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Coaching Components in Individual Development Accounts: Insights and Lessons Applicable to Financial Programs

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Abstract

The article identifies and describes eight coaching components used in an Individual Development Account program. These principles can be transferred to any financial program implemented by Extension educators and family finance practitioners.

Keywords

Individual development account, IDA programs, financial coaching, financial education

Introduction

Individual Development Accounts (IDAs) are matched savings accounts designed to help individuals with low incomes and few assets to buy a home, capitalize a business, or fund post-secondary education (CFDE n.d.). IDAs help to build, maintain, and manage assets that will increase long-term well-being and financial self-sufficiency of families and individuals (Sherraden 2000). Rather than a basic educational program, IDA is a financial capability program that incorporates elements of financial education, counseling, and coaching. This paper describes eight financial coaching components that were used in an IDA program in Utah.

Financial coaching is an emerging approach that supports clients as they work toward their self-defined goals toward asset building (NeighborWorks 2013). Financial coaching is not about teaching "content" but about "co-creating" processes (between the coach and the client) that lead to behavior change. By the same token, behavioral economics studies have shed light on better understanding limiting biases and how cognitive biases affect consumer behaviors (Rice 2013). Although this paper does not present a full coaching model, (see Allen 2013), it identifies coaching elements and processes that Extension educators can use in their practices.

The main objective of this paper is to describe eight coaching components and processes used in an IDA program that can be transferred to other financial programs. IDA programs have been amply documented as successful in promoting both acquisition of healthy financial practices and tangible assets (Grinstein-Weiss, Chowa, and Casalotti 2010; Loibl and Bird 2009; Rohe, Gorham, and Quercia 2005; Rom 2005; Sherraden 2000). The main question is, how can some of these processes and coaching tools used in IDAs be incorporated into other effective financial programs? Practitioners may find it beneficial to start adopting financial coaching components and processes in their education efforts to facilitate behavior change.

Overview of coaching strategies

Financial education emphasizes *content*. Financial coaching emphasizes *processes*. The following coaching principles were used in an IDA program.

- **Assessment of participant readiness to change**. The effectiveness of any financial education program not only depends on the delivery mechanism (Hirad and Zorn 2001), but also on the stage of change the participant is in (Prochaska 1999). IDA participants were already in the preparation-action stage, displayed by their self-enrollment in the program. They were not in a pre-contemplation or contemplation stage. To avoid futile efforts, Extension educators should consider assessing on their participants' current stage of change. Seiling and Shockey (2006) provide evidence of an IDA financial capability program that assessed the stages of behavior change of participants. Xiao, Newman, Prochaska, Leon, Bassett, and Johnson (2004) also deliver valuable tools to apply the model of change to finances.

- **SMART, behavioral goals**. Behavioral financial goals need to be specific, measurable, attainable, realistic, and timely (SMART). Larger SMART goals can be broken down into smaller SMART-related goals (Shilts et al. 2013). In the IDA program some participants chose to use their funds toward one large savings goal, such as buying a home, while others made withdrawals for a number of smaller related goals, such as buying a computer, buying textbooks, and paying for college tuition (CFED n.d.). "I want to buy a house" is a life goal. "I will save one hundred dollars per week for two years for a down payment on a house" is a SMART, behavioral goal.

- **Create educational mini-contracts with your client and encourage accountability**. One core competency in individual and group coaching is the establishment of a coaching agreement (ICF 2014). A contract facilitates the ability to understand what the parties' responsibilities are and it delineates the boundaries of the relationship. The practice of signing a contract is usually absent in financial education programs. Why not try a mini-contract with participants in a two-hour educational program? Educators can be creative.

A mini-contract will provide the rules of engagement and expectations. To foster accountability and commitment in an educational setting, a simple survey posed to the participants at the closing of the session could be "With this new information, what will you do differently in the future managing your own money?" "How will you do it."

- **Provide financial education that resonates with client as a whole person**. Financial education in the IDA program was not seen as the ultimate outcome but as a means, a process by which participants achieved a financial goal. The curriculum offered by our Extension county professionals taught not only financial concepts and skills but also other life and home economic skills. For example, our state Extension educators taught financial concepts of budgeting and credit concurrently with strategies for slashing expenses (clothing, entertainment, grocery, medical, transportation, utilities, and maintenance) and boosting savings (USU Extension 2013). However, the strategies for cutting expenses were presented as choices not as prescriptions. Client decided for themselves how they will boost their own savings capacity.

- **Let the client find his or her own solutions:** As financial educators it may be hard to resist the temptation to provide solutions for our clients. After all, we have been trained to "fix" financial problems. A skillful financial coach engages the client in finding solutions to his or her own problems (ICF 2014). In alignment with coaching, a powerful question for a client to find his or her own solution to the problem of saving $25 per month could be, "What will need to happen so you will save $25 each month?" The client, not the educator, provides the solution.

- **Turn biases into strengths:** Behavioral economics propose that people tend to avoid losses, and they give twice as much weight to losses as they give to gains (Rice 2013). This behavioral bias is called loss aversion. IDAs draw on the loss-aversion bias of the saver. The pain of losing the matching for the IDA account if they do not follow the saving plan is a strong motivator for saving. In educational settings, identification of participants' biases may bring light into recognition of their own limitations or motivations.

- **Long-term, circular focus**. The IDA matching program is not a one-time event but a process that provides opportunities for behavior change. Participants had from six months to three years to develop a saving plan by designing and adopting their own healthy saving strategies. In a financial education program it is important to emphasize that changes to a plan do occur over a period of time and the process of behavior change may not be linear. People will relapse in their efforts to develop a new behavior. A relapse is nothing more than an opportunity to explore what is not working.

- **Build leverage on your program by developing partnerships**. The same way that a coach builds a partnership with his or her client, an IDA program does not do its job in isolation. Our IDA program sought a partnership between private (mostly banks) and public stakeholders (e.g., Cooperative Extension). These trans-agency efforts leveraged resources from each participating organization. The key to a successful partnership lay in the ability to demonstrate tangible benefits to each stakeholder. For example, IDA participating banks saw the lost revenue from reduced account fees and labor costs required to establish and maintain low-cost savings accounts as marketing expenses for attracting new bank customers. Extension specialists fulfilled their community mission, and individual participants accomplished their asset goal(s).

Conclusion

Financial capability programs transcend simple financial education programs because they do not only increase financial knowledge and skills, but they also foster behavior change. Coaching encourages positive actions allowing participants to use their strengths and resources to change and sustain financial behaviors. Our IDA program integrated components of education, counseling, and coaching. By integrating some of the eight coaching principles discussed above into existing educational efforts, Extension specialists may obtain better results and outcomes in their existent finance educational programs.

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