HOUSEHOLDS' FINANCIAL MANAGEMENT FACTORS INFLUENCING
SOLVENCY AND SATISFACTION

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Today, most families must cope with an increasingly complex and uncertain economic environment. It can be hypothesized that families with greater economic resources are better able to cope with the present economic environment than those with fewer resources. However, it is not only the size of resources, but also the effective management of the given resources that contributes to families’ ability to successfully function in their given economic environment. Individual factors such as money management practices and attitudes toward use of consumer credit significantly influences family’s strength and ability to manage given resources effectively.

In this time of changing environment it is important to determine how satisfied families are with their financial situation and what factors influence their satisfaction level.

The overall objective of this paper was to ascertain socioeconomic variables and money management practices that influence household’s solvency and money manager’s satisfaction with various aspects of their household’s financial situation.

In a static economy, higher levels of income are assumed to produce greater amounts of satisfaction with households’ financial status or well being. Researchers have used various measures of financial conditions such as net worth, gross assets, amounts of savings to indicate families’ economic well being (Slusher, Helmick & Metzen, 1981; Spreitzer and Snyder, 1974; Strumpel, 1973). However, limited evidence is available about the family’s satisfaction level with its own financial situation, and management practices that influence household’s solvency and the level of satisfaction.

This paper focuses on family’s money management practices, recognizing that limits to families’ economic resources exist, and one possibility to improve these resources is more effective management of given resources. Family resource management consists of many dimensions, a primary factor in its inherent complexity. This paper deals with only limited aspects of resource management and focuses on financial resource management practices. Deacon and Firebaugh’s systems framework (1981) provided basis for the conceptual model for this study. This framework has three major components of a managerial subsystem: input, throughput and output. Definitions of these three components were related to households’ money management. Inputs to the system were identified as sociodemographic and economic variables.
Money management practices (reflecting planning and implementing) were grouped as part of the throughput subsystem. Output, the third component, refers to met demands. Two measures, one objective and other subjective were used to reflect the output. Household’s reported satisfaction with its financial situation provided basis for the subjective measure, and household’s solvency status (measured by its debt-to-income ratio) provided the objective measure of its output (Figure 1).

**Literature Review**

Various studies have focused on exploring if financial management practices have any effect on the satisfaction with the quality of life. Newton (1979) found that satisfaction with managerial behavior and goal achievement was significantly related to the quality of life satisfaction. Walker et al. (1984) analyzed the relationship between effect of perceived financial management quality and family’s satisfaction with its perceived quality of life. Study concluded that the perceived financial management quality was positively associated with families’ quality of life satisfaction. Huguley (1970) studied the managerial orientation (planning and implementing) and found that relationship between managerial orientation and level of living was relatively strong.

Researchers have come up with various ways of measuring families' satisfaction with its economic well being. Some have used one question such as “how satisfied are you with your present standard of living,” (Hafstrom and Dunsing, 1973). They concluded homemakers who were satisfied with their housing were also more satisfied with their standard of living, and when family owned its home the wife tended to be more satisfied. They also found homemakers who were not employed outside the home were more satisfied than those who were employed outside the home. Others have used several items to compute a satisfaction index. Winter, Bivens and Morris (1984) used a satisfaction index which included scores on three satisfaction measures: satisfaction with current total family income, satisfaction with present standard of living, and satisfaction with current savings. They found that households who reported higher levels of income were more satisfied with family financial situation than those who reported lower levels of income. Size of wealth and employment status also contributed to high satisfaction with financial situation.

Socioeconomic characteristics have been used as independent variables by researchers in determining satisfaction with families' financial situation. Hafstrom & Dunsing (1973) found that homemakers' perception of the adequacy of family income was most important factor in explaining her satisfaction with level of living. Newton (1979) discovered that income, household size and education were significantly related to families' overall life satisfaction. Sheffield (1976) found that the presence of a
spouse had relatively strong positive effect on respondents' overall life satisfaction. Female headed households were more likely to feel greater dissatisfaction with life than male headed households.

**Methodology**

This research used data collected through personal interviews with money managers of 198 randomly selected households in a midwestern town in United States (population, 27,000) during 1982. A total of 252 housing units were selected for the study, 29 units refused to participate, 10 units were vacant, and 14 interview schedules were discarded due to incomplete information on large number of items.

Interviews were conducted by trained interviewers. Under the supervision of the Statistical Laboratory. They were directed to identify money managers by asking “who in your house has the major responsibility of households' money management related tasks.” If a couple said they equally shared the responsibilities, both were interviewed, but the person answering most questions was designated the money manager for the purposes of this study. Information on socioeconomic and money management practices was collected with the use of open and closed end questions. Satisfaction questions used five-point Likert type scales.

**The Variables**

Based on the literature review and conceptual framework (Deacon and Firebaugh's theoretical model) socioeconomic variables and money management practices were selected. After preliminary analysis (correlation, chi-square) following socioeconomic variables were selected for final analysis: money manager's age, education, marital status, knowledge level in selected money management areas, housing status (owner, renter), household size, and amount saved at the end of 1982. Money managers' knowledge level reflected a score based on seven questions related to various aspects of family financial management. These included consolidated loans, credit cards, legislation regarding billing errors, credit rating, compound interest, tax deductibility of interest on mortgage loans and importance of having a will. Most of the respondents had low scores (50% or lower) in four of these areas: consolidated loans, credit card costs, credit legislations, and mortgage interest deductibility.

Selected money management practices included having clarified financial goals, frequency of reviewing and evaluating expenses, number of credit cards used, frequency of paying finance charges on credit card balances, amount felt comfortable owing on all credit cards at one time, and size of monthly debt payments.

There were two dependent variables. First, money managers' satisfaction with various aspects of households' financial management, including eight different aspects:
level of living, level of assets, level of savings, ability to stay out of debt, willingness to pay back money owed, ability to meet large emergency expenses, money management practices, and ability to discuss money matters. Respondents' satisfaction with these aspects was measured by a 5-point Likert type scale ranging from extremely dissatisfied to extremely satisfied. An index was created by summing up scores on all satisfaction items. Reliability test for this index produced a gamma of .7, indicating that the index was very reliable.

Household solvency used debt-to-income ratio as a measure of households' ability to pay back its debts. This ratio was calculated by dividing the total household debt by its total net family income earned during 1982. Sources of income included wages, salaries, business income, investment income, retirement income and child support and alimony. Total debt variable was calculated by adding amounts owed on credit card balances, home improvement or furnishing loans, automobile or other vehicle loans, personal loans, education loans, and unpaid medical bills. The debt-to-income ratio was calculated by dividing the total debt of the household by its total annual income (take home pay for 1982).

Analyses

Frequency analysis, chi-square analysis and Pearson product moment correlation analysis were used in the preliminary stages of the study. Results of these analyses were used to develop a descriptive profile of money manager, check the validity of data, and to determine the strength and direction of relationships between dependent and independent variables. Path analysis were used to determine the impact of selected socioeconomic and money management variables on households' solvency status and money managers' level of satisfaction.

Results

The typical money manager in this study was a female with 12 years of education, working full time as a clerical, sales or service worker. Majority of money managers owned their own homes. The money manager on an average was 41 years old, was married, average length of marriage being 16 years, and she lived in a household of 2 persons. The mean income for these households was $21,303 (median, $18,250). At the end of 1982, on an average they had saved $2,111 of their earned income. Total consumer debt excluding mortgage debt averaged to $2,516, and average monthly debt payments were $262. On an average in the U. S. mean age for females in 1982 was 31 years, and they had 12.4 years of education. Average household size for the U. S. in 1982 was 2.27. (Census of Housing, United States Summary No. 1, 1983). Median net income for the U. S. population for 1982 was $10,841 and mean $20,306. In 1982 the
mean consumer debt obligation for the U. S. population was as high as $5,400 (Statistical Abstracts of the U. S., 1986).

Money manager was 10 years older than average female in the country, her household was slightly smaller, and her household income was slightly higher. Average debt for the households in this sample was almost half of average consumer debt of a U. S. household.

**Money Management Practices**

Financial goals were verbally identified by 59 percent of the money managers. However, when asked to describe a method they planned to use to achieve these goals, only 52 percent of them could indicate a specific method. To be financially secure, a goal that was identified by majority of respondents (35%); other goals included retirement income (22%) home ownership (19%) and college education (12%), miscellaneous (12%).

On an average, at the end of 1982, these households had saved about $2,111 of their income (median amount was only $500). However, approximately 38 percent did not save any money during this year. Over one-third of the money managers did not have any consumer debt. Mean consumer debt amounted to $2,516, however a majority of respondents (45%) were in debt for up to $12,000 for consumer purchases.

Frequent review and evaluation of household expenses is a practice that can help money managers gain control of its finances, and avoid financial problems. One-third of money managers (33%) indicated they never reviewed or evaluated their expenses, whereas another 33 percent indicated such a review was done once a year. Remaining managers reviewed and evaluated their spending habits either monthly or bimonthly.

Forty-two percent of money managers indicated they used two to four credit cards and 31 percent did not use any credit cards. Of those who used credit cards, 27 percent had never accrued finance charges. On an average, money managers felt owing up to $346 on all credit cards at one time. However, one-fourth felt comfortable owing between $500 to $1,000 on their credit cards at one time.

This sample represented population that was rather solvent. One-third of households carried no debt, and for majority of those who had consumer credit (48%) the debt-to-income ratio was under .2.

**Level of Satisfaction with Households’ Overall Financial Situation**

Majority of money managers, that is 80 percent or more, were satisfied with their households’ management practices, ability to stay out of debt, ability to pay debt back, and willingness to discuss finances. Slightly smaller percentage of money managers (75%) were satisfied with their level of living; and only 66 percent were satisfied with
their level of assets. Proportion of money managers who were satisfied with their ability to meet emergency expenses was only 44 percent. The smallest proportion of money managers (40%) were satisfied with their ability to save (Table 1).

It appears that a majority of respondents, over sixty percent, were dissatisfied with their saving practices and their ability to meet emergency expenses, which in turn, is dependent on households’ savings size.

Factors Influencing Money Management Practices

Money managers’ age influenced three of the money management practices. In each case the relationship was negative. More younger money managers than older money managers had clarified financial goals, more frequently reviewed and evaluated their expenses, and more frequently paid finance charges on their credit card balances. Education level of money managers influenced the number of credit cards used; frequency of review and evaluation of expenses and size of monthly debt payments. Larger proportion of money managers with more education than less education used more credit cards, more frequently reviewed and evaluated their expenses and had larger size of monthly debt payments. Household size positively influenced the size of debt payments. Larger household had larger amounts of debt. Number of credit cards used, and frequency of paying finance charges, both were influenced by money managers’ financial knowledge. These relationships were positive, indicating higher the level of knowledge larger the number of cards used, and more frequently finance charges were paid. Frequency of paying finance charges on credit card balances was higher among money managers who saved less during 1982 than those who saved more. A positive relationship existed between amount saved in 1982 and amount felt comfortable owing on all credit cards at one time (Figure 2).

Factors Influencing Households’ Solvency

Households’ solvency status was negatively related to money managers’ age, household size, and housing status. Younger money managers who had larger households and who lived in rented houses had lower solvency (higher debt-to-income ratio) as compared to money managers who were older, home owners and belonged to smaller households. Households who saved smaller amounts in 1982 had higher debt-to-income ratios.

Households’ solvency was also influenced by its money management practices. Number of credit cards used, amount felt comfortable owing on all credit cards and size of monthly debt payments. Larger proportions of households who used more credit cards, felt comfortable owing larger amounts on their cards and had large monthly debt payments were less solvent (or had higher debt-to-income ratio) than those who
used fewer cards, felt comfortable owing smaller amounts on their cards and had smaller monthly debt payments (Figure 2).

**Factors Influencing Level of Money Managers' Satisfaction**

Money managers' satisfaction with various aspects of households' finances was influenced by household size (money managers'), marital status, and amount saved in 1982. More money managers from smaller households were satisfied with their finances than those from larger households. Larger proportion of married money managers than unmarried or divorced money managers were satisfied. Similarly larger proportion of money managers who saved larger amounts in 1982 than who saved smaller amounts in 1982 were satisfied. A large proportion of money managers who had clarified goals were satisfied than those who did not have clarified goals. Number of credit cards used by money managers was also strongly related to their satisfaction. More managers who used large number of credit cards than who used smaller numbers of credit cards were satisfied. More money managers who had clarified goals were satisfied than those who did not have clarified goals. Money managers' satisfaction level was also influenced by household's solvency status. Large proportions of money managers whose households had lower debt-to-income ratio (highly solvent) were satisfied with various aspects of household’s finances, than those whose households had higher debt-to-income ratio (Figure 2).

**Implications**

Management of financial resources is an important aspect of family life. Educators (formal and informal) often ponder about the value of teaching money management practices. Given limited nature of resources available to these educators, there is always a concern about what topics to include while developing educational programs and materials in family financial management area. The ultimate objective of all efforts is to increase families' level of satisfaction with various aspects of their overall financial situation.

This paper was an effort to determine factors that influence families' satisfaction with their overall financial situation. The results will be of interest to educators as well as those professionals who work with families as financial counselors and/or family and marriage counselors. The results of this study in addition to identifying topics for educational programs also identify the target population who might benefit from such educational efforts.

While working with individuals and families it will be useful for professionals to know usually younger clients who have larger households and who rent their houses will be less satisfied with their overall financial situation. This study also found that
married respondents were more satisfied than unmarried.

The results emphasize that a high priority should be placed on teaching skills related to consumer debt and specifically credit card management. Family finance courses should also emphasize the importance of having goals and developing specific plans to achieve those goals. It appears a high debt-to-income ratio (low solvency) reduces level of satisfaction with household’s financial situation. Based on results of this study it can be implied that the households likely to be of greater need of credit card management skills are younger persons who due to their higher level of education (which is highly correlated with their occupation and income level) easily qualify for various credit cards.

Emphasis should also be placed on importance of savings. Money managers whose households reported saving some portion of family income were satisfied with their overall financial situation. Households that saved were also better able to handle use of credit or borrowed money. Larger proportions of households who saved were also solvent. Solvency status in turn influenced their level of satisfaction with their household’s overall financial situation.

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Figure 1. Conceptual Framework

- Inputs: Socio-Economic Variables
- Throughputs: Money Management Practices
- Outputs: Solvency
- Satisfaction
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