

## **The Financial Education Needs of Credit Counseling Clients<sup>1</sup>**

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Abstract

This study examines the expressed financial education needs of employed individuals who had an 18-month client relationship with a large credit counseling agency. The results indicate that the financial education desires were similar to, but slightly different, from than those who are adequately managing their financial resources. Credit counseling clients wanted to first have education about budgeting and credit management followed by programs on retirement planning and investments. Those with household income of between \$20,000 and \$30,000 were more likely to desire financial education than those in other income groups. In addition, credit counseling clients were less likely than other respondents in previous studies (Anderson, Kerbel, and Xiao, 1997; Kim, Bagwell, Garman, 1998; Joo and Garman, 1998) to desire additional financial education. Implications and directions for future research for financial educators and credit counselors are discussed.

### Introduction

Most people in America need and want additional financial education (Garman and Leech, 1996; Belden, et. Al. Russonello, Steward and Research/Strategy/Management, 2000). Millions are attending financial education programs sponsored by their employers. Previous research has indicated that both employees and employers can benefit from this type of education (Bayer, Bernheim, and Scholz, 1996; Joo and Garman, 1998). The majority of previous studies have been of individuals who are adequately managing their current financial resources (Anderson, Kerbel, and Xiao, 1997). However, little is known about individuals who find themselves in financial distress.

This study examines the expressed needs for additional financial information and/or education of financially distressed individuals who are clients of a large, national non-profit credit counseling organization. All of the respondents to this study are or have been clients of the company that offers confidential debt management and education programs designed to assist people in getting out of debt and achieving financial freedom. One objective of this study is to assist financial educators and counselors to understand the differences and similarities in the financial education needs of individuals who are in financial distress from individuals who self-report that they are adequately managing their financial resources.

### Background

Many Americans appear to lack the basic knowledge and skills they need to manage their personal finances. A number of studies of high school seniors have indicated abysmal levels of financial literacy of students about to graduate from high school. A 1997 financial knowledge survey of high school seniors by the Jump\$tart Coalition for Financial Literacy had a mean score of 57.3%. Using a similar questionnaire in late 2001 with more than 4,000 students, the Jump\$tart survey had a mean score of 50.2% or a grade of "F" (Duguay, 2002). Not only is the financial information level poor, there are indications it is getting worse.

Another study conducted in 2001 by the Americans for Consumer Education and Competition, using telephone interview surveys with 801 seniors nationwide, had a mean correct score of only 36.6%. Only 5% correctly identified the percentage of earnings that one should save each month while slightly more, 8%, were accurate in identifying the financial service with the lowest interest rate (The Terrance Group and Lake, Snell, and Perry, 2002). It is clear that many individuals entering the job market or beginning their college education are financially illiterate.

At the same time, the personal financial environment is becoming more and more complex, particularly with the advent of ATM machines, debit cards, and pre-paid cards. As a result, both individuals and families find they need additional information about money and money management on an almost daily basis. This has led to the creation of new sources of financial education, including books, videotapes, websites, and television networks devoted to financial education.

In a speech to the Jump\$tart Coalition in April, 2002, Treasury Secretary Paul H. O'Neill, discussed how increasing complexity and choice in society can lead to consumers becoming confused. He stated that it is very understandable that the average consumer can be uncertain and ill-equipped to handle all of the issues associated with mortgages, how to pay for a car, and the investment selections that range from stocks, CDs to "who knows what else" (Department of the Treasury, April 23, 2002). He also announced the creation of the Office of

Financial Education that is to develop financial education programs and work with the U.S. Education Department to encourage use of the financial literacy programs in local schools.

One important consequence of financial illiteracy and complexity of the personal financial environment appears to be that more and more adults are seeking to further educate themselves about personal financial management. A new industry has been created that focuses on personal financial education. This information-based education industry uses different types of media to accomplish its goals, such as magazines, books, audio and videotapes, cable television shows, as well as personal appearances by known experts in the field of personal finance.

Partly due to time restraints on work and family life, many people are turning to their employers for financial education programs conducted at their worksites. As a result, companies that are sharing financial education information with their employees are using numerous forms of delivery systems. These include: one-on-one financial planning, budget and credit counseling, seminars and workshops, lunch-and-learn sessions, web-based financial education, Internet, CD-ROMs, workbooks, newsletters, and videos, as well as audiotapes.

The majority of financial information and education content delivered by these methods tends to be focused on two topics. The first is retirement planning (Joo and Garman, 1998) and the second is investment planning (Burzawa, 2001). However, it seems clear that employees want more than just retirement planning and investment education. They want a broader range of financial education (Joo and Garman, 2001).

Previous studies have indicated that a more comprehensive approach to financial education in the work place can have beneficial results for workers, their families, and their employers (Bayer, Bernheim, and Scholz, 1996; Kratzer, Brunson, Joo, and Garman, 1998). A variety of targeted studies have found that financial education in the workplace can improve an employee's financial behavior through increasing their savings and improving their retirement planning behaviors (Bernheim and Garrett, 1996; Di Paula, 1998; Gorbach, 1997). Additional research has indicated that personal financial education in the workplace can improve worker productivity (Garman, Leach, and Grable, 1996; Joo and Garman, 1998). Some organizations have used financial education to help recruit and train their employees (Decker, Decker, and Love, 1998; Pomeroy, 1998). This type of education also fulfills the requirement from the Department of Labor (DOL) for employers offering defined-contribution pension plans, such as 401(k) plans.

Since the declaration of the bankruptcy of the Enron Corporation, more and more individuals have called for additional financial education. Many are suggesting that financial education in the workplace has become more essential than ever. For example, Richard Hiller, Vice President of the Western Division of TIAA-CREF, while testifying before a House Committee on Education and the Workforce, in July, 2001, contended financial education should be made more available. He stated more than 40 million workers were involved in defined contribution plans that had, at the time of his testimony, almost \$2 trillion in assets. Workers need more information to make the correct investment and retirement decisions (Committee on Education and the Workforce, July 17, 2001). William H. Mann, III, Senior Analysis for The Motley Fool, stated that "in order for individual investors to engage themselves, they need education about how the financial system works, access to information, and opportunities for open dialogue" (Mann, 2001).

Although Hiller and Mann have focused their attention on retirement and investment education, it is apparent that many employees need both basic and advanced financial education

on these important issues. Some individuals are seeking remedial financial education in order to extract themselves from their current financial problems. It is estimated that more than 2.5 million individuals and families annually have become involved in the credit counseling industry since its inception (Staten, Elliehausen, and Lundquist, 2002). However, little is known about this group's financial education interests and needs.

### Methodology

This study began with a mail survey sent to new clients of a large credit counseling organization. In early 2000 a sample of 1,800 was drawn from a population of 4,000 clients. About 20 percent (N=355) of those individuals to whom the 57-item questionnaire was mailed returned it. A second questionnaire was sent 18 months later, in January 2002, to those who responded to the first questionnaire. Due to changes of addresses, only 303 (85.3%) were delivered to the clients' home addresses, and of that number, 180 usable responses. One of the questions asked the credit counseling clients to mark any additional information and/or education topics that they thought they could benefit from. Twelve topic choices were available along with an open-ended response blank for respondents to write in any additional topics (See Table 1). Of the 180 usable returns, 161 chose to answer this particular question.

### Data Analysis

This data for this study came from the second wave of a panel study conducted with employed individuals who had an 18-month client relationship with a large credit counseling agency. Of the respondents (N=161), slightly more than 68% were female and they had a mean age of slightly more than 37 years. More than 49% were either married or living with a partner, and they had a median income of between \$30,001 to \$40,000 annually. The educational attainment varied, with 42.9% having a high school education, 27.6% reporting some college, and 29.5% reporting having a bachelor's degree or higher. About 25% of the respondents stated they did not want to participate in any additional programs on financial education. See Table 1 to see the percentage of expressed needs for financial education.

Additional analysis was conducted to determine if there were any significant differences in the specific types of education programs by a variety of demographic factors. A t-test indicated there were no significant differences in the expressed needs for financial education by gender. An ANOVA found there were no differences in desired education topics by age that was grouped into different six age categories. There were two differences in topics desired by the amount of education of the clients. Those with some college were more likely to desire information about "avoiding costly financial mistakes" than either high school graduates or college graduates ( $F=3.14, p=.046$ ). The results were similar with the same education group wanting to "understand rights as borrower" ( $F=3.15, p=.048$ ).

There were several significant differences by household income category. Household income was divided into seven categories ranging from less than \$20,000 to above \$70,000 in \$10,000 increments. There also were significant differences by financial education item by income group. A basic report on the results of this analysis can be seen in Table 2.

Post hoc analyses of the five significantly different items were conducted using Fisher's Least Significant Difference (LSD) test. On all five post hoc tests, those who made between \$20,000 and \$30,000 were significantly more likely to want additional financial education. The implications of these results are discussed below.

### Discussion and Implications

This study is one of only a few recently conducted using credit counseling clients as respondents. The financial education needs of this group may or may not be different than the general population due to the generally high level of financial illiteracy in the American population.

In three previous studies of financial education needs of employed individuals in different industries, the general conclusion was that most wanted a comprehensive financial education program ranging from the basics of budgeting to investments and estate planning (Anderson, Kerbel, and Xiao, 1997; Joo and Garman, 1998; Kim, Bagwell, and Garman, 1998). After conducting a workshop on financial issues at a mid-eastern insurance firm, Anderson, Kerbel, and Xiao (1997) asked the workshop participants (N=66) what additional types of financial education they needed. There was a tie for the most desired form of continuing financial education. The tie was between “debt management” and “investment basics” at 36.4%. The second most desired topics were “understanding credit” and “planning and investing for retirement” at 25.8%. These were followed by “car and home insurance” at 13.6%, and “buying and leasing a car,” “estate planning,” and “role of financial advisors” at 12.1%. Education about “deciding if a two-earner family can be a one-earner family” was desired by 10.6% of the respondents. The least popular topic was “long-term health care.” Only four or about 7% of the respondents in this study indicated they would not benefit from any additional financial education.

In the study by Joo and Garman (1998) of a group of clerical workers (N=447) who received no financial education program, the top two topics for education programs were retirement planning (60.5%) and investing (48.7%). The next most desired topics were for budgeting (42.1%) and getting out of debt (36.2). The first two topics might be labeled “basic retirement planning” while the latter two surely are “basic financial education” issues. One important finding of this study was that only 6.6% of the respondents noted that they did not want additional financial education.

In another study of employees working in an advertising agency (N=99) in an urban city in the northeast who attended a financial education seminar, Kim, Bagwell, and Garman (1998) found similar interest in additional financial education. The top three topics desired were investing (78.2%), retirement planning (69.2%), and early retirement planning (47.5%). This was followed by the topics of budgeting (45.5%) and cash management (43.4%). Only three of the respondents or about 3% in this study indicated they did not need any additional financial education training.

In all three of these studies of employed individuals, specialized topics ran a distant third in desired educational topics from these respondents to these two primary issues. Retirement and investment education was always first, followed by credit and budgeting issues. The other topics such as tax planning, funding college education for children, selecting life and health insurance, and related topics tended to be third on the list of issues that most people believed they wanted to learn more about in financial education.

There are two important differences between the desired financial education topics of a general population of adults and those receiving the services of a credit counseling agency. The first is a reversal of the desired topics for financial education. Those who were adequately managing their financial resources were more likely to express interest in retirement planning followed by the more basic money management issues. On the other hand, credit counseling clients more often expressed a desired for basic financial issues, such as budgeting, and then the future oriented information, such as retirement planning and investments. Both groups also

expressed interest in specialized financial topics such as insurance and financing a child's college education.

These differences in sequencing financial education topics appear to be very rational in origin. Those who are involved in credit counseling are in need of basic information that will assist them in getting out of immediate financial distress. At the same time, those who are adequately managing their financial resources can afford to develop the longer view and plan ahead for their future. For both groups, it is reasonable they put off learning about more specialized topics until after reviewing the issues that are more important to them.

One of the surprising findings of this study was the high level rejection of any additional financial education by those who were involved in credit counseling. On average, more than 90% of the employed individuals stated they wanted additional financial education. In the study of credit counseling clients almost 25% reported that would not benefit from any additional financial education.

There can be several potential explanations for this valuable finding. One explanation is simply respondent fatigue. The question about additional financial education was the very last question on a lengthy questionnaire and the respondents may have been tired of answering the questionnaire. Another explanation might be the respondents' concern that their current financial problems may become the focus of any educational programs they might attend. These respondents may be embarrassed to expose their financial problems in a financial education event, such as a workshop or seminar.

Among the credit counseling clients, there were a limited number of demographics that indicated differences in their interest in additional financial education topics. No differences were found by gender or age. This partially contradicts previous research where researchers constantly found differences by age. Younger individuals were found to more often express interest in educational programs on credit management and budgeting (Joo and Garman, 1998) as well as paying for a college education (Anderson, Kerbel, and Xiao, 1997). Older individuals were more likely to desire information about benefit programs and estate planning.

Education and household income were the most important demographic factors in explaining differences in desired financial education topics. Individuals with "some college" education and those from households with income in the range of \$20,000 to \$30,000 were most likely to want additional financial education programs. These results may be associated with the fact that these families may be experiencing the additional stress of being somewhat below the median income range of American families. The median household income in the U.S. in the year 2000 was \$42,148 (Denavas-Walt, Cleveland, and Roemer, 2001). These households are not living in poverty but are on the margins of the middle class lifestyle. Households with this level of income can qualify for credit cards and other forms of unsecured debt. They may have high levels of debt that they cannot manage without the assistance of the services of a credit counseling agency. In addition, these individuals may be very aware that they need additional basic information and financial education to improve the management of their marginal financial resources. Therefore, they are more likely to desire basic financial education than other income groups.

The results suggest the education needs of those in financial distress and those who are adequately managing their financial resources are similar. Those who are doing well financially are more likely to seek educational programs focused on retirement planning and investments while those in financial distress are more likely to seek basic financial information. Individuals

whose household incomes below the national median of \$42,000 are more likely to seek financial education programs.

#### Recommendations

This research supports the continued need for financial education among credit counseling clients. Based upon this research, credit counseling organizations, employers, cooperative extension personnel, and other adult educators are encouraged to create financial education programs that focus on the basics of money and credit management. These programs should be marketed so that those with household incomes below the national median become aware of these programs and are encouraged to attend. In addition, in the marketing of such programs it should be made clear that these educational efforts are not designed to embarrass or to focus on individual financial problems of its participants.

Future research is needed to explore the financial education desires of individuals and families using credit counseling services. More research using a variety of respondents from numerous financial agencies should be conducted in order to determine whether or not regional and ethnic backgrounds reveal any differences in the financial education programming. Research should be conducted to determine how financial education clients want financial information and education to be delivered to them. Do they want financial education programs to be made available to them in person, in print form, by Internet or CD-ROM, at the worksite, or via other delivery mechanisms? In addition, research must be conducted to determine how clients respond to existing or new financial education programs delivered by credit counseling agencies, financial planners, cooperative extension agencies, and employers.

Table 1  
 Topics for Which Credit Counseling Clients Expressed a Desire  
 for Additional Information and/or Education  
 (N = 161)

Topics	Percentage
Budgeting and Money Management	48%
Saving for Future Needs	48%
Saving for Retirement	37%
Lowering Credit Payments	31%
Understanding IRA and 401K Plans	24%
Understanding Credit Report	24%
Reducing Income Taxes	21%
Avoiding Costly Financial Mistakes	20%
Understanding Credit Score	19%
Reducing Checking Account Fees	16%
Understanding Rights as a Borrower	13%
Selecting the Right Insurance Plan	10%
Other Beneficial Information	6%

Table 2  
Results of ANOVA by Seven Income Categories

Item	F-Ratio and P Value
Reducing Checking Account Fees	F=3.38 ( $p=.004$ )
Lowering Credit Payments	F=2.32 ( $p=.036$ )
Saving for Future Needs	F=2.24 ( $p=.042$ )
Understanding Credit Reports	F=2.20 ( $p=.046$ )
Understanding Credit Scores	F=2.09 ( $p=.057$ )
Budgeting and Money Management	F=1.78 (NS)
Other Beneficial Information	F=1.33 (NS)
Avoiding Costly Financial Mistakes	F=1.12 (NS)
Selecting the Right Insurance Plan	F=1.08 (NS)
Understanding Rights as a Borrower	F=.79 (NS)
Reducing Income Taxes	F=.78 (NS)
Savings for Retirement	F=.49 (NS)
Understanding IRA and 401K Plans	F=.32 (NS)

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