



Families and Individuals Coping with Financial Stress

Families and Change: Coping with Stressful Events and Transitions is authored by various family science experts and edited by Patrick C. McKenry and Sharon J. Price. The book discusses several stresses that impact families and individuals including a section on economic stress and families.

Chapter Two: Fox, Jonathan, J., and Suzanne Bartholomae. Families & Change – Coping with Stressful Events and Transitions, 2nd ed., pages 250 – 271.

Taken from book: McKenry, P. C. & Price, S. J (eds.). 2000. Families & Change Coping With Stressful Events and Transitions, 2nd ed. California: Sage Publications, Inc.

Economic Stress and Families

By Jonathan J. Fox and Suzanne Bartholomae

The quality of marital and family life is largely a function of the economic resources available to individuals and families. Resources are used to meet our most basic needs—and if resources are plentiful, they can be easily allocated to satisfy the comforts and luxuries we desire. Unfortunately most families possess limited resources and must manage them in an effort to meet their needs and desires. The level and management of resources can be sources of stress or comfort. Resources can result in stress when there is (a) disagreement about their use and (b) concern about their availability. Comfort can be derived from resources not only when they are in abundance but also when they can be relied on to help solve problems and provide a sense of security.

Economic Stress Defined

Resources, frequently measured by family income, often define economic status. Threats to family income such as job loss, divorce, retirement, or disability can contribute to economic stress, which may be more specifically defined as the hardship, pressure, tension, or strain experience as a result of changes in an individual's or family's financial affairs. Economic stress, also referred to by family researchers as economic distress, economic hardship, economic strain, economic pressure, or financial strain, can be the product of (a) the inability to meet financial obligations, (b) the uncertainty of income sources, (c) the instability of employment, and/or (d) the inadequacy of earnings to meet the needs and desires. Economic stress can also be the product of confusion in the general economy at the national, regional, or local level (e.g., recession, unemployment, or poverty rates). Economic stress can be normative, resulting from expected milestones in the family life cycle such as marriage or the birth of a child, or situational, stemming from unexpected events such as divorce, forced retirement, or catastrophic illness. Economic stress associated with life events may be temporary (e.g., a short-term drop in income resulting from job loss) or chronic (e.g., a long-term income loss as a result of a permanent work-limiting disability). Resources determine not only family economic well-being but also how families cope with economic stress. In the event of normative stress, most individuals are able to marshal available resources that enable them to adapt and cope with change.

Economic stress in the family manifests itself directly by influencing individual well-being and indirectly by influencing family interaction. Therefore, this chapter approaches economic stress in two parts. The first part examines the impact of economic stress on individuals, marriage, and family systems.

The second part provides an overview of financial planning prescriptions to help alleviate financial stress encountered across the family life cycle.

Economic Stress and the Individual

Research indicates that economic factors (e.g., unemployment, low income) have a negative effect on the mental health and well-being of individuals. Reactions to economic stress appear to have common psychological and social costs. Studies consistently show a relationship between economic strain and distress, including increased levels of anger, hostility, depression, anxiety, somatic complaints, and poorer physical health. Furthermore, social costs include diminished relationship quality (marital, parent-child, friendships) through strain and disruption and changes in social activities, support, and networks.

Several factors can ease the psychological and social damage brought about by economic stress. The way an individual defines the situation is important, as are the resources and supports available. Important resources drawn on include individual (e.g., education), psychological (e.g., coping skills), social (e.g., social support), relational (e.g., marital relationship), and material (e.g., income) resources. In addition, there are several behavioral strategies that individuals and families can employ to cope with economic stress, including social support, cognitive restructuring, and self-help strategies. In the context of stress, demographic characteristics such as gender, race, income, education, and marital status have been conceptualized as both economic and social resources. For example, marital status has both economic (e.g., combined incomes if both spouses work) and social (e.g., support and comfort from spouse) aspects and can improve or maintain the psychological well-being of married individuals under economic distress.

Ethnic Minority Groups

Ethnic minority groups often lack the social, legal, and economic supports afforded the majority culture. Whether structural discrimination or a lack of meaningful and equal employment opportunities, such circumstances greatly influence the economic behaviors and outcomes of ethnic group members. Compared with white, ethnic minority groups have lower income earnings and greater rates of poverty, placing them at a distinct economic disadvantage. However, ethnic minority groups have resources, including family structures, family dynamics, value systems, and child-rearing practices, that traditionally have served as buffers of economic stress. For example, black families historically have dealt with economic adversity with the help of extended kin networks, reciprocal intergenerational relations, and strong bonds with the community, church, and friends. These various social networks provide direct and in-kind assistance to moderate the impact of economic stressors.

Evidence regarding ethnic minority groups suggests that there are variations in the access, sources, and utilization resources. The recency of immigration and the level of acculturation will determine the accessibility and use of formal and informal resources. Among Hispanic households the incidence of nonnuclear family members contributing to family income is much greater than in white household, indicating a cultural variation of where resources originate. Another example of unique resource utilization among ethnic minority groups is found among black single mothers who often “double up” with a relative as a living arrangement. Unfortunately, research that examines ethnic differences in relation to economic stress is sparse. However, strikingly similar reactions occur among black Latino, and white families, indicating common patterns of dealing with economic stress.

Marital Status

Marital status is also instrumental in explaining the vulnerability and exposure to financial stress, with single (never married), divorces, separated, and widowed individuals being more likely to suffer from financial stress than married persons. Because of the greater financial risk among the unmarried, the risk

of diminished mental health is also greater. In general, economic stress is associated with greater levels of depression and lower life satisfaction and morale among the unmarried.

Several factors contribute to the variation of economic stress by marital groups. First, marriage can serve as a protective foundation during economic hardship by providing social support, which includes such characteristics as commitment, companionship, security, and emotional support. Couples who exchange supportive behavior when under economic stress experience less emotional distress than nonsupportive couples. Another positive effect of marriage results from the economic support provided. The sources, types, and levels of income vary by marital status groups, with married persons generally having higher household incomes. In contrast, female-headed households with children have the lower incomes. Furthermore, female-headed households are most prevalent among blacks, followed by Hispanics, whites, and Asians. While a high standard of living may result from a marital union, this is not to say that dual-income families do not experience economic stress.

Marital status is also instrumental in explaining the gender differences in financial stress. There are economic as well as socioemotional benefits to marriage for both men and women; however, women may benefit more economically from marriage while men benefit more socioemotionally. An economic aspect of marriage important to men is the role of breadwinner, whose personal identity is strongly rooted in the provider role and may explain men's distress during periods of financial strain. The greater psychological stress experienced by men during economic hardship also is thought to be a product of women's lesser commitment to work, with various family roles and responsibilities providing satisfaction for them.

Although marriage can be a costly decision for women, the overall economic gain usually outweighs other marital status options. Women occupy economically vulnerable positions as widows, divorcees, or single mothers. In addition, because women often withdraw from or reduce participation in the labor market when they get married, they limit potential employment options and earnings that would be needed if they divorce. The effects can be long term; for example, the chance of collecting a pension among divorced and widowed women who do not work outside the home is decreased.

With the increased number of female-headed household and higher rates of poverty among these groups, economic stress is an especially salient issue. As a family structure, female-headed households are more likely to have low incomes and suffer from psychological distress. These women must often also deal with job discrimination, limited labor force participation (interrupted by childbearing), inconsistent child support, and the high cost of child care. In addition, economic stress as a result of income loss after divorce is well documented. Research studies estimate a 30% to 50% drop in family income and a 20% to 30% drop in per capita income among women following divorce, compared with only 7% for men. Compared with married women, divorced women are more likely to depend on (a) income from personal earnings; (b) public transfers such as welfare and food stamps; and (c) private transfers such as child support, alimony, and assistance from parents and relatives. Divorced women who rely on public transfers and who are insecure about future income experience greater stress and have more difficulty in the overall adjustment to divorce. Longitudinal research suggests that the economic hardship experienced by divorced women (and children) is prolonged with remarriage being the most effective means of recovery.

The incidence of poverty is high among widows as well, and with the increasing longevity of women, there is a greater likelihood of women being widowed, and exposed to negative financial consequences later in life. For example, among women age 65 or older living alone, the percentage considered poor was 23.8%, 57.5%, and 50.7% among whites, black, and Hispanics, respectively, compared with 14.5%, 44.4%, and 39.9% among white, black, and Hispanic males, respectively (U.S. Bureau of the Census, 1996). Several studies indicate that widowhood negatively affects the economic status of women, thus leaving them vulnerable to the stress associated with deprivation. Age and work experiences are important factors in the financial situation of widows. Younger widows with a work history do not suffer as great a decline in economic status. The lack of financial preparation prior to widowhood is another factor associated with diminished well-being. In terms of the impact of economic stress on well-being, economic strain is the primary cause of depression in widowhood.

Ethnic minorities are a population of special concern in regard to economic stress. The proportion of married persons in the black population has dramatically declined over the past few decades. African

Americans are more likely to be single, divorced, or separated and less likely to remarry after divorce, compared with whites. Among Hispanics, there is a higher percentage of female-headed households compared with whites, and marital dissolution has been on the rise among this group. Although these marital patterns increase the economic risk of these groups, there appears to be cultural mechanisms supporting these families. For example, among black single mothers, the availability of social support from kin and the community is often more prevalent because single parenting is more normative.

Economic Stress and Marriage

When two people marry, they bring with them their individual attitudes, values, and behaviors toward money. As a result, a common and frequent area of conflict among couples is money, and marital problems are more likely to be experienced by those who disagree about finances. Furthermore, conflict among married couples is lowest when they share control over financial decision, without one partner dominating. Dynamic elements of the decision-making process include spousal contribution to the budget, the level of involvement, interest and expertise in the purchase, and who was most influential in previous purchasing decisions. Happily married couples have been found to agree more often and to be less hostile and more cooperative.

When couples employ systematic money management strategies, conflict during tough financial times can be reduced or eliminated. For example, the frequency of financial arguments is reduced when couples use financial management strategies such as record keeping, goal-setting practices, and savings. Furthermore, disagreement over family finances has been positively associated with the frequency of communication for both men and women, with greater levels of communication associated with decreased intensity of disagreements over finances. Disagreement over family finances for men has been associated with their own management practices; men who engage in proactive financial management activities experience less intense disagreements. Money in U.S. society is a highly personal topic that makes communication about finances a difficult challenge. For example, remarried couples have been found to be reluctant to discuss their finances prior to marriage; this is true even among individuals who identified money as a major source of disagreement contributing to their previous divorce.

Stress from family finances affects marital quality—a concept generally indicating happiness and satisfaction with marriage. When a couple faces economic hardship, the quality of the marital relationship often declines. Economic loss results in increased financial disputes and thus greater marital tension and discord. Economic loss is related to an increase in the negative exchanges and a reduction in the positive exchanges that occur between spouses. For example, financial strain among unemployed couples affects the marital relationship through spousal withdrawal of social support and social undermining. Economic strain increases husbands' hostility and decreases their supportiveness and warmth. Other reactions to economic stress in interpersonal relationships include lowered self-esteem and competitiveness between spouses.

Some couples are more resilient to economic stress than others. As previously mentioned, the exchange of supportive behaviors between couples eases the tensions related to economic stress. Effective problem-solving skills among couples under economic pressure also help reduce marital conflict and thus marital distress. Couples involved in a satisfying marital relationship have been found to more successfully cope with financial difficulties. For examples, couples that had strong marital bonds prior to the depression were better able to successfully adapt to economic pressure. It also has been found that money management strategies can improve marital quality; for example, newlywed couples who use financial goal-setting practices and strict record keeping are more satisfied with the marriage.

Marital stability, characterized by the duration of a marriage, also has been correlated with economic factors. Across several studies, various factors have been negatively related to marital disruption. For example, individuals with greater levels of education may be better equipped (e.g., have better problem-solving skills) to handle the stress associated with financial strain. Money management among couples has also been associated with marital stability. Greater commitment is found among couples that pool

their finances rather than keep their accounts separate. The majority of married couples prefer to pool their financial accounts; 10% or less prefer separate accounts.

Economic Stress and Family Relationships

The detrimental effect of economic stress on family functioning and family relationships has been well documented. Economic stress has been found to decrease family satisfaction and cohesion. However, how well families cope is influenced by how they define their economic situation; the greater the perceived economic hardship by family members, the poorer the family relationships.

Parent experiencing economic stress may find that the quality of their parenting suffers. Parental well-being is affected by economic stress, which influences parenting behaviors, child-rearing practices, and the quality of parent-child interactions. For example, economic stress affects parenting practices by reducing affective support, increasing inconsistent and arbitrary discipline, and lowering levels of supportiveness. Levels of maternal warmth and social support and the provision of child learning experiences in the home are negatively affected by economic stress.

Economic stress has been associated with specific child outcomes, both short and long term, as a result of limited resource, limited opportunities, and diminished human capital development. Children who experience economic stress have greater levels of depression, more impulsive and antisocial behaviors and decreased levels of self-esteem. Fathers' negativity resulting from economic pressure increases children's risk of depression and aggression, whereas maternal financial stress decreases the quality of the mother-child relationship, resulting in greater levels of depression and loneliness. Adolescents who regularly worry about the family's financial condition more frequently report suffering from various somatic complaints, including stomachaches, loss of appetite, depression, sleeplessness, and lack of concentration. In addition, compared with other types of stress (e.g., school, social, health, and so on), economic stress is the most strongly related to the adolescent's self-perceived health. Adolescents' perception of their relationship with their parents also is negatively affected by economic stress, because parents and children frequently disagree about control over money. In contrast, adolescents' agreement over family finances increases their satisfaction with family life and their own money management skills.

Economic stress within the family system amplifies the fragility and interdependence of each member. The dynamics of a family under stress has several qualities; individual members of the family system (mother/wife, husband/father, and child) are affected directly by economic stress and will adapt according to the personal and social environment and resources. For example, unstable work may increase the depression or unhappiness of a single mother if she lacks adequate social support or if the unstable work increases her preexisting feelings of self-doubt. In addition, the way an individual functions in relationships may be altered as a result of economic distress. For example, a husband who is laid off may displace his individual hostility and anger into arguments with his wife. Under economic stress, alterations in the roles and responsibilities of family members may also occur. If a family experiences an income loss, other family members may be required to contribute household resources by engaging in the role of earner. With a loss in income, families may have to reduce consumption; for example, leisure activities may be suspended.

Coping With Normative Economic Stressors

Financial planning, when used by individuals and families, can decrease family vulnerability and exposure to economic stress. Keeping pace with inflation and balancing work and family have been identified as the primary normative economic stressors facing American family financial managers. Today, as the baby boom cohort approaches and moves into their 50s, financial decisions of families are likely to be dominated by concerns over adequate savings for retirement and children's education.

In the life-cycle model developed by Ando and Modigliani (1963), families are assumed to maximize lifetime satisfaction by spreading their consumption and income over family states. Such a life-cycle model of balancing high- and low-income periods with saving and investing is designed to increase a

family is satisfaction and decrease economic stress. The consumption path that results over time is expected to be smooth and stable, for the family maintains a standard of living with the use of savings during low-income periods.

The family economic life cycle can be described in three key stages identified by the relationship between expenditure and earning levels. First, in the family formation stage, families are expected to accumulate debt through the use of installment and consumer credit to meet expenditures that exceed earnings. In the second stage, as household heads approach peak earning years, families plan to accumulate wealth in anticipation of a substantial decrease in earned income. Reduced or stabilized expenditures and income that exceed expenditures mark this second stage. In the third stage, consumption expenditures are again expected to outpace earnings as families tap saving and investments for expenditures in retirements.

Actual consumption patterns, however, are often affected by changing family needs and wants, situational stressor, and significant historical events. Thus the pure life-cycle saving approach to family spending and saving patterns in many cases has not proved to be a valid depiction of actual household behavior, in fact, most empirical tests of the model refute the life-cycle saving hypothesis. Part of the gap between the theory of household resource allocation over time and actual resource allocation is explained by the nonnormative factors that are so prevalent among American families, including unanticipated unemployment, divorce, casualty losses, and unanticipated health care expenses. Regardless of the lack of empirical support, the life-cycle planning perspective continues to serve as a useful tool in building a financial foundation for coping with both normative and situational economic stressors.

A basic life-cycle savings model predicts that spending will outpace income in the household formation stage as a result of the purchase of a home and the expenses of child rearing. During this period, families accumulate significant amounts of debt. Planning for the payment of and worrying about the possible default on this debt could easily become a source of stress within many families. As income increases with workplace experience and household formation nears completion, immediate financial demands are expected to subside and families have an opportunity to accumulate savings and pay off debt accumulated in the formation state. During these peak earning years, however, many families are challenged by the repayment of accumulated debt, college education expenses, and deferring the proper amount of consumption toward a period of anticipated reduced earnings in retirement. Families use tax planning, investment, and asset protection strategies to move assets from one point in the life cycle to another. Unfortunately, the complexity of these financial strategies can often become the source of additional economic stress in families. At the end of the family financial life cycle, families face the problem of living on reduced incomes and distributing excess assets among family members and/or favorite charities. These wealth transfers, and planning for them, can easily become an additional source of family stress and conflict through competition for assets.

Based on this family economic life-cycle model, normative economic changes facing American families can be anticipated and addressed. Sound financial planning strategies allow families to avoid and/or relieve much of the stress involved in financial transitions. Overall, the level of stress and financial dissatisfaction experienced by a family encountering a normative live event is largely determined by the level and management of resources available to a family, implying that the ability to obtain and manage resources can lessen the impact of stressor events. A strong relationship exists between measures of financial well-being and improved financial management skills, including cash management and the use of futuristic planning style. The following guidelines for dealing with economic stress over the three financial life-cycle states are based on a general financial planning model emphasizing goal setting and evaluation of progress toward these goals.

Phase 1: Debt Accumulation

Families in the household formation stage typically make up 30% of the U.S. population, yet they hold nearly 60% of the debt. Nearly 9 out of 10 American household heads under the age of 45 hold some form of debt, whereas only 3 out of 10 over the age of 75 hold any debt. A key measure of financial

distress used in the financial service industry is the frequency of late payment made by credit users. For families with heads younger than 45, about 8% report making debt payments of at least 60 days late. For families with heads older than 54, frequency of late payments is closer to 4%.

Of the various types of debt identified by the purpose and source of the funds borrowed, the most threatening to the long-term financial well-being of the family is high-interest consumer credit used to purchase nondurable goods and services. These nondurable goods include items that typically do not last longer than the payment period and yield no economic return while being held. Going out to dinner on the high-interest credit card is the classic example. Of all credit-card holders, 48% carry an outstanding balance on their cards, with an average balance of \$1,500. The average American household head has 9 credit cards, including bank, gas, retail, and phone cards. With these cards, Americans are expected to charge more than \$830 billion in the year 2000, nearly twice what were charged in 1990. Because of these debt levels, it is not surprising that the rate of personal bankruptcies is at an all-time high. A total of 1,378,071 nonbusiness bankruptcies were reported for the year ending March 31, 1999, implying that nearly 1.5% of U.S. households filed for personal bankruptcy in the preceding year.

Financial satisfaction and credit practices and attitudes appear to be directly related. Families with higher debt-to-income ratios were less satisfied with their overall financial situation, whereas those using credit cards for convenience instead of installment purchases, and those comfortable maintaining large total amount of debt, were more satisfied with their finances. Furthermore, worries about debt repayment and meeting financial emergencies are associated with lower perceived levels of financial well-being.

Much of the stress that can come with debt can be avoided if families follow a plan of debt management. Surprisingly, research has found that lower-income newlyweds held more positive attitudes toward formal financial planning practices than their higher-income counterparts. Lower-income couples were shown to be more likely to budget and were more optimistic about their future prospects through the use of financial planning practices. As part of these practices, planning credit use requires (a) establishing credit goals or debt limits; (b) exploring, understanding, and making good choices between the various sources of credit; and (c) being able to make fair comparisons between the costs of different types of credit.

Financial ratios are commonly used as guides for manageable debt levels when setting credit goals. Debt ratios are also used as indicators of families at risk of default and bankruptcy. The most commonly used debt ratios are the debt-to-income ratio and the debt-to-equity ratio. The debt-to-income guideline is usually set near 20%, implying that families can manage debt payments equal to one fifth of their take-home income. The debt-to-equity ratio is the ratio of total debt to net worth, not including any equity or debt related to the home. Both of these ratios will vary significantly throughout the family life cycle, and the usefulness of these measures is more in monitoring changes over time than as a point-in-time measure. For example, a very high debt-to-income ratio may reflect rational and planned use of credit for a college student; however, families running a continued long-term deficit may be headed for financial difficulties.

Once goals and tolerable debt levels are set, credit options and sources can be studied. Sources range from the most informal (relatives and friends) to the formal (bank or bank-like institutions). In the formal lending sector, banks and credit unions typically lend to average or better-than-average credit-risk individuals, forcing poor credit-risk individuals to use consumer finance companies that demand higher interest rates and fees. Historically, young, less educated, single-parent, and ethnic minority households have constituted the clientele for high-interest, high-fee-lending institutions—often known as part of the “alternative financial sector.” Sales financing companies are typically tied to the financing of a specific product (e.g., an automobile through GMAC) and cater to average or above-average credit-risk borrowers. Within the family, typically between parent and child, debt financing may provide a mutually beneficial opportunity.

Related parties considering a loan between one another will use different information than that used by a bank or lending institution. Certainly, these intrafamily financial arrangements are fertile ground for conflict and stress; however, if debt is managed using contractual arrangements similar to those in the formal sector, families stand to gain financially by lending money to each other.

Phase 2: Repaying Debt and Saving for Retirement

During the wealth accumulation stage of the family financial life cycle, when income is expected to exceed consumption, family financial managers plan to retire debt accumulated in the previous stage and invest any surplus in financial assets. During this stage in the family financial life cycle, families encounter economic stress as a result of not having adequate resources for (a) debt repayment or (b) meeting expenses such as children's college tuition and impending retirement.

Families burdened and stressed by debt repayment have limited options. For example, if the specific source of stress is a negative credit report, then there is little a family can do other than wait for the negative items to clear the report. Credit bureaus report negative information for 7 years and bankruptcy information for 10 years. Within these periods, companies offering "credit repair" services cannot erase negative items. Consumers do have the option of adding a written statement of up to 100 words to explain any negative information in their reports.

For families who are burdened with debt, the most important action is to accurately determine what is owed. Once a clear picture of the extent of the debt problem is drawn, families can allocate savings toward debt repayment, retiring the highest APR loans first, thus "investing" in the highest return assets earlier. This method of thinking of debt repayment in terms similar to saving for future financial goals helps financial managers justify an emphasis on debt repayment early in the financial life cycle, potentially relieving some of the stress involved in delaying savings for retirement and longer-range financial goals.

Nonprofit [legitimate] organization such as Consumer Credit Counseling Service (CCCS) can assist families with the debt management process. Typically, CCCS will help families reestablish payment terms for debt with payments that are more manageable. Often the counseling service will collect a lump sum payment and redistribute the payments of the family's creditors, thus relieving the stress involved in having direct contact with creditors. However, there are significant drawbacks to using such a management system. The process itself will likely be reported as a negative event in credit bureau files, and participants must agree to discontinue any use of credit while in the debt management process.

As families struggle to retire debt from the formation stage, they encounter significant additional educational expenses as children approach college age. The education spending pressures have risen steadily over the past two decades as tuition increase have consistently outpaced increases in wages. The collective hopelessness is expressed in families' unwillingness to even plan for and begin saving for a child's education. A research study found that only 28% of households with children under the age of 18 had saved anything for education goals.

The competing pressures families face in planning for their retirement and the college education of their children finds about 25% of all families using retirement assets to pay for college expenses. College-educated parents with at least two children in college were more likely to use retirement savings to pay for college costs; higher-income families were least likely to tap retirement funds for education. In a household survey, 58% reported that they wished they had started saving sooner for retirement.

Recent empirical studies of the adequacy of retirement savings consistently find that American families are under financing their retirement. These families will need to either increase savings or reduce living standards below expected levels upon retirement. It is estimated that only 52% of household are on track for retirement at preretirement consumption levels. However, the adequacy of retirement savings varies significantly across many demographic groups. For example, only 39% of black, non-Hispanic household and 40% of households headed by unmarried women were found to be adequately prepared for retirement. Another study found that those most adequately prepared for retirement were families headed by white males with longer planning horizons who owned financial assets and planned to retire at or after age 65. Studies show that American families need to save an additional 16% of preretirement earnings to maintain standards of living at preretirement levels.

The formal process of retirement planning is outlined by Garman and Forgue and can be used to determine adequate levels of savings to meet retirement spending needs. As with all financial planning prescriptions, the process begins with goal setting. Goals are set based on income needs in retirement. Once an income level is set, current retirement resource available to the family can be evaluated. These sources typically come from anticipated Social Security benefits, employer-provided benefit pensions, and personal savings and/or resources in defined contribution retirement plans.

Once anticipated retirement resources are evaluated, they are subtracted from retirement needs and a savings gap is estimated. Additional annual contributions needed to fill this gap are then calculated, and investment decisions are made to match individual investor risk-tolerance levels and specific financial goals in retirement. In this final part of the retirement planning and saving process, a wide range of tax, investment, and insurance planning tools are available to families. It is at this point that many of the complexities of the financial planning process are presented to the family financial manager. In fact, the sheer breadth of the field of financial planning appears to be a source of economic stress in families. The lack of financial education and understanding about financial matters is a significant determinant of financial strain. It has been shown that those receiving professional advice about finances and retirement are more satisfied with their current financial situation.

Phase 3: Living in Retirement and Planning for Intergenerational Transfers

A recent survey reports that 41% of individuals found adjusting to retirement to be a financially difficult process, whereas only 12% of newlyweds and 23% of new parents reported difficulties with financial adjustments. Whether or not retirement is perceived as a negative life event has been found to depend on the characteristics of the retiree. Retiree characteristics found to be predictive of a stressful retirement include lower socioeconomic status, less education, inadequate income, and poor physical and mental health. Retirement was perceived as most stressful for those who experienced a significant financial decline after work stoppage, classifying retirement as a burdensome event.

However, for the majority of currently retired American, financial stress and dissatisfaction levels appear to be minimal when compared with those in other stages of the family financial life cycle. Compared with young and employed Americans, retirees have been shown to pay closer attention to their long-range financial plans. Researchers found retirees, in comparison with other age groups, to be least likely to use formal or informal written budgets; however, these same retirees were found to be most likely to have a budget that covered a period longer than 1 month.

A significant family stressor in retirement may be the lack of preparation for widowhood. One study found that more than half of widowed women (60%) had not discussed the management of their finances with their husband prior to his death, leaving them relatively unaware of their financial position and experiencing higher levels of stress and dissatisfaction with finances.

From infancy to early adulthood or longer, family members depend on the transfer of resources among each other. Certainly, intergenerational transfer from parent to child is greatest when the child is still dependent and not involved in market activity. However, this relationship has been shown to extend even further. Investigations into the pattern of parental support to children across the life span maintain that parents contribute financial support well into later life, yet support does decline with age. Data from the National Survey of Household and Families examines the trajectory of support from parents to children and shows an increased likelihood of children receiving financial support during their early to late 20s; however support continuously declined throughout adulthood. In addition, children were found to turn to parents during times of economic stress, with well over half of respondents through age 45 naming a parent as someone they would call in case of a financial emergency. The nature and extent of young adults' dependence on financial support from parents is dependent on several factors. Child dependence on parents has likely increased because of delay marriage and prolonged college attendance; however, higher levels of maternal employment and divorce have cut short the resources available to adult children, resulting in decreased dependence.

Stress resulting from the estate planning or the intergenerational transfer portion of a family financial plan likely comes directly from (a) the perceived legal complexities associated with asset transfers before and after death and (b) the changing roles of family members in the financial management process. The goal of estate planning is to maximize the compliance with the decedents' wants while minimizing the erosion of wealth through taxes and transaction costs.

The assistance of competent and honest financial and legal professionals is more critical in the estate planning process than in any other state of the family financial life cycle. A solid estate plan will result from the integration of legal documents drafted in conjunction with the decedent's asset allocation and desired asset distribution upon death. These legal documents also will need to be periodically recast to address changes in tax policies, family structure, and family assets. Dealing with the economic property of a deceased or aging family member can easily become a stressor among surviving family members. However, as with the challenges faced in other financial life-cycle stages, financial planning can be used as an effective means of relieving family economic stress.

Summary

Economic stress exacts many social and psychological costs on the quality of individual and family life. Family financial planning is a general preventive strategy that can help reduce these social and psychological costs, thereby enhancing the well-being of family life. With the impending move of the baby boom cohort through the Social Security system as many retire, the need for sound and secure family financial planning is critical. Furthermore, with an increasing proportion of the population anticipating bequests, inheritance will provide new opportunities and challenges for family dynamics. With preventive planning and preparation, these family financial issues can be disposed of. Among those who do not plan and prepare, programs and policies can intervene in an effort to maintain the quality of family life.

Fox, Jonathan, J., and Suzanne Bartholomae. *Families & Change – Coping with Stressful Events and Transitions*, 2nd ed., pages 250 – 271.

Please see the book for a complete list of references and citations.

