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Determinants of Satisfaction with Preparations for Financial Emergencies

Tahira K. Hira¹, Alyce M. Fanslow², and Renate Vogelsang³

Objectives were to examine the relationship between insurance knowledge and insurance coverage and to determine the predictors of satisfaction with preparations for financial emergencies. The systems approach to managerial behaviors developed by Deacon and Firebaugh (1988) was used as the theoretical framework for the study. Personal interviews with 123 household money managers were conducted in central Iowa in fall 1986. Male and highly-educated money managers had more insurance knowledge than female and less-educated money managers. High-income households and households in which the money manager was knowledgeable about insurance issues tended to have broad insurance coverage. The household money managers were more likely to be satisfied with their households' preparations for financial emergencies if they were retired or disabled and if their households had a high net worth and broad insurance coverage. Results may be used by financial counselors and educators to help money managers prepare to meet various financial emergencies.

KEY WORDS: *financial emergencies, insurance coverage, insurance knowledge*

Insurance is regarded as one means by which a household can prepare for financial emergencies. Insurance provides for financial emergencies by eliminating or reducing risks included in the insurance contract by dividing the losses among many individuals.

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Many types of insurance are available to consumers. The most important types include life insurance, health insurance, major medical insurance, disability income insurance, property insurance, automobile insurance, personal liability insurance and homeowners' or renters' insurance (Hallman & Rosenbloom, 1987). For each insurance type, there are many options to choose from that include amount, deductibles, and cost.

The research that has been done in the area of insurance has focused only on life insurance or only on auto insurance. In this study, not one specific insurance type, but insurance coverage in general was examined. The insurance types used to indicate the insurance coverage of the household included life, disability income, health, major medical, auto, and homeowners' or renters' insurance. Former studies were mostly descriptive; that is, sociodemographic characteristics of owners and buyers of insurance were identified. This study is not only descriptive, but also explanatory and predictive. A more comprehensive model is proposed that explores the influence of sociodemographic characteristics on insurance knowledge, insurance coverage, and satisfaction with preparations for financial emergencies. The relationship between insurance knowledge and insurance coverage was investigated. Predictors of satisfaction with preparations for financial emergencies were determined. Results are of importance to educators, financial counselors, and insurers as they assist and advise families with risk management planning.

Theoretical Framework

The systems approach to managerial behavior as conceptualized by Deacon and Firebaugh (1988) was used as the theoretical basis for the study. The three major components of Deacon and Firebaugh's management model are input, throughput, and output (Figure 1). Demands consisting of goals and events and resources represent the input to the management system.

Planning and implementing (that is, dynamic actions within the system) are referred to as throughput. Demands, responses, and or changed resources represent the output, some of which becomes part of the input of the next managerial stage through feedback. The output depends on the input and the throughput processes.

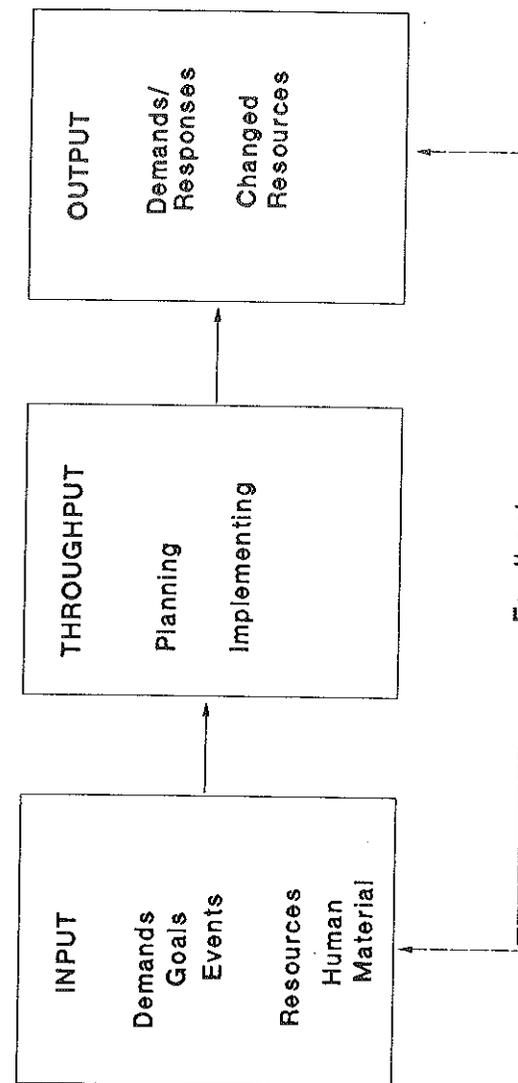


Figure 1. Systems Approach to Managerial Behavior adapted from Deacon and Firebaugh (1988)

Applied to financial management, sociodemographic characteristics represent input because demands on the household and resources of the household are mainly determined by the composition of the household and the human capital of the household members. Age, marital status, household size, education, occupation, and income are sociodemographic variables that indicate demands and resources of households. Throughput consists of various financial management practices applied to ensure that resources are used in the best way possible to meet demands. Examples of financial management practices include developing budgets, record keeping, credit usage, savings, and risk management. Output in financial management studies represents the economic well-being of families and has been measured by objective indicators (net worth, debt-to-income ratio) and a subjective indicator (satisfaction).

Related Literature

Most studies in the area of insurance have focused on the influence of sociodemographic characteristics on life insurance coverage. In addition, several studies have related insurance knowledge and insurance coverage to the economic well-being of households. The following factors were identified as significant determinants of life insurance coverage in former studies: stage in the life cycle, income, net worth, household size, education, and gender. Individuals purchased life insurance before or soon after household formation (Geistfeld, 1976; Ferber & Lee, 1980).

Some studies found that households were likely to have broad insurance coverage if they had a high income, a high net worth, if the households were large, and if the person managing the household's money was male and highly educated (Ferber & Lee, 1980; Burnett & Palmer, 1984; Schwenk, 1985). Other studies revealed different results. Goldsmith (1983) found that insurance coverage was related negatively to net worth and household size. Geistfeld (1976) noted that the strength and the sign of the relationship between life insurance holdings and net worth depended upon the asset category considered. Anderson and Nevin (1975) indicated that highly educated respondents purchased less life insurance coverage than respondents with less education.

Research relating insurance knowledge to insurance coverage is limited. The literature reviewed indicated that consumers had poor insurance knowledge and were unaware of their insurance needs (Lane, 1978; Eldred, 1980; Fox, 1980; Lambert, 1980). Insurance coverage of households was often found

inadequate (Gupta, 1985; Dennon, 1987; Miller, 1989; Quinn, 1989; Stern, 1989).

Other studies confirmed that insurance coverage affected the economic well-being of households. Persons with severe financial problems were often not prepared for financial emergencies caused by illness, pregnancy, or death (Lawyer, 1977). High medical expenses were identified as one of the major causes of bankruptcy (Leibhart, 1976; Heck, 1980; Hira, 1982; Hira & Mugenda, 1983; Luckett, 1988). Broad insurance coverage was found as predictor of a high level of family financial management functioning (Barnett, 1975).

In summary, from the literature reviewed, no definite statement can be made regarding the sociodemographic characteristics of insurance owners. Further, insurance coverage of households frequently was found to be inadequate and the lack of adequate insurance coverage affected the economic well-being of households.

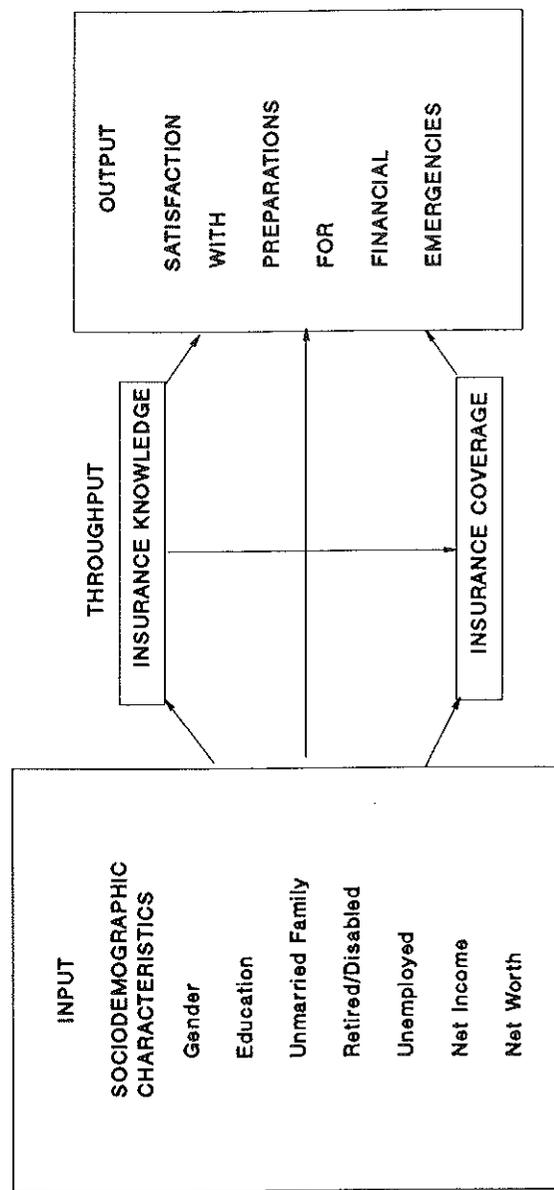
Procedure

Data were collected in 1986 in a study of households' solvency status. Money managers of 123 households from an area sample of 164 in a small midwestern town were interviewed. The town offers socioeconomic diversity due to its varied industrial and agricultural mix. The money managers were identified by the question "Who manages the money in the household?"

The model for this study developed from the systems approach to managerial behavior by Deacon and Firebaugh (1988) is represented in Figure 2. Sociodemographic characteristics were used as input variables, insurance knowledge and insurance coverage represented the throughput variables, and satisfaction with preparations for financial emergencies was used as output. The following sociodemographic characteristics were included in the study: gender, education, unmarried family, retired/disabled, unemployed, household net income, and household net worth.

Insurance knowledge was measured by asking the respondents to judge five statements as correct or incorrect. The insurance knowledge statements were combined into a scale. The reliability of the scale, measured by Cronbach's alpha, was a low 0.28.

Figure 2
Proposed Model for the Study



Insurance coverage was measured by ascertaining whether the household had the following insurance types: life insurance, health insurance, major medical insurance, disability insurance, auto insurance, and homeowners' or renters' insurance. An insurance coverage scale was computed by adding the single insurance types. The creation of an insurance coverage scale was judged appropriate because the scale represents the types of insurance recommended for most households (Hallman & Rosenbloom, 1987). Cronbach's alpha for the scale was an acceptable 0.66.

Finally, the respondents were asked about their satisfaction with their households' preparations for financial emergencies. The respondents could choose their answer from a five-point Likert scale ranging from extremely dissatisfied to extremely satisfied. See Appendix A for coding of the variables.

Descriptive statistics were calculated to obtain basic information about the variables. A 10 x 10 correlation matrix was computed between all variables as a preliminary step to examine the hypothesized relationships. This preliminary step was used as a tentative procedure for identifying the hypothesized relationships in the model.

Path analysis was used to test the proposed model. Three multiple regression analyses were calculated to test the relationships among the dependent and independent variables; each equation consisted of the independent variables hypothesized to influence the dependent variable. The path coefficients were the standardized regression coefficients (betas) of ordinary regression analysis (Pedhazur, 1982). For each regression equation, the percentage of variance explained (R^2) was computed.

The three recursive linear regression equations for the model under consideration were:

$$\text{Insurance knowledge} = f(X_1, \dots, X_7)$$

$$\text{Insurance coverage} = f(X_1, \dots, X_8)$$

$$\text{Satisfaction with preparations for financial emergencies} = f(X_1, \dots, X_9)$$

where:

- X_1 = gender of the money manager
- X_2 = education of the money manager
- X_3 = household size > 1 and unmarried money manager
- X_4 = retired or disabled money manager
- X_5 = unemployed money manager

- X_6 = net household income
 X_7 = household net worth
 X_8 = insurance knowledge of household money manager
 X_9 = insurance coverage of the household

Reduced-form equations also were solved to decompose total effects into their direct and indirect effects. The total effect was used to indicate how much change in a dependent variable was induced by a given change in both independent and intervening variables. The direct effect of the independent variable on the dependent variable was the effect that remained when the intervening variables had been held constant. The indirect effect was that part of the independent variable's total effect that was hypothesized to intervene between the independent variable and the dependent variable. The Statistical Analysis System (SAS) was used to decompose the total effect into direct and indirect effects (SAS/STAT User's Guide, 1990).

Results

Sociodemographic characteristics of the money managers and their households are shown in Table 1. The typical money manager was a married, 46-year old woman with a twelfth grade education living in a two person household. She was employed as a clerical, sales, or service worker. The median net household income was \$20,760. The median household savings in 1986 was \$1,200 and the median household net worth was \$65,850. Few money managers were employed as professionals, unskilled laborers, or farmers. Similarly, few were either retired, disabled, or unemployed.

Pearson-product correlations for the variables in the model are shown in Table 2. Inspection of the matrix shows that, for the most part, significant correlations occurred for the hypothesized paths. Insurance knowledge correlates with gender and education; insurance coverage correlates with net income and insurance knowledge; and the satisfaction index correlates with retired/disabled, net income, and insurance coverage. Hence, path analysis was judged as appropriate for analyzing the variables in the model.

Table 1
Sociodemographic Characteristics of the Money Managers and Their Households

Gender (female in %)	63
Median Age in years	46
Marital status (married in %)	73
Median years of schooling	12
Employment	
Retired/disabled (in %)	22
Unemployed (in %)	16
Employed (in %)	12
Occupation	
Professionals, managers (in %)	24
Clerical, sales, service workers (in %)	40
Skilled laborers (in %)	18
Unskilled laborers (in %)	3
Farmers (in %)	1
Others (in %)	14
Median household size	2
Median annual income (in dollars)	20,760
Median savings in 1986 (in dollars)	1,200
Median net worth (in dollars)	65,850

Insurance Knowledge

Most household money managers were knowledgeable about types and uses of insurance (mean = 3.78 on a 5-point scale). The specific statements and the percentage of money managers who answered each statement correctly follow:

- Life insurance needs vary with age and the size of the family (95.1%).
- Insurance is a way to reduce the risk of a financial disaster (90.2%).
- Insurance costs can be reduced by having high deductible clauses in the contract (80.5%).
- All financial risks can be covered by insurance (72.4%).
- Term insurance is the best form of life insurance protection available for one's dollar (41.5%)

Table 2
Correlations Between Input, Throughput, and Output Variables

Variables	Gender	Educ	Unmar Family	Retir/ Disab	Unempl	Net Income	Net Worth	Insur Knowl	Insur Cover	Satis Index
Gender	1.00									
Education		1.00								
Unmarried Family			1.00							
Retired/Disabled				1.00						
Unemployed					1.00					
Net Income						1.00				
Net Worth							1.00			
Insurance Knowledge								1.00		
Insurance Coverage									1.00	
Satisfaction Index										1.00

* $p < .05$

** $p < .01$

Although the knowledge scale was not as reliable as desired ($\alpha = .28$), some insights into variables predicting insurance knowledge can be obtained by studying the beta values.

Gender was the largest contributing input variable to the insurance knowledge scale (Table 3, $\beta = .222$). Because women were coded as 0 and men as 1 (Appendix A), the positive beta suggests that male money managers were more knowledgeable about insurance issues than female money managers.

Education also contributed significantly to the money manager's insurance knowledge ($\beta = .154$). Highly educated money managers were more knowledgeable about insurance issues than less-educated money managers. The other independent variables (unmarried family, retired/disabled, unemployed, net income, and net worth) did not significantly affect insurance knowledge.

Insurance Coverage

Most money managers reported broad insurance coverages (Table 4). Seventy-eight percent of the households had five or six different types of insurance. More than 90% of the households had auto, homeowners' or renters' insurance coverage, and health insurance. More than 80% of the households owned a life and major medical insurance policy. However, less than 55% had disability income insurance coverage.

Net income was the only input variable in the model that had a direct effect on insurance coverage (Table 3, $\beta = .376$). Higher income households were the most likely to have broad insurance coverage.

The throughput variable of insurance knowledge had a direct effect on the insurance coverage of the household (Table 3, $\beta = .247$). Households of money managers with good insurance knowledge were more likely to have broad insurance coverage than households of money managers who were less knowledgeable about insurance.

Table 3
Direct and Indirect Effects for Insurance Knowledge, Coverage, and Satisfaction Index

Dependent Variable	Independent Variable	Total Effect	Indirect Effect	Direct Effect
Insurance Knowledge $R^2 = .134$ $F = 2.546^{**}$	Gender	.222**		.222**
	Education	.154*		.154*
	Unmarried Family	.099		.099
	Retired/Disabled	-.076		-.076
	Unemployed	.006		-.006
	Net Income	.080		.080
	Net Worth	.144		.144
Insurance Coverage $R^2 = .294$ $F = 5.934^{**}$	Gender	.156	.055	.101
	Education	.052	.038	.013
	Unmarried Family	-.051	.025	-.076
	Retired/Disabled	-.177	-.019	-.159
	Unemployed	-.002	.001	-.003
	Net Income	.396**	.019	.376**
	Net Worth	.020	-.036	.015
Satisfaction Index $R^2 = .277$ $F = 4.821^{**}$	Insurance Knowledge	.247**	.000	.247**
	Gender	.013	.041	-.028
	Education	-.005	.012	-.016
	Unmarried Family	-.075	-.018	-.057
	Retired/Disabled	.206**	-.051	.257**
	Unemployed	.110	.000	.110
	Net Income	.193	.117	.076
Net Worth	Net Worth	.287**	.002	.285**
	Insurance Knowledge	.049	.074	.025
	Insurance Coverage	.300**	.000	.300**

* $p < .05$

** $p < .01$

Table 4
Amounts and types of insurance coverages

	N	%
<i>Amounts</i>		
Six types of insurance	56	45.5
Five types of insurance	40	32.5
Four types of insurance	13	10.6
Three types of insurance	5	4.1
Two types of insurance	5	4.1
One type of insurance	4	3.2
TOTAL	123	100.0
<i>Type</i>		
Auto insurance	115	93.5
Homeowners or renters insurance	114	92.7
Health insurance	113	91.8
Major medical insurance	106	86.2
Life insurance	102	82.9
Disability insurance	67	54.5

Satisfaction Index

Approximately 40% of household money managers indicated they were satisfied (36.6%) or extremely satisfied (3.3%) with their households' preparation for financial emergencies. Conversely, many household money managers were dissatisfied (30.1%) or extremely dissatisfied (13.8%) with their preparations for financial emergencies. Retired/disabled money managers (Table 3, $\beta = .257$), net worth ($\beta = .285$), and insurance coverage ($\beta = .300$) contributed significantly to the satisfaction of the household with preparations for financial emergencies.

Retired/disabled money managers (21.6% of the sample) felt better prepared for financial emergencies than households in which the money manager was employed or seeking employment (78.4% of the sample). The greater satisfaction of retired employees and disabled workers may be a function of having an established income stream due to retirement or the disability condition.

Money managers felt better prepared for financial emergencies if their households had a high net worth. Money managers of households with broad insurance coverage were more satisfied with their households' preparations for financial emergencies than money managers of households with narrow insurance coverage.

No additional variables had a direct effect on the money manager's satisfaction with preparation for financial emergencies. Further, no variables showed indirect effects on the degrees of satisfaction with financial emergency preparation.

Systems Approach to Financial Management

The systems approach to managerial behavior by Deacon and Firebaugh (1988) assumes that output depends on both the input and throughput process. This study provided support for a systems approach to family financial management. The results indicate that selected inputs affect throughputs and that the combined effects of inputs and throughputs affect the output of satisfaction with preparations for financial emergencies.

Percentages of variance explained were 13.4% for insurance knowledge, 29.4% for insurance coverage, and 27.7% for the satisfaction index (Table 3). A commonly accepted rule of thumb for variance explained is 25% for social science studies. Using this rule, the variables studied appear to provide an explanation of variables that impact on the insurance knowledge of money managers, the insurance coverage provided for their families, and the degree of satisfaction they express with their households' preparations for financial emergencies.

Discussion and Conclusions

Compared with former research in the area of insurance, this study used a more comprehensive model. The study examined not only the relationships between sociodemographic characteristics and insurance coverage, but also the influence of sociodemographic characteristics on insurance knowledge and satisfaction with preparations for financial emergencies, the relationship between insurance knowledge and insurance coverage, and the determinants of satisfaction with preparations for financial emergencies. Most of the

previous research on insurance focused on one insurance type, often life insurance or auto insurance, whereas this study examined insurance coverage in general.

Female and less-educated money managers had less insurance knowledge than did their male and highly-educated counterparts. Efforts aimed at improving insurance knowledge, therefore, should be targeted to women and individuals with lower-educational levels.

Most of the households in this study had life, health, and major medical insurance. However, only 54.5% of the money managers had disability income insurance (Table 4) although 74.8% were less than age 65. Garman, Eckert, & Fogue (1985) recommend that every person of working age should have disability income insurance coverage. Money managers who are younger than age 65 without disability income insurance may need to be encouraged to purchase this type of policy.

Although 78% of the households had five or six types of insurance (Table 4), 44% of the household money managers were dissatisfied with their households' preparations for financial emergencies. Some households might have broad insurance coverage, but they might not understand their policies well, or it may be that money managers were unsure whether their insurance coverages was adequate for their households' insurance needs. As a consequence of this uncertainty, the respondents might be dissatisfied with their households' preparations for financial emergencies.

Insurance coverage was found to be related positively to satisfaction with preparations for financial emergencies. Thus, insurance coverage contributes to a feeling of either safety or being prepared for financial emergencies. However, insurance coverage was not the only determinant of satisfaction with preparations for financial emergencies. Household net worth was related positively to satisfaction with preparations for financial emergencies. In addition, retired and disabled money managers were more satisfied with their households' preparations for financial emergencies than were employed money managers.

One explanation for this finding may be that money managers were satisfied with their households' preparations for financial emergencies if they perceived a small gap between the provision for financial emergencies their household had and the provision for financial emergencies they thought their household

should have. Thus, retired (19.5% of the sample) and disabled (2.4% of the sample) money managers might have less broad insurance coverage but they also might perceive a lower need for insurance. Retired money managers would expect their children to be financially independent. Thus, retired money managers do not need as much life insurance coverage as younger money managers. Earned income no longer represents the main income source of retired money managers so that disability income insurance becomes unimportant. In a similar manner, disabled money managers would not need disability income insurance. These findings indicate that both the need of the household to prepare for financial emergencies and the means available to cover them have to be considered when choosing strategies to provide for emergency expenses.

Finally, consumers need to be aware that they must assume the primary responsibility for achieving financial security. As a prerequisite for mastering this task, consumers must be aware of the need to be prepared to meet various financial emergencies. Or, if they are aware of the need to provide for financial emergencies, they may not know how to prepare for emergency expenses in a cost-efficient way. Therefore, financial counselors and educators have an important task to fulfill in making consumers aware of their need for financial security and in adequately preparing them to meet this need.

Insurers represent another group able to assist households in preparing for financial emergencies. Insurance coverage has to be suited to the insurance needs of the household. Thus, insurers should be concerned, not only with selling insurance policies, but also with helping households to select the policy suited to their needs.

Recommendations for Future Research

Caution needs to be exercised in making generalizations based on the results of this study due to the local nature and small size of the sample. For future studies a larger sample from a wider geographical area may be considered.

In this study, money managers were asked for information about insurance types only and not about the amount of insurance coverage carried. Thus, conclusions about the adequacy of insurance coverage for a particular

household cannot be made. Future research should include both types of insurance and amounts of insurance carried to identify characteristics of money managers who are well-prepared for financial emergencies.

Future studies may consider developing knowledge questions that produce a higher reliability coefficient. Adequacy of insurance coverage may be evaluated by determining the actual amounts of insurance coverage that the household had.

Satisfaction with preparations for financial emergencies as an output variable has the advantage that it indicates the impact of insurance coverage on the emotional well-being of households, even if no loss occurs. On the other hand, satisfaction with preparations for financial emergencies is a subjective measure. This means that respondents with the same insurance needs and the same insurance coverage might indicate different levels of satisfaction with preparations for financial emergencies. Thus, expressed satisfaction does not necessarily discriminate between money managers with broad insurance coverage and money managers with narrow insurance coverage.

In this study, no relationship was found between household net worth and insurance coverage. This finding supports results of a study by Geistfeld (1976), which indicated that the strength and the sign of the relationship between net worth and insurance coverage depends on the asset category considered. Single asset categories could be related to insurance coverage. However, the influence of the single asset categories on net worth may offset each other so that the overall relationship between net worth and insurance coverage is not significant. A future study may examine relationships between insurance coverage and single asset categories to find out which assets influence the insurance coverage of a household and which do not.

Appendix A: Coding of Variables	
Variable	Code
Gender	0 = female, 1 = male
Education	actual years of schooling
Unmarried family	1 = household size > 1 and not married 0 = all other households
Retired/disabled	1 = retired or disabled 0 = all other employment options
Unemployed	1 = unemployed 0 = all other employment options
Net household income	income in 1986
Household net worth	amount of net worth in 1986
Insurance knowledge scale	1 to 5 (5 is good insurance knowledge)
Insurance coverage scale	1 to 6 (6 is broad insurance coverage)
Satisfaction with preparations for financial emergencies	1 to 5 (5 is extremely satisfied)

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