EDITORIAL PRELUDE

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Financial Literacy, Public Policy, and Consumers' Self-Protection—More Questions, Fewer Answers

WHAT IS THE GOAL OF FINANCIAL EDUCATION?

When this special issue of the *Journal of Consumer Affairs* was first conceptualized, the subprime mortgage "crisis" was not yet front-page news. Even without the events that precipitated the crisis, there was, and is, a clear need for research in the area of financial literacy and consumer self-protection. As the scholars in this special issue suggest, the problems and opportunities associated with financial education are many and varied. The articles in this special issue examine a host of topics and issues that are linked by a common question: how can we educate consumers in the most effective manner to help them realize their financial goals? A worthwhile financial education program starts with having the participants set a goal—whether it is to be a homeowner, save for retirement, reduce debt, increase human capital through education, or start a business. Likewise, before consumer goals can be addressed, there is a need to clearly define the goals of financial education. The Cooperative Extension System has answered this question by stating that the goal is financial security. A 2005 Government Accountability Office (GAO) report places this goal of financial security within a macroeconomic context:

> Finally, I believe that a clear understanding of the country's overall financial condition and future fiscal outlook is an indispensable part of true financial literacy. The financial futures of the American people are shaped not only by their own personal planning and

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> individual investments but also by the fiscal choices made in Washington … Due to current demographic trends, rising health care costs, and other factors, we face the possibility of decades of mounting deficits, which left unchecked will threaten our economic and national security, while also adversely affecting the quality of life and opportunities available to future generations. Americans must be aware of these developments in planning for their own financial futures, since, for example, we can no longer assume that current federal entitlement programs will continue indefinitely in their present form. (GAO 2005, p. 2)

Given this goal, the question then becomes what needs to be in place for consumers to become financially secure? The research in this special issue examines organizing frameworks for effective education delivery and environmental factors that moderate the effectiveness of programmatic efforts as well as cases of best and worst practice. What the articles also point out is the varied nature of financial education delivery in the United States and elsewhere. After examining these and many other contributions to the literature, the guest editors believe that there is a demonstrated need for a "financial facts box" that models the nutrition facts panel mandated by the Nutrition Labeling and Education Act (NLEA). We arrived at this conclusion by looking at several key factors necessary for an effective financial literacy effort: information provision, education, third-party advice, the role of policy, and assessment of best practices.

THE ROLE OF INFORMATION

Within the realm of consumer nutrition, research demonstrates the conditions under which the nutrition facts panel aids consumers in their evaluation of food and nutrient information (Burton, Biswas, and Netemeyer 1994; Ford et al. 1996; Kozup, Creyer, and Burton 2003; Levy, Fein, and Schucker 1996). Disclosures, "labels" for financial products as it were, are also supposed to help consumers make decisions about financial products. But just as there is a problem with obesity in the United States, there also is a problem with its financial equivalent: namely, financial insecurity represented as excess debt, insufficient savings, poor retirement planning, and suboptimal investment behavior. Labels and disclosures on financial products and services provide information and provide regulatory compliance and liability protection for financial product and service providers. Where they seem to come up short is increasing awareness and knowledge of financial product and service features. While consumers would miss the information labels and disclosures provide if unavailable, the current crop of financial disclosures do not seem to be doing enough to get the desired outcome: financially healthy households. Why not?

To answer one question with another, one needs to ask "Is the right information on the label?" Is the information in the "Fed boxes" on mortgage loans or the "Schumer Box" on credit cards or the prospectus for a mutual fund the information consumers need to make a decision? Is there too much information? Does it meet a clear and conspicuous standard? Research into consumer behavior provides some insights into the types of information needed and the formats that would provide optimal opportunity to process that information (Russo et al. 1986). Several federal agencies and many financial institutions are conducting consumer tests to discern the key disclosures that consumers need and want. The next step is to find an optimal method of comparison across financial products and services that can be communicated in a manner similar to the nutrition facts panel.

Clearly, there is a balance between the *kinds* of information (interest rates, fees, and other terms, conditions, features, etc.) and the *amount* of information provided in these disclosures. Too much information can be more distracting than helpful in the decision-making process (Nisbett, Zukier, and Lemley 1981). Prior research has demonstrated differential processing effects between novice and expert consumers (see Payne, Bettman, and Johnson 1993, for a review). What is known to date is that consumers are likely to use heuristics in complex decision environments for several reasons: (1) to reduce perceived risk in their product purchase/investment, (2) when they lack expertise to evaluate complex information, and (3) when involvement is low (Benartzi and Thaler 1999; Foxall and Pallister 1998; Martenson 2005). Which heuristics improve decision quality in the financial services sector is an area worthy of additional research.

Consumers may also want additional information, beyond what is provided in the disclosures, thus creating a demand for supplemental information. Current work by the Investment Company Institute and the Securities and Exchange Commission (SEC) support this assumption. The SEC recently proposed a rule outlining a summary disclosure with an Internet support component for the delivery of mutual funds prospectus information (SEC 2007). In the proposed revisions to credit card disclosures, the Federal Reserve Board has proposed a requirement that credit card solicitations provide a link to the Fed's credit card Web site to provide additional and more detailed information (Federal Reserve Board 2007).

Research and policy actions seem to point to emerging support for some standardized way to present financial information to reduce the decision-making burden and allow for learning transfers. With nutrition labels, no matter how healthy or unhealthy the food is, consumers can find the information on the label. For financial products as a whole, no such consistency exists. This inconsistency is due, in part, to the variety of financial products—the disclosures for a credit card may need to be quite different from those for a savings account, debit card, mortgage, mutual fund, annuity, or line of credit. However, the same fundamental questions in the construction of a standardized decision aid apply. What information is common at an abstract categorical level? How much of that information is needed? Of that information, what is most salient? What format best communicates this information in a way that is clear and meaningful to consumers?

A corollary to this question about standardization is "what are the common 'nutrients' in financial products?" One common element seems to be risk—the risk of interest rates, the risk of principal value, and the risk of future payments. The main problem, however, is that savings, investment, and annuity products have different risks than credit products—and open-end credit (such as credit cards and lines of credit) may pose a different set of risks than closed-end credit (e.g., mortgages, vehicle loans, installment loans), while adjustable rates on any product pose different risks than fixed rates. So how does one develop the appropriate labels that indicate the types and levels of risk that various products pose for consumers? One option is that standardization may need to be carried out within product categories, rather than across the entire mix of financial products. Once again, recent research provides some insights and avenues for exploration. Due to the increasing complexity of their offerings, companies have begun to use aggregate attributes to describe products and services (Chernev 2005). Another option is a financial facts box applicable to every type of financial product. Prior research has shown that consumers can and do process noncomparable alternatives through attribute-based strategies or within attribute strategies with a level (or levels) of abstraction incorporated (Johnson 1984, 1988). A financial "facts box" consistent in font and format across all financial products and services that lists such basic terms as "benefits," "risk," and "expenses" may serve as the starting point for consumers, firms, government, and educators in their efforts to increase financial literacy by providing a consistent context for tailoring financial information. One caveat: this is not meant to replace the current disclosure regime that serves the purpose of consumer protection. However, to serve the two goals of protecting financial firms *and* consumer self-protection, a broadly applicable financial facts box has the potential to tie together seemingly disparate elements of financial products and services.

THE ROLE OF EDUCATION

Providing information via disclosures or labels is only one part of the financial security equation. Consumers need to (1) know what pieces of information they need; (2) process those pieces with factors relating to their situation, tastes, and preferences; and (3) use the output to make decisions about what financial products to "purchase." This only begins the process—consumers also need to know how to use and manage these products. Education provides the tools that enable the processing and managing to take place. Financial education and the optimal provision of information are also key factors in Bone's model of Consumer Financial Well-Being presented in this issue. Bone presents a framework and testable propositions for further investigation into the antecedents of consumer financial empowerment in a neglected area of the mortgage market: mortgage servicing and transfer.

The concept of financial education is not new. Programs have existed since at least the early twentieth century via the Cooperative Extension System. Today, many different constituencies offer financial education programs—financial institutions, community groups, schools, and employers; yet, results are inconsistent at best.

So why is the United States not doing better? Why is the savings rate still low and why are delinquencies, charge-offs, and foreclosures high (even after netting out the effect of the subprime meltdown)? Are there too many players and too many messages, such that the impact of each is diminished? Or does the abundance of education make it difficult for consumers to sort out the trustworthy sources from those less so?

Perhaps one key to designing effective education programs is to ask what is at the real core of financial literacy. In part, it is numeracy—the ability and comfort with manipulating numbers. It is also a set of critical thinking skills, to weigh and assess the pros and cons of a particular decision relative to one's own personal needs, values, and goals. It may include activating, instilling, or fostering several individual factors including marketplace metacognition and persuasion knowledge (Brown and Krishna 2004; Friestad and Wright 1994) and the motivation to act in one's self-interest. Operationalizing these factors as goals within an education initiative could take the form of screening criteria (e.g., "Why does a vendor want to sell me this and what do I get out of it at the end of the day?").

Another core competency for financial education is an awareness and understanding of the macro impacts of a society's collective microdecisions. To some extent, this argues for an understanding of basic economics. In some sense, this is a counterpart to the understanding of the fiscal outlook raised by the GAO, cited earlier.

PERSONAL FINANCE IS, AFTER ALL, PERSONAL—THE ROLE OF FINANCIAL COUNSELING, COACHING, AND ADVISING

In today's complex financial marketplace, it can take a great deal of motivation, ability, and opportunity to sort through both relevant and irrelevant data necessary to make optimal decisions. This asks a great deal of consumers, many of whom face the pressures of time poverty as well as limited financial resources. Others simply cannot or do not want to perform all the tasks needed to optimize their financial situation (i.e., set decision criteria, diligently search for information, weigh attributes, and evaluate alternatives). Furthermore, these financial decisions are highly person or household specific: one family's decision may not work for another. And even if consumers go through a rigorous decision-making process, there can be problems with implementation.

The role of third-party advice, therefore, becomes a crucial component of any proposed remedy. Hogarth (2006) has written before about a triage "medical model" for financial products; a stepwise procedure of financial health self-analysis and "treatment." For such a model to succeed, several normative issues must be addressed. First, there are some financial issues that consumers can and should be able to determine for themselves with the proper tools. Basic banking functions such as opening a checking and savings account could fall within this basic level of diagnosis. However, as Servon and Kaestner demonstrate in their analysis of an online banking financial literacy program in this issue, while consumers may have the requisite motivation to learn about basic financial issues and technologies, intensive guidance and training are required in many instances.

A second step in the proposed triage model of financial literacy incorporates the aspect of understanding one's limits, just as there are some medical problems that cannot be self-diagnosed or self-treated (i.e., a doctor serves a gatekeeper function for diagnosis, treatment, and education); likewise, there are times when a financial services advisor or counselor is needed to diagnose, treat, and provide remedies in the realms of insurance, annuities, mutual and exchange-traded funds, mortgages, or consumer credit. Research on consumer expertise provides justification for this assumption. In a study of novice and expert investors, Hershey and Walsh (2000) found that novices were more likely to sample the opinions of others and focus on salient cues such as brand name and price. Experts, however, were more likely to engage in a consistent level of goal-oriented, efficient processing. A financial advisor or counselor, therefore, is an important intermediary for many U.S. households. In fact, the United Kingdom is considering offering generic financial advice, or "Money Guidance," to citizens as a national service (Thoresen Review 2008). Implicit in these sorts of transactions is that these professionals will aid in the choice of a suitable product for each consumers' needs. What constitutes a "suitable" product has become a stumbling block for many consumers and financial service providers and is an avenue worthy of further study.

To take the triage model of financial literacy to a third step, there are times when a specialist is required. When the guest co-editor tore a ligament in her ankle, she needed something more than a general practitioner. In personal finance, that specialist might be a certified financial planner to help with retirement planning or an attorney to help with estate planning.

Implementing the triage model may prove challenging as there is body of literature on information search and advice seeking which concludes that people do not search for information nor do they seek advice. This leads again to the question of "why not?" Are we expecting too much of people? How do we motivate them to behave in their own best interest and "self-protect?" Additional research is needed on goal framing and involvement specific to the financial services sector to guide education, advising, and policy-making efforts.

THE ROLE OF POLICY

There seems to be a reasonable consensus that the financial marketplace of the early twenty-first century is complex and disclosures, education, or expert advice alone cannot be sufficient to ensure financial security at a societal level. Information (whether labels, disclosures, or consumer-demanded information), education, and advice need to work hand in hand with policy and substantive consumer protections.

One response to the fact that consumers are not behaving in their own self-interest has been to apply some of the tenants of psychological and behavioral economics. Some employers have switched to automatically enrolling employees in their 401k plans; some even go a step further and automatically increase the percentage saved each year. Thaler and Sunstein's (2003) concept of libertarian paternalism, defined as market-based solutions to irrational or suboptimal consumer choices, has gained traction in financial policy circles in recent years. In this issue, Weiner and Doescher highlight this approach along with increasing perceived efficacy and subjective ability within their policy-oriented approach to retirement savings. Extending and generalizing the information remedy approach as recently investigated by Kozup, Howlett, and Pagano (2008) may bolster perceived consumer efficacy while streamlining the numerous education efforts underway through the provision of a consistent set of salient criteria around which consumer education efforts can be developed. As previously stated, this is akin to the nutrition education efforts framed around the NLEA mandated facts panel (Kozup, Creyer, and Burton 2006).

Another policy alternative would be to adopt a driver's license model for financial products, requiring consumers to demonstrate some level of financial literacy before they can have a mortgage, credit card, stock, bond, mutual fund, or annuity. Alternatively, governments could require counseling or advising for selected complex financial products such as payment option mortgages and annuities. This approach is currently underway in areas such as reverse mortgages and state-mandated efforts for subprime loans. Research examining the effects of such initiatives on consumer outcomes is needed. Moreover, an examination of the normative issues surrounding such policies is necessary. Do such mandatory efforts diminish consumer sovereignty? Is there a threat of becoming overly prescriptive in policy remedies and producing potentially adverse market results?

ASSESSMENT: WILL SUCCESS BE EVIDENT?

Many financial education programs define successful outcomes as obtaining a bank account, buying a home, or building and maintaining a savings habit. However, measuring financial security is more elusive. Certainly, some level of money is involved, but attitudes also play a role. So success needs to be measured not only in dollar terms—such as increased net worth—but also in units of satisfaction, happiness, and a sense of financial security. Once again, consumer goals play a key role. While a "theoretically rational" consumer may choose to optimize, a more "practically rational" consumer may opt to satisfice and then go play with their children.

In addition to a range of outcome measures of "success," there needs to be a range of measures of causal factors: information, education, advice, and the policy environment. Other inputs, such as absolute level of income, human and social capital, and other environmental variables are also critical to measuring success. For example, as Kees, Howlett, and Kemp demonstrate in this issue, contextual factors influencing the self-regulatory state of program participants can limit the intentions to participate in 401k plans. Examining the moderating role of environmental factors on financial education program effectiveness and other outcomes is an important extension of a more nuanced approach to program assessment.

Responsibility must be shared by all stakeholders in future financial literacy efforts. Consumers must be motivated to engage in financial education efforts. Firms should champion financial education efforts both to mitigate risk and to increase positive brand associations. As recent research demonstrates, consumer perceptions of firm forthrightness to provide information can serve to foster perceived corporate social responsibility of a firm potentially resulting in brand benefits and comparative advantage (Schwaiger 2008). Last, scholars need to provide assessments of current and future policy solutions. Further research is needed to demonstrate that it "pays" to provide consumers optimal information in an easy-to-use format. In the case of financial security, financial literacy, and consumer self-protection, the whole may be greater than the sum of its parts. Information, education, advice, policy, and assessment are all necessary—none alone is sufficient.

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