The Psychology of Personal Finance:

What Research Tells Us About The Financial Health of Psychologists & Their Clients and Why It Matters

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Financial Therapy: Theory, Research and Practice

- Published 2015
- 20 Chapters, 32 Contributors
- Cognitive-Behavioral Financial Therapy
- Solution-Focused Financial Therapy
- Feminist Financial Therapy
- Humanistic Approaches to Financial Therapy
- Acceptance and Commitment Financial Therapy
- Psychodynamic Financial Therapy
- Systemic Financial Therapy
- Stages of Change and Motivational Interviewing in Financial Therapy
Studies


Money & Psychology

- Money no. 1 stressor (APA, 2007-2014)
- Financial strain associated with depression, anxiety, low self-esteem, and poor health, role-functioning, and work performance (Krause, et al., 1991; Price et al., 2002)
- Money is perhaps the most ignored subject in the practice, literature, and training of psychotherapy (Trachtman, 1999; Klontz, Bivens, Klontz, Wada, & Kahler, 2008).
Sigmund Freud

- The most extensive symbolic connection is between interest in money and defecation (Freud; Character and anal eroticism)

- Freud advocated for treating patients’ money complex

- However, with regard to his own father’s financial difficulties, Freud “preferred to suppress rather than explore their impact on him” (Trachtman, 1999, p. 283)
Money & Psychologists

• Uneasiness re: accepting fees from clients (Herron & Welt, 1992; Monger, 1998: Shields, 1996)

• Education does not include practice management, including business or finance (Klontz, Kahler, & Klontz, 2008).

• When we “can not address our own money problems, we also can’t control our own countertransference reactions to our patients’ money or their money related attitudes and behaviors” (Trachtman, 1999).
Money & Psychologists

• More likely to be *money avoidant* and engage in *financial denial behaviors* (Klontz & Britt, 2012).
“Hey wait a second”…

• “I’m a psychologist, not a financial planner. I’m not qualified to work with people around money, right?”

• The two biggest problems around money are self-destructive behaviors. Financial expertise is not necessary:
  1. Spending more than you make
  2. Not saving for the future

• Why are these problems?
  – Distorted beliefs & disordered behaviors
Klontz Money Script Inventory (KMSI)

Money Avoidance

- Money avoiders believe that money is bad or that they do not deserve it. They believe that wealthy people are greedy and corrupt, and that there is virtue in living with less money. Avoiders may sabotage their financial success or give money away in an unconscious effort to have as little as possible. Money avoidance is associated with ignoring bank statements, increased risk of overspending, financial enabling, financial dependence, hoarding, and having trouble sticking to a budget.

Money Worship

- At their core, money worshipers are convinced that the key to happiness and the solution to all of their problems is to have more money. At the same time, they believe that one can never have enough. Money worshipers are more likely to have lower income, lower net worth, and credit card debt. They are more likely to spend compulsively, hoard possessions, and put work ahead of family. They may give money to others even though they can’t afford it or and be financially dependent on others.

Money Status

- Money status seekers see net-worth and self-worth as synonymous. They pretend to have more money than they do, and as a result are at risk of overspending. They believe that if they live a virtuous life, the universe will take care of their financial needs. They tend to grow up in families with lower socioeconomic status. People with money status beliefs are more likely to be compulsive spenders or gamblers, be dependent on others financially, and lie to their spouses about spending.

Money Vigilance

- The money vigilant are alert, watchful, and concerned about their financial welfare. They believe it is important to save and earn as much money as possible to avoid financial stress. They are less likely to buy on credit. They also have a tendency to be anxious and secretive about their financial status. While vigilance encourages saving and frugality, excessive wariness or anxiety could keep someone from enjoying the benefits and sense of security that money can provide.
### Demographic Correlations

<table>
<thead>
<tr>
<th></th>
<th>Age</th>
<th>Gender</th>
<th>Race</th>
<th>Marital Status</th>
<th>Education</th>
<th>Gross Income</th>
<th>Net Worth</th>
<th>Childhood SES</th>
<th>Revolve Credit</th>
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<tbody>
<tr>
<td>Avoidance</td>
<td>-0.30***</td>
<td>NS</td>
<td>0.13**</td>
<td>0.17***</td>
<td>-0.13**</td>
<td>-0.23***</td>
<td>-0.22***</td>
<td>NS</td>
<td>NS</td>
</tr>
<tr>
<td>Worship</td>
<td>-0.33***</td>
<td>NS</td>
<td>0.16**</td>
<td>0.18***</td>
<td>-0.10*</td>
<td>-0.13**</td>
<td>-0.24***</td>
<td>NS</td>
<td>-0.16**</td>
</tr>
<tr>
<td>Status</td>
<td>-0.20***</td>
<td>NS</td>
<td>0.19***</td>
<td>0.11*</td>
<td>-0.13*</td>
<td>-0.13**</td>
<td>NS</td>
<td>0.10*</td>
<td>NS</td>
</tr>
<tr>
<td>Vigilance</td>
<td>NS</td>
<td>NS</td>
<td>NS</td>
<td>NS</td>
<td>NS</td>
<td>NS</td>
<td>NS</td>
<td>NS</td>
<td>0.10*</td>
</tr>
</tbody>
</table>


### Table 2: Unstandardized Beta Estimates for OLS Regression Results Predicting Behaviors from Scripts

<table>
<thead>
<tr>
<th></th>
<th>Buying</th>
<th>Gambling</th>
<th>Hoarding</th>
<th>Workaholism</th>
<th>Dependence</th>
<th>Enabler</th>
<th>Denial</th>
<th>Infidelity</th>
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<tbody>
<tr>
<td>Avoidance</td>
<td>0.22***</td>
<td></td>
<td>0.24***</td>
<td>0.15**</td>
<td>0.15***</td>
<td>0.12***</td>
<td></td>
<td></td>
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<tr>
<td>Worship</td>
<td>0.37***</td>
<td></td>
<td>0.17*</td>
<td>0.28***</td>
<td>0.08**</td>
<td>0.14***</td>
<td>0.26***</td>
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<tr>
<td>Status</td>
<td>0.20**</td>
<td>0.13***</td>
<td></td>
<td>0.11**</td>
<td></td>
<td>-0.10*</td>
<td></td>
<td>0.08***</td>
</tr>
<tr>
<td>Vigilance</td>
<td>-0.21**</td>
<td>-0.07**</td>
<td></td>
<td></td>
<td></td>
<td>-0.23***</td>
<td>-0.05**</td>
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<tr>
<td>Adjusted R²</td>
<td>25%</td>
<td>8%</td>
<td>10%</td>
<td>10%</td>
<td>9%</td>
<td>11%</td>
<td>20%</td>
<td>5%</td>
</tr>
</tbody>
</table>

*p < 0.05, **p < 0.01, ***p < 0.001 (non-statistically significant betas not shown)*

Money Avoidance

- N = 68 psychologists (2012)
- “Money corrupts people.” (56%)
- “There is virtue in living with less money.” (33%)
- “People get rich by taking advantage of others.” (31%)
- “Rich people are greedy.” (23%)
“Rich people are greedy.”

“People get rich by taking advantage of others.”
Prejudice Toward the Wealthy?

• Wealthier people have less compassion for the suffering of others (Stellar, Manzo, Kraus, & Dacher, 2012)

• Individuals from upper class families can be uncomfortable identifying themselves as such due to negative stereotypes of upper class privilege (McDowell et al., 2013)
Prejudice Towards the Wealthy?

• King James Version of the Bible
  – The love of money is the root of all evil (I Timothy 6:10)
  – It is easier for a camel to go through the eye of a needle than for a rich man to enter the kingdom of God (Matthew 19:24)
Why do we hate rich people?

1) Money ambivalence & cognitive dissonance
   - Money avoidance and money worship: $r = 0.45$
     (Klontz, Britt, Mentzer, & Klontz, 2011)
   - Simultaneous (+) and (-) feelings toward money
   - Creates psychological distress and efforts to ignore disconfirming evidence
Why do we hate rich people?

2) The Psychology of Envy (Smith & Kim, 2007)

– Feelings of hostility, inferiority, and resentment triggered when we are aware of someone else enjoying a desired attribute, possession, or quality
– View target as underserving
– Worse when quality/possession is linked to our own self-esteem
– Most vulnerable to envy when we share one or more attributes (such as gender or race) with the target of our envy (Festinger, 1954)
Why do we hate rich people?

3) The theory of relative deprivation
   - Life satisfaction is not based on objective reality but circumstances relative to others
   - Strong predictor of prejudice
   - Unfavorable comparisons $\rightarrow$ feelings of deprivation $\rightarrow$ feelings of hostility (Dambrum et al., 2006)
   - Higher levels of affluence in one’s reference group associated with higher levels of relative deprivation, anger, and violence (Bernburg, Thorlindsson, & Sigfusdottir, 2009)
The Financial Health of Mental Health Professionals

• **Purpose**: explore the relationship between financial health and occupation

• **Sample**: 264
  - 66% female
  - 60 married
  - $104,345
  - 76% White
  - 50 years old
  - Middle class in childhood
  - 41% were mental health professionals (approx. 20% were psychologists)
  - 49% were “other” professions
Klontz-Britt Financial Health Scale

- Global Financial Health (30 items)
  - “I am investing money for the future”
  - “The way I manage money is consistent with my values, goals, and dreams”
  - “My spending is under control”
  - “I believe my family functions well around money”
  - “I pay off my credit cards each month”
  - “I have a spending plan”
  - “I have a financial advisor”
K-BFHS

• Money Disorders (15 items)
  – “I often spend more money than I can afford to spend”
  – “No matter how hard I try I can’t stick to a budget”
  – “I feel guilty about how I have handled my finances”
  – “I avoid thinking about money, retirement, and my financial future”
  – “I obsess about financial matters”
  – “There is conflict in my family around money”
  – “I let others take advantage of me financially”
• Risk Planning (2 items)
  – “I have a plan to secure money in case I become ill or disabled (e.g. disability, long-term care insurance)”
  – “I have a plan for meeting my financial goals in the event something happens to me”

• Self-Care (3 items)
  – “I let myself take vacations”
  – “I allow myself time to play”
  – “I feel comfortable spending money on myself”
Other Predictor Variables

- Klontz Money Script Inventory (KMSI)
  - Money Avoidance
  - Money Status
  - Money Worship
  - Money Vigilance

- Satisfaction with Life Scale (Diener, et al., 1985)

- Occupation & other demographics

- Financial Status
  - Income
  - Net worth
  - Subjective financial knowledge
  - SES in childhood
Analysis

• OLS regression to determine predictors of financial health with special focus on mental health occupation
Global Financial Health

• MH professionals significantly less likely to report good financial health
• Asian-Americans reported better financial health
• Life satisfaction positively related to financial health
Money Disorders

- MH professionals scored significantly higher on the money disorders scale
- Positively associated with money status beliefs
- Negatively associated with maleness (Gender Socialization and Money), net worth, financial knowledge, and life satisfaction
Risk Planning

- Positively associated with *money vigilance*
- Negatively associated with *money worship* beliefs
- Positively associated with income, net worth, financial knowledge, and life satisfaction
- Asian-Americans report higher risk planning scores compared to Whites and other races
Self-Care

• Associated with higher net worth and higher life satisfaction
• Not associated with profession
Psychologists & Money

• More likely to hold money avoidant beliefs, including money is bad, rich people are greedy, and there is virtue in living with less money (Klontz & Britt, 2012)

• More likely to engage in financial denial behaviors, including trying to avoid thinking about money, avoiding looking at their financial statements, and try to forget about their financial situations (Klontz & Britt, 2012)
Psychologists & Money

- More likely to report poorer global financial health
- More likely to report self-destructive financial behaviors
- The avoidance of money issues by mental health professionals could be associated with a desire to avoid one’s own financial stress (Trachtman, 1999; Klontz et al., 2008)
The Wealthy: A Financial Psychological Profile

• Purposes of Study:
  – Examine the financial psychology of the wealthy
  – Explore common stereotypes associated with the wealthy
  – Inform professionals who work with the wealthy
  – Inform those who aspire to be wealthy

• 1,010 respondents recruited from financial advisory firms
Personality & Financial Health

• **Conscientiousness**: higher income (e.g. Mueller & Plug, 2006), entrepreneurial intention (Zhao, Sibert, & Lumpkin, 2010), **good job performance** (Almlund et al., 2011) and academic success (Chamorro-Permuzic & Furnham, 2003)

• **Emotional Stability**: higher income (Mueller & Plug, 2006) and **job performance** (Almlund et al., 2011)
Personality & Financial Health

- **Openness to Experience**: higher income (Mueller & Plub, 2006)
- **Internal LOC**: higher income and wealth (Zagorsky, 2007), rates of reemployment after a job loss (Gallow, et al., 2003), better spending control (Perry & Morris, 2005).
Stereotypes of the Wealthy

- They went to private high school
- They are “trust fund babies”
- They didn’t earn their money, it was given to them
- They are “old money”
- They are reclusive
- They have chauffeurs & private chefs
- They don’t want to pay their fair share of taxes
The Wealthy: A Financial Psychological Profile

• Wealthy:
  > $370,000 yearly income and/or
  > $2.5 million in net worth

• Wealthy
  – 178 respondents
  – Avg. net worth = $10.7 million (median = $2.2 million)
  – Avg. income = $271,000 (median = $150,000)

• Mass Affluent
  – 832 respondents
  – Avg. net worth = $582,000 (median = $500,000)
  – Avg. income = $88,000 (median = $70,000)
Demographics of the Wealthy

• 75% attended public high school (vs. 81%)
• 57% worked full time (vs. 53%)
• 32% retired (vs. 38%)
• 58% at current SES for 1 generation (vs. 48)
• Only 15% at current SES for 3+ generations (vs. 21%)
The Psychology of Wealth

- Sig. lower *money avoidance* scripts
- Sig. higher *money status* scripts
- Higher (non-sig) levels of *money worship* and *money vigilance* scripts
- Internal LOC
- Higher levels of financial knowledge and financial satisfaction
- Lower levels of financial stress
- Higher levels of life satisfaction
- Higher levels of confidence in investing abilities
- More likely to admit to one or more major investing mistakes
The Psychology of Wealth

• Lower levels of loss aversion
• No sig. difference in levels of tax aversion
• More likely to attribute financial success to”
  – A fundamental drive to increase net worth, and
  – A commitment to follow their passions
• No sig. difference in financial dependence (aka trust fund dependence)
• No sig. difference in degree of interactions with neighbors (both groups rarely do so)
## Dollar Costs of Recent Expenditures

<table>
<thead>
<tr>
<th>Expenditure</th>
<th>Wealthy</th>
<th>Mass Affluent</th>
</tr>
</thead>
<tbody>
<tr>
<td>House</td>
<td>$542,000</td>
<td>$263,000</td>
</tr>
<tr>
<td>Car</td>
<td>$40,000</td>
<td>$27,000</td>
</tr>
<tr>
<td>Vacation</td>
<td>$8,300</td>
<td>$4,200</td>
</tr>
<tr>
<td>Watch</td>
<td>$1,090</td>
<td>$440</td>
</tr>
</tbody>
</table>

Significant differences in all categories at p<.001 (t-test for equality of means)
Household and Family Service Providers (employed in past 12 months)

<table>
<thead>
<tr>
<th>Support Service</th>
<th>Wealthy</th>
<th>Mass Affluent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accountant</td>
<td>87%***</td>
<td>63%</td>
</tr>
<tr>
<td>Attorney</td>
<td>69%***</td>
<td>51%</td>
</tr>
<tr>
<td>Financial Planner</td>
<td>90%*</td>
<td>85%</td>
</tr>
<tr>
<td><strong>Personal Chef</strong></td>
<td>6%</td>
<td>2%</td>
</tr>
<tr>
<td>Nanny</td>
<td>6%</td>
<td>3%</td>
</tr>
<tr>
<td>Physical Trainer</td>
<td>39%***</td>
<td>24%</td>
</tr>
<tr>
<td>Life/business coach</td>
<td>24%**</td>
<td>16%</td>
</tr>
<tr>
<td>Landscaper/gardener</td>
<td>71%***</td>
<td>43%</td>
</tr>
<tr>
<td><strong>Driver</strong></td>
<td>13%***</td>
<td>4%</td>
</tr>
<tr>
<td>Educational Tutor</td>
<td>7%</td>
<td>5%</td>
</tr>
</tbody>
</table>

*p<.10, **<.05, ***<.10 (chi-square tests)
In Conclusion…

• Money is the no. 1 stressor in the lives of our clients (assess for it)
• Psychologist are at risk for having negative beliefs about money/wealth and lower levels of financial health
• Psychological factors are associated with financial health
• Money beliefs predict financial behaviors and outcomes
• Psychologists are experts at changing beliefs and behaviors (self & clients)
  – Treatment of disordered money behaviors
  – Stress reduction/problem-solving
  – Referrals: FIDUCIAIRIES ONLY
    • Broker-Dealers are NOT FIDUCIARIES
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