Financial Management: Do Consumers Practice What Educators Preach?

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Consumer educators strive to increase the financial well-being of individuals and families by prescribing financial management strategies and teaching consumers to implement these practices. Ideally, "consumers 'should' devise and utilize appropriate financial planning and control procedures regarding spending and saving" (Granbois, Rosen, and Acito, 1986, p. 170). However, there is a dearth of research that documents actual household practices. This places educators at a disadvantage in developing curricula.

While prescriptive strategies suggested by consumer educators (e.g., textbook authors Garman & Forgue, 1994) and financial experts (e.g., Crowley, 1991; Felton-Collins, 1990) are generally broad in scope, the focus of research to explore actual behaviors has often been narrow in scope. Financial behavior is diverse and can range from the mundane of planning, making, or tracking everyday expenditures to strategies associated with long-term planning for retirement or estate transfer. Because of the broad scope of the field, studies typically are limited to an area or two of financial behavior considered most relevant to the targeted population. Typical areas of study have included budgeting and record keeping (e.g., Davis & Carr, 1992; Godwin, 1994; Godwin & Carroll, 1985); credit usage (e.g., Fan, Chang, & Hanna, 1992; Lown & Ju, 1992); and savings (e.g., Chang, 1994).

Empirical research on family financial behavior is needed to assess the extent to which consumers follow the prescriptive strategies idealized in textbooks, course curricula, and the popular press. The purpose of this study was to describe a broad range of financial behaviors practiced by a large sample of consumers.

Methodology

A mail survey on financial management practices was conducted among a random sample of residents in a South-Atlantic state (Lytton & Garman, 1990). A modified Dillman (1978) method (three follow-ups with no certified letter) was used and 1,098 responses were received (a 37.5% response). The "major financial decision maker" in the household was asked to complete the survey and rate 23 specific behaviors on a 5-point scale ranging from (1) "not typical of yourself" to (5) "very typical of yourself." Because descriptors were not assigned to interim points on the scale, mid-points were assumed to represent neutral responses.

Financial decision makers responding to this survey were almost equally divided by gender (50.2% males and 49.8% females). Most were employed full time (74.6%), married (62.6%), and did not have children living in the household (53.1%). Of those with children living in the home, small families with one (21.6%) or two (18.0%) were most common. Mean respondent age was 41.6 years.

The $20,000 to $29,000 income category was reported by the largest single group (18.7%). Small proportions reported 1988 gross household earnings less than $10,000 or more than $80,000 (6.2% and 7.5%, respectively). The median response category was $30,000 to $39,000, with 41.8% reporting lower and 42.4% reporting higher.

Comparison of sample demographic characteristics with the general U.S. population revealed similarities in income, ethnicity, and educational level, except more (35.7%) had completed a bachelor's degree or higher. A larger percentage of the sample were homeowners (71.3%) than the national average of 64.2% (U.S. Bureau of the Census, 1994). This resemblance suggests that the findings can reasonably be generalized to a larger population.

Findings and Discussion

Responses for the 23 financial management behaviors are shown in Table 1. Although not grouped in the original survey, responses are discussed in seven categories. The two response categories at each end of the five-point scale are usually combined for discussion.

General Financial Management

Table 1 shows that 18% to 28% of the sample responded at the mid-point of the scale, suggesting their own difficulty in reflecting their practices on these fundamental financial management strategies. A majority, 63.5%, indicated that it was not typical for them to make
Table 1. Percent Reporting Financial Management Behaviors.

<table>
<thead>
<tr>
<th>Behaviors</th>
<th>Not Typical</th>
<th>Very Typical</th>
<th>N</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>1</td>
<td>2</td>
<td>3</td>
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<tr>
<td>General Financial Management</td>
<td></td>
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</tr>
<tr>
<td>1. Have overall plan to reach financial goals.</td>
<td>16.9</td>
<td>18.6</td>
<td>27.5</td>
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<tr>
<td>2. Have specific financial goals for the future.</td>
<td>17.8</td>
<td>8.8</td>
<td>18.1</td>
</tr>
<tr>
<td>3. Rarely discuss personal finances.</td>
<td>22.0</td>
<td>12.1</td>
<td>23.5</td>
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<tr>
<td>4. Often make decisions without analysis.</td>
<td>46.2</td>
<td>17.3</td>
<td>19.8</td>
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<tr>
<td>Cash Management</td>
<td></td>
<td></td>
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<tr>
<td>5. Follow weekly/monthly budget.</td>
<td>20.7</td>
<td>14.6</td>
<td>23.5</td>
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<tr>
<td>6. Checking account pays interest.</td>
<td>47.7</td>
<td>5.9</td>
<td>4.9</td>
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<tr>
<td>7. Never write bad check/insufficient funds.</td>
<td>22.4</td>
<td>4.9</td>
<td>4.5</td>
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<tr>
<td>8. Overdue notices for late/missed payments.</td>
<td>62.1</td>
<td>10.3</td>
<td>9.2</td>
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<tr>
<td>Credit Management</td>
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<tr>
<td>9. Often spend more money than I have.</td>
<td>54.4</td>
<td>15.9</td>
<td>15.2</td>
</tr>
<tr>
<td>10. Overall, more in debt than last year.</td>
<td>48.8</td>
<td>14.0</td>
<td>13.0</td>
</tr>
<tr>
<td>11. Do not pay the total balance on credit card.</td>
<td>43.2</td>
<td>7.4</td>
<td>9.9</td>
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<tr>
<td>12. Obtained cash balances to pay other cards.</td>
<td>80.6</td>
<td>5.9</td>
<td>4.1</td>
</tr>
<tr>
<td>13. Use of credit increased from last year.</td>
<td>52.2</td>
<td>13.9</td>
<td>16.1</td>
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<tr>
<td>Tax Management</td>
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<tr>
<td>14. Fill out own income tax forms.</td>
<td>39.2</td>
<td>3.9</td>
<td>4.1</td>
</tr>
<tr>
<td>15. Itemize income tax deductions.</td>
<td>24.4</td>
<td>4.5</td>
<td>7.7</td>
</tr>
<tr>
<td>16. Deduct on taxes only if have receipt.</td>
<td>13.0</td>
<td>6.7</td>
<td>13.6</td>
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<tr>
<td>Capital Accumulation</td>
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<tr>
<td>17. Regularly set aside money for savings.</td>
<td>17.8</td>
<td>10.4</td>
<td>18.3</td>
</tr>
<tr>
<td>18. Invested in stocks/bonds/mutual funds.</td>
<td>55.7</td>
<td>6.2</td>
<td>5.5</td>
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<td>Risk Management</td>
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<tr>
<td>19. Have homeowner's/renter's insurance.</td>
<td>18.4</td>
<td>1.3</td>
<td>2.2</td>
</tr>
<tr>
<td>20. Auto adequately insured.</td>
<td>3.8</td>
<td>0.6</td>
<td>1.9</td>
</tr>
<tr>
<td>21. Trouble meeting health expenses/premiums</td>
<td>73.2</td>
<td>9.0</td>
<td>7.0</td>
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<tr>
<td>Retirement/Estate Management</td>
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<tr>
<td>22. Contribute to private retirement program</td>
<td>54.5</td>
<td>5.5</td>
<td>4.5</td>
</tr>
<tr>
<td>23. Have a legal, written will.</td>
<td>58.2</td>
<td>5.2</td>
<td>2.8</td>
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</table>

Note. Percentages may not add to 100 due to rounding. Number of respondents may not equal 1098 due to non-response.
financial decisions without much analysis. Over half, 55.2%, tended
to have specific financial goals for the future. However, respondents
were not equally committed to a plan for goal accomplishment. The
sample was almost equally divided between those who had a plan for
reaching financial goals and those who did not have such a plan,
35.5% and 37.0% respectively.

Only 34.1% typically discussed financial matters with family or
friends, while 42.4% rarely had such discussions. Social taboos
discourage talking about "money" (Katz, 1993), but couples who
jointly control their finances through the identification of financial
goals, record keeping, and planned savings are less likely to argue
about money (Lawrence, Thomasson, Wozniak, & Prawitz, 1993).
Mutual agreement on financial decisions is often dependent on the
ability of family members to discuss these issues. Whether working
independently or with a financial professional, these basic management
strategies are fundamental to success (Dolan & Dolan, 1993).
Consumer educators can help families develop communication skills
regarding financial matters.

Cash Management

Respondents who typically used a budget (41.3%) outnumbered
those who did not (35.3%). Even though budgeting was not widely
used, a majority (68.1%) typically avoided writing checks with
insufficient funds and 72.4% had not recently received an overdue
payment notice.

Over half, 53.6%, did not use interest-bearing checking accounts.
A limitation of the study however, is that a respondent's choice to keep
a balance in an unlimited, non-interest bearing checking account was
not evaluated. More than one-third (35.3%) followed a budget or
spending plan, 27.3% tended to write "bad" checks, and 18.4% were
likely to receive overdue payment notices. Being overdrawn at the
bank and receiving overdue payment notices are recognized as
warnings of debt problems (O'Neill, 1995).

Credit Management

Less than 15% tended to be spending more money than they had.
Only 17.8% reported an increase in their use of credit cards compared
to the previous year, and few (9.3%) appeared to be using cash
advances to pay other credit obligations. However, nearly one-quarter
(24.7%) reported greater debt compared to the previous year,
suggesting an increased dependence on credit.

Nearly 4 out of 10 respondents (39.5%) were increasing debt
levels by not paying the total balance due on their credit cards. Many
consumers use a credit card as an "installment loan," but education on
money management and credit usage can discourage such practices
(O'Neill, 1995). Ideally, credit cards should be used as a cash
management tool to secure short term use of funds through a no-
interest loan. Such practices do not build consumer debt, but assure
an ample, available line of credit for emergency or other use.

Tax Management

Tax items focused more on compliance than strategies for better
tax management. Responses document several compliance strategies
and itemization of expenses. For the majority, it was "very typical"
for them to complete their own tax forms (48.4%), itemize deductions
(55.9%), and collect receipts to support deductions (51.3%).

Capital Accumulation

More than a third (38.2%) reported that regular savings was "very
typical," while combining responses revealed that 53.6% reportedly
had a regular savings plan. These savings efforts are to be applauded,
since asset accumulation is a major mechanism for a household to
achieve its financial goals (Chang, 1994). Over one-fourth (28.2%)
did not typically save regularly and ultimately may be unable to meet
their goals if they continue "dissaving" (Chang, 1994). A majority
(55.7%) reported that it was "not typical" for them to have invested in
stocks, bonds, or mutual funds during the past year. Consumer
educators could help people use other investment strategies to increase
net worth.

Risk Management

A majority (78.1%) reported using homeowner or renter insurance
for protection from property and liability losses. Similarly, 90%
reported adequate automobile insurance coverage. However, 19.7% reported that they did not have homeowner’s/renter’s insurance and 4.4% did not have adequate auto insurance. These households could be dangerously close to financial ruin should an uninsured loss occur.

Most (82.2%) said that they were able to pay health care expenses and health insurance premiums. Yet, it should be noted that 10.8% reported they typically had trouble paying these expenses. Financial programs that teach risk management can help consumers determine the financial impact of uninsured losses, assess needed insurance coverage, and budget funds to pay premiums.

Retirement/Estate Management

A larger percentage were typically not investing in a private retirement program than those who were (60.0% and 35.5%, respectively). The uncertainty of retirement funding coupled with increased life expectancy places a greater responsibility on the individual to prepare for retirement. Professionals need to educate consumers on how to set realistic retirement goals, plan disciplined savings strategies, and choose appropriate investment vehicles. Household composition, income, and net worth must be considered to plan for effective saving (Chang, 1994).

Most respondents (63.4%) had not prepared a legal, written will. Regardless of the age of the individual and/or the size of the estate, dying intestate has long range implications for surviving family members and the disposition of the estate (Bamford, Blyskal, Card, & Jacobson, 1992). Financial professionals need to inform the public of the legal, personal, and financial ramifications.

Conclusions and Recommendations

Although many respondents used prescribed financial management strategies, findings of this study identified areas of concern for consumer educators. Many respondents did not discuss their financial situation with family or friends, nor did they have specific plans for goal accomplishment. Educational programs can encourage people to develop a budget, or plan, for allocating income to meet financial needs. Some respondents reported spending more money than they had and increasing their debt. Others were adding to their debt load by not fully paying off their credit cards each month. The majority had not contributed to a private retirement program or prepared a will to document their plans for providing for survivors and/or distributing their estate. Educational intervention is needed to help consumers see the need for comprehensive planning to meet established financial goals.

Proactive education programs should focus on behaviors found to be critical to financial stability and success, but were found to be under-utilized. Curricula and programs developed to meet identified needs should increase student interest and participation.

Financial management practices can be included early in the educational experience. Victoria Felton-Collins stated that core money attitudes and values have been formed by 12 years of age (1990). Educational opportunities should be provided early in the developmental process to maximize effectiveness and increase financial well-being of individuals and families.

"If you fail to plan, you plan to fail." Most respondents in the sample were not experiencing financial difficulty. However, the apparent lack of planning, coupled with the uncertainties of a rapidly changing economy, could seriously compromise their economic security. This empirical study of how consumers actually behave should serve as a basis for future curricula and educational programs designed to increase financial well-being.

References


