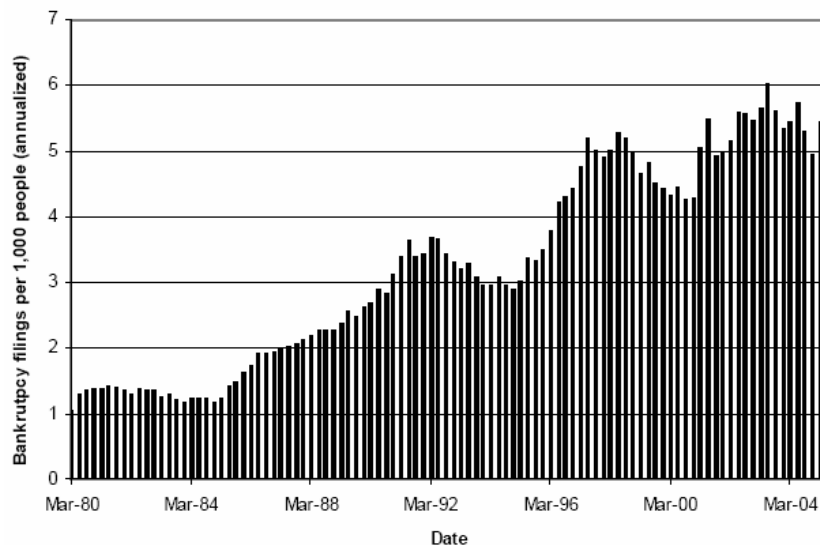


## Why the Financially Comfortable Suffer From Too Much Debt

Consumers across all socioeconomic levels find themselves constantly adjusting to antic increases in ability to spend through credit. Even the financially comfortable are pushing their budgets beyond affordability in an effort to maintain the perception of a premium social status. Consequently, personal bankruptcies have risen approximately five fold over the last twenty-five years.

### Personal Bankruptcy Filings Relative to U.S. Population



Note: Figures are annualized. Calculations based on ABI (2005) and Census (2005a) Weller, 2006

Unlike many other species, humans have avoided extinction through a strong survival of the fittest cognizance. While social order has progressed, basic human instincts have remained unaltered. Contrarily, certain sectors of society have adapted better than others through social evolution.

Survival instincts are driven primarily by two sets of needs: (1) food, water and shelter; (2) the need for social positioning. This basic need for social positioning is what psychologist Herbert Hyman refers to as “the Psychology of Status.”<sup>1</sup> The first set of needs are as clearly necessary for survival today as they were at anytime throughout history, where as the need for social positioning is not as critical today due to societal advancements such as grocery stores and modern governments.

In early American history, fitting in and being an accepted member of a group was essential for survival. For example, it would have taken a much longer and perhaps not feasible time for one man to build a cabin, whereas a group of men would take a much shorter time. In order to settle communities under the harsh conditions of pioneer life, belonging to a group truly made a difference to survival.

Hyman wrote that people use “reference groups” of those nearest to them, such as peers and neighbors, to gauge whether they measure up. Human instinctive nature demonstrates this by habitually manifesting the need to parallel the level of achievement of their peer group.

When people fall behind those around them, discontent triggers the instinctive need for social positioning. According to the American Heritage Dictionary, discontent combined with resentment spawns envy.<sup>2</sup> Social positioning triggers behavioral pursuit toward social advancement, usually in the most accessible way, most commonly by exercising the ‘buy now pay later’ mentality.

In ancient times, social status was clearly evident, as wealth and prosperity were achieved through actual earnings rather than deceptive fortune attained through interest bearing lines of credit. In modern society, possessions are merely an estimate of real income. People continue to perceive social ranking without veritably knowing and understanding the concrete actuality of each others’ financial means such as cash flow, cash reserves, and monthly expenses including outstanding lines of credit.

James Partridge, renowned human resources expert and Director of Human Resources at a leading debt assistance company, Precept Financial Solutions, says, “People generally perceive those above them to make more income than they actually do.”

The financially comfortable have positioned themselves to lead the pack. Their ability to accumulate assets and position themselves socially has been demonstrated over time, even at the expense of overextending debt to income ratios and putting themselves at risk.

This challenge of changing times, combined with the urgency for social positioning, has resulted in our current state of credit chaos. There is freedom today like never before to position oneself socially through the acquisition and utilization of unsecured lines of credit.

According to the Federal Reserve, from 1989 to 2004, the number of households with credit card payments exceeding 10% of their gross income has increased twenty fold for those in the mid level of household incomes.<sup>3</sup> For those categorized as financial comfortable<sup>4</sup>, the credit card debt level has remained relatively unchanged, yet the credit card debt to income ratio nearly doubled.

Since 1989, the *Survey of Consumer Finances* has included a savings behavior related question<sup>5</sup> asking respondents to self-label with regards to whether they are “savers” or not. In 2004 a larger share of households declared themselves to be “savers” than 1989. However, those who said they were “savers” actually had higher debt than those who claimed they were not.

The credit revolution is in full swing and how consumers will manage increasing debt loads is still unfolding. Only the future will tell how social positioning behavior will adapt; whether people will continue the ‘buy now pay later’ purchasing behavior, or deviate from the norm and take the road less traveled.

Being aware that the deeply engrained psychology of status may underlie ‘buy now and pay later’ inclinations, may enable one to examine their motives and make better decisions. One may choose to resist initial urges until they have sought out and considered all reasonable alternatives, in an effort to make fully informed decisions and avoid unnecessary financial hardship.

“With the speed of change in today’s society getting faster and faster, we recommend investing in 401K plans and spending in line with actual income instead of predicted income,” says Partridge. “We can’t always plan on catching up with big expenditures. In some cases the level of personal gratification and social standing come from personal contributions made to others rather than fueling a materialistic ego. A contribution made to others is meant in the broadest sense to include religious organizations, community and meaningful causes.”

There are several solutions for addressing troublesome *unsecured debt*: (a) bankruptcy (being a last resort); (b) debt consolidation; (c) refinancing; (d) consumer credit counseling; (e) the increasingly popular approach of debt settlement.

For an individual personal or business debt solution analysis to help find one's best debt resolution option, please [click here](#). To see how Precept Financial may be able to assist individual cases of credit card or unsecured debt problems, please [click here](#).

Precept Financial is a leading debt assistance company dedicated to helping consumers and businesses with financial hardship in resolving unsecured debt. Precept Financial works with creditors and collections agencies on the client’s behalf, to help find mutually agreeable solutions. By providing an effective alternative to financial hardship, Precept Financial provides a service for both debtors and creditors. Notable memberships include: The Association of Settlement Companies, Greater Dallas Chamber of Commerce, American Bankers Association, and the International Association of Professional Debt Arbitrators. Contact 1-800-866-4447 or visit <http://www.preceptfinancial.com>.

Media contact: [jlewis@preceptfinancial.com](mailto:jlewis@preceptfinancial.com)

---

<sup>1</sup> Hyman, Herbert. “The Psychology of Status.” *Archives of Psychology* (1942): 5-91.

<sup>2</sup> Houghton Mifflin Company. *American Heritage Dictionary of the English Language*. 4<sup>th</sup> Ed., 2000.

<sup>3</sup> *Survey of Consumer Finances*: Washington D.C., 2004. Survey showed recent changes in U.S. family finances. Weller, Christopher. *Drowning in Debt*: 2006.

<sup>4</sup> Definition of Financial Comfort (as defined by article author): Households with incomes in the top 3 fifths of United States household incomes.

<sup>5</sup> Which of the following statements comes closest to describing your saving habits?

- Don't save — usually spend more than income
- Don't save — usually spend about as much as income
- Save whatever is left over at the end of the month — no regular plan.
- Save income of one family member, spend the other
- Spend regular income, save other income
- Save regularly by putting money aside each month

For simplicity, the answers are divided into “savers” and “non-savers.” Non-savers answered yes to any of the first three answers, while savers self-labeled from the last three answers.