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Mindfulness in Financial Literacy

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Abstract

Financial therapy mixes financial literacy with therapeutic modalities. In this paper, mindfulness is introduced as a therapeutic modality that can be used to implement financially prudent life decisions. The authors tie together financial tasks with three mindfulness strategies and the stages of readiness to change paradigm. The three strategies are intentionality, focused attention, and accepting attitudes. Financial therapists are urged to present mindfulness strategies when teaching clients about basic personal finance, especially as it relates to sustainable and efficacious lifestyles. The authors observe that financial tasks are best introduced at different stages of change to allow for increased motivation in attempting increasingly difficult financial tasks.

*Keywords:* Mindfulness, financial literacy, behavioral economics, financial capacity
Mindfulness and Financial Therapy

Financial literacy has received extensive attention in recent years as a set of essential skills for all sectors of society. Increasing cash flow, accumulating assets, and reducing debt are all cited as being necessary to succeed in personal finance (c.f., Richards & Thyer, 2011). Economic crises in the last decade have highlighted the urgent need for people to become conversant in these skills. Without these skills, people are likely to fall victim to financial predators that abound in every sphere of life. Nor are these predators confined to shadowy individuals who are involved in identity theft.

In fact, some of the worst financial predators have come from banking and insurance industries. Federal regulators have provided little protection from the excesses of executives who seek fortune. While promising economic security, executives have embarked on risky avenues of asset accumulation that failed and left countless clients destitute. Although there are no guarantees that a person will be completely defended from such predators, financial literacy skills give individuals a fighting chance.

There is no short supply of published books, online resources, and community presentations on financial literacy. On the contrary, the surfeit of materials available to consumers can be overwhelming. Any casual perusal of bookstores reveals popular authors who all promise remediation of personal finance crises. These guarantees are buttressed by anecdotes of amazing success stories. In addition, personal finance television personalities provide entertaining and helpful advice to callers who are in crisis. Many callers also describe interpersonal conflicts that arose from familial disagreements on some aspect of personal finance.

When the term “personal finance” is typed into any search engine, literally thousands of entries are listed as a result. With the surfeit of information, both accurate and not, it is not surprising that a consumer may not understand how to become financially literate. Within the social science arena, one common piece of advice is to seek empirically supported intervention models. By relying on validated personal finance intervention models, consumers can have confidence that claims of efficacy from those models rely on more than implausible anecdotes or entertaining asides.

However, outcome studies of personal finance models have not given readers much guidance. In fact, financial literacy campaigns and interventions have been marked by uneven outcomes. When there were positive outcomes, the results tended to be minimal (c.f., Braunstein & Welch, 2002). They found that there was not enough information to conclude that financial literacy programs were effective. Thus, although we cannot say that literacy programs are ineffective, neither can we say that they are effective; past efforts have revealed no conclusive evidence of success. Further, the literature on financial literacy is confusing because many writers on the subject are not behaviorally specific in their descriptions. The major culprit in analyzing financial literacy may be its definition and measurement (c.f., Huston, 2010). Huston observed that financial literacy has two components: financial knowledge and its application. Huston’s contention is that knowledge alone does not constitute financial literacy. She believes that financial literacy consists of applying the knowledge versus a more fundamental education of the principles of personal finance.

Many personal finance skills are simple and do not involve sophisticated or extensive training. Issues around investments, insurance, estates, and other complex topics are best addressed with a well-informed and experienced personal finance expert. By contrast, strategies
focused on increasing savings, reducing debt, and eliminating wasteful spending are more easily learned and implemented. Extensive educational programs are not necessary to make financially responsible decisions. Although the texts on financial literacy differ greatly on the scope of what should be included, there is general agreement on several basic skills or tasks. Five tasks that build on elementary principles of personal finance include articulating goals, collecting and compiling documents, establishing a budget, identifying heuristics, and forming a plan.

**First Task: Setting Goals**

As a financial task, goals consist of consensual decisions on what a person, couple, or family desires from life. It is a planful decision with significant consequences. Questions around lifestyle, commitment, expenses, and career choice all play into discussions in setting goals. Establishing common goals is, of course, a dynamic exercise in which they are consistently measured and reevaluated given exigent circumstances.

**Second Task: Collect and Compile Financial Documents**

The second task is to collect and compile financial documents. The forms can consist of invoices, bills, checks, or anything that pertains to the use and accumulation of money. They provide the mosaic from which a snapshot of a person’s personal finance emerges.

**Third Task: Identify Heuristics of Financial Decision-Making**

The third task is an analytic and requires the identification of conscious and unconscious heuristic decisions (Langabeer, 2007). These rules are in place for making purchases and for accumulating assets. For example, one financial guru advocates a financial heuristic that takes the form of “avoid debt at any cost.” However, applying financial heuristics indiscriminately presents a conundrum to consumers. Avoiding debt in purchasing a house or car may not be possible and, in fact, may be a necessity. Thus, identifying heuristics requires insight into assumptions, values, or past experiences that influence financial decision-making.

**Fourth Task: Creating a Budget**

The fourth task, creating a budget, is a self-evident activity. Or is it? A budget can be viewed as a series of line items, each of which requires a decision on its inclusion. Not surprisingly, such decisions with their attendant conversations are fraught with potential for conflict.

**Fifth Task: Financial Planning**

The fifth and final task is financial planning. The first four tasks concern past and present personal finance; the fifth task is future-oriented. It requires guidance from established goals, use of financial documents, creation of a functional budget, and identification of heuristics. By using all four sources of information, a financial plan can be formed. Although the need for such plans is obvious, they are rarely written or implemented by consumers. Although they can involve intricate plans that include investments, insurance, estates, and tax management, they can also be relatively simple programs that only focus on spending, savings, and debt reduction. Whether simple or intricate, past programs have focused on programmatic content with little attention to consumers’ readiness to learn them. It is entirely possible that past interventions would have been successful if they had been provided to consumers who were ready to adopt them. Most programs provide intuitively reasonable strategies to reduce consumers’ financial difficulties.

However, as self-evident as these finance tasks may seem, they are more noted by their absence in people with financial problems. The problem may lie in clients’ readiness to change. Xiao and his colleagues (Xiao, Newman, Prochaska, Leon, Bassett, Johnson, 2004; Xiao & Wu, 2006; Xiao, O’Neill, Prochaska, Kerbel, Brennan & Bristow, 2004) outlined a process of change
for those faced with financial ruin. Using the transtheoretical theory of change, they proposed that there were five stages that face individuals seeking to change their personal finances: precontemplative, contemplative, preparation, action, and maintenance. Each stage represents the extent of readiness for change that a person has achieved. The insufficiency of a purely educational approach is apparent when applying the transtheoretical explanations of readiness for change to financially troubled consumers. This model suggests that an educational approach is only effective if the client is in an active stage of readiness. Pertinent here is Huston’s observation that additional knowledge alone will not result in increased financial literacy.

**Use of Mindfulness Strategies to Accomplish Financial Tasks**

The challenge comes in choosing intervention strategies that match the level of readiness to accomplish the five finance tasks. The choice of strategies should be able to address human frailties: envy, over- and underconfidence, fear, and so on. Thaler and Sunstein (2009) wrote an insightful book that outlined concepts of behavioral economics. This theory deviated from classical neo-economics, which described consumers as being hyper-rational, almost robotic in their financial decision-making. In contrast, Thaler and Sunstein observed that consumers acted in concert with their biases that led to unthinking and disastrous financial decisions.

It is likely that a consumer in a precontemplative state is beset with these normal biases. To overcome these biases and adhere to precepts of sound financial behavior, consumers need holistic interventions because financial decision-making affects all parts of people’s lives. These decisions influence everything from drinking an expensive cup of coffee to deciding on retirement options. Because of their widespread impact, significant changes in personal financial behavior are akin to a change in lifestyle. Holistic interventions that are multidimensional in scope are a means to change deeply ingrained lifestyles.

One promising alternative is to encourage clients to practice mindful financial planning and actions. When applied to financial planning, mindfulness assists consumers with thinking through its essential activities for them. With emotional upheaval attendant to facing financial disaster, it is not surprising that every act in financial planning and action becomes onerous. The remainder of this discussion will present the use of mindful strategies to accomplish different financial tasks at varying stages of readiness.

Mindfulness has its origins in Buddhist philosophy and traditions but has been extensively used in numerous settings in the United States. Mindfulness has been described in colorful and spiritual terms. Gonzalez and Byron (2009) use terms like “equanimity,” “concentration,” “clarity,” and “purification” to describe mindful meditation. Summed altogether, a regular course of meditation, well-articulated values and attitudes, and simple breathing activities are used to maintain a focused and planful lifestyle.

Mindful practice does not lend itself easily to a textbook of techniques. Although it has been associated with various breathing methods, it is also concerned with the adoption of specific values and attitudes and eliminating barriers. “Hindrances” is a term used to denote barriers to success. In this instance, it refers to obstacles to mindful functioning. Gonzalez and Byron (2009) refer to five hindrances as being 1) attachment, 2) aversion, 3) ignorance, delusion, and confusion, 4) envy and jealousy, and 5) pride. In this context, attachment refers to a drive to acquire and an unwillingness to let go. Aversion refers to the fear of losing what a person has in terms of status, material goods, and financial resources. The third hindrance is the inability or unwillingness to assess what currently faces the individual. The fourth hindrance is envy and jealousy, which are self-evident markers of unknowing and/or irrational competitiveness.
Finally, the fifth, pride, is the tendency to compare self in relationship to other people in terms of financial relativism. Ironically, these hindrances parallel the characteristics of behavioral economics theory in which psychological factors impede financial maximization. Under each theory, the psychological obstacles are the same. The remedy to overcome these obstacles may be found in mindful techniques.

Short-term (i.e., eight-session group) programs in mindful-based stress reduction (MBSR) have been used for individuals with stress-related problems, illness, anxiety, and chronic pain. Results showed increases in mindfulness and well-being, and decreases in stress and symptoms (Carmody & Baer, 2008). Case studies using MBSR with frail elderly and their caregivers also showed improvement (McBee, 2009). Innovative mindfulness interventions have been successfully implemented with depressed patients (Segal, Williams & Teasdale, 2002). Athletes seeking excellence in diverse sports improved their performance (Bernier, Thienot, Codron & Fournier, 2009). Personal finance has also benefited from writings on mindfulness (Houlder & Houlder, 2002; Gonzalez & Byron, 2009).

Linehan (1993) described techniques to work toward a state of mindfulness that included meditation, exercise, becoming aware of inner and outer experiences, and other exercises. In this discussion, awareness, attention, and attitudes result in a “pause and plan” approach to personal finance. This approach results in a reduction of impulsive financial behavior and a move toward planful decisions and actions. To gain the skills necessary to adopt a “pause and plan” approach, it is necessary to adopt mindfulness as a lifestyle.

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<tr>
<th>Financial Task</th>
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<tr>
<td>Implement Financial Plan</td>
<td>Focused Attention</td>
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**Comparison of Financial Tasks, Mindfulness Strategies, and Stages of Change**

There are many variations on both the meaning and practice of mindfulness (see, for example, Bishop et al., 2004). For the purposes of this discussion, intentions, focused attention,
and accepting attitudes will be used as aspects of mindfulness. When these three aspects are applied to financial literacy, a consumer is no longer at the mercy of predatory agents of financial institutions. The first aspect of mindfulness is intentions. As applied to financial tasks, intentions refer to an objective of creation and adoption of desired goals. The objective can revolve around reducing debt, increasing assets, or increasing cash flow, and establishing such goals can increase motivation and executive functioning.

Table 1 provides a comparison of tasks, strategies, and stages. When applied during the precontemplative stage of readiness, the use of mindful intention helps in visualizing a future lifestyle as much as it does in articulating treatment plans. Because it anchors the remainder of the financial tasks, the use of intention requires careful consideration. In thinking through the goals of creating a financial plan, a person is also required to articulate his or her intentions. Articulating intentions allows a consumer to become aware of the reasons in considering a purchase. The question to be answered is to ascertain the goal or reasons in making a purchase. It is critical to remember predetermined goals before being confronted by enthusiastic and self-motivated sales personnel. Keeping in mind the intent of a goal ensures its relevance when faced with pressure to make rational financial decisions.

Goal-setting is also applicable for the contemplative stage of readiness. Contemplative stages differ from precontemplative stages in significant ways. Precontemplative stages are characterized by a lack of readiness to adhere to treatment directives. During these stages, pushing a client to establish specific goals may push a client away from the clinician’s erstwhile efforts. Thus, any goal-setting in a precontemplative stage is likely to take the form of motivating clients to continue in therapy.

However, during a contemplative stage, the client has progressed to signaling an increased level of readiness and can be asked to develop more specific goals. Following through on a changed financial lifestyle poses significant challenges to clients. Accepting goals can be part of a decisional balance that clients must address. To accept a goal for a changed lifestyle suggests that clients have made a commitment to financial sustainability.

Making a commitment to change allows progression to the contemplative stage of readiness. The task here is for clients to collect and compile financial documents. Collecting and compiling documents requires deliberation and thoughtfulness on the purpose of a financial plan. The purposes differ on whether it is planning for some future event (i.e., birth, marriage, death) or remediating a current financial plight (i.e., impending foreclosure, loss of employment). Because each form can be evocative of everything from a routine payment of a utility service, torturous preparation of a tax return, to a mortgage payment, compiling them can be a tiring and unrewarding endeavor. When viewing the challenges through the lens of the transtheoretical model, we are faced with persuading an ambivalent client to engage in a tedious and unrewarding task. To address the tedium of compiling documents, clients can be urged to remember the intention of the task and to focus on it.

Focused attention allows consumers to examine documents with an eye toward their latent meaning. A tax form, for example, represents the summary of an entire financial year together with its tumult. Collecting a series of them is a snapshot into a person’s entire financial life. Consumers hope for hidden assets but more likely find long-forgotten or hidden debts. Because financial documents can be evocative and paralyzing, focused attention allows consumers to compile and examine them without the attendant emotional reactions. People hide what they cannot admit. Hiding assets and debts risk financial infidelity, which can occur when unpleasant surprises emerge. Not surprisingly, a crisis brought on by financial infidelity is
accompanied by impulsive behaviors that include self-destructive reprisals. Thus, there is an emotional barrier in compiling and collecting financial documents. Once the problem is acknowledged, the need for focused attention becomes a critically necessary skill.

Clients in the contemplative stages of readiness can be encouraged to examine their financial heuristics. Because heuristics are nothing more than rule of thumb decision rules, financial documents provide evidence of those that consumers have used in the past. Examining documents can shed light on spending habits and reasons behind them. Although some heuristics are helpful some of the time, it should not come as a surprise that knowing when not to use them becomes a critical skill.

Achieving a preparation state of readiness brings with it an attempt to create a budget. A budget is not a monolithic document but is instead a series of decision points. The task is to isolate each line item and assign it a monetary value. Thus, the first decision is to identify the line item, and second, to assign a monetary value to it. In guiding the client through creating a budget, he or she should be reminded again of his or her intent. This aspect of mindfulness reduces all too human attributes (e.g., being attentive to fear, envy, overconfidence) predicted by the theory on behavioral economics that results in irrational financial behavior. In creating a budget, it is always a challenge to remember why one is important and what role it plays in a person’s lifestyle. Being aware of a budget is the first step in adhering to it.

Next, consider the role of focused attention in budgeting. One characteristic of focused attention is in the emotional regulation of impulsive behavior (c.f., Hayes, Follette & Linehan, 2004). In turn, emotional regulation of impulsive behavior moderates unwise financial behaviors. Reducing impulsiveness is a critical skill in becoming financially literate, and in becoming planful and deliberate in spending and savings. These habits in reducing impulsiveness are an essential part of enacting a budget. In part, emotional regulation of impulsiveness occurs because a person becomes aware of the existing heuristics of his or her budget. Understanding how budget items affect someone (i.e., inner dialogue) guides them in knowing how they have made past decisions. This knowledge in turn results in carefully considered budget items.

Unearthing financial documents may bring painful memories. Creating a new budget reifies these memories into neatly arranged spreadsheets. Because this pain and shame can paralyze, another principle of mindfulness is necessary: acceptance. Accepting attitudes are universally promoted as a means of increasing mental and physical health. Gentleness and kindness toward self and others represent one form of acceptance. However, another form of acceptance consists of an absence of cynicism and the adoption of curiosity. The latter allows there to be hope and awareness of new experiences versus perseverating on past defeats. Accepting both the past and the present as well as maintaining positive attitudes toward future events represent key aspects of mindfulness.

Adopting new attitudes toward personal finance is a key strategy in developing mindfulness. “Voluntary simplicity” is one form of a new attitude. For consumers with complex personal finances, scaling back a profligate lifestyle is an essential step in creating a new persona. New attitudes are necessary to avoid a sense of defeat that arises from financial ruin. Although financial ruin invariably creates hardships, it also allows a new beginning with different assumptions, goals, and activities. New attitudes prevent a sense of failure from paralyzing new initiatives in rectifying personal finances. One traditional attitude of mindfulness is to “let go” of distracting attitudes and memories. This is a crucial step in renewing a sense of vigor in reestablishing a household.
With a budget written and ready for implementation, clients are in the action phase of readiness for change. To date, clients started in a precontemplative stage of readiness for change characterized by a lack of knowledge or an unwillingness to implement essential financial tasks. The first financial task was to simply set viable goals. Using a mixture of mindfulness techniques, they were brought to a contemplative stage characterized by acknowledgment of the heuristics of their spending and savings behavior patterns. A key feature of the contemplative stage tasks was to collect and compile financial documents.

In the preparation stage of the readiness for change, clients were guided in the creation of a budget in concert with their goals, newly created heuristics, and informed by the compiled financial documents. These tasks were facilitated through the use of one or more mindfulness activities. Once the budget has been created augmented by willingness for change, clients can be encouraged to form a financial plan. Doing so is easily the most ambitious of the five financial tasks. Unlike the other financial tasks that were focused on past and present events, forming a financial plan is future-oriented. Past failure is always an albatross in planning future events. The very real fear of future failure could give way to a self-fulfilling prophecy.

As might be expected, financial plans can be intricate, difficult to understand, and even more difficult to implement. As stated previously, they include not only those financial tasks described in this article but also include more complex areas such as estate and tax planning, investment strategies, and retirement options. However, by applying the 80–20 rule (i.e., Pareto principle), it can be argued that only 20% of financial tasks (i.e., goal-setting, heuristics, finding documents, or budgeting) can accomplish 80% of what is needed for a financial plan (cf., Ferriss, 2007). As an example, a person unaccustomed to exercise need not become a marathon runner to increase cardiovascular fitness; moderate routine exercise of any sort will increase cardiovascular fitness. The tasks discussed here represent the moderate, routine exercise en route to financial fitness.

Past failures and fear of continuing crises may paralyze consumers into doing nothing and abandoning carefully created financial plans. Reconciling past failures with possible future success is a significant hurdle for anyone who has experienced financial disasters. Although a change in strategy may be beneficial, the memory of the failed effort can block its implementation. Among mindfulness techniques that have been used is a “gentling” effort for letting go. However, letting go need not be an overt, determined effort to forget past financial failures or to grasp at current successes. The goal of letting go is to maintain an even keel while increasing cash flow, decreasing debt, and accumulating assets. Because these activities all have expected ebb and flow in their pursuit, there is a pronounced need to remain dispassionate. Amid the armageddon of increased debt and a loss of income (i.e., job loss, bankruptcy), cultivating dispassion represents a herculean endeavor. Mindfulness fosters such an attitude by combating the traits that work against financial maximization. However, financial maximization is a paradoxical goal if it promotes materialism and an avid pursuit of wealth. In combating such tendencies, a mindfulness understanding of financial literacy will address “… the love of money that is the root of all evil” (1 Timothy 6:10).

**Summary**

Increasing financial literacy is simple: financial tasks should be taught when people are ready to be taught. Use simple teaching techniques (“pause and plan”) that promote awareness of a person’s financial lifestyle. If the devil’s in the details, then surely angels rejoice in their simplicity. The purpose of this article is not to provide a definitive discourse on financial tasks,
mindfulness, or readiness for change. Rather, its purpose is to assert that teaching financial literacy is deceptively simple. Making one’s way through the thicket of details is indeed essential for effective financial function. It is also beyond the abilities of average consumers. Even with ample education, financial literacy is by no means a sure thing. Much like the indulgent drug addict, secretive smoker, or overeater, the financial profligate needs a simple yet effective method to change an entire lifestyle. Mindfulness is desirable in its modest cost and beneficial impact.

The difficulty may be in practitioners’ ability or inability to be mindful of their own financial habits. An impoverished or opulent clinical practice provides damning evidence of the moderation or lack thereof that is being espoused. Impoverished financial advisors may belie the effectiveness of their advice. After all, should the average consumer strive to be poor? On the other hand, opulence may speak to practitioners’ priorities: should conspicuous consumption be the goal of financial literacy? Rothwell (2006) argued that mindful practitioners should themselves practice mindfulness. Not to do so risks iatrogenic financial advice. His observation that mindfulness is a holistic intervention suggests that it is not a collection of techniques that can be easily taught. It is, however, a lifestyle that must be lived.

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