ONLINE FINANCIAL EDUCATION FOR EMPLOYEES: A RANDOMIZED EXPERIMENT

By J. Michael Collins

Because financial products are becoming more complex, and individuals are increasingly responsible for their own financial security, the lack of basic financial knowledge at the individual level raises serious concerns about individuals’ capacity to manage their finances. Despite these concerns, scholars do not have an adequate understanding of the most effective methods of improving individual financial capacity. Online education is one method that can be conveniently completed at home or work, and has a lower marginal cost than seminars or workshops. This study is a randomized experiment with public school employees as participants. To address self-selection bias, we use the offer of education (rather than participation in the course) as the treatment condition. A five-hour online education module was offered to employees; the take-up rate was approximately 20 percent. Intention-to-treat estimates reveal that the offer of financial education (and selected take up) led to modest increases in both objective knowledge of financial issues and self-assessed knowledge, but no changes in self-reported financial behaviors three months later.

The highly publicized spike in consumer debt, and recent problems in the housing and financial markets have revived interest in whether financial education might be beneficial for consumers. There is ample evidence that many individuals do not understand basic personal financial concepts, and this lack of financial knowledge appears to manifest itself in the form of poor financial behavior. Because financial products are becoming more complex, and individuals are increasingly responsible for their own financial security (e.g., defined-benefit pension plans are becoming less common), the lack of basic financial knowledge raises serious concerns about individuals’ capacity to manage their finances. Despite these concerns, scholars do not have an adequate understanding of the most effective methods of improving individual financial capacity.

This study uses a randomized trial to explore the influence of the offer of online financial education on financial capacity. To address self-selection bias, we use the offer of education (rather than participation in the course) as the treatment condition in the analysis. Specifically, we assess the effect of an offer of financial education (and take up among self-selected respondents) on self-reported financial knowledge, objective knowledge, financial confidence, and selected financial behaviors.

The lack of basic financial knowledge raises serious concerns about individuals’ capacity to manage their finances. Despite these concerns, the most effective methods of improving individual financial capacity remain poorly understood.

The Financial Education Challenge

This project builds on the Wisconsin Credit Union League’s “REAL Progress & Pathways to Prosperity” (RP3) program, and extends the RP3 project in two important ways. First, the study design allowed for randomization at the level of individual
employees. Second, levels of financial literacy were evaluated using both self-reported data and factual, quiz-type questions.

The Appleton Area School District (AASD) in Appleton, Wisconsin participated in the study and provided all employees with the opportunity to enroll in a free online financial education program titled “The Financial Education Challenge.” AASD’s 1,396 employees range from instructional staff, administrators, and support staff, to all levels of maintenance and custodial workers. The five-module program covered the following topics: 1) getting started on investing, 2) basics of personal finance, 3) basics of investing, 4) basics of retirement planning, and 5) additional ways to save for retirement. Program content was created to meet the needs of public school employees, all of whom had access to the same health insurance benefits and defined-benefit pension plans through the Wisconsin Retirement System. The program also provided links to outside information and resources.

Five Topics in the Education Module:
Getting started on investing
Basics of personal finance
Basics of investing
Basics of retirement planning
Additional ways to save for retirement

Each of the five online education modules began with a pre-test for participants to gauge their knowledge, which was followed by a self-guided tutorial. Participants were free to save their progress and log into and out of the program as often as they liked. Each module contained several topics structured like chapters in a textbook. Following each section, one to three ungraded quiz questions served to reiterate key points. At the end of each module, participants completed a graded quiz with several questions directly related to the content of the module. Any incorrect responses were followed by a message providing the correct answer.

Procedure
AASD employees were randomly assigned to either the treatment or control group. Those assigned to the treatment group were offered the opportunity to enroll in the online financial education course beginning in January 2011; the remaining employees were not offered online education until April 2011. The treatment group included 717 individuals; 121 participated in the program (a 16.9 percent participation rate). Of those, 55 completed all 5 online education modules, 24 completed 1-4 modules, and 42 did not fully complete any sections. The control group consisted of 679 employees.

In April 2011, all employees were asked to complete a survey that included items asking respondents to gauge their own financial knowledge, confidence about financial topics, and behaviors, as well as fact-based quiz questions. The questionnaire also incorporated a number of questions on the current political climate in Wisconsin, course participation and completion questions, as well as questions soliciting feedback on the online content. A total of 746 employees provided usable responses (a 52 percent response rate); the respondents included 361 individuals from the treatment group (a 50 percent response rate) and 385 from the control group (a 57 percent response rate). There were 88 responses from individuals who participated in the online financial education course, comprising the treatment-on-the-treated (TOT) subset of the treatment group.

Results
We used OLS regression models to estimate the effects of treatment (the offer of education) on the outcome variables—self-reported financial knowledge, objective knowledge, confidence, and selected financial behaviors—while controlling for age, income, number of children, years of employment, and household income. Results show that the offer (and selected take up) of online education had a small positive effect on both self-assessed and objective knowledge; the effect decreased, but remained significant, when controls were included. Other dependent variables, including confidence and selected behaviors, showed no significant effects of treatment.

The offer (and selected take up) of online education had a small positive effect on both self-assessed and objective knowledge.

Conclusion

Initial results suggest that the offer of a financial education course leads to improvements in self-assessed and objective financial knowledge, but do not indicate that such an offer has a positive effect on self-reported financial planning and management behaviors or self-reported confidence. Take-up rates were relatively low (23 percent), muting any potential effects. A possible reason for the low take-up rate was the attempted (and eventually successful) passage of controversial pension reform legislation during the treatment phase, which led to protests by teachers at the state capitol about three weeks after the online course was offered. Given this context, many staff members may have been distracted, busy, and less willing to devote non-work hours to taking an online course.

Results are encouraging, especially given the modest cost of the program—about $22 per participant. The findings affirm that exposure to education can improve financial knowledge, albeit modestly, and that self-assessed and actual knowledge are correlated.

The results for financial behavior are perhaps predictable given the short three-month follow-up period. Participants may take a longer time to alter their behavior. The exposure to online education may result in future financial planning or savings.

Despite these limitations, the results are encouraging, especially given the modest cost of the program—about $22 per participant. This study contributes to the literature on employer-provided financial education by using an experiment randomized at the individual level, addressing selection effects through a measure of intention to treat, and including measures of both self-reported and objective knowledge. Results affirm that exposure to education can improve financial knowledge, albeit modestly, and that self-assessed and actual knowledge are positively correlated.
Acknowledgments
The data for this project were provided by a collaboration of the UW-Madison Center on Business and Poverty, Precision Information, and the Appleton Area School District.

The research reported herein was performed pursuant to a grant from the U.S. Social Security Administration (SSA) funded as part of the Financial Literacy Research Consortium. The opinions and conclusions expressed are solely those of the author(s) and do not represent the opinions or policy of SSA, any agency of the Federal Government, or the Center for Financial Security at the University of Wisconsin-Madison.

The Financial Literacy Research Consortium
The Financial Literacy Research Consortium (FLRC) consists of three multidisciplinary research centers nationally supported by the Social Security Administration. The goal of this research is to develop innovative programs to help Americans plan for a secure retirement. The Center for Financial Security is one of three FLRC centers and focused on saving and credit management strategies at all stages of the life cycle, especially helping low and moderate income populations successfully plan and save for retirement and other life events, including the use of Social Security's programs.

The Center for Financial Security
The Center for Financial Security at the University of Wisconsin-Madison conducts applied research, develops programs and evaluates strategies that help policymakers and practitioners to engage vulnerable populations in efforts which build financial capacity. The CFS engages researchers and graduate students through inter-disciplinary partnerships with the goal of identifying the role of products, policies, advice and information on overcoming personal financial challenges.

For More Information:
Center for Financial Security
University of Wisconsin-Madison
Sterling Hall Mailroom B605
475 N Charter St.
Madison, WI 53706
(608) 262-6766
http://www.cfs.wisc.edu/