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Prepared May 2, 2002

Profina Debt Solutions^{sm} 18-Month Panel Study: Changes in Financial Behavior and Incidence of Financial Stressors

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Introduction

As one of the leading debt management and counseling organizations in the country, Profina wants to measure the extent to which the service it performs for its clients is making a difference in their financial well-being. In particular, Profina wants to know whether any improvement in client financial life can fairly be attributed to its service even after allowing for effects beyond its determination. To get that assurance, it was decided to conduct a study in which clients joining the debt management program (DMP) would be tracked to determine whether there were differences in the financial lot between those staying in the program (called *actives* in this report) and clients who either dropped out after at least one payment (called *dropouts*) and those who never even made a payment. The latter is used as a *control* group in this report.

This tracking was initiated with a survey in mid-2000. At that time customers who had signed an agreement sometime in the previous three months were mailed questionnaires on their financial wellness, behaviors and frequency of occurrence of typical financial stressors. The behaviors addressed were those that were strategic, preventive and laying the foundations for continuing financial wellness. Stressors were incidents in financial life that were clear symptoms of financial distress. Questions were also asked about state of health and quality of life at and away from work, reflecting concern that financial distress can be pervasive, affecting not only health but also job productivity. If those effects are significant, then financial distress could also become the concern of both the public health community and business. Other surveys with the same questions were conducted in 2001 and 2002 to gauge changes in responses. This report focuses on the change in responses on financial behavior and stressors over the 18 months separating the first and third data collection efforts.

Procedures of the 18-Month Study

In early 2000 a sample of 1,800 clients was drawn from a population of 4,000, the Profina population at that time. The clients chosen were those who had signed an agreement with Profina between January and April 2000. By June of 2000, 20% of the sample (355 clients) had completed a 57-item questionnaire. Using these 355 respondents as a panel, most of the same questions were again mailed in January 2002. Due to changed addresses, 302 questionnaires actually reached their destinations. When data analysis began, 180 responses were already received. This report is based on

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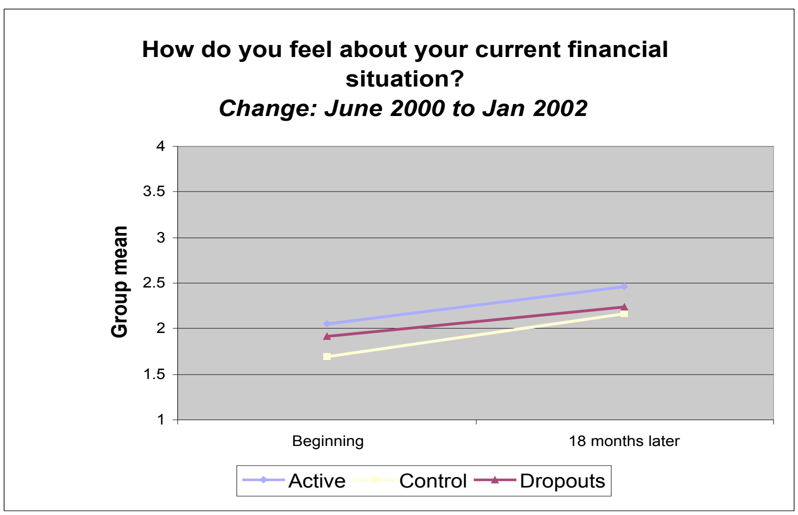
that dataset. Three groups were identified. Respondents still active in the debt management program (DMP) formed one group. Respondents who had left the program without making even one payment were taken as a control group. The third group consisted of respondents who left the program after making at least one payment.

Current Financial Situation
An important question in the study related to clients' current financial situation. The data revealed that people who remained in the DMP improved their financial situation more that those who did not. In both studies, June 2000 (Beginning in Figure 1) and January 2002 (18 months later), clients were asked to rate their financial situation on the scale shown:

1 overwhelming
2 some difficulties
3 doing OK
4 it's easy to save

Figure 1 shows that in 2000, those customers who would remain active had some difficulties financially, but they were doing better than those who would drop out soon or eventually. By 2002, 18 months later, the active customers were still doing better financially and had widened the margin between the control and dropout groups. The actives moved from having 'some difficulties' towards 'doing OK'.

Figure 1



Financial Behavior
There were several questions asked in the studies about financial behavior. They sought to identify actions undertaken that would have payoff in the future. For most of these questions, respondents generally reported increased adoption of these behaviors over the 18-month period, with actives generally reporting greater initiative.

Table 1

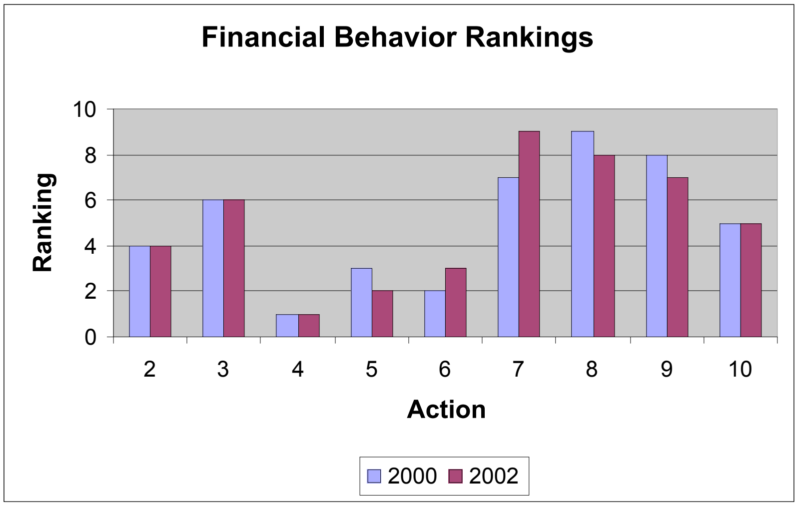
Q	Financial Behavior	Beginning				
		GROUP Mean				
Q	**Action**	**Active**	**Ranking**	**Control**	**Dropouts**	**All**
4	Reduced personal debts	0.78	1	0.60	0.83	0.73
6	Cut down on living expenses	0.78	2	0.67	0.75	0.73
5	Followed a budget	0.58	3	0.42	0.48	0.49
2	Developed a financial plan	0.47	4	0.36	0.47	0.43
10	Contributed to retirement plan	0.39	5	0.28	0.36	0.34
3	Started or increased savings	0.37	6	0.29	0.35	0.33
7	Contacted a financial planner	0.34	7	0.29	0.41	0.35
9	Determine retirement income	0.25	8	0.21	0.20	0.22
8	Contributed to pre-tax program	0.18	9	0.11	0.20	0.16
	MEAN for all questions	0.46		0.36	0.45	0.42

Table 1 shows a listing of the financial behaviors about which customers were asked. Respondents answered 'Yes' or 'No' depending on whether the action was adopted or not. Affirmative answers carried the score 1 while answers in the negative received 0 as a score. Mean scores for all questions are shown in Table 1 for the 2000 study. The mean score for the actives are sorted, resulting in a ranking or implicit prioritization of the behaviors in 2000. For the actives, reducing personal debt was the number one action taken, followed by cutting down on personal expenses. When compared with the control and dropout groups, the priorities are seen to be quite similar. This is not surprising as all groups were initially similarly situated financially. Table 2 presents the same behaviors eighteen months later. Again, the mean scores for the actives are sorted giving a ranking for

Table 2

Q	Financial Behavior	18 months later				
		GROUP Mean				
Q	**Action**	**Active**	**Rank**	**Control**	**Dropouts**	**All**
4	Reduced personal debts	0.95	1	0.70	0.74	0.81
5	Followed a budget	0.81	2	0.57	0.55	0.66
6	Cut down on living expenses	0.78	3	0.77	0.83	0.79
2	Developed a financial plan	0.69	4	0.50	0.62	0.62
10	Contributed to retirement plan	0.58	5	0.34	0.38	0.45
3	Started or increased savings	0.54	6	0.50	0.45	0.50
9	Determine retirement income	0.51	7	0.26	0.32	0.38
8	Contributed to pre-tax program	0.31	8	0.17	0.28	0.26
7	Contacted a financial planner	0.14	9	0.25	0.17	0.18
	MEAN for all questions	0.59		0.45	0.48	0.52

Figure 2



the actions. Figure 2 presents a comparison of the priorities for the two periods. No change exists in priorities for actions 2, 3, 4 and 10 over the 18 months. For example, in 2000 reducing personal debt was the highest ranked behavior. It still was in 2002. Moving up in importance was action 8, contribution to a pre-tax program (health and/or dependent care). Becoming less important was contacting a financial planner, action 7.

Table 3 presents the changes in the scores reported in 2000 and those reported in 2002. In other

Table 3

	Changes in Financial Behavior					
		18 months later GROUP MEAN Percent Change				
Q	Action	Active	Rank	Control	Dropouts	All
9	Determine retirement income	109.67	1	23.27	62.94	76.13
8	Contributed to pre-tax program	75.59	2	52.83	38.24	59.07
10	Contributed to retirement plan	48.75	3	22.26	4.18	31.86
2	Developed a financial plan	47.57	4	40.00	31.79	42.89
3	Started or increased savings	45.39	5	75.00	30.70	51.27
5	Followed a budget	39.27	6	35.18	13.92	35.25
4	Reduced personal debts	20.51	7	17.28	-11.00	10.60
6	Cut down on living expenses	-0.45	8	15.38	10.98	8.57
7	Contacted a financial planner	-59.52	9	-12.50	-57.73	-47.52
	MEAN for all questions	28.13		26.30	7.30	23.09

words, it shows the percent change of scores in Tables 1 and 2. For example, the mean score associated with the action ‘ determine retirement income’ increased more than 109%, increasing from .25 in 2000 to .51 in 2002. What that means is that, in 2000, 25% of the currently active said they had taken action to determine their retirement income. In 2002 that number rose to 51%, doubling the proportion of people who had answered in the affirmative in 2000. Other actions for which there were large increases in the proportion of actives reporting having taken some action are 'Contributing to pre-tax program' and 'Contributed to retirement plan'. In contrast, those actives reporting having taken action in contacting a financial planner decreased substantially. The actions for which currently active clients did better than both the control group and dropouts are identified with their associated percentage changes shaded. The actives were ahead in six out of nine behaviors. Actives also do better when average changes over all behaviors are considered. Table 3 also ranks the financial behaviors in terms of the magnitude of the changes.

Table 4 addresses the statistical significance of the calculated differences in percentage changes

Table 4

Test for Differences in Percent Change in Mean Score for Financial Behavior

1st	2nd	1st Mean	2nd Mean	Difference	t-statistic	Sig.	DF
Active	*Control*	55.53	31.84	23.69	2.00	0.10	5.00
Active	*Dropout*	55.53	23.54	32.00	7.10	0.00	5.00
Control	*Dropout*	29.40	13.55	15.85	1.96	0.09	8.00

among the groups shown with regard to the six shaded behaviors *considered together*. The columns headed '1st Mean' and '2nd Mean' are the averages of the changes for the individual behaviors in Table 3. Are the differences shown in the table due to chance or can there be confidence that differences very likely exist based on the data reported? The 't-statistic' shown in Table 4 allows the claim that one can be 90% confident that the differences between the active and control groups are significant and did not happen by chance. The data supports the claim that, for the six actions identified in Table 3, the proportion of people who remained active in the program and who reported adoption of strategic behaviors increased to a greater extent than the proportion of those who made up the control group. Recall that the control group consisted of those who, although having signed up, never started the program. The other paired comparisons shown also have t-statistics that support the reported differences. The 'Sig' column gives one confidence that the chances of this support being misplaced is very small indeed, approaching zero.

Financial Life

A number of questions relating to financial life were asked in the studies. There are 23 items listed in Table 5. They are called stressors because they constitute signals and symptoms of financial distress. Customers were asked whether these stressors occurred during the 12-month period prior to receiving the questionnaire. They could answer 'Never', 'Once' or 'More than once'. The scalar quantities associated were 0, 1 or 2, respectively. Mean scores were calculated for each group for both surveys. The data showed significant reductions in the incidence of these stressors over the 18-month study period.

Before discussing these improvements, the ranking of the stressors will now be reviewed. The active clients are ranked according to their mean score in Table 5. In 2000, the number one stressor was having to pay late fees. On average, customers were reporting paying late fees significantly more

Table 5

	Financial Life					
		Beginning				
		GROUP Mean				
	Stressor	Active	Ranking	Control	Dropouts	All
d	Paid late fee	1.63	1	1.67	1.68	1.66
15a	Overdue notice	1.55	2	1.85	1.70	1.71
c	Pay credit card bill late	1.53	3	1.45	1.57	1.52
m	Could not afford to go out	1.46	4	1.53	1.46	1.49
l	Reached a max on credit card	1.40	5	1.42	1.53	1.45
e	Received a phone call from creditor	1.26	6	1.66	1.61	1.53
b	Pay utility bill late	1.20	7	1.46	1.31	1.33
j	Took a cash advance	0.92	8	0.79	0.97	0.89
s	Bounced a check	0.90	9	0.99	1.02	0.98
I	Not enough money for emergency	0.80	10	0.98	0.94	0.92
n	Could not afford vehicle repairs	0.80	11	1.22	1.06	1.04
f	Received a collection agency	0.68	12	1.40	1.08	1.08
g	Vehicle loan/lease payment late	0.50	13	0.86	0.76	0.72
q	Could not afford medical care	0.47	14	0.80	0.37	0.55
h	Paid rent/mortgage late	0.46	15	0.82	0.74	0.69
k	Used cash advance to pay another credit card bill	0.44	16	0.42	0.54	0.47
r	Could not afford medical insurance	0.33	17	0.70	0.31	0.45
o	Could not afford vehicle insurance preminum	0.28	18	0.92	0.49	0.58
p	Could not afford transportation to work	0.07	19	0.51	0.38	0.34
t	Been sued for collection of a debt		20	0.40	0.23	0.24
v	Wages garnished	0.02	21	0.21	0.08	0.11
w	Had home forecIsoure	0.01	22	0.06	0.02	0.03
u	Had items repossessed	0.00	23	0.25	0.06	0.11
	MEAN for all questions	0.73		0.97	0.87	0.86

than once. Note the average score of 1.67 for this stressor. This number is above 0 (Never) but below 2 (More than once). Turning to the other groups, the similarity with the actives regarding the ranking of stressors is noteworthy. Table 6 shows the ranking of financial stressors in 2002. The first thing to notice is the reduction of scores for each group, showing that a higher proportion of clients

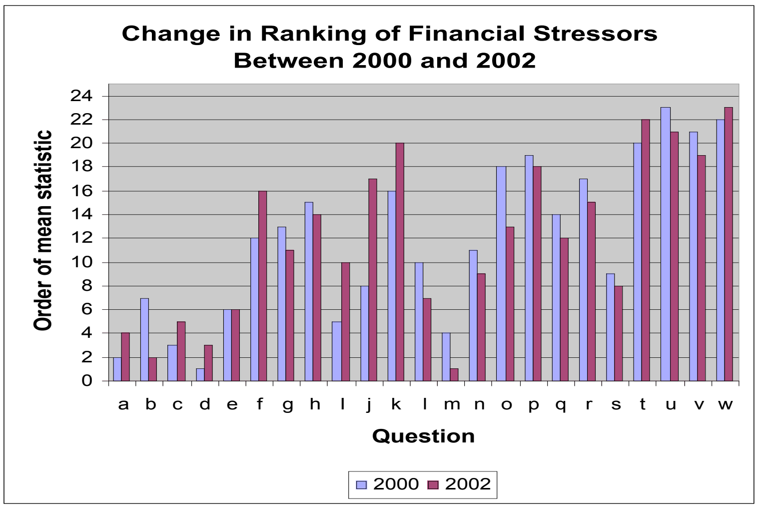
Table 6

	Financial Life					
		18 months later				
		GROUP Mean				
	Stressor	Active	Ranking	Control	Dropouts	All
m	Could not afford to go out	0.99	1	1.08	1.42	1.14
b	Pay utility bill late	0.87	2	0.92	1.32	1.02
d	Paid late fee	0.79	3	1.17	1.51	1.12
15a	Overdue notice	0.70	4	1.21	1.63	1.13
c	Pay credit card bill late	0.65	5	0.96	1.33	0.95
e	Received a phone call from creditor	0.58	6	0.94	1.35	0.91
I	Not enough money for emergency	0.51	7	0.73	0.84	0.67
s	Bounced a check	0.51	8	0.55	0.73	0.58
n	Could not afford vehicle repairs	0.49	9	0.77	1.00	0.72
l	Reached a max on credit card	0.47	10	0.96	1.10	0.80
g	Vehicle loan/lease payment late	0.39	11	0.62	0.53	0.50
q	Could not afford medical care	0.31	12	0.58	0.37	0.41
o	Could not afford vehicle insurance preminum	0.31	13	0.50	0.55	0.44
h	Paid rent/mortgage late	0.30	14	0.54	0.68	0.48
r	Could not afford medical insurance	0.28	15	0.54	0.36	0.38
f	Received a collection agency	0.27	16	0.92	0.98	0.67
j	Took a cash advance	0.24	17	0.71	0.51	0.46
p	Could not afford transportation to work	0.07	18	0.27	0.20	0.17
v	Wages garnished	0.06	19	0.17	0.16	0.12
k	Used cash advance to pay another credit card bill	0.04	20	0.24	0.16	0.13
u	Had items repossessed	0.04	21	0.21	0.16	0.13
t	Been sued for collection of a debt	0.03	22	0.33	0.31	0.20
w	Had home forecIsoure	0.03	23	0.12	0.06	0.06
	MEAN for all questions	0.39		0.65	0.75	0.57

were reporting between ‘Never’ experiencing the stressors (0) and experiencing them only ‘Once’ over a 12-month period.

Figure 3 shows the rankings for both periods. No significant changes in ranking occurred for the four top stressors over the 18-month study period. However, for ‘Took a cash advance’ (j), there was a

Figure 3



significant shift in ranking, from a higher 8th rank to a lower 17th ranking. Receiving a call from a collection agency (f) and using cash advances from one credit card to pay another credit card (k) were not ranked as stressors in 2002 as much as they did in 2000. Becoming more important as stressors over the 18-month period were paying utility bills late (b) and not being able to afford insurance premiums (o). Not being able to go out (m) was also a higher ranked stressor in 2002 than in 2000.

The data on financial stressors are compared and the percent changes in the mean scores in the 18-month period appear in Table 7. Here again the scores for the active clients are ranked. Item k, the occasions when the actives used cash advances from one card to pay another card, was reduced over 90% on average. Large reductions were also reported on many of the other stressors, as is indicated in the table. There were 14 instances when reductions in the incidence of stressors were larger for the actives than for both of the other two groups, the control and dropouts. These instances are shaded in Table 7. When all the stressors are considered together, there is a percent reduction of nearly 47% for the actives while the control and dropouts dropped 33% and 13%, respectively.

Table 8 shows that, for the 14 stressors for which the active clients did better than the other two groups, the grand (collective) mean differences shown are statistically significant at better than the 5% significance level.

Table 7

		Changes in Financial Life			
		18 months later			
		GROUP MEAN			
		Percent Change			
	Stressors	**Active**	**Rank**	**Control**	**Dropouts**
k	Used cash advance to pay another credit card bill	-90.29	1	-44.06	-70.70
j	Took a cash advance	-73.65	2	-9.44	-47.36
l	Reached a max on credit card	-66.37	3	-32.32	-28.12
f	Received a collection agency	-60.44	4	-34.29	-9.12
c	Pay credit card bill late	-57.69	5	-33.80	-15.33
15a	Overdue notice	-54.54	6	-34.48	-4.31
e	Received a phone call from creditor	-54.34	7	-43.19	-15.77
d	Paid late fee	-51.72	8	-29.95	-9.98
s	Bounced a check	-43.78	9	-44.66	-29.13
n	Could not afford vehicle repairs	-38.68	10	-37.06	-5.22
I	Not enough money for emergency	-36.03	11	-26.28	-10.77
h	Paid rent/mortgage late	-35.81	12	-34.13	-8.13
q	Could not afford medical care	-34.15	13	-28.03	-0.74
m	Could not afford to go out	-32.52	14	-29.69	-3.04
t	Been sued for collection of a debt	-28.17	15	-19.23	37.39
b	Pay utility bill late	-26.99	16	-36.79	0.38
g	Vehicle loan/lease payment late	-21.13	17	-28.21	-30.53
r	Could not afford medical insurance	-15.49	18	-22.90	17.23
p	Could not afford transportation to work	2.62	19	-47.00	-47.08
o	Could not afford vehicle insurance preminum	8.98	20	-45.69	12.87
w	Had home foreclsoure	187.32	21	81.73	154.00
v	Wages garnished	187.32	22	-19.23	103.20
u	Had items repossessed		23	-14.02	154.00
	MEAN for all questions	-46.74		-32.87	-13.32

Table 8

Test for Differences in Percent Change in Mean Score for Financial Stressors							
1st	**2nd**	**1st Mean**	**2nd Mean**	**Difference**	**t-statistic**	**Sig.**	**DF**
Active	*Control*	-50.74	-30.88	-19.86	-4.01	0.00	13
Active	*Dropout*	-52.03	-14.86	-37.17	-11.45	0.00	12
Control	*Dropout*	-31.56	-13.74	-17.81	-2.77	0.02	13

Conclusion

Profina clients in the debt management program for 18 months appear better off financially than those similarly financially distressed consumers who dropped out without ever beginning the program. Notably, they improved more on behaviors that were proactive and designed to deliver a better financial future. They reported significant reductions in the incidence of stressors that are typically associated with financial distress.