Development of and Norms for the 
InCharge Financial Distress/Financial Well-Being Scale: A Summary\(^1\)

Abstract
The report provides a summary of the development of the InCharge Financial Distress/Financial Well-Being Scale (IFDFW). It is an 8-question self-report subjective measure of the attributes of perceived financial distress/financial well-being. Questions on the IFDFW require people to evaluate their current financial situation as well as their reactions to that state of economic affairs. In effect, an IFDFW score is a personalized assessment of one’s financial health. The IFDFW measures a single variable and the scale questions have a 0.956 Cronbach Alpha reliability score. Thus it is presented as a valid and reliable measure. Norming information is provided from one set of data collected on the national population of adults. The mean score of the general population is 5.7, with a standard deviation of 2.4, on a 10-point scale where 1 means “overwhelming financial distress/worst financial well-being” and 10 means “no financial distress/excellent financial well-being.”

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Introduction and Background
An important part of a person’s overall psychological well-being is satisfaction with various aspects of life. One of the domains of overall well-being is personal finances. Personal financial well-being can be defined as the reported state of affairs about one’s economic situation in life. Financial distress is an effect, and as such it can be defined as a reaction, such as mental or physical discomfort, to the stress about one’s state of general financial well-being and, in particular, perceptions about one’s capacity to manage economic resources (such as income and savings), pay regular bills, repay debts, and provide for the needs and wants of life.

Financial distress is a subjective phenomenon. Two individuals with the same levels of income and economic resources may have different levels of perceived financial distress as well as financial well-being. Low-income individuals and families, on average, may have more distress about financial matters than those with moderate or high income; however, many lower-income people experience no financial stress at all (Bray, 2002). Financial distress is often exhibited by worrying. Distress about economic matters is a good predictor of overall well-being and high financial distress significantly reduces psychological well-being (Blumstein & Schwartz, 1983; Grasmick, 1992; Pittman & Lloyd, 1988; Ross & Huber, 1985).

Interest in financial literacy education in the schools and at the workplace has risen rapidly in recent years, and financial education is now promoted as a lifetime responsibility (Gramlich, 2004). A number of financial services organizations and community and consumer groups seek to improve both the financial literacy and the financial well-being of American adults, including Cooperative Extension Service, AARP, American Savings Education Council, Association for Financial Counseling and Planning, Consumer Federation of America, Credit Union National Association, Fannie Mae Foundation, Federal Reserve Board, JumpStart Coalition, National Council of La Raza, and National Endowment for Financial Education.

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The objectives of financial education typically are to increase knowledge of basic financial concepts and improve people’s capacity to make personal finance decisions so they are more likely to be able to practice financial behaviors that will improve their short-term financial well-being and lead to overall long-term financial well-being. To accurately track behavioral changes and genuine financial success over time, researchers need a valid and reliable instrument to assess perceived financial distress and/or financial well-being.

**Purpose**

This study was undertaken to create the *InCharge Institute Financial Distress/Financial Well-Being Scale* (IFDFW), a self-report subjective measure of the attributes of perceived financial distress/financial well-being. This paper summarizes the development of the IFDFW and provides norming data for the general adult population and a population of financially distressed adults.

**History of Scale Development**

The historical antecedents of the *InCharge Financial Distress/Financial Well-Being Scale* began more than forty years ago with various conceptual models of overall well-being and life satisfaction (Andrews & Withey, 1976; Campbell, Converse & Rogers, 1976; Cantril, 1965; Davis, 1945; Festinger, 1957). A more recent model is the Quality of Life Inventory (QOLI) developed by Frisch, Cornell, Villanueva, and Retzlaff (1992); also see Frisch (1998).

One of the domains of overall psychological well-being is financial situation, including economic distress; and personal finances is a good predictor of lower levels of well-being (Blumstein & Schwartz, 1983; Grasmick, 1992; Mirowsky & Ross; Pittman & Lloyd, 1988; Ross & Huber 1985). A variety of objective measures can be used to assess financial well-being, such as income, debt-to-income ratio, amount of savings, and net worth. However, it may take many months or even years to ascertain changes in one’s personal finances (such as improvements) with such broad measures.

A number of researchers have measured financial well-being solely or primarily with subjective self-report measures (Bagwell, 2000; Bailey, 2003; Joo, 1998; Joo, 2002; Garman, Camp, Kim, Bagwell, Baffi, & Redican, 1999; Grasmick, 1992; Kanjanapan, 2002; Kim, 1999; Kim, 2000; Porter, 1990; Shockey, & Seiling, 2004). Joo and Grable (2004) found that financial satisfaction is related, both directly and indirectly, with financial behaviors, financial stress levels, income, financial knowledge, financial solvency, risk tolerance, and education. These studies collectively confirm the notion that the domains of financial strain, financial distress and financial well-being constitute a multi-dimensional construct. Realizing that effective measures of perceived financial distress and overall financial well-being did not exist and would be useful, the InCharge Institute of America and the InCharge Education Foundation began an effort to develop a valid and reliable measure.

**Methodology**

A number of studies made of populations of adults who had typical distributions of financial well-being (Goodman, 2001; Joo, 1999; Kim, 1999; Kim, 2000) were examined as well as research on financially distressed individuals (Bagwell, 2000; Blumstein & Schwartz, 1983; Garman, Camp, Kim, Bagwell, Baffi, & Redican, 1999; Garman, Leech, & Grable, 1996; Grasmick, 1992; Joo, 1998; Joo & Garman, 1998; Mirowsky & Ross; Pittman & Lloyd, 1988; Ross & Huber 1985). The InCharge Education Foundation embarked on a series of studies, and data from six data collection efforts were analyzed during the progressive development of the *InCharge Financial Distress/Financial Well-Being Scale*. A six-item beta instrument was published in 2004 (Garman, Sorhaindo, Bailey, Kim, & Xiao, 2004; Garman, Sorhaindo, Kim, Xiao, Bailey, & Prawitz, 2004). The wording of some questions and anchor terms in the beta version differ in the final instrument. InCharge collected data in three national representative studies in 2004. One of these, the 2004 Mail Survey of the General Population, was used as the primary source of statistical analysis and norming, although other data sets were utilized for purposes of validity and reliability. This included a parallel survey of financially distressed adults.

The 2004 Mail Survey of the General Population collected information about personal finances from a nationally representative sample of 1,300 responding adults in America. Almost all of the 51 questions on the survey instrument were used in previous research (Bagwell, 2000; Cantril, 1965; Kim & Garman, 2003; Kim, Sorhaindo, & Garman, 2003; O’Neill, Xiao, Sorhaindo, & Garman, in press; Porter, 1990; Porter & Garman, 1993; Sorhaindo & Garman, 2002; Sorhaindo, Kim, & Garman, 2003). The 51-item instrument contained 6 questions on current
financial situation, 6 questions on money management, 5 questions on bill paying behavior, 3 on tight financial situation, 5 questions on family life and health, 8 questions on work, 8 on retirement, and 10 questions on demographics. Twenty-seven of those questions dealt with various aspects of financial distress and financial well-being, and each was examined with an eye toward including it in the final IFDFW scale.

Results

The IFDFW is based upon the personal finance concepts, findings and methodologies employed in 30 conceptual frameworks and related academic studies, 11 general population surveys conducted by others, suggestions from 50 personal finance experts in academia and 40 experts in business, and six data collections conducted by InCharge. These efforts led to identification of 58 descriptive personal finance concepts that were narrowed to 20 utilizing three qualifying criteria.

A three-phase modified Delphi study of a national panel of 45 personal finance experts ranked the suitability of each concept for inclusion in a financial well-being scale. Ten concepts gained consensus from the experts with two ranked unanimously as the number one and two highest in all three data collections and the other eight concepts were ranked in the top 10 in all three phases.

Each concept was then re-examined in the context of scaling and anchor terms that had been utilized in previous research and two other parallel data collections. Sometimes a concept and/or question can be made much clearer to a subject when it is accompanied by descriptive anchor terms. For example, the anchor term “overwhelming stress” gives more meaning to a stem question asking: What do you feel is your financial stress today? After data from the general population study were collected, a 12-item set of validity and reliability criteria was applied to all potential concepts, including those ranked by the Delphi experts, in order to be considered for the final scale.

The result was that the three concepts ranked the lowest by the experts were deleted for two reasons: (1) their mean scores were significantly distant from the higher seven rankings, and (2) each was redundant with other concepts (Garman, Sorhaindo, Prawitz, Osteen, Kim, O’Neill, Drentea, Haynes, & Weisman, 2005). The other 27 personal finance concept/questions in the survey instrument were re-reviewed as potential contributors to the scale. An additional concept was selected for its statistical strength and content validity.

The final scale is made up of eight questions. The questions on the InCharge Financial Distress/Financial Well-Being Scale© (IFDFW) are presented below. As they appear here they are without value and will collect incorrect data without the accompanying appropriate directions, specific fonts, scaling, spacing, anchor terms and placement, and sequencing. At this time, permission is required to use the scale questions. The questions are:

1. What do you feel is the level of your financial stress today?
2. On the stair steps below, mark (with a circle) how satisfied you are with your present financial situation. The “1” at the bottom of the star steps represents complete dissatisfaction. The “10” at the top of the stair steps represents complete satisfaction. The more dissatisfied you are, the lower the number you should circle. The more satisfied you are, the higher the number you should circle.
3. How do you feel about your current financial condition?
4. How often do you worry about being able to meet normal monthly living expenses?
5. How confident are you that you could find the money to pay for a financial emergency that costs about $1,000?
6. How often does this happen to you? You want to go out to eat, go to a movie or do something else and don’t go because you can’t afford to?
7. How frequently do you find yourself just getting by financially and living paycheck to paycheck?
8. How stressed do you feel about your personal finances in general?

The general population dataset was used in establishing initial norms. The mean score of the general population of adults is 5.7, with a standard deviation of 2.4, on a 10-point scale where 1 means “overwhelming financial distress/worst financial well-being” and 10 means “no financial distress/excellent financial well-being.” Thirty-percent rated themselves with low scores between 1 and 4, 29 percent marked the mid-points of 5 or 6, and 42 percent reported themselves with high scores between 7 and 10 (numbers do not add to 100 because of rounding). Regarding employment status, the mean norms are: employed, 5.7; unemployed, not seeking work, 4.9; unemployed, but seeking work, 3.4; and retired, 6.4. The gender mean

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scores are males, 6.2 and females 5.4. The mean scores for marital status are married, living with partner, 6.2; single, never married, 5.1; widowed, 6.1; and divorced, 4.8.

Conclusion

A total of 1,097 cases in the general population study were analyzed. Factor analysis statistics show that the InCharge Financial Distress/Financial Well-Being Scale (IFDFW) measures a single factor, and the Cronbach Alpha for the eight questions on the IFDFW is a very robust 0.956. An acceptable Cronbach Alpha can be as low as 0.60 (Nunnally & Bernstein, 1994). When decisions are going to be made on the scores made by individuals, rather than groups, the measurement error must be extremely low, and “a reliability of .90 is the ‘bare minimum,’ and a reliability of .95 should be considered the desirable standard (Nunnally & Bernstein, 1994, p. 265).” The IFDFW combines the results of eight individual questions that efficiently, validly and reliably measure the domain or construct of financial distress/financial well-being.

References Cited


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