In 2011, the University of Wisconsin-Madison's Center for Financial Security launched the Financial Coaching Outcome Measures Project to test a set of standardized measures with support of The Annie E. Casey Foundation. Four nonprofit community-based organizations collected data on client outcomes and shared the results to form a consistent database of similar measures.

The goal of this project was to develop measures that satisfy standards of social science while also being attuned to the practical issues of data collection and analysis. Development of the Financial Capability Scale (FCS) was a result of this project.

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STRATEGY SPOTLIGHT

The Financial Capability Scale: Reliable and Valid

In addition to the data collected on client outcomes, participants of the four nonprofit community-based organizations collected data from credit reports, bank accounts or employment. This allowed sets of questions to be compared to these external sources of information, acting as a test of **validity**—the extent to which a set of questions accurately reflect participants' current financial status. As a result, the Center for Financial Security found that the FCS is sufficiently correlated with credit score and delinquency rates, such that the FCS is a relatively valid metric as a proxy for credit status.

The FCS was also tested over time, where some clients answered the same questions at different periods. This served as a test of **reliability**—the extent to which people are consistent in their answers to questions as opposed to a high level of random responses or "noise" that makes the metric volatile and hard to use.

Finally, the FCS was tested for **internal reliability**—a widely used measure in scale development to show that a set of questions share a common statistical construct, and that each measure provides some unique value to the overall measure. This focuses the FCS on the smallest number of questions to reasonably measure financial capability.

USING THE SCALE & QUESTIONS

The FCS can be completed on paper or online in less than 4 minutes. As designed, clients can complete the FCS at the start of any program or service, and then complete the FCS again at a later date – at future appointments or sessions, or via a follow-up email or mailed survey.

1. Do you currently have a personal budget, spending plan, or financial plan?

   ⭕ Yes (1 point)
   ⭕ No (0 points)

2. How confident are you in your ability to achieve a financial goal you set for yourself today?

   ⭕ Not at all confident (0)
   ⭕ Somewhat confident (1)
   ⭕ Very confident (2)

3. If you had an unexpected expense or someone in your family lost a job, got sick or had another emergency, how confident are you that your family could come up with money to make ends meet within a month?

   ⭕ Not at all confident (0)
   ⭕ Somewhat confident (1)
   ⭕ Very confident (2)

4. Do you currently have an automatic deposit or electronic transfer set up to put money away for a future use (such as savings)?

   ⭕ Yes (1 point)
   ⭕ No (0 points)

5. Over the past month, would you say your family's spending on living expenses was less than its total income?

   ⭕ Yes (1 point)
   ⭕ No (0 points)

6. In the last 2 months, have you paid a late fee on a loan or bill?

   ⭕ Yes (1 point)
   ⭕ No (0 points)

Interpreting FCS levels based on results of the scale can be done by using the following ranges: 0-3 = Low; 4-5= Moderate; and 6-8=High.

These three FCS levels have also been shown to correlate with levels of debt, assets, stress and emergency savings as evidenced in the figures below. As an individual's assets and emergency savings increase, they tend to score higher on the FCS. Higher levels of financial stress and debt consistently are tied to a lower FCS level.
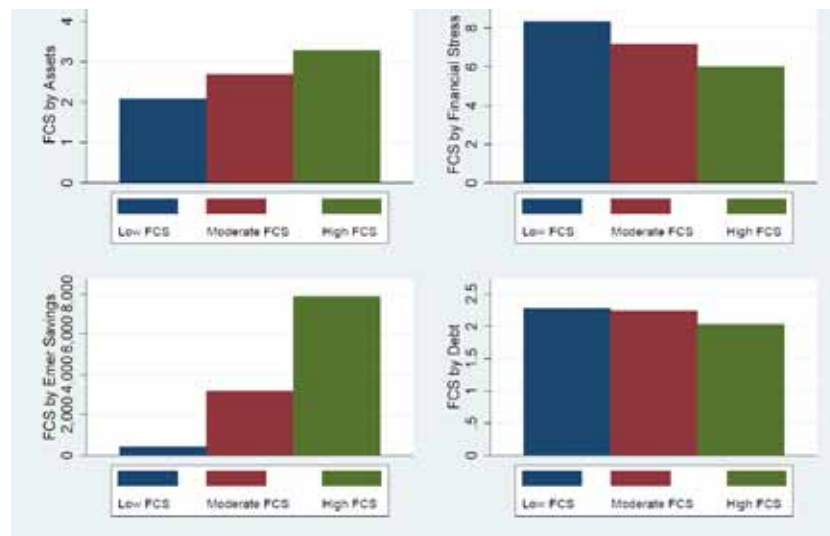
Variation in the FCS

FCS question wording has evolved over time. In some cases survey forms or programs have adapted questions slightly. The basic set of questions seen above, including the scoring for each response, shows the most typical version but variations on the FCS include:

- » omitting question #4, especially for populations that are unlikely to have a formal banking relationship.
- » adding another confidence category ("extremely" confident) in question #2 and then scoring each response in half point (0.5) increments.
- » substituting "over the past 3 months" in question #1 for "currently," and "in the past three months" in place of the last month" and "last two months" for questions #5 and #6.

There does not appear to be a significant impact on the statistical properties of the FCS from these rewordings. These variations reduce the ability of the FCS to be combined across programs, but may be acceptable as long as they are used consistently within programs.

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