

## The InCharge Financial Distress Financial Wellness Scale

The InCharge Institute Financial Distress/Financial Wellness Scale (IFDFWS) is an instrument constructed to help assess the changes, advances and progress people make with respect to their financial condition over time. InCharge holds the view that financial education, credit counseling and debt management can contribute to reducing financial distress and improving financial well-being. To accurately track changes over time, a need existed for a valid and reliable scale that can be used diagnostically to gauge financial wellness or distress. The purpose of this report is to describe the IFDFWS and to report national standards (norms) on financial distress and well-being produced using the procedure.

### Input

The scale, like any other, consists of a collection of concepts that all point to an even larger idea that is mostly subjective. The scale could have been created from objective measures such as debt to income ratios that do not depend on a person's feelings. However, reported financial stress is mostly a *reaction* to the 'hard' facts and, arguably, already reflects the hard data. Often, it is feelings and perceptions that determine the effects and consequences of conditions like financial wellness and distress.

The choice of inputs was very important. To arrive at the ones used in this scale, over 50 concepts were investigated. To insure the validity of the resulting scale, 50 personal finance college professors and 40 financial education experts in business were consulted. Eight concepts were finally chosen from a process that included both statistical analysis and expert judgment.

The eight concepts are given below. The questions were part of a larger study of the general US population and the debt distressed. Many other questions were asked in this larger study. Here, however, only the questions that are items in the scale are included.

	<b>InCharge Financial Distress Financial Wellness Scale Items</b>
Q1	How <u>satisfied</u> you are with your <u>present financial situation</u> .
Q3	How do you feel about your <u>current financial situation</u> ?
Q4	How often do you worry about being <u>able to meet</u> normal monthly living expenses?
Q5	What do you feel is the <u>level</u> of your <u>financial stress today</u> ?
Q6	How <u>stressed</u> do you feel about your personal finances <u>in general</u> ?
Q8	How confident are you that you could find the money to pay for a <u>financial emergency</u> that costs about \$1,000
Q18	How often does this happen to you? You want to go out to eat, go to a movie or do something else and <u>don't go because you can't afford to</u> ?
Q19	How frequently do you find yourself just getting by financially and living <u>paycheck to paycheck</u> ?

The table below shows percent frequency distributions for the general population followed by another table for the distressed population. The scale is from 1 to 10, where 1 indicates the lowest level for the variable shown. For example, for the question ‘How satisfied are you with your present financial situation’, a response of 1 indicates dissatisfaction, while 10 is satisfaction. And so it is with the rest of the questions : a movement from 1 to 10 indicates improvement in financial wellness (decreasing financial distress).

*The General Population*

	Q1: How satisfied are you with your present financial sit...	Q3: How do you feel about your current financial situation?	Q4: How often do you worry about being able to meet norma...	Q5: What do you feel is the level of your financial stres...	Q6: How stressed do you feel about your personal finances..	Q8: How confident are you that you could find the money t...	Q18: How often do you want to go out to eat, go to a movie or...	Q19: How frequently do you find yourself just getting by ...
	%	%	%	%	%	%	%	%
One	10.8	7.7	8.4	5.3	6.3	19.5	8.5	16.7
Two	5.4	5.7	5.5	4.6	4.4	4.6	5.6	8.2
Three	9.1	7.5	5.3	4.3	3.9	3.6	6.0	6.6
Four	10.7	22.9	19.2	10.2	9.1	10.1	15.0	13.5
Five	14.0	12.2	10.4	14.5	15.6	5.5	5.3	4.8
Six	12.5	13.6	9.5	16.9	18.9	6.6	4.5	7.2
Seven	15.2	14.3	17.0	23.2	20.2	13.2	16.1	9.6
Eight	13.7	6.4	6.3	8.7	9.7	7.9	6.0	4.6
Nine	4.2	5.9	6.7	6.6	7.1	7.3	8.6	7.2
Ten	4.4	3.6	11.7	5.8	4.7	21.7	24.4	21.6
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

*The Debt Distressed*

	Q1: How satisfied are you with your present financial sit...	Q3: How do you feel about your current financial situation?	Q4: How often do you worry about being able to meet norma...	Q5: What do you feel is the level of your financial stres...	Q6: How stressed do you feel about your personal finances..	Q8: How confident are you that you could find the money t...	Q18: How often do you want to go out to eat, go to a movie or...	Q19: How frequently do you find yourself just getting by ...
	%	%	%	%	%	%	%	%
One	29.7	21.9	27.2	15.6	14.4	51.9	27.1	50.3
Two	10.2	11.9	12.6	8.1	9.7	11.2	13.4	18.6
Three	11.9	14.8	11.5	9.5	8.0	5.1	12.0	10.5
Four	13.3	33.6	26.7	22.9	24.6	15.3	25.9	9.5
Five	13.3	8.0	7.8	16.8	17.8	4.6	6.2	4.1
Six	3.9	3.6	5.3	10.0	9.0	2.6	3.1	3.3
Seven	2.7	3.4	5.6	13.2	12.4	6.1	7.0	2.4
Eight	3.5	.7	.8	1.9	.8	.7	1.5	.3
Nine	1.9	.2	.8	.2	1.5	.5	1.4	.3
Ten	9.6	2.0	1.7	1.7	1.7	2.0	2.6	.7
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

### The Scale and Standards (Norms) Produced

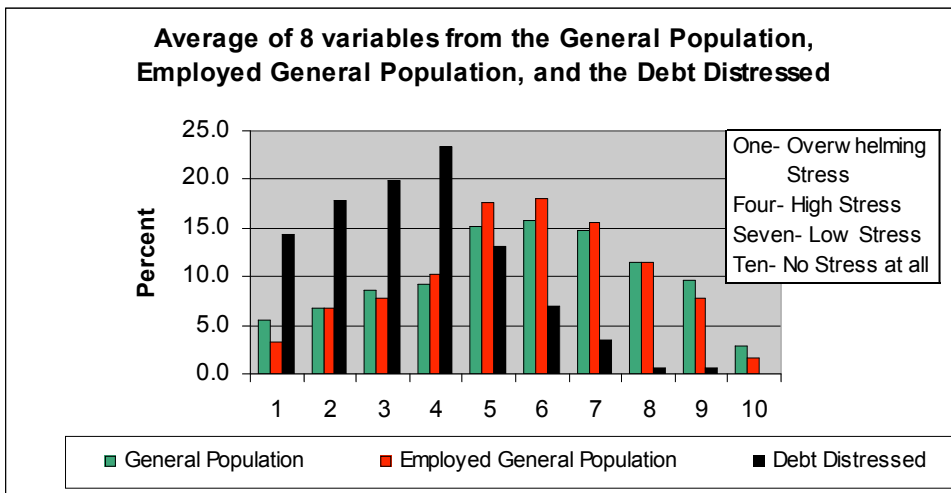
The 8-question self-report IFDFWS represents a subjective assessment of financial distress and financial well-being. The individual variables (questions) are reflections of this condition. Armed with this understanding, the scores for each variable were averaged, giving the national US value for financial well being of 5.7 on a scale of 1 to 10. As expected, a lower value of 3.4 was obtained for the debt distressed.

*National Norm Scores for Individual IFDFW Scale Questions  
General Population Versus Financially Distressed Population*

	<b>InCharge Financial Distress Financial Wellness Scale Items</b>	<b>General Population</b>	<b>Debt Distressed</b>
Q1	How <u>satisfied</u> you are with your <u>present financial situation</u> .	5.3	3.9
Q3	How do you feel about your <u>current financial situation</u> ?	5.2	3.4
Q4	How often do you worry about being <u>able to meet</u> normal monthly living expenses?	5.7	3.3
Q5	What do you feel is the <u>level</u> of your <u>financial stress today</u> ?	5.9	4.2
Q6	How <u>stressed</u> do you feel about your personal finances <u>in general</u> ?	5.9	4.2
Q8	How confident are you that you could find the money to pay for a <u>financial emergency</u> that costs about \$1,000	5.9	2.6
Q18	How often does this happen to you? You want to go out to eat, go to a movie or do something else and <u>don't go because you can't afford to</u> ?	6.3	3.4
Q19	How frequently do you find yourself just getting by financially and living <u>paycheck to paycheck</u> ?	5.6	2.3
	<b>Scale Average</b>	<b>5.7</b>	<b>3.4</b>

The findings are also depicted on the graph that follows. Three distributions are shown. In addition to the distribution of responses for the general population and the debt distressed, one for the employed in the general population also appears. The distressed are skewed to the left, with greater percentages reporting 4 (High Stress) or under. The distribution for the general population is more balanced. The working population is a little more financially well compared to the general population. The general population included everyone, employed and unemployed.

- Employed population
  - Mean=5.7
- Financially distressed population
  - Mean=3.4
- General population
  - Mean=5.7



**Uses of the IFDFWS**

The new InCharge Institute Financial Distress/Financial Wellness Scale is the only one of its kind in the US. Many uses exist for the scale. Importantly, for the personal financial services industry, it can be used to assess the severity of financial distress of people who telephone non-profit credit counseling agencies. It can also be used by these same organizations to make interim evaluations of the progress of clients after they have been in a debt reduction program for some time. Comparisons can be made between particular sectors of the population and the general population. In this report, the debt distressed in a DMP is compared to the general population. The scale can be used to compare company employees and members of organizations with the national standard or norm, or with industry norms. Productivity increases and benefits to employers can be measured for employees who improve their financial well-being. If the degree of financial distress is known about an individual or population, programs can be customized and delivered to help reduce distress about personal finances and help improve financial well-being.

In light of the new bankruptcy bill that was just passed and signed by the president, the new scale can 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 will also find the scale useful.

*Other Applications of the Scale*

1. Explain perceived financial distress and financial well-being
2. Track changes, advances, and progress that individuals, families, and the general population make in their financial condition over time
3. Explain levels of severity of financial distress.
4. Increase understanding of consumers who are seriously financially distressed and have very low financial well-being.

5. Determine the financial educational needs of individuals and groups.
6. Identify and/or predict which consumers may need various types of appropriately targeted assistance, interventions and referrals in the areas of mental health counseling, employee assistance program counseling, marriage counseling, pastoral counseling, debt consolidation, financial planning.
7. Compare treatments designed to reduce financial distress and improve financial well-being.
8. Compare and use subjective and objective measures of financial well-being together.
9. Provide insights into objective measures of financial well-being.
10. Predict which consumers are likely to report poor health, poor family relationships, and poor job outcomes.

### **General Population IFDFWS Demographic Characteristics**

The scale varies according to the demographic characteristics of the general population.

In summary:

1. Men are more financially well than women
2. The married and widowed are more financially well.
3. Financial wellness increases with education
4. The retired are more financially well off on average.
5. Financial wellness increases with income

### **Methodology and Data**

The creation of the IFDFWS was aided by previous studies conducted by InCharge:

- 2000 Panel Study of Financially Distressed
- 2001 Follow-up Study of Financially Distressed 18 Months Later
- 2003 Large Panel Study of Financially Distressed

The 2004 mail survey was specifically intended to finalize the data requirements for the scale. The Signature study, as it came to be called, included two separate mail surveys. One was a survey of the general US population. The other was a survey of debt distressed people from the InCharge database. These debt relief seekers had contacted InCharge Debt Solutions between March and June 2004.