

Educational Desires of Credit Counseling Clients

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This study examined the desires of clients of a large national non-profit credit counseling organization for additional information and education on financial topics. Their desires were similar but quite different in prioritization from those who presumably are adequately managing their financial resources. Credit counseling clients gave priority to budgeting and credit management. Other research suggests that people who are presumably managing well desire additional education on investing and retirement planning first, followed by more basic financial education topics.

Key words: *Financial education*

Introduction

Most people in America need and want financial education (Garman and Leech, 1996; Belden Russonello and Steward and Research/Strategy/Management, 2000). Many are seeking financial education programs sponsored and/or conducted by their employers. Previous research indicates 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 were currently managing their financial resources presumably in an adequate manner (Anderson, Kerbel, and Xiao, 1997). However, little is known about the educational desires of individuals who find themselves in financial distress.

This study examines the financial education desires of financially distressed individuals who are clients of a large, national non-profit financial counseling organization. All of the respondents to this study are or have been clients of this organization that offers confidential debt management and education programs designed to assist people to get out of debt and achieve financial freedom. One objective of this study is to provide information to financial educators and counselors so they can better understand the similarities and differences in the financial education needs of individuals who are in financial distress and those individuals who self-report that they are adequately managing their financial resources.

Background

Many Americans appear to lack the basic knowledge and skills needed to manage their personal finances. A number of studies of high school seniors about to graduate have indicated abysmal levels of financial literacy. A 1997 financial knowledge survey of high school seniors by the Jump\$tart Coalition for Financial Literacy reported a mean correct score of 57.3% on a knowledge test. Using a similar questionnaire in 2001 with more than 4,000 students, the Jump\$tart survey found a mean score of 50.2%, and this was characterized as a grade of "F" (Duguay, 2002). Not only are financial information levels low among high school seniors, there also are indications that the knowledge levels are getting worse.

A 2001 study by the Americans for Consumer Education and Competition conducted telephone interviews with 801 high school seniors nationwide. The students' mean correct score was only 36.6%. Only 5% correctly identified the percentage of earning that one should save each month. Only 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 functionally illiterate with respect to the basics of personal finance.

At the same time, the personal financial environment in society is becoming more and more complex. As a result of this increased complexity, individuals and families find they need information about budgeting,

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credit 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 2002, Treasury Secretary Paul H. O'Neill, discussed how increasing complexity and choice 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 home mortgages, paying for an automobile, and making investment selections that range from stocks and certificates of deposit to "who knows what else" (Department of the Treasury, April 23, 2002). He also announced the creation of the Office of Financial Education to develop financial education programs. It will also 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 the increasing 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, and cable television shows, as well as personal appearances by well-known experts in the field of personal finance.

Due to serious time restraints because of busy work and family lives, many people are turning to their employers for help via 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, CD-ROMs, workbooks, newsletters, and video as well as audiotapes. The majority of information being currently delivered by the 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 is clear that employees want and need 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 workplace 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 employees' financial behaviors, in particular by increasing their savings and contributing more money to their retirement plans (Bernheim and Garrett, 1996; DiPaula, 1998; Gorbach, 1997). Other research indicates that personal finance education in the workplace can improve job 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 for employers offering defined-contribution pension plans, such as the 401(k).

Since the declaration of the bankruptcy of the Enron Corporation, many policy makers and other leaders have called for a greater focus on 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, contended that 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. Others say that workers need more information to help them make good investment and retirement decisions (Committee on Education and the Workforce, July 17, 2001). William H. Mann, III, Senior Analyst for The Motley Fool, observed 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 clear that many employees need more than advanced financial education on these important issues. Many are in need of basic and, in some cases, remedial financial education in order to extract themselves from their current money, budgeting and credit use problems. It is estimated that more than 2.5 million individuals and families annually become involved in the credit counseling industry (Staten, Elliehausen, and Lundquist, 2002). However, little is known about this group's desire for financial education.

Methodology

This study was part of a larger national mail survey sent to clients of a national non-profit credit counseling organization to gather information on such topics as financial wellness, financial behaviors, financial

stressors and work outcomes. In 2000 a sample of 1,800 was drawn from a population of 4,000 current clients from across the country. Twenty percent (N=355) of the households who received the 57-item questionnaire returned it. About eighteen months later, in January 2002, a second questionnaire was sent to those who responded originally. Due to changes of addresses, 300 of the questionnaires were delivered and of that number, 180 usable questionnaires were returned, for a return rate of 51 percent. The questionnaire included one question about the types of additional financial educational programs respondents needed or wanted. One hundred and sixty responded to that question and 132 identified at least one financial topic in which they desired additional information or education.

Results

The subjects for this research were employed individuals who had an 18-month client relationship with a national non-profit credit counseling agency. The 161 respondents to a question regarding desires for additional information and education in personal finance were typical credit counseling clients. Sixty-eight percent were female. The mean age was 37 years. Forty-nine percent were either married or living with a partner. Their median annual income was between \$30,001 and \$40,000. The educational attainment varied, with 43% with a high school education, 28% reporting some college, and 30% with a bachelor’s degree or higher.

Table 1 lists the responses offered to the single question “I could benefit from additional information and/or education in the following areas.” Respondents were requested to “Circle *all* that apply” among the topics listed, along with an open-end item for writing in other choices. Twenty-five percent reported that they did not desire any additional financial education. Of those who did indicate an interest in additional financial education, approximately half expressed a desire for “budgeting and money management” and “saving for future (short- and medium-term) needs.” Ten respondents indicated a desire for additional topics by writing in responses: bill consolidating plan, cleaning up bills, obtaining loans, how to sleep better, financial support for a grandchild, and saving plan for a child.

Table 1.
Percentage of Respondents Desiring Financial Education Topics (N = 160)

Financial Education Topics	%
Budgeting and money management	48
Saving for future needs	48
Saving for retirement	37
Lowering monthly credit payments	31
Understanding IRA and 401(k) plans	24
Understanding credit reports	24
Reducing income taxes	21
Avoiding costly financial mistakes	20
Understanding credit scores	19
Reducing checking account fees	16
Understanding rights as a borrower	13
Selecting the right insurance plan	10
Other (open-end response)	6

Analyses were conducted to determine if there were any significant differences in desired educational topics by demographic attributes of respondents. Chi-square tests indicated there were no significant differences by gender for any topic. Chi-square analysis also determined there were no differences in desired financial topics by age grouped into six categories. There were two instances of significant differences in topics desired by respondent’s educational attainment. They were “understand rights as borrower” and “benefiting from budgeting and money management” As shown in Table 2, there was no linear pattern for educational attainment; those with less than high school education and those with some college or vocational school expressed more interest in each of these topics than did respondents with only high school education or with a completed college degree.

Household income was divided into five categories ranging from less than \$20,000 to above \$50,000 in \$10,000 increments. Using the Chi-Square test of independence, a pattern of differences by income categories was observed for five of the topics (see Table 2). For all five items, those who had household incomes between \$20,000 and \$30,000 were more likely to want additional financial education than those in income categories below or above that level.

Discussion and Implications

This study is one of the few conducted with credit counseling clients as respondents. It might be expected that the financial education needs of this population would be different than the general population. However, given the generally low level of financial literacy in the American population, the financial education needs of this group of financially stressed subjects do not appear to be different than the general population.

Table 2.
Significant Chi-square Tests of Independence of
Desired Financial Education Topics by
Demographic Characteristic
(N = 160)

Topic	Demographic characteristic and Chi-square statistic	Percent desiring topic
Avoiding costly financial mistakes	Education $\chi^2 = 6.02^*$	
	Less than high school	31%
	High school only	14%
	Some college/ vocational	33%
Understanding rights as borrower	Education $\chi^2 = 6.05^*$	
	Less than high school	38%
	High school only	7%
	Some college/ vocational	19%
Reducing checking account fees	Income category $\chi^2 = 17.80^{**}$	
	Less than \$19,000	3%
	\$20,000 thru \$29,999	39%
	\$30,000 thru \$39,000	12%
	\$40,000 thru \$49,000	24%
Lowering monthly credit payments	Income category $\chi^2 = 12.87^*$	
	Less than \$19,000	32%
	\$20,000 thru \$29,999	56%
	\$30,000 thru \$39,000	6%
	\$40,000 thru \$49,000	32%
Saving for future needs	Income category $\chi^2 = 11.04^*$	
	Less than \$19,000	49%
	\$20,000 thru \$29,999	73%
	\$30,000 thru \$39,000	41%
	\$40,000 thru \$49,000	50%
Understanding credit reports	Income category $\chi^2 = 10.80^*$	
	Less than \$19,000	24%
	\$20,000 thru \$29,999	48%
	\$30,000 thru \$39,000	12%
	\$40,000 thru \$49,000	15%
Under-standing credit scores	Income category $\chi^2 = 9.85^*$	
	Less than \$19,000	19%
	\$20,000 thru \$29,999	38%
	\$30,000 thru \$39,000	6%
	\$40,000 thru \$49,000	12%
	Over \$50,000	16%

* $p < .05$, ** $p < .01$

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 topic between “debt management” and “investment basics” at 36.4%. The next most desired topics were “understanding credit” and “planning and investing for retirement” each 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” each at 12.1%. Education about “deciding if a two-earner family can be a one-earner family” was noted by 10.6% of the respondents. The least popular topic was “long-term health care.” Interestingly, 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), the top two topics for education programs were retirement planning (60.5%) and investing (48.7%). The next desired topics were budgeting (42.1%) and getting out of debt (36.2). The first two topics might be labeled “basic retirement planning” while the following two are “basic financial education” issues. Finally, only 6.6% of the respondents noted they did not want any additional financial education.

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

In these three studies of employed individuals, specialized topics ran a distant third. Basic retirement and investment were 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 other specialized topics tended to be third or lower on the list of topics about which most people indicated they want to learn.

This research found differences between the financial education topics desired by clients of a credit counseling agency compared to those of interest to a more general population. Those who presumably were adequately managing their financial resources (people who are not credit counseling clients) were more likely to desire additional education on retirement planning

followed by money management topics (Anderson, Kerbel, and Xiao, 1997; Kim, Bagwell, Garman, 1998; Joo and Garman, 1998). In contrast, the credit counseling clients surveyed for this research were more likely to desire education on budgeting current income, rather than future-oriented topics of retirement planning and investments. Both groups also expressed interest in specialized topics such as insurance and financing a child's college education.

Those who are involved in credit counseling likely recognize their need for basic financial information that will assist them in relieving their financial distress over money, budgeting and credit issues. Those who presumably are adequately managing their financial resources are more likely to desire topics that involve planning for the long term.

One of the surprising findings of this study was the high level of rejection of any additional financial education by those who were involved in credit counseling. In previous studies, fewer than 10% of the employed individuals, who are presumably satisfactorily managing their personal finances, reported that they had no need for any additional education on financial topics (Joo & Garman, 1998; Kim, Bagwell & Garman, 1998). In contrast, among credit counseling clients, 27% expressed no interest in additional information or education on any of the twelve financial topics listed. One explanation could be respondent fatigue; the question about additional education desires was the very last question on a lengthy questionnaire and the respondents may have been tired of answering. Another explanation could be a concern that their current personal financial problems might be exposed in an educational setting.

Among these credit counseling clients, there were a limited number of demographic variables for which differences were found in their desires for additional financial education. No differences were found by gender or age, and this is in contrast to previous research where it was found that differences varied by age (Joo and Garman, 1998). Younger individuals were found to more often desire the financial education topics of credit management and budgeting 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.

For these respondents, education and household income were the demographic factors that evidenced a difference in desire for some of these financial education topics. Respondents in households with income in the range of \$20,000 to \$30,000 were more likely to desire financial education on some topics than those in other categories. These respondents were

somewhat below the median income range of American families which was \$42,148 in 2000. (Denavas-Walt, Cleveland, and Roemer, 2001). These households are not living in poverty, although they are on the lower margin of the middle-class lifestyle. Households with this level of income can qualify for credit cards and other forms of unsecured debt. Some have high levels of debt they cannot manage without the assistance of the services of a credit counseling agency. These individuals may have a heightened awareness that they need additional information and financial education to improve the management of their marginally adequate financial resources.

The results of this study suggest the education desires of those in financial distress and those who presumably are adequately managing their financial resources are somewhat similar but do differ in prioritization. Those who are doing well financially are more likely to desire financial education programs focused on retirement planning and investments while those in financial distress are more likely to desire financial information on the basics. Individuals whose household incomes are in a range just below the national median are more likely than others to desire additional education on certain financial topics.

Recommendations

This research supports the need for more basic financial education for credit counseling clients. Based upon this research, credit counseling organizations, employers, cooperative extension personnel, and other adult educators are encouraged to create and deliver financial education programs that focus on the basics of money, budgeting and credit management. These programs should be marketed particularly to those with household incomes near or below the national median who express particular interest in certain topics.

More in-depth research could explore the financial education desires of a variety of clients of credit counseling agencies. Differences may exist among the types of clients attracted to and served by different agencies. Research could be conducted to determine how credit counseling clients want financial information delivered. Do they want financial education programs to be made available to them in groups, via the Internet, through their employers, or by some other delivery mechanisms? Also, what delivery methods have the greatest impact, and on what types of people? In addition, research could 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. Is such instruction valuable to the individual or to his or her family? Does the information change personal financial behaviors in

positive directions? Does it increase one's subjective personal financial well-being?

Financially distressed credit counseling clients enroll in a debt management program because they seek professional help to get their debts under control. They also realize that to avoid getting into financial trouble in the future and to succeed financially in life they must have additional education on key personal finance topics. The areas they ranked highest were budgeting and money management, saving for future needs, saving for retirement, and lowering monthly credit payments. Credit counseling organizations should focus their educational offerings to clients on these fundamental personal finance topics.

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