



TIMING IS EVERYTHING: HOW TO STIMULATE DEBTORS TO PAY UP

Technical Report

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THINK
FORWARD INITIATIVE

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Abstract

Debt collection agencies typically ask debtors to pay within 5 days, without paying attention to when the summon is being send. This is unfortunate because people sometimes simply cannot pay due to the fact that they did not receive their income yet. In the current study, in collaboration with the Dutch debt collection agency Flanderijn, we experimentally investigated whether giving debtors the opportunity to choose their own payment date within the next 30 days, increased paying behaviour compared to the standard procedure. The results show that offering a flexible payment date did not yield more payments. A possible explanation for this outcome might be that the debts of our participants were too severe to find an effect.

Keywords: Debt, Financial Scarcity, Payments

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1. Introduction

1.1 Budgetary concerns and financial scarcity

A substantial proportion of Dutch households has trouble paying their bills. About one in five households are indebted (Schonewille & Crijnen, 2018). 8% are even categorized as being severely in debt. This means, that in the last year, their energy supply has for example been cut off due to continuing late payments, or their wages have been garnished. These people are, however, not the only ones who are facing financial challenges: 38% of Dutch households have trouble to making ends meet (Van der Schors, Crijnen, & Schonewille, 2019).

Having trouble paying bills or making ends meet, likely elicits an experience of financial scarcity. Previous research has shown that financial scarcity impedes cognitive functioning and influences decision making, due to the constant budgetary concerns (Mullainathan & Shafir, 2014). People that experience financial scarcity continuously have to make difficult trade-offs, because they have to juggle various expenses in order to make ends meet. Their budgetary concerns take up so much of their cognitive resources that they simply have less resources to spare for sound (financial) decision-making, and it makes them more concerned with short-term problems. Thus, people that experience financial scarcity could use some extra help in making healthy financial decisions.

1.2 Fluctuating financial scarcity

Interestingly, results of a longitudinal study by Mani, Mullainathan, Shafir and Zhao (2013) suggested that the experience of scarcity can fluctuate within a person. The IQ of sugarcane farmers in India fluctuated on average 13 points between a situation of scarcity (just before harvest) and affluence (just after harvest). Hence, the cognitive resources were more in a period of affluence in comparison to a period of scarcity, indicating that the available

cognitive resources – and thus the capacity to make better financial decisions – could follow the available income at that moment. Research of Cavalho, Meier and Wang (2016) seems to corroborate these results even further: They found that Americans are more focused on short-term outcomes before payday in comparison to after payday. Thus, people that experience financial scarcity might make different decisions just after receiving their income, simply because they are cognitively less strained at that time.

1.3 Taking into account fluctuating financial scarcity when collecting debt

In collaboration with Flanderijn – a Dutch debt collection and bailiff organization – we investigate whether payment of arrears could be increased by taking into account the fact that financial scarcity can fluctuate. Adapting the timing of debt collection in such a way that it will align with people's income streams, might be an effective way to activate people to pay their debts.

Determining when a summon coincides with an income stream sounds straightforward enough – except it is not. When do employers pay their staff? There are no regulations regarding the timing of loan payment. Plus, the number of people that are self-employed or have flexible contracts grows each year (CBS, 2019; CPB, 2016; MKB, 2019). For this group, the income streams are not only unknown to the debt collector, but also irregular. Another factor to take into account is multiple types of income streams one household may have. The Dutch 'Nationale Ombudsman' (2013) showed, for example, that a household consisting of two kids and a single mom on welfare assistance has 16 different income streams. To summarize, there might not be one simple answer to the question "When would it be a good time to send out a summon letter?". In a study

among debtors, the Dutch National Institute for Family Finance Information (Nibud) already concluded that it would be wise to allow consumers to be more flexible in mandatory payments (Madern, Van der Werf & Van Gaalen, 2015). Households with financial constraints or (small) debts in particular indicated that more flexibility in payments would help them to make ends meet. This way they could adjust the payments to their income streams, instead of their income streams to their payments, which would require more advanced money management capabilities.

1.4 Allowing for flexible payments

To account for this wide variation in income streams, we decided to let participants choose their own payment date in this experiment. At Flanderijn, debtors are currently summoned to pay their debt within five days, which is pretty common among debt collectors in the Netherlands. For the purpose of the current research, part of the debtors did not receive the regular summon, but they received an adapted message which stated that they could choose a date within the upcoming 30 days at which they wanted to pay their debt. Thus, participants in the experimental condition could choose their own payment date.

Next to the fact that flexible payments would allow participants to adapt the payment to their income stream, this could also positively affect participants' feeling of autonomy. People have three innate psychological needs – competence, autonomy, and being involved (relatedness) – which when satisfied yield enhanced self-motivation and mental health. When thwarted, this leads to diminished motivation and well-being (Ryan & Deci, 2000). Especially for people with (problematic) debts, this might be a problem due to their financial situation. Autonomy might be affected due to the fact that they cannot freely choose anymore what to spend their money on. They are repaying debts and have to manage their mandatory expenses, but do not have any room anymore for other expenses. They do not feel competent, because they are unable to make ends

meet, or do not understand the letters they receive. They do not feel related, because debtors are seen as an outgroup.

1.5 Expectations

We expect that offering participants the possibility to match the debt collection process more closely to the income streams might 1) increase their payments, and 2) decrease their financial scarcity, because people simply get the break they so dearly need. This extra breath of fresh air might be enough to recharge their (monetary and cognitive) batteries, allowing them to pay their debt or at least energize them enough to reach out to Flanderijn. In addition, we expect that making participants able to choose a payment date themselves, instead of being mandated to pay within a certain period, will increase their feeling of autonomy and the motivation to pay their debt.

Next to making flexible repayments possible for part of the debtors, we also revised the standard letter that Flanderijn used for their summons. Even though the letters of Flanderijn did not seem to be overly complicated and were understandable, we made some changes based on insights from behavioral science. Previous studies have found that simplifying letters into more understandable language and increasing the clearness of the action perspective increases target behavior (Behavioural Insights Team, 2015; Croonen, Luesink, & Sinnema, 2017; King et al. 2014).

Lastly, a part of the debtors also received a reminder at the day that they picked as their payment date. Sending people reminders has been proven to be a simple, yet powerful tool in activating behavior (Sunstein, 2014; Van Dulmen et al., 2007). This reminder included a weblink which they could use to immediately pay their debt.

Table 1: Schematic depiction of the expectations of the study

	Simplified letter	Flexible payment	Flexible payment + reminder
Payments	+	+	+
Financial scarcity		-	-
Autonomy		+	+

Note: The table depicts the expected positive (+) or negative relations (-) of the letters on the different dependent variables, with the control condition as reference category.

2. Method

To investigate our hypotheses, we designed an experiment with four conditions: control vs simplified letter vs flexible payment vs reminder. The control condition [1] is equal to Flanderijn's usual way of working. In the simplified letter condition [2], we simplified the standard summon letter, but did not change anything else. In the flexible payment condition [3] we used the simplified letter and added the option for participants to choose their own payment date. The reminder condition [4] equals the flexible payment condition, with one addition: on the payment date picked by participants, they receive a text message (SMS) including a payment link, to remind them about the commitment they made.

If participants in condition 3 and 4 did not pick a payment date within a week, they would be reassigned to the standard procedure. After approximately 7 days, they would receive the same letter as participants in the control condition, asking them to pay their arrear within the next 5 days. This way, it was assured that a concrete date would be either picked or assigned within a reasonable time-frame, enabling Flanderijn to take further actions if participants would hold off on their payment.

2.1 Conditions

2.1.1 Control condition

In the control condition, participants received a letter that summoned them to pay their arrear within five days. The amount that the debtor had to pay was mentioned in the attachment at the back of the letter. The letter described three ways in which a debtor could transfer their payment to Flanderijn.

2.1.2 Simplified condition

In the simplified condition we adjusted the letter as follows:

- We mention the amount that the debtor had to pay in the first sentence.

- We chose to highlight one option, and made it as easy as possible by explaining step by step what to do. We followed the order upon which the mobile banking app requests information to make transfers. As showed below:

*Transfer € 275,80 to:
Name recipient: Flanderijn
IBAN: NL12 BANK 3456 7890 12
Description: 123456789*

- We changed the headers to a question and answer format. We added the following questions as headers:
 - 'What now?' [Answer: Pay your debt before a certain date]
 - 'Pay differently?' [Answer: That's possible, look at our website]
 - 'Not able you pay?' [Answer: Contact us]
 - 'Do you have an objection?' [Answer: Contact us]

2.1.3 Flexible payment condition

In the flexible payment condition, the letter is similar to the simplified condition. After mentioning the amount of the debt, however, we added a paragraph called 'Choose when you pay'. In this paragraph, it is explained that the debtor can choose a date to pay their debt within the upcoming 30 days. To do this, the debtor had to go to a website to choose a date.

If the debtor did not make a choice within a week, they would be transferred to the regular procedure of Flanderijn. Hence, they receive a summon that states that they will have to pay their debt within five days.

2.1.4 Reminder condition

In the reminder condition, the letter is exactly the same as the flexible payment condition. The only

difference is that the debtor receives a text message (SMS) on the chosen day of the payment agreement.

Again, if the debtor does not make a choice within a week, they will be transferred to the regular procedure of Flanderijn and receive a summon that states that they will have to pay their debt within five days.

2.2 Participants

Between the 1st of May and the 9th of August 2019, all debtors that were handed over for debt collection from VGZ to Flanderijn were included in our experiment. VGZ is a health insurer in the Netherlands. They use Flanderijn to collect the insurance fee when people do not pay for at least two months. Outstanding debts vary from €19 to €20.766. When we divide debtors into 5 equal groups the ranges of the debts are as following, see Table 3.

Debtors were assigned to a condition based on their case number. If the case number ended on 1 or 2, the debtor was assigned to the control condition, if the case number ended on 3 or 4 the debtor was

assigned to the simplified condition, if the case number ended on 5, 6 or 7 the debtor was assigned to the flexible condition. All other numbers were assigned to the reminder condition.

Participant that were not assigned to the correct condition, participants for whom the payment data did not yet expire, or participants that were marked by Flanderijn as 'impossible' to retrieve the debt, were removed from our sample. After excluding these participants, a total of 5,877 debtors were included in our analyses (2450 female, 3421 male, 6 unknown, $M_{age} = 40.98$, $SD_{age} = 15.18$; $n_{control} = 1178$, $n_{simple} = 1151$, $n_{flexible} = 1755$, $n_{reminder} = 1793$).

2.3 Measurements

We used three different measurement tools to investigate our hypotheses. We combined data of Flanderijn about actual payments and data from a questionnaire which measures psychological concepts. In addition, we conducted post hoc interviews with participants in the flexible payment and reminder condition.

Table 3: Range of outstanding debt across participants

Debt category	Range	Percentage of debtors
1	€ 19 – 218	20%
2	€ 219 – 430	20%
3	€ 431 – 720	20%
4	€ 721 – 1.240	20%
5	€ 1.241 – 20.766	20%

Table 4: Demographics of participants across conditions

	Control	Simple	Flexible	Reminder
N	1.178	1.151	1.755	1.793
Female	41.8%	41.2%	41.7%	41.1%
Age	40.5 years	41.2 years	40.9 years	41.2 years
Other debts at Flanderijn	37.7%	39.6%	36.9%	37.2%
Initial debt (i.e., debt before any payment was made)	€ 948.27	€ 937.79	€ 935.94	€ 921.80

2.3.1 Questionnaire

The questionnaire measured the following aspects:

- How they perceived the debt settlement process;
- How easy it was for them to contact Flanderijn;
- Suggestions to improve the debt collection process;
- Self-efficacy scale (*Cronbach's α* = .66, Schwarzer & Jerusalem, 1995);
- Autonomy scale (*Cronbach's α* = .77, Cromhout, Schutte & Wissing, 2018);
- Scarcity scale (*Cronbach's α* = .87, Van dijk, Van der Werf & Van Dillen, 2019);

Details on the questionnaire can be found in the appendix.

Additionally, in the flexible and reminder conditions participants were asked questions about the flexible payment option: Whether they understood what was expected of them, if they chose a date, and why they chose a date or not.

In total 222 debtors responded to the questionnaire. Unfortunately, that is only 2,8 percentage of the debtors that were involved in the experiment. We will only report on the data in a more qualitative and descriptive manner.

2.3.2 Post hoc interviews

Because we had a relatively low response percentage to the questionnaire, we decided to conduct some post hoc interviews. In total 20 debtors were interviewed. Flanderijn contacted ten debtors who did not choose a payment date, to ask them why they did not pick a date. We wanted to see why they did not pick a date, and rule out that they did not understand what they were expected to do. Additionally, Flanderijn contacted ten debtors who did choose a payment date, to ask them why they chose a specific date, and how they experienced the process.

Table 5: Participants interviewed per condition

	Control	Simple	Flexible	Reminder
N	48	60	52	62
Percentage of total	3%	3,8%	2,2%	2,6%

3. Results

3.1 Visiting the website

Taking the participants of condition 3 and 4 together, 3.548 participants received the option to choose their own payment date. The opportunity to choose a payment date was not utilized very often. Only 584 (16,5%) participants visited the website at which they could pick a payment date. 219 participants (6,2%) actually picked their own payment date.

3.2 Paying on time

We expected that participants in the experimental conditions would be more likely to pay (part of) their debt. We investigated this hypothesis with two dependent variables: 1) a binary variable that shows whether a participant paid (a part of) their debt or not, and 2) a continues variable of the percentage that someone paid in comparison to the initial debt.

Condition was added as predictor to the models. Additionally, in both analyses we added gender, age, and whether someone had multiple debts at Flanderijn as control variables. Additionally, we wanted to investigate whether the height of the initial debt would interact with the effectiveness of the conditions. Hence, the interaction between initial debt and condition was added to the model.

3.2.1 Paid vs not paid

In total, 19.4% of participants paid of their debt completely. 26.6% paid partly and 54.0% did not pay anything yet. The results of a multiple logistic regression did not support our hypothesis that participants in the experimental conditions would pay their debts more often in comparison to the control condition. Results did not show a significant difference in paying vs not paying between the four conditions (simple: $B = .00$, $p = .97$, OR = 1.00; flexible: $B = -.02$, $p = .76$, OR = 0.98; reminder: $B = -0.03$, $p = .68$, OR = 0.97). Likewise, we did not find any significant differences for the interactions (all p 's > .20).

3.2.2 Percentage paid

On average, 3.0% of the initial debt amount is paid off. The results of a multiple linear regression on the percentage of debt that participants paid off in comparison to the initial debt, yielded similar results as the previous analysis (simple: $B = 0.10$, $p = .56$, $\beta = .01$; flexible: $B = 0.04$, $p = .78$, $\beta = .00$; reminder: $B = 0.10$, $p = .50$, $\beta = .01$). Again, we did not find any evidence that participants in the experimental conditions paid a larger percentage in comparison to participants in the control condition (all p 's > .20).

Figure 1: Percentage of the participants that paid (part of) their debt, per condition.

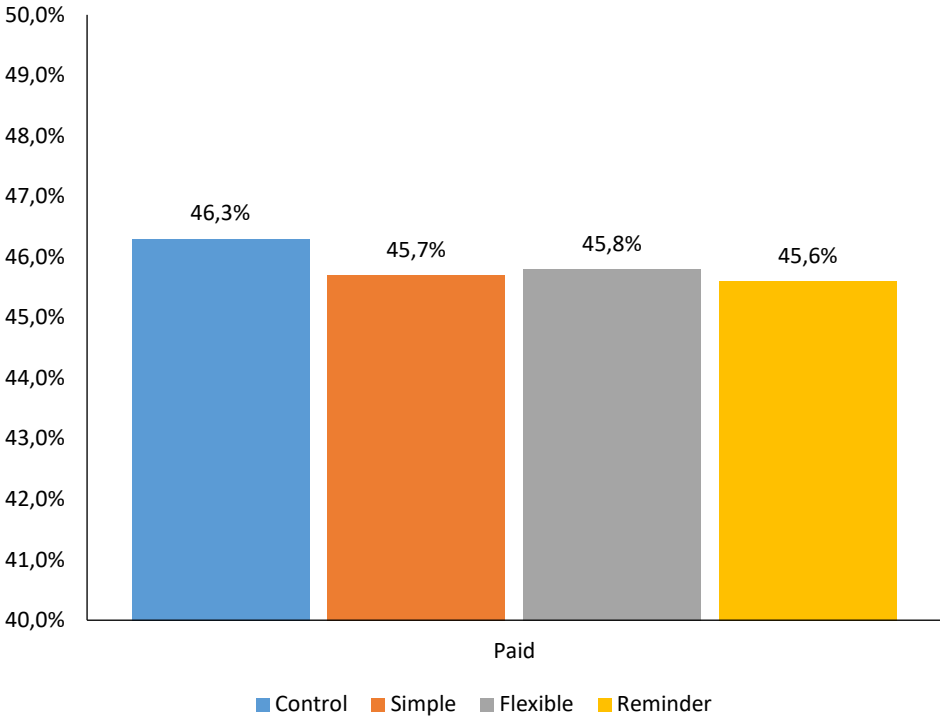
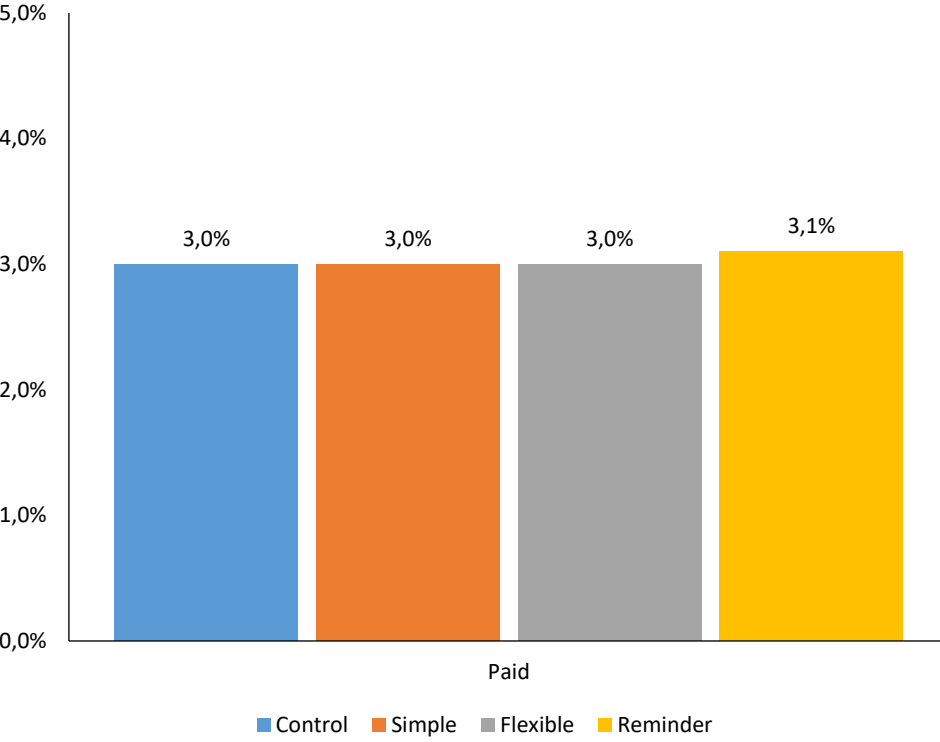


Figure 2: Percentage of the debt that is paid off, per condition.



3.3 Questionnaire

Because the questionnaire was only filled in by around 3% of the debtors, we will not statistically compare responses between conditions. We will describe the results in a more descriptive manner.

Participants were fairly positive about Flanderijn's way of debt collection. On average, they received a 7,2 on a scale of 1 = *low appreciation* to 10 = *high appreciation*. The scores on autonomy, self-efficacy, and financial scarcity are all above the midpoint of the scale. On average, participants scored a 3,4 on the autonomy scale, and a 3,7 on the self-efficacy scale, with 1 being *low autonomy/self-efficacy* and 5 being *high autonomy/self-efficacy*. Participants scored on average a 3,1 on the financial scarcity scale, ranging from 1 = *low financial scarcity* to 5 = *high financial scarcity*.

In the flexible payment and reminder condition, respondents were asked whether they understood that they could choose their own payment date. 82% of all respondents indicated they understood this, and 18% did not. When asked what they think about this service, respondents responded very enthusiastically. Common responses were: 'In this manner I can choose a date at which I actually *can* pay', or 'This way I feel like we are looking for a solution together'. A commonly heard response among participants that indicated that they did not understand what was expected of them, was that they were sceptic about if it would really go through.

In the reminder condition participants were additionally asked how they experienced receiving the reminders. 50% of the respondents were glad they got a reminder, and 11% found it unpleasant to receive a reminder. 39% said they did not receive a reminder. A common response was that it helped them to not forget about the arrangement. People that disliked the reminders thought there was 'too much communication'.

3.4 Post hoc interviews

Respondents appreciated that they were given a choice when to pay. They indicated that it led them to experience less stress. They did not experience Flanderijn's service as intrusive. Participants who did choose a payment date said it was because they did not have the money at the moment they received the summon. When asked how they made their decision for a specific date, they either said they chose the last possible date or the date on which they knew they would receive their salary or some other payment. People who did not pick a payment date indicated they wanted a paying settlement, because they could not pay the whole amount at once. It was not possible to do this on the website that we created to pick a date.

4. Conclusion

The results of our study did not support our hypotheses. Participants who were offered the option to choose their own payment date, did not pay their arrear more often or to a larger extent. Because the questionnaire was only filled in by a small percentage of the participants, we were not able to draw reliable conclusions about level of autonomy and financial scarcity between conditions. The questionnaire and interviews did, however, show that participants appreciated the fact that they could pick their own payment date.

A limitation of the current study is the fact that just a small percentage of the participants that were offered to pick their own flexible payment date, actually chose a date. Participants that did not pick a date, were transferred back to the regular procedure of Flanderijn. This assured that a concrete date would be either picked or assigned within a reasonable time-frame, enabling Flanderijn to take further actions if participants would hold off on their payment.

4.1 Why did offering a flexible payment date not work?

In our opinion, there are two possible explanations for why offering participants the flexible payments did not increase the amount of payments that debtors made. First, we observed that the opportunity to choose a payment date was not utilized very often. Only 16% of the participants of the flexible or reminder condition visited the website at which they could pick a payment date. This could say something about the comprehensibility of the intervention. Did participants understand what we asked them to do? The responses that we got on the questionnaire and the couple of interviews that we conducted, did not seem to indicate that the understanding is the problem. Furthermore, the debtors that did

understand what they were supposed to do perceived it as a good service of Flanderijn. Therefore, one of our recommendations is to research more thoroughly why people did not chose a payment date.

Secondly, a difficulty with the flexible payment and reminder conditions was that it was only possible to choose a payment date at which the debtor would pay the full amount of his debt. No payment arrangements could be made online. The data shows that debts can vary from € 19 to above € 20.000, and 40% of the debts were above € 720. The interviews support this explanation: A common response to why people did not choose a date, was that they did not have enough money to pay all at once. Therefore, another recommendation is to also enable debtors to make payment arrangements online.

Despite the non-significant results, it is however worthwhile to note that offering flexible payments did not results in less payments. Debtors often have multiple payment arrears. It could have been the case that debtors would prioritize more forceful ways of communicating over a more friendly approach, like the flexible payments.

4.2 Why did simplifying the letter not work?

Another unexpected finding, was that the simplified condition did not yield more payments. We expected that simplifying the letter would lead to more payments. Previous similar studies suggested that simplifying communication is effective in activating people and that it could lead to more people paying their arrears (Behavioural Insights Team, 2015; Croonen et al., 2017; King et al., 2013). A possible explanation for this would be that the debts of our participants are more severe in comparison to previous studies. Hence, it is possibly harder to

activate this target group, due to the heightened level of financial problems. Although the health insurance fee is the first payment arrear people typically acquire, it takes at least two payment arrears in order to be transferred to a bailiff agency (Schonewille & Crijnen, 2018). This means that people who forgot to pay or have no difficulty making ends meet, are probably not in our dataset. Hence, debts in our dataset are probably more severe, where a simple adjustment as simplifying the letter or letting people choose their own payment date is not enough to make debtors pay. In our dataset, debtors who did not pay, probably just cannot pay. Possibly simplifying the letter and offering flexible payments is more effective for suppliers of services and goods themselves, like VGZ, instead of the bailiff agency.

4.3 Additional recommendations

Almost all payments that Flanderijn received during this study were made around the 20th of the month. If this letter is sent between the 10th and 30th day of the month, the chance of payments is higher than if the letter is sent between the 1st and 10th day of the month. However, there is not one particular day at which most participants pay. So the default cannot be set on one day. Debt collectors could send out all letters on the 15th of the month, and give people 15 days to pay the arrear. Extending the payment period should not have a negative influence on payments.

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6. Appendix

Questionnaire

Question	Scale
How do you evaluate the way in which Flanderijn processed your debt?	1 = very bad 10 = very good
It is difficult for me to contact Flanderijn	1 = strongly disagree 5 = strongly agree
In what way could Flanderijn improve their debt collection process?	open answer
Self-efficacy scale (Schwarzer & Jerusalem, 1995) (Cronbach's $\alpha = .66$)	
<ul style="list-style-type: none"> I can always manage to solve difficult financial problems if I try hard enough. 	1 = strongly disagree 5 = strongly agree
<ul style="list-style-type: none"> I can remain calm when facing financial difficulties because I can rely on my coping abilities. 	1 = strongly disagree 5 = strongly agree
Autonomy Scale (Cromhout, Schutte & Wissing, 2018) (Cronbach's $\alpha = .77$)	
<ul style="list-style-type: none"> I feel like I am free to decide for myself how to live my life. 	1 = strongly disagree 5 = strongly agree
<ul style="list-style-type: none"> I feel pressured in my life. (R) 	1 = strongly disagree 5 = strongly agree
<ul style="list-style-type: none"> In my daily life, I frequently have to do what I am told. (R) 	1 = strongly disagree 5 = strongly agree
<ul style="list-style-type: none"> There is not much opportunity for me to decide for myself how to do things in my daily life. (R) 	1 = strongly disagree 5 = strongly agree
Financial scarcity (Van Dijk, Van der Werf & Van Dillen, 2019) (Cronbach's $\alpha = .87$)	
<ul style="list-style-type: none"> I often don't have enough money 	1 = strongly disagree 5 = strongly agree
<ul style="list-style-type: none"> I am constantly wondering whether I have enough money 	1 = strongly disagree 5 = strongly agree
<ul style="list-style-type: none"> I worry about money a lot 	1 = strongly disagree 5 = strongly agree
<ul style="list-style-type: none"> I am only focusing on what I have to pay at this moment rather than my future expenses. 	1 = strongly disagree 5 = strongly agree
<ul style="list-style-type: none"> I experience little control over my financial situation 	1 = strongly disagree 5 = strongly agree

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