

# Resourceful Servants: The Process and Effectiveness of Financial Counseling

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As part of the research agenda for the Resourceful Servants Initiative, evaluative work was completed investigating the process and effectiveness of financial counseling. Supporting this work, a review of the available literature on financial counseling was carried out. Additionally, two focus groups (one with financial counselors from Lutheran Social Service and one with Financial Aid Directors from ELCA seminaries) and twelve interviews (five with synod staff for candidacy, two with candidacy committee chairpersons, three with candidates, and one with a recently-ordained pastor) were conducted.

This document explores the following topic areas:

- Seeking financial counseling
- Needs in financial counseling
- Impact of financial counseling
- Financial counseling with Lutheran Social Service

## Seeking Financial Counseling

When considering the question of when people seek financial counseling, two questions need to be asked and answered. The first is descriptive: Under what circumstances do people actually seek out a financial counseling relationship? The second question is prescriptive: What are the most appropriate circumstances under which to engage with a financial counselor? Both questions are important for a fuller understanding of the process of seeking financial counseling.

*Under what circumstances do people seek out financial counseling?*

Research literature on the experience of financial counseling (also known as credit counseling) suggests that individuals seek out financial counseling when they find themselves facing unmanageable debt (Collins, 2012; Wang, 2010). Wang (2010) suggests two narratives for how individuals end up in that situation. The first is through a cycle of overconsumption (i.e., spending on luxuries that cannot be afforded). The second is the result of a shock event, either related to income (e.g., the loss of a job) or expenses (e.g., divorce, unforeseen medical bills, etc.).

When financial counselors with Lutheran Social Service (LSS) were asked why their clients have sought out financial counseling, they provided stories and experiences which generally supported the research. Clients are often in crisis, facing extreme educational and/or consumer debt, and looking for financial relief.

Research also suggests that individuals seek out financial counseling in some cases because they are required to. This is the case for some financially distressed consumers going through the bankruptcy process and for some mortgage borrowers (Collins, 2012). Interviews with candidates for ministry and rostered ministers revealed that they are often in the same position, though not necessarily for the same reasons. Most candidates and ministers who pursue financial counseling have not done so on their own. Rather, they are referred to financial counseling as a requirement from their synod of candidacy—either through the synod staff person responsible for candidacy or their candidacy committees—or by suggestion from seminary staff.

#### *Under what circumstances should people seek out financial counseling?*

Research literature on financial counseling suggests several opportune times for individuals to become involved with financial counseling. Collins and O'Rourke (2012) suggest that initial employment decisions, including signing up for benefits, often create the opportunity to engage with a financial counselor. Pay increases, decreases and layoffs are also times when financial counseling and education may be most beneficial.

Financial counselors from LSS made similar suggestions. They believe individuals should certainly get involved in financial counseling if they are experiencing times of financial stress. However, outside of an extreme financial position, the most appropriate times for engaging a financial counselor are times of transition, as financial counselors can help to navigate these situations effectively. Ideally, individuals would get involved in financial counseling before a crisis occurs. Counselors suggested it is easier to assist a client on the front end as opposed to trying to control damage already done.

As mentioned above, most candidates and ministers approached financial counseling when they were required to. That said, in some cases, candidates and ministers were already considering financial counseling, or are now considering returning to financial counseling because they have experienced some sort of change in their lives (e.g., a job change, or going from having no income to having some income).

#### **Needs in Financial Counseling**

Interviews with candidates for ministry, ministers, synod staff and members of candidacy committees helped shed light on the financial topics of greatest relevance to candidates and ministers in the ELCA. In many cases, the need for help with these topics specifically were what drove candidates and ministers to financial counseling, or the reasons why they were required to participate in financial counseling.

#### *Educational Debt*

Perhaps not surprisingly, among the most prevalent issues raised by members of every group interviewed was educational debt. The issue of educational debt has become increasingly widespread across a variety of professional fields, including among those preparing for ministry.

Specifically, interviewees mentioned ways to limit the amount of educational debt incurred and options for paying it down, including whether or not public service time applied to those in the ministry, and whether or not income-based repayment might be a good short-term solution for some candidates and ministers.

All of those interviewed suggested that—when considering educational debt and its impacts—it is beneficial to have financial education before seminary begins or early in seminary. In this way, students are able to make more informed decisions about the amount of educational debt they incur, as they know what debt incurred will cost in the future and how long it will take to repay.

### *General lack of financial knowledge*

According to the synod staff members, candidacy committee members and seminary staff members interviewed, many candidates and ministers lack basic financial knowledge. As a result, many dismiss thoughts of money, saying, “I’m just no good with money,” and they become reluctant to seek out someone who could help them increase their knowledge.

Seminary Financial Aid Directors went into the greatest depth on this topic area. According to some of them, for many candidates, the reluctance to pursue financial counseling is due to frustration avoidance. They indicated that financial topics are far outside the immediate knowledge base of candidates and ministers. Because the subject matter is difficult and candidates and ministers have little context for it, they pursue other more rewarding topics.

In other cases, reluctance results from a desire to maintain one’s current lifestyle. Financial Aid Directors indicated that it can be very difficult for candidates to go back to a simpler time, especially second-career students who have been in the workforce and are used to living a better lifestyle. In still other cases, candidates and ministers are afraid of becoming overscheduled. They don’t believe that they can take on one more responsibility, so they refrain from getting involved in financial counseling.

Nearly every Financial Aid Director also mentioned that candidates do not understand the specific consequences of borrowing and spending, and what loans borrowed now will cost when they need to be paid off. Many candidates do not know what their monthly educational loan payments will be while they are incurring these debts. Thus, candidates are doubly deficient: 1.) they lack the skills to help them avoid debt, and 2.) they lack the skills to help them manage debt already incurred.

### *Determining Financial Priorities*

Perhaps as a result of “not being good with money,” many candidates and ministers are unsure how to strategize for the present and the future and struggle to know what the correct direction is to take with their money. They ask, “Should I save or otherwise invest my money (including for retirement) or would it be more impactful for me to pay off my educational debt?” Additionally, those interviewed indicated that many candidates and pastors are more consumed with accounting for day-to-day expenses (including child care and health care) and educational loans than setting financial priorities. The challenges of today seem more immediate and pressing, and therefore receive greater priority.

### *Compensation and Benefits Questions*

Ministers, synod staff and candidacy committee members indicated that compensation and benefits packages can be difficult to fully understand. Specifically, interviewees raised housing issues as a source of confusion and concern; ministers mentioned inconsistency in housing allowances and confusion when moving from one call to another.

Additionally, a persistent issue for ministers (particularly clergy serving a congregational call) is understanding how to effectively report and pay income taxes. Several synod staff members mentioned

that some of the clergy in their synods failed to pay their taxes as prescribed, and others have ignored the issue altogether and run into substantial problems. Financial counselors indicated that a portion of clergy who participate in financial counseling do so because they are delinquent on their taxes.

### **Impact of Financial Counseling**

*What is the impact of financial counseling?*

Research literature on the impact of financial counseling is somewhat equivocal. Although there is near consensus in the literature that financial counseling leads to improved financial wellness, almost all of the studies focus on clients who have self-selected into participation in financial counseling. Because those who choose to participate in financial counseling are likely more motivated to improve their financial wellness than those who choose not to go, it is difficult for researchers to determine conclusively if any improvement is due to the counseling or the motivation to improve.

Additionally, most studies do not contain a control group, so the researchers cannot conclude with certainty that any improvements seen are due to participation in financial counseling or if they would have happened anyway over time, even without financial counseling. Many of the positive impacts of financial counseling diminish when looking only at programs delivered in a randomized, controlled setting.

In general and not surprisingly, financial counselors themselves hold the assumption that the process of financial counseling is highly effective, at the same time acknowledging that clients cannot improve their financial situation without some motivation to change their behaviors. In a focus group with LSS financial counselors, all acknowledged that it often takes significant life changes to pay down educational and consumer debt.

That said, financial counselors have seen this happen and lift this up as the best case scenario for financial counseling. One counselor said, "The best situation is when a client ends up debt free." Other potential benefits mentioned by the counselors were improvement in credit score, feelings of stress relief, and the ability to move forward.

Candidates and ministers emphasized this benefit of lessened anxiety and improved confidence most strongly. One candidate said she now has a greater understanding of and less worry about her financial situation. Another said she has more confidence about the financial challenges she is facing, particularly knowing the steps to follow to improve her financial situation. Yet another candidate said financial counseling eased her anxieties about her level of educational and consumer debt.

Candidates also mentioned that increased knowledge, particularly around budgeting, provided significant freedom. Two candidates mentioned this learning as the most significant impact on their financial lives, knowing how to effectively budget and holding oneself accountable to that budget. The impact was both on a confidence and a competence level.

*How can more evaluative/research rigor be added to this process?*

Although their belief in the effectiveness of financial counseling is strong, the financial counselors from LSS indicated that greater evaluative rigor would help them to be more certain. They indicated that they cannot keep up with many people who have gone through financial counseling, especially those who did

*not* complete a Debt Management Plan (DMP); this represents 80 percent of the financial counseling clients of LSS.

LSS Financial Counseling is in the process of starting a 6-month follow-up survey with its clients which will measure financial anxiety as well as some basic outcomes before and after financial counseling. Although this study will not have a control group, it will build in pre-test and post-test measures to assess impact.

### **Financial Counseling with Lutheran Social Service**

#### *What does LSS have to offer?*

Improving a client's financial wellness is among the highest priorities of financial counselors at LSS. As part of this process, financial counselors are interested in building relationships with clients. In a focus group with the financial counselors, one indicated that an important first step in this process is to build trust with a client. To do this, financial counselors must first address the issues raised by a client, even if the counselor can see a deeper root cause. To get to the issues of greatest concern, counselors will often ask questions like, "What are you looking for?" "What has been going on in your life financially?" and "Where do you want to be financially?"

Through this client-centered financial counseling, LSS can help candidates and ministers address financial issues they are facing. Candidates and ministers who have been financial counseling clients with LSS have indicated the financial counselors have worked with them to address the financial needs they express, as opposed to pushing a particular agenda.

#### *How can candidates and ministers access financial counseling?*

LSS offers a range of channels to access financial counseling for candidates and ministers. Candidates and ministers can engage in an online chat with a financial counselor or connect with a counselor on call. These services exist for people with just a few quick questions. Both require a very low level of commitment on the part of clients, while at the same time serve to build trust and rapport between LSS Financial Counseling and a candidate or minister.

LSS also offers a more complete financial counseling experience, which can be accessed through the internet, on the phone or in person by visiting an LSS location in Minnesota or Wisconsin. These financial counseling sessions last for one hour. During the session, a financial counselor may go through a client's credit report with them, discuss debt repayment options or review budgeting techniques.

At the end of each session, clients receive a specific action plan. This plan is unique to them and addresses the issues raised during the session. An appointment to review progress on the action plan may be set at that time, or the client may call the financial counselor again to set an appointment to review the plan. At the end of the first session, the financial counselor provides clients with his or her direct telephone line.

#### *What is the philosophy of financial counseling at LSS?*

LSS seeks to equip and enable people to "conquer their debt, gain control of their finances, and achieve financial wellness." As they do so with candidates and ministers, one of their main goals, beyond the improvement of the financial wellness of the client, is to normalize the discussion of finance by emphasizing the fact that issues of finance do not belong to candidates and ministers alone. When

speaking with candidates and ministers, some financial counselors talk about how the synod, ELCA churchwide office, Portico Benefit Services and the Lilly Endowment are all investigating issues of finance.

Many candidates enter a financial counseling relationship looking for financial relief. They judge themselves for their financial situation and are not eager to feel judged by others. The financial counselors at LSS actively work to take shame out of the financial counseling relationship. One candidate said he felt that the counselor he has been working with was very pastoral. He clearly received the message, “You are not a bad person because of the situation you are in.” Financial counselors said they believe it takes a lot of courage to make the call to LSS; they seek to provide a safe space for clients to discuss these personal issues. They see themselves as partners with the client on the road to greater financial wellness.

*What would help financial counselors and counseling clients start off on the right foot?*

According to the research literature and LSS financial counselors, there are two keys that help to start a financial counseling relationship well: a soft hand-off and a plan.

Financial counselors indicated that when a member of a candidacy committee, a synod staff person, or a member of seminary staff makes a call to LSS with the candidate him/herself, this provides a smooth start to the relationship. Initially, the soft hand-off increases a candidate’s experience of accompaniment and reinforces the message that a candidate is not alone in this process. It also increases a candidate’s likelihood of following through on financial counseling, due to increased accountability. The likelihood is also higher that a member of synod staff or the candidacy committee will follow up with a candidate as a result of this experience.

The research literature and financial counselors also emphasize the importance of coming to a financial counseling session with a plan for what to work on. This helps drive the initial discussion and gives the candidate clear direction. Additionally, the research literature indicates that having a concrete plan can lessen the stress of clients related to finances by freeing up cognitive resources. “Research has shown that people operating under financial stress or financial scarcity often face high degrees of drain on their cognitive resources which limits their willpower and prevents them from thinking about longer-term goals (Baumeister, 2002; Mullainathan & Shafir, 2013). Given that clients in credit counseling agencies are likely operating under relatively high levels of stress from debt burdens or other financial circumstances (burdens which likely drove them to seek counseling services), having a concrete plan to make concrete changes may reduce some of the cognitive stress and increase the likelihood they change their financial behaviors” (Roll & Moulton, 2016, p. 7).

Furthermore, Lerner and Tetlock (1999; cited in Roll & Moulton, 2016) found that having a plan in place serves to increase accountability. “Counseling clients, who commit to following their action plans to reduce expenses (and make explicit commitments in the case of DMP enrollment), may feel accountable to the counselor if they do not adhere to their action plans, and this sense of accountability may lead to better adherence to the plan” (p. 8).

## **Summary and Conclusion**

In many cases, candidates and ministers (like the wider population) seek out financial counseling when they are facing unmanageable debt, or when they have been required to do so. Although these are

certainly appropriate times to seek out financial counseling, research literature on the topic and financial counselors interviewed indicate that seeking out counseling before reaching this point is most advantageous. In fact, financial counselors indicate that counseling is most effective at times of transition in a person's life (e.g., starting a new job, receiving a pay increase or decrease, experiencing job loss, the birth of a child), as financial counselors can provide tools to assist in navigating the situation.

Although there is some debate in the research literature about the effectiveness of financial counseling, much of the literature generally suggests that financial counseling is effective, insofar as the client is motivated to improve his or her financial situation. Financial counselors themselves supported this assertion, indicating that it often takes significant work on the part of clients to move themselves toward financial wellness. Among the subset of ELCA candidates and ministers studied here, the greatest improvements mentioned were increased knowledge of their financial situation and an improvement in the confidence with which they approached issues of finance. They agreed that this provided them significant comfort and decreased financial anxiety.

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