Measuring Financial Planning Personality Type Based on the Stages of Change

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Kerkmann (1998) introduced the financial education and counseling profession to the Transtheoretical Model (TTM) of behavior change and how it could be used to motivate change in clients' financial behaviors. The TTM was developed by Prochaska, Norcross, and DiClementi (1994) to demonstrate how some clients are able to overcome addictive behaviors while others relapse. Prochaska et al. (1994) identified five stages in the process of behavior change: precontemplation, contemplation, preparation, action, and maintenance. In the precontemplation stage the person is not committed to changing their behavior but may participate in a class or counseling session to placate someone else. At the contemplation stage, the person starts to acknowledge the need to change but is not ready to make a commitment. During preparation, the person considers different strategies for change and begins to seek help. The action stage is when change occurs but relapses are common. Maintenance is achieved when the behavior change has been sustained for six months or more. The TTM model is viewed as a spiral to reflect the cycle of relapse and change.

The TTM is currently being used to guide research on the effectiveness of educational programs, as behavior change or implementation of a new behavior has become a more desirable outcome of consumer education than knowledge acquisition. Shockey and Seiling (2004) used the TTM model in comparing pre- and post-test results of a financial education program focused on the adoption of six financial management practices. In a subsequent study of the implementation of these six practices, Seiling and Shockey (2006) studied participants' perceived and actual ability to manage their finances. Using the TTM, they identified each participant's stage of change. The researchers concluded that increased self confidence was essential to attaining

the action and maintenance stages. Xiao et al. (2004) concluded that students or consumers in the first three stages (precontemplation, contemplation, and preparation) are similar to each other, as are individuals in the last two stages (action and maintenance). In sum, having information on participants' stage of behavior change is helpful to educators in fine tuning their programs to meet student needs.

Students benefit when educators know their general learning styles. Consumer educators, who want to focus on specific attitudes toward financial management, can use the Prochaska-Cue Inventory of Financial Management Style (PIFS), which consists of 22 items (Prochaska-Cue, 1994). While detailed instruments such as PIFS are especially useful to researchers, many classroom and adult educators do not have the time or resources to assess financial management styles in depth for each participant. Since many adult education programs are limited to one session, there is a need for a quick and simple method to assess people's readiness to change. While Prochaska and colleagues at the Cancer Prevention Research Center (n.d.), have developed specific measures to assess readiness to adopt behaviors for healthier lives, no such instrument exists for assessing willingness to adopt healthy financial behaviors.

This paper describes a simple measure to assess the stages of financial behavior change based on the Retirement Personality Profiler (RPP), which was developed to assess Retirement Personality Type (RPT) for the annual Retirement Confidence Survey (RCS) (Employee Benefit Research Institute, 1999). Based on 15 questions, the RPP categorizes respondents into one of five RPTs: deniers, strugglers, impulsives, savers, or planners. In 1999, the RCS began collecting information on the characteristics of the five RPT groups annually. The 2007 RCS represents the 17th year of the survey.

The Five Retirement Personality Types

The 1999 RCS describes the five RPTs. Planners (35% of Americans) believe a comfortable retirement can be a reality for anyone if they plan and save. Planners are disciplined savers/investors who plan and comparison shop for large purchases, enjoy financial planning, and are willing to take financial risks. They are confident in their investing choices and assured of a financially secure retirement. Savers (18% of all Americans) are similar to planners but more risk-averse in their investment choices; they consider themselves savers rather than investors. Like planners, savers pay off their credit card balances in full each month. They feel confident about their retirement prospects. Strugglers (20% of Americans) express similar attitudes as planners and savers, but often encounter unanticipated financial setbacks that make them far less confident about their retirement prospects. They are cautious but disciplined savers who plan for large purchases. Impulsives (15% of all Americans) believe that a comfortable retirement is possible by planning and saving but generally are not disciplined savers. They frequently encounter setbacks in attaining financial goals, spend money without planning purchases, and often carry a credit card balance. While more than half of impulsives believe they will have enough resources to live comfortably in retirement, many have saved less than $25,000. Deniers (13% of Americans) feel that planning for retirement is pointless and takes too much time and effort. Many deniers are impulse shoppers who often encounter financial setbacks. Being unwilling to take financial risks, half of deniers are not confident of a comfortable retirement.

The detailed descriptions of the five RPTs, summarized above, correspond closely with the five stages of change in the TTM. Table 1 shows the stage of change that corresponds to each RPT.

Table 1
Financial Planning Personality Type and Corresponding Transtheoretical Stage of Change

Financial Planning Personality Type	TTM Stage of Change
Denier	Precontemplation
Struggler	Contemplation
Impulsive	Preparation
Saver	Action
Planner	Maintenance

Procedures

This study used the Retirement Personality Profiler (RPP) to determine an individual's Retirement Personality Type (RPT), and in turn, to develop the Financial Planning Personality Type (FPPT) instrument. Specifically, a survey was administered to a convenience sample of 208 baby boomer women (born 1946-1964) to assess their pre-retirement planning activities, risk tolerance, and retirement readiness. The survey included the RPP instrument, which was used to identify each woman's RPT (denier, struggler, impulsive, saver, or planner).

Recall that the RPP and RPT are from the annual Retirement Confidence Survey (RCS) sponsored by the Employee Benefit Research Institute (EBRI, 1999). The RPP is only available in an interactive version (EBRI, 2000), where each subject's responses to 15 items must be entered on the RCS website to determine the RPT (http://www.ebri.org/surveys/rcs/2000/profiler.htm). The RPP consists of eight financial attitude questions, one overall (best fit) financial attitude question, five retirement planning attitude questions, and one overall (best fit) retirement planning attitude question. The length of the RPP and the need to individually score each response is time consuming and introduces the possibility of data entry error. The two overall "best fit" questions from the RPP suggest that an abbreviated instrument might be as effective as the original (see the Appendix). To determine whether it is necessary to use all 15 RPP items or whether the two "best fit" questions are equally as effective in determining an individual's RPT, the paired responses to the two "best fit" questions were cross tabulated with the individual's RPT that was determined by the 15-item RPP.

Note that EBRI does not report reliability and validity statistics for the RPT. However, "the RCS is the country's most established and comprehensive study of the attitudes and behavior of American workers and retirees towards all aspects of saving, retirement planning, and long-term financial security" (EBRI, n.d.). Based on 17 years of surveys and data analysis, including 10 years of data on the RPT, the reliability and validity of the underlying instrument was initially assumed and then confirmed using factor analysis.

Analyzing the two "best fit" questions from the RPP suggests that it may be possible to adapt the instrument to a more general financial planning type not specifically linked to retirement. To develop the Financial Planning Personality Type (FPPT), the overall (best fit) financial attitude question from the RPP was used, but did not need to be changed since it referred to general financial attitudes. The overall (best fit) retirement planning attitude question was also used, but was adapted by substituting "planning" for "retirement" as follows: "Which of the following Financial Planning Attitudes statements best describes you?" For this question, the respondent was asked to choose from one of five statements. The first four statements were altered slightly, substituting "financial planning" and "planning for the future" for "retirement." The fifth statement, "I am more of a saver than an investor," was retained without change. See the Appendix for the two-item FPPT instrument.

Findings

Phase I

For each of the 208 subjects, responses to the 15-item RPP were entered on the EBRI website to determine each individual's corresponding RPT. Next, paired responses to the two "best fit" questions were matched to each respondent's RPT. The responses to the two "best fit" questions correctly predicted the RPT 88% of the time. Thus, the two "best fit" items were almost as effective as the 15 items in determining a respondent's RPT.

It was concluded that for most educational and research applications, the two "best fit" questions would be effective and sufficient. The two questions, which can also be found in the Appendix, are worded as follows:

1. *"Which of the following Financial Attitudes statements best describes you?" (The respondent must choose one of eight statements.)*

2. *"Which of the following Retirement Planning Attitudes statements best describes you?" (The respondent must choose one of five statements.)*

Phase II

Table 2 shows how the FPPT was scored to determine an individual's financial planning type and corresponding stage of change. The table also includes a color code for educators who want their students to score themselves without being labeled as a specific type. Scoring is done by comparing the pairs of responses to the financial attitudes and financial planning questions; the scoring rubric is in the Appendix. According to Table 2, a response of "6" to the financial attitudes question and "3" to the financial planning question indicates that the person is a "saver" (action stage).

A factor analysis using principal component analysis with varimax rotation of the RPT questions revealed four factors. The factors were clearly interpretable and responses corresponded with the five personality types. The factor loadings provide evidence that the responses to the questions follow what one would expect

Table 2
FPPT Scoring: Financial Attitudes Question and Financial Planning Question

	Financial Attitudes (8 Statements)							
Financial Planning (5 statements)	1	2	3	4	5	6	7	8
1	I	P	P	I	P	P	I	P
2	D/I	D/I	D/I	D/I	D/I	D/I	D/I	D/I
3	I	SA	P	I	SA	SA	ST	I
4	D	*	*	D	D	D	D	*
5	ST	SA	P	SA	SA	ST	SA	SA

Note: P = Planner; maintenance (green); SA = Saver; action (blue); I = Impulsive; preparation (yellow); ST = Struggler; contemplation (orange); D = Denier; precontemplation (red); * = unlikely (contradictory) response pairs. No respondent chose #2 as a response to the financial planning question; this response would be most characteristic of deniers or impulsives.

from the RCS descriptions of the five personality types:

Factor 1: *Plans carefully, pays off credit cards, rarely experiences unexpected problems;*
Factor 2: *Attitudes toward planning are either positive or negative;*
Factor 3: *Attitudes toward investment risk are clearly positive or negative;*
Factor 4: *Relates to confidence that one can have a comfortable retirement by planning.*

The instrument itself captures strong factors related to financial planning. Consistent groups of answers coincide with the five RPTs.

Summary and Implications for Consumer Educators

The FPPT is a simple and practical tool that educators and researchers can use to assess financial planning types, as well as the stage at which individuals are ready to change their financial

behaviors. For example, participants could respond to the two questions and score themselves as they are waiting for a program to start. A brief statement explaining that the survey is being used to help the educator get to know his/her audience could be provided at the top of the instrument. A scoring chart also could be posted at the front of the room or provided as a handout. Participants could then score themselves and write their FPPT on a three-by-five card to hand in, which the educator could quickly sort into the five stages. Instead of the terms ranging from "deniers" to "planners," the five types could be color coded to avoid any embarrassment associated with labels. Alternatively, the stages-of-change labels could be used. It is useful for participants to receive a handout explaining the meaning of the five types (and corresponding stages) and suggestions for overcoming the challenges of moving to the next stage or maintaining their current practices.

It is important to note that some combinations of responses are contradictory. For example, in this sample of 208 subjects, a response of "2" to the attitude question, "I am disciplined at saving," was not found to be paired with a response of "4" to the planning question, "I think preparing for retirement takes too much time and effort." These contradictory pairs of responses were not assigned to a FPPT. While it is possible that a respondent might provide these answers, such a pairing would be unlikely. Also, no respondents selected the response "I feel it is pointless to plan for retirement because it is too far away to know what I will need." Women with this attitude likely declined to participate in the study. Also, younger respondents might have been more likely to feel that retirement was too far away. Further research is needed with larger samples to confirm the reliability and validity of the FPPT, especially given the small, convenience sample that was used to test the instrument. Also, more research with diverse audiences is needed to confirm the link between the FPPT and the TTM stages of change.

Educators also may want to note that the FPPT is more likely to be useful in multi-session workshops, where there is more time to assess the stage of the audience and incorporate the information into the program through examples and discussion, as well as provide feedback to participants on how to interpret their FPPT. Most individuals who participate in financial education workshops are likely to be savers or planners (action or maintenance stages) because the deniers (precontemplation stage) are unlikely to attend simply because thinking about their finances makes them uncomfortable or depressed. Deniers were underrepresented in the study compared to their percentage of the general population as reported by EBRI (2000). Some of the women who declined to participate in the research stated that they chose not to participate because thinking about finances depressed them.

The FPPT also could be used in workshops where the primary target audience is couples. Audiences consisting of couples are more likely to contain deniers, impulsives, and strugglers, who are accompanying a spouse or partner who may be a saver or planner. Understanding one's own place in the stages of change is enlightening, but it is equally as valuable to recognize that a spouse or partner may be at a different stage. When a planner and saver are paired, there is likely to be less friction than when a planner and a denier are sharing financial decisions. When couples recognize that they are at different stages, they may be more likely to understand the perspective of their partner and more willing to engage in productive dialogue that can facilitate movement to a higher level in the TTM. It would be helpful for couples to recognize who the primary decision maker is when they have disparate FPPTs.

In addition, educators working with Individual Development Account (IDA) programs may find the FPPT especially useful since they work with clients over time. The FPPT can be used in program assessment to determine if the education resulted in movement to a higher TTM stage.

In sum, educators can use the two-item FPPT to quickly assess an individual's stage of change and match the stage of change with the appropriate educational strategy. Is the audience mostly

skeptical or actively ready to learn and adopt positive financial behaviors?

Appendix

Two-Item Version of the Retirement Personality Profiler (RPP)

1. Which of the following Financial Attitudes statements best describes you? (Choose only one.)

    1 Just when I think I have a handle on my finances, something always happens that sets me back from my financial goals.
    2 I am disciplined at saving.
    3 I am willing to take substantial financial risk for substantial gain.
    4 I frequently spend money when I do not plan to buy anything.
    5 I pay off my credit cards at the end of every month.
    6 I always research and plan for a big purchase.
    7 I am not willing to take any financial risks, no matter what the gain.
    8 I enjoy financial planning.

2. Which of the following Retirement Planning Attitudes statements best describes you? (Choose only one.)

    1 I think anyone can have a comfortable retirement, if they just plan and save.
    2 I feel it is pointless to plan for retirement because it is too far away to know what I will need.
    3 If I just save some money each month, I will be fine in my retirement.
    4 I think preparing for retirement takes too much time and effort.
    5 I am more of a saver than an investor.

Financial Planning Personality Type (FPPT) Instrument

(Changes are shown in italics.)

1. Question 1 is identical to the RPP.

2. Which of the following *Financial* Planning Attitudes statements best describes you? (Choose only one.)

    1 I think anyone can have a comfortable *lifestyle*, if they just plan and save.
    2 I feel it is pointless to plan for *the future* because it is too far away to know what I will need.
    3 If I just save some money each month, I will be fine in *the future*.
    4 I think planning for *the future* takes too much time and effort.
    5 I am more of a saver than an investor.

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