Financial Distress/Financial Well-being: Do Length of Time Spent in a Debt Management Program and Changes in Debt Burden and Financial Stressor Events Make a Difference?

The study investigated whether reduction in credit card debt and financial stressor events as well as longer time in a debt management program (DMP) made a difference in the financial distress/financial well-being of 828 credit counseling agency clients. A series of multiple regression models tested the hypotheses. While reduction in credit card debt and more time in a DMP helped predict less financial distress/more financial well-being, reductions in financial stressor events were found to be the most important predictors.

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Methodology

Data

Mailed surveys in 2003 and 2005 produced data from consumers who had contacted a credit counseling agency, resulting in a combined sample of 4,331 (2003, N = 3,121; 2005, N = 1,210). Findings reported are based on analyses using data from those consumers who responded to both surveys (n = 828).

Participants ranged in age from 21 to 89 years (M=47). Incomes ranged from \$160-\$8,000/month, (M=\$2,182; Mdn=\$2,000). Participants reported outstanding credit card debt ranging from \$200-\$180,000; (M=\$16,254; Mdn=\$12,328). Days spent in the DMP averaged 140.

Measures

Occurrence of financial stressor events: Participants were asked, "During the past 6 months, how often have you experienced the following?" for each of nine specific incidents. The response categories consisted of never = 0, once = 1, more than once = 2. Factor analysis produced two distinct factors: Factor 1, negative bill-paying events (e.g., paying bills late, receiving calls from creditors) and Factor 2, exhaustion of liquid assets (e.g., took cash advance, maxed out credit card). Summed scores provided data for subsequent regression analyses.

Financial distress/financial well-being was measured using the InCharge Financial Distress/Financial Well-Being (IFDFW) scale; scores can range from 1.0 = overwhelming financial distress/lowest financial well-being to 10.0 = no financial distress/highest financial well-being (Prawitz et al., 2006). Scores for the sample in this study ranged from 1.0 to 10.0, with a mean score of 4.89.

Hypotheses

H1: Those reporting less credit card debt, fewer negative bill-paying events, and less exhaustion of liquid assets will report less financial distress/more financial well-being.

H2: Those reporting longer participation in a DMP, less credit card debt, fewer negative bill-paying events, and less exhaustion of liquid assets will report less financial distress/more financial well-being.

Results

A series of multiple regression models tested the hypotheses. Model 1 explored the influence of individual characteristics; IFDFW scores were regressed on age, monthly income, and outstanding credit card debt. Of these, only age was significant in predicting financial distress/financial well-being (p<.05). Older consumers were more likely to report less financial distress/more financial well-being.

Model 2 tested Hypothesis 1, that those reporting fewer negative bill-paying events and less exhaustion of liquid assets would have less financial distress/more financial well-being. Predictors in the model were age, monthly income, outstanding credit card debt, and occurrence of both negative bill-paying events and exhaustion of liquid assets. All predictor variables were useful in explaining financial distress/financial well-being ($p < .001$). Those who were older, had greater monthly income and less credit card debt, and who indicated fewer negative bill-paying events and less exhaustion of liquid assets experienced less financial distress/more financial well-being. The addition of negative bill-paying events and exhaustion of liquid assets to the model increased the explanatory power 26% over that of Model 1.

Model 3 tested Hypothesis 2 that longer participation in a DMP and fewer financial stressor events would result in less financial distress/more financial well-being. In Model 3, IFDFW scores were regressed on age, monthly income, outstanding credit card debt, negative bill-paying behaviors, exhaustion of liquid assets, and number of days in the DMP. Length of participation in the DMP, as well as all of the individual characteristics and the occurrence of both negative bill-paying behaviors and exhaustion of liquid assets, were significant in predicting financial distress/financial well-being ($p<.001$). As in Model 2, older consumers and those who reported more income had less financial distress/more financial well-being. Those with less credit card debt, fewer negative bill-paying events, and less exhaustion of liquid assets reported less financial distress/more financial well being. While longer participation in the DMP resulted in less financial distress/more financial well-being, reduction in negative bill-paying events and less exhaustion of liquid assets were the best predictors in the model.

Discussion and Implications

There was support for both hypotheses. Financial distress/financial well-being is a function of occurrence of financial stressor events and time spent in a DMP. The results provide evidence that a decrease in both negative bill-paying behaviors and exhaustion of liquid assets, and an increase in time spent in a DMP decrease financial distress and enhance financial well-being. DMPs, in addition to helping consumers get out of debt, also provide information and credit counseling to help improve financial behaviors. Past research has demonstrated that credit counseling and financial education is helpful in motivating consumers to handle personal finances more appropriately (Bagwell & Kim, 2003; Kim, Garman, & Sorhaindo, 2005).

The results offer important implications for financial counselors and educators. Scores from the IFDFW scale can serve as a barometer for use with those experiencing financial problems, both initially and following interventions designed to help consumers replace negative financial events with healthy approaches to money management. Measurement of consumers' financial distress/financial well-being can help provide evidence about the success of such programs, for as consumers decrease negative financial events, their financial well-being improves. Knowledge about money management represents a first step toward improving financial health. Real learning, however, means changing behaviors. The easing of financial distress that accompanies a decrease in inappropriate handling of finances can provide needed relief and motivation for financially distressed consumers who make positive changes.

References

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Endnotes

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