

Translating Aspirations Into Action

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Improving Financial Health With Goal-Setting Tactics

Financial health programs have the potential to positively impact lives, but only if participants are able to translate their aspirations into action. We worked with Capital One to co-design a financial capability program for community members that incorporates behavioral science best practices and facilitates follow-through.

Summary

Many Americans suffer from having inadequate savings and credit to meet their needs. A 2018 study by the Federal Reserve found that 40% of Americans would struggle to come up with \$400 in savings if faced with a financial emergency, and that 27% would need to borrow or sell something to cover that cost.¹ Since the onset of the COVID-19 crisis, American families have faced staggering job and income losses, and millions of Americans now face “extreme financial hardship”.²

When it comes to credit, many Americans have low or nonexistent credit scores, which can limit their access to a wide range of opportunities. Three out of 10 Americans are unlikely to qualify for a mortgage based on their credit score³, and one in 10 American adults experiences credit invisibility, meaning that they have no credit history with any of the three nationwide credit bureaus.⁴ Because strong credit scores are a prerequisite for many aspects of life in the U.S.—buying or renting a home, getting a small business loan, buying or leasing a car, accessing affordable sources of credit for short term needs—credit-related challenges can be painful barriers to financial health and overall well-being.

To reduce barriers like these, Capital One established a set of partnerships with non-profit organizations around the country to deliver financial capability instruction in the areas of credit, homeownership, small business, savings/budgeting and financial digital literacy. Capital One associates engage with community members in lively and interactive sessions (both group and one-on-one sessions), free-of-charge. ideas42 partnered with Capital One to examine this financial capability program and investigate how behavioral science best practices might bolster the positive impact of the program within communities.

Highlights

- ▶ Due to growing financial hardship in America, financial health programs that help build liquid savings and access to credit are more important than ever.
- ▶ Financial health programs are most effective when they are tailored to community needs and designed with the realities of human behavior in mind.
- ▶ Behavioral science offers helpful tactics and tools to set clients up to overcome barriers and take action on goals of their own choosing.

¹ <https://www.federalreserve.gov/publications/files/2018-report-economic-well-being-us-households-201905.pdf>

² <https://fortune.com/2020/10/13/covid-economy-americans-finances-financial-health-pulse-trends-report/>

³ <http://zillow.mediaroom.com/2013-09-26-Mortgage-Availability-Remains-Tight-3-of-10-Americans-Unlikely-to-Qualify-for-a-Mortgage>

⁴ <https://www.consumerfinance.gov/about-us/blog/3-common-credit-issues-and-what-you-can-do-fix-them/>

Barriers to Taking Action

Worldwide, financial education programs have received investments totaling billions of dollars annually.⁵ But research suggests that there are relatively few examples of financial education programs that are measurably effective; many programs do increase participant knowledge about finances but fail to demonstrate behavior change or significant impact on participants' financial health outcomes.⁶

In Capital One's savings/budgeting sessions and credit sessions, clients generally reported that they found the sessions useful, felt they had learned new facts about financial management, and intended to use that new information in their lives. However, in client and stakeholder conversations and observations, we also heard that clients weren't necessarily acting on that new information after the sessions as they hoped to. We identified three key behavioral barriers preventing clients from following through on their intentions:

- ▶ Due to the volume and density of the information being shared, clients were experiencing **information overload** around the various strategies available to them;
- ▶ Clients set general goals based on the broad advice in the sessions but **struggled to identify specific next steps** to move forward on their goals; and
- ▶ Clients found it challenging to **take action on learnings** after the session as real life resumed and new hurdles appeared.

Co-Designing Solutions

We engaged with a team of Capital One associates to co-design new behavioral elements for the program. Our collective goal was to help clients not only learn about financial goals and money management practices, but set clients up to be able to take action on goals of their own choosing and overcome barriers. We employed several well-documented behavioral tactics known to facilitate follow-through:

- ▶ **Prioritize Relevant Content:** To make the most of the session, we significantly **simplified and reduced** the content. For instance, we opted not to give clients—who came to the session with varying levels of credit experience—an overwhelming crash course on everything related to credit. Instead, we focused on the information that was most relevant for clients and reserved time for them to engage in group discussion, where they were able to troubleshoot challenges they faced and **share tips and expertise from their own lives**.
- ▶ **Goal-Setting:** We recognized the importance of helping people identify a single, specific goal, like “I want to buy a house,” rather than a vague intention such as, “I want to improve my credit score.” We created prompts for choosing goals at an appropriate level to increase the motivation and likelihood of following the plan. To bolster clients' existing motivation to complete a goal,

⁵ Fernandes, D., Lynch Jr, J. G., & Netemeyer, R. G. (2014). Financial literacy, financial education, and downstream financial behaviors. *Management Science*, 60(8), 1861-1883. Web: <https://pubsonline.informs.org/doi/abs/10.1287/mnsc.2013.1849>

⁶ Madrian, B. C., & Zeldes, S. P. (2018). Household finance. *NBER Reporter*, (4), 1-7. Web: <https://www.econstor.eu/bitstream/10419/219424/1/2018number4-1.pdf>

we drew from behavioral science literature to create a feeling of **endowed progress**—where an individual is given a sense that they have already made some progress toward completing their goal.⁷ Clients left the session with a checklist of sub-steps toward their goal, with the first few steps already completed.

- ▶ **Planning Prompts:** To move from intention to action, clients broke down larger steps into more manageable and granular steps using planning prompts. Planning prompts or “implementation intentions”—which ask the individual to plan the specific date, time and location of an action—have effectively increased vaccination uptake, voter turnout, and savings contributions.⁸ Clients also engaged in **mental contrasting** to anticipate potential obstacles that might prevent them from achieving their goal and plan how to overcome them, a tactic often used in the health field.⁹
- ▶ **Reminders:** To increase salience of the plans that clients made during the session, we created a moment where clients set reminders for when they would complete the next steps they identified. Getting a reminder at the precise time when you intend to perform an action has been shown to increase salience and follow-through.¹⁰ Capital One associates also shared with each group a range of creative formats that clients had devised for their own reminders, including text messages, emails, and even setting visual reminders on their smartphone lock screens.

Takeaways

Financial health programs are most effective when they are tailored to community needs and designed with the realities of human behavior in mind. In partnership with Capital One, we found opportunities to incorporate key behavioral science tools into their financial capability program, from goal-setting to planning prompts to timely reminders. Though the program was previously conducted in-person, Capital One has since modified the curriculum to be delivered safely virtually during the COVID-19 crisis. Virtual sessions have been increasingly well-attended during the pandemic, underscoring the demand for financial health supports—and the need for programs like these that affirm, engage, and equip clients to reach their financial goals.

⁷ Nunes, J. C., & Dreze, X. (2006). The endowed progress effect: How artificial advancement increases effort. *Journal of Consumer Research*, 32(4), 504-512. Web: <https://msbfile03.usc.edu/digitalmeasures/jnunes/intellcont/Endowed%20Progress%20Effect-1.pdf>

⁸ Rogers, T., Milkman, K. L., John, L., & Norton, M. I. (2013). Making the best-laid plans better: how plan making increases follow-through. Cambridge, MA: Work. Pap., Harvard Univ. Web: <http://citeseerx.ist.psu.edu/viewdoc/download?doi=10.1.1.649.9526&rep=rep1&type=pdf>

⁹ Oettingen, G., Mayer, D., & Thorpe, J. (2010). Self-regulation of commitment to reduce cigarette consumption: Mental contrasting of future with reality. *Psychology and Health*, 25(8), 961-977. Web: <https://www.tandfonline.com/doi/abs/10.1080/08870440903079448>

¹⁰ <https://www.ncbi.nlm.nih.gov/pmc/articles/PMC3718389/>