January 2024 | Issue 1

Homewood Health

Life Lines

Improving your quality of life, one step at a time

The Psychology of Debt

Debt can have a significant effect on our mental well-being. When the constant pressure of financial obligations and the anxiety of meeting payments looms over our heads, it can have an impact on our stress level, sleep and mood. It's a burden that can even affect our self-esteem, making us feel insecure, inadequate, and helpless.

Our mental, physical, and financial health are connected, and we need to recognize how financial worries weigh on us so we can seek support to alleviate the stress and improve our mental health.

In this article, we'll examine how debt affects us emotionally, influencing how we behave and how it makes us feel about ourselves. We'll also connect the dots to what the strain of debt does to us physically. Once we have a better understanding of how it's all connected, we can explore practical options and strategies that can be helpful to work on reducing and eliminating debt. It's not a situation anyone intentionally ends up in, and it can be frightening. Taking small steps forward can help us feel a sense of direction again, regain control, and reduce stress to find a better balance between our health and wealth.

When it comes to finances, does everyone start from the same place?

Unfortunately, there is no equal ground when it comes to financial matters because disparities between resources, opportunities, and education all factor significantly into our individual experiences. It is an important reality to recognize as we consider the relationship between debt and mental health.

Contrasts and inequality around the economic circumstances we are born into create complexities that undeniably affect people's well-being. Just think about the significant differences in housing, our environments, who we interact and form relationships with, and how we develop and identify ourselves. There needs to be more self-awareness regarding individuals' advantages, benefits, or access to opportunities.

The interconnectedness of all kinds of social determinants, such as the affordability and availability of food and the reliability of transportation, affects someone's ability to access essential services. People with economic privilege have higher levels of education and can typically make healthier lifestyle choices, in addition to having improved access to high-quality healthcare.

How does financial worry, particularly related to managing debt, affect mental health?

Feeling economically stable and secure can be a marker of financial success and is crucial to maintaining a positive and balanced view of life. For many people, trying to improve their earning potential starts as they enter adulthood, where education and skill development are often the priority, while at the same time, they are trying to manage living expenses. Despite knowing that budgeting and saving are habits to master in this phase of life and can certainly be helpful to set the stage for an easier time financially, they can be challenging to put into practice. Many psychological influences often need to be factored into the equation rather than simply focusing purely on "income and expenses."[1]

Even though we might not have stable income and expenses, there are times when we focus on "wants" or things we aspire to. We convince ourselves that we're depriving ourselves of experiences or the lifestyles we "deserve." It's at that moment that impulsive spending can happen. We start to spend because we feel bored or stressed, even though we don't really have the financial means. And while those purchases might temporarily relieve those feelings, they set a course that contributes to long-term financial strain and unmanageable debt loads.

Over time, debt can make us feel overwhelmed and create intense pressures that affect our mental health and start to show up as:

- Anxiety
- Stress
- Frustration
- Depression

Our relationships can also take a toll, creating increased family tension and straining friendships. It affects how we communicate and our emotional well-being. We might feel embarrassed or full of shame for getting into the circumstances, which can lead to low self-esteem and a general feeling of helplessness.

Prolonged financial strain can even affect our physical health as our body responds to chronic stress. We can experience sleep problems, headaches, and digestive issues. Mentally, we may have reduced concentration and impaired decision-making abilities. It may seem easier for some to cope by avoiding what's happening altogether, ignoring bills, and discussing money or financial responsibilities.

What kinds of drivers can influence our financial behaviours?

A complex combination of internal and external factors can influence how we handle financial decisions and manage money. Attitudes towards risk, biases we have, and financial literacy all come into play.

Economic conditions

The economy is shaped by inflation and interest rates, employment levels, and government policies that evolve and change over time. They are also largely out of our control. With periods of economic uncertainty, we tend to pay more attention to finances, prioritize essential expenses and savings over spending, and put off major purchases to be more budget-conscious and cautious about taking on additional debt.

It can be tough for many people who are watching their spending. Basic housing, food, transportation, and education costs are at all-time highs. For many, wages are stretched to their limits. Consumer Affairs researched costs between generational groups and found many alarming realities through their comparisons:[2]

- Those in Gen Z (born between 1996 and 2012) and millennials (born between 1981 and 1995) "are paying nearly 100% more for their homes than baby boomers [born between 1946 and 1964] did when they were in their twenties."
- Gen Z dollars have "86% less purchasing power" than when baby boomers were in their twenties.
- Gen Z and millennials pay "nearly 60% more" than baby boomers in their twenties for gasoline.
- Many younger adults are priced out of the market because housing costs (when adjusted for inflation) are "nearly double" compared to when baby boomers were the same age.
- Today, rents are 150% more than in 1970, making saving difficult. Some rentals are "just as costly, if not costlier, than a mortgage."

Job loss

Job loss can introduce heightened financial insecurity and stress due to fear and uncertainty. The loss of income may lead to a reassessment of priorities during unemployment. It can also increase anxiety.

Medical emergencies or illnesses

Unexpected healthcare expenses can accumulate quickly and profoundly impact financial well-being. Without adequate insurance coverage, people can face substantial medical bills, leading to increased debt, more financial strain, and potentially long-term consequences for overall financial stability. People may need to take a leave of absence (LOA) to care for a loved one or themselves and in turn can be impacted. It can be frightening, disheartening, and exhausting to worry about how to cover the cost of medications, take time off to recover, and pay for incidentals like transportation, parking and accommodations that can all quickly add up as out-of-pocket expenses.

Student debt

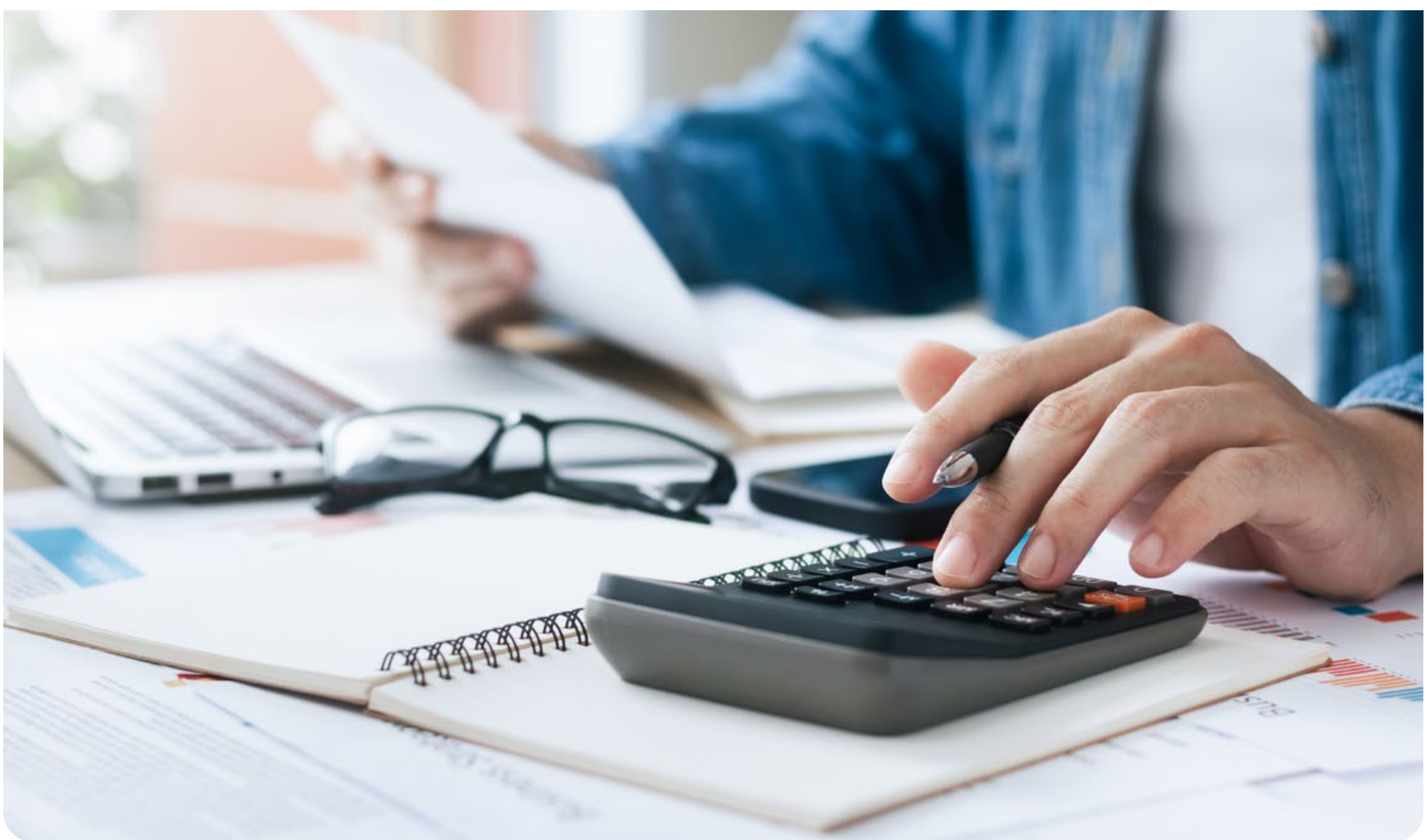
Paying for education creates unique financial stressors, including concerns about future earning potential, career choices, and delayed milestones such as marriage or home ownership. Student loans can contribute to feelings of pressure and affect overall well-being and the ability to focus and influence priorities when making financial decisions. Many students accumulate credit card debt on top of student loans to try and keep themselves afloat. Hiding from the situation can introduce mental health problems as students feel shame about being in debt and try to avoid adding financial stress to the academic stressors they are already experiencing. Experts agree that it's essential for students to "get real about the debt they are taking on" as they often underestimate the length of time it can take to reduce or eliminate it.[3]

Emotional spending, instant gratification, and other influences

Emotional spending often comes from a desire for instant gratification, where we seek immediate pleasure through impulsive purchases. Societal, cultural, and parental influences can all play a role in shaping our financial behaviours. We receive messages about idealized success formulas that prescribe life milestones such as education, a stable job, marriage, home ownership and starting a family. It can be added complication as we break down and distinguish between good debt where we are investing in ourselves (like school or a mortgage) and receiving a payoff longer term, and bad debt (like high-interest consumer debt) which is more fleeting.

Individualistic versus collective cultures

Individualist cultures emphasize personal achievements and security independence, which may contribute to willingness to take on debt to attain personal goals. In contrast, collective cultures prioritize the community's well-being, influencing financial decisions to align more with family expectations. Both situations can further complicate the psychology of debt.



What options and strategies are available to reduce and eventually eliminate debt?

Reducing and eliminating debt requires a comprehensive approach combining both practical strategies and a mindset shift. The key to managing debt is focusing on what you can control: developing habits, learning, and committing to making well-informed financial decisions. Here are ten options that you can explore:

1. **Create a detailed budget** that outlines your income, fixed expenses, and other spending. Get insight into where your money is going so you can prioritize expenses and identify areas where you can cut back.

2. **Consider using a debt repayment strategy,** such as paying off your smallest debts first or focusing on debts with the highest interest rates. Choose methods that will give you some traction in changing your financial situation and creating positive psychological gains.

3. **Build up even a modest emergency fund** so that you have a bit of a financial cushion to fall back on during challenging times and avoid accumulating additional debt from unexpected expenses.

4. **Limit digital payments, especially credit card use.** Set a monthly budget for discretionary spending and use only cash or debit for daily expenses to help control expenses. Establish separate accounts that align with budget categories so that you know where you are in your budget planning, stay on track, and don't inadvertently overspend. Credit cards should be limited and reserved for specific expense categories only, such as essential travel.

5. **Evaluate credit products to increase awareness** of incentives that encourage and influence overspending to earn rewards. Only choose those that align with your spending habits and financial goals. The alleged benefits may come at a significant cost in the longer term.

6. **Get assistance from credit counselling services,** who can provide advice on budgeting, help develop debt management plans, and negotiate with creditors. These organizations can offer guidance about realistic debt repayment plans.

7. **Negotiate when you are struggling to make payments** to see if your creditors have hardship programs available, can offer lower interest rates, or agree to a modified payment plan. Many are willing to work with people who are facing financial difficulties.

8. **Stay motivated by setting milestones for your debt reduction project.** Breaking things down into smaller, achievable goals will help you see your progress and encourage you to keep going. Remember to celebrate each small success to change your mindset and improve your mental health.

9. **Improve your financial literacy** by learning about the principles of personal finance. With this education, you'll develop more confidence, allowing you to make informed financial decisions and build habits you can sustain.

10. **Consider working with a financial advisor or planner** to get personalized advice for managing debt, planning taxes, investing, and creating and securing long-term direction. There's a misconception that it's a service only for people with lots of money. Meeting an advisor can help you determine your priorities and reduce financial stress.

Managing stress from debt

We can fear being unable to meet financial obligations, receiving constant contact from creditors, and worrying about the affect debt will have on credit scores. While these stressors are daunting, we can manage them. It starts with developing greater awareness about the behaviour patterns we may turn to when feeling stressed.

Look out for:

- A tendency to shop online, being lured or attracted by advertising and clever ways that retailers try to convince people and make it easy to buy. One approach that may work for you is purchasing pre-paid gift cards to use on your online shopping account to avoid using credit cards. This may allow you to control your expenses better and stick to a budget.
- Subscription models, boxes, and add-on deals that look enticing may seem to offer good value on the initial shipment, but often, the contract terms make it difficult to discontinue. Many people don't end up using all the products shipped to them.
- "Experts" who promise quick and easy ways for you to make large sums of money with a small investment of time to attend a "free" online session that will provide you with all the training you need. These often try to allure you with the promise of earning more than you ever imagined was possible, allowing you to do what you want, when you want, working only a few hours a week. Often, there are significant buy-ins to participate in these programs that are disclosed in the introductory sessions. They can be legitimate businesses, but you must be aware that they are often built on multi-level marketing (MLM) models that present challenges.
- Online gambling that entices people to sign up for their services with a "free" incentive in a digital wallet can deepen debt and create setbacks and new burdens. These platforms are easy to access and present an increased risk of developing gambling addiction. When in debt, we can be desperate to make a gain and prioritize gambling over our financial responsibilities.

Take control by:

- Talking about your situation with someone you trust.
- Commit to taking care of yourself by recognizing that self-care can look like saying "no" to a wrong financial decision just as much as it can look like setting small, achievable goals.
- Seek professional help for debt-related stress. Your mind and body will thank you.

When you face debt and get support through financial counselling, therapy, or other resources, you will learn how to develop healthier financial habits. Prioritizing debt repayment and shifting your relationship with your finances will help you create a greater sense of responsibility and deliver the added benefit of feeling more in control of your physical and mental health.

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