



FINANCIAL STRESS AND SELF-EFFICACY

Predicting
a person's
likelihood
to seek
professional
financial help.



WHAT LEADS SOMEONE TO SEEK HELP FROM A FINANCIAL PLANNER?

The FP Foundation funded a study conducted by researchers **Jodi Letkiewicz, Chris Robinson and Dale Domian** of York University to look at the behavioural aspects of financial planning. We know that wealth is a primary motivator for someone to seek financial advice; this is known intuitively and has also been shown in multiple research studies. This study was motivated by interest in the types of behaviours, outside of wealth and income that lead someone to seek the help of a financial professional.

In 2012, the Financial Planning Standards Council (FPSC) released the *Value of Financial Planning Survey* which found that Canadians with comprehensive financial plans feel more on track with financial affairs; are more confident in plans to retire; have improved their ability to save; are more confident about dealing with unexpected life events; are better able to enjoy life; and have a stronger sense of well-being. This study showed that financial planning has a significant impact on both financial and non-financial aspects of a person's life. With these and other positive findings, what was still largely unanswered was why more people were not seeking out a professional to develop a financial plan. Understanding these factors may enhance efforts to increase the use of comprehensive financial planning, so that more Canadians can experience the benefits identified in the FPSC study.

As a result, the FP Foundation funded this new study conducted by researchers **Jodi Letkiewicz, Chris Robinson and Dale Domian** of York University to look at the behavioural aspects of financial planning. We know that wealth is a primary motivator for someone to seek financial advice; this is known intuitively and has also been shown in multiple research studies. This study was motivated by interest in the types of behaviours, outside of wealth and income that lead someone to seek the help of a financial professional.

Understanding that, the researchers focused specifically on two behavioural experiences or traits – financial stress and self-efficacy – and analyzed how both traits predict a person's likelihood to seek professional financial help. The research concluded that **financial stress alone is not enough for people to seek financial help**. Instead, it is self-efficacy that is a consistent and strong predictor of help-seeking behaviour. In other words, what this study shows is that financial stress on its own does not make an individual more likely to seek out the help that they need. In fact, financial stress without self-efficacy tended to decrease the likelihood that one would seek the help they need. However, introduce higher levels of self-efficacy, which is essentially the belief in one's own ability to succeed, and an individual is more likely to seek help – especially with elevated levels of financial stress.

Those who believe they can succeed, are more likely to seek the help they need to succeed.

Financial Stress:

There are two types of stress that were examined: subjective stress for example, “I worry a lot about my financial situation” and objective financial stress that arises when one is responsible for supporting an extended family, expectation of losing one’s job in the next five years, and total household debt. Objective stress may change over time as circumstances improve or deteriorate.

Self-efficacy:

The theoretical concept of self-efficacy stems from an individual’s confidence in his or her ability to accomplish a particular goal. If you believe you can be successful at something, then you will be more motivated to try it and work hard to accomplish it.

The research study found that self-efficacy is a consistent and strong predictor of help-seeking behaviour. Subjective financial stress is not consistent in the models; however the research team did find a moderating effect. This means that individuals with high subjective financial stress are less likely to seek financial help, but if they have high self-efficacy they are able to overcome that stress to the extent that their self-efficacy causes them to seek financial help.

There are four ways to increase self-efficacy:

1 PERFORMANCE ACCOMPLISHMENTS

Accomplishments influence a person’s sense of mastery and can lead to a greater sense of self-efficacy. One way to increase self-efficacy using the concept of performance accomplishments is to structure financial decisions in a way that allows for small accomplishments while learning new skills. Financial institutions and other agencies that deal with consumer finance issues should consider this when structuring consumer interactions. **A suggestion is to keep some financial offerings simple and straightforward so consumers can understand how they work and feel confident in their ability to manage them.** One way to accomplish this is by encouraging individuals to set a simple goal, for example, to pay off any non-mortgage debt by a certain deadline. This plan requires money management (to reduce spending) and a measure of self-discipline, but is ultimately an achievable goal. This is a good way to inspire confidence and motivation for more advanced tasks.

2 VICARIOUS EXPERIENCES

A vicarious experience occurs when you observe someone like yourself succeeding at a task. Commercials, public service announcements, and other communications can show small success stories to appeal to a diverse audience and provide valuable information and guidance to help people get started.

3 VERBAL PERSUASION

A financial planner should encourage a client to take on a task with the belief that he or she can accomplish it. The planner must provide constructive feedback to build and maintain a sense of self-efficacy. Workers in social agencies dealing with a financially illiterate or otherwise disadvantaged clientele find this technique effective. **Verbal persuasion goes hand-in-hand with performance accomplishments. A little belief in someone can go a long way.**

4 PHYSIOLOGICAL STATES

Finally, the way people experience, interpret and evaluate emotional states is important for how they develop self-efficacy beliefs. **Extremely nervous or anxious people tend to doubt themselves and may therefore have a weak sense of self-efficacy. This is in line with our finding that stress can either paralyze or mobilize someone to seek financial help.**

Household finances can be stressful for families. Carol Anderson, of Money Quotient, suggests one way to reduce stress and anxiety is to establish basic ground rules and commit to a plan with your partner and/or your financial planner. This can help facilitate an environment with well-established goals and principles and can facilitate positive communication and behaviours around a shared goal, thus reducing stress and anxiety.

CONCLUSION

The Value of Financial Planning Survey showed that having a financial plan has positive results and can greatly impact the lives of consumers. Many Canadians need a financial plan and financial planners can help with that. **What this study shows us is that it takes more than the need for financial planning and professional help for most individuals to actively seek it.** On its own, being faced with higher levels of financial stress can actually lead to a lower likelihood to seek help to overcome it.

*Canadians also need to believe that they can succeed; they need **self-efficacy** in order to seek out professional financial advice.*



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For more information about the Financial Planning Foundation, or how you can support important financial planning research, please contact us at **416-593-8587 ext. 256** or visit **www.fpfoundation.ca**

Note: The full paper is currently under review at Financial Services Review and a working paper is available on the Social Sciences Research Network (http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2666727).

A link will be listed on the FP Foundation™ website after journal publication.

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