

Financial Fitness Assessment: An Exploratory Study

Barbara O'Neill and P. Christopher Beaugard
Rutgers Cooperative Extension
Philip M. Wisneski, Web Designer

Some people like to measure their accomplishments in relation to others or to an objective standard. In a study of MONEY 2000™ program participants, 27 of 248 respondents (10.9%) indicated that the most important financial question they needed an answer to related to an assessment of their financial progress (O'Neill, Bristow, & Brennan, 1999). Respondents wanted to know "how they were doing" based on personal factors, such as their income and age, or in relation to other people with similar demographic characteristics. MONEY 2000™ was a five-year program, developed by the Cooperative Extension System of the U.S. Department of Agriculture, where participants set personal savings and debt reduction goals and periodically reported their progress.

In *The Journal of Extension*, Extension faculty at Virginia Polytechnic Institute and State University described the development of Web-based self-assessment tools in the areas of family life, financial management, and nutrition and food safety (Peterson, et al., 1999). Rutgers Cooperative Extension replicated this teaching method and launched an interactive Web-based personal finance assessment tool in January 2001, the *Financial Fitness Quiz*. This article describes the development and results of the online *Financial Fitness Quiz* during its first six months of use (January-June 2001) and implications for Extension educators.

Methodology

An existing financial quiz that had been used as an assessment tool in Extension classes for years was first converted to a non-



interactive Web page by Rutgers Cooperative Extension in 2000. Participants were able to download and print out the quiz and assess their progress manually. This *Financial Fitness Quiz* consisted of 20 items to which respondents were asked to select the response that best described their current financial management practices. Nineteen of the items had Likert-type choices: 5= always, 4= usually, 3= sometimes, 2= seldom, and 1= never. For the remaining item, "I have a current will," respondents were asked to respond with "5" for "yes" and "1" for "no."

At the end of the quiz, the following explanation was given for score interpretation:

0 to 20 points = *You need lots of help, but don't despair. It's never too late to take action to improve your finances.*

21 to 40 points = *You are headed for financial difficulty. Now is the time to reverse the trend.*

41 to 60 points = *You are doing a fair job of managing your finances and have taken some steps in the right direction*

61 to 80 points = *You are doing a good job and are above average in managing your finances.*

81 to 100 points = *You are in excellent shape. Keep up the good work!*

The *Financial Fitness Quiz* later was converted to an interactive online quiz using a combination of HTML forms, VBScript, ASP (Active Server Pages) technology, and Microsoft FrontPage components. Users answered questions by completing an online form at the Web site, www.rce.rutgers.edu/money/ffquiz.asp. Using FrontPage components, the anonymous results were automatically entered into a database. The results were then tabulated, using VBScript and ASP. A custom Web page was generated with a general statement about the user's financial fitness, based on their overall score. Respondents also received specific suggestions for improvement based on responses to each of the questions. The quiz provided users with instant feedback on their financial fitness and

generated data to support empirical research about participants' financial behavior.

Findings

This section describes *Financial Fitness Quiz* results obtained online from 173 respondents. The sample included both people who were referred to the Web site by Extension educators and others who just happened to find it. For this initial exploratory study, no demographic characteristics were collected about respondents. The data collected included respondents' answers to each item, total scores, average scores for each statement, and the average score for the entire quiz. The lowest score on the quiz was 20 and the highest score was 100 (eight respondents). The average quiz score for the sample was 67.34 and the modal (most frequently occurring) range was a score between 71 and 80. Frequencies and percentages for the scores are listed in Table 1.

Table 1
Frequencies and Percentages of *Financial Fitness Quiz* Scores

Range of Quiz Scores	Number of Responses (n)	Percentage of Responses (%)
0 to 10	0	0
11 to 20	1	.6
21 to 30	2	1.2
31 to 40	10	5.8
41 to 50	17	9.8
51 to 60	35	20.2
61 to 70	30	17.3
71 to 80	37	21.4
81 to 90	22	12.7
91 to 100	19	11.0

Responses to each item also were analyzed to determine the strengths and weaknesses of respondents' financial behaviors. The average scores for each of the 20 items ranged from a low of 2.11 to a high of 4.72. These scores are reported, in descending order, in Table 2.

Discussion

It is interesting to note that several basic practices financial professionals routinely advise (e.g., preparing a written budget or spending plan, calculating net worth, and writing down financial goals) were among those items with the lowest average scores. Many respondents indicated they did not perform these activities on a regular basis. In addition, the lowest-scoring financial practice item, preparation of a will, mirrors reported statistics indicating that 70% of Americans die without a will (Malaspina, 2000). Of the 173 survey respondents, 48 (28%) had a current will; the other 72% of the sample did not.

There were also several strengths in the financial practices reported by respondents, including the use of bank or credit union accounts, the ability to pay household expenses, and adequate insurance. Many also reported comparison shopping, organizing financial records, and funding a personal retirement investment account.

This study is limited in that demographic data about the respondents were not collected. Thus, relationships between sample characteristics and respondents' scores are not available. For example, are older persons more likely to have a will? Are college graduates more likely to know their federal marginal tax bracket? Future data collected from the *Financial Fitness Quiz* will include items about the gender, age, ethnicity, marital status, educational level, and household income of respondents so that questions like these can be answered. This convenience sample of online quiz

Table 2
Average Scores For Financial Fitness Quiz Items (N = 173)

Financial Practice	Ave. Score ^a
1. I have a bank checking account (or credit union share draft account) with which to pay bills.	4.72
2. I have enough money each month to pay my rent/mortgage and other household expenses.	4.55
3. I have insurance to cover "big" unexpected expenses, such as a hospital bill or disability.	4.10
4. I keep organized financial records and can find important documents easily.	3.76
5. I comparison shop for major purchases by checking at least three sources.	3.76
6. I have enough money to pay for an emergency, such as a large car repair.	3.64
7. I have a personal investment account for retirement (other than an employee pension).	3.58
8. I avoid impulse purchases and don't use shopping as a form of recreation.	3.56
9. I have money spread across more than one type of investment (e.g., stocks, bonds, mutual funds).	3.53
10. I save regularly for long-term financial goals, such as education for my children, a house, or retirement.	3.46
11. I know my federal marginal tax bracket.	3.40
12. Less than half of one week's pay goes to credit cards, student loans, and car payments.	3.35
13. I pay credit card bills in full to avoid interest charges.	3.25
14. I increase my savings when I receive a salary increase.	3.15
15. The after-tax yield of my savings and investments is greater than the rate of inflation.	3.10
16. I have at least 3 months' expenses set aside in a readily accessible account (e.g., money market mutual fund).	2.81
17. I calculate my net worth (assets minus debts) annually.	2.68
18. I have a written plan (budget) for spending and/or saving my money.	2.59
19. I have written financial goals with a date and dollar cost (e.g., \$10,000 for a car in 2004)	2.24
20. I have a current will.	2.11

^a Possible range for scores = 1.00 - 5.00.

takers was comprised of Web-savvy consumers interested enough in personal finance to complete a 20-question survey. They are probably not representative of all Americans and, thus, caution must be taken with generalizing findings of this study.

Implications

Despite the limitations noted above, the findings of this study are instructive to financial educators. The most serious financial weakness identified in the study was lack of a current will. Whether it is because people do not want to face their own mortality, do not think they are "affluent enough" to need a will, or are unsure about who to name to key positions, such as executor or guardian, more than two-thirds of the sample (as well as Americans as a whole) are on track to die intestate. This suggests a need for programming and publications that describe the advantages of preparing a legal will. "How to" issues, such as communication skills useful when asking someone to be named as a guardian for minor children, and how to hire an attorney, could be included.

Another identified financial weakness is that many people don't prepare written financial statements, such as a spending plan and a net worth statement. Written goals, with specific dates and numbers, were also lacking. This suggests a need for providing publications and online tools with which to develop these documents. Several worksheets are available on the Rutgers Cooperative Extension MONEY 2000™ and Beyond Web site at www.rce.rutgers.edu/money2000. Hands-on classes to develop these documents and financial goal-setting campaigns, such as MONEY 2000™, are also advisable. A study of 520 MONEY 2000™ participants in New Jersey and New York (O'Neill, Xiao, Bristow, Brennan, and Kerbel, 2000) found that the structure and focus provided by MONEY 2000™, as well as the setting of specific financial goals, were mentioned by over 15% of the sample as the

most helpful aspects of the program. Nevertheless, goal-setting is difficult for many people. George Kinder, author of *The Seven Stages of Money Maturity*, notes two frequent obstacles to financial goal-setting: 1) inability to express goals and admit them into consciousness, and 2) inability to execute an action strategy leading to the goals one wants to achieve.

Many respondents also lack an emergency fund of at least three months expenses. This makes them vulnerable in the event of a financial crisis, such as disability or unemployment. Perhaps the thought of saving a large dollar amount (e.g., 3 months of expenses @ \$2,000 = \$6,000) is intimidating, or they may simply not be able to afford it. Thus, emergency funds represent another important topic for Extension programming, including the benefits of having such a fund, how to "find" money to set aside, appropriate savings vehicles, such as money market mutual funds or short-term CDs, and "crisis coping" strategies when reserve funds are not available.

Capitalize on respondents' strengths, such as their funding of personal investment accounts for retirement. Now is especially a "teachable moment" for this because the contribution limits for individual retirement accounts (IRAs) are starting to increase (from \$2,000 in 2001 to \$5,000 by 2008). Limits for tax-deferred employer retirement savings plans, such as 403(b)s and 401(k)s, are also increasing, from \$10,500 in 2001 to \$15,000 by 2006. People 50 years of age and older will also be eligible for additional catch-up savings beginning in 2002 ("2001 Tax Law Summary," 2001). Publications and classes should stress the benefits (e.g., additional savings at age 65) of taking maximum advantage of tax law changes while they are available.

Provide additional online assessment tools (e.g., insurance analysis, debt ratio analysis, and investment risk tolerance), as personalized financial assessment tools appear to be popular. In addition to providing users with personalized feedback about their finances, these tools can also provide Extension researchers with

data about the financial practices and learning needs of users. For clientele who lack Internet access, a useful print publication to assess financial progress is *The Financial Check-Up* (Johnson, 2000), available from Watkins Printing (800-303-5235).

While the average score for saving for long-term goals was relatively high (3.46), the response for having written financial goals was lower (2.24). This suggests that some people may be saving arbitrarily for goals, such as college or retirement, without knowing how much money they need to save or how progress is being made. How will they know if they have reached their goals without knowing what the goal is or how much they will need and by what date? Financial educators can work with individuals and families to assist them in improving their goal setting skills. One pitfall in the goal setting process is being unrealistic, either on what can be accomplished or the timing to reach a particular goal (Briaud, 2002). In working with families, educators need to make sure that financial goals are realistic and attainable.

Another area of concern may be the question of insurance coverage. Many respondents indicated they had adequate coverage for large potential losses, but also noted that they don't complete the written financial statements (net worth, spending plan, household inventory) which could indicate gaps in coverage. Again, many people know they need insurance, but may not know how much they need to be adequately covered in case disaster strikes. Financial educators can increase students' awareness of insurance planning as a part of overall financial education classes.

Assessment tools such as the *Financial Fitness Quiz* can be used in computerized financial management classes that teach the use of programs such as *Quicken* or *Microsoft Money*. By using software programs in conjunction with assessments, educators can show class participants how they can use the software to enhance their financial health and improve areas of weakness. Sometimes, software

programs can be just the motivation people need to start tracking their finances and improving their financial well being.

References

- Briaud, J. (2002). Goal-setting. *Journal of Financial Planning*, 15(2), 38-39.
- Johnson, A. C. (2000). *The financial checkup*. Providence (UT): Watkins Printing.
- Kinder, G. (1999). *The seven stages of money maturity*. New York: Dell Publishing.
- Malaspina, M. (2000, May). Will power. *Fidelity Focus*, 15-17.
- O'Neill, B., Xiao, J., Bristow, B. J., Brennan, P. Q., & Kerbel, C. (2000). MONEY 2000™: Differences in perceptions among program participants. *Journal of Consumer Education*, 18, 35-42.
- O'Neill, B., Bristow, B. J., & Brennan, P. Q. (1999). Changing financial behavior: Implications for family and consumer sciences professionals. *Journal of Family and Consumer Sciences*, 91(4), 43-48.
- Peterson, R., Kratzer, C., Leech, I., Stadler, K., Roberts, T., & Sumner, M. (1999). A family check-up: A Web-based, self-assessment program in family life, financial management, nutrition, and food safety. *Journal of Extension*, 37(6). Available: www.joe.org/joe/1999december/tt2.html
- 2001 tax law summary* (2001). Albany (NY): Newkirk Publishing.

Barbara O'Neill is Professor, Family and Consumer Sciences Educator, and Interim Extension Specialist in Financial Resource Management, Department of Family and Consumer Sciences, Rutgers Cooperative Extension, 3 High Street First Floor, Newton, NJ 07860; (973) 579-0985; email: oneill@aesop.rutgers.edu

P. Christopher Beugard is Assistant Professor and Family and Consumer Sciences Educator, Department of Family and Consumer Sciences, Rutgers Cooperative Extension, 1623 Whitesville Road, Toms River, NJ 08755; (732) 349-1247; email: beugard@aesop.rutgers.edu

Philip M. Wisneski is Web Designer, Cook College Computing Services, Rutgers, The State University of New Jersey, 18 College Farm Road, New Brunswick, NJ 08901-8551; (732) 932-4544; email: wisneski@aesop.rutgers.edu