SESSION 2: Financial Counseling: Best Practices

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Professor Flora Williams received her B.S. from Manchester College, and her M.S. and Ph.D. from Purdue University. She represents the School of Consumer and Family Sciences on the Purdue University Senate, teaches undergraduate and graduate classes, conducts research, and advises students. She is internationally recognized in the field of family economics and financial counseling planning. Williams was named distinguished fellow of the Association for Financial Counseling and Planning in 1999. In this session Williams explores the components necessary to create and maintain an effective consumer financial counseling program, and presents a model construct for counseling programs. She also details both the benefits and costs of counseling programs to the employee, the employer and the credit union, and presents criteria for successful financial counseling offered by a credit union.

A working definition for the process of financial counseling is this: "A financial counseling service assists clients in the creative use of all their resources to improve their economic well being and quality of life. Financial counseling assumes that changes in financial affairs and behavior are needed rather than enhancement or merely repositioning assets. Financial counseling is a 'change management system' utilizing knowledge and processes. Various models of financial counseling identify areas of change and assumptions in the delivery of knowledge and generating alternatives for facilitation change. Therefore, financial counseling has evolved into a multidisciplinary and interdisciplinary profession which theoretical, comprehensive models can encompass."

A model of the financial counseling process is shown in figure 2-1.

Figure 2-1:
Processes in Financial Counseling

Resources ⟶ **Outcomes**

Resources	Assessment	Education	Intervention	Economic Wellbeing and Security / Quality of Life

The model starts with resources, the tools we bring to the counseling process: human assets such as physical, social and spiritual energy; material assets including money, time and goods; resources within the person, family, community and government; and present and potential human capital.

Financial counseling is a discipline that has achieved professional status. It is an approach to assist families to improve their quality of life. After analyzing all the resources available to assist families, the counselor next assesses the situation to determine how to deploy available resources. We identify internal and external resources, present and future resources, realized and hidden resources, and evaluate which of those resources we will use to address the problem.

Assessment also involves classifying the demands that will be made upon our resources, including present and future demands; priorities based on urgency and sequential implications; opportunity costs; and creditor policy and legal implications. In making our assessment we focus on the changes we hope to achieve. We note barriers to change, both real and unreal, stated and unstated, hidden and potential. Finally, the assessment process clarifies and prioritizes the client's wants, goals, and resources; and identifies the actions required to achieve success.

"Financial counseling differs from financial planning in fundamental ways."

Financial counseling differs from financial planning in fundamental ways. The focus of the financial planner is on asset distribution and wealth accumulation. The financial planner is likely to be working with clients who are relatively secure, and wish to provide for their own future and the future of their heirs. The financial counselor, by contrast, typically works with individuals and households in need of crisis intervention. As a result, the financial counselor needs different skills than the financial planner. The counselor may be faced with emergency conditions in the lives of clients, conditions that require a team of professionals to address. The counselor is also concerned with effective behavior modification, a focus much less likely to occupy the financial planner.

The next step in the financial counseling model is Education. The education step provides information to the client, explains the methods to be implemented, and presents alternatives for the outcomes listed in figure 2-2.

Figure 2-2:
Education Goals

- Increase income (money, non-money, earnings and investments)
- Decrease expenses
- Adjust debts
- Control credit
- Clarify wants and goals
- Make decisions
- Organize household financial system and communication
- Make budgets and spending-saving plans
- Implement action for consumer recourse, legal-consumer rights, or problem resolution
- Establish and evaluate housing, insurance, transportation, estate planning, divorce, financing education, retirement, and elder care
- Develop sources of security and reduction of risk

The Intervention step is what makes financial counseling different than financial planning. During the intervention phase, the counselor motivates the client to act, based on factors revealed during the assessment. The counselor facilitates and refers clients, and negotiates with creditors, landlords, attorneys and judges, employers and hospitals. The counselor also empowers the client by removing barriers to knowledge, willingness and ability.

During the intervention phase, clients are enabled to adjust their lifestyle, consumption, management, and sources of satisfaction. They learn how to handle change and crisis in times of transition and stage of life. They are given management skills so that they can plan, and then control, implement and evaluate the plan they've developed with the help of the counselor. They learn how to use available resources, and act with immediacy, courage and communication to overcome barriers to their financial health.

Finally, the counselor coordinates and implements plans with brokers, insurance agents, trust officers, accountants, employee benefits administrators and attorneys. A successfully implemented financial counseling plan takes the client from examining resources, through assessment and education, to intervention, and ultimately to economic well being and a better quality of life.

The counseling process is not limited to low or even middle-income households. Individuals and families in every income stratum are likely to need the services of a financial counselor. The team we assemble to serve a particular client may vary based on income and wealth, but the process is the same for princes and paupers alike.

FORMULA FOR ECONOMIC SECURITY

The formula for economic security involves more than the client's income, as shown in figure 2-3. It includes attitudes toward that income, financial assets, personal assets, personal management, community resources, durable goods and equipment for producing non-money income, the value of simplicity, and insurance. Individuals use all these resources to achieve economic security. The financial counselor assists clients to control their finances. That sense of control acts as an intervening variable between quality of life and income, and environmental conditions. Personal dispositions influence evaluations of life, and inner attitudes modify the impact of environmental conditions.

Figure 2-3:
Formula for Economic Security

ES = f ($, ATT$, FA, Pa, MGNT, CR, DG, V, I) a

where:

$ = money income,

ATT$ = attitude toward income adequacy,

FA = financial assets,

PA = personal assets,

MGNT = personal management,

CR = community resources,

DG = durable goods and equipment for producing non-money income,

V = value of simplicity, and

I = insurance

a is the error term – here explaining the ability to adjust.

In assessing the client's financial position, the counselor typically must complete a recommendations checklist consisting of 179 separate items related to increasing income, reducing or changing expenses, controlling credit, adjusting debt and obligations, clarifying priorities, making decisions, managing household affairs, evaluating financial programs, and maintaining economic security. This checklist lets the counselor remember and make individual recommendations, and provides a quality control tool in training others. The recommendations are computerized so that they can be retrieved immediately for client action.

Counselors encourage their clients to "be a champion of change." We help clients handle crises and change, and employ several techniques to help people deal with crisis and change. These are usually very simple things, such as examining their costs in areas such as transportation, housing, insurance, children's education and funding and tax management. On the asset side we make recommendations relative to investments, estate distribution, home based businesses and other categories. The recommendations the financial counselor makes are driven by the overall model we discussed earlier. It's not enough to devise a plan and create alternatives. It's also a matter of how the client implements our recommendations and deals with change.

BENEFITS AND COSTS

Now let's do a brief cost/benefit analysis of financial counseling programs. Here we're talking about benefits and costs to the employee, the employer, and the credit union.

Employer Benefits

For the employer, we know that better financial health results in higher morale, loyalty and physical health on the part of employees, which in turn implies greater focus on the job. We also know that financial health produces greater concentration, creativity and productivity. By improving financial health, we can reduce the number of employees experiencing money problems that affect their job performance.

Financial counseling programs are a powerful tool to reduce the number of wage garnishments and wage assignments, and their associated costs. They reduce the approximately 15% of all employees that suffer wage garnishment at some time in their working lives. As employees gain control of their financial lives, they become more competent on the job. Both employers and employees benefit as the interrelatedness of financial affairs, substance abuse, and gambling problems is recognized, and problems are confronted.

"Personal financial competence can be related to on-the-job competence."

When financial counseling is used as a management tool, the problems of addiction can be faced, and then addressed at an earlier stage, triggering employee assistance programs and referrals that improve concentration, and reduce workplace accidents and tardiness. Employees make fewer mistakes on the job because they have less financial stress in their lives. Employees face bars to promotion when they have financial difficulties. That's why we say that financial trouble affects not only the employee's present, but his or her future as well.

With financial counseling, employees are likely to need less time off from work to handle their personal affairs. If these employees have a credit union with a financial counselor close by, they are likely to be on the job and working productively. Counseling provides incentives to employees to continue high levels of productivity and service in order to meet their financial goals and get their affairs in order before retirement. A formerly productive worker may realize that he can't retire on time, and lose his interest in on-the-job performance. Counseling can restore the employee's focus and his productivity as well.

Employees with access to counseling have more consistent productivity because they're able to handle life's transitions and unexpected events. They get the information they need to make informed decisions.

Employer Cost

Along with the benefits, it's fair to examine the employer's costs of a financial counseling program. First, the employer has the cost of maintaining the service, and must assume that the cost of counseling will be less than the cost of wage garnishments and assignments.

There's also the cost of overhead, equipment and utilities for housing the financial counseling service as an independent department or entity. There are costs associated with marketing and other support services as well. In a typical example, the financial counseling program for an organization with 9,000 employees must support the following activities:

- Three counselors and one office manager
- These counselors provide 621 hours of counseling and assessment
- They offer 17 hours of presentations and workshops
- They perform 12 hours in new staff orientation
- Counselors spend 13 hours consulting with other departments
- They attend administrative meetings for 11 hours; and
- They spend 20 hours in continuing education

Cost of Doing Nothing

The cost of financial problems to a company can be estimated by the procedure shown in figure 2-4. Employees burdened with financial problems are not likely to perform at their full potential. Therefore, employee financial welfare is a legitimate area for management to study and address.

Figure 2-4:
Computing the Cost of Financial Problems

Assume 10% of the workforce experiences financial problems #_________; and

10% of average annual wage in waste productivity amounts to $__________; equals

annual cost of doing nothing about employee financial problems: $_____________.

Likewise, a formula has been established to determine the effect of Employee Assistance Programs, as shown in figure 2-5. If we apply that same formula to determine the effect of financial counseling and assume the percentage of personal problems due to financial concerns, we can estimate the cost savings to employers of financial counseling programs.

Figure 2-5:
Cost Savings Effected by Employee Assistance Programs

Number of employees in the company =	_________(A)
10% (.10XA) are experiencing personal problems = *(Statistics indicate that 10-20% of the workforces is incapacitated by disruptive personal problems)*	_________(B)
Average employee's salary =	_________(C)
Total salary of employees with personal problems (B x C) =	_________(D)
Costs due to reduced productivity (D x 35) = *(Employees experiencing personal problems are at least 35% less productive)*	_________(E)
Your savings are (E x 75%) = *(75% of employee personal problems can be corrected through professional counseling)*	$_________

Benefits to Employees

"Clients expect more from financial counseling than simple credit repair. They want to manage their money better for greater future security."

The benefits of financial counseling to employees are also substantial. Clients report, for example, "a great series of releases from financial stress." Financial counseling for these individuals means less family stress and fewer health disorders, yielding more work success and productivity. Clients also report "fewer problems off the job, and fewer problems on the job."

Clients typically expect more from financial counseling than simple credit repair. They want to manage their money better for greater future security. And they want to become financially independent, rather than continuing to be virtual bonded servants who owe their souls to the company store. These are tangible benefits that financial counseling delivers to its clients.

With a financial counselor, individuals and families with money troubles have someone to turn to rather than moving along life's highway adding more debt and disrepair. With a financial counselor, they can expect reduced monthly interest payments, late fees and penalties. They can also achieve reduced expenses and increased savings. They become empowered to:

- Know what needs to be done and get it down on paper to build moral support and commitment.
- Build their confidence with defined steps to talk with creditors and family members. Counseling gives them the power to be in control of their financial affairs.
- Have the ease and convenience of handling their financial affairs rather than taking time off from work.

In short, counseling helps to fulfill dreams and meet goals for clients, because they have the information they need to take control of their financial lives. Financial counseling assists clients in the creative use of their resources to change behavior. People change their behavior as a result of relationships with others who have faith in them. Most of the people who come to counseling need that relationship to force them to carry through on a program of financial management that will change their behavior. Counseling involves more than information and education. It builds new relationships that in turn encourage solutions.

The barriers to change that we examined in our initial model of financial counseling include the willingness and ability to change. The role of the counselor includes addressing those barriers, and overcoming behavioral factors. The counselor helps to reduce anxieties in other facets of the client's life, so that change is more accessible. Both psychological and financial factors are involved in the counseling process.

Employee Cost

Once again, we need to consider not just the benefits but also the costs of financial counseling to the employee. There's the obvious time required to meet with the financial counselor. There's also time required to gather appropriate information, and provide that information to the counselor. If the employee is taking time off work to do that, it must be balanced against the benefits reaped in the counseling process.

There are confidentiality issues as well. For example, the client must show pay stubs to the counselor, thereby giving up a certain degree of privacy. Many clients fear that admitting failure will reflect on their on-the-job capabilities. If they are observed visiting a counselor by a co-worker, they relinquish more confidentiality, because they often see seeking help as a sign of weakness, rather than strength. Counselors make it a point to compliment new clients on their strength in seeking assistance, to reassure them that help is a step forward, not a character flaw.

If the client is forced to participate or recommended by a supervisor, the counseling process may create resentment and close the door to some alternatives. The counselor needs to deal with these resentments, and turn the discussion to a positive examination of options.

The client in financial counseling also pays a price in deferring satisfactions and postponing some of the things he wants. And he needs to get the cooperation of family members for changes in their group priorities and practices. The greatest price some clients pay for entering a counseling program is having to mobilize the cooperation of every family member to set their financial house in order. But we have found over time that family members are usually more willing than the client might believe to make the necessary changes.

> *“Counselors are a positive alternative to traditional collection methods, creating value added services that help members maintain their financial health and build their long term assets.”*

Credit Union Benefits

First and most obvious of the benefits to the credit union of a financial counseling program is that it fulfills and demonstrates the credit union philosophy of people helping people to help themselves. It also reduces the risk of costly loans, ineffective loans, and bad loans. A financial counseling program can also promote the use of more credit union products and services by members. And it enhances credit union service to its members with a relatively small additional cost of training existing counselors, or an expansion of service through an independent department.

Counselors are a positive alternative to traditional collection methods, creating value added services that help members maintain their financial health and build their long term assets. American society increasingly is asking its institutions to fulfill a new responsibility, to not only provide its citizens with an income, but to educate them in how to manage their income. A counseling program is an excellent way for the credit union to respond to those societal demands. This is a relatively low cost, high impact enhancement to credit union services. A counseling program smooths out life transitions to maximize return on investment in training employees.

Credit Union Costs

The credit union incurs costs in setting up a counseling program, including the cost of training personnel to staff the service. Costs include both staff training time and the materials needed to support the program. The Boeing Employees Credit Union offers a counseling outreach program that provides financial counseling resources for credit unions. They train people to become financial counselors in a week-long session. The cost is $3,200 for the first participant, and $1,400 for each additional participant.

There are also salary considerations. My research indicates that the cost of a single counselor in salary, benefits and support is about $50,000 per year. If the credit union were to establish a new department to handle the counseling function, including support staff and separate housing, the cost might approach $250,000 per year.

Once the program is initiated, the credit union can also expect to incur the cost of advertising and marketing, along with continued training for its counselor or counselors. There are professional meetings, certification, and support publications to consider. These support programs and materials are critical to the success of both the counselor and the overall program. The credit union must be willing to provide emotional support and time to present the program and document success (figure 2-6).

Figure 2-6:
Evaluating Success of Financial Counseling Programs

Program success can be measured based on:

- Reduced client stress and more positive behaviors
- Less creditor contact at work and home
- Ability to improve housing
- More secure in keeping household together
- Greater focus on defined goals
- Greater goal achievement
- Fewer interest payments, fees, and penalties paid
- Greater savings

The credit union may also want to analyze additional factors connected with its counseling program, which will also incur costs. These additional factors are shown in figure 2-7.

Figure 2-7:
Other Factors to Analyze

- What effect has the counseling program had on the prevention of:
  - Bankruptcy
  - Loan consolidation
  - Divorce
  - Increased debt
  - Damaging credit report
- How many adjustments and changes were undertaken in developing a program?
- Did clients experience a sense of well being and increased ability to concentrate on their jobs?
- Was communication with families on finances enhanced?

Finally, the credit union may encounter certain conflict of interest issues in the process of operating a counseling program. For example, a member may come in to apply for a consolidation loan to pay off current debt. The counselor may determine that a consolidation loan will only exacerbate the member's financial problems, and recommend other solutions, such as reducing expenses. The credit union must be willing to stand by the counselor's recommendations, which may occasionally involve short-term business costs. However, these costs are minimal compared to the long-term benefit of helping to develop financially-healthy members.

BEST PRACTICES

Armed with these cost and benefit factors, let's look at the criteria for a successful credit union financial counseling program. The following criteria give us standards for a professional practice. These standards are those that are most likely to change behavior, handle crisis situations, and optimize resources. They are capsulized in figure 2-8:

Figure 2-8:
Criteria for a Successful Financial Counseling Program

- Efficient
- Attractive
- Accountable
- Offering Strategies for Change
- Education
- Presents Alternatives
- Creates Trusted Relationship
- Realistic
- Comprehensive and Holistic
- Multi-Purpose
- Effective

Efficient: The program should be timely, avoid waiting periods, be accessible and inconspicuous, offer flexible hours, and be otherwise convenient. It should involve the client's partner if possible, and offer telephone consulting through a call center. It should offer crisis intervention and understand the process clients use to respond to crises. The counselor should develop a form to record meeting sessions, advice given, suggestions offered, and a date and time for the next meeting.

Attractive: Surroundings and space should be professional and attractive, with a furniture arrangement conducive to discussion. There should be a confidential waiting area with educational material to read.

Accountable: Three meetings should be arranged to facilitate progress reports. The counselor should promote continual communication, and consult with clients on their life events. The approach should be long term except in the case of a single focus request for information and advice. Clients usually take three years to change their behavior and master control over their changed consumption habits. Client and counselor should target one task to be achieved each week. And counselors should use open ended questions in probing for problem solving behaviors.

Offering Strategies for Change: Counselors should engage in crisis intervention and strive for long term behavior modification. They should use techniques for handling change in consumption, attitude, habits, management, communication and practices. They should address basic needs to be met, and find less expensive ways to meet them. They should address barriers to change. And they should apply the financial counseling change model: Increase income, reduce wants, control, and be efficient.

Education: Effective counseling empowers the client by warning about others' vested interests, frauds, and scams. It provides information through sight, sound, and kinesthetic processes. Counseling provides clients with educational materials such as leaflets, posters, lunch meetings, and seminars in the work place. And it offers case studies and comparisons that humanize the counseling experience.

Presents Alternatives: Counseling should provide several alternatives from which the client can choose, so that she can claim the solution as her own. It should employ checklists of recommendations for each area to guide the discussion, and to serve as a tool for quality control of processes and recommendations of counselors. And it should present the advantages and disadvantages of sets:

1. Alternatives to loan consolidation and bankruptcy
2. Alternative loan sources
3. Debt adjustment strategies and agencies

Creates a Trusted Relationship: The counselor should assure confidentiality. The counselor should have faith in the client to solve her problem and increase her productivity, and care about the client as a person. There should be no effect on the client's job performance evaluation as a result of seeing a financial counselor, and the counselor should be empathetic and assertive.

Realistic: The counselor should personalize the client's budget, and involve family members in ways that increase income and/or reduce expenses, in order to be more efficient. The counselor should address barriers to change to build confidence and hope. Hope in turn will give the client energy and confidence to talk to creditors and family members. Counseling should give the client the incentive to keep working on her financial problems.

Comprehensive and Holistic: The plan should follow the financial counseling model presented earlier, involving the application of resources, assessment, education and intervention to produce economic wellbeing and improved quality of life.

Multi-Purpose: A best practices counseling program works to achieve a number of purposes. It prevents future mistakes and crises; provides credit repair, crisis intervention, self-help, and checkups. It helps the client put money to work for maximum benefit, and reduces the risk of loss. It assists in decision-making such as elder care, child care, mortgage prepayment, response to job loss, and purchase and retention of housing. A best practices program also develops budgeting and spending plans; addresses consumer disputes, rights and responsibilities; and gives clients a working knowledge of all credit union products.

Effective: The counseling program clarifies steps necessary to implement changes and solve problems. By calculating the cost of delay it prevents procrastination. It uses behavioral science and economic techniques to achieve client goals. It provides referral services to EAP programs, network services, and community resources. And it gives clients hope, control, and realistic expectations within designated time frames.

An excellent place to gain access to the resources necessary to implement a best practices financial counseling program is the county extension service office. Extension educators have materials and are willing to create partnerships in the area of consumer finance. The Federal Trade Commission is another good source of materials and advice.

By taking advantage of all available resources and bringing these resources to bear on client circumstances, the financial counselor can have a profound effect on the lives and success of the people she serves. And as employees gain control of their financial lives, they become more competent on the job. Both employers and employees benefit as the interrelatedness of financial affairs and personal difficulties is recognized, and problems are confronted.