CFSi Center for Financial Services Innovation

Eight Ways to Measure Financial Health

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CFSI Center for Financial Services Innovation

The Center for Financial Services Innovation (CFSI) is the nation's authority on consumer financial health. CFSI leads a network of financial services innovators committed to building a more robust financial services marketplace with higher quality products and services. Through its Compass Principles and a lineup of proprietary research, insights, and events, CFSI informs, advises, and connects members of its network to seed the innovation that will transform the financial services landscape.

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Introduction

The Value in Measuring Financial Health

Most Americans are struggling financially. Over 57% of the country – 138 million people – lack financial health.[1] This has a real impact on people's lives, on their ability to weather life's inevitable ups and downs, and on their chances to pursue their dreams.

Against this backdrop, financial services providers are continuously developing newer and better technologies to improve consumer financial health. But how can these providers know if their products make a difference? How can they develop new financial services grounded in a genuine understanding of the challenges that their own customers face? And how can Americans know if their financial systems are building towards or detracting from their own financial resilience and opportunities?

The answer is to measure financial health.

When providers measure the financial health of their customers, they can truly engage with their customers' struggles and dreams. They can see which customer segments have difficulty saving for retirement and which have trouble building a stable credit score.

When providers measure financial health, they can start to identify which of their products are moving the needle for their customers and which aren't. They can identify profitable strategies to build consumer financial well-being. They can also understand how an investment in improving consumer financial health will translate into an improvement in financial outcomes.

Consumers can gain a holistic understanding of their financial health and are better able to determine the impact of the financial products they use and the financial behaviors they exhibit. Unlike narrow measurement tools such as credit scores and straightforward net worth, measuring financial health is a 21st century tool.

With these goals in mind, CFSI has developed eight indicators to measure financial health. We believe that these indicators establish a framework for shifting the financial services industry towards a focus on financial health, a focus on improving consumers' lives.

Using the Financial Health Indicators

After more than a year of dedicated research, analysis, and outreach, CFSI has developed eight indicators to measure financial health. For each indicator, we provide benchmarks, financial data proxies, survey question alternatives, and data sources, among other things. In the Appendix we delve into the rationale for these indicators, provide additional considerations, and explain our methodology.

As a next step, CFSI is testing the implementation of these indicators with specific companies to better understand the feasibility of using these indicators. CFSI is developing a financial health score based on these eight indicators that financial services providers can use to measure and improve their customers' financial health. CFSI will partner with select providers to test a beta version of this score. The score will allow companies to track and measure the financial health of their customers, enabling progress to be benchmarked and measured over time.

Each company can incorporate these indicators and benchmarks into its business in a way that makes sense for its institution. While the indicators are intended to provide some degree of standardization, CFSI recognizes that companies may need to adjust the indicators based on the data they have available. Likewise, companies can seek innovative ways to aggregate the results, leverage external partnerships, and communicate the results back to customers to help them build financial health. Once again, the ultimate goal is to help providers recognize the unmet needs of their customers so that these gaps can be filled with appropriate financial products and services.

The Social and Business Case for Improving Financial Health

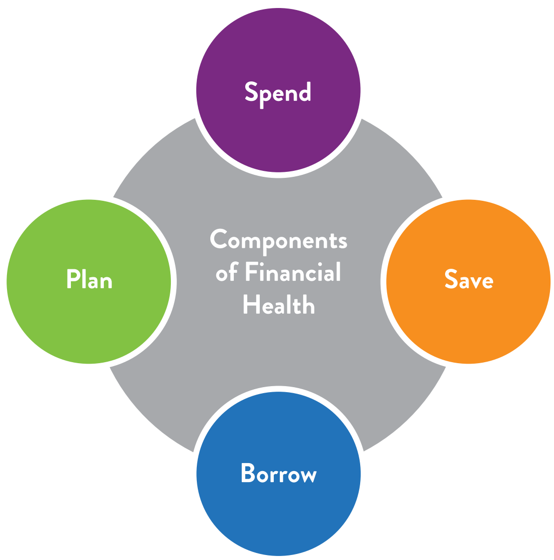
Measuring consumer financial health will take the ongoing commitment, collaboration, and dedication of the entire financial services ecosystem. When businesses commit to consumer financial health, everybody wins. For consumers, improved financial health is a gateway to other goals and dreams; it is closely tied to mental and physical health, family stability, education, and economic mobility. For providers, focusing on consumer financial health provides a business opportunity to expand into new market segments, increase customer loyalty, and drive long-term revenue streams, while addressing unmet market needs. Incorporating financial health indicators into regular business practices and Key Performance Indicators (KPIs) is the key to unlocking deep insights about the state of customers' financial health and identifying the products, services, and strategies customers need to improve it.

What's measured is what matters. CFSI invites you to join us on this journey. 138 million Americans are waiting.

[1] Center for Financial Services Innovation, "Understanding and Improving Consumer Financial Health in America" (2015).

Four Components and Eight Indicators of Financial Health

CFSI has defined four components of financial health: Spend, Save, Borrow, and Plan. These components mirror your daily financial activities. What you do today in terms of spending, saving, borrowing, and planning either builds towards or detracts from your resilience and ability to pursue opportunities. For example, will you be able to handle a car breakdown or an extra medical bill? Will you be able to save for college or go on your dream vacation?



For each component, CFSI has identified two indicators of financial health.

You are financially healthy when you...

Spend	1. Spend less than income 2. Pay bills on time and in full
Save	3. Have sufficient living expenses in liquid savings 4. Have sufficient long-term savings or assets
Borrow	5. Have a sustainable debt load 6. Have a prime credit score
Plan	7. Have appropriate insurance 8. Plan ahead for expenses

For each of these indicators, CFSI has identified the data that financial institutions can collect to measure that particular indicator.

Data used to measure	
Spend	1. Difference between income and expenses 2. Percent of bills that are paid on time and in full
Save	3. Number of months of living expenses in liquid account balances 4. Amount of one's long-term savings, assets, and investments
Borrow	5. Debt-to-Income ratio 6. Credit score or credit quality tier
Plan	7. Type and extent of insurance coverage 8. Behaviors that demonstrate future financial orientation

In the pages that follow, each of these eight indicators are discussed in greater detail. The following information is provided for each one:

» **Benchmarks:** There is often fluid movement along the spectrum of financial health and strict cutoff measures may not exist. Instead, it is more relevant to show progress in the direction that we want to see consumers moving. Our benchmarks indicate this direction in three different colors: green shows behaviors that will move someone in the direction of greater financial health; yellow shows behaviors that neither move someone significantly towards nor away from greater financial health; and red shows behaviors that will detract someone from the direction of greater financial health. More information on the benchmarks is provided in the Appendix.

» **Why this indicator:** We explain the rationale for why a specific indicator is a critical input into the measurement of someone's financial health.

» **Data to collect:** We outline the data needed for each indicator and where potential data sources may reside. Data collection practices should comply with existing regulations and industry best practices regarding data privacy and security.

» **Financial data proxies:** Not all financial institutions will have access to the specific data required for each indicator. We provide other data points that may serve as useful proxies to measure the same general concept.

» **Survey question alternatives:** Some financial institutions may not have access to any financial data and may need to survey their customers instead. We provide sample survey questions that could measure the same general concept. More information on financial data and survey questions is provided in the Appendix.

» **Measurement challenges:** Each indicator brings with it certain measurement challenges that financial institutions should consider. We outline what some of those challenges may be.

» **Customer variability:** The individual circumstances of a customer's life will greatly impact how their financial health should be measured. We outline specific areas of variability that impact each particular indicator. More information on accounting for customer variability is provided in the Appendix.

» **Ways providers can help:** We provide high-level ideas that providers can use to meet the needs of their customers based on where they might be struggling in their financial health journey.

Spend

Indicator 1: Spend less than income

Difference between income and expenses

Benchmarks

Green Expenses < Income
Yellow Expenses = Income
Red Expenses > Income

Why this indicator?

An individual's ability to successfully manage cash flow and spend less than income directly affects the ability to build savings and be resilient in the face of unexpected events.

Data to Collect

» Total amount of income over past 12 months, analyzed on a monthly basis

» Total amount of expenses over past 12 months, analyzed on a monthly basis

Potential Data Sources

» Bank, credit union, credit card, or prepaid card account transaction data

» Employer payroll data

» Tax returns

» Rent and utility account data

Financial Data Proxies

» A rough proxy for cash flow could be observing increasing or decreasing balances in transaction accounts.

» The velocity of inbound and outbound dollars may also shed light on whether income matches or exceeds expenses.

Survey Question Alternatives

On average over the past 12 months, how would you describe your spending patterns?

Green Spend much less or a bit less than income
Yellow Spend about equal to income
Red Spend a bit more or much more than income

Measurement Challenges

» Consumers might have multiple core accounts making it difficult to see all inflows and outflows.

» It may be difficult to discern what is actual income and expenses as opposed to transfers between accounts.

» There are always noisy transactions coming into and out of accounts, such as transfers between accounts, and therefore it may be difficult to know how to categorize all transactions.

Customer Variability

» Income volatility impacts this indicator. There is a distinction between a consumer who has steady income and expenses that equal out monthly and a consumer who has uneven income and expenses that only equal out annually or bi-annually. While not an indicator as such, income volatility is an important consideration and can inform providers about how to better meet customer needs. We suggest that providers analyze this data on a monthly basis.

» Some consumers might appropriately live above their means and take on debt (i.e. students) for short periods of time.

» Not all expenses are created equal. A deeper analysis would differentiate between fixed expenses and variable expenses to determine what spending could or could not be easily adjusted, if necessary.

Ways Providers Can Help

Customer Level: Providers should further probe why customers are spending more than their income. Is their income too low to reliably make ends meet? Is their income sufficient but volatile and hard to predict? Based on the answers to these questions, providers should offer tailored guidance and products to help customers better manage their spending and cash flow.

Portfolio Level: Providers can develop products and services that help consumers budget, save, and smooth their cash flows.

Spend

Indicator 2: Pay bills on time and in full

Percent of bills that are paid on time and in full

Benchmarks

Green All bills paid on time and/or in full
Yellow Occasionally low priority bills are not paid on time and/or in full
Red Consistently high priority bills are not paid on time and/or in full

Note: High priority bills are those that have less flexibility and more severe consequences if left unpaid, such as rent or utility bills (eviction, power is shut off). Low priority bills are those that have more flexibility and less severe consequences if left unpaid, such as subscriptions or cable bills.

Why this indicator?

The extent to which individuals are keeping up with their bill payments sheds light on how well they are able to manage their cash flow and day-to-day financial commitments.

Data to Collect

» Bill due dates and total amount of bills

» Dates when bills are paid and amount of bills paid

Potential Data Sources

» Bank, credit union, credit card, or prepaid card account transaction data showing bill due dates and amounts

» Utility account data

» Bill pay kiosk data

Financial Data Proxies

» A good proxy for timeliness of bill payments is whether someone has paid any late fees as observed in account transactions.

Survey Question Alternatives

Which of the following statements best describes how well you are keeping up with your bills and credit commitments?

Green All bills are paid on time and/or in full
Yellow Most bills are paid on time and/or in full
Red Some bills are paid on time and/or in full

Measurement Challenges

» Financial institutions may not have a complete picture of when bills are due or the total amount of the bill that is due.

Customer Variability

» Some consumers may have strategies designed to successfully juggle and manage bill payments. For example, consumers may stagger what bills get paid when based on the different consequences of late payments (high vs. low priority bills as explained in the benchmarks).

» Not all bills are categorically high priority or low priority for all people. One person may have flexibility in paying rent based on the relationship with the landlord, whereas another person may not.

Ways Providers Can Help

Customer Level: Providers can explore why individuals are having trouble paying their bills. Is income simply too low to make ends meet? Or is it that the timing of payday doesn't match with the timing of the bill due date? The answers to these questions will shed light on whether and how providers can better help individuals manage their bill payments.

Portfolio Level: Providers can develop products and services that assist with bill payment and cash flow smoothing.

Save

Indicator 3: Have sufficient living expenses in liquid savings

Number of months of living expenses in liquid account balances
(i.e. checking accounts, savings accounts, prepaid card accounts)

Benchmarks

Green 6 or more months of living expenses
Yellow 1-5 months of living expenses
Red Less than 1 month of living expenses

Why this indicator?

Having sufficient liquid savings is important for coping with an unexpected expense, like a car repair; or a sudden drop in income, like losing a family member or getting laid off from a job.

Data to Collect

» Balances of liquid accounts

» Amounts of living expenses per month

Potential Data Sources

» Checking, savings, or prepaid accounts

Financial Data Proxies

» While savings balances may be the easiest and most straightforward way to measure whether a customer has sufficient reserves to cover living expenses, the customer's savings behavior is also important.

» One proxy for savings, whether short-term or long-term, is the use of automatic deposit or electronic transfers to put money away.

» Consumers may also "save up and then spend down," a behavior of building up a savings cushion and then using it for an unexpected shock or planned expense. This savings behavior is positive to the extent that it prevents people from using unhealthy products or taking on unsustainable debt when the need for extra money arises, although it may not build overall net account balances.

Survey Question Alternatives

How many months of living expenses do you have in liquid account balances?

Green 6 or more months
Yellow 1-5 months
Red Less than 1 month

Survey Question Alternatives, continued

Which comes closest to describing your saving habits?

Green Save regularly by putting money aside each month
Yellow Save whatever is left over at the end of the month – no regular plan

Red Don't save, usually spend about as much as, or more than, income

Measurement Challenges

» It may be difficult to account for total household accounts and expenses.

» It may be important to account for money held in informal locations and support that may come from social networks.

» The definition of "living expenses" may vary with changes in household composition and other circumstances throughout the year.

Customer Variability

» Household composition and living expense variability will impact how much liquid savings is needed by an individual or household.

» While unemployment insurance is an option for most people who lose their jobs, it is preferable that they not be dependent on this support as a primary source of income.

Ways Providers Can Help

Customer Level: Providers can explore why customers are having trouble saving. Is it because they lack adequate planning tools that would help them save? Or is it because they don't have access to commitment mechanisms, such as products with automated savings features? Based on the answers to these questions, providers have the opportunity to offer the right types of products and services to help individuals save.

Portfolio Level: Providers can help their customers to save by developing products and services that leverage lessons from behavioral economics such as goal-setting and automated saving.

Save

Indicator 4: Have sufficient long-term savings or assets

Amount of one's long-term savings, assets, and investments
(i.e. 401(k), IRA, pension plan, stocks, bonds, and other investments and assets)

Benchmarks

Benchmarks for this indicator will largely depend on customers' age and income, but they are generally:

Green Sufficient funds to cover retirement (70% income replacement rate), plus adequate funds to take advantage of future opportunities

Yellow Sufficient funds to cover retirement (70% income replacement rate)

Red Insufficient funds to cover retirement (less than 70% income replacement rate)

Note: Sufficient funds should take into account social security replacement rates (which tend to be high at 80-90% for low-to-moderate income consumers).

Why this indicator?

Having sufficient long-term savings is necessary to achieve financial security and take advantage of opportunities such as investing in a home or a child's education.

Data to Collect

» Age, income, retirement account balances, investment account balances, value of assets (home, car, etc.)

Potential Data Sources

» Employer payroll data

» Accounts that show payroll amounts

» Retirement and investment accounts

Financial Data Proxies

» To better understand someone's retirement situation, financial institutions can analyze not only current retirement account balances, but current contribution rates, investment accounts designated for retirement, and future social security benefit payments.

» A proxy for savings, whether short-term or long-term, is the use of automatic deposit or electronic transfers to put money away for future use.

Survey Question Alternatives

How much do you have in long-term savings, assets, and investments (i.e. 401(k), IRA, pension plan, stocks, bonds, and other investments and assets)?

Green Sufficient funds to cover retirement (70% replacement rate), plus adequate funds to take advantage of future opportunities

Survey Question Alternatives, continued

Yellow Sufficient funds to cover retirement (70% replacement rate)

Red Insufficient funds to cover retirement (less than 70% replacement rate)

When you think about saving money for the future, which of these timeframes is most important to you?

Green Next 5 years or longer
Yellow Next year or few years
Red Next few weeks or months

Measurement Challenges

» It is difficult for one provider to get a full understanding of what a customer's long-term savings is.

» Financial institutions may have a limited view of inheritances or the contributions of others to a customer's long-term goals.

Customer Variability

» Age and income information are essential to properly benchmark this indicator.

» The costs of long-term savings goals can differ from person to person given life expectancy, geography, social networks, etc.

» Overall retirement savings need, broken down into expected monthly expenses, will vary.

» Benchmarks for each consumer will vary because what is considered "adequate funds to take advantage of future opportunities" is based on each person's financial and life goals, such as starting a business, saving for college, or buying a home.

» One's risk tolerance will impact how much is saved and earned in accounts and investments.

Ways Providers Can Help

Customer Level: Providers can explore why customers are having difficulty accumulating sufficient long-term savings. Is it because they are struggling with their day-to-day financial management? Or is it because they lack access to high-quality savings products?

Portfolio Level: Providers have the opportunity to develop affordable and accessible long-term savings products.

Borrow

Indicator 5: Have a sustainable debt load

Debt-to-Income Ratio

Benchmarks

Green Less than 36%
Yellow 36%-43%
Red More than 43%

Note: No more than 28% of debt should go towards servicing one's mortgage.

Why this indicator?

Having a manageable debt load suggests that individuals will not be consumed by late fees or become over-indebted, which may lead to further financial difficulties, including bankruptcy.

Data to Collect

» Total amount of monthly debt

» Total amount of gross monthly income

Potential Data Sources

» DTI is calculated by adding up one's total recurring monthly debt (mortgage, auto loans, student loans, credit card payments, etc.) and dividing by one's gross monthly income

» Credit bureau file

» Bank, credit union, credit card, or prepaid card account transaction data

» Employer payroll data

» Tax returns

Financial Data Proxies

Credit card behavior is a proxy for many other financial behaviors. A proxy for this indicator on debt could be considered that looks at credit card payment behavior.

Green Pay credit cards on time and in full
Yellow Pay more than the minimum payment, but carry a balance and pay interest
Red Make only the minimum payment, carry a balance, and pay interest

Survey Question Alternatives

How would you describe how much debt you have right now?

Green About the right amount of debt
Yellow Somewhat too much debt
Red An excessive amount of debt

Survey Question Alternatives, continued

How would you describe your payment experience with credit cards?

Green Pay credit cards on time and in full
Yellow Pay more than the minimum payment, but carry a balance and pay interest
Red Make only the minimum payment, carry a balance, and pay interest

Measurement Challenges

» Financial institutions may not have a complete view of an individual's debt and income.

» It may be difficult to discern income and debt payments from among other transactions in accounts.

Customer Variability

» Some consumers may deliberately have high debt and low income during a period of education or training.

» Consumers in high-cost housing areas will immediately be out of reach of the green zone since their mortgage debt will be substantial.

» Renters may trend green, while owners may trend yellow or red.

» The type of debt may be a consideration. Asset-building debt (education, homeownership) can be viewed differently from consumption-related debt (credit cards). While this is not always the case, this distinction may be worth taking into account.

Ways Providers Can Help

Customer Level: Providers can explore what is contributing to their customers' unsustainable debt loads. Would individuals benefit from a debt-consolidation plan or a debt-consolidation product? What would help these individuals better manage their debt in the future?

Portfolio Level: Providers can develop high quality debt consolidation products and services that help individuals decide which debts to pay off first.

Borrow

Indicator 6: Have a prime credit score

Credit score or credit quality tier

Benchmarks

Green Super prime, prime
Yellow Nonprime
Red Subprime, deep subprime

Why this indicator?

Although credit scores are an imperfect indicator of overall financial health, they shed light on an individual's ability to access low-cost credit and their propensity to pay it back.

Data to Collect

» Credit score or credit tier is the required data source itself

Potential Data Sources

» Credit report

Financial Data Proxies

» Payments to known debt service merchant accounts or late fees to creditors may signal delinquency.

» The absence of any credit payments may signal that someone is unscoreable.

» Payments to traditionally low quality lenders (such as payday or auto title lenders) may signal poor credit and, therefore, a lack of other credit options.

Survey Question Alternatives

How would you rate your credit score?

Green Excellent/Super prime; Good/Prime
Yellow Fair/Nonprime
Red Poor/Subprime; Very Poor/Deep Subprime

Measurement Challenges

» Not all providers can pull a credit score without having a legitimate financial reason for the inquiry.

Customer Variability:

» Some people may have a low credit scores not because of poor previous repayments but because of thin files.

Ways Providers Can Help

Portfolio Level: Providers can develop products, such as credit-building loans and secured credit cards, designed to give people with poor credit scores an opportunity to build and repair their credit.

Plan

Indicator 7: Have appropriate insurance

Type and extent of insurance coverage

Benchmarks

Green Main assets and potential shocks are fully covered
Yellow Main assets and potential shocks are partially covered
Red No insurance coverage

Notes: Insurance that covers assets may include renters/homeowners and car insurance (as needed by individual consumers). Insurance that covers shocks may include life and disability insurance. Coverage may include public insurance such as Medicaid and Medicare. Assumption is that all people have health insurance as required by the Affordable Care Act.

Why this indicator?

Having appropriate insurance allows individuals to be resilient in the face of unexpected expenses, such as the death of a loved one or a medical emergency.

Data to Collect

» Insurance payment data

» Employer payroll data showing insurance payments

Potential Data Sources

» Insurance account information from insurance providers, banks, credit unions

» Account transaction data showing insurance payments

Note: Data collection practices should comply with existing regulations and industry best practices regarding data privacy and security.

Financial Data Proxies

There are no great options for financial data proxies for this indicator.

Survey Question Alternatives

Does the main earner(s) in your household have life insurance?

Green Yes
Yellow n/a
Red No

Do you have insurance to cover your assets and any potential shocks?

Green Yes, coverage for assets and potential shocks
Yellow Coverage for only some assets and/or shocks
Red No coverage

Measurement Challenges

» The quality of insurance, both in terms and price, vary greatly. Even those with insurance may face high deductibles that result in high bills.

» Having a poor quality insurance policy may give people a false sense of protection.

» It may be difficult for financial institutions to know how many assets a customer has and, therefore, how much coverage is appropriate.

Customer Variability

» Insurance products are closely linked to variability factors such as age, household composition, number of dependents, risk exposures, and income, among others.

Ways Providers Can Help

Customer Level: Providers can work with customers to identify the type and level of coverage they need based on their family size and other variables.

Portfolio Level: Providers may have the opportunity to offer easy-to-understand, high quality insurance products.

Plan

Indicator 8: Plan ahead for expenses

Behaviors that demonstrate future financial orientation

Benchmarks

Green Exhibit many behaviors of future financial orientation
Yellow Exhibit some behaviors of future financial orientation
Red Exhibit no behaviors of future financial orientation

Note: These benchmarks aim to understand the overall planning mentality of a consumer. Green indicates a person who consistently exhibits future planning behaviors, such as using a budget, coding expenses, setting up automatic savings transfers, using personal financial management apps, etc. Yellow indicates a person who makes an effort to plan for the future through similar behaviors with some consistency, but there is room for improvement. Red indicates a person does not plan and simply takes things as they come.

Why this indicator?

Planning ahead for expenses indicates that individuals are future-oriented and interested in improving their financial situation. In CFSI's Consumer Financial Health Study, planning ahead behavior was highly correlated with financial health.

Data to Collect

» Existence of budget or plan (such as online budget, another online tool, financial coach, etc.)

» Identified or named savings goals on accounts (i.e. college fund, vacation fund)

» Automatic transfers for savings, planning or future use

» Account activity level through frequency of log-ins, checking balances, reviewing transaction history

Potential Data Sources

» Financial institutions that offer planning and budgeting services, such as expense coding in accounts

» Mint and other aggregated online budgets

» Financial planners or coaches

Financial Data Proxies

» While perhaps not a one-to-one proxy, a customer's engagement data with an account may be helpful to gauge their planning behavior. Engagement data may include logging into accounts, visiting a branch, calling customer service, etc.

» The right level of engagement needs to be determined since checking one's account too often may indicate that the customer is living on the edge.

Survey Question Alternatives

Do you have a budget, spending plan, or financial plan that you use to guide how your money gets spent each month?

Green Yes
Yellow Sometimes
Red No

Do you have a plan to achieve your longer-term financial goals?

Green Yes
Yellow Partial
Red No

Do you plan ahead to pay for large, irregular expenses?

Green Yes or I do not need to plan ahead because I always have enough money
Yellow n/a
Red No or I would if I could

Measurement Challenges

» This indicator may not be visible to most providers and, therefore, difficult to measure without asking customers directly.

» Simply using a budget or financial plan may not result in healthy financial transactions.

» Many types of behaviors may demonstrate future financial orientation, but they may not all be equally effective.

Customer Variability

» People organize themselves and their money in various ways; some may need a formal budgeting process, while others may effectively use informal systems.

Ways Providers Can Help

Portfolio Level: Providers have the opportunity to offer online budgeting tools and apps and advice for how to plan for day-to-day expenses as well as for large, irregular expenses.

Appendix

Methodology

The financial health indicators were developed through a comprehensive process of deep industry research and expert consultations. Over the course of 2015, the CFSI team analyzed and synthesized data and insights from industry research and benchmarks. The indicators were informed by robust data sets from more than 20 consumer finance studies and consultations with more than 85 financial services providers and influencers. These consultations informed the scope and direction of the indicators and provided critical feedback on multiple drafts of the indicators. A deeper analysis of CFSI's Consumer Financial Health Study was conducted to help refine the indicators, to determine which indicators were proxies for others, and which to prioritize. A full list of referenced studies is found in the Sources section.

Definitions

1. **Components** are the fundamental categories of financial health.
2. **Indicators** within each component show a directional assessment of one's financial health.
3. **Data Used to Measure** are the pieces of data that can be collected to quantify the indicators of financial health.
4. **Benchmarks** are used to gauge progress over time for each indicator.

Benchmarks

Next to each indicator, we provide suggested benchmarks for how to interpret the data collected. There is often fluid movement along the spectrum of financial health and strict cutoff measures may not exist, as illustrated in the graphic to the right. It is more relevant to show progress in the direction that we want to see consumers moving. We use three different colors to illustrate the direction of our benchmarks: green shows behaviors that will move someone in the direction of greater financial health; yellow shows behaviors that neither move someone significantly towards nor away from greater financial health; and red shows behaviors that will detract someone from the direction of greater financial health.

Some benchmarks are more specific than others. Specific benchmarks draw from existing industry standards and rules of thumb (i.e. DTI ratio below 36%). For those indicators where industry standards do not yet exist, the benchmarks are more general. We intend to refine these benchmarks to be more accurate and relevant as we work to build a financial health score and continue our financial health work overall. The benchmarks presented here are just a start.

We also acknowledge that many of the green benchmarks are extremely out of reach for most Americans, especially those that are struggling.

We do not recommend that providers "measure on a curve" when high standards of financial health are the aspiration. We recognize, however, that some providers may choose to focus on their customers' incremental gains and goal achievements rather than focus on an objective score or benchmark category. Providers will need to be thoughtful about how to communicate with their customers about their financial health journey, given where they currently are, in a way that is encouraging and not defeating.

Financial Data and Survey Questions

In general, companies can collect data on their customers in two forms: financial data and survey data. For the financial data, providers can leverage administrative or transactional data. For the survey data, providers can directly ask customers specific survey questions.

Each data type has benefits and limitations. Financial data provides objective information about someone's behavior, but is limited to the data that a provider, or its partners, has at its disposal. Financial data may also not be as straightforward as one would think. Data can be easily miscalculated or inaccurately analyzed, leading to inaccurate conclusions.

Survey data may be easier to collect by surveying a provider's customer base, but it may also be expensive or cumbersome to collect. Self-reported data may or may not actually reflect true customer behavior, and it carries with it reporting biases of those that complete surveys.

While our work focuses on the financial transactional data that can be collected by providers, we also have provided survey data questions for each indicator that can serve as alternatives when transactional data is not available. Providers are encouraged to use the highest quality data at their disposal, whether it is financial data, survey data, or most likely a combination of the two.

Financial Attitudes and Perceptions

Our indicators are deliberately focused on objective behaviors and outcomes, either as analyzed by financial data or survey data.

Similarly important are subjective attitudes and perceptions about one's financial health. Levels of stress, confidence, and satisfaction are critical inputs into the overall picture of one's financial well-being. As with other aspects of a person's life, finances can have a deeply emotional component, so capturing these subjective measures is important.

The CFPB's recent financial well-being scale is a robust set of 10 questions (or a shorter version of five questions) that gauge one's attitudes and perceptions towards financial security and financial freedom of choice. This scale is an excellent complement to our objective indicators.

Selecting and Prioritizing Indicators

To holistically understand an individual's financial health, providers should strive to measure all of the indicators for which they have data. However, a single provider will almost never have access to all of the data needed for the full list of indicators. Providers should consider partnering with other entities, such as third party data aggregators, to acquire additional information about their customers.

In spite of these data limitations, using a few of these indicators will still shed light on an individual's financial health. Just as an individual's physical health is influenced by a variety of factors — cholesterol, body mass index (BMI), blood pressure, etc. — a person's financial health is comprised of many disparate indicators. A doctor may encourage over-weight patients to diet and exercise in order to improve their overall physical health. Likewise, a financial services provider may advise individuals with an unsustainable debt load to pay down their debt to improve their overall financial health.

Customer Variability

Measuring customer financial health is complicated by the fact that no two people are the same. Individuals have different financial goals and aspirations. One person may aspire to owning a home, while another may be satisfied renting an apartment. Age and geography also matter. A 25-year old does not need as much retirement savings as a 65-year old, and somebody living in New York City will have higher living costs than somebody living in rural Missouri.

To truly understand an individual's financial health, providers should account for the unique factors of an individual's life, such as their age, employment status, income level and income volatility, geography, and household composition as well as goals and aspirations. Institutions that account for variability in consumers' financial health will gain a competitive advantage in the marketplace. The variable factors will impact how indicators and benchmarks are weighed in the creation of a score. Below are a few suggested data points to collect as you begin to account for customer variability.

Data Points to Account for Customer Variability	
Age	• Date of birth
Education level	• Highest level of education attained
Employment status	• Working (full-time or part-time), disabled, unemployed, retired, other income sources
Income level	• Monthly/yearly income
Income volatility	• Change in income payments month to month and other forms of income (child support, government benefits, etc.)
Risk tolerance	• What is your level of risk tolerance when investing (aggressive, moderate, conservative)?
Geography/ Cost of Living	• Zip code
Dependents/ Household compositions/ Social networks	• Number of dependents • Does anyone other than your partner depend on you for money or anything else, such as children or a relative? • Do you have social networks to turn to for your financial needs, if necessary?
Goals/Aspirations	• What are your financial goals?

Behaviors versus Outcomes

Our list of indicators includes both outcomes and behaviors because both are important. Outcomes, such as the amount of someone's long-term assets, tend to be more static and provide a snapshot of one's financial health. Behaviors, such as spending less than income or planning ahead for expenses, tend to be more fluid as they happen over time. But there are exceptions in both cases where outcomes may be fluid and behaviors may be static. In the end, providers should measure financial health over time, taking ongoing snapshots of and monitoring the fluidity of both outcomes and behaviors to get a full picture of someone's financial health.

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