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Dealing with Debt

Destigmatizing Financial Distress Through Personal Assistance

Non-profit credit counseling agencies offer a variety of helpful services to individuals in financial distress. Yet these valuable and affordable services can be underutilized due to stigma and other barriers to seeking help with debt management. With support from Capital One, we partnered with several credit counseling agencies to create accessible content to help those in financial distress understand their options and take action to deal with their debt.

Summary

Millions of people living in America hold significant amounts of debt and struggle to pay it back. The COVID-19 pandemic exposed the incredibly tenuous nature of the financial lives of millions of Americans, especially amid increased joblessness and reliance on credit.[1] Rising prices have contributed to total household debt reaching $16.15 trillion during the second quarter of 2022 — $2 trillion higher than at the end of 2019 prior to the pandemic.[2] For many people, recovering from financial hardship can seem daunting and even hopeless.

There are organizations whose mission is to help people in financial distress climb back to level ground. However, these services are often underutilized, with some people either opting to go it alone or using expensive debt settlement companies. There are several behavioral features of financial distress that contribute to this outcome. Because of the stigma that surrounds debt, feelings of shame can lead individuals who realize they are in trouble to avoid seeking help.[3] Indebted individuals can be less likely to "shop around" for services, and may end up relying on information and advice from one provider.[4] And even if individuals do attend a debt-oriented class or workshop, it can be difficult for facilitators to deliver relevant, digestible, and actionable content to a diverse group of clients with distinct types and levels of debt. As a result, many organizations instead offer broad material that can be difficult for individuals to parse.

ideas42 sought to make it easier for individuals in financial distress to identify and act on the appropriate options for managing or reducing their debt. We partnered with a group of non-profit credit counseling agencies to better understand barriers faced by indebted individuals and propose designs to improve uptake of the helpful and affordable services offered by non-profits.

1 https://www.wsj.com/articles/covid-unemployment-debt-middle-class-family-finances-11600122791

2 https://www.newyorkfed.org/newsevents/news/research/2022/20220802

3 https://prosperitynow.org/resources/debt-monster

4 Review of the literature concerning the effectiveness of current debt solutions: Final Report for the Money Advice Service (MAS). September 2017. https://masassets.blob.core.windows.net/cms/files/000/000/884/original/Debt_Solutions_Literature_Review_Report_FINAL.pdf

Barriers to Taking Action

We began our work by conducting about a dozen interviews with key stakeholders, including credit counselors, financial educators, and academic researchers. We further examined the literature on financial distress to better appreciate the context and challenges that clients navigate in this space, pulling insights from 20+ papers. Finally, we audited several existing debt management workshops offered by non-profits to hear directly from clients about the challenges they faced and uncover existing best practices and potential opportunities for improvement and innovation.

From our research, we identified nine key behavioral barriers preventing clients from following through on their intentions before, during, and after debt counseling workshops:

Barriers to Enrollment

1. ***Stigma related to debt and financial distress can lead to avoidance.*** Attending a group workshop requires identifying as an individual in debt in front of one's peers, and labels like "counseling" can activate stigma that folks seek to avoid. As one of our partners explained, "the word 'counseling' gets in the way a little bit. People don't want to say, 'I need to see a counselor.'"
2. ***Reaching clients before they are deeper in financial distress is difficult.*** Financial products and services often fail to provide timely cues that an individual's debt situation is cause for concern, meaning many only seek help once their situation has gotten worse and thus harder to treat. As one counselor reported, "Our greatest challenge is getting people to come to us early in the crisis or potential crisis. A lot of clients come too late, and in every one of those cases I think, 'If only I could have just talked to you one, two, three years ago.'"
3. ***Clients have low levels of trust or confusion with debt relief services.*** Many organizations offer and advertise help with debt, which can make it difficult to distinguish which are legitimate from which are predatory. It's also easy to misidentify which services an organization offers (i.e., debt settlement vs. debt management), and then determine which will be the right option for a client's situation.

Barriers to Participation

1. ***Engaging in a virtual environment can be challenging.*** The industry-wide default session length of an hour is rarely enough time to cover all intended material, particularly in a virtual setting where it is more challenging to effectively engage folks and have them interact with one another. However, sessions that are any longer—particularly virtual sessions—risk stretching participant attention and bandwidth beyond what is effective for retainment.
2. ***Personalized content is difficult to deliver in a group session.*** Group sessions do not allow as much space to understand clients' personal financial situation and deliver targeted support. Furthermore, sessions may include a diverse set of clients who have divergent goals and unique obstacles that make it difficult to tailor the material to what can be most helpful for each.

3. ***Financial realities can be really demotivating.*** Clients with past negative experiences or who have been bounced around may feel frustrated or lack optimism. If they do seek help, feelings of urgency or distress around looming financial consequences can further limit engagement.

Barriers to Follow-Up Steps

1. ***Session materials do not easily facilitate action.*** Our review of existing credit and debt workshops revealed that non-profits are already presenting important information. However, they do not always ask clients to internalize how they might use that information themselves. Some instructional materials tell clients what to do but not how to do it (i.e., provide vague guidance like, "stop adding to your debt"), or lead with activities like budgeting that are time-intensive but lead to few realistic action steps.
2. ***Complex information can be overwhelming.*** Financial information can be dense and difficult to interpret, especially when one is in distress. A study in the United Kingdom noted that indebted individuals found it challenging to understand the advice they received for managing their debt, likely due to the significant stress they experienced throughout the process.[5]
3. ***Sessions do not include subsequent touchpoints.*** Clients often lack support once they leave a workshop, and in many cases, lack clarity on when or how to follow-up when they face obstacles or new challenges.

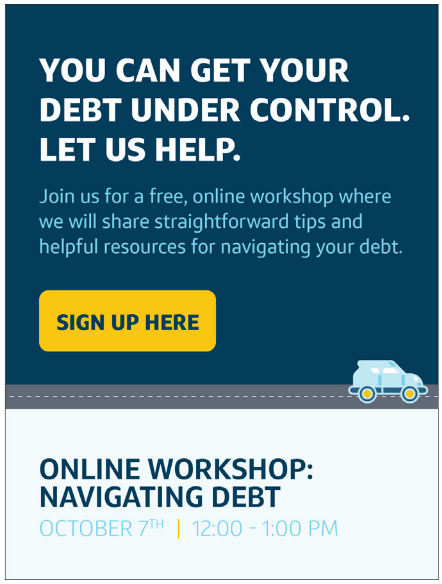
Co-Designing Solutions and Measuring Success

To develop new content that could address these barriers to taking action to tackle debt, we partnered with Consumer Credit Counseling Service (CCCS) of Savannah and Clarifi, two credit counseling agencies with over 100 years of collective experience, to co-design solutions for indebted individuals. We tested these solutions over six pilot workshop sessions, including marketing campaigns that reached 9,000 clients via email and saw nearly 40 clients attend and participate in total. These designs had a positive effect on workshop outcomes for a diverse range of clients, with promising indicators of impact on individuals' subsequent financial behaviors.

Forecast Positive Futures. We live in a society that stigmatizes debt and financial hardship. As a result, feelings of shame can keep people from seeking help or attending a public workshop. When marketing the workshop, we used normalizing language and external attribution (e.g., "Dealing with debt can be tough for everyone—especially in today's economy") to reduce psychological barriers to signing up.

- ***What We Found:*** The most effective of these messages in yielding engagement and subsequent sign-ups focused on forecasting a positive future: "You can get your debt under control. Let us help." This framing significantly outperformed language focused on affirming the challenge: "Dealing with Debt Is Tough. Don't Do It Alone," resulting in a 44.8% higher open rate.

[5] Review of the literature concerning the effectiveness of current debt solutions: Final Report for the Money Advice Service (MAS). September 2017. https://masassets.blob.core.windows.net/cms/files/000/000/884/original/Debt_Solutions_Literature_Review_Report_FINAL.pdf



Example of image with most effective messaging (positive future forecasting).

Simplify Content. Financial workshops are often crafted for an audience with diverse financial knowledge and needs, and as a result these classes tend to cover too much information for one person to effectively digest and subsequently act on. With our sessions, not only did we significantly reduce the amount of material presented, but we also used simple rules of thumb to help attendees evaluate their debt situation and decide on relevant next steps. Instead of having attendees make note of everything they could do to address their debt, we focused on breaking a complicated process down into smaller, more achievable steps. We particularly focused on one best action they could take upon completion of the workshop that would help establish a feeling of progress and best prepare them to complete follow-up.

- ***What We Found:*** Among clients who completed a survey about the pilot workshop, 100% of respondents reported that the workshop left them feeling "more prepared to take steps to tackle my debt" and helped them to "better understand what options I have to tackle my debt."[6]

Using Defaults. In addition to group workshops, credit counseling agencies offer 1-on-1 sessions where they dig into a client's financial situation more deeply and provide personalized guidance. However, these sessions are under-utilized. Instead of leaving it up to clients to follow-up themselves, we defaulted clients into receiving a subsequent scheduling call after the session, leaving them an opportunity to opt out if they were not interested.

- ***What We Found:*** By automatically routing clients towards a scheduling call, participation rates increased: seventy-one percent of clients agreed to be contacted for a subsequent 1-on-1 session.

[6] Of the 36 clients who attended a pilot workshop, 17 completed the post-workshop survey.

Personalized Follow-Up. While it can be difficult to deliver personalized content in a group setting, we asked all workshop attendees to fill out an individual survey to indicate their priorities and next steps. Our credit counseling partners then populated these responses into a one-page, easy-to-follow "Debt Roadmap," and then emailed clients their personalized roadmap a day or two later along with curated links to relevant resources based on the type of debt they wanted to prioritize. This delayed reminder further served to bring to the forefront client's key takeaways and intentions if they lost track after the workshop.

- ***What We Found:*** While we were unable to collect data on whether clients ultimately followed through on their personalized next step, we saw that more than half of clients successfully completed their roadmap intake form.

Takeaways

Financial health programs are most effective when they are tailored to community needs and designed with the realities of human behavior in mind. In partnership with CCCS Savannah and Clarifi, with support from Capital One, we found opportunities to incorporate key behavioral science tools into reimagined debt workshops. The pilot workshops elicited a positive response, with clients expressing appreciation for how the workshops were more approachable, actionable, and affirming. More importantly, we saw early signs of clients taking subsequent actions post-training, including one-on-one counseling sessions.

Still, big questions remain around how to best reach indebted individuals who need assistance but do not engage with similar workshops. Partnerships with other players such as financial providers, housing agencies, and community-based non-profits could spur more preventative actions to help families build resilience and access support before they fall into financial distress. Behavioral science-based approaches like framing, de-stigmatizing/affirming language, and facilitating follow-through can be leveraged in those efforts as well. As this work evolves, practitioners must keep the specific needs of their clients at the core of their work, continually seek to remove the barriers that those clients face and track the financial outcomes of their participants to ensure their work helps families gain financial stability and thrive.