The Development of the Beta Version of the InCharge Financial Distress Scale

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Abstract

The current study provides a description of the development to date of the Beta Version of the InCharge Institute Financial Distress Scale (FDS). The paper summarizes the use of measurement items in previous research. The results reported are from one of several data sets utilized in the development of a valid and reliable Beta Version of the FDS. A discussion supporting the uses for the Beta Version of the FDS follows.

Introduction and Background

Distress about financial matters is real and increasingly prevalent in society. Workers distressed about financial issues likely experience negative spillover effects that influence their effectiveness in the workplace. Concern about personal finances also has been linked to health (Bagwell, 2000; Drentea, 2000; Drentea & Lavrakas, 2000; Jacobson, Aldana, Goetzel, Vardell, Adams, & Pietras, 1996; Pearlin, Menagahn, Lieberman, & Mullan, 1981), and debt burden has been determined to negatively affect health (Bagwell; Drentea & Lavrakas; Sorhaindo & Garman, 2002). The negative spillover effects of perceived financial stress also affect children (Takeuchi, Williams & Adair, 1991) and family members (Freeman, Carlson, & Sperry, (1993); Lorenz, Conger, Simon, & Whitbeck, 1991). We have known for decades that financial stressors also contribute to marital stress (Freeman, Carlson & Sperry; Olson, McCubbin, Barnes, Larsen, Muxen, & Wilson, 1983), including decreased levels of cooperation, increased negative communications and hostility (Conger et al., 1990). Financial stress also is associated with lower self-esteem (Kernis, Grannemann & Mathis, 1991).

One large group of adults who exhibit distress about their personal finances is credit counseling clients. The *New York Times* reports that perhaps as many as nine million consumers contacted non-profit credit counseling agencies in 2002 seeking assistance in managing their unsecured debts (Bayot, 2003). Annually, approximately three million consumers become clients of credit counseling agencies (Pushed off, 2001). For many, getting help from a credit counseling agency is the last source of assistance available to head off personal bankruptcy.

Among the overly indebted, there exists quite a range of financial behaviors, including overspending, compulsive spending, irrational use of credit, hoarding, and compulsive acquisition (Chatterjee & Farkas, 1992). Most people who contact a credit counseling agency for assistance cite overspending as a reason for getting into financial difficulty (Client Survey, 2004). Consumers have less frequently reported other reasons for the initial contact, including frustration with high credit card fees, loss of income due to unemployment or reduction in overtime, unexpected medical bills, divorce and the desire to improve the financial situation to meet financial goals (Client Survey). The great majority of consumers who seek assistance from credit counseling agencies feel substantial and oftentimes acute stress in their lives (Bagwell, 2000; Bailey, Woodiel, Turner, & Young, 1998; Kim & Xiao, 2004; Garman, Camp, Kim, Bagwell, Baffi, & Redican, 1999; Kim, Garman & Sorhaindo, 2003; Kim, Sorhaindo & Garman, 2003). Some clients feel like they have lost control over their finances while others are defeated and perhaps psychologically overwhelmed with all their debts. All are in financial difficulty.

The majority of consumers who seek assistance from credit counseling agencies feel substantial and oftentimes acute stress in their lives (Bagwell, 2000; Bailey, Woodiel, Turner, & Young, 1998; Kim & Xiao, 2004; Garman, Camp, Kim, Bagwell, Baffi, & Redican, 1999; Kim, Garman & Sorhaindo, 2003; Kim, Sorhaindo & Garman, 2003). Some clients feel that they have lost control over their finances, while others feel defeated and psychologically overwhelmed with debt. All are in financial difficulty.

Not all consumers who contact a credit counseling company qualify to become clients. Some respond to advertising to ask whether the company can negotiate on their behalf with credit card issuers to get their interest rates reduced. Many who do not qualify for credit counseling have too few debts, too few creditors or owe too little money, perhaps only $2,000. Others may have insufficient income to be capable of repaying their debts. The debt-distressed consumers who do qualify sign agreements marking entry into a credit counseling company's debt management program (DMP), which can help prevent declarations of bankruptcy. [For the fiscal year ending September 30, 2003, over 1.5 million consumers filed for personal bankruptcy (Personal bankruptcy filings, 2003); this is up 7.4 percent from the previous year.] With a debt management program, holders of unsecured credit (e.g., credit card issuers, medical providers) often are 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 overly indebted consumers; in exchange, the credit counseling organization collects monies owed and disburses them to creditors on behalf of the consumers.

Purposes of the Study

This study was undertaken with the broad general purpose of contributing toward the creation of the InCharge Institute Financial Distress Scale (FDS). This paper describes the development of the current beta version of the FDS.

Methodology

The logic and rationale for selecting questions for the FDS come from a review of literature and a number of data collection efforts. The population for the data presented in this report comprised financially distressed consumers who telephoned a large national non-profit credit counseling organization seeking assistance with outstanding debts. All callers who were qualified to join a DMP received some counseling and advice regarding their personal finances during the initial call. On that first call, a credit counselor talked 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 continued for those who joined the DMP.

The population of interest was made up of 4,000 credit counseling clients. A random sample of approximately 1,800 new clients was drawn from the 4,000 who had signed a DMP agreement with Profina Debt Solutions between the beginning of January and the end of April 2000. Each was mailed a questionnaire and a letter with $2 enclosed as an incentive to participate in the study. Four weeks following the initial mailing, a follow-up postcard reminded non-responders to fill out and return the questionnaire. After two additional weeks, a second questionnaire and follow-up letter were mailed to non-respondents. The 355 respondents represented a 20 percent return, rather typical for survey research that does not utilize aggressive follow-up techniques.

The data were self-reported by the respondents on printed questionnaires containing 45 items. Three questionnaires were excluded from the study due to incomplete data. The resulting dataset is referred to as the "2000 Panel Study" since it was the intention of the researchers to conduct follow-up studies of these credit counseling clients at 12, 18 and 30 months. This report is based primarily on information from that dataset. However, some findings are from analyses of a 2003 study of similarly distressed credit counseling clients of the same company. This second dataset is referred to as the "2003 Panel Study" since the researchers intend to conduct follow-up studies of these credit counseling clients at 12, 24, 36, and 48 months. For the 2003 Panel Study, questionnaires were sent to all 7,800 of the identified population of credit counseling clients; following the deletion of 443 potential respondents for whom mailings were undeliverable, the study population was 6,757. The return rate was 46.3 percent as 3,131 respondents returned completed questionnaires.

Results

The following discussion offers some discussion of overall well-being and personal finances, stress and distress, availability of databases on financially distressed consumers, need for a financial distress scale, conceptual models and subjective measures, results on the beta version of the InCharge Financial Distress Scale, and uses of the InCharge Financial Distress Scale.

Overall Well-being and Personal Finances

An important part of overall psychological well-being is satisfaction with various aspects of life (Campbell, 1981; Campbell, Converse, & Rogers, 1976; Olsen, McCubbin, Barnes, Larsen, Muxen, & Wilson, 1989). One of those domains is personal finances and a key determinant of psychological well-being is economic distress (Grasmick, 1992).

Economic distress is a good predictor of well-being (Blumstein & Swartz, 1983; Pittman & Lloyd, 1988). Grasmick (1992) concluded that financial distress significantly reduces psychological well-being. This research 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"). Grasmick reported that husbands and wives are equally impacted…" with the "…debilitating effects of this distress…." Bailey, Woodiel, Turner, & Young (1998) found in a study of professional mental health staff working in behavioral hospitals "that financial stress scores from personal and work areas explained 50% of the variance in their overall stress."

Stress and Financial Distress

The term stress, notes Webster (Merriam Webster, 1995), denotes a constraining force or influence such as when one body or body part presses, pulls, pushes, or perhaps twists another. As a verb transitive, "to stress" means…'to subject to physical or psychological stress.'" Stress also is "a state resulting from a stress of bodily or mental tension resulting from factors that tend to alter an existent equilibrium." A common cause of stress for many people is recognizing that one has too much debt.

Webster also notes that distress is a "pain or suffering affecting the body, a bodily part, or the mind." Webster lists several synonyms for distress including suffering, misery and agony. As reported in another publication (Garman, Sorhaindo, Bailey, Kim, & Xiao, 2003), "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 it also can turn into and become 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 of one's physical and mental health."

Availability of Databases on Financially Distressed Consumers

Very few published studies have researched credit counseling clients (Bagwell, 2000; Garman, Camp, Kim, Bagwell, Baffi, & Redican, 1999; Kim, Garman, & Sorhaindo, 2003; Sorhaindo & Garman, 2002; Staten, 2002). Researchers at the InCharge Institute of America have collected data from two populations of new credit counseling clients. Consumers who enroll in a debt management plan are primarily people who report that they presently have poor financial well-being, they are dissatisfied with their current financial situation, and they are seriously distressed about their finances (Kim, Garman & Sorhaindo, 2003; Kim, Sorhaindo & Garman, 2003; Sorhaindo, Garman & Kim, 2003).

InCharge also has conducted follow-up research of some of those same clients (Sorhaindo & Garman, 2002) and found increases in financial well-being and decreases in financial distress (Bagwell, 2000; Sorhaindo & Garman, 2002; Sorhaindo, Garman & Kim, 2003). Those and other studies used various combinations of similar questions that inquired about financial well-being and distress about financial matters.

Need for a Financial Distress Scale.

The research raises some good questions: "Wouldn't it be useful to know if people's lives genuinely changed for the better as a result of participation in a credit counseling company's debt management program?"; "Can changes in levels of distress about financial concerns and in personal financial well-being be accurately and reliably assessed using subjective measures?"; and "If adequate measures can be developed, could they be used to measure the impacts of various treatments aimed at reducing financial distress and improving in financial well-being?"

"The InCharge Institute of America and the InCharge Education Foundation," as observed in another report (Garman, Sorhaindo, Bailey, Kim, & Xiao, 2004), "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 holds the view that credit counseling, a debt management program and financial education can contribute to helping reduce financial distress and improve financial well-being. To accurately track changes over time, a need exists to develop a valid and reliable scale that can be widely used to assess financial distress. And a good scale could be effectively used by others to assess treatments designed to reduce financial distress and improve financial well-being.

Conceptual Models and Subjective Measures

While objective measures, such as income, debts and debt-to-income ratios, have been used to measure financial well-being and apparent levels of distress about personal finances, such assessments do not tell the whole story. When talking with overly indebted credit counseling clients, the counselors observe that most callers seem to be quite distressed and upset while others in similar financial situations are not. Furthermore, after one year, or longer, of participation in a debt management plan almost all clients report decreases in distress about their personal finances and increases in their personal financial well-being (Sorhaindo, Kim & Garman, 2003). This suggests to counselors and researchers that a key dimension of the concept of financial distress is one's feelings about financial matters. Distress and anxiety about financial matters is about more than simply having a certain amount of money, it is also about how people feel about their financial matters. A similar argument can be made about assessments of financial well-being because the person's subjective perceptions are a compliment to understanding a person's situation though his or her objective financial information. Therefore, the task is to establish clarity in measuring those variables and any other measurable factors that make up the domain of financial distress.

There are numerous conceptual models on broad conceptualizations of overall well-being (Campbell, 1981; Campbell, Converse, & Rogers, 1976; Cantril, 1965; Davis, 1945; Deacon & Firebaugh, 1988; Festiger, 1957; Olson, McCubbin, Barnes, Larsen, Muxen, & Wilson, 1989) as well as on resource management and financial well-being, and most recognized the importance of using subjective, rather than solely objective, measures (Beutler & Mason, 1987; Davis & Helmick, 1985; Hafstrom, J. L., 1986; Garman, 2004; Godwin & Carroll, 1985; Joo, 1998; Kim, 2000; Lown & Cook, 1987; Porter, 1990; Porter & Garman, 1993; Prochaska-Cue, 1998; Shinn, 1992; Strumpel, 1976; Wilhelm, Iams & Rudd, 1987; Wilhelm, Varcoe & Fridrich, 1993; Walson & Fitzsimmons, 1993; Williams, 1983; Williams, 1985; Williams, 1997; Winter & Morris, 1983).

One report was focused solely on the importance of utilizing subjective money attitudes in assessing financial satisfaction, well-being and progress (Wilhelm, Varcoe & Fridrich, 1993). Freeman, et al (1993, p. 330) conclude that "financial stress is a subjective phenomenon…and that "middle class couples who are far from destitute can still feel economic stress as a result of changes in financial condition." Pittman & Lloyd (1988) concur. Years ago researchers at the National Institute of Mental Health Pearlin and Radabaugh (1977, p. 656) recognized that when assessing a family's economic resources, "income information is at best incomplete, for it does not take into account the fact that the same level of income reflects a different resource for families differing in size and age composition." Accordingly, they NIH researchers used a second measure, a three-part subjective question, that provided a "direct measure of strain." It focused "on the actual economic strain people experience" that "taps the intensity of the effort in which one has to engage simply to meet the fundamental economic requirements of life." Such strain is "significantly associated with anxiety."

Results on the Beta Version of the InCharge Financial Distress Scale

The 2000 Panel Study questionnaire includes a number of financial well-being questions and others that assess stress about financial matters and any degree of associated negative effects of financial distress. 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. Its value to this report is in the statistical relationships determined between and among variables. Furthermore, 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.

Appendix A contains the Beta Version of the InCharge Financial Distress Scale (FDS). Currently, it has six items. Readers referring to the Beta Version as they read the discussion below will note that some of the individual questions are worded slightly differently and some anchor terms have changed. All comments that follow refer to the Beta Version even though the term "Beta" will not always be utilized. The following 13 paragraphs are adapted from another report (Garman et al., 2004).

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>

The InCharge Financial Distress Scale 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.

It also 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.

The current Beta Version of the InCharge Financial Distress Scale is anticipated to evolve into a final instrument that is valid, reliable and easy to administer and score. Data from two or three additional 2004 studies as well as the results from a planned Delphi study of experts in personal finance will be examined.

Appendix
InCharge Financial Distress Scale – Beta Version

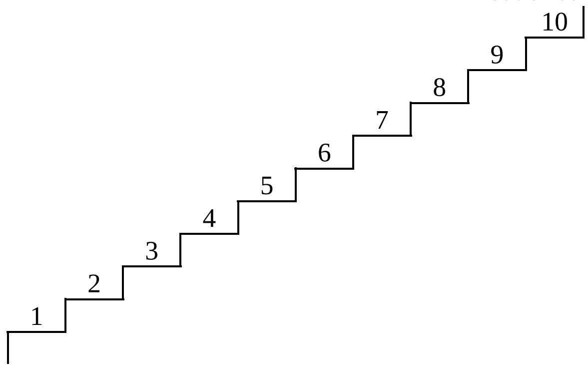
1. What do you feel is the ***level*** of your ***financial stress today?***

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.

Satisfied



Dissatisfied

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 (%)

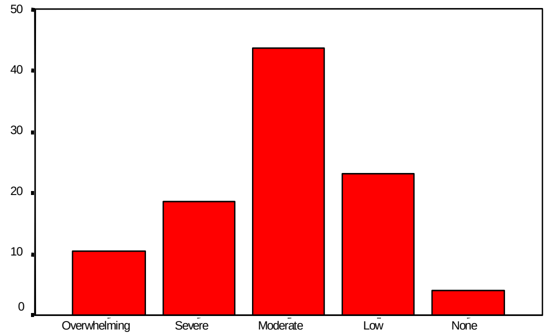


Table 2. Satisfaction with present financial situation (%)

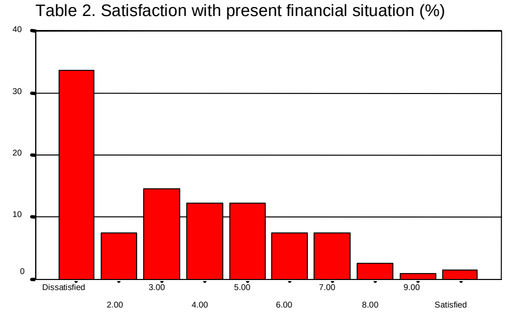
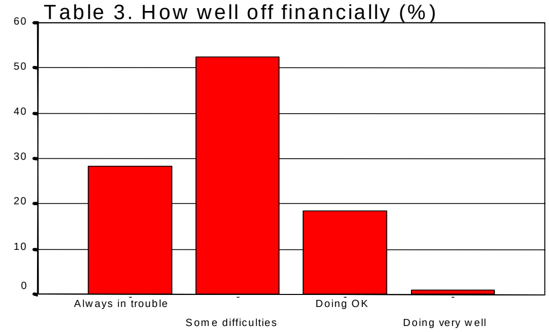


Table 3. How well off financially (%)



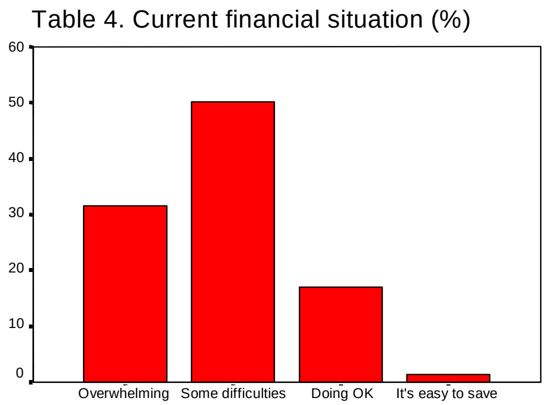


Table 4. Current financial situation (%)
60
50
40
30
20
10
0
Overwhelming
Some difficulties
Doing OK
It's easy to save

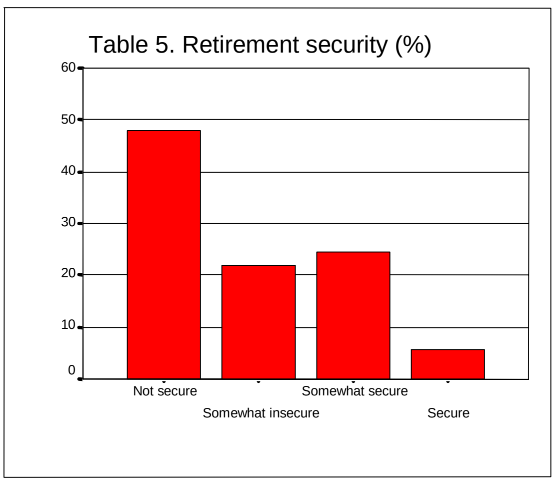


Table 5. Retirement security (%)
60
50
40
30
20
10
0
Not secure
Somewhat insecure
Somewhat secure
Secure

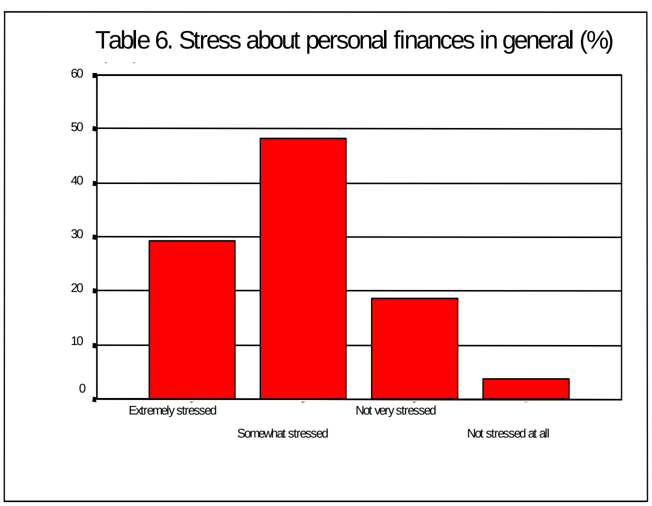


Table 6. Stress about personal finances in general (%)
60
50
40
30
20
10
0
Extremely stressed
Somewhat stressed
Not very stressed
Not stressed at all

Table 7 Correlation Matrix (*=sig. at or beyond 0.05 level)

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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