financial well-being.
- Investigating the effectiveness of Catalysts for Change and other interventions.
- Examining and validating existing assessments, instruments, indices and metrics used to measure or quantify various elements of the Personal Finance Ecosystem for increased precision and effectiveness.

A Note About Policy

Policy, including consumer protection and other regulation, can impact each area of the Personal Finance Ecosystem. While NEFE limits the Structural Policy Changes catalysts to focus on participation in financial society, other policies can be applied elsewhere.

MAKING SENSE OF THIS WORK

The Personal Finance Ecosystem is an evolving framework that provides a more nuanced view of efforts to influence financial wellbeing. While NEFE historically has focused on Knowledge Influencers as a Catalyst for Change, we see the necessity of strong partners working in other areas of the Personal Finance Ecosystem. It is important to know where each contributor fits for maximum impact, knowing that when each does their job well, those impacted are better positioned to live their best financial lives. And when the Ecosystem is revving, each contributor can measure their piece of the collective.