

## **Relationships Among Credit Counseling, Financial Well-being and Health**

The present study examined how financial well-being was associated with health and determined if credit counseling was related to the variables of financial well being and health. Data (n=175) were collected from clients of a large credit counseling organization on two occasions, once in June 2000 and again in January 2002. People who received credit counseling and remained in a debt management plan were compared with those who did not within the period of 18 months. The results indicate that financial well-being was associated with health. Additionally, financial well-being was a partial function of financial behavior and financial stressor events. Results also indicate that credit counseling had impacts in changing financial behaviors in a positive way and reducing financial stressor events, controlling for individual characteristics.

**Jinhee Kim, University of Maryland<sup>1</sup>**  
**Benoit Sorhaindo, InCharge Institute of America<sup>2</sup>**  
**E. Thomas Garman, Virginia Tech<sup>3</sup>**

American consumers are falling behind on credit card bills. On average, U.S. households had \$8,367 in credit card debt in 2001. In addition, 1.46 million consumers filed bankruptcy in 2002 (American Bankruptcy Institute, 2002). Clearly, a substantive number of Americans have problems managing their personal financial affairs. The causes of consumer overindebtedness include factors such as overspending, job loss, income reduction, medical bills, divorce/separation, and poor personal financial management skills. Seeking credit counseling is a popular strategy for those with credit problems. Providing assistance to consumers with financial troubles has become a growing industry. About three million consumers turned to a credit counseling agency for advice and other assistance (Consumer Reports, 2001). They obtained counseling session(s) about their money matters either in a face-to-face counseling session or via the telephone. A debt management plan is one of the services offered by credit counseling agencies. It gives individuals a plan for paying off their liabilities by consolidating their unsecured debts into one monthly payment. However, not all credit counseling clients are successful. Typically, half of the people who signed up dropped out of the program.

While there is anecdotal evidence that credit counseling can be beneficial, there is limited research on the effectiveness of credit counseling. Recently, a national study found that credit counseling affects credit use and payment behavior in a positive way (Staten, Elliehausen, & Lundquist, 2002). Three years after receiving credit counseling, the clients had significantly better credit risk scores, fewer credit accounts, lower debt, and fewer credit delinquencies relative to a control group. Little is known about the effects of credit counseling on financial well-being or health.

Credit counseling can improve people's financial well-being by changing financial management as expressed by financial behaviors (Kim, 2000) and reducing financial stressor events (Bagwell, 2000). Credit counseling might influence health by improving individual's financial well-being. An individual's personal finance has been linked to health (Bagwell, 2000, Drentea & Lavrakas, 2000; Pearlin, Menaghan, Lieberman & Mullan, 1981). Especially, debt burden affects people's health negatively (Bagwell, 2000; Drentea & Lavrakas, 2000). With the growing credit counseling industry, there is a strong need for more empirical research examining the impacts of credit counseling and a debt management program on credit counseling clients. The study has a two-fold purpose. One is to examine how financial well-being is associated with health and the second is to determine if credit counseling is related to the variables, financial well-being and health.

### **Methodology**

The present study used the database available from a credit counseling agency. It includes two data collections at two points in time, eighteen months apart. The first began with a mail survey sent to new clients of a large credit counseling organization in June 2000. A sample of 1,800 was drawn from a population of 4,000 new clients who called and committed to a debt management plan between January and the end of April 2000. A 57-item questionnaire was mailed to the sample and about 20% (n=355) of those individuals returned it. The second data collection was conducted 18 months later, in January 2002, to those who responded to the first data collection. Fifty-

two were undeliverable due to changes of addresses. A total of 180 surveys were returned and 175 were usable in the final data analysis (57.7% of usable response rate).

Among the 175 individuals who responded to both data collections, 71 (40.6%) were active debt management plan clients and 104 (59.4%) were inactive by January 2002. Active clients remained in the debt management plan after they committed while inactive individuals did not make the first payments or dropped out of the program within 18 months. Sixty-eight percent of the respondents were female. Fifty-two percent were married, 35.9% were not married, and 12.6% were living with a partner. The average age was 37 years and the average household size was 2.39. Sixty five percent were White, 16.8% were African American, and 6.9% were Latino. The level of educational achievement varied with 37.7% having a high school diploma, 25.7% holding a bachelor's degree or higher, and 23.4% having attended some college. Eighty-two percent had full-time and/or part-time job(s). Median household annual income was between \$30,001 and \$40,000.

The research hypotheses were

- 1) Financial well-being will be associated with health,
- 2) Financial stressor events and financial behaviors will be associated with financial well-being, and
- 3) Credit counseling will have effects on financial stressor events, financial behavior, financial well-being, and health.

## **Results**

### Health and Financial Well-being

Regression analysis was employed to assess how health was related to financial well-being while controlling for individual characteristics, that is, after accounting for the variance in financial well-being due to those variables. Model 1 used gender (female=1), race (white=1), household income, age, and employment (employed=1) as predictors. Model 2 added financial well-being to the equation. None of the variables except household income was significant in explaining the health variable. Household income was positively related to health. In Model 2, financial well-being was the most significant factor in explaining health. People who had higher levels of financial well-being reported better health.

### Financial Well-being and Financial Stressors and Financial Behavior

To test Hypothesis 2 that financial stressor events and financial behaviors are associated with financial well-being, regression analysis was conducted using the data on financial behavior, financial stressor events, financial well-being and health variables from the second data collection. Model 1 used only individual characteristics, such as gender (female=1), race (white=1), household income, age, and employment (employed=1). Model 2 added financial well-being to the equation. In Model 1, no individual characteristics had any significance in explaining financial well-being. Financial stressor events were negatively and significantly related to financial well-being. People who experienced more frequently financially stressful events reported lower levels of financial well-being. Also, financial behavior was positively and significantly associated with financial well-being. People who practiced more positive financial behaviors reported higher levels of financial well-being than others. Therefore, Hypothesis 2 was supported. Financial stressor events and financial behaviors were the most important predictors of financial well-being controlling for other individual factors.

### Credit Counseling and Financial Stressor Events and Financial Behaviors

Regression analysis was conducted to further assess the impacts of credit counseling and four regression models (financial behavior, financial stressor events, financial well-being, and health as dependent variables) were tested. Credit counseling did not have any direct significant effects on financial well-being and health. However, credit counseling did have a significant impact on financial behavior and financial stressor events, as shown in Tables 1 and 2. Table 1 shows the regression results of financial behavior on credit counseling. In Model 1, age, employment, and financial behavior1 (financial behavior score from the first data collection) were significant in explaining financial behavior. Employed people practiced more positive financial behaviors than others. Also, the adoption of positive financial behaviors increased with age. The financial behavior score from the first data collection had a positive effect. When credit counseling was added in Model 2, it was significant together with age, employment and race in explaining financial behavior. Non-white people practiced more positive financial behaviors than white people in Model 2, although it was not significant in Model 1. Holding other factors constant, credit counseling had a significant and positive impact on the financial behaviors of active clients. Thus, credit counseling was effective in improving the financial behavior of active clients.

Table 1.  
Effects of Credit Counseling on Financial Behavior

	Model 1 (n=143)			Model 2 (n=143)		
	b	Beta	p	b	Beta	P
(constant)	.897		.310	1.064		.222
Gender (female=1)	.249	.054	.487	.297	.065	.398
Age	.004	.249	.003**	.003	.216	.009**
Employment (employed=1)	1.421	.242	.004**	1.275	.217	.010*
Household Income	.111	.126	.128	.008	.092	.261
Race (white=1)	-.638	-.145	.064	-.701	-.160	.039*
Financial Behavior 1 <sup>†</sup>	.193	.211	.008***	.173	.189	.015*
Credit counseling (active=1)				.862	.200	.013*
Adjusted R <sup>2</sup>		.138***			.169***	

\*\*\* p < .001, \*\* p < .01, \* p < .05

<sup>†</sup>Financial behavior score from the first data collection

The results of regressing financial stressor events on credit counseling and other individual characteristics are shown in Table 2. Model 1 shows that age and financial stressor events1 (financial stressor events score from the first data collection) were significant in explaining financial stressor events. Financial stressor events decreased with age. The initial financial stressor events score had a positive effect on financial stressor events from the second data collection. In Model 2, credit counseling was added. Table 2 shows that age, credit counseling, and financial stressor events score from the first data collection were significant. Active clients experienced financially stressful events less frequently than inactive people, controlling for the initial financial stressor events and individual characteristics. Credit counseling is effective in reducing financial stressor events of active clients.

Table 2.  
Effects of Credit Counseling on Financial Stressor Events

	Model 1 (n=135)			Model 2 (n=135)		
	b	Beta	p	b	Beta	p
(constant)	7.779		.002	8.231		.000
Gender (female=1)	-.706	-.060	.402	-.770	-.066	.353
Age	-.105	-.231	.002**	-.009	-.200	.007**
Employment (employed=1)	-1.825	-.125	.094	-1.439	-.099	.184
Household Income	-.236	-.103	.170	-.181	-.080	.287
Race (white=1)	-.418	-.036	.616	-.289	-.025	.724
Financial Stressor 1 <sup>†</sup>	.649	.500	.000***	.587	.452	.000***
Credit Counseling (active=1)				-.202	-.182	.018
Adjusted R <sup>2</sup>		.323***			.347***	

\*\*\* p < .001, \*\* p < .01, \* p < .05

<sup>†</sup>Financial stressor score from the first data collection

### Discussion and Recommendations

Overall, there was support for the hypotheses. Financial well-being was related to health and Hypothesis 1 was supported. Regression analysis showed that health was influenced by financial well-being controlling for other variables. Household income was the only significant factor in explaining health when only individual characteristics were considered. However, none of these individual characteristics, including household income, were associated with health after controlling for financial well-being. Hypothesis 2 held that financial well-being is a function of financial stressor events, financial behavior, and individual characteristics. The results provide some evidence that improving financial behaviors and reducing financial stressor events could enhance financial well-being. Financial education or credit counseling has been effective in changing people's behaviors (Bernheim, Garrett & Maki, 2001; O'Neill, Xiao, Bristow, Brennan & Kerbel, 2000) by increasing financial literacy and motivating people to change their behaviors. Hypothesis 3 was partially supported. Credit counseling and debt management was effective in improving participants' financial behaviors and reducing financial stressor events. After controlling for those initial scores and other individual characteristics, credit counseling and a debt

management plan affects financial stressor events and financial behavior in a positive way. The result of this study shows a decrease in financial stress events as a result of the credit counseling. Credit counseling could improve financial well-being not only by improving financial behaviors also by reducing stressor events for the consumers. Regression results showed that there were no significant and direct effects of credit counseling on financial well-being and on health after controlling for the initial scores and individual characteristics as stated in Hypothesis 3. This may be due to the short time period of 18 months. Typical debt management plan clients have to stay in the program for 3 to 5 years to repay their liabilities (Bagwell, 2000). Sixty-three percent of the participants reported that they started to accumulate unsecured debts more than five years ago. Eighteen months may be too short to achieve significant changes in their financial well-being and health.

These results have important implications for consumers, credit counselors, financial educators, and policymakers. The initial scores were the most important factors in explaining financial behavior or financial stressor events in the second collection. More people who were in a better financial situation from the beginning maintained the program and made more improvements than others. This might say that people in financial trouble could contact agency before their finances worsen so that they can benefit from credit counseling. To maximize the benefits of credit counseling and debt management plans, consumers need to get into the program before their personal finances become too overwhelming. Debt management programs can be most effective when there is sustained counseling and education to change consumers' financial behaviors. Without substantial changes in financial behaviors, positive impacts of credit counseling may not sustain over a time period and clients may not be able to complete the debt management program. Client retention should be focused to help consumers out of debt and not fall back into debt trouble. Counseling and education need to be offered to change consumers' financial behaviors and retain the positive behaviors.

## References

- American Bankruptcy Institute (2002). Bankruptcy cases total more than 1.5 million for first time. Retrieved from <http://www.abiworld.org>.
- Atkinson, W. (2001). Drowning in debt. *HR Magazine*, 46(8):68-74.
- Bagwell, D.C. (2000). Work and personal financial outcomes of credit counseling clients. Unpublished doctoral dissertation, Virginia Polytechnic Institute and State University, Blacksburg.
- Bernheim, B.D., Garrett, D.M. & Maki, D. M. (2001). Education and saving: The long-term effects of high school financial curriculum mandates. *Journal of Public Economics*, 80:435-465.
- Consumer Reports (2001). Pushed off the financial cliff. Retrieved June 26, 2001, from <http://www.consumerreports.org>.
- Drentea, P. & Lavrakas, P. J. (2000). Over the limit: The association among health status, race and debt. *Social Science & Medicine*, 50:517-529.
- Hirad, A., & Zorn, P. M. (2001). A little knowledge is a good thing: Empirical evidence of the effectiveness of pre-purchase homeownership counseling. Retrieved from <http://www.freddiemacfoundation.org>.
- Joo, S. (1998). Personal financial wellness and worker productivity. Unpublished doctoral dissertation, Virginia Polytechnic Institute and State University, Blacksburg.
- Kim, J. (2000). The effects of workplace financial education on personal finances and work outcomes. Unpublished doctoral dissertation. Virginia Polytechnic Institute and State University: Blacksburg.
- O'Neill, B., Xiao, J., Bristow, B., Brennan, P. & Kerbel, C. (2000). Successful financial goal attainment: Perceived resources and obstacles. *Financial Counseling and Planning*, 11(1):1-12.
- Pearlin, L. I., Menaghan, E. G., Lieberman, M. A. & Mullan, J. T. (1981). The stress process. *Journal of Health and Social Behavior*, 22:337-356.
- Staten, M. S., Elliehausen, G. & Lundquist, E. C. (2002). The impact of credit counseling on subsequent borrower credit usage and payment behavior (Monograph #36). Credit Research Center.

---

<sup>1</sup> Assistant Professor and Extension Specialist, Department of Family Studies and Contact Author

<sup>2</sup> Operations Researcher, Educational Services

<sup>3</sup> Professor Emeritus, Consumer Studies and Family Financial Management