Financially Distressed Credit Counseling Clients and the InCharge Financial Distress Scale

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Abstract

The present study provides an overall profile of financially distressed consumers, a large sample of new consumer credit counseling clients. It examines the variables of health and work experiences, as well as personal financial well-being and financial planning behaviors (both good and poor). This large sample is one of several data sets utilized in the process of creating a valid and reliable beta version of the InCharge Institute Financial Distress Scale (FDS).

Introduction and Background

Over 100 million Americans use credit cards and installment loans to make purchases, and some experience difficulty in repaying what is owed. The *New York Times* reports that perhaps as many as 9 million consumers contacted non-profit credit counseling agencies in 2002 seeking assistance in managing their unsecured debts (Bayot, 2003).

Most people who contact a credit counseling organization do so because they are distressed about their debts. Common reasons (Client Survey, 2004) for seeking such assistance are frustration with high bank credit card fees, loss of income due to unemployment or reduction in overtime, and the desire to improve financial situation to enable them to reach financial goals. Other reasons cited include unexpected medical bills and divorce. Some people state that they are wondering if the credit counseling agency can negotiate on their behalf with their creditors in an effort to get their credit card interest rates reduced. And, of course, overspending is cited as a reason for getting into financial difficulty.

There has not been much published research about credit counseling clients (Bagwell, 2000; Garman, Camp, Kim, Bagwell, Baffi, & Redican, 1999; Kim, Garman, & Sorhaindo, 2003; Sorhaindo & Garman, 2002; Statten, 2002) even though the industry has grown tremendously in recent years (Credit counseling in crisis, 2003). Nor have there been research with data from large numbers of credit counseling clients. As a result, little is known about these people. What definitely is known, however, is: (1) They perceive and report very poor financial well-being, and (2) They are severely distressed about their current financial situations (Sorhaindo, Garman & Kim, 2003; Kim et al, 2003).

The reality is that if a credit counseling agency cannot help such consumers improve their financial condition, the next available~~t~~ step is to contact a bankruptcy attorney. For the fiscal year ending September 30, 2003, over 1.5 million consumers filed for personal bankruptcy (Personal bankruptcy filings, 2003), this figure is up 7.4 percent from fiscal year 2003. Seeking credit counseling is a popular strategy for those with serious credit problems. Studies of credit counseling clients conducted a year or more after they joined a debt management program offered by a credit counseling organization have found increases in financial well-being and decreases in financial distress (Bagwell, 2000; Sorhaindo & Garman, 2002).

Satisfaction with various aspects of life has long been recognized as important parts of overall psychological well-being (Campbell, 1981; Campbell, Converse, & Rogers, 1976; Olson, McCubbin, Barnes, Larsen, Muxen, & Wilson, 1989), and one of those key domains is personal finances. A key determinant of psychological well-being is economic distress (Grasmick, 1992). While income is often used as an objective index of one's financial situation, economic distress is a better predictor of well-being (Blumstein & Swartz, 1983; Pittman & Lloyd, 1988). Grasmick (1992) measured economic strain with 4 subjective questions ("I often experience money problems," "I spend a lot of time worrying about financial matters," "Financial problems often interfere with my work," and "Financial problems often interfere with my relationships with other people") and concluded that it significantly reduces psychological well-being. Continuing, Grasmick observed that "husbands and wives, regardless of the latter's role in contributing financial resources to the family from employment outside the home, are equally impacted…" with the "…debilitating effects of this distress…." In a study of professional mental health staff working in behavioral hospitals, Bailey, Woodiel, Turner, & Young (1998) found "that financial stress scores from personal and work areas explained 50% of the variance in their overall stress."

Moreover, distress about financial matters is real and increasingly prevalent in society. Most people who contact a consumer credit counseling agency to seek assistance have serious debt problems that create substantial stress in their lives. For these people there likely are negative spillover effects from their distress about financial issues on their health and family relationships as well as on their effectiveness at their place of employment, for those who are employed. Personal finances has been linked to health (Bagwell, 2000; Drentea & Lavrakas, 2000; Pearlin, Menagahn, Lieberman, & Mullan, 1981) and debt burden has been found to affect health negatively (Bagwell, 2000; Drentea & Lavrakas, 2000; Sorhaindo & Garman, 2002).

Purposes of the Study

This study was undertaken with the broad general purpose of learning more about credit counseling clients. More specifically, it was designed with a view toward seeking to determine if certain hypothesized relationships existed and were exhibited among certain variables: financial well-being, financial behaviors, work life, family life, and health. Another purpose was to utilize this new database to contribute toward the creation of the InCharge Institute Financial Distress Scale (FDS).

Methodology

The population for this study was a group of financially distressed consumers who telephoned a large national non-profit credit counseling organization seeking assistance with outstanding debts. Between the months of February 2003 and April 2003, about 7,800 of debt distressed consumers received contracts marking entry into the Profina Debt Solutions (now named InCharge Debt Solutions) debt management program (DMP). A DMP can head off bankruptcy. With such a program, holders of unsecured credit (e.g., credit card issuers, medical providers) are often willing to offer concessions (e.g., lower interest rates, waiving of late charges, bringing account up to date) to consumers to help them avoid bankruptcy. In a DMP arrangement, creditors make concessions to the consumers and the credit counseling organization collects monies owed and disburses them to creditors on behalf of the consumers.

All callers, including the 7,818 who elected and were qualified to join, initially received counseling and advice regarding their personal finances. A credit counselor could initially talk on the telephone with a consumer for as little as 15 minutes or as long as one hour, depending upon the complexities of each individual's situation. Counseling would continue for all those who joined the DMP.

In mid June 2003, a 32-item "Personal Finances Survey" questionnaire was mailed to a sample of 7,200 of the 7,818 who joined the program between February and April 2003. Four weeks later, a follow-up postcard was mailed to people who had not yet responded reminding them to return the questionnaire. After two additional weeks, a second questionnaire and follow-up letter were mailed to non-respondents. A total of 316 surveys were returned as undeliverable, typically because an address was incomplete, a person moved without providing a forwarding address, or the person was deceased. Thus, the resulting sample was 6882 and 2781 respondents returned useable questionnaires.

This amounts to a return rate of 40.4 percent (2781/6882). This return rate is more than twice as high (40.4 percent to 20.0 percent) than for a similar smaller study of the same population (but different people) conducted three years earlier. The data were self-reported by the respondents on printed questionnaires, and there was no reason to believe that any respondents misreported responses to the questions. Additional information on debt load, debt load percentage and credit card debt balance was obtained from client records maintained by the credit counseling organization. This dataset is referred to as the "2003 Panel Study" since it is the intention of the researchers to conduct follow-up studies of these credit counseling clients for 3 to 5 years.

Measures

According to Webster, the term stress denotes a constraining force or influence such as when one body or body part presses, pulls, pushes, or perhaps twists another (Merriam Webster, 1995). As a verb transitive, "to stress" means…'to subject to physical or psychological stress.'" Webster also notes that stress is "a state resulting from a stress of bodily or mental tension resulting from factors that tend to alter an existent equilibrium."

Distress, notes Webster, is a “pain or suffering affecting the body, a bodily part, or the mind.” Synonyms for distress include suffering, misery and agony. Financial distress is an intense physical or mental strain and stress caused by concerns and worries about personal financial matters. Financial distress can be temporary but also can turn into a persistent state of being. Illustrative events that could contribute to financial distress are receiving overdue notices from creditors and collection agencies, writing checks with insufficient funds, and experiencing feelings of insecurity about one’s financial preparedness for retirement. A common cause of financial distress is recognizing that one has too much debt. Distress about financial matters, much like distress about poor family relationships or unemployment, can have deleterious effects on one’s physical and mental health.

As used in this study, financial distress is measured with a single question asking about one’s perception of the “level of financial stress today.” In the effort to be comprehensive in creating the InCharge Financial Distress Scale, the financial distress variable is construed using 6 questions (see below).

Financial behaviors are measured by nine self-reported positive financial behaviors and one item on self-evaluation of the financial behaviors. A 5-point Likert scale measured financial stress and a 10-point upward stair-step scale measured financial satisfaction.

The personal finance-work conflict variable comprised 9 questions about dealing with financial matters at work rather than performing work activities and a single question inquiring about how often one’s personal finances interfered with their job such as getting to work on time, accomplishing daily tasks, or working overtime. The absenteeism items were frequency of absences, days totally unable to work, and days cut down on work. Independent variables included self-reported gender, age, marital status, household income, debt load, health status, satisfaction with family relationship, work satisfaction, employment status, number of family members to support, year of residence, home ownership, and retirement security. Credit counselors obtained information from clients during counseling sessions regarding debt load, debt load percentage and total unsecured debt.

Results

This report is divided into three parts: (1) factors associated with financial behaviors and the effects of financial behaviors on financial stress and satisfaction, (2) relationships among financial stress, work conflict, and absenteeism variables, and (3) development of the beta version of the InCharge Institute Financial Distress Scale (FDS).

<u>Financial Behaviors and Effects on Financial Stress and Satisfaction</u>

Utilizing a partial dataset (after excluding observations with missing values, the sample size for the data analyses is 1913), the findings on financial behaviors and effects on financial stress and satisfaction are as follows.

<u>Financial Behaviors.</u> The three most frequently reported positive financial behaviors are: *reduced some of my personal debts, cut down on living expenses,* and *followed a budget or spending plan*. The three least frequently reported financial behaviors are *contacted a financial planner, participated in and contributed money to pre-tax dependent care or health care program,* and *tried to determine how much I will need to live comfortably in retirement*. The distribution of the number of reported financial behaviors had a bell shape, with most respondents reporting having engaged in three to six financial behaviors.

Regression results at the significance level of 5% indicate that employment status, age, retirement security, family relationship, and self-evaluation of financial behaviors are associated with the number of positive financial behaviors. Consumers who have a part-time job (compared to those without a job), who are older, who feel more secure about their retirement, who have better family relationships, and who have a higher score from self-evaluation of financial behaviors tend to report a significantly higher number of positive financial behaviors.

Such variables as the number of family members to support, age, credit card debt balance, retirement security, health, family relationship, and number of positive financial behaviors are associated with the self-evaluation of financial behaviors. Consumers who support two or more family members (compared to singles), are younger, have a higher balance of credit card debt, and feel more secure retirement, have better health, have better family relationships, and have a higher number of positive financial behaviors, tend to report a higher score on self-evaluation of their financial behaviors.

To explore differences between consumers who reported more or fewer financial behaviors, bivariate analyses are conducted. Chi-square tests were used for categorical variables and analysis of variance was used for continuous variables. The group with the high number of financial behaviors includes consumers who reported having engaged in 6 or more financial behaviors. The group with lower numbers of financial behavior includes those whose reported financial behaviors are 3 or fewer. Consumers are more likely to be in the former group if they have a part time job, are single and living alone or with a partner, are male, older, enjoying a higher family income, feeling more secure about retirement, in better health and having a better family relationship.

Financial Satisfaction. Financial satisfaction is associated with age, years at current residence, credit card debt balance, perceived retirement security, perceived family relationship, number of financial behaviors, and self-evaluation of financial behavior. Clients who are older, have longer years of residence, have lower balances of credit card debt, who feel more secure about their retirement, have better family relationship, have a higher number of financial behaviors, and have a higher score on self-evaluation of financial behaviors, are associated with higher level of satisfaction.

Financial Stress. Financial stress is associated with employment status, marital status, percent debt load, age, retirement security, family relationship, number of financial behaviors, and self-evaluation of financial behaviors. Unemployment, single status, and higher debt load are associated with higher stress level. On the other hand those who are younger, are more secure about retirement and have better family relationships, have a higher number of financial behaviors, and have a higher score on self-evaluation of financial behaviors, are associated with lower financial stress levels.

Further examination found that two financial behaviors reduced stress. Those who started or increased their savings and who followed a budget or spending plan are associated with lower levels of financial stress.

To explore the differences between consumers with extremely high or low stress levels, we conducted bivariate analyses. The high stress group includes consumers who reported “severe” or “over-whelming.” The low stress group includes those who reported “low” or “none” when the financial stress question is asked. The younger, those feeling less secure about retirement, those having poorer health and poorer family relationships, are more likely to be in the high stress group.

Probing a little deeper we found that three financial behaviors increase financial satisfaction. They are*: developed a plan for my financial future, started or increased my savings,* and *reduced some of my personal debts*. However, two behaviors (*participated in flexible spending program* and *contributed to my employer’s retirement plan*) reduced financial satisfaction. One possible explanation is that consumers who participated in a flexible spending program and contributed to a retirement plan while having debt problems have to sacrifice their current spending thereby causing the decrease in satisfaction about their finances.

To explore differences between consumers who are highly satisfied with their finances and those who are least satisfied, we conducted several bivariate analyses. The high satisfaction group includes consumers whose satisfaction score is 7 or higher. The low satisfaction group includes those whose score is 4 or lower. Consumers are more likely to be in the high satisfaction group if they are older and perceive more security upon retirement, have better health, and have better family relationship.

Financial Satisfaction, Work Conflict and Absenteeism

Utilizing a partial dataset, the findings on financial stress, work conflict, and absenteeism variables are as follows. Only those who were employed at the time of data collection were included in the data analysis because of the existence of questions about their work attitudes and behaviors (n=2372). Financial stress affects individual’s life at work such as interpersonal conflict at work and absenteeism. On average, these credit counseling clients spend over 15.28 work hours attending to their financial matters in the past month. They spent time worrying about personal finances instead of working, talked with co-worker about personal financial problem, talked to creditor about past due payment, talked to a collection agency about past due payment, took time to handle personal financial concerns while at work, asked employer about payroll advances, consulted with a lender about consolidating debts, talked to a lender about taking out a 2nd mortgage to pay debts, and talked to a lawyer about bankruptcy. About three out of ten (27.5%) reported that their concerns about personal finance interfered with their work, such as getting to work on time, accomplishing daily tasks, or working overtime.

Results indicated that financial satisfaction was negatively related to conflict at work and some of absenteeism variables. Age, household income, health status, family relationship satisfaction, work satisfaction, and financial satisfaction were significantly related to conflict at work. Age, marital status, family relationship satisfaction, work satisfaction, and financial satisfaction were significant variables in predicting work time used taking care of private financial affairs. Age, household income, health status, family relationship satisfaction, work satisfaction, and financial satisfaction were significant in predicting work conflict. However, (controlling for other variables) financial satisfaction had significant effects on two absenteeism variables, work time used and the number of days they had to cut down productivity at work.

Those who had lower levels of financial satisfaction were more likely to say that their work was interfered by financial problems, controlling for the effects of gender, age, marital status, household income, debt load percentage, health status, satisfaction with family relationship, and work satisfaction. Those with lower levels of financial satisfaction had to cut down on what they did at work more than others. Also, workers with lower levels of financial satisfaction wasted more time handling their financial matters at work than others. Among absenteeism variables, frequency of absences and number of days they were totally unable to work did not have significant relationship with financial satisfaction.

Creating the Beta Version of the InCharge Financial Distress Scale

Given the availability of a robust database on financially distressed credit counseling clients, an opportunity presents itself. First, while there have been a few previous studies of credit counseling clients (Garman, et al, 1999; Bagwell, 2000; Sorhaindo & Garman, 2002), the numbers of respondents providing usable data have been relatively small, often 350, 200 or less. Second, in those studies a variety of similar questions were asked that dealt with financial well-being and distress about financial matters. Thus, during the design stage of the present study, the 2003 Panel Study, attention was focused on creating a variety of questions similar to those used in previous research that could collectively offer a more robust record of those who are financially distressed. Data on financial well-being and behaviors from this latest 32-item questionnaire nicely supplemented data obtained from previous studies for the purpose of creating a beta version of the InCharge Financial Distress Scale (FDS).

The Need for a Financial Distress Scale. The InCharge Institute of America and the InCharge Education Foundation are interested in improving the economic well-being of credit counseling clients and the general population of adults in the United States. To be satisfied that those goals are being obtained, InCharge needs to assess the changes, advances and progress people make with their financial condition over time. This implies conducting research that tracks changes by credit counseling clients and other individuals and families in the general population.

InCharge believes that reductions in financial distress will lead to lower overall stress in people's lives. Furthermore, reduced distress about financial issues impacts one's financial well-being in a positive manner. Both Lower financial distress and progress in financial well-being both lead to better health, more adequate financial preparation for retirement, improved family relationships, and gains in work outcomes. InCharge believes that research and education can contribute to helping individuals and families reduce their financial distress and improve their financial well-being. To accurately track changes over time, there is a need to develop a valid and reliable scale that can be widely used to assess financial distress.

Methodology. There have been a number of research studies conducted by InCharge and dozens of other researchers and organizations that deal with credit counseling clients' financial well-being and financial distress. Also there exist numerous conceptual models on resource management, financial well-being, and broader conceptualizations of overall well-being. These works help focus some of the key dimensions of financial distress. Clearly, part of the equation is feelings of distress about financial matters. And equally so are assessments about financial well-being. The task then is to establish clarity in measuring those variables and to identify other measurable factors that make up the domain of financial distress.

Numerous analyses have been made of databases accessible to InCharge and members of the evolving and growing research team of scholars interested in pursuing creating of such a needed scale. While the 2003 Panel Study questionnaire contains a series of useful and appropriate questions suitable for in-depth statistical analyses in five domains of interest, it only includes two questions that assess financial well-being.

We have available a recent dataset (not this 2003 Panel Study), includes a host of financial well-being questions and others that assess stress about financial matters and some of the negative effects of financial distress. This is the 2000 Panel Study, and it is the dataset that is reported upon in this part of this report about creating the InCharge Financial Distress Scale.

The data for the 2000 Panel Study came from a population of 4,000 new credit counseling clients that signed up for a debt management program (DMP) between January and April of 2000. A random sample of 1,800 was selected. Usable data were obtained from 355 respondents, which represented a 20 percent return. The return rate is typical of survey research that does not utilize aggressive follow-up techniques, as was the case in the methodology of that study. The data were self-reported by the respondents on printed questionnaires, and there was no reason to believe that any respondents misreported responses to the questions, although three questionnaires were deleted due to incomplete data.

Results on the Beta Version of the InCharge Financial Distress Scale. Note that the results and statistical analyses provided below are based on the data in the 2000 Panel Study, not the Profina 2003 data described above. Appendix A contains the Beta Version of the InCharge Financial Distress Scale (FDS), which has 6 questions. Note further that, when comparing the Beta Version with the discussion below, some of the individual questions are worded slightly differently. Also, some anchor terms have changed. Hereafter all comments refer to the Beta Version even though the term beta will not always be utilized.

The first and sixth questions in the Appendix deal specifically with financial distress. The first question asks the respondent to report his or her "stress today," right now. The sixth question asks for a more global report about financial distress, inquiring about one's "general stress" about financial matters. The second, third, fourth, and firth questions ask for different characterizations about one's finances: present satisfaction (using stair-steps), a subjective depiction (well-off), feelings (current financial situation) and security (personal finances for retirement). These four questions are measures of aspects of financial well-being. Logic and experience suggests that the six combined questions are an effective measure of financial distress.

The six specific questions (using language and scaling from the 2000 study) are shown below, with the distribution of responses for each. As shown in Table 1, when reporting on how they felt their "level" of "financial stress today," about three-tenths reported being severely or overwhelmingly stressed, in contrast to the seven-tenths who reported having moderate stress, low stress or no stress at all.

Table 2 shows the findings for respondents who were asked to indicate "how satisfied" they were with their "present financial situation" using a 10-point stair-step scale (where 1 meant not satisfied and 10 meant satisfied). Two-thirds indicated they were dissatisfied (marking 1 through 4). This contrasts to the one-fifth in the middle who marked a 5 or a 6 and the one-tenth who reported being satisfied by marking 7 through 10.

The findings in Table 3 refer to the question on "how well off they were financially." About four-fifths reported they were always in trouble or having some difficulties. About one-fifth reported they were doing well or very well.

As shown in Table 4, when reporting on how they felt about their "current financial situation," a large majority, about four-fifths, reported that their financial situation was either overwhelming or they were having some difficulties. Less than one-fifth reported they were doing OK or were able to save easily.

Table 5 shows the findings for respondents who were ask to indicate "how secure" they felt about their "personal finances for retirement." About two-thirds reported either not feeling secure or somewhat insecure and one-third notes they were somewhat secure or secure.

The findings in Table 6 are about feelings of "stress" about "personal finances in general." About four-fifths reported feeling either extremely stressed or somewhat stressed and about one-fifth reported being not very stressed or not stressed at all.

As shown in the Table 7, high correlations exist among four of the six questions: (1) current financial situation, (2) how well off financially, (3) stress about personal finances, and (4) satisfaction with financial situation. This suggests that those variables might be reflective of an underlying construct or latent variable associated with financial distress or financial well-being or a combination of the two. The other two questions, "financial stress today" and "retirement security," are not highly correlated with any of the four others and their mutual correlation is quite small.

<u>Uses of the InCharge FDS.</u> An FDS can be able to correctly assess the severity of financial distress of people who telephone non-profit credit counseling agencies. It also could be used by credit counseling agencies to assess the financial well-being of clients after they have been in the program for a few months, or longer. The FDS could track client progress in a debt management program (DMP).

It could be used to assess the financial well-being of people from the general population whose financial well-being ranges from poor to excellent. Comparisons could be made between the general population and financially distressed credit counseling clients. It could measure the economic well-being of bankruptcy petitioners, both before and following bankruptcy. Mental health and marriage counselors, human resource departments, large employers, retirement education providers, media, government, and academics also could use the FDI.

If the degree of financial distress is known about an individual or population, programs can be differentially designed and delivered to help reduce individual and family distress about personal finances and help improve their financial well-being. Furthermore, research findings can help mobilize organizations to strive to help people who are distressed about their finances.

It is the intention of the InCharge Education Foundation to conduct at least two national data collections during the year 2004 with the expectation that the findings will contribute to completion of a final published version of the InCharge Financial Distress Scale. InCharge also plans to provide norming data information for both the financially distressed credit counseling client population and the general adult population in society.

It is anticipated that the InCharge FDS will be able to correctly assess the severity of financial distress of adults, including credit counseling clients and others in the general population whose financial well-being ranges from poor to excellent. Research is needed to better understand financially distressed consumers, such as the degree of their distress, reasons for the distress, negative impacts of their distress, and factors associated with reducing that distress. Such findings hopefully can help mobilize various organizations to be successful in helping people who are distressed about their finances.

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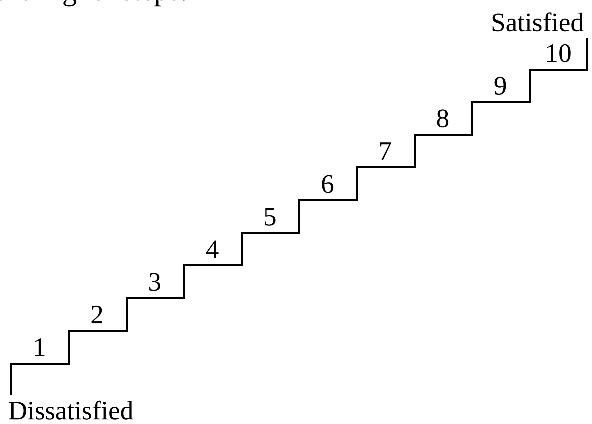
Appendix
InCharge Financial Distress Scale – Beta Version

1. What do you feel is the ***level*** of your ***financial stress today?***

1	2	3	4	5	6	7	8	9	10
Overwhelming Stress			High Stress			Low Stress			No Stress at All

2. On the stair steps below, mark (with a circle) how ***satisfied*** you are with your **present financial situation.** Those who ***are not*** satisfied will be toward the lower steps. Those who ***are*** satisfied will be toward the higher steps.



3. How ***well off*** are you financially?

1	2	3	4	5	6	7	8	9	10
Find it Hard to Pay Bills			Struggle Some			Doing Okay Financially			Doing Very Well

4. How do you feel about your ***current financial situation?***

1	2	3	4	5	6	7	8	9	10
Feel Overwhelmed			Sometimes Feel Worried			Not Worried			Feel Comfortable

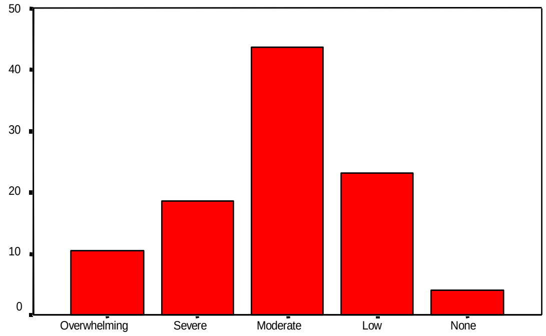
5. How ***secure*** do you feel about your personal finances for ***retirement?***

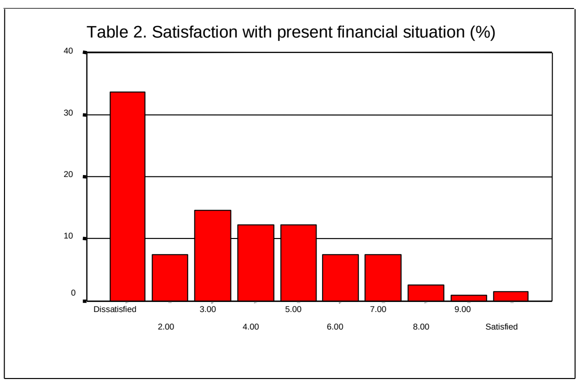
1	2	3	4	5	6	7	8	9	10
Very Insecure			Somewhat Insecure			Somewhat Secure			Very Secure

6. How ***stressed*** do you feel about your personal finances ***in general?***

1	2	3	4	5	6	7	8	9	10
Overwhelming Stress			High Stress			Low Stress			No Stress at All

Table 1. Financial stress today (%)





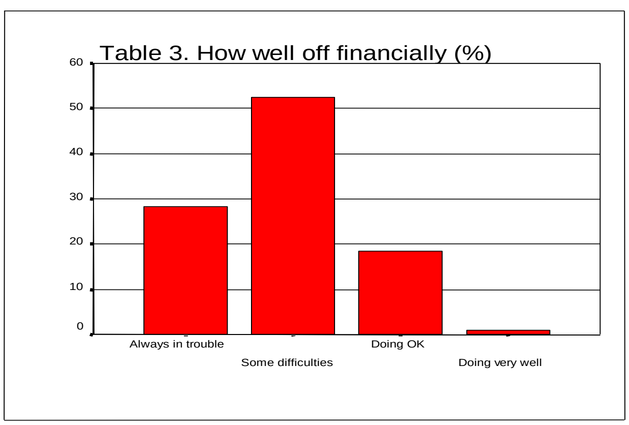


Table 4. Current financial situation (%)

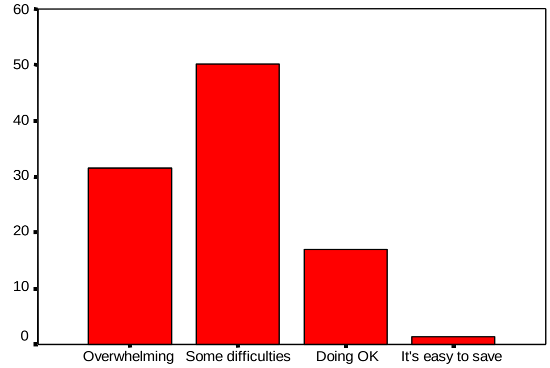


Table 5. Retirement security (%)

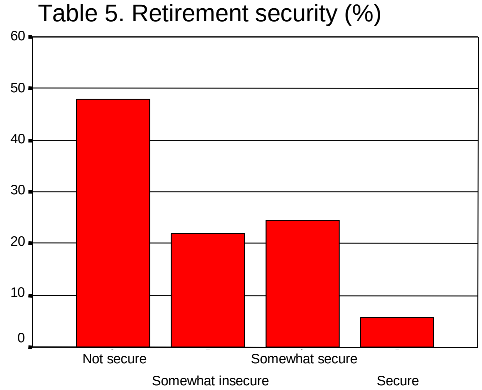


Table 6. Stress about personal finances in general (%)

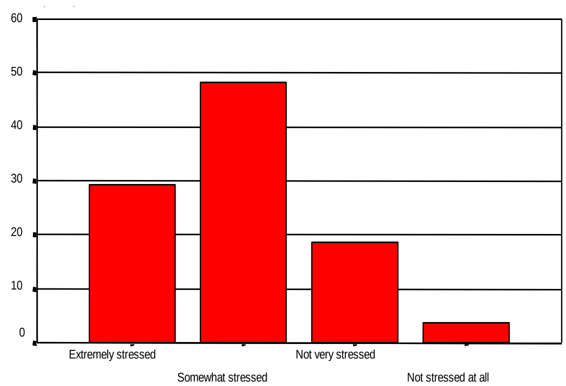


Table 7 Correlation Matrix

Correlation Matrix	Financial stress today	Current finan situation	How well off financially	Finan stress in general	Satisfac Finan situation	Retirement security
Financial stress today	1	0.461	0.379	0.472	0.439	0.235
Current fin. situation	0.461	1	0.625	0.656	0.688	0.256
How well off financially	0.379	0.625	1	0.585	0.619	0.339
Stress about personal finance	0.472	0.656	0.585	1	0.615	0.245
Fin. Wellness	0.439	0.688	0.619	0.615	1	0.315
Retirement security	0.235	0.256	0.339	0.245	0.315	1

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